TED BAKER: FORECASTS & ANALYSIS

FOR THE YEARS 2016 TO 2018

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EXECUTIVE SUMMARY

Using a strong and undeniable "***passion for accounting,***" this report aims to forecast and analyze the financial foundation encompassed within the Ted Baker retail company. Founded in Britain in 1987, Ted Baker is a global lifestyle brand that prides itself in providing affordable luxury to its customers. With a corporate focus on expansion, controlled distribution, and carefully managed development within overseas markets, Ted Baker has become an established retailer within the global retail industry.

In this report you will find a detailed comparison of the FY 2015 year-end financial reports of Ted Baker and UK competitor, SuperGroup (Note: FY 2015 for Ted Baker ends in January 2016; FY 2015 for SuperGroup ends in April 2016). Using the DuPont analysis, Ted Baker's ROA and ROE are carefully reviewed. Basic accounting techniques, journal entries and financial forms are used to further analyze the economic state of the company and explain financial fluctuations throughout the past 3 years as well as assist in outward year forecasting.

The state of the retail industry, and the trends dictating it, prove to directly impact the well-known brand's financial success and somewhat uncertain future from a sustainability standpoint. While appearing to be "Steady as He Grows," Ted Baker is carrying a significant amount of debt when compared to other UK retailers such as SuperGroup. However, with product quality and company growth as the brand's primary value drivers, Ted Baker has maintained a competitive edge amongst competitors. The quirky style of the brand and placement in well-known department store provides Ted Baker with a loyal customer base and persistent stream of revenue.

Although Ted Baker is clearly capitalizing on industry shift from in-store to e-commerce, this report suggests that Ted Baker should reduce their inventory as well as pay down debt to ensure financial stability in the future.

THE BUSINESS ENVIRONMENT

2016: THE STATE OF THE FASHION INDUSTRY

McKinsey & Company declares FY2016 as “A year to forget” in the state of the fashion industry. The current $2.4 trillion industry had grown at a rate of 5.5% annually. However, sales growth in FY2016 was at most 3% by the end of the year, with stagnant profit margins[1]. Global events including terrorist attacks in France, the Brexit vote in the UK, and the unpredictability of the Chinese stock market have impacted the global economy as a whole. Further, consumers in general are becoming more demanding and fickle, translating to unpredictability in their purchasing behavior. Not only have external phenomena shocked the industry, but companies have also been adjusting core operations, such as shortening the length of the fashion cycle and integrating sustainable innovation. This has, in turn, led to reshaping of the fashion industry overall, and not for the better. Sixty-seven percent of fashion executives claim that conditions for the fashion industry have worsened in FY2016.

However, amongst the trouble in the industry, affordable luxury, value, and athletic wear won big in 2016. The affordable luxury and value sectors have outperformed other sectors by 1 – 1.5% this year. The compound annual growth rate (CAGR) over the past three years is the highest of any sector since 2013 (9% affordable luxury and 6% value)[1].

THE AFFORDABLE LUXURY MARKET

The rise of the affordable luxury market is due, in part, to the increasing number of middle class consumers in emerging markets who are creating a demand for these products. According to the Organization for Economic Co-operation and Development (OECD), the world’s middle class population is on track for 3.2B in 2020, up from 1.8B in 2009. OECD also predicts the majority of this growth will be in Asia[2].

Ernst & Young executive director of retail strategy and consumer engagement, Marcie Merriman, also points to the trend of finding “bargains” and the mentality of Gen Z to “work hard, live well.” She claims this attitude lends itself to more interest in luxury items and the continued growth in the affordable luxury category[2].

INDUSTRY TRENDS

“Always characterized by speed, agility and the latest trends, fashion is one major sector being fundamentally transformed from the inside out by technology”[3]. The digital revolution has made a clear imprint on all components of our society and the retail industry is no exception. The internet has allowed for the global expansion of retailers across the world and eliminated many of the economic dependencies on one particular demographic or consumer. The typical consumer shopping experience no longer revolves solely around going to the store, “customers are armed with smartphones and tablets, there is no longer a separation between the online and

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[1] http://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion

[2] https://www.businessoffashion.com/articles/intelligence/do-accessible-luxury-brands-have-an-inherently-limited-lifespan

[3] https://www.weforum.org/agenda/2016/04/digitization-and-disruption-strikes-the-world-of-glitz-and-glam

offline world.[3]" Consumers are going online to browse, research, and buy goods at unprecedented levels.

Over the years many retailers have transitioned to e-commerce to keep up with the growing consumer demand for ease and efficiency when making purchases. This means of purchasing, although widely used and the new frontier for global retail, has put many competing retailers in a difficult position in trying to obtain a competitive advantage. Thus, another growing trend in the retail industry in the concept of "pop-up shops, which rent spaces for just a few months to test the local demand, and then move on if it's not working". Telecom Company EE predicts pop-up shops to be one-third of all new retails businesses in the coming years[4].

BEYOND 2016: THE FASHION INDUSTRY

Forty percent of fashion executives expect conditions for the fashion industry to improve in 2017[2]. Companies are looking for improved performance through innovation and new technologies. McKinsey & Company forecasts fashion industry growth to be 2.5 – 3.5% in 2017, with affordable luxury and value continuing to be the leaders (projected 3.5 – 4.5% affordable luxury and projected 3.0 – 4.0% value).

There are three trends predicted to shape the fashion industry in the coming year:
(1) the global economy, (2) consumer behavior, and (3) the fashion business model.

PORTER'S ANALYSIS

Below we use Porter's five forces to assess the Fashion Industry overall and delve specifically into the Affordable Luxury segment.

PORTER'S FORCES – FASHION INDUSTRY		
Forces	**Level**	**Justification**
Threat of New Entrants	*Moderate*	The barriers to entry for the fashion industry are relatively low, with the ability to outsource manufacturing of the apparel. Also, the option for e-commerce (and fewer brick-and-mortar stores) has drastically lowered the fixed costs associated with entering this market. On the other hand, success in the fashion industry is extremely challenging, as trends are ever-changing, consumer desires are fickle, and brand recognition is difficult to win. Although the market has low entry barriers, being profitable may be difficult.
Threat of Substitutes	*Low*	The fashion industry is essentially the clothing industry, for which there is no substitution. As a very basic human need, clothing is not in danger of being substituted by another product.
Bargaining Power of Buyers	*High*	If the price, quality, or styles offered are not to the satisfaction of the consumers, they can easily shop at alternate companies that meet the consumers' needs.

[4] http://www.economist.com/news/britain/21670044-amid-great-migration-online-few-e-retailers-open-real-world-outposts-popping-up-everywhere?zid=319&ah=17af09b0281b01505c226b1e574f5cc1

Bargaining Power of Suppliers	*Low*	Many companies source their apparel and products from third world manufacturers that do not have bargaining power. Furthermore, companies like Ted Baker are vertically integrated.
Industry Rivalry	*High*	The fashion industry is becoming saturated with companies that have similar brand identities and offer identical products. The competition for brand recognition and market share is extremely difficult.

Companies in the affordable luxury sector tend to be those with significant brand recognition, including Ted Baker, Michael Kors, and Zara. However, new entrants to the affordable luxury market will not have this brand recognition. So, although barriers to enter the market may be low, the threat posed by new entrants is also low.

PORTER'S FORCES – AFFORDABLE LUXURY SEGMENT

Barriers to Entry:

HIGH

Companies in the affordable luxury sector tend to be those with significant brand recognition, including Ted Baker, Michael Kors, and Zara. However, new entrants to the affordable luxury market will not have this brand recognition. So, although barriers to enter the market may be low, the threat of new entrants remains low.

POTENTIAL NEW ENTRANTS

- Unrecognizeable, new brands
- High-end retail brands bridging / creating affordable off-shoots

Bargaining Power of Buyers:

HIGH

If the price, quality, or styles offered are not to the satisfaction of the consumers, they can easily shop at alternate affordable luxury companies that meet their needs.

SUPPLIERS OF KEY INPUTS

- Increasing vertical integration; big brands controlling supply
- Third-word manufacturers; low bargaining power

RIVALS

Michael Kors

SuperGroup

Ralph Lauren

Brooks Brothers

Vineyard Vines

TopShop

BUYERS

- Gen Z (born 1996 to 2010)
- Confident, professional, urban woman who travels
- Digitally savvy, time sensitive, and socially aware

Bargaining Power of Suppliers:

LOW

Many companies source their apparel and products from third world manufacturers that do not have bargaining power. Furthermore, companies may also be vertically integrated potentially limiting access to the supply chain.

SUBSTITUTE PRODUCTS

- Opt for luxury products; higher quality
- Opt for value products; more cost effective

Threat of Substitutes:

HIGH

Consumers can easily opt for luxury products or value products if they feel that affordable luxury is not equal in quality or worth the additional cost, respectively. Therefore, affordable luxury goods can be easily substituted for other sector's product that serve the same purchase (clothing, accessories, etc.).

FIRM OVERVIEW: THE TED BAKER EXPERIENCE

COMPANY HISTORY AND POSITIONING

Since its founding in 1987, Ted Baker has emerged as a leading affordable luxury fashion brand. The company evolved over the past three decades from a shirt specialist launched in Glasgow, UK in 1988 into the global brand it is today. Ted Baker takes pride in branding itself as “No Ordinary Designer Label” and on weaving an element of founder Ted Baker’s quirky personality into every item produced.

The company became privately owned in 1993, launched its wholesale business in 1994, and by 1997 became a public company. Over the years, Ted Baker’s product offering expanded to include over 23 different collections spanning from menswear and womenswear to luggage and bedding.

As Ted Baker’s product offering expanded, so too has the brand’s global footprint. The company first began wholesale trading in the United States in 1996 and opened its first standalone store in New York two years later. Its international presence took off in 2004 when Ted stores were opened in Australia, New Zealand, San Francisco, and Las Vegas, and in 2006 Ted became the official suit supplier to the Qantas Socceroos for the World Cup. Ted Baker now spans the globe with stores, concessions, and outlets the UK and Europe (224 concessions, 13 outlets), North America (32 stores, 55 concessions, 10 outlets), the Middle East (26 stores), Asia (27 stores, 8 concessions, 3 outlets), and Australia (9 stores).

OPERATIONS AND STRATEGY, 2016 AND BEYOND

Ted Baker’s goal is to become a leading global lifestyle brand and is pursuing this strategy through three main avenues:

1. **Considered expansion of the Ted Baker collections**. The company notes that underpinning its strategy is an ever-present focus on design, product quality, and attention to detail.
2. **Controlled distribution through three main channels: retail (including the burgeoning e-commerce field); wholesale; and licensing**. During FY2015, our retail division performed well with sales up 13% to £348.5m from £306.9m in FY2014, and e-commerce sales up to 45.8%. Our wholesale division also performed well with sales up 33% to £107.7m from £80.7m in 2015. Our licensing income also increased by 23.3% to £11.7m in 2015.
3. **Carefully managed development of overseas markets**. In the past year, Ted Baker opened stores and concessions in the UK, Europe, North America, and Asia, although the Asian market has proven challenging.

As part of Ted Baker’s growth strategy, the company also purchased the “The Ugly Brown Building” in FY2015 for £58.25m using a new term loan and leased a new state-of-the-art distribution facility to service the UK, Europe, and e-commerce businesses. These represent significant investments and a marked increase in liabilities for the company. Ted Baker probably invested in this distribution center to speed inventory turnover and improve working capital; as of FY2015 Ted Baker lagged behind the overall retail industry in speed of inventory turnover and as a result had a higher working capital.

TARGET CUSTOMERS AND COMPETITORS

Ted Baker employs a "quirky" and "irreverent sense of humour" in marketing its collections to appeal to style-conscious men and women, although the brand is likely geared toward a more mature customer set than some of its competitors. According to the annual report, Ted Baker chooses not to advertise and as such "must do everything it can to support the various collections in a more cohesive, interesting and quirky manner. From employing witty, eclectic and engaging window displays to amusing in-store giveaways and one off unique events and digital initiatives."

- Ted Baker's main competitors include affordable luxury brands such as Michael Kors, SuperGroup, Ralph Lauren, Brooks Brothers, Vineyard Vines, TopShop, and Zara.
- SuperGroup offers a good financial point of comparison for Ted Baker as SuperGroup is also a major UK-based retailer and was founded in 1985, only two years prior to Ted Baker. However, SuperGroup is more on the lower periphery of the affordable luxury retail market, suggesting the company may be less insulated from the stagnant profit margins expected for the broader retail market in 2016 (referenced above).

VALUE DRIVERS

Given industry trends and the company's targeted strategy and operations, we have derived the below value drivers as critical to the financial forecasts and analysis.

1. **Growth**: Ted Baker strives to establish itself as a leading global lifestyle brand through continuous growth. Whether expanding product offerings, distribution capabilities, or physical and virtual retail presence, Ted Baker aims to be more tomorrow than it is today.
2. **Product Quality**: Ted Baker maintains an ever-present focus on design, product quality, and attention to detail. The company takes pride in branding itself as "No Ordinary Designer Label" and on weaving an element of founder Ted Baker's quirky personality into every item produced.

SWOT ASSESSMENT

The company has had a relatively strong sales showing in recent years. Our multi-channel approach and expansion, particularly within e-commerce, continue to be key advantages and areas for growth. Metrics indicate that the company has relative strengths in operating efficiency, and effectively collecting on accounts receivable in a timely manner. The company has several weaknesses of note including: improvement by way of inventory turnover, consecutive years with bank overdrafts, and negative cash flow.

While expansion into the Asian market continues to pose significant opportunities for future success, the company must remain vigilant in monitoring the brand strength with geographic expansion into this area both from a perspective of market appetite for our brand of accessible luxury and to preserve the brand from potential infringement.

The below SWOT assessment contains detailed points about the company's strengths, weaknesses, opportunities and threats going into the three-year financial forecast and analysis.

Strengths	Weaknesses
• Operating efficiency (OI) 13% • Significant growth in eCommerce (45%) • Three distribution channel approach: Retail, Wholesale, Licensing • Strong asset turnover (1.59) • Decision to forgo advertising, provides unique low SG&A costs • Efficient average collection period; average A/R turnover of ~34 days	• Inventory Turnover - 1.55; lower than industry average potential for improvement • Current debt to equity ratio is sufficient at .972 could dip lower with rapid expansion plans • Consecutive years FY 2013, FY 2014, and FY 2015 ending in bank overdrafts of £37m+, £26m+, and £37m+, respectively • Negative cash flows in FYs 2014 and 2015 of £18m+ and £34m+ negative cash flow, respectively
Opportunities	**Threats**
• Expansion into Asia, specifically to address increase in deluxe Chinese consumers and return of Japanese consumers to luxury brands • 'Living wage' policy implemented by UK gov't may mean more disposable income note: also impacts the expenses for the SG&A • Steadily increasing industry growth in online sales of 11-16% since 2006 → relative success of the e-commerce to expand growth; less PPE relative to e-commerce can increase impact of sales • Leverage existing increase in access customer information and buying habits to create targeted marketing and pricing approaches	• Brexit impact on the British economy and personal consumer spending • Intended traction in Asian market not achieved due to potential less desirable image of accessible luxury and preference for premium brands • Infringement of group designs, trademarks, etc. particularly given new expansion in the Asian market • Various foreign currency exchange risks and impacts

THE ACCOUNTING ENVIRONMENT

Ted Baker benefits from a clean opinion issued in its FY2015 Annual Report from its external auditor KPMG, LLP. Over the course of the year, the efforts and independence of KPMG, LLP in their role as external auditor were assessed regularly by the Ted Baker Audit Committee. Although the Audit Committee noted two observations during the prior period, the company was satisfied that those were addressed by KPMG, LLP and has selected them to continue as the auditor for the FY2016 period. As shown in the table below, Ted Baker's accounting environment is similar to other companies in the fashion industry in several aspects including the differentiation between the group and its reportable segments in its financial statements, which typically include retail and wholesale.

	Ted Baker	Super Group
Audit Opinion	Clean Opinion	Clean Opinion
External Auditor	KPMG, LLP	Price Waterhouse Coopers, LLP
Revenue Recognition	Earned	Earned
Inventory	Lower of cost or net realizable value	Lower of cost or net realizable value
Depreciation	Straight Line	Straight Line
Off B/S Financing	N/A	N/A
Non Persistent Earnings	N/A	N/A
Other Issues	Slight impairment 2015	
Miscellaneous	Last exceptional costs in 2014; Differentiation between group and reportable segments (retail, wholesale, license) elements of financial statements	53 week period, miniscule debt, buyout of USA license; Differentiation between group and reportable segments (retail, wholesale, central) elements of financial statements

THE FINANCIALS

The following section compares the financials of Ted Baker and SuperGroup. For the Ted Baker financials, FY 2013, FY 2014 and FY 2015 are referenced as the years ending in January of 2014, 2015 and 2016, respectively. For the Super Group financials, FY 2014 and FY 2015 are referenced as the years ending in April of 2015 and 2016 respectively.

ROE

Return on Equity (ROE) is a measure of the wealth generated for shareholders during the year compared to the overall wealth generated by the company during the year. Both Ted Baker and SuperGroup have ROE's well above the cost of capital at 10%. Ted Baker's ROE (28%) was significantly higher than SuperGroup's (13%), however, both companies saw their ROE decline between 2015 and 2016. SuperGroup's dropped by a larger percentage than Ted Baker's, as SuperGroup's net income decreased over the period relative to shareholder equity.

	Net Income /	Total Equity (average shareholders) =	ROE
Ted Baker			
2016	44,235.00	156,586.50	28.250%
2015	35,850.00	126,319.00	28.381%
2014	28,852.00	105,478.00	27.353%
SuperGroup			
2016	41,300.00	315,300.00	13.099%
2015	46,000.00	278,200.00	16.535%

ROA

Return on Assets (ROA) is a measure of the company's net income compared to the total assets held by the company. Both Ted Baker and SuperGroup have ROA's well above the desired 7%. Ted Baker and SuperGroup both experienced a decline between 2015 and 2016. SuperGroup's decline is more significant than Ted Baker's, possibly due to an increase in SG&A expenses and an increase in cost of sales.

	NOPAT /	Assets (average total) =	ROA
Ted Baker			
2016	45,691.05	286,004.00	15.976%
2015	37,041.55	216,636.00	17.099%
2014	29,824.53	183,142.00	16.285%
SuperGroup			
2016	41,374.55	446,900.00	9.258%
2015	46,463.87	392,900.00	11.825%

SALES EFFICIENCY

	Sales /	Assets (average total)	= Asset Turnover
Ted Baker			
2016	456,169.00	286,004.00	159.497% (1.59497)
2015	387,564.00	216,636.00	178.901 (1.78901)
2014	321,921.00	183,142.00	175.777 (1.75777)
SuperGroup			
2016	597,500.00	446,900.00	133.699% (1.33699)
2015	486,600.00	392,900.00	123.848% (1.23848)

Sales Efficiency (Sales/ Assets) measures how well the company uses its assets to generate sales. A higher number implies that the company is more efficiently using its assets. Ted Baker's sales efficiency of 1.59 is higher than SuperGroup's sales efficiency of 1.34. Ted Baker's slightly higher sales efficiency ratio shows that Ted Baker is better at using its existing assets to generate sales.

ASSET TURNOVER ANALYSIS

Ted Baker shows a lower asset turnover than desired, but higher than SuperGroup. Ted Baker's low number indicates that the company is generating only $1.59 per year for every dollar of assets. Ted Baker lags behind the overall retail industry which has an average asset turnover ratio of 2.05. While Ted Baker's management claims that their low turnover is due to a build-up of inventory for expansion purposes, the company's low mark raises two concerns. The first concern is that the low asset turnover has spanned two years, which makes the intentional inventory build-up less plausible. The second is that Ted Baker's low asset turnover ratio over a sustained time period implies that either the company's logistics system or its IT structure is inefficient in supporting distribution operations. The company's recent investment in IT gives some hope that the company will be able to raise their turnover ratio in the next year.

Ted Bakers large shift in PPE Turnover reflects the company's large acquisition of new facilities, specifically the Ugly Brown Building as the company's new headquarters.

	Ted Baker		SuperGroup	
	2016	**2015**	**2016**	**2015**
Asset Turnover	1.595	1.591	1.337	1.098
Asset Turnover (no cash)	1.654	1.950	1.647	1.209
PPE Turnover	3.696	7.481	6.263	6.73

COMMON SIZE BALANCE SHEET (Click link to view live worksheet: https://goo.gl/lwijjU

	Ted Baker			SuperGroup		
	2016	2015	2014	2016	2015	2014
Intangible Assets	5.10%	5.50%	3.00%	10.90%	12.40%	12.80%
Property, plant and equipment	36.30%	22.40%	22.40%	10.90%	17.20%	19.20%
Investments in subsidiary	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investment in equity accounted investee	0.50%	0.60%	0.50%			
Deferred tax assets	1.90%	2.40%	2.20%	6.10%	6.60%	8.30%
Prepayments	0.10%	0.20%	0.30%			
Non-Current Assets	43.80%	31.10%	28.40%	37.90%	36.60%	40.40%
Inventories	36.80%	48.00%	39.90%	23.80%	25.70%	21.30%
Trade and other receivables	14.50%	15.90%	17.30%	17.00%	16.70%	14.80%
Amount due from equity accounted investee	0.20%	0.30%	0.10%			
Derivative financial assets	0.80%	1.50%	0.20%	0.10%	2.50%	0.00%
Cash and cash equivalents	3.90%	3.20%	14.10%	21.20%	16.10%	23.60%
Current Assets	56.20%	68.90%	71.60%	62.10%	63.40%	59.60%
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Trade and other payables	-17.90%	-24.60%	-22.50%	19.00%	19.00%	16.10%
Bank overdraft	-11.10%	-11.30%	-18.50%			
Term loan	-0.40%	0.00%	0.00%			
Income tax payable	-2.50%	-3.10%	-1.90%	2.20%	3.10%	3.30%
Derivative financial liabilities	-0.10%	-0.30%	-1.50%	0.70%	0.00%	0.60%
Current Liabilities	-32.10%	-39.30%	-44.40%	21.90%	22.10%	20.00%
Deferred tax liability	0.00%	0.00%	0.00%	0.20%	0.20%	0.40%
Term loan	-17.20%	0.00%	0.00%			
Non-Current Liabilities	-17.20%	0.00%	0.00%	7.30%	7.60%	8.70%
TOTAL LIABILITIES	-49.30%	-39.30%	-44.40%	29.20%	29.70%	28.60%
NET ASSETS	50.70%	60.70%	55.60%	70.80%	70.30%	71.40%
Equity						
Share capital						
Share premium						
Other reserves						
Translation reserve						
Retained earnings	46.10%	55.20%	52.40%	104.40%	108.60%	112.40%
TOTAL EQUITY	50.70%	60.70%	55.60%	70.80%	70.30%	71.40%

These balance sheets tell a story of Ted Baker having almost 50% liabilities compared to only ~30% liabilities shown on the SuperGroup balance sheet. However, knowledge that Ted Baker has undertaken significant borrowing recently and the almost parallel increase in PPE explains the increased liabilities.

While the ratio of current to non-current assets has remained relatively unchanged over three years, the changing ratio for Ted Baker reflects the company's growth and maturity; as the company grows, the company has more fixed, permanent assets. This seems appropriate for a company undergoing expansion.

One area of concern in Ted Baker's common-sized balance sheet is the disproportionately large portion of the company's balance sheet in inventory. This calls into question the company's ability to manage its stocking levels; another possibility is that the company has built up a backlog of inventory that consumers don't want to purchase.

Ted Baker's increase in non-current liabilities is a result of the loan the company used to purchase the Ugly Brown Building in London.

WORKING CAPITAL ANALYSIS

Ted Baker's working capital is higher than we'd like to see, mainly due to inventory. Ted Baker has carried an excessively large inventory for the past two years and this has translated into inventory sitting on the shelves for a long time. Ted Baker takes a relatively long amount of time to pay its creditors and collects its debts in a reasonable amount of time. It is the issue with inventory that makes Ted Baker less efficient at generating capital.

Another indicator that the company has poor working capital management and faces a liquidity constraint is the company's overuse of bank overdraft as a borrowing facility. As indicated elsewhere in this report, the past three years have seen the company's ending balance sheet reflecting overdrafts in amounts ranging from £26m to £37m. Use of bank overdraft should be limited to temporary working capital needs the consecutive three year use and amounts indicate otherwise.

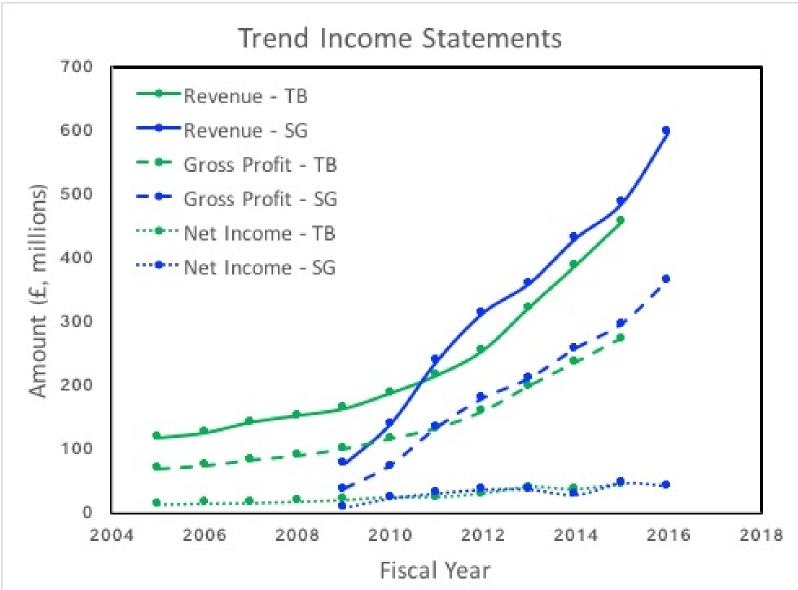
	Ted Baker		**SuperGroup**	
	2016	**2015**	**2016**	**2015**
Accounts Receivable	34.38179	33.7469	46.030	46.7314
Inventory	236.636	229.44	173.3143	117.9967
Accounts Payable	117.72	122.5819	46.214	54.5395
Working Capital	153.29	140.605	173.1303	110.1886

OPERATING EFFICIENCY

Ted Baker has maintained a healthy profit margin in a highly competitive retail market for the past three years. Its profit margin is higher than the average large retailer and these margins indicate that Ted Baker is doing an effective job at keeping costs under control.

	NOPAT	**/**	**Sales**	**=**	**Profit Margin**
Ted Baker					
2016	45,691.05		456,169.00		10.016% (.10016)
2015	37,041.55		387,564.00		9.558% (.09558)
2014	29,824.53		321,921.00		9.265% (.09265)
SuperGroup					
2016	41,374.55		597,500.00		6.925% (.06925)
2015	46,463.87		486,600.00		9.549% (.09549)

Ted Baker's higher operating efficiency can also be seen by the graph below of revenue, gross profit, and net income. Although SuperGroup may be earning higher revenue in 2012-2015, their gross profits are about equal to Ted Baker's. This indicates that their efficiency at using labor and supplies (variable costs) is lower than that of Ted Baker.



COMMON SIZE INCOME STATEMENT (Click to view live worksheet: https://goo.gl/dqcnej)

	Ted Baker			SuperGroup		
	2016	2015	2014	2016	2015	2014
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	-40.10%	-39.30%	-38.30%	-38.90%	-39.20%	-40.30%
Gross Profit	59.90%	60.70%	61.70%	61.10%	61.00%	59.70%
Distribution costs	-37.20%	-37.30%	-38.30%			
Administrative expenses	-12.60%	-14.50%	-13.80%			
Licence income	3.20%	3.00%	2.80%			
Other operating income	-0.20%	1.00%	0.00%			
Operating Profit	13.00%	12.80%	12.30%	9.40%	12.40%	10.40%
	0.00%	0.00%	0.00%			
Finance income	0.10%	0.00%	0.10%	0.00%	0.10%	0.10%
Finance expenses	-0.40%	-0.40%	-0.40%	0.00%	-0.10%	0.00%
Share of profit of jointly controlled entity, net of tax	0.20%	0.10%	0.10%			
Profit before Tax	12.90%	12.60%	12.10%	9.30%	12.30%	10.50%
Profit before tax and exceptional items	12.90%	12.80%	12.40%			
Exceptional costs	0.00%	-1.40%	-0.30%			
Exceptional income	0.00%	1.20%	0.00%			
Income tax expense	-3.20%	-3.30%	-3.10%	2.40%	2.80%	4.00%
Profit for the period / Net Income	9.70%	9.30%	9.00%	6.90%	9.50%	6.50%

The common sized income statements of the two companies show that Ted Baker is doing a much better job of managing its non-COGS related expenses. SuperGroup has a lower cost of sales as both a percentage of revenue and higher gross profits by ~1-2%. However, as the various expenses are accounted for we find that SuperGroup is not as effective at turning operating activities into profit; SuperGroup's operating profit is 3.4% lower than that of Ted Baker. Ultimately, Ted Baker's 2016 profit margin is commendable. At 9.7% it is 2.8% higher than that of SuperGroup and on the higher end of the retail apparel industry's 4 to 13% benchmark range.

INTEREST EFFICIENCY

Interest Efficiency (NI / NOPAT), is also known as the financial efficiency ratio. The interest efficiency ratio measures the company's ability to raise debt efficiently. A financial efficiency ratio near 1 indicates less borrowing; conversely the financial efficiency ratio moves toward zero as a company's interest expenses increase. Both of these companies have seemingly healthy interest efficiency ratios. SuperGroup's interest efficiency is almost 1, which reflects the company's tiny amount of borrowing.

As the interest expenses for the recent Ted Baker loans are applied to future financial reports, we expect this number to decrease and reflect the level of borrowing incurred.

Year	NI	NOPAT	Interest Efficiency
Ted Baker			
2016	44,235	45,691	.968
2015	35,850	37,041	.968
2014	28,852	29,824	.967
SuperGroup			
2016	41,300	41,374	.998
2015	46,000	46,463	.990

LEVERAGE

In 2016, Ted Baker's overall leverage was 1.97, up from 1.60 in 2015. In comparison, SuperGroup's overall leverage was 1.41 in 2016 and 2015. SuperGroup is maintaining a healthier leverage than Ted Baker, meaning investors should be confident in the company's ability to pay its debt. Ted Baker, on the other hand has a slightly less desirable solvency ratio at 1.97 (2016), but this value is not so high that it raises any red flags.

	Ted Baker		SuperGroup	
	2016	**2015**	**2016**	**2015**
Assets / Equity	1.97	1.65	1.41	1.42
NI / NOPAT	.968	.968	.998	.990
Overall Effect of Leverage	1.91	1.60	1.41	1.41

Both Ted Baker and SuperGroup have healthy positions with respect to their liabilities. SuperGroup's low asset / equity ratio reflects to low amount of debt SuperGroup has accumulated. Ted Baker's increase in long term debt relative to equity results from the loan used to finance the Ugly Brown Building in London.

Both companies have respectable positions in their current liabilities. SuperGroup could meet its current liabilities now without liquidating any assets (as evidenced by its quick ratio).

	Ted Baker		SuperGroup	
	2016	**2015**	**2016**	**2015**
Assets / Equity	1.97	1.65	1.41	1.42
Long Term Debt / Equity	.339	N/A	.103	.108
Current Ratio	1.75	1.75	2.83	2.87
Quick Ratio	.57	.49	1.74	1.49

DEBT RATIO

Both Ted Baker and SuperGroup have maintained low debt ratios, suggesting that neither company relies heavily on debt to finance operations. However, Ted Baker showed a marked increase its debt ratio between 2015 and 2016, increasing from 13.9% in 2015 to 38% in 2016.

The higher overall leverage of Ted Baker in 2016 may be explained by the secured loan of £60m to purchase the Ugly Brown Building and a new UK-based European distribution center.

Another explanation for this increase in debt could be the short term debt represented by use of an overdraft facility. In each of the past three years, the Ted Baker balance sheet and cash flow statements have reflected bank overdrafts ranging from £26m to £37m.

Debt for CAPEX to grow the business should be monitored by investors, but is not a cause for concern because it may yield increased profitability. However, what appears to be a routine use of a temporary borrowing facility for regular funding activities warrants further analysis of the company's management of its working capital.

	Ted Baker	SuperGroup
2014	20.2%	18.7%
2015	13.9%	13.7%
2016	38.0%	12.1%

CASH FLOW ANALYSIS

STATEMENT OF CASH FLOW (Click link to view live worksheet: https://goo.gl/tqrzes)

	GROUP 52 WEEKS ENDED 30 JAN 2016 FY 2015	*GROUP 53 WEEKS ENDED 31 JAN 2015 FY 2014*	*COMPANY 52 WEEKS ENDED 30 JAN 2016 FY 2015*	*COMPANY 53 WEEKS ENDED 31 JAN 2016 FY 2014*
	£'000	£'000	£'000	£'000
CASH GENERATED FROM OPERATIONS				
Profit for the period	**44,235.00**	**39,588.00**	24,016.00	18,013.00
Adjusted for:				
Income tax expense	14,429.00	12,921.00	-	-
Depreciation and amortisation	14,929.00	12,536.00	-	-
Impairment	188.00	-	-	-
Loss on disposal of property, plant and equipment	58.00	462.00	-	-
Share-based payments	2,019.00	1,390.00	247.00	176.00
Net finance expense	1,400.00	1,513.00	-	-
Net change in derivative financial assets and liabilities carried at fair value through profit or loss	840.00	(1,507.00)	-	-
Share of profit in joint venture	(695.00)	(525.00)	-	-
Decrease in non-current prepayments	52.00	71.00	-	-
Increase in inventory	(12,142.00)	(29,131.00)	-	-
Increase in trade and other receivables	(10,805.00)	(1,815.00)	(5,977.00)	(2,401.00)
Increase in trade and other payables	1,566.00	11,653.00	-	-
Interest paid	(1,376.00)	(1,594.00)	-	-
Income taxes paid	(13,127.00)	(11,419.00)	-	-
NET CASH GENERATED FROM OPERATING ACTIVITIES	**41,571.00**	**34,143.00**	**18,286.00**	**15,788.00**
CASH FLOW FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment and intangibles	(89,535.00)	(25,476.00)	-	-
Proceeds from sale of property, plant and equipment	-	5.00	-	-
Investment in subsidiaries	-	-	-	(333.00)
Dividends received from joint venture	344.00	259.00	-	-
Interest received	-	1.00	-	-
NET CASH FROM INVESTING ACTIVITIES	**(89,191.00)**	**(25,211.00)**	**-**	**(333.00)**
CASH FLOW FINANCING ACTIVITIES				
Proceeds from term loan	**60,000.00**	-	-	-
Dividends paid	(18,543.00)	(15,506.00)	(18,543.00)	(15,506.00)
Proceeds from issue of shares	289.00	194.00	289.00	194.00
NET CASH FROM FINANCING ACTIVITIES	**41,746.00**	**(15,312.00)**	**(18,254.00)**	**(15,312.00)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(5,874.00)**	**(10,118.00)**	**32.00**	**143.00**
Net cash and cash equivalents at the beginning of the period	**(18,824.00)**	**(8,761.00)**	583.00	440.00
Exchange rate movement	124.00	55.00	-	-
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**(24,574.00)**	**(18,824.00)**	**615.00**	**583.00**
Cash and cash equivalents at the end of the period	**13,295.00**	**7,380.00**	615.00	583.00
Bank overdraft at the end of the period	**(37,869.00)**	**(26,204.00)**	-	
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**(24,574.00)**	**(18,824.00)**	**615.00**	**583.00**

While the income statement indicates that Ted Baker is profitable overall, this statement of cash flow allows us to see the amount received from profits. Ted Baker has started and ended each of the last three consecutive years with negative cash flows at the end of each respective period.

The first cash flow we evaluate is net cash generated from operating activities. This amount is positive for Ted Baker indicating the company has sufficient cash to cover operational expenses from running the business. This positive cash flow from operational activities is also in line with the other results observed with regard to relatively strong operating income and operational efficiency metrics.

Next is the net cash from investing activities, which is a negative £89m for Ted Baker. This negative cash flow from investing activities is not uncommon and to be expected, given the CAPEX investments made in promoting the organization's growth. These investments include the Ugly Brown Building and distribution center, which we have discussed elsewhere in the report.

Then we have the positive £41m of net cash from financing activities. It is healthy to occasionally show positive net cash flow from financing activities to raise money from investors and creditors, this aligns with Ted Baker's £60m for the PPE financing as the main driver for positive cash flow in FY 2015 financing activities. We note that the FY 2014 net cash from financing was negative, which suggests the business has cash flow to pay dividends and pay off its outside financing.

Finally we have the net cash and cash equivalents at the end of the period (free cash flow). It is interesting to note that while Ted Baker has had positive cash and cash equivalents in the past two fiscal years, once the overdraft amounts are applied to calculate the net cash and cash equivalents, Ted Baker ends with negative cash flows to the amounts of £18m+ and £24m+ in FY 2014 and FY 2015, respectively. It is here we see the negative impacts of Ted Baker's poor working capital and need for significant overdraft borrowing impact the cash flows.

CONSIDERATIONS FOR CASH FLOW SHORTFALLS

Since negative cash flow from investing activities is fairly common when investing in PPE purchases, there is no immediate action that needs to be taken regarding negative cash flow from investing activities. The negative cash flow from financing activities is comprised of dividend payouts to investors. Reducing this amount could result in less desire to invest in the company's stocks. If not for the overdraft amounts, net cash and cash equivalents would be positive even with the company's current level of dividend payouts. This overdraft situation should be the company's primary focus; a lower or zero overdraft would immediately impact the company's cash flows. Other considerations for addressing cash flow shortfalls include the following:

	Ted Baker		**SuperGroup**	
	2016	**2015**	**2016**	**2015**
Inventory Turnover	1.5	1.6	2.1	2.05
Average Inventory Holding Period	235.6	229.4	173.3	118.0
A/R Turnover	10.6	10.8	7.9	7.8
A/R Collection Period	34.4	33.7	46.0	46.7
A/P Turnover	3.1	3.0	7.9	6.7
A/P Payment Period	117.7	122.6	46.2	54.5
Working Capital	153.3	140.6	173.1	110.2

INVENTORY TURNOVER AND AVERAGE INVENTORY HOLDING PERIOD

In 2015, the industry average inventory turnover was 2.45. SuperGroup is closer to this average, and Ted Baker is significantly lower than the average at 1.5, most recently. The interpretation of this metric into average holding gives us a relative understanding of the impact. Ted Baker currently has an average inventory holding between 230 and 235 days. Most of the year, inventory is sitting in storage vice being sold. One potential impact to cash flow is overspending on inventory. Addressing inventory turnover could help Ted Baker improve the liquidity of its inventory, resulting in more revenue. If the revenue is generated as cash as opposed to credit on accounts receivable, a revenue increase from improved inventory turnover is a significant mechanism for improving cash flow.

ACCOUNTS RECEIVABLE TURNOVER AND AVERAGE COLLECTION PERIOD

This group of metrics measures how many times a business can turn its accounts receivable into cash during a period and how efficiently the company collects credit sales from customers. Ted Baker takes ~35 days to collect, compared to ~46 days of SuperGroup. The accounts receivable turnover ratio of 10 means that 10 times each year Ted Baker can collect. This is commendable compared to the industry average of 9.8 and compared to SuperGroup's ~7.9. Effectively, Ted Baker has the ability to collect almost once a month. If Ted Baker is able to affect its inventory levels, their record in A/R turnover and average collection period would lead us to believe that the company would experience significant increase in cash flow due to their efficiency in collecting on A/R.

ACCOUNTS PAYABLE TURNOVER AND AVERAGE PAYMENT PERIOD

At ~3 the accounts payable turnover for Ted Baker is significantly lower than SuperGroup's ~8. Additionally, Ted Baker's ~118 average accounts payable payment period is significantly higher than SuperGroup's ~46 and well over the industry average of ~33. This means the company takes longer to pay suppliers and could be indicative of the liquidity issues noted in other parts of this report. Given what we have seen of Ted Baker's average inventory holding period and turnover, the most immediate step to take to alleviate poor performance on this metric is to reduce inventory purchases to a level that is commensurate with sales. This will improve the inventory turnover metric as well as allow the company to better keep up with payments and free the cash flow tied to accounts payable.

COMMON SIZE CASH FLOW (SCALED BY SALES)

(Click link to view live worksheet: https://goo.gl/xdkihd)

	TED BAKER		SUPERGROUP	
	FY2015 (End Jan 2016)	***FY2014 (End Jan 2015)***	***FY2015 (End Apr 2016)***	***FY2014 (End Apr 2015)***
	£'000	£'000	£'000	£'000
CASH GENERATED FROM OPERATIONS				
Profit for the period	9.70%	10.91%	9.39%	12.40%
Remeasurements and Exceptional Items	-%	-%	2.85%	0.76%
Adjusted for:				
Income tax expense	3.16%	2.83%	0.00%	0.00%
Depreciation and amortisation	3.27%	2.75%	5.32%	5.52%
Impairment	0.04%	0.00%	0.00%	0.00%
Loss (Gain) on disposal of property, plant and equipment	0.01%	0.10%	-0.08%	0.00%
Release of lease incentives	-%	-%	-0.82%	-1.36%
Share-based payments (incl Employee share award schemes)	0.44%	0.31%	0.37%	-0.17%
Net finance expense	0.31%	0.33%	-%	-%
Net change in derivative financial assets and liabilities carried at fair value through profit or loss	0.18%	-0.33%	-%	-%
Share of profit in joint venture	-0.15%	-0.12%	-%	-%
Decrease in non-current prepayments	0.01%	0.02%	-%	-%
Increase in inventory	-2.66%	-6.39%	-1.21%	-5.09%
Increase in trade and other receivables	-2.37%	-0.40%	-1.99%	-4.22%
Increase in trade and other payables	0.34%	2.56%	1.51%	2.62%
Interest paid	-0.30%	-0.35%	-0.10%	0.08%
Income taxes paid	-2.88%	-2.50%	-3.16%	-2.25%
Cash outflows in respect of exceptional items	-%	-%	0.00%	-2.93%
NET CASH GENERATED FROM OPERATING ACTIVITIES	**9.11%**	**9.71%**	**12.07%**	**8.30%**
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisitions (net of cash received)	-%	-%	0.00%	-2.72%
Purchases of property, plant and equipment and intangibles	-19.63%	-5.59%	-7.40%	-4.55%
Purchase on intangible asset	-	-	-1.07%	-1.09%
Cash received fom disposal of investments	-	-	0.25%	0.00%
Purchase of non-controlling asset	-	-	-0.29%	0.00%
Maturity (purchase) of other financial asset	-%	-%	1.67%	-2.06%
Proceeds from sale of property, plant and equipment	0.00%	0.00%	-%	-%
Investment in subsidiaries	0.00%	0.00%	0.00%	0.00%
Investments in JVs and associates	-%	-%	-0.60%	-0.14%
Dividends received from joint venture	0.08%	0.06%	0.00%	0.00%
Interest received	0.00%	0.00%	0.00%	0.00%
NET CASH FROM INVESTING ACTIVITIES	**-19.55%**	**-5.53%**	**-7.43%**	**-7.85%**
CASH FLOW FINANCING ACTIVITIES				
Proceeds from term loan	13.15%	0.00%	-%	-%
Dividends paid	-4.07%	-3.40%	-0.84%	0.00%
Cash contributions from landlords	-%	-%	1.12%	0.91%
Repayment of borrowings	-%	-%	0.00%	-0.02%
Proceeds from issue of shares	0.06%	0.04%	0.05%	0.00%
NET CASH FROM FINANCING ACTIVITIES	**9.15%**	**-3.36%**	**0.34%**	**0.89%**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**-1.29%**	**0.83%**	**4.97%**	**1.34%**
Net cash and cash equivalents at the beginning of the period	-5.39%	-4.13%	11.31%	17.76%
Exchange rate movement	0.03%	0.01%	0.00%	0.00%
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**-6.65%**	**-3.28%**	**0.00%**	**0.00%**
Cash and cash equivalents at the end of the period	2.91%	1.62%	16.85%	13.92%
Bank overdraft at the end of the period	-8.30%	-5.74%	-%	-%
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**-5.39%**	**-4.13%**	**16.85%**	**13.92%**

We use the common size statement of cash flows scaled by sales to conduct a comparison of Ted Baker's Statement of Cash Flow with SuperGroup and provide additional insight into the earlier cash flow analysis. "Profit for the period" shows Ted Baker as marginally more profitable than SuperGroup for FY 2015, and SuperGroup more profitable than Ted Baker by almost 4% in FY 2014.

Net cash generated from operating activities, as a percentage of sales decreases by approximately half a percentage point for Ted Baker (9.7% to 9.1%) from FY 2014 to FY 2015, while SuperGroup experiences about a 3% increase (8.3% to 12.1%). Although the corresponding cash flows for operating activities were positive for Ted Baker, when reviewed as a percentage of sales, we can see that the cash flows are slightly less attributed to sales than they were in previous years. Conversely, SuperGroup's sales had a significant impact to sales than in the prior year. We see the themes of long inventory holding as a contributing factor as we review the increase in inventory percentages.

Net cash from investing activities, as a percentage of sales indicates that almost 20% cash outflow as a result of investing activity for Ted Baker. This is in line with the company's CAPEX commitment of 20% of sales toward the PPE investments in the prior fiscal year and is also reflected in the PPE purchase percentage on the common size cash flow statement. SuperGroup's investment activity only represents ~7.5% of sales. Since their report doesn't reflect any significant PPE purchases and intangible assets, this is consistent.

In the net cash from financing activities, as a percentage of sales, financing cash used to pay dividends represents ~4% of sales. This is a fair amount, especially when compared to SuperGroup's .8% for dividend payments.

Ted Baker's net cash and cash equivalents at the end of the period is negative 5.3%. This indicates the cash outflow experienced by the negative cash flow at the end of the period represents ~5% of sales. That is 5% of sales that is not being put to in operating, financing, nor investing activities. Conversely SuperGroup's ending cash inflow represents 16.8% of sales.

FORECASTING THE FUTURE

BASE SCENARIO

"Steady as He Grows" was Ted Baker's theme in FY 2016 where the company realized a 17% jump in revenue as a result of a 20% CAPEX investment as a percent of sales. Ted Baker will continue to pursue more market share in the affordable luxury market through FY 2018. As such, the company is committed to continued CAPEX investments at 8.5% of sales and estimate a subsequent revenue increases of 12%, 8% and 7.25% during the forecasted timeframe. Half of the CAPEX investment will be directed toward the IT infrastructure to support Ted Baker's growing ecommerce business, while the remainder will be directed toward geographic expansion into Asia. The company has every reason to believe that anticipated revenue increases will translate to commensurate increases in the company's net profits each year.

Ted Baker has stocked the inventory to ensure success of our geographic expansions. This stocking is a testament to the commitment to provide quality product and is represented by the significant increase in working capital from inventories. In the forecast period from FY2016 to FY2018, the company will realize an increase and improvement in operating cash flow due to those stores abilities to turn over the inventory and stabilize to new inventory levels.

Near the end of the forecast period the company anticipates completion of payments on the borrowing facility used to fund much of the CAPEX. This will result in a decrease in non-current liabilities and positively impact cash flow. They also anticipate that advances in IT structure and logistics network will decrease inventory turnover cycle and further decrease the level of inventory relative to accounts receivable.

BASE SCENARIO FINANCIAL IMPACTS

- Increase in revenue of 12% tapering to 8% and 7.25% for each of the next three years
- Restrict CAPEX investments at 8.5% of sales each year (split evenly for intangible assets e.g., e-commerce and PPE for geographical growth)
- Increase in operational cash flow as inventory is turned
- Payoff and decrease in non-current liabilities mid-year FY2018

BULL SCENARIO

While maintaining a strong presence in brick-and-mortar retail stores, Ted Baker capitalizes on the consumer shift to online purchasing and uses data science to become a global retail powerhouse. This global expansion materializes from the perfect blend of retail shrewdness and technology by using data science to analyze buying trends resulting in an expanded market and continued development of quality products.

Increased spending in online advertising boosts Ted Baker's presence with existing customers and allows the company to reach people who haven't experienced Ted Baker's affordable luxury. The increased inventory of FY 2015 is drawn down to approach industry standard levels resulting in increased revenue for the company without having to maintain the high inventory costs of FY 2015. Since online expansion requires less investment in PP&E, Ted Baker can continue to spend approximately 8.5% of sales in CAPEX or even reduce that amount slightly as online sales increase. The additional revenue from an expanded online presence (both through its own store and online retailers like Nordstrom's) allows Ted Baker to reinvest earnings to continue to produce quality, affordable luxury goods. An added benefit of online expansion is more customer data, including preferences and buying habits which allow Ted Baker to benefit from aggressive, targeting marketing for individual buyers. In addition to added revenue from targeted marketing, customer data provides a boon for Ted Baker by giving them insight into what customers want to wear during the next season. This insight combined with Ted Baker's brand recognition allows them to be poised to provide quality products at the leading edge of fashion. This approach initially requires some investment to analyze customer data, but we expect these costs to be offset by the increased sales revenue.

Under this scenario, we anticipate a 10% growth in revenue annually over the next three years bolstered by the delayed benefits of some of the FY 2015 efforts (e.g., increased inventory and PP&E spending).

BULL SCENARIO FINANCIAL IMPACTS

- Decrease in inventory initially; increase revenue
- Increase in operating expense (data analysis); decrease cash or increase accounts payable
- Increase marketing expense (expanded advertising); decrease cash or increase accounts payable
- Increase in sales
- Decrease in PPE

BEAR SCENARIO

In December 2015, Ted Baker entered into a leasing agreement of a new state-of-the-art distribution facility in the UK. Once fully operational, this facility will serve as the European Distribution Center, handling all operations for retail, wholesale, and e-commerce businesses across the UK and Europe and supporting Ted Baker's long-term growth strategy.

Upon opening and beginning operations out of this center, Ted Baker quickly receive reports from customers of products arriving riddled with bed bugs. To their horror they learn that a shipment of inventory into the distribution center was infested with bed bugs, contaminating our entire inventory for the UK, Europe, and e-commerce sales. Ted Baker immediately halts distribution out of the center, route pending shipments through an alternate distribution center, and contact all customers who received shipments from this center to recall their products and offer bed bug extermination for their homes if necessary. While the distribution center is offline, they also have it fully exterminated. Separately, they identify which of the manufacturing locations had the initial bed bug infestation and have that location exterminated as well.

Halting use of this distribution center sets back the company's long-term growth strategy. In addition, the brand takes a major hit as customers view this event as indicative of deterioration in the quality of Ted Baker's product offering. Although the company has long shied away from traditional advertising, it decides to adopt a brief marketing push to convince customers that the brand remains committed to providing customers with only top quality products.

BEAR SCENARIO FINANCIAL IMPACTS

- Decrease in sales, increase in inventory
- Decrease in cash and/or increase in accounts payable, increase in exceptional costs
- Decrease in cash and/or increase in accounts payable, increase in marketing expense
- Decrease in common stock, decrease in cash

PROFORMA BALANCE SHEET (Click link to view live worksheet: https://goo.gl/s16gpx)

Base Forecasting - Balance Sheet (Ted Baker)										
values in thousands								Forecasted		
	FY2013	% change	FY2014	% change	FY2015	% change	FY2016	% change	FY2017	% change	FY2018
Intangible Assets	6,080.00	111.43%	12,855.00	34.17%	17,247.00	125.90%	38,960.64	60.19%	62,411.38	40.30%	87,562.29
Property, plant and equipment	45,083.00	14.91%	51,804.00	138.20%	123,397.00	17.60%	145,110.64	16.16%	168,561.38	14.92%	193,712.29
Investments in subsidiary	0.00		0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Investment in equity accounted investee	1,024.00	25.98%	1,290.00	27.21%	1,641.00	0.00%	1,641.00	0.00%	1,641.00	0.00%	1,641.00
Deferred tax assets	4,450.00	27.17%	5,659.00	11.56%	6,313.00	0.00%	6,313.00	0.00%	6,313.00	0.00%	6,313.00
Prepayments	564.00	-18.26%	461.00	-10.20%	414.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Non-Current Assets	57,201.00	25.99%	72,069.00	106.76%	149,012.00	28.87%	192,025.29	24.42%	238,926.76	21.05%	289,228.59
Inventories	80,432.00	38.15%	111,114.00	12.79%	125,323.00	0.59%	126,068.39	3.81%	130,873.40	7.03%	140,076.78
Trade and other receivables	34,793.00	5.98%	36,873.00	33.71%	49,303.00	107.25%	102,181.86	8.00%	110,356.40	7.25%	118,357.24
Amount due from equity accounted investee	164.00	314.02%	679.00	-17.08%	563.00	0.00%	563.00	0.00%	563.00	0.00%	563.00
Derivative financial assets	499.00	610.82%	3,547.00	-19.65%	2,850.00	0.00%	2,850.00	0.00%	2,850.00	0.00%	2,850.00
Cash and cash equivalents	28,521.00	-74.12%	7,380.00	80.15%	13,295.00	-55.81%	5,874.54	147.59%	14,544.93	42.91%	20,786.82
Current Assets	144,409.00	10.51%	159,593.00	19.89%	191,334.00	**24.15%**	237,537.79	**9.11%**	259,187.73	9.05%	282,633.84
TOTAL ASSETS	**201,610.00**	14.91%	**231,662.00**	46.91%	**340,346.00**	**26.21%**	**429,563.08**	**15.96%**	**498,114.49**	**14.81%**	**571,862.43**
Trade and other payables	(45,289.00)	25.96%	(57,046.00)	7.09%	(61,088.00)	47.33%	(90,000.00)	-26.67%	(66,000.00)	-9.09%	(60,000.00)
Bank overdraft	(37,282.00)	-29.71%	(26,204.00)	44.52%	(37,869.00)	0.00%	(37,869.00)	0.00%	(37,869.00)	0.00%	(37,869.00)
Term loan	0.00		0.00		(1,500.00)	0.00%	0.00	0.00%	0.00	0.00%	0.00
Income tax payable	(3,857.00)	86.73%	(7,202.00)	16.38%	(8,382.00)	0.00%	(8,382.00)	0.00%	(8,382.00)	0.00%	(8,382.00)
Derivative financial liabilities	(3,118.00)	-79.60%	(636.00)	-44.65%	(352.00)	0.00%	(352.00)	0.00%	(352.00)	0.00%	(352.00)
Current Liabilities	(89,546.00)	1.72%	(91,088.00)	19.87%	(109,191.00)	**25.10%**	(136,603.00)	**-17.57%**	(112,603.00)	**-5.33%**	(106,603.00)
Deferred tax liability	0.00		0.00		(56.00)	-100.00%	0.00	#DIV/0!	0.00	#DIV/0!	0.00
Term loan	0.00		0.00		(58,500.00)	-17.09%	(48,500.00)	-20.62%	(38,500.00)	-100.00%	0.00
Non-Current Liabilities	0.00		0.00		(58,556.00)	**-17.17%**	(48,500.00)	**-20.62%**	(38,500.00)	**-100.00%**	0.00
TOTAL LIABILITIES	**(89,546.00)**	1.72%	**(91,088.00)**	84.16%	**(167,747.00)**	10.35%	**(185,103.00)**	**-18.37%**	(151,103.00)	**-29.45%**	(106,603.00)
NET ASSETS	**112,064.00**	25.44%	**140,574.00**	22.78%	**172,599.00**	**41.63%**	**244,460.08**	**41.95%**	**347,011.49**	**34.08%**	**465,259.43**
Equity											
Share capital	2,194.00	0.09%	2,196.00	0.14%	2,199.00	0.00%	2,199.00	0.00%	2,199.00	0.00%	2,199.00
Share premium	9,139.00	2.10%	9,331.00	3.07%	9,617.00	0.00%	9,617.00	0.00%	9,617.00	0.00%	9,617.00
Other reserves	(1,850.00)	-173.95%	1,368.00	20.61%	1,650.00	0.00%	1,650.00	0.00%	1,650.00	0.00%	1,650.00
Translation reserve	(2,980.00)	-90.34%	(288.00)	-902.43%	2,311.00	0.00%	2,311.00	0.00%	2,311.00	0.00%	2,311.00
Retained earnings	105,561.00	21.23%	127,967.00	22.55%	156,822.00	0.00%	228,683.08	0.00%	331,234.49	0.00%	449,482.43
TOTAL EQUITY	**112,064.00**	25.44%	**140,574.00**	22.78%	**172,599.00**	**0.00%**	**244,460.08**	**0.00%**	**347,011.49**	**0.00%**	**465,259.43**

KEY ASSUMPTIONS & CHANGES

- Increase of 12% in revenue from previous year, 20% to Accounts Payable and 80% to Cash
- Capital expenditure investment of 8.5% of revenue annually, split evenly to Intangible Assets and PPE
- Purchased in inventory on cash and Accounts Payable
- Payoff of current term loan on cash

PROFORMA INCOME STATEMENT (Click link to view live worksheet: https://goo.gl/ehdzks)

Base Forecasting - Income Statement (Ted Baker)											
values in thousands											
									Forecasted		
	FY2013	**% change**	**FY2014**	**% change**	**FY2015**	**% change**	**FY2016**	**% change**	**FY2017**	**% change**	**FY2018**
Revenue	321,921.00	20.39%	387,564.00	17.70%	456,169.00	12.00%	510,909.28	8.00%	551,782.02	7.25%	591,786.22
Cost of sales	(123,451.00)	23.42%	(152,359.00)	20.21%	(183,147.00)	8.79%	(199,254.61)	8.00%	(215,194.99)	7.25%	(230,796.63)
Gross Profit	198,470.00	18.51%	235,205.00	16.08%	273,022.00	14.15%	311,654.67	8.00%	336,587.03	7.25%	360,989.59
Distribution costs	(123,211.00)	17.35%	(144,584.00)	17.41%	(169,762.00)	2.00%	(173,157.24)	2.00%	(176,620.38)	2.00%	(180,152.79)
Administrative expenses	(44,427.00)	26.89%	(56,373.00)	1.88%	(57,435.00)	3.00%	(59,158.05)	2.50%	(60,637.00)	3.00%	(62,456.11)
Licence income	8,888.00	31.24%	11,665.00	23.31%	14,384.00	0.00%	14,384.00	0.00%	14,384.00	0.00%	14,384.00
Other operating income	(132.00)	-3013.64%	3,846.00	-121.84%	(840.00)	0.00%	(840.00)	0.00%	(840.00)	0.00%	(840.00)
Operating Profit	39,588.00	25.69%	49,759.00	19.31%	59,369.00	56.45%	92,883.38	21.52%	112,873.65	16.88%	131,924.69
Finance income	316.00	-65.82%	108.00	391.67%	531.00	0.00%	531.00	0.00%	531.00	0.00%	531.00
Finance expenses	(1,312.00)	23.55%	(1,621.00)	19.12%	(1,931.00)	25.00%	(2,413.75)	10.00%	(2,655.13)	5.00%	(2,787.88)
Share of profit of jointly controlled entity, net of tax	331.00	58.61%	525.00	32.38%	695.00	0.00%	695.00	0.00%	695.00	0.00%	695.00
Profit before Tax	38,923.00	25.30%	48,771.00	20.28%	58,664.00	56.31%	91,695.63	21.54%	111,444.52	16.98%	130,362.81
Profit before tax and exceptional items	39,969.00	23.73%	49,452.00	18.63%	58,664.00	56.31%	91,695.63	21.54%	111,444.52	16.98%	130,362.81
Exceptional costs	(1,046.00)	410.42%	(5,339.00)	-100.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Exceptional income	0.00		4,658.00	-100.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Income tax expense	(10,071.00)	28.30%	(12,921.00)	11.67%	(14,429.00)	0.00%	(14,429.00)	0.00%	(14,429.00)	0.00%	(14,429.00)
Profit for the period / Net Income	**28,852.00**	24.25%	**35,850.00**	23.39%	**44,235.00**	74.67%	77,266.63	25.56%	97,015.52	19.50%	115,933.81

KEY ASSUMPTIONS & CHANGES

- Revenue increase of 12%, 8%, and 7.25% in subsequent forecasted years
- Cost of sales is 39% of revenue
- Distribution costs increase 2% year over year (to support e-commerce and brick-and-mortar stores)
- Increase administrative expenses by 3%, 2.5%, and 3% in subsequent forecasted years (to support overall company growth)
- Increase in finance expenses of 25%, 10%, and 5% in subsequent forecasted years

RESIDUAL INCOME VALUATION (Click link to view live worksheet: https://goo.gl/dleigo)

Parameter	Value	Notes
B0 (£'000)	172,599	
Re	10.00%	Assumed cost of equity capital is 10%
Dividend Payout Ratio	0.426	Divendends paid (in £'000) on 1/30/16 were 18,543; on 1/30/15 dividends paid were 15,506
ROE1 (%)	37.01%	
ROE2 (%)	32.74%	
ROE3 (%)	28.49%	
ROE4 (%)	20.00%	Assumed ROE is 20% for perpituity after the first 3 years
g (%)	2.00%	Assumed terminal growth rate is 2%
B1 (£'000)	209,275	
B2 (£'000)	248,611	
B3 (£'000)	289,277	
V0 (£'000)	***302,133***	

The residual income valuation for Ted Baker results in an estimated intrinsic value of 302,133 (£'000). This analysis provides a few insights into Ted Baker's forecasted performance. During FY2015 and FY2014, Ted Baker expanded aggressively; its negative net cash flows in those years are proof of the company's significant investments in capital expenditures and inventory.

As discussed in the Base Scenario section, we expect these investments in to taper off over the next three years and eventually provide a positive cash flow for Ted Baker in 2018. As Ted Baker reduces its debt, we forecast the ROE to decline over the next several years and assume it would stabilize at 20% for this analysis. The reduction in debt comports with a declining ROE.

Although not shown in the above analysis, the ROA forecasted for the next several years increases (20.6% in 2016, 21.4% in 2017 and 22.1% in 2018). When analyzed together, a declining ROE that approaches a more reasonable percentage and an increasing ROA point to a company recovering, and benefiting, from a period of expansion.

Based on our projections under the Base Scenario and the results of the residual income valuation, we believe our estimated intrinsic value for Ted Baker is a fair estimate.

APPENDICES

A. DUPONT (Click link to view live worksheet: https://goo.gl/lzmyst)

Company >>	Ted Baker	Ted Baker	Ted Baker	SuperGroup	SuperGroup	SuperGroup
	2016	2015	2014	2016	2015	2014
Total Assets (current year)	$340,356.00	$231,662.00	$201,610.00	$474,000.00	$419,800.00	366000
Total Assets (previous year)	$231,662.00	$201,610.00	$164,674.00	$419,800.00	$366,000.00	303500
Total Shareholders' Equity (current)	$172,599.00	$140,574.00	$112,064.00	$335,400.00	$295,200.00	261200
Total Shareholders' Equity (previous)	$140,574.00	$112,064.00	$98,893.00	$295,200.00	$261,200.00	223900
Net Income (current)	$44,235.00	$35,850.00	$28,852.00	$41,300.00	$46,000.00	27800
Interest Expense (current)	$1,931.00	$1,621.00	$1,312.00	$100.00	$600.00	0
Income Taxes (current)	$14,429.00	$12,921.00	$10,071.00	$14,100.00	$13,500.00	17400
Earnings before income taxes (current)	$58,664.00	$48,771.00	$38,923.00	$55,400.00	$59,500.00	45200
Sales (current)	$456,169.00	$387,564.00	$321,921.00	$597,500.00	$486,600.00	430900
Calculated Values:						
Average Total Assets	$286,009.00	$216,636.00	$183,142.00	$446,900.00	$392,900.00	$334,750.00
Average Total Shareholders' Equity	$156,586.50	$126,319.00	$105,478.50	$315,300.00	$278,200.00	$242,550.00
NOPAT	$45,691.05	$37,041.55	$29,824.53	$41,374.55	$46,463.87	$27,800.00
Tax Rate	24.60%	26.49%	25.87%	25.45%	22.69%	38.50%
ROA	15.98%	17.10%	16.28%	9.26%	11.83%	8.30%
Asset Turnover	159.49%	178.90%	175.78%	133.70%	123.85%	128.72%
Profit Margin	10.02%	9.56%	9.26%	6.92%	9.55%	6.45%
Leverage	182.65%	171.50%	173.63%	141.74%	141.23%	138.01%
Interest Efficiency	96.81%	96.78%	96.74%	99.82%	99.00%	100.00%
ROE	28.25%	28.38%	27.35%	13.10%	16.53%	11.46%

B. BASE & PROFORMA INCOME STATEMENT (Click link to view live worksheet: https://goo.gl/ehdzks)

Base Forecasting - Income Statement (Ted Baker)										
values in thousands										
							Forecasted			
	FY2013	**% change**	**FY2014**	**% change**	**FY2015**	**% change**	**FY2016**	**% change**	**FY2017**	**% change**	**FY2018**
Revenue	321,921.00	20.39%	387,564.00	17.70%	456,169.00	**12.00%**	**510,909.28**	**8.00%**	**551,782.02**	**7.25%**	**591,786.22**
Cost of sales	(123,451.00)	23.42%	(152,359.00)	20.21%	(183,147.00)	**8.79%**	**(199,254.61)**	**8.00%**	**(215,194.99)**	**7.25%**	**(230,796.63)**
Gross Profit	198,470.00	18.51%	235,205.00	16.08%	273,022.00	**14.15%**	**311,654.67**	**8.00%**	**336,587.03**	**7.25%**	**360,989.59**
Distribution costs	(123,211.00)	17.35%	(144,584.00)	17.41%	(169,762.00)	**2.00%**	**(173,157.24)**	**2.00%**	**(176,620.38)**	**2.00%**	**(180,152.79)**
Administrative expenses	(44,427.00)	26.89%	(56,373.00)	1.88%	(57,435.00)	**3.00%**	**(59,158.05)**	**2.50%**	**(60,637.00)**	**3.00%**	**(62,456.11)**
Licence income	8,888.00	31.24%	11,665.00	23.31%	14,384.00	0.00%	14,384.00	0.00%	14,384.00	0.00%	14,384.00
Other operating income	(132.00)	-3013.64%	3,846.00	-121.84%	(840.00)	0.00%	(840.00)	0.00%	(840.00)	0.00%	(840.00)
Operating Profit	39,588.00	25.69%	49,759.00	19.31%	59,369.00	56.45%	92,883.38	21.52%	112,873.65	16.88%	131,924.69
Finance income	316.00	-65.82%	108.00	391.67%	531.00	0.00%	531.00	0.00%	531.00	0.00%	531.00
Finance expenses	(1,312.00)	23.55%	(1,621.00)	19.12%	(1,931.00)	**25.00%**	**(2,413.75)**	**10.00%**	**(2,655.13)**	**5.00%**	**(2,787.88)**
Share of profit of jointly controlled entity, net of tax	331.00	58.61%	525.00	32.38%	695.00	0.00%	695.00	0.00%	695.00	0.00%	695.00
Profit before Tax	38,923.00	25.30%	48,771.00	20.28%	58,664.00	**56.31%**	**91,695.63**	**21.54%**	**111,444.52**	**16.98%**	**130,362.81**
Profit before tax and exceptional items	39,969.00	23.73%	49,452.00	18.63%	58,664.00	**56.31%**	**91,695.63**	**21.54%**	**111,444.52**	**16.98%**	**130,362.81**
Exceptional costs	(1,046.00)	410.42%	(5,339.00)	-100.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Exceptional income	0.00		4,658.00	-100.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Income tax expense	(10,071.00)	28.30%	(12,921.00)	11.67%	(14,429.00)	0.00%	(14,429.00)	0.00%	(14,429.00)	0.00%	(14,429.00)
Profit for the period / Net Income	**28,852.00**	24.25%	**35,850.00**	23.39%	**44,235.00**	74.67%	77,266.63	25.56%	97,015.52	19.50%	115,933.81

C. BASE & PROFORMA BALANCE SHEET (Click link to view live worksheet: https://goo.gl/s16gpx)

Base Forecasting - Balance Sheet (Ted Baker)										
values in thousands							Forecasted			
	FY2013	% change	FY2014	% change	FY2015	% change	FY2016	% change	FY2017	% change	FY2018
Intangible Assets	6,080.00	111.43%	12,855.00	34.17%	17,247.00	125.90%	38,960.64	60.19%	62,411.38	40.30%	87,562.29
Property, plant and equipment	45,083.00	14.91%	51,804.00	138.20%	123,397.00	17.60%	145,110.64	16.16%	168,561.38	14.92%	193,712.29
Investments in subsidiary	0.00		0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Investment in equity accounted investee	1,024.00	25.98%	1,290.00	27.21%	1,641.00	0.00%	1,641.00	0.00%	1,641.00	0.00%	1,641.00
Deferred tax assets	4,450.00	27.17%	5,659.00	11.56%	6,313.00	0.00%	6,313.00	0.00%	6,313.00	0.00%	6,313.00
Prepayments	564.00	-18.26%	461.00	-10.20%	414.00	0.00%	0.00	0.00%	0.00	0.00%	0.00
Non-Current Assets	57,201.00	25.99%	72,069.00	106.76%	149,012.00	28.87%	192,025.29	24.42%	238,926.76	21.05%	289,228.59
Inventories	80,432.00	38.15%	111,114.00	12.79%	125,323.00	0.59%	126,068.39	3.81%	130,873.40	7.03%	140,076.78
Trade and other receivables	34,793.00	5.98%	36,873.00	33.71%	49,303.00	107.25%	102,181.86	8.00%	110,356.40	7.25%	118,357.24
Amount due from equity accounted investee	164.00	314.02%	679.00	-17.08%	563.00	0.00%	563.00	0.00%	563.00	0.00%	563.00
Derivative financial assets	499.00	610.82%	3,547.00	-19.65%	2,850.00	0.00%	2,850.00	0.00%	2,850.00	0.00%	2,850.00
Cash and cash equivalents	28,521.00	-74.12%	7,380.00	80.15%	13,295.00	-55.81%	5,874.54	147.59%	14,544.93	42.91%	20,786.82
Current Assets	144,409.00	10.51%	159,593.00	19.89%	191,334.00	**24.15%**	237,537.79	**9.11%**	259,187.73	9.05%	282,633.84
TOTAL ASSETS	**201,610.00**	14.91%	**231,662.00**	46.91%	**340,346.00**	**26.21%**	**429,563.08**	**15.96%**	**498,114.49**	**14.81%**	**571,862.43**
Trade and other payables	(45,289.00)	25.96%	(57,046.00)	7.09%	(61,088.00)	47.33%	(90,000.00)	-26.67%	(66,000.00)	-9.09%	(60,000.00)
Bank overdraft	(37,282.00)	-29.71%	(26,204.00)	44.52%	(37,869.00)	0.00%	(37,869.00)	0.00%	(37,869.00)	0.00%	(37,869.00)
Term loan	0.00		0.00		(1,500.00)	0.00%	0.00	0.00%	0.00	0.00%	0.00
Income tax payable	(3,857.00)	86.73%	(7,202.00)	16.38%	(8,382.00)	0.00%	(8,382.00)	0.00%	(8,382.00)	0.00%	(8,382.00)
Derivative financial liabilities	(3,118.00)	-79.60%	(636.00)	-44.65%	(352.00)	0.00%	(352.00)	0.00%	(352.00)	0.00%	(352.00)
Current Liabilities	(89,546.00)	1.72%	(91,088.00)	19.87%	(109,191.00)	**25.10%**	(136,603.00)	**-17.57%**	(112,603.00)	**-5.33%**	(106,603.00)
Deferred tax liability	0.00		0.00		(56.00)	-100.00%	0.00	#DIV/0!	0.00	#DIV/0!	0.00
Term loan	0.00		0.00		(58,500.00)	-17.09%	(48,500.00)	-20.62%	(38,500.00)	-100.00%	0.00
Non-Current Liabilities	0.00		0.00		(58,556.00)	**-17.17%**	(48,500.00)	**-20.62%**	(38,500.00)	**-100.00%**	0.00
TOTAL LIABILITIES	**(89,546.00)**	1.72%	**(91,088.00)**	84.16%	**(167,747.00)**	**10.35%**	**(185,103.00)**	**-18.37%**	(151,103.00)	**-29.45%**	(106,603.00)
NET ASSETS	**112,064.00**	25.44%	**140,574.00**	22.78%	**172,599.00**	**41.63%**	**244,460.08**	**41.95%**	**347,011.49**	**34.08%**	**465,259.43**
Equity											
Share capital	2,194.00	0.09%	2,196.00	0.14%	2,199.00	0.00%	2,199.00	0.00%	2,199.00	0.00%	2,199.00
Share premium	9,139.00	2.10%	9,331.00	3.07%	9,617.00	0.00%	9,617.00	0.00%	9,617.00	0.00%	9,617.00
Other reserves	(1,850.00)	-173.95%	1,368.00	20.61%	1,650.00	0.00%	1,650.00	0.00%	1,650.00	0.00%	1,650.00
Translation reserve	(2,980.00)	-90.34%	(288.00)	-902.43%	2,311.00	0.00%	2,311.00	0.00%	2,311.00	0.00%	2,311.00
Retained earnings	105,561.00	21.23%	127,967.00	22.55%	156,822.00	0.00%	228,683.08	0.00%	331,234.49	0.00%	449,482.43
TOTAL EQUITY	**112,064.00**	25.44%	**140,574.00**	22.78%	**172,599.00**	**0.00%**	**244,460.08**	**0.00%**	**347,011.49**	**0.00%**	**465,259.43**

D. JOURNAL ENTRIES – Click year to view live worksheets for forecasted journal entries of FY 2016, FY 2017, and FY 2018

JOURNAL ENTRIES FOR FY2016		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
		Capex investment 8.5% of revenue (50% to intangible assets, 50% to PPE)		Inventory sold; gains from inventory sold; inventory purchased		Payoff current and non-current liabilities		Receive accounts receivable in cash		pay accounts payable (on cash and prepayments)		Administrative expenses		Distribution costs		Finance expenses	
SUM	SUM	43,427.29	43,427.29	1,109,418.50	1,109,418.50	11,556.00	11,556.00	49,303.00	49,303.00	61,088.00	61,088.00	118,316.10	118,316.10	360,305.58	360,305.58		
Gains	0.00			510,909.28	510,909.28												
Intangible Assets	21,713.64	21,713.64															
Property, plant and equipment	21,713.64	21,713.64															
Prepayments	(414.00)										414.00						
Inventories	745.39			200,000.00	199,254.61												
Trade and other receivables	52,878.86			102,181.86					49,303.00								
Cash and cash equivalents	(7,420.46)		43,427.29	408,727.42	110,000.00		11,556.00	49,303.00			60,674.00		59,158.05		180,152.79		482.75
Trade and other payables	(28,912.00)				90,000.00					61,088.00							
Term loan (current)	1,500.00					1,500.00											
Deferred tax liability	56.00					56.00											
Term loan (non-current)	10,000.00					10,000.00											
Retained earnings	(71,861.08)			199,254.61	510,909.28							59,158.05		180,152.79		482.75	
COGS	0.00			199,254.61	199,254.61												
Distribution costs	0.00													180,152.79	180,152.79		
Administrative expenses	0.00											59,158.05	59,158.05				
Finance expenses	0.00															482.75	482.75

JOURNAL ENTRIES FOR FY2017		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
		Capex investment 8.5% of revenue (50% intangible assets and 50% PPE)		Inventory sold; gains from inventory sold; inventory purchased		payoff current and non-current liabilities		receive accounts receivable in cash		pay accounts payable (on cash and prepayments)		Administrative expenses		Distribution costs		Finance expenses	
SUM	SUM	46,901.47	46,901.47	1,202,172.00	1,202,172.00	10,000.00	10,000.00	102,181.86	102,181.86	90,000.00	90,000.00	121,274.00	121,274.00	346,314.48	346,314.48	482.75	482.75
Gains	0.00			551,782.02	551,782.02												
Intangible Assets	23,450.74	23,450.74															
Property, plant and equipment	23,450.74	23,450.74															
Inventories	4,805.01			220,000.00	215,194.99												
Trade and other receivables	8,174.55			110,356.40					102,181.86								
Cash and cash equivalents	8,670.39		46,901.47	441,425.62	154,000.00		10,000.00	102,181.86			90,000.00		60,637.00		173,157.24		241.375
Trade and other payables	24,000.00				66,000.00					90,000.00							
Term loan (non-current)	10,000.00					10,000.00											
Retained earnings	(102,551.42)			215,194.99	551,782.02							60,637.00		173,157.24		241.375	
COGS	0.00			215,194.99	215,194.99												
Distribution costs	0.00													173,157.24	173,157.24		
Administrative expenses	0.00											60,637.00	60,637.00				
Finance expenses	0.00															241.375	241.375

JOURNAL ENTRIES FOR FY2018		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
		Capex investment 8.5% of revenue (50% intangible assets, 50% PPE)		Inventory sold; gains from inventory sold; inventory purchased		payoff current and non-current liabilities		receive accounts receivable in cash		pay accounts payable (on cash and prepayments)		Administrative expenses		Distribution costs		FInance expense	
SUM	SUM	50,301.83	50,301.83	1,293,379.47	1,293,379.47	38,500.00	38,500.00	110,356.40	110,356.40	66,000.00	66,000.00	124,912.22	124,912.22	360,305.58	360,305.58	265.51	265.51
Gains	0.00			591,786.22	591,786.22												
Intangible Assets	25,150.91	25,150.91															
Property, plant and equipment	25,150.91	25,150.91															
Inventories	9,203.37			240,000.00	230,796.63												
Trade and other receivables	8,000.84			118,357.24					110,356.40								
Cash and cash equivalents	6,241.89		50,301.83	473,428.98	180,000.00		38,500.00	110,356.40			66,000.00		62,456.11		180,152.79		132.75625
Trade and other payables	6,000.00				60,000.00					66,000.00							
Term loan (non-current)	38,500.00					38,500.00											
Retained earnings	(118,247.93)			230,796.63	591,786.22							62,456.11		180,152.79		132.75625	
COGS	0.00			230,796.63	230,796.63												
Distribution costs	0.00													180,152.79	180,152.79		
Administrative expenses	0.00											62,456.11	62,456.11				
Finance expenses	0.00															132.75625	132.75625

**** Note: You may review the electronic workbook of the financial reports, analysis, and forecasts via Google sheets at the following link: https://goo.gl/cmxk0X ****