DEBT SECURITIES ASSIGNMENT

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1 Introduction

1 Purpose

The purpose of this report is to provide reasonable credit rating analysis of David Jones to reveal significant insight of credit situation and provide significantly comparability with standard benchmarks on a market based valuation for the industry. This report contains reliable rating processes which would help investors to make optimal investment decisions of David Jones. In order to satisfy the requirements of bond credit risks analysis the report includes analysing the default risks; credit spread risks and downgrade risks.

2 Scope

The report conducts a financial reports analysis with the credit rating analysis by using the past five years' income statements, financial position statements, cash flow statements and their annual report notes. In addition the standard benchmarks are chosen to make comparison with David Jones to present a specific data differences analysis.

3 Methodology

Based on the past five years financial data the report implement FOUR C ANALYSIS, RATING MODEL and Z SCORE MODEL to complete the rating system structure. In every method we will use the comparisons data of benchmarks with David Jones to give you direct demonstrations the performances of ratings.

4 Assumptions

For the accuracy purpose of the analysis process we assume the financial reports and its footnotes in the annual report of David Jones could fully stand for any accounting and management information. There are no accounting data changes to only satisfy the management needs. Moreover for the benchmarks in the report, even though we know they might not suitable for the recent time economic environment, we assume the benchmarks are significant and effective for the models we choose. For the Z score model we assume it is suitable and accurate for analysing David Jones and will not lead to any bias.

5 Limitation

Firstly as we only use five years financial data it might not fully explain the past performances and it might leadthe credit analysis to be unappreciated. On the other hand due the financial crisis in 2008 the financial data has huge gaps from 2008 to 2009. That can not reflect the reasonable average performance. Secondly, it is impossible to make sure the annual reports can full stand for any information. In the real word for the purpose of making annual reports attractive, the accounting management usually modify and hide some information which might affect its reputations. Therefore the theoretical analysis is different from the actual situation. Finally the Z scores model was set up many years ago; it might suitable for that time but might be not now. Moreover Z scores model can be used for either privately held or merchandising & service firms, however we chose to use the merchandising & service model and it might not the best one.

2 Company overview

David Jones (DJS) was founded in 1838, is Australia's oldest department store chain which is the Australian fashion brand for 170 years of history. It is operating in three major sectors; they are Department Stores, Securitisation Vehicles and online Shopping. The core business is the operations of department stores which earn more than 90% of the total revenues. As a major player David Jones occupied for 10.2% market share in this industry. Therefore, our analysis will mainly focus on this sector. David Jones's competitive advantages are the distinctive fashion design, customer loyalty and the large number of department stores in Australia to attract more and more customers.

3 Economic Framework

The industry of Department stores has revenue over 189 billion and profit over 700 million annually. Over last five years the average growth rate is -2.5% and the expectation rate is around 0.8% for next five years. It is obvious to see that the industry is declining; therefore the prospect of this industry is not optimistic. On one hand is due to the downward economic forecasting next few years of Australia and international competitors continue entering into the industry (i.e. Zara and Gap). The other hand is the strong growth rate of online shopping and specialty retailers. In the following year David Jones will be affected by the external factors on its sales growth and expansions.

4 Traditional Financial Analysis: Four C's analysis

1 Capacity Analysis

1 Liquidity Ratio

	2008	2009	2010	2011	2012
Current Ratio ***(Current Assets/Current Liabilities)***	*1.2382*	*0.9663*	*1.0472*	*1.2291*	*1.0553*
Quick Ratio ***(Current Assets-Inventories-Prepayments/ Current Liabilities)***	*0.8119*	*0.1615*	*0.146*	*0.1437*	*0.1441*

The current ratio and quick ratio are referred as short term solvency ratios to examine the adequacy of liquid assets to meet the short term obligations when they are due. Although the current ratio was less than 1 in 2009, the overall trend was higher than 1, remarkably suggesting the significantly improved liquidity of the company throughout the periods of 5 years from 2008 to 2012. The quick ratio was 0.8119 in 2008, followed by a dramatic decrease until the end of reporting period, 2012. It is clear that the lower the quick ratio of company, the smaller the liquidity, meaning that as company's obligations are due, its most liquid assets would have insufficient amounts to repay its debts. It seems quite possible that David Jones were at a low liquidity of the quick assets. This may probably happen for such kind of retailers because their inventories always remain significantly high levels for all stores to ensure its core business. However, both ratios suggests that Dow Jones would be able to pays its short term debt when they fall due.

2 Profitability Ratio

a ROE

ROE is defined as an amount of net return on the shareholders' equity. This ratio is measured by the following equation,

Return on Equity = Net Income/Shareholder's Equity

It can be seen clearly from the chart below that David Jones company's ROE was significantly high over the periods of 4 years from 2008 to 2011, with 22.11%, 22.77%, 22.95% and 21.41% respectively, followed by a sharp decline in 2012, the value of ROE was recorded at the lowest level, 13.03%. The decrease in total sales revenue and increase in operating expenses had led to the decrease in net income in 2012, which was the main reason of the dramatic decline in ROE at that period. However, the overall ROE ratio over theperiods remained at high level, compared with another companies in the same industry, strongly suggesting the significantly efficient profitability for its shareholders.

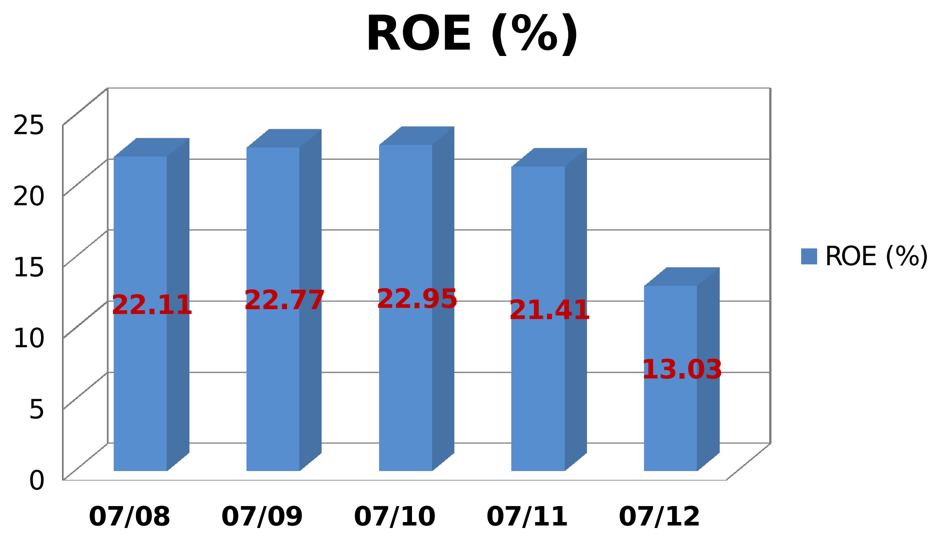

Figure 1: Return on Shareholder's Equity from 2008 to 2012

b ROA

ROA is a measure of how much rate of returns of a company will be generated on its total assets. This ratio is calculated by the following equation,

Return on Equity = Net Income/Total Assets

This percentage was illustrated from the following chart between 2008 and 2012. The overall trend was recorded at high levels, with 10.84%, 14.46%, 14.7% and 14.29% on the order, with an exception of ROA ratio in 2012. At this period, there was a sharp decline in ROA ratio, falling to 8.76% from 14.29%, compared with the previous period. This was mentioned above, the dramatic decrease in net come, resulting from a significant decline in sales revenue, may lead to the fall in ROA ratio in 2012. Overall, the high level of its ROA ratio represents the efficiency of management of using its assets to generate profits.

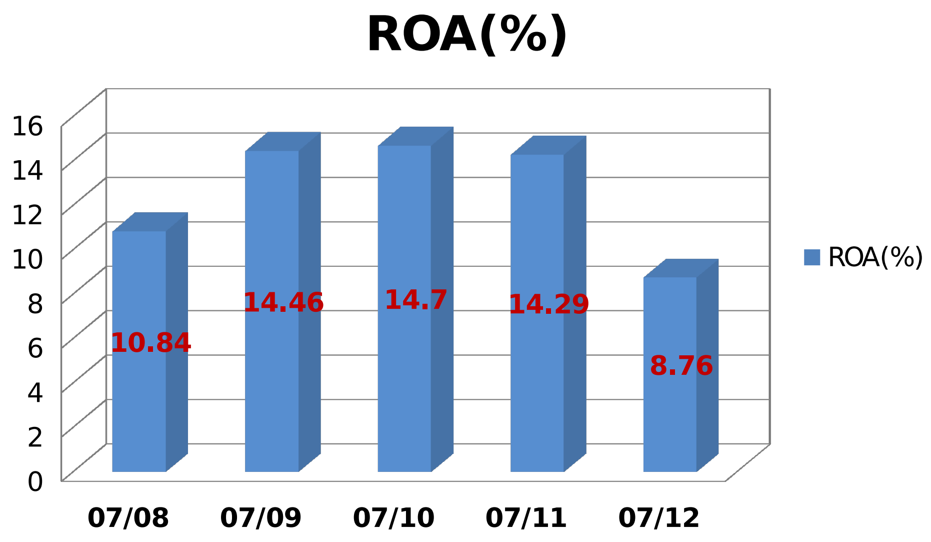

Figure 2: Return on Total Assets from 2008 to 2012

c Net Profit Margin

Net Profit Margin is referred as one of the ratio of profitability, is calculated as net income divided by the total revenue. This measure suggests that how much net profit will be generated from each dollar of sales. In 2011, Net Profit Margin of David Jones was recorded at the highest level, with 8.57%, compared with 8.32%, 7.88% and 6.53% in 2010, 2009 and 2008 on the order. The significant decrease in sales revenue in 2012 resulted from a sharp decrease in Net Profit of David Jones over this period. This trend was illustrated clearly from this following graph.

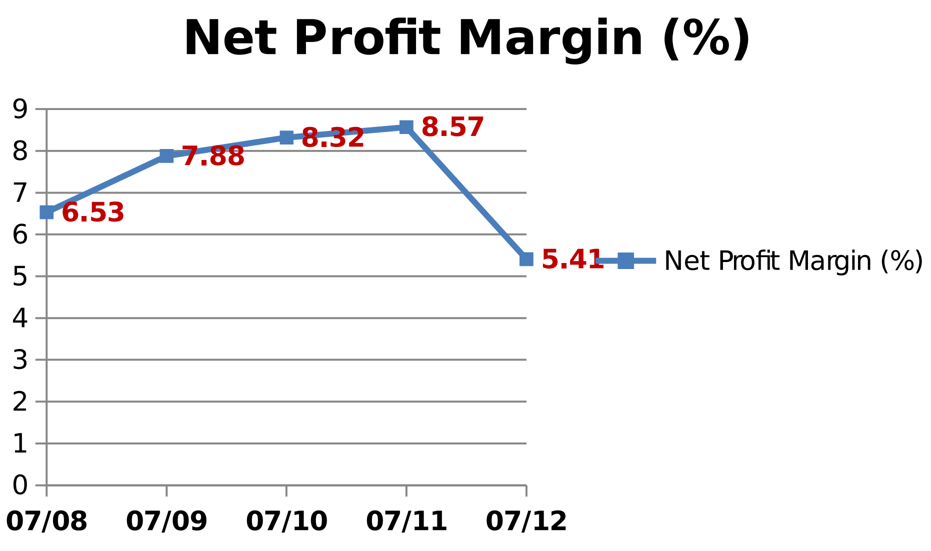

Figure 3: Net Profit Margin from 2008 to 2012

4.1.1.3 Cash Flows Analysis

Cash flows analysis is a critical measure used to determine the abilities of company in generating cash flows from its operations to meet its obligations as and when they fall due. An investor or analyst can examine the source of financing for business operations, the ability to meet obligations, the ability of company to finance expansion, the ability to pay dividends and the flexibility in financing its operations by analysed cash flows ratios.

Funds from Operations / Total Debt

	2008	2009	2010	2011	2012
Funds from Operations	*255,194,000*	*226,056,000*	*213,818,000*	*201,232,000*	*212,226,000*
Total Debt	**512 ,360,000**	**101 ,870,000**	**103 ,945,000**	**131 ,943,000**	**13 6,006,000**
Funds from Operations/ Total Debt	49.81%	221.91%	205.70%	152.51%	156.04%

The correlations between the total debt of company and funds from its operation activities are represented by the Funds from Operations / Total Debt ratio. Clearly, the higher the ratio is, the greater the performance of its operations is. The highest percentages of this ratio were record at 221.91% in 2009, 205.70% in 2010 and 156.04% in 2012 and 152.51% in 2012, strongly suggesting that the funds generated from operations activities were significantly sufficient to maintain its operation without a heavy financial leverage over those periods. Particularly, there was a dramatic decrease in the short term and long term debts throughout the periods, from over AUD $512 million in 2008 down to approximately AUD $136 million in 2012. 2008 recorded ratio as the lowest level of 49.81%, meaning that David Jones must use high level of financial leverage to maintain its operations in this period because there were not considerably sufficient funds generated from operation activities.

Cash Flows to Debt ratio

	2008	2009	2010	2011	2012
Net Operating Cash flows	*201,963,000*	*191,527,000*	*203,923,000*	*182,438,000*	*196,737,000*
Total Debt	**512**	**101**	**103**	**131**	**136**

	,360,000	,870,000	,945,000	,943,000	,006,000
Cash Flows to Debt ratio	39%	188%	196%	138%	145%

It is strongly believed that this ratio would be significantly critical because it provides the ability of the company to cover total debts with cash flows generated from operating activities. It is clear that the higher the ratio, the better the performance of operating activity as well.

The ratio in 2010 was displayed at the highest percentage, with 196%, followed by a slightly lower proportion of 188% in 2009, 145% in 2012 and 138% in 2011. The lowest percentage was record in 2008, with 39%. It is strongly suggested that David Jones have sufficient financial abilities to carry its total debts, according to the high level of this ratio.

2 Collateral Analysis

Either secured or unsecure could be an official form of a corporate debt obligation. In terms of liquidations, there are distributions of proceeds from a bankruptcy to lenders, based on the absolute priority rule. However, in the case of reorganization, the entire amount of claims will be distributed to the unsecured creditors, while a slight percentage of claims will be delivered to the secured creditors, common stockholders may possibly obtain a little.

	2012 $000	2011 $000
Financing facilities		
Access to the following lines of credit was available at balance date:		
Total facilities (i)		
Unsecured bank loan facilities	400,000	–
Unsecured syndicated bank loan facilities	–	350,000
Overdraft and trade finance facility (ii)	29,281	29,600
Bank guarantee facility	910	1,024
	430,191	380,624
Used at balance date		
Unsecured bank loans facilities	136,000	–
Unsecured syndicated bank loan facilities	–	129,000
Overdraft and trade finance facility	6	2,943
Bank guarantee facility	910	1,024
	136,916	132,967
Unused at balance date		
Unsecured bank loans facilities	264,000	–
Unsecured syndicated bank loan facilities	–	221,000
Overdraft and trade finance facility	29,275	26,657
Bank guarantee facility	–	–
	293,275	247,657

Notes:

(i) All facilities are denominated in Australian dollars, unsecured and subject to borrowing covenants, which have been met.

(ii) The overdraft and trade finance facilities are subject to annual review in November each year. The overdraft facilities can be cancelled by the lender on 30 days notice.

Figure 4: Unsecured bank loans in 2011 and 2012 of David Jones [1]

Total unsecured obligations of David Jones were illustrated from above table between 2011 and 2012. It can be seen clearly that all of these assets were unsecured bank loan facilities, with a total of AUD 400,000,000 in 2012, including unsecured bank loan of AUD 136,000,000 used and AUD 264,000,000 unused at balance date, while in the previous year, unsecured syndicated loan facilities recorded at AUD 350,000,000, with AUD 129,000,000 used and AUD 221,000,000 unused at balance date.

The following figure 5 represented the components of David Jones's assets that may be possibly formed as secured facilities for its obligations during the periods of 5 years from 2008 to 2012. Plant & Equipment, Trade Debtors in 2008 and Inventory were recorded at the highest percentages, with total approximately average 63.73%, 27.13 and 23.63 respectively. Cash, Intangibles, Goodwill and Non-Current Investments displayed at the lowest levels over the periods.

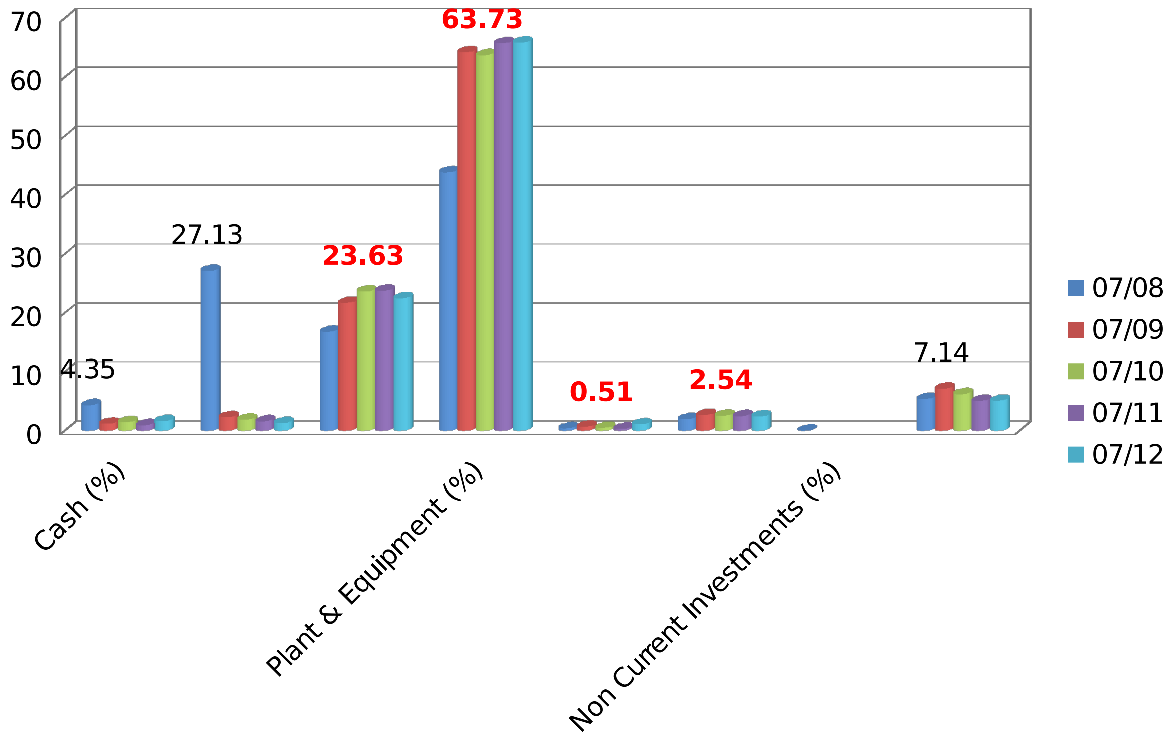

Figure 5: The percentage of assets from 2008 to 2012 of David Jones

4.1.3 <u>Analysis of Covenants</u>

1 2012 David Jones Annual Report

Limitations and restrictions on David Jones's activities in relation to its obligations are represented by covenants. They are always expresses by two components, such as affirmative and negative covenants.

Affirmative covenants are positive covenants, suggesting the obligations of borrowers for scheduled repayments under loan agreements, such as tax, interest, premium payments. Other affirmative covenants were asked to maintain all properties and business operations under good conditions and working orders.

Some certain actions of borrowers are restricted and limited by negative covenants, which depend on the characteristics of obligations, the economics of industry or the nature of business. These restrictions include that debtors will not make any investment with other counterparty with no any specific permit, they will not sell, transfer or lease any properties lied under loan agreements without any particular permit as well. Even more specific, they will not engage in any fundamental debentures that may possibly change any original features of loan agreements.

It is strongly suggested that under David Jones's loan agreements, which imposed affirmative and negative covenants, company must comply with all those covenants to meet its obligations.

4 Character Analysis

Capacity, Collateral and Covenants are three vital components of traditional financial analysis. However, an analysis of Character plays a key role in the test of the top quality of management. Over the recent year, much more attention has been paid to the corporate governance and roles of Directors board. Corporate governance represents the rights and obligations of officers, members of board of directors and stockholders. David Jones's board of directors must take full responsibilities of its stockholders and stakeholders' rights, its long term and short term investment strategies, strengthens in core business and contents of public disclosures as well.

Another factor which needs to be taken into account that company's board of directors must ensure its independence and effectiveness on transparency, accountability and risk managements.

2 Ratings Model

The ratings model is based on a comparison of a series of financial ratios with median ratios for similar firms. The ratios are used including: (1) EBIT interest coverage (2) EBITDA interest coverage (3) Operating income before D&A/revenue (4) Funds from operations/total debt (5) Free operating Cash flow/total debt (6) Return on capital (7) Total debts/Capitalization (8) Discretionary Cash flow/debt; and (9) Debt/EBITA.

The median ratings benchmark published by Standard and Poor's (2005 – 2007) is applied to estimate the David Jones's credit risk

Item	07/08	07/09	07/10	07/11	07/12	Average
EBIT interest coverage	BBB	AAA	AAA	AAA	AA	**AA**
EBITDA interest coverage	BBB	AAA	AAA	AAA	AA	**AA**
Operating income before D&A/revenue	CCC	B	B	B	CCC	**CCC**
Funds from operations/total debt	A	AAA	AAA	AAA	AAA	**AAA**
Free operating Cash flow/total debt	AA	AA	AAA	AAA	AAA	**AAA**
Return on capital	A	A	AA	AA	BBB	**A**
Total debts/Capitalization	B	AAA	AAA	AA	AA	**AA**
Discretionary Cash flow/debt	AA	CCC	AAA	AA	A	**AA**
Debt/EBITA	BBB	AAA	AAA	AAA	AA	**AA**
Average	**BBB**	**A**	**AA**	**AA**	**A**	

Generally, DJS is worthy of investing by investors. As the above table, the previous five years rating indexes are demonstrated by BBB rating to AA rating. In 2008, the lowest level assessed by averaged BBB because of the impact of *EBIT interest coverage* (at 5.7 times), *EBITDA interest coverage* (at 6.7 times) and *Operating income before D&A/revenue* (12.6%). In 2010 and 2011, the DJS's credit ratings are classified as average AA level. This can result from the highest AAA ratings by *Funds from operations/total debt* (219.9% and 144.7%, respectively),*Free operating Cash flow/total debt* (237.3% and 162.5%, respectively), as well as *Debt/EBITA* (0.4 and 0.5, respectively).

Item	07/08	07/09	07/10	07/11	07/12
EBIT interest coverage	5.7	24.4	35.2	31.7	14.1
EBITDA interest coverage	6.7	29.2	41.4	37.6	18.9

Operating income before D&A/revenue	12.6%	13.5%	14.6%	15.2%	12.7%
Funds from operations/total debt	45.7%	213.2%	219.9%	144.7%	147.5%
Free operating Cash flow/total debt	42.5%	71.7%	237.3%	162.5%	100.6%
Return on capital	18.6%	21.9%	28.0%	26.1%	15.9%
Total debts/Capitalization	70.6%	17.6%	17.2%	20.2%	20.2%
Discretionary Cash flow/debt	25.9%	-33.5%	124.0%	63.8%	19.2%
Debt/EBITA	1.9	0.4	0.4	0.5	0.7

(The calculations of above table are in the Appendix 1)

EBIT interest coverage is the measure the difference between the company revenue and its sale expenses, divided by interest expense. Similarly, *EBITDA interest coverage* is the earnings before interest, taxes, depreciation and amortisation expense divided by interest expense. These coverage ratios are based on the amount of revenue and expense, as well as *Operating income before D&A/revenue* ratio. Although two first ratios have been improved with average AA rating in last five years by the 5.7 times of lowest point to the 35.2 times of highest point, the third ratio is assessed as average CCC level by the 12.6% of lowest point to the 15.2% of highest point. This demonstrates the less effectiveness of DJS's operating policies.

Funds from operations/total debt, free operating Cash flow/total debt and *Discretionary Cash flow/debt* ratios are related to the cash flow from operating activities and the total debt. The highest AAA level of first two ratios represents the agreement between cash flow to the financial commitments, such as interest and loan payments. In 2010, the highest point is 237.3 % in Free operating Cash flow/total debt ratio, and 219.9% in Funds from operations/total debt ratio.One of the reasons is the company have been adopted the policy of using the American Express card to accelerate collecting cash since 2010. Therefore, DJS can use most of its own money for the operating activities and investments with lower amount of total debts.

Return on capital and *total debts/Capitalization* ratios measure the company financial leverage. These ratios quantify how effective of the generation capital in cash flow to the company business. In Return on capital ratio, the trend fluctuate from18.6% in 2008 to 15.9% in 2012. Similarly, the 70.6% about Total debts/Capitalization ratio in 2008 was decreased to 20.2% in 2012. From the table, the above average A rating over the last five years illustrates that it is still worthy to invest in David Jones.

Overall, the average rating of David Jones in 2012 is classified A level compared to the benchmark of Standard and Poor's median ratings. This represents that the DJS's debt securities are high quality, and its stock is the valuable creditworthiness.

4.3 Altman's Z score

David Jones is one of the largest corporations in Australian's customer services and merchandising industries. Therefore, the Altman's Z score is calculated by this following equation,

$$Z = 6.56(X1) + 3.26(X2) + 6.72(X3) + 1.06(X4)$$

Where,

X1 = Working capital/Total assets

X2 = Retained earnings/Total assets

X3 = Pre-tax profits/Total assets

X4 = Book value of equity/Book value of debt

The calculated Altman Z score is less than 1.81, suggesting the serious financial health, while Altman Z score is more than 3, indicating that the company is in a healthy financial condition.

			07/08	07/09	07/10	07/11	07/12
Working capital/Total assets	**X1**	**6.56**	*0.2089*	*-0.0195*	*0.0001*	*0.0430*	*0.0060*
Retained earnings/Total assets	**X2**	**3.26**	*0.0843*	*0.1353*	*0.1467*	*0.1529*	*0.1244*
Pre-tax profits/Total assets	**X3**	**6.72**	*0.1291*	*0.1929*	*0.2025*	*0.1970*	*0.1159*
Book value of equity/Book value of debt	**X4**	**1.06**	*1.2097*	*6.7477*	*7.1599*	*5.9532*	*5.7035*
	Z scores		***3.80***	***8.76***	***9.43***	***8.42***	***7.27***

According the calculated Altman Z scores above, the value of Z scores remained at significantly high over the periods from 2008 to 2012. This strongly suggested the remarkable performances of financial conditions of David Jones. This resulted from the David Jones's ability to generate its higher profit and the increase in significant capital funds from the issue of shares to investors. It is clear that David Jones financial conditions are significantly healthy. Therefore, company have sufficient affords to meet its obligations.

4.4 Fulmer Model:

The Fulmer model (U.S 1984) was established by analysing 60 companies with a set of 40 ratios. According to Insolvency Prediction, the final model was released in associated with 9 ratios, and reached to 98% accuracy rate which result was "one year prior to failure" from testing companies – 81% accuracy rate which result was "more than one year prior to bankruptcy" from testing companies.

The Fulmer model's formula: **H = 5.528 (V1) + 0.212 (V2) + 0.073 (V3) + 1.270 (V4) - 0.120 (V5) + 2.335 (V6) + 0.575 (V7) + 1.083 (V8) + 0.894 (V9) - 6.075.**

Where:

V1 = Retained Earning/Total Assets
V2 = Sales/Total Assets
V3 = EBT/Equity
V4 = Cash Flow/Total Debt
V5 = Debt/Total Assets
V6 = Current Liabilities/Total Assets
V7 = Log Tangible Total Assets
V8 = Working Capital/Total Debt
V9 = Log EBIT/Interest

If H-ratio is less than 0, the firm would be classified as "failed" which means the possibility of going bankrupt.

Based on this model, H-ratio of David Jones's performance is illustrated:

Item	07/08	07/09	07/10	07/11	07/12
H - ratio	1.671	3.171	3.590	3.113	2.706

As shown in the above table, the H-ratio in last five years are all obviously greater than 0. Therefore, David Jones is not classified as "failed" firm. Generally, the possibility of going bankrupt is zero; the ratios performances are in the upward trend from 1.6 to 2.7 indicate the improvement of the credit rating level.

5 Springate Model:

The Springate Model (Canada 1978) analysed 40 companies, and achieved to 92.5% accuracy rate. According to Insolvency Prediction, the final model was released in associated with 4 ratios by selecting in 19 popular financial ratios.

The Springate model's formula: **Z = 1.03A + 3.07B + 0.66C + 0.4D.**

Where:

A = Working Capital/Total Assets
B = Net Profit before Interest and Taxes/Total Assets
C = Net Profit before Taxes/Current Liabilities
D = Sales/Total Assets

If Z-ratio is less than 0.862, the firm would be classified as "failed" which is the possibility of going bankrupt.

Based on this model, Z-ratio which applied to David Jones's performance is illustrated:

Item	07/08	07/09	07/10	07/11	07/12
Z = 1.03A + 3.07B + 0.66C + 0.4D	1.329	1.781	1.849	1.915	1.308

As the above table, all Z-ratio in last five years are greater than 0.862. Therefore, David Jones is not classified as “failed” firm. Generally, the bankruptcy possibility does not exist. DJS’s performance is satisfied due to the upward trend since from 2008.

5 Conclusions and recommendations

In conclusion, form the five approaches we used to analysis DJS’s credit rating the operating performance and financial situation are at the upper-medium grade. The management of DJS can efficiently use the asset to generate profit that indicates strong ability to generate profit by its current capital level. Due to this reason DJS’s operating activities can provide enough funds for the investing activating without using the financing activities which could significantly control the debt level. Moreover, due to the relative low level of debt DJS has more flexibility to chose issue shares or borrow debts.

In our whole analysis process the only issue we are concerning is the lower quick ratio which indicates low liquidity. However, the current ratio is much higher than the quick ratio which is due to the large amount of inventory. In some industries it might not good to keep such high level of inventory, nevertheless for satisfying the marketing purpose DJS have to use as much inventory to maintain the customers demand to retain competitive advantages. We suggest that DJS should decrease the inventory level by keep most of the profitable commodities and cut the relative lower profit commodities to improve the quick ratio. That will enhance the ability to meet short term obligations.

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APA 6th

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11. Lecture 6, Debt securities subject

APPENDIX 1: FOUR C' ANALYSIS

Item	07/08	07/09	07/10	07/11	07/12
1.1 Liquidity Ratio					
Current Assets	747,305,000	293,979,000	328,084,000	327,101,000	323,249,000
Current Liabilities	603,533,000	304,234,000	313,300,000	266,133,000	306,298,000
Current Ratio	**1.2382**	**0.9663**	**1.0472**	**1.2291**	**1.0553**
Quick Ratio	**0.8119**	**0.1615**	**0.146**	**0.1437**	**0.1441**
1.2 Profitability Ratio					
Net Income	137,053,000	156,522,000	170,766,000	168,139,000	101,103,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
Shareholder Equity	619,790,000	687,385,000	744,238,000	785,480,000	775,704,000
ROE (%)	**22.11**	**22.77**	**22.95**	**21.41**	**13.03**
ROA (%)	**10.84**	**14.46**	**14.7**	**14.29**	**8.76**
Net Income	137,053,000	156,522,000	170,766,000	168,139,000	101,103,000
Total revenue	2,238,193,000	2,048,951,000	2,104,461,000	2,017,270,000	1,925,385,000
Net Margin Profit	**6.53**	**7.88**	**8.32**	**8.57**	**5.41**
1.3 Cash Flows Analysis					
Funds from Operations	255,194,000	226,056,000	213,818,000	201,232,000	212,226,000
Short term Debt	242,360,000	1,870,000	2,945,000	2,943,000	11,006,000
Long term Debt	270,000,000	100,000,000	101,000,000	129,000,000	125,000,000
Total Debt	**512,360,000**	**101,870,000**	**103,945,000**	**131,943,000**	**136,006,000**
Funds from Operations/Total Debt	**49.81%**	**221.91%**	**205.70%**	**152.51%**	**156.04%**
Net Operating Cashflows	201,963,000	191,527,000	203,923,000	182,438,000	196,737,000
Total Debt	512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
Cash flow to Total Debt	**39%**	**188%**	**196%**	**138%**	**145%**

APPENDIX 2: RATINGS MODEL

Item	07/08	07/09	07/10	07/11	07/12
Operating Revenue	2,097,999,000	1,985,490,000	2,053,087,000	1,961,744,000	1,867,817,000
Operating Expenses	-1,963,729,000	-1,779,374,000	-1,811,823,000	-1,724,684,000	-1,719,023,000
EBIT	232,920,000	225,598,000	248,826,000	246,710,000	154,413,000
Interest Expense	-41,178,000	-9,243,000	-7,063,000	-7,789,000	-10,938,000
EBIT interest coverage	5.66	24.41	35.23	31.67	14.12
Depreciation and Amortisation	-41,544,000	-43,979,000	-43,812,000	-45,876,000	-51,949,000
EBITDA	274,464,000	269,577,000	292,638,000	292,586,000	206,362,000
Interest Expense	-41,178,000	-9,243,000	-7,063,000	-7,789,000	-10,938,000
EBITDA interest coverage	6.67	29.17	41.43	37.56	18.87
Sale - COGS (+ DA) - SGA expense	264,483,000	268,765,000	300,440,000	298,939,000	237,572,000
Operating Revenue	2,097,999,000	1,985,490,000	2,053,087,000	1,961,744,000	1,867,817,000
Operating income before D&A/revenue	12.6%	13.5%	14.6%	15.2%	12.7%
Funds from operations					
Net Operating Cashflows	201,963,000	191,527,000	203,923,000	182,438,000	196,737,000
Depreciation and Amortisation	-41,544,000	-43,979,000	-43,812,000	-45,876,000	-51,949,000
deferred income taxes,	73,910,000	69,590,000	68,483,000	54,410,000	55,833,000
other noncash items					
Long-term debt∗and other short-term borrowings					
CL - Short-Term Debt	242,360,000	1,870,000	2,945,000	2,943,000	11,006,000
NCL - Long-Term Debt	270,000,000	100,000,000	101,000,000	129,000,000	125,000,000
Funds from operations/total debt	45.7%	213.2%	219.9%	144.7%	147.5%
Free operating Cash flow	217,870,000	73,046,000	246,696,000	214,424,000	136,774,000
Funds from operations	234,329,000	217,138,000	228,594,000	190,972,000	200,621,000
Capital Expenditure =Beg. Net Fixed Assets - End. Net fixed Assets - Depreciation Expense	32,705,000	-9,935,000	6,937,000	22,732,000	19,830,000
Change in WC	16,246,000	-154,027,000	25,039,000	46,184,000	-44,017,000
Working capital	143,772,000	-10,255,000	14,784,000	60,968,000	16,951,000
Long-term debt∗and other short-term borrowings	512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
Free operating Cash flow/total debt	42.5%	71.7%	237.3%	162.5%	100.6%
EBIT	232,920,000	225,598,000	248,826,000	246,710,000	154,413,000
Total debts	512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
Equity	619,790,000	687,385,000	744,238,000	785,480,000	775,704,000
Non current deferred tax	73,910,000	69,590,000	68,483,000	54,410,000	55,833,000
total capital	1,206,060,000	858,845,000	916,666,000	971,833,000	967,543,000
	1,255,04	1,032,45	887,755	944,249	969,688,0

APPENDIX 3: ALTMAN'S Z SCORE MODEL

Z SCORE MODEL

$$Z = 6.56(X1) + 3.26(X2) + 6.72(X3) + 1.06(X4)$$

David Jones Limited	**Working Capital**		319,568,000	-22,000,000	135,000	52,208,000	7,421,000
David Jones Limited	**Total Assets**		1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
David Jones Limited	**Retained Earnings**		128,989,000	152,520,000	175,305,000	185,728,000	154,314,000
David Jones Limited	**Pretax Profits**		197,487,000	217,432,000	242,031,000	239,322,000	143,822,000
David Jones Limited	**BV of Equity**		619,790,000	687,385,000	744,238,000	785,480,000	775,704,000
David Jones Limited	*Short term Debt*		242,360,000	1,870,000	2,945,000	2,943,000	11,006,000
David Jones Limited	*Long term Debt*		270,000,000	100,000,000	101,000,000	129,000,000	125,000,000
David Jones Limited	**Book Value of Debt**		512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
			07/08	**07/09**	**07/10**	**07/11**	**07/12**
Working capital/Total assets	**X1**	**6.56**	0.2089	-0.0195	0.0001	0.0430	0.0060
Retained earnings/Total assets	**X2**	**3.26**	0.0843	0.1353	0.1467	0.1529	0.1244
Pre-tax profits/Total assets	**X3**	**6.72**	0.1291	0.1929	0.2025	0.1970	0.1159
Book value of equity/Book value of debt	**X4**	**1.06**	1.2097	6.7477	7.1599	5.9532	5.7035
	Z scores		**3.80**	**8.76**	**9.43**	**8.42**	**7.27**

APPENDIX 4: FULMER MODEL (U.S. - 1984)

H = 5.528 (V1) + 0.212 (V2) + 0.073 (V3) + 1.270 (V4) - 0.120 (V5) + 2.335 (V6) + 0.575 (V7) + 1.083 (V8) + 0.894 (V9) - 6.075

Item	07/08	07/09	07/10	07/11	07/12
H	**1.671**	**3.171**	**3.590**	**3.113**	**2.706**
V1 = Retained Earning/Total Assets	***0.084***	***0.135***	***0.147***	***0.153***	***0.124***
Retained Earnings	128,989,000	152,520,000	175,305,000	185,728,000	154,314,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
V2 = Sales/Total Assets	***1.372***	***1.761***	***1.718***	***1.615***	***1.505***
Operating Revenue	2,097,999,000	1,985,490,000	2,053,087,000	1,961,744,000	1,867,817,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
V3 = EBT/Equity	***0.319***	***0.316***	***0.325***	***0.305***	***0.185***
PreTax Profit	197,487,000	217,432,000	242,031,000	239,322,000	143,822,000
Total Equity	619,790,000	687,385,000	744,238,000	785,480,000	775,704,000
V4 = Cash Flow/Total Debt	***0.394***	***1.880***	***1.962***	***1.383***	***1.447***
Net Operating Cashflows	201,963,000	191,527,000	203,923,000	182,438,000	196,737,000
Total debts	512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
V5 = Debt/Total Assets	***0.335***	***0.090***	***0.087***	***0.109***	***0.110***
Total debts	512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
V6 = Current Liabilities/Total Assets	***0.395***	***0.270***	***0.262***	***0.219***	***0.247***
Total Curr. Liabilities	603,533,000	304,234,000	313,300,000	266,133,000	306,298,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
V7 = Log Tangible Total Assets	***9.183***	***9.049***	***9.075***	***9.083***	***9.089***
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
NCA - Intangibles	6,605,000	7,887,000	6,075,000	4,117,000	13,672,000
V8 = Working Capital/Total Debt	***0.281***	***-0.101***	***0.142***	***0.462***	***0.125***
Working capital	143,772,000	-10,255,000	14,784,000	60,968,000	16,951,000
Total debts	512,360,000	101,870,000	103,945,000	131,943,000	136,006,000
V9 = Log EBIT/Interest	***-0.0000002***	***-0.0000009***	***-0.0000012***	***-0.0000011***	***-0.0000007***
EBIT	232,920,000	225,598,000	248,826,000	246,710,000	154,413,000
Interest Expense	-41,178,000	-9,243,000	-7,063,000	-7,789,000	-10,938,000

SPRINGATE (CANADIAN - 1978)

Item	07/08	07/09	07/10	07/11	07/12
Z = 1.03A + 3.07B + 0.66C + 0.4D	**1.329**	**1.781**	**1.849**	**1.915**	**1.308**
A = Working Capital/Total Assets	***0.094***	***-0.009***	***0.012***	***0.050***	***0.014***
Working capital	143,772,000	-10,255,000	14,784,000	60,968,000	16,951,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
B = Net Profit before Interest and Taxes/Total Assets	***0.152***	***0.200***	***0.208***	***0.203***	***0.124***
EBIT	232,920,000	225,598,000	248,826,000	246,710,000	154,413,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000
C = Net Profit before Taxes/Current Liabilities	***0.327***	***0.715***	***0.773***	***0.899***	***0.470***
PreTax Profit	197,487,000	217,432,000	242,031,000	239,322,000	143,822,000
Total Curr. Liabilities	603,533,000	304,234,000	313,300,000	266,133,000	306,298,000

D = Sales/Total Assets	*1.372*	*1.761*	*1.718*	*1.615*	*1.505*
Operating Revenue	2,097,999,000	1,985,490,000	2,053,087,000	1,961,744,000	1,867,817,000
Total Assets	1,529,645,000	1,127,217,000	1,194,921,000	1,214,550,000	1,240,897,000