TASK 2

Financial Statement Analysis of NWF Group plc

BM414 Financial Decision Making | Academic Year 2025–26

Task 2(a): Financial Statements – Definition, Role and Key Elements

2(a)(i) Income Statement

The income statement, which is also known as the statement of profit or loss, as per IAS 1, records the performance of a business over a specified accounting period (Alexander, Britton and Jorissen, 2009). The trading activity for NWF Group plc is reflected in it for the two years ended 31 December 2023 and 2024, which helps management, investors and lenders to know the group's operational efficiency and capacity to generate profits. According to McLaney and Atrill (2008) the income statement is used to report to the shareholders as a stewardship instrument and also to inform the financial decisions of the business as a strategic instrument. The three critical elements are discussed below, using the data provided in Table 1.

Table 1: NWF Group plc – Income Statement Key Metrics

Key Item	2023 (£m)	2024 (£m)	Change
Revenue	205,000	230,500	▲ +12.44%
Cost of Sales	84,600	93,120	▲ +10.07%
Gross Profit	120,400	137,380	▲ +14.10%
Operating Expenses	46,200	64,100	▲ +38.74%
Operating Profit	74,200	73,280	▼ −1.24%
Net Profit	50,025	50,460	▲ +0.87%

First, revenue increased from £205,000m to £230,500m, a 12.44% increase, due to NWF's growing market reach in all of its fuels, food and agriculture operations (NWF Group, 2024). Second, gross profit was up from £120,400m to £137,380m, with the gross profit margin edging up from 58.73% to 59.60% – reflecting improved costs of goods efficiency against the growth in sales. Most importantly, however, operating profit dropped from £74,200m to £73,280m, despite an increase in revenue, due to a £17,900m (38.74%) rise in operating expenses. This gap between revenue growth and the performance of profits will be an indicator of structural cost issues that require executives' attention.

2(a)(ii) Statement of Financial Position

The Statement of Financial Position (balance sheet) is a snapshot of NWF's financial structure that is very useful, but static, at a given date based on the fundamental accounting equation: Assets = Liabilities + Equity (Brealey, Myers, Allen, 2011). It has far more functions than stewardship disclosure, including in the area of credit worthiness assessment and capital structure decision. Table 2 examines the three main factors, which are discussed.

Table 2: NWF Group plc – Balance Sheet Key Metrics

Key Item	2023 (£m)	2024 (£m)	Change
Non-Current Assets	330,450	345,200	▲ +4.46%
Total Equity	232,200	269,638	▲ +16.12%
Retained Earnings	185,200	222,638	▲ +20.21%
5% Loan Notes (NCL)	150,000	120,000	▼ −20.00%
Trade Receivables	18,150	25,600	▲ +41.10%
Cash & Equivalents	45,250	35,200	▼ −22.21%

The first is non-current assets, which increased from £330,450m to £345,200m (+4.46%) and continues the trend of capital expenditure on the operational infrastructure that is consistent with NWF's growth plans. Second, net equity rose significantly from £232,200m to £269,638m (+16.12%), driven by retained earnings growth, from £185,200m to £222,638m, showing high retention of profits and generation of internal capital resources (Arnold, 2019). Third, non-current liabilities (5% loan notes) fell from £150,000m to £120,000m (−20.00%), indicating some deliberate decisions to reduce liabilities and hence finance costs from £7,500m to £6,000m, with a corresponding positive move towards improving the risk profile of NWF, a good sign for long-term financial stability.

Task 2(b): Ratio Calculations

Table 3: NWF Group plc – Ratio Calculations (2023 vs 2024)

Ratio	Formula	2023	2024	Change
1. Return on Capital Employed (ROCE)	Operating Profit / Capital Employed × 100	74,200 / 382,200 × 100	73,280 / 389,638 × 100	
	Capital Employed = Equity + NCL	= 19.41%	= 18.81%	▼ −0.60 pp
2. Net Profit Margin (NPM)	Net Profit / Revenue × 100	50,025 / 205,000 × 100	50,460 / 230,500 × 100	
		= 24.40%	= 21.89%	▼ −2.51 pp
3. Current Ratio	Current Assets / Current Liabilities	78,950 / 27,200	76,080 / 31,642	
		= 2.90	= 2.40	▼ −0.50
4. Average Receivable Days	(Trade Receivables / Revenue) × 365	(18,150 / 205,000) × 365	(25,600 / 230,500) × 365	
		= 32.31 days	= 40.54 days	▲ +8.23 days
5. Average Payable Days	(Trade Payables / Cost of Sales) × 365	(10,252 / 84,600) × 365	(14,532 / 93,120) × 365	
		= 44.23 days	= 56.96 days	▲ +12.73 days

Capital Employed Workings:

2023: £232,200m + £150,000m = £382,200m | 2024: £269,638m + £120,000m = £389,638m

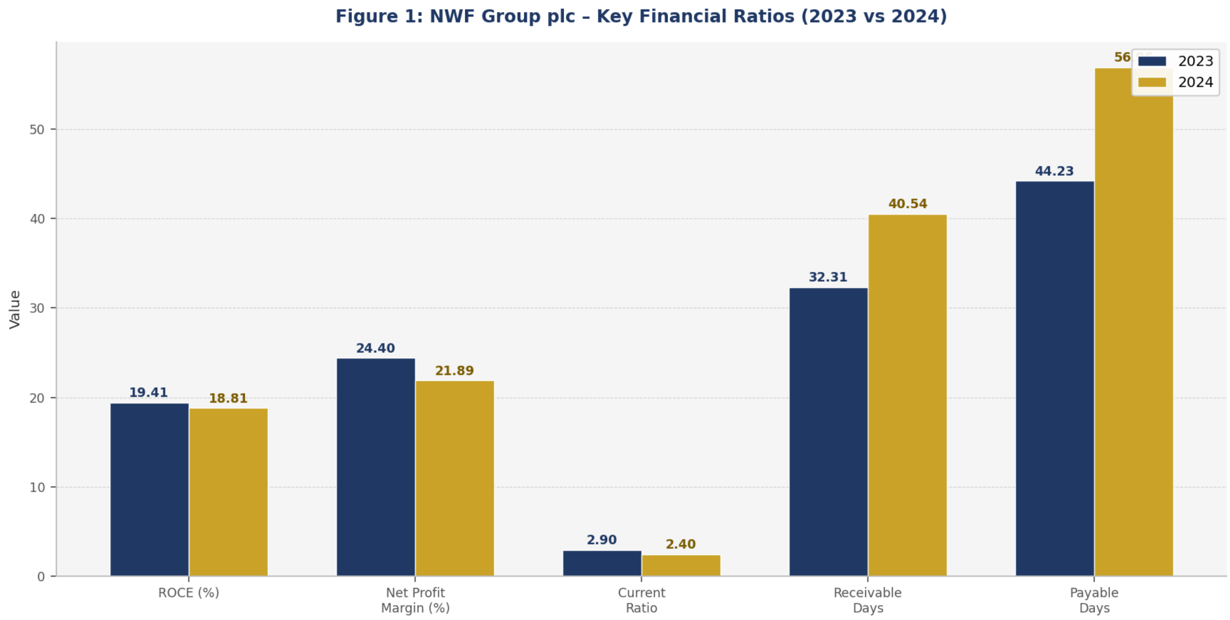

Figure 1: NWF Group plc – Key Financial Ratios Comparison (2023 vs 2024)

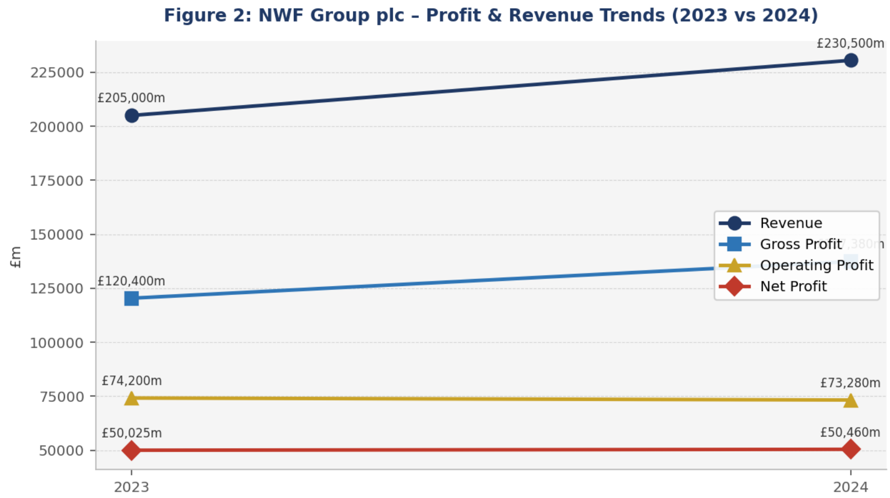

Figure 2: NWF Group plc – Revenue and Profit Trends (2023 vs 2024)

Task 2(c): Performance Analysis and Ratio Discussion

Return on Capital Employed (ROCE)

ROCE declined from 19.41% to 18.81% (−0.60 percentage points), reflecting a convergence of falling operating profit (£74,200m to £73,280m) and rising capital employed (£382,200m to £389,638m). The single factor that contributed to a decline in profits is clear: operating expenses rose 38.74% (from

£46,200m to £64,100m), and swallowed up all the additional revenue of £25,500m. This could be due to the investment in logistics capacity, fuel distribution assets or higher costs from increased labour and compliance spending at NWF's 27 depots in the UK. The ROCE figure is not a bad one for the UK specialist distribution industry (Fridson and Alvarez, 2022) but the falling figure is an indicator of lower returns on capital invested. Ongoing ROCE compression would make NWF less appealing to debt and equity investors, especially before the company's £150m capital raise. Management has to immediately assign and manage the increase in operating expenses to regain the momentum in ROCE.

Net Profit Margin (NPM)

The NPM was also slightly down from 24.40% to 21.89%, or a 2.51 percentage point drop, which supports the ROCE analysis. More importantly, gross margin grew marginally (58.73% to 59.60%) which shows that NWF's procurement and direct cost management is effective. The focus of the problem is the operating expenditure level. Atrill and McLaney (2008) state that NPM compression, on an ongoing basis without correction is likely to be due to either structural overhead inefficiency or an uncontrolled expansion in cost base. That is only a slight improvement on the net profit figure, as the finance cost savings counteracted the impact of loan note repayments on operating profit (+7,500m to +6,000m), with the result being a marginal rise of just 0.87%. This debt reduction benefit is, however, a one-off and, without cost control, could well get worse in 2025. A loss of 2.51 percentage points on the revenue base of £230,500m represents the loss of about £5,800m of net profit, which is a significant leakage of value that needs to be strategically reviewed.

Current Ratio

The current ratio decreased from 2.90 to 2.40, but the current ratio is still above the widely accepted current ratio of 2:1 (McLaney, 2005) which indicates good short-term liquidity. The rise in the main index is ample, however, for the .50-unit gain, there's a look into it. Current assets fell from £78,950m to £76,080m, driven primarily by a £10,050m cash reduction (£45,250m to £35,200m, −22.21%), partially offset by a £7,450m increase in trade receivables. Current liabilities increased by £4,442m (+16.33%) to £31,642m, mainly as a result of an increase in trade payables and tax liabilities. The reduction in cash is probably due to capital expenditures, debt service or operational reinvestment in line with the strategic expansion of NWF. The ratio is still good, but with the Group aiming to be able to fund a £150m logistics centre project, whilst paying dividends to equity investors, it's a risk their capacity will be compromised if the ratio continues to fall.

Average Receivable Days

The receivable days materially increased from 32.31 to 40.54 days (+8.23 days) which is a very alarming factor. Trade receivables grew 41.10% (£18,150m to £25,600m), dramatically outpacing revenue growth of 12.44%. In a groundbreaking paper on working capital management, Deloof (2003) shows that delaying debtors' payment terms directly reduce firm profitability and increase the credit risk exposure. In both sectors, NWF—fuel distribution, where credit terms are tight and typically short; and grocery consolidation, where they are not as uniform—may be broadening their credit terms as a way to maintain volume growth, or facing collection difficulties, as they have added an increasing number of customers (NWF Group, 2024) to their accounts (111,000+). This trend raises the amount of working capital needed and, if left unchecked, can lead to greater risk of bad debt. With a £150m capital raise, higher days sales outstanding reduce the working capital quality of the NWF, and could be a negative factor for prospective investors and lenders performing credit assessments, as they check cash conversion efficiency.

Average Payable Days

There was also a significant increase in the number of days to pay suppliers (payable days rose from 44.23 to 56.96 days (+12.73 days)). Brigham and Ehrhardt (1982) recognize that the extension of payables is a form of interest-free short-term financing, and that this policy can be used to optimize a company's treasury, but the 12.73-day extension for one year has other issues that need to be addressed. Payable days (56.96) are well ahead of receivable days (40.54) in 2024, and the increase in days in both categories highlights a working capital tension, not a working capital management strategy; a positive working capital is a net gain. In the farming supply chain, NWF Agriculture could experience supply chain disruption and/or supplier credit limitation, while Boughey Distribution could suffer a loss of reputation due to too many payment deferrals within their grocery network. When taken together with the £10,050m cash reduction, it is easy to see that the extended payables are not necessarily the result of proactive treasury management, but are instead a result of NWF drawing on suppliers to cover a shortfall in cash reserves. This structural weakness has to be addressed before the company goes to the capital markets for further funding of £150m.

Investor Perspective: £150 Million Capital Raise

> Note: This section evaluates NWF's financial profile from an investor's perspective in the context of the planned £150m warehouse and logistics centre development.

NWF's investment prospects are mixed overall from an investor point of view but essentially investable. There is positive news on financial stewardship, with net profit of £50,460m in 2024, equity growth to £269,638m and a large non-current asset base of £345,200m, providing collateral security, and disciplined debt reduction (loan notes reduced by 20% to £120,000m) (NWF Group, 2024). With 2,000m ordinary shares, EPS is running at £25.23 (from £25.01 last year) and is showing reasonable, albeit relatively small, earnings accretion. Existing gearing (loan notes of £120,000m: equity of £269,638m) suggests the capacity to borrow more with debt financing, which is backed by NWF's asset-based profile and which will enable competitive bond pricing.There is potential for more debt financing, as existing gearing suggests a loan note liability of £120,000m against equity of £269,638m, which is supported by the asset-backed profile of NWF and which will allow competitive bond pricing. But the simultaneous drop in ROCE (from 19.41% to 18.81%) and NPM (from 24.40% to 21.89%) will bring in the institutions' attention, not to mention the decreased days of receivables and the seemingly cash-pressured numbers. For NWF to raise the £150m funds – either as equity or new bond issue or as a combination of the two – its management must provide a convincing investment case that shows that the new warehouse and logistics centre will turn around the trajectory of operating costs, boost ROCE above 20%, and return cash flows above the cost of capital (Brealey, Myers and Allen, 2011). The alignment of the planned facility with NWF's net-zero 2040 sustainability goal is also a strategic benefit to access markets linked to green bonds and institutional capital with an ESG focus that has expanded greatly as an investment category. Finally, the £150m raise is viable on NWF's basic financial strength, but they will need to make real commitments to improve their operations, particularly in the area of cost control and cash conversion, before they will be able to attract investors on terms that are competitive.

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