

Influence of the venture capital investment on economic performance of a chosen company

Bachelor thesis

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Abstract

This bachelor thesis is focused on the evaluation of the venture capital impact on the economic performance of the Kofola Group joint-stock company, a famous Czech producer of soft-drink beverages. The first part of the thesis deals with the topics surrounding venture capitalism, in addition to both the positive and negative aspects. Various tools will be used for financial analyses in an effort to gain a better understanding of the venture capital investor's impact on the financial situation of the company. In addition to this, a time-series analysis will be provided, supplemented by a comparison to the beverage industry in the Czech Republic and Kofola's main competitor. Non-financial indicators, including the description of the quality of products, innovations, evaluation of CSR activities, and others will also be used in addition to the financial indicators. After summarizing the results, a comparison with other studies related to the impact of venture capital on companies is provided. The thesis should provide to its readers a further understanding of the venture capital approach, its potential influence on a chosen company, as well as the influence of venture capital funds on the macro-economic environment.

Key words

Venture capital, venture capital fund, Kofola Group, Enterprise Investors, financial analysis

Abstrakt

Bakalářská práce je zaměřená na hodnocení vlivu venture kapitálu na ekonomickou výkonnost podniku Kofola Group a.s., známého českého výrobce nealkoholických nápojů. První část se zabývá problematikou venture kapitálu a také jeho pozitivními a negativními vlivy. V této části jsou vysvětlené nástroje použité na vytvoření finanční analýzy podniku pro lepší pochopení vlivu investora venture kapitálu na finanční situaci podniku. Mimo jiné je tu také uvedena analýza časových sledů, doplněná o porovnání výsledků s nápojovým sektorem České republiky a hlavními konkurenčními firmami. Kromě finančních ukazatelů jsou zde použity také nefinanční ukazatele zahrnující popis kvality produktů, inovace a zhodnocení CSR aktivit a jiné. Po hodnocení výsledků se práce zabývá porovnáním zjištěných výsledků s jinými studiemi souvisejícími s vlivem venture kapitálu na podniky. Práce by měla čtenáři poskytnout větší porozumění problematice venture kapitálu, jeho potenciálního vlivu na vybraný podnik a vlivu fondů venture kapitálu na makroekonomické prostředí.

Klíčová slova

Venture kapitál, fond venture kapitál, Kofola Group, Enterprise Investors, finanční analýza

Table of contents

1	Introduction and objectives of thesis	14
1.1	Introduction.....	14
1.2	Objectives of thesis.....	15
2	Methodology	16
3	Literature overview	19
3.1	Essentials of venture capital.....	19
3.1.1	History of venture capital.....	20
3.1.2	Difference between venture capital and business angel financing.....	20
3.2	Venture capital funds.....	21
3.2.1	Investment process.....	21
3.2.2	Exit vehicles.....	23
3.3	Types of venture capital.....	24
3.4	Associations of venture capital.....	25
3.5	Venture capital from company's point of view.....	25
3.6	Venture capital market in Czech Republic.....	27
3.6.1	Supporting measures.....	28
3.7	Benefits and negative implications of venture capital source of finance.....	29
3.7.1	Benefits of venture capital.....	29
3.7.2	Research studies on venture capital.....	30
3.7.3	Negative aspects of venture capital.....	31
3.8	Financial analysis overview.....	31
3.8.1	Liquidity ratios.....	32
3.8.2	Activity ratios.....	33
3.8.3	Debt (leverage) ratios.....	34
3.8.4	Profitability ratios.....	35
3.8.5	Dupont analysis.....	36
3.8.6	Altman's Z-Score.....	37
3.8.7	In95 model.....	37
4	Analytical Part	39
4.1	The Kofola Group.....	39
4.2	Venture capital involvement.....	40
4.3	Potential growth of the company.....	41
4.4	Potential influence of the venture capital.....	42
4.5	Financial analysis of the Kofola Group.....	45
4.5.1	Liquidity ratios.....	45
4.5.2	Activity ratios.....	49
4.5.3	Debt ratios.....	54
4.5.4	Profitability ratios.....	57

4.5.5	Dupont analysis.....	61
4.5.6	Cross sectional analysis.....	64
4.5.7	Altman's Z-Score	68
4.5.8	In95 model	68
5	Discussion	70
6	Conclusion	74
7	References	76
A	Balance sheet of Kofola Group	83
B	Profit and loss statement of Kofola Group	87
C	Main financial indicators of the Kofola Group, its competitors, and beverage industry in CZ for 2013	88
D	List of abbreviations	89

List of Figures

Figure 1	Current ratio of Kofola Group and beverage industry in CZ since 2007	46
Figure 2	Quick asset ratio of the Kofola Group and beverage industry in CZ since 2007	47
Figure 3	Cash position ratio of the Kofola Group and beverage industry in CZ since 2007	48
Figure 4	Inventory turnover of the Kofola Group and beverage industry in CZ since 2007	50
Figure 5	Inventory turnover ratio of the Kofola Group and beverage industry in CZ since 2007	51
Figure 6	Average collection period of the Kofola Group since 2007	52
Figure 7	Total asset turnover ratio of the Kofola Group and beverage industry in CZ since 2007	53
Figure 8	Creditor's payment period of the Kofola Group and beverage industry in CZ since 2007	54
Figure 9	Debt ratio of the Kofola Group and beverage industry in CZ since 2007	55
Figure 10	Debt equity ratio of the Kofola Group and beverage industry in CZ since 2007	56
Figure 11	Times interest earned ratio of the Kofola Group since 2007	57
Figure 12	Gross profit margin of the Kofola Group since 2007	58
Figure 13	Return on assets of the Kofola Group and beverage industry in CZ since 2007	59
Figure 14	Return on equity of the Kofola Group and beverage industry in CZ since 2007	60
Figure 15	Return on sales of the Kofola Group and beverage industry in CZ since 2007	61
Figure 16	Decomposition of ROE indicator describing change of values between years 2012 and 2013	63
Figure 17	Additional decomposition of ROE indicator describing change of values between years 2012 and 2013	64

List of Tables

Table 1	Kofola products' share volume and share value in 2007 2008	42
Table 2	Values of the main economic indicators of Kofola Group from 2007 to 2013	45
Table 3	Kofola Group's number of employees since 2007	45
Table 4	Current ratio of Kofola Group and beverage industry in CZ since 2007	46
Table 5	Quick asset ratio of the Kofola Group and beverage industry in CZ since 2007	47
Table 6	Cash position ratio of the Kofola Group and beverage industry in CZ since 2007	48
Table 7	Inventory turnover of the Kofola Group and beverage industry in CZ since 2007	49
Table 8	Inventory turnover ratio of the Kofola Group and beverage industry in CZ since 2007	50
Table 9	Average collection period of the Kofola Group since 2007	51
Table 10	Total asset turnover ratio of the Kofola Group and beverage industry in CZ since 2007	52
Table 11	Creditor's payment period of the Kofola Group and beverage industry in CZ since 2007	53
Table 12	Trade deficit of the Kofola Group since 2007	54
Table 13	Debt ratio of the Kofola Group and beverage industry in CZ since 2007	55
Table 14	Debt equity ratio of the Kofola Group and beverage industry in CZ since 2007	56
Table 15	Times interest earned ratio of the Kofola Group since 2007	57
Table 16	Gross profit margin of the Kofola Group since 2007	58
Table 17	Return on assets asset of the Kofola Group and beverage industry in CZ since 2007	59
Table 18	Return on equity of the Kofola Group and beverage industry in CZ in 2007	60

		13
Table 19	Return on sales of the Kofola Group and beverage industry in CZ since 2007	61
Table 20	DuPont indicators of the Kofola Group since 2007	62
Table 21	Additional DuPont indicators of the Kofola Group since 2007	62
Table 22	Annual comparison of DuPont's decomposition of indicator ROE and its development within the Kofola Group since 2007	63
Table 23	Additional annual comparison of DuPont's decomposition of indicator ROE and its development within the Kofola Group since 2007	63
Table 24	Profitability and Liquidity ratio values of Kofola, its competitors, and industry for 2013	65
Table 25	Debt ratio values of Kofola, its competitors, and industry for 2013	66
Table 26	Activity ratio values of Kofola, its competitors, and industry for 2013	67
Table 27	Altman model of prediction of financial status of Kofola Group	68
Table 28	IN05 model of prediction of financial status of Kofola Group	69

1 Introduction and objectives of thesis

1.1 Introduction

One of the most important resources for start-up companies as well as expanding companies is money resources. A common problem exists where the owners of a business are not able to finance their business by their own sources; therefore, they are forced to cooperate with banks and other financial institutions for financial assistance. However, some of these businesses are not able to acquire loans because of the great potential risks connected to their business. A venture capital type of investment brings a solution to this problem.

Venture capital type of financing is a new type of financing businesses which started emerging in Europe around 1988. Its origin comes from the US, where this type of financing was used primarily for start-up and expansion businesses involving high risks. Venture capital is focused primarily on innovative projects, which are also connected with great potential of development. Venture capital investors are therefore very careful in choosing a portfolio company to invest in, since even if they invest in a risky project, they must be sure that the investment will bring them high returns. In the current age, venture capital investments are not as risky as they were in the past (Landström et al., 2012; Dvořák et al., 1998).

This thesis deals with the topics surrounding venture capitalism, in addition to both the positive and negative aspects, in relation to Kofola Group joint stock company, which is one of the most popular non-alcoholic beverage producers in Central Europe. The venture capital investors "Enterprise Investors" invested in the Kofola Group in November 2008 and acquired 42,45% of the company's shares in return. The financial investment was in the amount of 132 mil. EUR (SME, 2008; KofolaPL, 2015a). Many potential factors might have attracted the investors to invest in this company involving high quality of product, skilled and experienced management, qualified employees, an original marketing strategy, popularity of the brand in its domestic market, etc. (Kofola, 2008; Kofola, 2009; Ministerstvo spravedlnosti, 2008; Ministerstvo spravedlnosti, 2011). This type of venture capital investment was not very typical however, since the rate of risk was not as high as in the other cases of VC involvement. On the other hand, I found it very interesting to examine the impact of the venture capital for this specific company due to various reasons. The main reason is that Kofola Group maintained a very strong position on the market even though its competitors were globally famous brands with long traditions - Coca-Cola and PepsiCo. Kofola Group, a small company, was famous in the communism era in Czechoslovakia. It became a very popular brand in the modern Czech Republic and Slovakia, as well as other countries because of its original marketing strategy which relied on nostalgia and tradition. However, it did not become as popular among the old generation as it did among young people. Nowadays, Kofola Group is one of the TOP 5 most admired companies in the Czech Republic.

1.2 Objectives of thesis

The main aim of this thesis is to identify and evaluate the impact of the venture capital investment fund on the Kofola Group joint stock company from an economic benefit perspective.

Kofola Group was became very famous and profitable company in 2007, and this thesis identifies the influence of the venture capital investor that entered in 2008. Except of the primary objective, the thesis deals with partial objectives that need to be fulfilled as well. These involve identification of proper financial tools to measure economic performance before realization of venture capital investment and after the investment. Another partial objective is to evaluate the economic performance using those financial tools for a specific period of time (2007-2013). Moreover, another objective is to identify the economic performance status using a spatial comparison within the beverage industry in the Czech Republic. Due to this, the impact of the venture capital might become more visible and substantial. Finally, the partial objective of this thesis is also to provide a comparison of the financial data of Kofola Group with competitor companies using cross-sectional analysis.

Respective results in connection with the defined partial goals will be utilized in an effort to meet the main objective. This will be completed by applying financial analysis indicators for financial data of the Kofola Group as well as financial data of the beverage industry and competitor objectives.

2 Methodology

The literature overview describes general information surrounding the venture capital way of finance. The complex description involves analysis and synthesis of the information regarding the early beginnings of venture capital as well as the current situation in the Czech market, investment process, and parties involved in the venture capital financing. Benefits and negative aspects of venture capital are also included. The theoretical part should provide a basic understanding of the venture capital fund, which is a present source of finance in the chosen company, Kofola. In addition to this, the literature overview describes, among others, the usage of financial analysis and its tools, which are used in the analytical part of the thesis.

The second part of the bachelor thesis describes the influences of the venture capital fund on the chosen company through detailed analyses of the company's financial statements, annual reports, and other documents available on the public portal justice.cz and websites of the Kofola Group. The analysis is made on a time-series basis, which analyzes the situation of the company before and after the investment was done. Moreover, all results are compared with the average beverage industry in the Czech Republic. The additional analysis provides a cross-sectional overview, comparing the company with its primary competitors. The following ratios are the employed financial analysis indicators (Kislingerová, 2007; Lawrence et al., 2015; Grunwald et al., 2009; Loth, 2015; Ratio Analysis, 2015; Kurt, 2015):

Liquidity ratios

$$* \text{ current ratio} = \frac{\text{current assets}}{\text{current liabilities}} \quad [1]$$

$$* \text{ quick ratio} = \frac{\text{cash \& equivalents} + \text{short t.investments} + \text{accounts receivables}}{\text{current liabilities}} \quad [2]$$

$$* \text{ cash position ratio} = \frac{\text{short term financial assets}}{\text{current liabilities}} \quad [3]$$

Activity ratios

$$* \text{ inventory turnover} = \frac{\text{inventory}}{\text{sales}/360} \quad [4]$$

$$* \text{ inventory turnover ratio} = \frac{\text{cost of goods sold}}{\text{inventories}} \quad [5]$$

$$* \text{ average collection period} = \frac{\text{current receivables}}{\text{sales}/360} \quad [6]$$

$$* \text{ total asset turnover ratio} = \frac{\text{sales}}{\text{total assets}} \quad [7]$$

$$* \text{ creditor's payment period} = \frac{\text{current liabilities}}{\text{sales}/360} \quad [8]$$

Debt ratios

$$* \text{ debt ratio} = \frac{\text{total liabilities}}{\text{total assets}} \quad [9]$$

$$* \text{ debt to equity ratio} = \frac{\text{total liabilities}}{\text{equity}} \quad [10]$$

$$* \text{ times interest earned ratio} = \frac{\text{EBIT}}{\text{interest expenses}} \quad [11]$$

Profitability ratios

$$* \text{ gross profit margin} = \frac{\text{sales} - \text{cost of goods sold}}{\text{net sales (revenues)}} \quad [12]$$

$$* \text{ net profit margin} = \frac{\text{earnings after taxation}}{\text{net sales (revenues)}} \quad [13]$$

$$* \text{ return on assets (ROA)} = \frac{\text{EBIT}}{\text{total assets}} \quad [14]$$

$$* \text{ return on equity (ROE)} = \frac{\text{earnings after taxation}}{\text{stockholders' equity}} \quad [15]$$

$$* \text{ return on sales (ROS)} = \frac{\text{earnings after taxation}}{\text{revenue}} \quad [16]$$

In addition to the synthetic indicators of the financial analysis, an employed approach to financial analysis can also be taken, which helps to reveal mutual relations through indicators' systems. DuPont analysis is used to identify key areas responsible for the financial status of the business and provide information regarding year-on comparison on a time-series basis. The index method may be used for decomposition of the ROE indicator according to the formula:

$$\begin{aligned} \Delta ROE = ROE_1 - ROE_0 = & a_1 b_0 c_0 - a_0 b_0 c_0 \\ & + a_1 b_1 c_0 - a_1 b_0 c_0 \\ & + a_1 b_1 c_1 - a_1 b_1 c_0 \end{aligned} \quad [17]$$

where a = asset turnover, b = ROS, c = financial leverage indicator.

$$* \text{ financial leverage} = \text{total assets} / \text{total equity} \quad [18]$$

$$* \text{ asset turnover} = \text{total sales} / \text{total assets} \quad [19]$$

Moreover, the thesis employs bankruptcy and credibility models to identify potential financial problems within the company.

Altman's Z-Score model is used to forecast and evaluate the prosperity of the company and identifies the possibility of bankruptcy. These indicators employ with the working capital indicator of the company. Lastly, the Czech bankruptcy and credibility model IN05 is used, which evaluates the financial situation and solvency of the company. Due to these indicators, it is possible to evaluate the potential risks that company might encounter.

Cross-sectional analysis is used to compare the financial indicators of the company with its main competitors in the markets where Kofola Group operates. These values might reveal the difference between a venture capital backed company and a non-venture capital backed company.

The discussion section of the bachelor thesis compares other studies surrounding the impact of venture capital with the results of this thesis. Recommendations are also provided, including further research and comments from the author of the thesis. The summary of the results is provided in the conclusion part.

3 Literature overview

3.1 Essentials of venture capital

Venture capital is a type of funding engaged primarily on innovation and project development. It originated in the USA and its dynamic expansion within the world financial markets was significant during the last decades. (Dvořák et al., 1998) Landström and Mason (2012) categorize venture capital as one of the private equity investment types, which is still in the process of development. In addition to venture capital, private equity involves growth capital, mezzanine capital, and leveraged buyout capital. According to Dvořák et al. (1998), venture capital differs from other investment types primarily by the extent or risk as well as profit extent.

Surprisingly, after years of investing, there is still insufficient amount of theoretical background in this field and therefore, terminology of venture capital processes is still not unified. Venture capital is also often considered as a synonym to private equity (Ptacek, 2014).

Due to Dvořák and Procházka (1998), the primary use of venture capital involves early stage development, expansion, and project buyouts. Investors receive the agreed part of the initial capital from a company as a recompense for providing venture capital. The most significant VC investors are banks, pension funds, and insurance companies.

The term venture capital was created in the Harvard School of Business and defined a long-term investment into risky projects (enterprises which are not part of the public markets). Compensation for risk was an undertaking of high returns from the investment itself. However, nowadays the investments are not very risky, especially when investing in so called transaction operations of the management buy-out (MBO) or management buy-in (MBI) type. The term has a wide meaning but the facts remain the same - an investor invests directly into the initiative property of firms which are not publically tradable. The investor receives a significant part of the company and with the management of the company, attempts to increase the price of the company. The evaluation of the investment may be done and after the investor sells his or her part of the company, they claim the profit (Dvořák et al., 1998).

Režňáková (2012) explains that from the company's point of view, venture capital is considered as an own external financial source. VC investors become co-owners of the company and as a result, acquire certain rights:

- the right to be engaged in the management of the company (right to vote during general assembly meetings)
- the right to receive profit paid according to decisions of the general assembly after taxation
- the right to acquire a part of liquidation residuals (after satisfaction of creditors)

However, none of the rights involve getting back invested capital (unless it is mentioned in the contract) and being held liable for a company's obligations (Režňáková, 2012).

Venture capital is very dependent on human capital, which is defined as "the knowledge and skills that venture capital managers bring to the particular investment tasks they set out to perform". (Landström et al., 2012, p. 105) The individual human capital role is to select ventures, add value to them, and subsequently bring them to the market. According to Landström and Mason (2012), a very important characteristic of individual capital is the education and experiences brought to the VC firm as well as collective human capital, which is characterized by collective experience of the VC teams.

3.1.1 History of venture capital

Venture capital form of investment started emerging around 1988 in Europe. An increase of VC funds' size and investments can be seen after 2000. However, the birth of the venture capital industry is dated back to 1946, when in the US, the American Research and Development was formed. As a result, changes in the US capital profit taxes legislation occurred and the first fund "General Dorio" was created in the US. The first appearance of venture capital came though from Columbus's journey, since Queen Isabella and King Ferdinand were involved in high risk venture capital by financing his exploration. Another example of historical venture financing may be seen in the story of Thomas Edison, who was in need of capital so that he could commercialize his electric light bulb. Many war and marine expeditions as well as industrial innovative products were financed by venture capital principles (Landström et al., 2012; Dvořák et al., 1998).

3.1.2 Difference between venture capital and business angel financing

Venture capital type of financing is very often perceived to have the same definition as angel financing. It is no wonder that it is so, because these two types of financing are very similar. However, there are very significant differences that need to be understood.

One of the most important differences according to Režňáková (2012), is that business angel financing is represented by one individual investor. He or she brings the 'know-how' into the company and it is in his or her best interest to use their own experiences and contact networks to support growth of the company.

Landström and Mason (2012) stated that unlike venture capital financing, angel financing has a short-term impact on business activity. The size of an angel market can be up to 40 times bigger than that of the venture capital market. Business angels invest more frequently into those areas that venture capitalists are reluctant to invest in. Venture capital is a more formal type of financing, which is usually the reason why angel financing is more preferred. While formal venture capital is often focused on specific geographical areas, business angels are much more dispersed. The angel market of the EU in 2008 involved 75 000 angels investing 4 billion EUR into their portfolio companies (Landström et al., 2012).

3.2 Venture capital funds

VC funds are usually funds organized as a limited partnership primarily because of the fact that there is no strict legislation connected to it. Their lifetime is 10-13 years (3-5 years of investing in companies and another 5-7 years of reaping the reward and distributing the returns) (Haislip, 2010; Landström et al., 2012; Dvořák et al., 1998).

Dvořák and Procházka (1998) characterize investors' composition within the funds according to their roles. A limited partner of the fund represents cornerstone investors who receive profit according to the size of their investment. Another type of partner is an unlimited partner, who forms the investment committee and is held liable with all of their property. The last type of partner is the promoter, who is characterized as the person on whose name the fund is registered. A promoter is usually one of the cornerstone investors or owners of the managerial company (Haislip, 2010; Landström et al., 2012; Dvořák et al., 1998).

Furthermore, Dvořák and Procházka (1998) also mention that the role of venture capital funds is to create portfolios of investment and as a result, manage a higher control of risk. After fund creation, a fund usually contacts a managerial company to cooperate with. Managerial companies take care of investment research, evaluation of potential client companies, arrange realization of investment, and provide a monitoring function within client companies. Consequently, the actions of managerial companies are bounded by the contracts made with the individual funds. The members of managerial companies usually also become members of the investor committee of the venture capital fund. Managerial companies are usually joint stock companies or limited liability companies and do not consist of any permanent employees. Their profit from the investment is usually set as a fixed percentage from the amount of its activities, which is also known as the management fee or management charge. There is carried interest (usually 20% from the profit of the fund), which is paid to the managerial company after investors are paid by their invested amount increased by a hurdle. The carried interest represents a long-term motivation for the highest evaluation of the fund as possible. In addition to the mentioned financial sources, a managerial company receives money from the client company in form of royalties, underwriting fees, syndication fees, broken deal fees, and other fees (Dvořák et al., 1998).

3.2.1 Investment process

There are various ways how investors contact companies interested in capital investment. A direct way is in the situation when there are no intermediaries between primary investors and portfolio companies. This occurs in the case of business angel financing. In the case of venture capital financing, the intermediaries are usually represented by venture capital funds (local or international) and managerial companies. Each intermediary has its own role in the investment process and therefore, investors themselves do not have to have all of the responsibility for the

investment. In some special cases, primary investors contact managerial companies, but they are not part of the venture capital fund (Dvořák et al., 1998).

According to Dvořák and Procházka (1998), an investment process starts when VC funds are looking for investment opportunities. Funds consequently evaluate the options, and select projects that seem to be profitable and realistic. There are situations when companies contact VC funds and ask for funding; however, this usually happens for bad reasons, such as when a company is bankrupting or projects are not profitable. The most common situation is that managerial companies find a profitable project and submit the idea to the VC fund. In this case, a deep analysis of different parameters is needed and often requires too much time. The most effective way approach is when potential clients are selected by banks, consultancy firms, economic chambers, innovative centers, or universities. Preliminary selection of potential clients is made through contact networks which hold information regarding clients and provide flow of high quality investment opportunities.

After potential client companies are found, the evaluation of different parameters is completed. The fund looks to see if there is any potential development in the company, how capable the management team is, if the potential profit corresponds to the investor's criteria, and if the profit balances the risk (Dvořák et al., 1998).

The investment process itself starts at the moment of first contact between the client and the investment manager. From the works of Režňáková (2012), Haislip (2010), Dvořák et al. (1998), and Landström et al. (2012), four steps in the investment process are formulated:

1. Parties clarify their expectations and check if all criteria are kept. The clearance concept is subsequently submitted to the fund commission and a disclosure agreement created (regarding safety of credible information). Many investment proposals are denied in this phase.
2. The business plan, a document in which the entrepreneur presents to the potential investors the profitable potential of the business intention, is submitted to managerial company for evaluation of the business intention and required profit, according to the size of the risk. The business plan is also analyzed and checked to determine if all necessary required information is included. Consequently, the fund makes the final decision and informs the clients about its standpoint. The phase is terminated by submitting the official offer letter which includes conditions, structure, requirements, and the size of the investment.
3. The third phase involves due diligence characterized by the vetting of the entrepreneur. Due diligence involves the frequent interviewing of an entrepreneur, testing of the proposed technology, and contacting potential customers and experts in the applicable field. Structuring of investment as well as possible syndication is made in this phase as well. The final step includes

the creation of an investment proposal by the managerial company which must be approved by the board of the venture capital fund.

4. The last phase of the investment process involves final negotiations concerning the final contract formulation and terminates with the signing of the investment contract/s (usually more contracts are made). Landström and Mason (2012) explain that VC contracts between parties are very detailed and include the usage of different securities in the form of veto and control rights. Even if there is poor legal protection provided in a country, parties can include different clauses to reduce the potential hold-up between the investee and investor.

After realization of the investment, managers of the managerial company are involved in monitoring and value-adding activities, as well as dealing with crisis situations. The manager is also a member of the supervisory board or other boards in the company; however, the manager never replaces professional management of the company (except in a crisis situation). Managers provide operating expertise, financial and strategic management experiences, contacts and experiences in personnel recruitment, negotiation, and selection skills, etc. Divestment (the realization of exit) terminates the whole investment process. (Landström et al., 2012; Dvořák et al., 1998).

3.2.2 Exit vehicles

According to Režňáková (2012), investments end with the divestment phase, which involves several exit routes for investors to get back invested capital. It should be in their interest to obtain the highest possible evaluation. However, some of the exit routes are not preferred by entrepreneurs. The most preferred way of exit, according to Landström and Mason (2012), is divestment of flotation IPO - Initial public offering, when company's shares are for the first time listed on the stock exchange. In this case, the entrepreneur regains control over the enterprise. Furthermore, an acquisition exit route represents the effective expelling of the entrepreneur (Landström et al., 2012; EVCA, 2013).

As explained by Dvořák and Procházka (1998), the other most common ways of divestment include:

- buybacks: entrepreneur repurchases the venture capital fund's shares
- shares are sold to a strategic partner: buyer requires the company will support his own business activities
- shares are placed in a stock market (NASDAQ, ESDAQ, etc.): significant size of company is required
- refinancing: replacing shares by other financial sources (ex. other venture capital funding)
- write-offs: involuntary exit in case of loss, followed by liquidation of the company. The value of the company is, in that case, equal or close to zero.

Before disinvestment, an evaluation of the investment is made. Investment value is compared to profit and is increased by the time value of money. The selling price can be calculated from a combination of three basic methods - market reconciliation methods (value is the same as the market offers), object value methods (evaluation of company's activities subtracted by the debt of the company), and discounted cash-flow methods (evaluation of the expected benefits of the company) (Dvořák et al., 1998).

3.3 Types of venture capital

According to EVCA (2013) and Dvořák et al. (1998), there are several types of venture capital that can be identified in relation to the stages of development of a venture-backed company:

- Seed capital: funding of the company in its early stages of the business. This involves funding even before actual creation of the company (funding the prototype of the product/service, financing legal secure of the contract, processing of business plan, research, etc.) This type of VC contains the highest risk and usually brings profit after 7-12 years from initiation.
- Start-up capital: investing into the early stages of the business activity, when product, management, and research reports already exist. Financing is provided for product development and initial marketing. Returns from this stage of capital investing are expected in 5-10 years.
- Development/later stage capital: funding the company with the potential of further development when a company itself is not able to finance it. The investment requires lower but significant risk, and profit is generated usually within 4-7 years.
- Expansion/growth capital: funding of later stage development and potential expansion of the product line or market net in new territories.
- Rescue/turnaround capital: financing a bankrupting company or company with trading difficulties. This is an unusual type of venture capital and it is usually connected with other types of capital.
- Debt replacement capital: financing a company which uses a lot of external sources of finance with high interest. External resources represent the only obstacle in a development program, therefore when they are replaced company may become profitable again.
- Acquisition/buyout capital: type of transactional capital in which invested money is used for purchasing another company, or just a part of the other company. This type of capital involves:

- MBO (management buy-out): management purchases the majority or all of the owner's shares to acquire existing product lines or businesses
- MBI (management buy-in): managers of the company purchase the majority or all of the owner's shares with the aim to take control of the company
- BIMBO (management buy-in-buy-out): combination of the previous two operations
- Public-to-private: offer for the entire share capital of a company for the sole purpose of delisting the company
- LBO (leveraged buy-out): MBO transaction financed primarily by credit

As noted by EVCA, it is possible to characterize different types of funds according to their stage of focus. These funds involve early-stage funds, later-stage funds, balanced funds (focused on early-stage and development financing), growth funds (focused on expansion and restructuralization operations), buyout funds, mezzanine funds (funds providing debt to facilitate the financing of buyouts), and generalist funds (focused on all stages of investment or with a broad area of investment activity) (EVCA, 2013).

3.4 Associations of venture capital

Global market of venture capital consists of both national and international organizations, which associate the subjects operated on this market. The main activity of these associations is to accumulate and publish venture capital market data. In Europe, this association is called the "European Venture Capital Association" (EVCA), which associates not only national associations, but also individual subjects such as managerial companies and consulting firms. EVCA was set in 1983 and its main role was not only to inform the public about venture capital, but to also make legislative changes, support entrepreneurs, provide consultancy, etc. The association regularly published various reports, press releases, yearbooks, and organized various meetings for its members in the form of seminars, symposiums, and conferences. In the Czech Republic, a similar association is known as the "Czech Venture Capital Association" (CVCA) (Dvořák, 1998).

3.5 Venture capital from company's point of view

According to Režňáková (2012), every entrepreneur considering a venture capital source of financing must first evaluate the possibilities according to knowledge

regarding their own company. The important factors in this process include: structure of the property, character of the clients, life stage of the company, and type of financial system. However, profit of the company remains the major source of finance and every other source of finance is additional, which provides faster development of the company.

Since profit is the major source of finance, entrepreneurs look for ways to maximize it; therefore, maximizing profit is the firm's primary objective. Profit is measured in IRR (internal rate of return) in % p.a. From profit, it is possible to derive indicators of a firm's evaluation, which reveals the performance of the company. These indicators will be explained further in the second part of the thesis (Režňáková, 2012).

The value of the company is also considered as a very important factor for the entrepreneurs; therefore, its increasing is demanded. It consists of shareholder value and stakeholder value. Shareholder value represents wealth of owners, and stakeholder value is a set of relationships of the involved persons in the business (owners, employees, clients, suppliers, creditors, and the government). Since all participants have different interests and objectives, it is necessary to create common ground for maximal satisfaction of all involved which will lead to an increase in stakeholder value. The major generators of the creation of a firm's value include revenue growth (when additional investment is made), cost management (effectiveness of the firm's activities), and effective financing (Režňáková, 2012).

As documented by Dvořák et al. (1998), all entrepreneurs involved in the venture capital investment must understand their role as well as the role of the other participants of the venture capital market. Entrepreneurs are not usually investment experts and therefore must rely on investment managers' expertise; however, investment managers might have different interests than entrepreneurs. There are five major aspects that companies involved in venture capital deal with:

- Time when to apply for venture capital investment: situation when a company is in need of capital and other sources of finance are not available or possible (e.g. there is no ownership which can be used as a guarantee for bank interests). There are also different preferences in different countries. Venture capital funding might be advantageous from a time and size of investment point of view.
- How to apply for investment: involve selection of investor who is able to invest in a particular region, industry, particular amount, or particular development stage of the company. After selection, the investor is contacted and the business plan, which includes information concerning the subject, business character, management, operation of the company, market, distribution, financial plans, and usage of the provided investment, is submitted.
- Information about further cooperation with investment managers of the managerial company: investment managers obtain particular competences in the company and attend to interests of all investors. They are supposed to help the company to fulfill the business plan and increase the value of the company by providing experiences in strategic planning, marketing, finan-

cial planning, management, and providing of contact networks. Investment managers usually receive positions such as a non-executive director, managing director, member of the directory board, or members of a supervisory board.

- Prevention measures to avoid crisis situations: management of the company's role is to forecast and analyze crisis situations as well.

3.6 Venture capital market in Czech Republic

As stated by Režňáková (2012), the first VC funds entered the market of Central and Eastern Europe in the first half of the 90's, after the fall of the communism era. The first investment in the Czech Republic, Poland, Hungary, and Slovakia was made thanks to the international help of the USA and EU. These investments came in the form of institutional support of the private business development. Dvořák et al. (1998) explains that investments came into funds from the SPHARE and EBRD program, with the aim to support regions during economy transformation. Hungary was the first region where venture capital set its roots in central Europe. In the Czech Republic, first funds such as the "Czech-American Business Fund" ("Bush's fund") were created in 1991 and financed by the US government. Furthermore, the "Regional Business Fund in Ostrava" was financed by the SPHARE program and was later transformed into 'the 'Czech Private Equity Fund". The first Czech VC fund financed by private sources was set in 1994 and was called the "Renaissance Fund".

The second period of investments came to central Europe in 1995 primarily from the US, and oriented on telecommunications, media, IT, biotechnology, building materials, and the automobile industry. Investors were looking for easy ways to exit if need be, therefore they invested in countries with political stability. The "Czech Venture Capital Association" (CVCA) was an association created in the Czech Republic which represented the interest of all companies involved in private equity and venture capital market within the Czech Republic (Dvořák et al., 1998).

The current situation in the Czech Republic is not very promising in terms of venture capital financing. An equity gap, defined by Ptacek (2014, p. 61) as "*a difference between amount of capital that would be invested under conditions of perfect competition and the amount of capital actually invested*", exists in the venture capital market in the Czech Republic. Investors do not focus on early-stage investments into greater extents, and the concentration on later-stage investments is not significant as compared to some other EU countries. Some of the reasons for this include law restrictions for insurance companies and pension funds as limited partners in venture capital. The other reason is the conservativeness of the Czech entrepreneurs who are not willing to share business with external partners. According to EVCA figures, the total private equity in the Czech Republic ranged from € 106 million to € 1.358 billion in 2007-2012 (Ptacek, 2014).

The private equity market reached its peak in Europe as well as in the Czech Republic in 2006 when a prevailing number of investors were off-shore investors. However, after that year, financial crisis caused a change of situation and the mar-

ket has still not recovered from that. According to EVCA, write-offs formed almost 50% of European divestments in 2009. In the Czech Republic, fundraising was only 1/10th of the 2007 value (Ptacek, 2014; Režňáková 2012).

Even though the Czech venture capital market is not perfect, there are many potential benefits which the Czech Republic is able to provide to its investors. Potential benefits include: an educated work force and developed infrastructure, industry orientation of the country, a high number of SMEs in the start, development, or expansion phase, EU membership from 2004, OECD membership, a relatively strong mid-term economic growth prospects, a strategic location, and a developed real estate market. However, obstacles such as an unfavorable tax system, missing investment legislature, a low number of qualified managers, an illiquid capital market, few opportunities for large investment, and missing information data regarding companies is still significant (Dvořák et al., 1988; Sato, 2013; Groh et al., 2011).

3.6.1 Supporting measures

Since 2014, the new Alternative Investment Fund Managers Directive came into application for all EU member countries. The directive obliges VC funds to provide information to its employees, regulators, and other shareholders or members about business plans of the portfolio companies, possible dismissing of employees, or any other information. The exception may apply only in the case of small or medium sized enterprises with less than 250 employees and those with a turnover less than 50 mil EUR per year. Target companies must also be secured from asset stripping during the first two years (i.e. limited dividends and limited sale of shares) (Režňáková, 2012).

As pointed out by Režňáková (2012), there are also new legal issues with objectives to limit the number of off-shore funds within the EU. Dvořák et al. (1998) defines off-shore funds as venture capital funds registered in locations with a liberal tax system, therefore requiring administrators to be located in the country of registration. Popular locations with prevailing off-shore funds are include the Cayman Islands, Bermuda, islands in La Manche, Ireland, Cyprus, and Luxembourg.

The government can also support venture capital market expansion in the country by different means. Unspecified support involves cultivation of a business environment with a favorable tax system, tariffs, regulations of capital market, creditor protection, effectiveness of courts, reductions of reporting standards, business indexes usage, norms, support of export, etc. On the other hand, the government can also provide specific support to change the ratio of risk and profit of investors by tax reliefs, direct state investments and state guarantees to investors. Until 1997, no support programs existed for the venture capital market in the Czech Republic. The CVCA together with the EVCA published its "white book" – a Country Policy Paper with recommendations on how to improve the venture capital market in the Czech Republic in 1997 (Dvořák et al., 1998).

Measures to support private equity in the Czech Republic as one of the EU member states were created also by the EU Committee in the Notice No. 853 of

December 21, 2007. The material defines the obstacles for further utilization of venture capital funds as well as recommended issues for their elimination. The committee oversees the contributions that are brought into companies by these funds in the form of labor opportunities, introduction of new technologies, etc. On the other hand, the committee is also able to see problems of frequent acquisition capital orientations of funds instead of early-stage orientations which are more beneficial for economic growth. The problem that remains unresolved is the problem of outstanding legislation and tax disunity (Sato, 2013).

3.7 Benefits and negative implications of venture capital source of finance

Venture capital source of finance is seen as a very beneficial type of funding; however, it is connected with several unfavorable implications. The final effect of venture capital can be seen through evaluation of individual companies according to their interests and preferences.

3.7.1 Benefits of venture capital

A very important benefit of venture capital is considered to be its inflow of opportunities for companies to grow. On the other hand, institutional investors gain motivation to invest in private equity because of the high potential returns, strategic objectives, balanced portfolio, portfolio and risk diversification, regulation, and social responsibility (Landström et al., 2012).

According to Landström et al. (2012), investors might see the macro impact of their investment in the form of job creation, economic growth, and innovation. The micro impact may be seen in the performance of investment portfolios and the portfolio of individual companies. The innovations brought by the VC investments do not only have a global effect, but it also has an effect on the individual portfolio company itself (bringing new product, processes, and improving the production system).

Landström et al. (2012) and Režňáková (2012) also define other benefits of venture capital and divide economic impact of the venture capital into two categories:

1. direct benefits: includes tax revenues, increasing employment levels, development of new industries, increased exports, higher international competitiveness, higher performance of employees, and financial restructuralization,
2. indirect benefits: includes increased productivity and improved quality of live in the regional economy.

In addition to the previously mentioned benefits, the impact of reputation may also be considered, which requires that venture-backed companies obtain even greater

valuations at IPO. Experienced investors also make use of their specialized networks to facilitate contact with customers, suppliers, etc.; therefore, their advising role is very beneficial for the firms. VC governs and provides resources to their portfolio companies and becomes involved in control activities; however, it can sometimes have a negative impact in the case of exaggerating and endangering the relationship between investors and entrepreneurs (Landström et al., 2012).

3.7.2 Research studies on venture capital

As noted by Landström et al. (2012), there were many studies which were focused on the comparison of venture capital-backed firm performance and the performance of non-venture-backed firms. One of the very first studies comes from 1982 and it was conducted by the Venture Economics Incorporation for the US General Accounting Office. The results of this study showed that venture backed firms' sales growth, payment of taxes, and job creation data were more promising than those of the other firms. The other studies from 2004 conducted by the National Venture Capital Association in the US, as well as the studies from Europe, confirmed that venture capital-backed companies grew faster than non-venture capital-backed companies in terms of employment, sales, and wages. Studies identify dependent variables which are used for analyzing the impact of the venture capital on the performance of the companies' portfolio. Landström et al. (2012) divides economic impact of the VC according to used dependent variables:

1. employment generation
2. wealth creation: sales growth, market performance, profitability, survival rate, and return on investment
3. promotion of innovation
4. regional development (p. 145-150)

The main reasons why the venture-backed firms outperform the non-venture backed ones are related primarily to the selection effect as well as the value-adding effect. Venture capitalists are very skilled and careful in picking the most successful new ventures in industry. This is also the reason why it is quite difficult to compare venture backed firms with non-venture backed firms. The value adding effect involves evaluating and recruiting managers, negotiating employment contracts, and contacting potential vendors and customers.

The mentioned studies, however, suffer from a clear survivorship bias. Many of the firms did not take part in the analysis, studies did not consider timing of venture capital financing, non-venture backed firms in the studies were represented by large firms which are less dynamic and experience slower growth, as well as other shortfalls.

According to Rajchlova et al. (2014), the other studies focused on the venture capital market in the Czech Republic were made by research projects conducted at the Mendel University in Brno together with the Brno University of Technology. The project research examined the efficiency of employees of compa-

nies into which venture capital was invested between 1998 and 2011 in 63 Czech Companies. The results showed that efficiency of employees increased due to the presence of venture capital investors and immediately after their divestment from the companies. This was observed in small and medium sized companies (Rajchlova et al., 2014).

3.7.3 Negative aspects of venture capital

It is very difficult to obtain venture capital in an effort to launch a new venture. In the work of Landström and Mason (2012) it is stated that an American has a higher chance to win a million dollars in a lottery than to receive venture capital. Furthermore, VC is strongly limited to selected companies, industries, and regions.

According to Landström et al. (2012) and Režňáková (2012), economic impact of VC is of the long-term character, not only from a time point of view, but also includes financial resources. Negotiations concerning the contract may take 3-6 months and during this time, a company must exist without capital investment. VC also changes the ownership structure of the company, which is usually negatively perceived by owners, because an owner's value in the company decreases. There is less power and competences left for owners as well. All information about the company must be provided to investors regularly, therefore, a new information system implementation is required as well as a modification of the organization structure, creation of new communication networks, etc. All these measures require additional costs.

3.8 Financial analysis overview

According to Grůnwald and Holečková (2009), financial analysis is a formalized method that combines financial information from various sources; therefore, the overall information capability provides specific results and outcomes about the economic, capital, and financial situation of the company. Kislingerová (2007) states that financial analysis is one of the most important tasks of a financial manager which is used for strategic and tactical decision making in regards to investment and financing. It zooms in on the current financial situation of the companies with its development tendencies, stability, and volatility of results that are compared to those of the competitors and the industry itself. However, there is no official financial analysis method, only a generally adopted analytical procedure that is used in this work (Grůnwald and Holečková, 2009).

According to Grůnwald and Holečková (2009) and Kislingerová (2007), financial analysis is an important information provider for various subjects of the company, including shareholders, creditors, managers, and other external subjects. Financial analysis enables managers to make decisions based on financial sources, optimal capital structure, as well as make decisions about the appropriate ways of financing. On the other hand, the shareholders (investors), use the information for monitoring purposes. Investors control the risks, liquidity, dividend profitability, and capital evaluation. The main purpose of financial analysis for them is to be

sure that their money is safe. There are also creditors and banks that use financial analysis to analyze the situation within the company so that they can provide credits and set conditions for it. The other subjects that use financial analysis of the company involve competitors that use the information to compare it with their own financial situation. Employees who are interested about prosperity and stability of their company use the information of financial analysis as well. Lastly, government and its organs use it for statistical reasons, to control tax liabilities, and to gain information about possible provision of grants.

Financial analysis consists of a combined analysis of time series analysis and cross-sectional analysis. The first type, the time series analysis, evaluates the performance of the company over time, assesses the progress, and provides a multiyear comparison. On the other hand, the combined analysis assesses the trend of a company's behavior in relation to the trend of the industry. All the information used in the financial analysis is acquired from three basic financial documents – the balance sheet, profit and loss statement, and the cash-flow statement. In financial analysis, many financial ratios and relative values are used which form the basis of financial statement analysis. The ratios used are tools that might reveal potential problems, but also strengths and weaknesses of a company's financial situation. Financial ratios are divided into five categories: liquidity, activity, and debt ratios, which are focused on the measuring of risks; and profitability and market ratios, which are focused on the measurement of returns. (Lawrence et al., 2015)

3.8.1 Liquidity ratios

According to Loth (2015), liquidity ratios measure the ability of a company to satisfy its short-term obligations. If the company is not able to do it, there are serious problems connected with its existence conditions. The greater the coverage of liquid assets, the better. There are three important measurements of liquidity:

Current Ratio

The current ratio is one of the liquidity ratios that reveals the degree of liquidity of a company. The number differs according to the size of the firm, bank credit access, and volatility of the business. The higher the current ratio is, the greater the degree of liquidity of the company. It is very difficult to set an optimal size for the current ratio; however, the average strategies' values are within the range of 1.6 to 2.5. If the company uses conservative strategies, the values can be higher than 2,5, which in this case, is good. On the other hand, if a company prefers aggressive strategies involving higher risk, the values are within a range of 1.0 to 1.6. The current ratio can often be a misleading value, because even if it is high and the working capital is high, it is also important to consider how quickly current assets can be converted into cash to meet current liabilities. This can be found seen through the cash conversion cycle (Kislingerová, 2007; Lawrence et al., 2015; Grúnwald et al., 2009; Loth, 2015).

Quick Ratio (Acid-test)

Quick Ratio is similar to the current ratio. The difference is that the quick ratio excludes the least liquid part of the current assets, inventory; it is more conservative than the current ratio, therefore, a higher ratio means a liquid current position. If the current ratio is significantly higher than the quick ratio, it is obvious that the company's current assets are dependent on inventory. The optimal values is in the range of 0.7 to 1.0. If a more conservative strategy is used, a greater value is reached. In the case of aggressive strategies, the values are in the range of 0.4 to 0.7 (Kislingerová, 2007; Lawrence et al., 2015; Loth, 2015).

Cash Position Ratio

In contrast with the previous two measures, the cash position ratio includes information about the amount of cash with its equivalents and invested funds (the most liquid short-term assets of the company). The optimal value is 0.2. Very few companies have enough cash to cover their current liabilities by it, because it is not realistic for companies to keep the appropriate amount of cash to cover it. Therefore, the usefulness of this ratio is quite limited (Kislingerová, 2007; Lawrence et al., 2015; Loth, 2015).

Since the three mentioned ratios are of static character, it is suggested to use the working capital information, which is understood as a difference between the current assets and short-term liabilities. The greater the working capital, the better. The only disadvantage of working capital is that it cannot be used for year-on reconciliation. The size of working capital is different for companies of different size (Loth, 2015).

3.8.2 Activity ratios

Activity ratios measure the speed in which the various accounts are converted into sales, cash, inflows, or outflows. The activity ratios' indicators provide information in regards to the ways a company uses specific property industries, if there are significant capacities which are unused, or if there is quick turnover which can reveal potential problems. As a direct result of this ration, the managers may check if they are doing a good job of generating revenues from their resources. Faster conversions generally lead to higher revenues (Kislingerová, 2007; Lawrence et al., 2015; Ratio Analysis, 2015).

Inventory Turnover

The inventory turnover indicates how many days a firm holds inventory. Generally speaking, if the inventory turnover ratio increases, the inventory turnover cycle decreases (Lawrence et al., 2015; Ratio Analysis, 2015).

Inventory Turnover Ratio

This number measures the number of times each inventory item is sold and repeatedly stocked within one year. The ratio indicates the experience of a company.

If it is above the average industry ration, the company maintains a better balance between inventory and cost of goods sold (Kislingerová, 2007; Ratio Analysis, 2015, Boundless, 2015).

Average Collection Period

The average collection period is a useful tool to reveal how many days on average it takes a company to collect and account its current receivables. This indicator is also called 'Days Sales Outstanding'; however, the indicator DSO is calculated monthly. The number of days depends on the nature of the business. For example, people in the grocery store pay immediately; however, in the case of huge companies, they may pay its supplier usually only after they sell the products. It is naturally more efficient when the collection period is shorter (Kislingerová, 2007; Ratio Analysis, 2015, Boundless, 2015; Lawrence et al., 2015).

Total Asset Turnover Ratio

The total asset turnover ratio indicates the efficiency by which the firm uses its assets to generate sales. Simply put, it calculates the amount of times all assets are turned over within one year. The higher the number, the more efficiently a firm's assets are used. For clearer analysis, it is recommended to analyze the current asset turnover ratio and the fixed asset turnover ratio separately. The total asset turnover ratio indicates only a general overview on the company's assets (Kislingerová, 2007; Ratio Analysis, 2015, Boundless, 2015; Lawrence et al., 2015).

Creditor's Payment Period

The creditor's payment period measures how many days it takes the company to pay its creditor i.e. suppliers. The more days, the better. In other words, CPP indicates how long the current liabilities remain outstanding (Kislingerova, 2007).

Trade Deficit

Trade deficit indicates the difference between average collection period and creditor's payment period. The indicator sets the number of days which require refinancing. If trade deficit is positive, the company provides credit to its clients (company pays its liabilities before it collects its cash). On the other hand, if the value of trade deficit is negative, company gets the money from its clients x days earlier before the days of paying its liabilities. In this case, company's deficit is financed by clients' credits (Grunwald et. al, 2009).

3.8.3 Debt (leverage) ratios

Debt ratios indicate the amount of other people's money being used to generate profit. The more debt a company has, the greater the risk it has of being unable to meet its financial obligations. This part of financial analysis is very important for creditors as well as for investors, because they are aware that creditors must be paid first. Financial leverage increases by increasing the number of debts in rela-

tion to total assets. Greater financial leverage increases potential risks, but also potential returns. (Kislingerová, 2007; Lawrence et al., 2015; Kurt, 2015).

The degree of indebtedness is usually measured by the following indicators:

Debt Ratio

The debt ratio indicates the proportion of total assets which are financed by a firm's creditors. The calculated number represents the percentage of assets that are financed with debt. The higher the percentage is, the greater the indebtedness of the company and the more financial leverage the company has. It is suggested that no more than half of a company's assets should be financed by debt (Kislingerová, 2007; Lawrence et al., 2015; Kurt, 2015).

Debt-To-Equity Ratio

The debt-to-equity ratio indicates the proportion of total liabilities to stockholder equity, which means, how much of the company is financed by its debtholders compared to its owners. This generally implies that the value of debt-to-equity ratio is higher than the debt ratio. Companies with less debt-to-equity ratio are less risky (Kislingerová, 2007; Lawrence et al., 2015; Kurt, 2015; Morningstar, 2015).

Times Interest Earned Ratio

The previously described leverage indicators measured a degree of indebtedness of the company. However, times interest earned ratio covers the role of coverage ratio, which measures the ability of the company to make contractual interest payments. The higher value is better, so it indicate the greater ability of the company to meet its interest obligations. According to Lawrence and Chad (2015), the suggested value of this ratio is from 3-5, which indicate how many times a company can cover its interest charges. If the value is very high, the company has lack of debt that could be used for various project investments.

3.8.4 Profitability ratios

Profitability ratios are financial metrics that evaluate the firm's profits with respect to sales, assets, or owner's investment. If a company is doing well, the ratios should have higher values relative to the competitor's values or ratios from previous periods. However, the profitability may differ in different seasons of the year. For example, the retail industry experiences higher revenues during the Christmas season or other holidays. In terms of the Kofola Group, it is reported that it experiences the highest revenues in the summer season (Kislingerová, 2007; Lawrence et al., 2015).

Profit Margin

Profit margin analysis is used to measure a company's profitability on a historical basis or in comparison to competitors. It uses percentage calculation, which represents a percent of the generated sales. The higher the profit margin is, the better

the investment quality (better stock price) (Kislingerová, 2007; Lawrence et al., 2015).

Return On Assets (ROA)

Return on assets indicator measures the overall effectiveness of generating profits relative to its available assets, which are employed to generate profit. The final number is expressed as a percentage number which characterizes how well management utilizes its asset base. The higher the percentage, the better the utilization of assets (Kislingerová, 2007; Lawrence et al., 2015; Loth, 2015a).

Return On Equity (ROE)

The return on equity ratio indicates the return which is earned on common stockholder's investment in the firm. It measures how much the stockholders earned for their investment in the company. The higher the percentage number of ROE indicated, the better the utilization of a company's equity base and the better the return for investors. Therefore, ROE is very important for investors. Experts consider ROE in the 15%-20% range as attractive. On the other hand, ROE needs to be analyzed also in the context of debt-to-equity relation (Kislingerová, 2007; Lawrence et al., 2015; Loth, 2015b).

Return On Sales (ROS)

The return on sales is an indicator of the evaluation of a company's operating performance. Simply put, it calculates how much profit a company makes after paying its variable cost of production (wages, raw materials, etc.). It is usually expressed in a percentage of sales. Similar to ROE and ROA, an increasing value indicates that the company works efficiently, while decreasing values indicate financial troubles (Kislingerová, 2007; Lawrence et al., 2015; Ready Ratios, 2015).

3.8.5 DuPont Analysis

According to the DuPont analysis, it is possible to identify the key areas which are responsible for a firm's financial performance, especially the areas of the business that are underperforming. If ROE increases due to profit margin and total asset turnover, a positive sign is used for the company. On the other hand, the equity multiplier increases the size of the ROE. It indicates that a company is getting over-leveraged (Pinsent, 2015).

There exists various methods for ROE decomposition. According to Kislingerová et. al (2008), logarithmic method is the most common one. The ROE indicator is decomposed on three parts - asset turnover, ROS indicator, and financial leverage. Another method for decomposition of ROE is the index method, which is used cases where the ROE value is negative; thus, the logarithmic method cannot be used (Synek et. al, 2009).

According to Blaha and Jindrichovská (2006), the managers of a company should be able to see the relationship between indicators and find possible ways to improve the management of a company after using the DuPont analysis.

3.8.6 Altman's Z-Score

In addition to traditional financial indicators, there are used composite indicators for evaluation of financial situation within the company. The composite indicators uses the partial indicators to which there are assigned values. One of the composite indicators is Altman's Z-Score, which was introduced by prof. Edward Altman in 1968. This tool is based on statistical analysis to forecast and evaluate the prosperous and non-prosperous companies and find out if the company is out of the money so it is close to bankruptcy. The methodology of this tool is based on five most important quantitative indicators (Grünwald et al., 2007).

$$Z = \frac{EBIT}{assets} \times 3.3 + \frac{Sales}{assets} \times 1.0 + \frac{market\ value\ of\ equity}{debt} \times 0.6 + \frac{retained\ earnings}{assets} \times 1.4 + \frac{net\ working\ capital}{assets} \times 1.2 \quad [20]$$

The market value of equity is calculated as market price of company's stock multiplied by number of all outstanding shares in the market (Investing Answers, 2015). Retained earnings are calculated as sum of sales, market value of own capital, and company's debts. The final number of working capital is calculated as follows (Grünwald et al, 2007):

$$Working\ capital = current\ assets - short-term\ payables - short-term\ bank\ loans - short-term\ accommodations \quad [21]$$

The company is financially healthy when Z factor is within the range of 2.99 to 8. So called "grey zone" is within the range of 1.8 to 2.98 and it identifies sectional financial problems. When the Z factor is lower than 1.79, the company deals with serious financial problems and there is possibility of bankruptcy. According to Kislingerová et al. (2007), it is proved that the Altman's Z-Score forecasts bankruptcy reliably 2 years before its arrival; however, more distant future forecasts might not be very precise.

3.8.7 IN95 model

IN95 is a Czech attempt to find a way how to forecast and evaluate financial risks of Czech companies from the global rating agencies' point of view. Mr. and Mrs. Neumaier introduced this index as complex index for evaluation of financial status of the companies. Similarly as Altman's model, this index consists of various coefficients each dealing with different aspect of financial management. According the scientific publications (Neumaierová et.al, 2005), the successful rate of the index is higher than 77% within the small and medium enterprises. The formula of the model is as follows (Zikmund, 2011):

$$\begin{aligned}
 IN95 = & \frac{\text{assets}}{\text{liabilities}} \times 0.13 + \frac{\text{EBIT}}{\text{interests}} \times 0.04 + \frac{\text{EBIT}}{\text{assets}} \times 3.97 + \frac{\text{sales}}{\text{assets}} \times 0.21 + \\
 & \frac{\text{current assets}}{\text{short-term liabilities} + \text{short-term bank loans}} \times 0.09 \qquad \qquad \qquad [22]
 \end{aligned}$$

If the value of IN05 is higher than 1.6, the resolution is that the company is creates the value. However, if the value of index is lower than 0.9, the company is in loss and does not create value. The range from 0.9 to 1.6 is so called "grey zone", which identifies the possible financial risks within the company (Zikmund, 2011).

4 Analytical part

4.1 The Kofola Group

The Kofola Group (2015) boasts that it is one of the most popular producers of non-alcoholic beverages in Central Europe, which operates in four countries - Czech Republic, Slovakia, Poland, and Russia. The brand itself originated from the Czechoslovak pharmaceutical company Galena, n.p., located in Opava, now Czech Republic. The official formation is dated back to 1996; however, the brand "Kofola" was established in 1960 after the foundation of KOFO syrup. Dark-colored sweet-and-sour Kofola soft drink was made from KOFO syrup which was added to carbonated water. The mix of these substances created the now famous Kofola. The KOFO syrup itself consists of 14 natural ingredients such as extracts from cherry, apple, currant, and herbal aroma supplemented by sugar and caramel (Kofola Group, 2015; KofolaPL, 2015, Scott, 2012).

According to Scott (2012), the "Czech Coca-Cola" soft drink is one of the most famous Czech brands along with Skoda, Bata, and Pilsner Urquell. All of these brands have roots even before the start of the communism era and are famous even today. Kofola's original name was Kofocola; however, due to trademark issues and name length, the brand name was shortened to Kofola (Pliva, 2013). It was a very popular drink during the time of communism, when beverages such as Coca-Cola or Pepsi from the western countries were prohibited. During that time, many producers started production of similar beverages with similar names (Hejkola, Sofokola). However, the great decline of Kofola sales is dated back to the Velvet Revolution, the fall of communism. After 1989, the brand was perceived in association with communism, while Kofola's principal competitors (Coca-cola and Pepsi) associated with the west. However, Kofola dealt with those challenges and due to its significant marketing techniques, it rebranded itself and became a very popular drink, which still holds true today (Kofola Group, 2015; Scott, 2012; Pliva, 2013).

The company producing kofola was called Santa Beverages, but in 2002, it changed its name to Kofola a.s (Pliva, 2013). Since this year, Kofola Group started its expansion and strategic investments. One of the most significant investments was building its first factory in Slovakia (Rajecka Lesna) to satisfy demand of Slovak costumers. Kofola was also exported to other countries such as Poland, Hungary, and Croatia (Kofola Group, 2015). According to Scott (2012), the most significant step in the expansion process was a new marketing campaign which relied on nostalgia and tradition aimed at youth. The slogan of this campaign was: "When you love her, nothing else matters" and by this, the company rebranded itself and became very popular. The first innovations of Kofola came in 2004, when Kofola citrus was introduced. In 2004, Kofola started its expansion to the Hungarian market (KofolaSK, 2015).

The transformation process involved merging Kofola with Hoop (Polish producer of lemonades) in 2008, when the name of the company was again changed to Kofola-Hoop (Pliva, 2013). The final change of the name to Kofola, joint

stock company was made in December 2008 and stayed so since (Kofola, 2009). Export to Austria and Germany began in November 2010. Even before that, the company tried to export to Ireland and China; however, the amounts were negligible (Pribil, 2011).

The current conditions for Kofola are not very favorable; however, the company has a very skilled management team which can deal even with challenging situations and still reach desirable goals. The challenges involve operating within a highly competitive environment, saving the behavior of costumers, high prices for raw materials, changes in legislation, unfavorable exchange rates, aggressive pricing campaigns of competitors, and others. The zoomed view will be provided in the following sections (Kofola, 2014).

The company's goal by 2017 is to become the Czechoslovak leader in gastro within the production of soft drins and also to stabilize retail, and to offer a healthier form of beverage (KofolaPL, 2015).

4.2 Venture capital involvement

The year 2008 was the most memorable year in history of the Kofola Group because of the entrance of a new co-owner - Enterprise Investors (EI). When Kofola-Hoop S.A. made a tender offer in the period between October 8th and November 6th on the Warsaw Stock Exchange, Enterprise Investors acquired 42.45% of the shares of the company through the Polish Enterprise Fund VI (PEF VI) investment fund (SME, 2008; KofolaPL, 2015a).

"Enterprise Investors" is one of the biggest private equity and venture capital investors in central and eastern Europe since 1990. It manages seven funds with a total amount of 2 billion EUR, and has invested 1.6 billion EUR into more than 130 companies in different business industrys. The acquisition of Kofola shares represented an acquisition in the amount of 132 mil. EUR and according to EI, it was the biggest transaction of a private equity fund in the fast moving goods segment in central and eastern Europe, as well as one of the biggest public offers on the Warsaw Stock Exchange. "Investing in Kofola-Hoop, Enterprise Investors saw a rapidly developing and well-managed company with huge potential, which it could support with its professionalism and financial expertise," according to Vassilen Tzanov, President of Hoop Polska's Management Board (KofolaPL, 2015a). The reported representative of the EI investment in the Kofola Group is the CED Group, which is fully controlled by the PEF VI fund. The other shareholders of the Kofola Group included KSM Investment, Rene Musila, and Tomas Jendrejek, who owned the majority of shares (57%) in that time. According to Report No44/2008, [4] the Kofola group reports settlement of the acquisition of 11 111 959 ordinary bearer shares on November 13th 2008 under the tender offer announced by CED (SME, 2008; KofolaPL, 2015a; Enterprise Investors, 2015).

4.3 Potential growth of the company

According to Kofola's annual report (2008), the financial situation as well as the opportunities for growth were very favorable in 2007 and 2008. According to annual and quarterly reports of the company, sales were growing both in volume and value terms, and there were favorable market conditions. Moreover, the company was viewed as a company with a big potential for growth since it had opportunities of improvement in other beverage categories industries, including non-carbonated beverages, waters, and syrups. Establishing a stable position and heading toward further expansion was very promising, considering the strong management team of the company.

In 2008, Kofola-Hoop Group was the third largest player on the central European market of carbonated soft drinks, competing with global firms such as Coca-Cola and Pepsi. Its success was growing and it has become very popular within the last years. The business philosophy was to build on strong brands, quality, innovation, skilled people and prudent investments in the future (Kofola, 2008; Kofola, 2009).

Investors might have seen opportunities and strengths of the company which exceeded threats and weaknesses. Strengths and weaknesses can often be explored and studied by completing a SWOT analysis, which is defined as "a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture" (Conceptdraw, 2015).

The SWOT analysis for Kofola Group based on the situation before venture capital investment (4th quarter of 2008) (Kofola, 2008; Kofola, 2009; Ministerstvo spravedlnosti, 2008; Ministerstvo spravedlnosti, 2011):

Strengths:

- high quality product; less sugar and more caffeine in the products compared to the main competitor's products,
- wide product portfolio,
- skilled and experienced management team,
- qualified employees,
- financial stability,
- home brand,
- original marketing strategy relied on nostalgia and tradition.

Weaknesses:

- weak green marketing,
- absence in other countries' markets,
- brand is not known abroad (except neighboring countries),
- limited amount of suppliers of raw materials

Opportunities:

- potential for expansion to Russian market and other markets,

- new technologies which may enable less costly and more effective soft drink production; technologies increasing eco aspect of bottling.

Threats:

- strong competitors,
- financial crisis connected with stagnation of the non-alcoholic beverages market,
- increase in energy and material prices,
- changes in legislation,
- changes in price regulations.

4.4 Potential influence of the venture capital

After the investment was made, the company had to deal with certain challenges such as financial crisis, increase in prices of materials, and other factors. At the end of the year 2008, Kofola Group operated eight factories and employed more than 2600 employees. In addition to the changes in the capital and ownership structure, there were many other changes that influenced the economical situation of the company. The Kofola Group acquired the Vinea brand, introduced a sugarless version of Kofola, and merged with the Polish lemonade producer Hoop S.A. When comparing years 2007 and 2008, table 1 describes the overall position of Kofola, which improved within the category of carbonated beverages. Unfortunately, the position of Kofola weakened in the scope of non-carbonated beverages. A decline in sale value and sale volume was reported within this category. In terms of mineral water, sales increased. Finally, Kofola is dominating in the category of syrups, which is also the fastest developing category (Kofola, 2009; Kofola, 2010).

	2008 share of volume	2008 share of value	2007 share of volume	2007 share of value
Carbonated beverages	16.4%	22.5%	14.1%	20.5%
Non-carbonated beverages	7.7%	9.6%	10.1%	13.1%
Mineral water	3.8%	5.7%	4.2%	5.2%
Syrups	34%	38%	32.2%	36%

Table 1 Kofola products' market share volume and share value in CZ 2007 and 2008
Source Own work using data of Kofola (2008, 2009).

According to the annual report of the Kofola Group (2010), the year 2009 was one of the most challenging years in the history of Kofola, due to the changes in the market which were influenced by economic crisis. Unemployment increased and consumer confidence decreased. Additionally, fluctuations were noticed in foreign exchange rates. Although the external factors influencing the company were unfavorable, the year 2009 was a success. The management team required immediate

mobilization and as a result of their hard work, crises were often outpaced. Kofola maintained second place as a producer of non-alcoholic beverages in Slovakia, third place in the Czech Republic, and sixth place in Poland.

The focus of the management in 2009 was directed to main products and brands, while unprofitable and low-margin products were discontinued. The company closed its least effective production plant in Tychy. On the contrary, it invested in construction of a warehouse and a production hall in Rajecká Lesná, Slovakia. Investment into this project exceeded the amount of 10 million EUR. The company also tried to reach new clients and increase sales in Slovakia, therefore launching a direct distribution in Slovakia. In terms of the reduction of administrative costs, the company implemented the SAP R/3 system, which reached three involved countries (Czech Republic, Slovakia, and Poland). The other projects that the company started in 2009 involved investment in production technologies in Russia, quality improvement tools of personnel policy, modernizing the production capacity of certain plants, new corporate social responsibility (CSR) activities, etc. The company got also many awards such as "Czech Top 100", "Best TV commercial" of Rajec mineral waters, "Golden Clip for Hug Day" of Kofola Polska, and many others. The Kofola Group increased the number of employees to 2900. (Kofola, 2010).

Unfortunately, the economic crisis in the country did not improve in 2010, which led to a drop in the consumption of non-alcoholic beverages, a rise of raw materials prices, an increase in unemployment, and an increase of transport costs due to the increased price of oil. Moreover, the competitor's forces intensified during the Football World Championship in South Africa. Thus, the Kofola Group put a larger effort towards maintaining its position on the market and increasing its profits. The company invested in innovations and broadened its assortment, introducing Pickwick frozen tea, new flavors of Rajec and Top Topic drinks. It intensified export and started exporting to Austria and Germany in November 2010. Furthermore, it launched the distribution of Vinea in Czech Republic, and tried to improve the working conditions and effectiveness of its operations, which led to lower employment. Since the year 2010, the year of Kofola's anniversary, the firm prepared a new marketing campaign to increase its sales. In terms of CSR activities, the company replaced synthetic coloring of its product by natural equivalents which improved the health properties of its products. Even this year (2015), the company received various awards (Kofola, 2011).

In 2011, unfavorable external conditions extended its scale even more. Not only were there high prices of raw materials, oil, decrease of local exchange rates against the Euro, and a saving behavior of customers; but, the cold weather in July caused a 20% decrease in beverage sales in that month. Since materials prices increased about 30%, prices of beverages increased as well. Management's aim was to keep the same amount of profit through the implementation of savings programs and optimization activities. The company contacted alternative suppliers and changed packaging and recipes accordingly. A reduction of employment was also one part of the saving plan; therefore, the number of employees decreased to 2376. Even though they faced different challenges, the company kept its market position in Slovakia, Czech Republic, as well as Poland. Many innovations were

brought forth such as the introduction of a new range of Jupi syrups, new Pickwick iced teas, Jupik smoothie, as well as the expansion of Vinea and Kofola flavors. Kofola was also the first European manufacturer of drinks that implemented pieces of Aloe Vera into its products. New CSR activities included the production of plastic bottles without the use of preservatives, campaigns to help sick children through puppet shows, as well as many others. Kofola received various awards and Janis Samaras, chairman of the Kofola's management boards, was awarded the entrepreneur of the year in the Czech Republic (Kofola, 2012).

The challenges continued in 2012; however, the financial indebtedness of the company decreased and the company introduced new products including a new line of Jupi syrups, new flavors of Rajec and Kofola, and Natelo hot fruit flavored beverages. Kofola became a business partner to several federal shopping networks in Russia, which helped to double the sales of water and to triple the sales of children beverages. Kofola also acquired 75% shares in the UGO Juice limited company and UGO Trade limited company, which produce freshly squeezed juices and ice creams made from natural fruit juices. The significant change occurred by the integration of the Czech and Slovak teams, which caused a change in the company name from Kofola Holdings joint stock company. to Kofola Československo joint stock company. on April 1st, 2012. This change also influenced the reduction of the number of employees to 2192. Kofola also started its share buy-back program with the aim to purchase its own shares for the cancellation and reduction of the share capital of Kofola (Kofola, 2013).

According to the annual report of Kofola (2014), the significant legal changes occurred in 2013, when the VAT increased in the Czech Republic from 14% to 15%, and corporate income tax in Slovakia increased from 19% to 23%. The unfavorable situation stayed unchanged; therefore, Kofola continued with its savings plan and decreased the number of employees to 2084. A reduction in the product's prices signed the Kofola's pushing strategy. New innovations included the Bublino home-made syrups and the new flavors of UGO and other brands. Moreover, the company expanded its CSR activities by the usage of pascalization methods to keep all nutritional values and vegetables in its fresh juices (Kofola, 2014).

Even though the situation was becoming more unfavorable after the realization of venture capital investment, the management of the company handled its task very well and maintained its strength position on the market as well as appropriate profits. Table 2 describes the changes of the main economic indicators of the Kofola Group before the investment was completed up until 2013. The number of sales describes the quantity of goods that were sold during the year in normal operations of Kofola. Earnings before interests and taxes (EBIT) indicate the company's profitability that excludes interest and income tax expenses. It shows company's earning power from its operations. Furthermore, the debt describes the amount of other people's money being used by the company to generate profit. A more detailed description will be provided in the financial analysis of the company in the following parts of the work.

	2007	2008	2009	2010	2011	2012	2013
Sales	1 873 291	2 928 186	2 545 723	2 413 796	2 386 312	2 594 500	2 714 740
EBIT	114 776	133 540	101 467	95 873	215 279	189 035	155 835
Debt	1 575 980	1 931 643	1 624 439	1 602 761	1 658 780	1 621 076	1 554 677

Table 2 Values of the main economic indicators of Kofola Group from 2007 to 2013

Source Own work using data of Kofola (2008-2014).

According to table 3, the number of employees experienced an increase until 2009, when the number reached 2900 employees working for the company. From that moment on, the number of employees decreased until 2013; however, the decreasing trend does not necessarily indicate that the company is not doing well. The decreasing trend might also be a positive sign of the venture capital investment, since new technologies were employed and processes were completed more effectively (ProQuest, 2008).

	2007	2008	2009	2010	2011	2012	2013
Number of employees	1370	2660	2900	2628	2376	2192	2084

Table 3 Kofola Group's number of employees since 2007

Source Own work using data of Kofola (2008-2014).

4.5 Financial analysis of the Kofola Group

This part of the bachelor thesis describes the financial analysis of Kofola Group company through various indicators explained in the literature overview of the thesis. The indicators provide the specific results and outcomes about the company's financial, capital, and economic situation. The financial analysis enables investors to use the information for monitoring purposes, risk control, dividend profitability, capital evaluation, and other reasons. The financial analysis can also provide closer overview of venture capital's influence on the economic indicators of the company. There is used combined analysis of time series and cross-sectional analysis in the following parts of the thesis. The analysis describes the financial status of company from year 2007 to 2013, and except of the Kofola's financial date, there are attached data from the beverage industry in the Czech Republic acquired from the Ministry of Industry and Trade of Czech Republic. Documents used for the financial analysis involve Kofola Group's balance sheet, profit and loss statement, and cash-flow statement.

4.5.1 Liquidity ratios

Current Ratio

In terms of current ratio as one of the liquidity ratios, Kofola group values are gradually decreasing in time since 2007. The trend reveals that the liquidity risk is increasing and it is more and more difficult for the company to pay its short-term obligations with its current assets. From table 4 it is noticeable that the lowest

current ratio company challenged in 2012. Although it is quite difficult to set an optimal size for the current ration; the average values are within the range of 1.6 to 2.5. The table 4 also shows us that first year when company got out of this range was year 2009, the year after investment was done, but also the year of beginning of financial crisis. From that moment on, it might be assumed that company exchanged conservative strategy by more aggressive strategy.

When comparing the current ratio values of the company to those of the beverage industry, it appears that the industry's ratios exhibited a more conservative character, except for the year 2012 and 2013. The biggest drop in values occurred from 2011 to 2012, where the values of the Kofola Group were better than those of the industry.

	2007	2008	2009	2010	2011	2012	2013
Current assets	1219348	1376099	1157977	1078648	1014333	1016488	964975
Current liabilities	685 783	806 875	760 257	747 577	747 584	782 604	851 178
Current ratio	1.7780	1.7055	1.5231	1.4429	1.3568	1.2989	1.1337
Current ratio of the beverage industry	2.0722	1.9765	2.2749	2.1714	1.9893	1.0327	1.1167

Table 4 Current ratio of Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014) and Ministerstvo prumyslu a obchodu (2008-2014).

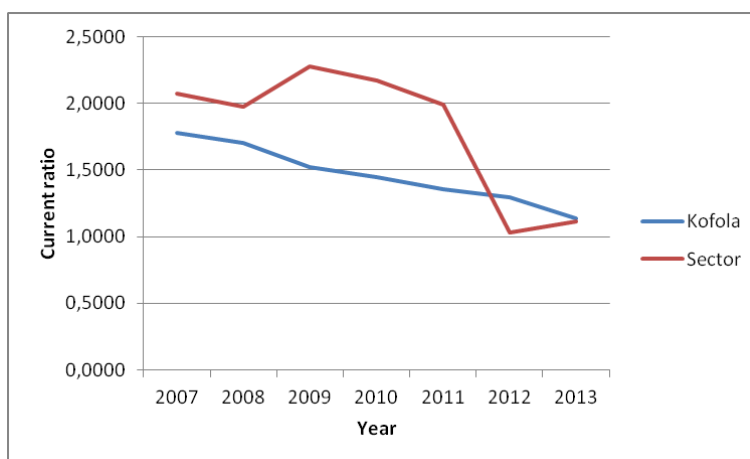


Figure 1 Current ratio of Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014) and Ministerstvo prumyslu a obchodu (2008-2014).

Quick Asset Ratio (Acid-test)

Along with the current ratio, the quick asset ratio of the Kofola Group has experienced a decreasing trend. Therefore, it is possible to exclude the statement that current assets are dependent on the company's inventory. On the other side, even

if the values are decreasing, the company does not have to be worried because the values are still optimal and do not reflect any serious problems. The table 5 also reveals that company used conservative strategy until 2010, and since that time the values were within the range of optimal values.

From the industry's point of view, the values are even higher than the company's values, which might lead to the conclusion that the beverage industry prefers a conservative strategy in terms of liquidity management. A decreasing trend may be observed since 2009, but the biggest drop occurred between 2011 and 2012, when the value decreased by almost 50%.

	2007	2008	2009	2010	2011	2012	2013
Current assets	1219348	1376099	1157977	1078648	1014333	1016488	964975
Inventories	324 587	356 761	313 705	329 605	316 900	341 191	322 038
Current liabilities	685 783	806 875	760 257	747 577	747 584	782 604	851 178
Quick asset ratio	1.3047	1.2633	1.1105	1.0020	0.9329	0.8629	0.7553
Quick asset ratio for beverage industry	1.4082	1.3981	1.7326	1.6039	1.4030	0.7227	0.7890

Table 5 Quick asset ratio of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

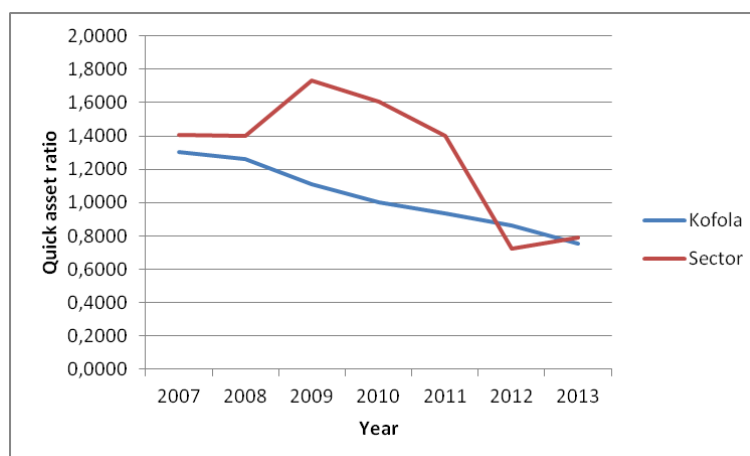


Figure 2 Quick asset ratio of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Cash Position Ratio

In contrast with the previous liquidity indicators, the cash position ratios have experienced a slightly increasing trend. Despite of this fact, the values did not reach the generally set optimum value of 0.2. Due to this we can proclaim that the com-

pany is not able to cover its short-term liabilities with its short-term financial assets, as it was also obvious from the previous liquidity indicators.

Regarding the industry, the values are significantly higher than those of the Kofola Group. The industry values are within the range of optimal values, therefore, indicating that a good ratio of short-term financial assets and current liabilities exists. Table 6 indicates that it is required for Kofola to increase its short-term financial assets (cash) so that the ratio might be closer to the optimal value.

	2007	2008	2009	2010	2011	2012	2013
Short-t. fin. assets	17 144	10 992	27 598	16 966	40 448	39 372	40 102
Current liabilities	685 783	806 875	760 257	747 577	747 584	782 604	851 178
Cash position ratio	0.0250	0.0136	0.0363	0.0227	0.0541	0.0503	0.0471
Cash position ratio of beverage industry	0.4257	0.3856	0.7385	0.5796	0.5089	0.2305	0.2708

Table 6 Cash position ratio of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

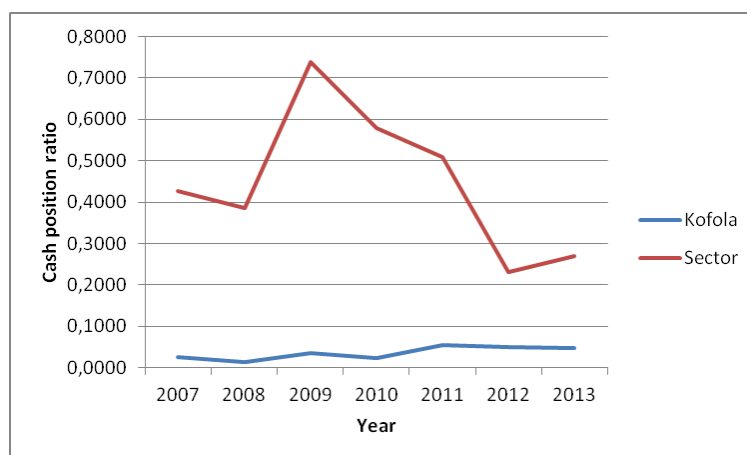


Figure 3 Cash position ratio of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

From all liquidity ratio indicators of the Kofola Group it can be assumed that company prefers aggressive strategy rather than conservative strategy. One of the reasons for this might be also the presence of the venture capital investor, since com-

pany might use the advantage of usage the financial potential of this type of financing.

4.5.2 Activity ratios

Inventory Turnover

According to the table 7 and figure 4, the inventory turnover decreased in 2007, increased the following years, and then started to decrease again from 2011. In 2013, it took the company on average almost 43 days to hold its inventory until it was sold. The positive trend of decreasing number of inventory turnover was primarily influenced by increasing number of company's sales, therefore brought higher revenues for the company. From the history of Kofola Group, the year 2013 brought the most promising values in terms of inventory turnover.

From the industry's point of view, the inventory turnover was very similar throughout the years examined. Since it took the beverage producing company less days on average to hold its inventory until product was sold, the expected revenues were potentially higher as compared to Kofola Group.

	2007	2008	2009	2010	2011	2012	2013
Inventories	324 587	356 761	313 705	329 605	316 900	341 191	322 038
Sales	1873291	2928186	2545723	2413796	2386312	2594500	2714740
Daily sales	5203.58	8133.85	7071.45	6704.98	6628.64	7206.94	7540.94
Inventory turnover	62.3776	43.8613	44.3622	49.1582	47.8077	47.3420	42.7053
Inventory turnover of beverage industry	38.5128	37.6233	36.0596	38.3125	39.3598	38.1783	36.7409

Table 7 Inventory turnover of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

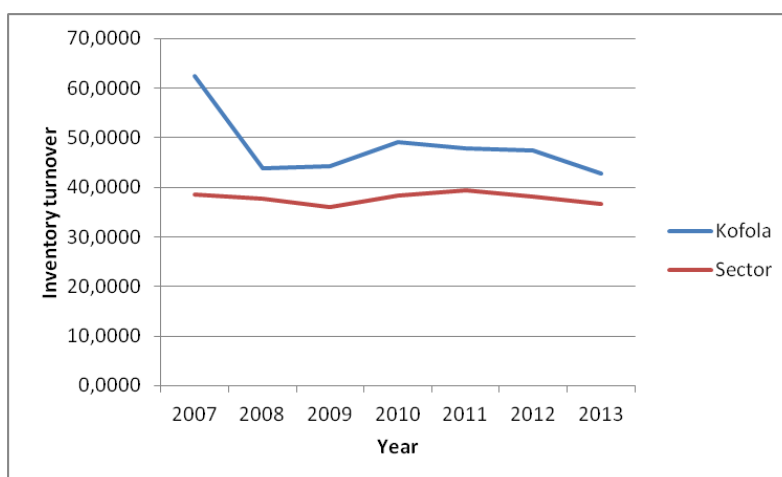


Figure 4 Inventory turnover of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Inventory Turnover Ratio

Kofola Group's inventory turnover has a decreasing trend from 2007 to 2012; however, in 2012, the situation started to improve slightly. When referring to the year 2013, Kofola turned the average inventory item over not even once per year. If the company would be able to turn its inventory faster, it would reduce its inventory and as a result, increase company's value of treasury. The low turnover also points to overstocking, obsolescence, or deficiencies in the product line or marketing effort.

When comparing the values with the industry ratio, the Kofola Group's are above those of the beverage industry in CZ which indicates a better balance between inventory and cost of goods sold, as well as better experiences of management.

	2007	2008	2009	2010	2011	2012	2013
Cost of goods sold	316 211	345 428	268 926	234 479	230 775	164 903	179 286
Inventories	324 587	356 761	313 705	329 605	316 900	341 191	322 038
ITR	0.9742	0.9682	0.8573	0.7114	0.7282	0.4833	0.5567
ITR of beverage industry	0.5806	0.4635	0.5049	0.5803	0.4699	0.1442	0.4863

Table 8 Inventory turnover ratio of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

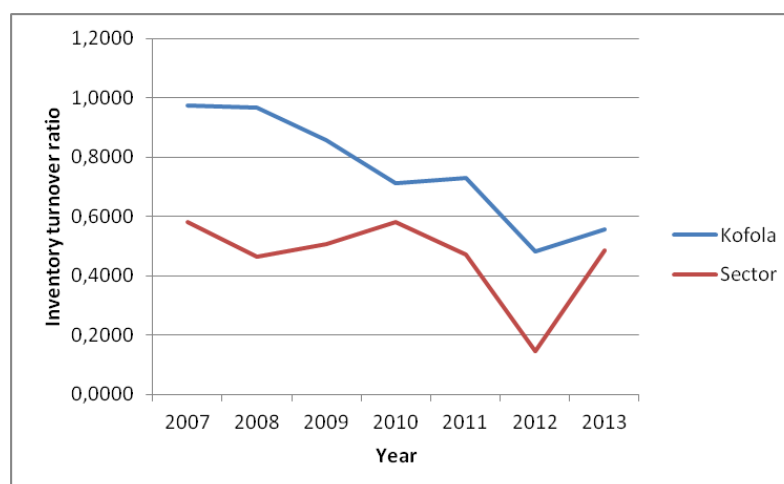


Figure 5 Inventory turnover ratio of Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Average Collection Period

The average collection of the Kofola Group has according to table 9 and figure 6 decreasing trend, which indicates that it took the company fewer days to collect and account for its current receivables, which is good for business. The only year when the average number of days increased was in 2013, when not only daily sales increased, but also current receivables. The year 2012 is considered as the best in terms of average collection periods, since the amount of days was the lowest. The data for the beverage industry in the Czech Republic is not available due to missing information in regards to current receivables; however, the average collection period indicator will be evaluated using the trade deficit indicator in the following section of the bachelor thesis.

	2007	2008	2009	2010	2011	2012	2013
Current rec.	814 277	914 837	691 741	624 847	546 684	529 527	602 835
Daily sales	5203,586	8133,850	7071,452	6704,988	6628,644	7206,944	7540,944
ACP	156.483	112.472	97.821	93.191	82.473	73.474	79.941

Table 9 Average collection period of the Kofola Group since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

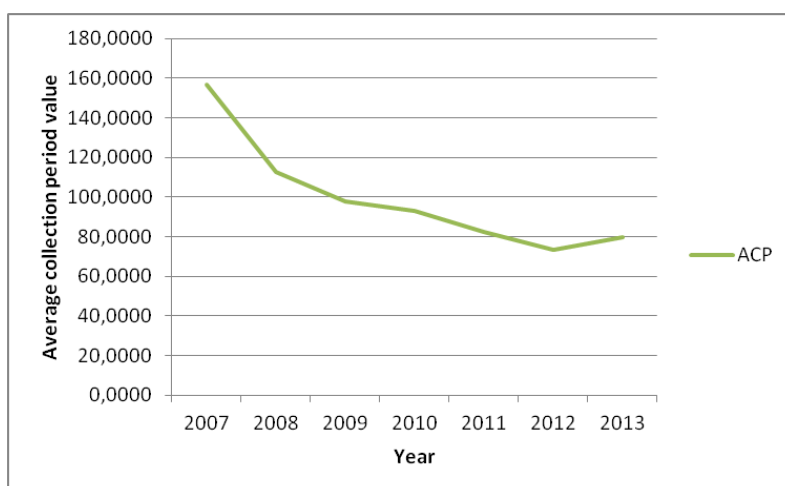


Figure 6 Average collection period of the Kofola Group since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

Total Asset Turnover Ratio

The total asset turnover of Kofola Group had an increasing trend from 2007 to 2008, then decreasing trend until 2011, and then increasing one again. On average, the company turned all its assets over once per year. The more often assets are turned, the more efficiently a company works. From the total asset turnover's point of view, the most successful year was 2013, when the company turned over its assets almost 1.3 times.

When comparing the TATR of Kofola Group with the beverage industry, the values of Kofola indicate a higher efficiency of asset utilization to generate sales than those of the industry. Industry values indicate a lower frequency of asset turn over within one year. The greatest difference between the TATR of Kofola Group and the beverage industry is seen in the year 2013.

	2007	2008	2009	2010	2011	2012	2013
Revenues from m.	479 913	513 247	393 380	358 587	362 546	331 991	359 626
Production	1393378	2414939	2152343	2055209	2023766	2262509	2355114
Sales	1873291	2928186	2545723	2413796	2386312	2594500	2714740
Total assets	1961248	2361468	2197298	2173764	2280541	2290791	2145849
TATR	0.9552	1.2400	1.1586	1.1104	1.0464	1.1326	1.2651
TATR for beverage industry	0.9423	0.8786	0.8528	0.8066	0.7654	0.8988	0.5975

Table 10 Total asset turnover ratio of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

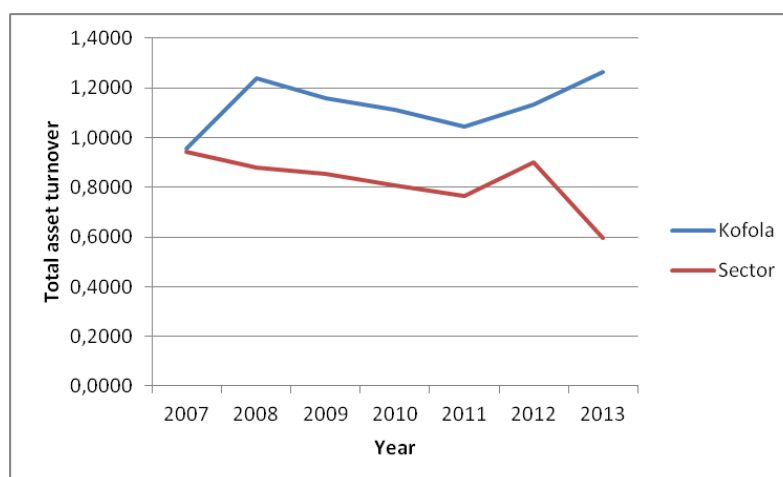


Figure 7 Total asset turnover ratio of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Creditor's Payment Period

Table 11 indicates that creditor's payment period decreased in time in terms of Kofola Group; however, it increased within the beverage industry in CZ. From Kofola's point of view, the greatest fall of CPP is reported between 2007 and 2008, when value of CPP decreased from 131.79 to 99.19 days. Although, the situation improved again in 2009, from when the company maintained the values at the same level. In comparison with beverage sector, the CPP of Kofola Group is almost twice as big. There might be seen reverse situation within the beverage industry, since the greatest increase in values is reported from 2007 to 2008, while the greatest fall is noticed from 2008 to 2009. Since 2009 the CPP of beverage sector oscillated around number of 60.

	2007	2008	2009	2010	2011	2012	2013
Curent liabilities	685 783	806 875	760 257	747 577	747 584	782 604	851 178
Daily sales	5203,58	8133,85	7071,45	6704,98	6628,64	7206,94	7540,94
CPP	13.79	99.19	107.51	111.49	112.78	108.59	112.87
CPP for beverage industry	39.4838	81.9948	65.7744	60.1368	58.7746	66,3682	66.8084

Table 11 Creditor's payment period of the Kofola Group and beverage industry in CZ since 2007
Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

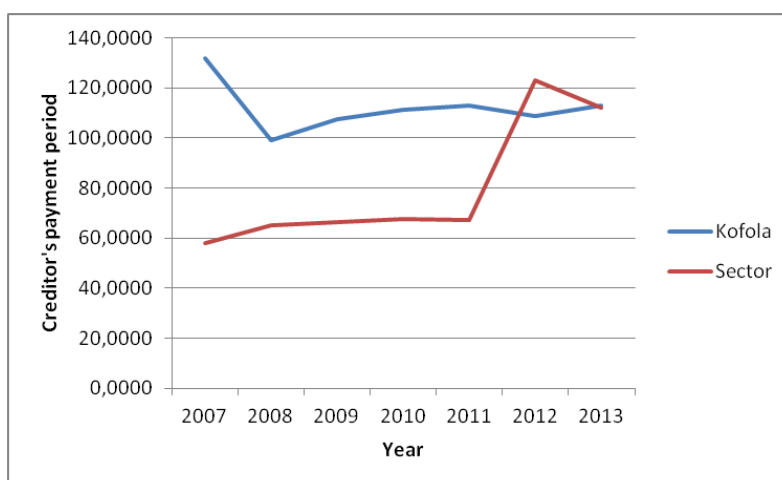


Figure 8 Creditor's payment period of the Kofola Group and beverage industry in CZ since 2007
 Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Trade Deficit

Table 12 indicates a gradual decrease in terms of Kofola Group's trade deficit, which is influenced by the decrease of the average collection period as well as the creditor's payment period. The decrease of trade deficit indicates increase in cash flow accordingly. As shown in the following table, the reported creditor's payment period was longer than the average collection period from 2009, which indicates negative values of trade deficit. Due to this fact, it can be concluded that in 2009, the company received money from its clients 9 days prior to paying its liabilities; thus, the company's deficit might be financed by client's credit. Due to the missing information required for calculation of ACP of the beverage industry in CZ, the trade deficit information is not provided for the beverage industry in CZ.

	2007	2008	2009	2010	2011	2012	2013
ACP	156.4838	112.4728	97.8216	93.1914	82.4730	73.4746	79.9416
CPP	131.7905	99.1996	107.5107	111.4956	112.7808	108.5903	112.8742
Trade deficit	24.6934	13.2732	-9.6891	-18.3043	-30.3079	-35.1157	-32.933

Table 12 Trade deficit of the Kofola Group since 2007
 Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

4.5.3 Debt ratios

Debt Ratio

The debt ratio of Kofola Group is quite high within the years in comparison to debt ratio of beverage industry in CZ. The table 13 and figure 9 indicate that that even if the indebtedness of the company in 2013 was lower than in 2007, there is still a significantly large portion of the company's assets financed by debt. On the other hand, a significant decrease might be noticed after 2008, the year of the equity

fund's entrance into the company. As a result, the company's indebtedness decreased by more than five percent.

When comparing the situation with the beverage industry values, the resolution is that there is a lower indebtedness within the industry. The greatest difference is seen in 2007, when the debt ratio of Kofola Group was almost two times higher. From a time point of view, the debt ratio of the industry increased significantly and almost reached the level of Kofola's debt ratio in 2012. The level of indebtedness within the industry exceeded 50% which indicates the presence of various risks; however; it indicates also greater financial leverage which might yield various rewards such as using borrowed money to improve efficiency of production or increased amount of free cash used to finance the factory, inputs, labor, or as reserve against unforeseen circumstances.

	2007	2008	2009	2010	2011	2012	2013
Liabilities	1575980	1931643	1624439	1602761	1658780	1621076	1554677
Total Assets	1961248	2361468	2197298	2173764	2280541	2290791	2145849
DEBT RATIO	80.36%	81.80%	73.93%	7.73%	72.74%	70.76%	72,45%
DEBT R. of beverage industry	30.59%	28.17%	28.35%	42.41%	54.66%	65.40%	56.45%

Table 13 Debt ratio of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

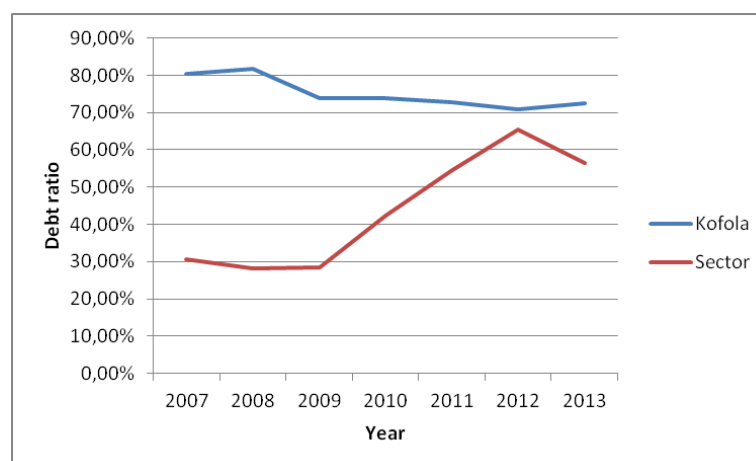


Figure 9 Debt ratio of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Debt-To-Equity Ratio

Table 14 indicates that Kofola's debt-to-equity ratio experienced a mostly decreasing trend. Compared to 2007 when the debt/equity ratio reached 4.5, the year

2013 displayed a debt-to-equity ratio of only 2.6. The biggest difference might be seen in 2008, the year of the investor's entrance, when the capital structure changed. From that time, a smaller proportion was financed by debtholders. The equity/debt increased for the first time in 2013, which indicate higher potential risks.

In terms of the beverage industry, the values are much lower than those of the Kofola Group, which indicates that there is a small difference between financing of assets by debtholders and shareholders. The beverage industry is not as aggressive in financing its growth with debt as Kofola Group.

	2007	2008	2009	2010	2011	2012	2013
Liabilities	1575980	1931643	1624439	1602761	1658780	1621076	1554677
Equity	344561	428834	571529	571003	621396	669715	591172
Debt to equity r.	4.5738	4.5044	2.8422	2.8069	2.6694	2.4205	2.6298
Debt to equity r. of beverage industry	0.4410	0.3989	0.4059	0.7430	1.2054	1.8901	1.2964

Table 14 Debt equity ratio of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

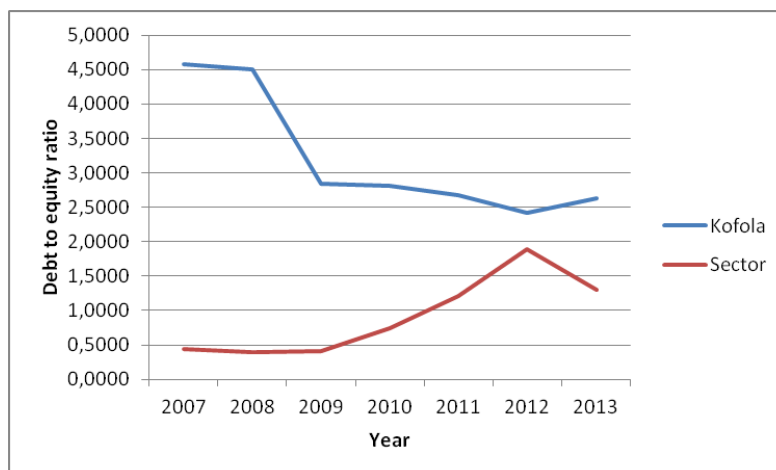


Figure 10 Debt equity ratio of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Times Interest Earned Ratio

Table 15 indicates increase of times interest earner ratio of the Kofola Group since 2007, which means the greater ability of the company to meet its interest obligations. According to figure 11 it might be seen that the indicator experienced two great falls of value from 2007 to 2008, and from 2009 to 2010; however, the value

maintained within the optimal limit. The reported values indicate that company have not dealt with problems related to failing to meet the interest obligations since 2007. The beverage industry information are not provided within this indicators, because of the missing financial data for calculation.

	2007	2008	2009	2010	2011	2012	2013
EBIT	129 691	146 289	188 627	74 674	79 295	112 475	100 102
Interest expenses	26 144	42 746	26 652	21 199	22 172	21 065	14 674
TIER	4.96	3.42	7.08	3.52	3.58	5.34	6.82

Table 15 Times interest earned ratio of the Kofola Group since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

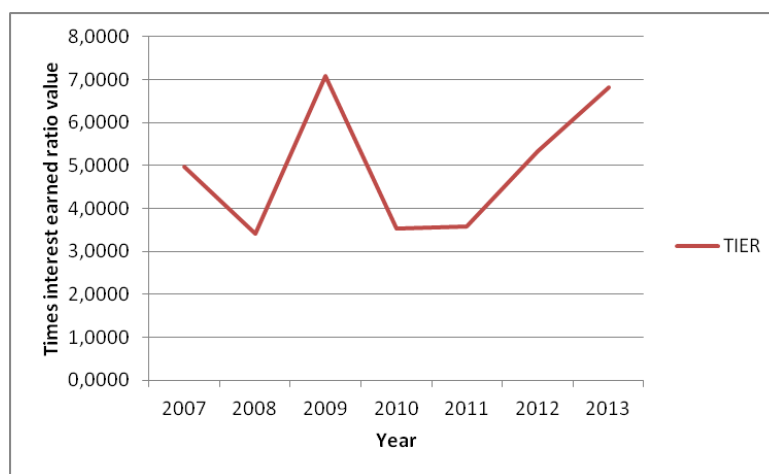


Figure 11 Times interest earned ratio of the Kofola Group since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

4.5.4 Profitability ratios

Gross Profit Margin

The gross profit margin of Kofola Group experienced a slight increase since 2007, except for 2013, when the profit margin decreased by 0.25% compared to 2012. The figure 12 and table 16 display that the company tried to generate higher profits even during the years of crisis and therefore, increased the value of the company itself. The higher the profit margin is, the better the investment quality (positive influence on the stock price). Year 2013 was the most profitable year in terms of the gross profit margin. The beverage industry information are not provided within this indicators, because of the missing financial data for calculation.

	2007	2008	2009	2010	2011	2012	2013
Sales	1873291	2928186	2545723	2413796	2386312	2594500	2714740
Cost of goods sold	316 211	345 428	268 926	234 479	230 775	164 903	179 286
Gross profit	1557080	2582758	2276797	2179317	2155537	2429597	2535454
Gross profit margin	83.12%	88.20%	89.43%	90.28%	90.32%	93.64%	93.39%

Table 16 Gross profit margin of the Kofola Group since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

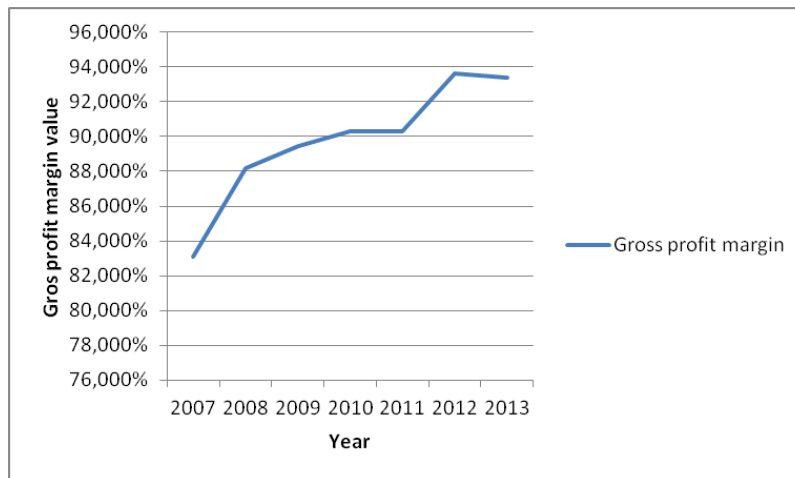


Figure 12 Gross profit margin of the Kofola Group since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014).

Return On Assets (ROA)

In terms of the return on total assets, Kofola Group decreased its position since 2007. The main reason for this is that there was declined in earnings before interest and taxation and increase of company's assets. The largest negative change might be noticed after 2009, the year when financial crisis struck the business environment. On the other hand, the influence of the venture capital on the profitability of total assets can be discussed, since a small increase in values from 2008 to 2009 was reported. Despite the decline of ROA, it can be stated that the overall effectiveness of generating profits relative to its available assets stagnates at the sustainable profitability level.

As seen in table 17, the data of ROA within the beverage industry was higher than those of the Kofola Group throughout the entire duration of the examined period. However; even beverage industry experienced decline of ROA value since 2007. When comparing years 2007 and 2013, the ROA decreased within the industry by almost 60%, which is greater decrease than Kofola experienced.

	2007	2008	2009	2010	2011	2012	2013
EBIT	155835	189035	215279	95873	101467	133540	114776
Total assets	1961248	2361468	2197298	2173764	2280541	2290791	2145849
ROA	7.95%	8,00%	9.80%	4.41%	4.45%	5.83%	5.35%
ROA of beverage industry	15.32%	12.99%	13.15%	10.32%	7.66%	9.93%	7.54%

Table 17 Return on assets asset of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

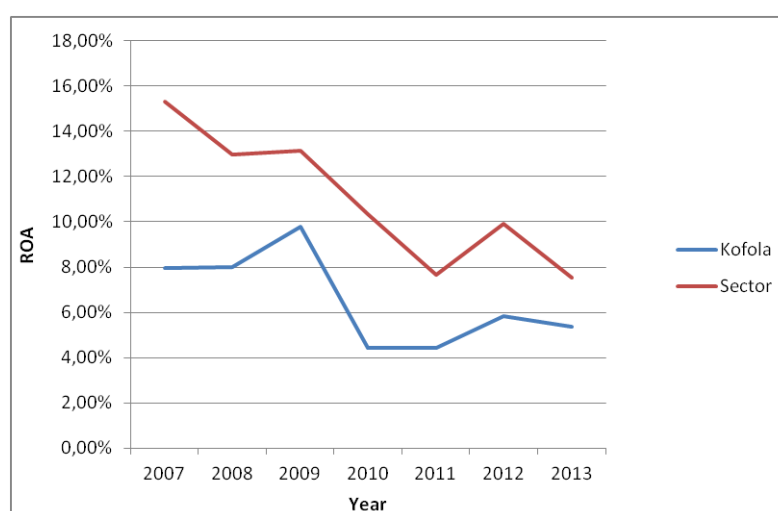


Figure 13 Return on assets of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Return On Equity (ROE)

From the table 18 and figure 14, it is clear that the ROE indicator of Kofola Group decreased from 2007 by more than 100%. In 2007, the ROE had quite high value, which could also be the reason why investors were attracted to it. However, the situation started getting worse especially in 2009, when the greatest fall of ROE is noticed. A potential reason for this might be the economic crisis that could to a decrease in earnings after taxation after 2009. The second great fall happened in 2013, when the earnings after taxation acquired became a negative value, thus causing the ROE indicator to become negative.

The return earned on common shareholder's investment was lower within the beverage industry than that of the Kofola Group until 2010, when the great fall of ROE within Kofola Group occurred. Even though ROE of the beverage industry was lower in 2013 than in 2007, it did not become negative.

	2007	2008	2009	2010	2011	2012	2013
Earnings after taxation	168 421	142 756	193 596	52 290	76 842	87 610	-33 882
Total equity	344 561	428 834	571 529	571 003	621 396	669 715	591 172
ROE	48.88%	33.29%	33.87%	9.16%	12.37%	13.08%	-5.73%
ROE of the beverage industry	16.37%	14.00%	14.96%	13.94%	9.55%	18.65%	8.93%

Table 18 Return on equity of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

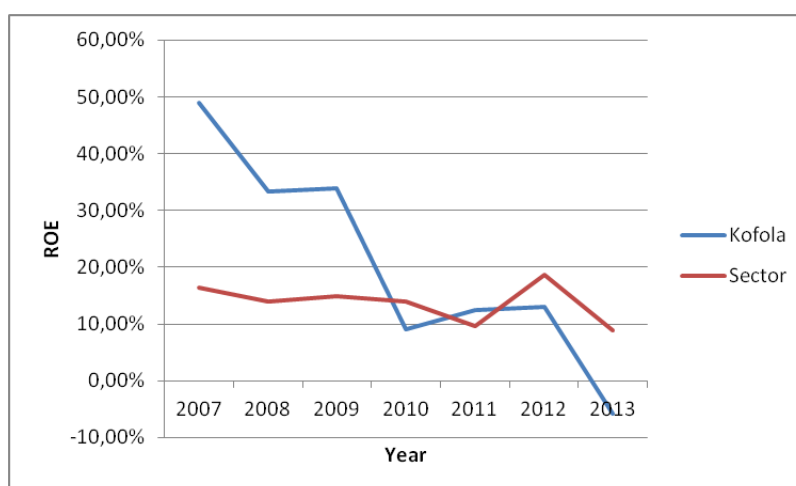


Figure 14 Return on equity of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

Return On Sales (ROS)

The return on sales had within the Kofola Group very fluctuating character. According to table 19 and figure 15, the return on sales decreased from 2007 to 2013, when it reached negative value. The percentage indicates that the company does not generate profit after paying the costs of production. Significantly, ROS does not account for investment used to generate profit. One of the main reasons of a low ROS value may be the increase in the prices of raw materials in the last years, which is reported in the annual report of the Kofola Group (Kofola 2008-2014).

The ROS of the beverage industry acquired higher values than Kofola Group. Even though there is decrease in certain years, the values remained positive. The worst year from an ROS point of view for Kofola Group was the year 2013, but for the beverage industry it was the year 2011.

	2007	2008	2009	2010	2011	2012	2013
Earnings after taxation	168 421	142 756	193 596	52 290	76 842	87 610	-33 882
Rev. from merchandise	479 913	513 247	393 380	358 587	362 546	331 991	359 626
Production	1393378	2414939	2152343	2055209	2023766	2262509	2355114
Sum	1873291	2928186	2545723	2413796	2386312	2594500	2714740
ROS	8.99%	4.88%	7.60%	2.17%	3.22%	3.38%	-1.25%
ROS of the beverage industry	12.05%	11.25%	12.,25%	9.86%	5.66%	7.18%	6.51%

Table 19 Return on sales of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

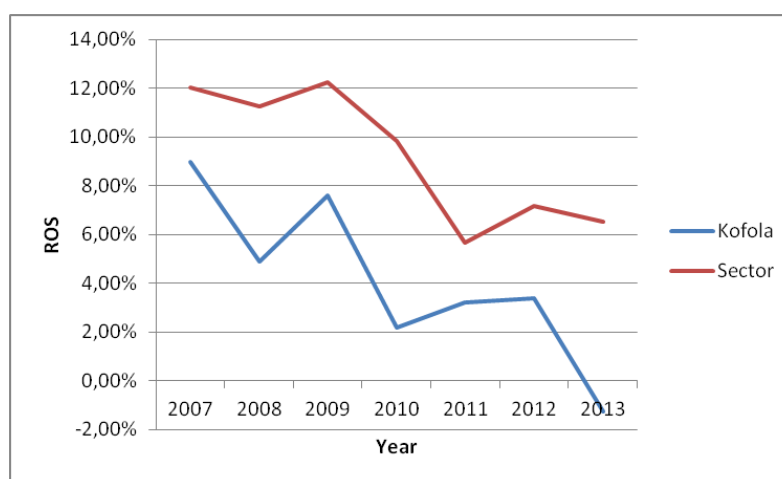


Figure 15 Return on sales of the Kofola Group and beverage industry in CZ since 2007

Source Own work using data of Ministerstvo spravedlnosti (2008-2014); Ministerstvo prumyslu a obchodu (2008-2014).

4.5.5 DuPont Analysis

Due to the DuPont Analysis, it is possible to evaluate the impact of the ROA indicator and financial leverage indicator in the return of equity of the company. The tables 22 and 23 involve information about changes in mentioned indicators within the Kofola Group company since 2007.

The table 20 indicates the ROE values as well as the main indicators influencing the ROE. External sources were used (financial leverage) from 2007 to 2013. After multiplication of ROA and financial leverage indicator, the ROE value is acquired. If one of the mentioned indicators increase or decrease, a substantial change in the ROE indicator is noticed. The highest amount of external sources were used in 2007, which influenced the increase of ROE, but also influenced decrease of ROS (see table 21). The lowest ROE is reported in 2013, which decreased almost about 144% in comparison to year 2012 (see table 22), from 13% to -5%.

The decrease is influenced by two indicators - decrease of ROS and slower asset turnover.

	2007	2008	2009	2010	2011	2012	2013
ROE	0.4888	0.3329	0.3387	0.0916	0.1237	0.1308	-0.0573
ROA	0.0859	0.0605	0.0881	0.0241	0.0337	0.0382	-0.0158
Financial leverage	5.6920	5.5067	3.8446	3.8069	3.6700	3.4205	3.6298

Table 20 DuPont indicators of the Kofola Group since 2007

Source Own work.

Along with the mentioned indicators, a two-stage DuPont analysis also may be used where there are three factors influencing the value of ROE: return on sales (ROS), asset turnover, and financial leverage. The indicators are displayed in the table 21. The increasing number of financial leverage influences the decrease of return on sales.

	2007	2008	2009	2010	2011	2012	2013
ROE	0.4888	0.3329	0.3387	0.0916	0.1237	0.1308	-0.0573
ROS	0.0899	0.0487	0.0760	0.0216	0.0322	0.0338	-0.0125
Asset turnover	0.9551	1.2399	1.1585	1.1104	1.0463	1.1325	1.2651
Financial leverage	5.6920	5.5067	3.8446	3.8069	3.6700	3.4205	3.6298

Table 21 Additional DuPont indicators of the Kofola Group since 2007

Source Own work.

The following two tables (table 22, table 23) describe the annual comparison in percentage points using DuPont's decomposition of indicator ROE and its development in the observed time period. For 2013, there is a reported 143.812% decrease of ROE when comparing it with the year 2012. From a historical point of view, this is the biggest decrease since 2007. The serious decrease might be also seen in the ROA and ROS indicator.

When looking at the year before (2007) and after the investment (2008), there was a decrease in all the indicators except for the asset turnover indicator. However, it is possible to assume that the investment did not have such an effect for the year 2008 because it was done at the end of year. Significant improvements might be seen in 2009, when ROE increased by 1.75%, ROA increased by more than 45%, and ROS increased by more than 55%. The year 2009 was obviously the most profitable year since 2007.

	08/07	09/08	10/09	11/10	12/11	13/12
ROE	-31.8956	1.7543	-72.9653	35.0361	5.7872	-143.8120
ROA	-29.6039	45.74549	-72.6977	40.07303	13.50303	-141.286
Financial leverage	-3.25546	-30.1835	-0.97991	-3.59592	-6.79783	6.1182

Table 22 Annual comparison of DuPont's decomposition of indicator ROE and its development within the Kofola Group since 2007

Source Own work

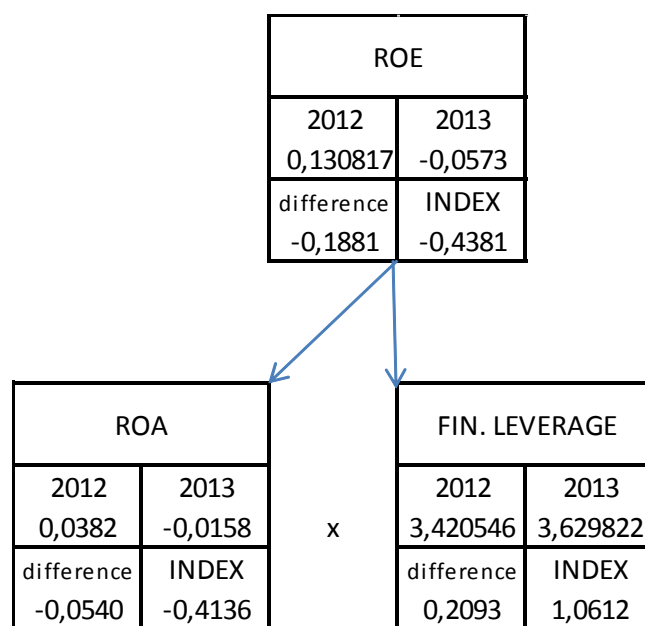


Figure 16 Decomposition of ROE indicator describing change of values between years 2012 and 2013

Source Own work

	08/07	09/08	10/09	11/10	12/11	13/12
ROE	-31.8956	1.7543	-72.9653	35.0361	5.7872	-143.8120
ROS	-45.7744	55.9874	-71.5139	48.6460	4.8645	-136.9610
Asset turnover	29.8206	-6.5658	-4.1557	-5.7674	8.2377	11.7019
Financial leverage	-3.25546	-30.1835	-0.97991	-3.59592	-6.79783	6.1182

Table 23 Additional annual comparison of DuPont's decomposition of indicator ROE and its development within the Kofola Group since 2007

Source Own work.

ROE	
2012	2013
0,13081684	-0,0573
difference	INDEX
-0,1881	-0,4381

ASSET TURNOVER	
2012	2013
1.132578	1.265112
difference	INDEX
0,1325	1,1170

x

ROS	
2012	2013
0,0338	-0,0125
difference	INDEX
-0,0463	-0,3696

x

FIN. LEVERAGE	
2012	2013
3,420546	3,629822
difference	INDEX
0,2093	1,0612

Figure 17 Additional decomposition of ROE indicator describing change of values between years 2012 and 2013

Source Own work

The greatest fall of ROE indicator is according to table 22 and 23 reported between 2012 and 2013, when the change exceeded 143% and because of this fact there is provided deeper analysis of different component's effect by providing decomposition of ROE indicator using index method. In this case, it is impossible to use logarithmic method because of negative values of ROE, even though logarithmic method is the most common one.

Index method for DuPont decomposition of ROE for 2013 (1) and 2012 (0) :

$$\begin{aligned}
 & -0.0573 - 0.1308 = -0.1881 \\
 & = (1.2651 \times 0.0338 \times 3.4205) - (1.1326 \times 0.0338 \times 3.4205) \rightarrow 0.01531 \text{ (asset t.)} \\
 & + (1.2651 \times -0.0125 \times 3.4205) - (1.2651 \times 0.0338 \times 3.4205) \rightarrow -0.20014 \text{ (ROS)} \\
 & + (1.2651 \times -0.0125 \times 3.6298) - (1.2651 \times -0.0125 \times 3.4205) \rightarrow -0.0033 \text{ (fin. lev.)}
 \end{aligned}$$

Data of previous calculations come from figure 17. According to which, the only positive influence on ROE had asset turnover (0.01531); however, its influence is quite negligible in comparison to influence of ROS indicator. The negative influence is reported from financial leverage indicator (c = -0.0033) and ROS indicator (b = -0.20014), which caused significant decrease of ROE.

4.5.6 Cross sectional analysis

Within the cross sectional data analysis, the Kofola Group is compared to competitor companies as well as the beverage production industry of the Czech Republic. The main two competitors of Kofola are world known brands Coca Cola and Pepsi-Co. Naturally, the considered values used in this thesis are from the Czech branch offices.

Coca-Cola Česká Republika limited company

Coca-Cola company is one of the global non-alcoholic beverage producers which is very well known in the Czech Republic. In addition to the famous Coca-Cola soft drink, the company also produces brands such as Fanta, Sprite, Bonaqua, Lift, and others. The Czech branch of Coca-Cola has been operating in the Czech market since 1997, but Coca-Cola has its main headquarters in Atlanta, USA. 100% of the share capital was provided by the main headquarters. The main strength of the Coca-Cola company is its promotional activity which might be assumed to be one of the reasons for the company's significantly higher profits. (Ministerstvo Spravedlnosti, 2015; Coca-Cola, 2015).

PepsiCoCZ limited company

PepsiCo CZ is part of the international organization PepsiCo Inc., which produces and distributes non-alcoholic beverages in the Czech market. In addition to the main Pepsi soft drink, the company produces brands including 7UP, Mirinda, Mountain Dew, Toma, and others (Pepsico, 2015). According to CSOB (2014), the strategy of Pepsico is to buy local brands of beverages. On the other hand, Kofola tries to bring back popular beverages from the communism era.

The following tables (table 24, 25, and 26) describe the financial analysis indicators for 2013. The financial data information about the competitor firms as well as Kofola group comes from the sources of the Czech Ministry of Justice (Ministerstvo spravedlnosti, 2007-2015, 2015b). The financial data information surrounding the beverage production industry comes from the Czech Ministry of Industry and Trade (Ministerstvo průmyslu a obchodu, 2015). The industry values are average values for 24 beverage producing companies.

PROFITABILITY RATIOS				LIQUIDITY RATIOS			
	ROA	ROE	ROS		CURRENT RATIO	QUICK A. RATIO	CASH P. RATIO
Kofola	5.35%	-5.73%	-1.25%	Kofola	0.7300	0.4864	0.0303
Industry	7.54%	8.93%	6.51%	Industry	1.1167	0.7890	0.2708
Coca-Cola	2.02%	121.31%	5.66%	Coca-Cola	4.7345	4.7256	3.7605
PepsiCo	-1.93%	-82.20%	-2.01%	PepsiCo	1.1545	0.8435	0.2754

Table 24 Profitability and Liquidity ratio values of Kofola, its competitors, and industry for 2013
Source Own work.

As described in the financial analysis part of Kofola Group, the company is struggling in terms of profitability ratios in 2013, especially ROE and ROS ratios. Even lower numbers are reported in PepsiCo subsidiary for 2013. More positive results might be seen in Coca-Cola company, which although utilizes its assets less effectively (even though it does not own almost any fixed assets); however, it got more promising results of ROE and ROS.

Coca-Cola has the highest return on equity value, which represents the highest earnings for investors. On the other hand, PepsiCo has a very high negative value in regards to this. The value of Kofola might therefore be considered as somewhere in the middle; however, it is still lower than the industry average value. Finally, in terms of ROS, all companies lag behind the industry value. In this case, Kofola receives second place. Kofola also has a better return on sales than PepsiCo company.

From the investigation, it is seen that it is quite difficult to compare Coca-Cola's financial data with Kofola's financial data. Their situation is very different. According to Coca-Cola (2015b), it operates only one production plant in the Czech Republic along with many distribution centers. As a result, the company does not have many fixed assets or inventories; the value of its total liabilities is very low. On the other hand, Kofola Group operates five production plants in the Czech Republic and surrounding countries (Kofola, 2014).

When considering the liquidity ratios, Kofola has the lowest observed indicator values from its competitors and industry average. The main reason for this is that Kofola deals with quite a high volume of current liabilities. The quick ratio is also lower, apparently due to the same reason. Similarly, the same applies in the case of the cash position ratio. Kofola's value is below the optimal limit, however, PepsiCo and the industry values are close to reaching the suggested value to avoid risks connected with liquidity crisis. In terms of liquidity ratios, Coca-Cola's indicators are higher than the optimal values and this fact reveals the sign of a conservative strategy to avoid liquidity risks.

Attachment C describes the values of the main economic indicators of the Kofola Group and its competitors, as well as the beverage industry average values. It is seen that Kofola owns a higher number of assets and generates a higher number of sales than its competitors. The main reason for this might be that the competing companies are subsidiaries of international companies; therefore, the average industry values are in this case more reliable in terms of comparison.

	DEBT RATIO	D/E RATIO
Kofola	72.45%	2.6298
Industry	56.45%	1.2964
Coca-Cola	21.05%	9.8348
PepsiCo	24.71%	10.5141

Table 25 Debt ratio values of Kofola, its competitors, and industry for 2013
Source Own work.

In terms of the debt ratio, Kofola's values are higher than those of the competitors and beverage industry in CZ. The percentage indicates the quantity of total assets that are not financed by owners of the company. The lower percentage is, the less risk the company undertakes. On the other hand, a company might generate higher profits by its greater financial leverage. Kofola's competitors avoid risk and their debt is not very significant. The debt to equity ratio is quite different.

The numbers indicate what proportion of debt and equity is used to finance the company's assets. If ratio is equal to 1.00, it means that half of the assets are financed by debts and the other half is financed by shareholder's equity. The higher the value is, the more assets are financed by debt than those financed by the money of shareholder's. In the case of Kofola, it uses lower proportion of debt to finance its assets than its competitors do or the average value is.

	TATR	INV. T. RATIO	ACP	CPP	Trade deficit
Kofola	1.2651	0.5567	79.9416	112.87	-32.9326
Industry	0.5975	0.4863	-	66.8084	-
Coca-Cola	0.4588	-	159.4505	165.2202	-5.7697
PepsiCo	0.9616	1.4199	51.3605	90.4008	-39.0403

Table 26 Activity ratio values of Kofola, its competitors, and industry for 2013
Source Own work.

Table 26 is divided into two parts: the right part indicates how many times per year the certain action is done, and the left part indicates the number of days it takes a company to complete a certain action.

In terms of TATR, Kofola is doing better than its competitors and industry itself. According to an investigation, Kofola turns its assets 1.2651 times over one year, which indicates how efficiently assets are used. Since competitor companies turn their assets less often, their utilization of assets is lower. On the other hand, Kofola is doing worse in terms of inventory turnover ratio. Kofola's inventory is sold and repeatedly stocked not even once per year, while PepsiCo converts its inventory faster. However, the industry beverage inventory turnover ratio is even lower.

The average collection period indicates how many days on average it takes the company to collect and account for its current receivables. From table 26, it is seen that it takes Kofola less days than the Coca-Cola company to collect and account for its current receivables; however, the average collection period is higher than that of the PepsiCo company. In this case, the PepsiCo is doing better than its competitors, because the shortest collection time might indicate better efficiency and higher turnovers. In terms of creditor's payment period, the best results are reported in Coca-Cola company, since it took the company the longest time to pay its creditors (the current liabilities remained outstanding for more than 165 days). Even though it took Kofola Group less days than it took Coca-Cola company, it maintained higher number of CPP than PepsiCo company as well as beverage industry in CZ. Trade deficit results indicate that Kofola's and PepsiCo's trade deficit is quite similar in values. Both companies received money from their clients more than a month prior to paying their liabilities. On the other hand, Coca-Cola company pays its liabilities only 5 days after receiving money from its clients.

4.5.7 Altman's Z-Score

Altman's Z-score indicators evaluate the company's financial status and possibilities of bankruptcy. According to the formula for calculating Z-Score as described in the literature overview part of the thesis, an Altman's Z-score may be calculated for the Kofola group.

Market value of equity is calculated as number of shares multiplied by its stock price. Kofola Group is capitalized by 1 343 shares in the value of 200 thousand CZK and 53 shares in the value of one thousand CZK. The final sum of the market value equity for each year is 268 653 thousand CZK (Investing Answers, 2015).

	Coef.	2007	2008	2009	2010	2011	2012	2013
EBIT/assets	3.30	0.2745	0.2130	0.2791	0.1311	0.1403	0.1699	0.1395
Sales/assets	1.00	0.9552	1.2400	1.1586	1.1104	1.0464	1.1326	1.2651
Market value of eq. /debts	0.60	0.1023	0.0834	0.0992	0.1006	0.0972	0.0994	0.1037
Retained earnings/assets	1.40	2.6540	3.0404	1.7932	2.7599	2.6482	2.7405	2.9607
Working capital/assets	1.20	-0.0777	-0.0550	-0.0831	-0.1541	-0.1645	-0.2134	-0.1996
Z SCORE		3.9083	4.5219	3.2469	3.9478	3.7675	3.9289	4.2694

Table 27 Altman model of prediction of financial status of Kofola Group
Source Ministerstvo spravedlnost (2008-2014). Processed by author.

Table 27 indicates that all the results of Kofola Group's Z score from 2007 until 2013 are within acceptable range, indicating that the company has no financial problems and that there are no signs of potential bankruptcy. According to the historical financial data of Kofola Group, the company did not report any financial problems in terms of the financial status before or after the venture capital involvement. The company's results were closest to the grey zone in 2009, when the result of the Z-Score was 3.2469. The potential reason for the decrease was the decrease of the retained earnings and assets ratio. On the other hand, according to Grunwald and Holečková (2007), the Z-score indicator covers only a part of the financial status spectrum because of the missing solvency partial indicators within the formula and many non-universal indicators. For example, the market value of equity and debt ratio should be the lowest possible from a profitability point of view; however, the highest possible from a minimization of risk point of view. As a result, Inka and Ivan Neumaier came up with a new bankruptcy model IN05.

4.5.8 IN95 model

IN95 is a bankruptcy and credibility model which is used for the evaluation of Kofola Group's financial situation. The model identifies the presence of financial risks and the index value reveals if a company produces value or not.

	Coef.	2007	2008	2009	2010	2011	2012	2013
Assets/liabilities	0.13	0.1618	0.1589	0.2976	0.1763	0.2424	0.3425	0.4728
EBIT/interests	0.04	0.2384	0.1769	0.3231	0.1809	0.1831	0.2536	0.3129
EBIT/assets	3.97	0.3154	0.3178	0.3890	0.1751	0.1766	0.2314	0.2123
Sales/assets	0.21	0.2006	0.2604	0.2433	0.2332	0.2197	0.2378	0.2657
Current assets / (sh.t. payables + sh.t. bank loans)	0.09	0.0815	0.0834	0.0795	0.0715	0.0688	0.0642	0.0657
IN05		0.9977	0.9974	1.3325	0.8370	0.8906	1.1296	1.3294

Table 28 IN05 model of prediction of financial status of Kofola Group
Source Ministerstvo spravedlnost (2008-2014). Processed by author.

According to table 28, Kofola Group has not created value during the examined period, since the IN05 value has not reached 1.6. The company is currently in the grey zone, which is characterized by potential financial risks. The worst years from an IN05 point of view for Kofola were the years 2010 and 2011, when the value of the index exceeded its minimal level for creating value. The main reason for this might be the low ratio of EBIT and company's assets during this period of time caused most likely by the economic crisis. This ratio is the most significant coefficient of the IN05 model. From a venture capital investment point of view, the most significant increase in index values is reported after the investment was made (2009), where the value increased by more than 0.3, which indicate the most positive increase since 2007 until 2013.

5 Discussion

The focus of this bachelor thesis was to identify the economic influence of the venture capital fund Enterprise Investors on the performance of Kofola Group joint stock company. The results of this might be compared to the results of the EVCA study from 2013 "Exploring the impact of private equity on economic growth in Europe" (EVCA, 2013). The study processed by EVCA evaluated the contributions of the private equity investment in Europe on the economic growth of countries. The study focused on three basic priorities of the Europe 2020 strategy program: innovation, productivity, and competitiveness. The results were very positive and an improvement might be seen in all three aspects. Private equity backed companies increased their efficiency of innovation efforts, increased productivity, as well as increased the operating performance. According to the study, private equity funds provided not only access to finance, but also know-how and managerial expertise. Due to this, an improvement might be seen in terms of management methods, new products and processes, improved corporate recovery and corporate performance. These contributions lead to an enhancement of competitiveness due to higher productivity, higher rates of export, and innovation. The better utilization of resources might be acquired by higher expertise of management as well. All mentioned aspects go hand in hand with higher economic growth.

Since the venture capital type of financing is part of private equity, it is expected that the results of the study will be similar to the results of this thesis; thus, positive impact on the economic performance aspect of the Kofola Group company can also be seen. When comparing years 2007 and 2008 (years before the investment) with the year 2009 (year after the investment), an improvement can be seen in various terms. Kofola Group improved its innovative effort by introducing a new sugarless version of Kofola soft drink and a new flavor of other brands. An improvement in productivity area is also seen since the company closed its least effective production plant in Tychy; however, it invested in the building of a warehouse and production hall in Rajecká Lesná (Slovakia) as well as invested in production technologies in Russia. The number of employees increased from 1370 (in 2007) to 2900 (in 2009). Finally, a potential positive impact on the company's competitiveness was identified due to an increase in terms of innovations and reaching new clients in the Slovak and Russian markets. Unfortunately, due to the financial crisis, the company had to deal with different challenges during 2009, which might have negatively influenced the volume of sales and other financial indicators. The year 2010 might be described as the year which has brought the worst economic development since 1993. A decrease in GDP in CZ was reported along with higher unemployment rates by more than 5.9%, lowered wages, weaker position of the Czech Crown in relation to the Euro and the American Dollar, stagnation of foreign trade, and other negative changes (Kofola, 2010-2014; Dubská, 2011).

When comparing results of the beverage industry in the Czech Republic after 2009, a decline is seen in various terms as well. Since the presence of the world

economic crisis, the influence of the venture capital itself is quite difficult to evaluate; however, it is possible to evaluate how the industry has dealt with the crisis with comparison to Kofola Group. During the world economic crisis, the venture capital fund might have confirmed the reliability of the management team of Kofola, and during that time, the company might have used the expertise of the members of the venture capital fund to deal with the challenges as well. The expertise of managers might be seen for example in Kofola's net profit results which increased in spite of various challenges and also in the fact that the company improved its position in the market (Kofola 2007-2014).

In terms of the financial indicators, results of conducted analysis revealed that the Kofola Group is over-performing the beverage industry in terms of current ratio, which is lower than in 2007; however, the industry experienced a greater decline in values. From liquidity ratios such as quick asset ratio and cash position ratio, the beverage industry values are more positive and closer to the optimal values than those of the Kofola Group. The conducted analysis included also profitability ratio results. Kofola's profit margin increased with time in spite of qualitative know-how involvement of the venture capital. The beverage industry performed better in 2007 from an ROA and ROS's point of view; however, it performed worse than the Kofola Group regarding to ROE indicator. Although the situation changed, there were identified negative results from Kofola's all three indicators in 2013. Even if the beverage industry's value decreased as well, the negative values were not reached. Financial leverage of the Kofola Group maintained oscillating values during the examined period. Its greatest increase is reported between years 2012 and 2013, which had an influence on the ROE indicator as well as the ROS and ROA indicator. In terms of activity ratios, it took Kofola Group held the inventory longer than the beverage industry during all of the examined years, which indicates the worst inventory turnover results. On the other hand, Kofola Group is doing better in terms of balance between inventory and cost of goods sold. Even if the inventory turnover ratio taking into account cost of goods sold declined with time, it is still more favorable than the ratio of the beverage industry. Kofola improved its situation in terms of the average collection period of receivables and maintained good position also from the creditor's payment period point of view. Trade deficit of the company is very similar to trade deficit of the beverage industry and company's competitors. From a time point of view, the conducted results report that the trade deficit exhibited an increasing trend and the best results were achieved in 2012, when the company was able to pay its liabilities 35 days after it collected money from its clients. The improving results of total asset turnover indicate that the company experienced a higher efficiency of asset utilization to generate sales than the industry. The reason for this is that Kofola Group, as well as beverage industry, increased the number of sales and assets; however, the industry's assets increased much more significantly (an increase of almost 70%), while Kofola's assets increased only by 15%.

Kofola Group also acquired longer creditor's payment period than the beverage industry. From a debt ratios point of view, the beverage industry consistently outperformed Kofola, since it kept the level of indebtedness on the low level;

therefore, the risk connected with solvency was lower as well. Financial analysis of the Kofola Group also identified increase of times interest earned ratio since 2007, which indicates the greater ability of company to meet its interest obligations due to significant decrease of company's interest expenses in relation to the EBIT value.

When comparing Kofola's financial results in 2013, with those of the competitor companies, Kofola Group reported more beneficial results than the PepsiCo company operating in the Czech Republic in terms of profitability ratio indicators, cash position ratio, and total asset turnover. Even if the thesis provides comparison of indicators with competitor companies, the values do not have such a redeemable value as the beverage industry values have. The reason for this is that the main competitors are the global companies which are the most popular soft-drink brands in the world. Coca-Cola and PepsiCo have been competing since 1893, when Pepsi was introduced. Both brands have got stronger market position within securing sales. When comparing Kofola Group with these global brands, it is younger and still not as popular behind the borders of Czech Republic and Slovakia. On the other hand, the SWOT analysis of the Kofola Group identifies a great potential to increase and become a competitor of Coca-Cola and Pepsi in global terms.

The thesis also provided analysis of more complex and diagnostic tools, respectively, including DuPont analysis, Altman's model, and the IN05 model. DuPont analysis revealed that negative changes between 2012 and 2013 that influenced value of ROE were primarily caused by decrease of ROS indicator, which prevalently influenced decrease of ROE. When looking at the ROE changes before investment (2007) and after investment (2008), a decrease in all the influencing indicators was reported except for the asset turnover indicator. On the other hand, it is necessary to be reminded of the fact that venture capital investment was completed at the end of 2008; therefore, it did not have similar results for the same year. However, there were identified positive effects on the following year (2009), the most profitable year of the examined period.

Altman's Z-Score indicated that Kofola has not dealt with any bankruptcy possibilities or financial status problems since 2007. The combined bankruptcy-solvency model IN05 on the other hand revealed possible financial risks of the Kofola Group during the whole examined period; however, it concluded that the most favorable year from an IN05 point of view was also the year 2009 as well, the year after the venture investment was established.

The analysis of the venture capital influence on the Kofola Group's economical performance was conducted on the basis of accessible secondary data that means the aim of the investors in the information sources or their direct impact of the investment on the company was not specified. The company did not announce what the financial sources of the investors were specifically used for; therefore, the starting points for the outcomes' evaluation were deduced from general knowledge regarding usage of venture capital funds.

The latest news surrounding Kofola Company announced in May 2015 informed the public that the Enterprise Investors are considering selling a specific

number of shares of the Kofola Group for undisclosed reasons. The same source mentions the possibility of Kofola Group issuing new shares to acquire money for further expansion of the company (Miler, 2015). Analyzing the latest financial records of the Kofola Company (2014-2015) will assist in gaining a better understanding of the investors' motives as well as Kofola's reason for the mentioned considerations; however, these financial records have not been published by the Kofola Group as of yet. Therefore, an opportunity exists for further study of this problem area in the future.

6 Conclusion

The main objective of the thesis was to evaluate the impact of the venture capital funds on the Kofola Group's performance from the economical point of view. The examined period of time is considering period before (years 2007 and 2008) and after the investment until 2013. The thesis was divided into two parts - review of literature and analytical part.

The literature overview provided current theoretical background of venture capitalism as well as the description of key financial analysis approaches, which are utilized for assessing the economic performance and financial status of business entities. Complementary, the analytical part of the thesis is focused on identification and evaluation of benefits within the venture capital investment on the economic performance of the Kofola group since the year 2007 until 2013 with the comparison to the beverage industry of the Czech Republic. The analysis is bounded to this period of time due to the limited amount of available information sources provided by the Kofola Group.

The analytical part of the bachelor thesis involved traditional financial analysis indicators groups such as profitability, activity, liquidity, and debt ratios. The results were evaluated via descriptive statistics and further analytical financial methods involving comparison with the beverage industry values as well. The results reflected the areas in which Kofola Group performed better than the beverage industry in CZ, but also the areas where the company was left behind the beverage industry. The positive influence on the financial results might be acquired also as a result of the presence of the venture capital investor. When comparing years before investment (2007 and 2008) with the year 2009, Kofola Group performed better than the beverage industry regarding the current ratio, ROE indicator values, balance between inventory and cost of goods sold. and higher efficiency of asset utilization to generate sales. On the other hand, Kofola left behind the industry in terms of the leverage ratios, ROA and ROS indicator, quick asset ratio and cash position ratio. Even though the economical situation of the Kofola Group improved after entrance of venture capital investors, decreasing trend is reported since 2010, when Kofola Group dealt with various challenges including global economic crisis. The mentioned challenges influence decline in indicators including the ROE indicator, which declined primarily due to decrease of the ROS indicator. The global economic crisis affected Kofola's main competitors as well as the whole beverage industry sector in the Czech Republic, which reported decrease in many financial indicators as well.

In addition to the traditional indicators, analysis of more complex and diagnostic financial tools, bankruptcy and credibility models including DuPont analysis, Altman's model, and the IN05 model were used.

The thesis also provides cross-sectional financial analysis of Kofola and its main competitors, Coca-Cola and PepsiCo taking into account the last available financial statements' data for year 2013. Even though in terms of total asset turnover ratio Kofola performed better than its competitor, there are more aspects in

which Kofola got left behind. The greatest difference in values is reported in terms of leverage indicators, since Kofola Group uses significantly greater amount of debt than its competitors. The other activity ratios, profitability ratios, and liquidity ratios are aspects in which Kofola group is struggling in contrast to its competitors in 2013 as well. On the other hand, it is important to notice that the PepsiCo and Coca-Cola company are global companies which operate on the global market, while Kofola Group is younger company and not as popular behind the borders of the Czech Republic, Slovakia, and Poland. However, SWOT analysis identifies an opportunity for the Kofola Group to expand to Russian market and other markets, so it can become a competitor of the mentioned companies in global terms.

Along with the financial tools used in the bachelor thesis, several non-financial tools were used to evaluate the influence of the venture capital on Kofola Group's economic performance. The non-financial tools include principally the evaluation of company's innovativeness, but also the evidence about the quality of products and changes within the employee structure. An increasing number of employees were reported in 2009. Furthermore, employment gradually decreased from 2010 due to technological changes which might be perceived as a positive impact of the venture capital; however, on the other hand, the reason for this might be also the impact of the world financial crisis which influenced decrease of employees' number within the whole beverage industry in the Czech Republic.

The most successful year for Kofola Group was 2009, the year after the investment was made. In 2009, an improvement in the majority of the financial analysis indicators as well as non-financial indicators was reported. From this fact, it is possible to draw the conclusion that there was well identified growth potential of the company by venture capital investor, while other results within the area of economic performance and identification of economic benefits venture investment were significantly influenced by global economical crisis, which might be reflected also in financial results of the beverage sector industry in the Czech Republic. Due to this standpoint, I consider the aim of this thesis to be fulfilled.

My recommendations for further research would be to complete a survey among Kofola's employees, suppliers, and direct clients regarding their thoughts of the presence of the venture capital investor. Moreover, the company's valuation before and after the investment would be possible to do after the exit of the venture capital investor. Last but not least, I would recommend to conduct the research focusing more on the non-financial economic indicators in relation to the venture capital investment, which would require closer cooperation with the company's management.

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Attachments

List of attachments

- A Balance sheet of Kofola Group
- B Profit and loss statement of Kofola Group
- C Main financial indicators of the Kofola Group, its competitors, and beverage industry in CZ for 2013
- D List of abbreviations

A Balance sheet of Kofola Group

In ths CZK			ASSETS	row	2013	2012	2011	2010	2009	2008	2007
			TOTAL ASSETS (r. 02 + 03 + 31 + 62)	001	2 145 849	2 290 791	2 280 541	2 173 764	2 197 298	2 361 468	1 961 248
A.			Receivables from subscriptions	002							
B.			Fixed assets (r. 04 + 13 + 23)	003	1 148 319	1 238 428	1 240 828	1 081 348	1 027 828	976 202	731 476
B.	I.		Intangible fixed assets (r. 05 to 12)	004	84	235	387	219	26 796	45	581
B.	I.	1	Incorporation expenses	005							
		2	Research and development	006							
		3	Software	007	56	164	273	0	46	0	521
		4	Valuable rights	008	28	71	114	15	30	45	60
		5	Goodwill (+/-)	009							
		6	Other intangible fixed assets	010							
		7	Intangible fixed assets under construction	011				204			
		8	Advance payments for intangible fixed assets	012					26 720		
B.	II.		Tangible fixed assets (r. 14 to 22)	013	1 025 227	1 115 185	1 117 433	1 081 129	1 001 032	976 157	730 895
B.	II.	1	Lands	014	13 404	13 404	13 228	11 483	11 483	11 483	12 955
		2	Constructions	015	462 780	471 723	449 404	412 857	406 570	415 917	224 681
		3	Equipment	016	498 792	566 980	562 840	505 977	460 756	463 353	317 122
		4	Perennial corps	017							
		5	Breeding and draught animals	018							
		6	Other tangible fixed assets	019	1 069	1 640	1 559	1 983	2 281	2 341	2 292
		7	Tangible fixed assets under construction	020	11 587	17 888	36 101	84 035	61 297	20 695	106 341
		8	Advance payments for tangible fixed assets	021	0	1 155	7 107	12 800	1 852	776	1 113
		9	Adjustment to acquired assets	022	37 595	42 395	47 194	51 994	56 793	61 592	66 392
B.	III.		Long-term financial assets (r. 24 to 30)	023	123 008	123 008	123 008	123 008	123 008	123 008	
B.	III.	1	Shares in controlled and managed organizations	024	123 008	123 008	123 008	123 008	123 008	123 008	
		2	Shares in accounting units with substantial influence	025							
		3	Other securities and shares	026							
		4	Loans to controlled and managed organizations and to accounting unit with substantial influence	027							
		5	Other financial investments	028							
		6	Financial investments acquired	029							
		7	Advance payments to long-term financial assets	030							
C.			Current assets (r. 32 + 39 + 47 + 57)	031	964 975	1 016 488	1 014 333	1 078 648	1 157 977	1 376 099	1 219 348
C.	I.		Inventory (r. 33 to 38)	032	322 038	341 191	316 900	329 605	313 705	356 761	324 587
C.	I.	1	Materials	033	235 977	249 426	257 971	270 041	268 300	294 032	257 996

In ths CZK			LIABILITIES	row	2013	2012	2011	2010	2009	2008	2007
			TOTAL LIABILITIES (r. 68 + 85 + 118)	067	2 145 849	2 290 791	2 280 541	2 173 764	2 197 298	2 361 468	1 961 248
A.			Equity (r. 69 + 73+ 78 + 81 + 84)	068	591 172	669 715	621 396	571 003	571 529	428 834	344 561
A.	I.		Registered capital (r. 70 to 72)	069	268 653	268 653	268 653	268 653	268 653	268 853	268 653
A.	I.	1	Registered capital	070	268 653	268 853	268 853	268 853	268 853	268 853	268 653
		2	Company's own shares and ownership interests (-)	071							
		3	Changes of registered capital (+/-)	072							
A.	II.		Capital funds (r. 74 to 77)	073	0	0	0	0	0	0	0
A.	II.	1	Share premium	074							
		2	Other capital funds	075							
		3	Differences from revaluation of assets and liabilities (+/-)	076							
		4	Differences from revaluation in transformation (+/-)	077							
A.	III.		Reserve funds, statutory reserve account for cooperatives, and other retained earnings (r. 79 + 80)	078	43 560	39 036	34 564	30 898	22 535	16 298	6 362
A.	III.	1	Legal reserve fund/indivisible fund	079	41 845	37 465	33 623	31 008	21 328	14 191	5 770
		2	Statutory and other funds	080	1 571	1 571	941	-110	1 207	2 107	592
A.	IV.		Profit/loss - previous year (r. 82 + 83)	081	312 841	274 416	241 337	219 162	86 745	1 127	-98 875
A.	IV.	1	Retained earnings from previous years	082	312 841	274 416	241 377	219 162	86 745	1 127	-98 875
		2	Accumulated losses from previous years	083							
A.	V.		Profit/loss - current year (+/-) (r. 01 - (+69 + 73 + 78 + 81 + 85 + 118))	084	-33 882	87 610	76 842	52 290	193 596	142 756	168 421
B.			Other sources (r. 86 + 91 + 102 + 114)	085	1 554 677	1 621 076	1 658 780	1 602 761	1 624 439	1 931 643	1 575 980
B.	I.		Reserves (r. 87 to 90)	086	15 257	26 423	24 269	14 544	17 738	18 221	2 760
B.	I.	1	Reserves under special statutory regulations	087						2 250	2 760
		2	Reserves for pension and similar payables	088							
		3	Income tax reserves	089	8 394	11 868	5 624				
		4	Other reserves	090	6 863	14 555	18 645	14 544	17 738	15 971	0
B.	II.		Long-term payables (r. 92 to 101)	091	12 153	20 038	91 813	86 302	120 718	182 887	89 973
B.	II.	1	Trade payables	092							
		2	Payables to controlled and managed organizations	093							
		3	Payables to accounting units with substantial influence	094							
		4	Payables from partners, cooperative members and association members	095							
		5	Long-term advances re- ceived	096							
		6	Issues bonds	097							
		7	Long-term notes payables	098							
		8	Estimated payables	099							

	9	Other payables	100	7 480	20 038	91 813	86 302	120 718	182 887	89 973
	10	Deferred tax liability	101	4 673	0					
B.	III.	Short-term payables (r. 103 to 113)	102	851 178	782 604	747 584	747 577	760 257	806 875	685 783
B.	III.	1 Trade payables	103	502 912	438 565	395 461	396 704	442 130	474 515	607 779
		2 Payables to controlled and managed organizations	104							
		3 Payables to accounting units with substantial influence	105							
		4 Payables from partners, cooperative members and association members	106							
		5 Payroll	107	9 676	9 705	9 633	12 558	11 518	12 195	10 791
		6 Payables to social security's and health insurance	108	5 535	5 524	5 679	7 243	6 577	6 777	5 705
		7 Due from state-tax liabilities and subsidies	109	7 698	1 329	1 494	1 868	1 621	10 853	25 126
		8 Short-term deposits received	110	164 750	130 941	125 723	153 375	149 528	167 912	5
		9 Issues bonds	111							
		10 Estimated payables	112	147 775	117 307	110 196	94 020	72 674	73 795	-2 998
		11 Other payables	113	12 832	79 233	99 398	81 809	76 209	60 828	39 375
B.	IV.	Bank loans and financial accommodations (r. 115 to 117)	114	676 089	792 011	795 114	754 328	725 726	923 660	797 464
B.	IV.	1 Long-term bank loans	115	205 322	150 706	215 710	144 026	175 758	246 179	136 958
		2 Short-term bank loans	116	470 767	641 305	579 404	610 302	549 968	677 481	660 508
		3 Short-term accommodations	117							
C.	I.	Accruals (r. 119 + 120)	118	0	0	365	0	1 330	991	40 707
C.	I.	1 Accrued expenses	119			365		1 330	991	40 138
		2 Deferred revenues	120							569

B Profit and loss statement of Kofola Group

Profit and loss statement in ths CZK		2013	2012	2011	2010	2009	2008	2007
I.	Revenues from merchandise	359 626	331 991	362 546	358 587	393 380	513 247	479 913
A.	Cost of goods sold	179 286	164 903	230 775	234 479	268 926	345 428	316 211
+	Sales Margin	179 340	167 088	131 771	124 108	124 454	167 819	163 702
II.	Production	2 355 114	2 262 509	2 023 766	2 055 209	2 152 343	2 414 939	1 393 378
II. 1.	Revenues from own goods and services sold	2 362 941	2 225 583	2 025 229	2 037 441	2 164 668	2 408 118	2 428 344
2.	Change of reserves in own activity	-7 827	36 926	-1 463	17 768	-12 325	6 746	-34 966
3.	Activations	0		0	0	0	75	0
B.	Production consumption	2 049 881	1 957 728	1 704 304	1 728 601	1 693 158	1 922 340	2 106 912
B. 1.	Consumption of material and energy	1 199 371	1 123 877	903 407	928 865	891 566	1 015 117	1 255 154
2.	Services	850 510	833 851	800 897	799 736	801 592	887 233	851 758
+	Added value	484 573	471 869	451 233	450 716	583 639	590 418	450 168
C.	Personal expenses	204 346	210 096	254 216	287 777	262 812	268 102	231 876
C. 1.	Wage expenses	150 207	153 937	189 405	211 112	193 360	194 662	169 094
2.	Expenses for social and health insurance	51 465	53 038	61 234	71 028	65 090	69 379	58 793
3.	Social expenses	2 674	3 121	3 577	5 637	4 362	4 061	3 989
D.	Taxes and fees	7 145	2 656	-3 153	2 123	-2 463	3 400	7 479
E.	Depreciation of fixed assets	153 572	127 565	100 760	84 177	77 436	109 802	68 930
III.	Revenues from sale of fixed assets and material	12 001	23 821	93 088	84 177	54 578	221 071	228 726
III. 1.	Revenues from sale of fixed assets	1 926	5 151	39 900	46 129	1 725	156 440	110 620
2.	Revenues from sale of material	10 075	18 670	53 188	38 875	52 853	64 631	118 106
F.	Revealing price of fixed assets and material sold	10 647	23 643	78 834	81 482	54 733	213 456	216 388
F. 1.	Revealing price of fixed assets sold	541	4 661	27 375	44 231	4 704	155 855	107 541
2.	Material sold	10 107	18 982	51 459	37 251	50 029	57 601	108 847
G.	Change of reserves and fixed items in operating activity	-607	2 980	-5 845	-6 360	2 093	20 067	-470
IV.	Personal operating revenues	12 099	19 045	9 147	33 435	214 971	94 204	22 301
H.	Personal operating expenses	11 119	12 364	21 018	25 725	226 121	108 338	27 011
*	Operating profit	122 450	135 431	107 638	94 231	232 456	182 528	149 981
M.	Change of reserves and fixed items in financial activity	0	0	56 625	0	0	0	0
X.	Interest revenues	39	64	57	129	293	790	2 779
N.	Interest expenses	14 674	21 065	22 172	21 199	26 652	42 746	26 144
XI.	Other financial revenues	11 693	9 988	4 832	12 608	10 209	24 268	12 782
O.	Other financial expenses	19 406	11 943	11 059	11 095	27 679	19 119	10 831
*	Profit/loss from financial activity	-22 348	-22 956	-28 343	-19 557	-43 829	-36 807	-21 414
Q.	Income tax on ordinary income	133 984	24 865	2 453	22 384	-4 969	3 414	-39 000
Q. 1.	paid	22 913	20 962	5 524	4 680	26 456	33 583	31 579
2.	left behind	111 071	3 903	-3 071	17 704	-31 425	-30 169	-70 579
**	P/L from ordinary operations	-33 882	87 610	76 842	52 290	193 596	142 307	167 567

XII.	Extraordinary revenues	0	0	0	0	0	568	1 124
S.	Income tax on extraordinary income	0	0	0	0	0	119	270
***	Profit/loss of the year	-33 882	87 610	76 842	52 290	193 596	142 756	168 421
****	Profit/loss before taxes (EBT)	100 102	112 475	79 295	74 674	188 627	146 289	129 691

C Main financial indicators of the Kofola Group, its competitors, and beverage industry in CZ for 2013

In ths. CZK	Kofola	Industry avg.	Coca-Cola	PepsiCo
Total assets	2 145 849	3 663 829	124 721	1 701 755
Current assets	964 975	761 376	124 324	474 422
Inventories	322 038	223 414	0	127 783
Current receivables	602 835	-	25 342	233 474
Short-t. fin. assets	40 102	184 658	98 748	113 165
Total equity	591.172	1 595 453	2 670	40 000
Total liabilities	1 554 677	2 068 377	26 259	420 565
Current liabilities	851 178	681 828	26 259	410 943
Short-t. bank loans	470 767	108 547	0	0
Short-t. fin. asist.	0	-	0	0
Rev. fr. Merch.	359 626	164 108	0	287 098
Production	2 355 114	2 024 980	57 216	1 349 387
Sales	2 714 740	2 189 088	57 216	1 636 485
Cost of goods sold	179 286	108 652	-	181 442
Earnings after taxation	-33 882	142 492	3 239	-32 878
EBIT	114 776	276 321	2 517	-32 878

D List of Abbreviations

ACP	Average collection period
BIMBO	Management buy-in-buy-out
CED	Capital and Enterprise Development
CPP	Creditor's payment period
CSR	Corporate social responsibility
CVCA	Czech Venture Capital Association
CZK	Czech crown
DSO INDICATOR	Days sales outstanding
EBRD	European Bank for Reconstruction and Development
EBT	Earnings Before Tax
EI	Enterprise Investors
Etc. (et cetera)	And so on
E.g.	Example given
EU	European Union
EUR	Euro
EVCA	European Private Equity and Venture Capital Association
IPO	Initial public offering
IRR	Internal rate of return
IT	Information technologies
LBO	Leveraged buy-out
MBI	Management buy-in
MBO	Management buyout
NASDAQ	National Association of Securities Dealers
OECD	Organization for Economic Cooperation and Development
PEF VI	Polish Enterprise Fund VI
ROA	Return on assets
ROE	Return on equity
ROI	Return on investment
ROS	Return on sales
SME	Small and medium enterprises
TATR	Total asset turnover ratio
TIER	Times interest earned ratio
US	United States
USA	United States of America
VAT	Value added tax
VC	Venture capital