### Part (a)

#### Revenue

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in total revenue</td>
<td>73.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in hospitality division revenue</td>
<td>11.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue mix</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Hospitality division</td>
<td>100.0%</td>
<td>64.2%</td>
<td></td>
</tr>
<tr>
<td>- Security division</td>
<td>0.0%</td>
<td>35.8%</td>
<td></td>
</tr>
</tbody>
</table>

- Increase in total revenue mainly due to Guards4U acquisition
- Post acquisition, the Hospitality division remains the largest contributor to revenue

#### Hospitality division

- Increase in billable hours: 1.6%
- Increase in actual hours billed: 2.1%
- Average charge out rate per hour: R110.02 → R120.04
- Increase in average charge out rate: 9.1%

- Division grew revenue by 11.4% due to:
  - 2.1% ↑ in hours billed, and
  - increase in charge out rates of 9.1%

- Utilisation improved from 71.8% to 72.2%
- Spare capacity was 27.8% in FY2008, is there any way to improve this? What is the norm?

#### COS/Gross profit

- **Overall GP%**
  - Hospitality division GP%: 25.0% → 22.9%
  - Security division GP%

- **Gross profit mix**
  - Hospitality division: 62.6%
  - Security division: 37.4%

- Increase in gross profit amount: 63.2%

- Hospitality division remains largest contributor to WwW gross profit

#### COS/Gross profit: Hospitality division

<table>
<thead>
<tr>
<th></th>
<th>R000’s</th>
<th>R000’s</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>70,839</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FY2007: R53.36 x 1 177 600 hours]</td>
<td>62,837</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other COS</td>
<td>9,001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FY2007: Deduced]</td>
<td>6,888</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in average hourly wage rate paid</td>
<td>11.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in total wage costs</td>
<td>12.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages as a % of revenue</td>
<td>67.6%</td>
<td>68.3%</td>
<td></td>
</tr>
<tr>
<td>Alternative: Wages as a % of total COS</td>
<td>90.1%</td>
<td>88.7%</td>
<td></td>
</tr>
<tr>
<td>Increase in other COS</td>
<td>30.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Comments

- Total wage cost in FY2008 increased due to:
  - higher headcount (1.56%); and
  - wage rate increase of 11.0%

- Hospitality division's GP% declined in FY 2008 due to:
  - 30.7% increase in other COS
  - wage rate increases (11.0%) > increase in billing rates to customers (9.1%), increase not recovered

- Increase in other COS is concerning, and reasons for this need to be investigated

#### COS/Gross profit: Security division

As a % of revenue

- wages: 60.3%
- motor vehicle expenses: 3.5%
- other COS: 11.6%

Alternative: as a % of total COS

- Wages have increased due to strikes & 12% wage increase in April 2008
- Uniform costs should be included in COS
- If uniform costs were included in COS, divisional GP% in FY2008 would decline to 13.9%
Overheads

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in expenses in FY2008</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>- computer expenses (excluding once off costs)</td>
<td>20.0%</td>
<td></td>
</tr>
<tr>
<td>- head office costs</td>
<td>22.0%</td>
<td></td>
</tr>
<tr>
<td>- legal &amp; advisory (excluding once off costs)</td>
<td>42.9%</td>
<td></td>
</tr>
<tr>
<td>- management bonus</td>
<td>215.2%</td>
<td></td>
</tr>
<tr>
<td>- training costs</td>
<td>-10.4%</td>
<td></td>
</tr>
<tr>
<td>Total increase in overheads (excluding once off costs)</td>
<td>59.9%</td>
<td>1</td>
</tr>
</tbody>
</table>

No mark if candidates forget about once off costs in calculating increase

Total increase in overheads (excluding once off costs and uniform cost) | 23.3% | 1 |

Head office costs/revenue | 8.4% | 5.9% | 1 |
Training costs/revenue | 3.0% | 1.6% | 1 |
Overheads (excluding once off and uniform costs) as a % of revenue | 18.1% | 12.9% | 1 |
• Total overheads as % of revenue declined indicating economies of scale | | 1 |
• Head office costs increased by lower than GP indicating some economies of scale (lower as % of revenue) | | 1 |
• The increase in legal & advisory expenses is concerning | | 1 |
• WwW’s accounting treatment of expenses relating to Guards4U acquisition is incorrect. These costs should be capitalised as part of acquisition cost. | | 2 |
• Also, recording of vendor liabilities is not per IFRS3 (amounts should be recognised at present value) | | 2 |
• Management bonuses increasing whilst WwW incurs a loss is unacceptable | | 1 |
• The decline in training costs is concerning as this is a strategic priority and competitive advantage | | 2 |
• Depreciation increased mainly due to Guards4U acquisition | | 1 |

Investment revenue/finance costs

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cover</td>
<td>0.58</td>
<td>1</td>
</tr>
</tbody>
</table>

WwW has moved from earning to paying interest in FY2008 due to debt raised to pay for Guards4U acq.

• Interest cover is low and should be of concern to management | | 1 |

Overall profitability & other comments

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in EBITDA</td>
<td>6.9%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Increase in PBT or PBT/Revenue also acceptable for above 2 marks

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAT (PBT x after tax rate)</td>
<td>4,578</td>
<td>-1,628</td>
</tr>
<tr>
<td>Add back once off costs (after tax)</td>
<td>0</td>
<td>2,880</td>
</tr>
<tr>
<td>Guards4U FY2007</td>
<td>5,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>9,578</td>
<td>1,252</td>
</tr>
<tr>
<td>ROE</td>
<td>31.1%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Candidates to receive ROE mark even if incorrect numbers used - principle mark

• WwW’s performance in FY2008 is very disappointing given:
  - decrease in pro forma PAT of R9.6m to R1.2m in 2008 | | 1 |
  - ROE in FY2008 is very low | | 1 |

• Management should be addressing the dramatic increase in overheads and devising a turnaround plan | | 1 |
  - turnaround could be critical as WwW has to generate sufficient profits & cash flow to pay Guards4U vendors a further R30m + company has an overdraft of ~R9.4m | | 2 |
  - The change from earning interest income to paying R5.4m in finance charges has also contributed to lower profitability in FY2008 | | 1 |
  - The performance of WwW is even worse when the finance charges on the vendor liability is accounted for correctly | | 1 |

Maximum 30

Part (b)

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td></td>
<td>0.97</td>
</tr>
<tr>
<td>COS/Inventory is incorrect as uniforms are only item of inventory (only use uniform costs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors collection period</td>
<td>33.6 days</td>
<td>59.0 days</td>
</tr>
<tr>
<td>Based on average accounts receivable</td>
<td>49.4</td>
<td></td>
</tr>
<tr>
<td>Creditors payment period</td>
<td>9.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Based on COS + operating expenses</td>
<td>7.3</td>
<td>9.6</td>
</tr>
<tr>
<td>Based on average accounts payable</td>
<td>8.5 or 6.8</td>
<td></td>
</tr>
<tr>
<td>Debt equity ratio</td>
<td>0.0%</td>
<td>192.9%</td>
</tr>
</tbody>
</table>

Award mark if creditors included in debt or O/D excluded | | |

Maximum 7
### Part (c)

**Marks for identification, explanation and how can relieve pressure/improve cash flow**  
**Replace overdraft with longer term finance**  
- Overdrafts are short term loans and can be revoked at short notice by banks. WwW should explore longer term finance (eg. 2-5 year term loans) to provide some sufficient time to repay capital & avoid any potential liquidity issues.

**Reduce inventory levels**  
- WwW currently has R6.4m tied up in uniform stock. Sourcing inventories from SA suppliers may allow WwW to hold less stock thereby freeing up cash/reducing overdraft.

**Change basis of paying employees**  
- Employees are currently paid fortnightly whereas WwW only invoices clients monthly in arrear. If employees were paid monthly, this would provide an immediate cash flow benefit of 2 weeks wages.

**Improve collection of debtors book**  
- Debtors days have increased significantly from FY2007. This may be due to Security division or focus on other issues. Decreasing debtors days would provide a significant cash flow boost.

**Vendor loan**  
- Extending repayment period of this loan will enable WwW to utilise this cash to reduce overdraft and save on interest costs (overdraft more expensive than vendor loan).

**Shareholder support**  
- Rights issue or injection of shareholder loan will improve gearing position.

**Reduce operating costs**  
- There are various expense items that could be reduced eg. management bonuses.

**Sell Guards4U**  
- Acquisition has placed significantly financial stress on business. Selling this division would result in cash injection. Major complication would be valuation of Guards4U.

**Factoring of debtors book**  
- WwW currently has R26m tied up in debtors, and should be able to discount these amounts with a bank.

**Improve staff utilisation**  
- WwW currently has 72.2% utilisation, of which 27.8% is not recovered from clients but wages are paid for. Consider releasing some staff to market levels or optimising the use of staff.

**Sale and lease back of assets**  
- According to the balance sheet, R13 320 000 lies in equipment and vehicles. Consider selling these and lease back to ease cash flow.

### Maximum 15

### Part (d)

**Short-term impact of the acquisition**

<table>
<thead>
<tr>
<th>Guards4U</th>
<th>FY2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>14,184</td>
</tr>
<tr>
<td>Uniform costs</td>
<td>-6,150</td>
</tr>
<tr>
<td>Increase in operating expenses</td>
<td>3,925</td>
</tr>
<tr>
<td>Increase in FY2008 excluding uniform costs</td>
<td>7,925</td>
</tr>
<tr>
<td>Once off costs</td>
<td>-4,000</td>
</tr>
<tr>
<td>Increase in WwW FY2007 operating costs</td>
<td>?</td>
</tr>
<tr>
<td>Synergies/cost savings</td>
<td>?</td>
</tr>
<tr>
<td>Increase in Depreciation</td>
<td>-2,450</td>
</tr>
<tr>
<td>Pro forma Profit before Tax</td>
<td>5,584</td>
</tr>
<tr>
<td>FY2007 PBT</td>
<td>6,944</td>
</tr>
</tbody>
</table>

**Conclusion: Guards4U profitability has declined in FY2008, decreasing shareholder value**

**Based on a simplified EVA model, R40m purchase price x WACC (say 20%) = R8m capital charge**

- Acquisition has not added shareholder value in FY2008 as PBT < capital charge

**Cash flows of WwW have declined due to larger investment in inventories and debtors**

- FCF value of WwW post acquisition has declined = erosion of shareholder value

- WwW’s gearing is very high in FY2008 due to acquisition debt and poor profitability/cash flows

- WwW needs to generate significant cash flow repay debt else WwW sh.holder value may decline further

**Conclusion: Acquisition has adversely impacted on WwW shareholder value.**

### Long-term assessment

- Diversification of business in other sectors will help to reduce business risk in the long-term thereby.
- Perhaps WwW overpaid for Guards4U, difficult to recover shareholder value in this scenario.
- If WwW can generate sufficient cash flow to repay acq. debt, then shareholder value should increase.
- WwW should be able to unlock synergies, benefit from economies of scale.

**Conclusion: Acquisition may yield long-term shareholder value.**

### Maximum 10
### Part (e)(i)

<table>
<thead>
<tr>
<th>Mark</th>
<th>Description</th>
</tr>
</thead>
</table>
| 2 | CGT payable at the time of sale at 14%  
  - However, Barbarians only received 10% of the purchase price upfront - CGT paid on amounts not yet received. |
| 2 | Barbarians liable for income tax on interest payable based on accrual  
  - However, the interest is not necessarily received in the year tax is levied. |
| 2 | Isiswe may default on its interest and principal payments  
  - Interest payments are made from dividend income and therefore non-deductible for tax purposes in Isiswe's hands. Impact on Barbarians: Increases risk of default by Isiswe. |
| 2 | Barbarians only entitled to demand repayment in 2016 (8 years time)  
  - Significant period to time to wait to receive payment. |
| 2 | What are Barbarians' rights in the event of default by Isiswe?  
  - Unclear what these rights are. Is the loan amount secured? |
| 2 | Isiswe has no obligation to pay interest except out of dividend income from WwW  
  - WwW is unlikely to be paying significant dividends until it returns to profitability. Barbarians has no other source of repayment. |

**Maximum 8**

### Part (e)(ii)

<table>
<thead>
<tr>
<th>Mark</th>
<th>Description</th>
</tr>
</thead>
</table>
| 2 | Pressure to pay dividends annually as Isiswe and Barbarians collectively own 70% of WwW.  
  - May not be in the best interest of WwW if there are other growth opportunities.  
  - WwW may lose BEE credentials if Isiswe defaults.  
  - Isiswe may not be motivated to growing the business of WwW. They will be focusing on profitable or "in the money" investments instead of focusing on WwW. The value of the stake is already probably lower than the amount owing to Barbarians. |

**Maximum 4**

### Part (f)

<table>
<thead>
<tr>
<th>Mark</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1 | Incentive to grow revenue may not result in shareholder value:  
  - Revenue growth may be at lower GP% which may inhibit WwW from maintaining existing margins  
  - Customers may become aware of lower pricing and demand similar terms and conditions  
  - Risk of bad debts increases when revenue growth is pursued  
  - Ignores impact of revenue growth on working capital or capital. No capital charge in the scheme  
  - Based on revenue which is an accounting measure, and can therefore be subject to manipulation |
| 2 | Executives were paid for growth arising from acquisitions  
  - There should be incentives to grow revenue organically |
| 2 | Impact of inflation is not catered for  
  - Incentives should be based on real growth - i.e. growth in revenue in real terms  
  - 3% of revenue growth too generous  
  - May be too generous when compared to the GP% of 19.7% in FY2008 |
| 2 | Short-term nature of the bonus scheme  
  - No deferment of bonus results in short term decisions to boost revenue |
| 2 | Discretionary allocation of bonus pool  
  - May result in disharmony amongst executives |
| 2 | No reference to non-financial measures  
  - Current bonus scheme ignores other NB measures eg. customer satisfaction and retention |
| 2 | Only executive directors benefit  
  - Other senior staff should also participate else staff morale may decline |
| 2 | No formal evaluation process of performance  
  - Contrary to good corporate governance practices |

**Maximum 10**
### Part (g)

#### Commission received from Julius Goldfinger
- Bend has a common law duty to act in the best interest of WwW and avoid conflicts of interest 1
- In terms of the Companies Act, Bend must disclose the commission received 1
- The duty to disclose depends on significance to WwW and materiality to Bend 1
- Commission was paid "as promised", therefore implying prior agreement and arrangement 1
- The amount of R800 000 is significant, therefore making it material 1
- Bend has breached the Companies Act provisions by not disclosing the commission received 1
- Bend should have recused himself from the directors meeting re acquisition of Guards4U 1
- Instead he persuaded the non-exec's based on his judgment and experience 1
- Bend should not have voted on the acquisition in the director's meeting 1

#### Conflict of interest: Bend & Goldfinger relationship
- Close personal friendship creates conflict of interest 1
- This close friendship should have been disclosed to the board 1
- Strong indications that Bend has caused financial loss to WwW by not negotiating in best interest of co 1
- The purchase price way too high in relation to net asset value, no profit warranties. 1

#### Incentive scheme
- Non executive directors should be responsible for bonus allocation and not Bend 1
- Scheme creates significant conflicts between executive directors and shareholders 1

#### Reckless trading
- High gearing and cash flow constraints are indicators that WwW may be trading recklessly 1
- Bend has a duty ito Section 424 not to act improperly or recklessly where WwW is in financial difficulty 1

#### Other
- Consider if Bend is a member of a professional body. This requires compliance with the professional bodies respective ethical requirements 2

| Maximum | 12 |

#### Presentation marks
- **layout** 2
- **logical argument** 2
- **language** 1

**Total** 5