Subject Name: Accounting and Financial Management

Assignment Title: Business Report-CSL Ltd.

Executive summary

The report was aimed to discuss the financial and non-financial position of CSL limited. This is a leading biotechnology sector company of Australia. According to the financial analysis of the company this can be summarized that the performance of the company is below average in some areas like the profitability and efficiency that needs to be rectified in the following years. Further the non-financial performance of the company is good because they consider the social and environmental aspects in their CSR but the governance report is not filled with the necessary information. Lastly, the working capital cycle is too longer that shows the company takes long time to convert assets into the cash. It is caused due to the more time taken to handle the payables and inventories. The management is suggested to work on the weaker areas like they should prepare budgets to handle the expenses and use the JIT for the inventory management to improve the working capital cycle.

Contents

Introduction

The financial analysis is important for the companies to gain the insights about its strengths and weaknesses (Vogel, 2020). The report is aimed to do the analysis of the financial and non-financial performance of chosen company CSL limited. The company operates in the biotechnology sector and it was founded in the year 1916 (CSL, 2023s). The headquarter is located in Melbourne, Australia. In the context of the products, they produce and sell blood plasma, vaccines and other medical products. In the recent performance of the company, it can be seen that they produced the sales of 10561.9 Million in 2022 with the net income of 2254.7 Million (Investors CSL, 2022B). The key competitors of CSL limited are the Sonic healthcare limited and Ramsay health care limited. The key players of biotechnology sector of Australia are the Amgen Australia, CSL limited and CSIRO with the significant market share. This sector has the estimation of the annual revenue growth of 2.7% in 2023 and 3.2% in the following year 2024 (Ibis world, 2023). This sector has the opportunity to bring revolutionizing of the healthcare by development of the new drugs and implementation of the technology. However, the threat is that due to the complex regulatory frameworks the development and advancement can be slow down. The structure of the report will cover financial analysis using the ratio analysis, ESG analysis by CSR. In the following part corporate governance and capital budgeting techniques will be discussed. The report will continue on discussion of the working capital management and end with the suggestion.

Discussion and the analysis of the report's findings

Financial analysis

1) Profitability

Year	2021	2022
Operating profit margin	30.36%	27.72%
Return on assets	0.14	0.10

Table 1: Profitability ratios

Source: Appendices

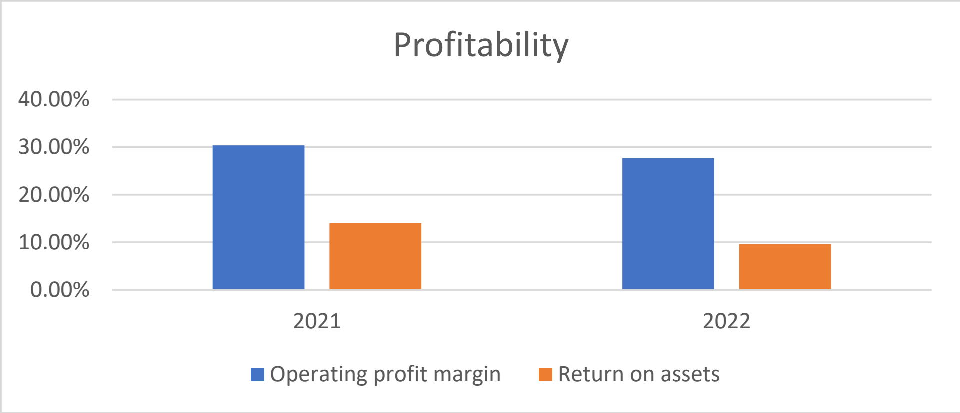

Figure 1: Profitability ratios

The profitability of the company is in the downward trend for the year 2021-2022. The operating margin was 30.36% in 2021 that declined to 27.72% in the year 2022 (Investors CSL, 2022B). This is due to the lack of control on the operating cost by 6.33% that resulted in the decline in the operating margin by -6.47% (Investors CSL, 2022B). Though the sales of the company increased by 2.44% in 2022 but the operating margin decreased due to the higher operating expenses. Same as in the return on assets, the performance of the company decreased because the ROA was 0.14 times in 2021 that declined to 0.10 times in the following year 2022. This is due to the lack of efficiency of the company to utilize the assets in which the company invested 37.69% more assets in 2022 but it resulted in -5.0% decline in the net income (Investors CSL, 2022B).

2) Efficiency

Year	2021	2022
Total assets turnover ratio	0.61	0.45
Fixed assets turnover ratio	1.03	0.93

Table 2: Efficiency ratios

Source: Appendices

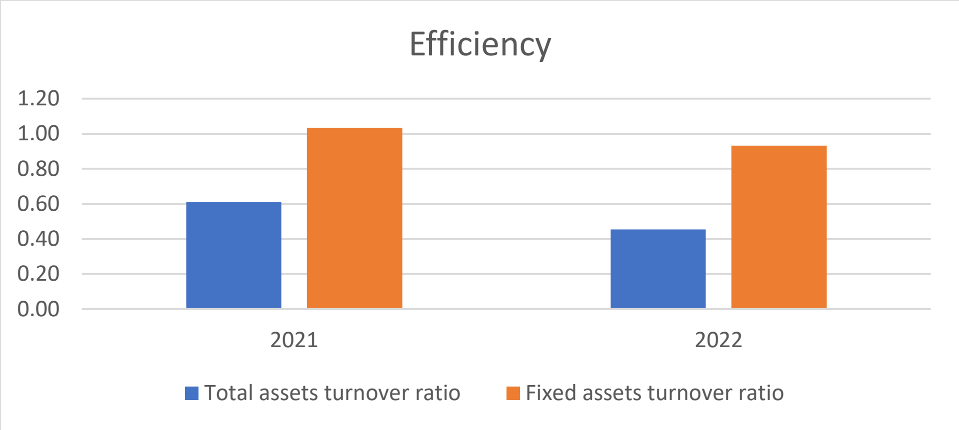

Figure 2: Efficiency ratios

The efficiency of the company also decreased in 2022 compared to 2021. This is so because the total asset turnover was 0.61 times in 2021 that changed to 0.45 times in the year 2022 (Investors CSL, 2022B). This shows the inability of the company to use the total assets to generate the turnover. The company invested 38% more assets in 2022 but it resulted only 2.4% increase in the net sales. While in the context of the fixed asset turnover, there is a same trend in which the ratio was 1.03 times in 2021 that became below 1 time in 2022 (Investors CSL, 2022B). The company purchased 13.62% more fixed assets in 2022 that was not utilized effectively and resulted only in 2.4% growth in the revenues.

3) Liquidity

Year	2021	2022
Current ratio	2.38	2.32
Acid test ratio	1.16	1.71

Table 3: Liquidity ratios

Source: Appendices

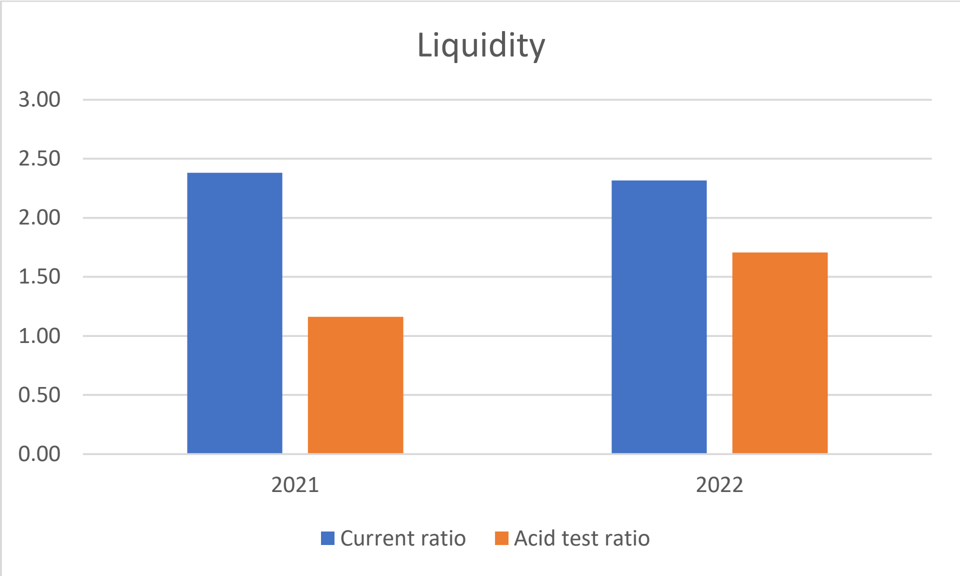

Figure 3: Liquidity ratios

The liquidity of the company is in the good position because of the availability of the higher liquid assets to pay the current liabilities (Investors CSL, 2022B). The current ratio of the company is 2.38 and 2.32 times for 2021-2022, it means there is more than double amount of the current assets to pay the CLs. The ideal ratio needs to be 2x but CSL limited is having the ratio above this range that shows the lack of current asset management. The ratio declined in 2022 is because of the incline in the CLs by 129%. While the acid-test ratio is in the upward trend because this ratio was 1.16x in 2021 that changed to 1.71 times (Investors CSL, 2022B). The standard ratio needs to be 1.5x and CSL limited had quicker ratio in 2022 because of the ineffective management of the quick assets.

4) Gearing

Year	2021	2022
Gearing ratio	44.32%	31.36%
Interest coverage ratio	18.33	17.72

Table 4: Gearing ratios

Source: Appendices

The performance of the company is in the decent position in that the gearing ratio is 44.32% in 2021 and it declined to 31.36% in 2022 (Investors CSL, 2022B). This shows the lower gearing ratio which reflects the lower financial risk due to the lower dependency on the debt finance. The ratio declined in 2022 is because of the decline in the debt funds by -0.18% while equity funds raised by 74%. Further, the interest coverage ratio is 18.3

times and 17.72 times in 2021-2022 (Investors CSL, 2022B). This is almost same in the both years which show the consistency to pay the finance cost but comparatively in 2022 it declined due to the decrease in the operating income by -6.47%.

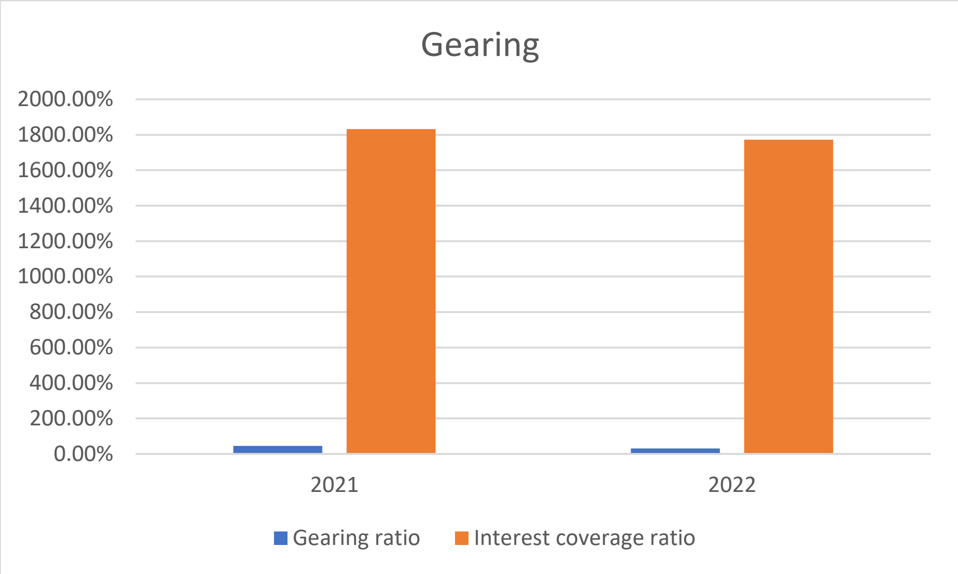

Figure 4: Gearing ratios

5) Investment

Year	2021	2022
Dividend pay-out ratio	0.56	0.66
Earnings per share	5.22	4.81

Table 5: Investment ratios

Source: Appendices

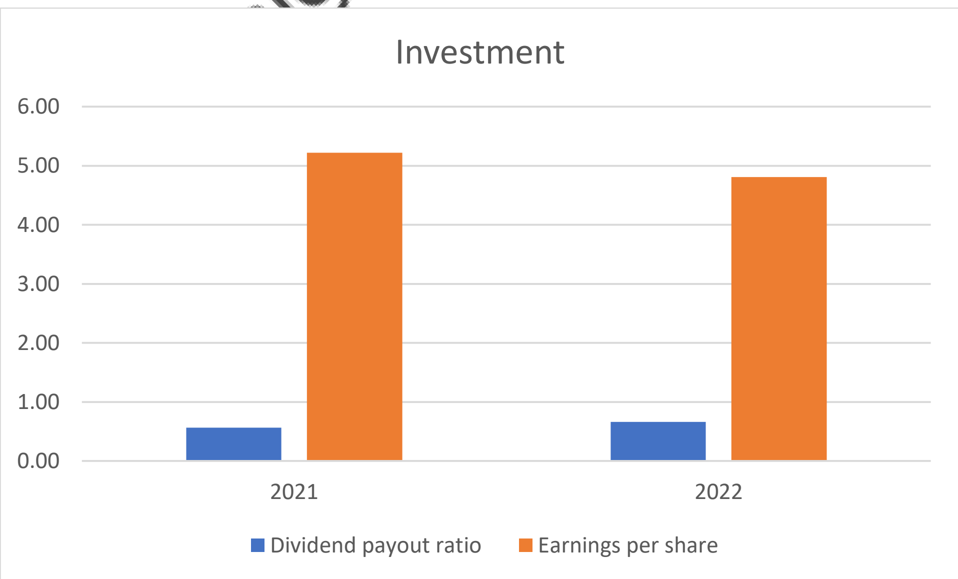

Figure 5: Investment ratios

The investment ratio of the company is in the good position in that the dividend pay out ratio inclined in 2022. The ratio was 0.56 in 2021 that increased to 0.66 in 2022 (Au finance yahoo, 2023). It is because the dividend per share inclined by 8.23% in 2022 that is good for the investors while the EPS decreased to 4.81 per share in 2022 compared to 5.22 per share in 2021 (Investors CSL, 2022B). This resulted because of the drop in the net income by -5.07% in 2022 even issuing 3.03% more shares.

ESG analysis

Yes, the company discloses the social and environmental issues in the public. It has been justified by the help of the latest sustainable report issued by the company in the year 2023 (CSL, 2023). The company is committed to foster a healthy world and their vision is a sustainable future for all of the stakeholders which inspired by the innovative science and value driven culture. As per the report, it can be seen that the company aims to focus on the environmental issues like the reduce the carbon emissions, minimize the wastages, diversity at the work place etc.

Five distinct social and environmental issues

1) Reduce carbon emission: The company focused on this issue in the report by setting the target for 2030. Their scope one and two emissions reduced as they aim to increase the proportion of the purchased electricity from renewable sources in the Europe (CSL, 2023).

2) Wastage: The company wants to minimize the end to end production of the waste by the removal, reduction and recycling. The company wants to keep the ethanol recovery at the rate of above 90% and wants to achieve the reduction of the trucks traveling to the site. They reduced more than 270 truck movements from the site per annum (CSL, 2023).

3) Supply chain: The company also address the issue of the supply to increase the efficiency and reduce the carbon emission by the supply chain. They developed a dedicated supplier engagement system to recognize the supplier who have set the science-based goals.

4) Diversity, equity and inclusion: The company has set a people manager target in that they want to have 50% female representation and want to continue to pursue this target by 2025 (CSL, 2023).

	Female	Male
All Employees	**59%**	41%
People Manager	**45%**	55%
Senior Executive	**32%**	68%
Board	**44%**	56%

Table 6: Gender diversity

Source: CSL, 2023

5) Patient focused leader: The company wants to keep the product safety and quality and they achieved 21 product registrations across the globe. The company had 60 clinical trials in the operations across the all therapeutic areas (CSL, 2023).

Elements of the report

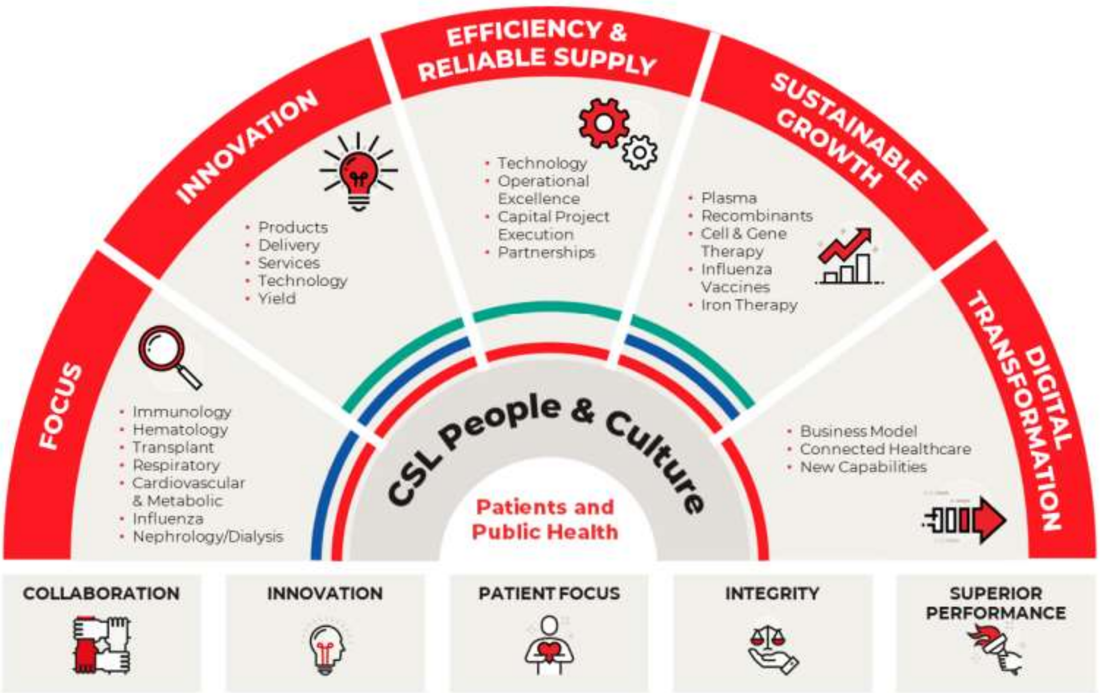

Figure 6: 2030 Plan of the company

Source: CSL, 2023

Figure 7: Focus areas

Source: CSL, 2023

Sustainable Development Goals (SDGs)

The company continue to be supported by the general assembly of UN 2030 agenda of sustainable development which includes 17 goals (CSL, 2023a). The goals look to address the global issues like the health and wellbeing, inequality, innovation and climate changes. The company identified SDGs 3,5,9,13 as key goals.

- Good health and wellbeing- The company makes the innovative medicines that save lives and protect public health. They hold more than 1000 product registrations in 106 nations to support new-borns through the elderly (CSL, 2023a).
- Gender equality- The company looks to make an open and trusting work environment characterised by the equal opportunities and diverse value-based culture. They rely on the people's unique aspects like ideas and experience to give for their business.
- Industry, innovation and infrastructure- Their product portfolio focuses on the innovation in the new items and manufacturing expertise to assure the continued growth. They enter into the collaborative partnership to science and aspects for the better product development (CSL, 2023a).
- Climate action- CSL recognizes that the responsible management and ideal use of the natural resources is a key for the sustainable growth and ability to become efficient for life saving medicines. In 2022 they announced enterprise emission reduction goal and committee to 40% decline in the scope one and 2 by 2030 (CSL, 2023a).

Corporate governance

1) Areas of full compliance

CSL Limited corporate governance shows a commitment to foster a high performing and respectful culture linked to the values.

Board composition and independence: CSL states that they have formal board charter that is important for the governance but the information is limited and ASXCGC principle need more specific information about the independence of the directors (Investors CSL, 2022C).

Risk management: The board is responsible to oversee of the risk management and compliance that is inline with the ASXCGC principles. It shows the commitment for the better risk management.

Disclosure and transparency: The governance framework is mentioned but this lacks in terms of full details of the policies and practices. ASXCGC principles show the role of the clear and timely disclosure (Investors CSL, 2022C).

CEO and managing role of director: CSL gives the daily management to the CEO and managing directors that is linked to the good corporate governance practices. There is detailed information for the roles and responsibilities of the directors which is linked to the ASXCGC principles (Investors CSL, 2022C).

2) Areas of improvement

- The company has to provide the more information about the diversity of the board members because such information is important for the stakeholders to assess the effectiveness of the board.
- They should provide the specific information related to the governance policies and practices like the risk management and compliances process.
- The company needs to commit regularly to update the shareholders and stakeholders on the compliances with the ASXCGC principles.

Capital budgeting

As per the annual report, the company made the following investment that required the application of the capital appraisal methods like the payback, NPV and IRR:

- The company invested $156 Million for the expansion of the manufacturing facility and such expansion included the expense for the construction and equipment (Investors CSL, 2022D). In this case the payback period method could be important to measure the time to cover the investment.

- The company invested in the construction of the CSL Seqirus cell culture vaccine production facility in Tullamarine with the cost of $800 million. As this is a big investment and for this NPV and IRR would be good methods to evaluate the future value of the project (Investors CSL, 2022D).

Working capital management

	Year 2022
Receivable days	58
Payable days	166
Inventory days	307
Operating cash cycle	199

Table 8: Working capital cycle

Source: Appendices

The company takes 58 days to manage the debtors and it efficient and indicates the company manages its receivables in an effective manner (Investors CSL, 2022B). While to pay the payables, the company take 166 days in 2022 and this is longer period and indicate the opportunity for the improvement. The longer payable days affect the relation with the suppliers. Lastly CSL limited holds the inventories for 307 days and it is a long period and show that they have capital tied up in the inventory (Investors CSL, 2022B).

Areas of improvement

The above company can improve the cash cycle by focusing the optimized inventory management. They should reduce the inventory days to free the working capital and increase the cash flow. Further they should improve the working capital management by negotiating with the suppliers to pay in the long days.

Conclusions and recommendations

As per the report this can be concluded the financial health is in the average position because the profitability decreased in 2022 and same as the efficiency ratio affected in

2022. Though, in the liquidity, gearing and investment areas the performance of CSL limited is good. In the context of the non-financial performance they are committed for the social and environmental issues but in the corporate governance there are some issues due to the lack of information. The working capital cycle management is weaker due to the long time taken to handle the inventories and payables in the year 2022.

Based on the findings this can be suggested to the management of the company that they should work on the below areas:

- The company should implement the budgeting system to control the cost and it will improve the profits.
- They should hire the skilled workforce to utilize the assets and resources to generate the significant return and turnover.
- The company needs to use the excess of the current assets in the other investment to get more return instead to keep the cash in the form of the current assets.
- They need to disclose the broader information in the governance so that they can meet the principles of ASXCGC.
- The management should work on the working capital cycle management by using the methods like JIT system to handle the inventories and negotiating with the suppliers.

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Appendices

Ratio calculation

Profitability		
Operating profit margin		
Year	2021	2022
Net sales	10310	10561.9
Operating income	3130	2927.4
Formula	Operating income/Net sales*100	
Operating profit margin	30.36%	27.72%
Return on assets		
Year	2021	2022
Net income	2375	2254.7
Average total assets	16886.2	23251.45
Formula	Net income/Average total assets	
Return on assets	0.14	0.10

Efficiency		
Total assets turnover ratio		
Year	2021	2022
Net sales	10310	10561.9
Average total assets	16886.2	23251.45
Formula	Net sales/Average total assets	
Total assets turnover ratio	0.61	0.45
Fixed assets turnover ratio		
Year	2021	2022
Net sales	10310	10561.9
Average fixed assets	9968.25	11326.25
Formula	Net sales/Average fixed assets	
Fixed assets turnover ratio	1.03	0.93

Liquidity		
Current ratio		
Year	2021	2022
Current assets	7389.7	16460.7
Current liabilities	3103.6	7108.2
Formula	Current assets/Current liabilities	
Current ratio	2.38	2.32
Acid test ratio		
Year	2021	2022
Quick assets	3609.1	12127.7
Current liabilities	3103.6	7108.2
Formula	Quick assets/Current liabilities	
Acid test ratio	1.16	1.71

Gearing		
Gearing ratio		
Year	2021	2022
Non-current liabilities	6672	6660.3
Equity	8381.3	14577.5
Formula	Non-current liabilities (NCL + Equity)*100	
Gearing ratio	44.32%	31.36%
Interest coverage ratio		
Year	2021	2022
Operating income	3130	2927.4
Finance cost	170.8	165.2
Formula	Operating income/Finance cost	
Interest coverage ratio	18.33	17.72

Investment		
Dividend pay-out ratio		
Year	2021	2022
Dividend per share	2.94	3.18
Earnings per share	5.22	4.81
Formula	Dividend per share/Earnings per share	
Dividend pay-out ratio	0.56	0.66
Earnings per share		
Year	2021	2022
Net income	2375	2254.7
Outstanding share	455	469
Formula	Net income/Outstanding share	
Earnings per share	5.22	4.81

Working capital cycle

Operating cash cycle	2022
Receivable days	
Credit sales	10561.9
Average receivables	1684.2
Formula	Avg receivables/Credit sales*365
Receivable days	58
Payable days	
Credit purchase	4829.6
Average payables	2195.3
Formula	Avg payables/Credit purchase*365

Payable days	166
Inventory days	
Average inventory	4056.8
Cost of sales	4829.6
Formula	Avg inventory/Cost of sales*365
Inventory days	307