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Diploma Thesis

Financial Analysis of a Chosen Company

Bc. Kristýna Habartová

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

Financial Analysis of a Chosen Company

Objectives of thesis

The main goal of this thesis is to apply chosen methods of financial analysis in order to assess financial position of selected company and also to provide possible proposals of future development. The sub goal is to gather the theoretical part in order to explain covered terms and methods of financial analysis.

Methodology

Theoretical part provides a review of scientific literature, journals, and articles. Methodology of practical part is dealing with an application of financial analysis indicators, based on the data collected from annual reports of a chosen company. The results coming from calculations are important for the evaluation of the financial situation of the company. Evaluation of the situation of the chosen company and recommendations for future development are performed.

The proposed extent of the thesis

60-80

Keywords

Financial analysis, liquidity, financial ratios, balance sheet, financial statement, profitability, annual report

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Recommended information sources

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The Diploma Thesis Supervisor

Ing. Pavel Srbek, Ph.D.

Supervising department

Department of Economic Theories

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doc. PhDr. Ing. Lucie Severová, Ph.D.

Head of department

Electronic approval: 14. 10. 2019

Ing. Martin Pelikán, Ph.D.

Dean

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Declaration

I declare that I have worked on my diploma thesis titled "Financial Analysis of a Chosen Company" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 06.04.2020 _____

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Financial Analysis of a Chosen Company

Abstract

This diploma thesis deals with the financial analysis of a selected company which operates in the Czech Republic in the field of wholesale. This thesis is focused on the evaluation of the financial situation of the company in a specific time interval using selected methods of financial analysis. This thesis together with the introduction, objectives and methodology, discussions and recommendations and the conclusion is divided into two main parts - the literature review and the practical part. The literature review deals with the explanation of particular financial statements and financial indicators, which are subsequently processed and applied in the practical part. Furthermore, the practical part describes the company profile, analysis of the sectoral data and subsequently processed financial analysis of selected indicators. Three main groups of indicators are used for the analysis - absolute indicators, ratio indicators and differential indicator. For example absolute indicators include horizontal and vertical analysis of financial statements and the group of ratio indicators includes indicators of profitability, liquidity and debt. Based on the processing of basic financial statements (balance sheet, income statement) for a specific time interval these indicators are calculated. This thesis includes interpretation and evaluation of calculated indicators including comparison with sectoral data and subsequently created recommendations for further development of the company.

Keywords: financial analysis, financial statements, liquidity, balance sheet, profitability, financial ratios, horizontal analysis, vertical analysis, debt

Finanční analýza vybraného podniku

Abstrakt

Předkládaná diplomová práce se zabývá finanční analýzou vybraného podniku, který obchoduje v České republice v oblasti velkoobchodu. Práce je zaměřena na vyhodnocení finanční situace firmy v určitém časovém intervalu pomocí vybraných metod finanční analýzy. Práce je spolu s úvodem, cíli a metodologií, diskuzí a doporučeními a závěrem rozdělena na dvě hlavní části – teoretická část a praktická část. Teoretická část se zabývá vysvětlením jednotlivých finančních výkazů a finančních ukazatelů, které jsou následně zpracovány a aplikovány v praktické části. Dále je v praktické části popsán profil společnosti, analyzována odvětvová data a následně zpracovaná finanční analýza vybraných ukazatelů. Pro analýzu jsou použity tři hlavní skupiny ukazatelů – absolutní ukazatele, poměrové ukazatele a rozdílový ukazatel. Mezi absolutní ukazatele patří horizontální a vertikální analýza účetních výkazů. Do skupiny poměrových ukazatelů patří ukazatele rentability, likvidity a zadluženosti. Tyto ukazatele jsou vypočítány na základě zpracování základních finančních výkazů (rozvaha, výkaz zisku a ztráty) za určité časové období. Práce obsahuje interpretaci a zhodnocení vypočtených ukazatelů včetně porovnání s odvětvovými daty a následně vypracována doporučení pro další vývoj společnosti.

Klíčová slova: finanční analýza, finanční výkazy, likvidita, rozvaha, rentabilita, finanční ukazatele, horizontální analýza, vertikální analýza, zadluženost

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List of Abbreviations

CZ-NACE	General/Statistical (Industrial) Classification of Economic Activities within the European Communities
CZSO	Czech Statistical Office
EAT	Earnings after Taxes
EBT	Earnings before Taxes
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
EU	European Union
FMCG	Fast Moving Consumer Goods
L+E	Liabilities and Equity
MIT	Ministry of Industry and Trade
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
ROS	Return on Sales

1 Introduction

For effective management of the company it is necessary to know its present conditions, but also its history and development. Based on a sufficient amount of information about the company's activities in the past, it is possible to create business plans and subsequent strategy for the future development of the company. For this reason, it is necessary to implement a financial analysis of the company on a regular basis because afterwards the company owners can evaluate whether their strategic plan was acceptable or not. The financial indicators mainly read the history of the company and assess the reasons that caused either the positive situation or the negative, such as a loss.

For a qualified financial analysis, it is necessary to have verified input data such as balance sheets, profit/loss statements, cash-flow statements and also notes to the financial statements. Some companies create annual reports, which can be also served as input data for analysis. Furthermore important factor is internal information that influenced the company during the observed period. Based on these facts, it is possible to determine the consequences according to the calculated values of the financial analysis.

Analysed company is a company that operates in the wholesale and retail business. The main reason for choosing this company is the fact that in the observed period of five years the company was two years in a loss. Due to this fact, results of financial indicators will be highly fluctuating and interesting for processing.

2 Objectives and Methodology

2.1 Objectives

The aim of this thesis is to assess the development of the chosen company in the time interval 2015-2019. Consequently evaluate the current financial situation and position of the company. Chosen methods of financial analysis are applied in order to assess financial position and also to provide possible proposals of future development. The sub goal is to gather the theoretical part in order to explain covered terms and methods of financial analysis.

2.2 Methodology

The diploma thesis is divided into two main parts - literature review and practical part. The methodology of literature review is based on available specialized literature, journals and internet sources. Used sources of information are related to accounting, financial statements, financial analysis and their methods. The characteristics of these fields are part of the literature review. Explanations of formulas and indicators relating to financial analysis are performed in a literature review also. Explained indicators are applied in the practical part of this diploma thesis.

At the beginning of the practical part is described the company (chapter 4.1), on which the financial analysis will be performed. Due to the owners and due to the financial situation of a chosen company, the pseudonym *WalnutTrade s.r.o.* is used for processing this diploma thesis. This company was establish in the middle of 2014, due to that fact financial data are not comprehensive for the year 2014. This is the reason why the time interval 2015-2019 was chosen. Financial data for this interval are comprehensive.

Data for this analysis are obtained from the financial statements, which are published on the portal of Ministry of Justice (*www.justice.cz)*. Basic financial statements are in Appendices of this thesis (chapter 8) – balance sheets in a simply format 2015-2019 in Annex 1 and Annex 2, income statements in a simply format 2015-2019 in Annex 3. Sectoral data, which are used for comparison with calculated values later on, are obtained

from the portal of Czech Statistical Office (*www.czso.cz*) and from the portal of Ministry of Industry and Trade (*www.mpo.cz*) according to the classification CZ-NACE section G, division 46 – Wholesale trade, except of motor vehicles and motorcycles. This section is selected according to the business field of the company WalnutTrade. Sectoral data are introduced in chapter 4.2.

Furthermore, financial indicators are calculated according to the list of formulas. All calculations, figures and processing of data mentioned above are processed in Microsoft Excel. Final comparison and evaluation of calculated values, sectoral values and recommended values from literature are performed in chapter 5. This chapter also includes recommendations for further development of the analysed business entity.

3 Literature Review

The literature review is divided into three parts. The first part deals with general accounting information, which is mainly focused on Czech accounting standards. The second part deals with the principles of financial analysis (users, sources and approaches). The third part contains methods and indicators of financial analysis. Based on these financial indicators, the practical part is elaborated.

3.1 Accounting Framework

Beginning of accounting is related mainly to the development of handicraft and later on to the industrial production. There was a need to organize information on management, commodities and liabilities into systematic units. Firstly, it was used in a very simplified form. Traders and craftsmen needed to know if their business was profitable or not. Secondly, this simplified version was not enough and accounting has evolved and improved to its present form (ŠTOHL, 2011; HRADECKÝ et al, 2006).

Accounting is a written recording of information on the economic phenomena of an enterprise in monetary units. Accounting has to provide information of the frame and movement of assets and liabilities. It also provides cost and revenue information. It is very important to have an overview of the amount of funds invested in business and subsequently of the achieved results of business activities. From this we will find out whether our business is profitable or not. For example, accounting has the following functions: it provides information about the company's economy, evidence in litigation, information for decision-making, information for tax purposes and accounting data allows control the state of property and its management (ŠTOHL, 2011).

Individual types of accounting are characterized by their methods. Their results depending on whom they are intended for. The company has to inform several interest groups whose requirements are often different – owners, shareholders, public. It is not possible to meet wishes of interested parties by one system of accounting. For this cases structure of accounting is as follows:

- Financial Accounting;
- Managerial Accounting;
- Tax Accounting.

These subdivisions serve different objectives and therefore have different contents.

3.1.1 Financial Accounting

This term based on financial relationships (financially settled). Financial accounting provides compact set of information about company's assets and liabilities its costs and revenues plus economic results - profit or loss. This information captures the relationships of the company as a whole to the external environment - suppliers, customers, banks, financial authorities, etc. These subjects are mainly interested in the overall financial position of the company and its long-term efficiency. The company's financial accounting provides balance sheet, income statement and cash flow statement. The main objective of these statements is to present faithfully and honestly assets, liabilities and to evaluate the overall financial performance of the company. Financial accounting has to follow number of rules and procedures such as those set out in the European Union Directives, the Accounting Act or the Czech Accounting Standards. In this case, the only method of valuation and presentation of accounting transactions in a standardized accounting period which is one year (PETŘÍK, 2009; ŠTOHL, 2011).

3.1.2 Managerial Accounting

Managerial accounting collects and interprets information needed to formulate business strategies, plan and control business activities to optimize use of sources of information. Contrary to financial accounting which deals with the past of the company, managerial accounting is focused on the future and a large part deals with forecasts and analysis of future development. This are the process and procedures that create documents and reports which help to management in the decision making process of running the company. On the other hand, managerial accounting can be adapted to the needs of the company and does not need to be optimize to the law. The exact form of managerial accounting depends on the company in which it is used - according to the company business, its size,

management style, culture, etc. Managerial accounting is divided into three categories – costing, budgeting and cost accounting (ŠTOHL, 2011; HRADECKÝ et al, 2006).

3.1.3 Tax Accounting

Tax accounting is primarily used to fulfil the conditions set by the state for tax liability. The aim is to correctly calculate the income tax or other tax assets and liabilities. Tax accounting is particularly important in the US as it is completely separate from financial accounting. In the Czech Republic and also in Europe, both systems are connected and tax laws also affect the way of accounting in financial accounting (PETŘÍK, 2009).

3.2 Principles of Financial Analysis

Financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their performance and suitability. Financial analysis is used to analyse whether an organization is stable, solvent, liquid or profitable enough to warrant a monetary investment. Generally, it is an evaluation of the financial condition of the company as a whole. This helps to assess whether a company is profitable, has a good capital structure, uses its assets efficiently and if it is able to pay its liabilities, etc. Financial analysis falls primarily in the area of financial management but for processing, mainly accounting data are used. For processing financial analysis there is a need to be focus on the income statement, balance sheet and cash flow statement (KNÁPKOVÁ et al, 2013; KENTON, 2019; ŠTOHL, 2013).

Gitman (2012) highlights the connection between accounting and finance as follows: *'The firm's finance and accounting activities are closely related and generally overlap. In small firms accountants often carry out the finance function, and in large firms financial analysts often help compile accounting information. However, there are two basic differences between finance and* accounting*; one is related to the emphasis on cash flows and the other to decision making.'*

The analysis involves the identification of weaknesses in the financial health of the company which could then lead to problems and strengths which are related to possible future measurement of the company's assets. The intrinsic importance of financial analysis is found not only inside the company, but is also visible from the outside. The internal financial analyses show employees how to assess the company's liquidity or point out the possibilities of focusing production. Another example might be that financial analyses can come from outside and determine the investment or credit potential of an enterprise. Regardless of the origin of the analyses, their tools are always or almost always the same (RŮČKOVÁ, 2011).

The main reasons of the financial analysis are as follows:

- Analyse current positon and development of the company;
- Evaluate the impact of internal and external environment;
- Tool for comparing results of analysis and for forecasting;
- Comparison of actual achieved values of indicators with expected values;
- Information useful for management of the company for decision making process (PEŠKOVÁ et al, 2012).

Fridson and Alvarez (2002) determine the goal as follows: *'The primary goal in financial reporting is the dissemination of financial statements that accurately measure the profitability and financial condition of a company.'*

3.2.1 Users

Information concerning the financial situation of the company is not only for the director and management of the company. This information is used by multiple users which can be divided as internal and external users.

Internal users

Business managers, who use financial analysis for forecasting their business and in consequence, make decisions on financial policy management. Managers from the inside of the company have all information available from financial and managerial accounting (VOCHOZKA, 2011).

- **Employees**

  The most important thing for employees is the certainty of stable employment, which means the company's prosperity and financial stability of the company. On the other hand, employees have also interest in possibilities of wages and social benefits (RŮČKOVÁ, 2011).

- **Managers**

  Managers make decisions according to common available documents and internal documents. They use the information for long-term plans and operational management. The processing of this information is used to evaluate the feedback of management decisions and their consequences. Excellent knowledge of the financial situation of the company helps managers in decision making and can also learn from it how to use financial sources of information in the best possible way. Assessment of the current financial position of the company is important in other areas also - profit distribution, business valuation in order to create a business plan.

External users

Business partners, creditors, investors, suppliers, etc. For these external users, financial analysis provides information on the reliability of the business, its stability and prospects for cooperation. It is based on common available data - financial and accounting information (MULAČOVÁ et al, 2013).

- **Competitors**

  As some part of yearly financial accounting documents are public, competitors can read useful information which they can use for comparing with their results. The main reason is to be better and ahead of the competition. As it was mentioned above, some financial documents are public and it is on own management if they will use public information for competitors analysis or not. The main subjects for competitor analysis are about liquidity, sales, profitability etc.

- **Investors**

  Investors can verify by financial analysis that their funds that have been invested in the company are appropriately capitalized and used properly. From the investors' point of view, the main goal is to maximize the market value of the company's

equity. For this reason, they are primarily interested in market value, profitability and cash flow to long-term liabilities (RŮČKOVÁ, 2011).

- **Business partners**

  Business partners mainly follow up indebtedness and liquidity indicators of the company. They focus on the ability of a company to pay for liabilities from its business relations. For long-term suppliers, as well as for prospects customers, the stability of the company plays very important role. Based on the knowledge of the financial situation of the company, suppliers choose the most suitable customers.

- **Bank and other creditors**

  Information from financial analysis provides banks or other creditors with an easier decision making process whether to grant a loan, to what amount and under what conditions.

- **Government and institution**

  The state most often investigate the control of reported taxes and then uses this obtained data from enterprises for statistical surveys and also monitors the financial stability and development of enterprises. It focuses primarily on the companies to public procurement contracts were entrusted (VOCHOZKA, 2011).

3.2.2 Sources

Data for financial analysis are drawn from various financial and non-financial sources. Among the financial sources belong balance sheet, income statement and cash-flow statement. Notes to the financial statement and annual report of the company play also an important role in financial information. Successful processing of financial analysis depends on the use of input information and its quality and complexity (ŠTOHL, 2013; RŮČKOVÁ, 2015).

'Interpretation of financial information essentially amounts to analysing financial statements and other financial data about a company in order to assess and project its performance and value.' pointed out Helfert (2001).

Balance Sheet

Views of accounting are characterized by two aspects:

- The specific type of assets which the company manages;
- Sources from which the property was acquired.

Assets are all property owned by the company and on the other side liabilities and equity represents how is the assets funded. Between these two sides the basic relationship is as follows (balance equality):

Formula 1: Balance Sheet Equality

$$Total\ Assets = Total\ Liabilities\ and\ Equity$$

The balance sheet is a company's financial statement of its assets and sources of information, which is carried out in writing form and at a specific point of time. There is a certain chart of accounts and accounting policies that based on the names of the accounting items and the related values (ŠTOHL, 2011; VOCHOZKA, 2011).

Table 1: Basic Structure of Balance Sheet

ASSETS	LIABILITIES AND EQUITY
FIXED ASSETS	**EQUITY**
➢ long-term intangible assets	➢ registered capital
➢ long-term tangible assets	➢ capital and reserve funds
➢ long-term financial assets	➢ profit/loss from previous year
	➢ profit/loss from the current year
CURRENT ASSETS	**LIABILITIES**
➢ inventories	➢ reserves
➢ long/short-term receivables	➢ long/short-term payables
➢ short-term financial assets	➢ bank loans
ACCRUALS	**ACCRUALS**

Source: KLÍNSKÝ et al, 2012

Income Statement

Income statement is a written summary of income, expenses and profit or loss for the specific period of time (most often per annum). It captures the movement of revenues and costs. Information obtained from the income statement is an important element for

the evaluation of corporate profitability. Income statement could take two forms, horizontal and vertical. In vertical form revenues and expenses are connected to each other by area of activity, while in horizontal form revenues and expenses are allocated separately (RŮČKOVÁ, 2015). The basic entries of the income statement are:

Revenue – money brought into a company by its business activities. It could be known as sales. It is calculated before any costs or expenses are deducted. Usually revenue is shown at the top item in an income statement. On the other hand, financial income includes interest, income from securities etc.

Expense – the cost of operations that a company incurred to generate revenue. Operating expenses depend on the amount of used material, services, personnel costs, taxes and fees, or other operating expenses such as depreciation or provisions (KENTON, 2019).

Štohl (2011) highlights the importance of revenue and expense as follows: *'In any kind of business, it is necessary to have an overview of the amount of invested capital into the business unit and the achieved results of business activities. In that case the entrepreneur knows whether its business is profitable or not.'*

Revenues and expenses are divided into subgroups as follows:

- Operating Activity;
- Financial Activity;
- Extraordinary Activity.

The operating result is considered to be the most important because it reflects the company's ability to generate profit from its core business (RŮČKOVÁ, 2011).

Cash-flow Statement

The cash flow statement complements the balance sheet and income statement by another dimension, cash sources. In the income statement company might report profit, but it can be insolvent. The cash flow statement provides information during the accounting period. Cash flows are inflow (receipts) and outflow (expenditures) of payment instruments and cash equivalents. Payment instruments include cash on hand, valuables, cash on the account, including any current account deficit and cash in transit. Cash equivalents are for example short-term liquid assets (ŠTOHL, 2013; RŮČKOVÁ 2015).

The cash flow statement is divided into three basic parts:

Operating activities - the most important part of this statement. Operating activity part allows to as certain to what extent the profit for ordinary activities corresponds to the money actually earned. In this case, it is about the result of operating activities, but also about changes in receivables from customers, changes in liabilities at suppliers, changes in inventory, etc.

Investing activities - this area shows not only the expense relating to the acquisition of fixed assets and the structure of such expenditure, but also the extent of revenue from the sale of fixed assets.

Financial activities - external financing is assessed in this part of the cash flow statement. In particular, movements in long-term capital such as pay for a debt and face up of other loans, cash flows related to movements in equity - paying dividends, increasing equity, etc. (RŮČKOVÁ, 2015).

3.2.3 Approaches

The development of statistical, mathematical and economic sciences provided the possibility for a number of methods to evaluate the financial health of a company in financial analysis. The following aspects have to be taken into account when selecting the methods of financial analysis:

- **Expediency -** the analysis must match the predefined goal. It is important to determine in advance what purpose the resulting analysis should serve. For each company it is important to consider a different set of indicators and methods. Interpretation must always be carried out sensitively and with emphasis on possible risks.
- **Expensiveness -** the analysis needs a lot of time and qualified execution, requiring additional costs. The return on these costs should be reasonable. The depth and scope of the analysis must be consistent with the expected assessment of the decision-making risks.
- **Reliability -** all available data have to be processed by high quality. The more reliable input information, the more reliable results of the analysis should be.

Approach for evaluation of according above mentioned aspects which are connected to economic processes through financial analysis are divided into two approaches –

fundamental analysis and technical analysis. **Fundamental analysis (qualitative)** based on knowledge of economic and non-economic phenomena. It relies on subjective estimates and on knowledge and experience of experts whose are not using mathematical methods. This analysis is based on a large amount of information and draws conclusions without algorithmic procedures. The output of this qualitative analysis is the identification or designation of the environment in which the company operates. On the other hand, **technical analysis (quantitative)** processes economic data that it uses for mathematical and statistical methods. Subsequently, the results are assessed from an economic point of view. Both of these approaches are close to each other because knowledge of fundamental economic processes is needed to evaluate the results of technical analysis. It is essential that the two approaches are combined to each other (SEDLÁČEK, 2011).

3.3 Methods and Indicators of Financial Analysis

According to chapter 3.2.3 it is clear that financial analysis falls into the category of technical analysis (quantitative). Financial analysis uses two main groups of methods which are then divided into other categories. These are elementary methods and higher methods. The use of **higher methods** depends on a deeper knowledge of mathematical statistics and a deeper theoretical and practical knowledge of economics. To apply these higher methods it is necessary to use quality software equipment. It is practically not commonly used. These methods are dealt with specialized companies and cannot be described in this thesis. The **elementary methods** are divided as follows:

- Absolute Indicators;
- Ratio Indicators;
- Differential Indicators;
- Summary Indicators.

As mentioned above in the chapter 3.2.2, financial analysis works with facts that are included in the financial statements. For financial analysis, the most important role is the time aspect. It is important to distinguish between absolute and flow variables. Absolute variables refer to a specific point in time (balance sheet data), flow variables refer to a specific time interval (income statement data). Above mentioned subcategories

of elementary methods are described more in details in the following subchapters (RŮČKOVÁ, 2015).

3.3.1 Absolute Indicators

Financial statements are the most important source of information for the analysis of absolute indicators. Annual statements from the past must be compared together, for example last 5 years. The indicators must be understood in context. From the analysis of past periods it is possible somehow to estimate the future of the company, forecasts. Absolute indicators are divided into two group horizontal analysis and vertical analysis. (GRÜNWALD et al, 2009).

Horizontal Analysis

This analysis is based on the method of comparing data, which is applied by measuring all information in rows, horizontally. Important information for comparison can be found in the balance sheet and income statement. It focuses on changes in individual items of these statements over time. Changes are monitored in absolute values as well as in percentage values (SEDLÁČEK, 2011).

Formula 2: Horizontal Analysis - absolute change

$$Absolute\ change = current\ period - previous\ period$$

Formula 3: Horizontal Analysis - change in %

$$Change\ in\ \% = \frac{absolute\ change}{previous\ period} \times 100\ [\%]$$

Vertical Analysis

The principle of vertical analysis is to compare individual items with predetermined values. When analysing the balance sheet, the individual items are compared with the total amount of selected category. Only parts of the balance sheet can be analysed, for example the item liabilities in relation to total liabilities. Results are presented in percentage. Through vertical analysis it is possible to observe changes in the structure of individual items of a specific financial statement in time (KISLINGEROVÁ et al, 2008).

Formula 4: Vertical Analysis - in %

$$Share\ of\ individual\ item = \frac{balace\ sheet\ items}{total\ assets\ or\ total\ liabilities\ and\ equity} \times 100\ [\%]$$

3.3.2 Ratio Indicators

The main objective is to determine the ratios, which are obtained by simple ratio of absolute indicators. Using ratios it can compare the analysed company with other companies or with the industry average. The economic environment of the enterprise has to be taken into account. These indicators are the most popular and expanded method of financial analysis, because the picture of the company's basic financial characteristics can be determined quickly and inexpensively (SYNEK, 2011; SEDLÁČEK, 2011).

Profitability Ratios

Profitability could be considered as a measure of an enterprise's ability to generate new sources and generate profit by using invested capital. Nowadays, profitability is important mainly because of it is reliable part of the decision-making process of the company. These indicators are interesting for shareholders and for potential investors. Most often, profitability is expressed as the ratio of earnings to the amount of invested capital (VOCHOZKA, 2011).

Earnings are divided into the following categories.

Earnings after Taxes (EAT)

Earnings of the company after deduction of depreciation, taxes and interest. According to the standards of the Czech Republic EAT is equal to net income. This is the profit that is divided between the owners (dividends) and the company (investments). It can be determined from the income statement for the corresponding period or even from the balance sheet at the end of the accounting period.

Earnings before Taxes (EBT)

It is included in the income statement. Its construction across countries is different. Earnings before Taxes can be used to compare businesses in different countries or with a significantly different tax rate.

Earnings before Interest and Taxes (EBIT)

It considers the efficiency of the company regardless of the way of financing (interest paid to creditors) and taxation. It evaluates the performance of the company at the operating level, but on the other hand it is not able to qualify the management of assets.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

It is an indicator of gross profit minus the company's overheads. In another words, it shows raw operating earnings of a company. EBITDA is used as a measure of a company's valuation, including debt.

Profitability ratios are divided as follows.

- ***Return on Assets (ROA)***

  Formula 5: Return on Assets

  $$ROA = \frac{EBIT}{total\ assets} \times 100\ [\%]$$

  The indicator evaluates the return on total invested capital and measures overall efficiency. According to Růčková (2015) it is an indicator of evaluation of previous management of the company and their performance. It expresses the ratio of profit to total assets. Financial sources of information (equity or liability, short-term or long-term) of the total invested assets are not important in this equation. Different forms of profit can be put into the numerator. If EBIT is used, it is suitable for comparing companies with different taxation. If EAT is used, it is a classical interpretation of profitability.

- ***Return on Equity (ROE)***

  Formula 6: Return on Equity

  $$ROE = \frac{EAT}{equity} \times 100\ [\%]$$

  If the indicator is low (lower than the return on securities guaranteed by the state), the business goes to bankruptcy. This indicator is particularly important for investors, who determine whether their investment pays off. On the other hand, if the return is sufficient when compared to the incurred risk.

Sedláček (2011) points out that investors are monitoring, if the ROE indicator is higher than the interest they might receive in another form of investment.

- ***Return on Sales (ROS)***

  Abbreviation ROS is a term that indicates how many Czech crowns of net profit are per one Czech crown of sales. On the other hand ratio is used to evaluate a company's operational efficiency. It is useful for comparing companies in the same line of business and companies with similar size (HAYES, 2019). According to Vochozka (2011), this indicator could be interpreted in two forms. In the first case, if EBIT is used as a numerator, the indicator is called operating profit margin. This means what part of the profit before interest and taxes is included in one Czech crown of sales. An increasing ROS indicates that a company uses its sources more efficiently.

  Formula 7: Return on Sales - operating profit margin

$$ROS\ (operating\ profit\ margin) = \frac{EBIT}{revenues} \times 100\ [\%]$$

  In the second case, EAT is substituted as a numerator. The result shows what proportion of net profit is included in one Czech crown of sales. This indicator is most often called net profit margin.

  Formula 8: Return on Sales - net profit margin

$$ROS\ (net\ profit\ margin) = \frac{EAT}{revenues} \times 100\ [\%]$$

- ***Return on Capital Employed (ROCE)***

  Formula 9: Return on Capital Employed

$$ROCE = \frac{EBIT}{longterm\ liabilities + equity} \times 100\ [\%]$$

  Capital Employed consists of long-term liabilities and equity. This value is added as denominator. EBIT is most often applied as numerator. This financial ratio determines a company's profitability and the efficiency the capital are applied. The company's ability to evaluate invested sources is more precisely express with ROCE indicator than ROA indicator (KUBÍČKOVÁ et al, 2015).

Růčková (2015) says: *'It is an indicator that expresses the rate of appreciation of all the company's assets financed by own equity and long-term liabilities. It comprehensively expresses the efficiency of the business economy.'*

Efficiency Ratios

The activity or efficiency indicator provides information on whether company uses its assets as efficiently as possible. It also provides information on whether the company is not losing potential sales and, on the other hand, whether the company is not operating with unnecessary high costs. Financial analysis provides various indicators for individual assets.

- ***Total Assets Turnover***

  Formula 10: Total Assets Turnover

  $$Total\ assets\ turnover = \frac{sales}{total\ assets}\ [times]$$

  The asset turnover indicator shows how many times the assets turn over in one year. This indicator should be at least one. If the value is less than one, management of the company should reduce the number of assets or increase sales. The more the asset turnover ratio is greater than one, the higher efficiency of assets is used (KISLINGEROVÁ, 2010).

- ***Fixed Assets Turnover***

  Formula 11: Fixed Assets Turnover

  $$Fixed\ assets\ turnover = \frac{sales}{fixed\ assets}\ [times]$$

  It is an indicator that measures how effectively a company uses machinery, equipment, buildings and other fixed assets. This indicator is important when planning a company's investment. The recommended value of the indicator should be around 5.1. Lower value may identify inefficient use of fixed assets (KNÁPKOVÁ et al, 2013).

- ***Inventory Turnover***

  This indicator is divided into two as follows:

  Formula 12: Inventory Turnover Ratio

$$Inventory\ turnover\ ratio = \frac{sales}{inventory}\ [times]$$

  Formula 13: Inventory Turnover Period

$$Inventory\ turnover\ in\ days = \frac{inventory}{sales} \times 365\ [days]$$

  Inventory turnover ratio shows how many times inventory items were sold and then re-stored. On the other hand, inventory turnover period refers to the number of days the inventory is in the enterprise until it is sold or consumed. In general, the higher inventory turnover ratio and the shorter inventory turnover period, causes the better situation (VOCHOZKA, 2011).

- ***Receivables Turnover***

  This indicator is divided into two as follows:

  Formula 14: Receivables Turnover Ratio

$$Receivables\ turnover\ ratio = \frac{sales}{receivables}\ [times]$$

  Formula 15: Receivables Turnover Period

$$Receivables\ turnover\ in\ days = \frac{receivables}{sales} \times 365\ [days]$$

  The receivables turnover ratio measures the efficiency how company is able to manage and collect its accounts receivable. It indicates how quickly receivables are transformed into financial sources. However, the receivables turnover in days indicates the average number of days that a customer invoice is outstanding before it is collected. It is also called *'Average Collection Period'*. The indicator shows how the company observe business and credit policy (BRAGG, 2019).

- ***Payables Turnover***

  This indicator is divided into two as follows:

  Formula 16: Payables Turnover Ratio

$$Payables\ turnover\ ratio = \frac{sales}{payables}\ [times]$$

Formula 17: Payables Turnover Period

$$Payables\ turnover\ in\ days = \frac{payables}{sales} \times 365\ [days]$$

The payable turnover ratio shows how many times a company pays off its accounts payable during a period (generally one year). This activity ratio provides a measure of how effectively a business is managing its payables. The second indicator, the payables turnover in days, indicates the time between the creation of the payable and its payment. In other words, the indicator reflects the number of days a company uses free trade credit from its suppliers (SEDLÁČEK, 2011; RŮČKOVÁ, 2015).

Liquidity Ratios

Liquid is generally the speed at which an enterprise can convert an asset into cash. The faster an enterprise is able to convert a given asset into money, the more liquid it is. In financial analysis, liquidity is taken more as an ability to pay all its liabilities at the moment. Due to the liquidity indicator, the company will find out whether it is able to pay its debts. Liquidity ratios are divided into three categories: current ratio, quick ratio and cash ratio.

- ***Current Ratio***

Formula 18: Current Ratio

$$Current\ ratio = \frac{current\ assets}{short-term\ liabilities} \quad [times]$$

The current liquidity ratio is the ratio between all current assets and liabilities with maturity up to one year. This indicator may not always be absolutely precise, but it is very popular because of its simplicity. If the analysed company is in the range of 1.5 - 2.5 it means that it is in an acceptable level. In general, the higher value of an indicator, more likely a firm will be solvent (SYNEK, 2011).

- ***Quick Ratio***

Formula 19: Quick Ratio

$$Quick\ ratio = \frac{current\ assets - inventory}{short-term\ liabilities} \quad [times]$$

It captures the ability of an enterprise to pay for its liabilities assuming that the enterprise would first have to sell the less liquid assets - inventories. Due to the sale of inventories, it can consequently pay its debts. Recommended value has to be higher than 1.

- ***Cash Ratio***

Formula 20: Cash Ratio

$$Cash\ ratio = \frac{financial\ assets}{total\ short-term\ liabilities}\ [times]$$

It indicates that liabilities can be paid only from the most liquid assets - financial assets. The most liquid items are cash and cash equivalents. Recommended value is approximately 0.2 (KALOUDA, 2011).

Leverage Ratios

Nowadays it is unimaginably that the companies are able to finance its own activities only from its own equity. It is not because businesses cannot, but it is economically inconvenient. Operating with liabilities is cheaper and generates lower costs. But companies cannot depend only on liabilities. In general, indebtedness is perceived negatively. Debt is risky, but at the same time allows the company to increase the profitability. Leverage indicators indicate the ratio between equity and liabilities (SEDLÁČEK, 2011).

- ***Debt Ratio***

Formula 21: Debt Ratio

$$Debt\ ratio = \frac{total\ liabilities}{total\ assets} \times 100\ [\%]$$

The indicator expresses the degree of creditor risk as it is given by the ratio of liabilities to the total value of assets. The lower value of the indicator, the lower risk for creditors not to get their funds back. In general, the overall debt should be between 30% and 60%.

- ***Equity Ratio***

Formula 22: Equity Ratio

$$Equity\ ratio = \frac{equity}{total\ assets} \times 100\ [\%]$$

Additional indicator to debt ratio. The result and development of the equity ratio of fixed assets greater than 1 may mean that the enterprise uses equity to cover current assets. This could mean that the company prefers financial stability over revenue (KNÁPKOVÁ et al, 2013).

- ***Interest Coverage***

Formula 23: Interest Coverage

$$Interest\ coverage = \frac{EBIT}{interest\ expense} \times 100\ [\%]$$

From the interest coverage indicator, the company knows how many times the profit can cover interest payments. The recommended value is considered to be three times the profit (or more) over interest expense. Interest coverage shows how large the security pillow is for the creditors. Inability to pay interest payments on profits may be a symbol of forthcoming bankruptcy (KISLINGEROVÁ, 2010).

3.3.3 Differential Indicators

Differential indicators might be indicated as funds of financial sources. The fund in financial analysis is the sum of certain assets and liabilities, and the difference between certain assets and certain liabilities.

- ***Net Working Capital***

Formula 24: Net Working Capital

$$Net\ working\ capital = current\ assets - shortterm\ liabilities$$

Net working capital is the portion of current assets that is financed by long-term capital. Its size is also directly proportional to the ability to pay its obligations. If the value of net working capital is negative, it is called uncovered debt (HOLEČKOVÁ, 2008).

3.3.4 Summary Indicators

Contrary to individual indicators, the summary indicators try to analyse the overall financial situation of the business as a whole and not only its part. A higher number of indicators lead to a more detailed analysis of the company, but it brings a difficult orientation in the analysis. Afterwards difficulties with interpretation and with the final evaluation of the company. Summary indicators can be divided into hierarchically arranged indicators (pyramid system) and selection of indicators by function (SEDLÁČEK, 2011).

Růčková (2015) says: *'Purpose of summary indicators is to express the overall characteristics of the financial-economic situation and the performance of a business by using a single number. However, their ability of prediction is lower. They are only suitable for quick and global comparison of many companies and can be applied as a reference for further evaluation.'*

According to Růčková (2015) summary indicators are divided into two groups Hierarchically Arranged Indicators and Selection of Indicators by Function. Both of these groups have its subcategories which are described below.

- **Hierarchically Arranged Indicators**

  Typical indicator is pyramid systems which decompose the indicator (which is on the top of the pyramid) in detail. They are most often displayed graphically, because of the better orientation of decomposition. From the graph is easy to see the dynamics of changes even if a single item is changed. There are two basic approaches of decomposition - additive and multiplicative. Example of pyramid system is Du Pont Analysis.

- **Selection of Indicators by Function**

  These indicators determine and also predict the financial situation of the company by a one-digit characteristic. These are bankruptcy and solvency models. Bankruptcy model evaluates that a company does not bankrupt for a period of time. On the other hand, solvency models express the solvency of a company by numerical evaluation. This value is compared with other companies in the same field.

Examples of these models are as follows:

Bankruptcy Models	***Solvency Models***
- Altman Z-Score	- Tamarin Model
- Taffler Model	- Kralickuv Quicktest
- IN-Index	- Modified Quicktest

Summary indicators comprehensively summarise the financial situation of the company, but their calculations are very extensive and are not a part of this thesis.

4 Practical Part

Indicators of financial analysis, which are described in the literature review, are calculated in the practical part. The practical part is divided into three main parts. The first part (chapter 4.1) characterises the analysed company, including affairs that occurred in WalnutTrade during the observed period. The sector in which the company operates is briefly described in chapter 4.2. The third main part (chapters 4.3, 4.4 and 4.5) contains results of financial indicators, which were characterised in the theoretical part. An overall evaluation of the results and subsequent recommendations for the future development of the company are in chapters 5 and 6.

4.1 Introduction of the Chosen Company

Company WalnutTrade comes from the Czech Republic and operates 10 years on the market with the business field of import, export, packing and selling of healthy food products in bio quality[1]. The main import and export commodity is wolf berry and its products. Further selling products are dried fruits, variety kind of nuts, instant porridge, oil etc. This products and raw material are imported from EU countries, China, Brazil, Turkey, India and Sri Lanka. On the other hand, company sells its products on the domestic market and also on the foreign markets where the main customers come from EU countries (Germany, Poland, Hungary and Slovakia).

The first 5 years of the company was operated by one owner as natural person. Due to the increasing trend of market share and increasing turnover, the establishment of the limited company was needed consequently with needs to find out the second co-owner for better management. In the middle of 2014 the limited company WalnutTrade was established and both owners have the same share of registered capital (10 000 CZK per each). Registered capital was increased in the following year 2015 up to 3 020 000 CZK as the same way as at the establishment of the company each of the owner by the same share (1 500 000 CZK per each, in total 1 510 000 CZK per each). During the observed period,

[1] Certification according to CZ-BIO-002 and “biozebra”

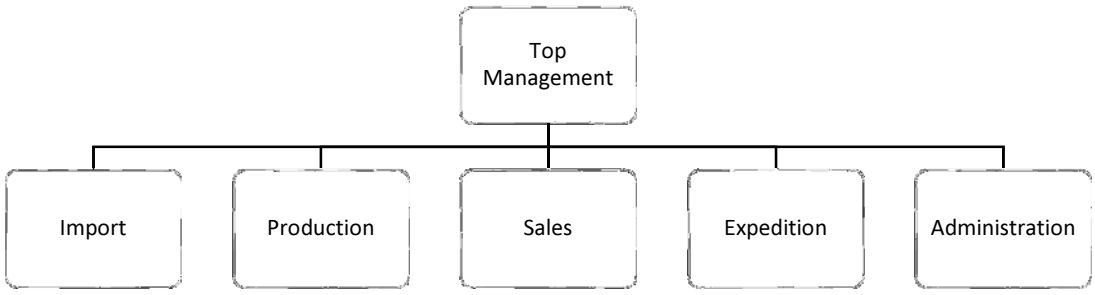
the company had problems with financial situation, which caused a loss. Affairs which affected these problems are described in chapter 4.1.2 below. In the first quarter of 2019, the company has grown by one co-owner. If the new co-owner has made any changes in the company, these changes will be reflected during the following years. Registered capital remained the same and shares were divided among co-owners as follows:

- co-owner A – 33% (996 600 CZK);
- co-owner B – 33% (996 600 CZK);
- new co-owner C – 34% (1 026 800 CZK).

4.1.1 Organizational Structure

Organizational structure of the company was formed subsequently according to the growth of the company up to the form by now - linear structure. The objective of the structure is to support the effectivity of work among each field which is necessary for the overall success. The company belongs to the category of small enterprises and has currently 20 permanent employees, remaining capacity is supplemented by temporary workers as needed. The organizational structure of the company is as follows:

Figure 1: Organizational Structure



Source: Own processing, 2019

- **Top Management**

  Management of the company consist of three co-owners. As already mentioned above, the third co-owner joined the company at the beginning of 2019 and during the process of this thesis his role in the company was not precisely determined. Co-owner A controls daily operations of the company, employees and production. Co-owner B deals with signing contracts with suppliers and customers, commerce,

economic and accounting aspects of the company's operations, budgets and calculations. All owners are involved in strategic decisions such as investment, purchasing new technologies and long-term strategic plan for further development.

- **Import**

  It is necessary to have a department dealing with imports problems because 90% of production and raw materials are imported from abroad. The company imports raw materials and goods mainly from countries outside the EU which means that this department monitors the flow of goods and its quality. It disposes with transport, tariff, complaints and other related affairs.

- **Production**

  Production consists of processing the supplied raw material - packaging or drying. The company imports raw materials in large volumes of kilograms or tons. It is necessary to process such a large quantity into commercially available packages (50g, 100g, 500g and 1kg depending on the type of goods). Some imported raw materials need to be dried before packaging and sale to produce the final product.

- **Sales**

  The sales department deals with three types of sales - wholesale, retail and e-shop. Wholesale are intended for manufacturing companies (domestic and foreign) who process the raw material further and sell it themselves according to their needs. Retail is provided by sales representatives who meet with customers and offer them new products and services, receive orders and complaints. They are looking for new customers and they are in direct contact with the customer from whom they receive feedback. The third type of sale is e-shop, which is intended for final customer who orders goods through the Internet. Orders are spontaneous, specific and require an individual approach. For this reason, this form of sale is problematic.

- **Expedition**

  The expedition deals with processing or individual orders. On the basis of the given order (retail or e-shop) packs and sends the ordered goods.

- **Administration**

  This department deals with all administrative affairs of the company. This means issuing invoices, accounting, payroll administration, communication with authorities, financial statements for financial and customs authorities, checking receivables and payables, etc.

4.1.2 Affairs which Affected the Company in the Observed Period

The second half of 2014 was a start for the company as a limited company. The financial results were positive and growth was expected for 2015. Profit for year 2015 grew dramatically up to 1 484 00 CZK compared to 119 00 CZK in 2014. This growth caused huge vision of the owners to expand. As a result of the vision, the company took a loan for purchase of a new production hall to increase production and recruit new employees. This purchase of the production hall caused investments into packaging and drying machines because until then the production was mostly hand-made. These investments were shown in 2016, when the company first come into a loss due to high costs. In 2016 the number of employees increased to 20, which is a double increase compared to 2015. This growth increased personal expenses. The new packages machines were not used efficiently because only one-shift operation was used. Another major strategic mistake was huge focus on the e-shop market segment. As mentioned above, the procedure of processing orders from e-shop needs an individual approach. Orders are spontaneous, low revenue comparing it with labour costs (order processing, picking, packing, shipping via carrier etc.). However the company expanded very quickly, it did not take into account the control of procedure settings and procedures that ensure the overall operations of the company from orders to shipping. After a two-year decline, when the company was in red numbers, it managed to get into black numbers again.

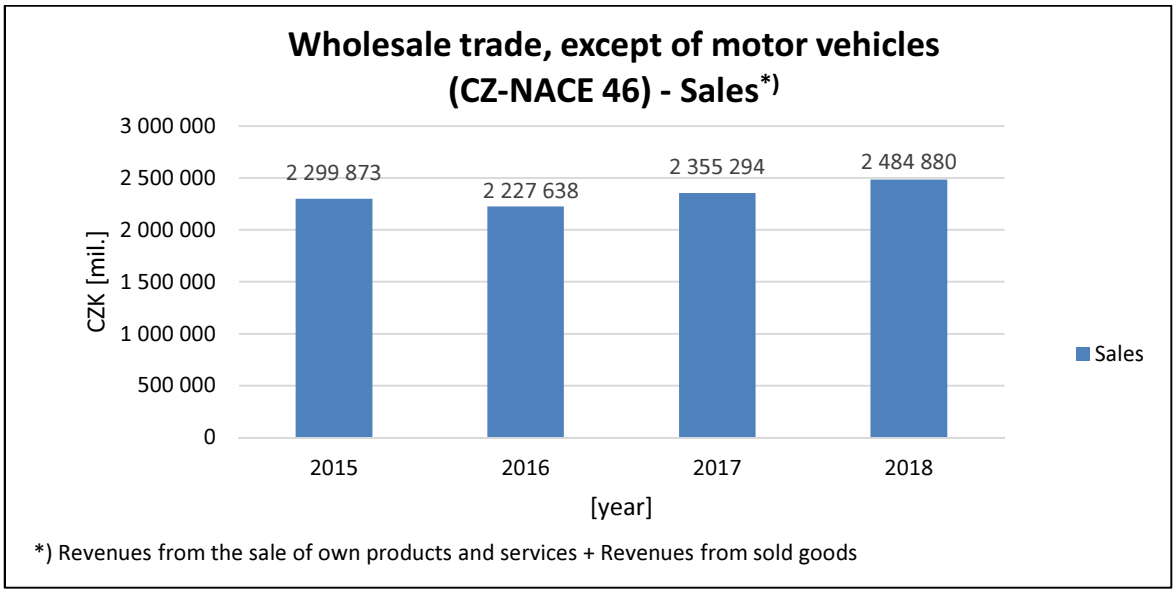
WalnutTrade was profitable again in 2018 and 2019 due to the following measures. In 2018 the production hall was sold and production was moved to other site. WalnutTrade did not buy this site, but only rented them. Production moved to an area with lower costs (rental and lower salaries, especially for temporary workers). Two-shift operation was also introduced and production machines increased their efficiency. The business remained

the same, only the company increased its focus on wholesale customers compared to individual orders from the e-shop.

However, in 2019 co-owners A and B took a loan from the company for their private investments. Each of the above mentioned co-owners took a loan of 5 million of CZK, in total 10 million of CZK. This fact is reflected in almost all results of the 2019 financial indicators. The relevant commentary on this fact is given below for the concerned indicators. Based on the description of affairs that occurred in the company during the observed period 2015-2019, it is evident that the company has recovered and it is profitable again. The above affairs are reflected in all results of financial indicators of the observed period. A final summary and analysis of these affairs are in chapters 5.3 and 6.

4.2 Introduction of the Sectoral Data (CZ-NACE 46)

Figure 2: Wholesale trade, except of motor vehicles (CZ-NACE 46) - Sales



Source: Own processing based on CZSO data, 2019

According to the development of revenues which shows figure 2, the trend is positive. This is connected with the economic growth of the Czech Republic and also with the percentage of unemployment which was around 2%[2] in 2019. Average registered number

[2] According to CZSO data (2020)

of employees is stable around 210 000 persons, but in 2018 number increased up to 218 000. This could be connected to the increase of average monthly gross wage which grown up from 29 483 CZK (2015) up to 34 266 CZK (2018). This sector does not report large fluctuation it is stable and attractive for new employees (CZSO, 2020).

Sectoral data are used for comparison with calculated values of the company WalnutTrade for better overall evaluation of the whole financial analysis. Following indicators are used for comparison: profitability ratios, liquidity ratios, equity ratio and total assets turnover. Comparison of results is in the chapter 5.1. Source of information of the sectoral data come from Ministry of Industry and Trade and the time interval from 2015 to 2018 is used. During the processing of this diploma thesis data for 2019 was not available.

4.3 Absolute Indicators

It is necessary to analyse financial statements horizontally and vertically. Based on these analyses it is possible to estimate the financial situation of the company and to find out changes in assets, liabilities and equity and in income statement. Particularly, it is important to focus on the company's assets situation, sources of financing and the overall financial situation of the company by evaluating both sides of balance sheets. The financial statements for the observed time interval 2015-2019 are in Annexes 1, 2 and 3. For well-arranged presentation of the above mentioned analysis, only selected indicators from balance sheets and income statements are used. Results are shown in tables below and entire horizontal and vertical analyses are in Annexes 4-9.

4.3.1 Horizontal and Vertical Analysis of Assets

Table 2 shows **horizontal analysis** of selected assets. Horizontal analysis of all assets is given in Appendix 4. Results of absolute changes are calculated according to formula 2 and the calculation of relative changes according to formula 3.

Table 2: Horizontal Analysis of Selected Assets

Selected Assets	2016/2015		2017/2016		2018/2017		2019/2018	
	ths. CZK	%	ths. CZK	%	ths. CZK	%	ths. CZK	%
TOTAL ASSETS	**8 113**	**33.5**	**-1 191**	**-3.7**	**-8 695**	**-27.9**	**6 958**	**31.0**
Fixed Assets	**2 316**	**21.7**	**-867**	**-6.7**	**-10 322**	**-85.3**	**143**	**8.0**
Long-term intangible assets	0	0.0	219	0.0	-72	-32.9	-74	-50.3
Long-term tangible assets	2 316	21.7	-1 086	-8.4	-10 250	-86.3	217	13.3
Current Assets	**5 832**	**43.3**	**-348**	**-1.8**	**1 549**	**8.2**	**6 884**	**33.6**
Inventory	3 497	38.7	212	1.7	-997	-7.8	-2 381	-20.3
Receivables	2 787	110.5	-110	-2.1	1 590	30.6	10 897	160.5
Current financial assets	-452	-23.7	-450	-30.9	956	94.8	-1 632	-83.1
Accruals	**-35**	**-26.1**	**24**	**24.2**	**78**	**63.4**	**-69**	**-34.3**

Source: Own calculation based on financial statements, 2020

It is obvious, that the significant decline (-86.3%) took a place between 2017 and 2018 in the area of fixed assets, which was caused by the sale of production hall. Production machines remained as the property of the company. Decrease in fixed assets relates only to the sale of the production hall. As mentioned, production has moved to a smaller hall with lower operating costs but this hall is not a property of the company. WalnutTrade is renting this hall. Decreasing of long-term intangible assets is caused by depreciation. Current assets are highly volatile during the observed period. Inventories declined in the last two observed periods, probably due to the sale of the production hall and the small storage capacity. A significant increase of 160.5% in in the area of receivables between 2018 and 2019 was caused by an increase in long-term receivables. More precisely an asset called Receivables - Controlled and Controlling Organizations because two of the owners took a loan of 5 million CZK per each. Very positive is the increase in current financial assets between 2017 and 2018, which created financial reserve as opposite to the two previous observed periods, when current financial assets declined. On the other hand, negative aspect is that the company decreased this asset by -83.1% between 2018 and 2019. This asset shows that the company has difficulties in keeping current financial assets stable or possibly increase them.

Formula 4 is used for **vertical analysis**. Table 3 shows a vertical analysis of selected assets and the overall analysis are given in Annex 5.

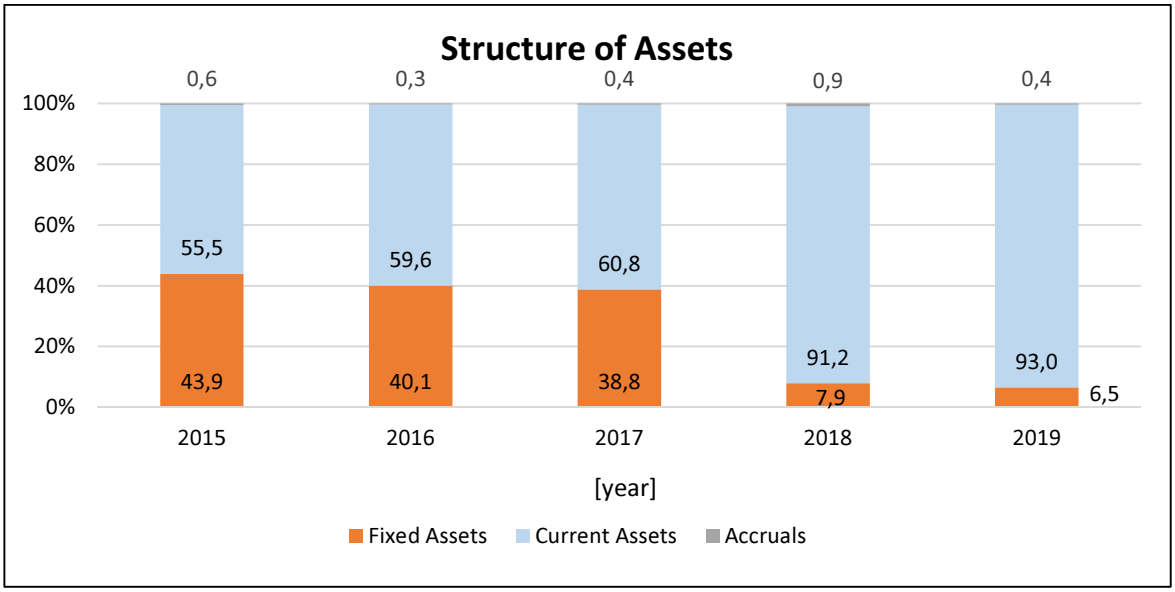
Table 3: Vertical Analysis of Selected Assets

Selected Assets	2015	2016	2017	2018	2019
	%	%	%	%	%
TOTAL ASSETS	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Fixed Assets	**43.9**	**40.1**	**38.8**	**7.9**	**6.5**
Long-term intangible assets	0.0	0.0	0.7	0.7	0.2
Long-term tangible assets	43.9	40.1	38.1	7.3	6.3
Current Assets	**55.5**	**59.6**	**60.8**	**91.2**	**93.0**
Inventory	37.2	38.7	40.9	52.2	31.8
Receivables	10.4	16.4	16.7	30.2	60.1
Current financial assets	7.9	4.5	3.2	8.7	1.1
Accruals	**0.6**	**0.3**	**0.4**	**0.9**	**0.4**

Source: Own calculation based on financial statements, 2020

Current assets have the biggest share of total assets. This fact was increased in 2018 due to the sale of the production hall. The share of current assets rose to 91.2%. In addition, fixed assets have decreasing trend during the observed time interval with significant decrease in 2018 due to the same reason as increase of current assets. Share of accruals is insignificant. Percentage changes of assets are graphically processed in figure 3 where the changes are more visible.

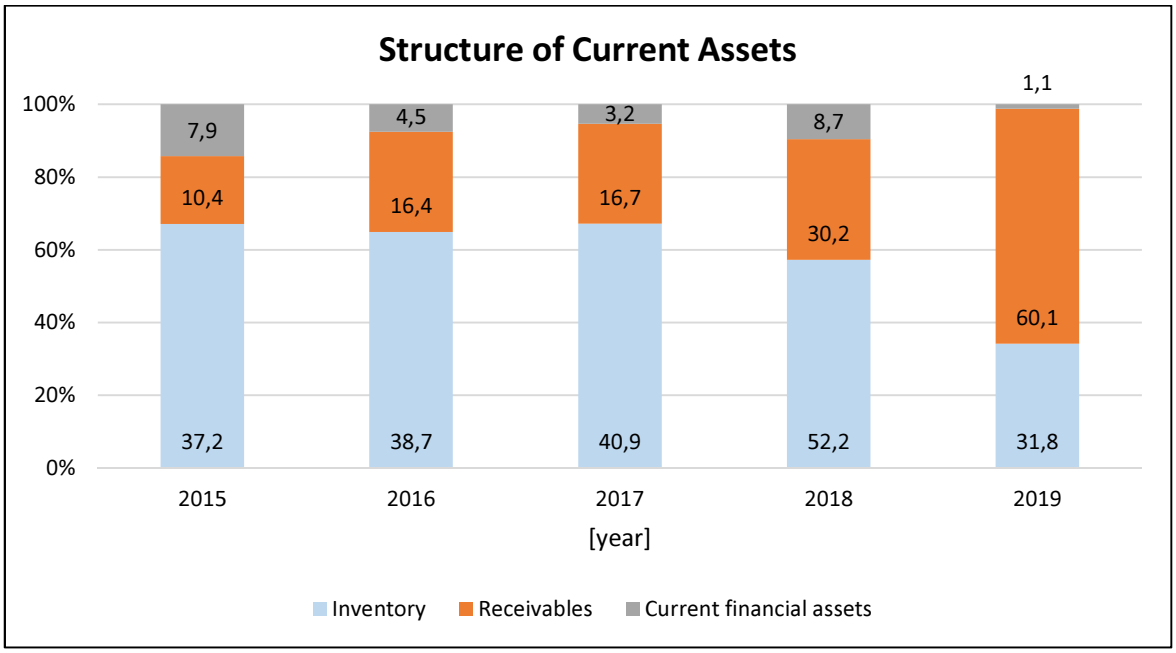
Figure 3: Vertical Analysis - Structure of Assets



Source: Own processing, 2020

Figure 4 shows changes in current assets. This figure clearly shows increases and decreases due to the reasons which are described above. Furthermore, the share of current financial assets in 2019 is very low (1.1%). Company WalnutTrade does not have any financial reserve for unexpected situations.

Figure 4: Structure of Current Assets



Source: Own processing, 2020

4.3.2 Horizontal and Vertical Analysis of Liabilities and Equity

Table 4 shows **horizontal analysis** of selected item of liabilities and equity. Horizontal analysis of overall liabilities and equity is given in Annex 6. Results of absolute changes are calculated according to formula 2 and the calculation of relative changes according to formula 3.

Table 4: Horizontal Analysis of Selected Liabilities and Equity

Selected item from liabilities and equity	2016/2015		2017/2016		2018/2017		2019/2018	
	ths. CZK	%	ths. CZK	%	ths. CZK	%	ths. CZK	%
TOTAL L+E	**8 113**	**34**	**-1 191**	**-4**	**-8 695**	**-28**	**-3 788**	**31**
Equity	**-352**	**-8**	**-1 721**	**-40**	**148**	**6**	**-2 200**	**-82**
Registered capital	0	0	0	0	0	0	0	0
Profit/loss - previous year	1 484	2 151	-352	-23	-5 720	-476	151	-3
Profit/loss - current year	-1 836	-124	-5 365	1 524	5 868	-103	349	229
Liabilities	**8 465**	**43**	**530**	**2**	**-8 843**	**-31**	**-1 588**	**46**
Long-term payables	1 108	18	-914	-13	-4 959	-79	19 414	1456
Short-term payables	7 357	54	1 444	7	-3 884	-17	-21 173	-57
Accruals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Source: Own calculation based on financial statements, 2020

Table 4 shows that the company was in a loss in 2016 and 2017. The highest decline was in 2017 by 1 524%. The loss caused a decrease in a whole group Equity throughout the observed period, excluding the difference between 2017 and 2018. Registered capital has not changed during the observed time interval. The significant decline (-82%) in group of Equity between 2018 and 2019 was due to a decrease in Capital funds. This change is clearly visible in Annex 2 in the Liability and Equity side of the balance sheet. Between 2015 and 2016, other sources increased by 43% and in the following period increased also but only by 2%. Between 2017 and 2018 liabilities fell by 31%. Unfortunately, the company did not retain this reduction and the following period increased liabilities by 46%. The analysis shows that the company made a change in the loan because the liability was transferred from the group of short-term payables (decrease of -57%) to long-term payables (increase of 1 456%).

Formula 4 is used for **vertical analysis**. Table 5 shows a vertical analysis of selected item from liabilities and equity and the overall analysis are given in Annex 7.

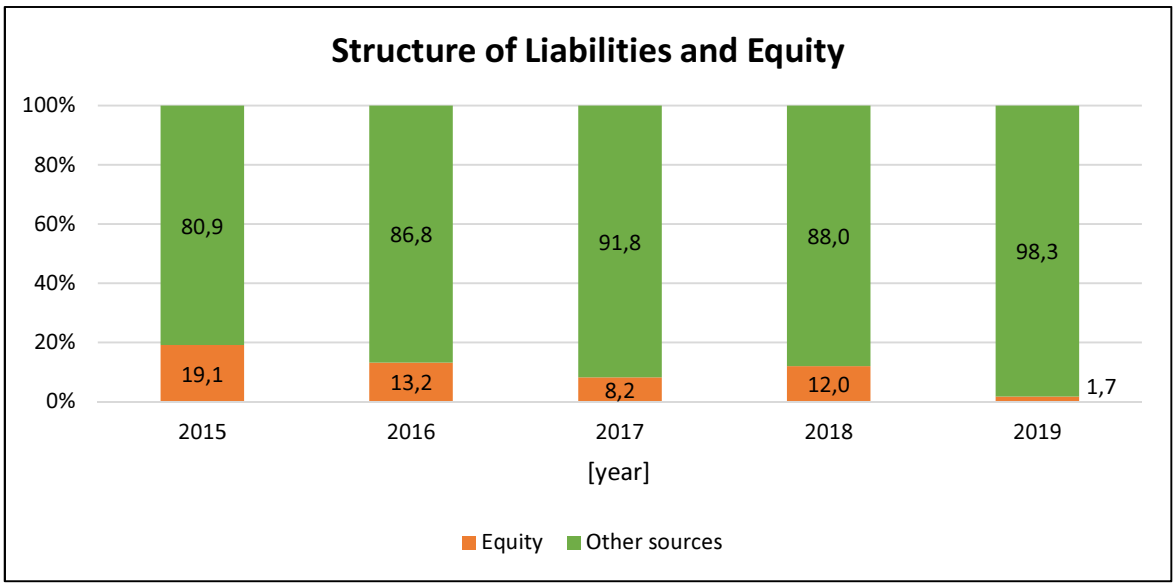
Table 5: Vertical Analysis of Selected Liabilities and Equity

Selected item from liabilities and equity	2015	2016	2017	2018	2019
	%	%	%	%	%
TOTAL L+E	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Equity	**19.1**	**13.2**	**8.2**	**12.0**	**1.7**
Registered capital	12.5	9.3	9.7	13.4	10.3
Profit/loss - previous year	0.3	4.8	3.9	-20.1	-14.8
Profit/loss - current year	6.1	-1.1	-18.3	0.7	1.7
Liabilities	**80.9**	**86.8**	**91.8**	**88.0**	**98.3**
Long-term payables	25.2	22.3	25.5	6.0	71.1
Short-term payables	55.7	64.5	66.3	82.0	27.2
Accruals	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Source: Own calculation based on financial statements, 2020

In the vertical analysis, which results are in table 5, the change in 2018 and 2019 is clearly visible regarding the change in short-term liabilities to long-term liabilities. Nevertheless, it is important to note that the share of equity to liabilities is minimal. The share of these two items is clearly visible in the following figure 5.

Figure 5: Structure of Liabilities and Equity



Source: Own processing, 2020

The high ratio of other sources to equity in 2015 was due to the purchase of a production hall as the purchase was financed by a loan. Due to losses in 2016 and 2017, WalnutTrade was unable to reduce the ratio of other sources to equity. Unfortunately even in 2019, when

WalnatTrade was profitable again, the company was again unable to reduce the ratio of other sources mainly due to the loan to co-owners from the company.

4.3.3 Horizontal and Vertical Analysis of Income Statement

Table 6 shows **horizontal analysis** of selected item of income statement. Horizontal analysis of overall income statement is given in Appendix 8. Results of absolute changes are calculated according to formula 2 and the calculation of relative changes according to formula 3.

Table 6: Horizontal Analysis of Selected Item from Income Statement

Selected item from income statement	2016/2015		2017/2016		2018/2017		2019/2018	
	ths. CZK	%	ths. CZK	%	ths. CZK	%	ths. CZK	%
Sales	6 961	14.5	3 527	6.4	-4 735	-8.1	1 197	2.2
Production consumption	6 667	16.5	6 200	13.2	-9 510	-17.9	59	0.1
Personal expenses	1 864	39.5	2 378	36.1	-1 035	-11.5	725	9.1
Operating profit/loss	-2 046	-92.1	-5 085	-2906	5 496	-111.9	271	45.7
Financial profit/loss	-140	36.2	-280	53.1	372	-46.1	78	-17.9
Profit/loss before tax	-2 186	-119.2	-5 365	1524.1	5 868	-102.6	349	229.1
Profit/loss after tax	-1 836	-123.7	-5 365	1524.1	5 868	-102.6	349	229.1
Net turnover	6 872	14.2	3 797	6.9	4 533	7.7	-8 229	-13.0

Source: Own calculation based on financial statements, 2020

Table 6 shows the year-on-year changes in income statements during the observed period. As mentioned above in 2016 and 2017 the company was in a loss. The highest decline was between 2016 and 2017 for operating profit, where there was a dramatic decrease of 2 906%. This is due to the reasons which are mentioned in chapter 4.1.2 that the company expanded very quickly and did not use new purchased assets effectively. For this reason, personal costs also increased in the first two observed periods, with an increase of 39.5% (2015/2016) and further of 36.1% (2017/2018). Based on a horizontal analysis of the income statement and internal information from the company regarding the analytical statement of income statement, it is evident that personal expenses increased almost twice between 2015 and 2019, from 4.7 million of CZK to 8.7 million of CZK. WalnutTrade should reduce these expenses, for example by reducing the number of core employees and using more temporary workers. By reducing the number of permanent employees,

the company would reduce the costs associated with legal social insurance and health insurance. The financial profit/loss is negative throughout the observed period. The negative financial result is mainly due to interest and high exchange rate losses. Exchange rate losses fluctuate around half a million of CZK on average over the observed time interval. It is clear that the loss began to decrease since 2018. Profit/loss before tax and after tax are the same for the last three periods. There is no tax liability[3] for the years in which the company was in a loss (2016 and 2017). Under the Income Tax Act (no. 586/1992), the difference between expenses and revenues is called a tax loss. The tax loss allows that the tax base should be reduced in the next five years after the loss. WalnutTrade used this tax-deductible item in 2018 and 2019 (when it was profitable again) and therefore the items Profit/loss before tax and after tax are the same in 2018 and 2019 even though that the tax liability was occurred. In the item Net turnover, it is obvious that the turnover increases throughout the observed period except for the decrease between 2018/2019 (-13%). The item Net turnover and individual components of Profit/loss (Operating profit/loss, Financial profit/loss, Profit/loss before tax) are compared in chapter 4.2.2.

Formula 4 is used for **vertical analysis**. Table 7 shows a vertical analysis of selected item from income statement and the overall analysis are given in Annex 9.

Table 7: Vertical Analysis of Selected Item from Income Statement

Selected item from income statement	2015	2016	2017	2018	2019
	%	%	%	%	%
Sales	100.0	100.0	100.0	100.0	100.0
Production consumption	84.0	85.5	91.0	81.3	79.6
Personal expenses	9.8	12.0	15.3	14.8	15.8
Operating profit/loss	4.6	0.3	-8.4	1.1	1.6
Financial profit/loss	-0.8	-1.0	-1.4	-0.8	-0.7
Profit/loss before tax	3.8	-0.6	-9.8	0.3	0.9
Profit/loss after tax	3.1	-0.6	-9.8	0.3	0.9
Net turnover for the accounting period	100.7	100.4	100.9	118.2	100.6

Source: Own calculation based on financial statements, 2020

[3] According to Income Tax Act (no. 586/1992)

Table 7 shows a huge share of production consumption over other items. Until 2017 the share gradually increased, the costs were very high. The Production consumption group is very huge and does not include only personal expenses. Based on internal sources from the company it was possible to look into the analytical statement of income statement. The largest item throughout the observed period is the goods sold, with costs between 30-35 million of CZK. However, customs duty has a decreasing trend throughout the observed period. In 2015, the customs duty was around half a million of CZK and in the last two years of observed time interval it decreased to 200 thousand of CZK. As the company imports raw materials mainly from abroad, the reduction in customs duty costs is very favourable. On the other hand, the item of packaging, which is associated with orders from e-shop, had an increasing trend until 2017 (2015 - 2 million of CZK, 2017 - 4.5 million of CZK). This fact is related to the company's focus primarily on orders from the e-shop. The order from e-shop can contain only one item (product) and the consumption of packaging material to package only one item is large and very expensive. Positive is that since 2018 the cost of packaging decreased by one million of CZK to 3.5 million of CZK. Orders from e-shop are also related to postage, which in 2017 was almost two million of CZK. Changing the focus of the company on wholesale customers from individual orders from e-shop reduced this cost by one million of CZK. Transport costs associated with wholesale customers have increased minimally. Another high cost item is advertising costs. It is mainly the use of Google services, which were in 2015 165 thousand of CZK and in 2017 1.2 million of CZK. The increase was enormous, but based on the 2019 number, when the costs associated with Google services were only 200,000 of CZK. Obviously, after two years in a loss, the company have begun to decrease advertising costs since 2018.

Other costs (such as travel expenses, repair and maintenance, legal services, road tax and others) do not express significant fluctuations throughout the observed period.

4.4 Ratio Indicators

Analysis of absolute indicators of financial statements showed that company WalnutTrade has financial problems and is not stable. The following ratio calculations are used for comparison with sectoral data and for the final evaluation in chapter 5.

4.4.1 Profitability Ratios

According to table 8, it is evident that the indicators are negative when the company was in a loss. Certainly, this fact shows that the company operates inefficiently during the observed period.

Table 8: Profitability Ratios in %

	2015	2016	2017	2018	2019
ROA	7.7	-0.5	-17.3	1.5	1.7
ROE	32.1	-8.2	-224.2	5.6	100.2
ROS	3.9	-0.3	-9.2	0.6	0.9
ROCE	17.5	-1.4	-60.9	8.5	2.7

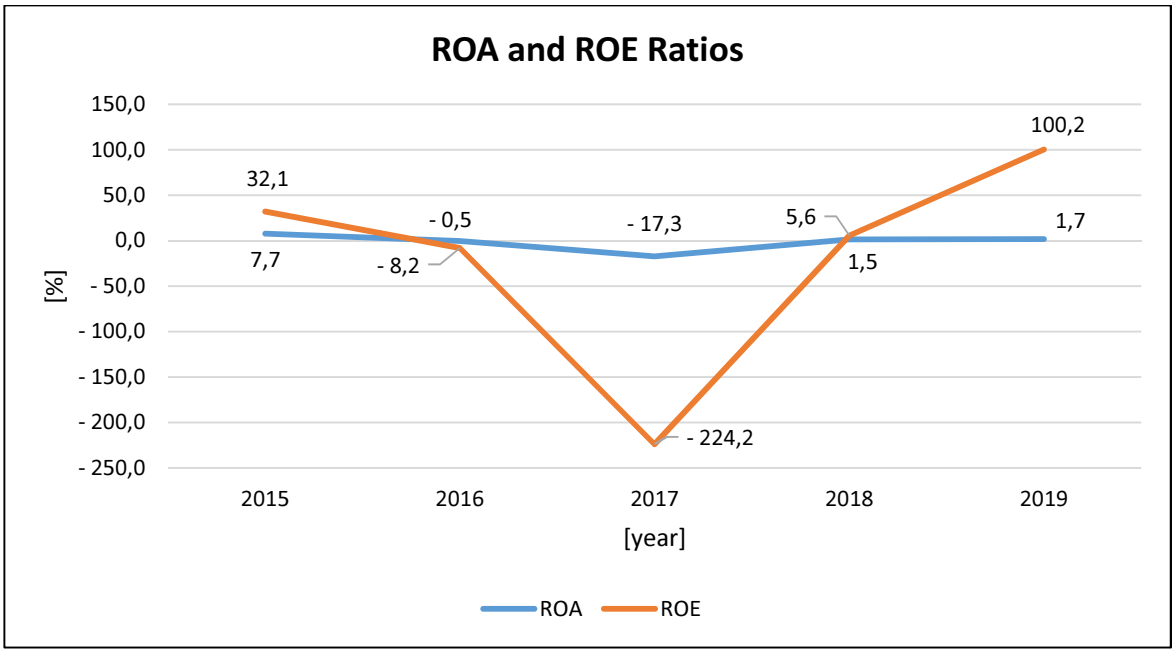
Source: Own calculation based on financial statements, 2020

Calculation of ROA based on the formula 5 using EBIT[4] as a numerator. This indicator shows how effectively company generates profit regardless its sources (equity or liabilities). Year 2015 was the best year of the observed period because profit of each 100 CZK of assets was 7.7 CZK before deduction of interest and taxes. On the other hand, in 2017, each 100 CZK of invested capital was 17.3 CZK of loss. In the following years, an indicator is increasing which is perceived positively.

Calculation of ROE based on the formula 6 using EAT as a numerator. This indicators evaluates the effectiveness of own sources (equity) invested in the business. The best result is in 2019, when every 100 CZK of equity generated a profit of 100.2 CZK. Compared to 2017, when every 100 CZK of equity generated a loss of 224.2 CZK, the result of 2019 is very positive. The business is managed effectively if the ROE indicator is higher than ROA - figure 6 (RŮČKOVÁ, 2015).

[4] EBIT = EBT + Interest Expense

Figure 6: ROA and ROE Ratios



Source: Own calculation based on financial statements, 2020

Expect the years 2016 and 2017, when the company was in a loss, the company management was effective according to the above statement (ROE > ROA). In the period of loss ROE shows very negative values. The Equity value, which is used for the calculation of ROE indicator, is strongly influenced by the liabilities and equity side item called Profit/loss current year. The loss in 2016 and 2017 is caused by the rapid expansion of the company and very high costs. In the period of huge and rapid expansion, the company did not take into account its costs, which were characterised in chapter 4.3.3 Horizontal and Vertical Analysis of Income Statement.

As mentioned in the theoretical part, profitability of sales has two formulas. For calculation of ROS, in a form of net profit margin, formula 8 was used and results are shown in table 8. This indicator evaluates return on sales, which is negative or very low in the observed period. The highest indicator was in 2015, when every 100 CZK of sales generated 3.9 CZK of profit. In 2017 the situation was the worst, because every 100 CZK of sales contributed to 9.2 CZK of loss. In the following years the indicator increased despite the fact that the increase is very low.

The ROCE indicator shows, how efficiently is invested in a business in the long run. The calculation based on the formula 9. The drop in 2016 and 2017 is caused by a loss. Negatively is perceived the decrease between 2018 and 2019, when in 2019 the value decreases to 2.7%.

4.4.2 Efficiency Ratios

Total assets turnover is calculated based on the formula 10. According to Kislingerová (2010) the recommended value is 1 and the calculated values (table 9) of the company WalnutTrade are around 2. Company uses the total assets very efficiently and its turnover is twice a year on average.

Table 9: Total Assets Turnover

	2015	**2016**	**2017**	**2018**	**2019**
Sales [in thousands of CZK][5]	47 973	54 934	58 461	53 726	54 923
Total Assets [in thousands of CZK]	24 245	32 358	31 167	22 472	29 430
Total Assets Turnover [times]	**2.0**	**1.7**	**1.9**	**2.4**	**1.9**

Source: Own calculation based on financial statements, 2020

Table 10 shows the turnover of fixed assets, calculation based on formula 11. This indicator shows efficiency of fixed assets such as buildings, machinery, vehicles, etc. According to Knápková (2013), the recommended turnover is around 5. Between the years 2015-2017, the calculated indicator almost reached the recommended value. The huge growth in 2018 was caused by the sale of the production hall and the relocation of production to other site. Due to this sale, only production machines (packaging machines and drying machines) remained in the group of fixed assets. In the observed period there was a significant increase in turnover of fixed assets and the subsequent goal of the company should be to get this indicator to a reasonable stable level. Increasing the value of the fixed assets group will reduce the turnover of fixed assets, but in spite of this decrease fixed assets will be used efficiently.

[5] Revenues from the sale of own products and services + Revenues from sold goods

Table 10: Fixed Assets Turnover

	2015	2016	2017	2018	2019
Sales [in thousands of CZK][6]	47 973	54 934	58 461	53 726	54 923
Fixed Assets [in thousands of CZK]	10 653	12 969	12 102	1 780	1 923
Fixed Assets Turnover [times]	**4.5**	**4.2**	**4.8**	**30.2**	**28.6**

Source: Own calculation based on financial statements, 2020

The following table 11 shows an important indicator of inventory turnover expressed in days, which is calculated according to formula 13. The second indicator inventory turnover is calculated according to formula 12. Inventory turnover in days decreased in 2019 to the lowest value (63 days) in the observed period. Reduction of inventory should continue in the upcoming years, as the company has unnecessary high inventories in which it holds financial assets. Based on the data from table 11, it is clear that the company has on average 11 million of CZK in inventories during the observed period. WalnutTrade unnecessarily holds funds in inventories. Due to the high indebtedness, the company should use part of these funds to repay its loan.

Table 11: Inventory Turnover

	2015	2016	2017	2018	2019
Sales [in thousands of CZK][7]	47 973	54 934	58 461	53 726	54 923
Inventory [in thousands of CZK]	9 025	12 522	12 734	11 737	9 356
Turnover [times]	**5.3**	**4.4**	**4.6**	**4.6**	**5.9**
Days	**69**	**84**	**80**	**80**	**63**

Source: Own calculation based on financial statements, 2020

Table 12 shows receivables turnover (formula 14), and receivables turnover expressed in days (formula 15). In 2015, the value was the lowest (20 days) and payment morality of customers was positive. Subsequently, increase in the coming years was not positive and the company was waiting for payments from customers over a month. Significant increase in 2019 (118 days) was caused by the growth of the long-term receivable from

[6] Revenues from the sale of own products and services + Revenues from sold goods

[7] Revenues from the sale of own products and services + Revenues from sold goods

the company co-owners. In 2019, two out of three co-owners took a loan of 10 million of CZK from the company. As mentioned above, this fact affects certain indicators such as this one. The increase in long-term receivables caused misleading information on the development of receivables turnover. If only short-term receivables were used in the formula, the receivables turnover would be 46 days.

Table 12: Receivables Turnover

	2015	2016	2017	2018	2019
Sales [in thousands of CZK][8]	47 973	54 934	58 461	53 726	54 923
Receivables [in thousands of CZK]	5 523	5 310	5 200	6 790	17 687
Turnover [times]	**19.0**	**10.3**	**11.2**	**7.9**	**3.1**
Days	**20**	**36**	**33**	**47**	**118**

Source: Own calculation based on financial statements, 2020

The following table 13 shows payables turnover, which is calculated according to the formula 16 and also this indicator expressed in days according to the formula 17. Payables turnover expressed in days has fluctuating trend, from which is clearly visible that the company WalnutTrade has a problem with financial morality. On the other hand, according to Růčková (2015), companies can use the so-called *'supplier credit'* by extending the maturity of payables. Indicator of supplier credit is calculated as a difference between payables turnover in days and receivables turnover in days. The supplier credit including the graphical presentation is analysed in chapter 5.2.3.

Table 13: Payables Turnover

	2015	2016	2017	2018	2019
Sales [in thousands of CZK][9]	47 973	54 934	58 461	53 726	54 923
Payables [in thousands of CZK]	19 622	28 087	28 617	19 774	28 934
Turnover [times]	**2.4**	**2.0**	**2.0**	**2.7**	**1.9**
Days	**150**	**187**	**179**	**135**	**193**

Source: Own calculation based on financial statements, 2020

[8] Revenues from the sale of own products and services + Revenues from sold goods

[9] Revenues from the sale of own products and services + Revenues from sold goods

4.4.3 Liquidity Ratios

Table 14 shows calculated values of liquidity ratios according to the following formulas: current ratio formula 18, quick ratio formula 19 and cash ratio formula 20. Results are consequently commented and compared with recommended values according to Růčková (2015).

Table 14: Liquidity Ratios (times)

	2015	2016	2017	2018	2019
Current Ratio	1.00	0.92	0.85	1.11	3.42
Quick Ratio	0.33	0.32	0.28	0.48	2.25
Cash Ratio	0.14	0.07	0.05	0.11	0.04

Source: Own calculation based on financial statements, 2020

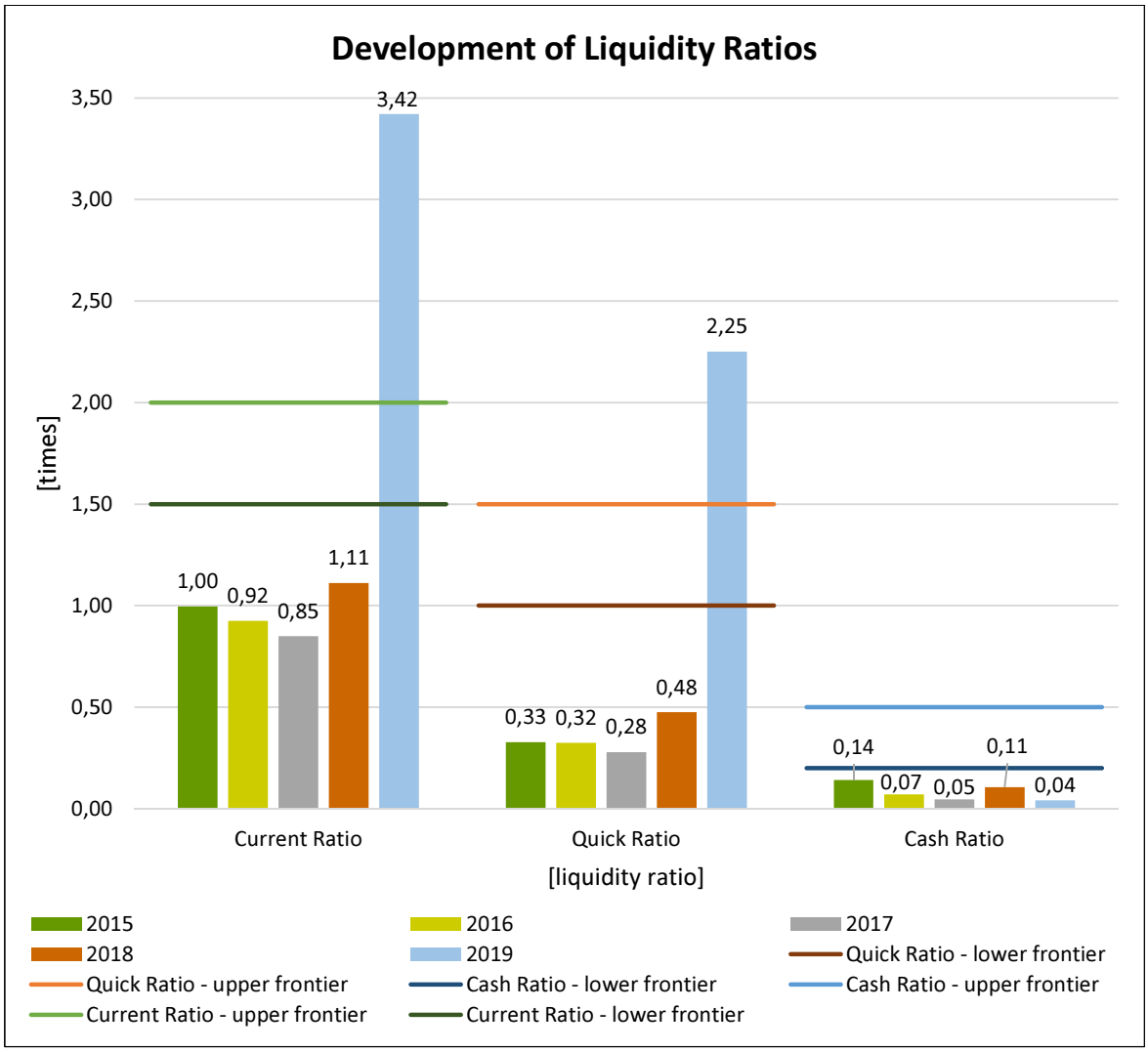
Current liquidity in the observed period is around 1 except in 2019, where the increase is up to 3.42 times. This growth was caused by an increase in long-term receivables (loan to co-owners). The recommended value according to Růčková (2015) should be in the interval of 1.5 - 2.0 and company WalnutTrade did not meet this fact even once during the observed time interval. If the value is less than 1, the company is unable to pay its short-term liabilities from current assets and have to use long-term sources.

The recommended value for quick liquidity according to Růčková (2015) is 1.0 - 1.5, this recommended interval is also given by Kalouda (2011). Therefore the quick liquidity in the years 2015 - 2018 is dramatically below the recommended values. Significant increase in 2019 is again caused by a high increase in long-term receivables to co-owners and at the same time a change in the loan from a short-term liability to a long-term liability.

Růčková (2015) presents the recommended interval for cash liquidity of 0.2 - 0.5 and the results from table 19 are again well below the recommended value. Cash liquidity concerns only short-term financial assets, which tended to decline during the observed time interval. A large decrease in short-term financial assets was in 2019, when the value of quick liquidity is the lowest.

Figure 7 graphically shows the ratios above for a better visualization. The figure also includes frontiers of recommended values according to the authors above. Figure 7 clearly shows a comparison of the indicators with the recommended values, which WalnutTrade has not reached for the almost whole observed period. The company is struggling with very low liquidity of the whole company. However, the value is very low in the category of cash ratio in 2019, when the calculated value reaches 0.4 times. This indicator represents a very small financial reserve in bank accounts and cash. Unfortunately, due to the loan to co-owners in the amount of 10 million of CZK, the data for 2019 are misleading.

Figure 7: Development of Liquidity Ratios



Source: Own processing, 2020

4.4.4 Leverage Ratios

Based on previous calculations and information about WalnutTrade, it is evident that the company inefficiently manages its sources. The ineffective management of the company became apparent in 2016 and 2017, when the company was in a loss and did not take into account high amount of costs. At the beginning of the observed time interval, a large debt was caused by the purchase of a production hall. At the end of the observed period, indebtedness increased mainly due to a loan to co-owners from the company. The vertical analysis of liabilities and equity (chapter 4.3.2) found out that the company is financed only by external sources. Afterwards, this fact is reflected in leverage ratios calculated below. It can be seen clearly from table 15 that indebtedness is rather increasing over the observed period. The ratio of debt ratio to equity ratio is very clearly visible in figure 8 below.

Table 15: Leverage Ratios in %

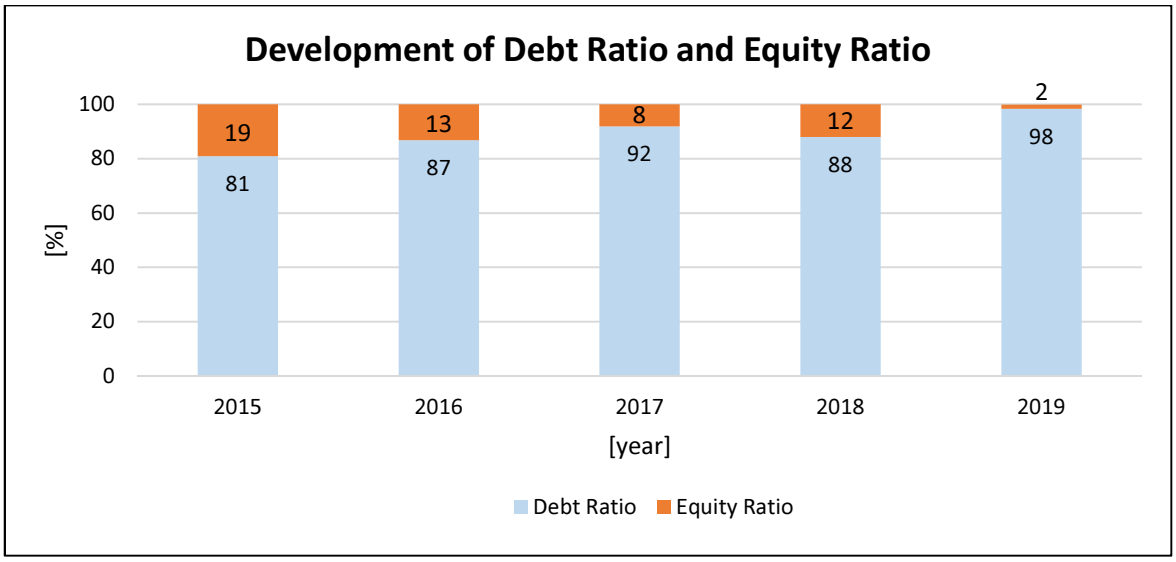
	2015	2016	2017	2018	2019
Debt Ratio	81	87	92	88	98
Equity Ratio	19	13	8	12	2
Interest Coverage	4 467	-84	-1 654	179	665

Source: Own calculation based on financial statements, 2020

The last leverage ratio in table 15 is interest coverage, calculated according to formula 23. This ratio indicates how many times the profit is higher than interest. Values are fluctuating over the observed period. Negative values in 2016 and 2017 are due to a loss. The following increase is due to growth of EBIT and decline in interest expense.

According to the figure 8 it is obvious that the company is funded primary from other sources (liabilities). This figure shows that in 2015 the company was financed from its own sources (equity) by 19% and the remaining 81% was financed by other sources. Following years the indebtedness increased that in 2019 the company was almost 100% indebted. Such high indebtedness is not favourable indicator for potential investors. Comparison of indebtedness of companies in the sector can be found in chapter 5.1.4.

Figure 8: Development of Debt Ratio and Equity Ratio



Source: Own processing, 2020

4.5 Differential Indicators

4.5.1 Net Working Capital

Table 16 shows Net working capital, which is calculated according to formula 24. This capital is needed for the company for its operation. Positive results mean that the company is able to pay off its shot-term liabilities. Results show that the first three years of the observed period the company was unable to pay its liabilities and did not have sufficient income. The main reason for the increase in net working capital in 2019 was a reduction in short-term liabilities. These liabilities decreased due to the change in the loan into long- term liabilities.

Table 16: Net Working Capital (in thousands of CZK)

	2015	2016	2017	2018	2019
Current Assets	13 458	19 290	18 942	20 491	27 375
Short-term Liabilities	13 512	20 869	22 313	18 429	8 004
Net Working Capital	**-54**	**-1 579**	**-3 371**	**2 062**	**19 371**

Source: Own calculation based on financial statements, 2020

5 Results and Discussion

Chapter 5 is divided into three parts. The first part 5.1 deals with the comparison of selected sectoral data together with the calculated values of the company WalnutTrade. These comparisons are subsequently commented with recommended values from the literature. Sources of recommended values have been presented in the practical part at each of the indicator and are listed in chapter 7 References. The second part 5.2 evaluates indicators which results were problematic in the practical part and referred to certain financial problems of the company. The third part 5.3 deals with recommendations for future development of the company.

5.1 Comparison of Selected Sectoral Data with Calculated Values

5.1.1 Profitability Ratios

Table 17: Profitability Ratios in % - sectoral data and calculated values

	2015	2016	2017	2018
ROA	7.7	-0.5	-17.3	1.5
ROA Sectoral	7.3	7.9	7.1	6.9
ROS	3.9	-0.3	-9.2	0.6
ROS Sectoral	3.1	3.6	3.2	2.9
ROE	32.1	-8.2	-224.2	5.6
ROE Sectoral	11.2	12.3	11.1	11.2
Inflation	0.3	0.7	2.5	2.1

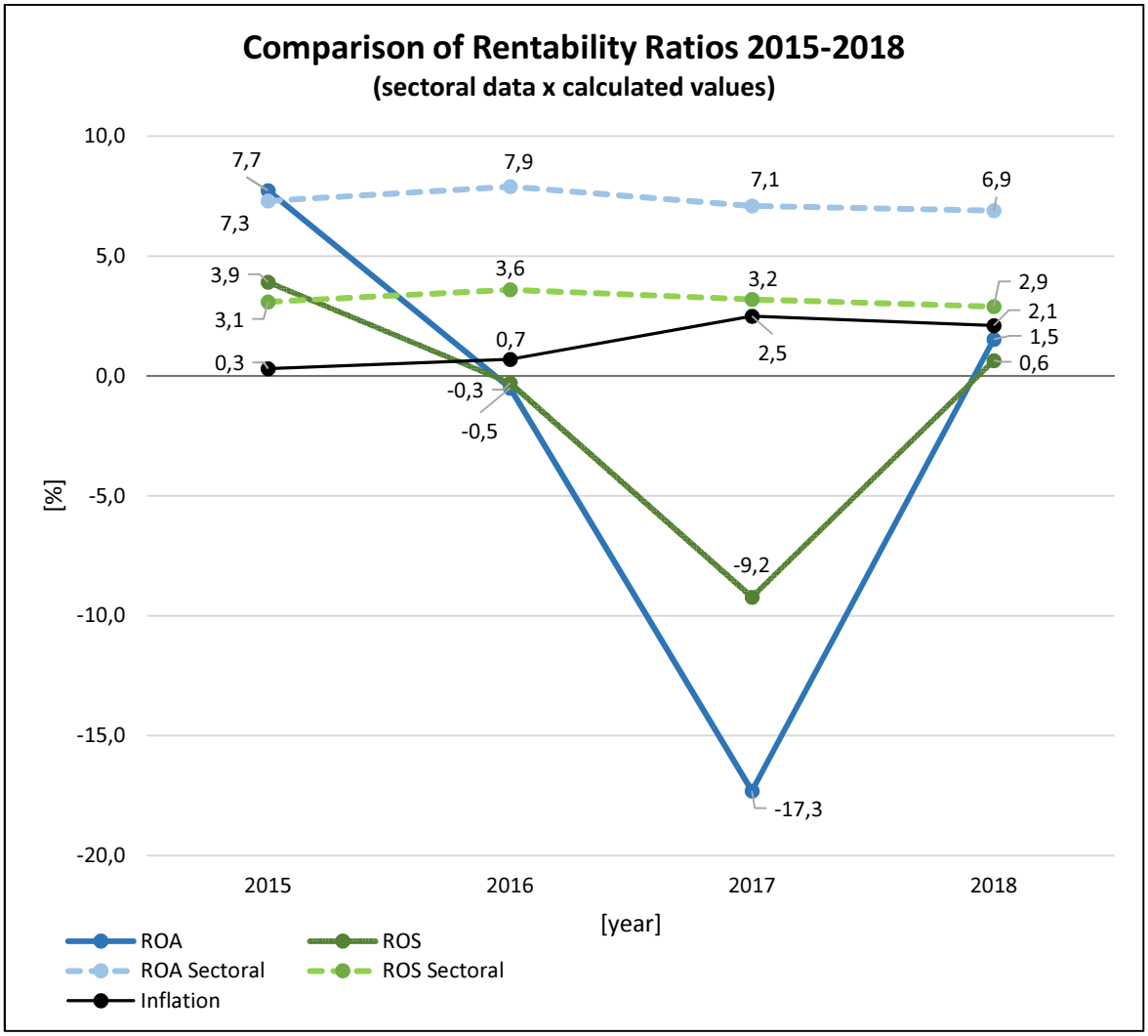
Source: Own processing based on own calculations, MIT data and CZSO, 2020

Firstly, it is evident that in 2016 and 2017, when the company was in a loss, all indicators are negative and it is significantly different from sectoral data. In 2018 it is positive that the company got into positive numbers. For ROA, it should increase the value of assets in order to use its assets more efficiently and to be more closely to the firms in the sector. Apparently ROE indicator shows that the company does not effectively use the sources from which the company is funded compared to the sectoral data. In chapter 4.4.1, a graphical comparison between ROA and ROE indicators is shown. If the ROE indicator is higher than the ROA indicator, the company is managed effectively. Except for the years, when the company was in a loss, this fact is confirmed. Sectoral data confirm this fact also.

ROS is below both indicators (sectoral and inflation), which means that this indicator will not cover inflation. Secondly, for the future development of the company and better efficiency of the invested funds into the business, the company should focus on improving these indicators at least to the level of sectoral data.

Figure 9 shows a graphical presentation of the above indicators, including sectoral comparison and inflation. Profitability should be higher than inflation for appreciation of capital. Due to the very low value of WalnutTrade ROE in 2017, this indicator is not shown in the figure below. The scale of the axis would be very extensive and the graphical presentation would be very confusing.

Figure 9: Comparison of Profitability Ratios 2015-2018



Source: Own processing based on own calculations, MIT data and CSZO, 2020

5.1.2 Liquidity Ratios

Table 18 shows the comparison of liquidity ratios with the calculated values of the company and sectoral data. The graphical presentation is shown in figure 10.

Table 18: Liquidity Ratios (times) - sectoral data and calculated values

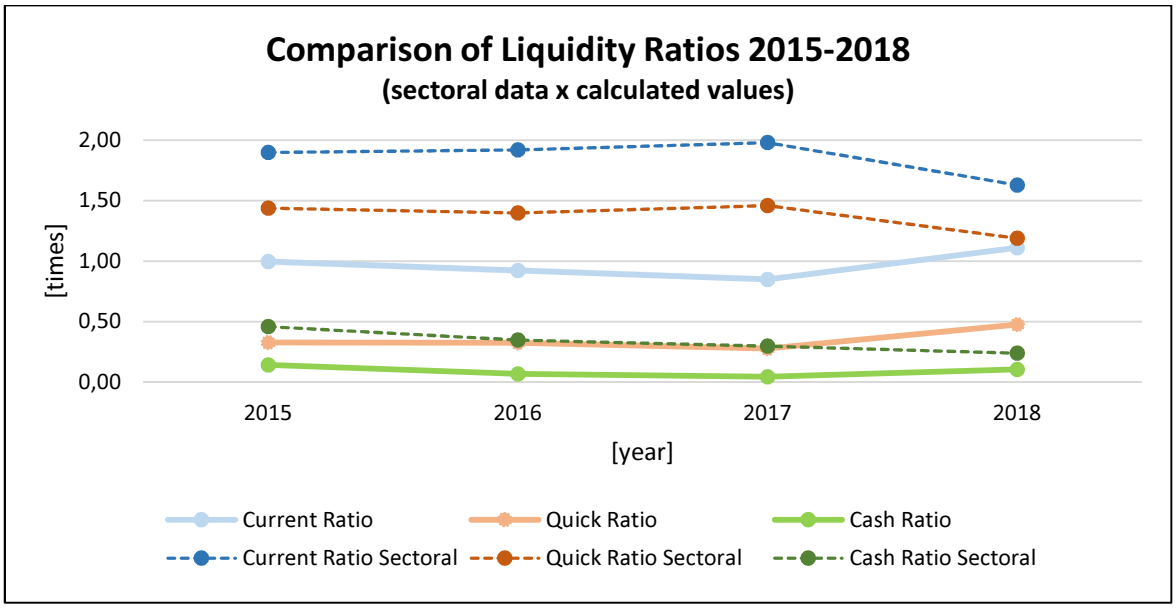
	2015	2016	2017	2018
Current Ratio	1.00	0.92	0.85	1.11
Current Ratio Sectoral	1.90	1.92	1.98	1.63
Quick Ratio	0.33	0.32	0.28	0.48
Quick Ratio Sectoral	1.44	1.40	1.46	1.19
Cash Ratio	0.14	0.07	0.05	0.11
Cash Ratio Sectoral	0.46	0.35	0.30	0.24

Source: Own processing based on own calculations and MIT data, 2020

In chapter 4.4.3, it was evaluated that company WalnutTrade had liquidity problems. This fact is confirmed according to table 18, because the calculated data do not correspond at all to sectoral data and in most cases does not go close. According to Růčková (2015), it is important to connect the results of profitability and liquidity ratios. These two ratios assess the company's performance in the best way. When comparing the results of these two ratios, it is evident that WalnutTrade needs significant changes in management of the company. These changes should lead to an overall improvement of the company's performance, profitability and higher liquidity of the company.

The company's goal should be at least to reach sectoral liquidity data. On the other hand, it is important that liquidity ratios are not too high, as excessive liquidity reduces company's profitability. On the contrary, deposit funds in more profitable forms of assets. WalnutTrade should be competitive in its sector. Comparing WalnutTrade's calculated indicators and sectoral data helps the company to determine its market position.

Figure 10: Comparison of Liquidity Ratios 2015-2018



Source: Own processing based on own calculations and MIT data, 2020

5.1.3 Total Assets Turnover

Table 19: Total Assets Turnover (times) - sectoral data and calculated values

	2015	2016	2017	2018
Total Assets Turnover	2.0	1.7	1.9	2.4
Total Assets Turnover Sectoral	2.3	2.2	2.3	2.3

Source: Own processing based on own calculations and MIT data, 2020

Turnover of total assets during the observed period does not show a large fluctuation in both indicators (table 19). The analysed company WalnutTrade and companies in the sector on an average turnover their assets twice a year.

5.1.4 Equity Ratios

Table 20: Comparison of Equity Ratio in % - sectoral data and calculated values

	2015	2016	2017	2018
Equity Ratio	19.1	13.2	8.2	12.0
Equity Ratio Sectoral	46.2	49.1	46.8	45.2

Source: Own processing based on own calculations and MIT data, 2020

Table 20 shows a comparison of equity ratio, where is a visible difference from sectoral data. Companies in the sector finance its business from own sources (equity) about of 45%. Company WalnutTrade should reduce the share of other sources and afterwards increase the equity ratio to approximately 45% as its competitors. This comparison shows that the analysed company is largely financed only by other sources.

5.2 Comparison of Selected Calculated Values

5.2.1 Evaluation of Absolute Indicators

The horizontal analysis of the balance sheet clearly reflected the sale of the production hall in 2018 and the increase in receivables of co-owners due to the loan. These significant changes were subsequently reflected in ROA, total assets turnover, fixed assets turnover, receivables turnover in liquidity and debt ratios. A very unpleasant fact was also apparent in the area of short-term financial assets, which were mostly decreasing. This decrease caused that the cash ratio decreased also. The small reserve of short-term financial assets is due to the payment of high liabilities.

Vertical analysis of liabilities showed that the company was almost 90% financed from other sources between 2015 and 2018. The company should try to reduce this share, but unfortunately in 2019 this share increased up to 98.3%. The share of equity to total liabilities and equity was only 1.7%. Significant decreases in both horizontal and vertical analysis showed around 2016 and 2017, when the company was in a loss. The loss was caused due to the high costs and huge vision of the co-owners connected to the rapid expansion of the company.

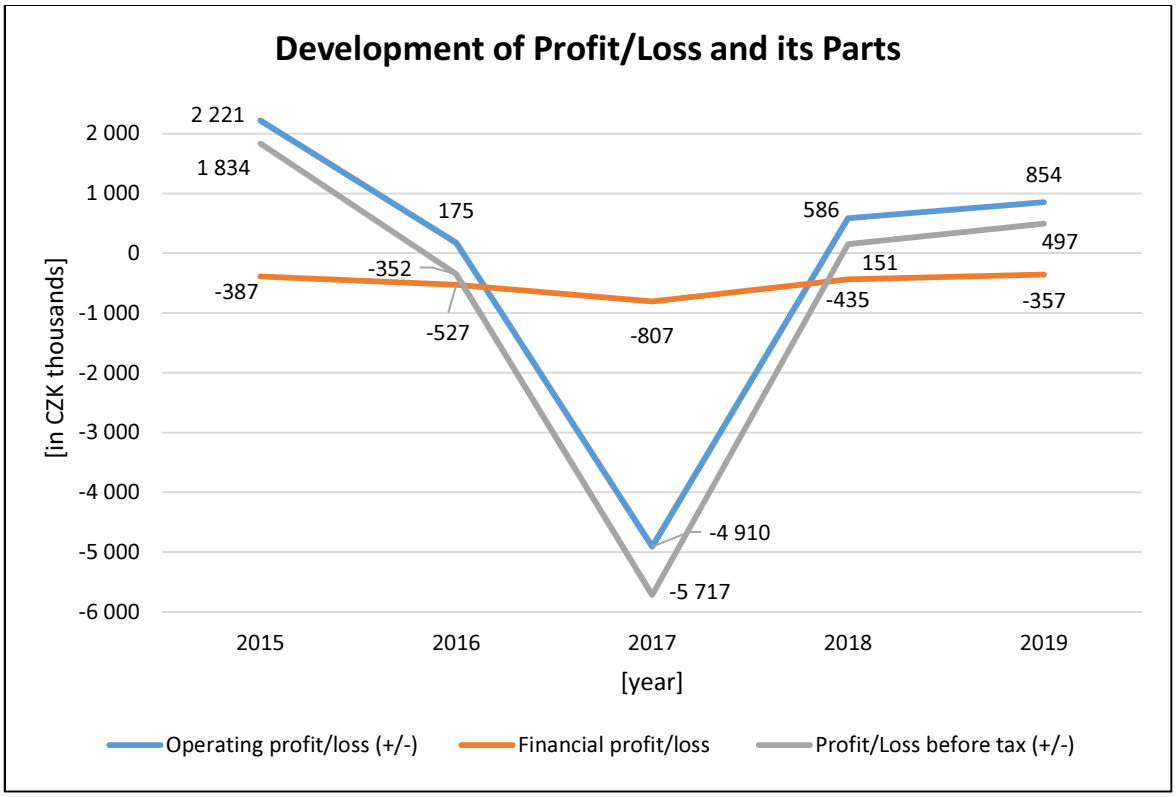
Vertical analysis of income statement for the observed period shows large fluctuations in costs. Based on the analytical statement of income statement, significant fluctuations were found in the following costs. Personal expenses increased almost twice between 2015 and 2016 (from CZK 4.7 million to CZK 8.7 million). These expenses should be reduced by reducing the number of core employees and using more temporary workers. Temporary workers should only be used occasionally. Reduce number of core employees will reduce

costs connected to social security and health insurance paid by the company. Subsequently, the company had high costs in the area of packaging materials and internet promotion during the observed period.

5.2.2 Evaluation of Profit/Loss

Figure 11 shows losses that were in 2016 (-352 thousands of CZK) and 2017 (-5 717 thousands of CZK) and its parts. The financial profit/loss is negative throughout the observed period. The negative result is associated with the cost of bank loan and financial services. The main reason for the loss is high operating costs. Operating costs include material consumption, energy consumption, rent, personal expenses, taxes, depreciation, etc. These costs need to be reduced to generate profit. Fortunately, this happened in 2019, when the company is back in profit.

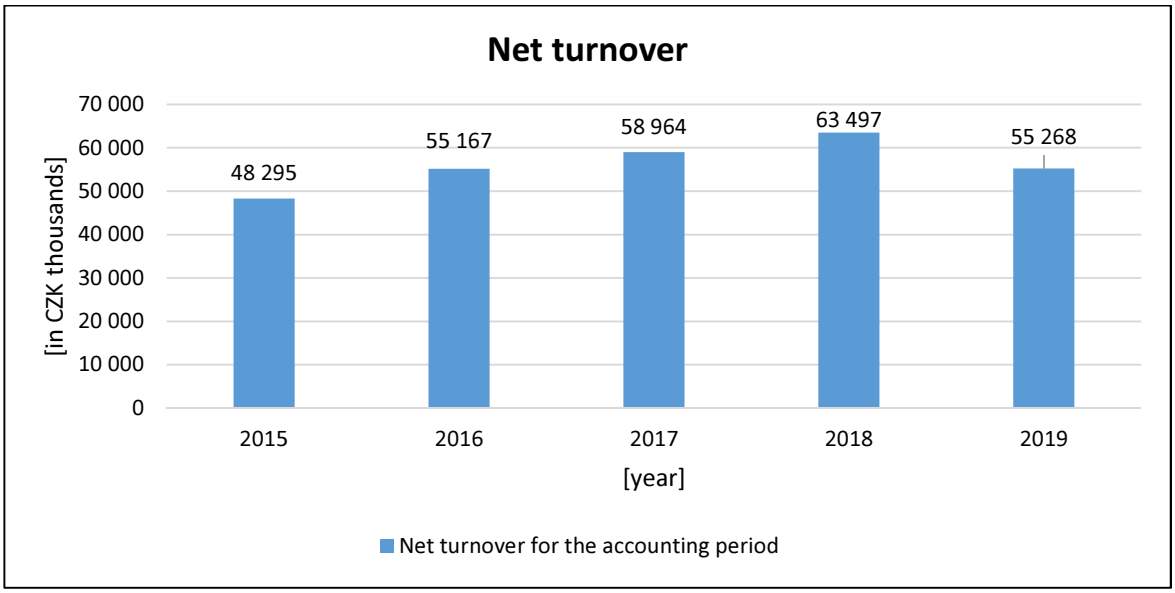
Figure 11: Development of Profit/Loss and its Parts



Source: Own processing, 2020

It is clear from figure 12 that the company increased its net turnover in the years when it was in a loss. If the net turnover is compared with the given values in the previous figure 11, it is evident that the company did not take into account its costs connected to expansion. Increasing net turnover does not automatically mean that the company is profitable. In 2019 turnover decreased, but the company got back to black numbers because of lower costs.

Figure 12: Net Turnover for the Accounting Period

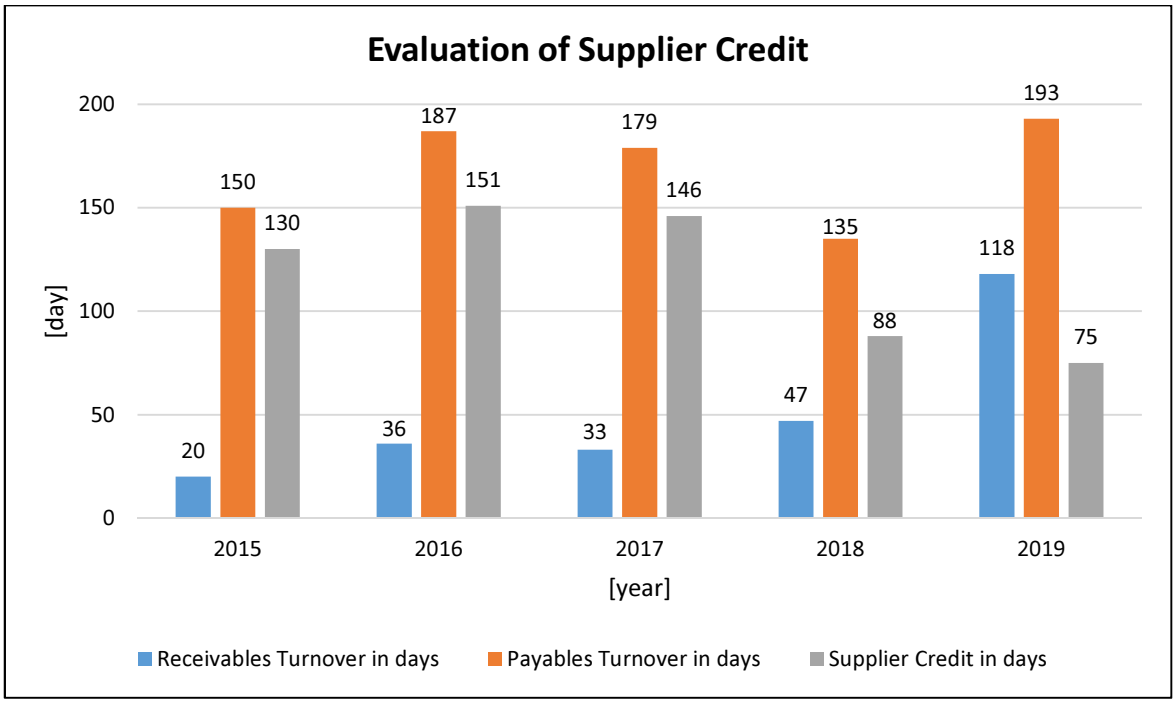


Source: Own processing based on financial statements, 2020

5.2.3 Evaluation of Supplier Credit

Supplier credit is obtained by the difference between payables and receivables. The figure resulting from this difference indicates the size of the supplier credit in days. During the supplier credit's period WalnutTrade uses external funds free of charge. The use of external funds might be used by WalnutTrade to purchase inventories and then sell those inventories in the form of a final product. Based on figure 13, it is clear that the company has enough time to buy inventories, convert those inventories into a product and then sell the final product, all of these steps by using a supplier credit. During the observed period, the average supplier credit is 118 days.

Figure 13: Comparison of Receivables Turnover and Payables Turnover



Source: Own processing, 2020

Růčková (2015) states, that it is important to observe supplier credit in the long-term point of view and afterwards to assess whether external funds are used efficiently. The effectiveness of supplier credit is compared with profitability indicators. Based on this comparison, supplier credit is used very inefficiently, as WalnutTrade's profitability is negative or very low over the observed time interval.

5.2.4 Evaluation of Indebtedness

The financial statements, vertical analysis and debt ratios show that the company is very indebted. In 2019 the debt was 98%, during the observed period the company increased its debt instead of reducing it. This has a negative effect on potential investors or banks if the company wants to take another loan. The loan from the company for co-owners in 2019 amounting to 10 million of CZK rather worsened the financial situation of the company. These funds should have been used by the company to pay off its debts, thus should cause reduction of the ratio of other resources to equity. From the results in chapter 4.4.4, it is evident that the company have to reduce the share of other sources in total assets.

5.3 Recommendation

In 2015, the company changed its strategy and expanded very quickly due to its good results in 2014. They automatized production, which was mostly hand work and single-shift until then. The company bought packaging and drying machines and a production hall. Although the automatization of production reduced the proportion of hand work labour and due to increased production, the company had to hire new employees, which also increased personal expenses. The one-shift operation remained and this means that the purchased fixed assets were ineffective. The new production hall also increased all operating costs. Another negative point was the focus on the end customer, for instance more focus on the e-shop. Orders from the e-shop need more administrative work, more labour factor in order processing and it is less profitable than orders for wholesale or retail. These reasons tended to a loss in 2016 and 2017.

In 2018 and 2019 the company got back into black numbers because they set up the following measures. They reduced focus from e-shop orders and began to focus more on retail and wholesale customers. The end customer (orders from the e-shop) is only an additional sale. The company sold the production hall and moved to a smaller hall where the rent is paid. Production was moved to the geographical area where are the lower salaries conditions. Production was automatized more and two-shift operation was introduced. Even more automated production and two-shift operation increased the efficiency of fixed assets.

During the observed period, the company grew by one co-owner, in total the company is owned by 3 co-owners. If the new partner introduces possible measures to improve the financial situation of the company, this change will be visible in the results approximately of the following three years. In 2019, the two original co-owners took a loan of 10 million CZK together from the company for private investments. This fact affected the calculated values for 2019 and in some cases these values are misleading.

The calculated values were expressively influenced by the loss in the observed period. The financial situation during the observed time interval was not at all favourable,

including the fact that in 2019 the company is from 98% indebted. Based on the analysis, the following recommendations are figured out:

- Improve the receivables turnover, for instance reduce the turnover to 30 days. The turnover of receivables for 2019 is 118 days. This indicator is misleading because it takes into account the receivable from the co-owners of the company. If the indicator were calculated only from short-term receivables, the turnover would be 46 days.
- Reduce the turnover of payables to suppliers due to improvement of payment morality. Also try to eliminate the payment in advance to suppliers who require an average of 60% of the price of the overall order. These funds from advance payment can be used more efficiently (for example, to purchase goods that in the meantime turn into cash).
- According to the field of inventory, they should be focus on higher inventory turnover. Especially focus more on FMCG as that inventory could rotates faster and unnecessary deficit caused by expiration could be eliminated. Afterwards do an inventory analysis and dispose the low-turnover goods and unprofitable goods in the assortment. Focus more on quality and revenue. Reduction of stocks in inventory because it holds unnecessarily large amount of cash that can be used, for example, to pay off debts. The company should also revaluate the goods and compare them with the competition to be competitive. Revaluation of goods mainly due to increased profit per product.
- In the area of employees, reduce the number of permanent employees and supplements the remaining capacities with temporary or part-time employees. This change will reduce personal expenses and the remaining capacities should be fulfilled occasionally according to seasonality (for example before Christmas).
- Company WalnutTrade should significantly reduce its debt to at least 50%. Companies in the sector have an average equity ratio of around 46%. WalnutTrade should achieve this sectoral average and try to make the company more financed from its own sources. In my opinion, the ratio of 50:50 is achievable and will improve the company's financial situation. The above mentioned arrangements, which will reduce costs and bring more money to repay debt, should help to reduce debt. Company should at first pay its debts to the state and then to the creditors.

- Company should be highly focused on all costs in the upcoming years and eliminate unnecessary costs. Follow up the costs is mainly to prevent the company from getting into a loss again, which could mean bankruptcy for the company.
- Marketing recommendation is related to wholesale and retail customers for whom a bonus program associated with orders could be created (for example, a quantity discount, collecting bonus points, which can be afterwards used as a discount, gifts etc.).

6 Conclusion

The main aim of this thesis was to evaluate the development of WalnutTrade in the period 2015-2019. Afterwards evaluate the financial situation of the company and create recommendations for the future development of the company. The sub-goal was to elaborate the theoretical part, which explains methods and indicators of financial analysis. The theoretical part formed the basis for the creation of the practical part, where these methods were used in the analysed company WhalnutTrade.

As already mentioned, the company has been in a loss for two years. The calculated indicators are significantly different from the recommended values according to literature, but also from the sectoral data. Financial statements as well as internal information, which were very important for evaluating the results, were available for financial analysis. The managerial decisions during the observed time interval have had a significant impact on the calculated values. Internal information is summarized in chapter 4.1.2 and final evaluation of the company, including all recommendations, are in chapter 5.3. The following paragraphs present the main recapitulation of the results.

Three main reasons are engaged out throughout the whole analysis: the rapid expansion and purchase of the production hall, the subsequent loss in 2016 and 2017, and the company's loan to two company co-owners. These affairs pass over almost all indicators to each other. It is clear, that rapid expansion caused the loss and because of that reason all profitability indicators show an ineffective trend, including negative net working capital. In 2016 and 2017, when the company was in a loss, the horizontal analysis showed significantly falls at almost each item and all profitability was in red numbers.

The huge financial problem is the indebtedness of the company, which is almost constantly rising. The share of other sources (liabilities) in comparison with own sources (equity) is rather increasing. In 2019 WalnutTrade was from 98% indebted. The fact that the co-owners borrow money from the indebted company does not contribute to this either. The aim of the co-owners should be mainly financial recovery when the company in recent years was in a loss, afterwards trying to stabilize the company and then reduce the debt.

The liquidity of the company also shows unfavourable numbers, it is well below the recommended values from the literature, but also below the sectoral averages.

The main goal of the company should be to stabilize the financial situation of the company, reduce debt to 50%, reduce operation costs and then carefully observe them. For higher profitability, the company should analyse products and exclude from the assortment those products that are low-turnover and unprofitable. The management of the company should mainly learn from the mistakes that led to the loss and should not to repeat them. For higher competitiveness, the company should increase the values of financial indicators to the sectoral average. Net turnover of the company grew up in the observed period, which is a positive indicator, but due to the loss it is arguable that the company did not pay attention to high costs. The above summary and recommendations set out in chapter 5.3 should increase WalnutTrade efficiency and its profitability.

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Annex 1: Balance Sheet in a Simply Format 2015 – 2019 (in CZK thousands) – Assets

			ASSETS	row	2015	2016	2017	2018	2019
			TOTAL ASSETS (r. 02 + 03 + 07 + 14)	01	**24 245**	**32 358**	**31 167**	**22 472**	**29 430**
A.			**Receivables from subscriptions**	02	**0**	**0**	**0**	**0**	**0**
B.			**Fixed assets (r. 04 to 06)**	03	**10 653**	**12 969**	**12 102**	**1 780**	**1 923**
B.	I.		Intangible fixed assets	04	0	0	219	147	73
B.	II.		Tangible fixed assets	05	10 653	12 969	11 883	1 633	1 850
B.	III.		Long-term financial assets	06	0	0	0	0	0
C.			**Current assets (r. 08 + 09 + 12 + 13)**	07	**13 458**	**19 290**	**18 942**	**20 491**	**27 375**
C.	I.		Inventory	08	9 025	12 522	12 734	11 737	9 356
C.	II.		Receivables	09	2 523	5 310	5 200	6 790	17 687
C.	II.	1.	Long-term receivables	10	2 520	5 135	5 108	210	10 781
C.	II.	2.	Short-term receivables	11	3	175	92	6 580	6 906
C.	III.		Short-term financial assets	12	1 910	1 458	1 008	1 964	332
C.	IV.		Cash and bank accounts	13	0	0	0	0	0
D.	I.		**Accruals**	14	**134**	**99**	**123**	**201**	**132**

Annex 2: Balance Sheet in a Simply Format 2015 – 2019 (in CZK thousands) – Liabilities and Equity

		LIABILITIES AND EQUITY	row	2015	2016	2017	2018	2019
		TOTAL LIABILITIES (r. 16 + 23 + 28)	15	**24 245**	**32 358**	**31 167**	**22 472**	**29 430**
A.		**Equity (r. 17 to21 - 22)**	16	**4 623**	**4 271**	**2 550**	**2 698**	**496**
A.	I	Registered capital	17	3 020	3 020	3 020	3 020	3 020
A.	II	Capital funds	18	0	0	4 000	4 000	1 303
A.	III	Funds from earnings	19	50	50	46	46	44
A.	IV	Profit / loss - previous year	20	69	1 553	1 201	-4 519	-4 368
A.	V	**Profit / loss - current year (+ / -)**	21	1 484	-352	-5 717	151	497
A.	VI	Decided on advance for payment of a profit share (-)	22	0	0	0	0	0
B.+C.		**Other sources (r. 24 + 25)**	23	**19 622**	**28 087**	**28 617**	**19 774**	**28 934**
B.		Reserves	24	0	0	0	0	0
C.		**Payables (ř. 26 + 27)**	25	**19 622**	**28 087**	**28 617**	**19 774**	**28 934**
B.	II	Long-term payables	26	6 110	7 218	7 956	1 345	20 930
B.	III	Short-term payables	27	13 512	20 869	20 661	18 429	8 004
D.		**Accruals**	28	**0**	**0**	**0**	**0**	**0**

Annex 3: Income Statement in a Simply Format in CZK thousands (2015-2019)

0	TEXT	row	2015	2016	2017	2018	2019
I.	Revenues from the sale of own products and services	01	116	19	0	0	0
II.	Revenues from sold goods	02	47 857	54 915	58 461	53 726	54 923
A.	Production consumption	03	40 308	46975	53175	43665	43724
B.	Change in inventory of own products (+/-)	04	0	0	0	0	0
C.	Capitalisation (-)	05	0	0	0	0	0
D.	Personal expenses	06	4724	6588	8966	7931	8656
E.	Value adjustments in the operational area	07	521	1230	1420	1913	1323
III.	Other operating revenues	08	98	94	261	9 553	236
F.	Other operating expenses	09	297	60	71	9184	599
*	**Operating profit/loss (+/-)**	10	**2 221**	**175**	**-4 910**	**586**	**854**
IV.	Revenues from long-term financial assets - shares	11	0	0	0	0	0
G.	Costs spent for sold shares	12	0	0	0	0	0
V.	Revenues from other long-term financial assets	13	0	0	0	0	0
H.	Costs related to other fixed financial assets	14	0	0	0	0	0
VI.	Interest revenues	15	0	0	0	67	0
I.	Value adjustments and reserves in the financial area	16	0	0	0	0	0
J.	Interest expenses	17	42	191	326	192	88
VII.	Other financial revenues	18	224	139	242	151	109
K.	Other financial expenses	19	569	475	726	461	378
*	**Profit/Loss from financial operations (+/-)**	20	**-387**	**-527**	**-807**	**-435**	**-357**
**	**Profit/Loss before tax (+/-) (r. 10 + 20)**	21	**1 834**	**-352**	**-5 717**	**151**	**497**
L.	**Income tax**	22	**350**	**0**	**0**	**0**	**0**
**	**Profit/Loss after tax (+/-) (r. 21 - 22)**	23	**1 484**	**-352**	**-5 717**	**151**	**497**
M.	Transfer profit (loss) to partners (+/-)	24	0	0	0	0	0
***	**Profit/Loss of current accounting period (+/-) (r. 23 - 24)**	25	**1 484**	**-352**	**-5 717**	**151**	**497**
*	**Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII**	26	**48 295**	**55 167**	**58 964**	**63 497**	**55 268**

Annex 4: Horizontal Analysis of Assets

Assets	2016/2015		2017/2016		2018/2017		2019/2018	
	ths. CZK	%	ths. CZK	%	ths. CZK	%	ths. CZK	%
TOTAL ASSETS	**8 113**	**33.5**	**-1 191**	**-3.7**	**-8 695**	**-27.9**	**6 958**	**31.0**
Receivables from subscriptions	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**
Fixed assets	**2 316**	**21.7**	**-867**	**-6.7**	**-10 322**	**-85.3**	**143**	**8.0**
Intangible fixed assets	0	0.0	219	0.0	-72	-32.9	-74	-50.3
Tangible fixed assets	2 316	21.7	-1 086	-8.4	-10 250	-86.3	217	13.3
Long-term financial assets	0	0.0	0	0.0	0	0.0	0	0.0
Current assets	**5 832**	**43.3**	**-348**	**-1.8**	**1 549**	**8.2**	**6 884**	**33.6**
Inventory	3 497	38.7	212	1.7	-997	-7.8	-2 381	-20.3
Receivables	2 787	110.5	-110	-2.1	1 590	30.6	10 897	160.5
Long-term receivables	2 615	103.8	-27	-0.5	-4 898	-95.9	10 571	5 033.8
Short-term receivables	172	5 733.3	-83	-47.4	6 488	7 052.2	326	5.0
Short-term financial assets	-452	-23.7	-450	-30.9	956	94.8	-1 632	-83.1
Cash and bank accounts	0	0.0	0	0.0	0	0.0	0	0.0
Accruals	**-35**	**-26.1**	**24**	**24.2**	**78**	**63.4**	**-69**	**-34.3**

Annex 5: Vertical Analysis of Assets

Selected Assets	2015	2016	2017	2018	2019
	%	%	%	%	%
TOTAL ASSETS	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Receivables from subscriptions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Fixed assets	**43.9**	**40.1**	**38.8**	**7.9**	**6.5**
Intangible fixed assets	0.0	0.0	0.7	0.7	0.2
Tangible fixed assets	43.9	40.1	38.1	7.3	6.3
Long-term financial assets	0.0	0.0	0.0	0.0	0.0
Current assets	**55.5**	**59.6**	**60.8**	**91.2**	**93.0**
Inventory	37.2	38.7	40.9	52.2	31.8
Receivables	10.4	164	16.7	30.2	60.1
Long-term receivables	10.4	15.9	16.4	0.9	36.6
Short-term receivables	0.0	0.5	0.3	29.3	23.5
Short-term financial assets	7.9	4.5	3.2	8.7	1.1
Cash and bank accounts	0.0	0.0	0.0	0.0	0.0
Accruals	**0.6**	**0.3**	**0.4**	**0.9**	**0.4**

Annex 6: Horizontal Analysis of Liabilities and Equity

Liabilities and Equity	2016/2015		2017/2016		2018/2017		2019/2018	
	ths. CZK	%	ths. CZK	%	ths. CZK	%	ths. CZK	%
TOTAL LIABILITIES	**8 113**	**33.5**	**-1 191**	**-3.7**	**-8 695**	**-27.9**	**6 958**	**31.0**
Equity	**-352**	**-7.6**	**-1 721**	**-40.3**	**148**	**5.8**	**-2 202**	**-81.6**
Registered capital	0	0.0	0	0.0	0	0.0	0	0.0
Capital funds	0	0.0	4 000	0.0	0	0.0	-2 697	-67.4
Funds from earnings	0	0.0	-4	-8.0	0	0.0	-2	-4.3
Profit / loss - previous year	1 484	2 150.7	-352	-22.7	-5 720	-476.3	151	-3.3
Profit / loss - current year (+ / -)	**-1 836**	**-123.7**	**-5 365**	**1 524.1**	**5 868**	**-102.6**	**346**	**229.1**
Decided on advance for payment of a profit share (-)	0	0.0	0	0.0	0	0.0	0	0.0
Other sources	**8 465**	**43.1**	**530**	**1.9**	**-8 843**	**-30.9**	9 160	46.3
Reserves	0	0.0	0	0.0	0	0.0	0	0.0
Payables	**8 465**	**43.1**	**530**	**1.9**	**-8 843**	**-30.9**	**9 160**	**46.3**
Long-term payables	1 108	18.1	738	10.2	-6 611	-83.1	19 585	1456.1
Short-term payables	7 357	54.4	-208	-1.0	-2 232	-10.8	-10 425	-56.6
Accruals	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**

Annex 7: Vertical Analysis of Liabilities and Equity

Liabilities and Equity	2015	2016	2017	2018	2019
	%	%	%	%	%
TOTAL LIABILITIES	**100**	**100**	**100**	**100**	**100.0**
Equity	**19.1**	**13.2**	**8.2**	**12.0**	**1.7**
Registered capital	12.5	9.3	9.7	13.4	10.3
Capital funds	0.0	0.0	12.8	17.8	4.4
Funds from earnings	0.2	0.2	0.1	0.2	0.1
Profit / loss - previous year	0.3	4.8	3.9	-20.1	-14.8
Profit / loss - current year (+ / -)	**6.1**	**-1.1**	**-18.3**	**0.7**	**1.7**
Decided on advance for payment of a profit share (-)	0.0	0.0	0.0	0.0	0.0
Other sources	**80.9**	**86.8**	**91.8**	**88.0**	**98.3**
Reserves	0.0	0.0	0.0	0.0	0.0
Payables	**80.9**	**86.8**	**91.8**	**88.0**	**98.3**
Long-term payables	25.2	22.3	25.5	6.0	71.1
Short-term payables	55.7	64.5	66.3	82.0	27.2
Accruals	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Annex 8: Horizontal Analysis of Income Statement

Selected item from income statement	2016/2015		2017/2016		2018/2017		2019/2018	
	ths. CZK	%	ths. CZK	%	ths. CZK	%	ths. CZK	%
Revenues from the sale of own products and services	-97	-83.6	-19	-100	0	0	0	0
Revenues from sold goods	7 058	14.7	3 546	6.5	-4 735	-8.1	1 197	2.2
Production consumption	6 667	16.5	6 200	13.2	-9 510	-17.9	59	0.1
Change in inventory of own products (+/-)	0	0.0	0	0.0	0	0.0	0	0.0
Capitalisation (-)	0	0.0	0	0.0	0	0.0	0	0.0
Personal expenses	1 864	39.5	2 378	36.1	-1 035	-11.5	725	9.1
Value adjustments in the operational area	709	136.1	190	15.4	493	34.7	-590	-30.8
Other operating revenues	-4	-4.1	167	177.7	9 292	3 560.2	-9 317	-97.5
Other operating expenses	-237	-79.8	11	18.3	9 113	12 835.2	-8 585	-93.5
Operating profit/loss (+/-)	**-2 046**	**-92.1**	**-5 085**	**-2 905.7**	**5 496**	**-111.9**	**268**	**45.7**
Revenues from long-term financial assets - shares	0	0.0	0	0.0	0	0.0	0	0.0
Costs spent for sold shares	0	0.0	0	0.0	0	0.0	0	0.0
Revenues from other long-term financial assets	0	0.0	0	0.0	0	0.0	0	0.0
Costs related to other fixed financial assets	0	0.0	0	0.0	0	0.0	0	0.0
Interest revenues	0	0.0	0	0.0	67	0.0	-67	-100.0
Value adjustments and reserves in the financial area	0	0.0	0	0.0	0	0.0	0	0.0
Interest expenses	149	354.8	135	70.7	-134	-41.1	-104	-54.2
Other financial revenues	-85	-37.9	103	74.1	-91	-37.6	-42	-27.8
Other financial expenses	-94	-16.5	251	52.8	-265	-36.5	-83	-18.0
Profit/Loss from financial operations (+/-)	-140	36.2	-280	53.1	372	-46.1	78	-17.9
Profit/Loss before tax (+/-) (r. 10 + 20)	**-2 186**	**-119.2**	**-5 365**	**1 524.1**	**5 868**	**-102.6**	346	229.1
Income tax	-350	-100.0	0	0.0	0	0.0	0	0.0
Profit/Loss after tax (+/-)	**-1 836**	**-123.7**	**-5 365**	**1 524.1**	**5 868**	**-102.6**	346	229.1
Transfer profit (loss) to partners (+/-)	0	0.0	0	0.0	0	0.0	0	0.0
Profit/Loss of current accounting period (+/-)	**-1 836**	**-123.7**	**-5 365**	**1 524.1**	**5 868**	**-102.6**	346	229.1
Net turnover for the accounting period	**6 872**	**14.2**	**3 797**	**6.9**	**4 533**	**7.7**	-8229	-13.0

Annex 9: Vertical Analysis of Income Statement

Income Statement	2015	2016	2017	2018	2019
	%	%	%	%	%
Total Revenues	100	100	100	100	100
Revenues from the sale of own products and services	0.24	0.03	0.00	0.00	0.00
Revenues from sold goods	99.76	99.97	100	100	100.00
Production consumption	84.02	85.51	90.96	81.27	79.61
Change in inventory of own products (+/-)	0.00	0.00	0.00	0.00	0.00
Capitalisation (-)	0.00	0.00	0.00	0.00	0.00
Personal expenses	9.85	11.99	15.34	14.76	15.76
Value adjustments in the operational area	1.09	2.24	2.43	3.56	2.41
Other operating revenues	0.20	0.17	0.45	0.31	0.43
Other operating expenses	0.62	0.11	0.12	16.55	1.09
Operating profit/loss (+/-)	**4.63**	**0.32**	**-8.40**	**1.09**	**1.55**
Revenues from long-term financial assets - shares	0.00	0.00	0.00	0.00	0.00
Costs spent for sold shares	0.00	0.00	0.00	0.00	0.00
Revenues from other long-term financial assets	0.00	0.00	0.00	0.00	0.00
Costs related to other fixed financial assets	0.00	0.00	0.00	0.00	0.00
Interest revenues	0.00	0.00	0.00	0.12	0.00
Value adjustments and reserves in the financial area	0.00	0.00	0.00	0.00	0.00
Interest expenses	0.09	0.35	0.56	0.36	0.16
Other financial revenues	0.47	0.25	0.41	0.28	0.20
Other financial expenses	1.19	0.86	1.24	0.86	0.69
Profit/Loss from financial operations (+/-)	**-0.81**	**-0.96**	**-1.38**	**-0.81**	**-0.65**
Profit/Loss before tax (+/-)	**3.82**	**-0.64**	**-9.78**	**0.28**	**0.90**
Income tax	0.73	0.00	0.00	0.00	0.00
Profit/Loss after tax (+/-)	**3.09**	**-0.64**	**-9.78**	**0.28**	**0.90**
Transfer profit (loss) to partners (+/-)	0.00	0.00	0.00	0.00	0.00
Profit/Loss of current accounting period (+/-)	**3.09**	**-0.64**	**-9.78**	**0.28**	**0.90**
Net turnover for the accounting period	**100.67**	**100.42**	**100.86**	**118.19**	**100.63**