



DEEP DIVE
WODD CASE STUDY



It is advised that you first go through our LEARN CIMA KYP and then read this document since it combines details from various part of the preseen case study in the hope of building a solid discussion.

Reaching the roots

Whilst reading through this latest preseen for the strategic case study for November 2015, it is evident that this is an interesting preseen material presented this session. The major proportion of the preseen material is presented from the extracts from Wodd's integrated report for the year ended 30 September 2015.



Many details about the company are given including sustainability, social responsibility, strategy and objectives, code of conduct, stakeholder engagement, the major risks and uncertainties, board of director details, financial statements and so on. Furthermore extracts from two newspaper articles are also given.

These details provided are targeted to the potential investor who would possibly be an outsider to the company.

However you are the senior finance manager employed by Wodd and there are less internal details, insider information, in-depth issues presented to you in the preseen material.

In this context our study of the preseen would be to take a general point and dig deep for potential issues and problems. Just as the roots of a tree are found once digging in to the earth, let us dig inside this preseen material to find out core issues and problems facing Wodd. Reading over the surface the given information might not be enough to deal with the scenarios that would be given on the exam day.

Stick to the Knitting!

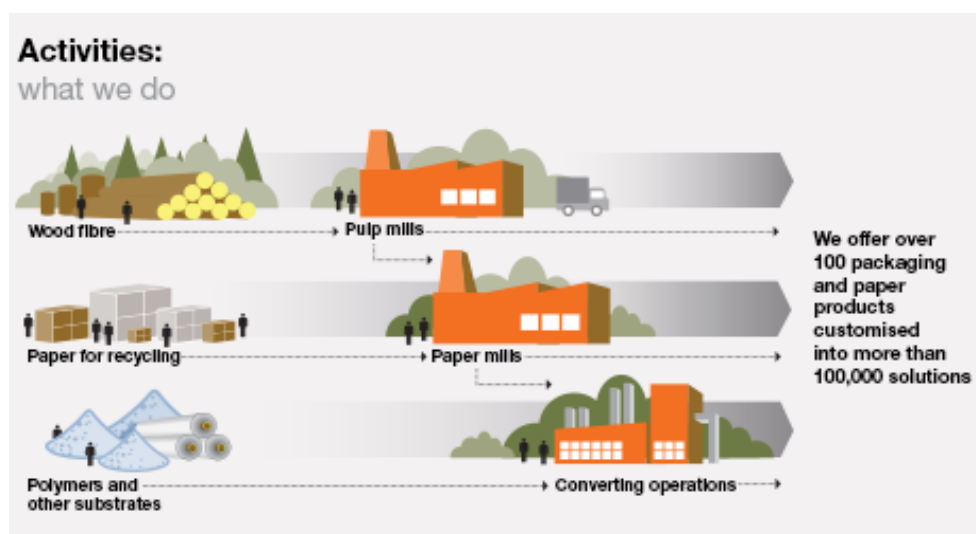
'*In Search of Excellence*' is an international bestselling book written by Tom Peters and Robert Waterman and it reveals eight common themes which they argued were responsible for the success of a business. One theme out of the eight was 'Stick to the knitting' which is the concept being that businesses should do what they do best and not try to do everything.

From the given preseen material it is visible that Wodd seems to follow the same concept-stick to the knitting! Several points from the preseen to justify this stance can be given as follows:

- Wodd's Mission: To be the world leader in sustainable **forestry management**: This displays that Wodd's operations would be limited to forestry management and would not include related industries such as paper and packaging.
- Objectives number 2: Be the **preferred supplier of raw wood-based materials** to a broad customer base. This displays that Wodd will only continue supplying raw wood-based material, the products supplied by Wodd is constrained here. Wodd is not expected for forward integration in the value chain. However this objective makes would to strive for increasing its customer base. This would aid it to reduce customer bargaining power.

However in the real world industry environment we see a mixture of entities; some which are integrated with related industries and others focusing only on a single business area.

Mondi a listed entity in the London Stock Exchange is an example of a company expanded throughout the supply chain. The image below shows their reach:



Whether it is best to stick to the knitting or to expand should be considered keeping in mind the best interest of the shareholders and other stakeholders of Wodd.

Associated industries

At the commencement of the preseen of Wodd we are informed that it “adds value through participation in associated industries, such as the manufacture of paper” (preseen page 2). To what degree does this participation conforms to?

Does this participation constitutes to a financial nature involving Wodd to invest in such associated companies or Wodd owning equity stakes in such companies?

Looking at Wodd’s Statement of financial position as at 30 September, there are no investments shown, meaning there are no equity stake by Wodd on any such external company.

Does this participation involve non-financial aspects such as partnering, strategic alliances or just informal relationships?

Many of Wodd’s board members have diverse experiences and involvement in associated industries and would have many a relationships and contacts. Below table is a summary of directors’ experienced industry/company and relevant location.

Director		Industry/Company	Country
Name	Position		
Peter Sorchi	Chief Executive Officer	Forestry	UK
Ibrahim Bengassa	Forestry Director	Plantation	Nigeria
Marcus Svenson	Finance Director	Timber Industry	Sweden
Dr Anton Carlov	Non-executive Chairman	Forestry management group	Siberia
Stuart McLellan	Non-executive director	Timber industry	Canada
Xai Ling	Non-executive director	Building company	China
Lianne Edwards	Non-executive director	Sawmill	Croatia



Banks' outlook of Wodd & Darrell

Using the financial statements we can arrive at the loan interest rates paid by Wodd and its competitor Darrell.

Interest Rates	2015	2014
Wodd	9.01%	9.08%
Darrell	9.00%	8.00%

For Wodd the interest rate has remained stable at 9%, but for Darrell it has increased from 8% to 9%.

Both companies are in the same country – in Marland and same industry therefore the general economic and industry factors would be similar and the difference would be company specific factors.

The revenue of Darrell is 1.5 times more than that of Wodd and the total non-current assets is about 1.1 times more for Darrell. This can give a rough indication that Darrell is slightly larger than Wodd.

In 2015 the gearing of Wodd is slightly higher than Darrell meaning the financial risks would be higher and leading to the possibility of the bank asking for a higher rate.

Gearing Ratios (Debt/Equity)	2015	2014
Wodd	16.2%	15.3%
Darrell	12.2%	19.7%

However superior margins of Wodd compared to Darrell can be a plus point in negotiating for a lesser interest rate from the banks.

Operating Profit Margin	2015	2014
Wodd	48.1%	53.4%
Darrell	27.2%	31.1%



The FTSE Forestry & Paper Sector of the London Stock Exchange

Forestry & Paper is one Sector on The London Stock Exchange and there are 4 companies listed under that sector. The names and business areas of the companies are as below:

	Name	Business areas
1	Cambium Global Timberland Limited	Manages a global portfolio of forestry properties.
2	Mondi	Managing forests and producing pulp, paper and compound plastics, to developing industrial and consumer packaging solutions.
3	James Cropper PLC	Manufacture of coloured paper and boards, of high performance wet laid, non-woven materials. Paper converter, Manufacture & of metal coated carbon fibres
4	Powerflute	Investing in wood supply (forestry), specialty paper and packaging businesses.

The Forestry and Paper sector index during the last 2 years is given below:



From the above chart it can be seen that the share price of the sector is volatile with highs and lows. Overall the share price performance has an upwards trend during the two years.

The preseen states that Wodd has been quoted since 2002 but however it does not provide any market information of Wodd. A possible unseen trigger would be an event which has a negative impact on the share price of Wodd, for example an article related to the environmental damage caused by Wodd or even details of accidents cause to Wodd's lumberjacks while at work. These types of articles for example can send a negative signal to the share market and thus influence the share price to fall. You as the senior finance manager Senior Finance Manager might be called on to advise on dealing with the matter and possible actions would include conducting an independent investigation and carry out a press release to inform the public.

Are Wodd's fundamentals stable?

As per the final paragraph of the Chairman's statement, Wodd's long-term fundamentals are now in place for Wodd to deliver its goal of steady long-term returns on its investments.

A quick non-exhaustive analysis of the fundamentals using the financials could be carried out to validate the aforementioned Chairman's statement.

Fundamental	2015	2014	Change % from 2014 to 2015
Revenue growth	M\$ 10,623 m	M\$ 11,685 m	↓ -9.09%
Gross profit margin	69.0%	74.8%	↓ -6.51%
Operating profit margin	48.1%	53.4%	↓ -10.02%
Net profit margin	42.1%	48.4%	↓ -13.10%
Gearing (Debt/Equity) ratio change	16.2%	15.3%	↓ -5.71%
Return on non-current Assets Change	10.5%	13.4%	↓ -21.58%
<i>Assets Values Change</i>			
• Land	M\$ 23,457 m	M\$ 22,050 m	↑ 6.38%
• Biological assets	M\$ 24,899 m	M\$ 24,351 m	↑ 2.25%
• Property, plant and equipment	M\$ 364 m	M\$ 306 m	↑ 18.95%

From the growth and return perspectives of Wodd seems to have fallen in 2015 compared to 2014, whereas its revenue growth and all its margins have eroded. Wodd's gearing ratio has also reduced.

However the Land and biological assets of Wodd have increased slightly.

- The newly purchased land for 2015 amounts to M\$ 848 million, which is a mere 3.6% out of the total land of Wodd.
- The cost of planting biological assets in 2015 was M\$ 976 million and the amount of biological assets harvested was M\$ 1536 million. The net biological assets have reduces by M\$ 560 million (Increase in fair value of biological assets have been ignored since it is for the total assets), however this maybe partly due to the planted assets being recorded at cost and the harvested assets being recorded at fair value.

From the above points additions to the key assets Wodd does not seem to be significant during the year 2015.

In conclusion it can be argued that the financials provide a picture that is less supportive of the chairman's statement.

Your role as the Senior Finance Manager

At Strategic level, the assumption is that you are a senior manager reporting directly to the top level management, who will also need your guidance in dealing with problems and evaluating opportunities.

At this level the expectation is that you will be able to adapt what you have learnt during your studies to address the issues arising in the scenario. These will of course depend largely on the nature of the organisation concerned and its business. Your position as a manager means that you'll often have to give senior executives very specific advice, because they won't necessarily have the time to analyse a problem in depth themselves.

The below given graphics are extracts from the 2015 CIMA Professional Qualification Syllabus Tutor's Handbook.



Three decades in the Industry!

Wodd was established in 1983 with the initiation of a consortium of wealthy customers whose purpose for establishing the company was to undertake their purchase of the large area of forests. Wodd has come a long way since that and now is a listed company.

As mentioned in the earlier Deep Dive document, both Wodd's mission and its objectives are limiting it to be contained in forestry management whilst being a supplier of raw wood-based materials. Are these mission and objectives few decades old?

What if the Board of Wodd is deciding on a change of strategic direction? In this context your advice would be appreciated highly.

During such a strategic change process what are the possible areas that you might be required to advise on?

- While developing a suitable strategy you might be required to select critical success factors and thereby provide key performance indicators (KPI).
- Advise on an information systems strategy for the organisation. You might be required to comment on the strategic importance of information systems as well as the use of information systems for competitive advantage.
- Advise on strategic risks facing Wodd. The preseen provides several risks related to Wodd and some of these such as fluctuating demand, international business, long term impact from exchange rate fluctuations and reputational risk can be reflected as strategic risks.
- You might be required to advise on a strategic financial objective such as maximising shareholder wealth.
- After the strategy is set you might be required to advise on strategic performance measurement methods, such as for example:
 - Balance Scorecard
 - Performance Pyramid
- As a result of strategic change if Wodd decides to change to inorganic growth (by means of acquisitions or mergers) you might be required to advise on strategic implications of a proposal for an acquisition or merger.

Managing shareholder sentiments

Wodd was established in 1983 and was quoted in 2002. There from 2002 Wodd has been quoted for nearly 13 years. When it comes to quoted companies a popular theme examined in the past papers are the issues related to the company share price and its shareholders.

From the prior diets of the Strategic Case studies we can see many a tasks being resented which are related to the share price and shareholder concerns.

The learning from past papers are summarized as below:

	Exam Diet	Variant-Section	Issue/Task
1	March 2015	1 – 1	Demonstrate understanding of shareholder concerns and addressing them in a positive manner.
2	March 2015	2 – 3	Advise on how likely the share price will slip as a result of loss of key staff.
3	March 2015	5 – 1	Advise whether a merger would add value from the perspective of the shareholders.
4	May 2015	1-1	What are the issues to be considered with respect to informing the stock market regarding a key issue in the approach to business?
5	May 2015	2-1	How another company (in the same industry) having a 25% stake in our company affect the share price?
6	May 2015	4-1	How to structure a media response team that would enable the company to carry out a proper public announcement.
7	May 2015	4-2	Explain why the share price has fallen to a great extent due to the announcement of an accident?
8	May 2015	5-1	The implications of the share price due to the announcement of downgrading reserve figure presented in the financial statements. How the share price will change as a result of the announcement?
9	August 2015	1-2	How is the company's share price likely to react to news of a new venture? What is the key message to be communicated in the press release and media briefing? Give reasons for the selection of the message.
10	August 2015	2-3	How the share price will move as a result of a new venture?
11	August 2015	3-1	What factors will determine the likelihood that the rights issue will succeed in raising the required sum for a new venture?



Optimistic or Pessimistic: Unrealised gain on biological assets

In 2014 the unrealised gain on biological assets was nearly 10.5% compared to the revenue for that year. In the previous year in 2013 the figure is nearly 6.5%. Therefore we can see a relative increase in the recording of unrealised gains in the statement of profit or loss.

Is the amount transferred to the statement of profit and loss an overestimation? Is it being too optimistic?

May 2015 Session

We have seen a similar issue relating to an accounting treatment such as the recognising of unrealised gains as mentioned above. In the May 2015 session the preseen case study is based on the company (Slide), which is an oil and gas exploration company. It has oil and gas reserves which are capitalised in the financial statements. Recognition of these oil and gas reserves needs to meet several criteria.

In the May 2015 session in variant 5 there is an issue relating to the downgrading of a reserve, since a given criteria has not been met. Already the financial statements for the year end have been published and the Head Geologists is suggesting whether not to withdraw the financial statements and carry out quietly.

- One task is to decide on making a public announcement regarding the downgrading of the reserves. Furthermore indication on the implications for the relationship with the various stakeholders is also requested. In addition the ethical issues related to remaining silent without any downgrade is also asked to be discussed.
- Finally another two tasks are required which asks about the implication on the share price with the announcement and the factors that will indicate how the share price will change upon the announcement.

Will such a similar situation arise in the coming exams as well? Will Wodd being too optimistic lead to a situation where its assets are overvalued?

