Profitability at Young & Co's Brewery

Abstract

Young's is a long-established British brewer, with the oldest continuously operating brewery in the UK, and is typical of many traditional family-run manufacturing businesses around the world. In defiance of market trends, Young's retained a largely verticalised structure, owning an estate of tied public houses that sell its products.

The central theme of this case is the measurement of profitability and, specifically, the issue of when a firm is earning an adequate return on investors' capital. Young's return on capital has historically been below its cost of capital. The Young's case also raises the issue of fixed-asset valuation and how historic cost accounting biases the measured return on capital of firms that carry large amounts of old tangible assets.

The case contains a brief history of Young's, a market overview and a description of the firm's business model, and a review of the firm's accounting. The case provides a detailed financial ratio analysis and formatted cash flow covering the period 1998–2006, with explanatory notes. The case also provides a longitudinal study of Young's profitability over the period 1980-2006.

This case was prepared by Professor Chris Higson with assistance from Tom Albrighton and Julie Conder. The case was prepared in 2004 and updated in 2006 from publicly available information as a basis for class discussion rather than to illustrate either the effective or ineffective handling of an administrative situation.

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History

The Young family brewed in Wandsworth, London since 1831 when Charles Allen Young bought the Rams Brewery site for £140,000. In 1955 the firm listed its 3.1m voting ordinary A shares and its 4.8m non-voting shares on the London Stock Exchange. The 4.1m ordinary B shares, which held the 57% of the votes, were unlisted and were principally owned by the Young's family, the Ram Brewery Trust and the W.A Young Charitable Trust. Young and Co remained a regional brewer, operating in the south-east of England. Young's acquired H.H Finch for £12 million in 1991, gaining 6 Bill Bentley's wine bars and restaurants and 22 Finch pubs which were located in Chelsea, the City of London, Westminster and Kensington.

Market and industry structure

The UK beer market is a mature market comprising lager, ale, stout and both nil and low alcohol beers. The UK taste in beer has changed over the last thirty years with a movement away from traditional British ales towards 'continental' lagers, though most apparently foreign beers consumed in the UK are actually brewed locally under licence. UK brewers have faced a number of other market challenges. Beer has suffered from the increasing popularity amongst young drinkers of drinks such as wine and cocktails. Rural pubs have suffered from increased legal restrictions on drinking and driving. The UK rate of excise duty (beer tax) is amongst the highest in Europe. In consequence, UK beer volumes have been in steady long-term decline at a rate of 1% or 2% per annum, though sales by value have slowly increased as demand has shifted to premium price products.

A traditional characteristic of the UK brewing industry was its vertically integrated structure, with each brewer distributing its beer primarily through its own ('tied') estate of pubs. The brewery would usually own the property and the business would be run by managers or operated by tenants who were contracted to the brewery and would serve only the beer produced by that brewery. So a typical vertically integrated brewery now has a mixed estate of tenanted and managed houses.

Brewers were traditionally closely-held family businesses with a strong regional bias, but in the 1960s and 1970s national brands began to dominate the industry as a result of the search for manufacturing economies of scale to compete with larger European brewers such as Heineken. These larger brewers also increased their vertical depth by buying other licensed outlets such as hotels and nightclubs.

The secular decline in demand for beer resulted in endemic excess capacity in brewing and in pubs, with many brewers earning a very poor return on capital. Partly as a consequence, a 'deverticalised' model has emerged. The new model contains pub-only retail chains on the one hand and, on the other side a growing concentration of brewing capacity in the hands of a few large firms. These brewers could capture manufacturing economies of scale in brewing and will brew independent brewers' beer to their own recipe. The 'Pubcos', such as Punch Taverns and J D Wetherspoon were purely retail operations that could take advantage of intense competition amongst suppliers caused by brewing overcapacity, and low cost imports, to develop outlets with a wide range of beers and other alcoholic drinks. Without their own production capacity these pubcos could respond to rapidly changing consumer tastes.

In 1989 the UK Government issued the 'Beer Orders' to encourage competition and prevent the six biggest national brewers from destroying the remaining smaller regional brewers. A limit of 2,000 was placed on the number of pubs that any one brewer could own. The national chains had to sell substantial quantities of pubs, creating further opportunities for pubcos.

Young's business model

John Young joined the company in 1954 and took over from his father as chairman in 1962. Mr Young was a colourful character and under his chairmanship, the company's raucous annual meetings became legendary. Each year he would chose a theme for the meeting and dress up accordingly; outfits included cricket whites, boxing gloves and a shield. One year, in response to investors who were looking to abolish the B shares, he appeared in a bee-keepers hat. At the meetings, up to 6,000 pints of ale as well as fine foods would be served to more than 1,500 shareholders, though this was toned down in 1995 after shareholders were discovered walking off with whole hams under their jackets. He was awarded the CBE in 1975 for services to the brewing industry and to charity. Since the Queen's trip to the Ram Brewery to mark the company's 150th anniversary in 1981, various members of the royal family including the late Queen Mother pulled a pint for the cameras at a Young's pub.

No one with stewardship of a long-established family business takes abandoning tradition lightly. John Young, who remained the chairman of the firm into his eighties, repeatedly stated Young's intention to remain a vertically integrated, independent brewer, based in Wandsworth. For vertically integrated regional brewers, evolutionary strategies to improve return on capital typically included:

- tighter control of costs;
- developing branded beers that can be sold at a premium through third party outlets and that use excess brewing capacity;
- improving the incentive structure in the distribution channel, by reviewing the role of managed houses and tenancies.
- Some brewers have pursued balance sheet-focused strategies, shifting assets off the balance sheet through operating leases and property partnerships.

Young's pursued the first three of these with increased energy from the 1990s. Young's also sought to grow its hotel business by developing integral small hotels in some of its pubs. The extent to which Young's has been successful can be judged by its financial performance since then. Young's has delivered a return on capital substantially below its cost of capital for at least the last 30 years.

During this time, consistent with its poor profitability, Young's shares traded at a heavy discount to assets – its price to book ratio was in the region of 0.5 to 0.6 over most of the period. It may seem unclear where the advantage lay in a firm like Young's continuing to be listed. Certainly, it was many years since Young's raised capital from the equity markets. The risk of being listed, for an underperforming firm, is of hostile acquisition. Young's share structure helped to ensure its continued independence. The quoted share capital included voting and non-voting shares and the Young family controlled a substantial proportion of the voting shares, directly or through their control of the Ram Brewery Trust.

Appropriately priced, the shares of a low profitability firm are as attractive as the shares of a profitable firm, and the Young's non-voting shares retained a clientele of institutional investors who took a long-term view of the potential in Young's property portfolio. There were two main components in Young's property portfolio. One was the 200 or more pub freeholds, many of which were distinctive and historic buildings situated to the west of London, which is the most prosperous suburban area in the UK. The other was the three-acre brewery site in the centre of Wandsworth, which was often described as the jewel in Young's crown. When the brewery was built, Wandsworth was a rural village outside London with, presumably, a negligible cost of land. It became a prosperous commercial and residential area of London.

Financial analysis of Young's brewery

At the end of this case are a full financial ratio analysis from 2000 to 2006, and a history of the key ratios back to 1980. To explain the construction of the ratios there is a detailed set of explanatory ratio calculations for 2006. Finally, the case contains a formatted cash flow from 2000 to 2006.

Accounting review

To form a view on the reliability of Young's financial ratios as an indicator of its performance, the analyst needs to conduct an accounting review.

Balance sheet completeness
Young's has significant operating lease rentals but, otherwise, its balance sheet appears complete in liabilities. Equally, intangible assets do not appear to be a significant factor in this industry.

Balance sheet valuation
Historic cost accounting is potentially very misleading for long-established, property-rich firms like Young's. However, Young's, like almost all UK brewers and hotel groups had followed the accounting practice of revaluing its real estate every five years. These firms also tended not to depreciate their pubs and hotels on the argument that the assets were maintained to a high standard and so did not suffer economic depreciation; they argued that since maintenance is charged against revenues, also to charge depreciation would be double-counting. Since revaluation was voluntary, real estate-rich firms like brewers and hoteliers felt no pressure to revalue downwards when property prices fell. Under UK FRS16 (1999) depreciation was required for these assets, and an impairment review if there is reason to believe that their values have fallen below carrying value. The requirement both to depreciate and to impair seemed to take the fun out of revaluation and many brewers, including Young's, ceased to revalue their real estate, effectively freezing values to the date of the last revaluation – 1997 in the case of Young's. In consequence, other things equal, the asset turn and return on capital should gradually rise with inflation, henceforth.

Income completeness
Since revaluation surpluses were taken straight to reserve, comprehensive income was likely to diverge significantly from earnings when firms revalued, tending to understate return on capital.

Specific issues arising in the ratio calculations
These notes reference the Young's 2006 calculation sheet.

a) The figures for 2005 are taken from the restated comparatives shown in the 2006 Annual Report.
b) The weighted average number of shares is given in the Accounts, Note 9.
c) Per the Young's Directors Report, the Young's voting share price at the year end was 2282; the non-voting share price, taken from market data, was 1775.
d) *Investments in own shares*. Young's shows 'Investment in own shares' as a deduction from 'Capital and reserves' on its balance sheet, with further details given in Notes 19 & 20 to the Accounts. From Note 19 we learn that the total number of shares in issue is 12,056,000 being split as to 7,266,000 'A' voting and 4,790,000 non-voting. Note 20 informs us that the number of own shares held (for future allocation under the profit-sharing and executive share options schemes) is 499,217 and these are all 'A' shares. The number of shares in issue, for the purposes of calculating year-end market capitalisation, is therefore 6,766,783 voting and 4,790,000 non-voting.
e) *Total shareholder return*. The return to shareholders is calculated as the increase in the value of their claim over the year (measured by the change in share price) plus any dividends (per share) that are due to be paid in the year. Normally, these are last year's final dividend and this year's interim dividend (2005 final 12.25p; 2006 interim 12p).
f) Young's reports market values for its loan stock in note 16. Fair value of secured debt is 51,471 in contrast to its carrying value of 44,307. Hence we conclude that the market value of Young's debt is (51471 - 44307 =) 7164 higher than book.

Young's cost of capital
We calculate Young's weighted average cost of capital (WACC) in 2006 as 7.4%. The UK 10-year government bond yield was 4.13% at end of financial 2006, and we assume Young's pay 1% over this on their borrowing. But of course their interest is tax deductible at the 30% corporate tax rate. So Young's after-tax cost of borrowing on this basis is ((4.13% + 1%) x (1 – 30%) =) 3.6%. Assuming an equity beta of .85 for Young's and a market risk premium of 5%, the equity investor's required return, which is Young's cost of equity funds, is (4.13% + 5% x .85 =) 8.4%. Since, at year-end 2006, Young's net debt was 20.5% of capital employed on a market value basis (value of net debt / enterprise value), its WACC is (3.6% x .205 + 8.4% x (1 - .205) = approx.) 7.4%.

The new century

Institutional investors put increasing pressure on Young's to improve performance from the late-nineties onwards. This was led by Guinness Peat, which tabled a series of motions at annual general meetings regretting the very low return on capital and calling on the directors to enfranchise the non-voting shares. Each time Guinness Peat announced their motion the Young's shares rallied, even though on each occasion the motion was comfortably defeated. However in 2002 Young's announced its intention to tackle the problem of non-voting shares by repurchasing them systematically over the next few years. They argued that this would be earnings enhancing. In contrast to enfranchisement, of course, repurchase would protect the control of incumbent management.

In November 2003, Young's announced that it was looking at options to shift the brewery to another location within Wandsworth, freeing up the large town-centre site for development. Young's had been in discussion with Wandsworth planning department to put together a development plan for Wandsworth town centre which included the brewery site. At this stage, John Young wanted the Ram Brewery to be relocated within the Wandsworth borough. The effect of this announcement on Young's share price was spectacular. The price discount to assets narrowed significantly, price to book rising from .55 to .82, and over the year 2003/4 shareholders enjoyed a 54% return.

In May 2005, the firm announced its intention to unify the A and B shares and to shift the listing along with that of the non-voting shares from the main London market to AIM, which is the secondary market. AIM listed shares are treated as business assets by the UK tax authorities, so that they may be largely or wholly exempt from inheritance tax on death, and have a maximum rate of capital gains tax on disposal of 10% for long-term investors. Even though the non-voting shares would still be non-voting, the market concluded that the issue of family control would now, in due course, be resolved as family members sold their shares. The FT (6.5.2005) quoted Blake Nixon of Guinness Peat as describing the move as 'beyond what we were hoping to achieve'. By the time of the transition in August 2005, Young's A shares had risen to 1500p, double their price two years earlier.

In 2005, Young's set out on the road to selling the brewery. This turned out to be somewhat long and drawn out, and critics claimed that Young's had started the process before fully determining its brewing strategy. The contract was initially believed to have been won in April 2005 by the Australian group Multiplex (before its own problems with the construction of Wembley Stadium). Multiplex agreed to pay £100m for the site but then reduced their offer, causing Young's to withdraw. A new bidding process started after Christmas 2005. By March 2006, Roxylight believed it had a deal, but Young's was still in talks with other developers including Barratt Homes, Multiplex (again) and an Israeli company.

On 23rd May 2006, Young's announced the closure of the Ram brewery. The Young family bought the Ram site in 1831, but beer had been produced on the site since 1581, making it the oldest site in the UK where beer had been continuously produced. The closure of the Ram brewery caused the loss of at least 90 jobs, leaving Fuller's the only large-scale brewer in London. On the same day it announced the closure, Young's also announced a deal with Charles Wells, another independent family brewer and pub retailer, to produce all of Young's ales at Wells' more modern facilities at the Eagle brewery in Bedford by October 2006. The new venture, Wells & Young's Brewing Company Limited is jointly-owned; Charles Wells has 60% and Young's 40%. The company produces the whole range of Wells' and Young's beers together with famous brands like Red Stripe Jamaica Lager Beer brewed under license. The company also imports and distributes brands such as Corona Extra.

It was not until 3 August 2006 that the Ram brewery site was finally bought by the property developer Minerva for £69million. Minerva had recently endured the collapse of Allders, in which it had a 60% stake, and the departure of founders Andrew Rosenfeld and Sir David Garrard. It was expected that Minerva would develop the site mainly for residential use but with a "mixed use" element.

Though some may have hoped that the proceeds from selling the brewery would be returned to investors, Young's intention was energetically to build the pub estate. Announcing the results for the first half of financial year 2006-7, Steve Goodyear, Young's CEO, said Young's had acquired 14 pubs for £32.5m and would have "well upwards of £100m at our disposal for the second half". He valued the pub estate at £399m, compared to a £225m book value. The market seemed happy. At 31st March 2006 Young's voting share price was 2280p, which represented a price to book of 1.68 and a P/E of 56.6. By contrast, at the end of 2000 the share price had been 675, price-to-book was 0.54, and the P/E was 13.9.

Young's Analysis

	2000	2001	2002	2003	2004	2005	2005 restated	2006
Sales	**91652**	**96901**	**106253**	**107828**	**111982**	**119532**	***119532***	**123873**
Sales Growth	*9.9%*	*5.7%*	*9.7%*	*1.5%*	*3.9%*	*6.7%*	*6.7%*	*3.6%*
Inflation Rate	*2.7%*	*2.3%*	*1.3%*	*3.1%*	*2.6%*	*3.2%*	*3.2%*	*2.4%*
Equity shareholders' funds	134322	138344	141817	143731	141104	144697	*136391*	142665
Minority shareholders' funds	0	0	0	0	0	0	*0*	0
Debt and preference shares	31726	38896	46974	50588	57181	53983	*53983*	54423
less Cash	-651	0	-765	0	-1005	-1028	*-1028*	0
Capital Employed at y/e	165397	177240	188026	194319	197280	197652	*189346*	197088
EBIT	10958	13041	11892	12710	12510	13400	*13288*	11482
EBIAT	7831	9502	8308	8939	8408	9233	*8962*	7362
WACC	*8.0%*	*7.4%*	*7.7%*	*6.6%*	*7.3%*	*7.6%*	*7.6%*	*7.4%*
Economic Profit	-5178	-3176	-5754	-3678	-5787	-5774	*-5729*	-6936
Earnings	6027	7447	6052	6486	5870	6455	*6184*	4651
Cash dividend	2227	2333	2483	2595	2660	2730	*2671*	2808
ROCE	**6.7%**	**7.6%**	**6.5%**	**6.6%**	**6.4%**	**6.8%**	***6.9%***	**5.9%**
After tax ROCE	**4.8%**	**5.5%**	**4.5%**	**4.7%**	**4.3%**	**4.7%**	***4.6%***	**3.8%**
EBIT Margin	**12.0%**	**13.5%**	**11.2%**	**11.8%**	**11.2%**	**11.2%**	***11.1%***	**9.3%**
Exceptionals, % of sales	1.1%	1.8%	0.2%	0.7%	-0.1%	0.3%	*0.3%*	-0.1%
Sales per employee	50.5	49.3	48.4	50.4	56.1	58.5	*58.5*	58.7
Asset turnover	**0.56**	**0.57**	**0.58**	**0.56**	**0.57**	**0.61**	***0.62***	**0.64**
Property, Plant and Equipment/Sales	187.0%	187.7%	181.9%	187.1%	185.0%	176.3%	*176.3%*	173.5%
Intangibles/Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	*0.0%*	0.0%
Inventory/Sales	5.0%	4.7%	4.2%	4.0%	3.8%	3.4%	*3.4%*	3.3%
Trade Receivables/Sales	4.0%	3.8%	3.9%	4.4%	4.7%	4.3%	*4.3%*	3.5%
Trade Payables/Sales	-6.7%	-6.9%	-5.5%	-5.1%	-5.1%	-5.1%	*-5.1%*	-4.8%
Other Net Assets/Sales	-11.8%	-12.5%	-12.6%	-13.2%	-13.6%	-13.8%	*-17.3%*	-19.6%
Current Ratio	0.68	0.57	0.73	0.57	0.72	0.59	*0.63*	0.56
Return on Equity	**4.5%**	**5.5%**	**4.3%**	**4.5%**	**4.1%**	**4.5%**	***4.5%***	**3.3%**
Gearing (Net Debt/Cap.Empl.)	18.8%	21.9%	24.6%	26.0%	28.5%	26.8%	*28.0%*	27.6%
Gearing (Market values)	30.0%	33.4%	36.3%	41.0%	34.4%	26.4%	*26.4%*	20.5%
Debt/Equity	23.6%	28.1%	33.1%	35.2%	40.5%	37.3%	*39.6%*	38.1%
Equity/Total Assets	71.4%	69.5%	67.5%	66.3%	63.4%	64.7%	*61.0%*	62.4%
Interest Cover	4.3	4.5	3.7	3.7	3.5	3.4	*3.3*	3.0
Tax ratio	28.1%	26.4%	30.2%	29.6%	33.9%	31.6%	*33.6%*	38.9%
Total Shareholder Return	**-8.8%**	**10.2%**	**8.0%**	**-3.8%**	**54.3%**	**47.2%**	***47.2%***	**47.6%**
voting share price	675	725	763	712.5	1077.5	1562.5	*1562.5*	2282
non-voting share price	475	490	625	580	915	1200	*1200*	1775
Market Capitalisation	72358	76080	86092	79674	115826	162088	*162088*	239440
Earnings per Share (pence)	48.59	60.37	49.16	52.98	48.95	56.20	*53.84*	40.31
Dividend Payout%	37.0%	31.3%	41.0%	40.0%	45.3%	42.3%	*43.2%*	60.4%
Price/earnings	13.9	12.0	15.5	13.4	22.0	27.8	*29.0*	56.6
Price/book	**0.54**	**0.55**	**0.61**	**0.55**	**0.82**	**1.12**	***1.19***	**1.68**

Young's Financial History

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Sales	16596	18719	21042	23289	25059	27833	31404	33384	35704	38933	45099	51043	59962
Sales Growth	*9.4%*	*12.8%*	*12.4%*	*10.7%*	*7.6%*	*11.1%*	*12.8%*	*6.3%*	*6.9%*	*9.0%*	*15.8%*	*13.2%*	*17.5%*
Inflation Rate	*19.4%*	*12.7%*	*10.2%*	*4.8%*	*5.2%*	*6.1%*	*4.4%*	*4.4%*	*3.0%*	*7.7%*	*8.0%*	*8.3%*	*4.6%*
WACC											*18.3%*	*17.9%*	*13.0%*
Earnings	1352	1691	1731	1784	1405	1581	1883	2130	2148	2683	3003	3534	3506
ROCE	11.1%	6.1%	4.9%	5.4%	6.2%	7.1%	7.9%	5.7%	4.4%	5.5%	5.8%	6.7%	6.6%
After tax ROCE	9.9%	6.1%	4.3%	4.2%	3.4%	3.9%	4.5%	3.5%	2.7%	3.3%	3.9%	4.7%	4.3%
EBIT Margin	10.5%	10.7%	11.6%	11.9%	12.4%	12.7%	12.8%	12.6%	11.7%	13.8%	12.6%	13.4%	13.8%
Asset turnover	1.05	0.57	0.42	0.46	0.50	0.56	0.61	0.46	0.37	0.40	0.46	0.50	0.48
Return on Equity	11.0%	6.1%	4.0%	4.0%	3.2%	3.6%	4.2%	3.2%	2.4%	2.9%	3.2%	3.7%	3.4%
Gearing (Net Debt/Cap.E	23.9%	11.9%	12.5%	11.6%	12.4%	13.2%	13.2%	6.0%	5.7%	6.5%	5.6%	9.4%	22.6%
Interest Cover	5.5	3.6	3.4	4.2	5.5	5.7	5.2	5.7	6.0	6.3	4.8	3.5	3.0
Total Shareholder Return												-5.0%	8.9%
voting share price											470	435	460
Price/earnings											20.3	15.9	17.0
Price/book											0.60	0.53	0.51

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 *restated*	2006
Sales	64729	72343	72038	73883	75803	78556	83372	91652	96901	106253	107828	111982	*119532*	123873
Sales Growth	*8.0%*	*11.8%*	*-0.4%*	*2.6%*	*2.6%*	*3.6%*	*6.1%*	*9.9%*	*5.7%*	*9.7%*	*1.5%*	*3.9%*	*6.7%*	*3.6%*
Inflation Rate	*1.5%*	*2.9%*	*3.5%*	*2.7%*	*2.0%*	*3.9%*	*1.9%*	*2.7%*	*2.3%*	*1.3%*	*3.1%*	*2.6%*	*3.2%*	*2.4%*
WACC	*10.2%*	*8.4%*	*10.5%*	*10.6%*	*10.2%*	*8.7%*	*7.6%*	*8.0%*	*7.4%*	*7.7%*	*6.6%*	*7.3%*	*7.6%*	*7.4%*
Earnings	3418	3473	3600	3397	3750	4349	5080	6027	7447	6052	6486	5870	*6184*	4651
ROCE	5.5%	5.3%	5.5%	5.2%	5.1%	5.3%	6.1%	6.7%	7.6%	6.5%	6.6%	6.4%	*6.9%*	5.9%
After tax ROCE	3.7%	3.6%	3.7%	3.5%	3.6%	3.9%	4.3%	4.8%	5.5%	4.5%	4.7%	4.3%	*4.6%*	3.8%
EBIT Margin	12.7%	11.0%	11.3%	10.3%	10.1%	10.6%	11.6%	12.0%	13.5%	11.2%	11.8%	11.2%	*11.1%*	9.3%
Asset turnover	0.44	0.48	0.48	0.50	0.50	0.50	0.53	0.56	0.57	0.58	0.56	0.57	*0.62*	0.64
Return on Equity	3.0%	3.0%	3.1%	2.9%	3.1%	3.4%	3.9%	4.5%	5.5%	4.3%	4.5%	4.1%	*4.5%*	3.3%
Gearing (Net Debt/Cap.E	23.3%	22.4%	20.9%	19.3%	18.3%	18.2%	17.4%	18.8%	21.9%	24.6%	26.0%	28.5%	*28.0%*	27.6%
Interest Cover	2.6	2.8	2.9	3.0	3.2	3.4	4.1	4.3	4.5	3.7	3.7	3.5	*3.3*	3.0
Total Shareholder Return	9.7%	10.8%	-11.0%	21.8%	17.8%	6.9%	20.1%	-8.8%	10.2%	8.0%	-3.8%	54.3%	*47.2%*	47.6%
voting share price	490	528	455	539	620	647	760	675	725	763	712.5	1077.5	*1562.5*	2282
Price/earnings	18.6	19.7	16.4	20.5	21.4	19.3	18.7	13.9	12.0	15.5	13.4	22.0	*29.0*	56.6
Price/book	0.53	0.55	0.47	0.56	0.59	0.61	0.61	0.54	0.55	0.61	0.55	0.82	*1.19*	1.68

Young's Cash Flow

	2000	2001	2002	2003	2004	*2005*	2006
						restated	
EBIT	10958	13041	11892	12710	12510	*13288*	11482
Exceptionals (disposals)	-1035	-1754	-227	-757	129	*-362*	70
Other income						*-364*	-527
Operating profit	**9923**	**11287**	**11665**	**11953**	**12639**	***12562***	**11025**
Depreciation	5980	6337	7169	7382	7547	*8127*	8145
Other non-cash items						*1306*	1114
EBITDA	**15903**	**17624**	**18834**	**19335**	**20186**	***21995***	**20284**
Reported cash tax	-2349	-2440	-2612	-2358	-2453	*-2983*	-3088
Tax shelter on interest	-755	-864	-957	-1053	-1065	*-1295*	-1204
Tax on operations	**-3104**	**-3304**	**-3569**	**-3411**	**-3518**	***-4278***	**-4292**
Inventories	-199	217	-84	297	-14	*203*	-175
Debtors	-1046	957	-542	-491	-1039	*1650*	-592
Creditors	3506	-1188	-594	482	1045	*857*	2252
Investment in Working Capital	**2261**	**-14**	**-1220**	**288**	**-8**	***2710***	**1485**
CASH FROM OPERATIONS	**15061**	**14306**	**14045**	**16212**	**16660**	***20427***	**17477**
Purchase of PP&E	-15563	-20524	-18748	-16486	-12539	*-15526*	-13451
Sales of PP&E	1804	2858	2219	2883	1164	*4382*	123
Investments	-478						
Investment in Long Term Assets	**-14237**	**-17666**	**-16529**	**-13603**	**-11375**	***-11144***	**-13328**
OPERATING FREE CASH FLOW	**824**	**-3360**	**-2484**	**2609**	**5285**	***9283***	**4149**
Interest received	130	36	19	13	11	*22*	8
Interest paid	-2645	-2915	-3209	-3524	-3561	*-4340*	-4021
Tax shelter on interest	755	864	957	1053	1065	*1295*	1204
Preference dividends	-113	-113	-113	-124			
Ordinary dividends	-2227	-2333	-2483	-2595	-2660	*-2671*	-2808
Servicing of Financing	**-4101**	**-4461**	**-4829**	**-5177**	**-5145**	***-5694***	**-5617**
CASH FLOW BEFORE FINANCING	**-3277**	**-7821**	**-7313**	**-2568**	**140**	***3589***	**-1468**
Issue (repurchase) of equity	0	0	0	-3172	-5728	*-368*	0
Increase in debt	-107	5876	9372	1950	9618	*-3198*	440
Financing	**-107**	**5876**	**9372**	**-1222**	**3890**	***-3566***	**440**
CHANGE IN CASH	**-3384**	**-1945**	**2059**	**-3790**	**4030**	***23***	**-1028**

Notes
1. This is a reordering of Young's own Cash Flow Statement, so follows the way Young's grouped the data.
2. The principal change is to estimate and remove the tax shelter on interest from the tax charge, to reveal the tax on operations. We estimated the tax shelter on interest as the statutory tax rate (30% now) times net interest paid.
3. We have inserted EBIT at the head of the statement
4. The 'Other income' in the first section is the difference between the expected and the actual return on assets of the pension scheme and the health care scheme, shown as 'Other finance income' on the face of the profit and loss account. (2006 Note to the accounts no.18))
5. 'Exceptionals (disposals)' is the profit and loss on disposal of properties and investments (2006 Note to the accounts no. 5(b).)
6. 'Other non-cash items' are employee benefit trust share allocations, and provision for capital gains tax on ESOP allocated shares (2006 Note to the accounts no. 21.)

Young’s 2006 Ratio Calculations

Sales			**123873**	
Profit after tax			4651	
Preference dividends, minorities			0	
Earnings			**4651**	
		2005		
Shareholders Funds		**136391**	**142665**	a
Short-term debt		177	283	
Long-term debt		53806	54140	
Debt		**53983**	**54423**	
***less* Cash**		**-1028**	**0**	
Capital employed		**189346**	**197088**	
Average Capital Employed			193217	

Operating Profit			**11025**
Non-operating income			457
EBIT			**11482**
Average Capital Empl'd			193217
Return on Capital Employed			**5.9%**

EBIT			11482
Tax charge for the year		2958	
Net interest paid	3873		
Tax saved @ 30%		1162	-4120
EBIAT			**7362**
Average Capital Empl'd			193217
After-tax ROCE			**3.8%**
EBIAT			7362
Average Capital Empl'd		193217	
WACC (est)		7.40%	
capital charge			14298
Economic Profit			**-6936**

EBIT	11482
Sales	123873
EBIT Margin	**9.3%**
Sales	123873
Average Capital Employed	193217
Asset Turnover	**0.64**

Average PP&E =(212413+217526)/2	214970
Sales	123873
Fixed Assets/Sales	**173.5%**
Ave Accounts Receiv. =(4534+4226)/2	4380
Sales	123873
Accounts Receivable/Sales	**3.5%**
Current Assets	11032
Current Liabilities	19544
Current Ratio	**0.56**

Tax charge	2958
Profit before tax	7609
Tax Ratio	**38.9%**

Earnings		4651	
Average number of shares		11536993	b
Earnings per share		**40.31**	
Share price (voting)		2282	c
Earnings per share		40.31	
Price Earnings Ratio		**57**	
Earnings		4651	
Equity S'holders Funds	136391	142665	
Average Equity Shareholders Funds		**139528**	
Return on Equity		**3.3%**	

Shares	*number*	*price*		d
voting	6766783	2282	154418	
non-voting	4790000	1775	85023	
Market Capitalisation			**239440**	
Equity Shareholders' Funds			142665	
Price/book			**1.68**	

Cash Dividend		2808	
Earnings		4651	
Dividend Payout Ratio		**60.4%**	
Dividend Cover = 1/Payout Ratio		**1.7**	
	2005		
Share Price	1563	2282	
Change in share price		720	
Ordinary Dividend p.s. (12.25+12.00)		24.25	
return		**744**	
Total Shareholder Return		**47.6%**	e

	book	value	f
Short-term debt	283	283	
Long-term debt	54140	61304	
Value=54140+(51471-44307)			
Debt	**54423**	**61587**	
Cash	0	0	
Net Debt	**54423**	**61587**	
Equity Shareholders' Funds	142665		
Market Capitalisation		239440	
Capital Employed	**197088**		
Enterprise Value		**301027**	
Net Debt to CE or EV	**27.6%**	**20.5%**	

EBIT		**11482**
Net Interest	3873	
add interest capitalised	0	
add preference dividend	0	
Net Interest Paid		**3873**
Interest Cover		**3.0**

Equity Shareholders' Funds	142665
Total Assets	228600
Equity/Total Assets	**62.4%**