

**Balance Sheet / Annual Financial Statement for M/S Balfour Beatty PLC UK**

All values in GBP (£) Millions		
Fiscal Year	As at 31/12/2019	As at 31/12/2018
<b>Assets</b>		
Current Assets		
Cash at Bank & In hand	778 M	661 M
Cash	778 M	661 M
Short Time Investments	---	---
Total Accounts Receivable	1.28B	1.24B
Account Receivable, Net	803M	786M
Account Receivable, Gross	808M	791M
Bad Debts/ Doubtful Accounts	(5M)	(5M)
Other Receivables	478M	454M
Inventories	101M	84M
Finished Goods	2M	5M
Work in Progress	33M	26M
Raw materials	66M	53M
Progress Payment & Other	---	---
Other Current Assets	37M	47M
Miscellaneous Assets	---	17M
<b>Total Current Assets</b>	<b>2.2B</b>	<b>2.03B</b>
Fixed Assets (Net Property, Plant & Equipment)	204M	168M
Property, Plant & Equipment	451M	422M
Buildings	73M	73M
Land & Improvements	---	---
Computer software & Equipments	---	---
Other Property, Plant & Equipment	---	66M
Accumulated Property Depreciation	247M	254M
Total Investments & Advances	764M	743M
Other Long term Investments	214M	219M
Long term Notes Receivables	207M	212M
Intangible Assets	1.16B	1.13B
Net Goodwill	828M	903M
Net Other Intangibles	300M	258M
Other Assets	249M	171M
Tangible Other Assets	---	---
<b>Total Fixed Assets</b>	<b>2.64B</b>	<b>2.54B</b>
<b>Total Assets</b>	<b>4.84B</b>	<b>4.57B</b>
<b>Liabilities</b>		
ST Debt & Current Portion LT Debt	191M	63M
Short Term Debt	145M	15M
Current Portion of Long Term Debt	46M	48M
Accounts Payable	837M	758M

Income Tax Payable	16M	17M
Other Current Liabilities	1.31B	1.29B
Dividends Payable	6M	6M
Accrued Payrolls	---	---
Miscellaneous Liabilities	1.3B	1.28B
<b>Total Current Liabilities</b>	<b>2.35B</b>	<b>2.12B</b>
Long Term Debt	607M	676M
Long Term Debt excl. Capitalized Leases	529M	676M
Non-Convertible Debt	529M	676M
Convertible Debt	---	---
Capitalized Leased Obligations	---	---
Provision for Risk & Charges	258M	266M
Deferred Taxes	16M	10M
Deferred Taxes-Credit	108M	90M
Deferred Taxes-Debit	92M	80M
Other Liabilities	138M	170M
Other liabilities (excl. Deferred Income)	136M	168M
Deferred Income	2M	2M
<b>Total Liabilities</b>	<b>3.46B</b>	<b>3.33B</b>
<b>Equity (i.e Net Worth)</b>		
Non-Equity Reserves	---	---
Preferred Stock (Carrying Value)	18M	18M
Redeemable Preferred Stock	18M	18M
Non-Redeemable Preferred Stock	---	---
Common Entity (Total)	1.35B	1.21B
Common Stock Par/Carry Value	345M	345M
Retained Earnings	794M	637M
ESOP Debt Guarantee	---	---
Cumulative Translation Adjustment / Unrealized For. Exch. Gain	27M	24M
Revaluation Reserves	---	---
Treasury Stock	---	---
Total Shareholder's Equity	1.37B	1.23B
Accumulated Minority Interest	9M	10M
<b>Total Equity</b>	<b>1.38B</b>	<b>1.24B</b>
<b>Shareholder's Equity + Liabilities</b>	<b>4.84B</b>	<b>4.57B</b>

Table: 1.1

Source: <https://www.marketwatch.com/investing/stock/bafbf/financials/balance-sheet>

<https://www.hl.co.uk/shares/shares-search-results/b/balfour-beatty-plc-ordinary-50p/financial-statements-and-reports>

### **Balfour Beatty PLC Company Brief:**

I have selected Balfour Beatty PLC as case study for its financial analysis. Balfour Beatty PLC is England based public limited company. Balfour Beatty was established in 1909. Beatty PLC is a leading Multi-national Group in the field civil and electro-mechanical construction. For over a century Balfour Beatty PLC has shaped the world, pioneering new technologies and transforming the built environment. According to its annual turnover and profit, Balfour Beatty was ranked as the biggest construction company in United Kingdom. Balfour.

### **Financial Analysis:**

Company's assets, liabilities and equity are the key determinants of its financial stability. The financial strength of a company at a particular time (usually the last date of fiscal year of the company) is depicted by its Balance Sheet/ Annual Financial Statement. It is the statement of the assets, liabilities and business capital (Equity or Net Worth), detailing the balance of income and expenditure over the preceding period. It is the comparison of the financial health of a company for at least two consecutive fiscal years.

To analyze Balfour Beatty PLC financial position, its balance sheet (Table 1.1) for the fiscal year 2018-2019 is considered. Financial soundness is dependent on the following indicators:

1. Assets
  - 1.1. Current Assets
  - 1.2. Fixed Assets
2. Liabilities
  - 2.1. Current Liabilities
  - 2.2. Long Term Liabilities
3. Equity (Net Worth)
4. Working Capital
5. Current Ratio
6. Under Billing & Over Billing

#### **1. Assets:**

A business asset is an item of value owned by a company. Anything tangible or intangible that can be owned or controlled to produce value and that is held by a company to produce positive economic value is an asset.

Required Data Balfour Beatty PLC (Table 1.1):

Total Current Assets<sub>(2019)</sub> = £ 2.2 B

Total Fixed Assets<sub>(2019)</sub> = £ 2.64 B

**Total Assets<sub>(2019)</sub> = Total Current Assets<sub>(2019)</sub> + Total Fixed Assets<sub>(2019)</sub>**

= £ 2.2 B + £ 2.64 B

= £ 4.84 B

Total Current Assets<sub>(2018)</sub> = £ 2.03 B

Total Fixed Assets<sub>(2018)</sub> = £ 2.54 B

**Total Assets<sub>(2018)</sub> = Total Current Assets<sub>(2018)</sub> + Total Fixed Assets<sub>(2018)</sub>**

= £ 2.03 B + £ 2.54 B

= £ 4.57 B

Total Assets<sub>(2019)</sub> = £ 4.84 B

Total Assets<sub>(2018)</sub> = £ 4.57 B

Net Increase in Total Assets = Total Assets<sub>(2019)</sub> - Total Assets<sub>(2018)</sub>

= £ 4.84 B - £ 4.57 B

= £ 0.27 B = £ 270 M

### **1.1 Current Assets:**

Anything owned by a company that can be readily converted into cash is known as current asset. Current assets can be sold out within a year to generate money. Current assets are the measure of the short term financial health of the company, to undertake a contract and meet its current liabilities.

Required Data Balfour Beatty PLC (Table 1.1):

Total Current Assets<sub>(2019)</sub> = £ 2.2 B

Total Current Assets<sub>(2018)</sub> = £ 2.03 B

Net Increase in Total Current Assets = Total Current Assets<sub>(2019)</sub> - Total Current Assets<sub>(2018)</sub>

= £ 2.2 B - £ 2.03 B

= £ 0.17 B = £ 170 M

### **1.2 Fixed Assets:**

Assets that are bought for long-term use and are not likely to be converted quickly into cash are known as fixed assets. They include land, building, plants, equipments and vehicles. They are also called as Long term Assets. The fixed asset turnover ratio (FAT) is used to measure the operating performance of the company. This efficiency ratio compares sales to fixed assets and measures a company's ability to generate net sales from its fixed asset. Higher ratio shows that the management is effectively utilizing its fixed assets.

Required Data Balfour Beatty PLC (Table 1.1):

Total Fixed Assets<sub>(2019)</sub> = £ 2.64 B

Total Fixed Assets<sub>(2018)</sub> = £ 2.54 B

Net Increase in Total Fixed Assets = Total Fixed Assets<sub>(2019)</sub> - Total Fixed Assets<sub>(2018)</sub>

= £ 2.64 B - £ 2.54 B

$$= \text{£ } 0.10 \text{ B} \quad = \text{£ } 100 \text{ M}$$

## **2. Liabilities:**

Liability is defined as the future sacrifices of economic benefits that a company is obliged to make to other entity as result of past transaction or other past events, the settlement of which may result in transfer or use of assets, provision of services or other yielding of financial benefits in the future. Any obligation that a company owes to third party is liability. They include short term bank loans, bank overdraft, loans against mortgages and payments to sub-contractors.

Required Data Balfour Beatty PLC (Table 1.1):

$$\text{Total Current Liabilities}_{(2019)} = \text{£ } 2.35 \text{ B} \quad \text{Total Long Term Liabilities}_{(2019)} = \text{£ } 1.11 \text{ B}$$

$$\text{Total Liabilities}_{(2019)} = \text{Total Current Liabilities}_{(2019)} + \text{Total Long Term Liabilities}_{(2019)}$$

$$\begin{aligned} \text{Total Liabilities}_{(2019)} &= \text{£ } 2.35 \text{ B} + \text{£ } 1.11 \text{ B} \\ &= \text{£ } 3.46 \text{ B} \end{aligned}$$

$$\text{Total Current Liabilities}_{(2018)} = \text{£ } 2.12 \text{ B} \quad \text{Total Long Term Liabilities}_{(2018)} = \text{£ } 1.21 \text{ B}$$

$$\begin{aligned} \text{Total Liabilities}_{(2018)} &= \text{£ } 2.12 \text{ B} + \text{£ } 1.21 \text{ B} \\ &= \text{£ } 3.33 \text{ B} \end{aligned}$$

$$\text{Total Liabilities}_{(2019)} = \text{£ } 3.46 \text{ B} \quad \text{Total Liabilities}_{(2018)} = \text{£ } 3.33 \text{ B}$$

$$\begin{aligned} \text{Net Increase in Total Liabilities} &= \text{Total Liabilities}_{(2019)} - \text{Total Liabilities}_{(2018)} \\ &= \text{£ } 3.36 \text{ B} - \text{£ } 3.33 \text{ B} \\ &= \text{£ } 0.13 \text{ B} \quad = \text{£ } 130 \text{ M} \end{aligned}$$

### **2.1 Current Liabilities:**

Current liabilities are a company's short-term financial obligations that are due within one year or within a normal operating cycle. Current liabilities are cleared through current assets.

Required Data Balfour Beatty PLC (Table 1.1):

$$\text{Total Current Liabilities}_{(2019)} = \text{£ } 2.35 \text{ B} \quad \text{Total Current Liabilities}_{(2018)} = \text{£ } 2.12 \text{ B}$$

$$\begin{aligned} \text{Net Increase in Total Current Liabilities} &= \text{Total Current Liabilities}_{(2019)} - \text{Total Current Liabilities}_{(2018)} \\ &= \text{£ } 2.35 \text{ B} - \text{£ } 2.12 \text{ B} \\ &= \text{£ } 0.23 \text{ B} \quad = \text{£ } 230 \text{ M} \end{aligned}$$

## **2.2 Long Term Liabilities:**

A long-term liability is an obligation resulting from a previous event that is not due within one year of the date of the balance sheet (or not due within the company's operating cycle if it is longer than one year). Long-term liabilities are also known as noncurrent liabilities. Long term liabilities can be settled through company's business net income, future investment incomes or cash from new debt agreements.

Required Data Balfour Beatty PLC (Table 1.1):

Total Long Term Liabilities<sub>(2019)</sub> = £ 1.11 B                      Total Long Term Liabilities<sub>(2018)</sub> = £ 1.21 B

$$\begin{aligned} \text{Net Change in Total Long Liabilities} &= \text{Total Long Term Liabilities}_{(2019)} - \text{Total long Term Liabilities}_{(2018)} \\ &= \text{£ 1.11 B} - \text{£ 1.21 B} \\ &= \text{£ -0.1 B} \quad = \text{£ (100) M} \end{aligned}$$

## **3. Equity (Net Worth):**

Capital invested by owner(s) of the company is termed equity. Equity represents the shareholders' stake in the company. Equity is the net worth of a company to undertake any project/business assignment. Net worth is the sum of all the investments plus the profit made by the company during business. The calculation of equity is a company's total assets minus its total liabilities. Net worth is the key factor for financial analysis of the company because it is the actual amount available for the business. The mathematical relationship is given as

$$\text{Equity (Net Worth)} + \text{Total Liabilities} = \text{Total Assets}$$

$$\text{Equity (Net Worth)} = \text{Total Assets} - \text{Total Liabilities}$$

To analyze Balfour Beatty PLC financial position, use the above accounting equation.

Given Data (Table 1.1):

Year 2018:

Total Assets = £ 4.57 B                      Total Liabilities = £ 3.33 B                      Equity (Net Worth) =?

$$\begin{aligned} \text{Equity (Net Worth)}_{2018} &= \text{Total Assets}_{2018} - \text{Total Liabilities}_{2018} \\ &= \text{£ 4.57 B} - \text{£ 3.33 B} \\ &= \text{£ 1.24 B} \quad = \text{£ 1240 M} \end{aligned}$$

Year 2019:

Total Assets = £ 4.84 B      Total Liabilities = £ 3.46 B      Equity (Net Worth) =?

$$\begin{aligned}\text{Equity (Net Worth)}_{2019} &= \text{Total Assets}_{2019} - \text{Total Liabilities}_{2019} \\ &= £ 4.84 \text{ B} - £ 3.46 \text{ B} \\ &= £ 1.38 \text{ B} \quad = £ 1380 \text{ M}\end{aligned}$$

$$\begin{aligned}\text{Increase in Equity} &= £ 1.38 \text{ B} - £ 1.24 \text{ B} \\ &= £ 0.14 \text{ B} \quad = £ 140 \text{ M}\end{aligned}$$

#### **4. Working Capital:**

Working capital is another important financial indicator of company's soundness. It is the amount available to carry current business operations or to fulfill short term financial commitments. Working capital is calculated as follows:

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Given Data Year 2018 (Table 1.1):

Current Assets = £ 2.03 B      Current Liabilities = £ 2.12 B      Working Capital =?

$$\begin{aligned}\text{Working Capital}_{2018} &= \text{Current Assets}_{2018} - \text{Current Liabilities}_{2018} \\ &= £ 2.03 \text{ B} - £ 2.12 \text{ B} \\ &= £ -0.09 \text{ B} \quad = £ (90) \text{ M}\end{aligned}$$

Given data Year 2019 (Table 1.1):

Current Assets = £ 2.2 B      Current Liabilities = £ 2.35 B      Working Capital =?

$$\begin{aligned}\text{Working Capital}_{2019} &= \text{Current Assets}_{2019} - \text{Current Liabilities}_{2019} \\ &= £ 2.2 \text{ B} - £ 2.35 \text{ B} \\ &= £ -0.15 \text{ B} \quad = £ (150) \text{ M}\end{aligned}$$

#### **5. Current Ratio:**

The current ratio is the liquidity ratio that measures a company's ability to pay short term obligations or those due within one year. It is a means to maximize current assets on its balance sheet to satisfy its current liabilities. The current ratio for a construction company should be 1.3 or higher.

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Given Data Year 2018 (Table 1.1):

Current Assets = £ 2.03 B      Current Liabilities = £ 2.12 B      Working Capital = ?

$$\begin{aligned}\text{Current Ratio}_{2018} &= \text{Current Assets}_{2018} / \text{Current Liabilities}_{2018} \\ &= \text{£ 2.03 B} / \text{£ 2.12 B} \\ &= 0.96\end{aligned}$$

Given data Year 2019 (Table 1.1):

Current Assets = £ 2.2 B      Current Liabilities = £ 2.35 B      Working Capital = ?

$$\begin{aligned}\text{Current Ratio}_{2019} &= \text{Current Assets}_{2019} / \text{Current Liabilities}_{2019} \\ &= \text{£ 2.2 B} / \text{£ 2.35 B} \\ &= 0.94\end{aligned}$$

## **6. Under Billing and Over Billing:**

Under billing is defined as when a contractor completes a certain amount of work but does not claim its client for full payment. Over billing is that a contractor demands more than the work completed. In balance sheet under billing is expressed as “Cost & estimated earnings in excess of billing on work in progress” under current assets. Over billing is shown in current liabilities as “Billing in excess of costs & estimated earnings on works in progress”. Balfour Beatty has not shown “billing in excess” in its balance sheet. Therefore the company is neither over billing nor under billing. Company is receiving payments for only % completed works.

## **Results of Financial Analysis:**

Based on the aforementioned calculations and Table 1.1, the findings regarding financial position of Balfour Beatty PLC are as follows:

1. The company has enhanced its total assets by £ 270 M in one year.
2. Total current assets have increased by £ 170 M.
3. Total fixed assets of Balfour Beatty PLC have increased in the year 2019 by £ 100 M.
4. The goodwill value of the company has fallen from £ 903 M (2018) to £ 828 M in year 2019.
5. Depreciation value of the fixed assets of Balfour Beatty PLC has decreased by £ 7 M during the year 2019.
6. Total liabilities of Balfour Beatty PLC have increased during year 2019 by £ 130 M with significant increase in the current liabilities i.e £ 230 M.



7. Balfour Beatty PLC has shown improvement in long term liabilities. They have been reduced by GBP 100 M during year 2019.
8. Equity increased by £ 140 M during year 2019.
9. Working capital for both the years is in deficit.
10. Current Ratio for 2018 is 0.96 and for 2019 0.94, which are less than 1.3.

**Conclusion:**

Working capital is indicator of short term financial strength. For work in progress a company should have a certain amount of working capital to pay its current obligation. But working capital of Balfour Beatty PLC is £ (90) M and £ (150) M respectively for year 2018 & 2019. In both the years negative trend persists and the company is under financial burden to meet its current expenses. The negative working capital shows that Balfour Beatty has not effectively used its assets and may face liquidity crisis. Even though it has huge investment in fixed assets, it will face financial challenges to fulfill its current liabilities. Trade and other payables increased during the first half, creating a working capital inflow of £98 million which was partially offset by increases in net contract assets and trade and other receivables, creating working capital outflows of £ 36 M and £ 37 M respectively. The primary driver of these offsetting movements is the timing of construction project starts and the related working capital flows.

Balance of payment is partially offset because current liabilities are in excess to current assets. Current ratios for both 2018 and 2019 are 0.96 and 0.94 respectively, which are less than 1.3 and has further decreased in year 2019. This is a clear indication that Balfour Beatty PLC's financial health is not satisfactory in both the fiscal years.

Balfour Beatty PLC with total assets of £ 4.84 B and equity (net worth) of £ 1.8 B has comparatively not performed well during both financial years. Due to poor performance during both years the goodwill value of the company has fallen by £ 75 M. Currently company is comparatively in financial stress to address its short term obligations. In order to overcome its current financial constrains, either it has to resort to borrowing or dispose some of its assets or equipments.

Multiple reasons which are not clear from the financial report can the basis of unhealthy current financial position. Short term financial indicators are not favorable whereas long term financial indicators have shown significant improvement with increase in total assets by £ 270 M, rise in fixed assets by £ 100 M and improvement in total current assets by £ 170 M. Resource increase improves the operating health of the company and is indication of the fact that company is growing. Efficient management and operating performance can improve the current situation.