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**Management Project**

# Capital Structure Comparison in Low Cost Airlines Industry in UK.

Company based Project - Monarch Airlines

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# Capital Structure Comparison in Low Cost Airlines Industry in UK.

**BY**

**GHARGE Vivek**

**2014**

This dissertation is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at Nottingham University Business School, Nottingham 2013-2014.

# EXECUTIVE SUMMARY

This report presents with the research, analysis and comparison of the capital structure for the UK low cost airline industry with the main focus on Monarch airlines limited our client. This report tests the presumption of maintaining a reasonable level of leverage in an airlines industry to get a good financial results and also seeks to establish this level by maintaining the average weighted cost of capital of around 9-10 %. (Bloomberg) The research identifies the biggest airline companies which use capital efficiently to generate return on investment higher than cost of capital so that company is in profit. In these companies the equity element almost corresponds to around 75 % plus 20 % for long term debt and less than 5 % for short term debts. (Bloomberg) However it is not necessary that having certain percentage of capital structure and having established the average cost of capital will result into profitability. A case study of Southwest airlines is identified for supporting the claim of maintaining the certain level of leverage and equity so as to achieve constant weighted average cost of capital. In addition, this report presents recommendation to the client on the various ways of sources of financing that would help the client to get rid of short term debt and get back to their day to day businesses.

## AUTHOR'S NOTE

Monarch

Nottingham University Business School

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# CHAPTER 1 – INTRODUCTION

## Introduction

Airline industry has been in news for a long time, from the time the first experimental plane with three axis control flown by Wright brothers in year 1903 to till date. (McFarland et. al., 2001) There has been continuous development of airplanes to much bigger size, capacity and power to travel long distances helping airline industry to grow (William Gibson et. al., 2004). The famous quote by CEO of Virgin Atlantic Airlines, Mr. Richard Branson tells the difficulty level and the high capital requirement in the airline industry. "The quickest way to become a millionaire is to start as a billionaire and invest in an airline." (Richard Branson) There are few examples of low cost airlines who had to sell out the business e.g. bmibaby, Air Southwest, First choice airways – merged with Thomson fly to create Thomson airways and Go Fly - acquired by Easy Jet. (Karin Weber., 2005) Monarch airlines, our client is one of UK's leading airline who are currently facing huge losses for the coming financial year 2014 (refer appendix 1) because of the huge short term debt with a major portion of it is due to pension deficit (Crawford, 2014). In addition to the huge short term debt the owner of the Airlines "Serigo Mantegazza" has already invested thrice in 5 years' time to support the operations with airlines going into losses for continuous 4 years from 2009-2012 and now the owner has denied with more cash injection due to losses (Ficenec, 2014). Hence it may be a good idea to focus on the capital structure in general of the low cost

airline industry. The capital structure theories and its real time application to the airline company would probably help our client and would also help us to come up with recommendations for various sources of financing.

## Rational For This Study

This section aims to address two important questions, what is this project about? And why is this project being undertaken? Basically it is a company based project for Monarch airlines. The client wants to know the future of traditional travel business i.e. future customer behaviour and loyalty schemes and ways to improve customer experience and retail operations, In this process it was found that there has been issues with the financing for the airlines for their operational activities with big time losses from year 2009-2012 with little bit of recovery done in year 2013 - slight profit compared to other big players in the industry (Refer Appendix I) and also one of the recommendation for Monarch airlines in the main report was to look for various ways of financing as an option available in the market following the industry standards. Currently Monarch airlines limited have a short term debt of around 52 million approx. ( Bloomberg) In addition to this an announcement from Monarch's new CEO, Mr. Andrew Swaffield, that "airline will look at different financing option" (Express, 2014) has supported the recommendation being provided to the company Monarch airlines. Hence it may help Monarch to have a look at the capital structure of other players in the industry, and the various means of financing their operational activities.

## Introduction to Monarch Airlines Limited (MAL)

Monarch Airlines is one of the oldest and leading UK-based scheduled leisure airlines operating from 6 bases in the UK. Monarch airlines operates flights to holiday destinations around Mediterranean, ski destinations in winter and the Canary Islands. (Monarch , 2014) Monarch airlines is a Monarch Group Company.

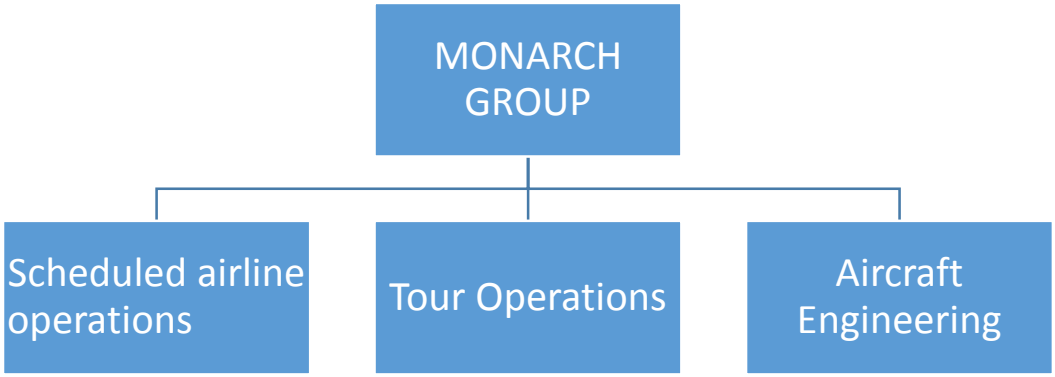



*Figure 1: Organization Structure Top Level*

**Owners Summary & History:**

Name: Sergio Mantegazza known as Vacation king Sergio Mantegazza

Age: 86;

Net Worth:  4.6 billion;

Citizenship: Switzerland

The legacy of Globus – the company founded by Antonio Mantegazza in 1928 with a business of ferried tourists around Lake Lugano was continued by his Son Sergio Mantegazza - the current owner of the Monarch group. Monarch group includes

Cosmos holiday, Avro and Monarch Airlines as a part of tour and travel group with a significant stake in his family's collection of residential and commercial Lugano real estate and a substantial portfolio of low-risk bonds.

# CHAPTER 2 – LITERATURE REVIEW

## Introduction

For supporting the recommendation of change in financing decision to Monarch airlines, this report will be using following theories related to capital structure, the traditional trade-off theory, M&M – no taxes and M&M – with taxes.

## Frameworks / Theory used

Let's look at the theory of capital structure, the idea here is that company is gathering their finances for the business by either debt or equity, given that the company funds its business by either debt or equity, it is important to know that, is there a perfect mix of debt and equity to maximize the value of the business

Looking at total market value of the company, it is straight forward perpetuity, where the numerator is Cash Inflow per annum divided by weighted average cost of capital (WACC)

$$\textbf{Total market value of the company} = \frac{\textbf{Cash Inflow PA}}{\textbf{WACC}}$$

Source: (Jules H. van Binsbergen et. al., 2011)

Looking at the above formula, increase in WACC would have negative effect on total market value of the company whereas reducing WACC would have positive effect on total market value of the company given that Cash Inflow per annum remains constant. So is there any way that, by changing the capital structure can affect the WACC to either reduce or increase it. The focus of the company should be to reduce the WACC. Minimize it so that high market value is achieved keeping the rate of return on invested capital at the rate above the cost of equity. (Jules H. van Binsbergen et. al., 2011)

Weighted average cost of capital reflects the required return on the firm's assets (Ross S. et. al., 2012). This is highlighted in terms of both of the company's debt capital and equity capital. This would also reflect the tax implication as interest paid to debt holders are tax deductible.

WACC = (E/V)* Re + (P/V) * Rp + (D/V) *Rd (1-Tc) (Ross et al. 2012)

Where

E = Equity, P = Price of preferred share, D = Interest bearing debt

Re = Cost of equity (common share), Rd = Cost of Debt, Rp = Return on preferred share, Tc = Tax rate

**Effect of change in capital structure on WACC:**

Impact of Introducing DEBT Finance: There are 2 effects – substitution effect and financial risk effect

**Substitution effect**: Kd < Ke (cost of debt is lower than cost of equity).This is because it is less risky than investor equity, its fixed return and it's protected in case of company failure and secondly it is tax deductible and this are the reasons why it's cheaper. So how does this affect WACC, for e.g. if we introduce debt then we are going to reduce the amount of expensive equity in proportion to amount of cheap debt and therefore expected result is for WACC to reduces. (Jules H. van Binsbergen et. al., 2011)

**Financial risk effect:** By taking on debt the company increases its chance of default, liquidation, failure. If this is the case i.e. if there is higher risk to the company then the company has to offer higher return. This risk is suffered by shareholder. I.e. Increase in cost of capital (Ke) as a result of taking on debt that simply reflects the increased risk suffered by shareholders and because of this the expected result is WACC to increase. (Jules H. van Binsbergen et. al., 2011)

Both this effect counter act each other as one i.e. substitution effect reduces the WACC and financial risk effect leads to increase in WACC and therefore the deal is, which effect is more powerful?

For that we need to look at individual capital structure theory, first we will look at traditional theory of capital structure:

Looking at the traditional trade-off theory of capital structure, the cost of equity is rising because of financial effect, more risk by the investors / shareholders and looking at the

cost of debt it remains essentially constant until company reaches high level of gearing ratio, company with lot of debt put themselves in risk of not paying the interest on the debt and hence decreasing the market value of the company i.e. increasing the weighted average cost of capital (WACC). Hence there is seen some financial effect due to cost of capital (Ke) and substitution effect due to cost of debt (Kd) which is lower than cost of capital (Ke). (Jules H. van Binsbergen et. al., 2011)

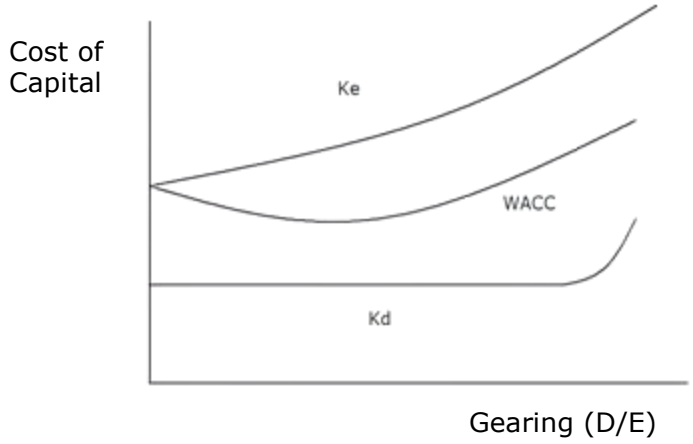



*Figure 2: Traditional theory capital structure*

Source: (ACCA, 2014)

As seen in fig3, to begin with, the suggestion is that substitution effect is powerful, the fact that Kd is lower than Ke is dragging down the overall WACC, however after a certain point the financial risk effect associated with equity rising is going to counteract and become more important. This point is called an **optimal gearing mix** at which WACC will be minimized i.e. maximising the market value. I.e. the mix of the debt and equity at this point is where the market value is high and company should be interested in finding this optimal gearing point (Jules H. van Binsbergen et. al., 2011)

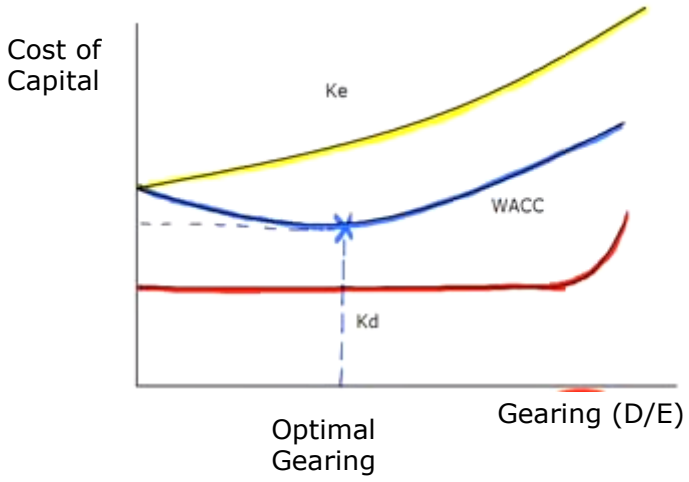



*Figure 3: Traditional Theory of capital structure – the optimal gearing*

Source: (ACCA, 2014)

On other hand, Modigliani and Miller (M&M) theory – M&M in 1958 was based on the premise of a perfect capital market in which:

1) There are no transaction costs

2) There is full information efficiency

3) All investor can borrow and lend at the risk free rate

4) No taxes

**Source:** (ACCA, 2014)

The idea that M&M have is let's say there are 2 companies that have exactly same cash inflow per annum, so when it comes to the operating cash flows it is the same for both the companies, but just because financing is in different ways i.e. different debt to equity ratio, it suggest that it has different market value as per the traditional trade-off theory, On other hand M&M questioned this finding as 2 companies with same underlying operating cash flow from investor perspective should have same market value i.e. both company should have same market value irrelevant to the mix of debt and equity.

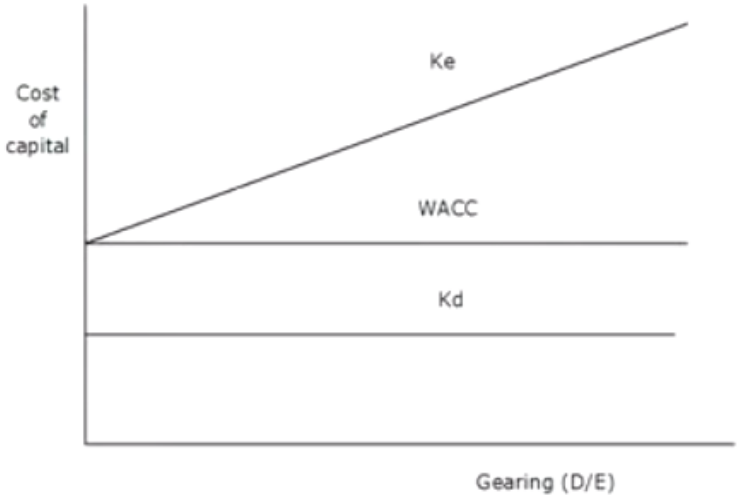



*Figure 4: Modigliani and Miller (M&M) theory – no taxes*

Source: (ACCA, 2014)

Looking at the figure 4, Ke rises at the constant rate, there is difference between Ke and Kd. As per the Modigliani and Miller – no taxes theory, the weighted average cost of capital regardless of level of gearing remains same. Hence it doesn't matter how the company is being financed as the market value would remain the same i.e. the financial risk effect due to rise in cost of equity will be compensated by the substitution effect therefore WACC is constant and hence the market value will not be affected by mix of debt to equity. It is good in one sense as one need not to worry with debt to equity mix and bad because one would not be able to maximise the company wealth by financing mix. However the likelihood of no taxes in real world is equal to nil, as in real world company has to pay the taxes. Hence looking at M&M with tax

Modigliani and Miller (M&M) theory – With taxes of capital structure:

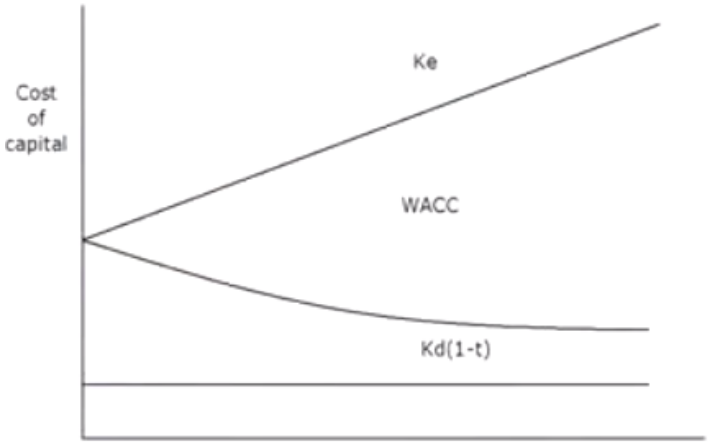



*Figure 5: Modigliani and Miller (M&M) theory – With taxes*

Source: (ACCA, 2014)

Looking at the above figure 5, the only change in this theory compared to the M&M – no tax theory is that of cost of debt (Kd), as M&M – with tax, includes the tax shield that company receives by financing by debt (1-t) i.e. substitution effect is now bigger than financial risk effect and due to which one would expect WACC to fall. The WACC progressively falls as it goes to high gearing level as seen in figure 5. Now M&M – with tax had a point that this theory will only work for relatively low gearing level, i.e. for high level of gearing M&M – with taxes will fail. (Jules H. van Binsbergen et. al., 2011)

Comparing all of the above three theories and impacts of WACC respectively.

| | |
|---|---|
| Traditional Theory of Capital Structure | WACC is minimized at the Optimal gearing mix |
| Modigliani and Miller (M&M) theory – No taxes | WACC remains constant |
| Modigliani and Miller (M&M) theory – With taxes | WACC is minimized with high gearing ratio. |

**Table 1:** Theory wise impact of WACC on market value of the company

Source: (Jules H. van Binsbergen et. al., 2011)

M&M states that debt is in direct proportion to the cost of equity. With increase in financial leverage, the equity shareholders perceive a higher risk for the company. Hence due to high risk, shareholders expects the return on his investment to be at high rate thereby increasing the cost of equity. A key distinction here is that M&M with taxes assumes that debt shareholders have upper-hand as far as claim on earnings is concerned. Thus, the cost of debt reduces. (Groth, 2014)

Problem with high gearing is that company can go out of business, bankruptcy – if lot of gearing then company might be unable to pay the interest and hence tend towards bankruptcy, secondly is tax exhaustion, debt is tax deductible - this is only true for the company generating profit. If there are high level of debt then it's possible that company can exceed the profits due to debt and that's what is called tax exhaustion,

thirdly loss of borrowing capacity, and lastly risk attitude of potential investors. (Elton Fernandes et. al., 2001)

Based on the application of above theories, this report will be recommending Monarch airlines with the sources of financing and the theory related to the ways of financing is the PECKING ORDER THEORY:

Pecking order theory suggest the order in which company should finance its business is

1) First by its retained earnings / internal equity

2) Secondly by bank debt – for e.g. by overdraft or longer term debt product

3) And lastly by Issue of Equity (Morrell, 2007)

## Future Area of Study

There is a good scope to carry out the cost benefit analysis and cost saving strategies which will help Monarch airlines to achieve efficiency and earn good profits from their operational activities i.e. good utlization of assets in terms of getting good ROI. The risk benefit analysis is another broad topic which would help the company to make the investment decision or reduce the risk by investing into multiple projects.

# CHAPTER 3 – RESEARCH METHODOLOGY

This chapter elaborates on the pre-defined objectives and steps taken to achieve the results. It discusses the rationale behind the research strategy, assumptions & limitations of each of the methods used and its implications on the final data. Since the data is collected using desk based research using various online mechanism like Bloomberg terminal, yahoo finance etc. this sections elucidates on various methods and challenges to transcribe the same.

## Research Strategy

The poor financial results of the company and in addition, the news announcement from the CEO of Monarch airlines limited, Mr. Andrew Swaffield, regarding company's strategy for looking at other options for financing their operational activity from private equity investor has resulted for the requirement of carrying out an in-depth research on the topic of financing decision. It was also recommended to Monarch in the main report that there is need to gather their finances from various ways, it's not only the finance decision which are important but also the operational decision which have the impact on operating expense / cost element of the balance sheet.

Most of the research related to discussion and recommendation in financing decision is done based on books, academic journals, published reports by consulting firms like PWC, reports from KEYNOTE, Bloomberg terminal, yahoo finance and internet / online sources.

## Limitation

There were limitation in terms of getting latest annual reports and relevant data from the client Monarch airlines limited. This was mainly due to the big change that company is currently undergoing this year due to huge short term debt mainly because of the pension payment deficit of around 300 million approx. as communicated by one of their employees. Hence the relevant financial data for our research has been collected from Bloomberg terminal which is academically a reliable source.

# CHAPTER 4 – Capital Structure in UK Low Cost Airline Industry

This section will help to understand the capital structure being followed across the world airline industry, which in-turn will help Monarch by providing findings related to capital structure, asset utilization, and source of financing. This report will have most of its focus on Europe, the US and the UK market. Followed by a case study of Southwest Airlines which has been pioneers for Ryanair and EasyJet – The UK's largest low cost air carriers

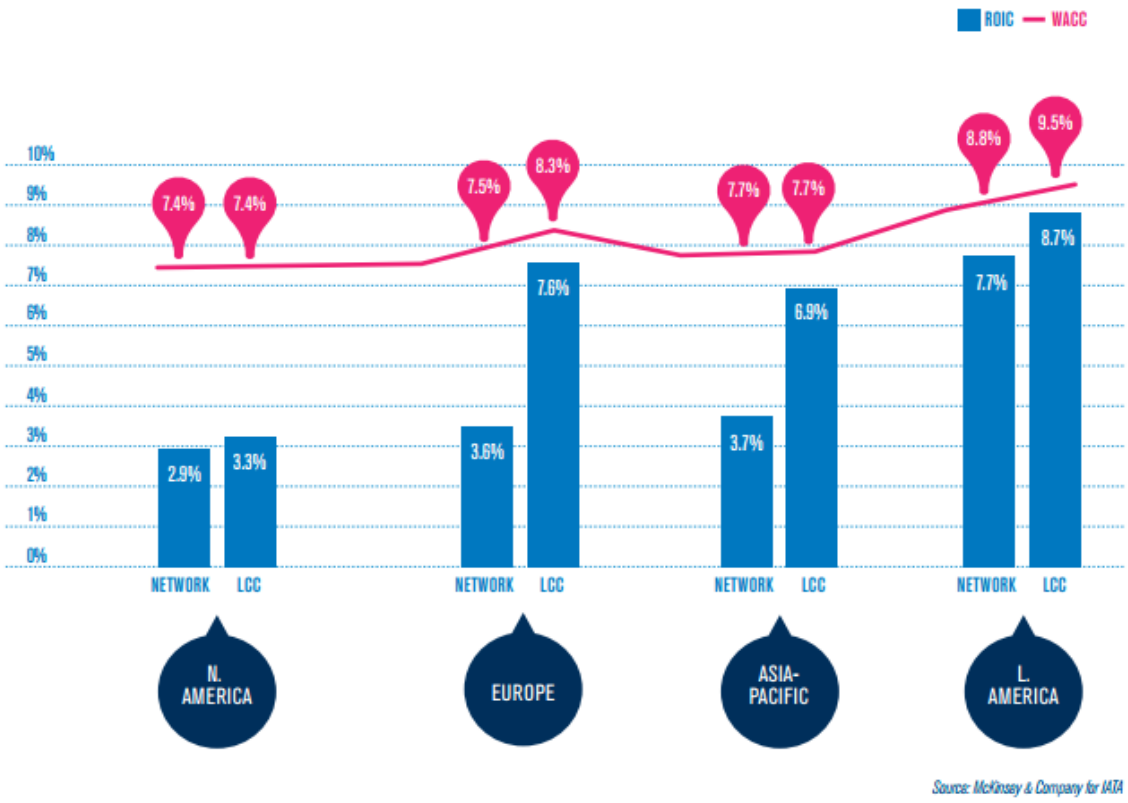



*Figure 6: WACC in world airline industry region wise breakup for low cost carriers.*

Source: (CAPA CENTRE FOR AVIATION , 2014)

From above graph, it is seen that WACC for Europe low cost carrier is approx. around 8.3 % which is relatively high compared to Northern America and Asia pacific region. According to traditional theory for capital structure the value of the company in Northern America with similar WACC would be high compared to market value of the company in Europe. However the return on invested capital (ROIC) is very low in North America region for low cost carriers, i.e. the company in the European or Asian region, in general are utilizing their capital to get good return compared to company in North America. (CAPA CENTRE FOR AVIATION , 2014) The last decade has been tough for airline industry in general, although there have been some airline who have huge amount of profits but most of the airlines have to undergo huge losses and are in a consolidation phase currently. (PWC, 2013)The airline industry in UK has seen cyclical effect in terms of financial earning. With the start from the financial crisis in 1980-81 followed by the growth of the industry and again downturn in year 1990 following the similar pattern till year 2001 – the crashing of two aeroplanes in the New York twin towers affecting the industry economy in a negative way. And again followed by the financial crisis of 2008-09 being the last downturn seen by the airline industry with some consolidation followed during the coming years of the crisis. Based on the historical trend and cyclical nature, it can be predicted that in coming years there can be an economic downturn in airline industry. (PWC, 2013) As a result of the above, many airlines have lost equity and have weakened balance sheets. Now airlines arguable have the lowest margins in their value chain. Even after big losses Monarch has recently gone

ahead with the deal for buying 30 Boeing 737 max which means that Monarch would be replacing its current fleet of A320 neo by year 2018 approx. The effect of this change would surely have the impact on the capital structure which is not considered in the below report due to inadequate data availability. (Waller, 2014)

## Comparison of Monarch airlines and its competitor's capital structure:

Following figure 7 tells about Monarch's change in capital structure from the year 2008 – 2013, it is seen that in year 2008 the capital structure and the weighted average cost of capital was approx. 9.4% equal to that of the UK low cost industry standards, but due to financial crisis in year 2009 the company had to undergo huge losses due to lower market growth forcing Monarch to continue financing for the operational and other activities using the debt element and the same is being reflected in the below pie chart of year 2009. (Refer Appendix I & II for the ratios and balance sheet summary) The losses continued till year 2012 due to improper financial planning and extra cost of employee benefits scheme being one of the major reason as there were losses till year 2012 with slight recovery in year 2013. (Bloomberg) The situation has worsen to the extent that currently Monarch management has put change in ownership on the agenda for coming financial year 2014. (Parker, 2014) In addition to it, Monarch is also cutting down jobs by 30 %, i.e. nearly one third of the workforce would be slashed with complete halt to their charter services (long haul flights) with complete focus on short haul flights competing with low cost airlines in UK (BBC , 2014) These are the some of

the strategic changes that Monarch airlines has undergone recently to reduce the cost and get their capital structure as per the industry standards.

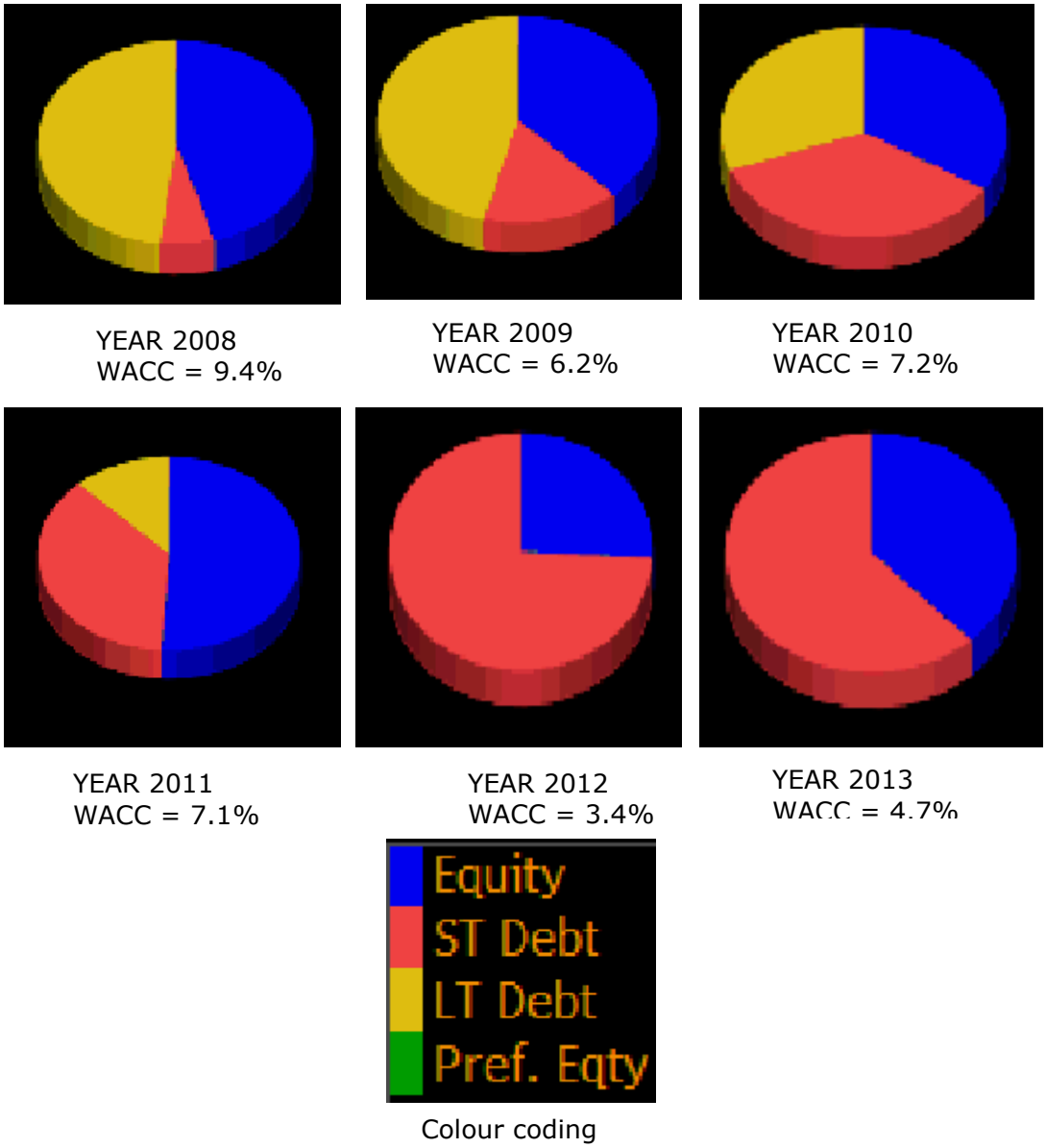
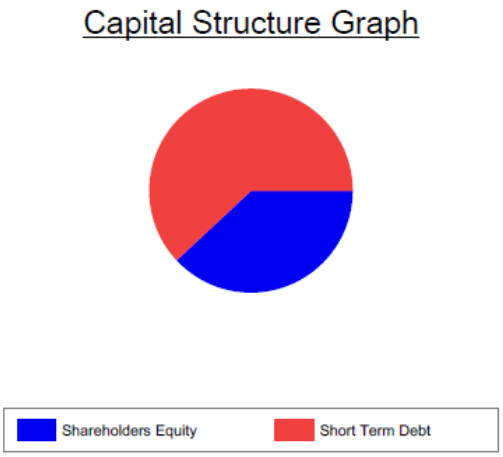
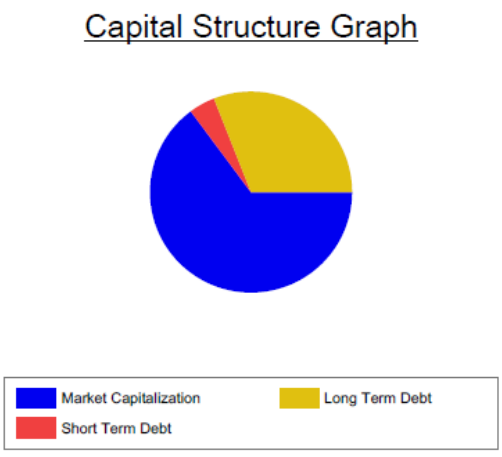



Figure 8: Monarch Capital Structure changes from year 2008-2013

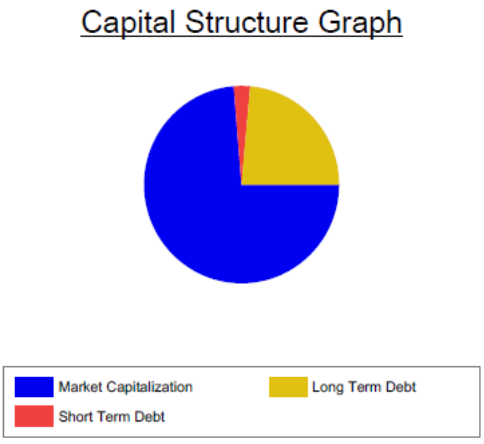
Source: (Bloomberg)



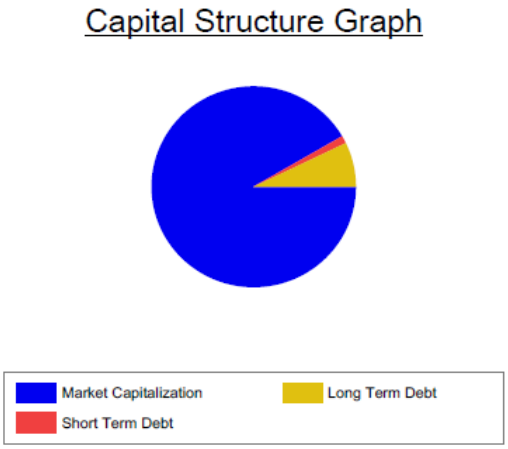

**MONARCH AIRLINES LTD.**



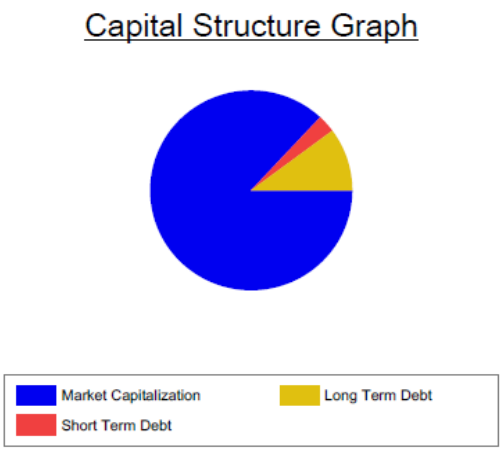

**THOMAS COOK GROUP PLC**



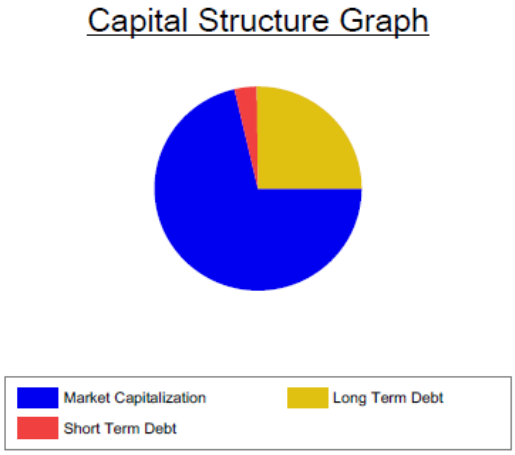

**FLYBE GROUP PLC**




**easyJet PLC**




**SOUTHWEST AIRLINES**




**RYANAIR HOLDINGS PLC**

*Figure 8: Comparison of Monarch and its competitors capital structure;* ***Source: (Bloomberg)***

Now looking at the figure 8, above is the comparison for the Monarch airlines, Southwest airlines and other UK top low cost airlines in terms of capital structure. It has been observed that most of the financing in the low cost airline industry is done by equity financing with very low gearing ratio and average weighted cost of capital around 9 -10 % approx. The main source of financing for most of the air carriers is by equity being gathered by trading of stock in the national and international market. Also focussing on Monarch capital structure, although there is huge short term debt element compared to the equity, the current ratio over the period of 2010-2013 has been good (refer appendix I & II) i.e. company is capable of paying its short term debt by selling out the assets. However Monarch airlines would prefer looking at the other sources of financing to get rid of its short term debts (Express, 2014).

As per the M&M – with taxes theory, most of the airlines are having low level of gearing apart from year 2012-2013 for Monarch airlines limited, most of the airlines do enjoy the benefit from the tax deductible income as it includes the tax shield that company receives by financing by debt (1-t) i.e. substitution effect pulls down the financial risk effect, due to which one would expect WACC to fall. As it is already seen from figure 8 the average WACC in UK low cost airline industry is approx. 8-10 %. According to M&M – with tax theory the WACC progressively falls as it goes to high gearing level. As seen in figure 5, It does apply to Monarch airlines as with high gearing level they have a WACC of around 4.7 % but one should remember that M&M – with tax had a point that this

theory will only work for relatively low gearing level, i.e. for high level of gearing M&M – with taxes will fail and as is the case with Monarch airlines.

## A case study - SOUTHWEST AIRLINES

Southwest has been the pioneers for most of the low cost airline carriers, the biggest success stories example is of Ryanair and EasyJet airline – the 2 largest low cost carrier in the UK who followed the Southwest airlines low cost business model. Southwest has been profitable every year since 1971 although in the year of 2008 it had some issues related to hedging of the fuel prices which had backfired on them and posted their first quarterly loss of 120 million (MAYNARD, 2008). The reason for this success is very good and convenient service, route selection, fast turnaround time and good use of resources (aircraft), no meals on board which saves the time for cleaning of aircraft and loading the aircraft with meal boxes, and standard fleet – same supplier which helped them achieve economy of scale by asking for discounts in maintenance of the aircrafts. (Vitaly S. Guzhva, 2003)

## SOUTHWEST AIRLINES CAPITAL STRUCTURE IN YEAR ENDING 2013:

Company: Southwest Airlines Co

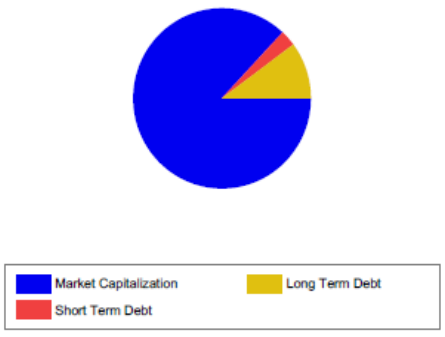
Period: Current (2014.0000000000000000 Q2)

Cost of Capital

| | Weight | Cost | Weight x Cost |
|---|---|---|---|
| Equity | 87.00% | 10.20% | 8.90% |
| Debt | 13.00% | 1.90% | 0.20% |
| Preferred Equity | 0.00% | 0.00% | 0.00% |
| WACC | | | 9.20% |

*Figure 9: Southwest Airlines Co. Cost of Capital* ***Source: Bloomberg***

Capital Structure Graph




Capital Structure

| | Millions of USD | |
|---|---|---|
| Market Capitalization | 18,402.90 | 87.00% |
| Short Term Debt | 605.00 | 2.90% |
| Long Term Debt | 2,153.00 | 10.20% |
| Preferred Equity | 0.00 | 0.00% |
| Total | 21,160.90 | 100.00% |

*Figure 10: Capital Structure for Southwest Airlines* ***Source: Bloomberg***

Historical Graph

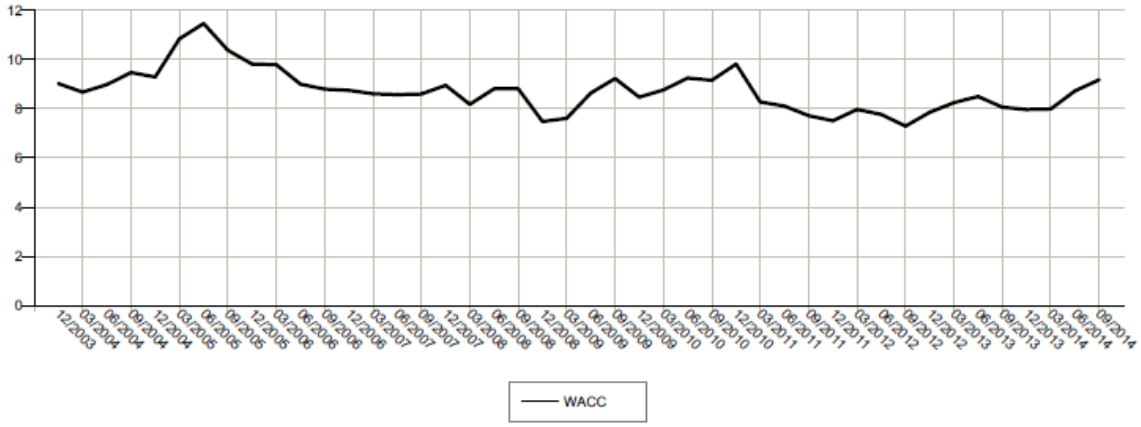



*Figure 11: Historical Graph for Southwest airlines* ***Source: Bloomberg***

Economic Value Added

| | Millions of USD |
|---|---|
| Net Operating Profit | 1,766.00 |
| Cash Operating Taxes | 837.64 |
| NOPAT | 928.36 |
| | |
| Total Investment Capital | 10,298.00 |
| Capital Charge | 943.24 |
| | |
| Economic Value Added | -14.88 |
| | |
| ROIC | 9.01% |
| EVA Spread | -0.14% |

*Figure 12: Economic Value Added for Southwest Airlines* ***Source: Bloomberg***

Southwest airlines has managed to keep their weighted average cost of capital around 8-10 % (refer to figure 11). This is mainly due to proper utilization of asset with good return on asset - higher than the cost of equity and hence resulting in profit. (Vitaly S. Guzhva, 2003)

# CHAPTER 5 – SUMMARY AND CONCLUSION

Hence we conclude that the average standard followed in the UK low cost airline industry is less of debt and more of equity in terms of shareholders with large portion owned by few individuals, the successful and the top 3 airlines in terms of profitability have IPO being traded not only on national stock market but also being traded on international stock market (Bloomberg financial analysis). ) Although it is complicated to administer the IPO, but the fear of liquidation is very less in all of the above companies due to less of debt and more of equity financing. All the successful players mentioned in this report have one thing in common i.e. they have a capital structure break up in which the equity element is comparatively high, followed by the high long term debt and very small amount of short term debt comparatively. It is advisable for companies to follow the Pecking Order Theory for financing i.e. the company should finance its business by internal equity (retained earnings) followed by debt and then investors / shareholder equity. However Monarch airlines limited have gone through difficult phase with losses since year 2009 – 2012, and with extra costs in terms of extra benefits being provided by the company, the short term debt element increased to high level. (Ficenec, 2014) Having said that, Monarch airlines limited Farnborough deal of $3.1 billion of 30 new fleet of Boeing 737 max by Monarch airlines limited would help them financially in year 2018 (due date of the fleet) in terms of improving customer experience and carrying more number of passengers and gaining operational efficiency which will help to reduce the cost element and get into profit zone. Till then Monarch has to look to get

the finances from various sources to get rid of short term debts and maintaining their capital structure as per industry standards i.e. weighted average cost of capital as per the industry standards.

# CHAPTER 6 – RECOMMENDATIONS

Hence looking at the current scenario of UK low cost airline industry and Monarch airlines financial situation, it is advisable for Monarch to look for financing from other sources to compete with high level of competition from Ryanair and EasyJet. Currently Monarch owner has separated himself and declared that no more funds / injection of cash would be carried for the operational activities, (Crawford, 2014) therefore the option of internal financing in pecking order theory becomes void, secondly due to huge short term debts (Bloomberg financial analysis), no bank or financial institute would give long term debts and hence second option is also void to some extent as there still may be chance of getting loans on long term from some of the banks. And the third option of shareholder / investor equity is more favourable for Monarch airlines to look into. Currently there is a news of Monarch airlines looking for private equity firm to finance the airline by owning certain amount of stake in the company. (Marlow, 2014) Now with the new management team looking for the other sources for financing, this section will help with suggesting the client with various sources of financing the airline company. (Marlow, 2014)

## Sources of financing in aviation industry:

1) INITIAL PUBLIC OFFERING (IPO)

   Looking at the various players in the low cost airline industry, one recommendation would be to go public and trade certain number of shares in the market, for e.g.

Ryanair went public in 10 years' time in year 1995 after they first entered the airline market in year 1985. The initial plan of Ryan family was to sell 25 percent of Ryanair to British airways to raise money for expansion, but British airways wanted 49 per cent of the stake with an ownership control. The result was that the deal was not successful, and instead of selling 25 percent stake to BA, Ryan Family sold it to David Bonder man's Texas Pacific Group, thereafter he decided to withdraw from Richard Branson's low cost airline venture in Belgium – later named as Virgin Atlantic (Morrell, 2007). The other examples of successful and high profitable airlines are Southwest airlines, that went public in year 1971 within 4 years of its existence (year 1967) and Haji-Ioannou owned easyJet went public in year 2000 within five years of its existence in year 1995. However there was opposite point of view kept forward by Monarch Ex-Chairman and Ex-CEO Mr Ian Rawlinson (Clark, 2013) of Monarch not going public for raising the equity during his tenure but with new management there is certainly a chance of looking at this as an option for financing.

2) Employee or management buy-out: The other way of financing for Monarch is making their management buy certain amount of stakes in Monarch airline, however the likelihood of this happening depends on the new management team approach. The e.g. in low cost airline industry is that of Ryanair. Ryanair CEO Michael O'Leary is owning a good percentage of stake of around 51 million approx. in amount around 4.10 % in the airline company along with other management directors owning

certain amount in the company (Bloomberg). This ensures employees dedication towards the company to increase the stock value of the company by providing good result by improving their individual performance. Here the higher management team also ensures to take care of agency cost i.e. the ownership of the stock would always remain high for the owner as the stock is dispersed in a way such that newly issued shares are held by those who are less supportive of management. (Groth, 2014)

3) One of the way to lure the public offering apart from the shares trading is by giving away long term convertible bonds, these are the bonds that give the holder the option to convert it to shares within a certain time 'window'. (Morrell, 2007) The advantages of offering long term convertible bonds is that it's at fixed interest rates and have a good return on a long term. I.e. Monarch can put this into long term liability. The other option in terms of public offering is by transnational investment i.e. foreign investment (Morrell, 2007)

4) The other source of financing can be by forming an alliance with the airlines where certain amount of stake is owned by allies with the ownership control kept to Monarch themselves. (Morrell, 2007) Apart from financial benefits, Monarch would be also able to receive cost saving benefits such as Increased number of passenger number, sharing of airport resources such as the slot / gates for check in and

customer service management, airport lounge services etc., good amount of availability of fleet, increasing the frequency to the destination, more comprehensive route networks, basically eradication of duplication of operational efforts and achieving economies of scales in terms of service costs and marketing. (Karin Weber., 2005) The main idea being that the certain amount of stake would be owned by some other airline owner with the ownership control kept to Monarch. (Morrell, 2007)

5) In many countries, where there is involvement of government body in the airline industry, the responsibility of getting the airline out from huge debts is undertaken by government by providing state funds which depends on the willingness of taxpayers to provide interest-free financing and interest rate on government debt. Generally the interest rate on government debt is determined by the reputation of the airline by the credit rating agency etc. (William Gibson et. al., 2004) The financing option with the help from government is difficult in UK as the airline industry has been deregulated and government has separated themselves, for the industry to grow without any interference due to rules and regulations. However there can be possibility of getting long term debts at cheap interest rate from government financial institute (William Gibson et. al., 2004) for e.g.: European Investment Bank has been created by the treaty of Rome establishing the European economic community in January 1958. “It is autonomous public institution and

operates on a non-profit-making basis" (Morrell, 2007) the purpose of this institute is to see that a balanced development is achieved in the EU zone.

6) Original Engagement Manufacturers (OEM)

OEM has been the source of financing in terms of providing aircraft on loans. They can act as a trade creditor on long term basis with interest on loans being part of short term trade creditor. There is a possibility for them to provide the airlines industry with such an option as they need to manage their supply chain to ensure orders are delivered on time. Aircraft have historically been retired after 25 years in service after which they are taken to 'jet cemeteries' to be parted out for resale of working parts and recycling of other parts. Currently OEM's have lot of backlogs stand at over 7/8 years of production. (PWC, 2013)

On the same line, another source of financing is leasing, this can be classified further into operational leasing and financial leasing. Monarch can look for the option of getting their assets on lease through two of the largest operating lease business firms: International Lease Finance Corporation (ILFC) and General Electric Capital Asset Services (GECAS). This two companies account for a total leased jet value around 52 percent in 2005 (Morrell, 2007) Or else Monarch can use the alliance benefit and get the assets on wet or dry leasing. Wet leasing is the airplane of different airline with its logo and branding is taken by the lessee along with the crew and other facilities whereas dry leasing is where the lessee would borrow only plane

with its own facilities and crew being provided for perusal. Mixing dry and wet leasing gives rise to one more concept of damp leasing, where partial facilities and airplane is being provided by the lessor and rest of the remaining facilities being handled by the lessee.

**Top 10 operating lessors and their fleets – end 2005**

| | Owned jet aircraft | Value of owned jetfleet (US$ million) | Managed aircraft |
|---|---|---|---|
| GECAS | 1,301 | 23,986 | 3,309 |
| ILFC | 911 | 27,176 | 719 |
| Aviation Capital Group | 222 | 4,471 | 606 |
| Boeing Capital | 349 | 4,446 | 81 |
| RBS Aviation | 138 | 3,508 | |
| Babcock & Brown | 156 | 3,337 | 2,689 |
| AerCap (former debís) | 245 | 3,069 | 896 |
| GATX Capital | 139 | 3,009 | 289 |
| AWAS | 156 | 2,559 | 8 |
| Total | 6,066 | 100,681 | 12,510 |

*Figure 13: Top 10 Operating lessors and their fleets - end 2005*

Source: (Morrell, 2007)

Monarch can get some of the airplanes on rental – financial lease, which will again add to the long term debt helping them to get their capital structure in line as per the UK low cost airline industry standards. The example of the airline doing both operating and financial leasing is easyJet, below is the break-up of the fleet of easyJet

**Fleet as at 30 September 2013:**

| | Owned | Operating leases | Finance leases | **Total** | % of fleet | Changes in year | Future committed deliveries[5] | Unexercised purchase rights and options[6] |
|---|---|---|---|---|---|---|---|---|
| easyJet | | | | | | | | |
| A319 | 93 | 54 | 6 | **153** | 71% | -7 | – | – |
| easyJet | | | | | | | | |
| A320 | 41 | 18 | 5 | **64** | 29% | 10 | 144 | 135 |
| | 134 | 72 | 11 | **217** | | 3 | 144 | 135 |

*Figure 14: Fleet of easyJet as at 30th September 2013*

Source: Annual Report easyJet 2012-13

Easy Jet fleets – all the airplanes are airbus A319 and A320, it is also interesting to see that not all the airplanes are owned by them and some are leased airplanes as well.

7) Equity financing by Venture Capitalist / Private Equity: Generally Venture capitalist are the ones who provide finances to the companies which are new start-ups that don't have access to more conventional sources of capital. This should be the last choice for Monarch. Now a days there are bank who have venture capital branches for e.g. NatWest bank that have NatWest Venture Capital. (Morrell, 2007) On other hand Monarch can also look at Private equity owner as a good and simple option in terms of administration of the process and splitting the owner equity to single entity. Currently Monarch airlines are looking for the private equity owner to invest around 60 million funds into company to help Monarch get rid of their short term debts. (Express, 2014) Due to good current asset ratio and new experienced

management team there seems to a good chance of getting a private equity financing for the airlines.

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## APPENDIX I – Financial Comparison of Monarch and Its Competitors

| FINANCIAL PROFILE | MONARCH AIRLINES LTD | | | |
|---|---|---|---|---|
| Year End | 31/10/2013 | 31/10/2012 | 31/10/2011 | 31/10/2010 |
| Weeks | 52.00 | 52.00 | 52.00 | 52.00 |
| Consolidated | Y | Y | Y | Y |
| | | | | |
| **Sales** | | | | |
| | | | | |
| Sales (£000) | 767482.00 | 673715.00 | 608486.00 | 614664.00 |
| % Change year-on-year | 13.92 | 10.72 | -1.01 | - |
| Exports (£000) | 2539.00 | 2537.00 | 4214.00 | 3927.00 |
| Exports / Sales (%) | 0.33 | 0.38 | 0.69 | 0.64 |
| | | | | |
| **Profits** | | | | |
| | | | | |
| Pre-Tax Profits (£000) | 8697.00 | -43568.00 | -40949.00 | -5618.00 |
| % change year-on-year | † | † | † | - |
| Profit Margin (%) | 1.13 | -6.47 | -6.73 | -0.91 |
| Net Profit (loss) | 6900.00 | -33200.00 | -17900.00 | -3800.00 |
| Operating Profit (£000) | 5582.00 | -39686.00 | -29015.00 | -1521.00 |
| | | | | |
| **Employees** | | | | |
| | | | | |
| Number of Employees | 1958.00 | 1825.00 | 1930.00 | 1924.00 |
| Average Employee Remuneration (£) | 36210.00 | 36884.00 | 33012.00 | 33312.00 |
| Sales per Employee (£) | 391972.00 | 369159.00 | 315278.00 | 319472.00 |
| Profit per Employee (£) | 4442.00 | -23873.00 | -21217.00 | -2920.00 |
| Capital Employed per Employee (£) | 120479.00 | 139629.00 | 153449.00 | 157013.00 |
| | | | | |
| **Balance Sheet/Ratios** | | | | |
| | | | | |
| Capital Employed (£000) | 235898.00 | 254823.00 | 296157.00 | 302093.00 |
| Return on Capital (%) | 3.69 | -17.10 | -13.83 | -1.86 |
| Net Worth (£000) | 32190.00 | 27039.00 | 60451.00 | 62460.00 |
| Current Ratio | 1.94 | 1.77 | 2.24 | 1.55 |
| Liquidity Ratio | 1.93 | 1.77 | 2.24 | 1.46 |

| FINANCIAL PROFILE | EASY JET PLC | | | |
|---|---|---|---|---|
| Year End | 30/09/2013 | 30/09/2012 | 30/09/2011 | 30/09/2010 |
| Weeks | 52.00 | 52.00 | 52.00 | 52.00 |
| Consolidated | N | N | N | N |
| | | | | |
| **Sales** | | | | |
| | | | | |
| Sales (£000) | 4302000.00 | 3890000.00 | 3484000.00 | 2996800.00 |
| % Change year-on-year | 10.59 | 11.65 | 16.26 | - |
| Exports (£000) | - | - | - | - |
| Exports / Sales (%) | - | - | - | - |
| | | | | |
| **Profits** | | | | |
| | | | | |
| Pre-Tax Profits (£000) | 371000.00 | 166000.00 | 36000.00 | -15400.00 |
| % change year-on-year | 123.49 | 361.11 | † | - |
| Profit Margin (%) | 8.62 | 4.27 | 1.03 | -0.51 |
| Net Profit (loss) | | | | |
| Operating Profit (£000) | 422000.00 | 226000.00 | 125000.00 | -500.00 |
| | | | | |
| **Employees** | | | | |
| | | | | |
| Number of Employees | 7844.00 | 7524.00 | 7094.00 | 6408.00 |
| Average Employee Remuneration (£) | 44748.00 | 44790.00 | 44122.00 | 42197.00 |
| Sales per Employee (£) | 548445.00 | 517012.00 | 491119.00 | 467665.00 |
| Profit per Employee (£) | 47297.00 | 22063.00 | 5075.00 | -2403.00 |
| Capital Employed per Employee (£) | 162035.00 | 149787.00 | 158726.00 | 81507.00 |
| | | | | |
| **Balance Sheet/Ratios** | | | | |
| | | | | |
| Capital Employed (£000) | 1271000.00 | 1127000.00 | 1126000.00 | 522300.00 |
| Return on Capital (%) | 29.19 | 14.73 | 3.20 | -2.95 |
| Net Worth (£000) | 152000.00 | -61000.00 | -232000.00 | -234400.00 |
| Current Ratio | 0.56 | 0.51 | 0.62 | 0.63 |
| Liquidity Ratio | 0.56 | 0.51 | 0.62 | 0.59 |

| FINANCIAL PROFILE | THOMAS COOK | | | |
|---|---|---|---|---|
| Year End | 30/09/201 | 30/09/2012 | 30/09/2011 | 30/09/2010 |
| Weeks | 52.00 | 52.00 | 52.00 | 52.00 |
| Consolidated | N | N | N | N |
| | | | | |
| **Sales** | | | | |
| | | | | |
| Sales (£000) | 896569.00 | 961476.00 | 1070226.00 | 1027018.00 |
| % Change year-on-year | -6.75 | -10.16 | 4.21 | - |
| Exports (£000) | - | - | - | - |
| Exports / Sales (%) | - | - | - | - |
| | | | | |
| **Profits** | | | | |
| | | | | |
| Pre-Tax Profits (£000) | 80148.00 | 57430.00 | 23663.00 | 31244.00 |
| % change year-on-year | 39.56 | 142.70 | -24.26 | - |
| Profit Margin (%) | 8.94 | 5.97 | 2.21 | 3.04 |
| Net Profit (loss) | | | | |
| Operating Profit (£000) | 81401.00 | 57105.00 | 29245.00 | 37115.00 |
| | | | | |
| **Employees** | | | | |
| | | | | |
| Number of Employees | 971.00 | 95.00 | 65.00 | 76.00 |
| Average Employee Remuneration (£) | 45148.00 | 41726.00 | 40846.00 | 41553.00 |
| Sales per Employee (£) | 923346.00 | 10120800.00 | 16465015.00 | 13513395.00 |
| Profit per Employee (£) | 82542.00 | 604526.00 | 364046.00 | 411105.00 |
| Capital Employed per Employee (£) | 410491.00 | 3850642.00 | 4697215.00 | 4098408.00 |
| | | | | |
| **Balance Sheet/Ratios** | | | | |
| | | | | |
| Capital Employed (£000) | 398587.00 | 365811.00 | 305319.00 | 311479.00 |
| Return on Capital (%) | 20.11 | 15.70 | 7.75 | 10.03 |
| Net Worth (£000) | 200746.00 | 144920.00 | 93833.00 | 53206.00 |
| Current Ratio | 1.28 | 1.16 | 0.86 | 0.77 |
| Liquidity Ratio | 1.27 | 1.14 | 0.84 | 0.75 |

| FINANCIAL PROFILE | RYANAIR PLC (Currency: GBP) | | | |
|---|---|---|---|---|
| Year End | 31/12/2013 | 31/12/2012 | 31/12/2011 | 31/12/2010 |
| Weeks | 52.00 | 52.00 | 52.00 | 52.00 |
| Consolidated | Y | Y | Y | Y |
| | | | | |
| **Sales** | | | | |
| | | | | |
| Sales (£000) | 3981000.00 | 3789000.00 | 3085000.00 | 2646900.00 |
| % Change year-on-year | 5.07 | 22.82 | 16.55 | 7.76 |
| Exports (£000) | - | - | - | - |
| Exports / Sales (%) | - | - | - | - |
| | | | | |
| **Profits** | | | | |
| | | | | |
| Pre-Tax Profits (£000) | 551169.00 | 528100.00 | 371596.00 | 303389.00 |
| % change year-on-year | 4.37 | 42.12 | 22.48 | 4.19 |
| Profit Margin (%) | 11.66 | 12.76 | 10.32 | 10.22 |
| Net Profit (loss) | 464000.00 | 483000.00 | 318400.00 | 270400.00 |
| Operating Profit (£000) | 585400.00 | 589600.00 | 415000.00 | 356200.00 |
| | | | | |
| **Employees** | | | | |
| | | | | |
| Number of Employees | 9137.00 | 8438.00 | 8063.00 | 7032.00 |
| Average Employee Remuneration (£) | | | | |
| Sales per Employee (£) | 534429.93 | 520289.17 | 450142.63 | 424928.90 |
| Profit per Employee (£) | 64070.99 | 69878.92 | 51465.03 | 50652.48 |
| Capital Employed per Employee (£) | | | | |
| | | | | |
| **Balance Sheet/Ratios** | | | | |
| | | | | |
| Capital Employed (£000) | 5701400.00 | 5824500.00 | 5807200.00 | 5191900.00 |
| Return on Capital (%) | 9.58 | 9.71 | 7.39 | 6.96 |
| Net Worth (£000) | | | | |
| Current Ratio | 1.97 | 2.14 | 1.89 | 1.98 |
| Liquidity Ratio | 1.97 | 2.13 | 1.89 | 1.98 |

| FINANCIAL PROFILE | FLYBE GROUP PLC | | | |
|---|---|---|---|---|
| Year End | 31/03/2013 | 31/03/2012 | 31/03/2011 | 31/03/2010 |
| Weeks | 52.00 | 52.00 | 52.00 | 52.00 |
| Consolidated | Y | Y | Y | Y |
| | | | | |
| **Sales** | | | | |
| | | | | |
| Sales (£000) | 614300.00 | 615300.00 | 595500.00 | 570500.00 |
| % Change year-on-year | -0.16 | 3.32 | 4.38 | - |
| Exports (£000) | - | - | 73700.00 | - |
| Exports / Sales (%) | - | 12.38 | - | - |
| | | | | |
| **Profits** | | | | |
| | | | | |
| Pre-Tax Profits (£000) | -40700.00 | -6200.00 | -4300.00 | 5700.00 |
| % change year-on-year | † | † | † | - |
| Profit Margin (%) | -1.01 | -0.72 | 1.00 | 0.01 |
| Net Profit (loss) | | | | |
| Operating Profit (£000) | -34300.00 | -4900.00 | -900.00 | 8200.00 |
| | | | | |
| **Employees** | | | | |
| | | | | |
| Number of Employees | 2667.00 | 2781.00 | 2786.00 | 2798.00 |
| Average Employee Remuneration (£) | 34124.00 | 32771.00 | 32916.00 | 32642.00 |
| Sales per Employee (£) | 221251.00 | 213747.00 | 203896.00 | 200139.00 |
| Profit per Employee (£) | -2229.00 | -1543.00 | 2037.00 | 26.00 |
| Capital Employed per Employee (£) | 77526.00 | 79325.00 | 53431.00 | 51751.00 |
| | | | | |
| **Balance Sheet/Ratios** | | | | |
| | | | | |
| Capital Employed (£000) | 197700.00 | 215600.00 | 221000.00 | 149500.00 |
| Return on Capital (%) | -2.88 | -1.95 | 3.81 | 0.05 |
| Net Worth (£000) | 41600.00 | 86200.00 | 97500.00 | 10400.00 |
| Current Ratio | 0.85 | 1.12 | 0.86 | 0.87 |
| Liquidity Ratio | 0.82 | 1.09 | 0.82 | 0.83 |

## APPENDIX II: Balance Sheet Summary of Monarch and its competitors

| Monarch Airlines Limited | | | | |
|---|---|---|---|---|
| **Balance Sheet Summary (GBP in millions)** | **31/10/2013** | **31/10/2012** | **31/10/2011** | **31/10/2010** |
| | | | | |
| Non-current Assets | 121.20 | 159.90 | 169.10 | 244.40 |
| Current Assets | 237.40 | 215.40 | 229.20 | 163.40 |
| Total Assets | 358.60 | 375.30 | 398.30 | 407.80 |
| Current Liabilities | 122.70 | 121.60 | 102.10 | 105.70 |
| Net Current Asset (CA-CL) | 114.70 | 93.80 | 127.10 | 57.70 |
| Non Current Liabilities | 203.70 | 226.70 | 235.70 | 239.60 |
| Total Liabilities | 326.40 | 348.30 | 337.80 | 345.30 |
| Net Asset (TA-TL) | 32.20 | 27.00 | 60.50 | 62.50 |
| Total Equity | 32.20 | 27.00 | 60.50 | 62.50 |

| EASY JET PLC | | | | |
|---|---|---|---|---|
| **Balance Sheet Summary (GBP in millions)** | **30/09/2013** | **30/09/2012** | **30/09/2011** | **30/09/2010** |
| | | | | |
| Non-current Assets | 2964.00 | 2968.00 | 2731.00 | 2488.00 |
| Current Assets | 1448.00 | 1327.00 | 1738.00 | 1492.00 |
| Total Assets | 4412.00 | 4295.00 | 4469.00 | 3980.00 |
| Current Liabilities | 1379.00 | 1264.00 | 1177.00 | 1065.00 |
| Net Current Asset (CA-CL) | 69.00 | 63.00 | 561.00 | 427.00 |
| Non Current Liabilities | 1016.00 | 1237.00 | 1587.00 | 1437.00 |
| Total Liabilities | 2395.00 | 2501.00 | 2764.00 | 2502.00 |
| Net Asset (TA-TL) | 2017.00 | 1794.00 | 1705.00 | 1478.00 |
| Total Shareholder Equity | 2017.00 | 1794.00 | 1705.00 | 1501.00 |

| THOMAS COOK | | | | |
|---|---|---|---|---|
| **Balance Sheet Summary (GBP in millions)** | **30/09/2013** | **30/09/2012** | **30/09/2011** | **30/09/2010** |
| | | | | |
| Non-current Assets | 4281.80 | 4382.60 | 4973.50 | 5426.40 |
| Current Assets | 2003.00 | 1524.20 | 1716.30 | 1474.20 |
| Total Assets | 6284.80 | 5906.80 | 6689.80 | 6900.60 |
| Current Liabilities | 3704.60 | 3540.10 | 3783.80 | 3385.00 |
| Net Current Asset (CA-CL) | -1701.60 | -2015.90 | -2067.50 | -1910.80 |
| Non Current Liabilities | 2032.10 | 1908.80 | 1722.80 | 1772.90 |
| Total Liabilities | 5736.70 | 5448.90 | 5506.60 | 5157.90 |
| Net Asset (TA-TL) | 548.10 | 457.90 | 1183.20 | 1742.70 |
| Total Equity | 548.10 | 457.90 | 1183.20 | 1742.70 |

| RYANAIR PLC | | | | |
|---|---|---|---|---|
| **Balance Sheet Summary (GBP in millions)** | **31/12/2013** | **31/12/2012** | **31/12/2011** | **31/12/2010** |
| | | | | |
| Non-current Assets | 5179.40 | 5125.00 | 5118.40 | 4500.00 |
| Current Assets | 3763.60 | 3876.00 | 3477.60 | 3063.40 |
| Total Assets | 8943.00 | 9001.00 | 8596.00 | 7563.40 |
| Current Liabilities | 1911.70 | 1815.00 | 1837.20 | 1549.60 |
| Net Current Asset (CA-CL) | 1851.90 | 2061.00 | 1640.40 | 1513.80 |
| Non Current Liabilities | 3758.70 | 3879.30 | 3804.90 | 3165.20 |
| Total Liabilities | 5670.40 | 5694.30 | 5642.10 | 4714.80 |
| Net Asset (TA-TL) | 3272.60 | 3306.70 | 2953.90 | 2848.60 |
| Total Shareholder Equity | 3272.60 | 3306.70 | 2953.90 | 2848.60 |

| FLYBE GROUP PLC | | | | |
|---|---|---|---|---|
| **Balance Sheet Summary (GBP in millions)** | **31/03/2013** | **31/03/2012** | **31/03/2011** | **31/03/2010** |
| | | | | |
| Non-current Assets | 246.10 | 244.90 | 197.70 | - |
| Current Assets | 159.70 | 170.40 | 216.40 | - |
| Total Assets | 405.80 | 415.30 | 414.10 | - |
| Current Liabilities | 208.20 | 199.80 | 193.10 | - |
| Net Current Asset (CA-CL) | -48.50 | -29.40 | 23.30 | - |
| Non Current Liabilities | 149.50 | 126.10 | 113.10 | - |
| Total Liabilities | 357.70 | 325.90 | 306.20 | - |
| Net Asset (TA-TL) | 48.10 | 89.40 | 107.90 | - |
| Total Equity | 48.10 | 89.40 | 107.90 | - |

## Appendix III: Summary of WACC for Monarch Airlines Limited

**Bloomberg** — Weighted Average Cost of Capital

Company: Monarch Airlines Ltd — Ticker: 4229Z LN Equity

Period: Current (2013.0000000000000000 A) — Filing Status: Most Recent

Cost of Capital

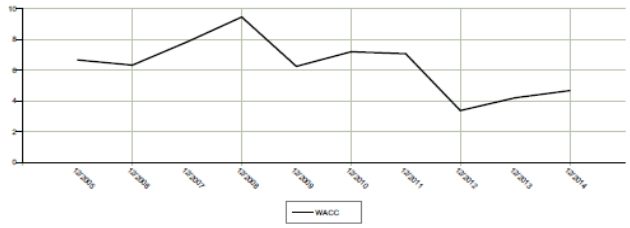
| | Weight | Cost | Weight x Cost |
|---|---|---|---|
| Equity | 38.10% | 11.30% | 4.30% |
| Debt | 61.90% | 0.60% | 0.40% |
| Preferred Equity | 0.00% | 0.00% | 0.00% |
| WACC | | | 4.70% |

Capital Structure Graph


Capital Structure

| | Millions of GBP | |
|---|---|---|
| Shareholders Equity | 32.20 | 38.10% |
| Short Term Debt | 52.40 | 61.90% |
| Long Term Debt | 0.00 | 0.00% |
| Preferred Equity | 0.00 | 0.00% |
| Total | 84.60 | 100.00% |

Historical Graph




Economic Value Added

| | Millions of GBP |
|---|---|
| Net Operating Profit | 17.52 |
| Cash Operating Taxes | 2.11 |
| NOPAT | 15.42 |
| Total Investment Capital | 285.20 |
| Capital Charge | 13.29 |
| Economic Value Added | 2.12 |
| ROIC | 5.41% |
| EVA Spread | 0.74% |





Source: Bloomberg