

NICHOLS PLC

FINANCIAL ANALYSIS REPORT

Year Ended 31 December 2024

TICKER LSE: NICL	SECTOR Non-Alcoholic Beverages
MARKET CAP £371.18m	CLASSIFICATION Small-Cap Equity

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Introduction

Nichols plc (LSE: NICL) is a UK-based soft drinks manufacturer and distributor headquartered in Newton-le-Willows, Merseyside, operating within the highly competitive non-alcoholic beverages sector (London Stock Exchange, 2026). With a market capitalisation of £371.18 million as of 15 February 2026, Nichols is classified as a small cap equity, indicating a higher risk-profile for investors. The company employs approximately 297 staff members (Nichols plc, 2024, p.140) and operates a dual-revenue business model combining branded product sales with private label manufacturing for major UK retailers (Nichols plc, 2024).

Founded in 1908 by John Noel Nichols, the company's flagship Vimto brand is now sold in over 60 countries (Nichols plc, 2024, with particularly strong market penetration in the UK and Middle Eastern regions (Nichols plc, 2024).

For the year ended 31 December 2024, Nichols plc reported an increase in revenue of 1.21%, alongside a 14.56% increase in operating profit. The stronger growth in operating profit relative to revenue suggests operating margin expansion.

This report provides a comprehensive financial analysis of Nichols plc to evaluate its suitability as an investment opportunity for a growth-focused portfolio. Based on these findings, a recommendation will be made regarding the investment decision considering the company's financial health and strategic positioning.

Company Analysis

3.1 Profitability Section: *(All figures valued at £m/%)*

The following ratios can be used to evaluate the profitability of the business through their metrics (McLaney & Atrill, 2023).

Operating Profit/Operating Profit Margin

The operating profit margin ratio measures operating profit as a proportion of revenue (McLaney & Atrill, 2023). Operating profit increased by 14.56% in 2024 to £28.9m, significantly exceeding revenue growth of 1.21% (Appendix 3.1). The disparity of over 13 percentage points between operating profit growth and revenue growth suggests considerable margin expansion. The adjusted operating margin increased by 1.9 percentage points from 14.8% in 2023 to 16.7% during 2024 (Appendix 3.1), with management attributing margin improvement to a continued cost management focus within the company (Nichols plc, 2024). As illustrated in Figure 1.1 (Appendix), Operating Profit and Revenue have achieved steady growth over the previous five years, with operating profit recovering considerably after spillover effects that occurred during and after 2021.

Gross Profit Margin

The gross profit margin measures gross profit as a proportion of sales revenue generated during the period (McLaney & Atrill, 2023). The gross profit margin grew over 3.4 percentage points from 42.3% in 2023 to 45.7% in 2024, indicating significant improvement in production-level profitability for Nichols plc (Appendix 3.1). Management reported a strategic focus on restoring margin performance following inflationary pressures over the previous 18 months, achieved through improving

purchasing practices and developing production efficiency (Nichols plc, 2024). This improvement is consistent with the Group's aim to shift towards a margin-enhancing concentrate model within its international markets, suggesting the measures implemented supported the company's gross profit margin expansion.

ROCE (Return on Capital Employed)

ROCE measures the efficiency in which a company generates operating profit from its average long-term capital base (McLaney & Atrill, 2023). Nichols reported a ROCE of 23.1% in 2024 and 23.3% in 2023, representing a decline of 0.2 percentage points for the period. The movement is marginal however, with ROCE remaining broadly stable overall year-on-year. This decline suggests the increase in profit reported by Nichols within operating profit was offset by the changes in capital employed, indicating capital efficiency has remained broadly unchanged despite an improvement in operating performance. As illustrated in Figure 1.2 (Appendix), operating margins have recovered at a steady rate since 2021.

ROE (Return on Equity)

ROE measures how effectively a company is using its shareholders' equity to generate profit. ROE experienced significant growth with 37.36% in 2024 and 27.9% in 2023, marking an increase of over 9.4 percentage points. This substantial growth can be attributed to a sharp increase in net profitability during the period. This suggests shareholders are likely to receive stronger returns on the capital they've invested.

Operational Expenses Margin

The operational expenses margin measures how much per £ sale the business spends on selling, distribution and administration expenses. Nichols reported a 28.9% margin for 2024, representing a 1.4 percentage point increase from the 27.5% margin produced during the previous year (Appendix 3.1). This increase suggests that operating cost measures remained despite the measures implemented to reduce cost and improve production efficiency. Although gross margin improved by 3.4 percentage points, operating margin increased only by 1.9 percentage points, indicating approximately 1.5 percentage points of gross improvement was absorbed by higher operating expenses, rather than flowing through to the company's operating profit. This analysis is based on the exclusion of exceptional item costs, with movements reflecting underlying dynamics rather than one-off charges.

3.2 Efficiency Section: *(All figures valued by - days)*

Efficiency Ratios are useful in assessing how successfully resources available to an organisation are managed (McLaney & Atrill, 2023).

Trade Receivables

The trade receivables collection ratio indicates the length of time on average, credit customers take to pay the business amounts owed through the period (McLaney & Atrill, 2023). The trade receivables ratio has increased from 84 days in 2023 to 92 days in 2024, indicating an eight-day increase in the average credit collection period.

This movement may place marginal pressure on short-term cash flow; with longer collection periods creating higher liquidity risk long-term. The company has implemented a structure to mitigate liquidity issues through credit risk evaluation, conducting credit risk assessments on potential customers before sales commerce occurs (Nichols plc, 2024). Collectively, while average days per trade collection has increased, causing potential short-term liquidity worries; the likelihood it affects Nichols is low.

Trade Payables

The trade payables period measures how long on average, the business takes to pay those who have supplied goods and services on credit (McLaney & Atrill, 2023). The trade payables period ratio has increased from 35 days in 2023 to 41 days in 2024, representing a six-day increase in Nichols average payment period to suppliers. While marginal, this increase provides greater financial flexibility for the organisation's short-term cash flow management, with obligations not having to be settled over a longer timeframe. Alternatively, an increase in the period could result in a decline of supplier relationships and goodwill if delays are excessive (McLaney & Atrill, 2023). However, Nichols retains long-standing supplier partnerships, suggesting minor fluctuations in the payables period are unlikely to materially affect these relationships.

Inventory Turnover Period

The inventory turnover period ratio measures the average period in which inventory is held by an organisation (McLaney & Atrill, 2023). Nichols reported an inventory turnover period of 36 days in 2024, reflecting a three-day increase on the 33 days recorded in 2023 (Appendix 3.2). As the increase is marginal, it is unlikely to place considerable pressures on the company's short term liquidity or working capital management.

Cash Conversion Cycle (CCC)

The cash conversion cycle represents the net period of time between a firm's cash outflows used to purchase productive resources and the eventual recovery of cash inflows generated from the sale of goods and services (Richards, V. D., & Laughlin, E. J., 1980). Nichols reported a cash conversion period of 87 days in 2024, reflecting a five day increase over the 82 days during 2023 (Appendix 3.2). The CCC increasing, indicates Nichols is receiving credit at a decreased rate to the previous period, causing slower cash-inflows. A minor inventory turnover period increase ties up cash slightly longer, though the six-day payables extension partially offsets this by retaining cash within the business for longer.

3.3 Liquidity Ratios: *(All figures are calculated to receive a ratio to :1 or times)*

Liquidity ratios are utilised to measure the businesses' ability to meet its short-term financial obligations (McLaney & Atrill, 2023).

Current Ratio

The current ratio compares the liquid assets (cash and assets that will soon be turned into cash) of a business with their current liabilities (McLaney & Atrill, 2023). Nichols reported a 3.11:1 current ratio in 2024, representing a 9.2% increase over 2023's figure of 2.85:1 (Appendix 3.3). The common benchmark ratio for all firms is approximately 2:1 (McLaney & Atrill, 2023), indicating most firms should hold enough current assets to cover its liabilities twice over. While Nichols ratio for both periods is notably above this benchmark, it suggests a strong short-term liquidity position for the company, with the ratio not appearing excessively high to a point of interference with the company's daily operational efficiency.

Cash Ratio

The cash ratio assesses a company's ability to meet its short-term financial obligations using its most liquid assets to cover its current liabilities (McLaney & Atrill, 2023). Nichols reported a cash ratio of 1.58:1 in 2024, compared to 1.77:1 in 2023, representing a 10.73% decrease in the firm's ability to cover their short term obligations using immediate cash resources (Appendix 3.3). This decline reflects a modest reduction in liquidity cover between the two periods. However, Nichols highlighted within its annual report that cash equivalents consist of short-term, highly liquid investments that are typically readily convertible to cash whenever necessary, reducing the risk associated with volatility concerning current asset liquidity (Nichols plc, 2024).

Acid Test Ratio

The acid test ratio similar to the current ratio, measures a more stringent test of a firm's short-term liquidity. As inventory stock is considered illiquid, it is excluded from the measurement of the ratio (McLaney & Atrill, 2023). Nichols reported an acid test ratio of 2.84:1 in 2024, in comparison to 2.66:1 in 2023, marking a 6.77% increase for the firm over the period (Appendix 3.3). This provides a more accurate representation of Nichols ability to meet short-term obligations without relying on inventory liquidation.

3.4 Long-Term Solvency and Gearing Ratios: *(All figures measured by %)*

Financial gearing (or financial leverage) occurs when businesses are financed, at least partly, through borrowing rather than the utilisation of owner's equity. This can have considerable effects on an organisations long-term solvency if handled incorrectly (McLaney & Atrill, 2023).

Interest Cover

The interest cover ratio measures the amount a firm's operating profit is able to cover interest payable (McLaney & Atrill, 2023). Nichols reported an interest cover ratio of 246:1 in 2024, representing an increase of 20.4% in comparison to 205:1 in 2023 (Appendix 3.4). This figure is exceptionally high because it reflects the firms very low finance costs relative to its operating profit. A key reason for this is Nichols substantial cash/cash equivalents position, which reduces the need for the company to rely on external financing therefore limiting interest expenses incurred. However, a company holding a large cash balance does not necessarily mean it is fully protected

from long-term debt obligations, as long-term solvency ultimately depends on the amount of non-current liabilities held by the business. This is demonstrated by Nichols low non-current liability figures within the balance sheet.

Financial Gearing

The gearing ratio measures the contribution of long-term capital lenders and how much borrowed funds are invested within the firm (McLaney & Atrill, 2023). Nichols reported a gearing ratio of 2.79% in 2024, representing an increase of 0.21 percentage points over the ratio of 2.58% in 2023 (Appendix 3.4). Despite this increase, the ratio remains extremely low for most organisations, indicating Nichols rely heavily on equity financing as opposed to external debt.

3.5 Investment Ratios: *(All figures valued at %/X)*

Various ratios are available that are designed specifically to help shareholders assess the returns on their investments, the following are widely used (McLaney & Atrill, 2023).

Dividend Yield

The dividend yield ratio relates the cash generated from share return to the equities true market value, helping investors analyse the potential dividend they can expect to receive from the firm (McLaney & Atrill, 2023). Nichols disclosed a 6.71% yield in 2024 as opposed to the 2.46% yield reported in 2023, representing a 4.25 percentage point increase during the period (Appendix 3.5). This calculation based on the year-end market price of Nichols shares over both 2024/2023. The declaration of a special dividend reflects Nichols strong cash position and lower financial debt leverage, allows the firm to return excess capital to its shareholders without significantly compromising its liquidity position.

Dividend Payout

The dividend payout ratio measures the proportion of earnings paid out to shareholders in the form of dividends (McLaney & Atrill, 2023). Nichols reported a ratio of 133.5% in 2024, indicating an 84 percentage point increase over the 49.5% ratio produced in 2023 (Appendix 3.5). This is a significant increase on the previous year's ratio, suggesting a substantial return to shareholders through dividend distribution. However, the ratio is artificially inflated by the special dividend declared during the period. This dividend payment is therefore a reflection of the company's cash surplus rather than a change to its future dividend policy. As a result, the elevated payout ratio recorded in 2024 is unlikely to be sustainable during future periods at the firm.

Dividend Cover

The dividend cover ratio is similar to the dividend payout ratio, with the information laid out and expressed slightly differently in order to portray the cover ratio (McLaney & Atrill, 2023). Nichols recorded a 0.75x cover ratio in 2024, representing a significant decrease over 2023's reported 2.02x ratio (Appendix 3.5). This significant decrease indicates Nichols would struggle to cover its dividend payments during the

current period, as opposed to having the safety of 2 times cover the year prior. Excluding the special dividend, the underlying cover ratio would be considerably higher and much more consistent with the firm's historical dividend policy.

EPS (Earnings Per Share)

The earnings per share (EPS) ratio measures the earnings generated by a business that is available to shareholders during a financial period (McLaney & Atrill, 2023). Nichols reported an increase in EPS of 64.02p in 2024 and 56.41 in 2023, representing a 13.4% movement increase (Appendix 3.5). The company also experienced an operating profit increase of 14.56%, reflecting the strong operational performance throughout the period, leading to a large contribution of the firms cash toward shareholders earnings post taxation. Furthermore, due to low debt and minimal interest payments, Nichols are able to allocate more of the firms operating profits to flow through to net profit contributing to a higher EPS. As the number of shares issued remained relatively the same, this increase in profitability translated directly into higher EPS.

P/E

The P/E ratio relates the market value of a share in comparison to the earnings per share calculated (McLaney & Atrill, 2023). Nichols recorded a P/E ratio of 19.8x in 2024 and a ratio of 20.03x in 2023, indicating a movement decrease of 0.95% (Appendix 3.5). A higher ratio generally reflects greater investor confidence within the firm's future earnings potential, whereas a lower figure may indicate a reduction in future market expectations concerning future growth. However, the ratio change is minimal, suggesting investors sentiment towards the company has remained largely stable. This stability implies that Nichols is perceived as a relatively secure and profitable firm within its sector and is capable of producing consistent earnings with limited volatility for its shareholders.

Strengths/Weaknesses and Recommendations: (Summary)

Strengths

Nichols demonstrates strong financial stability, supported by high liquidity, low leverage, and consistent profitability across both periods. The firm is financially resilient and well positioned to meet its short-term and long-term obligations. A key contributor is the firm's substantial cash balance. Furthermore, profitability metrics indicate that Nichols have improved both its gross profit margin and operational profit margin during the period, suggesting the firm has strengthened its operational efficiency and ability to generate sustainable earnings.

Weaknesses

Firstly, although the gross profit margin grew by 3.4 percentage points, operating margin increased by only 1.9, indicating the gross improvement had been absorbed by the firms higher operating expenses. This limitation has reduced the amount of capital heading towards the firms operating profit, with a potential issue if operating expenses rise at a faster rate than the company's revenue growth. Additionally, Nichols cash conversion cycle deteriorated by five days to 87 days, and the DCF

intrinsic value of £15.64 remains sensitive to the assumed inputs, as modest changes to growth rate or WACC could materially alter the investment conclusion.

DCF Valuation Model

To further support the company analysis and produce an actionable investment recommendation, a discounted cash flow (DCF) model was conducted. The model estimates the intrinsic value of a company's share price by forecasting its future cash flows (FCF) and discounting them to present values using the firm's weighted average cost of capital (WACC). The model assumes a five year forecast period with cash flows growing at 4%, discounted using a WACC of 7.8%, and a terminal growth rate of 2.5%. The DCF model estimates the enterprise value to be worth approximately £514.39 million. After adjusting for the firm's substantial cash position of £55 million and minimal debt of £1.5 million, the resulting equity value is estimated to be £570.89 million. Dividing this by Nichols' 36.5 million outstanding shares currently circulating produces an intrinsic share value of approximately £15.64 per share.

Recommendation

Compared to the current market value price of £12.70 per share, the valuation calculated from the DCF model (£15.64) suggests Nichols share equity is currently undervalued within the market. This is a factor for potential investors to consider alongside the company analysis and valuation results interpreted through the model. Therefore, I would suggest Nichols appears to represent a compelling investment opportunity for my colleague and other investors seeking stable returns supported by strong company fundamentals shown through its short-term liquidity position and financial resilience.

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Appendix

Company Analysis Figures:

Key Nichols Financial Figures

Financial Ratios (£000,%)	Formula	2024	2023	Movement (%)	Page Numbers
Revenue	See Annual Report	£ 172,809	£ 170,741	1.21%	p.122
Operating Profit	See Annual Report	£ 28,861	£ 25,193	14.56%	p.122
Total Capital Employed	<small>2024: Total Assets/Current Liabilities = (121,486/138,026) = 88.48%</small> <small>2023: Total Assets/Current Liabilities = (146,475/155,525) = 94.25%</small>	£ 86,460	£ 99,922	-13.48%	p.124
Total Assets	See Annual Report	£ 121,486	£ 146,475	-17.06%	p.124
Net Cash Generated/Used	See Annual Report	£ 16,901	£ 20,102	-15.92%	p.125
Total Dividend Paid per Ordinary Share	See Annual Report	85.3p	27.9p	205.70%	p.143
Year-End Closing Price	LSE Website	£ 1,270	£ 1,140	11.40%	(LSE, n.d.)
Year-End Market Capitalisation	LSE Website	£ 463,940	£ 415,850	11.60%	(LSE, n.d.)
Number of Employees	See Annual Report	297	307	-3.26%	p.140
Earnings Per Share (Basic)	See Annual Report	64.02p	56.41p	13.50%	p.122

Figure 1.1 (Revenue/Operating Profit Trend Graph)

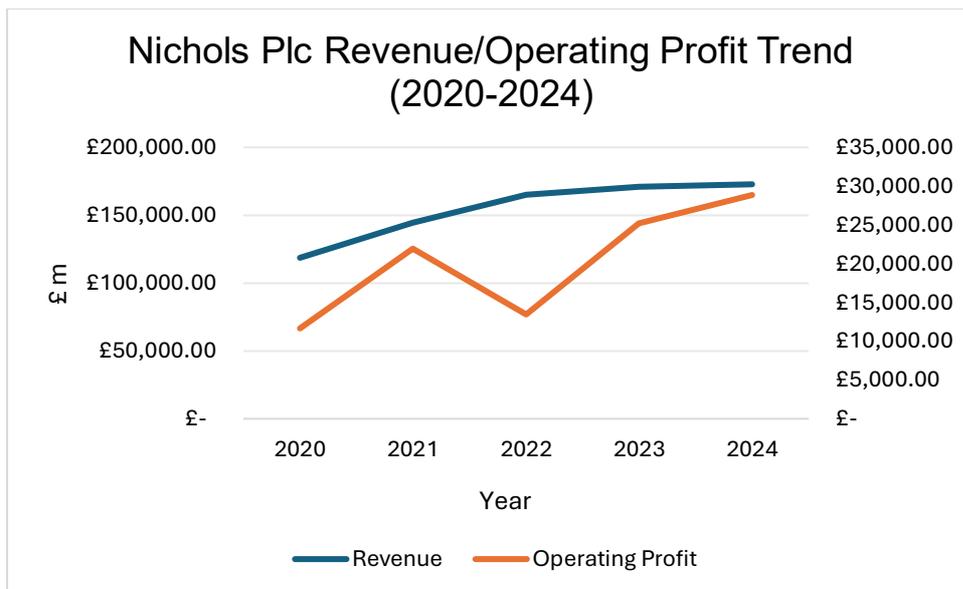
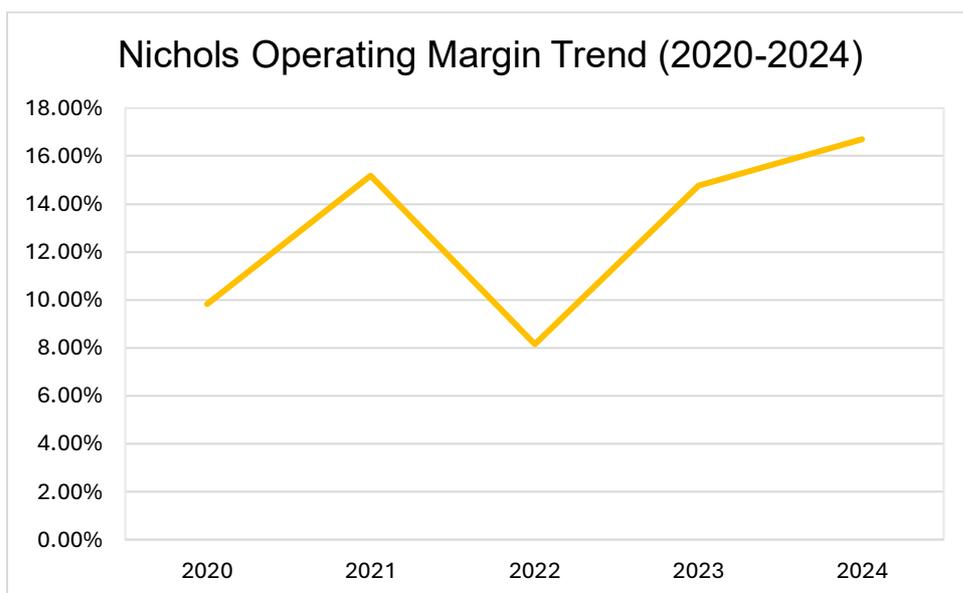


Figure 1.2 (Operating Profit Margin Trend Graph)



3.1 Profitability Ratios (Appendix 3.1)

Profitability Ratios: (£000)	Formula	2024	2023	Movement (%)	Page Number
Operating Profit	See Annual Report	£ 28,861	£ 25,193	14.56%	p.122
Operating Profit Margin	$\frac{2024 \text{ Operating Profit/Revenue} = 28,861 / 172,309 \times 100 = 16.7\%}{2023 \text{ Operating Profit/Revenue} = 25,193 / 170,741 \times 100 = 14.8\%}$	16.70%	14.80%	13.22%	P.122
Gross Profit Margin	$\frac{2024 \text{ Gross Profit/Revenue} = 118,064 / 172,309 \times 100 = 45.7\%}{2023 \text{ Gross Profit/Revenue} = 102,176 / 170,741 \times 100 = 42.3\%}$	45.70%	42.30%	6.95%	p.122
ROCE	See Annual Report	23.10%	23.30%	-0.85%	P.64
ROE	$\frac{2024 \text{ Profit before Tax/Total Equity} = 37,463,045 / 100 = 37.5\%}{2023 \text{ Profit before Tax/Total Equity} = 27,165,072 / 100 = 27.2\%}$	37.36%	27.90%	33.90%	p.122, p.124
Operating Expenses Margin	$\frac{2024 \text{ Operating Expenses/Revenue} = 102,176 / 172,309 \times 100 = 59.3\%}{2023 \text{ Operating Expenses/Revenue} = 148,565 / 170,741 \times 100 = 87.0\%}$	28.90%	27.50%	5.10%	p.122

Efficiency Ratios (days)	Formula	2024	2023	Movement (Days)	Page Number
Trade Receivables Period	2024: Trade Receivables/Revenue = 142,019,122,890 / 365 = 92 days 2023: Trade Receivables/Revenue = 128,238,175,741 / 365 = 84 days	92 Days	84 Days	8	p.150
Trade Payables Period	2024: Trade Payables/Cost of Sales = 173,725,832,832 / 365 = 41 days 2023: Trade Payables/Cost of Sales = 18,499,092,000 / 365 = 35 days	41 Days	35 Days	6	p.152
Inventory Turnover Period	2024: Inventory/Cost of Sales = (9,322,953,355) / 365 = 36 days 2023: Inventory/Cost of Sales = (8,809,983,565) / 365 = 33 days	36 Days	33 Days	3	p.122
Cash Conversion Cycle	2024: Days of Inventory Outstanding + Days Sales Outstanding - Days Payable = 36 days + 92 days - 41 days = 87 days 2023: Days of Inventory Outstanding + Days Sales Outstanding - Days Payable = 33 days + 84 days - 35 days = 82 days	87 Days	82 Days	5	Figures Above

3.3 Liquidity Ratios (Appendix 3.3)

Liquidity Ratios (%/:1)	Formula	2024	2023	Movement (%)	Page Number
Current Ratio	2024: Current Assets/Current Liabilities = 161,385,132,518 / 51,191,710 2023: Current Assets/Current Liabilities = 153,162,633,200 / 51,209,110	3.11:1	2.85:1	9.12%	p.124
Cash Ratio	2024: Cash and Cash Equivalents/Current Liabilities = 98,793,028 / 51,191,710 2023: Cash and Cash Equivalents/Current Liabilities = 82,849,533 / 51,209,110	1.58:1	1.77:1	-10.73%	p.124
Acid Test Ratio	2024: Cash and Cash Equivalents/Net Working Capital - Accounts Receivable/Current Liabilities = (95,169,440,362 + 98,793,028) / 51,191,710 2023: Cash and Cash Equivalents/Net Working Capital - Accounts Receivable/Current Liabilities = (82,849,533 + 47,383) / 51,209,110	2.84:1	2.66:1	6.77%	p.124

3.4 Long-Term Solvency and Gearing Ratios (Appendix 3.4)

Gearing and Interest Ratios (%)	Formula	2024	2023	Movement (%)	Page Number
Gearing Ratio	2024: Long Term Debt/Total Capital Employed = (2,419,885,018) / 109 = 2.79% 2023: Long Term Debt/Total Capital Employed = (2,362,816,212) / 109 = 2.68%	2.79%	2.58%	8.14%	p.124,p.122
Interest Cover	2024: Operating Profit/Interest Charges = (28,881,717) / 246.88 2023: Operating Profit/Interest Charges = (25,193,122) / 204.82	246x	205x	20.40%	p.122, p.125

3.5 Investment Ratios (Appendix 3.5)

Investment Ratios (x/%)	Formula	2024	2023	Movement (%)	Page Number
Dividend Yield	2024: Dividend Paid per Share/Market Value of Share = 0.1712 / 2.76 = 6.71% 2023: Dividend Paid per Share/Market Value of Share = 0.1681 / 2.46 = 6.84%	6.71%	2.46%	172%	p.143, LSE Website.
Dividend Payout	2024: Dividend per Share/EPS = (85,364.02) / 6.59 = 1.30% 2023: Dividend per Share/EPS = (27,356.41) / 6.59 = 0.50%	1.30%	0.50%	160%	p.143,p.122
Dividend Cover	2024: EPS/Dividend per Share = (64,020.5) / 0.1712 = 0.75x 2023: EPS/Dividend per Share = (56,412.7) / 0.1681 = 2.02x	0.75x	2.02x	-62.88%	p.122,p.143
EPS	2024: Profit attributable to ordinary shareholders/No. of ordinary shares in issue = 14.02 (pence/share) 2023: Profit attributable to ordinary shareholders/No. of ordinary shares in issue = 14.41 (pence/share)	64.02p	56.41p	13.50%	p.122
P/E	2024: Market Price per Share/EPS = (1270.64) / 19.84 = 19.84x 2023: Market Price per Share/EPS = (1130.56) / 20.03 = 20.03x	19.84x	20.03x	-0.95%	LSE Website, p.122

Strengths/Weaknesses and Recommendation:**DCF Calculation: Step 1 – (Discounted Cash Flows)**

Year	FCF (£m)	Discount Factor	PV (£m)
2025	26.00	$FCF / (1.078)^1$	24.1
2026	27.04	$FCF / (1.078)^2$	23.4
2027	28.12	$FCF / (1.078)^3$	22.8
2028	29.24	$FCF / (1.078)^4$	22.3
2029	30.16	$FCF / (1.078)^5$	21.7
Sum of PV (all FCFs):			£114.3m

DCF Calculation: Step 2 – (Present Value of Terminal Value)

Formula/Calculation	Value
$TV = FCF(2029) \times (1 + g) / (WACC - g)$	825.3 / 0.053
Terminal Value (TV)	£825.3m
$PV(TV) = TV / (1 + WACC)^5$	825.3 / 1.39
PV of Terminal Value	£419.62m

DCF Calculation: Step 3 – (Enterprise Value)

Component	Value (£m)
Sum of PV (FCFs)	114.3
PV of Terminal Value	419.62
Enterprise Value (EV)	£514.39m

DCF Calculation: Step 4 – (Equity Value)

Component	Value (£m)
Enterprise Value (EV)	514.39
Add: Cash	55.00
Less: Debt	1.50
Equity Value	£570.89m

DCF Calculation: Step 5 – (Intrinsic Share Price)

Component	Value
Equity Value	£570.89m
Shares Outstanding (Units)	36.5m
Intrinsic Share Value	£15.64
