

A REPORT ON FINANCIAL ANALYSIS MANAGEMENT

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Executive summary

The report is based on the firm named, GUD holdings limited, which are enlisted in Australian Stock Exchange. The report has analysed the competitive position, market trends, market offerings and the services provided by the firm in order to maintain the competitive position. The report even highlighted the dynamic changes that are taking place in the company. The changes brought by the key drivers are observed in the report that affects the growth of the firm. The report has also analysed the performance of the business using four years detail analysis of the financial performance from the year 2013-2016. In the third question of the report the cash flow analysis of the business is provided. The report has also observed the weakness in the analysis. It has also given detailed solution in order to deal with the dynamic changes that are taking place in the company. The report has given total analysis of the financial analysis of GUD holdings.

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Introduction

Financial analysis of a company helps the company to understand the financial position of the company. The analysis provides detailed data about the profit and loss that are incurred by an organisation. Moreover, it can also help the company to understand the past trends and make proper plans for future performance. The analysis can help the creditors and investors to evaluate the performance of the business in the industry market. It would also provide a snapshot of the liabilities, assets and liquid cash amounts present in the company. It would further help the investors to decide the scope of investment and the goodwill of the particular firm.

1. Providing company prospective and market details of GUD holdings Limited.

GUD holdings are listed in Australian stock exchange over 50 years. It is a company that focuses on the four businesses, namely Oates, Davey, Automobile, Dexion. Market details of GUD holdings are as follows:

Analysis of the competitive structure of the GUD holdings:

The growth of the business is important in the business. Investors of GUD holding company are trying to increase the cap value USD\$661 (Market.theaustralian.com, 2017). The GUD holdings have ranked 654 among 2000 in Australian stock exchange. GUD holdings recently acquired a majority share in the Indy oil. The acquisition of the Indy oil would help the company to be in a leading position of the market allowing them to grab many branding opportunities. GUD holdings have founded BBEEE enterprise, which would provide better training opportunities. The training procedure would help the company to be in the leading position keeping other rival firms far behind the line of competition. Recently, GUD holdings introduced Servo press Technology, which would all together made a massive change in Automobile industry. GUD holdings have made the above strategies to maintain a leading position in the industry.

Market trends:

Market trends help the company to forecast the trends of price in the future years. Recently it has been viewed that GUD holdings has made good performance in the stock exchange. In today's date GUD holdings hold a market cap of 1050 and hold Equity shares of 86% (Smallbusiness.chron.com, 2017). The profit, which the GUD holdings made, amounts to 15%. The company has also raised the placement to \$79 millions. The company in order to maintain

the market trend regularly analyse the quality of the product. The company has also received Q1 status in the field of quality assessment.

Market offerings:

Market offerings are the services provided by the company to please customers. GUD holdings are constantly making amendments in the services in order to keep the old customers and also make new customers. GUD holdings provide full fledged services including after sales services in cleaning products. The facility of after sales service has made the company to grab revenue of \$595.5 (Boons and Freund, 2013, p.10). The company also provides product support to the customers by the help of expert team of employees. The services provided by the company helps them to be in a leading position in the market.

Analysis of business models based on public firms:

Business models are the plans that are made for the successful operations of the business. GUD holdings are owned by many public firms. The business models of the firm help the company to understand the value of customers. There are mainly four models, among them the model of manufacturing suits is the appropriate model for GUD holdings. The model helps the company to sell their products directly to the consumers (Islam and Jain, 2013, p.103). The benefit of this model is that it would help the company to maintain direct relation with the customers. The consumer may buy products on credit as done by them in small shops therefore; the firm would have to make arrangements for credit.

2. Critical evaluation of key drivers affecting GUD holdings limited's business

The key drivers of a firm are very important because it helps the company to understand the performance of the company. The key drivers, which a company must focus on are the profitability, consumers taste, revenue and growth trends of the business. Porter (2014, p.79) stated that, the drivers has its own importance and they are interlinked. For maintaining the profitable position in the market more importance must be given to the drivers. The key drivers that are affecting the business of GUD holdings are as follows:

Consumer taste

The taste of the consumer changes dynamically and affects the growth and sales of the business (Saarijärvi *et al.* 2013, p.8). GUD holdings being a company active in industry and consumer market depends more on consumers. Therefore, the factor consumer taste is very important for

GUD holdings. The changes must be made according to the change in consumers taste otherwise, it would negatively affect the growth of the business. When the taste of the consumer is changing very rapidly the company is facing problems to cope up with the changes, which in turn is affecting the productivity of the firm. GUD holdings must make changes accordingly, so that, it could provide better services to the consumer.

Competition

The next important key factor is the competitive position of the firm in the market. According to, Torres and Lehto (2014, p. 256) competition in the market would give scope for the company to understand the strategy the rival firm is adopting in order to increase the sales and profit. When the competition is tremendous then the company has to make changes to their plans specially, the capital structure changes, which affects the firm.

Regulation

Regulations of a company are the foremost criteria of the business. The regulation of a company helps in protecting the employees by providing them with the detail idea of the company. GUD holdings must also provide detailed information of the regulations of the company to the employees. The regulation of the business allows a company to run smoothly. Rapid changes in the rules and regulation would bring problems for the employees, which could affect the productivity of the firm.

Technology

Technology of a firm is another important key change driver of a business or firm. GUD holdings, being an automobile and storage manufacturer, are affected by the technological changes. Modern technology must be improvised in order to increase the productivity of the business. Using obsolete technology would affect the growth of the firm.

PESTEL:

Political factor: These political factors include various political stabilities, tax policy environment and labour laws, and various govt policies which have an impact on business .According to this the organization have to adjust the complete policy of marketing.

Economic factor: According to Tricco (2012, p. 22), economic factor have an important impact which includes exchange rate, interest rate, inflation, economic growth etc.

Social factor: This area involve age distribution, career and health consciousness and growth of population which have a direct relation on what derives the marketers to understand their customers in an effective way.

Technological factor: As per Munro (2012, p. 350), the technology is changing vigorously which have a direct impact on the products in a business. Technological factors affect the business in Three different ways: the way goods and services are produced, their distribution, and communication with the competitive target market.

Legal factors: This part includes the advertising standard, equality in opportunities, various consumer laws and right. The company has to know about the legal factors for doing a successful business.

Porter's five forces:

According to Zhong (2012, p. 3270), five force analysis of porter determines the power of competition in a business which is described below:

Power of supplier: This determines how the suppliers can drive the overall process. To determine this, the supplier has their own strength and control, unique ideas regarding their products. If the suppliers have least choices, their help will be much more needed.

The power of buyer: The power of the buyer can be driven by the importance of each and every buyer in business, the total cost to switch the products to someone else.

Competition of the rivalry: As per Froud (2012, p. 40), the capability and number of the competitor is important when there are lots of competitors then products that are offered becomes more. If the competitors don't get any good business deal they can easily shift elsewhere.

The substitution threat: This threat affects the ability of the customer to search a different way like if the product supply automates a unique process, then people can switch the process automatically. The easy automation weakens the overall power of business.

Threat from the new entry: As per Vanhegan (2012, p. 620), the power is affected when some new entry occurs in the business market. Which cost some more time and money? If there is a

little protection for the main technologies, then the new comers and the competitors can easily enter into the business and weakens the strategy.

Changes in the price of raw material:

If there is a change in the price of the raw materials in the company, then there will be a less demands for the products which further results in the poor business management of the company, customer retention also declines, there will be huge growth of the rivals and also there is a decline in the annual revenue of the business.

3. a) Critical evaluation of five year performance of GUD holdings private ltd:

GUD Annual report of 2013:

As GUD holdings is a large business consisting of large number of consumers and owner of brands of different companies based on industrial products within Australia and New Zealand. It is having great reputation since four years. According to the financial review of year 2013, the major changes are seen:

Profitability:

The underlying EBIT estimated to decline of about \$13.9 million from estimated \$70.3 million. The total profit found to be \$31.5 compared to \$92.8 million in previous year. This particular reduction is due to the inclusion from the proceedings from sold shares held in Breville Group. Apart from Breville Group share, the net profit in case of restructuring and impairment cost degrade from \$44.2 million into \$37.4 million, which is a loss of 15 percent. The primary impacts due to loss are reduction in whole profit which is originated from factors like price reduction to cope up with the competition, product mix. The total overhead cost reduced in 2012/13 showing a loss in income across business.

Liquidity:

Ongoing cash flow fell from \$56.9 million to \$51.5 million in 2011/12. This scenario is caused due to decline in consumer and growth in industrial (Psaros *et al.* 2015, p. 205). Other big factor contributing to loss in cash flow is the sale of Breville Group in the previous year. Also, the Dividend Reinvestment Plan (DRP) was stopped due to good balance sheet presentation.

Efficiency:

In case of manufacturing efficiency, an improvement has been seen at Dexion. All other companies allowed changes in future related plans. Also improvement is shown in product cost and supply chain planning. The brands included are sunbeam, Oates, Ryco, Wesfil and Davey.

Capital structure:

While analysing CVAR performance, managers not only focussed on drivers but also gave attention on the net working capital, comprising trade and other variables. Overall, the net working capital over \$107.1 million was slightly increased compared to the previous year's \$105.1 million.

Analysis of investor returns:

The investment activities in major brands since 2007 took place in 2012/13. GUD organised a common brand management process, which involves the building of an annual brand plan aimed to strengthen the brand. Performance issues that are identified are included into the updated annual brand plan.

Suggestions:

From the above survey, it is clear that the annual profit declined at a certain rate due to unusual cash flow due to decline in customer demand and growth in industrial. So the cash flow must be maintained after studying the market competition and strategy should be made in a proper way to cope up with the situation.

GUD Annual report of 2014:

As per the 2014 annual report, the major changes are seen:

Profitability:

The net profit after tax was seen to be \$17.7 million as compared to prior year that is \$31.5 million. One of the factors behind the reduction is the various remuneration programs that are occurred across the group in that year. EBIT was estimated to be \$49.0 million, which is a decline of about \$7.5 million according to the reports of year 2012/13.

Liquidity:

Here, the overall cash flow reduced from \$51.5 million in 2012/13 to \$29.6 million in the year. The primary reason for this reduction is due to the customer cash collection which fell about \$668.9 million to \$635.6 million. Both the combination of increased debtors and low revenues lead to failure.

Efficiency:

Initial focus has been given to both better purchasing and internal potentials. Warehousing operations have been analysed which resulted into a sharp reduction in offsite storage used by Davey and Sunbeam. It has become important to reduce the offsite storage in current year.

Capital Structure:

GUD has recommended the CVAR since the financial year 1999/2000. It provides the way to management with some idea to value each business unit's performance. While those with less returns than cost of capital, are expected to bring good annual returns to cost of capital.

Analysis of investor returns:

GUD has organised a common brand management process for over seven years among all business. But this process includes the formation of an annual budget planning cycle. The activities under this planning were the outcomes of Dexion branding company in the field of commercial and industrial parts of the business.

GUD Annual report of 2015:

Profitability:

This year's review show an increase in profit, that means an increase of 88% compared to \$17.7 million in the previous year. The major credit to the profit was due to absence of restructuring and impairment costs of year 2014-15. Earnings before Interest and tax (EBIT) showed increment by 20% from \$49.0 million to to \$58.9 million in the previous year.

Liquidity:

The cash flow showed an increment about \$29.6 million estimated in 2013-14 to about \$30.1 million in the reviewed year. This scenario slowed down the rate of growth in profits because about \$7.9 million of restructuring costs found in the previous year, were repaid in this year with new inventory products.

Efficiency:

According to Vogel *et al.* (2014, p. 10), GUD's traditional method always focuses to run every business in a complete way with very little provisions (Benigno *et al.* 2014, p. 58). With change in market conditions, the efficiency needed to upgrade the Group's cost position by using a coordinated approach, gave an area that provides opportunity to earn more benefits.

Capital Structure:

The major development in capital management for that particular year was the increase in the capital of company's share. These capitals were needed to finance during the acquisition of Brown and Watson International pvt ltd.

Analysis of investor returns:

GUD has planned to propose the creation of an annual brand plan combined with the annual budget planning cycle (Arrondel *et al.* 2014, p. 20). Measurement has to be taken for every single plan for the brand to get strength both in coming year and afterwards when the budget will be made. Sunbeam started different innovative marketing campaigns in the leading period of 2014.

GUD Annual report of 2016:

Profitability:

According to a report made by GUD holding in the Dexion business, incurred a loss of about \$43 million in financial year of 2015/16. Repairing of good wills, inventions, brand names and cost of product development were major contents of this document. The total estimation was about \$75.7 million before inclusion of tax.

Liquidity:

Focussing on inventories and information about debt due to cash flow was the initiated by a group. This showed the cash flow to double from \$30 million to about \$70 million in this year. According to the previous year, resulting debts increased due to increase in sales performance in last few months. Brown and Watson's main intention was to improve customer satisfaction in case of new product launch time. Two types of facilities were involved, they were Westpac, NAB etc and they consist of two parts which are intended to facilitate core debt of about \$185 million and other is the acquisition related debt of about \$115 million.

Efficiency:

As GUD is having less physical involvement in manufacturing activities, supply chain management is the important component of the cost structure of any business.

Capital Structure:

According to Lusardi *et al.* (2014, p. 5), Brown and Watson was purchased where the owners were paid an amount around \$20.0 million and this was the year of major capital commitment

ever seen during the year 2016/17. Another additional payment was given of around \$35.4 million on July 1 for interest in Sunbeam.

Analysis of investor returns:

GUD constitute a number of businesses that are having their own brands in the market. The arrival of Brown and Watson into the group of GUD makes it stronger with Ryco as it's another partner with same customers. GUD proved to be an open market of opportunities in field of cross branding and promotions.

Suggestion:

By reviewing the above report, it is observed that the overall profits in first two years gradually decreased due to low selling of products and customer demand has also declined in case of both Sunbeam and Oates. And again it is recorded that the profit in next following two years increases. These all consequences occur due to the up and down shares in the market. For a proper financial performance:

- It is required to have a good task force to carry out the planning strategies by taking an overall review on market conditions.
- Adequate funding must be there for movement and risk management policy must be constructed in order to note down the possible upcoming risks.
- Changes in planning are required for compatibility in the market of competitors.
- As seen in the above cases, even after knowing the reason for loss incurred in the previous year, the continuation goes in the next year also.
- This analysis must be rectified with proper study.
- Close attention should be given on the resources used, capital needed and cost of products in the market.

b) Recommendations in order to overcome the weaknesses found in the annual report of last four years:

Implementing proper business planning for ensuring overall profit:

When a company lack funds for the management and the financial reports and evidences are unavailable, then the determination of the ability becomes associated with the financial

competitiveness. This financial competence helps to interpret all these evidences relating to the financial performance of the beneficiary. This financial performance of the GUD Holdings assists all the information and provides judgment which can improve the quality and consistency. The detailed study provides guidance to the business professionals regarding the data and information provided that includes the financial performance of the beneficiaries to meet the basic requirements. It has been shown from the past four year business plans that the profit decreases and increases eventually likewise the demands for the consumers are also minimizing. So proper business planning must be done to gain the overall profit and which helps in the company's growth as well.

Coping up with the demands of customers:

As the profit is changing gradually and sometimes there is a huge drop in profit, it must ensure the loss of demand of the customers for GUD Holdings. When the company wants to retain its customers, it must find some alternative ways and methods otherwise there would be various risks for their loss. Firstly it is needed to know why customers demand fewer prices for the product, and the solutions they demand for the price reduction, and the alternative methods have to be applied for meeting the demands of the customers. If the demands are to be satisfied and if the company can cope with the changing demands then it will be beneficial for the company to increase its growth rate and it can make a better profit. So this is very much needed to retain the growth of the company by meeting the customer's demand.

4) a) Evaluation of cash flow for the last 4 years period:

Cash flow in the year 2013-

The annual report for the financial year of 2012-13 of the GUD Holdings outlines the detailed performance of GUD Group of business for this financial year. This has been shown from this year's performance that there is a huge improvement from the previous year and this is the motivation for the company to grow well in the next financial year and improve its performance also.

From the data received It has been shown that the cash flow operation declines from \$56.9 million in the year 2011-12 to about \$51.5 million in which is the contributing factor for the

changing environment and related to different business segment like declination of the growth of industry and among them some products cost very high that uplifts the labor cost in china and this is just impossible to recover due to increasing competition. The investing activities cost of inflow declines from \$68.3 million and the outflow \$22.4 million in which the principle factor is the effect of sales. The payable tax also affects the position of cash and the total investment for the fixed assets like the development of product and again the development of computer software remains the same in comparison with the previous year. The dividends paid is also increased from \$33.0 million to \$70.8 million

The cash value added return (CVAR) indicates the performance regarding the value generation for each business and if any unit can generate excess CVAR then the average cost makes huge wealth for every shareholders.

The CVAR of GUD Holdings Ltd for the year 2013:

For the year 2013	CVA Return
14.4%	Consumer
51.4%	Automotive
8.1%	Water
6.9%	Industrial
12.2%	Group

Table 1: The CVAR of GUD Holdings Ltd for the year 2013

(Source: Smallbusiness.chron.com, 2012)

Cash flow in the year 2014:

The CVAR indicates the overall management for the performance of the value generation for a business unit. In case, if there is a value added return, the total capital cost needs to bring the full year's return to the capital cost at least. Here the CVAR performance for the year 2014 has been shown in the table.

For the year 2014	CVA Return
11.2%	GUD Group, Based on overall profit calculation

Table 2: Cash flow in the year 2014

(Source: Smallbusiness.chron.com, 2012)

Cash flow in the year 2015

The cash flow has been increased from \$29.6 million to \$30.1 million in this financial year that has been reviewed. From the last year's sales performance that was funded by the payable growth, the GUD Holdings gross value for the bad debt was not increased prior to the previous year. The major capital development was the increment of the capital share of the company that is followed by the plan for share capital and also the private placement. In the last quarter, the total share of 14140358 was issued, that has been raised to \$101.5 million after the complete association of the issue cost. This results in increase in the liquidity flow from raising capital in the financial year 2015 that swung to the cash position almost \$0.6 million. The GUD Holdings then returned the net debt in the month of July after the settlement of the acquisition of BWI.

Cash flow in the year 2016

The main initiative of GUD Holdings focus on the collected results of the cash flow that doubles to \$70 million in this financial year rather than \$30 million in the previous year, which had a great pick in the last half of the year. For the robust performance of sales in the last month, the debaters were maximized. Despite the overall growth, the value of the bad debt of the Group did not increase rather it remained completely stable.

b) The impact of changing environment on cash flow on the GUD holding Pvt Ltd.:

Operation, Investment, Financing

Impact on operation:

The impact changes of working capital reflect the cash flow of the company. The cash flow gives the details regarding the work capital requirements and the positive work capital reflects the total

cash flow whereas the negative work capital measures the cash that the firm has spent than the total cash that has been brought for working capital management in a year. Analysis of the total change in the work capital for a business is important which is really important for a firm with the need for a seasonal cash flow.

Impact on Investment:

The impact of investment on cash flow gives an aggregate change in the position of cash of the company that results from any loss or gain from that investment and the changes in operation results from the total amount spent on that financial market.

Impact on financing:

Cash flow when comes from the company's financing activities then it means it is showing all the investors the financial strength of the company. When the company turns an equity or new debt very frequently, and if the liquidity of financial capital markets becomes low, then it can create a problem. Cash flow from the financing activities means a lot of money flows inside the company rather than going outwards, that maximizes the total capital asset. If negativity has been shown then it means that the company is making a stock repurchase. Investors can get cash from the financing activities that are one of the main sections of cash flow of the company.

Conclusion:

In the overall research study, there is a competitive analysis of different companies and their market offerings, evaluation of the change drivers that affects the industry, have been observed. A secondary research on the specific firm has been done over CSE and LSE. This research evaluates the four year performance of the GUV Holdings and how this affects the capital structure and liquidity, the weaknesses that have been observed and their recommendations, the impacts of the environmental change in the firm's cash flow from financing, investment and operation and their useful remedies.

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