Student 4: High Achieved

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Executive Summary
I am preparing this report for my neighbour Mrs Dean who is considering buying PPL shares. 1
PPL is determined to keep their position as the leading children's wear brand in Australasia, using four different brands PPL, Charlie & Me, Urban Angel Girls and Patch Maternity to sell their products and is increasingly recognized as an international brand.
The company has had an unsuccessful 2011 financial year due to the global economic downturn. A new CEO, Neil Cowie, has replaced Maurice Prendergast who has been the CEO for the last 18 years. Neil Cowie's leadership may be able to bring in new ideas or strategies that help the company move forward as the results from 2011 are disappointing to current shareholders and will be disappointing if you are looking for a short term return.
In the report below I will try to strongly discourage Mrs Dean from investing in PPL and look at other options such as a term investment with a bank or other companies that are in a better way financially and have a good future prospect.

Profitability
The 2011 financial year was another tough year for PPL as natural disasters hit Christchurch and Queensland (Australia) closing stores and resulting is customers becoming careful as to their spending practices. A high $NZ exchange rate meant that returns from overseas converted into less $NZ than when the exchange rate was lower. The political instability in the Middle East, which is where wholesale markets are based, and continued low consumption in NZ, UK, US and Ireland due to economic uncertainty caused a decrease in net profit after tax of 107.4% from $25.5m in 2010 to -$1.8m in 2011.
Added to this, expenses increased (selling expenses went up by 4.5%, administration and general expenses went up by 0.7% and the finance expense went up by 0.47%) which also negatively impacted on the net profit in a negative way. An increase in production costs, due to the cotton prices going up, affected the gross profit of the company in all sectors, and as margins decreased. Sales turnover did not increase to compensate for these costs. The breakdown of revenue from sales for 2011 was: the Australian market – 51% followed by NZ – 15%, Wholesale/Direct – 15%, UK – 14% and US – 5%. Even though total sales declined by 6.6%, 23 new stores of which 11 were Charlie & Me, were set up internationally. The set up cost, such as furniture and fittings and inventory etc, would have had a negative impact on the net profit for 2011. The Charlie & Me results are pleasing to the PPL team and this brand looks to provide vast potential for this company in the coming years which will be good for Mrs Dean if she decides to invest in the company. 2
The decision to close underperforming stores in the US and UK was necessary as the economic conditions in those markets were not generating enough growth. They have for a number of years caused repetitive and substantial losses for PPL and its share value. The poor economic conditions were also not helped by a strong NZ dollar which resulted in losses in $NZD terms from the US market, even though the sales turnover in that region was positive. Closures may also help reduce the decrease in overall earnings but will not necessarily decrease total sales as online sales are continually rising and they have strong wholesale relationships in both markets therefore PPL products will continue to be sold into these countries. PPL plan to enter into these new wholesale markets as stated above during the latter part on 2012 and 2013. They have recognised the closure costs involved on closing the US and UK stores during the first half of the 2012 year and this has recognised on the 2011 year's profitability results.
The overall turnover of PPL was negative during the 2011 financial year. In the future (from the CEO's report) sales are expected to increase as segments that are not contributing to PPL are closing. PPL predicts that there will be an increase in online and wholesale sales and yield higher profits. Again, this will be to Mrs Dean's benefit. 2

Liquidity and Cash Management sections have been omitted from this exemplar.
Financial Stability
During the 2011 financial year PPL's equity ratio has declined from 0.45:1 in 2010 to 0.16:1 in 2011. The decrease in the equity ratio was due, in the main, to a large increase in borrowing (approximately $38m). The gearing ratio trend (1.2:1 in 2010 to 5.32:1 in 2011), which is linked to equity ratio also reinforces the effect of external borrowing to cover the loss for the period mainly due to the dividend payments at the end of 2010 and during 2011.
There has been no public share issue during 2011 however as part of an employee share issue scheme 971,609 shares were issued to employees. During the year there was an interim dividend of 3 cents/share for the 2011 period and a final dividend of 5 cents/share for the 2010 period paid to shareholders. To be able to accomplish this final dividend payment for 2010 PPL must have passed the solvency test which means they were able to pay their immediate debts and liabilities as they fall due after the payment of dividends was completed. Total non-current assets have increased by $12.5m mainly due to an increase in deferred tax assets but as PPL didn't invest much money into stores and equipment the property, plant and equipment figure only increased by $1m. As equity has not increased and total assets have only slightly improved this has brought about a decrease in the equity ratio. This shows that in the future PPL may find it hard to pay back external creditors such as banks because sales have decreased and loans have increased during the 2011 financial year. This should be of concern to Mrs Dean. 2
Interest cover has fallen from 16.9 times in 2010 to 6.1 times in 2011. This ratio gives guidance as to how well PPL is placed to service the interest payment on its outstanding debt. With the decrease in operating profits (EBIT before

tax) and increased debt position, it's not surprising that this is the result. Profits from sales, and this means that operating profit covers the interest 6.1 times.
During the 2011 financial year PPL's financial stability declined. This is not a good look for the future of PPL as it could discourage potential investors from buying PPL shares. This is something Mrs Dean should be aware of. 2

The Market Analysis section has been omitted from this exemplar.

Conclusion
When reflecting over my report and the calculations and analysis that are included, PPL has had a tough year which showed up in the financial statements and therefore shows a volatile future for PPL.
The profitability of PPL is showing a negative trend because of the drop in sales and profits, these were mainly seen in the US and UK markets as they have had a significantly bad year compared to other markets such as Australia and Wholesale and Direct.
The global economic recession along with the high NZD had a large impact on the negative profits overall. The chief cause for the expenditure during 2011 was the setting up of new stores which are expected to create more sales in the future, therefore help it become more profitable. The decision to close to the US and UK stores has decreased sales in the short term but will also assist PPL in becoming more profitable and will also give them more time to focus on markets such as online sales, that are potentially more profitable and beneficial for the company in future.
The setting up of 23 new stores, mostly in the Australasian area, is expected to impact on sales in a positive way in the future, although the cost of purchasing furniture and fittings was one of the factors that placed them into a net loss position for the first half of the 2012 financial year. Online sales have increased by over 50% along with wholesale/ franchise sales going up over 32% which will increase shareholders confidence as the online market has huge potential for PPL.
The financial stability of PPL has declined which was virtually entirely due to the large increase in borrowings. The fact that no 2011 final dividend or 2012 interim dividend was paid also shows the instability of PPL and as borrowings have only gone down by $1m there is a low chance of PPL paying a dividend in the near future.
The net cash position of PPL looks positive but in fact the company has ended up with a huge bank debt which was used to cover the outflow of operating activities, investing activities and the cost of dividends paid out during the 2011 financial period.
The fall in the earnings per share during 2011 has changed and is showing a positive trend but is still significantly lower than other companies but shows the demand increasing slower. Overall, despite PPL remaining the leading children's wear brand across Australasia, the position the PPL currently hold in the market has deteriorated over the past year because of the decreasing net profit which has caused the company to borrow funds and discontinue making dividend payments over 6-12 months. Therefore I would advise my neighbour Mrs Dean not to invest in PPL. 3

All sources cited and a bibliography provided.