

Mendel University in Brno
Faculty of Regional Development and International Studies



Economic Analysis of the Company with the Respect to its Localization

Bachelor Thesis

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Declaration

I declare that I have created the bachelor thesis alone and all the used literature is mentioned in the attachments.

In Brno

Signature:

Acknowledgment

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Abstract

This bachelor thesis consists of three parts. The first part evaluates the economic situation of Kapitol a.s. in years 2009 – 2013 with the respect to its localization. The goal was achieved by using horizontal and vertical analysis, analysis of net working capital, analysis of ratio indicators and models for prediction of financial distress.

The second part of the thesis presents the results of the financial analysis, compares the company with a competitive company and evaluates the Kapitol's impact on the region where it is settled.

The third part provides information about the final evaluation of the company and offers advice for improvement.

Key words: financial analysis, regional development

Abstrakt

Tato bakalářská práce se skládá ze tří částí. První část se zabývá vyhodnocením ekonomické situace firmy Kapitol a.s. v letech 2009 – 2013 s respektem na její lokaci. Cíle bylo dosaženo použitím horizontální a vertikální analýzy, analýzy čistého pracovního kapitálu, analýzy poměrových ukazatelů a modelů predikce finanční tísně.

Druhá část práce představuje výsledky finanční analýzy, srovnává firmu s konkurenční firmou a zhodnocuje vliv Kapitolu na region, ve kterém se nachází.

Třetí část podává informace o finálním zhodnocení firmy a nabízí rady ke zlepšení.

Klíčová slova: finanční analýza, regionální rozvoj

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1. Introduction

Regional development represents the economic development and growth of a certain territorial unit. It can also be understood as a total growth of a potential and quality of the regions and improving of competitiveness.

One of the important factors influencing regional development are companies in the region. The chosen company's impact on the region will be evaluated by using financial analysis.

Financial analysis serves as an instrument for evaluating the company's strengths and weaknesses. It is crucial for the management of a company as it shows the past years results and the management can learn from their mistake and therefore avoid making them in the future.

Financial analysis is crucial for financial decision making process. It is important for management of the company to help avoid situations which could put the company into danger.

According to the economical results of the income statement, it is possible to evaluate the impact of a company to a region where it is settled, the impact on its growth, and how the company affects the quality of people's lives in the region.

2. Goal of the thesis, methods

The aim of the bachelor thesis is to evaluate the economic situation of a chosen company Kapitól a.s. with respect to its localization. The company will be evaluated using the income statements from which financial analysis will be created. The financial analysis evaluates the period between years 2009 – 2013.

The evaluation of the localization of the company shows created possible job opportunities, the company's position on the market and comparison with similar companies in the nearest area.

The main aim consists of other smaller aims:

- 1) financial analysis of the company, the evaluation of the economic situation of the company using the income statements,
- 2) the evaluation of the impact of the company on a region.

The evaluation of the company's health will be made according to standard methods of financial analysis, which are described in chapter 1.1 that implies:

- analysis of absolute indicators
- analysis of differential indicators
- analysis of ratio indicators
- analysis of bankruptcy models

The financial analysis has been made using the income statement and the profit and loss statement. The documents needed are available on the internet. The income statements have been prepared up to the date 31th of December for each year.

3. Research

3.1 Region, regionalism

We distinguish several definitions of region.

Redlichová (2013) says region, as the fundamental term of regional science, means in the most general conception, a bordered territory delimited on the basis of certain characteristics.

The boundaries of the region can be fixed and be stable over time or, on the contrary, they may vary with different speeds. (Redlichová, 2013)

Regionalism is a process which divides the regions. Dividing the regions is made by two methods. The first method is to divide the regions on the basis of some aspect they have in common, which is possible to qualitatively evaluate, it can be for example the unemployment rate, GDP/person. The other method is a division which evaluates economical connections between subjects in a specific area and compares the intensity of the connections in and out of a region. (Čadil, 2010)

3.2 Regional Development

Regional development can be understood as positive changes of concrete parts of a region. Those changes should lead to improving economic, social and ecological parts of a region.

There are several definitions of regional development.

Wokoun, et al. (2008) distinguish regional development according to two approaches, academically and practically. The practical approach explains regional development as a: "Higher using and increasing of the potential based on systematically defined area arising as a result of optimizing socio economic activities and natural resources. This rise and higher usage shows better competitiveness in the private sector, living standards of citizens and state of the environment, etc."

Wokoun, et. al. (2008) distinguish academical approach as an: “Application of knowledge, mainly economics, geography and sociology, dealing with processes, relationships of systematically defined area, which are influenced by naturally-geographical, economic and social conditions in a given region.”

The region must have balanced development in order to be long-term sustainably competitive. We can explain the term development from the growth.

We can formulate *growth* as a quantitative characteristic expressed as GDP per capita or in other measurable unit. The term is generally understood as a long-term economic growth in the manner of increasing of a potential product.

Development is a qualitative characteristic which formulates reaching the ideal state according to the actors’ value of expectations. Actors can be understood as all interested parties, e.g. citizens, entrepreneurs and public administration.

When speaking about the development of the level of cities and municipalities or higher territorial units the term *local development* is used. According to Ježek (2008) the main objectives of local development are:

- strengthening the competitive position of the territorial division
- improving the local business environment
- searching marketing opportunities for locally produced goods and services
- increasing of employment and long-term career opportunities for local residents
- improving the quality of life of residents

3.3 Company and Region

Region where the company is settled represents a space where the company is able to make its business. Region should enable an adequate environment where the company would have easier access to market and where it would be able to make its activities more efficient. Region should also help the company to have bigger profits and better position on the market. Therefore it is crucial to choose the right region for settlement of a company.

The company with its activities contributes to the quality of the region, the quality is characterized according to GDP/citizen, unemployment rate, average wage level, number of job opportunities, the quality of life, demographical structure, level and development of education, natural conditions of the region, etc. (Čadil, 2010)

3.4 The Importance of Financial Analysis

Generally, the goal of financial analysis is to conduct diagnosis of the financial management of the company using specific methodical procedures, and to detect any potential defects so that it is possible to rectify them without any greater impacts and to show the strengths which the company can use to its advantage. (Živělová, 2013)

Financial management is based on the results of financial analysis, because only a detailed verification of the results, quantification of causes which conditioned the results and their systematic evaluation within the context can reveal real financial position of the company and can serve for specific decisions in the area of the company finances as well as the area of concrete decisions. (Živělová, 2013)

When performing a financial analysis, an analyst may discover specific problem areas in time for remedial action. For example, an analyst may find that a firm has unused borrowing power that could finance additional income-producing assets. (Moyer McGuigan and Rao Kretlow, 2007)

3.5 Users of Financial Analysis

Gibson (2010) says that financial statements are prepared for a group of diversified users. Every user of financial analysis has his own objective in the analysis.

According to Ross, S.A., credit managers may examine some basic financial ratios regarding a customer when deciding whether or not to extend credit. Security analysts use financial analysis to assess the investment worth of different securities. Bankers use the tools of financial analysis when deciding where to grant loans.

We distinguish several types of users of financial analysis, e.g. stockholders, company's managers, bondholders, suppliers, security analysts, regulatory authorities and the general public. These are divided into two groups, internal and external stakeholders. Stakeholders use financial reports for financial decision making. Potential investors use the financial reports as help in making a decision when buying stock. Suppliers use the financial reports when deciding to sell merchandise to a company on credit. Financial reports can be also used by labor unions when determining their demand while they negotiate for employees. Financial reports can also be helpful for management, when determining the company's profitability.

Demand for financial reports exists because users believe that the reports help them in decision making. In addition to the financial reports, users often consult competing information sources, such as new wage contracts and economy-oriented releases.

(Gibson, 2010)

3.6 Data Sources of Financial Analysis

Financial statements are necessary when creating a financial analysis. Financial statements are usually prepared at the end of the accounting period, however they can be prepared weekly, quarterly or half-yearly. Financial statements report financing and investing activities, they appear at a point in time, while operating activities announced for a period of time. We distinguish four basic financial statements: the balance sheet, the profit and loss statement, the statement of shareholders' equity and the statement of cash flow.

3.7 Methods of Financial Analysis

We distinguish many kinds of methods which evaluate company's health. However, in the methodological point of view, it is crucial to consider the adequacy of choosing the right method of the analysis. Choosing the right method has to be made with the respect of:

- *effectiveness* – it has to correspond with the set goal

- *expensiveness* – financial analysis needs time and qualified work, which creates a lot of expenses, which should be adequate to returnability of those expenses.
- *reliability* – the reliability of the analysis depends on the reliability of given information.

The bases of various methods of financial analysis are financial indicators. We can understand financial indicators as a numeral characteristic of the company's economic activity. The choice of a right kind of the indicator is given by its purpose and its goal of the analysis. (Růčková, 2011)

We distinguish two approaches of evaluating economic processes:

- *fundamental analysis*
- *technical analysis*.

Fundamental analysis is based on known information about mutual connections between economic and microeconomic processes. It is dependent on a large portion of information and makes conclusions without algorithmic procedures.

Technical analysis uses mathematical, mathematical-statistical and other algorithmic methods for quantitative processing of the data and subsequent evaluating of the results from the economic point of view. (Růčková, 2011)

Both types of methods are similar, evaluating of the results of the technical analysis would be difficult without fundamental knowledge of economic processes. Therefore it is crucial for both types of methods to be mutually combined.

Another method of creating a financial analysis is an *elementary method*.

Financial analysis works with indicators like items from financial statements or with numbers; however, time is the most important viewpoint.

Standard classification of indicator is a classification into:

- *absolute indicators*
- *differential indicators*
- *ratio indicators*.

Absolute indicators evaluate data of single units from basic financial statements. This approach does not work with any mathematical method. (Růčková, 2011)

Differential indicators count the difference between a certain active and a certain passive unit.

Ratio indicators create the most used group of indicators; they are counted as a ratio of two units most often from basic financial statements.

Other classification of indicators is *extensive* and *intensive* classification.

Extensive indicators include:

- *state indicators*
- *flow indicators*
- *differential indicators.*

Intensive indicators include:

- *homogenous indicators*
- *heterogeneous indicators.*

Analysis of state (absolute) indicators includes *horizontal* and *vertical* analysis.
(Růčková, 2011)

Elementary method is classified into few groups:

- *horizontal analysis*
- *vertical analysis*
- *solvency models*
- *bankruptcy models*

Horizontal analysis evaluates time changes of absolute indicators.

Year to year change analysis

Comparing financial statements over a relatively short time period – two to three years – is performed with the analysis of year-to-year changes in line items. It has the advantage of

presenting changes in absolute amounts as well as in percentages. The changes are presented by using following equations. (Chmelíková and Darkwah, 2005)

Absolute change = Current year balance – Last year balance

*Percentage change = [(Current year balance – Last year balance)]/Last year balance*100*

Vertical analysis evaluates internal structure of absolute indicators. This method makes decision making about stability or instability of company's health easier. For evaluating vertical analysis we use following equation.

*Percentage change = [(Current year balance – Last year balance)]/Last year balance*100*

Solvency models are based on theoretical findings and enable to evaluate companies with bigger amount of entrepreneurial subjects. The advantage of these models is the possibility of determination a position in a field. (Růčková, 2011)

Bankruptcy models are supposed to inform about a possibility of bankruptcy in a near future. They base their conclusions on the assumption of certain anomalies which signalize future problems and appear several years before bankruptcy.

Analysis of differential indicators

The most common differential indicator is *net working capital*. For evaluating *net working capital* is used the following equation.

Net Working Capital (NWC) = current assets – short-term liabilities, or:

Net Working Capital (NWC) = inventories + receivables + money – short-term liabilities

(Scholleová, 2012)

The substance of a *net working capital* is that it represents a part of current assets financed from long-term capital. Every company needs *net working capital* to obtain necessary part of liquidity. (Kislingerová, 2001)

Analysis of ratio indicators

Ratio indicators are the most frequently used method for financial statements from the viewpoint of applicability and from the viewpoint of other levels of the analysis. *Analysis of ratio indicators* is strictly based on the data from basic financial statements. (Růčková, 2011)

Ratio indicators include:

- *liquidity ratios*
- *profitability ratios*
- *indebtedness ratios*
- *activity ratios*
- *market value ratios.*

Liquidity indicators

According to Synek, et al. (2011), liquidity ratios measure the ability of a company to pay their due payables. They are supposed to show whether the company will be able to pay its debts in time.

The lack of liquidity causes inability of a company to take advantage of profitable opportunities. There is direct dependency between terms solvency and liquidity. The condition of solvency is liquidity. (Růčková, 2011)

On the other hand, too high liquidity is an unfavorable occurrence for company's owners, because financial tools are bound with activities which do not work in favor of significant evaluation of financial tools and "cut back" from profitability. It is crucial to achieve stable liquidity which enables satisfactory evaluation of financial tools and therefore an ability to pay liabilities.

We distinguish 3 types of liquidity indicators:

- *current ratio*
- *quick ratio*
- *cash ratio.*

Current ratio shows how many times current assets are bigger than current liabilities. This means how many times is a company able to satisfy its creditors if the company has changed all current assets on money. (Scholleová, 2012)

We calculate *current ratio* by following equation:

$$\text{Current ratio} = \text{Current Assets} / \text{Short-term liabilities}$$

Recommended values for current ratio are **1.8 – 2.5**.

Quick ratio is a stricter current ratio. It is calculated by the following equation:

$$\text{Quick ratio} = (\text{current assets} - \text{inventories}) / \text{short-term liabilities}$$

The recommended value for quick ratio is about **1 – 1.5**.

Cash ratio is calculated as a ratio of financial asset and short-term liabilities. By financial assets we understand financial sources on bank account and in cash registers and other short-term tradeable stocks.

Cash ratio is calculated by this equation:

$$\text{Cash ratio} = \text{financial assets} / \text{short-term liabilities}$$

Recommended value should be around **0.2 – 0.5**.

Indebtedness indicators

Financial analysts use debt ratios to assess the relative size of a firm's debt load and the firm's ability to pay off the debt. The three primary debt ratios are the debt to total assets, debt to equity, and times interest earned ratios. (Gallagher et al., 2007)

According to Kislingerová (2001) indebtedness indicators inform about a success rate of management's work when achieving adequate amount of sources for financing the company.

Total debt ratio, or in other words *indicator of creditor's risk*, is a ratio of total liabilities and total assets. It is used for expressing total indebtedness. It is calculated by the following equation:

$$\text{Debt ratio} = \text{Total liabilities} / \text{Total Assets}$$

Another financial instrument for measuring indebtedness is *debt equity ratio*. This computation compares the total debt with the total shareholder's equity. The *debt equity ratio* also helps determine how well creditors are protected in case of insolvency. From the perspective of long-term-debt-paying ability, the lower the ratio is, the better the company's debt position.

(Gibson, 2011)

Debt equity ratio is computed by the following equation:

Debt equity ratio = Total Liabilities/Shareholder's equity

(Gibson, 2011)

The Times interest earned ratio indicates a firm's long-term debt-paying ability from the income statement view. If the *times interest earned* is adequate, little danger exists that the firm will not be able to meet its interest obligation. (Gibson, 2011)

The firm should be able to refinance the principal when it comes due if it has good coverage of the interest obligation.

A relatively high, stable coverage of interest over the years indicates a good record; a low, fluctuating coverage from year to year indicates a poor record. (Gibson, 2011)

The usual formula is as follows:

Times interest earned = EBIT/Total Interest Payments

(Carlberg, 2010)

Activity indicators

Activity indicators show how effectively the company uses their own sources. (Mallya, 2007)

Activity indicators can be used for assessing the efficiency of how the firm manages its assets such as inventory, receivables, and fixed assets, as well as current liability, accounts payable.

If a firm's *activity indicators* show too high values, it means that the firm has purposeless expenses, which has a negative impact on profit. If the firm has too low values, it has unsatisfactory production capacity and loses possible takings because of it.

Total Assets Turnover Ratio is also called “the production indicator of invested capital”. It informs about a capital turnover. Good average values should be around **1.6 – 2.9**. If the values decrease under **1.5**, it is necessary to check if it is possible to reduce invested assets.

It is calculated as follows:

$$\text{Total Assets Turnover} = \text{Sales} / \text{Total Assets}$$

(Rejnuš, 2014)

Fixed Assets Turnover Ratio measures the relation between sales and the investment in fixed assets – property, plans, and equipment. (Weil, et al., 2014)

It measures the sales generated from a particular level of investment in fixed assets. It is calculated by following formula:

$$\text{Fixed Assets Turnover} = \text{Sales} / \text{Fixed Assets}$$

(Weil, et al., 2014)

Inventory Turnover Ratio provides a measure of how quickly a firm sells its goods.

(Megginson, et al., 2008)

It is calculated by following formula:

$$\text{Inventory Turnover} = \text{cost of goods sold} / \text{inventory}$$

(Megginson, et al., 2008)

The average collection period is used when evaluating credit and collection policies. It measures the average amount of time that elapses from a sale on credit until the payment becomes usable funds for a firm. (Megginson, et al., 2008)

It is calculated by following formula:

$$\text{Average collection period} = \text{Accounts receivable} / \text{Average sales per day}$$

(Graham, et al., 2012)

The average debt period is used when evaluating a firm's performance in repaying suppliers.

It measures the average length of time it takes the firm to pay its suppliers.

(Megginson, et al., 2008)

It is calculated by the following formula:

$$\text{Average debt period} = \text{Accounts payable} / \text{Average purchases per day}$$

(Megginson, et al., 2008)

Profitability indicators

According to Greuning, et al. (2003), profit is the bottom line or ultimate performance result showing the net effects of firm policies and activities in a financial year. Its stability and growth trends are the best summary indicators of a firm's performance in both the past and the future.

Return on average equity (ROE) which measures the rate of return on shareholder investment and the **return on assets** (ROA) which measures the efficiency of use of the firm's potential are the key profitability indicators.

ROA should reflect what effect was achieved from total assets. (Kislingerová and Hnilica, 2005)

According to Gallagher, et al. (2007), *return on average equity (ROE)* measures the average return on the firm's capital contributions from its owners.

It is calculated by the following formula:

$$\text{Return on Equity} = \text{Net Income} / \text{Common Stockholders' Equity}$$

(Gallagher et al., 2007)

According to Damodaran (2003), *the return on assets (ROA)* of a firm measures its operating efficiency in generating profits from its assets prior to the effects of financing.

It is calculated by the following formula:

$$\text{Return on Assets} = \text{EBIT} (1 - \text{tax rate}) / \text{Total Assets}$$

(Damodaran, 2003)

Pyramidal System Indicators

According to Růčková (2011), *pyramidal system indicators* disperse the peak indicator by active or multiplicative method.

The goal of the pyramidal systems is describing mutual dependency of each indicators and analysis of complicated internal bindings inside the pyramid.

Pyramidal system was first used at chemical company Du Pont de Nomeurs, it focuses on profitability's decomposition of own capital, it also focuses on determination of each units entering this indicator. (Růčková, 2011)

The profitability's decomposition is usually presented as a product of three indicators:

- profitability of sales
- total assets turnover
- financial leverage.

(Růčková, 2011)

Bankruptcy Models

Altman Z score model is a figure (a "score") which can be calculated from a small number of financial ratios. Most of the data to calculate the ratios can be obtained from the published accounts of a company or a group of companies used to assess its financial health.

(Graham and Coyle, 2000)

The Z score formula is constructed as follows:

$$Z \text{ score} = C_1 R_1 + C_2 R_2 + C_3 R_3 + \dots + C_n R_n$$

(Graham and Coyle, 2000)

$R_1 R_2 R_3 \dots R_n$ are the key ratios and $C_1 C_2 C_3 \dots C_n$ are values to apply to each ratio.

A high Z score indicates "health" and a low Z score indicates "potential failure".

(Graham and Coyle, 2000)

According to Graham and Coyle (2000), the Altman Z score model emerged as:

$$Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.0099X_5$$

Where:

- X_1 = working capital/total assets ratio
- X_2 = retained earnings/total assets ratio
- X_3 = earnings before interest and tax/total assets ratio
- X_4 = market value of equity/book value of total debt ratio (i.e. a form of leverage)
- X_5 = sales/total assets

(Graham and Coyle, 2000)

A Z score above **2.99** indicates non-failure, a Z score below **1.81** indicates potential failure.

Reliability Index IN05

Index IN05 is the latest known index from the Neumaier. IN indexes are based on important bankruptcy indicators, IN05 was constructed with respect to Czech conditions and it accepts the owner's point of view. (Scholleová, 2012)

It is calculated by the following formula:

$$IN05 = X_1 0.13 + X_2 0.04 + X_3 3.97 + X_4 0.21 + X_5 0.09$$

Where:

- X_1 = Total assets/Total liabilities
- X_2 = EBIT/Interest expense
- X_3 = EBIT/Total assets
- X_4 = Revenues/Total assets
- X_5 = Current assets/Short-term liabilities

(Scholleová, 2012)

Interpretation of the results

- $IN05 < 0.9$ = there is a high probability of bankruptcy (about 86%)

- $0,9 < IN05 < 1.6$ = so called “grey zone”
- $IN05 > 1.6$ = a firm creates values (probability about 67%)

(Scholleová, 2012)

4. Analysis of the Chosen Company

4.1 Characteristics of the Analyzed Company

The chosen company Kapitól a.s. is a limited liability company providing insurance services. The company was established in 1995 with a basic registered capital 20 millions of CZK. It was founded as a shared company of an Austrian insurance company Vienna Insurance Group and two sister companies Kooperativa, the Czech and the Moravian-Silesian. After a fusion in 1999 there is only one owner on the Czech site, Kooperativa, a.s.

The main goal of the founders of Kapitól was to start a dynamic growth of a gene of a life insurance Kooperativa, which was fully accomplished. In 1995 Kooperativa was having practically no share on a market with life insurance, in 2008 Kooperativa was on the 2nd place on the market with profit higher than 22,5%. Kapitól has a significant influence on this success.

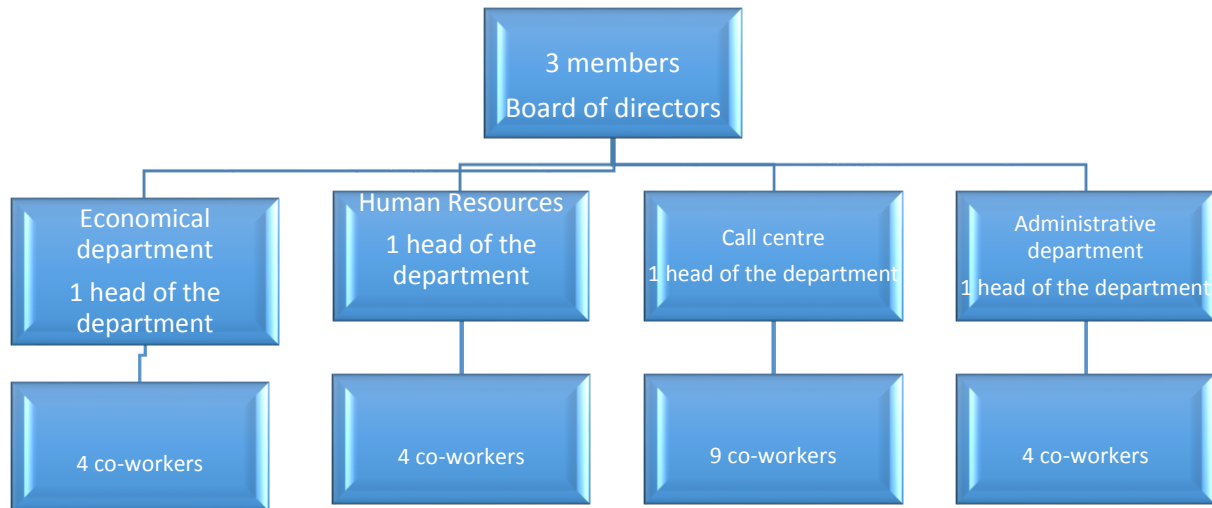
Nowadays Kapitól creates complete product portfolio of citizen insurance for Kooperativa, e.g. pension, capital and investment insurance.

The company is a trading enterprise. According to Živělová (2013), trading enterprises conduct activities, which go through the whole national economy, because trading activity is performed by industrial, agricultural, forestry, construction companies and even by services. Kapitól provides insurance services and financial consulting.

The main subject of business is an arranging activity. It is performed by co-workers of Kapitól – brokers registered at the Czech National Bank, which are internally called consultants.

4.2 Organizational Structure of the Company

Kapitol has its headquarters settled in the centre of Brno, Rašínova street. Organization structure of the headquarters is illustrated by a picture bellow.



The headquarters of Kapitol focuses mainly on securing failure-free functioning of the consultants; it takes care of human resources, financial matters, relationship with the clients, and other administrative concerns.

4.3 Localization of the Company

The headquarters of the company is located in Brno. Settling of the company in Brno is convenient from two aspects. First, it is located near company's Austrian owner Vienna Insurance Group, and second, settling the company in Brno is cheaper than settling in Prague.

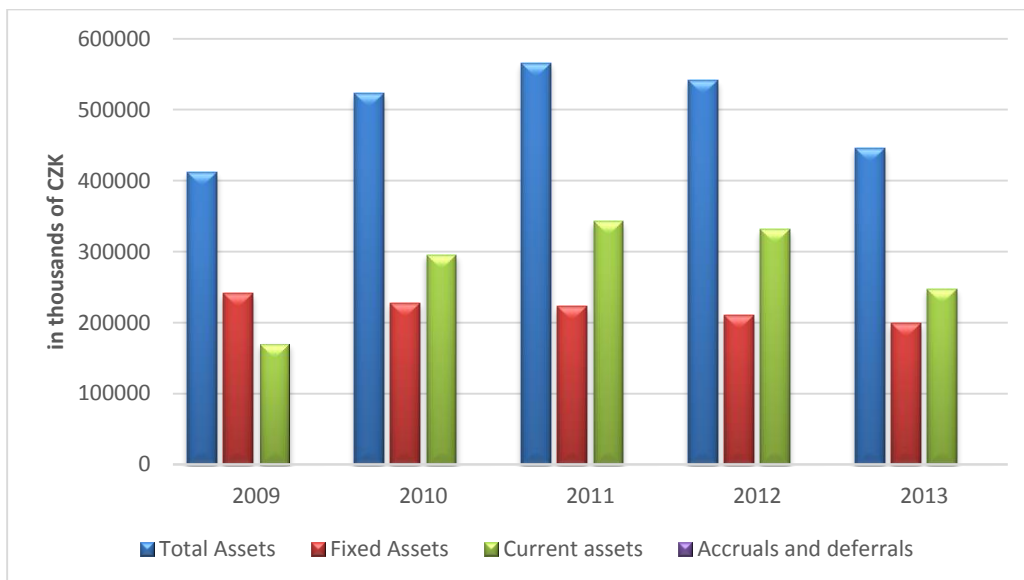
5. Financial Analysis

5.1 Horizontal Analysis

Horizontal analysis was created based on selected items from the balance sheet. It measures absolute change and the percentage change in the examined years 2009 – 2013.

5.1.1 Horizontal Analysis of Assets

Graph no. 1 – Development of Assets in the following years



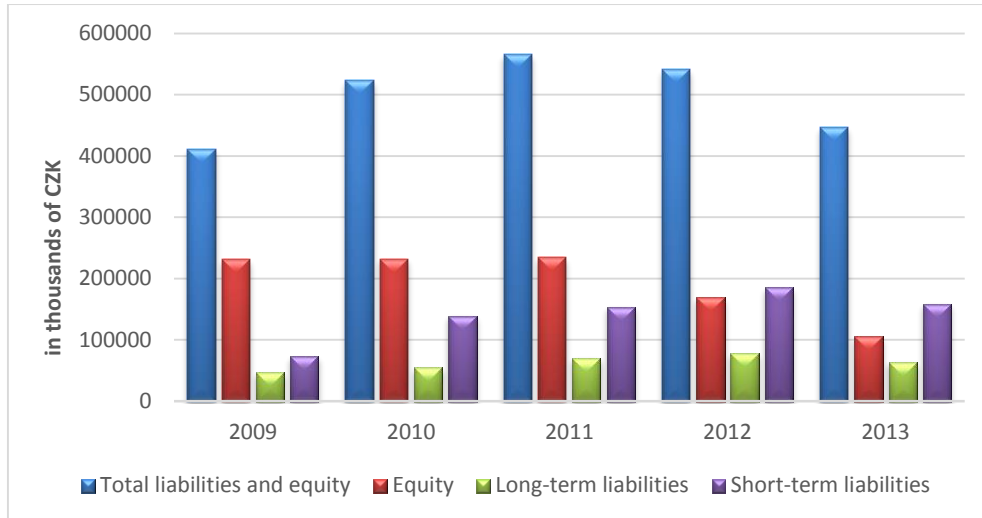
Source: own calculations based on the financial statements of the company; 2015

As it can be seen in graph no. 1, total assets fluctuate within the whole investigated period, with its peak in the year 2011 by 565 486 thousands of CZK. The main portion of total assets is created by current assets with the biggest value in the year 2011 because of increase of short-term financial assets with the subsequent increase of money on bank accounts.

Fixed assets show subsequent decrease of development within the whole period. This was mainly influenced by modernization and reorganization of company's software structure, an internal IT systems such as Maklér, Kiss, Smart, etc.

5.1.2 Horizontal Analysis of Liabilities and Equity

Graph no. 2 – Development of Liabilities and Equity in the following years



Source: own calculations based on the financial statements of the company; 2015

Total liabilities follow the same trend of development as total assets, with the peak also in the year 2013.

Equity has its peak in the year 2011 by 234 226 thousands of CZK. It is influenced by the successful result of the year 2011 with contribution of profit for current period and good results of previous years. Between the years 2009 -2011 is visible the predominance of using equity to liabilities for financing the company.

For the next two years (2012 and 2013) as seen in the graph no. 2 is significant change of financing, while predominance of liabilities to equity.

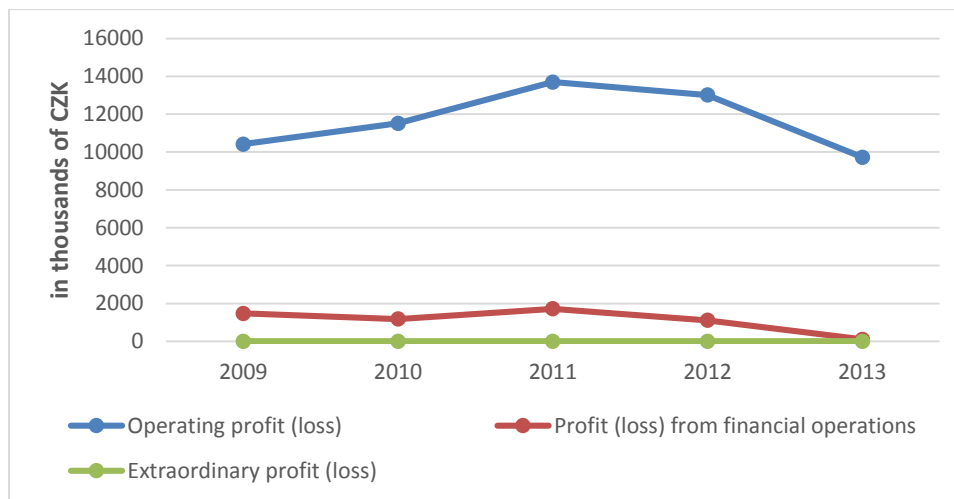
Development of long-term liabilities with its peak in the year 2012 fluctuates within the whole referenced period. Long-term liabilities are used as cancellation reserves, which serves for covering of terminations of contracts by brokers. This phenomenon is linked with increase of sales, therefore increase of long-term liabilities.

Short-term liabilities furthermore fluctuate with the peak in year 2012. The volume of short-term liabilities is mainly influenced by trade payables and estimated payables as seen in the appendix

in the balance sheet. Trade payables consists of non-paid provisions brokers and sales representatives. Estimated payables are used for estimated costs on provisions and cancellation reserves, also these two linked to volume of sales.

5.1.3 Structure and Development of the Economic Result

Graph no. 3 – Structure and development of the economic result in the following years



Source: own calculations based on the financial statements of the company; 2015

Operating profit shows its biggest value in the year 2011, which was influenced mainly by extension of products portfolio, by UNI compensations and mortgage loans.

From the graph no. 3 it is visible that the profit from financial operations follows the same development trend as an operating profit and shows positive values during all the investigated period, which is convenient for the company.

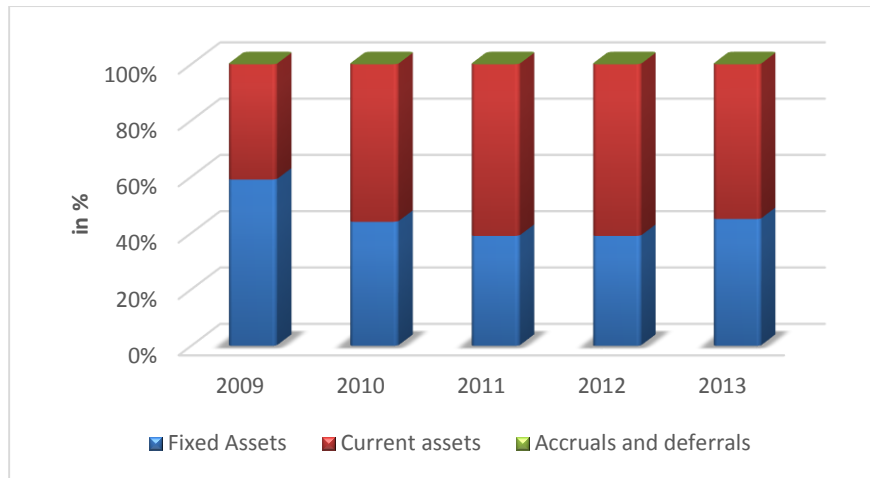
Extraordinary profit does not occur in the whole investigated period.

5.2 Vertical Analysis

Vertical analysis evaluates financial relationships in the financial statements of a single period. It shows the percentage of a certain item from the given basis in the financial statement.

5.2.1 Vertical Analysis of Assets

Graph no. 4 – Share of individual assets to total assets in the following years

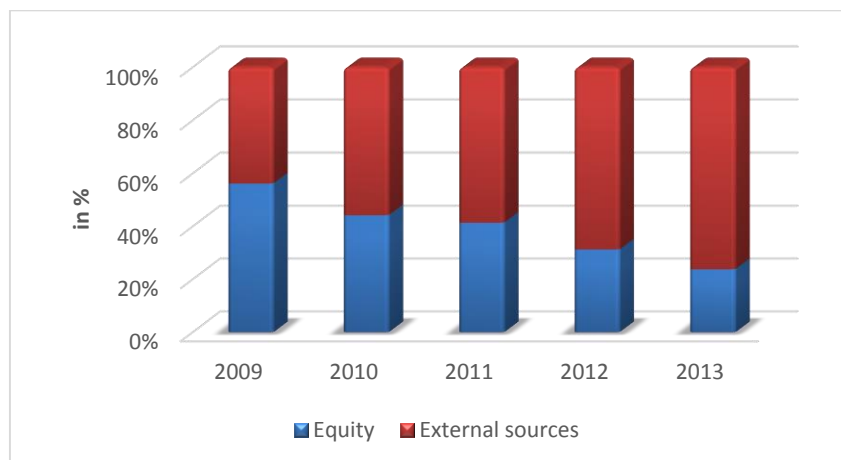


Source: own calculations based on the financial statements of the company; 2015

Vertical analysis of assets is composed mainly by fixed and current assets. Based on the graph no. 4 it is visible that current assets prevail in the total structure within 2010 – 2012. It is also possible to see in the graph no. 4 the decrease of fixed assets to current assets, which was caused by selling buildings and hall structure, mainly in the year 2012 and 2013.

5.2.2 Vertical Analysis of Liabilities and Equity

Graph no. 5 – Share of external sources and equity on total liabilities and equity in the following years



Source: own calculations based on the financial statements of the company; 2015

From the graph no. 5 is apparent subsequent prevail of external sources to equity, which is increasing every year with the peak in year 2013, when external sources occupy 76%. The company should consider using external sources for financing of its activities.

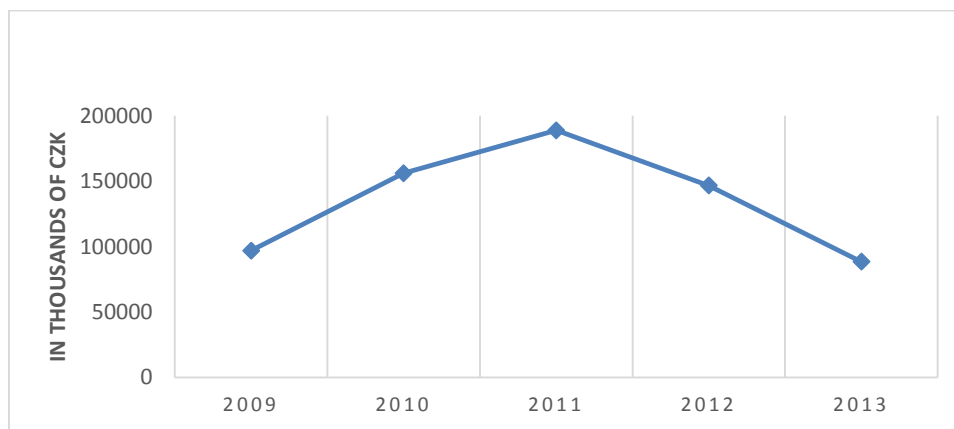
5.3 Analysis of Differential Indicators

Differential indicators show the difference between two absolute indicators. Operational capital and profit are the main examples.

5.3.1 Net Working Capital

Net Working Capital serves for measurement of a company's efficiency and its short-term financial health.

Graph no. 6 – Net Working Capital



Source: own calculations based on the financial statements of the company; 2015

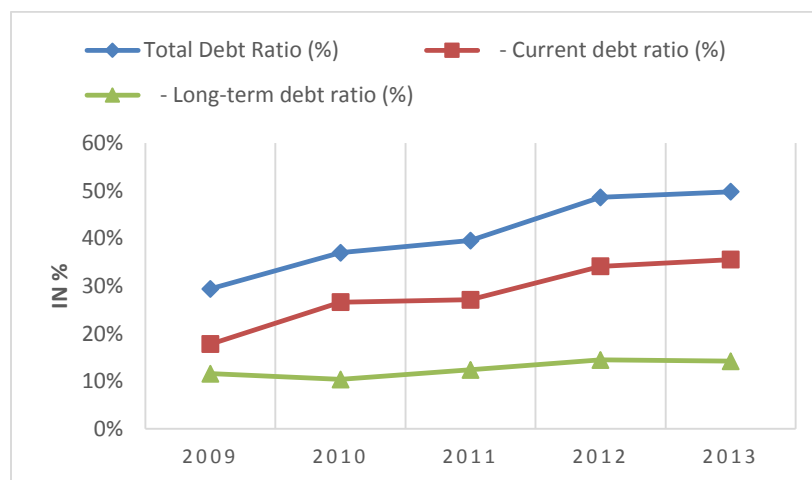
Net working capital follows the same trend of development also visible in the development of total assets, with its peak in the year 2011 by 188 857 thousands of CZK. NWC shows positive numbers within the whole investigated period, therefore it can be assumed that the company is able to pay short-term liabilities on time and that the company is solvent. But from the creditors' point of view, the company should be observed in the long-term because of subsequent decrease of NWC which shows inevitable development.

5.4 Analysis of Financial Ratios

5.4.1 Indebtedness Indicators

Indebtedness indicators are used for measurement of how much is the company financed by outside financial resources. They are also used for evaluating the capital structure of the company.

Graph no. 7 – Development of individual debt ratios in the following years



Source: own calculations based on the financial statements of the company; 2015

Indebtedness indicators are crucial for showing company's financial health and managing of its financing. In the referenced period is apparent the year-to-year increase of total debt ratio which is also linked to vertical analysis of liabilities and equity, where was apparent subsequent using of external sources to equity. Therefore the fact that total debt ratio reached an amount of 50% in the year 2013 should not have any serious impact on company's well-being.

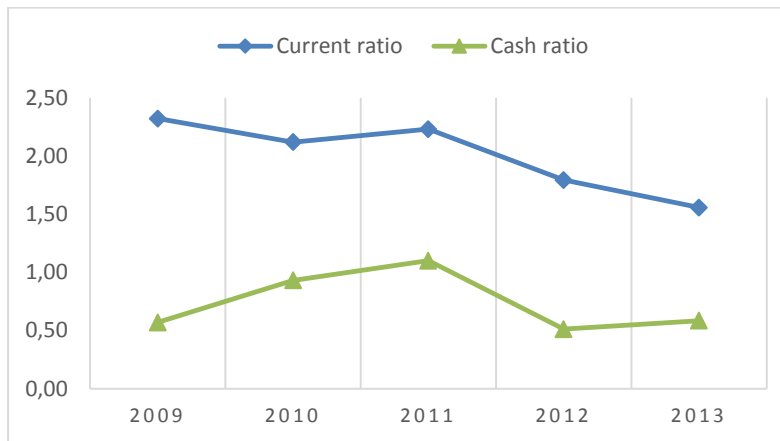
Also as seen in the graph no. 7 total debt ratio consist more of current debt ratio which shows increasing development with respect to long-term debt ratio which is more or less stable.

It is apparent that the company uses short-term external sources, which are mainly used for financing of unpaid provisions for brokers.

5.4.2 Liquidity Ratios

Liquidity ratios evaluate the company's ability to pay its liabilities, therefore they evaluate whether the company is solvent.

Graph no. 8 – Development of individual liquidity ratios in the following years



Source: own calculations based on the financial statements of the company; 2015

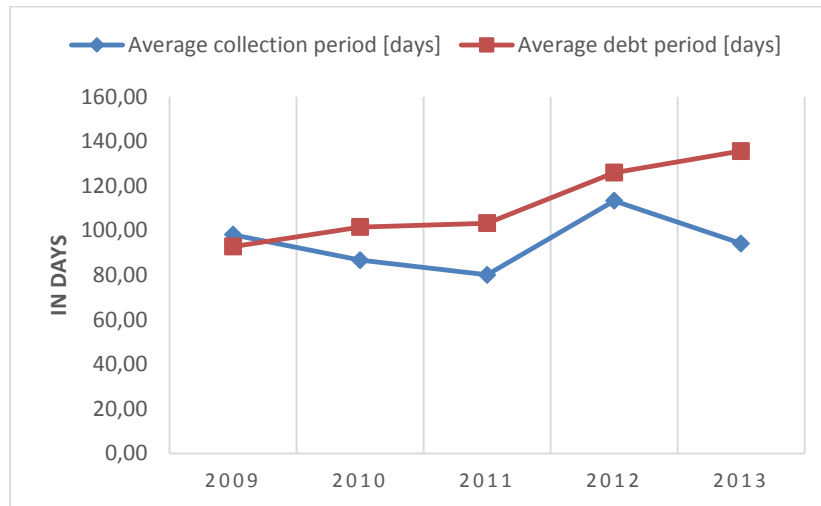
The optimal value of a current ratio is 2, which means that the company's ratio is above the optimum within all the investigated period except of years 2012 and 2013, when it decreased to 1.79 in 2012 and 1.56 in 2013. This shows the inevitable prevail of short-term liabilities to current assets, therefore the company should focus on the development in the future because company's liquidity is very important indicator of well-being of the company.

Cash ratio's optimal value is between 0.2 – 0.5, therefore according to the graph no. 8 it is possible to say that the company has enough money (short-term financial assets) to pay-short term liabilities immediately.

5.5 Activity Analysis

Activity indicators evaluate how efficiently the company manages its assets. They evaluate data both from the balance sheet and from the profit and loss statement.

Graph no. 9 – Comparison of average collection and debt period in the following years



Source: own calculations based on the financial statements of the company; 2015

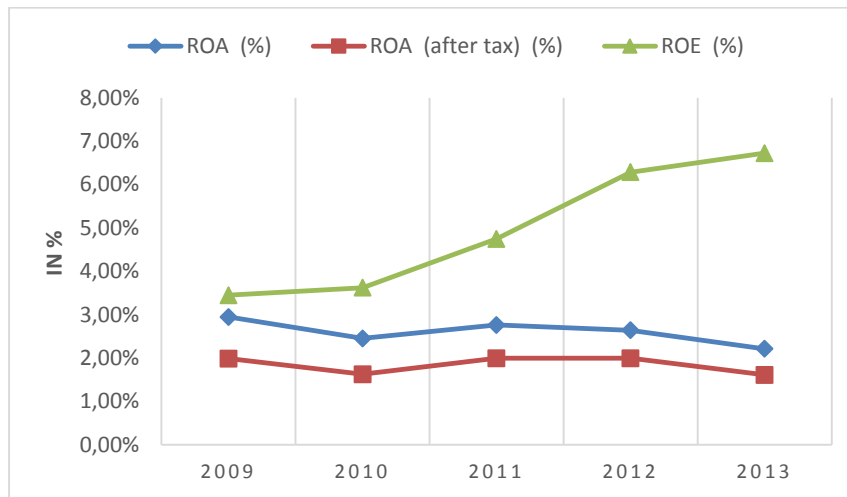
Average debt period increases within the whole investigated period which shows that the company is prolonging dates for paying its liabilities, which points out to the fact that the company can use this money as a short-term loan.

Average collection period expresses the time the company has to wait for money from issued invoices to customers. The number of days increased to 113 in year 2012 and decreased to 94 in 2013, which shows a good management of accounts receivable of the company and it will be very positive if the company will continue the trend of shortage of receiving money from customers.

5.6 Profitability Analysis

Profitability ratios measure the company's ability to use invested capital to make new resources and gain income.

Graph no. 10 – Development of individual profitability ratios in the following years



Source: own calculations based on the financial statements of the company; 2015

From the Graph no. 10 the increase of ROE is visible within the whole period, which shows that the company transforms equity into profit very well and the reach of 7% shows very well management. But the year-to-year decreasing of ROA shows the company's using of assets and transformation into the profit decrease. Values of ROA are positive within the whole investigated years, but the company should be observant of the future development and it should better manage using of assets.

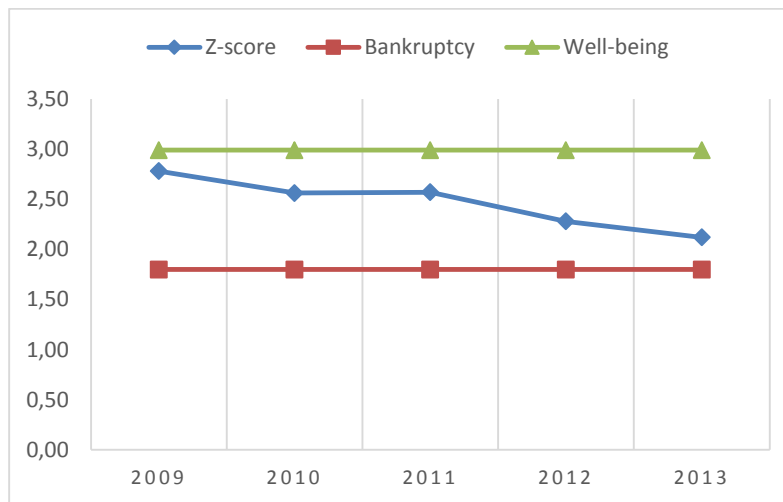
5.7 Financial Distress Analysis

Financial distress analysis evaluates whether the company is able to pay off its financial obligations to its creditors.

5.7.1 The Altman Z-Score Model

Altman's Z-Score evaluates the financial health of the company. It provides information about the future well-being or possible bankruptcy of the company.

Graph no. 11 – Altman Z-Score Model



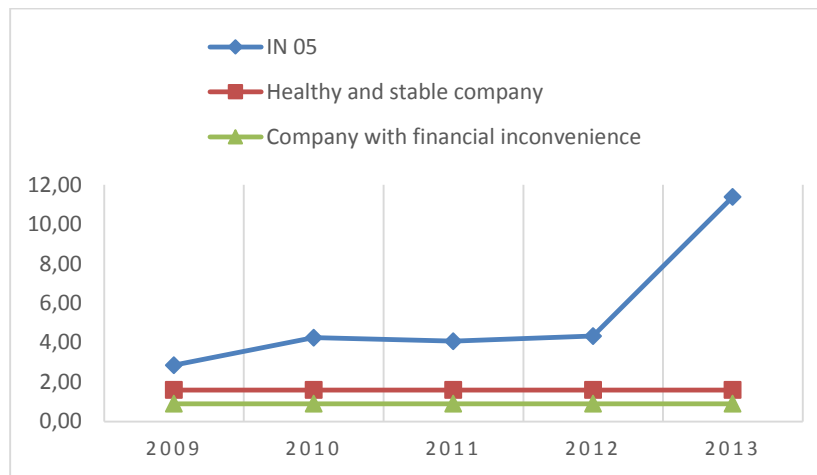
Source: own calculations based on the financial statements of the company; 2015

Based on the graph no. 13 it is possible to say that the company's Z score is more or less stable, but there is a decrease in years 2012 and 2013, which suggests that there could be a potential risk of failure in the future, therefore it should be observed by the company. However, Altman's Z – Score serves mostly for the American market, reliability index IN05 is better for the Czech market.

5.7.2 Reliability Index IN05

Reliability index IN05 serves for evaluating whether the company is trustworthy. It is constructed for the Czech market.

Graph no. 12 – Reliability index IN05



Source: own calculations based on the financial statements of the company; 2015

The reliability index IN05 shows very good values within all the investigated years, from the graph no. 12 is apparent a high increase in year 2013, which was mainly influenced by an X_2 indicator (EBIT/Interest expense). The results of IN05 are very good indicators for the creditors of the company. The results also suggest that Kapitól a.s. is a trustworthy company.

5.7.3 Comparison with competitive company SMS

For better understanding of the company's position on the market, the financial results will be compared with a competitive company SMS.

5.7.3.1 Basic Information about competitive company SMS

Business Name: SMS finanční poradenství, a.s.

Headquarters: Hvězdova 1716/2b, Nusle, 140 00, Praha

Identification Number: 25381512

Legal Form: Limited Liability Company

Business Object: Financial Consulting

Basic Capital: 10 000 000 CZK

Establishment of the company: 26/09/1997

5.7.3.2 Business Object

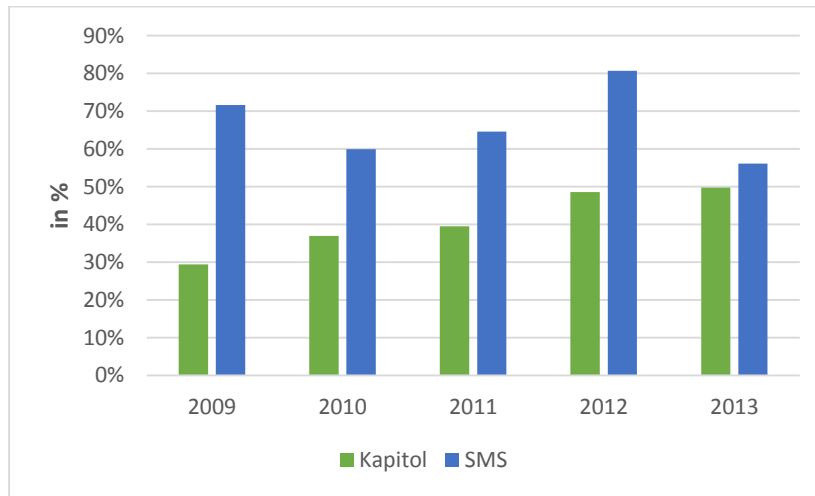
The company SMS, same as Kapitol a.s., is specialized in providing financial consulting and insurance services.

5.7.3.3 Comparison of Chosen Indicators

For comparing successfulness of business were chosen following indicators:

- Total Debt Ratio
- Cash Ratio
- Z-Score Model
- ROA

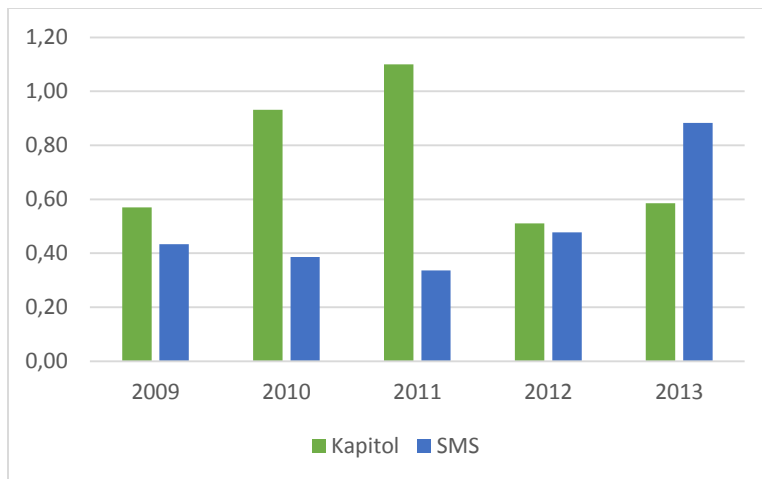
Graph no. 13 – Comparison of the results of total debt ratio with the competitive company



Source: own calculations based on the financial statements of the company Kapitol a.s. and SMS; 2015

From the graph it is evident that the total debt ratio of the company SMS is higher in all of the investigated years, which represents a potential risk for creditors and for the bank. Kapitol's total debt ratio is lower in all the investigated years. Kapitol's debt ratio has an increasing trend, however Kapitol uses primarily external sources, therefore higher debt ratio does not put a well-being of the company in danger.

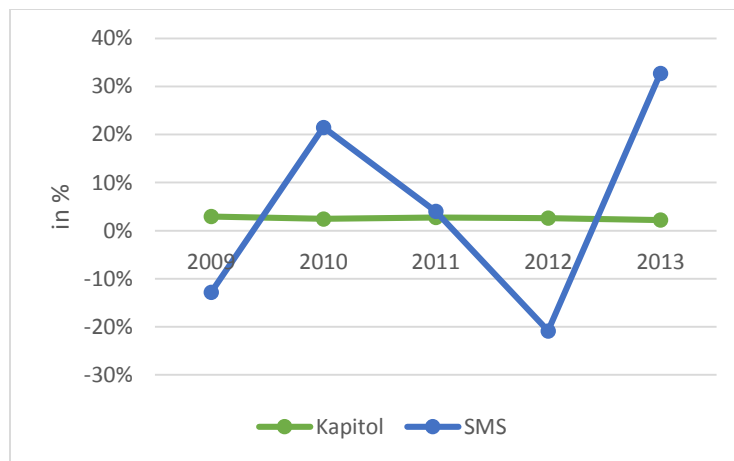
Graph no. 14 – Comparison of the results of cash ratio with the competitive company



Source: own calculations based on the financial statements of the company Kapitol a.s. and SMS; 2015

Optimal value for cash ratio is between 0.2 – 0.5. Kapitol’s cash ratio fluctuates in all of the investigated years and it is above the optimum in years 2010 and 2011, then it decreases. Therefore Kapitol’s cash ratio is holding to 0.5 or higher, meanwhile SMS’s cash ratio is holding to the optimum in all years except of year 2013, when it rapidly increases. Based on the graph no. 14 is apparent that both companies are able to pay their short-term liabilities immediately.

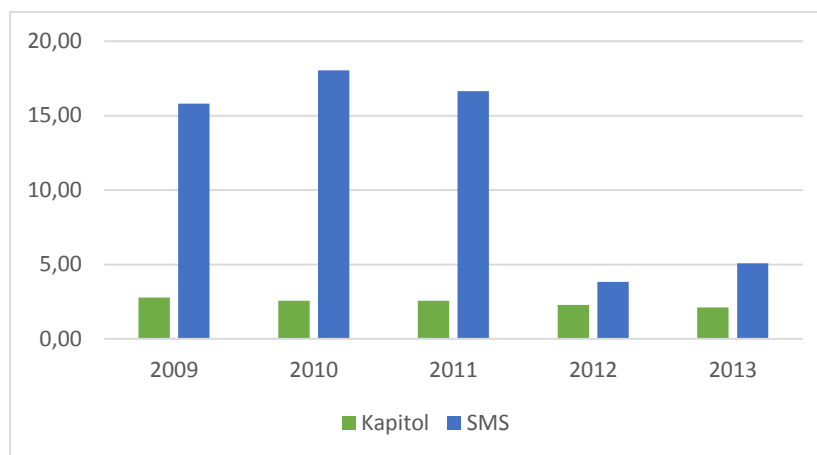
Graph no. 15 – Comparison of the results of ROA with the competitive company



Source: own calculations based on the financial statements of the company Kapitol a.s. and SMS; 2015

The optimal value of ROA should be higher than 8 %. Kapitol’s ROA is stable in all of the investigated years, the value is around 2 to 3 % the whole time. SMS’s ROA shows rapid changes throughout the whole investigated period. It has risen from negative values in year 2009 to 20 % in year 2010. In year 2013 it has reached the peak with ROA being 30 %. ROA is very important indicator for the management of the company and for the future evaluation of the management of the company, therefore Kapitol may seem better as it shows stable development within the whole period, which is very important indicator of company’s stability in the long term period.

Graph no. 16 – Comparison of the results of Z-Score with the competitive company



Source: own calculations based on the financial statements of the company Kapitol a.s. and SMS; 2015

A Z score above **2.99** indicates non-failure, a Z score below **1.81** indicates potential failure.

Based on the graph no. 16, Kapitol has a stable Z-Score in all of the investigated years, the values are slightly under 2.99 which indicates low probability of bankruptcy. In year 2013 the value decreased to 2.12, which should be considered by the company. SMS has a stable Z-score within all the investigated period, there is very high probability of future well-being of the company.

5.7.3.4 Final evaluation of the comparison of the companies

After comparing the two companies by using selected indicators, it is possible to say that both companies do not show any bigger financial risks. Based on the attached balance sheets in the appendix it is apparent that Kapitol a.s. is more prosperous company than SMS. It is on the market longer, which could help to build larger scale of customers.

6. Localization of the Region

6.1 Region

Kapitol a.s. is settled in the South-Moravian region. South-Moravian region is one of the most developed regions in Czech Republic. The center of the South-Moravian region is a city Brno, which is the second biggest city in Czech Republic. Brno is an important center of judiciary, it is also an economic center, a city of universities and a center of trade shows in Middle Europe. South-Moravian region has 7 districts and 21 administrative units.

The information about the region are noted in the table no. 1:

Table no. 1 – Information about the region

	South-Moravian Region
Cohesion region	NUTS II-South-East
Area of the region (in ha)	719 555
Number of districts	7
Number of administrative units	21
Number of inhabitants (to 29.07.2013)	1 169 000
Unemployment rate (to 30.09.2014)	5.8%
The gross wage (in CZK), (04.12.2014)	24 883

Unemployment rate in the South-Moravian region is 5.8%, which is a relatively good result according to the Czech Republic's average 6.7%.

The gross wage is 24 883 CZK, which puts the South-Moravian region to the third position with the highest wages after Prague and Central Bohemian region.

Area of the region is 719 555 ha, which makes it the 10th biggest region in Czech Republic.

6.2 Sectorial Structure

South-Moravian region has a strong economic potential. Nowadays the number of entrepreneurial subjects is growing, mostly in fields of computer technologies, telecommunications, software development and other high-tech fields. South-Moravian region strongly supports development of technological and biotechnological incubators designated for start-up companies.

6.3 The company's impact on the region

The chosen company Kapitól a.s. has its headquarters settled in Brno, South-Moravian region. As mentioned before, Kapitól a.s. is owned by an Austrian insurance company Vienna Insurance Group and Kooperativa a.s., therefore settlement of the company in Brno was a very well strategically planned move. Thanks to the cooperation with the Austrian company, it improves interboundary cooperation, it attracts other investors from the European Union.

Vienna Insurance Group is active within the whole European Union, therefore it is possible to say that the cooperation between Kapitól and a foreign company of this size can in the future attract many new investors to the region, which will have a good influence on the whole region.

Kapitól is a company providing insurance services, therefore it can provide its services throughout the whole Czech Republic using its broker consultants.

There are many companies providing insurance services in the Czech Republic. The difference between them and Kapitól is the insurance portfolio. Kapitól cooperates with almost all of the Czech and many foreign insurance companies, which gives it a great advantage in maintaining its position on the insurance market.

The broker consultants working for Kapitól are active in all Czech regions, therefore Kapitól provides job opportunities not only in Brno where it is settled, but also in other parts of the Czech Republic.

7. Conclusion

The goal of the bachelor thesis was to evaluate the economic analysis of Kapitól a.s. with the respect to its localization. Balance sheet and profit and loss statement were used as an information source. The investigated period was in years 2009 – 2013. For evaluation of the economic analysis were used horizontal and vertical analysis, analysis of net working capital, analysis of ratio indicators and models for prediction of financial distress.

Based on the investigated period it is possible to say that the Kapitól's financial performance is positive. The company shows best results in year 2011, when the total assets reached the peak with the highest values from the investigated period. It was caused by high success rate and high production of the brokers.

Kapitól a.s. does not show any bigger problems, it is financially stable. However, there was a decrease of total assets in year 2013 which was caused by smaller successfulness of broker consultants in negotiating insurance and achieving new customers. For the improvement of the situation it would be appropriate to implement any kinds of benefits and more sophisticated system of training to better motivate the brokers.

One of the potential problems could be the average debt period, it can be seen from the graph no. 9 that the company is prolonging dates for paying its liabilities, therefore it would be appropriate to use the money as a short-term loan.

Kapitól a.s. is a prosperous company and from the results of the financial analysis it is possible to say that there are no bigger risks of failure or bankruptcy, also from the results of IN05 it is to see that the company shows good results for potential investors and creditors. If it will improve its situation with the low success rate of its brokers, it would be prosperous even more in the future.

There are many similar companies on the Czech market, therefore Kapitól a.s. can be very positively evaluated thanks to its position on the market. Kapitól has also 888 288 clients and it has been active on the Czech market for 20 years, therefore it is a trustworthy company for creditors and with its position on the market also a good opposition against the competition.

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Appendix no. 2 – Results of the Financial Analysis

Table no. 2 – Horizontal Analysis of Assets

Absolute change	2009/2010	2011/2010	2012/2011	2013/2012
Total Assets	-112441	42076	-24304	-95170
Fixed Assets	12796	-4912	-13355	-10903
Current assets	-125252	46853	-10788	-84356
Accruals and deferrals	15	135	-161	89
Percentage change	2009/2010	2011/2010	2012/2011	2013/2012
Total Assets	-21%	8%	-4%	-18%
Fixed Assets	6%	-2%	-6%	-5%
Current assets	-42%	16%	-3%	-25%
Accruals and deferrals	8%	70%	-49%	53%

Source: own calculations based on the financial statements of the company; 2015

Table no. 3 – Common Size Financial Statement Analysis of Assets

Share in %	2009	2010	2011	2012	2013
Total Assets	100%	100%	100%	100%	100%
Fixed Assets	59%	44%	39%	39%	45%
Current assets	41%	56%	61%	61%	55%
Accruals and deferrals	0%	0%	0%	0%	0%

Source: own calculations based on the financial statements of the company; 2015

Table no. 4 – Horizontal Analysis of Liabilities and Equity

Absolute change	2009/2010	2011/2010	2012/2011	2013/2012
Total liabilities and equity	-112441	42076	-24304	-95170
Equity	-422	2653	-64836	-63203
Long-term liabilities	-6800	15822	8126	-14925
Short-term liabilities	-66054	14077	31438	-26166
Percentage change	2009/2010	2011/2010	2012/2011	2013/2012
Total liabilities and equity	-21%	8%	-4%	-18%
Equity	0%	1%	-28%	-37%
Long-term liabilities	-12%	29%	12%	-19%
Short-term liabilities	-47%	10%	20%	-14%
Bank loans and overdrafts	0%	0%	0%	0%

Source: own calculations based on the financial statements of the company; 2015

Table no. 5 – Common Size Financial Statement of Liabilities and Equity

Share in %	2009	2010	2011	2012	2013
Total Assets	100%	100%	100%	100%	100%
Fixed Assets	59%	44%	39%	39%	45%
Current assets	41%	56%	61%	61%	55%
Accruals and deferrals	0%	0%	0%	0%	0%

Source: own calculations based on the financial statements of the company; 2015

Table no. 6 – Vertical Analysis of Assets

	2009	2010	2011	2012	2013
Fixed Assets	59%	44%	39%	39%	45%
Current assets	41%	56%	61%	61%	55%
Accruals and deferrals	0%	0%	0%	0%	0%

Source: own calculations based on the financial statements of the company; 2015

Table no. 7 – Vertical Analysis of Liabilities and Equity

	2009	2010	2011	2012	2013
Total liabilities and equity	410969	523410	565486	541182	446012
Equity	231151	231573	234226	169390	106187
Long-term liabilities	47630	54430	70252	78378	63453
Short-term liabilities	73240	139294	153371	184809	158643
Bank loans and overdrafts	0%	0%	0%	0%	0%

Source: own calculations based on the financial statements of the company; 2015

Table no. 8 - Share of external sources and equity on total liabilities and equity

	2009	2010	2011	2012	2013
Equity	56%	44%	41%	31%	24%
External sources	44%	56%	59%	69%	76%

Source: own calculations based on the financial statements of the company; 2015

Table no. 9 – Net Working Capital

Net Working Capital	2009	2010	2011	2012	2013
	96883	156081	188857	146631	88441

Source: own calculations based on the financial statements of the company; 2015

Table no. 10 – Debt Ratios

Debt ratios	2009	2010	2011	2012	2013
Total Debt Ratio (%)	29%	37%	40%	49%	50%
- Current debt ratio (%)	18%	27%	27%	34%	36%

- Long-term debt ratio (%)	12%	10%	12%	14%	14%
Equity multiplier (%)	56%	44%	41%	31%	24%
Debt-equity ratio	1/2	5/6	1	1 5/9	2
Times interest earned	49	86	80	89	266

Source: own calculations based on the financial statements of the company; 2015

Table no. 11 – Liquidity Ratios

	2009	2010	2011	2012	2013
Current ratio	2,32	2,12	2,23	1,79	1,56
Quick ratio	2,32	2,12	2,23	1,79	1,56
Cash ratio	0,57	0,93	1,10	0,51	0,58

Source: own calculations based on the financial statements of the company; 2015

Table no. 12 – Activity Analysis

	2009	2010	2011	2012	2013
Turnover ratios					
Total asset turnover ratio	1,31	1,45	1,51	1,53	1,57
Fixed asset turnover ratio	2,24	3,33	3,83	3,94	3,53
Inventory turnover ratio	839,74	3516,42	6270,29	7333,83	4741,65
Average collection period [days]	98,15	86,69	80,11	113,35	94,19
Average debt period [days]	92,82	101,56	103,31	125,95	135,69

Source: own calculations based on the financial statements of the company; 2015

Table no. 13 – Profitability Analysis

	2009	2010	2011	2012	2013
ROA (%)	2,95%	2,45%	2,76%	2,64%	2,21%
ROA (after tax) (%)	1,99%	1,63%	1,99%	1,99%	1,61%
ROE (%)	3,45%	3,62%	4,75%	6,29%	6,73%

Source: own calculations based on the financial statements of the company; 2015

Table no. 14 – Altman's Z-Score

Z-score	2009	2010	2011	2012	2013
x1	0,2357	0,2982	0,3340	0,2709	0,1983
x2	0,4843	0,3803	0,3520	0,2477	0,1660
x3	0,0295	0,0245	0,0276	0,0264	0,0221
x4	1,9124	1,1954	1,0474	0,6436	0,4781
x5	1,3101	1,4509	1,5095	1,5266	1,5705
Z-score	2,78	2,56	2,57	2,28	2,12

Source: own calculations based on the financial statements of the company; 2015

Table no. 15 – Reliability index IN05

Indexes	2009	2010	2011	2012	2013
x1	2,2855	1,7935	1,7071	1,4556	1,3125
x2	48,8427	85,5800	80,4845	88,7516	266,4865
x3	0,0295	0,0245	0,0276	0,0264	0,0221
x4	1,3101	1,4509	1,5095	1,5266	1,5705
x5	2,3228	2,1205	2,2314	1,7934	1,5575
IN 05	2,85	4,25	4,07	4,33	11,39

Source: own calculations based on the financial statements of the company; 2015

Table no. 16 - Comparison of the results of total debt ratio with the competitive company

	2009	2010	2011	2012	2013
Kapitol	29%	37%	40%	49%	50%
SMS	72%	60%	65%	81%	56%

Source: own calculations based on the financial statements of the Kapitol a.s. and SMS; 2015

Table no. 17 - Comparison of the results of cash ratio with the competitive company

	2009	2010	2011	2012	2013
Kapitol	0,57	0,93	1,10	0,51	0,58
SMS	0,43	0,39	0,34	0,48	0,88

Source: own calculations based on the financial statements of the Kapitol a.s. and SMS; 2015

Table no. 18 - Comparison of the results of ROA with the competitive company

	2009	2010	2011	2012	2013
Kapitol	3%	2%	3%	3%	2%
SMS	-13%	21%	4%	-21%	33%

Source: own calculations based on the financial statements of the Kapitol a.s. and SMS; 2015

Table no. 19 - Comparison of the results of Z-Score with the competitive company

	2009	2010	2011	2012	2013
Kapitol	2,78	2,56	2,57	2,28	2,12
SMS	15,81	18,05	16,64	3,83	5,09

Source: own calculations based on the financial statements of the Kapitol a.s. and SMS; 2015