

# Five Year Retrospective Study of the Financial Situation of Northern Foods Plc., United Kingdom

Louie DACOSTA<sup>1</sup> and Charles ADUSEI<sup>2\*</sup>

<sup>1</sup>MBA (Finance) and FCCA, London, England

<sup>2</sup> Garden City University College, Ghana

*This study was conducted as a retrospective analysis of Northern Foods Plc., once a major player in FTSE 350 Food Sector, to evaluate its financial situation over a five year period. The ex post factor research design was used for this study. Annual reports and databases on Northern Foods Plc., and Associated British Foods Plc., were used to perform a series of ratio analyses. The results revealed that Northern Foods Plc.'s performance has been declining as evidenced in the profitability ratios calculated. Also, financial strength was weak and working capital has not been effectively managed, hence affecting its cash and profit generation potentials. The company was limited in its ability to grow and expand as it needed to regularly fund its pension deficit, and finance its high levels of debt. The study concludes that Northern Foods was not in a very strong financial position, yet it was not making the required investments to improve, hence its takeover though this paper will not rule out non-financial issues. Furthermore, the study prescribed five generic points to improve the financial health of any organisation.*

**Keywords:** financial situation, retrospective study, 2003 -2007, Northern Foods Plc.

**JEL Classification:** B27, F23, G23

## 1. Introduction

This study analyses the financial situation of Northern Foods Plc through key financial ratios. (NDF), once one of the largest food manufacturers in the United Kingdom having made its name and fortune through practically inventing the supermarket ready meal.

### 1.1. United Kingdom Food Industry

The UK food industry is dominated by very large (often multinational) companies (E.g. Associated British Foods Plc., Unilever Plc. etc.), which operate across a range of food markets and are often vertically integrated. Consolidation is being driven by the intensely competitive nature of grocery retailing in the UK.

---

\* Corresponding Author:

Charles Adusei, Department of Accounting, Finance and Banking, Faculty of Business Studies, Garden City University College, Kumasi, Ghana

Article History:

Received 12 August 2016 | Accepted 6 September 2016 | Available Online 24 September 2016

Cite Reference:

Dacosta, L. and Adusei C., 2016. Five Year Retrospective Study of the Financial Situation of Northern Foods Plc., United Kingdom. *Expert Journal of Finance*, 4, pp. 19-30.

Bargaining power in the food market is now firmly in the hands of major supermarkets chains such as Tesco and ASDA, thus placing further pressure on the suppliers to reduce cost (Key Note, Dec. 2007). According to Hill (2006) failure to pass on price increases and allowing profit margins to slip was the reason for sacking Northern Foods chief executive. Merger and acquisition (M&A) activity is continuing rapidly as companies in the food industry seek to cut costs, move out of areas in which growth is slowing and expand into sectors that are considered to have better potential. The UK food manufacturing is part of the global food industry, embracing global sourcing and supply of ingredients. For some companies exporting their products to the world market is vital to the success of their operations. Unlike other competitors within the UK food manufacturing industry Northern Foods Plc. operates primarily in the UK and Republic of Ireland. The company has two distinct lines of business: private label products and own brands, with a broad product portfolio.

### **1.2. Why Northern Foods Plc?**

The choice of Northern Foods Plc. was prompted by a combination of factors. Amongst which as pointed by Chris Hughes in the financial times (Hughes, 2006, p.20) was the series of profit warnings issued by the CEO within two years of her appointment. The continuous decline in the company's share price from about 175p in the beginning of the company financial year ending 31 March 2003 to about 125p in March 2007 (Annual Report, 2007). Also the company as can be seen in the annual report and accounts (2007, p.93) five year record was highly debt finance. Another reason is the restructuring programme initiated as a result of the May 2006 strategic review that attracted negative comments. For example, Clay Harris pointed out in the Financial Times (June 2006, p.22) that "whether this will help obtain a firm valuation and restore solidarity to Northern Foods' melting share price is another matter." These factors led the study to inquire retrospectively why Northern Foods Plc. a key major player of FTSE 350 Food Producers Firms is no more in operation having been in business since 1937.

Through archival study it was reported in their annual report that it was one of UK's leading food producers, employs around 10,700 people in the UK and Republic of Ireland. It was aiming to be the "supplier of choice to UK and Irish retailers in added-value convenience foods" producing a wide range of own-label and branded products.

Northern Foods Plc. focused on five markets: pizza, biscuits, ready meals, sandwiches and salads, and puddings supplying innovative own-label ranges to UK's leading retailers. About 60% of its annual turnover was from branded goods and 76% from its top five customers – ASDA, Marks & Spencer, Morrison's, Sainsbury's and Tesco. There were more questions that are begging for answers and the study was also motivated by this. The primary aim of this study is to retrospectively thoroughly analyse the financial situation of Northern Foods Plc. over the period 2003 to 2007.

## **2. Research Methodology**

### **2.1. Design of Study**

Retrospective study investigates a phenomenon or issue that has occurred in the past. Such studies most often involve secondary data collection, based upon data available from previous studies or databases. The retrospective study was considered as the outcome of interest has already occurred at the time of initiated this study. A retrospective study design allows the authors to formulate ideas about the possible associations and causes of the issues. The research design used for this study is the ex post factor research design. This design is used where the phenomenon under study has already taken place according to Simon and Goes (2013). The data obtained from the annual reports and accounts of Northern Foods Plc. which are historical in nature, thereby rendering this research an ex post factor. The retrospective study was performed on the financial situation of Northern Foods Plc., in the period of 2003 and 2007.

### **2.2. Data Description**

The data used for the analysis of this study was extracted from the interim and annual reports from Northern Foods Plc. within the period of 2003 and 2007. The timeframe of 2003-2007 was chosen as it was during this period where a lot of mergers and acquisition were taken place in the FTSE 350 Food Sector. This was the period where five year high debt financing were recorded by some of the companies coupled with intense pressure from the grocery retailing giants like Tesco and ASDA demanded that suppliers to reduce its operational cost to reduce its selling prices to better off their margins. This indeed forced some of the companies within the FTSE 350 Food Sector to initiated restructuring programs. The data extracted from the annual reports and accounts were particularly in relation to profitability, liquidity, working capital, finance and

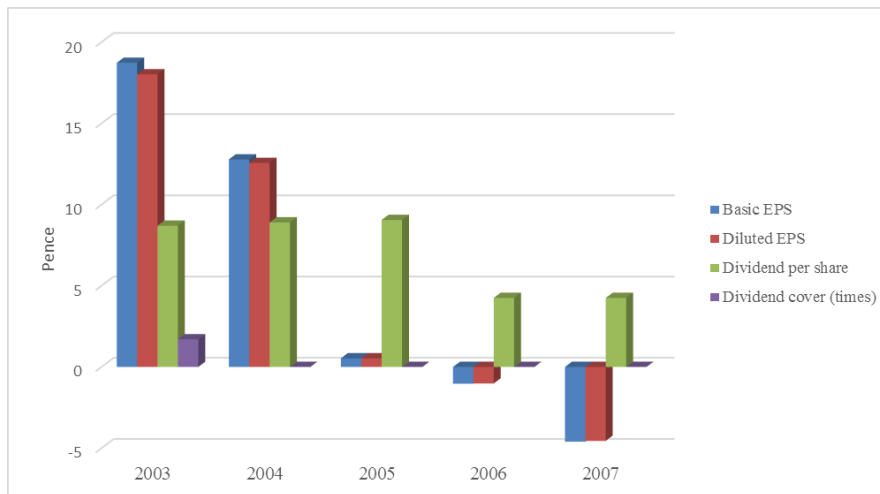
capital investment and cash generation potentials. For the purposes of comparison the interim and annual reports of Associated British Foods from 2003 and 2007 were also extracted, the choice of Associated British Foods was critical as it was a key competitor during the period and still in operation in 2016. The study also made use of databases such FAME (Financial Analysis Made Easy), Key Note, Data Monitor and Perfect Analysis to complement the annual reports. Financial information relevant for financial ratios was derived from the annual reports and the databases. These were then summarized and processed to come up with comparative financial ratios were used for the analysis.

### 3. Results and Discussion

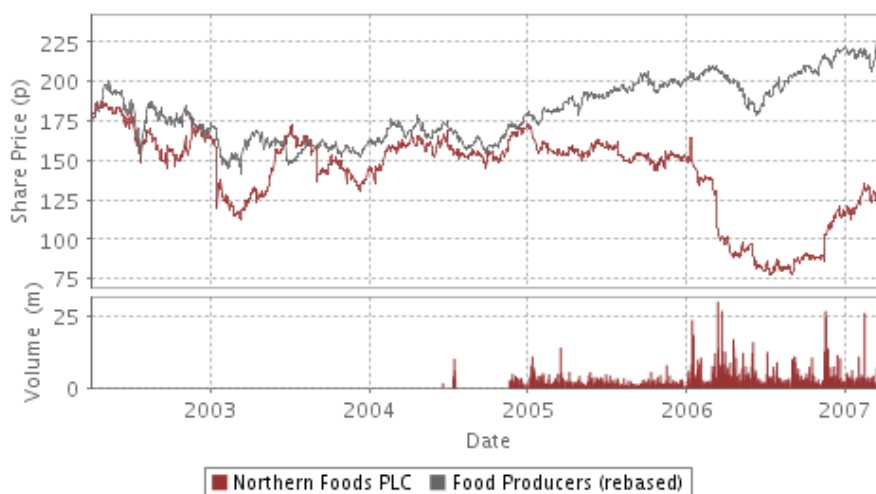
#### 3.1. Shareholders Performance Measures

As can be seen from Table 1, under the Appendix, Northern Foods earnings per share (basic and diluted) have been declining sharply over the five year period to March 2007. Basic EPS decline 124.6% from 18.73p in 2003 to – 4.60p in 2007. Diluted EPS also decline at about the same rate (125.2%) from 18.02p in 2003 to – 4.55p in 2007.

Although there was small fluctuation in Northern Foods’ main rival’s basic and diluted EPS, it grew by approximately 10.9% from 2003 to 2007. NDF’s DPS also follow the same trend dipping from 18.02p in 2003 to 4.25p in 2007. This declining shareholders performance measures is reflected in the group’s share price which has dropped from 175p in 2003 to 125p in 2007 (see fig 1A).



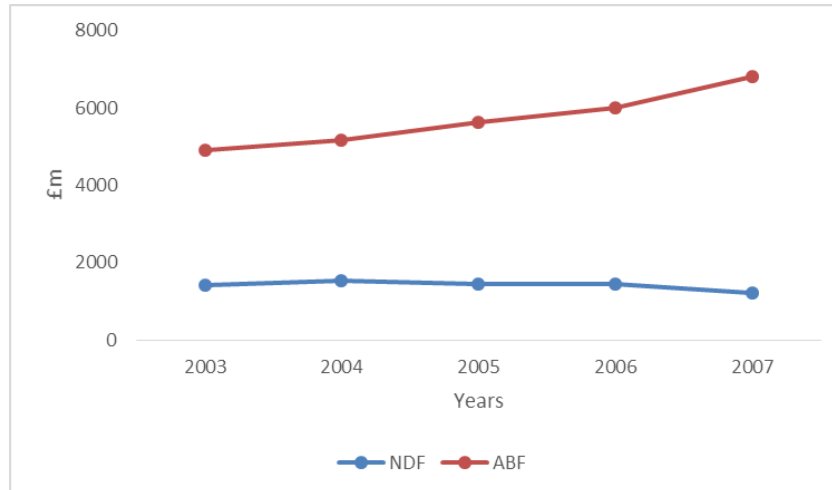
**Figure 1A.** NDF's yearly changes in shareholder performance measures  
 Source: Northern Foods Annual Reports 2003-2007  
 Note: Dividend cover measured in number of times



**Figure 1B.** Northern Foods share price chart 2003 - 2007  
 Source: Northern Foods Annual Reports 2003-2007

### 3.2. Profitability

Group turnover drop from £1438.2m in 2006 to £1205.9m in 2007 representing a decline of approximately -16.2%. This could be attributed to the restructuring process the company was undertaken during the financial year following its strategic review of May 2006 although the group turnover has been fluctuating over the five year period declining by -2.6% to £1421.2m in 2003 then rising 8.5% to £1542.1 in 2004 before continuing in steady decline of -6.1% to £1448.8m in 2005, -0.7% to 1438.2m in 2006. On the other hand, whilst NDF group turnover was on the decline that of its competitor ABF was rising at about 8.42% on average from 2003 to 2007 as shown in Fig: 2 below. Also see Appendix, Table 2 for year-on year percentage change in selected key performance indicators.



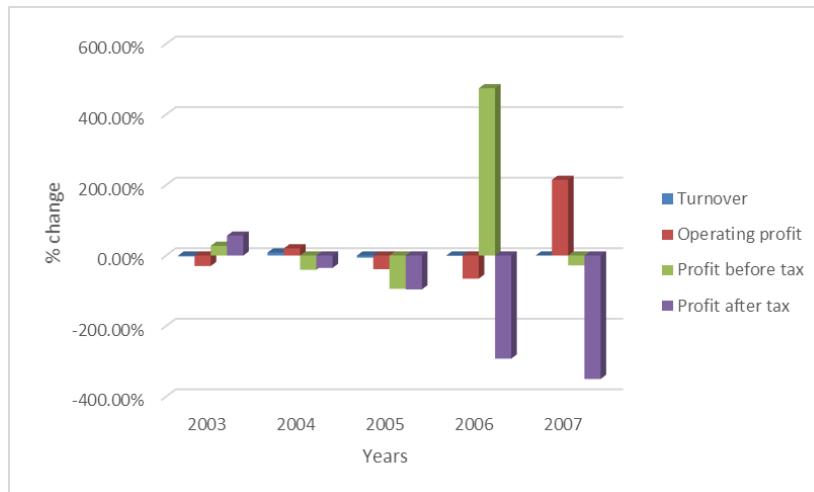
**Figure 2.** Yearly trend in NDF's sales turnover comparative to its competitor's (ABF)  
 Note: NDF = Northern Foods Plc., ABF = Associated British foods Plc.

Both profit before tax and profit after tax followed similar trends with a year-on-year percentage decrease of -28% and -350% respectively in 2007. This kind of performance had prompted three profit warnings within the past two years. A careful analysis shows that the primary cause of the huge decline in profit before tax and profit after tax was the cost of restructuring. In his review, the chairman pointed out that the total cost of restructuring was £55.4m resulting in a loss for the year of £22.5m.

The primary cause of NDF's poor performance was a failure by the company to pass on price increases to help offset sharply higher energy cost and the substantial level of costs (most especially staff cost). For example whilst NDF spent 30.6% of its turnover on staff cost in 2007, its competitor spent less than half of that (14.7%) in the same period as staff costs. See Appendix, Table 3 for analysis of key costs categories as percentage of turnover.

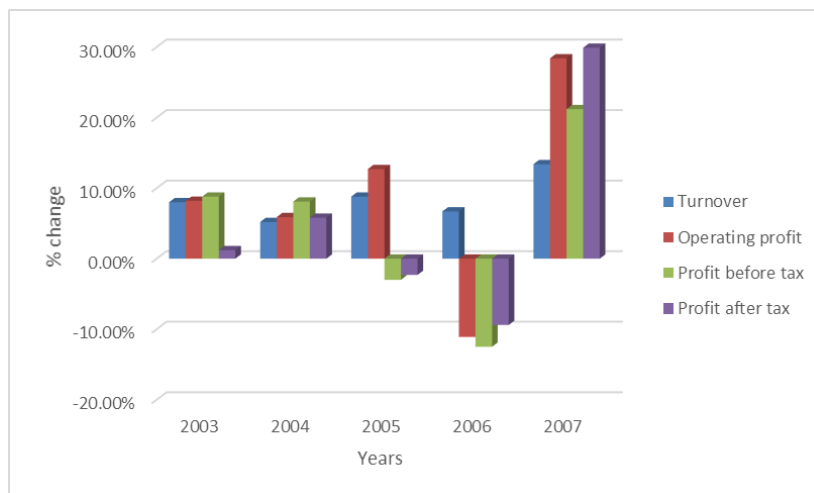
As pointed out by Hill (March, 2006), failure to pass on price increase, mounting debt level and huge pension deficits means Northern Foods cannot fund capital investments it needs to keep ahead in the cut-throat food industry. This coupled with high level of costs has resulted in significant drop in return on total assets, return on capital employed and return on equity of Northern Foods. Tumbling from 11.7% in 2003 to -0.4% in 2007, average ROTA of Northern Foods was 4.9%. Over the same period ABF's average ROTA was almost twice that of NDF at 8.62%. ROCE and ROE followed the same trend dropping significantly from 16.7% in 2003 to -0.7% in 2007 and from 27.5% in 2003 to -18.6% in 2007 respectively. During the same period ROCE and ROE for ABF dropped slightly from 12.7% in 2003 to 9.3% in 2007 and from 10% in 2003 to 9.0% in 2007. (See Appendix Table 4).

Percentage wise, year-on-year changes in operating profit has increased by 214.5% in 2007 (-65.6% in 2006; -38.8% in 2005; 20.4% in 2004 and -29.8% in 2003). This huge rise in yearly percentage changes in operating profit in 2007 is as a result of a 15.1% drop in cost of sales (from £1095.5m in 2006 to £930.1m in 2007) and a 32.4% reduction in net operating expenses (from £324.8m in 2006 to £219.5m in 2007). The decline in operating profit levels over the five years under consideration has resulted in a fall in return on invested capital (ROI) from 12% in 2003 to 7.8% in 2007 (Annual reports, 2007, p93).



**Figure 3A.** Operating trends: Year-on-year % increase/decrease in selected KPI's of NDF  
 Source: Annual Reports

Note: NDF = Northern Foods Plc., KPI's = Key performance indicators



**Figure 3B.** Operating trends: Year-on-year % increase/decrease in selected KPI's of ABF

Note: ABF= Associated British Foods Plc., KPI's = Key performance indicators

Net profit margin declined from 8.8% in 2003 to -0.2% in 2007 averaging 3.58% over the five year period. Over the same period, ABF's Net profit margin average 8.62% showing a slight decline from 9.9% in 2003 to 7.6% in 2007.

A critical analysis reveals that Northern Foods utilises its assets better than ABF's in that whilst Northern Foods asset turnover increased from 1.9 times in 2003 to 3.3times in 2007, Associated British Food's declined from 1.3 times in 2003 to 1.2 times in 2007.

Despite its better asset utilisation, NDF's gross profits margin although steady at 25.8% for 2003 and 2004 slightly drop to 24.5% in 2005, 23.8% in 2006 before taking a sharper drop to 22.9% in 2007(averaging 24.56% over the period). ABF's gross profit margin average 25.84% over the same period for.

### 3.3. Liquidity

Over the five years under review, both companies short term financial strength have been on the decline. Whilst NDFs' current and quick ratio decline from 1.06:1 and 0.79:1 in 2003 to 0.95:1 and 0.74:1 in 2007 respectively, that of ABF decline from 3.11:1 and 2.53:1 from 2003 to 1.57:1 and 1.04:1 in 2007 respectively (see Appendix Table 5 . With current and quick ratios having fallen below the traditional 2:1 standard generally favoured for a solvent company in most industries, the management of Northern Foods should have been concern with the company's short term financial strength.

In order to survive, it is important that a company is able to meet its outstanding short-term obligations after paying off the servicing of debt and tax. Over the five year period under review, the groups cash current liability coverage average 31.14%, whilst that of ABF average 47.74% (See Table 6, Appendix).

### 3.4. Working Capital (Management Efficiency)

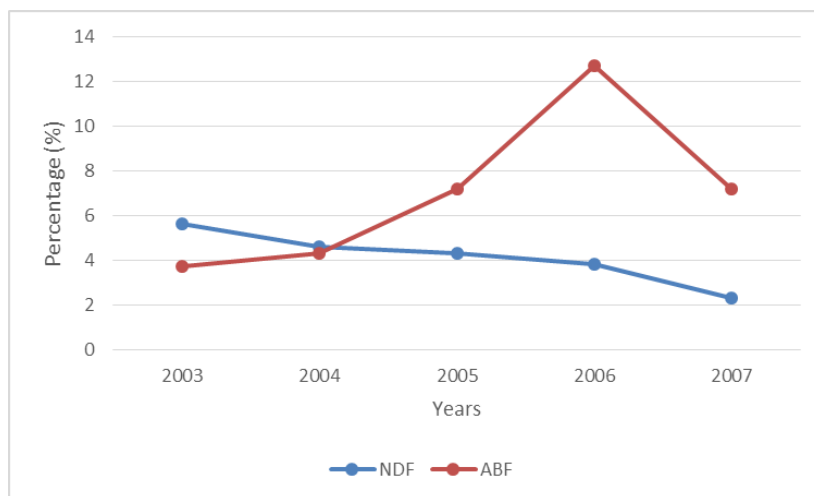
Working capital appears to be pretty relaxed. In 2003, the group allowed 37 days to collect debts and took approximately 43 days to settle its creditors. Debtor collection period improved slightly to 34 days in 2004 before increasing to 38 days and 39 days in 2005 and 2006 respectively. 2007 saw a marked improvement, the group allowing less than a month (27 days) to collect its debts. From 42 days credit in 2004, the group settled its debts 6 days earlier in 2005 before increasing to 43 days and 41 days credit in 2006 and 2007 respectively.

Between 2003 and 2007, the group allowed on average five (5) weeks to collect its debt and took an average six (6) weeks to settle its creditors. Although this serves as a good source of funding, there are interest, and liquidity implications. ABF Plc. allowed a little over a month (33 days) to collect its debt and five (5) weeks to settle its creditors. NDF's stock turnover rate improves significantly from 12.4 times in 2003 to 20.3 times in 2007. Over the same period ABF's stock turnover rate dipped from 7 times in 2003 to 6.5 times in 2007.

### 3.5. Finance and Capital Investments

An in depth analysis reveals that the group was highly debt finance. Gearing level has increase from 46.9% in 2003 to 77.3% in 2006 before dipping to 66.9% in 2007. This reduces the group's ability (financial strength) to meet other short-term liabilities after servicing of loans. Interest cover has weakened to approximately -0.1 times in 2007 from 6.4 times in 2003. Despite declining liquidity ratios, the group's dividend cover remains almost constant between 1.5 times and 1.8 times except for 2005 when it was lowest at 1.1 times.

In trying to deliver strong cash performance, the group adopted a tight policy for capital expenditure investment. In 2007 net capital expenditure was almost half that of 2006 at £28.1m (£55.3m in 2006). Overall capital expenditure as a percentage of the group's turnover dropped from 5.6% in 2003 to 2.3% in 2007. Whilst NDF's capital expenditure was on the decline, ABF continues to increase its capital expenditure levels except for 2007 when it dipped slightly. (See Fig: 4 below). The CEO was aware of the low level of investment as he pointed out in his performance review in the annual report that the group is capacity constrained in some areas but investment will be limited to ensure adequate returns are achieved.

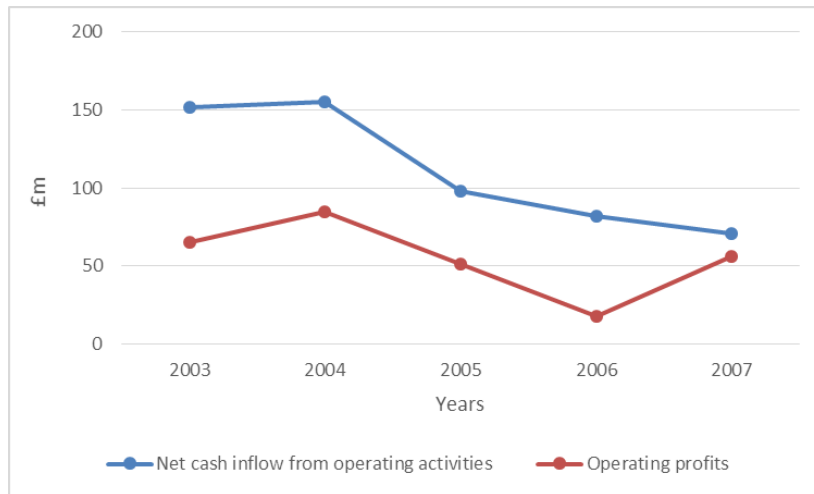


**Figure 4.** Capital expenditure as a % of turnover

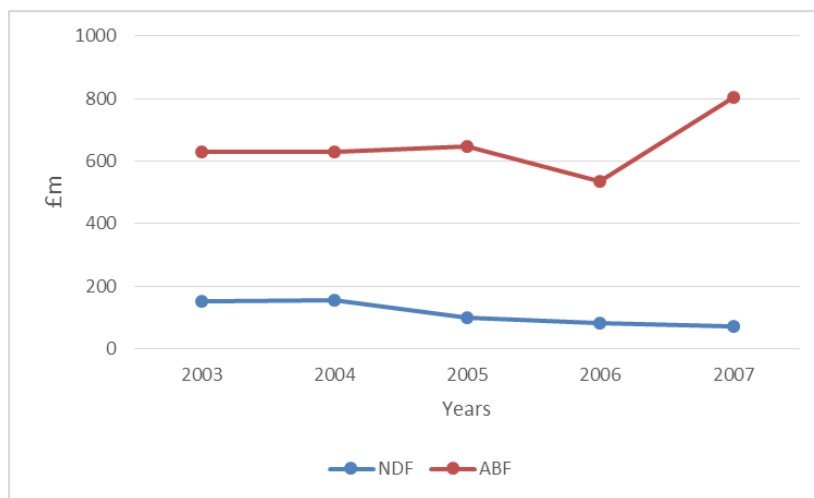
Note: NDF= Northern Foods Plc., ABF= Associated British Foods Plc.

### 3.6. Cash Generation Potentials

An analysis of cash and profit generation potentials of NDF reveals that despite the decline in net cash inflow from operating activities (from £151.6m in 2003 to £70.5m) cash flow appears stronger than profit generation capacity (see Fig. 5a below).



**Figure 5A.** NDF's trend in cash and profit generation



**Figure 5B.** NDF and ABF cash generation potential compared

Note: NDF = Northern Foods Plc., ABF = Associated British Foods Plc.

Whilst net cash inflow from operating activities drop from £81.9m in 2006 to £70.5m in 2007, operating profits rose steeply from £17.9m in 2006 to £56.3m in 2007. Following the strategic review of May 2006, the company aimed to reduce its corporate central costs. This could be responsible for the sudden increase in operating profits as net operating expense declined 32.4% from £324.8m in 2006 to £219.5 in 2007.

Following its renewed focus on cash generation and management, the group has delivered strong cash performance. Free cash flow grew by approximately 171%; from £30.6m in 2006 to £83m in 2007 and, together with disposal proceeds, net debt more than half to £174.2m in 2007 from £363.1m in 2006 (annual report, 2007).

Over the period under consideration, the group's pension deficit grew to £8.6m as at 31 March 2007. However, with focus shifting to cash generation, a special pension contribution of £57m was made. With plans of a further £22m special contribution in June 2007 so as to eliminate completely the pension deficit. A careful analysis reveals that the group appear to be funding its pension deficits using disposal proceeds.

#### 4. Conclusion, Lessons Learned and Prescription for Organisations

The primary aim of this study was to conduct a retrospective study on the financial situation of Northern Foods Plc. comparing it with Associated British Foods Plc. one of its competitors. The financial analyses looked at trends in the group turnover reported over the period under review. A review of the group's profitability, liquidity, long term investment and capital management was carried out by calculating selected key ratios aided by charting trends observed. The group's operating trend was reviewed and year-on-year increase/decrease in selected key performance indicators assessed. Generally over the five year period reviewed under this study, the group performance has not been particularly impressive. The group sales revenues continued to decline and so was its profitability despite a great improvement in asset turnover during

the period under review. Working capital management over the five year period seems to be a bit relaxed, in that the group took on average over one month to collect debt and at times have to pay creditors before collecting its debts. It is fair to say that because of fear of losing the few customers it was highly dependent for a major part of its revenue, the group had to relax its working capital policy. As a result of this working capital management policy, the group's cash generation potential has been greatly reduced as seen from the declining net cash inflows from operating activities.

Over the five year period, the group do not seem to have control over its operating costs which appears to further dent its profitability (net profit margin, ROCE and ROE). The CEO seemed to be aware of the high cost structure of the company when she announced in the strategic review that the group should aimed to reduce corporate central cost by adopting a much flatter organisational structure. The group was not in a strong financial position both in the short term and long term. Liquidity ratios (current and quick) have been declining over the five year period. In the long term the group was highly dependent on debt finance as shown by the increasing levels of gearing over the five year period. The long term survival of the group was in danger if liquidity ratios are allowed to deteriorate further and gearing continuous to increase.

Despite poor performance over the five year period, the group has not made the necessary investment required to improve its performance as shown by the declining trend in capital expenditure investments. The CEO was aware of this as she indicated in her review that the group was capacity constrained in some areas but investments will be limited to ensure adequate returns are achieved. Whether the restructuring initiative taking place as a result of the strategic review will turn around the group's fortunes has been a subject of debate by many commentators. To quote the Financial Times of June 2006, "The feasibility of Northern Foods' latest turnaround plan is open to question. Different customers may not warm to its plans to consolidate manufacturing products. The best time to make disposals may already have passed."

The study raised number of propositions in terms of giving generic prescription on financial health for any organisations based on the lessons learned from this study. Though large companies are complex in their business, markets, stakeholders, and layers of management; unfortunately this tends to bias decision toward short-term profits because they are the most visible measure of performance. This study believes that it is insufficient as avoidance of bankruptcy should not be the standard and prescribed the following to aid organisations to sustain its financial and organisational health performance:

- The Board's must make sure that resources available are utilised efficiently and effectively to achieved the stated outcomes of that organisations.
- Management must ensure the continuity of the flow of funds to all of its strategically important programs.
- The organisation must factor in its strategy whether it has the people, the skill and right culture to sustain and improve its performance.
- The organisation must get the right balance between delivering near term profits and return on capital, and continuing to invest for long-term value creation.
- The organisation must construct a comprehensive performance assessment that measures the value it has created and estimates its ability to create more.

The limitation of the study was not getting the opportunity to interview the Financial Directors of the companies. This study offers future research suggestion which subsequent could further improve this study by investigating into the financing decisions of the sampled companies to better more understand the current financial situation of the study.

## References

- Associated British Foods Plc., 2003. *Associated British Foods Plc. - Annual Report and Accounts 2003* [online] Available at: [https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF\\_2003.pdf](https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF_2003.pdf) [Accessed on 16 January 2016].
- Associated British Foods Plc., 2004. *Associated British Foods Plc. - Annual Report and Accounts 2004* [online] Available at: [https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF\\_2004.pdf](https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF_2004.pdf) [Accessed on 16 January 2016].
- Associated British Foods Plc., 2005. *Associated British Foods Plc. - Annual Report and Accounts 2005* [online] Available at: [https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF\\_2005.pdf](https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF_2005.pdf) [Accessed on 16 January 2016].
- Associated British Foods Plc., 2006. *Associated British Foods Plc. - Annual Report and Accounts 2006* [online] Available at [https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF\\_2006.pdf](https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF_2006.pdf) [Accessed on 16 January 2016].



- Associated British Foods Plc., 2007. *Associated British Foods Plc. - Annual Report and Accounts 2007* [online] Available at: [https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF\\_2007.pdf](https://bib.kuleuven.be/files/ebib/jaarverslagen/ABF_2007.pdf) [Accessed on 16 January 2016].
- Clay, H., 2006. Going, going, gone Mudlark. *The Financial Times*, 1<sup>st</sup> June, p 22.
- Collier, P. M., 2003. *Accounting for Managers: Interpreting accounting information for decision making*. John Wiley & Sons. West Sussex
- Fridson, M. and Alvarez, F., 2002. *Financial Statement Analysis: A Practitioner's Guide*. 3<sup>rd</sup> Edition. New York: John Wiley & Sons.
- Hill, A., 2006. All eyes are on Northern Foods' Strategic review. *The Financial Times*, 14<sup>th</sup> March, p.18.
- Hughes, C., 2006. Northern Foods plans to trim fat. *The Financial Times*, 1<sup>st</sup> June, p 20
- Key Note Market Review, 2007. *Food industry*, 18<sup>th</sup> Edition December 2007
- Kimmel, P.D., Weygandt, J.J. and Kieso, D. E., 2011. *Financial Accounting: Tools for Business Decision Making*. 6<sup>th</sup> Edition. Hoboken: John Wiley & Sons, Inc.
- Koller, T., Dobbs, R. and Huyett, B., 2011. *Value: The Four Cornerstones of Corporate Finance*. Hoboken: John Wiley & Sons, Inc.
- Northern Foods Plc., 2003. *Northern Foods Plc. - Annual Report and Accounts 2003*.
- Northern Foods Plc., 2004. *Northern Foods Plc. - Annual Report and Accounts 2004*.
- Northern Foods Plc., 2005. *Northern Foods Plc. - Annual Report and Accounts 2005*.
- Northern Foods Plc., 2006. *Northern Foods Plc. - Annual Report and Accounts 2006*.
- Northern Foods Plc., 2007. *Northern Foods Plc. - Annual Report and Accounts 2007*.
- Pendlebury, M. and Groves, R., 2004. *Company Accounts: Analysis, Interpretation and Understanding*. 6<sup>th</sup> Edition. London: Thomson Cengage Learning.
- Simon, M.K. and Goes, J., 2013. *Dissertation and Scholarly Research: Recipes for Success*. Create Space. Seattle: Independent Publishing Platform.
- Walsh, C., 2003. *Key Management Ratios: Master the Metrics that drive and Control your business*. 3<sup>rd</sup> Edition. Harlow: Prentice Hall Financial Times.

## Appendices

**Table 1. Key investment measures**

Yearly changes investment performance measures					
Northern Foods Plc.					
	2003	2004	2005	2006	2007
Basic EPS	18.73p	12.78p	0.53p	-1.03p	-4.60p
Diluted EPS	18.02	12.56p	0.53p	-1.02p	-4.55p
Dividend per share	8.70p	8.90p	9.05p	4.25p	4.25p
Dividend cover (times)	1.7X	1.5X	1.1X	1.8X	1.6X
Associated British Foods Plc.					
	2003	2004	2005	2006	2007
Basic EPS	42.1p	43.3p	42.2p	38.1p	46.7p
Diluted EPS	42.1p	43.3p	42.2p	38.1p	46.7p
Dividend per share	14.6p	16.4p	18.0p	18.25p	19.5p
Dividend cover (times)	2.9X	2.7X	2.3X	2.6X	2.7X

**Table 2. Year-on-year % change in Key performance indicators**

Year-on-year percentage change in selected 'key performance indicators					
Northern Foods Plc.					
	2003	2004	2005	2006	2007
Turnover	-2.6%	8.5%	-6.1%	-0.7%	-16.2%
Operating profit	-29.8%	20.4%	-38.8%	-65.6%	214.5%
Profit before tax	27.5%	-40.3%	-94.3%	474.4%	-28%
Profit after tax	56.4%	-35.1%	-96.0%	-292.3%	-350%
Associated British Foods Plc.					
	2003	2004	2005	2006	2007
Turnover	8.0%	5.2%	8.8%	6.7%	13.4%
Operating profit	8.2%	5.9%	12.7%	-11.1%	28.4%
Profit before tax	8.8%	8.1%	-3.0%	-12.5%	21.2%
Profit after tax	1.2%	5.8%	-2.3%	-9.4%	29.9%

**Table 3. Key Cost Categories as a percentage of Turnover**

Analysis of key costs categories										
Significant costs category (£m)										
Northern Foods Plc.										
	2003		2004		2005		2006		2007	
Staff costs	419.3	29.5%	409.8	26.6%	449.5	31%	436	30.3%	368.6	30.6%
Net interest cost	19.5	1.4%	21.4	1.4%	22.2	1.5%	34	2.4%	18.2	1.5%
Other operating charges	296.9	20.9%	315.6	20.5%	304.6	21%	152.8	10.6%	133.7	11.1%
Associated British Foods Plc.										
	2003		2004		2005		2006		2007	
Staff costs	630	12.8%	660	12.8%	778	13.8%	848	14.1%	1002	14.7%
Net interest cost	30	0.6%	12	0.2%	24	0.4%	2	0.03%	9	0.1%
Other operating charges	836	17%	887	17.2%	1046	18.6%	1148	19.1%	1204	17.7%

Note: 1. Staff costs = Wages and Salaries + Social security costs + other pension costs

2. Other operating charges = Distribution costs + Administration costs

**Table 4. Profitability analyses**

Northern Foods Plc.												
	PBIT / Total Assets	ROTA	Gross profit / Turnover	Gross profit margin	PBIT / Cap. employed	ROCE	PAT / Shareholders' funds	ROE	PBIT / Turnover	Net profit margin	Turnover / Cap. employed	Assets turnover
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	
2007	-1 / 592.2	-0.2%	275.8 / 1205.9	22.9%	-2.4 / 366.5	-0.7%	-22.5 / 121.2	-18.6%	-2.4 / 1205.9	-0.2%	1205.9 / 366.5	3.3X
2006	17.9 / 928.2	1.93%	342.7 / 1438.2	23.8%	17.9 / 670.8	2.7%	-5 / 152.1	-3.3%	17.9 / 1438.2	1.2%	1438.2 / 670.8	2.1X
2005	26.5 / 1046.1	2.5%	355 / 1448.8	24.5%	26.5 / 768.2	3.4%	2.6 / 326.1	0.8%	26.5 / 1448.8	1.8%	1448.8 / 768.2	1.9X
2004	96.8 / 1094.8	8.8%	398.4 / 1542.1	25.8%	96.8 / 797.9	12.1%	65.4 / 356.3	18.4%	96.8 / 1542.1	6.3%	1542.1 / 802.3	1.9X
2003	125.3 / 1074.3	11.7%	366 / 1421.2	25.8%	125.3 / 752.2	16.7%	100.7 / 366.1	27.5%	125.3 / 1421.2	8.8%	1421.2 / 752.2	1.9X
Associated British Foods Plc.												
	PBIT / Total Assets	ROTA	Gross profit / Turnover	Gross profit margin	PBIT / Cap. employed	ROCE	PAT / Shareholders' funds	ROE	PBIT / Turnover	Net profit margin	Turnover / Cap. employed	Assets turnover
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	
2007	517 / 6980	7.4%	1742 / 6800	25.6%	517 / 5537	9.3%	400 / 4464	9.0%	517 / 6800	7.6%	6800 / 5537	1.2X
2006	421 / 6492	6.5%	1561 / 5996	26%	421 / 4819	8.7%	308 / 4182	7.4%	421 / 5996	7%	5996 / 4819	1.2X
2005	503 / 5813	8.7%	1523 / 5622	27.1%	503 / 4408	11.4%	340 / 3725	9.1%	503 / 5622	8.9%	5622 / 4408	1.3X
2004	506 / 4913	10.3%	1308 / 5165	25.3%	506 / 4016	12.6%	348 / 3469	10.0%	506 / 5165	9.8%	5165 / 4016	1.3X
2003	487 / 4719	10.3%	1237 / 4909	25.2%	487 / 3828	12.7%	329 / 3296	10.0%	487 / 4909	9.9%	4909 / 3828	1.3X

Note: PBIT = Profit before interest and tax, ROCE = Return on capital employed (measured as the sum of fixed and current assets less current liabilities), ROTA = Return on total assets, ROE = Return on equity, PAT = Profit after tax

**Table 5. Liquidity, Working capital and Investment ratios**

Northern Foods Plc.												
	Current assets	Current ratio	C.assets-stock	Quick ratio	Trade debtors	Average collection period	Trade creditors	Average payment period	Cost of sales	Stock Turnover (Times)	L.T. Debt	Gearing (%)
	C. liability		C. liabilities		Credit sales		Cost of sales		Equity +L.T debt			
	£m		£m		£m		£m		£m			
2007	213.3	0.95:1	167.5	0.74:1	88.7	27days	103.6	41 days	930.1	20.3x	245.3	66.90%
	225.7		225.7		1205.9		930.1		45.8		366.5	

Year	Current assets	Current ratio	C.assets-stock	Quick ratio	Trade debtors	Average collection period	Trade creditors	Average payment period	Cost of sales	Stock Turnover (Times)	L.T. Debt	Gearing (%)
	C. liability		C. liabilities		Credit sales		Cost of sales		Equity +L.T debt			
	£m		£m		£m		£m		£m		£m	
2006	295.3	1.15:1	225.6	0.88:1	154.2	39 days	128	43 days	1095.5	15.7x	518.7	77.30%
	257.4		257.4		1438.2		1095.5		69.7		670.8	
2005	366.9	1.32:1	301.8	1.09:1	152.2	38 days	108.1	36 days	1093.8	16.8x	369.6	53.10%
	277.9		277.9		1448.8		1093.8		65.1		695.7	
2004	358.1	1.21:1	279.9	0.94:1	145.4	34 days	130.8	42 days	1143.7	14.6x	372.1	51.10%
	296.9		296.9		1542.1		1143.7		78.2		728.4	
2003	340.8	1.06:1	255.7	0.79:1	144.8	37 days	123.3	43 days	1055.2	12.4x	323	46.90%
	322.1		322.1		1421.2		1055.2		85.1		368.5	

**Associated British Foods Plc.**

Year	Current assets	Current ratio	C.assets-stock	Quick ratio	Trade debtors	Average collection period	Trade creditors	Average payment period	Cost of sales	Stock Turnover (Times)	L.T. Debt	Gearing (%)
	C. liability		C. liabilities		Credit sales		Cost of sales		Equity +L.T debt			
	£m		£m		£m		£m		£m		£m	
2007	2261	1.57:1	1496	1.04:1	616	33 days	503	37 days	4979	6.5x	1073	19.40%
	1443		1443		6800		4979		765		5537	
2006	2100	1.26:1	1419	0.85:1	565	34 days	445	38 days	4394	6.5x	637	13.20%
	1673		1673		5996		4297		681		4819	
2005	2475	1.76:1	1917	1.36:1	513	33 days	365	36 days	4021	7.2x	531	12.50%
	1405		1405		5622		3720		558		4256	
2004	2779	3.12:1	2283	2.55:1	477	34 days	349	33 days	3811	7.7x	365	9.50%
	897		897		5165		3811		496		3861	
2003	2772	3.11:1	2256	2.53:1	430	32 days	319	32 days	3630	7.0x	389	10.60%
	891		891		4909		3630		516		3685	

**Table 6. Other Key ratios**

Northern Foods Plc.					
	2003	2004	2005	2006	2007
<b>Interest Cover (Times)</b>	125.3 / 19.5 =6.4x	96.8 / 21.4 =4.5x	26.5 / 22.2 =1.2x	17.9 / 34 =0.5x	-2.4 / 18.2 =-0.1x
<b>Capital expenditure to turnover ratio (%)</b>	79.4 / 1421.2 =5.6%	71.3 / 1542.1 =4.6%	62.2 / 1448.8 =4.3%	55.3 / 1438.2 =3.8%	28.1 / 1205.9 =2.3%
<b>Cash current liability Cover (%)</b>	(151.6-18.6-9.4) / 322.1 =38.4%	(154.9-20.3+2.1) / 296.9 =46%	(98.3-22.3-1.4) / 277.9 =26.8%	(81.9-23-1.9) / 257.4 =22.1%	(70.5-19.5-0.4) / 225.7 =22.4%

Associated British Foods Plc.					
	2003	2004	2005	2006	2007
<b>Interest Cover (Times)</b>	487 / 30 =16.2x	506 / 12 =42.2x	503 / 24 =21x	421 / 2 =210.5x	517 / 9 =57.4x
<b>Capital expenditure to sales ratio (%)</b>	180 / 4909 =3.7%	223 / 5165 =4.3%	403 / 5622 =7.2%	760 / 5996 =12.7%	489 / 6800 =7.2%
<b>Cash current liability cover (%)</b>	(630+6+9-120) / 891 =58.9%	(631+6+31-128) / 897 =60.2%	(647+4+21-132) / 1405 =38.4%	(536+4+163-117) / 1673 =35%	(802+3-32-106) / 1443 =46.2%

Note: Interest cover = Profit before interest and tax / net interest payable; Capital expenditure to turnover ratio = Capital expenditure / Turnover; Cash current liability coverage = [Net cash inflow from operations + dividends from joint ventures and associates – Returns on investments and servicing of finance – tax] / Current liability

**Table 7. Common size Vertical analysis of consolidated profit and loss a/c for NDF and ABF**

Northern Foods Plc.:					
	2003	2004	2005	2006	2007
Turnover	100	100	100	100	100
Cost of sales	-74.2	-74.2	-75.4	-76.2	-76.9
Dist. Costs	-14.4	-12.8	-12.8	-13.2	-10.3
Admin Costs	-6.5	-7.7	-8.2	-9.4	-8.4
Other operating income/(expense)	0.1	0.1	0.1	0.1	0.6
Operating profit	5	5.5	3.5	1.2	4.7
Share of Associated undertakings	0.04	0.01	0	0	0

Profit/(loss) on disposal	3.8	0.7	-1.7	0	-4.8
PBIT	8.8	6.2	1.8	1.2	-0.1
Interest	-1.3	-1.4	-1.5	-2.4	-1.5
Tax	-0.4	-0.6	-0.1	0.8	-0.2
Dividends	-3.2	-2.8	-3		
Retained profits/(loss)	3.9	1.3	-2.8	-0.3	-1.9
<b>Associated British Foods Plc.:</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Turnover	100	100	100	100	100
Cost of sales	-73.9	-73.8	-71.5	-73.3	-73.2
Dist. Costs	-12.6	-12.1	-12.8	-12.8	-11.9
Admin. Costs	-4.4	-5.1	-5.8	-6.3	-5.8
other operating income/expense	0.1	0.2	0.2	0.2	0.1
Operating profit/(loss)	8.3	8.3	8.7	7.2	8.2
Profit/(loss)on disposal	0.5	0.2	-0.6	-0.2	-0.6
Investment income	1.1	1.1	0.8	0	0
PBIT	9.9	9.6	8.9	7	7.6
Interest	-0.6	-0.2	-0.4	-0.03	-0.1
Tax	-2.6	-2.8	-2.5	-1.9	-1.6
Dividends	-2.3	-2.5	-2.5	-2.4	-2.2
Retained profits/(loss)	4.4	4.1	3.5	2.7	3.7

