

FINANCE FOR MANAGERS

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1. Critical analysis and Discussion

EasyJet plc, is a leading British company engaging in the airlines sector, founded by Stelios Haji-Ioannou in year 1995. This MNC deals with low cost airlines and having its head quarter in London Luton Airport, United Kingdom. It practices in more than 32 countries with domestic as well as international airlines, with its affiliated airlines in several countries such as EasyJet UK, Easy Jet Switzerland and Easy Jet Europe. It is listed in London Stock Exchange. The critical evaluation is made on the basis of key financials for ascertaining and proper monitoring of financial terms and performances. There are some key financial terms or metrics elaborated for the better understandings of Easy Jet plc and its financial position.



Figure 1 EasyJet (<https://www.proactiveinvestors.com/companies/news/920947/easyjet-to-resume-flights-on-75-of-routes-by-end-august-920947.html>)

Financial ratios and interpretation

PROFITABILITY ANALYSIS

Net profit margin- This ratio is used to quantify and analyse the profitability of the organisation throughout the couple of years (Abutabenjeh, 2021). The net profit margin is calculated by employing net profit and total sales or revenues, with the help of metrics as shown below.

PARTICULARS	2018 (thousand \$)	2019 (thousand \$)	2020 (thousand \$)
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Net profit	358.00	349.00	(1079.00)
Total revenues	5899.00	6385.00	3009.00

Particulars	2018	2019	2020
NP ratio	$\frac{358}{5898} \times 100$ = 6.07%	$\frac{349}{6385} \times 100$ = 5.46%	$\frac{(1079)}{3009} \times 100$ = (-35.85%)

Interpretation- As in the above table, during the period of 2018 the Net profit of the organisation named EasyJet plc was quiet impressive as its ratio was 6.07%. And in next year 2019, the net profit gradually decreased to some percent as its s ratio was 5.46%. But in year 2020, the organization incurred having losses and ratio of profitability declined up-to (-35.85%). For instance, as accordance with the author **Curley. A**, Corona Virus or Covid 19 is the main reason behind the downfall in airline sector and several other sectors during the pandemic era of 2020, Due to the lock down of more than 6 months and strict restrictions imposed by the governments of almost all nations influenced the transportation and travelling businesses across the world (Curley & et. al., 2020).

Return on capital employed ratio- This ratio is employed with an aim to quantify the percent of return over the invested capital in business during an accounting period. This helps in proper monitoring the gains or returns over the employed capital. The below table shows percent of the return on capital employed in context of EasyJet.

PARTICULARS	2018 (thousand \$)	2019 (thousand \$)	2020 (thousand \$)
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Earnings before interest and tax (EBIT)	358.00	349.00	(-1079.00)
capital employed	2387.00	3311.00	3024.00
ROEC = EBIT/CAPITAL EMPLOYED	$358 \times 100/2387 = 12.62\%$	$349 \times 100/3311 = 10.53\%$	$(-1,079)/3024 \times 100 = (35.6\%)$

Interpretation- The above table shows that the ROEC, of the organisation named Easy jet declining since 2019, as it was 12.62% in year 2018, 10.53% in 2019 and drastically declined in 2020 to (-35.60)%. This shows during the year 2020 the organisation incurred loss of 1079 thousand dollars. As according to the profitability directly depends over the earnings and profit margins as profit decreased the returns over equity, return over capital employed and operating profit margin also decreased (Spatt, 2020). That's why due to pandemic of covid 19, transportation and travelling were almost closed for few months that leads to such downfalls in context of financial situation of the organisations like EasyJet plc during the year 2020.

LIQUIDITY ANALYSIS

This analysis shows the liquidity or short term solvency capacity of the organisation as it depicts that the organisation have sufficient cash left cash equivalents to meets the short term requirements of funds or to meet daily business expenses (Barua, 2020). The below table shows s the details of EasyJet liquidity position in last three years.

PARTICULARS	2018 (thousand \$)	2019 (thousand \$)	2020 (thousand \$)
CURRENT ASSETS	1991	2119	2563
CURRENT LIABILITIES	2283	2668	3826
CURRENT RATIO =	$1991/2283 = 0.87$	$2119/2668 = 0.79$	$2563/3826 = 0.67$

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Interpretation- The above table show the liquidity position of the organisation named EasyJet in last three consecutive years. It seems that the current ratio is gradually decreasing year after year due to consistent increment in current liabilities of the organisation. It was 0.87 in 2018, 0.79 in 2019 and 0.67 in 2020. For instance, according to the due to restrictions of covid 19, there was huge downfall in sales or revenues if the organizations like Easy Jet, this leads to in maintains the cash and cash equivalents for meeting the daily business expenses and short term liabilities (Barua, 2020).

Competitive comparison on the basis of key financials

There is the comparison between Easy Jet and its main competitors that are RyanAir and Air Asia. These two organization are considered as the main competitors of Easy Jet plc in international market. Here, the comparison is made on the basis of the key financial ratios or metric obtained from the annual reports of these organisations. The table below shows the details.

Comparison in context of profitability

Net profit margin

PARTICULARS	EASYJET (2020)	RYANAIR (2020)	AIRASIA (2020)
Net profit margin of year = Net profit/ Total Revenue	(-38.85%)	7.8%	(-15.4%)

The above table showed the comparative analysis between Easy jet and it's two competitors namely Ryanair and Airasia. While comparing the Easyjet plc with its competitors in context of profitability, it seems that during the year 2020, the Easyjet incurred high amount of loss in comparison of Airasia. Although, Ryanair was still profitable having the profitability of 7.8%. The Easyjet plc has the net profit/loss margin of (-38.85%) and Airasia has the net profit/loss margin of (-15.4%). The pandemic era of covid 19, resulted in drastic influential affects over the profitability of airlines sector.



Figure 2 Ryanair (<https://www.flickrriver.com/photos/107101761@N02/31690102948/>)

Return on Capital employed (ROEC): There is the comparative analysis between Easyjet and its two competitors namely Ryanair and Airasia. The below elaborated below for better understandings.

PARTICULARS	EASYJET (2020)	RYANAIR (2020)	AIRASIA (2020)
ROEC= EBIT/ CAPITAL EMPLOYED	(-35.6%)	13.1%	(-2.0)

While comparing the Easyjet plc with its two competitors it is observed that EasyJet has no return over the capital employed and incurred loss over invested capital as it's ROEC is (-35.6%) And almost same financial situation also faced by the Airasia plc, as it's ROEC is also negative (-2.0) which is quiet less unfavourable in comparison of EasyJet. In context of Ryanair, incurred profit or return over employed capital as its ratio was 13.1%. The easy jet performances during the session of 2020 was quiet unfavourable in comparison of its competitors of airline sector. The pandemic lock down affects the whole economy and Easy jet airlines were drastically influenced by lock down in context of revenues specially.

Earnings per share ratio (EPS): This ratio depicts the gains or return over per share issued by the company to its shareholders. The below table depicts the ratios obtained from the financials of Easyjet plc and its competitors.

PARTICULARS	EASYJET (2020)	RYANAIR (2020)	AIRASIA (2020)
Earnings per share ratio	(-178.8p)	0.582p	(-6.0)

The above table depicts the comparative analysis, it is observed that Easyjet plc had worst and low performance in comparison with other entities of same sector as its EPS was (-178.8%). The Airasia had also declined EPS which was (-6.0%). It is also unfavourable. The Ryanair had been performed very well even in pandemic era, as its EPS was 0.582%. This analysis also depicts the unfavourable performance of Easyjet in airline sector.



Figure 3 Airasia (<https://cliffhanging-supraversion-emptings.xyz/?u=tpap60a&o=zlbwly0&cid=cb393a10-6d2b-4055-84a8-d20d1ef73a56>)

Current ratio analysis (Liquidity analysis): This analysis used to explore solvency situation of the organisation. It describes that whether the organisation have enough cash and cash equivalents for settlement of short term liabilities or not. The table below shows the liquidity position of Easyjet plc with its two competitors as a comparative analysis.

PARTICULARS	EASYJET (2020)	RYANAIR (2020)	AIRASIA (2020)
Current ratio = current assets/ current liabilities	0.67%	0.95%	0.58%

The above shows that Easyjet plc's current ratio or short term solvency position was 0.67%, it is higher than Airasia plc. The influence of pandemic over the sustainability and profitability of Easyjet plc, that leads to decrease in current ratio also. Again here also, the Ryanair performed well in comparison of other two entities of same sector.

2. Limitations in context of ratio analysis

The financial analysis pertains one of the most common methodology of ratio analysing and it is most appropriate while evaluating the financial information. It depicts the evaluated results in mathematical contexts that discloses the end performance of the organisation within an appropriate format (Berg, Reisinger and Streitz, 2021). But there are some limitations also associated while analysing the key financial of organization like Easyjet plc. There are some limitations described underneath associated with financial ratio analysis.

- **Avoidance of external factors:** The metric or analysis of financial ratios have its critters of analysis that only includes or analyse the quantitative internal data and ignores the external environmental factors that affects the sustainability and profitability of the organisation. Over them business entity has no or very less control such as worldwide pandemic of Corona Virus disease arises during the period of 2019-20. This pandemic leads to lock down in almost whole world for few months and due to strict restrictions about transport and travelling affects the organizations such as Easyjet plc. Such external factors are completely ignored in context of financial ratios analysis.
- **Difficulties in comparison:** The details provided by the organization in their financial reports are the basis for accounting ratios. This data could be manipulated by the organisation's managers to show a better outcome than it really has. As a result, ratio analyses cannot adequately depict the real condition of the market since details misrepresentation is not detectable by basic evaluation. It is essential for an investor to be

mindful of such potential manipulations and to conduct thorough due diligence prior drawing any judgments. Although, the organizations like Easyjet plc's individuals also be aware while making the comparison of entity's performance with the performances of other organizations of same sector.

- **Historic information:** The data employed in the practice is centred on the corporation's own published past performance. As a result, ratio analysis metrics are not always indicative of potential company results. As the financial report are the only basis of ratio analysis and therefore, the financial data are prepared at last the final step is to perform the ratio analysis. That's why it is said that ratio analysis is based on past performances and current performance of organization like Easyjet are not involved in evaluation.
- **Deals with quantitative data only:** The whole metric of ratio analysis concerns with analysis of quantitative information only qualitative information such as external factors, internal stakeholder's involvement etc. are not considered while making evaluation under the mechanism of ratio analysis.
- **Inflationary effects:** Since financial reports are issued on a regular basis, there seem to be time gaps among them. True prices are not expressed in the accounting records if inflation had emerged within periods. As a result, once the figures are adjusted for inflation, they are not comparable over time spans (Hall, Shin and Bartels, 2021). As somehow also happened while the pandemic era of covid -19, that also created the situation of inflation throughout the world where the actual prices of products and services such as airline services were increased that affects the customer or passenger's choices that also affects the performance of Easyjet plc. The aspects of inflation in economy, are not involved in analysis of financial ratios.

3. Performance of Easyjet within its sector

Due to pandemic of Covid-19 the organisation faced several problems and especially in context of financial issue as described above. Its competitors namely Ryanair plc and Airasia plc performed quiet well in comparison with Easyjet plc. But after the downfall in impacts of covid - 19 and while things are getting normal the organisation trying to improve its performance in order to maintain its sustainability and profitability. For competing its competitors and for effective

functioning the organisational management takes major actions with the aim of improvement. Some of the actions that depicts the performance of Easyjet are elaborated underneath.

Enabling the cost reduction strategies: Easyjet organisation since beginning of 2021, implementing the strategic systematised airline programme, delivering the effective cost reduction programme by reducing the passenger seats up-to 85.64% (6.4 million seats) enabling 13.46% capacity of previous year's passenger capacity. And load factor also reduced by 26%. Such programme are employed to attain the saving standard of £ 500 million savings. This all helps the organization introducing the amount of loss incurred in previous pandemic era.

Enhancement in savings: Reduction in costs resulting in reduction of loss and enhancement of profitability, since last six months. As a result £ 56 million were recorded as net savings before tax as mainly because of sales and leaseback activities (Morrell, 2021). This also result in increment in liquidity position of the organisation as 5.5 million after the recession era of covid - 19. Besides this all the another effective action taken by the organization is reducing the group headline costs excluding fuel declined by 58.87%, possible because of declined in capacity flown and material savings are the effective implemented program that enhances the performance of Easyjet plc against its competitors.

Change in policies and rules: The sum of collected seats flown is represented by this number. EasyJet is a no-refund airline, so acquired seats involve seats that are passed whether or not the traveller shows up. When a flight has left, a no-show customer is usually not deemed to adjust flights or pursue a reimbursement (Wang, Zhao and Huchzermeier, 2021). Seats offered for marketing activities and to employees for business travel are also considered earned. This resulted in enhancement of revenues, racial for the better performance of Easyjet plc against it competitors such as Ryanair plc and Airasia plc etc.

The above effective actions are taken by the management of Easyjet plc, which are resulting in improving the performance of organization to compete in airline sector.

4. Discussion about risks and opportunities along with suggestions to address them

There are some risks and opportunities listed below along with some suggestions on order to handle them effectively and efficiently are also mentioned for better understandings of organizational contexts with the help of qualitative and quantitative details.

Risks associated with Easyjet plc

Qualitative aspect

Increment in Prices: The Company's appearance at a variety of high-cost major airports the majority of which are subject to regulatory price increases, creates an obstacle in its efforts to reduce costs.

Suggestion: The organization implemented programme of cost reduction must covers the criteria of airport's costs (Metrick and Yasuda, 2021). As during restrictions on traveling the organization should shut down some terminals of several airports for reducing the primary costs.

Taxes on air travel: Increment in air travel taxes decrease demand attributable to price elasticity. In fact, certain taxes account for a high proportion of the cost of a short-haul flight than a long-haul flight, rendering easyJet sensitive to recent rises in air taxes in nations like the United Kingdom.

Suggestion: The organisation should reduce the prices of their tickets in order to attract the large number of passengers and should introduce attractive deals for capturing the large customer segment. High number of customer leads to increment in revenues and handle the burden of such taxes.

Quantitative aspects

Consistent decrease in revenue: The consistent and gradual decrease in the revenues of the organisation named Easyjet plc as mainly due to global pandemic issue of corona virus. Resulted in strict restrictions over transportation and travelling tends to situation of loss (Srinivasan and Thangaraj, 2021). The organisation incurred the loss of \$1079 million, during the session of 2020.

Downfall of profitability: Due to decline in amounts of revenues had resulted in decline in the amount of profits also. As the profitability ratios such as net profit margin declines drastically as it was (-35.85%) in year 2020. That depicts the high amount of loss incurred by the organization.

Suggestion: The cost reduction programme and implementation of new policies, would be benefitted for entity, if follows consistently.

Opportunities associated with Easyjet plc

Restructuring of costs: EasyJet must preserve its units costs advantages over existing carriers that are constantly looking to cut costs and are outsourcing large portions of their short-haul infrastructure to low/low-cost divisions in terms of maintaining its price advantage (SKERRIT, 2021). The 'easyJet Lean' project has found cost-cutting opportunities in places such as terminals, ground maintenance engineering, and fuel, with a goal of cutting costs up-to 27% by 2021, focusing over the saving target of £500 million. During the development restrictions over travelling it can be possible and organisation should take advantage of such era.

Market progress: when things are getting better and normal after the pandemic, Easyjet should perform as a major market player, is well positioned to profit from this expansion. Furthermore, considering its cost and price benefits, as well as total capacity cuts from several of its major carrier rivals, it appears to be on the verge of gaining market share. As the airline takes small steps toward partnering with other airlines, the possibilities that come with alliances will open up new doors

Conclusion and Recommendations

On the basis of above report it has been concluded that the financial ratio analysis depicts the true position of organization in terms of quantitative or mathematical form. Along with the quantity analysis the managerial team should also focus over the qualitative aspects such as external business environment and organisational strengths and opportunities in order to maintain the sustainability and consistent growth of the organisation. It is true that over external maker factors that influences the businesses such as Global pandemic, natural calamities and wars etc. over which business has no control. But management should focus over the aspects and try to reduce and minimise the effects of such contingencies with the help of strategically actions and planning's.

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