

Mendel University in Brno
Faculty of Regional Development and International Studies

**Analysis of Financial Performance of the Selected
Enterprise**

Bachelor thesis

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Brno 2015

Declaration

I declare that I elaborated this bachelor thesis alone and all literature and sources of used information are mentioned in the enclosed list.

In Brno,

Signature:

Acknowledgement

I would like to thank my supervisor Ing. Ivana Blažková, Ph.D. for her expert guidance and valuable advice which was very helpful for completing my bachelor thesis

Abstract

The main goal of this bachelor thesis is the financial analysis of the company PILANA Metal s.r.o. in the investigated period between the years 2009–2013 and to propose improvement in the financial situation of the company. Bachelor thesis is divided into three parts.

The theoretical part describes and presents basic financial methods and financial indicators, which support to get an information and overview of financial situation of the company.

The practical part provides evaluation of the company's financial situation and its position in the region. This part also considers general information, characteristics, organizational structure and historical background of the analyzed company.

The last part reviews analyzed data and brings recommendations, improvements and advices for present and future operations of the company on the market.

Keywords

Financial analysis, regional development, economic ratios

Abstrakt

Hlavním cílem této bakalářské práce je finanční analýza společnosti PILANA Metal s.r.o. ve zkoumaném období mezi lety 2009–2013 a návrh zlepšení finanční situace společnosti. Bakalářská práce je rozdělena do tří částí.

Teoretická část popisuje a prezentuje základní finanční metody a finanční indikátory, díky kterým je možné získat informace a přehled o finanční situaci firmy.

Praktická část poskytuje zhodnocení finanční situace společnosti a také její pozici v regionu. Tato část také zvažuje všeobecné informace jako je charakteristika, organizační struktura a historické pozadí analyzované společnosti.

Poslední část zkoumá analyzovaná data a přináší doporučení, zlepšení a rady pro současné a budoucí fungování společnosti na trhu.

Klíčová slova

Finanční analýza, regionální rozvoj, poměrové ukazatele

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1. Introduction

From the perspective of business is creating a profit an important part of company's outcome. Particularly the competitiveness in the business environment and striving for the prosperity make up the overall market domination of the company. The necessary part of the company's image is to create durable and stable business value along with maintaining a good relations with business partners and customers.

Financial management brings the general overview of company's performance and recognizes strengths and weaknesses of the company, together with setting strategy to achieve financial health and company's well-being.

For examination of financial situation of the company is suitable to use the financial analysis, simultaneously considering development of past, present and future economic performance and application its results into the practice. Management of the company needs to have correct and up-to-date data and results from the financial analysis to be consequently aware of financial progress and company's development for determination of goals and visions.

2. Objective and Methodology

The main objective of the thesis is to evaluate the financial situation of the PILANA Metal s.r.o. on the basis of the balance sheet, income statement and profit and loss statement. For the purpose of evaluation of the company there are used analytical tools and techniques to expose the actual situation and also to provide information about the future development of the company.

In the first part of the thesis the literature review of all the basic terms is included, the purpose and meaning of the financial analysis are explained and, methods and users of financial analysis are described. The second part of the thesis consists of brief characteristic of the company with introduction of the scope of business. Furthermore, the problem of regional development and the impact assessment of the company on the region are outlined.

Creation of financial analysis is based on theoretical background and data from accounting documents of the company. The last step of the thesis describes the overall economic results and provides recommendations for improvement of the current situation and positive development of the company in the future.

3. Literature Review

3.1 Region, Regional Development

Company's well-being and economic profit is directly influenced by the region or location in which it is settled. Region, as such, is comprehend by many various expressions and interpretations.

According to Pike et al., (2010) the region is a space for generating development and shaping global processes opens up new spaces of social and political struggle and strategy within globalizing economic structures.

Karlsson (2010) describes that region is characterized by its agglomeration of activities and by its intraregional transport infrastructure, facilitating a large mobility of people, products and inputs within its interaction borders.

Development takes place in response to the economic stimuli provided by natural resources and manufacturing activity, therefore all cities and regions cannot benefit from such development processes, there arise regional disparities. Thus regional development strives decrease these disparities in between regions and support convenient development of regions. Also development of regions can be understand differently depending on the particular point of view.

From the economic point of view, Stimson et al., (2006) says that regional economic development has been seen as both a product and a process. It is the product of economic development – for example, measured jobs, wealth, investment, standard of living and working conditions, things with which people living, working and investing in regions tend to be most concerned. Generally increases of improvements in these measure are equated with economic development.

According to Folmer (2013), regional development can now be defined as the dynamic aspect of a regional system, or, more precisely, as the changes that take place in the states of the regional system as time progresses. In this respect it is important to note that although changes in a regional system proceed continuously over time, the measurement of these changes takes place predominantly at discrete time intervals.

3.2 Company and Region

Politicians effort to reduce unemployment and stimulate economic growth in the region and in this process cannot be ignored the role of businesses. Regional characteristics influence the level of new company formation and also the type of new company created. Nevertheless company itself contributes to region with new career challenges, decrease of unemployment rate, convenient economic impact and a lot of others.

Fritsch (2011) claims that region-specific factors are important not only for the emergence of new businesses, but also to their success, as indicated, for example, by how long they survive.

3.3 Concept of Financial Analysis

Financial analysis is a necessary tool for company's management to provide an advice for smooth transaction flow and application of financial review methods to a company's operational and investment activities.

Company's operation will change over time, which leads to necessity of review and control of current company environment and implication of financial analysis measurements. Megginson and Smart (2008) describes that financial analysis plays a gatekeeper role, protecting shareholders' interests by steering the firm away from large, negative investments.

Financial analysis providing overall financial information of the company is also essential for avoiding the company from scandals or any inevitable manipulations or frauds. Therefore selecting of information and determination of what data to analyze from the financial analysis brings the information what is the company's current and future performance and condition.

3.4 Users of Financial Analysis

The financial statements are prepared for a group of diversified users. Users of financial data have their own objectives in the analysis. Management, an obvious user of financial data, must analyze the data from the viewpoints of both investors and creditors. (Gibson, 2010).

Users of financial analysis can be divided as **external** and **internal**.

External users refer to any other parties having a financial interest or a potential financial interest in the enterprise which includes institutions interested in only the financial information of the enterprise. (Koen and Oberholster, 1999).

- Potential investors: The providers of capital and their advisors (brokers, auditors, economists) with interests on returns of investments and also the ability of company to pay dividends.
- Lenders of money: Are interested whether the company is able to pay loans and interests payable on the loans if the amounts fall due.
- Suppliers and other trade creditors: Want to be informed if amounts which company owes them will be paid when due. Trade creditors or payables intend to be informed in the shorter period, because of their dependence on the company.
- Customers: Are interested about information of continued existence of the company.
- Governments and their agencies: Are interested in the allocation of resources and activities of the company. The information is important in order to regulate the activities of company, for the purpose of statistics and as a determination of taxation policies.
- The public and consumer organizations: Therefore company influences the public in a variety of ways. For example, with contribution to the local economy, decreases of unemployment rate, improves the social environment.

Internal users are normally employed by the enterprise and are usually responsible for the management thereof. The management of an enterprise is primarily responsible for the preparation and presentation of the financial statements of the enterprise.

(Koen and Oberholster, 1999).

- **Management:** Is interested in information included in the financial statements for the purpose of planning, decision making and controlling.
- **Owners:** Owner, partners, members, trustees and shareholders are interested in the company's well-being. This contains an information regarding to profit, financial stability and growth, which is necessary background for decision making process.
- **Employees:** Are interested in company's well-being, stability and profitability to maintain or provide benefits and opportunities for employees and its duration in the future.

3.5 Sources of Information for Financial Analysis

To be able to prepare financial analysis of the company it is essential to handle various type of data and information. One of the sources is the company itself, preparing documents for shareholders, which are also provided and available to analyst and investors. Another source of information are data prepared by government and government agencies about the industry and economy. And the next source is information prepared by financial service firms, which works with data related to company, industry and the economy.

The basic information about a company can be gleaned from publication (both print and internet), annual reports, and sources such as federal government and commercial financial information providers. (Peterson and Fabozzi, 2012).

3.6 Methods of Financial Analysis

Development of mathematics, statistical and economic sciences enabled to emerge, in the frame of financial analysis, wide range of methods for evaluating of company's well-being. There usually exist two approaches in the economy for evaluation of economic processes, which are fundamental and technological analysis:

- **Fundamental analysis:** Is based on knowledge of links between economic and microeconomic processes. This analysis relies on significant quantity of information and draws its own conclusions without algorithmic processes.
- **Technical analysis:** Is using mathematical, mathematic-statistical and other algorithmic methods for quantitative processing of data and subsequent assessment results from economical point or view. (Růčková, 2011)

Financial analysis works with indicators, which regards to items of financial statements or data from other sources. Standard structure of indicators is division as absolute, differential, ratio indicators and also special indicators. (Růčková, 2011)

- **Analysis of status (absolute) indicators:** Regards to analysis of property and financial structure and is useful tool for:
 - Analyzing trends (horizontal analysis)
 - Percentage analysis (vertical analysis) as a breakdown of particular partial items of balance sheet
- **Analysis of flow indicators:** Proper using for horizontal and vertical analysis consists of:
 - Analysis of cash flow
 - Analysis of sales
 - Analysis of costs
- **Analysis of differential indicators:** The most considerable indicator is:
 - Net working capital
- **Profit analysis**
- **Analysis of financial ratios indicators:**
 - Analysis of indicators of activity

- Analysis of indicators of profitability
- Analysis of indicators of liquidity
- Analysis of debt ratios and financial structure
- Analysis of indicators of labor productivity
- Analysis of indicators of capital market
- Analysis of indicators of indebtedness
- Analysis of indicators of operation activity
- Analysis of indicators on the basis of financial funds
- Analysis of indicators based on cash flow
- **Analysis of system indicators:**
 - Pyramidal decomposition
 - Predictive models

3.6.1 Absolute Indicators

The starting point of financial analysis is vertical and horizontal analysis of financial statements. Both approaches enable to see original absolute data from accounting records in certain relations and connections. (Kislingerová and Hnilica, 2005).

Horizontal Analysis

For quantification of year-to-year change is proper to use horizontal analysis. One of the method is to find out how much percent of certain items of financial statement change against previous year (index) or how much is change of certain items in absolute numbers (difference). (Kislingerová and Hnilica, 2005).

- Amount change = Analysis period amount – Base period amount
- Percentage change = (Amount of change since base period/Base period amount) *100

(Dupont and Fewox, 2009)

Vertical Analysis

Also called common size analysis, it is a technique for evaluating financial statements data, which expresses each item in a financial statement as a percentage of a base amount. On the balance sheet, assets are usually expressed as percentages of total assets and liability, and shareholder's equity items are usually expressed as percentages of total liabilities and shareholder's equity. On the statement of earnings, items are usually expressed as percentage of net sales.

- Percentage change = (Amount of change since base period/Base period amount) *100

(Dupont and Fewox, 2009)

3.6.2 Differential Indicators

One of the most important indicator from the differential indicators is net working capital. According to Kislingerová and Hnilica (2005), net working capital due to its "long-term" activity creates "pillow" for possible financial fluctuation. Net working capital is a long-term source, which has company disposal for financing of normal business operations.

- Net working capital = Current assets – Short-term liabilities

(Vochozka, 2011)

3.6.3 Ratio Indicators

Indebtedness Ratios

Firms finance their assets from two broad sources, equity and debt. Equity comes from stockholders, whereas debt comes in many forms from many different lenders. Firms borrow from suppliers, banks, and investors who buy publicly traded bonds. Debt ratios measure the extent to which a firm uses money from creditors rather than from stockholders to finance its operations. The more indebted the firm, the higher the probability that it will be unable to satisfy the claims of all its creditors. (Smart and Graham, 2011).

Total debt ratio measures the portion of external sources to total value of assets and also from the ratio can be assumed how much of property base covers the external sources.

- Total debt ratio = $(\text{Total liabilities} / \text{Total assets}) * 100$

(Vochozka, 2011)

Current and Long-term debt ratio measure the portion of short and long-term liabilities to total value of assets.

- Current debt ratio = $(\text{Short-term liabilities} / \text{Total assets}) * 100$
- Long-term debt ratio = $(\text{Long-term liabilities} / \text{Total assets}) * 100$

(Vochozka, 2011)

Equity multiplier measures the proportion of total assets financed by a firm's equity.

- Equity multiplier = $(\text{Equity} / \text{Total assets}) * 100$

(Smart and Graham, 2011)

Debt-equity ratio measures the proportion of external sources to own equity and is used as one of the most important indicators of financial risk. Usually is recommended using of 1:1 proportion of external and own sources regardless of type of business. From the point of view of financial risk is base, so called safe level of indebtedness 40 % of external capital to own capital.

- Debt-equity ratio = $\text{Total liabilities} / \text{Equity}$

(Kislingerová, 2001)

Times-interest earned measures the firm's ability to make contractual interest payments. It equals earnings before interest and taxes divided by interest expense. A higher ratio indicates a greater capacity to meet scheduled payments.

- Times-interest earned = $\text{Earnings before interest and taxes} / \text{Interest expense}$

(Smart and Graham, 2011)

3.6.4 Liquidity Ratios

Ratios can be classified into three types: liquidity, which measures the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash; solvency, which measures a company's ability to survive in the long term; and profitability, which measures the earnings of operating success of a company for a specific period of time.

Current ratio is calculated by dividing current assets by current liabilities. If the current ratio is 1.25:1, then the company has 1.25 CZK of current assets for every 1 CZK of current liabilities.

- $\text{Current ratio} = \text{Current assets} / \text{Current liabilities}$

(Dupont and Fewox, 2009)

Quick ratio is calculated by dividing cost of goods sold by average inventory. If the ratio is eight times, then the company sold its inventory eight times during the accounting period.

- $\text{Quick ratio} = (\text{Current assets} - \text{Inventories}) / \text{Current liabilities}$

(Dupont and Fewox, 2009)

Cash ratio is the strictest from liquidity indicators, mainly because of fact that measures ability to pay short-term liabilities at the moment.

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

(Kislingerová, 2001)

3.6.5 Activity Ratios

According to Kislingerová (2001) activity indicators inform how company uses individual parts of property. In other words, activity indicators assess a capital linkage to assets.

Activity ratios are sorted out as following:

Total asset turnover ratio indicates the efficiency with which a firm uses all its assets to generate sales. It indicates how many CZK of sales a firm generates per one CZK of asset investment.

- Total asset turnover = Sales/Total assets

(Smart and Graham, 2011)

Fixed asset turnover ratio measures the efficiency with which a firm uses its fixed assets. The ratio tells analysts how many CZK of sales the firm generates per one CZK of investments in fixed assets.

- Fixed asset turnover = Sales/Fixed assets

(Smart and Graham, 2011)

Inventory turnover ratio brings overview how many times is every item of inventories sold and again stored within the current period of time.

- Inventory turnover = Sales/Inventories

(Vochozka, 2011)

Average collection period states the number of days from the date of the invoice for selling of goods or finished products and the date of receiving money on the account. The longer the period is, the longer is the time which company provides free trade credit to business partners.

- Average collection period = [Receivables/(Revenues/360)]

(Vochozka, 2011)

Average debt period measures the average length of time it takes a firm to pay its suppliers.

- Average debt period = [Liabilities/(Revenues/360)]

(Smart and Graham, 2011)

3.6.6 Profitability Ratios

Several measures of profitability relate a firm's earnings to its sales, assets, or equity. Profitability ratios are among the most closely watched and widely quoted financial ratios. Many firms link employee bonuses to profitability ratios, and stock prices react sharply to unexpected changes in these measures.

The return on total assets (ROA), often called the return on investment (ROI), measures management's overall effectiveness in using the firm's assets to generate returns to common stockholders.

- Return on total assets = EBIT/Total assets
- Return on total assets after tax = EBIT after tax/Total assets

(Smart and Graham, 2011)

The return on common equity (ROE) captures the return earned on the common stockholder's (owner's) investment in the firm.

- Return on common equity = Earnings after taxation (EAT)/Equity

(Smart and Graham, 2011)

Financial leverage measures the ratio between total assets and equity.

- Financial leverage = Total assets/Equity

(Kislingerová and Hnilica, 2005)

3.6.7 Pyramidal System Indicators

Decomposition of profitability of own capital

According to Kislingerová and Hnilica (2005), regards indicator of profitability of own capital to most observed indicators of company's performance.

A company's ROE is affected by two factors: how profitability employs its assets and how big the firm's assets base is relative to shareholder's investment. To understand the effect of these two factors, ROE can be decomposed into the return on assets (ROA) and a measure of financial leverage, as follows:

- $ROE = ROA * \text{Financial leverage} = \text{Net profit}/\text{Assets} * \text{Assets}/\text{Shareholder's equity}$

(Palepu et al., 2007)

Decomposition of profitability of total invested capital

ROA can be decomposed into the product of a bank's profit margin and asset utilization. Profit margin measures net income per currency unit of total revenue, while asset utilization represents the gross yield on assets. Here, total revenue equals interest income plus non-interest income:

- Profit margin = Net income/Total revenue
- Asset utilization = Total revenue/Total assets
- ROA = Profit margin * Asset utilization

(Grier, 2007)

3.6.8 Financial Distress Indicators

Altman's index of financial health (Altman Z-score)

The Z-score bankruptcy predictor combines five common business ratios, using a weighting system that was statistically calculated by Dr. Edward Altman to determine the likelihood of a company going bankrupt at some point in the future. It was derived based on data from manufacturing firms, but has since proven to be highly effective in determining the risk that a service firm will go bankrupt. The calculation can also be used by a lender to determine the creditworthiness of a company. (Bragg, 2010)

If the calculation results in a score:

- Above 2.99 – safe financial condition.
- Between 3.0 and 2.7 is a gray area – in acceptable condition.
- Between 2.7 and 1.8 – will probably be in bankrupt within two years.
- Below 1.8 – high risk of bankruptcy in the near future.

$Z\text{-score} = 0,717 * x_1 + 0,847 * x_2 + 3,107 * x_3 + 0,420 * x_4 + 0,998 * x_5$, where

x_1 = Working capital to total assets

x_2 = Retained earnings to total assets

x_3 = Return on total assets

x_4 = Equity to debt

x_5 = Sales on total assets

(Bragg, 2010)

Reliability index IN 05

Reliability index IN 05, which is created especially for Czech environment, measures trustworthiness of company for its creditors. Index IN05 consists of several partial sector coefficients, which are dealing with specific areas of financial control. It is foreseeable that IN05 should estimate bankruptcy of company with more than 72% success rate (Zikmund, 2011 [online]).

If the calculation results in a score:

- Above 1.6 – healthy and stable company.
- Between 0.9 and 1.6 – indefinite financial situation.
- Bellow 0.9 – financial inconvenience.

For purpose of classification of a company to whole economic of Czech Republic is applicable formula:

$IN\ 05 = 0.13 * x_1 + 0.04 * x_2 + 3.97 * x_3 + 0.21 * x_4 + 0.09 * x_5$, where

x_1 = Total assets to Total liabilities

x_2 = EBIT to Interest expense

x_3 = EBIT to Total assets

x_4 = Revenues to Total assets

x_5 = Current assets to Short-term liabilities

(Zikmund, 2011 [online])

4. Practical Part

4.1 Characteristics of the Enterprise

PILANA Metal s.r.o. offers the traditional range of products of hand tools for metal cutting, particularly in blades for hand saws and machine saws. Company produces highly innovative and modern products – recently it is the Bi-metal band saw blades for metal and wood.

The tool production in Hulín began in 1934. The company first produced just hand and circular saws for wood cutting. The range of the products was gradually expanded and during the sixties the production of metal cutting tools was introduced.

After privatization in 1992 the company has continued in its successful tradition of tools production called PILANA TOOLS. Thanks to the great efforts of the newly created business section, the PILANA products managed to penetrate Western markets and gradually the whole world.

Increasing demands on expertise in various assortments required the organizational split of PILANA: In 1997 new companies were founded, where each of them started to produce specialized part of the production. Among these companies was also PILANA TOOLS Metal Saws spol. s.r.o., which was the only one specialized in tools for metal cutting.

Companies in the PILANA Group

PILANA TOOLS a.s.:

- sales of tools for wood and metal cutting
- property management
- services for group member companies and other parties

PILANA TOOLS Wood Saws spol. s.r.o.

PILANA TOOLS Knives spol. s.r.o.

PILANA TOOLS Saw Bodies spol. s.r.o.

PILANA TOOLS Metal Saws spol. s.r.o.

4.2 Localization of the Enterprise

PILANA Metal s.r.o. is settled in the Czech Republic, in the city Hulín. Hulín belongs under the district Kroměříž in the Zlín region. Hulín has long history linked to industry and nowadays is mainly technologically oriented. Because of this fact and due to connection and cooperation of PILANA Metal s.r.o. with other PILANA group companies is settled in the city Hulín.

4.3 Horizontal Analysis

Horizontal analysis measures the change of individual accounting items according to preceding year. The absolute and the percentage change is investigated within the referenced period between years 2009 - 2013.

4.3.1 Horizontal Analysis of Assets

Tab. 1: Horizontal analysis of assets

Absolute change in thous. of CZK	2010/2009	2011/2010	2012/2011	2013/2012
Total Assets	44201	24177	1244	26379
Fixed Assets	15606	2093	6672	10568
Current assets	22987	23320	-2459	16421
Accruals and deferrals	5608	-1236	-2969	-610
Percentage change in %	2010/2009	2011/2010	2012/2011	2013/2012
Total Assets	55%	19%	1%	18%
Fixed Assets	63%	5%	16%	22%
Current assets	41%	30%	-2%	16%
Accruals and deferrals	11932%	-22%	-67%	-42%

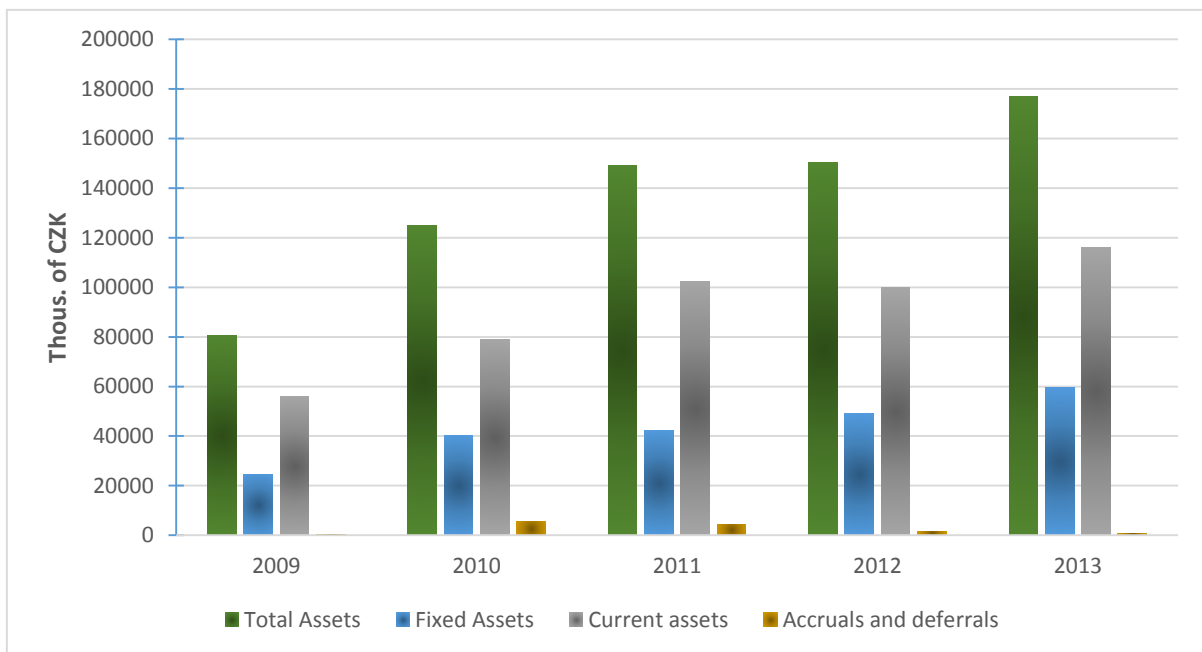
Source: Own calculations

Total assets have increasing trend during the whole monitored period (see Fig. 1). Total assets peaked in the year 2010, while the change to the year 2009 was 55% which is the absolute change of 44 201 thous. CZK.

Fixed assets reached the biggest absolute change (see Tab. 1) in the year 2010 due to enlargement of technological equipment of manufacturing and construction of new production facility in Liberec.

Current assets have fluctuating development with the highest value reached in the year 2013. Short-term receivables influenced the result in the year 2013 the most, which was caused mainly by increase of sales and contracts and due to high amount of customers who did not pay issued invoices.

Fig. 1: Development of assets in the following years



Source: Own calculation

4.3.2 Horizontal Analysis of Liabilities and Equity

Total liabilities shows increasing tendency, thus are following the same trend of development as total assets. As seen in (Tab. 2) the biggest change occurs in the year 2010, while the change to the year 2009 is 55%.

Tab. 2: Horizontal analysis of liabilities and equity

Absolute change in thous. of CZK	2010/2009	2011/2010	2012/2011	2013/2012
Total liabilities and equity	44201	24177	1244	26379
Equity	3452	6414	769	141
Long-term liabilities	6398	34823	2514	-1038
Short-term liabilities	28889	-30447	1517	24098
Bank loans and overdrafts	5466	13387	-3556	3178
Percentage change in %	2010/2009	2011/2010	2012/2011	2013/2012
Total liabilities and equity	55%	19%	1%	18%
Equity	11%	18%	2%	0%
Long-term liabilities	40%	155%	4%	-2%
Short-term liabilities	205%	-71%	12%	171%
Bank loans and overdrafts	31%	57%	-10%	10%

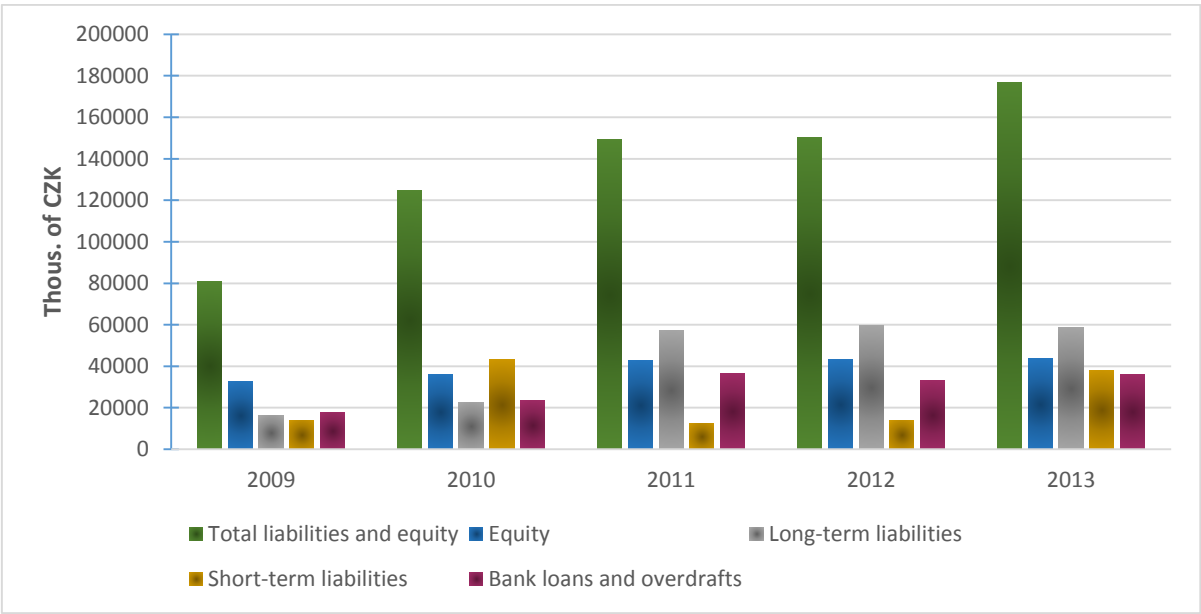
Source: Own calculations

Equity exhibits the increasing tendency within all monitored period and has its biggest change in the year 2011 as seen in tab. 2, while the change to the year 2010 was 18% and the absolute change was 6414 thous. of CZK.

Long-term liabilities have fluctuating development, the biggest change in the year 2011 is affected by increase in input prices, which led to higher prices of selling products and also due to postponing the date of funding programs (see fig. 2).

Short-term liabilities peaked in the year 2010, which was caused by payables to employees and in the year 2013 due to provided grants from realized projects for technical equipment and investment incentives.

Fig. 2: Development of liabilities and equity in the following years



Source: Own calculations

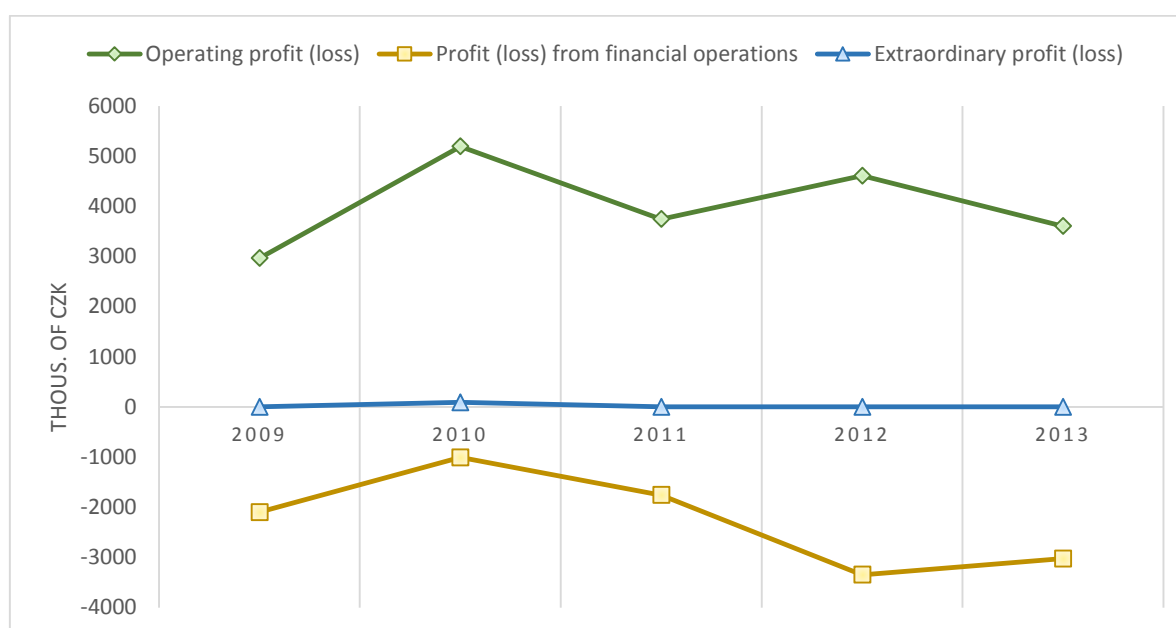
4.4 Structure and Development of Economic Result

From the fig. 3 it is obvious that operating profit fluctuates within all monitored period. The significant change occurred in the year 2010 by 5194 thous. of CZK due to a positive development of the volume of contracts and sales. According to the development trend of the following years is apparent instability of the operating profit, mainly due to increasing prices of inputs, investing into fixed assets structure and investments to modernization of manufacturing and production processes.

Profit from financial operations shows negative values throughout all investigated years, which is mainly caused by interest expenses and other financial expenses.

Extraordinary profit emerges only in the year 2010 with the value 91 thous. of CZK, because of extraordinary revenue and good results in the first half of the year.

Fig. 3: Structure and development of economic result in the following years



Source: Own calculations

4.5 Vertical Analysis

Vertical analysis compares financial statements of a base year and a preceding year. The result is expressed as a percentage change of the total value for the monitored period from 2009 – 2013.

4.5.1 Vertical Analysis of Assets

During the reported period is obvious the approximate share of 1/3 fixed assets and 2/3 current assets on the portion of total assets (see Tab. 3). This decomposition of assets is more or less stable from the year 2009 to 2013, however the perceptible change of fixed assets in the year 2012 is due to enlargement of lands and buildings property.

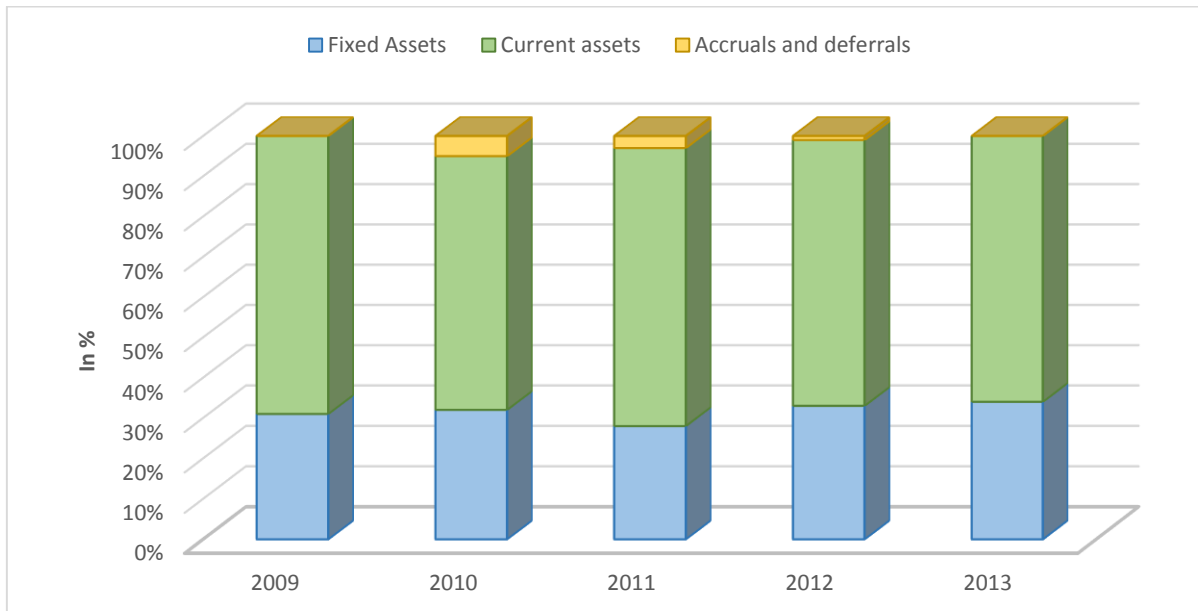
Tab. 3: Vertical analysis of assets

Share in %	2009	2010	2011	2012	2013
Total Assets	100%	100%	100%	100%	100%
Fixed Assets	31%	32%	28%	33%	34%
Current assets	69%	63%	69%	66%	66%
Accruals and deferrals	0%	5%	3%	1%	0%

Source: Own calculations

Pronounced from the Fig. 4 is that current assets maintain almost the same trend of development within the whole period, which is linked to a stable portion of inventories in the structure of current assets.

Fig. 4: Share of individual assets to total assets in the following years



Source: Own calculations

4.5.2 Vertical Analysis of Liabilities and Equity

Equity creates 41 % of total liabilities in the year 2009 (see Tab. 4), then is development stabilized from the year 2010 to 2012 on 29 %. The lowest value of 25% occurs in the year 2013.

Tab. 4: Vertical analysis of liabilities and equity

Share in %	2009	2010	2011	2012	2013
Total liabilities and equity	100%	100%	100%	100%	100%
Equity	41%	29%	29%	29%	25%
Long-term liabilities	20%	18%	38%	40%	33%
Short-term liabilities	17%	34%	8%	9%	22%
Bank loans and overdrafts	22%	19%	25%	22%	20%

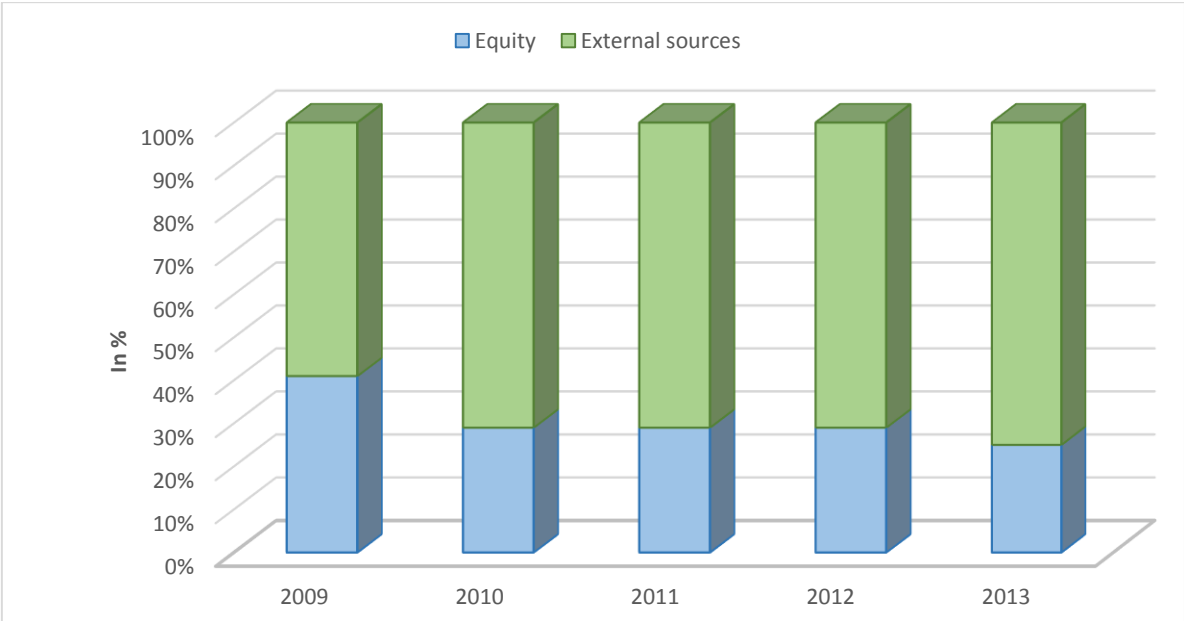
Source: Own calculations

External sources prevail in the structure of total liabilities. This occurs mainly because of the fact that company was subsequently investing in modernization and enlargement within the all monitored period. Main financing milestones can be point out as following:

- 2009: Putting technological equipment for manufacture of hand presses into operation.
- 2010: Investment to energy saving program “Ekoenergie”.
- 2011: Investments to development of chain blades.
- 2012: Acquisition of planned building and lands.
- 2013: Realization and development of innovative projects.

Predominance of external sources to equity points out the vulnerability of PILANA Metal s.r.o. and can lead to financial issues in the future.

Fig. 5: Share of external sources and equity



Source: Own calculations

4.6 Analysis of Differential Indicators

4.6.1 Net Working Capital

Net working capital provides an information how much of financial resources will be disposable in case that all short-term liabilities need to be paid immediately. This represents company's solvency and it also regards to important indicators for creditors.

Tab. 5: Net working capital

Values in thous. of CZK	2009	2010	2011	2012	2013
	30746	22397	70706	64188	48029

Source: Own calculations

According to positive values of net working capital (see Tab. 5) could be assumed that the company is solvent and able to pay short-term liabilities on time. The highest value 70 706 thous. of CZK reached in the year 2011 happened due to increase of inventories and goods for resale together with decrease of short-term liabilities. However, decrease of short-term liabilities led to increase of long-term liabilities in the year 2011.

4.7 Analysis of Financial Ratios

4.7.1 Indebtedness Indicators

The increase of indebtedness of company may contribute to higher values of profitability, alongside increase the risk of financial instability of the company. Indicators of indebtedness are listed in the table number 6.

Tab. 6: Indebtedness indicators

Indicators	2009	2010	2011	2012	2013
Total debt ratio (%)	59%	71%	71%	71%	75%
- Current debt ratio (%)	31%	45%	21%	24%	39%
- Long-term debt ratio (%)	28%	26%	49%	46%	37%
Equity multiplier (%)	41%	29%	29%	29%	25%
Debt-equity ratio	1.47	2.45	2.50	2.47	3.06
Times interest earned ratio	21	98	24	16	11

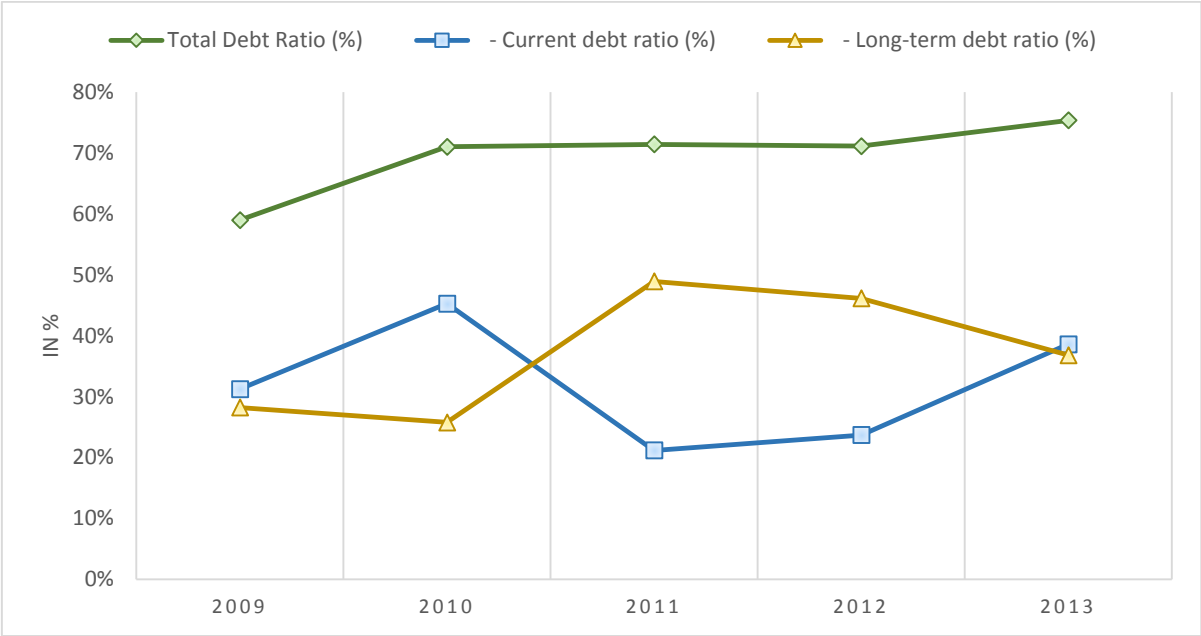
Source: Own calculations

Total debt ratio shows how company uses external sources for its financing. As seen in the (Tab. 6) total indebtedness during the reported period was increasing from 59% to 75%. The structure of current and long-term debts was fluctuating within the observed period until its almost half and half share to the total debt ratio in the year 2013 (see Fig. 6). PILANA Metal s.r.o. should be observant for gradual using of external sources for financing its activities, mainly because of subsequent decrease of self-financing within the whole investigated period.

Debt-equity ratio describes relationship between liabilities and equity, while the ratio is increasing within the investigated years, this points out using of more external sources for company’s financing. However it is unfavorable and risky indicator for creditors and investors, company should focus on and control year-by-year prevail of liabilities on equity.

Times interest earned ratio shows whether the income is sufficient for covering interest expenses in all the investigated years. The biggest value of 98 in the year 2010 (see Tab. 6) was caused thanks to a profit from significant increase of volume of orders and sales.

Fig. 6: Development of individual debt ratios



Source: Own calculations

4.7.2 Liquidity Ratios

Indicators of liquidity point out the ability of company to pay its liabilities, which is an important indicator of company's well-being and health.

Tab. 7: Liquidity indicators

Indicators	2009	2010	2011	2012	2013
Current ratio	2.22	1.40	3.24	2.80	1.70
Quick ratio	0.92	0.51	1.24	1.19	0.98
Cash ratio	0.11	0.02	0.03	0.11	0.08

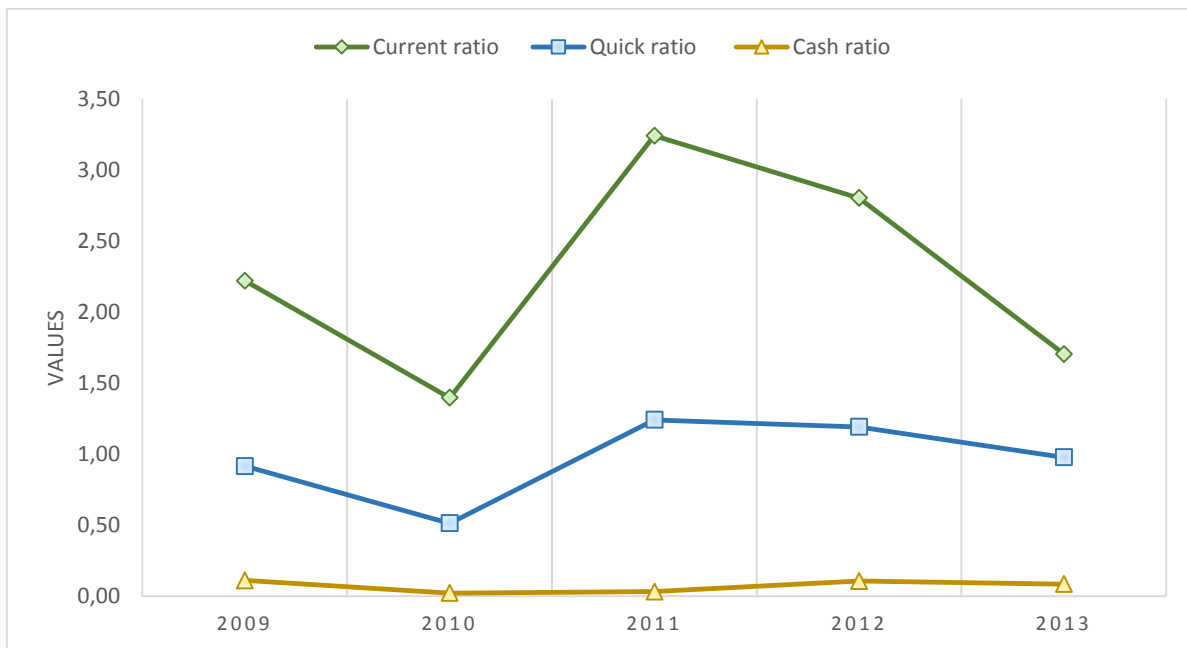
Source: Own calculations

Figure 7 shows that current ratio fluctuates during the whole investigated period with the lowest value of 1.40 reached in the year 2010. Recommended optimal value should be 2. Observed value in the year 2010 means that PILANA is able to pay 1.4 times of short-term liabilities to creditors, in case of current assets are transferred into cash.

Quick ratio should be in a range of 1 – 1.5 for effective binding of quick money sources. In the year 2010 is visible (see Tab. 7) that 0.51 CZK of current assets without inventories is covered by 1 CZK of short-term liabilities. This emerged due to a great volume of inventories in the structure of current assets together with a big amount 43011 thous. of CZK of short-term liabilities.

Cash ratio should be in a range of 0.2-0.5 for a good solvency to date. Investigated rate is quite low throughout all years, which can lead to a problem with paying short-term liabilities on time and in that case, company should increase the volume of short-term financial assets.

Fig. 7: Development of individual indicators of liquidity ratios



Source: Own calculations

4.7.3 Activity Analysis

The group of activity indicators measures how effectively company is able to manage its assets. The individual ratios are listed in the table 8.

Tab. 8: Overview of chosen rates of activity

Indicators	2009	2010	2011	2012	2013
Total assets turnover ratio	0.86	0.92	0.91	0.91	0.71
Fixed assets turnover ratio	2.80	2.86	3.21	2.78	2.10
Inventory turnover ratio	1.65	1.80	1.71	1.51	1.84
Average collection period [days]	136.21	112.70	128.68	162.49	244.25
Average debt period [days]	202.64	265.67	235.70	310.73	388.77

Source: Own calculations

Total assets turnover ratio measures how company uses its own assets in comparison to sales. PILANA Metal s.r.o. in the whole investigated period reached the biggest value in the year 2010, which means that all assets were 0.92 times turned in sales per year.

Fixed assets turnover ratio shows great values within the whole investigated period, which explains sufficient using of production capacity.

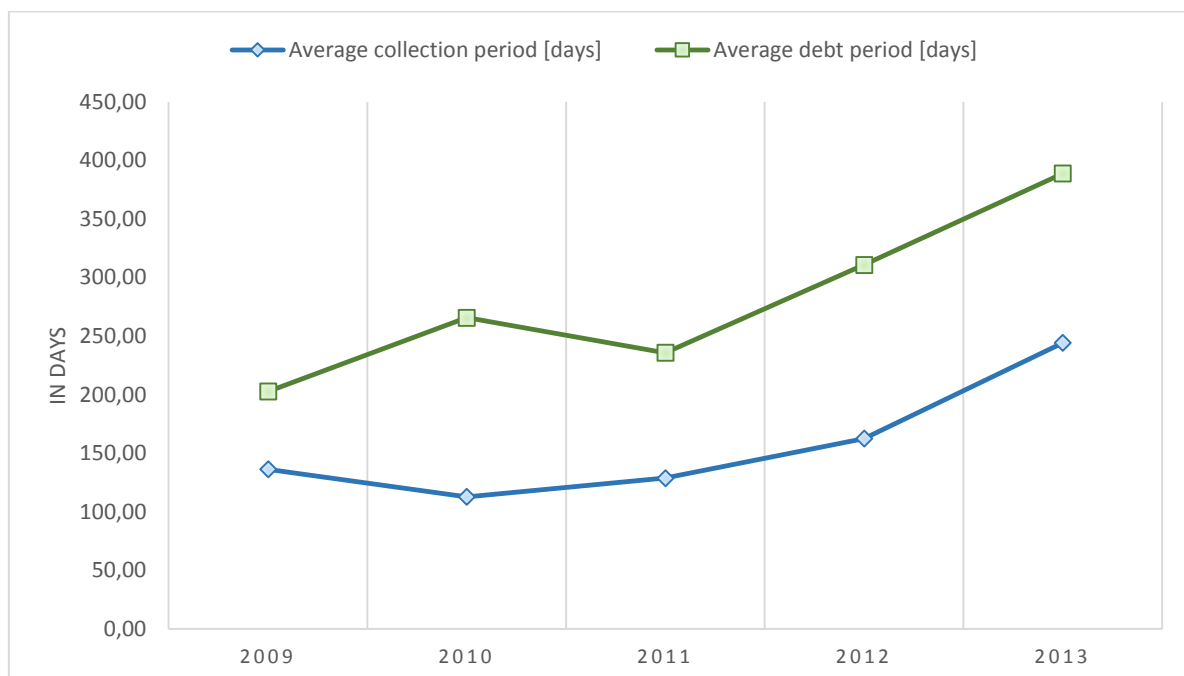
The biggest value of 3.21 (see Tab. 8) appeared in the year 2011 due to further enlargement of buildings and hall structure along with great results of revenues from sales.

Inventory turnover ratio fluctuates throughout all years with the peak in the year 2013. Inventory turnover ratio expresses how many times inventories are transformed into common property of a company. Nevertheless, values from all investigated years are low, which leads to fact that company should increase efficiency of using inventories.

Average collection period expresses the time period for which company has to wait to receive payments from issued invoices to customers. During the monitored period is perceptible increasing of collection period with its maximum of 244.25 days in the year 2013 (see Fig. 8). PILANA Metal s.r.o. would encourage customers for paying in due time and shorten the period of receivables to avoid possible problems with solvency in the future.

Average debt period expresses the time period for which the company pays its liabilities. During the monitored period is obvious subsequent increase until the longest period of 388.77 days in the year 2013, therefore can be assumed that company uses this money as a short-term loan.

Fig. 8: Comparison of average collection and debt period in the following years



Source: Own calculations

4.7.4 Profitability Analysis

Indicators of profitability measures the sufficiency of invested capital into the company, therefore regards to the most observed indicators. In the table 9 are calculated values of profitability indicators.

Tab. 9: Indicators of profitability

Indicators in %	2009	2010	2011	2012	2013
ROA (%)	1.13	3.46	1.39	0.89	0.36
ROA (after tax) (%)	0.87	2.79	1.00	0.56	0.09
ROE (%)	2.03	9.54	3.32	1.77	0.27

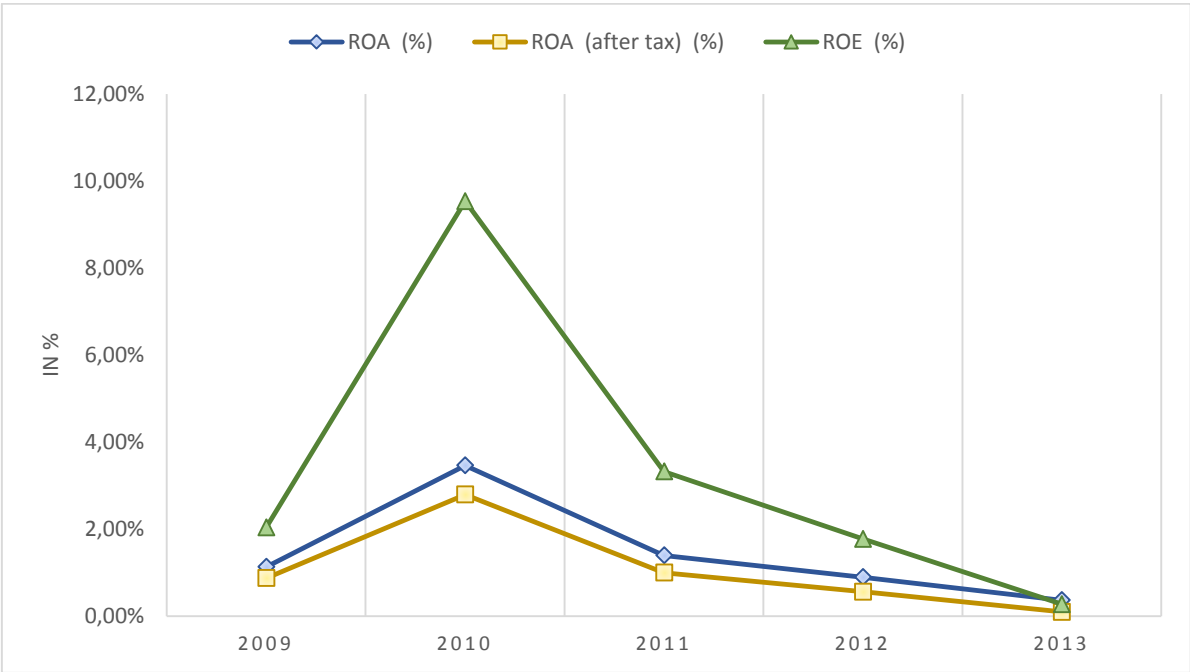
Source: Own calculations

Return on assets (ROA) shows its biggest value of 3.46% in the year 2010 and then are values descending year by year to the lowest value of 0.36% in the year 2013 (see Fig. 9). The great result of return of assets indicator in the year 2010 is connected with positive development of sales and increase in total assets structure. Company reached 0.03 CZK of profit per 1 CZK invested in the year 2010.

Return on assets after taxation follows up similar trend of development in the whole investigated period with the peak of 2.79% in the year 2010.

Return on equity (ROE) points out the best result of 9.54% in the year 2010 (see Fig. 9) and then progressive decrease until 0.27% in the year 2013. Return on equity measures how company efficiently uses its own capital.

Fig. 9: Development of individual profitability ratios for the following years



Source: Own calculations

4.8 Analysis of System Indicators

4.8.1 Decomposition of Profitability of Invested Capital

Profitability of invested capital is expressed as a function of three indicators. Decomposition is constructed from following indicators, such as: return on assets, profit margin and total assets turnover ratio. Calculated values of investigated period 2009-2013 are contained in the table 10.

Profitability of invested capital fluctuates within the whole reference period, with its decline from the year 2011 to 2013. The influence of profit margin on profitability is noticeable and makes up the main component throughout all investigated years. The positive change of ROA appears only in the 2010/2009 where profit margin comprises 1.801 % of absolute change and causes significant increase of ROA.

Tab. 10: Decomposition of profitability of invested capital

Indicator	2009	2010	2011	2012	2013
ROA	0.87%	2.79%	1.00%	0.56%	0.09%
Profit margin (%)	1.01%	3.02%	1.09%	0.61%	0.13%
Total assets turn. ratio	0.8581	0.9239	0.9121	0.9068	0.7080
Index		2010/2009	2011/2010	2012/2011	2013/2012
I ROA		3.2128	0.3567	0.5581	0.1695
I Profit margin		2.9841	0.3613	0.5614	0.2170
I Total assets turn. ratio		1.0766	0.9873	0.9941	0.7808
Logarithm		2010/2009	2011/2010	2012/2011	2013/2012
In I ROA		0.5069	-0.4477	-0.2533	-0.7709
In I Profit margin		0.4748	-0.4421	-0.2507	-0.6635
In I Total assets turn. ratio		0.0321	-0.0056	-0.0026	-0.1075
Percentage change		2010/2009	2011/2010	2012/2011	2013/2012
ROA		100%	100%	100%	100%
Profit margin		94%	99%	99%	86%
Total assets turn. ratio		6%	1%	1%	14%
Absolute change		2010/2009	2011/2010	2012/2011	2013/2012
ROA		1.923%	-1.796%	-0.440%	-0.462%
Profit margin		1.801%	-1.773%	-0.436%	-0.397%
Total assets turn. ratio		0.122%	-0.022%	-0.004%	-0.064%

Source: Own calculations

4.8.2 Decomposition of Profitability of Own Capital

Profitability of own capital is expressed as function of four indicators. Decomposition is constructed from following indicators, such as: return on equity, profit margin, total assets turnover ratio and financial leverage. Calculated values of investigated period 2009-2013 are contained in the table 11.

Profitability of own capital fluctuates within the whole investigated period, with its peak in the year 2010. Following the same trend as for profitability of invested capital, profit margin creates the significant part of profitability of own capital throughout all investigated years. The biggest increase of ROE appears in the year 2010 in absolute change of 7.502 %, with respect to percentage share 73.44 % of profit margin and 21.78 % of financial leverage.

Tab. 11: Decomposition of profitability of own capital

Indicator	2009	2010	2011	2012	2013
ROE	2.03%	9.54%	3.32%	1.77%	0.27%
Profit margin (%)	0.96%	2.99%	1.04%	0.56%	0.09%
Total assets turn. ratio	0.8581	0.9239	0.9121	0.9068	0.7080
Financial leverage	2.4655	3.4518	3.4996	3.4663	4.0613
Index		2010/2009	2011/2010	2012/2011	2013/2012
I ROE		4.6874	0.3480	0.5342	0.1517
I Profit margin		3.1097	0.3477	0.5425	0.1658
I Total assets turn. ratio		1.0766	0.9873	0.9941	0.7808
Financial leverage		1.4001	1.0139	0.9905	1.1717
Logarithm		2010/2009	2011/2010	2012/2011	2013/2012
In I ROE		0.6709	-0.4584	-0.2723	-0.8192
In I Profit margin		0.4927	-0.4588	-0.2656	-0.7805
In I Total asset turn. ratio		0.0321	-0.0056	-0.0026	-0.1075
Financial leverage		0.1461	0.0060	-0.0042	0.0688
Percentage change		2010/2009	2011/2010	2012/2011	2013/2012
ROE		100.00%	100.00%	100.00%	100.00%
Profit margin		73.44%	100.09%	97.53%	95.28%
Total asset turn. ratio		4.78%	1.22%	0.94%	13.12%
Financial leverage		21.78%	-1.30%	1.53%	-8.40%
Absolute change		2010/2009	2011/2010	2012/2011	2013/2012
ROE		7.502%	-6.218%	-1.546%	-1.504%
Profit margin		5.510%	-6.223%	-1.508%	-1.433%
Total asset turn. ratio		0.359%	-0.076%	-0.015%	-0.197%
Financial leverage		1.634%	0.081%	-0.024%	0.126%

Source: Own calculations

4.9 Models of Financial Distress Analysis

This chapter focuses on the prediction of the future financial situation of the company and the likelihood of bankruptcy or well-being of the company in the investigated period.

4.9.1 Altman Z-score Model

By using Z-score model it will be investigated the probability that PILANA Metal s.r.o. will be prosperous in the future.

Tab. 12: Altman Z-score model

Indexes	2009	2010	2011	2012	2013
X ₁	0.3810	0.1793	0.4743	0.4270	0.2718
X ₂	0.3565	0.2357	0.2206	0.2282	0.1986
X ₃	0.0113	0.0346	0.0139	0.0089	0.0036
X ₄	0.6824	0.4079	0.4001	0.4055	0.3267
X ₅	0.8581	0.9239	0.9121	0.9068	0.7080
Z-score	1.75	1.53	1.65	1.60	1.22

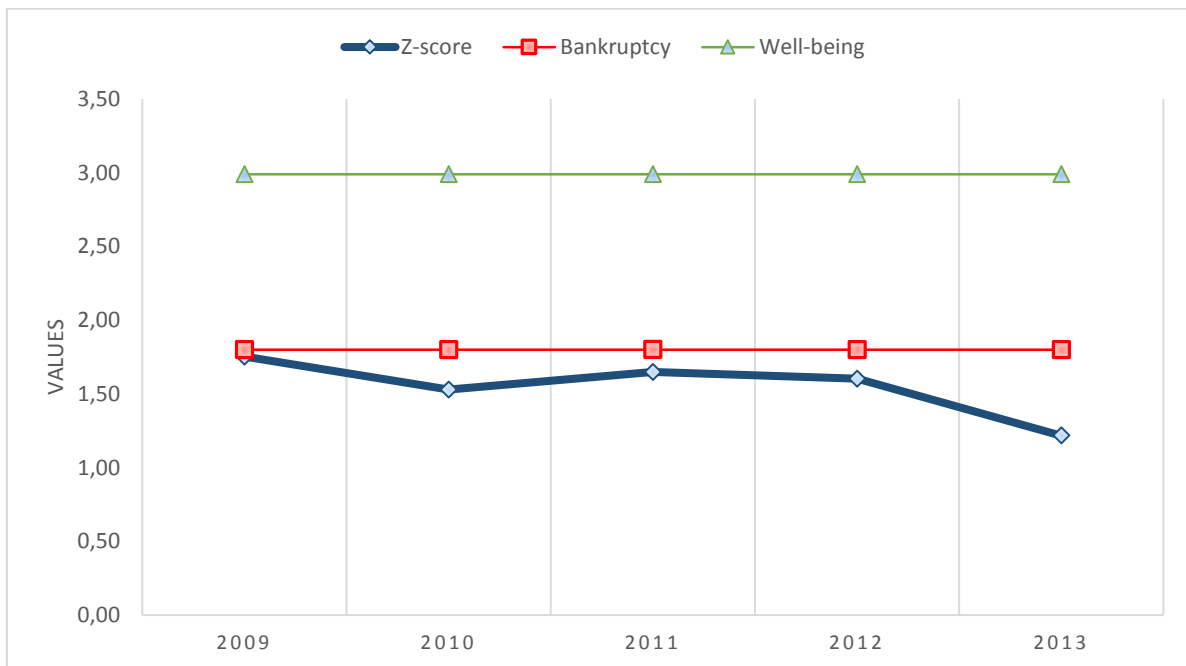
Source: Own calculations

According to figure 10 it is visible that company is below the indicator 1.8 within the whole investigated period. Which means that company, according to Z-model, falls to bankruptcy within the referenced period and the lowest value of 1.22 appears in the year 2013.

The alarming values are mainly caused by increase of costs and global pressure on market to decrease of selling prices, which led in the year 2013 to most significant shrinkage of revenues and EBIT indicator. As seen in the table 12, the significant decrease of indicator x₃ and x₅.

Considering the fact that Altman Z-score model is more suitable for American enterprises, therefore for further evaluation of PILANA Metal s.r.o. was used the reliability index IN05.

Fig. 10: Development of Altman Z-score indicator



Source: Own calculations

4.9.2 Reliability Index IN05

The index of reliability IN05 measures the trustworthiness of the company to its creditors, values and results are stated in the table 13.

Tab. 13: Reliability index IN05

Indexes	2009	2010	2011	2012	2013
X ₁	1.6825	1.4079	1.4001	1.4055	1.3267
X ₂	20.7045	98.2500	23.8391	16.3902	10.5082
X ₃	0.0113	0.0346	0.0139	0.0089	0.0036
X ₄	0.8581	0.9239	0.9121	0.9068	0.7080
X ₅	2.2202	1.3962	3.2414	2.8028	1.7044
IN05	1.47	4.57	1.67	1.32	0.91

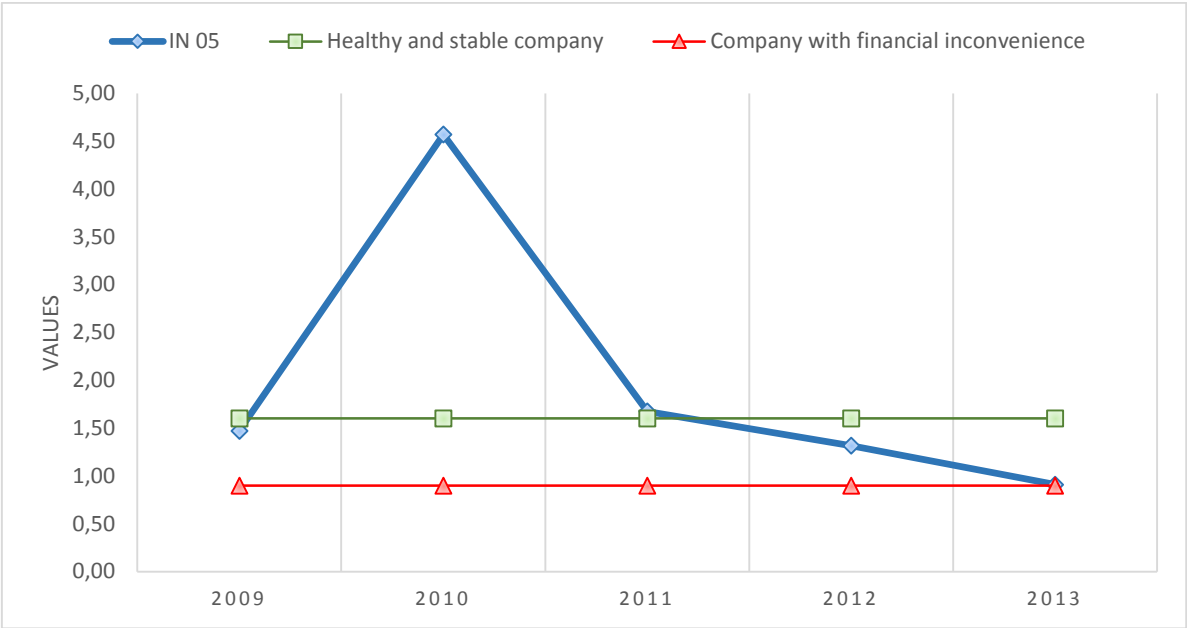
Source: Own calculations

According to figure 11 it is obvious that the company shows good results of index IN05 within the whole period 2009-2012. In the year 2013 company approaches to the inconvenient result, mainly because of subsequent decrease of index x₂ to its lowest value 10.5082, which is caused by noticeable decrease of earnings before interest and taxes.

On the other hand, company shows great results, mainly in the year 2010 (see Fig. 11) with the value 4.57 of index IN05.

Therefore company from the year 2010 indicates year-to-year decrease of index IN05, this situation should be observed as it serves as a warning for the future development. From creditors view, company in the year 2012 and 2013 regards to the range of company with indefinite financial situation, which points out infirmity of the company and possible problems with paying its liabilities.

Fig. 11: Development of index IN05



Source: Own calculations

5. Localization of Region

5.1 Region

Company PILANA Metal s.r.o. is situated in the Zlín region. Zlín region with almost 600,000 people is the 11th largest autonomous administrative unit of the Czech Republic. The regional administration is located in Zlín, which is also the region's largest city.

Zlín region is consisted of 4 districts and 13 administrative units. Further information about the region are monitored in the table number 14: Information about the region.

Tab. 14: Information about the region

	Zlín region
Cohesion region	NUTS II-Střední Morava
Area of the region (in km ²)	3,964
Number of districts	4
Number of administrative units	13
Number of inhabitants (to 31.12.2014)	585,261
Unemployment rate (to 31.03.2015)	7.09%
The gross wage (in CZK), (in 2014)	22,683

Source: Own interpretation based on publicly available information

Unemployment rate is 7.09 %. In comparison to the Czech Republic, where is an average 7.2 %, this region belongs to regions with lower unemployment rate.

From the point of view of the gross wage with 22,683 is Zlín region on the second worst position of the Czech Republic which is not favorable.

Zlín region participates with 4.9 % on total GDP of the Czech Republic, which indicates a good position of Zlín region.

5.2 Sectorial Structure

The area of Zlín constitutes developed industry with long traditions of engineering, the production of tires and other rubber based products, plastics, leather products as well as steel industry, leather and chemical processing. However, the building industry is one of the top branches together with the aviation industry. The economic prosperity of the entire region is influenced by the young and dynamically growing Tomáš Baťa University, which co-operates with the Zlín region on plentiful development projects.

5.3 The Analyzed Company's Impact on the Region

Analyzed company PILANA Metal s.r.o. is situated in the Zlín region. Company performs in the city of Hulín, which belongs to district Kroměříž. Industry along with industrial production creates the important part in the economic structure of the city of Hulín, which is the economically strategic core of the Kroměříž district.

PILANA Metal s.r.o. is a part of the group PILANA with other financial holding companies. The cooperation in between the companies leads to improving of offered services and products and developing of new technologies much more smoothly. In view of the fact that companies are linked to each other and profit together from the cooperation is Zlín region the best place to operate a business within the Czech Republic. Long-term base industry is very convenient for the company and also with the respect to company's experience with the production of technology for metal cutting, region offers sales markets and helps to company with realization of financial targets, possibilities of market expansion and to constantly improve its services. Company very intensively cooperates with the engineering and manufacturing enterprises in the region, which leads to maintaining and developing of engineering industry in the region.

PILANA Metal s.r.o. participates yearly in several International Engineering fairs, where presents its products to customers. Company attends fairs which take place in the whole world, this attracts potential investors to the region and this contributes to development of region.

Company produces highly innovative and modern products, which belong to the top quality of the European production, therefore company has not direct competition in the Czech Republic. Also is important to mention, that company deals with customers from around the world, which makes up the prestige and awareness of the region.

6. Overall Assessment and Recommendations

Company PILANA Metal s.r.o. is nowadays in a good financial condition. Considering the fact that company's profit decreases in the investigated period 2009-2013, it is possible to say that the company evinces positive economic results.

The analysis of property and capital structure discovered weaknesses of PILANA Metal s.r.o. Therefore company should make appropriate arrangements for avoiding any financial problems and improving of overall situation.

According to the results of horizontal and vertical analysis of assets it is obvious the increasing trend of total assets. The significant change in the year 2010 was mainly caused by purchase of buildings and halls for the purpose of enlargement of the company.

The horizontal and vertical analysis of liabilities and equity shows that long-term liabilities are struggling with increasing trend within the whole investigated period. The biggest change occurs in the year 2011 due to investments to development of chain blades financed from external sources and postponement of planned grants.

The change between liabilities and equity is illustrated by indebtedness indicators. The total indebtedness of the company increases up to 75 % in the year 2013. Equity creates 41 % in the year 2009, then it is stabilized from 2010 to 2012 on 29 %, and shows its smallest value of 25 % in the year 2013. This shows the unfavorable increasing tendency of indebtedness of the company.

In the area of solvency, company has not just satisfactory results. According to fact, that net working capital shows positive results within the whole investigated period, can be assumed that company is solvent and possible to pay short-term liabilities on time. But the analysis of liquidity, primarily the cash ratio shows really low values in the referenced period and refers to the fact that PILANA Metal s.r.o. can have a problem with paying short-term liabilities on time.

The total assets and fixed assets turnover ratios show the subsequent decline within the whole investigated period. On the other hand turnovers are still in positive numbers and values, which is in the meantime favorable situation for the company.

With the average collection period occur problems with receiving money from customers with its maximum length of 244.25 days in the year 2013. PILANA Metal s.r.o. would

encourage customers for paying in due time and shorten the period of receivables to avoid possible problems with solvency in the future.

Showing the weakness of PILANA Metal s.r.o. is profitability with decreasing tendency from the year 2011 to 2013. Only good results, even exceeding optimal values, were reached in the year 2010 due to a significant increase of revenues and profit.

For investors can be results from Altman Z-score model taken as a warning for further cooperation, as they show high probability of bankruptcy of PILANA Metal s.r.o. According to whole investigated period it is visible that the company is below the indicator 1.8, which means that the company can very easily fall to bankruptcy. The alarming values are mainly caused by increase of costs and global pressure on market to decrease of selling prices, which led in the year 2013 to most significant shrinkage of revenues and EBIT indicator.

On the other hand, from the reliability index we can assume the better observation for creditors. The variance is caused by interpretation of Altman Z-score method for American market, therefore reliability index implicated for Czech market shows more accurate data. Reliability index IN05 shows that company reaches very good results in the year 2010 but then from the year 2011 indicates year-to-year decrease of index IN05. From the creditors' point of view, the company in the year 2012 and 2013 regards to the range of company with indefinite financial situation, which points out infirmity of the company and possible problems with paying its liabilities.

As a result of financial analysis for company PILANA Metal s.r.o. can be assumed the financial stability and perspective development of the company in the future. PILANA Metal s.r.o. has a very strong position on the Czech Republic market. Supported by availability to expand its products to Europe and world markets, company offers huge potential for its investors.

Would be recommended to stabilize and decrease the portion of using debts for financing company's activities for the following years. Subsequently an increase of the volume of short-term financial assets is necessary for better readiness to pay short-term liabilities on time and to avoid possible problems with solvency. The next improvement should impact the time of average collection period of receivables and encourage customers paying in time to avoid possible problems with solvency in the future.

Because PILANA Metal s.r.o. shows profit in all investigated years and massively invested to modernization, increased volume of employees and provided enlargement of the company, it can be assumed company's further development and maintaining of trustworthiness for creditors in the following years.

7. Conclusion

The aim of this bachelor thesis was to evaluate financial situation of company PILANA Metal s.r.o. based on the assessment of financial statements. As the source of information balance sheet and profit and loss statement for the period from the year 2009 to 2013 were used. As a base for the decision of financial situation information from horizontal and vertical analysis were used, followed by analysis of differential indicators, financial ratios, system indicators and models of financial distress analysis.

Within the investigated period of 5 years, it can be assumed that financial situation of the company is still favorable, particularly to the emergence of profits. The best results with regard to overall performance, appear in the year 2010, when company reached the best economic result. The biggest problems of the company is high indebtedness and low level of short-term financial assets, all of together also negatively influence the Altman Z-score and reliability index IN05 as indicators of trustworthiness for company's investors.

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Appendix 1: Balance sheet – Assets, 2009 - 2013

BALANCE SHEET (kCZK)		2009	2010	2011	2012	2013
	ASSETS	80703	124904	149081	150325	176704
A.	Receivables for subscribed registered capital	0	0	0	0	0
B.	Fixed Assets	24712	40318	42411	49083	59651
B.I.	Intangible fixed assets	0	0	0	0	2068
1.	Incorporation expenses	0	0	0	0	0
2.	Research and development	0	0	0	0	0
3.	Software	0	0	0	0	859
4.	Royalties	0	0	0	0	0
5.	Goodwill	0	0	0	0	0
6.	Other intangible assets	0	0	0	0	0
7.	Intangible fixed assets under construction	0	0	0	0	1209
8.	Advance payments for intangible fixed assets	0	0	0	0	0
B.II.	Tangible fixed assets	24712	40318	42011	48683	57853
1.	Land	196	655	655	1104	1108
2.	Buildings, halls and structures	7301	18865	22213	22398	21564
3.	Property, plant and equipment	8487	13514	12757	22521	33560
4.	Cultivated areas	0	0	0	0	0
6.	Other tangible fixed assets	0	0	0	0	0
7.	Tangible fixed assets under construction	8728	7284	6066	2660	1351
8.	Advanced payments for tan. fixed assets	0	0	320	0	0
B.III.	Long-term investments	0	0	400	400	0
1.	Investments in group undertakings	0	0	0	0	0
2.	Investments in associated companies	0	0	400	400	0
3.	Other long-term securities and ownership interests	0	0	0	0	0
4.	Intercompany loans	0	0	0	0	0
5.	Other long-term investments	0	0	0	0	0
6.	Long-term investments (provisional value)	0	0	0	0	0
7.	Advanced payments for long-term investments	0	0	0	0	0
C.	Current assets	55944	78931	102251	99792	116213
C.I.	Inventories	32875	49942	63117	57370	49568
1.	Raw materials	13443	29683	31722	30763	25077
2.	Work in progress and semi-finished products	4177	6485	6086	6963	7556
3.	Finished goods	7213	6542	3621	6118	7485
4.	Livestock	0	0	0	0	0

5.	Goods for resale	8042	7181	15331	12128	9441
6.	Advance payments for inventory	0	51	6357	1398	9
C.II.	Long-term receivables	0	0	0	0	0
1.	Trade receivables	0	0	0	0	0
2.	Receivables from group undertakings	0	0	0	0	0
3.	Receivables from associated companies	0	0	0	0	0
4.	Receivables from shareholders and alliance partners	0	0	0	0	0
5.	Estimated receivables	0	0	0	0	0
6.	Other receivables	0	0	0	0	0
7.	Accruals	0	0	0	0	0
8.	Deferred tax assets	0	0	0	0	0
C.III.	Short-term receivables	20261	27755	38109	38611	60877
1	Trade receivables	19495	26609	30306	25713	26960
2	Receivables from group undertakings	0	0	0	0	0
3	Receivables from associated companies	0	0	0	0	0
4	Receivables from shareholders and alliance partners	0	0	0	0	0
5	Social security and health insurance	0	0	0	0	0
6	Tax receivables and state subsidies receivable	669	1087	6208	12535	714
7	Other advances paid	74	0	13	0	0
8	Estimated receivables	0	18	0	0	0
9	Other receivables	23	41	1582	363	33203
C.IV.	Short-term financial assets	2808	1234	1025	3811	5768
1.	Cash	252	285	82	591	381
2.	Bank accounts	2556	949	943	3220	5387
3.	Short-term securities and ownership interests	0	0	0	0	0
4.	Short-term investments	0	0	0	0	0
D.I.	Accruals and deferrals	47	5655	4419	1450	840
1.	Prepaid expenses	47	5655	4419	1450	840
2.	Complex prepaid expenses	0	0	0	0	0
3.	Accrued revenue	0	0	0	0	0

Appendix 2: Balance sheet – Liabilities and Equity, 2009 - 2013

BALANCE SHEET (kCZK)		2009	2010	2011	2012	2013
		80703	124904	149081	150325	176704
A.	Equity	32733	36185	42599	43368	43509
A.I.	Registered capital	3000	3000	3000	3000	3000
1.	Registered capital	3000	3000	3000	3000	3000
2.	Own shares held	0	0	0	0	0
3.	Changes in registered capital	0	0	0	0	0
A.II.	Capital contributions	0	0	5000	5000	5000
1.	Share premium	0	0	0	0	0
2.	Other capital contributions	0	0	5000	5000	5000
3.	Revaluation of assets and liabilities	0	0	0	0	0
4.	Revaluation reserve on transformations	0	0	0	0	0
5.	Differences on transformation	0	0	0	0	0
A.III.	Reserve funds	300	300	300	300	300
1.	Statutory reserve	300	300	300	300	300
2.	Statutory and other reserves	0	0	41	0	0
A.IV.	Retained earnings	28767	29434	32885	34299	35092
1.	Retained profits	28767	29434	32885	34299	35092
2.	Accumulated losses	0	0	0	0	0
A.V.	Profit (loss) for current period	666	3451	1414	769	177
B.	Liabilities	47966	88719	106482	106957	133195
B.I.	Provisions	0	0	0	0	0
1.	Tax-deductible provisions	0	0	0	0	0
2.	Provision for pensions and other similar payables	0	0	0	0	0
3.	Income tax provision	0	0	0	0	0
4.	Non-deductible provisions	0	0	0	0	0
B.II.	Long-term liabilities	16021	22419	57242	59756	58718
1.	Trade payables	0	0	0	0	0
2.	Liabilities to group undertakings	0	0	0	0	0
3.	Liabilities to associated companies	0	0	0	0	0
4.	Liabilities to shareholders and alliance partner	0	0	0	0	0
5.	Long-term advances received	0	0	0	0	0
6.	Debentures and bonds issued	0	0	0	0	0
7.	Long-term bills of exchange payable	0	0	0	0	0
8.	Estimated payable	0	0	0	0	0
9.	Other long-term payable	15800	22054	56627	58826	57325
10.	Deferred tax liability	221	365	615	930	1393
B.III.	Short-term liabilities	14122	43011	12564	14081	38179
1.	Trade payables	3870	14776	10615	12238	14741
2.	Liabilities to group undertakings	0	0	0	0	0
3.	Liabilities to associated companies	0	0	0	0	0

4.	Liabilities to shareholders and alliance partner	0	0	0	0	0
5.	Payables to employees	9737	26950	697	792	844
6.	Payables to social security and health insurance	298	546	369	434	451
7.	Tax liabilities	187	71	48	53	21397
8.	Short-term advances received	0	657	263	39	170
9.	Debentures and bonds issued	0	0	0	0	0
10.	Estimated payables	19	9	47	517	514
11.	Other payables	11	2	525	8	62
B.IV.	Bank loans and overdrafts	17823	23289	36676	33120	36298
1.	Long-term bank loans	6747	9766	15695	9597	6293
2.	Short-term bank loans	11076	13523	18981	21523	30005
3.	Short-term financial liability	0	0	2000	2000	0
C.	Accrual and deferrals	4	0	0	0	0
1.	Accrued expenses	0	0	0	0	0
2.	Deferred revenues	4	0	0	0	0

Appendix 3: Profit and loss Account, 2009 - 2013

Profit and loss Account		2009	2010	2011	2012	2013
	Revenue from goods	15840	18990	24916	38858	27022
	Cost of goods sold	11815	15097	17095	31017	21283
	Gross profit	4025	3893	7821	7841	5739
	Revenue from production	50025	91705	104783	90171	93056
	Revenue from own products and services	54294	89892	108098	86733	90973
	Change in inventory of own production	-4269	1647	-3315	3438	2072
	Own work capitalized	0	166	0	0	11
	Cost of sales	37816	69791	83598	71890	69991
	Materials and consumables	31305	58087	65304	58342	60683
	Services	6511	11704	18294	13548	9308
	Added value	16234	25807	29006	26122	28804
	Personnel expenses	11217	16942	20810	16773	18138
	Wages and salaries	8247	12140	15026	11988	12835
	Remuneration of board members	0	0	0	0	0
	Social security and health insurance expenses	2970	4059	5001	4030	4317
	Social expenses	0	743	783	755	986
	Taxes and charges	126	176	116	182	110
	Depreciation of intangible and tangible fixed assets	1599	2607	3339	3526	5208
	Proceeds from disposals of fixed assets and raw material	28	566	1549	1701	136
	Proceeds from disposals of fixed assets	0	140	635	1638	84
	Proceeds from disposals of raw material	28	426	914	63	52
	Net book value of fixed assets and raw material sold	54	520	1521	3445	289
	Net book value of fixed assets sold	0	31	635	3401	250
	Raw material sold	54	489	886	44	39
	Change in provisions and adjustments relating to operating activity and change complex prepaid expenses	90	429	134	-345	-33
	Other operating revenues	292	422	496	2594	853
	Other operating expenses	503	927	1388	2227	2477
	Adjustments to operating revenues	0	0	0	0	0
	Adjustments to operating expenses	0	0	0	0	0
	Operating profit (loss)	2965	5194	3743	4609	3604
	Proceeds from sale of securities and ownership interests	0	0	0	0	200
	Securities and ownership interests sold	0	0	0	0	400
	Revenue from long-term investments	0	0	0	0	0
	Revenue from intercompany securities and ownership interests	0	0	0	0	0
	Revenue from other long-term securities and ownership interests	0	0	0	0	0

	Revenue from other long-term investments	0	0	0	0	0
	Revenue form short-term financial investments	0	0	0	0	0
	Financial assets expenses	0	0	0	0	0
	Revenue from revaluation of securities and derivates	0	0	0	0	0
	Expenses for revaluation of securities and derivates	0	0	0	0	0
	Change in provisions and adjustments relating to financial activity	0	0	0	0	0
	Interest revenue	0	0	0	0	0
	Interest expense	44	44	87	82	61
	Other financial revenue	1811	1675	2632	3005	3011
	Other financial expenses	3025	3580	4148	2902	3770
	Adjustments to financial revenues	3356	2955	3359	3326	3644
	Adjustments to financial expenses	0	0	0	0	0
	Profit (loss) from financial operations	-2098	-1006	-1756	-3347	-3024
	Income tax on ordinary profit (loss)	201	828	573	493	463
	- current	109	684	323	178	0
	- deferred	92	144	250	315	463
	Profit (loss) on ordinary activities after taxation	666	3360	1414	769	117
	Extraordinary revenue	0	91	0	0	0
	Extraordinary expenses	0	0	0	0	0
	Income tax on extraordinary profit (loss)	0	0	0	0	0
	- current	0	0	0	0	0
	- deferred	0	0	0	0	0
	Transfer of profit or loss to partners	0	0	0	0	0
	Extraordinary profit (loss)	0	91	0	0	0
	Profit (loss) for accounting period	666	3451	1414	769	117
	Profit (loss) for accounting period before tax	867	4279	1987	1262	580
	Total Revenues	69254	115398	135979	136308	125098
	Total Cost	68387	111119	133992	135046	124518