



A Review of the 2020 Financial Statements for the Consideration of a Joint Venture

**'Not everything that can be counted counts and not everything that counts
can be counted'**



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1. Summary

This report considers the suitability of the McLaren Group Ltd (McLaren) for a joint venture to develop a new electric car. The McLaren name is intertwined with automotive innovation and incredible success, both on the track and on the road, but even the most cursory review of the Annual Report for 2020 would send alarm bells ringing for investors.

Profitability, Liquidity, Activity, Leverage and Investor ratios were calculated to provide a deeper understanding of the business performance. The results of these calculations were deeply concerning. Univariate analysis looking at key ratios to predict business failure pointed to McLaren being a business in distress. The results of a Z-Score calculation using a combination of ratios to estimate business stability also classified McLaren as a business in distress.

The report also looks at the importance of how a business treats its people and its stakeholders. There are recent examples where the McLaren board and management have performed woefully in this regard – making 1200 staff redundant, taking bondholders to court to exploit a legal loophole and ousting their CEO Ron Dennis in 2016 who had been responsible for the phenomenal achievements of McLaren over a 35-year period.

It is concluded that McLaren are not a suitable partner for a joint venture to produce an electric vehicle. McLaren are in a fight for survival and there are serious questions about the organisation's commitment to its social responsibilities.

2. Introduction

The 'Annual Report and Consolidated Financial Statements' (Annual Report), 2020, for McLaren¹ provides a picture of the current financial health of the organisation. Financial statements communicate information about business performance. The income statement details the earnings and costs from normal business activity. The balance sheet focuses on assets, liabilities and the equity of the shareholders – does the business own more than it owes? The Cash Flow statement shows how money flow through the business (how cash is generated from business activities, how that cash is then invested and how the business is financed).

Financial statements are often useful when comparing the results over different reporting periods and when comparing performance with other businesses operating in the same (or similar) sector. The notes within the financial statement help to provide clarity about the determination of the results.

From even the most cursory review of the McLaren Annual Report some important points jump out:

Income Statement Review

- Turnover decreased by 48% year on year.
- McLaren made an eye-watering net loss of £640m in 2020, compared with a net loss of £34m in 2019. In 2020, the net income for each division² was:
 - Automotive: £207m net loss
 - Racing: £85m net profit (includes £175m profit generated from the sale of heritage cars)
 - Applied: £22m net loss
- Cost of Goods Sold increased as a percentage of Turnover from 69% in 2019 to 81% in 2020.
- Interest Payable and Similar increased from £72m in 2019 to £425m in 2020 (of which £310m was a charge for the change in fair value of preference shares).

Balance Sheet Review

- Accumulated loss grew from £214m in 2019 to £854m in 2020.
- Creditors (amounts falling after more than 1 year) increased from £0.67m in 2019 to £1.3bn in 2020.

¹ McLaren is composed of three divisions – Applied, Automotive and Racing. The split of revenue across these 3 divisions has been quite constant since incorporation of McLaren in 2017. Automotive was the largest division (~ 80% of total revenue) followed by Racing (~15%) and finally Applied (~5%) - see Figure Error! Main Document Only..

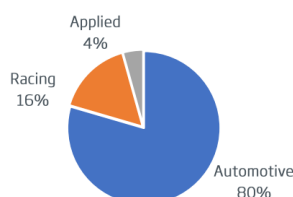


Figure Error! Main Document Only. – Revenue by Division FY2020 [Source: (McLaren, 2021)]

² The 'Profit and Loss' account and Balance sheet for each division are shown in Appendix E – Separate Financial Statements (2019-20).

- Under Intangible Fixed Assets, McLaren have declared £784m in Research & Development costs for new production programs. The independent auditors report highlighted concerns over the risks around the judgements made in capitalisation and amortisation (particularly the sales volume over the life cycle of car program) that could materially alter the 'carrying value' of these assets. This potentially has significant implications for the future value of shareholder equity.

Cash Flow Review

- In 2019, McLaren had a positive cash position of (+) £236m from normal business activity. This changed to a negative cash position of (-) £217m in 2020.
- Through financing activity, the net cash movement was (+) £11m – see 3.5.2.

The Directors blamed the impact of Covid-19 on the poor business performance. The pressure placed on any business with such poor results is obvious. The damage was mitigated by a £150m bank loan and the injection of £300m through a subscription to convertible preference shares by the existing shareholders. Additional funding was identified as being required (unsecured at the time of publishing the Annual Report) to meet liabilities in 2021.

Financial Ratios are a relatively simple tools that help interested parties to better understand what a business is doing well. They are especially useful for comparing business performance over different reporting periods or for benchmarking against a competitor. Ratios help to identify symptoms, but they are not a full diagnostic tool – for which a deeper investigation method is required. Whilst the execution of the ratio calculations is mostly straightforward, their contextualisation is often the real challenge (McLaney, 2014). This report focuses on Profitability, Liquidity, Activity, Leverage and Investor ratios.

The spreadsheet calculation is presented in Appendix B and the ratios are discussed in the next chapter.

3. Financial Ratios

3.1 Profitability Ratios

Profitability ratios gauge the business's ability to create wealth for the owners. Net income is typically divided by another key figure in the P&L account or Balance sheet.

3.1.1 Gross Profit Margin

Gross Profit Margin = ((Sales Revenue – COGS) / Sales Revenue)) x 100

<u>2019</u>	<u>2020</u>
30.4%	18.6%

Table 1 – McLaren Gross Profit Margin 2019 & 2020

The cost of sales relative to sales revenue was clearly much higher in 2020 (Table 1) than in the previous year. In 2020, for every £1 of sales revenue, only 18.6p was left to cover the operating costs (such as management salaries, utilities, rent, rates etc.).

Looking at the accounts for each member of the Group (Table 2) – Racing, Automotive and Applied (see Appendix E – Separate Financial Statements (2019-20) for the income statements), the Gross Profit Margin is presented below:

<u>Division</u>	<u>Gross Profit Margin 2019</u>	<u>Gross Profit Margin 2020</u>	<u>Turnover 2020 (£m)</u>	<u>Cost of Sales 2020 (£m)</u>
Racing	-16.7%	41.1%	£333,000	£196,000
Automotive	21.5%	-19.4%	£518,000	£619,000
Applied	24.9%	18.4%	£33,000	£27,000

Table 2 – Division Gross Profit Margin 2019 & 2020

It is clear that Automotive has the greatest influence on the poor Group Gross Profit Margin in 2020, which requires further investigation. The McLaren Automotive Ltd financial statement for 2020 (House, McLaren Automotive Ltd, 2020) also blames Covid for poor performance – in particular, the closure of retailers and supply chain issues. The impact of Covid meant that only 1,900 cars were delivered to wholesalers in 2020, compared with 4,600 in 2019.

The performance of Racing was noticeably better in 2020 than 2019. Inspection of the 2020 Financial Statement (House, McLaren Racing Ltd, 2020) reveals that the increased turnover was largely from the sale of heritage race cars (that generated a £175m profit), without which the performance of Racing would have been much weaker.

It should also be noted that the McLaren results includes additional turnover from Corporate Services who provide shared management services to the subgroup companies (£86.5m in 2020) and a deduction for intersegmental turnover (see Figure 1). The intersegmental turnover was significant in 2020.

Turnover by business segment	2020 £000	2019 £000
Automotive	615,301	1,248,969
Racing (Prior to loss of control)	322,715	185,740
Applied	33,594	54,009
Corporate services	86,532	91,842
	<u>1,058,142</u>	<u>1,580,560</u>
Less inter-segmental turnover	<u>(286,482)</u>	<u>(94,775)</u>
	<u>771,660</u>	<u>1,485,785</u>

Figure 1: Segment Turnover

3.1.2 Operating Profit Margin

<u>2019</u>	<u>2020</u>
1.7%	-38.4%

Table 3 – McLaren Operating Profit Margin 2019 & 2020

Operating Profit Margin = (Operating Income / Sales Revenue) x 100

The Operating Profit Margin gives a measure of operating profit (profit before tax and interest) as a percentage of turnover. It is usually the most relevant of indicator of operational performance for comparison purposes – since it negates the methods used to finance the business (McLaney, 2014).

Operating Profit Margins were poor in both 2019 and 2020. Indeed, the performance in 2020 was strikingly bad with an operating loss of 38p for every £1 of sales.

Between 2019 and 2020, Gross Profit Margin dropped by almost 12 percentage points (30% to 18%). However, in the same period, Operating Profit Margin fell by 40 percentage points (2% to -38%). Therefore, operating expenses must have been greater compared with sales revenue in 2020 than in 2019 – suggesting that overhead costs were not well managed in 2020.

<u>Division</u>	<u>Operating Profit Margin</u> <u>2019</u>	<u>Operating Profit Margin</u> <u>2020</u>	<u>Turnover 2020</u> <u>(£m)</u>
Racing	-41.4%	30.8%	£333,000
Automotive	8.3%	-43%	£518,000
Applied	24.9%	18.4%	£33,000

Table 4 – Division Operating Profit Margin 2019 & 2020

3.1.3 Net Profit Margin

<u>2019</u>	<u>2020</u>
-2.3%	-83.1%

Table 5 – McLaren Net Profit Margin 2019 & 2020

Net Profit Margin = (Net Income / Sales Revenue) x 100

The Net Profit Margin is poor for both years. It dropped by 80 percentage points between 2019 and 2020, which is twice the drop in Operating Profit Margin percentage points over the same period. Therefore, tax, interest and similar expenses were greater compared with sales revenue in 2020 than in 2019.

A list of the interest payable and similar expenses was provided in Note 8 of the McLaren Annual Results (see *Figure 2*). There is a financial charge of £311m for the change in fair value of preference shares and the difference between the total cost for the two years is striking.

	2020 £000	2019 £000
(b) Interest payable and similar expenses		
Interest payable on related party loans	(2,055)	(1,925)
Finance lease interest	(540)	(257)
Interest payable on bank loans and overdrafts	(8,263)	(3,237)
Interest payable on senior secured notes	(41,324)	(36,923)
Other interest payable and finance charges	(8,225)	(2,762)
Total interest expense on financial liabilities not measured at fair value through profit and loss	<u>(60,407)</u>	<u>(45,104)</u>
Change in fair value on Preference shares	(310,650)	-
Preference share dividend payable	(40,387)	-
Losses on derivative financial instruments	(14,156)	(26,723)
Total interest payable and similar expenses	<u>(425,600)</u>	<u>(71,827)</u>
	2020 £000	2019 £000

Figure 2: Interest Payable & Similar Expenses (McLaren Annual Report - Note 8 page 60)

3.1.4 Return on Assets (ROA)

<u>2019</u>	<u>2020</u>
-1.9%	-38.3%

Table 6 – McLaren Return on Assets 2019 & 2020

Return on Assets = (Net Income / Total Assets) x 100

The ROA for 2019 and 2020 was poor, indicating that management was not efficiently utilising the total assets of the business to generate income. The value of total assets for the group did not change significantly between 2019 and 2020, hence the substantial drop in 2020 was due to the drop in net profit over the period. Typically, a ROA of 5% or lower is considered poor, whilst a ROA of 20% or higher is considered very good (Boyte-White, 2022) – however, the ratio is best used for comparing

the performance of businesses within the same industry. A comparison is made below of the ROA between McLaren Racing and Red Bull Racing:

	2015	2016	2017	2018	2019	2020
Net Income (£m)	£3	-£3	-£13	-£84	-£71	£86
Total Assets (£m)	£160	£161	£161	£187	£174	£189
Return on Assets (%)	2%	-2%	-8%	-45%	-41%	46%

Table 7 – McLaren Racing Return on Assets 2015 - 2020

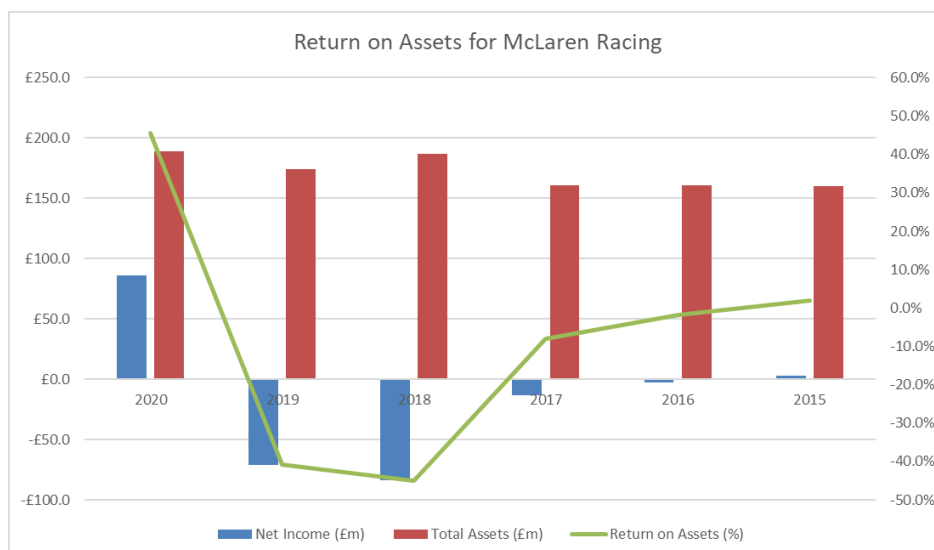


Figure 3 – Graph for McLaren Racing Return on Assets 2015 - 2020

	2015	2016	2017	2018	2019	2020
Net Income (£m)	£0.4	£2.1	£0.6	£0.9	£0.6	£0.7
Total Assets (£m)	£34	£48	£37	£37	£52	£26
Return on Assets (%)	1.2%	4.4%	1.6%	2.4%	1.2%	2.7%

Table 8 – Red Bull Racing Return on Assets 2015 - 2020

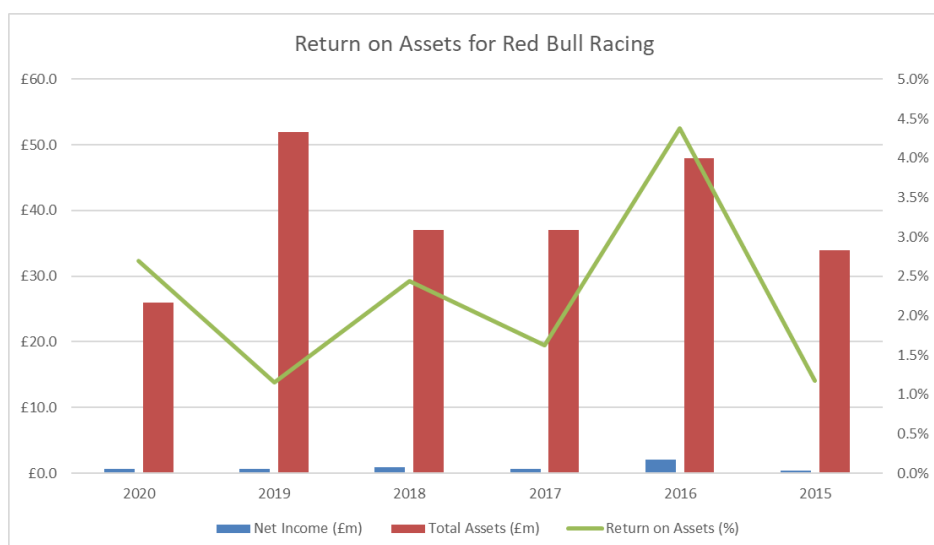


Figure 4 – Graph for McLaren Racing Return on Assets 2015 - 2020

Discarding the McLaren Racing ROA for 2020 (Net Income inflated by the sale of heritage cars), it is clear that Red Bull Racing have better utilised their assets for wealth creation than McLaren Racing have.

3.1.5 Return on Equity (ROE)

<u>2019</u>	<u>2020</u>
-13.2%	-207.7%

Table 9 – McLaren Return on Equity 2019 & 2020

ROE = Net Profit /Shareholders Equity

The Shareholder's Equity is shown on the Balance Sheet – see Appendix C – it can also be calculated by subtracting the total liabilities from the total assets. The ROE for 2019 and 2020 are very poor. The significant net loss in 2020 had the biggest influence on the difference between ROE in 2019 and 2020.

However, during 2020, there was a fair value adjustment of £310m and new preference shares of £337m were issued. Note 27 from the McLaren Group Ltd Annual Report is copied below and shows the total addition of £688m of convertible preference shares during the year.

27. Convertible Preference shares

Preference shares of £0.01 each	2020 £000
Allotted and fully paid:	
At 1 January	-
Issued during the year	337,313
Fair value adjustment	310,650
Payment in kind dividend accrued	40,387
At 31 December	<u>688,350</u>

The new preference shares issued throughout the year were as follows:

Bahrain Mumtalakat Holding Company	229,465
TAG Automotive Limited	48,879
Nidala (BVI) Limited	33,297
Favorita Limited	17,725
Acanitt Limited	7,947

Bahrain Mumtalakat Holding Company as the major shareholder with 56.3% ownership.

ROE is often referred to as the Return on Net Assets (since Shareholders Equity is the sum of Total Assets minus Total Liabilities). The poor performance of McLaren based upon this measure could be an indicator of poor capital allocation decisions. However, the preference shares were issues because of a real concern that the organisation would run out of cash by July 2020 without emergency measures.

3.2 Liquidity Ratios

Liquidity ratios look at the ability of a business to pay back its short-term debt.

3.2.1 Current Ratio

2019	2020
0.81	0.84

Table 10 – McLaren Current Ratio 2019 & 2020

Current Ratio = Current Assets / Current Liabilities

Clearly a ratio less than 1 can be an indicator that the business has insufficient capital to immediately cover its short-term liabilities. The current liabilities from Note 17 of the McLaren Annual Statement are reproduced below. Year on year, there was a circa £135m drop in liabilities, despite increased borrowing over the period. The reduction was mainly due to a circa £150m reduction in trade and other creditors and a reduction of circa £190m in accruals and deferred income – which can easily be attributed to the reduced business activity.

	Group	
	2020 £000	2019 £000
Bank loans and overdraft (note 19)	68,899	-
Obligations under finance leases (note 19)	1,945	2,709
Trade creditors	61,398	101,638
Amounts owed to Joint Venture	2,133	-
Amounts owed to Group undertakings	-	-
Amounts owed to related parties (note 30)	150,000	516
Other creditors	111,370	223,115
Taxation and social security	6,659	13,010
Derivative financial liabilities (note 24 and 25)	2,784	8,961
Accruals and deferred income	208,412	397,574
	613,600	747,523

There was a reduction in current assets year on year of circa £90m that was attributable to a reduction in stock and debtors – a further indication of reduced business activity.

3.2.2 Quick Ratio

2019	2020
0.61	0.66

Table 11 – McLaren Quick Ratio 2019 & 2020

The Quick Ratio = (Cash + Equivalent + Current Debtors) / Current Liabilities.

The ratio is a measure of the organisations ability to meet its short-term liabilities without the need to sell its stock (since stock is not considered to have a 'near cash' position). The Quick Ratio is useful since stock can be difficult to sell, especially at the purchased price. In 2020, McLaren had 66p of liquid assets to cover every £1 of short-term debt - which is unhealthy and unsustainable in the long term.

3.3 Activity Ratios

Activity ratios are used to gauge the operational efficiency of the organisation.

3.3.1 Dry Sales Outstanding

<u>2019</u>	<u>2020</u>
50 days	70 days

Table 12 – McLaren Dry Sales Outstanding 2019 & 2020

Dry Sales Outstanding = Accounts Receivable / Average Revenue per Day

Dry Sales Outstanding increased from 50 days in 2019 to 70 days in 2020. This indicates that it took 42% more time to be paid for a sale in 2020 than it did in 2019. Furthermore, a comparison with 3.3.3 Days Payable Outstanding shows that it now takes almost twice as long to be paid for goods as it does to pay suppliers – that is obviously a concern for cash flow.

3.3.2 Inventory Turnover

<u>2019</u>	<u>2020</u>
6.8	5.6

Table 13 – McLaren Inventory Turnover 2019 & 2020

Inventory Turnover Ratio = Cost of Goods Sold / Inventory

The Inventory Turnover Ratio decreased by 18% between 2019 and 2020. During that period, Cost of Goods sold fell by 39% year on year, whilst inventory fell by only 26%. This implies that stock was moving slower in 2020 in relation to COGS – which is certainly borne out by note 15 of the Annual Statement that is reproduced below:

Group	2020 £000	2019 £000
Raw materials and consumables	57,174	58,284
Work in progress	21,985	51,252
Finished goods and goods for resale	33,614	42,120
	<u>112,773</u>	<u>151,656</u>

Raw materials and consumables remained almost unchanged between 2019 and 2020 (~£58m).

3.3.3 Days Payable Outstanding

<u>2019</u>	<u>2020</u>
36 days	36 days

Table 14 – McLaren Days Payable Outstanding 2019 & 2020

Days Payable Outstanding = Accounts Payable / Average COGS per Day

Days payable outstanding remained constant between 2019 and 2020, (the average number of days taken to pay suppliers) whilst Dry Sales Outstanding increased, and Inventory moved slower. It is easy to see how this combination of events could have a significant negative impact on cash flow.

3.4 Leverage Ratios

Leverage Ratios gauge an organisation's ability to meet its financial responsibilities.

3.4.1 Debt/Equity Ratio

<u>2019</u>	<u>2020</u>
237%	221%

Table 15 – Debt Equity Ratio 2019 & 2020

The Debt/Equity ratio = (Borrowing + Senior Secured Notes) / Shareholders Equity x 100%

The senior secured notes are fixed payment obligations. D/E ratios greater than 100% indicate a **levered firm**, where the creditors are propping up the business. That is all well and good for a stable business with strong cash flow, but that is certainly not the case with McLaren as we saw in 3.3 where Dry Sales Outstanding and Inventory Turnover have deteriorated year on year. The high Debt/Equity ratio is a concern.

3.4.2 Interest Coverage

<u>2019</u>	<u>2020</u>
337%	-12%

Table 16 – McLaren Interest Coverage 2019 & 2020

Interest Coverage = EBITDA / Interest Charge x 100%

Interest payable jumped from £72m to £426m between 2019 and 2020. EBITDA dropped from £182m to -£49m during the same period. Interest coverage is calculated by dividing EBITDA by Net Interest Payments. It is concerning that in 2020, McLaren did not generate sufficient income to cover its interest payments.

Interest Coverage between 200% and 300% is usually considered healthy, whereas a ration lower than 150% is usually a concern to lenders and creditors – indicating that the organisations could have difficulty meeting even short-term interest liabilities.

3.5 Investor Ratios

Investor ratios gauge the organisations' ability to generate a return for shareholders.

3.5.1 Earnings per Ordinary Share

<u>2019</u>	<u>2020</u>
-£4	-£72

Table 17 – McLaren Earnings per Ordinary Share 2019 & 2020

Earnings per Ordinary Share = Net Income / Number of Ordinary Shares

In Note 27 of the McLaren Annual Statement, there is a 'Payment in kind dividend accrued' of £40m for preference shares that should probably be deducted from the net income in 2022 (this has not been taken into account since it makes little difference to the general message – the shareholders should be deeply concerned by the increasing negative earnings per share year on year.

3.5.2 Dividend Cover

<u>2019</u>	<u>2020</u>
0%	0%

Table 18 – McLaren Dividend Cover 2019 & 2020

Dividend Cover = Earnings per Share / Dividend per Share x 100%

This simply tells the shareholder how many times the business can pay dividends. The ratio should be considered in parallel with the cash flow – to ensure that the business can actually pay dividends. A picture of the cash flow (£m) for McLaren Group Ltd is shown below in Figure 5. The net cash flow was only positive because of significant financing – which is not sustainable over time.

Group Cash Flow

	FY2020	FY2019
Cash flow from operating activities	(220)	231
of which EBITDA excluding unrealised FX plus cash tax paid*	(48)	171
of which impairments and profit on sale of subsidiary	(10)	-
of which increase in stock, WIP & finished goods	1	7
of which decrease / (increase) in debtors	125	(99)
of which (decrease) / increase in creditors	(289)	153
Cash flow from investing activities	(236)	(319)
of which addition of intangibles	(222)	(298)
of which addition of tangibles	(16)	(21)
of which disposal of tangibles, investments and share of subsidiary	2	-
Cash flow from financing activities	467	50
of which proceeds from RCF drawings	69	-
of which interest and finance leases	(42)	(35)
of which issue of ordinary share capital	441	53
of which issue of SSN's and repayment of shareholder	-	32
Net cash movement	11	(38)

Figure 5 – Group cash flow [source - (McLaren, 2021)]

3.5.1 Price per Earnings Ratio

<u>2019</u>	<u>2020</u>
-7.58	-0.48

Table 19 – McLaren Price per Earnings Ratio 2019 & 2020

Price per Earning Ratio = Market Value per Share / Earnings per Share

The Market value per share is taken as Shareholders Equity / Number of Ordinary Shares i.e., the value of the business / number of ordinary shares. A high P/E ratio gives an investor confidence in the future earning potential of the organisation.

3.5.2 Dividend Yield Ratio

<u>2019</u>	<u>2020</u>
0%	0%

Table 20 – McLaren Dividend Yield Ratio 2019 & 2020

Dividend Yield Ratio = Dividend per Share / Market Value per Share x 100%

The Dividend Yield Ratio help investors to understand the cash return in relation to the market value of each share.

The negative earnings per share (in both 2019 and 2020) signal that the organisation is losing money. The loss per share increased by almost 20-fold year on year which is a significant concern. The Dividend Cover and Dividend Yield Ratio were both zero because no dividend was paid in either 2019 or 2020. The Earnings per Ordinary Share and the Price per Earnings Ratio are negative because of the negative net income in each year.

4. Discussion

Many of the financial ratios paint a bleak picture for the future of McLaren. Indeed, they raise an obvious question as to whether the organisation can survive. Univariate analysis for predicting business failure focuses on ratios such as Current Ratio as shown in Figure 6.

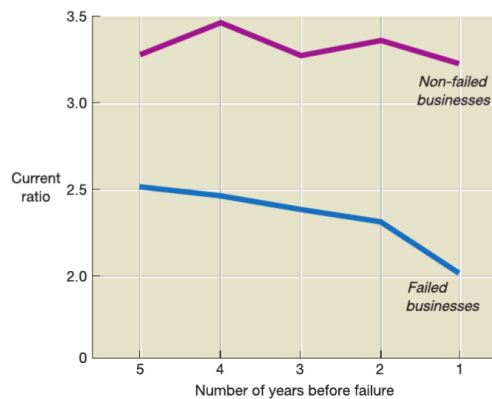


Figure 6 – Average Current Ratio of failed and non-failed businesses [source (Atrill, 2017)]

The Current Ratio of McLaren in 2019 and 2020 (of around 0.8) suggests that the business could fail. McLaren fared no better with other ratios used for univariate analysis, such as Return on Assets.

In 2000, Altman updated a Z-score model that he had developed decades earlier using an empirical approach. The Z-score model is considered to be a more accurate and reliable tool for predicting failure, using a combination of ratios. The updated Z-score formula is shown below:

$$Z = 0.717a + 0.847b + 3.107c + 0.420d + 0.998e$$

a = (Current Assets – Current Liabilities) / Total Assets

b = Accumulated profit (loss) / Total Assets

c = Operating Profit / Total Assets

d = Book value of ordinary and preference shares / Total liabilities at book value

e = Sales Revenue / Total Assets

The Z-score for McLaren in 2019 was (+)0.84

The Z-score for McLaren in 2020 was (-)0.34

Altman determined that a Z-Score less than 1.23 was a signal of a business in distress.

McLaren were showing signs of a business in difficulty in 2019 – a year before the pandemic.

The numbers alone are worrying. However, there are also behaviours of McLaren that give cause for further concern, especially around the treatment of their staff and stakeholders.

There is famous quote from William Bruce Cameron, a renowned sociologist:

‘Not everything that can be counted counts and not everything that counts can be counted’

Those words might never have been truer than when reflecting on these recent actions by McLaren:

1. In 2020, McLaren cut 1200 jobs (a quarter of their workforce) and celebrated this in the ‘Annual Statement’ as a management team acting swiftly to reduce costs in response to pandemic induced business disruptions. There are alternatives to forced redundancies in a time of crisis that are seldom explored by management. Reducing employment costs rather than cutting heads is possible by looking at alternative measures such as hourly pay reductions, unpaid leave, sabbaticals, unpaid overtime etc. The true costs of forced redundancy are rarely understood by management and worst of all, it can destroy employee morale (with those that remain) for years to come (Warren, 2009).
2. In June 2020, McLaren took its bondholders to the UK high court in an attempt to push through a controversial emergency funding plan. McLaren had tried to raise £250m from new lenders against assets such as the head offices and valuable heritage cars that the bondholders already had security over (Campbell S. A., 2020). McLaren's advisors thought that a legal loophole existed to circumvent such a constraint. Social responsibility is increasingly important to businesses and the value of their brand in the eyes of all stakeholders (Martin, 2002). It is difficult to see how the exploitation of a legal loophole and dragging important stakeholders into a court battle could be considered acceptable by any business that takes its social responsibility seriously. If virtue is its own reward, then the board at McLaren have a lot to learn.
3. In 2016, McLaren ousted their CEO, Ron Dennis, who had been the main force behind the enormous success of McLaren for more than 35 years (see Appendix H – A Short History of McLaren). He was pushed out following a dispute with friend and fellow shareholder Mansour Ojeh (CEO of TAG) about the future direction for the team (Campbell P. , 2016).

In 2017, Ron agreed to sell his stake in McLaren Technology Group (the umbrella group for McLaren Racing Ltd and McLaren Applied Technologies Ltd) and McLaren Automotive - two financially separate entities - for £275m to a new holding company that would bring together the automotive, racing and technology arms under McLaren Group Ltd (Ahmed, 2017) . McLaren Technology Group was owned 50% by Mumtalakat, Bahrain's sovereign wealth fund, 25% by TAG and 25% by Ron Dennis. McLaren Automotive Ltd was owned 55% by Mumtalakat, 11% by TAG and 10% by Ron Dennis.

A proud man, Ron left on his own terms, throwing punches with words on his way out, publicly stating that he was "required to relinquish his roles", that there would be "consequences for the business" and bemoaning "entirely spurious grounds for his dismissal" (Benson, 2017) . So, after ousting their Talisman, was it really a surprise to see McLaren Group Ltd fighting for its existence in 2020?

In 2002, Harvard Business School published a report about the effectiveness of business performance after the replacement of the CEO. The report looked at 83 changes at the top that took place between 1997 and 1998 across the largest 500 public companies in the USA. Of the 83 CEO replacements, 30 followed a dismissal. Looking at the performance of these 30 business over a four-year period (2yrs before and 2yrs after the dismissal), not a single measure could be found to support the argument that CEO dismissals have a positive impact. Indeed, the report commented that hasty CEO ousting's create significant disruption that cause 'deep and lasting wounds' for the organisation (Wiersema, 2002).

5. Conclusion

Without substantial new finance, McLaren is a business that has a high risk of failure. Furthermore, there are concerns about the McLaren's commitment to social responsibilities – especially relating to the company's treatment of its ex-CEO of 35yrs, 1200 staff and bondholders.

At this moment in time, McLaren cannot be considered as a suitable partner in a joint venture to develop a new electric car.

Word Count: 3300 (excluding the summary, headings, figure and table titles)

6. Appendix A - References

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7. Appendix B – Ratios Calculations (2019-20)

McClaren Annual Report

Income Statement	£000's	£000's
Year	2020	2019
Revenue	771,660	1,485,785
COGS	627,847	1,033,817
Gross Profit	143,813	451,968
Other Operating Income	51,821	28,606
SG&A	245,710	276,090
Other Operating Costs	246,007	179,625
Operating Profit	-296,083	24,859
Interest Receivable	14,812	17,811
Interest Payable + Similar	425,600	71,827
Other Finance Costs	-21,070	0
Tax	-44,639	4,955
Net Income	-641,162	-34,112

EPS	-£0.072	-£0.004
Dividend per Share	0.0	0.0
Dividend	0	0
(see Directors Report page 16)		
No of shares	8888135	8888135

EBITDA	-49,100	181,900
Shares (loss of joint venture)	886	0
Impairment of Assets	12,762	0
Ammortisation	29,635	27,527
Depreciation	202,724	152,098

Notes:		
Average Revenue/day	2,114	4,071
Average COGS/day	1,720	2,832
Share value (£)	0.01	0.01

Balance Sheet	£000's	£000's	£000's	£000's
Year	2020	2019	2020 Adj	2020 Revised
Fixed Assets	1,156,980	1,182,108		
Stock	112,773	151,656		
Cash and Equivalents	66,784	56,252		
Debtors	337,658	396,755		
Other Current Assets				
Current Assets	517,215	604,663		
Total Assets	1,674,195	1,786,771		
Creditors	61,398	101,638		
Borrowings	68,889	0		
Other	483,313	645,885		
Current Liabilities	613,600	747,523		
Other Liabilities	133,391	123,289		
Creditors	1,306,893	657,250	-688,350	618,543
Borrowings				
Long Term Liabilities	1,440,284	780,539	-688,350	751,934
Total Liabilities	2,053,884	1,528,062	-688,350	1,365,534
Net Assets	-379,689	258,709	-688,350	308,661
Ordinary Shares	89	89		
Preference Shares			688,350	688,350
Share Premium	203,123	203,123		
Reserves	271,746	269,685		
Accumulated losses	-854,647	-214,188		
Shareholders Equity	-379,689	258,709	688,350	308,661

Notes:

Trade Debtors	149,012	201,872
Trade Creditors	61,398	101,638
Senior secured notes	613,576	613,857

see Note 16 of Audited Accounts

Ratios	2020	2019
Gross Margin %	18.64%	30.42%
Operating Profit %	-38.37%	1.67%
Net Profit %	-83.09%	-2.30%
Return on Assets	-38.30%	-1.91%
Return on Shareholder Equity	-207.7%	-13.2%
Current Ratio	0.84	0.81
Quick Ratio	0.66	0.61
Days Sales Outstanding	70	50
Inventory Turns	5.6	6.8
Days Payable Outstanding	36	36
Debt / Equity Ratio	221%	237%
Interest Coverage	-12%	337%
EPS	-0.072	-0.004
Dividend Yield	0.0%	0.0%
Dividend Cover	0.0%	0.0%
Price Per Earnings Ratio	-0.48	-7.58

8. Appendix C – Z- Score Calculations 2019 & 2020

2020	£(000)
Workin Capital	-96,385
Total Assets	1,674,195
Retained Profits	-854,647
Operating Profit	-296,083
Book Value of Shares (ordinary and preference)	777,231
Total Liabilities at Book value	751,934
Sales Revenue	771,660

a	0.717	-0.05757	-0.04128
b	0.847	-0.51048	-0.43238
c	3.107	-0.17685	-0.54948
d	0.42	1.033643	0.43413
e	0.988	0.460914	0.455383
		Z-Score	-0.13362

2019	£(000)
Workin Capital	-142,860
Total Assets	1,786,771
Retained Profits	-214,188
Operating Profit	24,859
Book Value of Shares (ordinary and preference)	88,000
Total Liabilities at Book value	258,709
Sales Revenue	1,485,785

a	0.717	-0.07995	-0.05733
b	0.847	-0.11987	-0.10153
c	3.107	0.013913	0.043227
d	0.42	0.340151	0.142863
e	0.988	0.831548	0.821569
		Z-Score	0.848798

9. Appendix D – Financial Statements McLaren Group Ltd (2019-20)

Consolidated profit and loss account
for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	5	771,660	1,485,785
Cost of Sales		(627,847)	(1,033,817)
Gross Profit		143,813	451,968
Administrative expenses		(245,710)	(276,090)
Other operating income		51,821	28,606
Operating (loss)/profit before interest in joint venture, impairment, depreciation and amortisation		(50,076)	204,484
Share of loss from Joint Venture		(886)	-
Impairment of assets		(12,762)	-
Depreciation		(29,635)	(27,527)
Amortisation		(202,724)	(152,098)
Operating (loss)/profit	6	(296,083)	24,859
Interest receivable and similar income	8	14,812	17,811
Interest payable and similar expenses	8	(425,600)	(71,827)
Gain on sale of share in subsidiary	9	21,070	-
Loss before taxation		(685,801)	(29,157)
Tax on loss	10	44,639	(4,955)
Loss for the financial year		(641,162)	(34,112)

All items dealt with in arriving at the loss before taxation relate to continuing operations.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Company profit and loss account. The loss for the year is presented in the Company balance sheet on page 38.

The notes on pages 42 to 83 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Note	2020 £000	2019 £000
Loss for the financial year		(641,162)	(34,112)
Other comprehensive (expense)/income:			
Deferred tax (charge)/credit on revaluation reserve	10	(930)	2,011
Cash flow hedges:			
- Change in value of hedging instrument		(3,612)	(1,365)
- Reclassifications to profit and loss		13,583	26,152
Loss on foreign currency translation reserve		(6,277)	(5,277)
Total comprehensive expense for the year		(638,398)	(12,591)

The notes on pages 42 to 83 form an integral part of these consolidated financial statements.

Consolidated balance sheet

as at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Intangible assets	11	829,851	834,162
Tangible assets	12	260,368	290,543
Heritage assets	13	34,155	55,665
Investment in associate	14	-	1,738
Investment in joint venture	14	32,606	-
		1,156,980	1,182,108
Current assets			
Inventories	15	112,773	151,656
Debtors	16	337,658	396,755
Cash at bank and in hand		66,784	56,252
		517,215	604,663
Creditors: Amounts falling due within one year	17	(613,600)	(747,523)
Net current liabilities		(96,385)	(142,860)
Total assets less current liabilities		1,060,595	1,039,248
Creditors: Amounts falling due after more than one year	18	(1,306,893)	(657,250)
Provision for liabilities	21	(40,555)	(26,796)
Deferred capital funding	23	(92,836)	(96,493)
Net (liabilities)/assets		(379,689)	258,709
Capital and reserves			
Called up share capital	26	89	89
Share premium account		203,123	203,123
Revaluation reserve		42,586	44,219
Capital contribution reserve		2,039	2,039
Merger reserve		218,547	218,547
Other reserves		8,574	4,880
Accumulated losses		(854,647)	(214,188)
Total Equity		(379,689)	258,709

10. Appendix E – Separate Financial Statements (2019-20)

Profit and loss account*for the year ended 31 December 2020*

	Note	2020 £000	2019 £000
Turnover	5	332,922	185,740
Cost of Sales		(196,098)	(216,699)
Gross profit / (loss)		136,824	(30,959)
Administrative expenses		(48,465)	(56,055)
Other operating income		14,062	10,042
Operating profit / (loss)	6	102,421	(76,972)
Income from interests in associated undertakings	7	-	321
Profit / (loss) before interest and taxation		102,421	(76,651)
Interest payable and similar expenses	9	(5,562)	(8,283)
Profit / (loss) before taxation		96,859	(84,934)
Tax on profit / (loss)	10	(11,021)	13,491
Profit / (loss) for the financial year		85,838	(71,443)

All items dealt with in arriving at the loss before taxation relate to continuing operations.

Statement of comprehensive income*for the year ended 31 December 2020*

	2020 £000	2019 £000
Profit / (loss) for the financial year	85,838	(71,443)
Other comprehensive income:		
Deferred tax movement on revaluation reserve	4,769	2,011
Total comprehensive income / (expense) for the year	90,607	(69,432)

Balance sheet

as at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	11	30,468	23,591
Heritage assets	12	23,171	54,895
Investments	13	-	-
		<u>53,639</u>	<u>78,486</u>
Current assets			
Inventories	14	36,226	37,223
Debtors	15	43,269	57,327
Cash at bank and in hand		56,016	691
		<u>135,511</u>	<u>95,241</u>
Creditors: Amounts falling due within one year	16	<u>(73,677)</u>	<u>(253,070)</u>
Net current liabilities		<u>61,834</u>	<u>(157,829)</u>
Total assets less current liabilities		<u>115,473</u>	<u>(79,343)</u>
Creditors: Amounts falling due after more than one year	17	<u>(74,209)</u>	<u>-</u>
Net assets / (liabilities)		<u>41,264</u>	<u>(79,343)</u>
Capital and reserves			
Called up share capital	20	50	50
Shares to be issued	21	30,000	-
Revaluation reserve		18,295	44,219
Accumulated losses		<u>(7,081)</u>	<u>(123,612)</u>
Total equity		<u>41,264</u>	<u>(79,343)</u>

McLaren Automotive Limited (Registered number: 01967717)**Income Statement
for the Year Ended 31 December 2020**

	Note	2020 £'000	2019 £'000
TURNOVER	3	518,476	1,098,758
Cost of sales		<u>(619,159)</u>	<u>(862,366)</u>
GROSS (LOSS)/PROFIT		(100,683)	236,392
Administrative expenses		(154,363)	(168,602)
Other operating income	4	<u>32,161</u>	<u>23,338</u>
OPERATING (LOSS)/PROFIT	6	(222,885)	91,128
Other interest receivable and similar income		426	453
Interest payable and similar expenses	7	<u>(36,311)</u>	<u>(15,707)</u>
(LOSS)/PROFIT BEFORE TAXATION		(258,770)	75,874
Tax on (loss)/profit	8	<u>51,358</u>	<u>(15,597)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u>(207,412)</u>	<u>60,277</u>

All items dealt with in arriving at the loss before taxation relate to continuing operations

Balance Sheet
as at 31 December 2020

	Note	2020 £'000	2019 £'000
FIXED ASSETS			
Intangible assets	9	817,634	811,909
Tangible assets	10	84,525	78,252
Investments	11	<u>1</u>	<u>1</u>
		<u>902,160</u>	<u>890,162</u>
CURRENT ASSETS			
Stocks	12	101,231	93,947
Debtors	13	279,181	244,252
Cash at bank and in hand		<u>1,141</u>	<u>24,899</u>
		381,553	363,098
CREDITORS			
Amounts falling due within one year	14	<u>(1,015,466)</u>	<u>(796,532)</u>
NET CURRENT LIABILITIES		<u>(633,913)</u>	<u>(433,434)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		268,247	456,728
CREDITORS			
Amounts falling due after more than one year	15	(9,159)	(9,509)
PROVISIONS FOR LIABILITIES	18	<u>(33,499)</u>	<u>(24,189)</u>
NET ASSETS		<u>225,589</u>	<u>423,030</u>
CAPITAL AND RESERVES			
Called up share capital	19	27	27
Share premium account	20	490,451	490,451
Other reserves	20	2,039	2,039
Cashflow hedging reserve	20	12,001	2,030
Accumulated losses	20	<u>(278,929)</u>	<u>(71,517)</u>
TOTAL EQUITY		<u>225,589</u>	<u>423,030</u>

McLaren Applied Limited
Annual Report and Financial Statements
 31 December 2020

Profit and loss account*for the year ended 31 December 2020*

	Note	2020 £000	2019 £000
Turnover	5	32,897	51,684
Cost of Sales		<u>(26,836)</u>	<u>(38,841)</u>
Gross profit		6,061	12,843
Administrative expenses		(26,904)	(38,624)
Impairment of intangible assets	10	(10,298)	(4,804)
Other operating income		<u>8,544</u>	<u>3,040</u>
Operating loss	6	(22,597)	(27,545)
Interest payable and similar expenses	8	(3,551)	(1,337)
Gain from the sale of investment	12	1,262	-
Net exchange loss	8	<u>(278)</u>	<u>(323)</u>
Loss before taxation		(25,164)	(29,205)
Tax on loss	9	<u>3,061</u>	<u>4,689</u>
Loss for the financial year		<u>(22,103)</u>	<u>(24,516)</u>

Balance sheet

as at 31 December 2020

	Note	2020 £000	2019 £000
Fixed Assets			
Intangible assets	10	10,628	21,162
Tangible assets	11	4,765	6,280
Investments	12	1	1,738
		<u>15,394</u>	<u>29,180</u>
Current assets			
Inventories	13	4,814	6,226
Debtors	14	28,778	26,939
Cash at bank and in hand		8,055	262
		<u>41,647</u>	<u>33,427</u>
Creditors: Amounts falling due within one year	16	<u>(91,563)</u>	<u>(75,026)</u>
Net current liabilities		<u>(49,916)</u>	<u>(41,599)</u>
Total assets less current liabilities		<u>(34,522)</u>	<u>(12,419)</u>
Capital and reserves			
Called up share capital	17	10	10
Accumulated losses		<u>(34,532)</u>	<u>(12,429)</u>
Total equity		<u>(34,522)</u>	<u>(12,419)</u>

11. Appendix F – McLaren Racing Ltd Financial Statements (2015-18)

McLaren Racing Limited
Annual report and financial statements
31 December 2018

Profit and loss account

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover		123,641	196,552
Cost of Sales		<u>(169,546)</u>	<u>(153,323)</u>
Gross (loss)/profit		(45,905)	43,229
Administrative expenses		(67,430)	(70,747)
Other operating income		<u>10,972</u>	<u>12,428</u>
Operating loss	5	(102,363)	(15,090)
Income from interests in associated undertakings		<u>490</u>	-
Profit before interest and taxation		(101,873)	(15,090)
Interest receivable and similar income	7	<u>28</u>	<u>(1,002)</u>
Loss before taxation		(101,845)	(16,092)
Tax on loss	8	<u>17,372</u>	<u>2,945</u>
Loss for the financial year		<u>(84,473)</u>	<u>(13,147)</u>

Statement of comprehensive income

for the year ended 31 December 2018

	2018 £000	2017 £000
Loss for the financial year	(84,473)	(13,147)
Other comprehensive income:		
Deferred tax movement on revaluation reserve	<u>795</u>	<u>25</u>
Total comprehensive expense for the year	<u>(83,678)</u>	<u>(13,122)</u>

Balance sheet

as at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	9	25,052	24,159
Heritage assets	10	57,760	56,551
Investments	11	7,479	-
		<u>90,291</u>	<u>80,710</u>
Current assets			
Inventories	12	43,121	46,825
Debtors	13	51,900	32,980
Cash at bank and in hand		1,676	67
		<u>96,697</u>	<u>79,872</u>
Creditors: Amounts falling due within one year	14	<u>(196,427)</u>	<u>(85,802)</u>
Net current liabilities		<u>(99,730)</u>	<u>(5,930)</u>
Total assets less current liabilities		<u>(9,439)</u>	<u>74,780</u>
Creditors: Amounts falling due after more than one year	15	<u>(472)</u>	<u>(1,013)</u>
Net (liabilities) / assets		<u>(9,911)</u>	<u>73,767</u>
Capital and reserves			
Called up share capital	18	50	50
Revaluation reserve		52,804	56,109
(Accumulated losses) / retained earnings		<u>(62,765)</u>	<u>17,608</u>
Total equity		<u>(9,911)</u>	<u>73,767</u>

Profit and loss account

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover		179,781	188,197
Cost of Sales		(138,824)	(138,116)
Gross profit		40,957	50,081
Administrative expenses		(54,892)	(51,461)
Other operating income		10,563	6,292
Operating (loss)/profit	5	(3,372)	4,912
Interest receivable and similar income	7	805	301
(Loss)/profit before taxation		(2,567)	5,213
Tax on (loss)/profit	8	(674)	(1,789)
(Loss)/profit for the financial year		(3,241)	3,424

Statement of comprehensive income

for the year ended 31 December 2016

	2016 £000	2015 £000
(Loss)/profit for the financial year	(3,241)	3,424
Other comprehensive income:		
Deferred tax movement on revaluation reserve	700	1,426
Total comprehensive (expense)/income for the year	(2,541)	4,850

Balance sheet

as at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Tangible assets	9	14,045	15,290
Heritage assets	10	76,925	76,700
Investments	11	-	1
		<u>90,970</u>	<u>91,991</u>
Current assets			
Inventories	12	26,098	20,887
Debtors	13	44,266	31,350
Cash at bank and in hand		76	68
		<u>70,440</u>	<u>52,305</u>
Creditors: Amounts falling due within one year	14	<u>(70,621)</u>	<u>(50,450)</u>
Net current (liabilities)/assets		<u>(181)</u>	<u>1,855</u>
Total assets less current liabilities		90,789	93,846
Creditors: Amounts falling due after more than one year	15	(369)	(520)
Provisions for liabilities	17	<u>(3,531)</u>	<u>(3,896)</u>
Net assets		<u>86,889</u>	<u>89,430</u>
Capital and reserves			
Called-up share capital	19	50	50
Revaluation reserve	19	58,127	57,427
Retained earnings	19	28,712	31,953
Total Equity		<u>86,889</u>	<u>89,430</u>

12. Appendix G – Red Bull Racing Financial Statements (2015-20)

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Turnover	3	229,754	245,438
Cost of sales		(220,516)	(237,309)
Gross profit		9,238	8,129
Administrative expenses		(8,635)	(6,314)
Other operating income/(expenses)		597	(779)
Operating profit	4	1,200	1,036
Interest receivable and similar income	8	4	8
Amounts written off investments	9	16	(1)
Profit before taxation		1,220	1,043
Tax on profit	10	(497)	(425)
Profit for the financial year		723	618

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

		2020		2019	
	Notes	£000	£000	£000	£000
Fixed assets					
Tangible assets	12		10,465		9,235
Current assets					
Stocks	13	334		320	
Debtors	14	14,039		39,870	
Cash at bank and in hand		604		2,724	
		<u>14,977</u>		<u>42,914</u>	
Creditors: amounts falling due within one year	15	<u>(18,219)</u>		<u>(45,649)</u>	
Net current liabilities			(3,242)		(2,735)
Total assets less current liabilities			<u>7,223</u>		<u>6,500</u>
Capital and reserves					
Called up share capital	16		1,000		1,000
Revaluation reserve			3,100		3,100
Profit and loss reserves			3,123		2,400
Total equity			<u>7,223</u>		<u>6,500</u>

Income Statement

for the year ended 31 December 2018

		2018	2017
	Notes	£000	£000
<i>Turnover</i>	2	245,145	231,306
<i>Cost of sales</i>		<u>(239,606)</u>	<u>(226,711)</u>
<i>Gross profit</i>		5,539	4,595
<i>Administrative expenses</i>		<u>(4,673)</u>	<u>(3,484)</u>
<i>Operating profit</i>	3	866	1,111
<i>Gain on revaluation of investment property</i>		<u>600</u>	<u>-</u>
<i>Loss on disposal of tangible fixed assets</i>		<u>-</u>	<u>(2)</u>
<i>Profit on ordinary activities before investment income, interest and taxation</i>		1,466	1,109
<i>Bank interest receivable</i>		<u>4</u>	<u>1</u>
<i>Profit on ordinary activities before taxation</i>		1,470	1,110
<i>Tax on profit on ordinary activities</i>	5	<u>(547)</u>	<u>(535)</u>
<i>Profit for the financial year</i>		<u>923</u>	<u>575</u>

Statement of Financial Position

at 31 December 2018

	Notes	2018 £000	2017 £000
<i>Fixed assets</i>			
Tangible assets	6	9,794	9,284
<i>Current assets</i>			
Debtors	7	24,447	28,191
Cash at bank and in hand		<u>2,702</u>	<u>176</u>
		27,149	28,367
<i>Creditors: amounts falling due within one year</i>	8	<u>(31,061)</u>	<u>(32,692)</u>
<i>Net current liabilities</i>		<u>(3,912)</u>	<u>(4,325)</u>
Total assets less current liabilities		<u>5,882</u>	<u>4,959</u>
<i>Capital and reserves</i>			
Called up share capital	9	1,000	1,000
Non-distributable reserve		3,100	2,500
Profit and loss account		1,782	1,459
<i>Shareholders' funds</i>		<u>5,882</u>	<u>4,959</u>

Income Statement

for the year ended 31 December 2016

		2016	2015
	Notes	£000	£000
<i>Turnover</i>	2	197,949	181,429
<i>Cost of sales</i>		<u>(193,012)</u>	<u>(177,753)</u>
<i>Gross profit</i>		4,937	3,676
<i>Administrative Expenses</i>		<u>(4,032)</u>	<u>(2,759)</u>
<i>Operating profit</i>	3	905	917
Gain on revaluation of investment property		-	1,400
Profit / (loss) on disposal of tangible fixed assets		<u>16</u>	<u>(30)</u>
<i>Profit on ordinary activities before taxation</i>		921	2,287
Tax on profit on ordinary activities	5	<u>(536)</u>	<u>(146)</u>
<i>Profit for the financial year</i>		<u><u>385</u></u>	<u><u>2,141</u></u>

Statement of Financial Position

at 31 December 2016

	Notes	2016 £000	2015 £000
Fixed assets			
Tangible assets	6	10,082	10,188
Current assets			
Debtors	7	36,007	21,551
Cash at bank and in hand		<u>2,283</u>	<u>2,181</u>
		38,290	23,732
Creditors: amounts falling due within one year	8	<u>(43,988)</u>	<u>(25,921)</u>
Net current liabilities		<u>(5,698)</u>	<u>(2,189)</u>
Total assets less current liabilities		<u>4,384</u>	<u>7,999</u>
Capital and reserves			
Called up share capital	9	1,000	1,000
Non-distributable reserve		2,500	2,500
Profit and loss account		884	4,499
Shareholders' funds		<u>4,384</u>	<u>7,999</u>

13. Appendix H – A Short History of McLaren

Founded in 1963 by racing driver Bruce McLaren, the team had already won its first F1 Grand Prix race, several Can-Am races and the 24 Hours of Le Mans race before Bruce's untimely death on the track in 1970. From the onset, Bruce had surrounded himself with a highly talented group of lieutenants (see Figure 7) that included:

- Chief Engineer Robin Herd, an Oxford graduate who introduced aircraft inspired construction materials to F1 cars - such as Mallite, a laminate composite material using Balsa and Duralumin (Hughes, 2019).
- American lawyer 'Teddy Mayer' who was tenacious, incredibly hard working, knowledgeable and wealthy.



Figure 7: McLaren, Herd and Meyer on the drawing board

It was Teddy who took up the reins in 1970 before leading the team with drivers Emerson Fittipaldi and James Hunt to F1 World Championship titles in 1974 and 1976 respectively (Henry, 2014). Despite those significant successes, a barren spell followed with a series of uncompetitive new models of racing car.

Disappointed and frustrated in 1980, Mayer agreed a sell-out to the ambitious entrepreneur Ron Dennis and his Marlborough backed group who arguably developed the leading F1 team over the next 30 years, partnering with TAG and engine suppliers such as Porsche, Honda and Mercedes. McLaren won the F1 Drivers championship nine times between 1984-99 and seven F1 Constructors titles. Ron Dennis was also a shrewd businessman and he build separate companies under the McLaren name to focus on supercars and automotive technologies. The success was not achieved through a desire to increase shareholders wealth, but through a passion to develop the best possible products and services within the F1 motorsport and the supercar industries. This paradox whereby shareholder wealth is maximised when pursued indirectly is understood well by financial commentators (Atrill, 2017), but it is too often overlooked in boardrooms where personalities, ego and greed can be the determinants for decision making.

Between 1995 and 2009, Daimler-Benz took a 40% share in McLaren Racing Ltd and in 2006, the Kingdom of Bahrain took a 30% share through Mumtalakat Holdings (Griffiths, 2007). However, in 2007 and 2008, a series of unconnected events created the perfect storm – from which the team are yet to fully recover from.

The McLaren-Mercedes team should have won the 2007 constructors' championship. However, they were sensationally stripped of all points following the revelation that a disgruntled Ferrari employee had given detailed confidential information about the Ferrari design (between March and July 2007) to the McLaren chief engineer. McLaren received a fine of \$100m from the sport's governing body. Daimler-Benz were deeply concerned about the potential damage to their reputation for an event that they had no prior knowledge of, or indeed any control of. Already unhappy with McLaren Automotives latest road sportscar that competed directly with the Mercedes supercars, Daimler-Benz were starting to question their continued relationship with McLaren (Hughes, 2021).

McLaren won the drivers' championship in 2008, but a bizarre twist of events over the next two years put the final nail in the coffin for the supremely successful McLaren and Mercedes partnership. The financial crash of 2008 saw Honda sever its commitment to its team with Ross Brawn at the helm. To secure almost 700 jobs, McLaren let go of its exclusive rights to the Mercedes engine (against the better judgment of Ron Dennis) and allowed Ross Brawn to use it for his newly created team 'Brawn GP' for the 2009 season - a seemingly innocuous decision, since the Honda team were not competitive. However, at the end of 2008, the FIA rewrote the technical regulations and the McLaren team appeared to sleep-walk into 2009. Ross Brawn controversially designed a car that was a world beater, using a 'double-decker' diffuser to improve down-force when cornering, The design was deemed to be legal despite strong protestations from McLaren and others. Daimler-Benz started to see Ron Dennis as a liability whilst Max Mosely remained in charge³.

The Brawn GP team went on to win both the driver and constructor championships in its first season and the wheels were set in motion for Daimler-Benz to buy Brawn GP and to take charge of its own destiny – selling its stake in McLaren Racing Ltd over the following two years. From 2010, Mercedes dominated F1 racing.

Ron Dennis made two efforts to buy McLaren with different Chinese investors. The last attempt was reported in 2016 but was rejected by the McLaren board.

³ The impact of the vitriolic relationship between oxford graduate and FIA president Max Mosley and the self-made entrepreneur and team boss Ron Dennis in the 'fall from grace' of McLaren should not be underestimated (indeed Mosely had ludicrously accused Ron of being behind the infamous News of the World story about his private life in 2008 - (Gorman, 2008)). Mosley did everything in his power to put obstacles in the way of the McLaren team – indeed, in his autobiography 'No Angel: The secret life of Bernie Ecclestone' it is stated that Max Mosley had joked that his \$100m fine against McLaren was '\$5m for the offence and \$95m for Ron being a t*@t'.