School of Business & Governance

NWU®

NORTH-WEST UNIVERSITY
NOORDWES-UNIVERSITEIT
YUNIBESITI YA BOKONE-BOPHIRIMA

60%+

SOLEMN DECLARATION - INDIVIDUAL ASSIGNMENT

Solemn declaration by student	
Module:	**FINANCIAL MANAGEMENT**
Module Code:	**MBAC 813**
Assignment :	**INDIVIDUAL ASSIGNMENT**
Assignment due date:	**Contact 4 (26 March 2018)**

I, **Eugenie Birch**, declare herewith that the assignment which I herewith submit to the North-West University as partial completion of the requirements set for the MBA degree, is my own work.

Signature of student: EBirch **Student number:** 20771983

Signed at Secunda **on the** 20th **day of** March **2018.**

TABLE OF CONTENTS

EXECUTIVE SUMMARY 2

1. REPORT: FINANCIAL ASSESSMENT OF BUSINESS RISK AND SHARE PRICE RISK 2

   1.1. BUSINESS RISK & SHARE PRICE RISK 3

   1.2. RECOMMENDATION TO MANAGEMENT 5

2. DETERMINE WHETHER NETCARE'S SHARE PRICE IS IN EQUILIBRIUM 5

3. ASSESSMENT OF STRATEGY RELATED FINANCIAL RATIOS 5

   3.1. LIQUIDITY RATIOS 6

   3.2. ASSET MANAGEMENT RATIOS 6

   3.3. DEBT RATIOS 7

   3.4. PROFITABILITY RATIOS 7

   3.5. MARKET RATIOS 8

CONCLUSION 8

REFERENCE LIST 9

ADDENDUM I 10

ADDENDUM II 12

ADDENDUM III 13

Very nice assignment unfortunately missed out on some of the key issues in the assignment.

EXECUTIVE SUMMARY

Netcare Limited ("Netcare") is a provider of private healthcare facilities in South Africa ("SA") and the United Kingdom ("UK") They have public private partnerships (PPP's) through which they manage four hospitals on behalf of the Department of Health in South Africa, and provide management and clinical services to the Mamohato Memorial Hospital in Lesotho in collaboration with the Government of Lesotho. The group has the leading private hospital network in both SA the UK; serving the patients that pay privately, the National Health Service (NHS) and the Private Medical Insurance (PMI). The group's core business is provision of excellently operated hospitals with effective and patient-focused staff. The company's core values are care, dignity, participation, truth in all they do and a passion for excellence and taking care of people (Netcare, 2017:2). The group has encountered difficult trading conditions in the past financial year, mainly due to a decrease in SA in operational activity and due to unsteady currency terms and currency-hedging. In this financial report, the company will be assessed on the income statement, balance sheet and financial ratios mainly for the last two to five years and the entire past eight years' financial information will be taken into consideration for share price evaluation.

1. REPORT: FINANCIAL ASSESSMENT OF BUSINESS RISK AND SHARE PRICE RISK

The objectives of this financial report in section 1, are the following:

- Evaluate business risk & share price risk through risk & return calculations;
- Determine whether discrepancies exist;
- Recommendation to management to improve the situation.

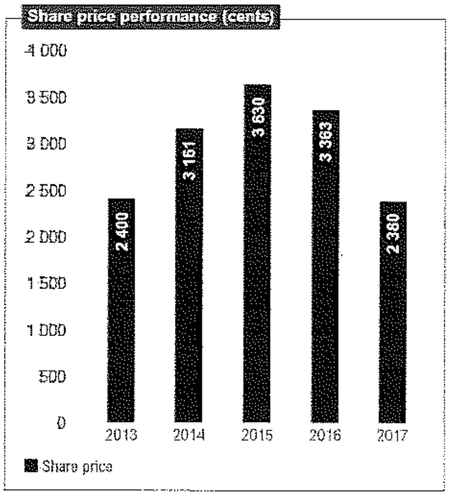
This financial report refers to the calculations in 'Addendum I' and the conclusions are drawn from these calculations. The calculations are based on historical data and draws on the assumption that the information can be used to form an estimate of how the future will look, therefore what the future holds for Netcare's share price and ultimately its shareholders.

1.1. BUSINESS RISK & SHARE PRICE RISK

A return is defined by Brigham & Ehrhardt (2009:219) as an investment which an individual or business makes by spending money in the present with the hope of earning more money in the future, and it is a way to express an investment's financial performance. Risk in a business can be defined as the chances of an unfavourable event occurring (Brigham & Ehrhardt, 2009:220).

Share price risk is the same as business risk but it is risk with regards to an investment in a company's shares or a share portfolio, where a share has the probability of not providing the required or expected returns to the shareholder. The risk of shares can be evaluated on a stand-alone basis or in a portfolio (more than one type of share in a collection of shares). Stand-alone risk of a share is the risk an investor would face if they only owned one of the shares (Brigham & Ehrhardt, 2009:220).

Table 1: Netcare's Share Price Performance



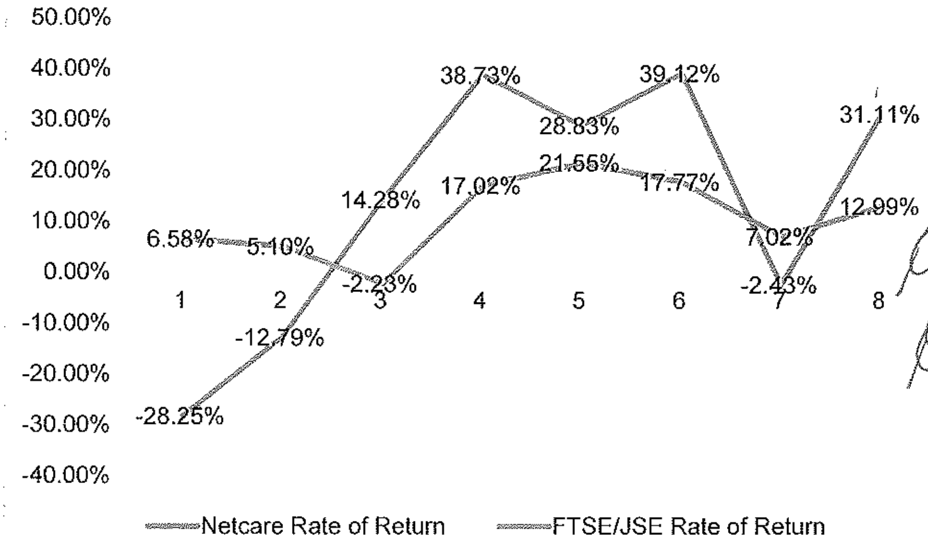
Source: Netcare Limited Annual Integrated Report 2017

When evaluating the share price of Netcare over the past eight years (2009 – 2017), it is evident that there were very good returns in 2012, 2013 and 2014. The returns turned in 2015 and declined by more than 55%, to 14.28%. Thereafter the return was negative until it ended at -28.25% at the end of Netcare's financial year in 2017. The arithmetic average return of 13.57% and geometric average return of 10.82% when viewed in isolation; could give the idea that the shares of Netcare would be a relatively sound and low risk investment that yields positive returns.

very nice

The Beta Coefficient (b) is a measure of market risk and how the company's shares move in comparison to the market (Brigham & Ehrhardt, 2009:256). After closer evaluation using factors such as the Beta coefficient, a greater understanding of the risk can be obtained. When compared to the market AAR and GAR which is 10.73% and 10.47% respectively, Netcare shares seem to provide almost the same returns. The Beta coefficient of 2.07 is higher than 1.0 which means that the investment in Netcare's shares are riskier than the market ('market' refers to the 'FTSE/JSE All share' index). The correlation coefficient of 0.65 means that the Netcare shares are somewhat dependant on the movement of the market, but they are not in perfect synchronisation.

Figure 1: Rate of Return Comparison



Comparison: Operating/Business risk to share price risk not share price to market.

Source: Author.

C.V.

The variance is a better indication of risk than the standard deviation when the required rate of return of two investments are ~~not the~~ same, it calculates the risk per unit of return (Brigham *et al.*, 2016:229). The standard deviation of Netcare is 25.43% and the variance is 6.47%, while the market has a standard deviation of 7.94% and a variance of 0.63%. Therefore Netcare is a riskier investment as there are higher chances of its shares spiking rapidly, increasing heavily and decreasing heavily. This is also evident in the rate of return over the eight years in 'Addendum I'. The market shows less risk as the variance and standard deviations are very low.

1.2. RECOMMENDATION TO MANAGEMENT

A company can influence its beta coefficient by changing its composition of assets and the utilisation of debt, the company should evaluate the risk of an asset in terms of the effect it will have on the company's shares as viewed from investors' perspective (Brigham *et al.*, 2016:251). Therefore, Netcare should invest in lower risk assets and improve on the perception of share and business risk by the shareholders in order to improve its expected rate of return. Netcare should re-evaluate its capital structure carefully and how iit affects the share price, because ultimately the shares movement has a great effect on the company and its profitability, as it is the equity of the company.

2. DETERMINE WHETHER NETCARE'S SHARE PRICE IS IN EQUILIBRIUM

Equilibrium will be achieved when the supply and demand is equal and prices become stable (Anon., 2018). Netcare's share price has decreased substantially from its previous years and is not in a stable position at the financial year end price of R23.54 in September 2017, although it would achieve equilibrium at any price that it has closed on, as that would indicate the demand and supply for that share and the price is this result of market movement. As stated in the previous section, the correlation coefficient of 0.65 means that the Netcare shares are somewhat dependant on the movement of the FTSE/JSE index, yet they are not in perfect synchronisation.

3. ASSESSMENT OF STRATEGY RELATED FINANCIAL RATIOS

All the ratios below are calculated and indicated in 'Addendum II' attached hereto. Financial ratios should be compared to industry averages to make a clear deduction of the results. In the case study the industry averages are not provided, therefore only some of the ratios will be compared with industry averages and some will be evaluated based on the theory in the prescribed textbook (Brigham *et al.*, 2016:61-91). There are five strategy related ratios that would create concern or satisfaction for the management of Netcare as well as outside investors, these are listed below along with the reasons for the concern or satisfaction.

3.1. LIQUIDITY RATIOS

The current and quick ratios can assist to determine whether the company will be able to pay off its short-term liabilities (Brigham & Ehrhardt, 2009:91). The current ratio is calculated by dividing current assets by current liabilities, the quick ratio or acid test ratio is the same equation but with the inventory deducted from assets. A low current ratio would be a concern when a business wants to obtain credit from a supplier as the business may be in short term financial difficulty and increasing short term liabilities due to its accounts payable being paid off slower and the company borrowing more from the bank to make payments. Netcare ??

Liquid assets are assets that can be converted into cash quickly and the inventory is the least liquid current asset of the business (Brigham & Ehrhardt, 2009:91). The quick ratio therefore indicates business's ability to pay of its short-term liabilities without relying too heavily on inventory turnover. The current ratio of Netcare has been very low for the past 9 years and the quick ratio (acid test ratio) was below the industry average of 1.0 in Q3 of 2017 (CSIMarket.com, 2017) and above the industry average of 0.93 on Q3 in 2016 (CSIMarket.com, 2017). This means that Netcare's ability to service short term liabilities have weakened over the past year, but is in line with industry averages, and that other healthcare companies also have low liquidity ratios.

3.2. ASSET MANAGEMENT RATIOS

The fixed assets turnover and total assets turnover ratios can be used to determine how effectively the company is using its fixed assets (plant, equipment, buildings). The total assets turnover ratio is an indication of whether the business is generating enough income relative to its total investment in assets (Brigham & Ehrhardt, 2009:94).

Netcare has fairly average total assets turnover and fixed assets turnover ratios, when compared to the industry average, the total assets turnover is much higher than the industry averages of 0.58 in 2016 and 0.56 in 2017. Apart from the ratios calculated, on the balance sheet it shows that Netcare decreased its fixed assets between by 2013, through the deconsolidation of the CHG Property Businesses which comprise of 41 hospitals in the UK, according to the Annual Integrated Report 2013 (Netcare, 2013:33).

This is why the total and fixed assets turnover ratios increased. The Intangible assets also decreased from R15,4 billion in 2011 to R5.4 billion which was due to the non-cash impairment of CHG PropCo1 goodwill and a part of that due to currency conversion (Netcare, 2012:31). The asset management ratios provide relative satisfaction in that it may indicate that the non-current assets are used effectively in its type of industry, although other ratios that utilise assets values should also be considered.

3.3. DEBT RATIOS

The debt-to-equity ratio is a measurement of funds provided by long term debt and current liabilities (Brigham & Ehrhardt, 2009:94). This ratio should be of concern to management as the company has mounting debt compared to equity (86% in 2017). The debt to equity ratio has also increased drastically from 2016 which means the company's equity has declined with 38% as seen in the financial statements. Netcare has increased their equity in 2013 and decreased their current liabilities which is also due to deconsolidation and selling off non-current or fixed assets and paying off long-term loans (Netcare, 2013:34).

3.4. PROFITABILITY RATIOS

The profitability ratios of a company can clearly indicate whether the company is making a profit. The net profit margin of a company depicts the net income as a percentage of sales of a company. The net profit margin shows that Netcare does not generate a very high profit margin over the past 9 years and therefore it is not very profitable. In 2017 the company reported a loss of almost R2.7 billion (Netcare, 2017:112). The Du Pont equation (Return on Equity or ROE) is a quick way of estimating what the effect of operating changes can have on returns, it is also a way of bringing different important financial ratios together in a framework by indicating the company's asset efficiency, use of debt and profitability. Netcare's ROE of -5.9% is indicative of how the working capital has a negative effect on return on equity and indicates that Netcare's management is not managing the company efficiently. During the past nine years, it has been positive only three times and in 2014 they achieved a good ROE. The Basic Earning Power (BEP) is a ratio is another ratio that measures how a business uses its assets to generate income, the higher the BEP ratio, the better management is at generating income from assets.

The BEP of Netcare is also a negative figure which means they are not utilising assets well enough to generate income, and can be indicative of poor management as it takes into consideration all income and not just income from operating activities. The profitability ratios are of concern as they indicate un-effective management of the business and return on equity is negative.

3.5. MARKET RATIOS

In order to relate a company's share price to its earnings, book value per share or cash flow, the market value ratios need to be considered. The market-to-book ratio is an indication that the market values the shareholders interest 3.87 times higher than the balance sheet, which means that Netcare's shareholders expect that it will continue to bring good returns. However, when one views the earnings-per-share (EPS) ratio, it seems that it is has had bad EPS in the past two years and not very high earnings in the past 9 years. Therefore, the company's management should start determining how they could increase shareholders value through better share prices and returns. Even though market value ratios may often be overlooked in strategic planning, it actually could give a management great insight in how the company is doing compared to the market and can give an indication of whether the company looks attractive to investors.

CONCLUSION

This report assessed various sections of financial indicators about Netcare's financial statements, which were calculated from factual reports that are publicly available. In order to do comprehensive financial reporting it is best to evaluate all the necessary factors that has an influence on different aspects of a business, the assets, liabilities and debt structuring as well as equity of the business. From the report, it is clear that Netcare has had some good profitable years in the past eight years but the external economic environment has had a negative effect on its net profit and share price. It would advisable that Netcare drastically decreases its operating costs (cost of sales) in order to increase the net income again. Initiatives to retain cash flow in the business and eliminate waste, can increase the overall profitability of the business and the returns for its shareholders.

REFERENCE LIST

Anon. 2018. New Keynesian Economics. https://www.investopedia.com/terms/e/equilibrium.asp Date of Access: 19 Mar. 2018.

Brigham, E.F., Ehrhardt, M.C. 2009. Financial Management: Theory and Practice. 13th ed. Mason, OH: Cengage Learning.

Brigham, E.F., Ehrhardt, M.C. & Fox, R. 2016. Financial Management: Theory and Practice Europe, Middle East, and Africa. Hampshire: Cengage Learning.

CSIMarket.com. 2018. Healthcare Sector Financial Strength Information. https://csimarket.com/Industry/industry_Financial_Strength_Ratios.php?s=800 Date of Access: 18 Mar. 2018.

Netcare (Netcare Limited). 2012. Netcare Annual Integrated Report 2012. http://www.netcare.co.za/Netcare-Investor-Relations/Reports/-Annual-reports Date of Access: 17 Mar. 2018.

Netcare (Netcare Limited). 2013. Netcare Annual Integrated Report 2013. http://www.netcare.co.za/Netcare-Investor-Relations/Reports/-Annual-reports Date of Access: 17 Mar. 2018.

Netcare (Netcare Limited). 2017. Netcare Annual Integrated Report 2017. http://www.netcare.co.za/Netcare-Investor-Relations/Reports/-Annual-reports Date of Access: 17 Mar. 2018.

ADDENDUM III

Statement of financial position (Balance Sheet) of Netcare Limited

September	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Sept	Sept	Sept	Sept	Sept	Sept	Sept	Sept	Sept
Equity & Liabilities	R	R	R	R	R	R	R	R	R
Equity									
Ordinary Shareholders Interest	R 8,282,000	R 10,177,000	R 10,312,000	R 8,646,000	R 7,160,000	R 1,002,000	R 5,155,000	R 4,157,000	R 4,144,000
Outside Shareholders Interest	-R 64,000	R 2,188,000	R 3,325,000	R 2,882,000	R 2,628,000	-R 2,666,000	R 1,886,000	R 1,728,000	R 2,345,000
Preference Share Capital	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000
Total Equity	**R 8,862,000**	**R 13,009,000**	**R 14,281,000**	**R 12,172,000**	**R 10,432,000**	**-R 1,020,000**	**R 7,685,000**	**R 6,529,000**	**R 7,133,000**
Liabilities									
Deferred Tax	R 1,049,000	R 1,207,000	R 1,633,000	R 1,360,000	R 1,129,000	R 3,530,000	R 5,178,000	R 4,430,000	R 5,041,000
Long Term Interest Bearing	R 7,232,000	R 6,132,000	R 6,104,000	R 4,939,000	R 5,293,000	R 34,448,000	R 30,425,000	R 25,743,000	R 28,220,000
Other Non-current liabilities	R 3,308,000	R 2,822,000	R 892,000	R 569,000	R 405,000	R 337,000	R 332,000	R 331,000	R 459,000
Non-Current Liabilities	**R 11,589,000**	**R 10,161,000**	**R 8,629,000**	**R 6,868,000**	**R 6,827,000**	**R 38,315,000**	**R 35,935,000**	**R 30,504,000**	**R 33,720,000**
Assets / Utilisation of funds									
Non-Current Assets									
Intangible Assets	R 2,037,000	R 4,256,000	R 4,879,000	R 4,316,000	R 3,873,000	R 5,426,000	R 15,400,000	R 13,484,000	R 14,669,000
Investment at market Value	R 596,000	R 547,000	R 536,000	R 363,000	R 271,000	R 129,000	R 122,000	R 117,000	R 111,000
Long Term Loans	R 2,280,000	R 2,017,000	R 2,028,000	R 1,672,000	R 1,281,000	R 1,003,000	R 372,000	R 63,000	R 19,000
Fixed Assets	R 13,908,000	R 14,421,000	R 13,622,000	R 11,504,000	R 10,487,000	R 27,678,000	R 26,416,000	R 23,852,000	R 25,097,000
Other Non-Current Assets	R 1,175,000	R 1,373,000	R 1,659,000	R 1,444,000	R 1,274,000	R 2,730,000	R 2,176,000	R 1,472,000	R 1,151,000
Total Non-Current Assets	**R 19,996,000**	**R 22,614,000**	**R 22,724,000**	**R 19,299,000**	**R 17,186,000**	**R 36,966,000**	**R 44,486,000**	**R 38,988,000**	**R 41,047,000**
Current Liabilities									
Trade Payables	R 5,921,000	R 6,017,000	R 6,407,000	R 5,726,000	R 5,145,000	R 4,342,000	R 3,901,000	R 3,118,000	R 2,924,000
Dividends Payable	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Tax Payable	R 56,000	R 81,000	R 110,000	R 203,000	R 251,000	R 210,000	R 205,000	R 276,000	R 330,000
Short-Term Interest Bearing	R 1,684,000	R 1,391,000	R 2,237,000	R 1,748,000	R 1,264,000	R 2,375,000	R 2,938,000	R 3,945,000	R 1,834,000
Bank overdraft	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 1	R 2
Total Current Liabilities	**R 7,661,000**	**R 7,489,000**	**R 8,754,000**	**R 7,677,000**	**R 6,660,000**	**R 6,927,000**	**R 7,044,000**	**R 7,339,001**	**R 5,088,002**

ADDENDUM I
RISK & RETURN CALCULATIONS

	FY end: September	2017	2016	2015	2014	2013	2012	2011	2010	2009
NETCARE	Share Price (in Rands)	23.54	32.81	37.62	32.92	23.73	18.42	13.24	13.57	10.35
	Ordinary Dividends Paid per Share (in Rands)	0.95	0.95	0.92	0.80	0.675	0.56	0.53	0.21	0
	Number of Shares issued	1,360,000	1,356,000	1,349,000	1,337,000	1,329,000	1,317,000	1,295,000	1,277,000	1,266,000
	Rate of Return	-28.25%	-12.79%	14.28%	38.73%	28.83%	39.12%	-2.43%	31.11%	-
	AAR (arithmetic average return: 2010-2017)	13.57%								
	GAR (Geometric average return: 2010-2017)	10.82%								
	Standard Deviation (2010-2017)	25.43%								
	Variance (2010-2017)	6.47%								
FTSE/JSE All Share	Share Price (in Rands)	558.29	523.80	498.40	509.74	435.60	358.38	304.30	284.33	251.64
	Ordinary Dividends Paid per Share (in Rands)	-	-	-	-	-	-	-	-	-
	Number of Shares issued	-	-	-	-	-	-	-	-	-
	Rate of Return	6.58%	5.10%	-2.23%	17.02%	21.55%	17.77%	7.02%	12.99%	-
	AAR (arithmetic average return: 2010-2017)	10.73%								
	GAR (Geometric average return: 2010-2017)	10.47%								
	Standard Deviation (2010-2017)	7.94%								
	Variance (2010-2017)	0.63%								
COV - Covariance between Netcare and FTSE/JSE ALL Share		1.31%								
CORR - Correlation between Netcare and FTSE/JSE ALL Share		0.65								
Beta		2.07								

*Note: 2009 'R' not calculated due to previous year's data not available.

METHODS OF CALCULATION

RATE OF RETURN

$$R = \frac{End\ value - Start\ value}{Start\ value}$$

End value = Share Price at Financial Year End
Start value = Share Price at Previous Financial Year End

AAR Arithmetic Average Return

$$= (R1 + R2 + R3 + R4 + R5 + R6 + R7 + R8) / t$$

GAR Geometric Average Return

$$=[(1 + R1)(1 + R2)(1 + R3)(1 + R4)(1 + R5)(1 + R6)(1 + R7)(1 + R8)]^{1/t} - 1$$

VARIANCE

$$\text{VAR} = \sigma^2 = \frac{1}{n-1}\sum_{i=1}^{n}(r_i - \bar{r})^2$$

$$\sigma^2 = \frac{1}{8-1}\sum_{i=1}^{8}(r_i - \bar{r})^2$$

STANDARD DEVIATION

$$\text{STDEV} = \sigma = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(r_i - \bar{r})^2}$$

$$\sigma = \sqrt{\frac{1}{8-1}\sum_{i=1}^{8}(r_i - \bar{r})^2}$$

COVARIANCE

$$COV(i,j) = \sigma_{i,j} = \frac{1}{n-1}\sum_{t=1}^{n}(r_{i,t} - \bar{r}_i)(r_{j,t} - \bar{r}_j)$$

$$\sigma_{i,j} = \frac{1}{8-1}\sum_{t=1}^{8}(r_{i,t} - \bar{r}_i)(r_{j,t} - \bar{r}_j)$$

i = NETCARE

j = FTSE/JSE ALL SHARE

CORRELATION

$$CORR(i,j) = \rho_{i,j} = \frac{\sum_{t=1}^{n}(r_{i,t} - \bar{r}_i)(r_{j,t} - \bar{r}_j)}{\sqrt{\sum_{t=1}^{n}(r_{i,t} - \bar{r}_i)^2}\sqrt{\sum_{t=1}^{n}(r_{j,t} - \bar{r}_j)^2}}$$

$$CORR(i,j) = \rho_{i,j} = \frac{\sum_{t=1}^{8}(r_{i,t} - \bar{r}_i)(r_{j,t} - \bar{r}_j)}{\sqrt{\sum_{t=1}^{8}(r_{i,t} - \bar{r}_i)^2}\sqrt{\sum_{t=1}^{8}(r_{j,t} - \bar{r}_j)^2}}$$

i = NETCARE

j = FTSE/JSE ALL SHARE

BETA

$$\beta_i = \rho_{i,j} \times \left(\frac{\sigma_i}{\sigma_j}\right)$$

ADDENDUM II

NETCARE LIMITED - FINANCIAL RATIO ANALYSIS

FY end: September	Formula	Calculation applied to all: example 2017	2017	2016	2015	2014	2013	2012	2011	2010	2009
Current Asset Management (Liquidity) Ratios											
Current Ratio	(current assets/ current liabilities)	(8116000/ 7116000)	1.06	1.07	1.02	0.97	1.01	1.05	0.88	0.73	0.96
Quick Ratio	(current assets - inventory) / current liabilities	(8116000 - 984000) / 7116000	0.93	0.94	0.89	0.84	0.87	0.93	0.77	0.64	0.84
Asset Management Ratios											
Fixed Assets Turnover	(sales/ fixed assets)	(34125000/ 19996000)	1.71	1.67	1.48	1.65	1.62	0.70	0.52	0.58	0.57
Total Assets Turnover	(sales/ total assets)	(34125000/ 28112000)	1.31	1.43	1.26	1.42	1.39	0.66	0.66	0.73	0.75
Risk Ratios											
Debt-to-assets	*(total debt/ total assets)*	*(7661000/ 28112000)*	*27%*	*24%*	*28%*	*29%*	*28%*	*16%*	*14%*	*17%*	*11%*
Debt-to-equity	*(total debt/ total equity)*	*(7661000/ 8862000)*	*86%*	*58%*	*61%*	*63%*	*64%*	*-679%*	*92%*	*112%*	*71%*
Profitability Ratios											
Net Profit Margin	*(net income/ sales)*	*(2683000/ 34125000)*	*-7.86%*	*1.70%*	*6.15%*	*5.92%*	*17.10%*	*-38.65%*	*7.49%*	*6.07%*	*4.11%*
Basic Earning Power	*(EBIT/ total assets)*	*(1454000/ 28112000)*	*-5.17%*	*6.85%*	*11.35%*	*11.88%*	*25.60%*	*-22.60%*	*7.26%*	*8.15%*	*8.08%*
DuPont equation: Return on Equity (ROE) = (profit margin) x (tot. assets turnover) x (equity multiplier)	*ROE = (net income / sales) x (sales / total assets) x (total assets / common equity)*	*X = (2683000/ 34125000) x (34125000/ 28112000) x (28112000/455000)*	*-5.90*	*1.16*	*11.14*	*-7.27*	*65.11*	*-30.22*	*-2.01*	*-0.70*	*-4.98*
Market Value Ratios											
Earnings per share	(net income/ no. of shares)	(2683000/ 136000)	-7.65	-31.65	10.05	14.31	45.23	-18.55	21.24	23.40	27.15
Price-to-earnings ratio	(Year-end share price / earnings per share)	(23.54/ -7.65)	21.42	27.57	21.61	20.81	17.15	19.33	11.32	14.06	13.24
Cash flow per share (rands)	(net income + depreciation and amortisation) / no. of shares	(2683000 + 1216000) / 1360000	4.71	2.26	2.79	2.52	4.71	6.02	2.29	1.94	2.19
Price-to-cash flow ratio	(Year-end share price/ cash flow per share)	(2354/ 471.03)	5.00	14.54	13.50	13.08	5.04	3.06	5.77	6.98	4.72
Book Value per share (rands)	(total common equity/ no. of shares)	(455000/ 1360000)	6.09	7.51	7.64	6.47	5.39	7.61	3.98	3.26	3.27
Market-to-book ratio (rands)	*(Year-end share price/ book value per share)*	*(23.54/ 6.0897)*	*3.87*	*4.37*	*4.92*	*5.09*	*4.40*	*2.42*	*3.33*	*4.17*	*3.16*

*Note: all values expressed in 'Rands' ('cents' values were converted to 'rands')

**Certain values were obtained from the ratios given in the case study, therefore may not correlate with formula given

****Some values were calculated using the abbreviated financial statements (income statement & balance sheet) - these values shown in italic.*

ADDENDUM III

Statement of financial position (Balance Sheet) of Netcare Limited

September	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Sept	Sept	Sept	Sept	Sept	Sept	Sept	Sept	Sept
Equity & Liabilities	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**	**R**
Equity									
Ordinary Shareholders Interest	R 8,282,000	R 10,177,000	R 10,312,000	R 8,646,000	R 7,160,000	R 1,002,000	R 5,155,000	R 4,157,000	R 4,144,000
Outside Shareholders Interest	-R 64,000	R 2,188,000	R 3,325,000	R 2,882,000	R 2,628,000	-R 2,666,000	R 1,886,000	R 1,728,000	R 2,345,000
Preference Share Capital	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000	R 644,000
Total Equity	**R 8,862,000**	**R 13,009,000**	**R 14,281,000**	**R 12,172,000**	**R 10,432,000**	**-R 1,020,000**	**R 7,685,000**	**R 6,529,000**	**R 7,133,000**
Liabilities									
Deferred Tax	R 1,049,000	R 1,207,000	R 1,633,000	R 1,360,000	R 1,129,000	R 3,530,000	R 5,178,000	R 4,430,000	R 5,041,000
Long Term Interest Bearing	R 7,232,000	R 6,132,000	R 6,104,000	R 4,939,000	R 5,293,000	R 34,448,000	R 30,425,000	R 25,743,000	R 28,220,000
Other Non-current liabilities	R 3,308,000	R 2,822,000	R 892,000	R 569,000	R 405,000	R 337,000	R 332,000	R 331,000	R 459,000
Non-Current Liabilities	**R 11,589,000**	**R 10,161,000**	**R 8,629,000**	**R 6,868,000**	**R 6,827,000**	**R 38,315,000**	**R 35,935,000**	**R 30,504,000**	**R 33,720,000**
Assets / Utilisation of funds									
Non-Current Assets									
Intangible Assets	R 2,037,000	R 4,256,000	R 4,879,000	R 4,316,000	R 3,873,000	R 5,426,000	R 15,400,000	R 13,484,000	R 14,669,000
Investment at market Value	R 596,000	R 547,000	R 536,000	R 363,000	R 271,000	R 129,000	R 122,000	R 117,000	R 111,000
Long Term Loans	R 2,280,000	R 2,017,000	R 2,028,000	R 1,672,000	R 1,281,000	R 1,003,000	R 372,000	R 63,000	R 19,000
Fixed Assets	R 13,908,000	R 14,421,000	R 13,622,000	R 11,504,000	R 10,487,000	R 27,678,000	R 26,416,000	R 23,852,000	R 25,097,000
Other Non-Current Assets	R 1,175,000	R 1,373,000	R 1,659,000	R 1,444,000	R 1,274,000	R 2,730,000	R 2,176,000	R 1,472,000	R 1,151,000
Total Non-Current Assets	**R 19,996,000**	**R 22,614,000**	**R 22,724,000**	**R 19,299,000**	**R 17,186,000**	**R 36,966,000**	**R 44,486,000**	**R 38,988,000**	**R 41,047,000**
Current Liabilities									
Trade Payables	R 5,921,000	R 6,017,000	R 6,407,000	R 5,726,000	R 5,145,000	R 4,342,000	R 3,901,000	R 3,118,000	R 2,924,000
Dividends Payable	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Tax Payable	R 56,000	R 81,000	R 110,000	R 203,000	R 251,000	R 210,000	R 205,000	R 276,000	R 330,000
Short-Term Interest Bearing	R 1,684,000	R 1,391,000	R 2,237,000	R 1,748,000	R 1,264,000	R 2,375,000	R 2,938,000	R 3,945,000	R 1,834,000
Bank overdraft	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 1	R 2
Total Current Liabilities	**R 7,661,000**	**R 7,489,000**	**R 8,754,000**	**R 7,677,000**	**R 6,660,000**	**R 6,927,000**	**R 7,044,000**	**R 7,339,001**	**R 5,088,002**

Current Assets									
Inventory	R 984,000	R 1,019,000	R 1,107,000	R 987,000	R 920,000	R 817,000	R 721,000	R 652,000	R 621,000
Trade Receivables	R 4,595,000	R 5,030,000	R 5,263,000	R 4,714,000	R 4,107,000	R 3,508,000	R 3,102,000	R 3,354,000	R 3,470,000
Cash & Near Cash	R 2,531,000	R 1,980,000	R 2,551,000	R 1,712,000	R 1,686,000	R 2,906,000	R 2,355,000	R 1,378,000	R 803,000
Dividends Receivable	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Tax Receivable	R 6,000	R 16,000	R 19,000	R 5,000	R 20,000	R 25,000	R 0	R 0	R 0
Total Current Assets	**R 8,116,000**	**R 8,045,000**	**R 8,940,000**	**R 7,418,000**	**R 6,733,000**	**R 7,256,000**	**R 6,178,000**	**R 5,384,000**	**R 4,894,000**
Total Assets	**R 28,112,000**	**R 30,659,000**	**R 31,664,000**	**R 26,717,000**	**R 23,919,000**	**R 44,222,000**	**R 50,664,000**	**R 44,372,000**	**R 45,941,000**
Total Liabilities	**R 19,250,000**	**R 17,650,000**	**R 17,383,000**	**R 14,545,000**	**R 13,487,000**	**R 45,242,000**	**R 42,979,000**	**R 37,843,001**	**R 38,808,002**
Total Equity plus Liabilities	**R 28,112,000**	**R 30,659,000**	**R 31,664,000**	**R 26,717,000**	**R 23,919,000**	**R 44,222,000**	**R 50,664,000**	**R 44,372,001**	**R 45,941,002**

Net Current Assets	**R 455,000**	**R 556,000**	**R 186,000**	**-R 259,000**	**R 73,000**	**R 329,000**	**-R 866,000**	**-R 1,955,001**	**-R 194,002**

Statement of Comprehensive Income (Income Statement) of Netcare

September	2017	2016	2015	2014	2013	2012	2011	2010	2009
	R	R	R	R	R	R	R	R	R
Turnover	R 34,125,000	R 37,796,000	R 33,711,000	R 31,783,000	R 27,801,000	R 25,731,000	R 23,221,000	R 22,474,000	R 23,499,000
Cost Of Sales	R 28,944,000	R 21,312,000	R 18,948,000	R 18,227,000	R 15,746,000	R 14,567,000	R 13,513,000	R 12,893,000	R 13,701,000
Gross profit	**R 5,181,000**	**R 7,686,000**	**R 8,530,000**	**R 7,443,000**	**R 9,554,000**	**-R 8,095,000**	**R 5,409,000**	**R 5,246,000**	**R 5,387,000**
Operating / Fixed cost	R 5,419,000	R 4,296,000	R 3,801,000	R 3,224,000	R 2,410,000	R 677,000	R 592,000	R 547,000	R 517,000
Depreciation	R 1,216,000	R 1,290,000	R 1,135,000	R 1,046,000	R 1,020,000	R 1,222,000	R 1,139,000	R 1,083,000	R 1,156,000
Operating Profit (EBIT)	**-R 1,454,000**	**R 2,100,000**	**R 3,594,000**	**R 3,173,000**	**R 6,124,000**	**-R 9,994,000**	**R 3,678,000**	**R 3,616,000**	**R 3,714,000**
Interest & Finance Charges	R 294,000	R 620,000	R 586,000	R 489,000	R 698,000	R 1,966,000	R 1,824,000	R 1,957,000	R 2,398,000
Profit before taxation	-R 1,748,000	R 1,480,000	R 3,008,000	R 2,684,000	R 5,426,000	-R 11,960,000	R 1,854,000	R 1,659,000	R 1,316,000
Taxes paid	R 935,000	R 836,000	R 936,000	R 801,000	R 673,000	-R 2,016,000	R 114,000	R 294,000	R 350,000
Profit after taxation / Net income	**-R 2,683,000**	**R 644,000**	**R 2,072,000**	**R 1,883,000**	**R 4,753,000**	**-R 9,944,000**	**R 1,740,000**	**R 1,365,000**	**R 966,000**