Proceedings of the 7th International Conference on Economic Management and Green Development
DOI: 10.54254/2754-1169/30/20231448

Analysis of Tesco's Financial Status Quo

—— Based on Financial Ratio Analysis

Sucheng Li[1,a,*]

[1]IBP, China Foreign Affairs University, Beijing, China
a. 432415024@caa.edu.cn
**corresponding author*

Abstract: Financial ratio is an intuitive reflection of a company's profit acquisition status and an important evaluation indicator of its management ability. It is an important basis for other investors to invest in the company, and it is also an important driving force for the company to achieve long-term development. Therefore, this article uses the financial ratio analysis method to analyze the financial indicators of TESCO. To identify the problems that exist in the development of TESCO, a retail giant. Therefore, by analyzing various calculated values and proposing corresponding countermeasures, TESCO can promote good development in the future. And through the analysis of representative retail enterprises. To analyze similar companies in the world retail industry and provide data recommendations and improvement plans. This article draws conclusions through the analysis of financial statement data. Based on the conclusions, analyze the current situation and development status of TESCO Company. From analyzing the brand to analyzing the entire market. Through a series of analysis, consumers can identify potential opportunities and risks in this industry, thereby obtaining long-term benefits.

Keywords: financial situation, solvency, operational capacity, profitability, TESCO

1. Introduction

The world today faces a very good macro environment. The sustained and stable growth of the British economy. The growth of its economy has led to an increase in the income of most British households. This has become a major reason for the expansion of UK retail sales and the growth of UK retail sales. The early stage of the development of the retail industry in the UK was dominated by small retail stores. The British retail industry underwent development in the 19th and 20th centuries. Currently, the British retail industry has formed a business state dominated by department stores and supermarket chains. The main research object of this article is TESCO PLC (TESCO), a large-scale supermarket chain based on distribution centers.

TESCO is a retail company ranking second only to Wal Mart and Carrefour in the world retail industry. It is among the top three retail businesses in the world. It is among the top 500 companies in the world. Moreover, the total retail sales volume leads the UK retail sector. TESCO was founded in 1919. It has a history of over 100 years.

The goal of this article is to provide an in-depth analysis of the UK retail industry's specific operations. This article will take TESCO, a British retail giant, as an example. Research information

DOI: 10.54254/2754-1169/30/20231448

on the development of the UK retail industry and its development status. Provide professional industry development suggestions. Through financial ratio analysis. Analyze the financial annual report data of TESCO Company from 2019 to 2022. The purpose of the study is to conduct in-depth analysis of annual statements. Provide specific data suggestions for TESCO's future development direction and how to increase retail sales.

2. Case Description

The development of the retail industry in the UK has formed a very complete system. Among them, chain sales are the most important way to develop the British retail industry. British supermarket chains are quite developed. One of the largest supermarket chains is TESCO, the UK's largest retailer. TESCO's first retail store opened in London in 1929. Its sales reached $32 billion in 2004. Since the 1990s, TESCO has opened 691 large retail shopping chains in the UK. Also, 42% of the total number of stores are located in countries and regions in central Europe and Southeast Asia [1]. By the late 1930s, it had about 100 retail stores. These retail stores are mainly located in the London area in the UK. It employs more than 250000 employees worldwide. And the annual sales amount reaches about 70 billion US dollars. At the end of the 20th century, TESCO faced different customer needs, meeting different consumer groups through various methods, such as procurement, printing, and transportation. In this context, its business has entered various fields such as finance and online [1]. According to statistics, at least one pound out of every eight pounds spent by British people is spent on TESCO. About 60% of Britons visit TESCO supermarket chains at least once a month. TESCO has approximately 2800 stores worldwide. In 2007-2008, TESCO reported sales of 51.8 billion pounds during the course of 52 weeks, a rise of 11.1% annually (approximately 42.75 billion yuan), an annual increase of 11.8%. Serving nearly 50 million customers worldwide every week [2].

3. Analysis on the Problems: Financial Ratio Analysis

This article will use the financial ratio analysis method to analyze the financial statements of TESCO Company, and the data were taken from TESCO Annual Report.

Financial ratio analysis refers to the comparison of relevant data in a series of financial statements generated by an enterprise during its production, operation, and management processes. Calculate the financial ratios with analytical value from them, and then analyze these ratios to obtain the financial operation status and results of the enterprise [3]. It can provide efficient data support for business management decisions. The commonly used financial ratio analysis methods mainly include four types of analysis methods. This article will analyze TESCO's financial statements through three methods: solvency ratio analysis, operating capacity ratio analysis, and profitability ratio analysis.

3.1. Solvency Analysis

The ability of an organization to use its assets to repay both long-term and short-term loans is referred to as its debt paying capacity. It may reveal an organization's financial standing and operational capacity.

DOI: 10.54254/2754-1169/30/20231448

Table 1: TESCO debt service capacity indicators from 2019 to 2022.

2022/02/26	2021/02/27	2020/02/29	2019/02/23
Interest-bearing debt ratio			
98.065%	126.955%	128.520%	48.943%
Current Ratio,CR			
0.7553	0.6756	0.7343	0.6126
Acid-test Ratio			
0.5685	0.4972	0.578	0.4785
Long-term debt to equity ratio			
89.943%	113.546%	112.791%	38.182%
Financing leverage			
315.141%	370.882%	393.989%	330.105%

This article calculates the interest-bearing debt ratio of TESCO Company in the past four years and uses color to indicate the growth rate compared to the previous year. The interest-bearing debt ratio in 2019 was 48.943%, an increase of - 40.50% compared to the previous year. Generally speaking, it is reasonable to have an interest-bearing debt ratio of no more than 50%. That is, only 2019's interest bearing debt ratio is the most reasonable level for four years. Compared to the value in 2019, the interest-bearing debt ratio in 2020 increased by an astonishing 162.59% to 128.520%. Compare 2021 and 2022. Although the value has remained at a high level for the past two years. But the negative growth here is indeed a good trend. This article looks at it through numerical analysis. Its interest-bearing debt ratio seriously exceeds 50%. Explain that the interest it pays each year due to debt has affected TESCO's cash flow chain (see Table 1).

From the perspective of short-term solvency, this paper calculates two important indicators of short-term solvency from early 2019 to 2022: current ratio and quick ratio. The current ratio calculated in this article for 2019 is 0.6126. The following three years were 0.7343, 0.6756, and 0.7553, respectively. The current ratio calculated in this article has increased and decreased to a certain extent compared to the previous year. However, TESCO's current ratio from 2019 to 2022 was less than 2. The liquidity ratio, which gauges an organization's capacity to pay down short-term debt, is essentially the ratio of equivalent current assets to current liabilities [4]. In actual transactions, the benchmark for current ratio and quick ratio is often set to 2 and 1 for horizontal comparison [4]. The numerical value calculated in this paper proves that dynamic current assets are smaller than current liabilities. Reflecting a very weak short-term solvency. The calculated values indicate that the liquidity of enterprise assets is weak and the short-term solvency is weak (see Table 1).

The quick ratio, quick assets to current liabilities is frequently referred to as the "acid test ratio." It gauges how readily current assets can be realized and put to use to pay off current creditors. The quick ratio calculated in this article is 0.4785 in 2019. 0.578 in 2020. In 2021, it was 0.4972. 0.5685 in 2022. According to traditional experience, maintaining a quick ratio of 1:1 is relatively normal [5]. It shows that there are 1 yuan of immediately realizable current assets to offset every 1 yuan of an enterprise's current liabilities, providing a solid assurance of short-term solvency [5]. The quick ratio is too low, the short-term debt repayment risk of the enterprise is high, and the quick ratio is too high [5]. The short-term solvency can also be analyzed through monetary funds and cash flows from operating activities [6]. The real determination of whether short-term debt can be repaid is essentially a matter of cash stock and flow [6] (see Table 1).

From the perspective of long-term solvency, this article calculates the long-term debt shareholder equity ratio and financial leverage through TESCO's annual reports from 2019 to 2022. The capitalization ratio, commonly referred to as the long-term debt ratio, is a metric for assessing an

DOI: 10.54254/2754-1169/30/20231448

enterprise's overall financial position. For four years, the ratio of long-term debt to shareholder equity calculated in this article has been higher than 20%. This indicator primarily serves to represent the percentage of an enterprise's overall long-term working capital that is required to pay back long-term interest-bearing liabilities. Therefore, the value is generally below 20%. The numbers determined for this article demonstrate that the corporation is under significant long-term debt repayment pressure and has a high level of capitalization of debt. TESCO's asset liability ratio exceeds 100%, indicating that the company has no net assets and may go bankrupt (see Table 1).

Financial leverage is also called financing leverage or financing leverage. Regardless of the company's operating profit, debt interest and preferred stock dividends are fixed. The magnitude of enterprise financial risk is primarily determined by the level of financial leverage coefficient. This article calculates that the financial leverage is greater than 1. The data shows that fixed financial costs are high and financial risks are high (see Table 1).

When using data to analyze a company's short-term solvency, a comprehensive analysis is conducted based on the turnover speed and liquidity ability of accounts receivable. Although the company has a low quick ratio, the turnover rate of accounts receivable is high, indicating that the company has a fast payment speed but a weak short-term solvency. In summary, the calculation data in this article indicate that TESCO's short-term debt repayment ability is still insufficient. From the above analysis, it can be concluded that TESCO's debt paying ability is in a downward trend (see Table 1).

3.2. Analysis of Operational Capacity

An enterprise's operating capacity primarily refers to the efficiency and effectiveness of its operating assets. The turnover rate or speed of assets is primarily referred to as the efficiency of an enterprise's operating assets. The efficiency of an enterprise's operating assets is typically defined as the ratio between the enterprise's output and the amount of assets used.

Table 2: TESCO operational capacity indicators from 2019 to 2022.

2022/02/26	2021/02/27	2020/02/29	2019/02/23
Capital turnover cycle(days)			
-34.8492	-35.0031	- 31.553	-32.216
Accounts receivable turnover ratio (times)			
48.601	43.5404	42.6614	40.9423
Inventory turnover rate			
25.7486	23.9547	23.8337	24.4947
Fixed asset turnover rate (times)			
2.6722	2.3498	2.8699	3.4046
Total asset turnover rate (times)			
1.2905	1.1804	1.278	1.3611
Return on investment (ROIC)			
6.650%	23.093%	5.748%	7.454%

According to the number of days in the capital turnover cycle calculated in this article, despite the changes in data over the past four years, it takes longer for the company to sell inventory and receive accounts receivable for that inventory. Like inventories, accounts receivable is essential to current assets. A company's ability to remain solvent in the short term is improved by timely collections of accounts receivable, which also shows how effectively those accounts are managed [7]. Generally speaking, the higher the turnover rate of accounts receivable, the shorter the average collection period,

DOI: 10.54254/2754-1169/30/20231448

indicating the faster the recovery of accounts receivable [7]. The data indicates that the working capital of enterprises will be excessively stagnant in accounts receivable, affecting the normal capital turnover. Because TESCO is a cash sales company, this is a bad sign because the turnover rate of accounts receivable is increasing every year. This number has increased from about 40 in 2019 to 48 in 2022, approaching 50. TESCO needs to change its credit policy. From the TESCO inventory turnover rate calculated in this article, the inventory turnover speed is fast, so the inventory occupancy rate is low. This indicates that liquidity is relatively high. So far, this article believes that the healthy data is the return on investment. At low but healthy levels in 2019, 2020, and 2022. The number of companies reached 23 in 2021, indicating that TESCO has a strong profitability in 2021 (see Table 2).

The analysis of the operational capacity data calculated in this article. TESCO is very fragile in terms of the number of days in the capital turnover cycle and the turnover rate of accounts receivable. The data on return on investment is in a healthy and safe state. Analyzing an enterprise's operational capabilities requires consideration of the current problems in the process of operating the enterprise [8]. The most serious one is that the enterprise's managers themselves do not attach importance to the enterprise's operational capability system, believing that the enterprise's operational capability system cannot improve the core competitiveness of the enterprise [8] (see Table 2).

3.3. Profitability Analysis

Profitability is typically defined as an enterprise's ability to generate profits within a specific time frame. Profitability is a relative concept, that is, profit is relative to a specific resource investment and income. The higher the profit margin, the more profitable; the lower the profit margin, the less profitable. This article mainly analyzes TESCO's profitability through gross profit margin, operating profit margin, net profit margin, and EBITDA profit margin.

Table 3: TESCO profitability indicators from 2019 to 2022.

2022/02/26	2021/02/27	2020/02/29	2019/02/23
Gross profit margin			
7.548%	6.850%	7.072%	6.484%
Operating margin			
4.234%	3.666%	4.041%	3.250%
Net interest rate			
2.413%	10.612%	1.499%	2.069%
EBITDA margin			
7.173%	5.678%	6.563%	5.231%
Overhead rate			
3.230%	3.050%	2.910%	3.110%

Generally speaking, when analyzing profitability, an enterprise's R&D expense rate is analyzed. Because TESCO is a retail enterprise, there is no R&D expense rate. Therefore, this article will not analyze the R&D expense rate and related data.

Gross profit margin refers to the percentage increase in the value of a product after production and internal system conversion. Gross profit margin is the percentage of gross profit to sales or operating revenue. As calculated in this article, although the gross profit margin is not high, it is stable. Data increment of gross profit margin. The gross profit reflected in the data is steadily developing (see Table 3).

The term "operating profit margin" refers to the proportion of an organization's operational profit in operating revenue over a specific time period, demonstrating the organization's capacity to make money from its commercial activities [9]. The profit of the enterprise mainly comes from operating revenue [9]. The higher the operating profit margin, the more wealth created for the enterprise, and the more net profit [9]. Generally speaking, the operating profit margin of each industry is different. As a retail industry, TESCO's operating profit margin needs to be above 15%. Only enterprises have the surplus amount to deduct various daily operating expenses. The operating profit margin calculated in this article is between 3% and 4%. And the net interest rate calculated in this article is also in a relatively low state. Generally speaking, the normal range of operating profit margin is between 20% and 30%. This data indicates that the operating profit of TESCO enterprises is relatively stable, but very low. The profitability of enterprises is weak. This data indicates that the cost of the company is high (see Table 3).

TESCO's operating profit margin, net profit margin, and EBITDA profit margin are all very low. Indicates that there is no excess amount to deduct various daily operating expenses. The profitability of owners' equity is weak. The profitability of enterprise sales revenue is poor. And the final management cost is relatively low, indicating that without corresponding management costs, management costs have been effectively controlled or operating revenue has been increased (see Table 3).

4. Suggestions

In general, TESCO needs to focus more of its resources on the domestic market in the UK, shrink its global market, recoup investment in large suburban supermarkets, and global markets. Compared to new competitors, TESCO's current production efficiency is low [10]. According to the latest market situation, TESCO's operational strategy has resulted in a low return on capital [10]. TESCO's economic scale in the UK may therefore be brought back to a consistent return on scale level by boosting investment in management teams and customer experience, which will also improve TESCO's competitiveness. [10]. TESCO should revitalize its brand image and rebuild consumer confidence, and ultimately TESCO's profit performance will gradually improve [10].

5. Conclusion

This article analyzes TESCO's financial statements by using financial ratio analysis. The shortcomings of TESCO and the parts that need to be improved are analyzed from three capabilities. Suggestions for improvement based on analysis data are proposed. This article hopes to indirectly analyze the retail industry in the UK through the analysis represented by TESCO. Provide data advice to its retail industry. The data in this article also reflect the development status of the retail industry similar to TESCO. This article analyzes the problems and improves the current situation through analysis.

References

[1] *Zhang Guojin.: Discussion on British retail Industry [J]. Gansu Science and Technology (02), 49-51 (2005).*
[2] *Dong Wenshu. Research on cross-cultural management strategies of international retail enterprises [D]. Jilin University (2008).*
[3] *Chen Daoqing. Application of financial ratio analysis in enterprise management [J]. Bohai Rim Economic Outlook (10), 161-163 (2022).*
[4] *Gu Yue. Overview of the application of financial ratio analysis in enterprise financial diagnosis [J]. SME Management and Technology 689 (20), 146-148 (2022).*
[5] *Wang Xiang. Analysis of corporate financial ratios - Taking Q Enterprise as an example [J]. Modern Marketing (Second Edition) 795 (01), 164-166 (2023).*
[6] *Jiali. Problems and improvements in financial ratio analysis [J]. Business Accounting 698 (02), 49-52 (2021).*

[7] *Wei Ru. Analysis of long-term investment and operational capacity in the analysis of enterprise financial situation [J]. Science and Technology Information 381 (25), 411+382 (2011).*
[8] *Liu Xiayun. Research on Enterprise Operational Capability Analysis System [J]. Chinese and Foreign Entrepreneurs 683 (21), 9-10 (2020).*
[9] *Luo Guijun. Profitability Analysis of Listed Companies - Taking Company Z as an Example [J]. National Circulation Economy 2339 (35), 52-55 (2022).*
[10] *Wang Xin. On how to improve Profit Performance of Tesco. China Market (45),112-114 (2015).*