



MACQUARIE GRADUATE SCHOOL OF MANAGEMENT



## ***MGSM840 Accounting for Management***

### **Syndicate Project: Financial Statement Analysis**

**COLORADO**  
group ltd

Colorado

**Noni-B Ltd**

Noni-B Ltd

*Prepared for: Dr. Suresh Cuganesan*

**Prepared by**

<b>Name</b>	<b>Don Anderson</b>
<b>Student No</b>	<b>40460762</b>
<b>Name</b>	<b>Jenilyn Buenaventura</b>
<b>Student No</b>	<b>40146863</b>
<b>Name</b>	<b>Pat Henry</b>
<b>Student No</b>	<b>40453871</b>
<b>Name</b>	<b>Alexander Krnjulac</b>
<b>Student No</b>	<b>40562506</b>
<b>Name</b>	<b>Anna Pierkarska</b>
<b>Student No</b>	<b>40485463</b>

**Pages: 66**

**Words: 4,985**

## TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b> .....	<b>2</b>
<b>I. EXECUTIVE SUMMARY</b> .....	<b>4</b>
<b>II. AUSTRALIAN ECONOMIC OUTLOOK</b> .....	<b>5</b>
GLOBAL ECONOMY .....	5
<b>III. AUSTRALIAN RETAIL FASHION INDUSTRY OVERVIEW</b> .....	<b>6</b>
INDUSTRY COMPOSITION.....	6
THE MICRO ENVIRONMENT .....	6
<b>IV. COMPANY OVERVIEW: COLORADO GROUP LTD</b> .....	<b>7</b>
<b>V. COMPANY OVERVIEW: NONI-B LTD</b> .....	<b>8</b>
<b>VI. SHARE PRICE PERFORMANCE</b> .....	<b>9</b>
<b>VII. FINANCIAL ANALYSIS</b> .....	<b>10</b>
<b>I. DUPONT ANALYSIS</b> .....	<b>10</b>
ASSET TURNOVER.....	10
PROFIT MARGIN.....	11
RATE OF RETURN ON ASSETS .....	11
LEVERAGE.....	12
RETURN ON EQUITY .....	12
<b>II. SPREAD ANALYSIS</b> .....	<b>13</b>
RETURN ON OPERATING ASSETS:.....	13
COST OF DEBT .....	13
SPREAD .....	14
LEVERAGE.....	14
RETURN ON FINANCIAL LEVERAGE.....	15
<b>III. FINANCIAL PERFORMANCE ANALYSIS (PROFITABILITY)</b> .....	<b>16</b>
NET PROFIT MARGIN .....	16
SALES CHANGE.....	16
CASH COVER .....	17
DEBT TO EQUITY .....	17
<b>IV. FINANCIAL PERFORMANCE ANALYSIS (OPERATIONAL EFFICIENCY)</b> .....	<b>19</b>
CURRENT RATIO .....	19
QUICK RATIO .....	19
<b>VIII. WORKING CAPITAL / FUNDING GAP ANALYSIS</b> .....	<b>21</b>
ACCOUNTS RECEIVABLE TURNOVER .....	21
INVENTORY TURNOVER .....	21
DAYS PAYABLE .....	21
FUNDING GAP.....	21
<b>IX. CASH SUFFICIENCY ANALYSIS</b> .....	<b>22</b>
DIVIDEND PAYOUT RATIO.....	23
<b>X. CASH FLOW ANALYSIS</b> .....	<b>24</b>
<b>XI. TREND ANALYSIS</b> .....	<b>26</b>
COLORADO.....	26
NONI-B .....	26
<b>XII. HORIZONTAL ANALYSIS</b> .....	<b>27</b>
<b>XIII. LIMITATIONS OF ANALYSIS</b> .....	<b>28</b>

<b>XIV. RECOMMENDATIONS .....</b>	<b>30</b>
<b>APPENDIX I: SWOT - COLORADO.....</b>	<b>32</b>
<b>APPENDIX II: SWOT - NONI-B.....</b>	<b>33</b>
<b>APPENDIX III: MACRO-ENVIRONMENTAL ANALYSIS.....</b>	<b>34</b>
<b>APPENDIX IV: RATIO ANALYSIS .....</b>	<b>35</b>
<b>APPENDIX V: DAYS RECEIVABLE, DAYS INVENTORY, DAYS PAYABLE ANALYSIS .....</b>	<b>36</b>
<b>APPENDIX VI: RATIOS DEFINED .....</b>	<b>38</b>
DUPONT SYSTEM ANALYSIS.....	38
SPREAD ANALYSIS .....	39
FINANCIAL PERFORMANCE ANALYSIS .....	40
WORKING CAPITAL/FUNDING GAP ANALYSIS .....	41
CASH SUFFICIENCY ANALYSIS .....	42
SUSTAINABLE GROWTH RATE ANALYSIS.....	43
<b>APPENDIX VII: COLORADO RATIOS .....</b>	<b>44</b>
<b>APPENDIX VIII: NONI-B RATIOS.....</b>	<b>53</b>
<b>APPENDIX IX: CASH FLOW ANALYSIS COMBINED .....</b>	<b>61</b>
<b>APPENDIX X REFERENCES.....</b>	<b>62</b>
<b>APPENDIX XI: ENDNOTES.....</b>	<b>64</b>

## I. EXECUTIVE SUMMARY

---

The Australian apparel and fashion retail industry has enjoyed consecutive years of profitable growth. Bolstered by improved international trade conditions, low interest rates, a strengthened Australian dollar, and record consumer spending, the trend is forecast to continue in the near to medium term.

Colorado Group Ltd (Colorado) and Noni-B Ltd (Noni-B) have performed admirably in the period 2001–2004. While imports have increased price competition and the industry has become increasingly concentrated, both Colorado and Noni-B continue to produce strong results, posting solid returns and significant dividends to their shareholders. Some investment analysts have remarked that the retail market is “extremely overpriced” as low interest rates, government initiatives, consumer confidence and the stronger Australian dollar are viewed as being largely responsible for the industry’s strong performance.<sup>1</sup>

This said, anticipating stable interest rates and moderate to strong consumer confidence, both companies represent attractive investment opportunities. Noni-B, with a pattern of more generous dividend payouts and financial performance driven by organic growth, astute brand and niche market development, is the preferred short-term investment option to Colorado.

Colorado is recommended for medium to long term investment. Coupled with a balanced approach to financing, proven experience in acquisitions, and broad channels to market through, Colorado is well-placed to stave off an economic downturn while remaining profitable as a result of competitive advantages it has achieved in operational efficiency and internal brand development strategies.

While increased domestic and imports competition will continue to put pressure on maintaining higher margins, the continued strength of Colorado’s balance sheets and cash flows and its willingness to seek debt financing while maintaining a cash “safety net” would appear to outweigh the risks associated with the company.

The accompanying analysis includes an overview of the Australian Retail Fashion industry and the two organisations under investment consideration. Detailed analysis of key industry ratios, their limitations and investment recommendations follow.

## II. AUSTRALIAN ECONOMIC OUTLOOK

---

According to a report issued by the Reserve Bank of Australia (RBA) in August 2004 the Australian economy is expanding at a good pace. The general strength of the economy can be attributed to strong consumer confidence which is at its highest level in a decade and strong consumer spending which has been bolstered by tax cuts, benefit payments and low interest rates. The economy is benefiting from a stronger global economy.<sup>2</sup>

According to data release by IFR, retail trade in Australia rose just 0.2 percent in August 2004, which was below the market consensus for a 1.0 percent gain despite the strong growth in the private sector credit. Further, the rising oil price is likely to show slower profile in the coming months in retail trade and may be expected to have a greater impact on the discretionary spending of consumers.<sup>3</sup>

The Australian dollar was trading around US\$0.75 in early November after peaking at US\$0.77 earlier in the year.

### **Global Economy**

The global economy is focused on the continuous surge in oil prices. Oil has hovered above US\$50 since July. Economic activity is slowing in some segments of the world, particularly in Asia and Europe, although the US economy remains something of an outlier for now.<sup>4</sup> In Asia, inflation is increasing whilst the slowing down of demand in the US and elsewhere may potentially pull oil prices down towards the US\$35-US\$40.<sup>5</sup>

### III. AUSTRALIAN RETAIL FASHION INDUSTRY OVERVIEW

---

The apparel market in Australia is estimated at US\$1.87 billion with expected annual growth of 1.5 percent for the period 2005 – 2006<sup>6</sup>. The Westpac Melbourne Institute Index of Consumer Sentiment recorded a rise of 1.7 percent in September 2004, its highest level since June 1994. This contributed to a retail consumer spending increase of 2.1 percent and a corresponding 7.7 percent rise in department-store sales<sup>7</sup>. From an investment standpoint the retail market is “extremely overpriced” as low interest rates, government initiatives, consumer confidence and the stronger Australian dollar are viewed as being largely responsible for the industry’s strong performance.<sup>8</sup> With many analysts predicting near-term moderations in consumer spending, retailers must look to balance shareholder expectations of solid returns growth planning and aggressive internal optimization initiatives if they are to avoid stagnation in a hyper-competitive, increasingly consolidating and mature industry.

#### **Industry Composition**

Women’s apparel sales amount to 52.3% of total sales.<sup>9</sup> With improving trade conditions and lower overseas production costs clothing and foot wear manufacturing activities are moving offshore. A more direct sourcing model promises to shorten supply chains, reduce costs and improve margins and customer responsiveness.<sup>10</sup> In recent years companies sourcing from overseas have benefited from a strong exchange rate.

#### **The Micro Environment**

Highly susceptible to economic, climatic and social changes, retailers must excel at managing a range of strategic imperatives, including: delivering on customer needs; executing well planned promotions; retaining and growing market position; efficient supply chain management; creating a 'unique retail experience' for customers; well-conceived and executed acquisitions and managing rapid growth.<sup>11</sup>

Added to this a fickle world of fashion where inventory can age overnight and consumer shopping habits are seasonal.

#### IV. COMPANY OVERVIEW: COLORADO

---

Brisbane-based Colorado is a collection of five retail businesses that provides footwear or clothing apparel in 400 stores across Australia and New Zealand. These include Colorado (casual fashion apparel and footwear for men and women); Mathers Shoes (Florsheim, Hush Puppies, Windsor Smith and Sandler); William the Shoemen (Lynx, Lipstick and Candy brands); diana ferrari (shoes and fashion accessories, acquired in 2002); and JAG (fashion, taken over in 2001).

Colorado is one of Australia's oldest footwear businesses, with heritage dating back almost 140 years. The group has experienced sales growth of 36% over the last four years and watched its net cash flows more than double in that time. Colorado traditionally earns most of its profit in the final six months of its financial year.<sup>12</sup> Management plans to grow earnings through more store openings, acquisitions, increased spending on marketing, and devoting gains to long-term improvements in the company.<sup>13</sup> In August 2004, it completed a \$10 million investment in improved information technology, retail and distribution systems. To its credit, the company has sought higher margins by sourcing more than 80% of its stock from overseas manufacturers. On the downside, Colorado continues to face challenges with underperforming brands JAG and Mathers Shoes.

Managing director Roman Webb has stated that the organisation would like to expand beyond its five existing retail brands, but is in no rush to buy while the industry is booming and asset prices are up for most retailers<sup>14</sup>.

## V. COMPANY OVERVIEW: NONI-B LTD

---

Founded in 1997, Noni-B was floated on the ASX in 2000 and is minority-owned and managed by the Kindl Family. Company success is attributed to the family's knowledge of the retail fashion market, exclusive marketing of the Noni-B brand, competitiveness of product offerings, and superior customer service. The management and running of the business is based on family values. Decisions regarding market positioning, store locations, fashion range, and target markets are agreed internally prior to presentations being made to the board of directors.

In recent years, the company has launched aggressive marketing campaigns to strengthen its brand and closed of underperforming stores.

Currently debt free and 'cashed-up' Noni-B is looking for acquisitions and plans to grow organically via its two primary brands Noni-B and Liz Jordan. Noni-B has a total of 174 stores (inclusive of Liz Jordan outlets), and planned to open 12 new stores in 2004. From its modest early days of three retail outlets, Noni-B management believe the market is able to support 220 retail outlets (180 Noni-B and 40 Liz Jordan). Noni-B attributes their success to increased productivity amongst staff and effective stock management of inventory. The strength of the Australian dollar has also providing better than expected margins.

Benefiting from the trend away from mass-retailers, Noni-B's personal service and exclusive brands attract high income, middle aged professional women who spend more on fashion, on average, than any other buyer group.<sup>15</sup>



## VI. SHARE PRICE PERFORMANCE

### Share Price Review – 5 Year

The graphs below outline share performance of the two companies over the last three years. Colorado’s share price has generally performed above or to expectations, climbing from \$1.87 in September 2001 to around \$6 in early November 2004, after trading at a record \$6.30 a share in late October.

#### Colorado Limited (CDO)



#### Noni-B Limited. (NBL)

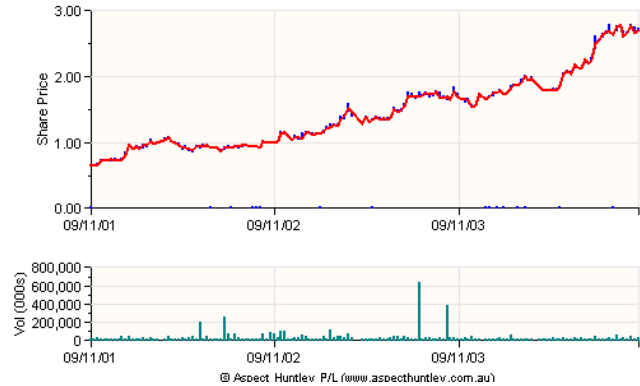
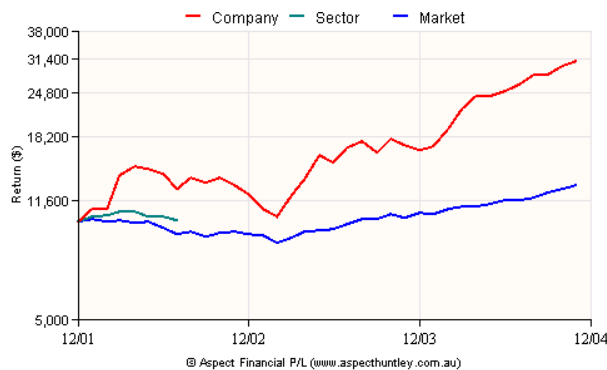


Figure A: Share Price Performance - 3 Year

During the period of review, Noni-B’s share price generally outperformed Colorado, and has equally benefited from healthy consumer sentiment and consistent profit gains during the period of review. The market has responded to these variables by pushing its share price up from \$0.70 in September 2001 to a high of \$2.75 per share in early November 2004.

Colorado and Noni-B have yielded higher consistent total shareholder return compared against the total market return<sup>16</sup>. Colorado P/E ratios have ranged between 9.4 and 19.2<sup>17</sup> over the last three periods, whereas PER for Noni-B has ranged between 10.1. and 19.8 during this period.<sup>18</sup>

#### Colorado Limited (CDO)



#### Noni-B Limited. (NBL)

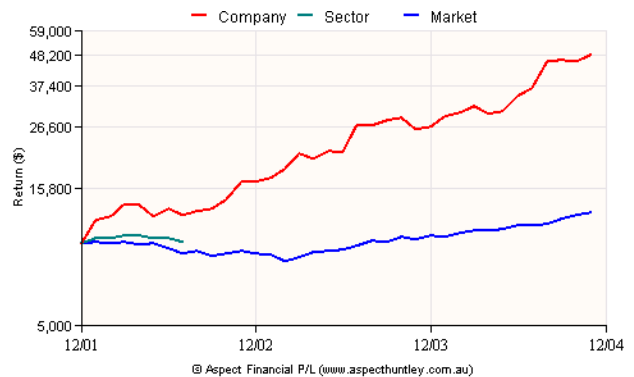


Figure B: Performance - 3 Year Total Return

## VII. FINANCIAL ANALYSIS

---

Primary analysis was constructed using the Dupont System, which provides an integrative framework that helps to impose structure on ratio analysis and provide insight into how ratios relate to each other. The model integrates the areas of profitability and asset management, featuring a company's Return on Assets (ROA) as the quintessential measure of firm and managerial performance.

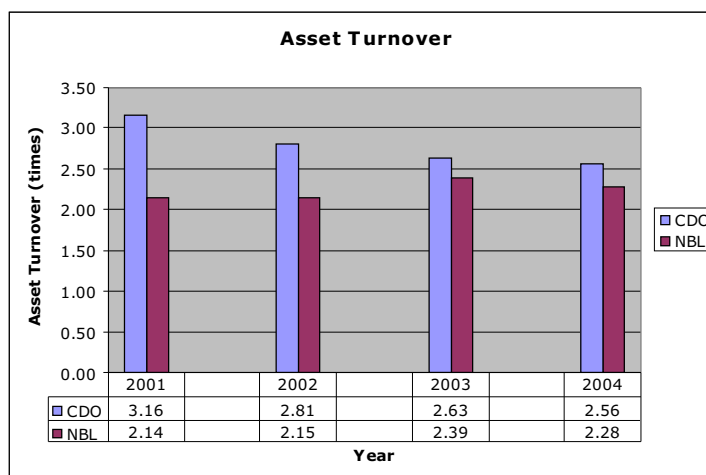
One advantage of the Dupont framework is that it highlights the important interplay between effective asset management and firm profitability, namely, that a company's ROA can be positively affected by increasing the net profit margin on each individual sale transaction, increasing the volume of sales transactions (ie. increasing turnover), or some combination of increasing profit margins and increasing turnover.

### I. DUPONT ANALYSIS

---

#### Asset Turnover

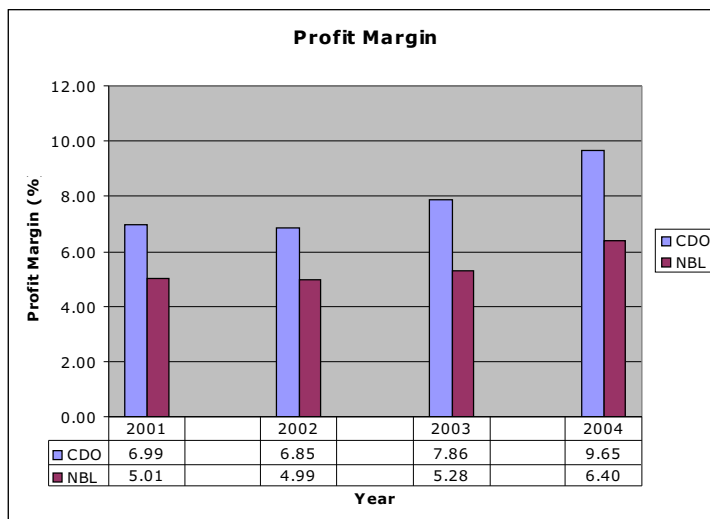
Commonly regarded as a measure of the efficiency with which assets are employed in generating sales<sup>19</sup>, Asset Turnover analysis indicates that Colorado is more effective at generating revenue from its assets than Noni-B. For Colorado, recent declines are attributable to an increasingly competitive landscape and downward pressure on margins, store expansions, and acquisitions of the Palmer Corporation and diana ferrari.



Noni-B shows steady improvement in the employment of assets to generate sales. Lower asset turnover than Colorado is due to the fact that Noni-B is less diverse. Competition has also contributed to recent declines in asset turnover.

### Profit Margin

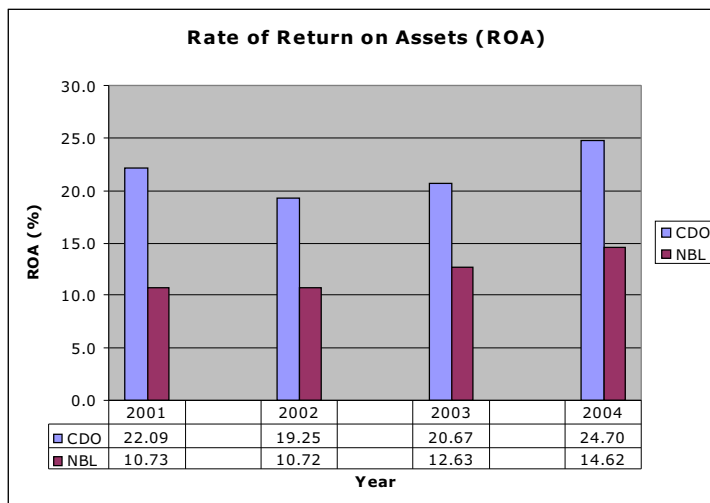
Of the two companies, Colorado is more effective at generating profits from its revenues, with business performance increasing by 38% since 2001. This suggests that the organisation’s strategy of internal operating efficiencies and off shore product sourcing is paying off. Since 2001, Colorado has experienced an 88% increased in EBIT and a 36% increase in revenue, suggesting that the company has yielded



more control over its cost of goods sold and benefited from product diversification and creation of economies of scale, including an increased reliance on wholesale retail outlets. While Noni-B has had an 80% increase in EBIT since 2001, revenue has increased 42%. Improvements are attributed to increased productivity, effective stock management, an increasing rate of sale, the opening of new stores, and the closing of underperforming locations.

### Rate of Return on Assets

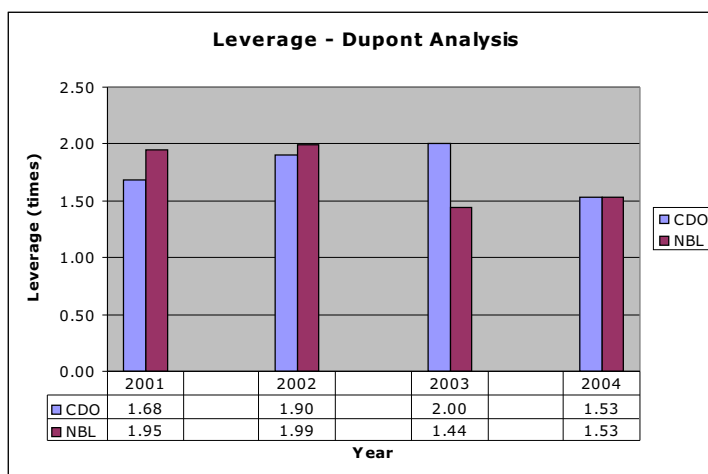
After experiencing a slight decline in ROA in 2002 Colorado regained strength to produce 24.7% ROA in 2004, 2.5 times the retail industry benchmark of 9.1%<sup>20</sup>. Although ROA is a broad measure of returns and profitability, Colorado management has effectively generated higher than normal returns against all assets employed by the company suggesting increased internal efficiency.



Noni have shown an increase in the rate of ROA between 2001 and 2004, outperforming industry benchmarks by a factor of 1.6.

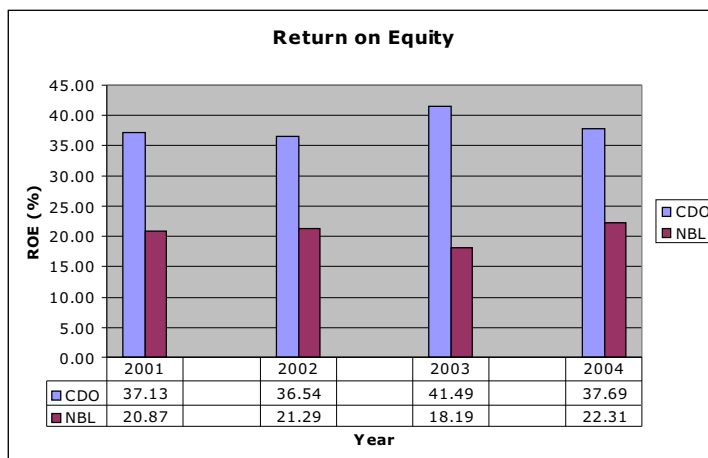
### Leverage

Noni-B has become less reliant on debt financing, which highlights its conservative approach to business. Noni-B management is more reluctant than Colorado to take on long-term debt to finance growth. It is interesting to note that except for an increase in 2002 of \$5.6m, loans have been fairly insignificant. Noni-B debt financed the liability because it had moved from non-current in 2001 to current in 2002. Colorado’s reliance on debt financing versus equity financing steadily increased over three years to 2003, before dropping off to 1.53 times in 2004. Increases in 2002 and 2003 stemmed from company acquisitions. During growth periods the entity issued additional shares possibly to support its growth, maintain its available cash reserves and provide higher levels of dividend return to shareholders.



### Return on Equity

Colorado has provided a reasonably consistent level of return on equity over the four-year period of between 36.54% and a high of 41.49% in 2003. Although this may appear as good news to investors considering long-term investment prospects, it may suggest that Colorado is over leveraged and should consider opportunities of establishing greater balance between ROA and reliance on financing for its capital structure.

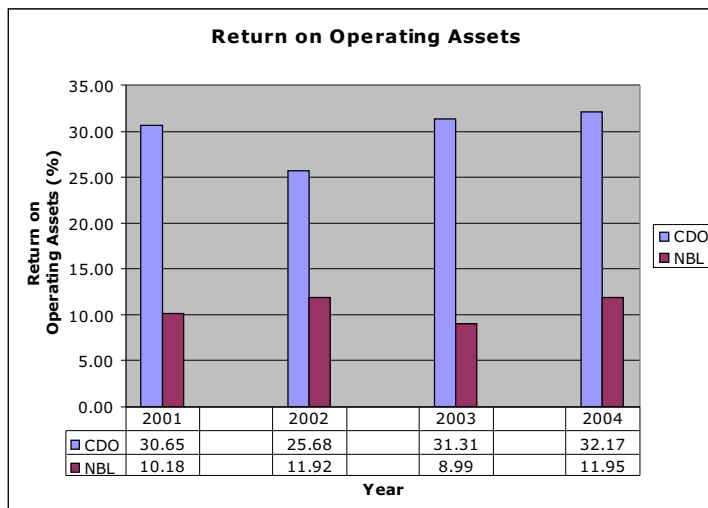


Noni-B’s registered a 22.7% gain in ROE in 2004 over 2003, a reflection of increased profit margins, increased asset productivity, reduced reliance on debt financing and 13% increased in net sales.

## II. SPREAD ANALYSIS

### Return on Operating Assets:

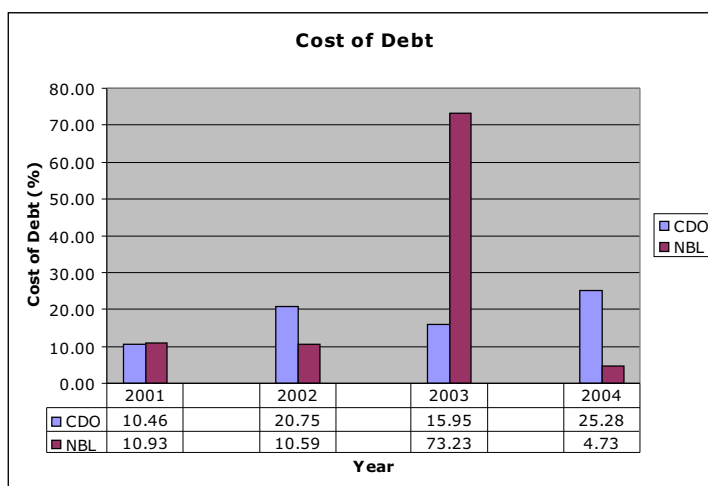
Applying spread analysis, return on operating assets [See Appendix III] highlights the contribution of operating assets to the organisation’s performance. In this case, Colorado has produced the higher returns of the two entities, including a 22% increase in return between 2002 and 2003, again representative of the organisation’s ability to balance reliance on debt and equity financing for growth, while maintaining some degree of control over its operating costs as it expands.



Noni-B experienced a decrease between 2002 and 2003. An increase in operating costs has not been matched by effective employment of operating assets. This may indicate the organisation has remained static in deploying new methods of asset utilization, or has failed to explore different methods of financing in order to expand.

### Cost of Debt

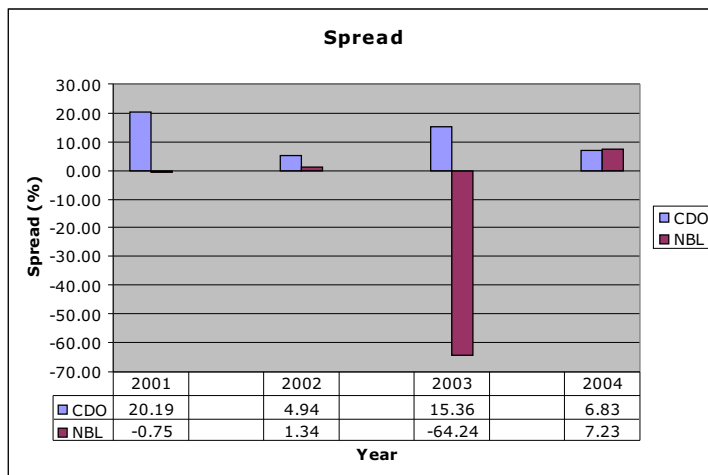
As anticipated, the reliance on debt financing to support an entity’s growth or continuing operations will produce additional costs, and this is reflective of the cost of debt fluctuations experienced by Colorado since 2001. Its willingness to take on debt to finance acquisition has led to higher interest expenses. Unless the organisation launches another takeover bid in the near future or interest rates increase, Colorado’s interest expenses should decline as its accumulation of debt falls.



Noni-B has not been reliant on debt financing for its expansion, and growth. In 2003 Noni-B repaid borrowings and paid out proportionately higher dividends than previous years. This was financed largely by the issuance of new shares.

### Spread

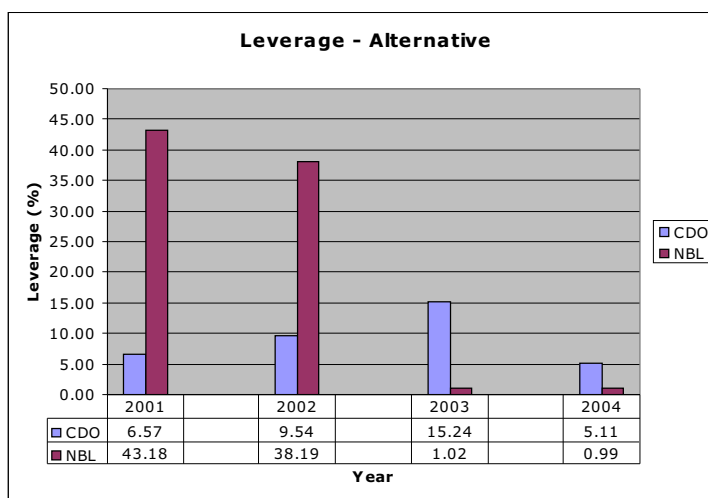
The effect of introducing debt into an entity’s capital structure is measured through the calculation of spread, ie. the difference between the rate of return earned on operating assets and the cost of debt for an organisation. From this analysis, Colorado would be described as having ‘positive spread’, with its highest spread recorded in 2001 and 2003 at times when cost of debt was marginally lower, a reflection of the timing of its acquisitions, interest rate hikes and interest expenses incurred from debt financing.



Noni-B seems to be moving away from its dependency on debt financing as long-term interest bearing liabilities have diminished.

### Leverage

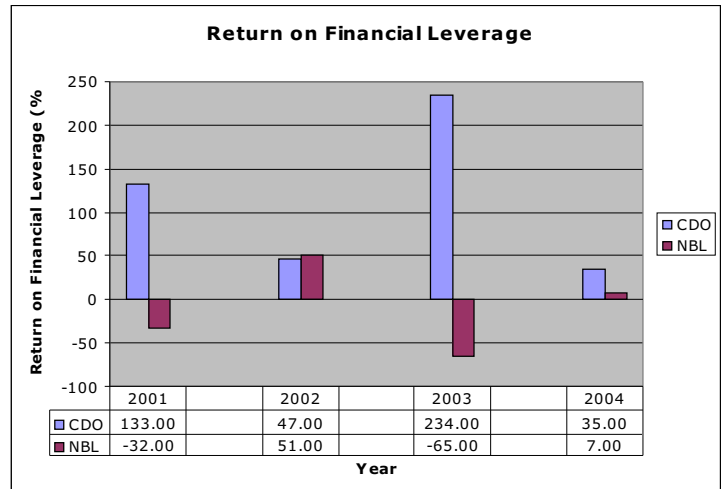
An alternative calculation of leverage, the degree to which the entity is reliant on debt as a source of capital<sup>21</sup>, indicates Noni-B derived between 38 and 43 per cent of its capital from debt financing. Long term interest bearing liabilities declined to below 5% in 2003 and 2004 from self-financed expansion. This may explain moderate expansion as Noni-B waits for income before embarking on a major expansion and growth strategy.



Colorado’s reliance on debt peaked in 2003 at 15.24%, again a reflection of the increase in debt stemming from the diana ferrari acquisition which, in turn, produced a domino effect of an increase in receivables, inventories, interest-bearing liabilities and net assets.

**Return on Financial Leverage**

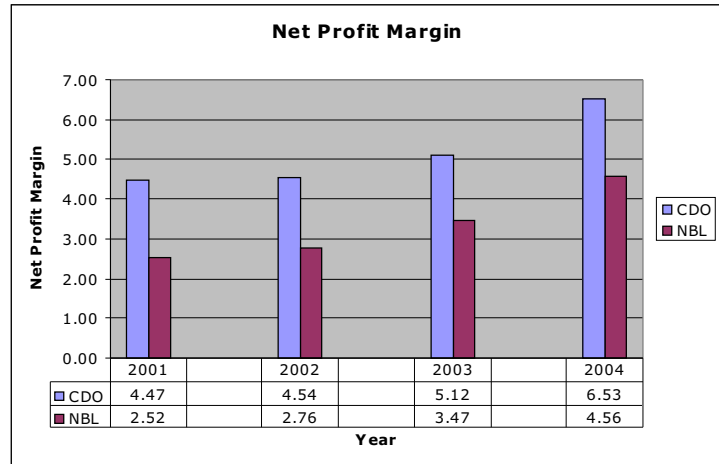
As a result of the use of leverage to support capital structure, shareholders of both firms have witnessed some major peaks and valleys in terms of financial gains. Shareholders of Colorado experienced the greatest gains in 2003, from the diana ferrari acquisition, which boosted revenue<sup>22</sup>, operating assets and allowed the company to improve returns on operating assets. In 2004, the company began to pay down its debt and focus on internal efficiencies.



### III. FINANCIAL PERFORMANCE ANALYSIS (Profitability)

#### Net Profit Margin

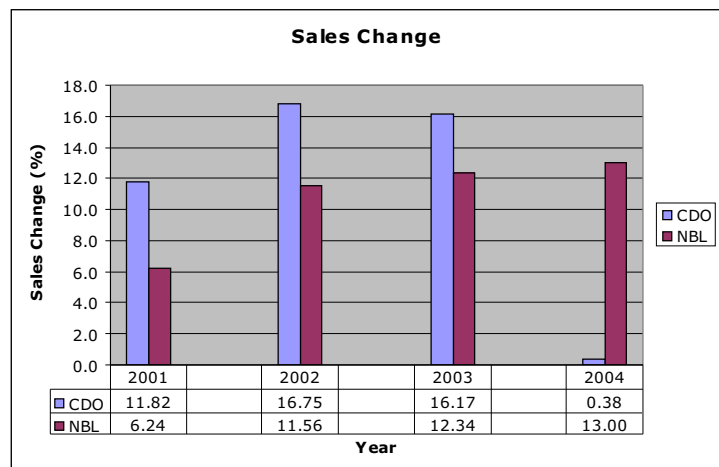
Colorado has performed effectively at extracting net profit from revenue. Net profit margin topped 6.53%, or roughly \$0.07 per dollar of revenue, suggesting a long-term strategy for re-investment of earnings and higher margins from overseas product procurement. Both companies have performed well despite high industry competition, shrinking margins and



discounting, the latter of which was blamed Colorado’s flat margins across 2001-2002. Noni-B’s strategy of developing its brands for niche markets renders it less affected by discounting however sourcing merchandise within Australia at higher costs may be cause for concern if there is a sudden downturn in the market.

#### Sales Change

Although Colorado’s net sales have progressively increased over the years, the sales change ratio suggests that sales have plateaued and, in the case of 2004, completely leveled off at 0.38% rate of change. The 5-point differential in sales change between 2001 and 2002 stems from company store and brand expansion. 2002-2003 sales were distorted by the one-off



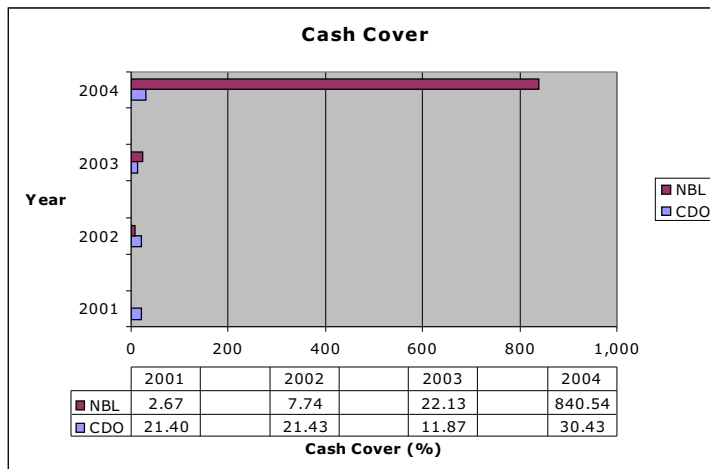
inclusion of the 53<sup>rd</sup> week and an additional \$7.5 million in top line sales. The company’s marginal performance in 2003-2004 was a by-product of competitor discounting, a slow down in consumer spending, poor performance of its JAG and Mathers brands and a warmer-than-usual winter season.

Noni-B sales have steadily increased, averaging 12.3 percent since 2002, bolstered by store expansion and increased market share.



### Cash Cover

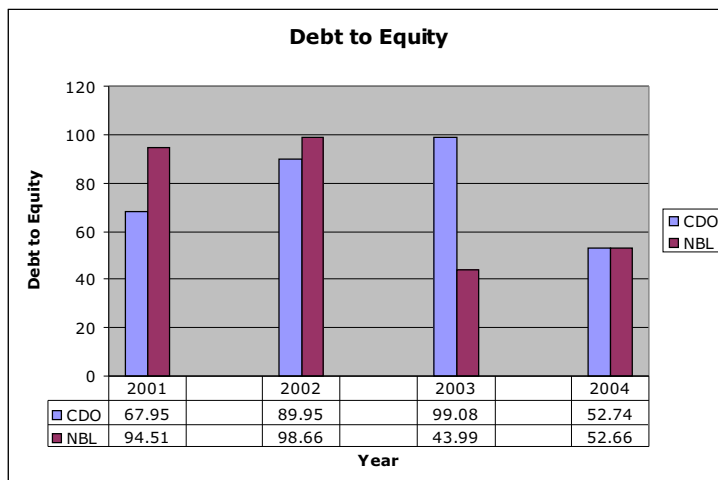
Colorado is over-positioned with cash cover in 2004. This stems from a sharp increase in the net cash provided by operating activities – a product of a decline in borrowing costs, increase in cash receipts from customers and decrease in cost of goods sold – versus a decline in interest expense. Colorado is less risky to investors as it is better positioned to address interest payments.



Noni-B’s cash cover ratio gradually increased between 2001 and 2003 before rising to a level in 2004 which may be less than ideal. Although the cash cover ratio measures a company’s ability to meet interest payments, Noni-B is holding too much cash at the end of 2004, the result of limited expansion opportunities.

### Debt to Equity<sup>a</sup>

It is generally assumed that a higher debt to equity ratio is an indicator of greater financial risk<sup>23</sup> to investors. Both entities have produced fluctuating results, a reflection of their strategies for growth and/or willingness to acquire debt financing. Colorado saw a noticeable increase in debt in 2001 to 2003, fueled in part by sharp increases in payables (up 107%) and interest bearing liabilities (up 104%) while net assets showed slower growth at 37%. By 2004, the ratio stabilized with payables dropping roughly 10% and net assets increasing 35% from the prior year, thus lowering the volatility of the entity.



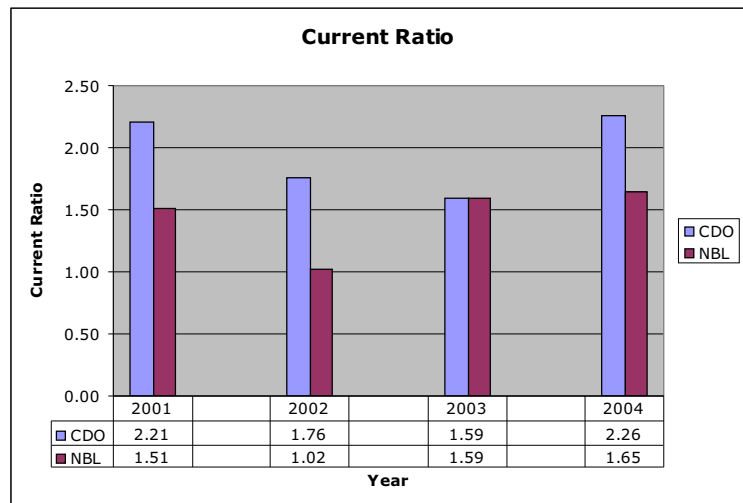
<sup>a</sup> In this analysis, trade creditors and provision balances are included.

Noni-B's debt to equity ratio has decrease by 50% between 2000 and 2004. Payables have fluctuated, but there was an increase in net assets of 41% between 2001 and 2004. In 2004 payables increased by 30% and net assets by 11%. This points to increased volatility, whereby payables increased more than assets.

#### IV. FINANCIAL PERFORMANCE ANALYSIS (Operational Efficiency)

##### Current Ratio

Current Ratio analysis suggests the corporate performance of the companies has varied across the period of review, a possible reflection of environmental factors (eg. 9/11, economic growth) and internal operation (eg. collections of accounts receivable, acquisitions). The performance of the companies during the early part of the decade suggests events such as 9/11 and a faltering global



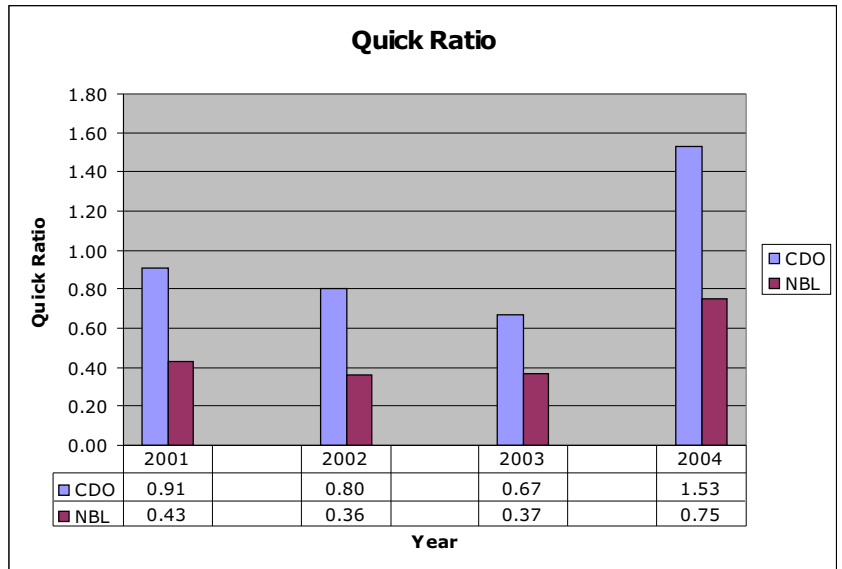
economy were factors. For Colorado, one-offs such as the diana ferrari acquisition led to increases in accounts receivables, inventories and the recording of intangible assets, including an increase in goodwill of roughly \$7.1 million related to the acquisition. The company's liquidity improved to 2.26 in 2004, just above the generally accepted range of 2:1.

Noni-B has generally been below the accepted norm of 2:1. There has been no direct effect on trade other than the possible lack of ingenuity when it comes to expansion and growth. Between 2001 and 2004 there has been an increased ability for Noni-B to meet its short-term debts, but in 2002 the current ratio dropped to 1.02 due an increase in current liabilities (interest bearing) from the previous period. This was due to a non-current interest bearing liability becoming current.

##### Quick Ratio

Use of the quick ratio is particularly relevant in financial analysis of retail companies, which traditionally have significant inventories holdings that cannot be immediately converted to cash. Assessing the ability of companies like Colorado and Noni-B to repay short term debt is critical in determining their liquidity. A comparison of the two companies suggests that Colorado is 'more liquid', particularly in 2004 when it produced a 1.53:1 ratio, as opposed to Noni-B's 0.75:1 ratio. This suggests that Noni-B has hovered dangerously close to a level that, if faced with a crisis, it might not be able to meet its immediate obligations. For stakeholders such as creditors, employees and suppliers, this would be considerable cause for concern. Colorado successfully increased its liquidity in 2004 by

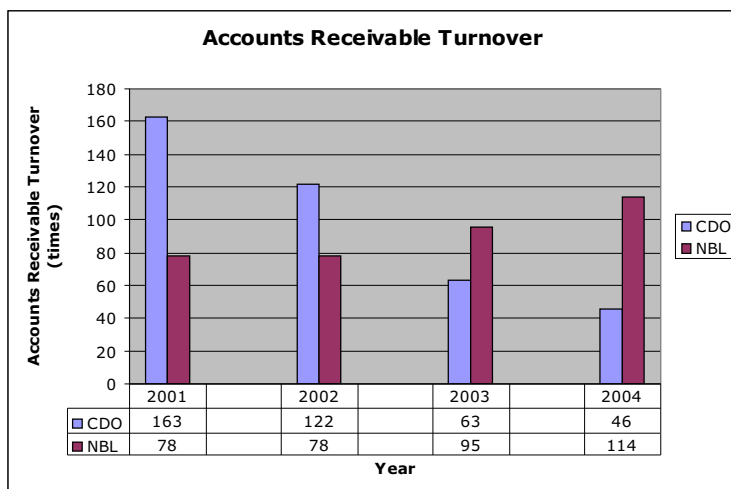
reducing its inventories and current liabilities, and is now in a stronger position to meet short-term obligations.



## VIII. WORKING CAPITAL / FUNDING GAP ANALYSIS

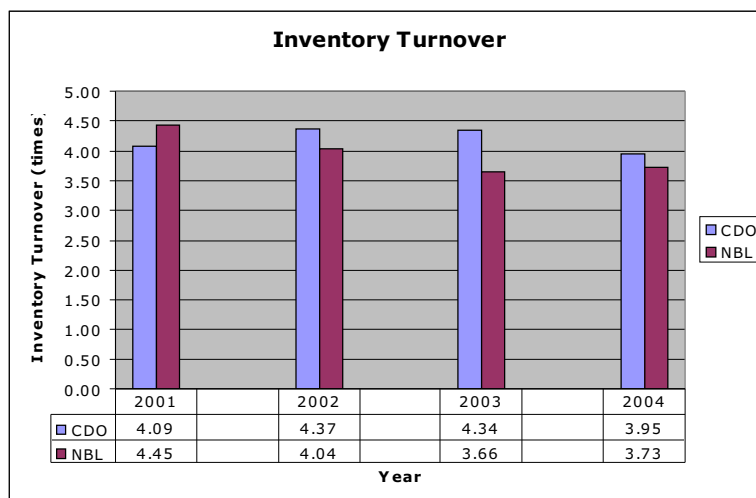
### Accounts Receivable Turnover

Colorado is controlling its receivables, recording a 72% reduction in receivables turnover from 2001 to 2004. Noni-B, on the other hand, has gone the other way, recording a 46% increase in accounts receivable turnover during the same period, and at 114 times in 2004. Noni-B takes almost 2.5 times longer to collect its outstanding receivables balance. This represents additional costs to the organisation. [See Appendix V: Days Receivable Analysis]



### Inventory Turnover

Both companies are well below the retail industry benchmark for inventory turnover of 8.5 times. Although Colorado has congratulated itself on reducing its inventory holdings, at 3.95 in 2004 the company is actually holding onto them longer. Noni-B is equally guilty; after showing early promise of faster turnover in 2001, they have slipped to 3.73 in 2004. Current trends suggest



that fashion retailers are aiming for higher inventory turnover, with some trying to produce monthly rather than seasonal lines to obtain this goal<sup>24</sup>. [See Appendix V: Days Inventory Analysis]

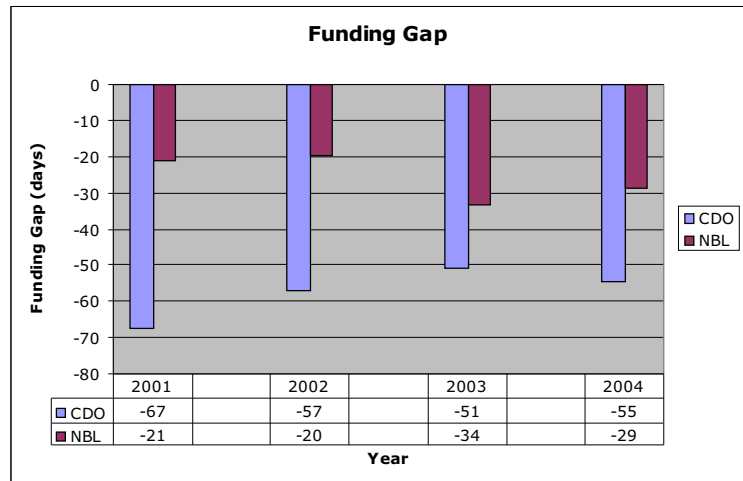
### Days Payable

At 21 days, Colorado Group has had the lower days payable ratio of the two companies. Given their size, product offering and positioning they should have greater leverage over suppliers to seek better terms.

Noni-B has hovered around an average of 71 days over the four years, presenting some concerns about liquidity issues, their relationship with suppliers and the possibility of additional costs because of later payment terms.

## Funding Gap

Having constructed the elements of the case, it is now possible to determine the efficiency of the organisations by way of the funding gap. It must be recognized that seasonality issues and timing of end of year reporting will present issues of distortion. Both organisations have been operating with negative funding gaps, with Colorado reporting a more severe scenario



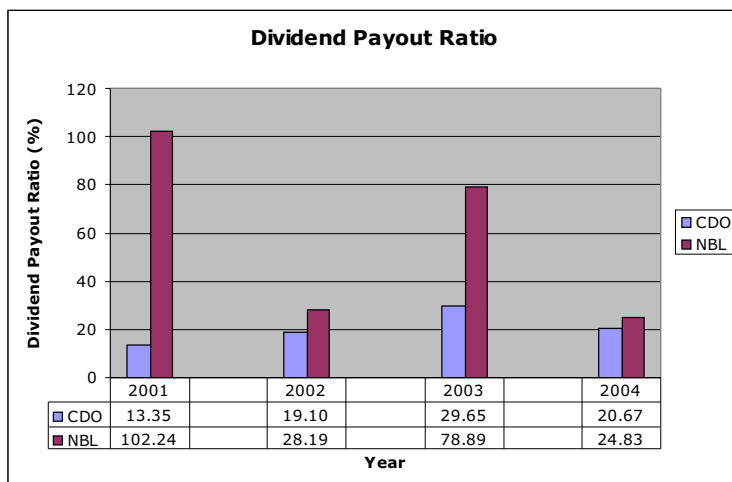
of 55 days in 2004 to the 29 days reported by Noni-B. The organisations must ensure they each have a cash ‘cushion’ to meet the terms of payment, which may limit their ability to grow through internal cash sources, hence their excess cash reserves [See Appendix IV: Cash Flow Analysis]. It is assumed that Colorado’s decision to seek debt financing and the multi-option facility for corporate acquisitions may partly stem from this barrier. In Noni-B’s case, it may explain why their growth as an entity has been gradual.

## IX. CASH SUFFICIENCY ANALYSIS

### Dividend Payout Ratio

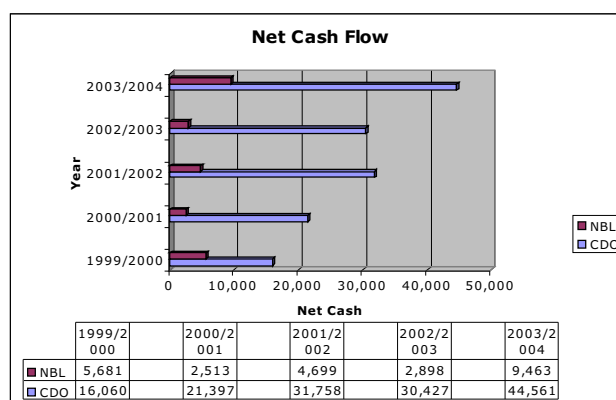
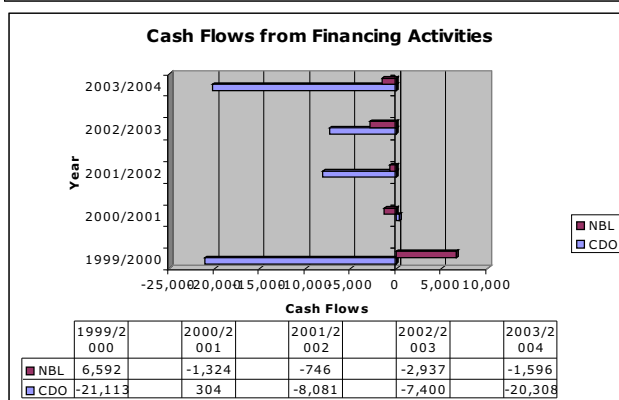
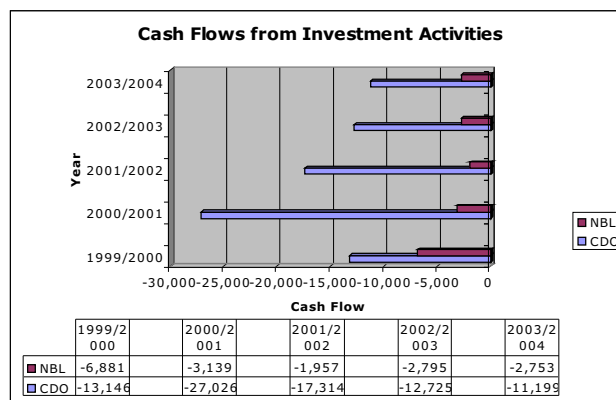
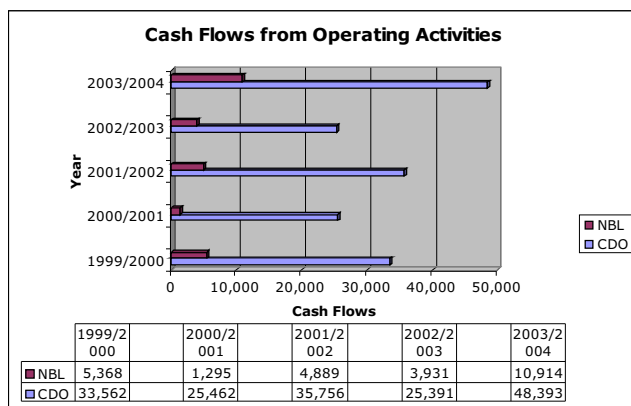
Noni-B is more willing to pay out a higher percent of profits to shareholders than Colorado. Its policy carries a degree of risk, as illustrated by the board’s decision to pay out dividends above its operating cash flows in 2001, and similarly high dividends in 2003.

In recent years, Colorado has increased its dividend payout, a reflection of its increased cash flows from operating activities and a cautious approach to future growth through corporate acquisition<sup>b</sup>.



<sup>b</sup> Colorado MD Rowan Webb has publicly stated that the organisation is continuing to seek acquisition opportunities but at the moment “asset prices are up” thereby preventing any immediate additions to its portfolio. As a result, the organisation is seeking to improve internal efficiencies to produce better margins and to develop its own brand, while waiting for a downturn in the market before pursuing further acquisitions. (Source: Wisenthal, S. 2004. Colorado ready for adventure, *Australian Financial Review*, 27 Sept., p. 16)

## X. CASH FLOW ANALYSIS



Colorado and Noni-B have both reported significant net cash gains in the past five years, stemming from acquisitions, cost-cutting and improvements in operational efficiencies. Despite Colorado’s positive cash holdings, the group is not afraid to borrow to support its acquisitions, reinvesting and operational initiatives. Net cash flow from operations dropped 29% in 2002/2003 from the prior year as a result of additional working capital requirements of \$10 million due to the acquisition, \$7 million of extra tax payments, and a “one-off” allocation of \$6 million of inventory purchased in week 53. The acquisition also added \$10 million to inventories. Net cash used in financing activities has fluctuated as a result of significant borrowings and repayments between 2001/2002 and 2003/2004. Dividends paid between 2001 and 2004 also increased 194%, including a 32.9% increase in 2004 over 2003, helping to earn the confidence of shareholders. Overall, recent trends in the organisation’s cash flows suggest it is prosperous but limited in good growth opportunities.

Noni-B has reported similar cash flow activity, with operating cash flow increasing 177.6% in 2003/2004 over the prior financial year. There has been very little change in cash flows from investing activities in the last two years, while net cash used in financing activities decreased 45.6% over the

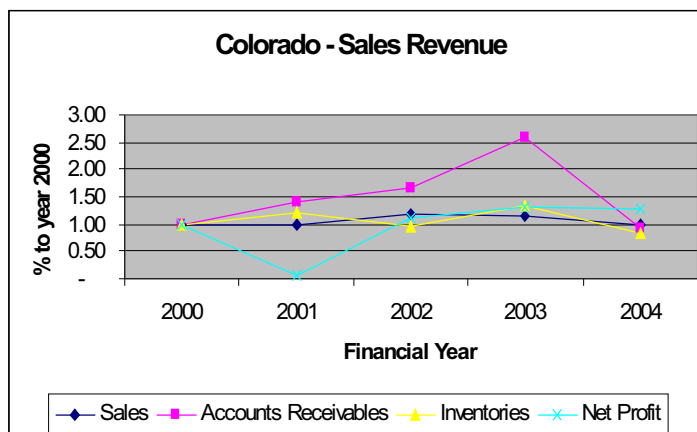


same period, due in part to a 12.6% decrease in dividends paid and 11.9% decrease in proceeds from the issue of shares. Noni-B's investment in property, plant and equipment was one-quarter (25.5%) the value of its net cash from operating activities in 2003/2004, just slightly ahead of Colorado's 24.3% across the same ratio. Like Colorado, Noni-B was sitting with considerable cash holdings at the end of the 2004 financial calendar, up a dramatic 226.5% from 2003. It, too, is stymied by the limited acquisition opportunities, and its sizeable cash holdings leaves it vulnerable to potential takeover.

## XI. TREND ANALYSIS

### Colorado

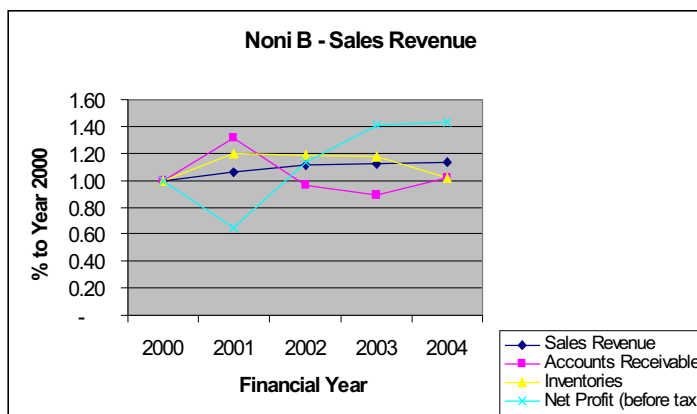
Colorado experienced growth in both sales and accounts receivables from 2000 to 2002. In 2003, despite a marginal decline in sales, accounts receivable increased significantly. This may be attributed to longer payment terms to fuel sales however the benefit was not converted into revenue.



One of the contributing factors to a net profit decline in 2001 can be attributed to the weakened Australian dollar as Colorado sources suppliers from overseas. Operating profits have grown from 2001. Interestingly, the inventory level of Colorado showed a pattern in-line with sales.

### Noni-B

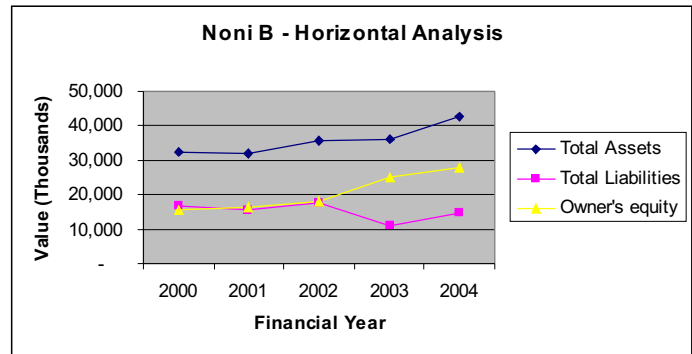
Sales revenue is trending upward in line with investments in sales and marketing. Noni-B experienced a significant decline in net profits in 2001 due to increased marketing expenditures and the incremental cost of short-term borrowings, which increased by more than 50 percent to 2001 from 2000.



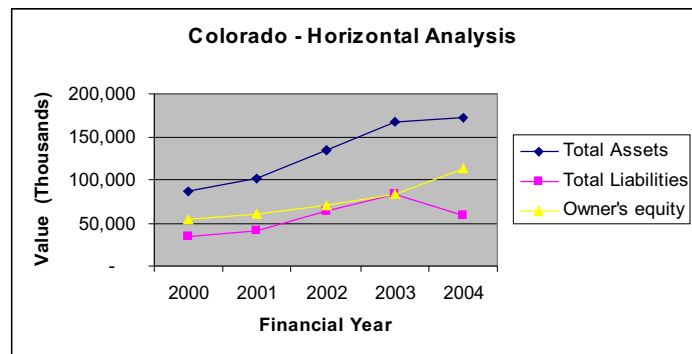
Noni-B's inventory level showed continuous growth from 2001 to 2003, due to the increasing forecast on sales revenue for this period and expansion. The retail industry during this time was booming due to strong economic growth and consumer spending.

## XII. HORIZONTAL ANALYSIS

Noni-B had a stable increase in their assets from 2000-2003 and significantly jumped by 18% in 2004, attributable to large cash holdings. Investments made on fixed assets, payments to supplier and lease payments caused the surge in short term liabilities from 2002 to 2004 and was further funded through the issuance of shares.



For Colorado the year 2003 showed a spike in assets due to high levels of inventories, trade receivables and intangible assets held. The company's expansion through acquisition and continued investments on fixed assets were backed by long term borrowings and equity infusion from investors. Efforts to pay down debts eroded in 2001 but increased from 2002 onwards. The use of retained profits to pay dividends may have contributed in maintaining positive cash flow.



### XIII. LIMITATIONS OF ANALYSIS

---

Differences in reporting periods may result in major distortions of available information and inaccurately reflect seasonality, inventory holdings and relative performance. Colorado's year end is late January, while Noni-B files at the end of June. For the latter entity, inventory and other working capital balances as at the reporting date are unlikely to be representative of the balance of items at other points in the business cycle.<sup>25</sup>

It is recognised that a large amount of information is not included in a company's financial statements. These include industry and management changes, government actions and union activities. These external influences are crucial to a company's successful operation, and information about them must come from careful analysis of financial reports in the media and other sources.

Ratios are also based on historical figures. This can lead to distortions in measuring performance and may not account for anomalies in an entity's dealings. Additionally, ratios are only as good as the data upon which they are based and are therefore reliant of accurate company financial statements.

There is a general lack of appropriate and reliable apparel industry benchmarks ratios, rendering results open to interpretation.

The adoption of new accounting standards will create further distortions and uneven peer comparison.<sup>26</sup> For year end January 2002, Colorado applied revised standards AASB 1018 Statement of Financial Performance, AASB 1034 Financial Report Presentation and Disclosures and the AASB 1040 Statement of Financial Position. These standards were also applied to the previous financial year ended 27 January 2001 and are reflected in the analysis. The application of new standards discloses revenue and expense items as individually significant and separate line items on the face of the statement of financial position, whereas they were previously disclosed as abnormal items.<sup>c</sup>

---

<sup>c</sup> For the year ended 31 January 2004, Colorado applied Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" which "prohibits the recognition of dividends as liabilities where they were not declared or publicly recommended on or before reporting date. Accordingly the consolidated entity has not provided for dividends at 31 January 2004." (Source: *Colorado Ltd, 2004 Annual Report, p. 33, [Online], [Accessed 18 Oct 2004], Available at [www.coloradogroup.com.au](http://www.coloradogroup.com.au)*) The adoption of this accounting standard requirement resulted in a direct increase in opening retained profits and decrease in provision for dividends.

The inclusion of a 53<sup>rd</sup> week in Colorado Ltd's financial year ended 26 January 2003 resulted in an additional \$7.5 million in sales, and \$6 million in inventory, which directly influenced the reporting of net profit, current assets, and income tax.

For the year end January 2004, there is a discrepancy between Colorado's "other" current assets resulting from the inclusion of "deferred foreign currency hedge exchange" which was not noted in the previous financial year. Inclusion of this line item directly affects the stating of current assets, current liabilities through payables, thus providing a potentially misleading effect on the analysis performed. For the purposes of this analysis, the original statements for the year ended 26 January 2003 have been applied.

As this analysis commences in 2001 it assumes GST is fully integrated into the framework.

## XIV. RECOMMENDATIONS

---

### **Long-Term Investment: Colorado Group Ltd.**

From the preceding analysis, Colorado is recommended for medium to long term investment. Colorado's management focus on deriving better margins from increased internal efficiencies and demonstrated willingness to invest in operations will suit investors well over periods of downturn.

Colorado's stable of attractive brands, investment in building brand equity and understanding its customers through CRM initiatives, will provide leverage against competitors in the fashion retail industry. Combined with a large sales base and diverse product lines, Colorado is also well positioned for an anticipated decline in consumer spending.<sup>27</sup> From price-to-earnings ratio analysis, Colorado is seen as reasonably priced when compared against the total market PER average of 25.29.<sup>28</sup> In recent years the company has demonstrated its commitment to shareholders by increasing dividend payments.

Potential risks include Colorado's reliance on overseas sourcing of products, which leaves it vulnerable to currency exchange fluctuations. Thus, careful foreign currency hedging should be deployed by the company. Additionally, increased domestic and imports competition will continue to put pressure on maintaining higher margins. Moreover, Colorado has several struggling brands (JAG, Mathers), an emerging concern with its days payable, high cash holdings and the possibility of being over-leveraged.

Overall, the continued strength of Colorado's balance sheets and cash flows and its willingness to seek debt financing while maintaining a cash "safety net" may outweigh the risks associated with the company.

### **Short-Term Investment: Noni-B Ltd.**

Noni-B is recommended for short-term investment and would cater to conservative investors seeking low risk. Noni-B's past performance of delivering consistent returns is a positive indicator of shareholder focus. By maintaining a cash positive position over the past four years, Noni-B has a good opportunity to expand through acquisition as the market consolidates, on the other hand, may attract larger operators.

The main limitations of Noni-B include its niche market strategy and inherent difficulties in growing profitably due to its limited range of products in a softening economy. Noni-B's reliance on sourcing products within Australia rather than overseas will continue to constrain margins as they have less flexibility in pricing.

Noni-B's lack of aggressiveness to invest their shareholders equity in fixed and intangible assets, such as technology, more brands and supplier relationship building, may be the limiting factors in sustaining efficient retail management practice and diversification in the long term.

**APPENDIX I: SWOT – COLORADO GROUP LTD.**

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>▪ Youthful, empowered managing director with extensive retail experience</li> <li>▪ “Project Cornerstone” – a long-term commitment to improving internal networks and operations, thereby reducing costs</li> <li>▪ Brand building, marketing orientation with strong investment</li> <li>▪ Strong, visible brands</li> <li>▪ Brand synergies</li> <li>▪ Product segmentation</li> <li>▪ Defined distribution networks</li> <li>▪ Supply chain efficiencies created through established retail outlets, consistent operational practices, and product sourcing via overseas manufacturers</li> <li>▪ Strong net cash position and margins</li> <li>▪ Stable revenue streams via brand acquisitions in recent years</li> <li>▪ diana ferrari and Palmer Corp wholesaling operations are less seasonal</li> <li>▪ Location/access to Asian markets and clothing manufacturers</li> <li>▪ Business acquisition experience</li> </ul>	<ul style="list-style-type: none"> <li>▪ Underperforming brands such as JAG and Mathers due to management decisions and competition</li> <li>▪ Inconsistent brand management for some SBUs (Mathers)</li> <li>▪ Limited domestic growth opportunities due to high asset valuations of competing retailers/potential acquisition targets</li> <li>▪ Reliance on footwear retailing as key product category</li> <li>▪ No wholly-owned manufacturing operations, reliance on overseas/external product suppliers and manufacturers</li> <li>▪ Do not own retail locations, subject to occupancy cost fluctuations</li> <li>▪ Service-based industry</li> </ul>	<ul style="list-style-type: none"> <li>▪ Australian-US Free Trade Agreement may allow the organisation to extend operations overseas, increase exports</li> <li>▪ Consumer growth in New Zealand and other Asian markets, opportunity for market diversification</li> <li>▪ Consumer spending confidence at all-time high</li> <li>▪ Potential for additional retail chain and brand acquisitions</li> <li>▪ Garment industry growth</li> <li>▪ Internet shopping, e-commerce growth, broadband penetration on the rise</li> <li>▪ New innovations in clothing (nano-technology, new fabric weaves)</li> <li>▪ Growth of sportswear sectors</li> <li>▪ Time-poor consumers</li> <li>▪ Growing regional markets (eg. Perth, Adelaide)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Australian-US Free Trade Agreement may provide opportunities for foreign retailers to penetrate market, thereby increasing competition</li> <li>▪ Retail product lifecycle in mature phase</li> <li>▪ Shifting customer expectations and global fashion niches, increased consumer segmentation</li> <li>▪ Increasing Pressure on retailers to develop new methods of reaching customers and meeting their needs and expectations</li> <li>▪ Increased competition within clothing and footwear sectors</li> <li>▪ Seasonality of fashions/industry</li> <li>▪ Potential for consumer confidence slippage – has spending reach its peak?</li> <li>▪ Currency fluctuations</li> <li>▪ High rents/property costs</li> <li>▪ Price discounting</li> </ul>



**APPENDIX II: SWOT – NONI-B LTD.**

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>▪ Family values based business</li> <li>▪ Industry knowledge</li> <li>▪ Customer service</li> <li>▪ Australian-based manufacture</li> <li>▪ Specialist retailer</li> <li>▪ Wide retail coverage</li> <li>▪ Strong net cash position and increasing margins</li> <li>▪ Consistent returns</li> <li>▪ Steady organic growth</li> <li>▪ Strong brand awareness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited strategic options with concentration on niche market</li> <li>▪ Limited acquisition and merger experience</li> <li>▪ One dimensional and static in relation to expansion</li> <li>▪ Lease exposure; no ownership of store locations</li> <li>▪ Service based industry intrinsically dependant on disposable income</li> <li>▪ Local markets nearing saturation, constricting organic growth</li> <li>▪ Niche-oriented target market</li> </ul>	<ul style="list-style-type: none"> <li>▪ Australian-US Free Trade Agreement could provide platform for increased export market</li> <li>▪ Product and market segment diversification</li> <li>▪ Brand diversification</li> <li>▪ Mergers and acquisitions of other retail companies to facilitate growth and expansion</li> <li>▪ Sourcing and/or manufacturing overseas</li> <li>▪ Line expansion into accessories and other fashion items</li> <li>▪ Brand loyalty programs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing competition and consolidation within the fashion retail market</li> <li>▪ Customer boredom due to specialist retailer tag</li> <li>▪ Lack of ingenuity</li> <li>▪ Pressure to provide competitive advantage</li> <li>▪ Change in customer needs and wants</li> <li>▪ Inability to recognize potential market, trends, and expansion opportunities</li> <li>▪ Stock obsolescence</li> <li>▪ Currency fluctuations</li> <li>▪ High rentals and property costs</li> <li>▪ Competitors competitive advantage</li> <li>▪ US-Australian Free Trade Agreement may increase competitive landscape</li> </ul>

**APPENDIX III: MACRO-ENVIRONMENTAL ANALYSIS**

<b>Political-Legal</b>	<b>Economic</b>	<b>Social-Demographic and Cultural</b>	<b>Technology</b>
<ul style="list-style-type: none"> <li>▪ The Australian Government has increased its support to the Australian Textile and Clothing industry designed to boost international awareness of the industry and increase global competitiveness of the participants in Australia.</li> <li>▪ The current trade tariff level of 25 % will reduce to 17.5 percent in January 2005.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Globalisation occurring, increased imports from overseas</li> <li>▪ Increased disposable income with improvements in economy, consumer confidence is increasing, people more willing to spend</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rise of the baby boomer, people having more children</li> <li>▪ Population is aging</li> <li>▪ People marrying later, remaining single – more disposable income available</li> <li>▪ Ethnic and minority groups becoming more affluent</li> <li>▪ Population is becoming more culturally diverse</li> <li>▪ People working longer hours</li> <li>▪ Consumer behaviour is changing, harder to segment market</li> </ul>	<ul style="list-style-type: none"> <li>▪ Introduction of the Internet, new sales channel?</li> <li>▪ Improvements in operational systems, data storage and monitoring</li> <li>▪ Movement toward CRM systems development and integration</li> <li>▪ Increased communication channels</li> <li>▪ Advancements in transportation and shipping</li> </ul>

## APPENDIX IV: RATIO ANALYSIS

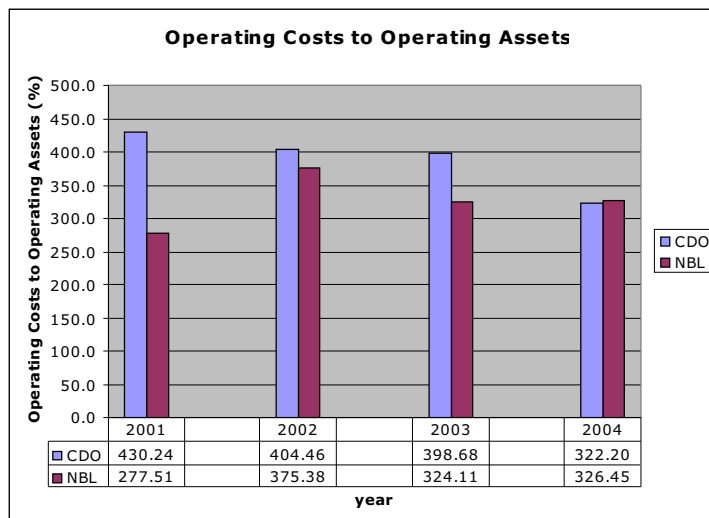
Relevant apparel industry ratios and accompanying analysis are presented below. Complete calculations for Colorado Group Ltd. and Noni-B Ltd. are located in Appendix VII and Appendix VIII, respectively.

<b>DUPONT SYSTEM ANALYSIS</b>	<b>SPREAD ANALYSIS</b>	<b>FINANCIAL PERFORMANCE ANALYSIS</b>
Asset Turnover	Operating Costs to Operating Assets	Net Profit Margin
Profit Margin	Return on Operating Assets	Sales Change
Rate of Return on Assets	Cost of Debt	Cash Cover Ratio
Leverage	Spread	Debt to Equity
Return on Equity	Leverage	Current Ratio
	Return on Financial Leverage	Quick Ratio
<b>WORKING CAPITAL/FUNDING GAP ANALYSIS</b>	<b>SUSTAINABLE GROWTH RATE ANALYSIS</b>	<b>CASH SUFFICIENCY ANALYSIS</b>
Accounts Receivable Turnover	Sustainable Growth Rate	Dividend Payout Ratio
Days Receivable		
Inventory Turnover		
Days Inventory		
Days Payable		
Funding Gap		

## APPENDIX V: OTHER RATIOS

### Operating Assets

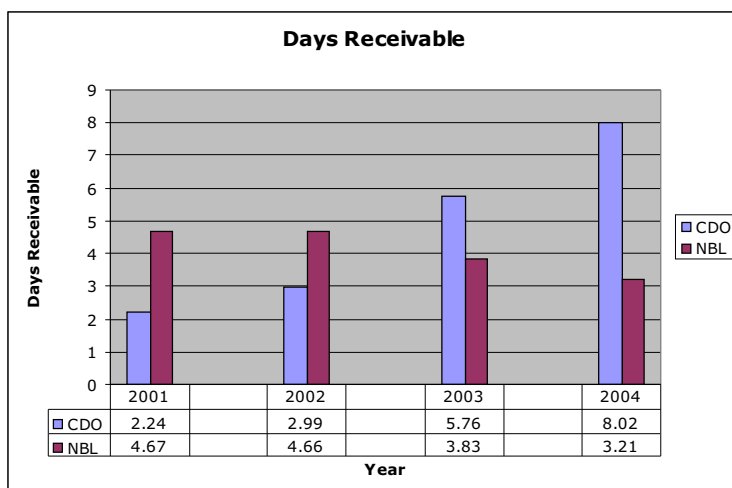
Applying spread analysis, it is possible to derive additional insight into financial performance and capital structure, and thereby assess risk of a particular entity. On calculation of the operating cost to operating assets ratio, wherein operating assets is equal to total assets less current liabilities, it is apparent that Colorado is growing more efficient as an entity in controlling its operating costs as its operating assets have grown. The ratio between operating costs to operating assets has dropped more than 25% since reaching a high of 430% in 2001.



Between 2001 and 2002 Noni-B’s operating costs to operating assets increased from 277% to 375%. Noni-B has made marginal improvements since, gaining some efficiency in operating assets while operating costs increase.

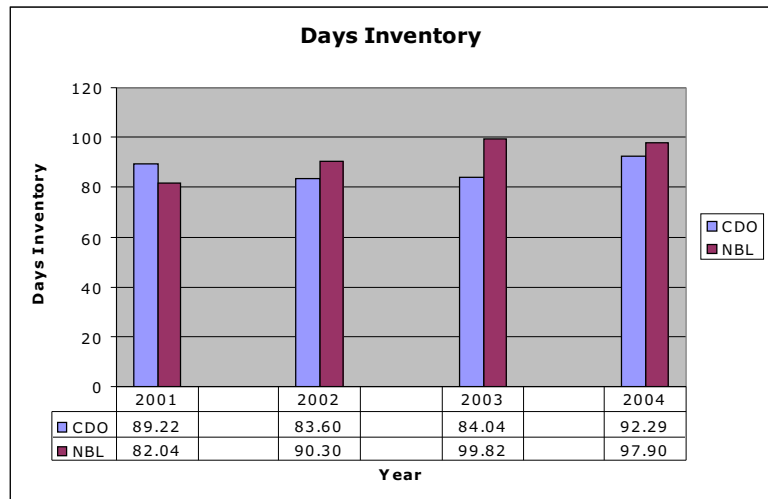
### Days Receivable

Colorado extended its days receivables to roughly eight days in 2004, a 258% increase from 2001. On the surface this may be an alarming trend, but it is a reasonable increase when compared against the industry benchmark of 7<sup>29</sup>, and may stem from the organisation’s desire to stimulate customer sales. Noni-B has moved in the opposite direction, reducing the number its days receivable. Aging analysis of the receivables would identify distortions.



### Days Inventory

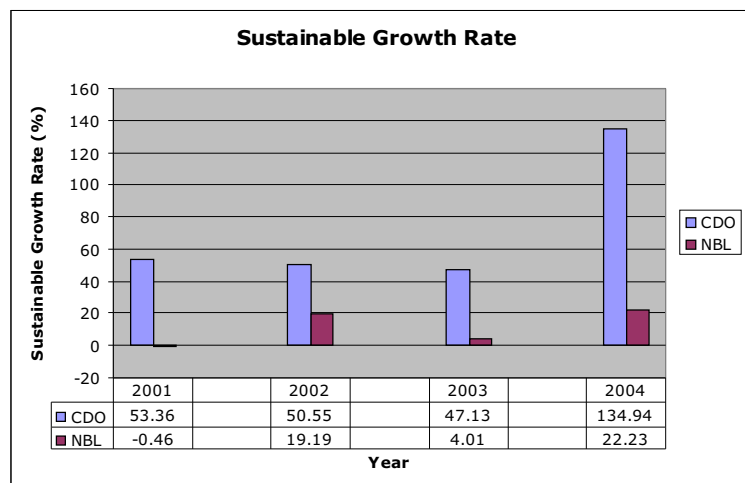
Seasonality issues and consumer trends confronting the fashion industry may explain the increases in days inventory of both firms. Since 2001, Noni-B has seen their days inventory increase 15 days, while Colorado is up roughly 9 days over 2002 figures, although the latter has recently made significant investment in a Retail Merchandising System (RMS) to handle increased capacity from the diana ferrari and JAG acquisitions. Colorado also relies on wholesale distribution, which may further distort results.



## SUSTAINABLE GROWTH RATE ANALYSIS

### Sustainable Growth Rate

How much can a company grow without outside capital? The answer lies in the sustainable growth rate, which suggests that Colorado was in a very strong position at the end of the 2004 financial year to grow sales without having to resort to external sources, whereas Noni-B would more likely need some level of outside funding to sustain the level of growth experienced in recent years, although certainly less than what it would have required in 2003.



## APPENDIX VI: RATIOS DEFINED

### DUPONT SYSTEM ANALYSIS

---

#### ASSET TURNOVER

$$\text{Asset Turnover} = \frac{\text{Revenues}}{\text{Average Total Assets}}$$

*Description:* Measures the effectiveness of an entity in using its assets during the period. This ratio provides a general indication of a company's long-term stability. It measures the effectiveness with which all assets have been used by assessing the number of revenue dollars generated for each dollar of average assets used during the period.

---

#### PROFIT MARGIN (Before Interest and Tax)

$$\text{Profit Margin} = \frac{\text{EBIT}}{\text{Sales}}$$

*Description:* A measure of a company's profitability, cost structure and efficiency. It is a key driver of business performance and related to the entity's ability to convert revenue into profit.

---

#### RATE OF RETURN ON ASSETS

$$\text{Rate of Return on Assets} = \text{Asset Turnover} \times \text{Profit Margin}$$

*Description:* Rate of Return on Assets measures operating profitability, and is decomposed into two elements, profit margin and total asset turnover. The company goal is a product of maximising both elements<sup>30</sup>.

---

#### LEVERAGE (Dupont Model)

$$\text{Leverage} = \frac{\text{Total Assets}}{\text{Shareholders' Equity}}$$

*Description:* Leverage refers to the relative reliance on debt financing versus equity financing. The more an entity relies on debt, the greater the risk.

---

#### RETURN ON EQUITY (ROE) RATIO

$$\text{Return on Equity} = \text{ROA} \times \text{Leverage}$$

*Description:* Under the Dupont System of analysis, return on equity is a function of return on assets and the degree of leverage employed by the entity in its financing/capital structure<sup>31</sup>. A business that yields a high return on equity is more likely able to generate cash internally.<sup>32</sup> Investors typically seek companies with high and growing return on equity.

---

## SPREAD ANALYSIS

*Description:* When compared to the Dupont System of analysis, spread analysis provides a more explicit quantification of the source of returns to shareholders from operational activities and the entity's financial structure.<sup>33</sup>

---

### OPERATING ASSETS

$$\text{Operating Assets} = \text{Total Assets} - \text{Current Liabilities}$$


---

### REVENUE TO OPERATING ASSETS

$$\text{Revenue to Operating Assets} = \frac{\text{Revenue}}{\text{Operating Assets}}$$


---

### OPERATING COSTS

$$\text{Operating Costs} = \text{Total Assets} - \text{Interest Costs}$$


---

### OPERATING COSTS TO OPERATING ASSETS

$$\text{Operating Costs to Operating Assets} = \frac{\text{Operating Costs}}{\text{Operating Assets}}$$


---

### RETURN ON OPERATING ASSETS

$$\text{Return on Operating Assets} = \text{Revenue to Operating Assets} - \text{Operating Cost to Operating Assets}$$

*Description:* Return on Operating Assets show the contribution to overall performance of the entity's operating assets during the period.

---

### COST OF DEBT

$$\text{Cost of Debt} = \frac{\text{Interest Expense}}{\text{Debt}}$$

*Description:* Provides an estimate of the cost of debt incurred by the entity, with debt representing the total value of its interest bearing liabilities.

---

### SPREAD

$$\text{Spread} = \text{Return on Operating Assets} - \text{Cost of Debt}$$

*Description:* The incremental economic effect of introducing debt into an entity's capital structure.<sup>34</sup>

---

**LEVERAGE (Alternative)**

$$\text{Leverage} = \frac{\text{Debt}}{\text{Equity}}$$

*Description:* The degree to which the entity is reliant on debt as a source of capital.<sup>35</sup>

---

**RETURN ON FINANCIAL LEVERAGE**

$$\text{Return on Financial Leverage} = \text{Spread} \times \text{Leverage}$$

*Description:* Measures the gains (losses) to shareholders resulting from the use of leverage in the entity's capital structure.

---

**FINANCIAL PERFORMANCE ANALYSIS**

---

**NET PROFIT RATIO**

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit (after tax)}}{\text{Net Sales}}$$

*Description:* This ratio indicates how much profit a company makes for every \$1 it generates in revenue.

---

**SALES CHANGE RATIO**

$$\text{Sales Change} = \frac{\text{Sales This Period} - \text{Sales Last Period}}{\text{Sales Last Period}}$$

*Description:* Provides a general, yet important, measure of performance of a company based on a year-to-year sales comparison.

---

**CASH COVER RATIO**

$$\text{Cash Cover Ratio} = \frac{\text{Net Cashflow from Operations} + \text{Cash Interest Paid}}{\text{Interest Expense}}$$

*Description:* A measure of the ability of an entity to service interest payments due on debt, with the numerator providing information about the free operating cashflow available to cover debt financing costs. The denominator represents the amount of interest expense incurred during the period, and may be subject to distortions due to timing<sup>36</sup>.

---

**DEBT TO EQUITY RATIO**

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$



*Description:* A measure of a company's leverage, calculated by dividing long-term debt by common shareholders' equity, usually using the data from the previous fiscal year. Sometimes, long-term debt plus preferred shareholder's equity is divided by common shareholders' equity, since preferred stock can be viewed as a form of debt. A company with a higher debt/equity ratio can offer greater returns to shareholders but be riskier<sup>37</sup>.

---

### CURRENT RATIO

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

*Description:* Used to indicate the ability of the business entity to meet its short-term financial commitments. It measures a margin of safety to the creditors. A generally acceptable current ratio is 2 to 1. One of the weaknesses of this ratio is that it includes all current assets, mixing the most liquid assets such as cash, marketable securities and receivables with less liquid assets as inventories and prepaid expenses.<sup>38</sup>

---

### QUICK RATIO

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities} - \text{Overdraft}}$$

*Description:* When considering a company's short-term liquidity – essentially the ability of the organisation to pay its current liabilities – the Quick Ratio typically provides a better measure than the Current Ratio, in that it excludes all but the most highly liquid current assets from the numerator.<sup>39</sup>

---

## WORKING CAPITAL/FUNDING GAP ANALYSIS

---

### ACCOUNTS RECEIVABLE TURNOVER RATIO

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Sales Revenue}}{\text{Average Receivable Balance}}$$

*Description:* This ratio will suggest how quickly accounts receivable are being collected. It measures how many times the average receivables balance is converted into cash during the year. A higher ratio will suggest a shorter wait between recording a sale and collecting the cash.

---

### DAYS RECEIVABLE

$$\text{Average Collection Period} = \frac{365}{\text{Accounts Receivables Turnover}}$$

*Description:* A measure of the average time a company's customers take to pay for purchases.

---

**INVENTORY TURNOVER**

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$$

*Description:* The number of times during the period that inventory balances were sold or otherwise consumed.

---

**DAYS INVENTORY**

$$\text{Days Inventory} = \frac{365}{\text{Inventory Turnover}}$$

*Description:* Determines the number of days, on average, taken to either sell or consume inventory in productive processes, depending on when the inventory is acquired. Fewer “days inventory” means the faster inventory is being consumed through the business entity.

---

**DAYS PAYABLE**

$$\text{Days Payable} = \frac{365}{\text{COGS/Average Accounts Payable}}$$

*Description:* This calculation shows the average length of time an entity’s trade payables are outstanding before they are paid.

---

**FUNDING GAP**

$$\text{Funding Gap} = \text{Days Inventory} + \text{Days Receivable} - \text{Days Payable}$$

*Description:* Measures the difference between the time taken for an entity to convert its inventory into cash (Operating Cycle) and the time taken to pay suppliers. A negative funding gap suggests the entity has a funding gap problem as it is expected to pay its creditors in advance of actually receiving payment from customers.

---

**CASH SUFFICIENCY ANALYSIS****DIVIDEND PAYOUT**

$$\text{Dividend Yield} = \frac{\text{Annual Dividend Per Ordinary Share}}{\text{Market Price Per Ordinary Share}}$$

*Description:* Measures the rate of return to shareholders based on current market price. Percentage yield indicates a rate of return on the dollars invested and permits easier comparison with the returns from alternative investment opportunities.

---

## SUSTAINABLE GROWTH RATE ANALYSIS

---

### SUSTAINABLE GROWTH RATE

$$\text{Sustainable Growth Rate} = \frac{\text{ROA} \times (1-D)}{E/A - (\text{ROA})(1-D)}$$

*Description:* This ratio is commonly used to measure the maximum rate of growth a firm can sustain without increasing financial leverage.

---

## APPENDIX VII: COLORADO GROUP LTD. RATIOS

### DUPONT SYSTEM ANALYSIS

#### ASSET TURNOVER RATIO

$$\frac{\text{REVENUES}}{\text{AVERAGE TOTAL ASSETS}}$$

COLORADO	2001	2002	2003	2004
Sales ('000 AUD)	323,754	377,993	439,097	440,754
Total Assets ('000 AUD)	102,327	134,564	166,722	172,306
<b>Asset Turnover (times)</b>	<b>3.16</b>	<b>2.81</b>	<b>2.63</b>	<b>2.56</b>

#### PROFIT MARGIN (Before Interest & Tax)

$$\frac{\text{CURRENT ASSETS - INVENTORY}}{\text{CURRENT LIABILITIES - OVERDRAFT}}$$

COLORADO	2001	2002	2003	2004
EBIT ('000 AUD)	22,623	25,883	34,503	42,517
Sales ('000 AUD)	323,754	377,993	439,097	440,754
<b>Profit Margin (%)</b>	<b>6.99%</b>	<b>6.85%</b>	<b>7.86%</b>	<b>9.65%</b>

#### RATE OF RETURN ON ASSETS

#### ASSET TURNOVER

#### PROFIT MARGIN

COLORADO	2001	2002	2003	2004
Asset Turnover (times)	3.16	2.81	2.63	2.56
Profit Margin (%)	6.99%	6.85%	7.86%	9.65%
<b>ROA (%)</b>	<b>22.11%</b>	<b>19.23%</b>	<b>20.69%</b>	<b>24.68%</b>

**LEVERAGE (DUPONT MODEL)**

**TOTAL ASSETS**  


---

  
**SHAREHOLDERS' EQUITY**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Assets ('000 AUD)	102,327	134,564	167,887	172,306
Shareholders' Equity ('000 AUD)	60,928	70,840	83,748	112,809
<b>Leverage (times)</b>	<b>1.68</b>	<b>1.90</b>	<b>2.00</b>	<b>1.53</b>

**RETURN ON EQUITY (ROE) RATIO****ROA X LEVERAGE**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
ROA (%)	0.22	0.19	0.21	0.25
Leverage (times)	1.68	1.90	2.00	1.53
<b>ROE (%)</b>	<b>37.13%</b>	<b>36.54%</b>	<b>41.49%</b>	<b>37.69%</b>

**SPREAD ANALYSIS****OPERATING ASSETS****TOTAL ASSETS – CURRENT LIABILITIES**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Assets ('000 AUD)	102,327	134,564	166,722	172,306
Current Liabilities ('000 AUD)	32,081	46,689	64,604	47,907
<b>Operating Assets ('000 AUD)</b>	<b>70,246</b>	<b>87,875</b>	<b>102,118</b>	<b>124,399</b>

**REVENUE TO OPERATING**

**REVENUE**  
**OPERATING ASSETS**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Revenue ('000 AUD)	323,754	377,993	439,097	440,754
Operating Assets ('000 AUD)	70,246	87,875	102,118	124,399
<b>Revenue to Operating Assets (%)</b>	<b>460.89%</b>	<b>430.15%</b>	<b>429.99%</b>	<b>354.31%</b>

**OPERATING COSTS**

**TOTAL ASSETS – INTEREST COSTS**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Costs ('000 AUD)	303,479	357,173	409,454	402,457
Interest Costs ('000 AUD)	1,255	1,750	2,333	1,643
<b>Operating Costs</b>	<b>302,224</b>	<b>355,423</b>	<b>407,121</b>	<b>400,814</b>

**OPERATING COSTS TO OPERATING ASSETS**

**OPERATING COSTS**  
**OPERATING ASSETS**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Operating Costs ('000 AUD)	302,224	355,423	407,121	400,814
Operating Assets ('000 AUD)	70,246	87,875	102,118	124,399
<b>Operating Costs to Operating Assets (%)</b>	<b>430.24%</b>	<b>404.46%</b>	<b>398.68%</b>	<b>322.20%</b>

**RETURN ON OPERATING ASSETS****REVENUE TO OPERATING ASSETS – OPERATING COST TO OPERATING ASSETS**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Revenue to Operating Assets (%)	460.89%	430.15%	429.99%	354.31%
Operating Cost to Operating Assets (%)	430.24%	404.46%	398.68%	322.20%
<b>Return on Operating Assets (%)</b>	<b>30.65%</b>	<b>25.68%</b>	<b>31.31%</b>	<b>32.11%</b>

**COST OF DEBT****INTEREST EXPENSE****DEBT**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Interest Expense ('000 AUD)	1,255	1,750	2,333	1,643
Debt ('000 AUD)	12,000	8,435	14,624	6,500
<b>Cost of Debt (%)</b>	<b>10.46%</b>	<b>20.75%</b>	<b>15.95%</b>	<b>25.28%</b>

**SPREAD****RETURN ON OPERATING ASSETS – COST OF DEBT**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Return on Operating Assets (%)	30.65%	25.68%	31.31%	32.11%
Cost of Debt (%)	10.46%	20.75%	15.95%	25.28%
<b>Spread (%)</b>	<b>20.19%</b>	<b>4.94%</b>	<b>15.36%</b>	<b>6.83%</b>

**LEVERAGE****DEBT****EQUITY**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Debt ('000 AUD)	4,000	6,760	12,760	5,760
Equity (aka Net Assets) ('000 AUD)	60,928	70,840	83,748	112,809
<b>Leverage (%)</b>	<b>6.57%</b>	<b>9.54%</b>	<b>15.24%</b>	<b>5.11%</b>

**RETURN ON FINANCIAL LEVERAGE****SPREAD X LEVERAGE**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Spread (%)	20.19%	4.94%	15.36%	6.83%
Leverage (%)	6.57%	9.54%	15.24%	5.11%
<b>Return on Financial Leverage (%)</b>	<b>1.33%</b>	<b>0.47%</b>	<b>2.34%</b>	<b>0.35%</b>

**FINANCIAL PERFORMANCE ANALYSIS****NET PROFIT MARGIN RATIO****NET PROFIT (AFTER TAX)****NET SALES**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net Profit After Tax ('000 AUD)	14,474	17,146	22,503	28,770
Number of Employees	1,992	2,413	2,350	2,010
<b>Net Profit After Tax per Employee (AUD)</b>	<b>7,266</b>	<b>7,106</b>	<b>9,576</b>	<b>14,313</b>

**SALES CHANGE RATIO****SALES THIS PERIOD – SALES LAST PERIOD****SALES LAST PERIOD**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Sales this period ('000 AUD)	323,754	377,993	439,097	440,754
Sales last period ('000 AUD)	289,542	323,754	377,993	439,097
Sales last period ('000 AUD)	289,542	323,754	377,993	439,097
<b>Sales Change Ratio</b>	<b>11.82%</b>	<b>16.75%</b>	<b>16.17%</b>	<b>0.38%</b>



**CASH COVER RATIO**

$$\frac{\text{NET CASHFLOW FROM OPERATIONS} + \text{CASH INTEREST PAID}}{\text{INTEREST EXPENSE}}$$

<b>COLORADO</b>	<b>2001*</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net Cashflow from Operations ('000 AUD)	25,462	35,756	25,391	48,393
Add Cash Interest Paid ('000 AUD)	1,401	1,750	2,301	1,607
Interest Expense ('000 AUD)	1,255	1,750	2,333	1,643
<b>Cash Cover Ratio</b>	<b>21.40</b>	<b>21.43</b>	<b>11.87</b>	<b>30.43</b>

**DEBT TO EQUITY RATIO**

$$\frac{\text{TOTAL LIABILITIES}}{\text{SHAREHOLDERS' EQUITY}}$$

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Liabilities ('000 AUD)	41,399	63,724	82,974	59,497
Shareholders' Equity ('000 AUD)	60,928	70,840	83,748	112,809
<b>Debt to Equity Ratio</b>	<b>67.95%</b>	<b>89.95%</b>	<b>99.08%</b>	<b>52.74%</b>

**CURRENT RATIO**

$$\frac{\text{TOTAL CURRENT ASSETS}}{\text{TOTAL CURRENT LIABILITIES}}$$

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004*</b>
Total Current Assets ('000 AUD)	70,837	81,962	102,506	108,058
Total Current Liabilities ('000 AUD)	32,081	46,689	64,604	47,907
<b>Current Ratio</b>	<b>2.21</b>	<b>1.76</b>	<b>1.59</b>	<b>2.26</b>

\*Total Current Assets include deferred foreign currency exchange.

**QUICK RATIO****CURRENT ASSETS - INVENTORY****CURRENT LIABILITIES - OVERDRAFT**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Current Assets ('000 AUD)	70,837	81,962	102,506	108,058
Less Inventory ('000 AUD)	46,068	44,668	60,115	49,260
Current Liabilities ('000 AUD)	32,081	46,689	64,604	47,907
Less Overdraft ('000 AUD)	4,805	0	1,473	9,434
<b>Quick Ratio</b>	<b>0.91</b>	<b>0.80</b>	<b>0.67</b>	<b>1.53</b>

**WORKING CAPITAL/FUNDING GAP ANALYSIS****ACCOUNTS RECEIVABLE  
TURNOVER RATIO****NET SALES REVENUE  
AVERAGE RECEIVABLE BALANCE**

<b>COLORADO</b>	<b>2001*</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net Sales Revenue ('000 AUD)	323,754	377,993	439,097	440,754
Last Year Receivable Balance ('000 AUD)	1,661	2,320	3,882	9,983
Current Year Receivable Balance ('000 AUD)	2,320	3,882	9,983	9,385
<b>Accounts Receivable Turnover</b>	<b>162.65</b>	<b>121.89</b>	<b>63.34</b>	<b>45.51</b>

\*Note: For the purposes of this analysis, the revaluations of line items and sub-totals enclosed in the 2002 financial statements have been applied.

**DAYS RECEIVABLE**

365

**ACCOUNTS RECEIVABLE TURNOVER**

<b>COLORADO</b>	<b>2001*</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
365	365	365	365	365
Receivables Turnover	162.65	121.89	63.34	45.51
<b>Days Receivable</b>	<b>2.24</b>	<b>2.99</b>	<b>5.76</b>	<b>8.02</b>

\*Note: For the purposes of this analysis, the revaluations of line items and sub-totals enclosed in the 2002 financial statements have been applied.

**INVENTORY TURNOVER****COST OF GOODS SOLD****AVERAGE STOCK**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
COGS ('000 AUD)	172,606	198,067	227,557	216,280
Last Year Inventory Balance ('000 AUD)	38,315	46,068	44,668	60,115
Current Year inventory Balance ('000 AUD)	46,068	44,668	60,115	49,260
<b>Inventory Turnover</b>	<b>4.09</b>	<b>4.37</b>	<b>4.34</b>	<b>3.95</b>

**DAYS INVENTORY**

365

**INVENTORY TURNOVER**

<b>COLORADO</b>	<b>2001*</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
365	365	365	365	365
Inventory Turnover	4.09	4.37	4.34	3.95
<b>Days Inventory</b>	<b>89.22</b>	<b>83.60</b>	<b>84.04</b>	<b>92.29</b>

**DAYS PAYABLE**

365

**COGS/AVERAGE ACCOUNTS PAYABLE**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Last Year Payables Balance ('000 AUD)	8,794	13,993	18,239	28,147
Current Year Payables Balance ('000 AUD)	13,993	18,239	30,147	25,943
365	365	365	365	365
COGS('000 AUD)	172,606	198,067	227,557	216,280
<b>Days Payable</b>	<b>24.09</b>	<b>29.70</b>	<b>38.81</b>	<b>45.64</b>

**FUNDING GAP****DAYS INVENTORY + DAYS RECEIVABLE – DAYS PAYABLE**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Days Receivable	2.24	2.99	5.76	8.02
Days Inventory	89.2	83.6	84.0	92.3
Days Payable	24.1	29.7	38.8	45.6
<b>Funding Gap</b>	<b>-67.37</b>	<b>-56.90</b>	<b>-50.99</b>	<b>-54.67</b>

**CASH SUFFICIENCY ANALYSIS****DIVIDEND PAYOUT RATIO****ANNUAL DIVIDEND PER ORDINARY SHARE****MARKET PRICE PER ORDINARY SHARE**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Dividends Paid ('000 AUD)	3,400	6,830	7,529	10,005
Net Cashflow from Operating Activities ('000 AUD)	25,462	35,756	25,391	48,393
<b>Dividend Payout Ratio</b>	<b>13.35%</b>	<b>19.10%</b>	<b>29.65%</b>	<b>20.67%</b>

**SUSTAINABLE GROWTH RATE ANALYSIS****SUSTAINABLE GROWTH RATE****ROA X (1-D)****E/A – (ROA)(1-D)**

<b>COLORADO</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
ROA (%)	23.91	21.85	22.82	25.00
Level of Profit Retention (1-Dividend Payout Ratio)	0.87	0.81	0.70	0.79
Level of Gearing (E/A)	59.54%	52.64%	50.12%	34.53%
<b>Sustainable Growth Rate (%)</b>	<b>53.36%</b>	<b>50.55%</b>	<b>47.13%</b>	<b>134.94%</b>

**APPENDIX VIII: NONI-B LTD. RATIOS****DUPONT SYSTEM ANALYSIS**

**ASSET TURNOVER RATIO**  $\frac{\text{REVENUES}}{\text{AVERAGE TOTAL ASSETS}}$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Sales ('000 AUD)	68,546	76,470	85,907	97,074
Total Assets ('000 AUD)	31,989	35,605	35,870	42,502
<b>Asset Turnover (times)</b>	<b>2.14</b>	<b>2.15</b>	<b>2.39</b>	<b>2.28</b>

**PROFIT MARGIN (Before Interest & Tax)**  $\frac{\text{CURRENT ASSETS - INVENTORY}}{\text{CURRENT LIABILITIES - OVERDRAFT}}$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
EBIT ('000 AUD)	3,433	3,816	4,532	6,212
Sales ('000 AUD)	68,546	76,470	85,907	97,074
<b>Profit Margin (%)</b>	<b>5.01%</b>	<b>4.99%</b>	<b>5.28%</b>	<b>6.40%</b>

**RATE OF RETURN ON ASSETS**  $\frac{\text{ASSET TURNOVER}}{\text{PROFIT MARGIN}}$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Asset Turnover (times)	2.14	2.15	2.39	2.28
Profit Margin (%)	5.01%	4.99%	5.28%	6.40%
<b>ROA (%)</b>	<b>10.73%</b>	<b>10.72%</b>	<b>12.63%</b>	<b>14.62%</b>

**LEVERAGE (DUPONT MODEL)**

**TOTAL ASSETS**  


---

**SHAREHOLDERS' EQUITY**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Assets ('000 AUD)	31,989	35,605	35,870	42,502
Shareholders' Equity ('000 AUD)	16,446	17,923	24,912	27,841
<b>Leverage (times)</b>	<b>1.95</b>	<b>1.99</b>	<b>1.44</b>	<b>1.53</b>

**RETURN ON EQUITY (ROE) RATIO**

**ROA X LEVERAGE**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
ROA (%)	10.73%	10.72%	12.63%	14.62%
Leverage (times)	1.95	1.99	1.44	1.53
<b>ROE (%)</b>	<b>20.87%</b>	<b>21.29%</b>	<b>18.19%</b>	<b>22.31%</b>

**SPREAD ANALYSIS**

**OPERATING ASSETS**

**TOTAL ASSETS – CURRENT LIABILITIES**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Assets ('000 AUD)	31,989	35,605	35,870	42,502
Current Liabilities ('000 AUD)	8,163	15,861	10,080	13,816
Operating Assets ('000 AUD)	23,826	19,744	25,790	28,686

**REVENUE TO OPERATING**

**REVENUE**  


---

**OPERATING ASSETS**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Revenue ('000 AUD)	68,546	76,470	85,907	97,074
Operating Assets ('000 AUD)	23,826	19,744	25,790	28,686
<b>Revenue to Operating Assets (%)</b>	<b>287.69%</b>	<b>387.31%</b>	<b>333.10%</b>	<b>338.40%</b>

**OPERATING COSTS**

**TOTAL ASSETS – INTEREST COSTS**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Costs ('000 AUD)	66,896	74,841	83,774	93,658
Interest Costs ('000 AUD)	776	725	186	13
<b>Operating Costs</b>	<b>66,120</b>	<b>74,116</b>	<b>83,588</b>	<b>93,645</b>

**OPERATING COSTS TO OPERATING ASSETS**

**OPERATING COSTS**  


---

**OPERATING ASSETS**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Operating Costs ('000 AUD)	66,120	74,116	83,588	93,645
Operating Assets ('000 AUD)	23,826	19,744	25,790	28,686
<b>Operating Costs to Operating Assets (%)</b>	<b>277.51%</b>	<b>375.38%</b>	<b>324.11%</b>	<b>326.45%</b>

**RETURN ON OPERATING ASSETS****REVENUE TO OPERATING ASSETS – OPERATING COST TO OPERATING ASSETS**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Revenue to Operating Assets (%)	287.69%	387.31%	333.10%	338.40%
Operating Cost to Operating Assets (%)	277.51%	375.38%	324.11%	326.45%
<b>Return on Operating Assets (%)</b>	<b>10.18%</b>	<b>11.92%</b>	<b>8.99%</b>	<b>11.95%</b>

**COST OF DEBT****INTEREST EXPENSE****DEBT**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Interest Expense ('000 AUD)	776	725	186	13
Debt ('000 AUD)	7,101	6,848	254	275
<b>Cost of Debt (%)</b>	<b>10.93%</b>	<b>10.59%</b>	<b>73.23%</b>	<b>4.73%</b>

**SPREAD****RETURN ON OPERATING ASSETS – COST OF DEBT**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Return on Operating Assets (%)	10.18%	11.92%	8.99%	11.95%
Cost of Debt (%)	10.93%	10.59%	73.23%	4.73%
<b>Spread (%)</b>	<b>-0.75%</b>	<b>1.34%</b>	<b>-64.24%</b>	<b>7.23%</b>

**LEVERAGE****DEBT****EQUITY**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Debt ('000 AUD)	7,101	6,848	254	275
Equity (aka Net Assets) ('000 AUD)	16,446	17,932	24,912	27,841
<b>Leverage (%)</b>	<b>43.18%</b>	<b>38.19%</b>	<b>1.02%</b>	<b>0.99%</b>



**RETURN ON FINANCIAL LEVERAGE****SPREAD X LEVERAGE**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Spread (%)	-0.75%	1.34%	-64.24%	7.23%
Leverage(%)	43.18%	38.19%	1.02%	0.99%
<b>Return on Financial Leverage (%)</b>	<b>-0.32%</b>	<b>0.51%</b>	<b>-0.65%</b>	<b>0.07%</b>

**FINANCIAL PERFORMANCE ANALYSIS****NET PROFIT MARGIN RATIO****NET PROFIT (AFTER TAX)****NET SALES**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net Profit after tax ('000 AUD)	1,727	2,114	2,985	4,425
Net Sales ('000 AUD)	68,546	76,470	85,907	97,074
<b>Net Profit Margin Ratio</b>	<b>2.5%</b>	<b>2.8%</b>	<b>3.5%</b>	<b>4.6%</b>

**SALES CHANGE RATIO****SALES THIS PERIOD – SALES LAST PERIOD****SALES LAST PERIOD**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Sales this period ('000 AUD)	68,546	76,470	85,907	97,074
Sales last period ('000 AUD)	64,517	68,546	76,470	85,907
Sales last period ('000 AUD)	64,517	68,546	76,470	85,907
<b>Sales Change Ratio</b>	<b>6.24%</b>	<b>11.56%</b>	<b>12.34%</b>	<b>13.00%</b>

**CASH COVER RATIO**

$$\frac{\text{NET CASHFLOW FROM OPERATIONS} + \text{CASH INTEREST PAID}}{\text{INTEREST EXPENSE}}$$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net Cashflow from Operations ('000 AUD)	1,295	4,889	3,931	10,914
Add Cash Interest Paid ('000 AUD)	776	725	186	13
Interest Expense ('000 AUD)	776	725	186	13
<b>Cash Cover Ratio</b>	<b>2.67</b>	<b>7.74</b>	<b>22.13</b>	<b>840.54</b>

**DEBT TO EQUITY RATIO**

$$\frac{\text{TOTAL LIABILITIES}}{\text{SHAREHOLDERS' EQUITY}}$$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Liabilities ('000 AUD)	15,543	17,682	10,958	14,661
Shareholders' Equity ('000 AUD)	16,446	17,923	24,912	27,841
<b>Debt to Equity Ratio</b>	<b>94.51%</b>	<b>98.66%</b>	<b>43.99%</b>	<b>52.66%</b>

**CURRENT RATIO**

$$\frac{\text{TOTAL CURRENT ASSETS}}{\text{TOTAL CURRENT LIABILITIES}}$$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Current Assets ('000 AUD)	12,326	16,100	16,038	22,763
Total Current Liabilities ('000 AUD)	8,163	15,861	10,080	13,816
<b>Current Ratio</b>	<b>1.51</b>	<b>1.02</b>	<b>1.59</b>	<b>1.65</b>

**QUICK RATIO****CURRENT ASSETS - INVENTORY****CURRENT LIABILITIES - OVERDRAFT**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Current Assets ('000 AUD)	12,326	16,100	16,038	22,763
Less Inventory ('000 AUD)	8,817	10,445	12,293	12,440
Current Liabilities ('000 AUD)	8,163	15,861	10,080	13,816
Less Overdraft ('000 AUD)	0	0	0	0
<b>Quick Ratio</b>	<b>0.43</b>	<b>0.36</b>	<b>0.37</b>	<b>0.75</b>

**WORKING CAPITAL/FUNDING GAP ANALYSIS****ACCOUNTS RECEIVABLE  
TURNOVER RATIO****NET SALES REVENUE  
AVERAGE RECEIVABLE BALANCE**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net Sales Revenue ('000 AUD)	68,546	76,470	85,907	97,074
Last Year Receivable Balance ('000 AUD)	758	996	956	847
Current Year Receivable Balance ('000 AUD)	996	956	847	860
<b>Accounts Receivable Turnover</b>	<b>78.16</b>	<b>78.35</b>	<b>95.29</b>	<b>113.74</b>

**DAYS RECEIVABLE**

365

**ACCOUNTS RECEIVABLE TURNOVER**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
365	365	365	365	365
Receivables Turnover	78.16	78.35	95.29	113.74
Days Receivable	4.67	4.66	3.83	3.21

**INVENTORY TURNOVER**

**COST OF GOODS SOLD**

**AVERAGE STOCK**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
COGS ('000 AUD)	36,009	38,931	41,570	46,107
Last Year Inventory Balance ('000 AUD)	7,371	8,817	10,445	12,293
Current Year inventory Balance ('000 AUD)	8,817	10,445	12,293	12,440
<b>Inventory Turnover</b>	<b>4.45</b>	<b>4.04</b>	<b>3.66</b>	<b>3.73</b>

**DAYS INVENTORY**

365

**INVENTORY TURNOVER**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
365	365	365	365	365
Inventory Turnover	4.45	4.04	3.66	3.73
<b>Days Inventory</b>	<b>82.04</b>	<b>90.30</b>	<b>99.82</b>	<b>97.90</b>

**DAYS PAYABLE**

365

**COGS/AVERAGE ACCOUNTS PAYABLE**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Last Year Payables Balance ('000 AUD)	6,118	6,816	8,439	7,533
Current Year Payables Balance ('000 AUD)	6,816	8,439	7,533	10,759
365	365	365	365	365
COGS('000 AUD)	36,009	36,931	41,570	46,107
<b>Days Payable</b>	<b>65.55</b>	<b>75.38</b>	<b>70.12</b>	<b>72.40</b>

**FUNDING GAP****DAYS INVENTORY + DAYS RECEIVABLE – DAYS PAYABLE**

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Days Receivable	4.67	4.66	3.83	3.21
Days Inventory	82.0	90.3	99.8	97.9
Days Payable	65.6	75.4	70.1	72.4
<b>Funding Gap</b>	<b>-21</b>	<b>-20</b>	<b>-34</b>	<b>-29</b>

**CASH SUFFICIENCY ANALYSIS****DIVIDEND PAYOUT RATIO**

$$\frac{\text{ANNUAL DIVIDEND PER ORDINARY SHARE}}{\text{MARKET PRICE PER ORDINARY SHARE}}$$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Dividends Paid ('000 AUD)	1,324	1,378	3,101	2,710
Net Cashflow from Operating Activities ('000 AUD)	1,295	4,889	3,931	10,914
<b>Dividend Payout Ratio</b>	<b>102.24%</b>	<b>28.19%</b>	<b>78.89%</b>	<b>24.83%</b>

**SUSTAINABLE GROWTH RATE ANALYSIS****SUSTAINABLE GROWTH RATE**

$$\frac{\text{ROA} \times (1-D)}{E/A - (\text{ROA})(1-D)}$$

<b>NONI-B</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
ROA (%)	10.68	11.29	12.68	15.85
Level of Profit Retention (1-Dividend Payout Ratio)	-0.02	0.72	0.21	0.75
Level of Gearing (E/A)	51.41%	50.36%	69.45%	65.51%
<b>Sustainable Growth Rate (%)</b>	<b>-0.46%</b>	<b>19.19%</b>	<b>4.01%</b>	<b>22.23%</b>

**APPENDIX IX: CASH FLOW ANALYSIS - COMBINED****Cash Flows from Operating Activities**

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
CDO	33,562	25,462	35,756	25,391	48,393
NBL	5,368	1,295	4,889	3,931	10,914

**Cash Flows from Investment Activities**

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
CDO	-13,146	-27,026	-17,314	-12,725	-11,199
NBL	-6,881	-3,139	-1,957	-2,795	-2,753

**Cash Flows from Financing Activities**

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
CDO	-21,113	304	-8,081	-7,400	-20,308
NBL	6,592	-1,324	-746	-2,937	-1,596

**Net Cash**

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
CDO	16,060	21,397	31,758	30,427	44,561
NBL	5,681	2,513	4,699	2,898	9,463

## APPENDIX X: REFERENCES

### Journals/Newspapers

Hill, G., 2001. Colorado Ltd., Money Section, *Sydney Morning Herald*, 21 July, p. 2, [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)

Ideaworks.com.au, Tales of (Retail) Disaster, The Ideaworks Report, March 2001, p. 2, [Online], [Accessed 8 Oct 2004], Available at [www.ideaworks.com.au](http://www.ideaworks.com.au)

James, D., Mead, J. 2004, *International Trends and their effect on Australian Business*. Business Weekly Review, June

Walsh, L., 2004. Retailers' cost-cutting impresses, *The Courier-Mail*, 27 Sept [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)

Whyte, J. 2004. Retailers cash in while the spending lasts, *The Australian Financial Review*, 7 August, p 45. [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)

Wisenthal, S., 2004. Cash flow as Colorado taps low costs, big demand, *The Australian Financial Review*, 24 Sept, [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)

Wisenthal, S., 2004. Colorado ready for adventure, *The Australian Financial Review*, 27 Sept, p. 16, [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)

### Books

Glynn, J. et al. 2003. *Accounting for Managers*, Victoria: Thomson Learning

Ross et al, 2001. *Fundamentals of Corporate Finance*, 2<sup>nd</sup> ed Australia

### Online Sources

Apparel in Australia (August 2004). Published by International Business Strategies. Available at [www.internationalbusinessstrategies.com](http://www.internationalbusinessstrategies.com)

Australasian Textiles and Fashion [Online],[Accessed 18 Oct 2004], Available at [www.apparelb2bcentral.com](http://www.apparelb2bcentral.com)

Council of Textile and Fashion Industries of Australia Fashion [Online],[Accessed 18 Oct 2004], Available at [www.tfia.com](http://www.tfia.com)

Debt to Equity Ratio, Investorwords.com, [Online], [Accessed 2 Nov 2004], Available at [http://www.investorwords.com/1316/debt\\_equity\\_ratio.html](http://www.investorwords.com/1316/debt_equity_ratio.html)

Morgan Stanley: Stephen Roach (New York), Global Economic Forum, Global: Canary in the Coal Mine, [Online] [Accessed on 8 October 2004], Available at <http://www.morganstanley.com/GEFdata/digests/latest-digest>.

Reserve Bank of Australia: Statement on Monetary Policy [Online]. [Accessed 5 August 2004], Available at

[http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/statement\\_on\\_monetary\\_0804.html](http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/statement_on_monetary_0804.html)

Return on Equity, BeginnersInvesting, [Online], [Accessed 5 Nov 2004], Available at <http://beginnersinvest.about.com/cs/investinglessons/l/blreturnequity.htm>

Yahoo! Finance, Colorado Group Ltd Profile, <http://au.biz.yahoo.com>, [Online]. [Accessed 15 Nov 2004], Accessed <http://au.biz.yahoo.com/p/c/cdo.ax.html>

Worthington, G., IFR Asia-Pacific Economic Monitor, Week ahead: Oil tops \$50, scares G7; wait on US jobs data, [Accessed on 4 October 2004], page 2

### **Other Sources**

Colorado Ltd, 2001-2004 Annual Reports, [Online], [Accessed 18 Oct 2004], Available at [www.coloradogroup.com.au](http://www.coloradogroup.com.au)

Corporate ScoreCard Pty Ltd., Sydney, Corporate ScoreCard Pty Limited, 1999

MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements

Noni-B, 2001-2004 Annual Reports, [Online], [Accessed 18 Oct 2004], Available at [www.coloradogroup.com.au](http://www.coloradogroup.com.au)

Young, S.D., 1998. Financial Statement Analysis, INSEAD, Fontainebleau: France



## APPENDIX XI: ENDNOTES

- <sup>1</sup> Whyte, J.(2004. Retailers cash in while the spending lasts, *The Australian Financial Review*, 7 August, p 45. [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)
- <sup>2</sup> Reserve Bank of Australia: Statement on Monetary Policy [Online]. [Accessed 5 August 2004], Available at [http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/statement\\_on\\_monetary\\_0804.html](http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/statement_on_monetary_0804.html)
- <sup>3</sup> Worthington, G., IFR Asia-Pacific Economic Monitor, Week ahead: Oil tops \$50, scares G7; wait on US jobs data, [Accessed on 4 October 2004], page 2
- <sup>4</sup> Morgan Stanley: Stephen Roach (New York), Global Economic Forum, Global: Canary in the Coal Mine, [Online] [Accessed on 8 October 2004], Available at <http://www.morganstanley.com/GEFdata/digests/latest-digest>.
- <sup>5</sup> Worthington, G., IFR Asia-Pacific Economic Monitor, Week ahead: Oil tops \$50, scares G7; wait on US jobs data, [Accessed on 4 October 2004], page 2
- <sup>6</sup> Apparel in Australia (August 2004). Published by International Business Strategies. Available at [www.internationalbusinessstrategies.com](http://www.internationalbusinessstrategies.com)
- <sup>7</sup> Whyte, J. 2004. Retailers cash in while the spending lasts, *The Australian Financial Review*, 7 August, p 45. [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com))
- <sup>8</sup> Whyte, J.(2004. Retailers cash in while the spending lasts, *The Australian Financial Review*, 7 August, p 45. [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)
- <sup>9</sup> Council of Textile and Fashion Industries of Australia Fashion [Online],[Accessed 18 Oct 2004], Available at [www.tfia.com](http://www.tfia.com)
- <sup>10</sup> James, D., Mead, J. 2004, *International Trends and their effect on Australian Business*. Business Weekly Review, June
- <sup>11</sup> Ideaworks.com.au, Tales of (Retail) Disaster, The Ideaworks Report, March 2001, p. 2, [Online], [Accessed 8 Oct 2004], Available at [www.ideaworks.com.au](http://www.ideaworks.com.au)
- <sup>12</sup> Wisenthal, S., 2004. Cash flow as Colorado taps low costs, big demand, *The Australian Financial Review*, 24 Sept, [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)
- <sup>13</sup> Hill, G., 2001. Colorado Ltd., Money Section, *Sydney Morning Herald*, 21 July, p. 2, [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)
- <sup>14</sup> Wisenthal, S., 2004. Colorado ready for adventure, *The Australian Financial Review*, 27 Sept, p. 16, [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)
- <sup>15</sup> Australasian Textiles and Fashion [Online],[Accessed 18 Oct 2004], Available at [www.apparel2bcentral.com](http://www.apparel2bcentral.com)
- <sup>16</sup> Aspect Financial, Colorado Group Ltd. and Noni-B Charts and Price – Performance, [Online], [Accessed 15 Nov 2004], Available at [www.aspectfinancial.com.au](http://www.aspectfinancial.com.au)
- <sup>17</sup> Yahoo! Finance, Colorado Group Ltd Profile, <http://au.biz.yahoo.com>, [Online]. [Accessed 15 Nov 2004], Accessed <http://au.biz.yahoo.com/p/c/cdo.ax.html>
- <sup>18</sup> Yahoo! Finance, Noni-B Ltd Profile, <http://au.biz.yahoo.com>, [Online]. [Accessed 15 Nov 2004], Accessed <http://au.biz.yahoo.com/p/n/nbl.ax.html>
- <sup>19</sup> Glynn, J. et al. 2003. *Accounting for Managers*, Victoria: Thomson Learning, p. 578
- <sup>20</sup> Corporate ScoreCard Pty Ltd., Sydney, Corporate ScoreCard Pty Limited, 1999
- <sup>21</sup> MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p. 12
- <sup>22</sup> As noted elsewhere in this report, Colorado revenues for 2003 are influenced by the inclusion of the 53<sup>rd</sup> week, resulting in an extra \$7.5 million in revenues and roughly \$4.5 million in inventories.
- <sup>23</sup> Source: MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p. 18
- <sup>24</sup> Belinda Pasqua, Events Product Manager and Designer, MGSM Advertising and Promotions Presentation, 18 Oct 2004
- <sup>25</sup> MGSM840 Accounting For Management – Lecture Note, Topic 6, p. 17
- <sup>26</sup> MGSM840 Accounting For Management – Lecture Note, Topic 6, p. 19
- <sup>27</sup> Walsh, L., 2004. Retailers' cost-cutting impresses, *The Courier-Mail*, 27 Sept [Online], [Accessed 7 Oct 2004], Available at [www.factiva.com](http://www.factiva.com)
- <sup>28</sup> Fin Analysis, Sector Analysis (EPS, P/E, Dividend Yield), [www.aspectfinancial.com.au](http://www.aspectfinancial.com.au), [Online], [Accessed 15 Nov 2004], Available at [www.aspectfinancial.com.au/af/sectoranalysis?xtm-licensee=finanalysis](http://www.aspectfinancial.com.au/af/sectoranalysis?xtm-licensee=finanalysis)
- <sup>29</sup> Corporate ScoreCard Pty Ltd., Sydney, Corporate ScoreCard Pty Limited, 1999
- <sup>30</sup> Young, S.D., 1998. *Financial Statement Analysis*, INSEAD, Fontainebleau: France, p. 12
- <sup>31</sup> MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p.7
- <sup>32</sup> Return on Equity, BeginnersInvesting, [Online], [Accessed 5 Nov 2004], Available at <http://beginnersinvest.about.com/cs/investinglessons/l/blreturnequity.htm>
- <sup>33</sup> MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p.12
- <sup>34</sup> MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p.11
- <sup>35</sup> MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p.12
- <sup>36</sup> MGSM840 Accounting for Management, Topic 7 – Analysis of Financial Statements, p.18

---

<sup>37</sup> Debt to Equity Ratio, Investorwords.com, [Online], [Accessed 2 Nov 2004], Available at [http://www.investorwords.com/1316/debt\\_equity\\_ratio.html](http://www.investorwords.com/1316/debt_equity_ratio.html)

<sup>38</sup> Young, S.D., 1998. Financial Statement Analysis, INSEAD, Fontainebleau: France, p. 5

<sup>39</sup> Young, S.D., 1998. Financial Statement Analysis, INSEAD, Fontainebleau: France, p. 5