A case study of Derwent London plc's financial and non-financial performance in 2020

Introduction

Derwent London plc is a real estate investment trust (REIT) situated in the central London region of the United Kingdom. The Company owns and manages a commercial real estate portfolio of about 5.7 million square feet, mostly in central London. The property portfolio of the Company includes investment property, owner-occupied property, and trading property (Reuters, 2021).

The primary goal of this case study is to assess, monitor, and report on Derwent London's performance for the fiscal year ending 2020. This study analyses corporate performance utilising ratio analysis and the triple bottom line framework, while critically analysing the feasibility of these methods for performance analysis in the academic literature.

Ratio Analysis

The ratio analysis consists of two parts, liquidity and gearing analysis. To monitor the company's liquidity, the quick ratio and the cash ratio are measured. The Appendix shows that the quick ratio is 1.30, whereas the cash ratio is 0.47. The quick ratio is a measure of a company's capacity to fulfil its short-term commitments using its most liquid assets (Warrad, 2014). With a 1.30 quick ratio, Derwent London can easily cover all of its short-term liabilities. According to Bragg (2002), a quick ratio of 1 is ideal since it demonstrates that the firm has adequate liquidity.

However, with a cash ratio of 0.47, the company can only meet about half of its current liabilities, which can cause trouble for the company if it fails to sell its current assets. Businesses have witnessed dramatically different cash flows as a result of the Covid-19 pandemic, where sales declined and receivables delayed, making it harder for them to maintain their liquidity (Almeida, 2021). As a result, monitoring a business's liquidity is critical in today's environment, as increasing risk centres around revenues and payments from consumers, which influence liquidity.

The Appendix shows the calculations for the gearing ratio, where it is calculated to be 26%. The gearing ratio shows that Derwent London has 26% in debt compared to the total shareholder's equity. Gearing is a measure of a company's financial leverage, and the gearing ratio is one of the most often used metrics for assessing a company's financial health (Situm, 2014). Boyte-White (2021) argues that for well-established businesses, a gearing ratio of 25% to 50% is considered optimum or average.

The gearing ratio is a measure of a company's financial risk. If a firm has too much debt, it may face financial difficulties. A high gearing ratio indicates a high debt-to-equity ratio, whilst a low gearing ratio indicates the contrary. With only 26% geared, Derwent London is on the safe side of financial leverage as it reaps the benefits of debt by having tax-deductible interest payments but also ensures that not too much is at risk through liabilities as it can be problematic for businesses, especially in times of financial instability like Covid-19.

Triple Bottom Line

The triple bottom line (TBL)—the social, environmental, and economic components of sustainable practices—has recently been central to the concept of sustainability (Elkington,1997; Savitz & Weber, 2006). In the academic literature, the TBL is also known as the three Ps: people, planet, and profits. Corporations have, for a long time, solely focused on making profits, however, things have hanged rapidly in the last few decades as the awareness for corporate social responsibility increased. The basic premise underlying the TBL is that businesses should consider the social and environmental effects of their actions in addition to profitability.

To assess and report on its social and environmental activities, the firm employs GRI Standards and the EPRA Best Practices Recommendations on Sustainability Reporting. Derwent London has a wide range of initiatives in place to address its social bottom line. A few of the highlights of the social initiatives for 2020 included monetary awards to Community Fund of £97,000 to 18 initiatives, charity donations and sponsorships totalled £540,000, the establishment of the first Derwent London architecture scholarship at The Bartlett, University College London. In addition to the Community Fund, the company assists a variety of different charities and organisations in their communities. During the pandemic, their mission of assisting vulnerable communities and individuals was relevant. Their primary emphasis areas include homelessness, mental health, and access to education and opportunity (Sustainability Report, 2020).

The company’s environmental efforts are well communicated in the Sustainability Report. Most of their environmental performance targets were met in 2020. Some of these measures included 57% reduction in carbon intensity against the 2013 baseline, source 100% renewable electricity for their managed properties, 66% recycling across the whole portfolio, zero waste sent to landfill from properties for which Derwent London has waste management control and preferring green gas procurement for ensuring zero carbon.

These initiatives have helped Derwent London to address the environmental and social factors of their operations and the company seems to be on top of these efforts. It is evident that through the website and yearly sustainability reports that Derwent London has a prominent presence in social and environmental activities. To ensure the credibility of these reports, they are audited by Deloitte plc. Overall, the TBL framework allows businesses to address other fronts apart from profits that are in the interests of other stakeholders (Slaper and Hall, 2011).

Conclusion

Assessing Derwent London’s performance for the year ended 2020 has shown that the company has been resilient in its operations, even though it operated in one of the most impacted industries by the Covid-19 pandemic where one of its biggest competitors, e.g., Intu Properties, went bankrupt (Wood, 2020). This report analysed Derwent London's financial, social, and environmental performance to measure and monitor their impact on different areas.

The liquidity ratios showed that the company can meet its urgent liabilities comfortably, however, it does not have enough cash to do so in case there is an emergency. The gearing ratio proved that Derwent London is in healthy position liquidity wise as its financial risk is minimum at 26% gearing and it can also reap benefits of tax-free interest payments of the loans. The TBL framework helped to prove that the company has a visible presence in social and environmental factors through their multiple community fund projects and the environmental sustainability goals.

Appendix

i. Quick Ratio = (Current Assets – Inventory) / Current Liabilities

   139.8 / 107.8 = 1.30

ii. Cash Ratio= Cash and cash equivalents / Current Liabilities

   50.7 / 107.8 = 0.47

iii. Gearing Ratio= Long-term liabilities / Capital Employed x 100

   1108.5 / 4263.5 x 100 = 26%

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