



ICM

JUNE 2018

FINANCIAL DECISION MAKING – PRE-ISSUED CASE STUDY & GUIDELINES

Instructions to candidates (please read carefully):

- a) The following case study provides some basic information that can be used in your analysis during the examination
- b) A copy of this material will be available in the examination and, therefore, you should NOT take this case study into the examination room
- c) You are allowed to prepare notes for this examination. Your notes should be a maximum of two pages (four sides) of A4. **These notes can be taken into the examination and should be attached to your answer script on completion of the examination**
- d) **As part of your prepared notes, you are advised to calculate (and tabulate) a full range of performance indicators/financial ratios, and be prepared to take a view on the recent performance of LAURA ASHTON plc**
- e) The three hour examination will consist of FOUR compulsory questions
- f) Non-programmable calculators are permitted in this examination

Scenario:

Laura Ashton plc is a listed company that sells furniture, home accessories, decorating related items, and fashion items (mostly for women) to a worldwide marketplace. It was founded in the 1950s by a talented wife and husband design team in the kitchen of their London home. Their initial products were handprinted silk screen scarves and dress fabrics. These products were sold to 'high end' department stores in London. Their designs were based on quaint English country style patterns. The initial success of their business was their design-led range of women's dresses, blouses and coats, plus a small range of country print wallpaper.

The company initially registered in the 1950s, and went public in the late 1980s. Their first shop was opened in Kensington, London in 1961, followed by shops in Bath and Cardiff. There was substantial growth of the brand during the late 1960s and 1970s, initially UK based. The couple essentially ran the business as a family concern and in the 1970s headquartered the business in rural Wales. They also had a large factory on the same site, where wallpaper, paint and fabrics were produced to the Laura Ashton design team specifications. As far as the clothing, furniture and other items were concerned this was all contracted out to specially selected suppliers – always produced to Laura Ashton design and quality specifications. Laura Ashton was amongst the first manufacturers and retailers to develop computer-based JIT stock control systems.

In some ways one could say that the business 'muddled along' in a somewhat haphazard fashion, totally reliant on the strength of their designs and the founders' reputation. Many more shops in the UK were opened, plus a few international ones; Paris, New York, Tokyo etc. Before the age of online retailing Laura Ashton was one of the best at mail order, selling via their exceedingly well-produced catalogue.

By the early 1990s the business had expanded, but was running into difficulties, mostly due to inefficiencies and a high cost base. In 1993 the Company recruited a vastly experienced CEO, and the founders took a 'back seat'. For a few years Laura Ashton plc operated at a loss. However, the new CEO had carried out a restructuring programme, and created a 'lean' company ready for the 21st century. Laura Ashton plc no longer produces any of their products, but concentrates on design and quality. They also ensure that appropriate patent rights etc. are registered. All products are made by a range of worldwide manufacturers. The company relocated to London in 1999, and began to set up an online presence in 2000. There are small offices in several of the major cities of the world, including; Paris, New York, Tokyo, Berlin, Montreal and Melbourne. All non-UK stores are operated on various forms of franchise arrangements.

The American appetite for quintessentially British designs is driving sales of Laura Ashton furniture, decorating materials and fashion items. There has been considerable investment in their online platform, digital marketing and use of social media. Online sales currently account for over 50% of total sales; this includes 'click and collect'.

continued overleaf

The following information refers to the period 1 June 2013 to 31 May 2016:

Year to 31 May	2014	2015	2016
	£m	£m	£m
Sales	180	210	250
Cost of sales	115	125	150
Expenses	80	90	95
Current assets	55	60	65
Current liabilities	40	45	50
	====	====	====
No. of UK stores	250	240	230

The consolidated income statements for the year to 31 May 2017 and 2018 are as follows:

	2017	2018
	£m	£m
Turnover (all credit sales)	300	400
Cost of sales	(175)	(230)
Expenses	(105)	(140)
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Operating profit (PBIT)	20	30
Interest paid	(2)	(2)
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Profit before tax	18	28
Provision for tax	(5)	(7)
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Profit after tax	13	21
Proposed dividend	(4)	(4)
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Retained profit	9	17
	=====	=====

The consolidated position statements as at 31 May 2017 and 2018 are as follows:

	2017	2018
Non-current assets	200	230
Cumulative depreciation	(70)	(80)
	-----	-----
	130	150
	-----	-----
Current assets:		
Inventory	50	50
Accounts receivable	25	30
Bank	25	25
	-----	-----
	100	105
	-----	-----
Total assets	230	255
	=====	=====
Equity and reserves:		
Share capital	50	50
Retained profit	52	69
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	102	119
Non-current liabilities:		
Loans	60	60
Current liabilities:		
Accounts payable	59	65
Bank overdraft	-	-
Tax owing	5	7
Dividends	4	4
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	68	76
	-----	-----
Total liabilities	230	255
	=====	=====
No. of UK stores	215	200