

FINANCIAL REVIEW OF
JASWG REPORT

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December 2008

PERSONAL BACKGROUND

- Economics and Business Studies Graduate
- Fellow of the Institute of Chartered Accountants
- Over 25 years' business experience in the UK and overseas, including substantial work on financial forecasts, capital projects and investment appraisals
- some (limited) experience of the aviation industry

DECLARATIONS OF INTEREST

- Vice-Chairman of Twigworth Parish Council (TPC)
- TPC's representative on the Gloucestershire Airport Consultative Committee
- No previous or ongoing relationship with CASE

SUMMARY OF WORK DONE

- Reviewed JASWG report and other related information in public domain
- Reviewed financial forecasts and projections
- Reperformed ratio analyses and financial calculations
- Contacted authors of report with initial findings and requested further information

RESTRICTIONS ON WORK DONE

- No access to information not in public domain
- Despite initial promises (and repeated follow-up on my part), authors of report have failed either to provide further information or to respond to my concerns (see attachments)

SUMMARY OF FINDINGS (see attachments)

- Much of the ratio analysis and related calculations included in the JASWG report is non-standard. For example, calculations of Enterprise Value “post-investment” are significantly out-of-line with market norms (and thereby substantially overstate the “value” of the investment)
- Risk assessments used in financial calculations are very low/ “optimistic”. For example, much higher “discount rates” would normally be used when valuing future cash flows for a project of this nature
- Financial forecasts/projections seem very “optimistic”, even at time of preparation - for example, profit after tax increasing by 37% in 2010/2011 and by a further 130% in 2011/2. Significant turnarounds in profitability projected many years in the future are inherently “risky”

SUMMARY OF FINDINGS (continued)

- Financial forecasts/projections seem at time of preparation to have taken no account of potential economic downturn. In current economic circumstances, projections look very doubtful
- Forecasts/projections are now significantly out-of-date. Need to be updated with recent actual information and to take account of current recessionary conditions
- The aviation industry is normally extremely sensitive to deteriorating economic circumstances
- No evidence of sensitivity analysis/ “what if” calculations
- “Airport expansion” only evaluated against “do nothing”; no evidence of assessment of alternatives open to shareholders
- Historic returns from airport to shareholders very low compared to current and future risks and potential alternatives

CONCLUSIONS

- Airport has historically been a marginal investment to shareholders (low dividends, few other demonstrable benefits)
- Financial case for “expansion” marginal at best; may in fact be value-destructive
- Risks and alternatives essentially ignored
- Disappointed with report authors’ refusal to answer concerns