

***An investigation of the financial performance
of BT Group plc and BT SKYB***

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Executive Summary

The UK's and the world's telecommunications industries are among the most fiercely competitive. Competition in the telecommunications market has intensified as a result of a significant number of new entrants. Many of today's most powerful players in the industry have broadened their portfolios to include both product and service sectors. Both SKY and BT have a wide range of products and services in the UK telecom market. There are positive financial performance ratios for both organisations as well. Indicators of constant cash flow and working capital levels may be seen in their liquidity ratios, which are either slightly below or significantly over 1.0. When it comes to short-term financial commitments, both firms have advantageous turnover rates since they are able to collect their debts faster than they are needed to pay them back. Because both firms have high profitability ratios, prospective investors should see them as attractive investment prospects.

BT PLC versus BSKYB

Introduction

Telecommunications services firm BT group plc, or BT, is a holding company that owns the British Telecommunications plc, which is located in London (Addlynn, 2014). Telecommunications business SKY Plc, the old British Sky Broadcasting (BSkyB), serves the United Kingdom. BSKYB opted to alter its name to Sky UK Ltd and trade as Sky after purchasing SKY Italia in 2014 along with a 90% stake in Sky Deutschland. According to several financial parameters, SKY and BT's performance will be examined in this study. In order to compare the two firms, efficiency, liquidity, and profitability statistics will be used to draw a comparison (Freeman, 2010). The firms' most recent three years, going back to 2013, will be used for the analysis. Two companies' financial statements are used to calculate ratios, which may be found in their annual reports. To confirm the validity of the study, the results will be compared to the market's performance and current trends. To wrap things up, the publication makes some investment advice for SKY and BT to its audience.

Profitability Ratios

Gross Profit Margin

BTC Plc	2019	2020	2021
Gross profit	4,479	5,243	5,166
Revenue	27,502	30,487	26,690
Gross profit margin	16.29%	17.20%	19.36%

BSKYB	2019	2020	2021
Gross profit	1,291	1,104	972
Revenue	7,235	7,450	9,989
Gross profit margin	17.84%	14.82%	9.73%

Net Profit Margin

BTC Plc	2019	2020	2021
Net profit	2,959	3,364	3,169
Revenue	27,502	30,487	26,690
Net Profit margin	10.76%	11.03%	11.87%

BSKYB	2019	2020	2021
Net Profit	979	865	1952
Revenue	7,235	7,450	9,989
Net profit margin	13.53%	11.61%	19.54%

Return on Capital Employed (ROCE)

BTC Plc	2019	2020	2021
PBIT	4,710	5,251	5,227
Equity + Non- current liabilities	26,642	29,681	27,722
ROCE	17.68%	17.69%	18.86%

BSKYB	2019	2020	2021
PBIT	1,291	1,104	972
Equity + Noncurrent liabilities	4,028	3,930	11,154
ROCE	32.05%	28.09%	8.71%

Return on Investment (ROI)

BTC Plc	2019	2020	2021
Net profit	2,959	3,364	3,169
Total assets	37,796	41,509	40,365
ROI	7.83%	8.10%	7.85%

BSKYB	2019	2020	2021
Net profit	979	865	1952
Total assets	6,345	6,449	15,358
ROI	15.43%	13.41%	12.71%

Using profitability measures, investors may gauge a company's capacity to make money from the sale of goods and services (Ghuman & Aswathappa, 2010). They both have outstanding profitability rates and large revenue streams for the time in question. BT's and Sky's When compared to 2014, BT's revenue fell 12.46 percent to £26.69 billion in 2015.

Although BSKYB's revenue grew by 34.08 percent from 2014 to 2015, this represents a growth of £2.5 billion over the course of two years. The gross margin, which fell from 17.84 percent in 2013 to 9.73 percent in 2015, has not kept pace with the sales growth. Over the course of the period from 2013 to 2015, BT's gross margins improved, whereas SKY's fell. The gross margin ratio is a measure of a company's ability to control the costs associated with its sales. By 2015, BT's gross profit margin has increased from 16.29 percent to 19.36 percent. There has been an increase in gross profit of £687 million since 2013. To put it another way, BT's gross profit margin in 2013 was 16.29%, which means that 83.71% of the company's revenue was eaten up by sales costs and just 16.29% was left as a gross profit. This year's net profit is just 9.73 percent of SKY's total revenue, down from 17.84 percent in 2013. It reflects a gross profit drop of £316 million over the time under review. BT PLC has a better handle on its cost of sales charges than BSKYB based on this analysis.

Between 2013 and 2015, both firms' net margins increased steadily. From 2013, the net margin for British Telecom rose to 11.87 percent, while the net margin for Sky went from 13.53 percent to 19.54 percent in the same year. SKY saw a net profit gain of £973 million as a result of the improvement in net margin. A company's net profit margin indicates its ability to control its finance costs, notably interest charges. This means that 80.46 percent of sales, finance, and operational expenditures were used to cover the cost of sales while 19.54 percent was retained as net profit for the SKY. It may be ascribed to cross-selling of products and high-margin services like pay TV that have been important development drivers in the telecommunications sector. According to SKY's 2015 acquisition of the UEFA Champions League broadcasting rights, the company's net margin has increased significantly. Sky's continued profitability may also be attributed to its expanding customer base, which added over 200,000 new customers in the final quarter of 2015 and now numbers 25 million people in Ireland and the UK.

The SKY's 2015 consolidated income statement shows that the firm made a profit on the sale of its available for sale investments as well as the sale of the company's other assets. As a result, the 2015 net margin was higher than the 2014 net margin. A major sale is the \$481.1 million deal with Liberty Global, a cable operator located in the United States, in return for a 6.4 percent stake in Sky's ITV offering.

Every unit of a company's capital is measured in terms of its ROCE, or return on capital employed. Using this ratio, investors may see how successfully the firm is leveraging its debt and equity in order to generate profits. In the same way that BT's other profitability ratios have been steadily increasing since 2013, ROCE has been increasing as well. From 17.28% in 2013 to 18.44% in 2015, BT's ROCE improved gradually. Non-current liabilities on the balance sheet accounted for most of the growth in BT's stock in the company. In contrast, an examination of Sky's ROCE has potential investors scratching their heads. In 2013 and 2014, the firm's ratio was 32.05 percent; in 2015, it was 28.095 percent. An ROCE ratio of more above five is considered desirable by the ACCA, whereas a lower ROCE ratio scares away potential investors. Sky had a significant advantage over its competitors in both 2013 and 2014, based on the high ratio between the two years.

But a more hopeful observer may see that the company's noncurrent liabilities jumped from £2.8 billion in 2014 to a stunning £7.9 billion in 2015, an 182 percent rise. SKY's subsequent purchases prompted an increase in financing, which explains the rise. Both Sky Deutschland and Sky Italia were purchased for a total of £2.9 billion and £2.45 billion, respectively. When a business makes such large purchases, it shows that it wants to be in charge of the industry.

Another indicator of a company's success is its return on investment (ROI). It is also known as the total asset return. The return on investment (ROI) shows how much a £1 investment in total assets yields in terms of profit. This graph shows the average return on investment (ROI) for BT and Sky over a three-

year period, with a minor decrease in 2014. The 7.83 percent ROI for BT indicates that for every £10 in total assets, the company makes £7.85 in net profit.

Discussions

Liquidity Analysis

Current Ratio

BT PLC	2019	2020	2021
Current assets	4,674	5,706	7,471
Current liabilities	7,604	7,687	7,708
Current ratio	0.61	0.74	0.97

BSKYB	2019	2020	2021
Current assets	2,569	2,573	4,559
Current liabilities	2,317	2,519	4,204
Current ratio	1.11	1.02	1.08

Quick Ratio

BT PLC	2019	2020	2021
Cash + Accts. Rec.	3,355	3,120	3,134
Current liabilities	7,604	7,687	7,708
Quick ratio	0.44	0.41	0.41

BSKYB	2019	2020	2021
Cash + Accts. Rec.	1,406	1,717	2,474
Current liabilities	2,317	2,519	4,204
Quick ratio	0.61	0.68	0.59

To put it another way, the capacity of a company to satisfy its short-term maturing financial obligations, such as short-term debt, is shown by its liquidity ratios. Liquidity ratios focus on the balance sheet's current assets and liabilities. Working capital ratios are used by investors to assess a company's ability to repay its short-term loans without going into default. Investors favour a corporation with a high liquidity ratio under normal conditions because they know that the obligations they extend to the company will be paid without default. Prior to approving a loan, investors examine these measures to determine a company's creditworthiness. The current and rapid ratios are among the ratios examined in this section. Investors should exercise care when examining the aforementioned ratios for a certain company since the findings may be swayed by a number of other variables. In addition, the liquidity ratios of various sectors vary significantly.

Between 2013 and 2015, the BT current ratio has risen dramatically from 0.6 to 0.97. To calculate the current ratio, just divide the quantity of current liabilities by the total number of current assets. First, the existing assets must be able to cover all of the company's short-term debts before further assets may be taken into account (Ferrell, Fraedrich & Ferrell, 2010). The ideal asset-to-liability ratio is two to one, which means that current assets must be at least twice as large as current liabilities. BT's current ratio is lower than 1.0. In this case, it signifies the firm's current liabilities outweigh its current assets marginally. While it's true that the ratio is steadily growing, there's no need to panic. Its current assets and liabilities are almost equal, as seen by its current ratio, which is just over 1.0. From 2013 to 2015, SKY's current ratio has decreased from 1.11/100 to 1.08/100.

Cash and receivables are used in the quick ratio, while total current assets are used in the current ratio, which measures the firm's capacity to meet short-term financial commitments. The fast ratio may be thought of as a more precise definition of the current ratio since it does not include the firm's shares in the equation. The following are some of the reasons why stock isn't included: First, the stock's value is dependent on its past cost, and second, during a crisis, the shares may not be easily converted to cash. A company's capacity to satisfy its current financial commitments from the most easily accessible form of current assets is shown by the ratio's calculation. SKY has a higher current-to-quick ratio than BT, although the latter has a better quick-to-current ratio. Investors may be concerned with BT's 2013 quick ratio of 0.31, but it is important to remember that the company made significant expenditures during that time period. It is clear from the 2015 ratio of 0.7 for BT that the current assets are virtually equal to the current liabilities, indicating a rapid recovery. SKY's quick ratio rises slightly between 2013 and 2014, but falls to 0.59 in 2015. Short-term borrowings grew by a stunning £483 million between 2014 and 2015, which explains the drop in revenue. Due to the large purchases made in the time, it is impossible to verify such a rise in short-term borrowing.

Discussions

Efficiency/Turnover Analysis

Trade Receivables Turnover

BT PLC	2019	2020	2021
Trade receivables	2,431	2,425	2,700
Revenue	18,103	18,287	17,979
Trade receivable turnover (in days)	49	48	55

BSKYB	2019	2020	2021
Trade receivables	591	635	1096
Revenue	7,235	7,450	9,989
Trade receivable turnover (in days)	30	31	40

Trade Payables Turnover

BT PLC	2019	2020	2021
Trade payables	2,927	2,745	2,835
Cost of sales	9,069	9,015	8,530
Trade payable turnover (in days)	118	111	121

BSKYB	2019	2020	2021
Trade payables	2,023	2,286	3430
Cost of sales	5,944	6,346	9,017
Trade payable turnover (in days)	124	131	139

The bulk of telecommunications firms are used to operating on credit terms. A predetermined monthly or annual fee is charged by the service providers to their consumers, who may then choose the package that best suits their needs and budget. The efficiency with which a business utilises the resources at its disposal in order to create returns or turnover is measured by turnover ratios.

The turnover ratio of trade receivables is a measure of the amount of time that customers have to pay off their debts to the company. The average trade receivables on the balance sheet are divided by the sales revenue to arrive at this number. BT's trade receivables turnover ratio is larger than SKY's, according to the estimates above. From 2013 to 2015, the average amount of time it takes for its customers to pay their debts has increased from 29 to 55 days on average. Trade receivable turnover of 30 to 40 days for SKY between 2013 and 2015, respectively, is an exceptional achievement. In order for the company to convert trade receivables into cash as rapidly as possible, the shorter the ratio, the better it is.

The amount of time that a company's trade creditors anticipate to be paid for items provided on credit is shown by the trade payables turnover. The more beneficial it is for the corporation, the longer the term (Adeniyi, 2007). In comparison to BT, SKY has better credit conditions with its lenders. While BT's short-term financial commitments must be met within a range of 141 to 125 days, SKY's fall within a range of 144 to 139 days. Short-term financial commitments for SKY are growing while those for BT are reducing between 2013 and 2015.

Conclusion

From the preceding financial results, it is clear that both BT PLC and SKY have outstanding performance and, as a result, provide good investment prospects for investors' benefit. SKY, on the other hand, provides a better investment potential because of its greater ROCE. Due to BT's well-established dominance in the business, it might be favoured by investors who are more cautious in character.

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