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# Watson PLC

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## Interpretation of Accounts (Ratios)

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### 2009

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### Shareholders

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### Part B - Comments

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<b>SHAREHOLDER COMMENTS</b>
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Remember to use the following headings and ratios when commenting on part B. These will be used from a **share-holders point of view**

Performance		State of Affairs			Prospectus	
Profitability	Dividend Policy	Liquidity	Gearing	Investment policy	Sector	Share performance
1. ROCE	1. Dividend Cover	1. Acid Test	1. Gearing	1. Investment Policy	1. Sector	1. EPS
2. EPS	2. DPS		2. Interest Cover			2. P/E Ratio
	3. Dividend Yield					3. Market Price
	4. Dividend Pay out					

Try to use the following sentence to help you remember the headings for shareholder comments

**Paul Does Landscaping Gardening In Spring & Summer**

**NOTE**

You might have to calculate some ratios still for part B - calculate them quickly using your calculator and make a record of the figure

**PERFORMANCE****Profitability****ROCE****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Say if the company is profitable - compare to risk free investments
4. Compare to debenture & preference rates
5. Would shareholders be satisfied/dissatisfied?

**Template**

1. In \_\_\_\_\_ the ROCE is \_\_\_\_ %. In \_\_\_\_\_ the ROCE was \_\_\_\_%
2. This is an improvement / dis-improvement of \_\_\_\_ % and is a positive / negative trend
3. The company is profitable / not profitable as the return is higher /lower than risk free investment of 0-1%
4. It is also above /below the debenture rate interest of \_\_\_\_% and above /below Preference share capital rate of \_\_\_\_%
5. Shareholders would be satisfied / not satisfied - as the company is making efficient / inefficient use of its resources available to them

**Suggest Solution (2009 - Watson PLC)**

1. In 2008 the ROCE is 8.25%. In 2007 the ROCE was 10.60%
2. This is a dis-improvement of 2.25%and is a negative trend
3. **The company is profitable as the return is higher than risk free investment of 0-1%**
4. **It is also below the debenture rate interest of 10% but above the Preference share capital rate of 6%**
5. **Shareholders would be dis-satisfied - as the company is not making efficient use of its resources available to them**

EPS**Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/dissatisfied?

**Template**

1. In \_\_\_\_\_ the EPS is \_\_\_\_\_c. In \_\_\_\_\_ the EPS was \_\_\_\_\_c
2. This is an improvement / dis-improvement of \_\_\_\_\_ c and is a positive / negative trend
3. Shareholders would be satisfied / dis-satisfied with this as it indicates the profit in cents coming from shares and how well / badly shareholders' investment is used

**Suggested solution (2009 - Watson PLC)**

1. In 2008 the EPS is 8.66c. In 2007 the EPS was 19.05c
2. This is a dis-improvement of 10.39c and is a negative trend
3. **Shareholders would be dis-satisfied with this as it indicates the profit in cents coming from shares and how badly shareholder investments is used over the years**

**DIVIDEND POLICY**Dividend Cover**Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/dissatisfied?

**Template**

1. In \_\_\_\_\_ the Dividend cover is \_\_\_\_\_ times, In \_\_\_\_\_ the Dividend cover was \_\_\_\_\_ times
2. This is an improvement / dis - improvement and is a positive / Negative trend. It means more / less profit is being retained for expansion purpose and repayment of loans
3. Shareholders would be satisfied / dis - satisfied with this as it increases share value, knowing payments are more / less likely to continue into the future

**Suggested solution (2009 - Watson PLC)**

1. In 2008 the Dividend cover is 1.2 times, In 2007 the Dividend cover was 1.7 times
2. This is a dis-improvement and is a negative trend. It means less profit is being retained for expansion purpose and repayment of loans
3. **Shareholders would be dis- satisfied with this as it decreases share value, knowing payments are more likely to continue into the future**

**Dividend per Share (DPS)****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

**Template**

1. In \_\_\_\_\_ the DPS is \_\_\_\_\_c. In \_\_\_\_\_ the DPS was \_\_\_\_\_c
2. This is an improvement / dis-improvement of \_\_\_\_\_c. This is a positive / negative trend
3. Shareholders would happy / not happy with this in the short terms as it indicates how much dividend they will receive

**Suggested Solution (2009 - Watson PLC)**

4. In 2008 the DPS is 6.89c. In 2007 the DPS was 12.7c
5. This is a dis-improvement of 5.81c. This is a negative trend
6. Shareholders would not be happy with this in the short terms as it indicates how much dividend they will receive

**Dividend Yield****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. compare to risk free investments
4. Compare to debenture & preference rates
5. Would shareholders be satisfied/Dissatisfied?

**Template**

1. In \_\_\_\_\_ the Dividend yield is \_\_\_\_\_ %. In \_\_\_\_\_ the Dividend yield was \_\_\_\_\_%
2. This is an Improvement / dis-improvement of \_\_\_\_\_ % and is a positive / negative trend
3. It is higher / lower than risk free investment of between \_\_\_\_\_%
4. This is also higher / lower than debentures of \_\_\_\_\_% and the preference share of \_\_\_\_\_%
5. Shareholders would be satisfied / dissatisfied with this as the company will find it easy / difficult to pay out dividends

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the Dividend yield is 5.74%. In 2007 the Dividend yield was 9.77%
2. This is a dis-improvement of 4.03% and is a negative trend
3. It is still higher than risk free investment of between 1-2%
4. This is also lower than debentures of 8% and the preference share of 9%
5. Shareholders would be dissatisfied with this as the company will find it difficult to pay out dividends

**Dividend Pay-out****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

**Template**

1. In \_\_\_\_\_ the Dividend pay-out is \_\_\_\_\_%. In \_\_\_\_\_ the Dividend pay-out was \_\_\_\_\_%
2. This is an improvement / dis-improvement and a positive / negative trend
3. Shareholder would like to see this closer to 50% and would be satisfied / dissatisfied with this

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the Dividend pay-out is 79.56%. In 2007 the Dividend pay-out was 66.66%
2. This is a dis-improvement and a negative trend
3. Shareholder would like to see this closer to 50% and would be dissatisfied with this as it is not good for the long-term stability of the company

Note - This can also be included under Profitability

NOTE On Dividend Pay-Out

1. Dividend pay-out should be in and around 50% for shareholders to be happy (Debenture holder would accept less)
2. If above 50% - they are paying out too much dividend - this means that debenture holders will not be happy as the company is not retaining enough money for expansion and paying interest. Shareholder will not be happy either as it is not good for the long-term stability of the company (even though they are receiving a higher dividend)
3. If below 50% - shareholders will not be happy, as they would expect a higher return. Debenture holders would be happy as the company should have enough retained for expansion and paying interest.
4. Formula to calculate Dividend payout is =  $DPS/EPS \times 100/1 = \%$

**STATE OF AFFAIRS****LIQUIDITY****Acid Test Ratio****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend (compare to recommended ratio 1:1)
3. Does it have a liquidity problem - can they pay debts in the short term
4. Would Shareholder be satisfied/dis-satisfied

**Template**

1. In \_\_\_\_\_ the acid test ratio was \_\_\_\_\_. In 2019 the acid test ratio was \_\_\_\_\_
2. This is an improvement / Dis-improvement of \_\_\_\_\_c and is above the recommended ratio of 1:1
3. \_\_\_\_\_ PLC does / does not have a liquidity problem and are able / not able to pay their debts as they fall due in the short term. This is because they have €\_\_\_\_\_ in liquid assets for every euro it owes in the short term
4. Shareholders will be happy / not happy as \_\_\_\_\_ PLC will / will not have problems paying out dividends or other short terms debts as they fall due

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the acid test ratio was .74:1. In 2007 the acid test ratio was .98:1
2. This is an dis-improvement of .24c and is below the recommended ratio of 1:1
3. Watson PLC has a liquidity problem and are not able to pay their debts as they fall due in the short term. This is because they have €0.74 in liquid assets for every euro it owes in the short term
4. Shareholder will be not happy as Watson PLC will have problems paying out dividends or other short terms debts as they fall due
5. However Watson liquidity figures are too conservative. Too much capital is tied up in Debtors and is unavailable for other purposes.



**GEARING****Gearing****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend and is the company a lowly/highly geared company.
3. Does it depend on outside borrowing
4. Would Shareholders be satisfied/dis-satisfied

**Template**

1. In \_\_\_\_ the gearing ratio is \_\_\_\_%. In \_\_\_\_ the gearing ratio was \_\_\_\_%
2. This is an improvement / dis - improvement and is a positive / negative trend. But the company is a Lowly / highly geared company
3. This means the company is dependent / less dependent on outside borrowing and would appear to be less / more of a risk from outside investors. Shareholder would be satisfied / dis-satisfied as the business is now less / more dependent on outside borrowing  
However, if using the Debt to equity ratio it is a negative / positive trend as it has improved / dis-improved from \_\_\_\_% to \_\_\_\_% this is a positive / negative trend
4. Shareholders would be satisfied / dis-satisfied as the company is now more dependent on outside borrowing than before and there is significant risk to the firm from outside investors. The business is highly geared and is financed more by debt than by equity.

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the gearing ratio is 41.27%. In 2007 the gearing ratio was 34%
2. This is a dis-improvement and is a negative trend. But the company is a lowly geared company
3. This means the company is less dependent on outside borrowing and would appear to be less of a risk from outside investors. Shareholder would be satisfied as the business is now less dependent on outside borrowing but there would appear to be significant risk to the firm from outside investors.
4. Shareholders would have a concern if this trend is to continue. The business is lowly geared  
The business and is financed more by debt than by equity.

**Interest Cover****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend.
3. What does it mean - is there enough money for expansion, paying dividends and interest
4. Would Shareholder be satisfied/dis-satisfied
5. Make reference to when the debenture will be paid off
6. Will investment help with paying debenture

**Template**

1. In \_\_\_\_ the Interest Cover is \_\_\_\_ times. In \_\_\_\_ the interest cover was \_\_\_\_ times
2. This is an improvement / dis-improvement and is a positive / negative trend
3. This means the firm has more / less money available for expansion, paying dividends and paying interest/loans
4. Share holder would be satisfied / dis-satisfied with this
5. The Debentures are not listed for repayment until \_\_\_\_\_. \_\_\_\_\_ plc had enough time to put aside resources to be able to repay these when the time comes. The bank account is / is not overdrawn and Debtors owe €\_\_\_\_\_. \_\_\_\_\_ PLC should / should not follow up on this

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the Interest Cover is 2.8 times. In 2007 the interest cover was 4 times
2. This is a dis-improvement and is a negative trend
3. This means the firms has less money available for expansion, paying dividends and paying interest/loans
4. Share holder would be dis-satisfied with this
5. However, the Debentures are not listed for repayment until 2012. Watson plc had enough time to put aside resources to be able to repay these when the time comes.

**INVESTMENT POLICY****Investment Policy****Questions to answer**

7. What is the investment policy last year what is it now
8. Is this an improvement/dis-improvement, positive or negative trend.
9. Does this mean good / poor management of resource available to management
10. Would Shareholder be satisfied/dis-satisfied

**Template**

1. In \_\_\_\_ the investment is \_\_\_\_ . In \_\_\_\_ the investments was \_\_\_\_
2. This is an improvement / dis-improvement and is a positive / negative trend
3. This means good / poor management of resource available to management
4. Shareholders would be satisfied / dis-satisfied with this

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the investment is €140000 . In 2007 the investments was €190000
2. This is a dis-improvement of €50000 (26.3%) and is a negative trend
3. This means poor management of resource available to management
4. Shareholders would be dis-satisfied with this

**PROSPECTS****SECTOR****Sector****Questions to answer**

1. Say what sector the business is
2. Say what the short-term goals are
3. Say what the long-term goals are

**Template**

1. \_\_\_\_\_ plc is in the \_\_\_\_\_ industry.
2. In the short term this industry is growing / not growing as more \_\_\_\_\_  
\_\_\_\_\_
3. In the long term, the economic recovery is certain / uncertain and the firm is likely / unlikely to face competition and takeover from large multinational competitors.

**Suggested Solution (2009 - Watson PLC)**

1. Watson plc is a manufacturer in the construction industry.
2. In the short term this is not a good industry to be in due to the downturn in the economy
3. In the long term, property developers are finding it hard to sell properties and it is not known how long this will last for

**SHARE PERFORMANCE****The price earnings ratio****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

**Template**

1. In \_\_\_\_\_ the P/E Ratio is \_\_\_\_\_ years. In \_\_\_\_\_ the P/E ratio was \_\_\_\_\_ years
2. This is an improvement / dis-improvement of \_\_\_\_\_ years, meaning it will take \_\_\_\_\_ years to make back the market price of the share at current performance levels.
3. Shareholders will be satisfied / dis - satisfied with this as they will recover their investment is a shorter / longer time frame

**Suggested Solution (2009 - Watson PLC)**

1. There was no P/E ratio given in this question

**Market Price Per Share****Questions to answer**

1. Say what you see - compare to previous years
2. Is this an improvement/dis-improvement, positive or negative trend
3. Would shareholders be satisfied/Dissatisfied?

**Template**

1. In \_\_\_\_\_ the MPS is \_\_\_\_\_ c. in \_\_\_\_\_ the MPS was \_\_\_\_\_ c
2. This is an improvement / dis-improvement of \_\_\_\_\_ c and is a positive / Negative trend
3. Shareholder would satisfied / dis-satisfied with this as it indicates confidence / lack of confidence in the firm by the stock market

**Suggested Solution (2009 - Watson PLC)**

1. In 2008 the MPS is 1.20. in 2007 the MPS was 1.30
2. This is a dis-improvement of 10c and is a negative trend
3. Shareholders would dis-satisfied with this as it indicates confidence in the firm by the stock market.

**Overall**

**Question to answer**

1. Say yes or no if the shareholder would be satisfied with the performance, state of affairs and prospects of the company.

**Template**

1. Yes / No the shareholder would be satisfied / dis-satisfied with the performance, state of affairs and prospects of the company.

**Suggested Solution (2009 - Watson PLC)**

1. No, The Shareholders would be satisfied with the performance, state of affairs and prospects of the company.