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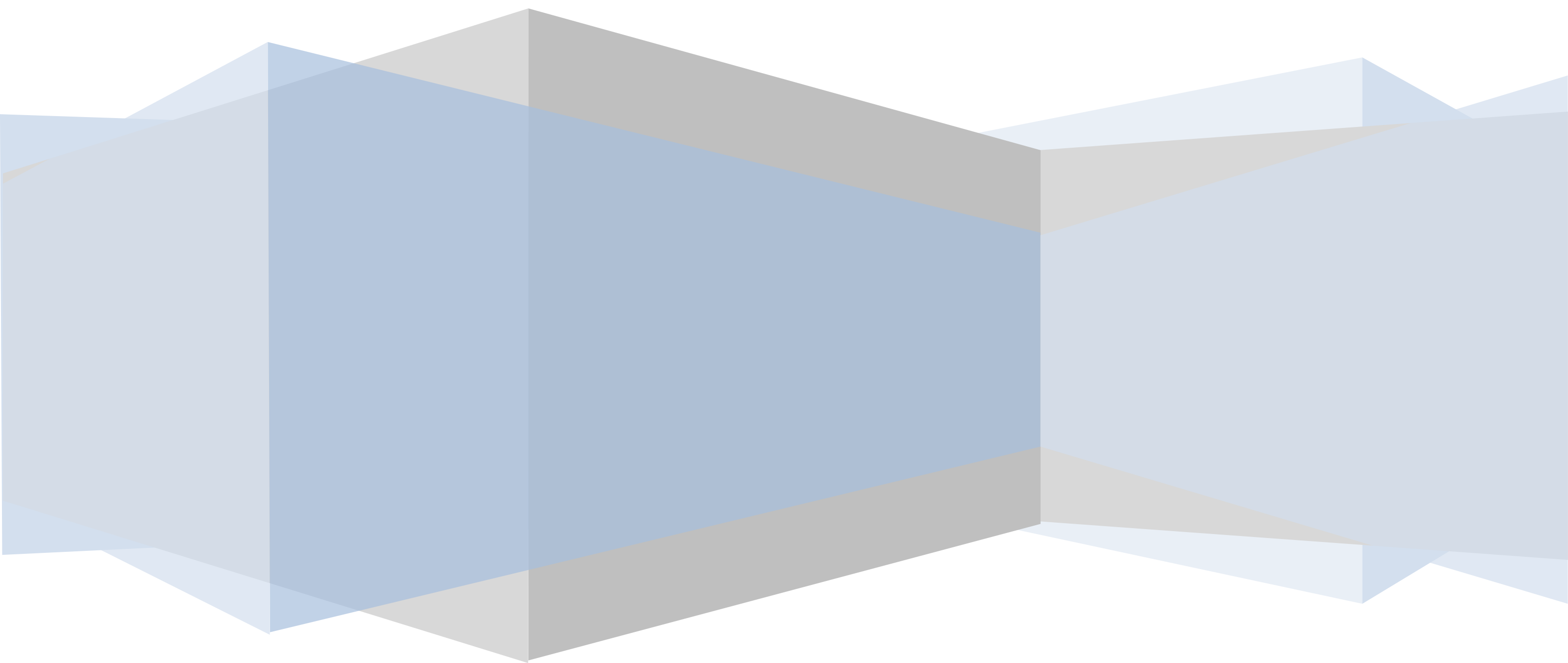
MGT570
Financial Management



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Introduction

Jones Lang LaSalle Incorporated (JLL) is a professional services company that specializes in the sector of investment management and real estate. JLL is a global commercial real estate services corporation that operates mainly through 4 segments including Europe, Americas; Africa and Middle East (EMEA), and Asia Pacific. I was however founded in UK, but have offices in more than 80 nations, headquartered in Chicago Illinois and listed on NYSE. The corporation offers investment management services globally, comprising of amenities to retail and institutional stockholders and to higher net wealthy persons. The corporation is ranked at 179th on Fortune 500. It is a leading communal brokerage corporation in the biosphere. The services of the corporation include asset management, property management, investment management, leasing and sales, project management and development (JLL, 2021).

The corporation extended from profitable real estate facilities to involve property expertise or prop-tech with2017 introduction of JLL Spark dissection. In the year 2018, JLL Spark established a $100 million undertaking finance to capitalize in real estate start-ups like expertise to associate workplace users with co-working places. In 2019, it has proclaimed the attainment of HFF in a contract with value of $2 billion. It buys, occupy, build and undertake investment in a wide range of assets including commercial, industrial, residential, retail, and hotel real estate. From technology-based startups to global firms, its customers span industries comprising of energy, healthcare, life sciences, technology, manufacturing and banking. It acts as a world leader in real estate services that is powered by an entrepreneurial spirit. It embraces the human side of business that makes it better at delivering business side of business (JLL Annual report, 2020).

The purpose of the company remains steadfast and being a global company, it has an inherent responsibility to drive technology, sustainability and corporate social responsibility measures. The main determination of the report is to analyze the performance of the company by computing several financial ratios and recommend one new investment project to expand the operations.

The primary aim of this report is to discuss the selected company Jones Lang LaSalle Incorporated (JLL) on financial terms, which includes JLL's financial performance, position and overall health. The most preferred method to financially analyze a business is to conduct a financial ratios analysis. The ratio analysis for this report has been conducted on JLL for a period of past four financial years.

1. Performance evaluation of JLL by analyzing various performance measures

Financial ratio analysis is the most popular tool to evaluate businesses, their performance and health. This is used to identify whether the entity is solvent, stable, profitable or liquid enough to ask for monetary investment. Performance can be effectively evaluated with the help of several types of financial ratios, discussed as below:-

Profitability Ratios

Profitability and Market Ratios - Jones Lang LaSalle Incorporated (JLL)					
Ratio	Calculation	2020	2019	2018	2017
Return on capital employed	operating Profit / Share capital + noncurrent liabilities	9.00%	11.36%	-150.03%	-147.37%
-		559 / (5521 + 693)	715 / (5118 + 1177)	-6522 / (3692 + 656)	-5940 / (3340 + 691)
-					
Return on Equity	Profit / Average equity	7.57%	12.15%	13.78%	16.55%
-		403 / (5521 + 5521) / 2	535 / (5118 + 5118) / 2	485 / (3692 + 3692) / 2	276 / (3340 + 3340) / 2
Net Profit Margin	Net profit / Sales or revenue	2.43%	2.98%	2.97%	1.91%
-		403 / 16590	535 / 17983	485 / 16318	276 / 14453
Gross Profit Margin	Gross profit / Sales or revenue	53.65%	55.78%	55.70%	55.13%
-		8900 / 16590	10031 / 17983	9090 / 16318	7967 / 14453
Operating Profit Margin	Operating profit / Sales or revenue	3.37%	3.98%	-39.97%	-41.10%
-		559 / 16590	715 / 17983	-6522 / 16318	-5940 / 14453
Cash return on sales	Net cash flow from operating activity / Sales or Revenue	69.30%	38.44%	23.07%	11.35%
-		11497 / 16590	6912 / 17983	3765 / 16318	1641 / 14453

There is slight decline in the net profit margin from 2.98 % in 2019 to 2.43 % in 2020. Return on capital employed has decreased from 11.36 % in 2019 to 9 % in 2020 which indicates that lower operating income is generated by JLL for each $1 amount of capital invested. Return on equity has declined from 12.15% to 7.57% in 2020 which signifies that the management remains insignificant in grabbing effective returns on the investment made.

Operating margin has almost remained consistent at around 3% for both the years. Overall, it can be claimed that the profitability of JLL has slightly declined in 2020.

Efficiency Ratios

Efficiency Ratios - Jones Lang LaSalle Incorporated (JLL)					
Ratio	**Calculation**	2020	2019	2018	2017
Asset turnover	Sales / Average total assets	1.19	1.52	1.69	3.12
-		16590 / (14317 + 14317) / 2	17983 / (13673 + 13673) / 2	16318 / (10026 + 10026) / 2	14453 / (9254 + 9254) / 2
Cash flow return on assets	Net cash from op activities / Average total assets	7.97%	4.08%	6.27%	17.26%
		1115 / (14317 + 14317) / 2	484 / (13673 + 13673) / 2	604 / (10026 + 10026) / 2	799 / (9254 + 9254) / 2
Fixed-Asset Turnover Ratio	Sales / Total noncurrent assets	2.11	2.30	3.39	3.07
		16590 / (14317 - 6454	17983 / (13673 - 5869	16318 / (10026 - 5206	14453 / (9254 - 4541
Receivables Days	Average Accounts receivables / Credit Sales * 365	79.96	63.23	75.45	49.04
-		(((3901 + 3368) / 2) / 17983) * 365	(((3368 + 2863) / 2) / 16318) * 365	(((2863 + 3884) / 2) / 14453) * 365	(((3884 + 0) / 2) / 0) * 365
-					
Sales to capital employed ratio	Sales Revenue/ Share capital + noncurrent liabilities	2.66	2.85	3.75	3.58
		16590 / (5521 + 693)	17983 / (5118 + 1177)	16318 / (3692 + 656)	14453 / (3340 + 691)

The asset turnover ratio has declined slightly from 1.52 in 2019 to 1.19 in 2020 which indicates that the company was not able to generate sufficient sales as it made in last year's by employing the assets (resources) of the company. Also, the accounts receivable days have increased, which indicates, the company cash collection process has been delayed. However, the Cash flow return on assets has been rising in 2020 as compared to 2019, which indicates better efficiency for the company.

Liquidity or Short-term solvency Ratios

Liquidity Ratios - Jones Lang LaSalle Incorporated (JLL)					
Ratio	**Calculation**	2020	2019	2018	2017
Current Ratio	Total current assets / Total current liabilities	1.05	1.07	1.09	1.05
-		**16590/ 6128**	**17983/ 5490**	**16318/ 4762**	**14453/ 4314**
-					
Cash Generated from operations to maturing liabilities ratio	Cash Generated from operations / Total current liabilities	0.18	0.09	0.13	0.19
-		**1115/ 6128**	**484/ 5490**	**604/ 4762**	**799/ 4314**

Ideal CR is considered to be 2:1 and if it falls below 1, then company may face significant liquidity issues. Current ratio of the company has slightly reduced from 1.07 in 2019 to 1.05 in 2020, however remains same as it was in 2017. It indicates that there is negligible change in the liquidity condition of the company and it can pay off its short-term liabilities with the help of its liquid assets. Overall, it can be claimed that the liquidity position of the company is unchanged YOY, but it is still lower than ideal ratio and thus management is required to undertake measures to improve the condition.

Gearing and Long Term Solvency Ratios

Gearing Ratios - Jones Lang LaSalle Incorporated (JLL)					
Ratio	Calculation	2020	2019	2018	2017
Debt to Equity	Total debt / Total equity or Total liabilities / Total equity	0.13	0.23	0.18	0.21
-	or Actual debt / Total equity	**693/ 5521**	**1177/ 5118**	**656/ 3692**	**691/ 3340**
- **Debt ratio**	Total debt / Total assets	4.84%	8.61%	6.54%	7.46%
-		**693/ 14317**	**1177/ 13673**	**656/ 10026**	**691/ 9254**
Equity Ratio	Total equity / Total assets	38.56%	37.43%	36.82%	36.09%
-		**5521/ 14317**	**5118/ 13673**	**3692/ 10026**	**3340/ 9254**
Cash debt coverage	$$ from op activities/ Total Debt	1.61	0.41	0.92	1.16
-		**1115/ 693**	**484/ 1177**	**604/ 656**	**799/ 691**
- **Interest coverage ratio**	EBIT / Interest expense	12.48	35.59	-356.39	-503.38
-		**559/ 45**	**715/ 20**	**-6522/ 18**	**-5940/ 12**

As per the above table, the debt-to-equity ratio of the company has been reduced from 0.23 to 0.13 in 2020 which signifies that the company is reducing its dependence on debt capital or it can also be said that the company is largely raising funds in the form of equity capital because the debt-to-equity ratio of the firm is declining sharply

Interest coverage ratio has reduced from 35.5 to 12.48 in 2020 which indicates that either profit margins are reducing or interest expenses are rising. However, with the ratio of 12.5 times, it can be said that the company has enough operating income to pay off its interest expenses. Overall, it can be claimed that solvency position of the firm is quite good and it is making timely payment of the interest expenses.

Recommendations for improving the company business

It is highly recommended that the company can outsource tactical operations like managing work orders or effectively managing vendors to allow the team members to lay emphasis on managing relationships, perfectly align objectives to the business policy of the company and plan and prepare for future disturbances. The company can also position a sustainability program. Activities such as energy savings and reduction of waste not only help in savings costs, it will also help the corporation in meeting the objectives of sustainability. It can drive real estate performance by implementing and defining key metrics across the firm and competently manage them on regular basis via automated dashboards. It can apply for economic incentives from public listed entities for some major new facility, capital expenditure or space renewal. In order to improve the accounts payable, it can formulate guidelines for all the vendors that will help in aligning sourcing strategy to decrease the cost and make addition to value.

It can go for designating its facilities as noncore and core so that it can adequately adjust real estate and finance-based strategies for every type. The analysis should be done to determine and eliminate any kind of space in the present portfolio that is not fully used, sometimes known as the dark space. Energy assessment of each individual site must be conducted to check for the areas to enhance efficiency. Efficient process should be designed in order to assist the company to undertake faster decision-making process on all building leases or sales. Operational costs must be benchmarked as against the peer corporations to determine and mirror best in the whole industry. A new and advance incentive program can be launched to reward the workers when they spot any new and effective cost saving idea or enhancements at the workplace (World bank, 2018).

Facility technology tends to have several benefits like computer based automated or maintenance work order management arrangements. Forecasted maintenance techniques should be used to adequately maintain equipment and prevent costly repairs. Specialised project managers should be hired to fetch oversight of the capital plan comprising of master schedule and management of budget. Expert project teams must be created for particular activities and operations like mergers and acquisitions, altering the brand of the company or opening up any multiple retail locations. A list of specific individuals should be made that will acts as the charge of governing the capital plan on yearly basis, including matters like monitoring of cash flows and prioritizing unplanned projects and tasks.

Investment project

JLL is a service provider company and mainly associated with real estate sector, therefore, it can undertake an investment project in Digital Solutions including Cloud storage solutions, Collaboration and communication tools, Remote project management, Cybersecurity solutions and most importantly Customer Relationship Management (CRM) solutions. It will help the business in catering both domestic and international clients.

As discussed, JLL is an important real estate advisors and property investment manager that have the capacity and requirement to open up digital solutions segment within the organization. Its main objective will be development of a leading tech performer in the future approaching period and make this office as one of its worldwide delivery centres for cardinal-based solutions. The corporation can continue to aid its customers across the construction and real estate range. These mega cities will emerge as substitute growth centre for corporate. It lays emphasis on stronger fiscal growth; infrastructure, progressive state level reforms and development of roads being introduced in current years have positively influenced the preference for occupiers and investors for the city and the region.

This project is going to benefit the companies in several ways as the ecosphere around is looking towards getting digitised, enhance efficiency and innovating several features of their commercial operations. It offers advisory, support and implementation about business real estate claims, IWMS (Integrated Workplace Management System), analytics, IoT and business aptitude. Being a leading and technology-based firm, it completely understands the significance of developing correct solutions and investment. The corporation has already undertaken planned investments in such track and it will endure to assist the customers. This project will offer clients with the end-to-end technology solutions that will help them in driving effective business outcomes from their real domain.

The following data has been collected about the initial investment in the project and to appraise the particular project, the most popular and effective capital budgeting tool of NPV will be used. NPV is regarded as the value of all future cash flows over the complete life of the investment discounted to the present. NPV analysis is basically used to assist in determining how much the project will be worth off. It computes the total amount of loss or gain from the project will be generated as compared to the amount that can be earned simply by saving the money in bank or investing in some other project that will generate a return equal to the discount rate.

General Information

Initial cost	250000
Life of project	5 years
Salvage value	0
Cash inflow in 1st Year	25%
Cash inflow in 1st Year	62500

The annual cash flows will rise by the rate of 5% per annum during the life of the project. The general required rate of return of the company is 10%.

Computation of project's NPV

Statement of NPV						
Particulars/ Year	0	1	2	3	4	5
Initial Investment	-250000					
Annual cash inflow		62500	65625	68906.25	72351.56	75969.14
Discounting factor	1	0.9091	0.8264	0.7513	0.6830	0.6209
Discounted cash flows	-250000	56818.18	54235.54	51770.29	49417.09	47170.86

NPV = sum of all discounted cash flows from year 0 to 5

NPV = 9411.95

Hence, the net present value (NPV) has been computed as $9411.95 which is a positive number, which signifies that the values of the cash inflows are higher than the cash outflows. And as per the thumb rule of NPV, the project should be accepted, if final NPV value is positive. Overall, it indicates that the investment made in the project is going to be profitable for JLL. It can be inferred that the managers and the analysts decide whether the project would be viable or not.

WACC

WACC represents the total cost of capital for raising one additional dollar of money by the company. Here, WACC of 10% indicates that the corporation must pay the investors an average of $0.10 in return for each $1in extra funding. The company is competent enough to generate higher return than the WACC and thereby, it would be considered as beneficial for the company to invest in this project.

Retained Earnings

The retained earnings depict that portion of the equity earnings that have been sacrificed by the equity investors and are ploughed back into the business to reinvest in the business project like payment of debt obligations or buying of a capital asset. The company can make use of retained earnings as there are several advantages of using retained earnings –

- Such earnings are readily available and the company is not required to look after for help from the investors in case of urgent fund requirements.
- The effective use of retained earnings decreases the cost of issuing the external form of equity and also eliminates the losses that are being incurred on under-pricing.
- There seems to be no dilution of ownership and control, in case the company depends on retained earnings.
- Normally, the stock market resembles the equity issue as unsure and thereby, these earnings do not carry any negative connotation.
- The use of retained earnings helps in avoiding issuance related costs.
- Retained earnings do not need any compliance with the legal formalities. It only requires a resolution to be passed off in the annual general meeting of the corporation.
- These strengthen the financial position of the firm and thus, provide financial stability to the firm.

Therefore, it can be claimed that the company can make and should make use of retained earnings. These will help in strengthening the financial position of the corporation and appreciate the capital that will ultimately raise the market value of shares.

Whether or not the company should pay return earnings or not

The company should make payment of return earnings as it is making profits and have also made plans for expansion of the business. Paying of returns to the investors is important as dividends fetches certainty with regard to financial well-being of the company. Companies that used to pay dividends consistently are some of the highly stable companies over the last several decades. If the company pays off dividend; it will be able to attract investors and establishes a demand for the stock. Dividends tend to be attractive for the investors that are looking forward to generate regular or higher amount of income. Investors see dividend as a symbol of strength of the company and the sign that the management has favourable expectations for future earnings that further makes the stock of the company as attractive.

Conclusion

Jones Lang LaSalle Incorporated (JLL) is a professional services company that specializes in the sector of investment management and real estate, which include asset management, property management, investment management, leasing and sales, project management and development. On the basis of the financial ratio analysis, it can be concluded that the services of the company's profitability and efficiency is deteriorating year on year, but the pace is quite slow. Also, the company has no liquidity or solvency issues in the near future. Overall, the financial health and position of the company is satisfactory, but there are regions for improvement.

With a stable economic and financial structure and with ample cash to invest in new projects, JLL has decided to undertake an investment related to digital solutions to provide required aid to its clients in the construction and real estate sector, across the world. The project will provide much result in the global mega cities and will emerge as alternative growth centre for businesses. It lays emphasis on stronger fiscal growth; infrastructure, progressive state level reforms and development of roads being introduced in current years have positively influenced the preference for occupiers and investors for the city and the region.

The net present value has been computed as $9412, which is positive and indicates that the project should be accepted. This signifies that the values of the revenues are higher than the cash outflows. WACC of 10% indicates that the corporation must pay the investors an average of $0.10 in return for each $1 in extra funding. The company is competent enough to generate higher return than the WACC and thereby, it would be considered as beneficial for the company to invest in this project. Retained earnings do not need any compliance with the legal formalities. It only requires a resolution to be passed off in the annual general meeting of the corporation.

If the company pays off dividend, it will be able to attract investors and establishes a demand for the stock. Dividends tend to be attractive for the investors that are looking forward to generate regular or higher amount of income.

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