



## TPE 2023 – Case Study Part 2

**Greentree**

©ICAS 2023





## CASE STUDY

It is three weeks later.

Your phone rings and you see that it is Paul. “Anna, can you please come into my office. Susan Lawrence from Greentree is here and we have a few matters for you to help with.”

You put down your coffee and grab a notepad and head into Paul's office. “Hi Anna,” says Susan as you enter. “Thanks for the briefing note you worked on three weeks ago, it was exactly what I was looking for. However, I've got more pressing issues that I need Walker & Mason to help with. I received a call from the manager at the bank on Friday. He wants to see me next Monday morning as he has some concerns about the most recent quarterly accounts for Greentree that were sent last week. He has indicated that we may have breached our covenants and so I need you to analyse the latest accounts and identify which covenants we may have breached and what might have caused this. You should already have details of the bank covenants. My mother has always dealt with this and I probably haven't kept as close an eye on it as I should have.

“My mother submitted the quarterly accounts to the bank from Spain, and I called her repeatedly over the weekend after the phone call from the bank manager. Last night I received an email from her in which she stated that she is not coming back to the UK and she plans to file for divorce from my father, as she has met somebody new in Spain. She said that she was sorry about the mess she'd made of the Greentree books over the last few months, and that she won't be doing them anymore. I spoke to my dad this morning and he had also received an email from her. He's pretty upset, but I've managed to talk him out of flying to Spain to confront her.

“As upsetting as all of this is, my more pressing concern is ensuring that we don't lose our financing from the bank. The bank manager said that, due to the strong growth of the business, they are still willing to continue to provide our financing, but that we need a clear action plan as to how we are going to manage our financial position going forward. He said I needed to bring a business plan to the meeting next Monday. Due to our ongoing relationship, he doesn't need a lot of information about management and past performance. He has suggested that the plan should include sections on the finance required going forward, staffing of the finance function and the recording of and controls over financial information. I've written some notes for each narrative section but need your help to make it suitable for the bank. There is a board meeting tomorrow afternoon and I need to have something to table at the meeting, which can then be taken to the bank.”

Paul jumps in. “This is where we need your input, Anna. I need you to prepare a report to the board. You should include the sections of the business plan in the report, so that the board can review the information before it goes to the bank. These sections should be prepared from the perspective of what the bank should be looking for. You should include your analysis of the quarterly management accounts and the covenants, identifying the areas of concern. You should also review the notes that Susan has produced (Appendix 1) and include any revisions to these notes.” Paul hands you a paper copy of Susan's notes. “If any further information is needed, you should make this clear in the report. The final business plan will also need updated financial projections, but you will not have time to prepare these today.”

“What product did you decide to launch?” you ask.

“We decided to go with the blackberry gin liqueur,” Susan responds. “Bethany has settled on the distillation process and the final product is terrific. Your briefing note was really helpful, but in the end I’ve gone with my gut instinct and I really believe in this product. Gin is where I think we’ll see the most growth in the next few years. We’ve had further talks with the local distributor and are ready to sign a contract with him for 4,000 units per annum for the next three years. We are almost good to go but as we are reaching full production capacity, we have decided to invest in a new pot still. I’ve been in touch with the local enterprise partnership and they have helped me to apply for a regional assistance grant to help with the purchase of the new still, which will be a great help given our current cash position.

“The increase in production leads me to another issue. One of our main suppliers has indicated that, due to the recent flooding issues, their potato prices will be increasing by 25%. I’ve heard about potato futures from some other local farmers and that they can be used to fix costs but none of us at Greentree know anything about futures. I’ve asked Paul if he could give a short presentation to the board on this.”

“Would you like me to prepare a few slides, with speaker notes?” you ask Paul.

“Yes,” he replies, “and I think a short, simple illustrative example would also be useful.” You add this to your growing list of tasks.

Susan turns to you and says “Our potential is obviously being noticed because, yesterday, I received an offer from a company to purchase Greentree via a broker called Southern Business Solutions (‘SBS’). I really don’t want to sell this business that I’ve worked so hard to build up, but I know we do need to consider their offer. In light of everything that has happened with my mother, I’ve not even had a chance to do more than glance briefly over their email, so please could you evaluate the offer (Appendix 2) and include that evaluation in the report as well?”

Paul adds, “You will obviously need to prepare a valuation of Greentree to evaluate the offer. I suggest a P/E ratio of 10 would be appropriate. Susan, is there anything else?”

“There is just one other small matter of concern, our saffron supplier in Iran,” Susan replies. “Our agent in Iran has indicated that their commission rates are due to rise by 30-40% in Yr58 due to a change in legislation in Iran. The agent smooths the way with the local bureaucrats to ensure we get our regular supply of saffron. Saffron is an expensive ingredient and so my father and I need to investigate alternative suppliers, in Iran or elsewhere.”

Susan stands up, “I really need to get back to my dad and the business,” she says. “I look forward to getting your report tomorrow.”

After she leaves, you start to stand up as Paul says, “That is everything for the report, Anna, but I have one final thing for you to deal with. Thomas called me just before Susan arrived. He is furious at Marian, although not totally surprised at her betrayal. He is going to suggest that she gifts her shares to Susan with immediate effect as she doesn’t deserve to benefit from the success of Greentree going forward. He would like us to write a letter to him to explain what the consequences of this would be, so he has all the information before

he phones her. He doesn't know anything about the approach by SBS yet, so no need to include that at the minute.

"As always, if you have any ethical concerns about this engagement, please alert the firm's ethics partner with an email," adds Paul as an afterthought as he ushers you out of the door. "You'd better get started; there is a lot to get through."

Required:

- prepare the report as requested by Paul;
- prepare the slides for Paul;
- prepare the letter for Thomas; and
- highlight any ethical concerns you have to the firm's ethics partner in an email.

## APPENDIX 1

### Notes for the business plan prepared by Susan

Here are the quarterly figures that my mum submitted to the bank as well as my first draft at the business plan.

*Quarterly figures to 30 September Yr57*

#### Profit and loss account

	3 months to 30 Sept Yr57 £'000	Year ended 30 June Yr57 £'000
Revenue _____	421	1,300
Cost of sales _____	(321)	(833)
Gross profit _____	100	467
Staff costs _____	(51)	(185)
Depreciation _____	(4)	(16)
Selling and distribution _____	(36)	(147)
Admin expenses _____	(1)	(14)
Repairs and maintenance _____	(3)	(15)
Profit before interest and tax ____	5	90
Interest charges _____	(3)	(12)
Tax charge _____	-	(15)
Profit for the period _____	2	63

**Balance sheet**

	30 Sept Yr57 £'000	30 June Yr57 £'000
<b>Non-current assets</b>		
Tangible assets		
Buildings _____	246	247
Plant & machinery _____	15	17
Fixtures & fittings _____	4	5
	<u>265</u>	<u>269</u>
<b>Current assets</b>		
Stock _____	-	43
Debtors _____	109	129
<i>Total current assets</i> _____	<u>109</u>	<u>172</u>
<b>Current liabilities</b>		
Bank overdraft _____	41	99
Bank loan – current _____	200	200
Trade creditors _____	15	28
Other creditors _____	27	25
<i>Total current liabilities</i> _____	<u>283</u>	<u>352</u>
<b>Net current liabilities</b> _____	(174)	(180)
<b>Non-current liabilities</b>		
Bank loan _____	-	-
Deferred tax _____	26	26
<i>Total non-current liabilities</i> _____	<u>26</u>	<u>26</u>
<b>Net assets</b> _____	<u>65</u>	<u>63</u>
<b>Shareholders' funds</b>		
Share capital _____	10	10
Retained earnings _____	55	53
	<u>65</u>	<u>63</u>

**Finance required**

The 10-year bank loan of £200,000 is due for repayment on 31 January Yr58.

Although the forecasts still need to be adjusted for the new product, they show that the sales growth is expected to continue in Yr58 and beyond.

Our major expenditure for the current financial year is the purchase of the new still, although the grant should cover the cost.

### *Staffing of the finance function*

My mother maintained all the financial records using a computerised accounting package. My father and I have never really had much to do with all that stuff, and I don't really know where to start. I think we probably need to get someone in to help. What do you suggest? There is no one currently working for Greentree with any financial experience.

### *Recording of and controls over financial information*

I don't really know what to put here. My mum handled all the financial stuff, we just saw the quarterly accounts at the board meetings, after she had submitted them to the bank. I suspect there are probably things that I should be checking on a more regular basis, particularly if we are bringing in someone new to do the books. Perhaps you can make some suggestions specific to Greentree on what the new person and I could do to improve our controls.



## APPENDIX 2

### Offer from SBS

To: Susan.Lawrence@greentreespirits.co.uk

From: alawson@sbs.com

Subject: Greentree offer

Dear Susan,

My name is Alex Lawson, and I am a business broker with Southern Business Solutions ('SBS').

We have been approached by a client who has been observing the craft spirit market for a number of months looking for a suitable target to grow their portfolio. They have identified Greentree as a suitable match and have instructed SBS to make an offer on their behalf.

The offer is to purchase 100% of the share capital of Greentree for £700,000. 50% of the consideration would be paid up front in cash, with the rest deferred for three years, contingent on annual sales growth of at least 10% and margins of at least 15%. Our client estimates that their supplier network will aid you in achieving the net profit margins. The current management team must remain at Greentree for three years from the date of purchase.

Should you accept the terms above, we would be able to complete the transaction within a matter of weeks as our client wants to invest quickly. We believe this to be a fair and straightforward offer, but we understand that you will have questions for us, so would be happy to arrange to meet at your convenience.

Yours sincerely,

*Alex Lawson*

A LAWSON, Lead Consultant, Southern Business Solutions

**END OF PAPER**