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## FACULTY OF BUSINESS AND MANAGEMENT
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## INSTITUTE OF ECONOMICS
ÚSTAV EKONOMIKY

# EVALUATION OF THE FINANCIAL SITUATION OF A COMPANY AND PROPOSALS FOR IMPROVEMENT
ZHODNOCENÍ FINANČNÍ SITUACE PODNIKU A NÁVRHY NA ZLEPŠENÍ

## MASTER'S THESIS
DIPLOMOVÁ PRÁCE

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# MASTER'S THESIS ASSIGNMENT

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Instruction for writing:

Introduction
Objectives and methods of formulation
Theoretical part
Analytical part
Practical part
Conclusion
References
Appendices

List of literature:

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## ABSTRACT

The aim of this diploma thesis is to assess the financial situation of the company James Lakeland Ltd. between the years 2010 and 2015 based on the selected methods of financial and strategic analysis. The results of financial analysis are compared with recommended values, as well as with the results of two competing companies. The thesis also formulates appropriate proposals to solve the problematic areas.

## ABSTRAKT

Cieľom tejto diplomovej práce je hodnotenie finančnej situácie firmy James Lakeland Ltd. v rokoch 2010 až 2015 na základe vybraných metód finančnej a strategickej analýzy. Dosiahnuté výsledky sú porovnané s odporúčanými hodnotami, ale aj s výsledkami dvoch konkurenčných firiem. Práca taktiež formuluje vhodné návrhy, ktoré riešia problémové oblasti.

## KEYWORDS

Financial analysis, horizontal and vertical analysis, ratio analysis, differential indicators analysis, Du Pont diagram, Altman index, Kralicek Quick test, PEST analysis, McKinsey 7S model, SWOT analysis.

## KĽÚČOVÉ SLOVÁ

Finančná analýza, horizontálna a vertikálna analýza, analýza pomerových ukazovateľov, analýza rozdielových ukazovateľov, Du Pontov diagram, Altmanov index, Kráčikov Quick test, PEST analýza, McKinseyho model 7S, SWOT analýza.

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Brno, 07 July 2016                                                  ...................................

                                                                          Bc. Juraj Straňanek

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# CONTENT

# INTRODUCTION

Every business operating on the market has to constantly analyze its activities and results. This reality primarily results from the fact that all of the decisions in the company must be adapted to the constant changes, in order not to lose its market position (or improve the position) and competitiveness. It means that the company needs to adequately vary the volume of production, product range, finance structure or number of employees in dependence to the market environment. Therefore, nearly every thriving enterprise needs to continuously analyse its financial situation and evaluate all significant indicators, which result in the reasonable conclusions for the company.

Financial analysis is a collection of formalized methods, which measures the collected data among each other, expanding their reporting ability and ultimately assesses the firm's financial health. It allows to reach certain outcomes of overall management, followed by the asset and financial situation of the company, under which it would be possible to adopt various measures and use this information for improved decision making. It is necessary to monitor the financial analysis with the entire complex of indicators in a certain time horizon and in a specific context.

This thesis is dedicated to a thorough and in-depth financial and strategic analysis of the company James Lakeland Ltd., in which I have spent three months working as an accounts intern. The analysis is focused on the company's progress during the past six years. The head of accounts and director of the company were very helpful in clearing up every indistinctiveness and provided additional consultations during the formation of this paper.

# OBJECTIVES AND METHODS OF FORMULATION

The aim of my thesis is a comprehensive assessment of the financial situation of the company, including the review of its development from 2010 to 2015, using various methods of financial indicator analysis, strategic analysis and benchmarking. These indicators and their reporting ability will allow me to perform a complete health check, thanks to which I will be able to come to certain conclusions about overall economy of the company.

The results obtained through the analysis will be compared with one similarly sized company and one large company operating on the same market. In order to achieve the main objective of this thesis, it is necessary to determine partial objectives:

- comprehensive understanding of the literature related to the broad context of financial analysis, its methods, relevance & application and its subsequent recapitulation in the theoretical framework,
- introduction of the selected company,
- analysis of the strategic and financial situation of the selected company,
- a summary of the results of the analyzes, its subsequent comparison with the competition and identification of problematic areas,
- proposal of viable recommendations to improve the current financial situation of the company.

The Diploma thesis will be divided into 3 parts - theoretical, analytical and practical. In the theoretical part, I will briefly examine the definitions, which are related to the financial analysis, and characterize the methodological resources and indicators that are used for a "diagnosis" of the financial management. The theoretical framework will mainly focus on the methods of the financial and strategic analysis, i.e. horizontal and vertical analysis followed by the analysis of the differential indicators, financial ratios, operational indicators, Altman index, Kralicek Quick test, 7S, PEST and SWOT.

The analytical part will reflect the theory into reality. Individual indicators will be calculated in the time horizon of six years. Afterwards, a comparison and interpretation over time will be conducted. For practical calculation, I will use financial

statements for the years 2010 - 2015 contained in the annual director's reports. However, the report from 2015 has not been completed by the chartered certified accountants yet, so I will use the internal company statements and data.

In the final part of my thesis, I will focus on the future condition of the company and propose viable recommendations, which could lead in an improved financial health. Proposed measures and recommendations will be based primarily on the results of the financial analysis and can pose as an inspiration for the company on the further business development.

I would like to emphasize, that the interpretation of the results of the financial analysis will be difficult, given that the company has undergone a significant transformation in the past 3 years. However, all of the major situations, reflected in the financial analysis, will be thoroughly explained and commented.

Information used in this paper is based on secondary research of various resources, as well as primary data obtained during my internship in the company. The sources include both quantitative and qualitative data, complemented by my insight of the current situation. This information will then be used in further methodological processes such as analysis, synthesis, elementary mathematical methods and benchmarking.

# 1 THEORETICAL PART

In this section, I will discuss the theoretical definition of financial analysis and all of its components. All of the aspects, which will be used in analytical part, will be described.

## 1.1 Definition of the financial analysis

Financial analysis can be defined as a company's rating system by using selected indicators. Financial analysis is closely linked with financial accounting and financial management, while bringing these two important areas together. For a financial manager, accounting provides only data of instantaneous character, which are mainly in form of absolute values declared on a specific date or for a specific period. The data itself only have a limited explicitness. For a higher predicative ability of financial data, financial analysis is used. It is defined as a formalized method, which measures the acquired data with each other, thus expanding their explicitness to reach certain conclusions on the overall performance and the financial situation of the company, thanks to which it would be possible to adopt suitable solutions (GRÜNWALD, HOLEČKOVÁ, 1997).

According to VALACH (1999), the meaning and the purpose of the financial analysis is to carry out a diagnosis of financial management of a company, using special methods, in order to capture all of the necessary components of detailed analysis and evaluate its financial position (e.g. an analysis of profitability, gearing, liquidity, etc).

BLAHA and JINDŘICHOVSKÁ (2006) simply state, that financial analysis is an assessment of past, present and expected future financial performance of the company.

As mentioned, throughout the financial analysis, very valuable information for subsequent financial planning can be obtained. However, every company carrying out an analysis needs to reach highly relevant results, and following conditions need to be taken into account (SEDLÁČEK, 2011):

- applicability (used methods are adequate to the conditions and resources of the company),
- efficiency (expected revenue resulting from the findings significantly exceed the costs incurred in the processing),
- suitability (financial analysis is made in connection to the pre-defined objectives).

SEDLÁČEK (2011) further determines the **main** objectives of the financial analysis:

- evaluation of the effects of internal and external environment,
- analysis of the present business development,
- comparison of the results of the analysis,
- analysis of the relations between indicators,
- providing information for future decisions,
- analysis of the potential future developments, including the selection of best solutions,
- interpretation of the results, including proposals aimed at the financial planning and management.

As for the term "*financial stability (positive financial health)*", RŮČKOVÁ (2010) defines it as an ability of the company to:

- create profit, secure an accruement of the assets and appraise the invested capital,
- ensure the solvency of the company - without which, the ability to operate diminishes and marks the end of the business activity.

## 1.2 The sources of data for financial analysis

In the financial decision-making, the basic information resources consist primarily from the company's financial statements (balance sheet, income statement and cash flows). These are standard accounting statements, each forming a part of the statement of finances. By their nature, they belong to the internal financial information resources of the company. In addition, external financial information such as annual

reports of issuers of marketable securities, securities prospectuses, etc. provide invaluable source of data (BLAHA, JINDŘICHOVSKÁ, 2006).

Data obtained from the mentioned sources are generally divided into three groups:

I.   Company accounting data - as mentioned previously, the data taken from the statements of accounts. Furthermore, the internal accounting and reports.
II.  Other data about the company - including corporate production statistics, demand, sales, internal directives, forecasts and management reports.
III. External data - information from the specialised press, state statistics data, stock exchange news, reports on the development of trade, exchange and interest rates, estimates of analysts and institutions etc.

For a proper preparation of a financial analysis, it is essential to have a high quality documentation. Without them, even the best methods or techniques of analysis fail to provide the necessary valuable results (KONEČNÝ, 1999).

### 1.2.1   Primary accounting data

**Balance Sheet**

The balance sheet provides an overview of the assets and resources of the company at a certain date. It expresses the structure of a company, where:

- assets represent property & belongings that the company has,
- liabilities & equity represent the sources of capital, from which the assets were acquired (GRÜNWALD, HOLEČKOVÁ, 2007).

In the balance sheet, assets are classified according to the rate of their conversion ability in cash (i.e. by liquidity).On the other side, liabilities represent borrowed capital, while equity stands for own capital.

The most notable distinction, between Czech and English balance sheet, is that Czech uses horizontal format, while English uses vertical format. Czech calculation of the balance sheet equilibrium states *assets = liabilities + equity*, while English works with a calculation *assets - liabilities = equity*. Another notable distinction is the

appearance of future gains / loss entry in the Czech format, while in English, it is included in the other viable entries.

**Profit & Loss account**

This statement shows the relationship between the yields of the company, achieved during a certain period and costs, which are associated with their creation. Income is considered to be the sum of money, which the company received from all of its activities for the financial year, regardless of whether they have received the payment (cash) in the same accounting period. Costs are sums of money, that the company incurred in the financial year to obtain revenue, although the real payment may not occur in the same period. Expense and revenue items do not reflect the actual cash flows (KISLINGEROVÁ, et al., 2004).

**Cash flow statement**

Cash flow statement shows the actual movement of money and represents an important complement to balance sheet and profit & loss account. It is used to illustrate the actual income and expenses in the accounting period. By examining the statement of cash flow, we can see what is the operating, investment and financial policy of the company. The objective of this statement is to identify the point of origin of the funds and their use, thanks to which we can describe the development of the financial situation of the company, or identify the causes of change in its financial position (PALEPU, HEALEY and BERNARD, 2007).

### 1.2.2 Limitations of the financial statements

BARINOVÁ and VOZNÁKOVÁ (2005) raise concerns about the informative capability of the financial statements. Several items in accountancy do not represent the real valuation - life span, depreciated price, size of the reserves and the status of certain stocks. Another issue may be represented by the values of assets reported on the basis of historical costs. In that case, the financial statements work with the data related to the past, thus creating a risk, that the captured information does not serve as a valid current indicator. Next factor is inflation. The basic problem is the fact, that the purchase power of money is not constant, however, the accountancy does not consider it. Moreover, the

inflation does not have the same effect on all items of financial statements, therefore, it is impossible to implement it.

Another major problem is the comparability of financial statements in time, or within the same industry. When comparing different companies, there are problems with the heterogeneity of standards and regulations for the creation of financial statements. Comparisons over time are the basis for the dynamic analysis of the development of a company. This comparison provides information, which expresses the rhythm and regularity (or irregularity) of the development. In the case of comparison of two independent companies, it is necessary that they meet the comparability requirements - not only the same accounting - but also objectively comparable field of business, company size, technology, output or customer segment.

Other factors limiting the accuracy of the financial statements are the uncontrollable changes in the economic environment or legislature, missing data from previous time periods, seasonal deviations etc.

## 1.3 Users of the financial analysis

Information related to the financial situation of the company are very valuable to a lot of interest groups that come in contact with the company. Each entity has its own specific interests that depend on a particular type of economic decision-making tasks. One information might be important for the company manager, other for a shareholder. However, all entities have one thing in common - they need to know, to be able to manage (KISLINGEROVÁ, et al., 2004).

KISLINGEROVÁ et al. (2004) further differentiate the users of the financial analysis into two groups:

**External users:**

- Investors
- Banks and other creditors
- Business partners (debtors, creditors)
- Government
- Competitors

**Internal users:**

- Managers
- Unions
- Employees

**Investors** are primarily shareholders or owners, who have put their capital into the company. They use the information about the company from the investment and control point of view. Investment aspect involves the selection of future investments with an emphasis on the rate of return and risk. Control aspect is the reason behind the separation of management and ownership power - the control of alignment between the goals of managers and shareholders.

**Banks and other creditors** use the information about the potential borrower (debtor) in order to determine the risk of return on the resources. They use it to evaluate whether to offer the loan, and if so, under what conditions.

**Business partners** - suppliers (creditors) use the outcomes of the financial analysis to find out about the ability of the company to repay the invoices on time. On the other hand, customers (debtors) can deduce whether the company meets the agreed terms of delivery of goods.

**Government** has a great interest in the financial data. Predominantly, the information is used to check the accuracy of declared taxes. The information is further used for statistical purposes etc.

**Competitors** use the information of similar companies in order to compare their financial data. Mainly profitability, efficiency, liquidity, gearing and others.

**Managers** benefit from the information in a long-term operational and financial decision-making (acquisition of financial resources, optimalization of the gearing ratio and asset structure, distribution of retained earnings etc.)

**Employees** are naturally concerned about the financial stability and prosperity of the company. They work in order to maintain the jobs and favourable labour conditions. **Trade unions** utilize the outputs of the financial analysis like investors.

This list is not exhaustive, it would be possible to name other stakeholders, such as tax advisors, analysts, corporate valuators and last, but not least, the general public (GRÜNWALD, HOLEČKOVÁ, 2007).

## 1.4 Methods of the financial analysis

The methods and procedures used in the financial analysis has been standardized over the time. They can be divided into methods that use elementary mathematics and percentage calculations, basic arithmetic operations called elementary methods, and methods that use complex mathematical practises and ideas (SUVOVÁ et al., 1999)

Methods of elementary financial analysis include:

- Absolute indicators analysis
- Differential indicators analysis
- Ratio indicators analysis
- Analysis of the sets of indicators

The advantages of these methods are the simplicity and straight-forwardness of the calculations and their subsequent processing.

More difficult methods of the financial analysis use complex mathematical procedures. They try to capture the linkages not only between different indicators, but also links between individual enterprises (SEDLÁČEK, 2011).

Mathematical-statistical methods:

- correlation coefficients, which are used to assess the interdependence of the analyzed indicators,
- analysis of variance, which allows us to select indicators that have a decisive impact on the desired results,
- factor analysis, used to simplify the dependence of a structure of indicators,
- point estimates, which help us to estimate approximate normal and standard values of the indicators for a group of companies,
- regression analysis, used to characterize mutual connection between two or more indicators.

Non-statistical methods:

- expert systems,
- fuzzy sets,
- Gnostic theory of uncertain data.

For the purpose of this thesis, elementary methods are used. Thus the next part is devoted to their description and explanation.

## 1.5 Analysis of the absolute indicators

This is an analysis of the asset and capital structure. One of them, so called *"trend analysis"* is a very useful tool - generally known as a horizontal analysis, and a second one - examining the percentage structure of each item in the balance sheet or profit and loss account - vertical analysis. Absolute indicators can be described as value-representing data, directly included in the financial statements of each company. Balance sheet shows" status" indicators (representing the condition at a point in time), while the profit and loss account "disposes" of flow indicators (representing a value for a specific time interval).

By a thorough look into these reports, it is possible to understand the absolute data in a certain context and identify the problem areas.

### 1.5.1 Horizontal analysis

Horizontal analysis is used to quantify the annual changes. For this purpose, it is possible to use percentages or absolute figures in order to determine the differences in comparison to the last year.

KISLINGEROVÁ and HNILNICA (2010) describe it as:

**Formula 1: Horizontal analysis**

$$difference\ in\ \% = \frac{actual\ period - prior\ period}{prior\ period} \times 100$$

It is used to capture the trends in the structure of assets and capital of the company. It is the simplest and most commonly used method for a report elaboration on

the economic situation of the company, as well as its past and future development (SEDLÁČEK, 2011).

SYNEK (2011) further describes a theory of economic normal, which represent a correlation between the developments of chosen indicators. These changes can be positive or negative. The economic normals then work as a set of development recommendations, that indicates a healthy evolution of the company.

### 1.5.2    Vertical analysis

Vertical analysis consists of the fact, that the individual items of the financial reports are viewed in relation to a single parameter. The item is designated as $P_i$, and can represent a proportion of e.g. receivables in the current assets, or the proportion of administrative costs in the total expenses (KISLINGEROVÁ, HNILNICA, 2010).

They further describe the formula as:

**Formula 2: Vertical analysis**

$$P_i = \frac{B_i}{\sum B_i}$$

where:        $P_i$ = proportion of the item

$B_i$ = size of the item

$\sum B_i$ = the sum of the items within a selected bulk.

## 1.6 Analysis of the differential indicators

Differential indicators of the financial analysis are used to analyze and control financial situation of the company with a focus on its liquidity. This includes net working capital, net quick capital and net cash-receivables fund (KNÁPKOVÁ, PAVELKOVÁ and ŠTEKER, 2013).

**Net working capital**

Net working capital is calculated as a difference between current assets and current liabilities. This means, that it is very close to the current liquidity, which is constructed on the basis of the same data, however, it is a ratio indicator. This capital is

a part of the current assets financed by a long-term financial resources and the company can use it freely for its purposes (RŮČKOVÁ, 2011).

Said capital may be seen as a part of the funds, that would allow the company to continue its activities (if it was forced to repay a large amount or all of its short-term commitments), and provides a *"financial cushion"* in the time of need. This capital also allows the company to separate the funds which serve as payments for the immediate creditors, from the funds that are relatively free and can be used by the financial managers in the financial policy of the company. The net working capital is supplemented with an indicator of its turnover ratio, which shows a ratio of sales to an average net working capital, in which it reflects its effectiveness and appropriateness (RŮČKOVÁ, 2011).

**Net quick capital**

Net quick capital is closely related to an immediate liquidity, also referred to as a cash position ratio. It illustrates the liquidity of currently maturing short-term liabilities and thus represents the difference between available funds and immediate payables. If this includes only cash and current account balance, than it represents the highest level of liquidity. However, these instruments, also include short-term securities and short-term deposits, as they are quickly convertible into money on a functional capital market (KNÁPKOVÁ, PAVELKOVÁ and ŠTEKER, 2013).

**Net cash-receivables fund**

This fund serves as a "middle path" in the strictness of comparing the liquidity. Besides immediate funds and their equivalents, it also includes short-term receivables (excl. unenforceable), hence the name cash-receivable fund. It is calculated by deducting the inventories and short-term liabilities from the current assets (RŮČKOVÁ, ROUBÍČKOVÁ, 2012).

## 1.7 Ratios

Ratios are frequently used form of financial statement analysis, thanks to their perceptiveness on different levels. This analysis is based solely on the data from basic financial statements and uses publicly available information, that any external financial

analyst has access to. The ratio indicator is calculated as a ratio of one or more accounting items to other item or a group of items. The ratios are divided into different groups, such as indicators of the structure of assets and capital, profit-making indicators and indicators based on cash flow.

Indicators of the asset and capital structure are constructed on the basis of balance sheet and relate mostly to the indicators of liquidity, because they explore the relationship between the balance sheet items, which show the various funding sources of the particular assets. Gearing (debt) indicators are very substantial as well, as they evaluate the capital structure of the company. The indicators of income arise primarily from the profit and loss account, which evaluate the cost & revenue structures (RŮČKOVÁ, 2011).

### 1.7.1    Profitability ratios

Profitability (return on the invested capital) measures the ability to achieve a profit using the invested capital, i.e. the ability of a company to create new resources. It is a form of expression of the rate of profit, which serves as a main criterion for the capital allocation in the market economy. Below mentioned indicators are among the most frequently used in the financial analysis (KNÁPKOVÁ, PAVELKOVÁ and ŠTEKER, 2013).

The key indicator of the effectiveness of a business activity is the surplus (excess) of revenue over the costs, which stands for a gain in the case of positive values, and a loss in the case of negative values. In terms of financial analysis, different expressions and modifications of profits are distinguished (SYNEK, KOPKÁNĚ and KUBÁLKOVÁ, 2009):

- **EBITDA (E**arnings **B**efore **I**nterest, **T**axes, **D**epreciation and **A**mortisation**)** - It is calculated by adding EBIT and depreciation.
- **EBIT (E**arnings **B**efore **I**nterest and **T**axes**)** - This form of profit is calculated by adding the interest expenses to the EBT. It is used mainly for the purpose of comparison with another company.

- **EBT (E**arnings **B**efore **T**axes**)** - This configuration of profit is a sum of EAT and corporation tax. It is most commonly used for a comparison of the company with a different tax burden.
- **EAT (E**arnings **A**fter **T**axes) - also known as *net profit* - represents the profit for the accounting period in the P&L account. This form of income is used in almost every indicator, which evaluate the efficiency of the company.

**Return on assets (ROA)**

ROA measures various forms of profit against the total assets invested into business without regards to the sources of financing (equity, long/short-term liabilities). If we use EBIT as a numerator, the indicator measures a gross production power of company's assets before taxes and interest. It is especially useful for a comparison with different tax conditions or different gearing ratios. The values are recommended to be higher than 12%. It is calculated as follows (SEDLÁČEK, 2011).

**Formula 3: Return on assets**

$$ROA = \frac{EBIT}{Assets}$$

**Return on Equity (ROE)**

This ratio expresses the rate of profitability on equity. It represents the amount of net income returned as a percentage of shareholders equity. Owners (shareholders, stockholders and other investors) use this indicator to determine, whether their capital provides sufficient yield, which corresponds to the risk of their investments. For investors, this indicator should be higher than the interest received in another form of investment (e.g. from bonds, deposits or other securities), because they carry a relatively high amount of risk (SEDLÁČEK, 2011).

**Formula 4: Return on equity**

$$ROE = \frac{EAT}{Equity}$$

**Return on Sales (ROS)**

The return on sales is among the commonly observed indicators of financial analysis, that reflects the company's ability to make a profit at a given level of revenues (the amount of profit in £ from £1 of revenues). Low levels of this indicator suggests a mismanagement of the company, middle level is a sign of a well-managed company, while high level implies an above average distinction of the company. This ratio is especially suitable for intercompany comparison and comparison over time. The numerator can be used in various forms, depending on the focus of the analysis. For the calculation of profit margin, EAT is used, while for the intercompany comparison purpose, EBIT is used. Sales usually mean the sum of revenues from core business activities, i.e. the sum of revenues from sales of goods and sales of own products and services (does not include exceptional gains) (DLUHOŠOVÁ, 2010).

**Formula 5: Return on sales**

$$ROS = \frac{EBIT}{Sales}$$

**Return On Capital Employed (ROCE)**

This indicator expresses the effect of long-term investments. It assesses the importance of long-term investment, based on the determination of return on equity + non-current liabilities, thus increasing the potential of the owner by increasing the non-current liabilities. This indicator is often use for intercompany comparison (DLUHOŠOVÁ, 2010).

**Formula 6: Return on capital employed**

$$ROCE = \frac{EBIT}{Equity + Noncurrent\ Liabilities}$$

### 1.7.2    Activity Indicators

How effectively an enterprise manages its assets is measured by the indicators of activity. Unnecessary costs and low profits arise when the company has more assets than it needs. On the other hand, if it lacks the assets, the company needs to forgo potentially favourable business opportunities, causing a loss of further gains that it could have acquired (SEDLÁČEK, 2011).

KISLINGEROVÁ and HNILICA (2008) state that the activity indicators predominantly compare flow items with the non-flow items, hence they can be expressed in two models:

- Turnover ratios – Expresses the number of rotations of the assets during a period
- Conversion period (days) – Expresses the number of days it takes for one turnover.

RŮČKOVÁ (2011) asserts that the most commonly used indicators of activity are turnover of total assets, inventory turnover, receivables turnover and payables turnover.

**Total asset turnover**

This indicator is used to measure the turnover (effective use) of the total assets. It is used for a comparison among companies. The indicator's value is higher, if the company uses its assets more efficiently. The recommended minimum value is 1, however it is influenced by the type of industry that the company belongs to. Turnover of total assets is represented by following formula (KNÁPKOVÁ, PAVELKOVÁ and ŠTEKER, 2013):

**Formula 7: Total asset turnover**

$$Total\ asset\ turnover = \frac{Sales}{Total\ assets}$$

**Inventory turnover**

Indicator of turnover is formed by the ratio of sales to the average inventory state. If we want to find out, for how many days the current assets are bounded in the form of stock, we can use conversion period formula, which is derived from the turnover ratio. General rule states that the higher inventory turnover means a shorter conversion period, which creates a better situation for the company RŮČKOVÁ (2011).

**Formula 8: Inventory turnover**

$$Inventory\ turnover = \frac{Sales}{Average\ inventories}$$

27

**Formula 9: Inventory days**

$$Inventory\ days = \frac{360\ days}{Inventory\ turnover}$$

## Receivables turnover

This indicator expresses the ratio between sales and receivables. Period, in which the capital is bounded in the form of receivables, is represented by an additional indicator – the receivables days. The suggested value is a normal time for the payment of invoices (in UK it is 30 days). However, the current trend is to extend the maturity of the payments. (RŮČKOVÁ, 2011).

**Formula 10: Receivable turnover**

$$Receivables\ turnover = \frac{Sales}{Receivables}$$

**Formula 11: Receivable days**

$$Receivables\ days = \frac{360\ days}{Receivables\ turnover}$$

## Payables turnover

RŮČKOVÁ (2011) further examines the payables turnover, which represents the ratio between sales and payables. Like the above-mentioned indicators, it has an additional pointer which indicates how fast the company pays its liabilities. The payable days should be longer than the period of receivables days, in order to establish a financial balance.

**Formula 12: Payables turnover**

$$Payables\ turnover = \frac{Sales}{Payables}$$

**Formula 13: Payable days**

$$Payable\ days = \frac{360\ days}{Payables\ turnover}$$

### 1.7.3    Debt ratios

These indicators describe the relationship between own sources (equity) and external sources (liabilities) of corporate financing. They measure the scale in which the company uses the debt to finance its activities. Indebtedness is not only a negative phenomenon; it may contribute to a better overall profitability and a higher market value of the company, but at the same time, it increases the risk of a financial instability. There are many debt ratios; the most commonly used are the total indebtedness, gearing ratio or interest cover (KNÁPKOVÁ, PAVELKOVÁ and ŠTEKER, 2013).

**Total indebtedness**

The ratio of total indebtedness shows us the percentage of funds invested in the company by creditors (lenders). Creditors prefer low indebtedness indicator; meaning a greater proportion of equity capital, which serves as a safety cushion against losses of creditors in the eventual liquidation of the company. On the contrary, owners and shareholders are seeking greater financial leverage to multiply their revenues (BLAHA, JINDŘICHOVSKÁ, 2006).

**Formula 14: Total indebtedness**

$$Total\ indebtedness = \frac{Liabilities}{Total\ assets}$$

**Gearing ratio**

This indicator calculates a ratio between external and own capital. Therefore, it is very important in case of applying for a new loan, where the bank decides whether to grant or withhold credit. Main information is contained in the development of this ratio, which can show the increase or decrease in external capital over time (KNÁPKOVÁ, PAVELKOVÁ and ŠTEKER, 2013).

**Formula 15: Gearing ratio**

$$Gearing\ ratio = \frac{Liabilities}{Equity}$$

**Financial leverage ratio**

The leverage ratio represents a rate of self-financing. It is based on the findings that the use of external resources has a positive effect on the return on equity, however not every time. Growth of financial leverage indicates a growth in the indebtedness of the company (MRKVIČKA and KOLÁŘ, 2006).

**Formula 16: Financial leverage**

$$Financial\ leverage = \frac{Assets}{Equity}$$

**Interest cover**

The interest cover indicator expresses how many times does the profit cover the interest, i.e. whether the company produced enough profit to cover the cost of borrowed capital. Higher values of this indicator are assessed positively, as the company is able to repay its interest liabilities.

**Formula 17: Interest cover**

$$Interest\ cover = \frac{EBIT}{Interest}$$

### 1.7.4 Liquidity ratios

KNÁPKOVÁ and PAVELKOVÁ (2012) state, that liquidity measures the ease with which a company can meet their financial obligations (denominator) with the available current assets (nominator).

We encounter two terms when dealing with this analysis (JINDŘICHOVSKÁ, 2016):

- Solvency: the general ability of the company to raise funds to pay its liabilities when their maturity occurs. It is a relative surplus of the value of assets over the value of liabilities.
- Liquidity: the current ability to pay debts

Liquidity ratio puts in proportion resources [with what you can pay] and liabilities [what must be paid]. The first and very rough indicator is aforementioned net

working capital, calculated as a difference between current assets and current liabilities. It tells us how much current assets are financed with the long-term resources. However, outcome of this calculation is an absolute number, thus not being suitable for a comparison of multiple companies (as would ratios). For the comparison, we use following liquidity ratios:

**Current ratio**

It is the simplest measure of liquidity for which we consider the total current assets (excl. long-term receivables). The explanatory power can be distorted by the unnecessary inventory and bad debts. The recommended value is between 1.5 and 2.5, with an exception in the industrial companies (2 to 2.5). If the value drops below 1, the company is illiquid (CISKO, 2003).

<u>**Formula 18: Current ratio**</u>

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$

**Quick ratio**

For the calculation of quick ratio, we do not take into account the stocks, because they represent the most problematic part of the current assets, as they can be unsellable or their conversion may be associated with significant losses (sale of stock at a lower price than its cost). Once again, the bad debts are eliminated from the formula, as they could distort ratio value. The indicator should range between 0,7 and 1. A fall of its value below 1 usually forces the company to sell their stocks (SEDLÁČEK, 2011).

<u>**Formula 19: Quick ratio**</u>

$$Quick\ ratio = \frac{Current\ assets - stock}{Current\ liabilities}$$

**Cash position ratio**

This indicator reflects the company's solvency. The optimal values range between 0.2 to 0,5. In this stage of liquidity, we consider only financial assets as a suitable device to pay off the non-current liabilities (i.e. cash, deposits etc.) (CISKO, 2003).

**Formula 20: Cash position ratio**

$$Cash\ position\ ratio = \frac{Cash}{Current\ liabilities}$$

### 1.7.5    Operational indicators

These indicators are focused on the inside of the company and help the management to monitor and analyze the development of the company's basic activities. They rely on flow figures, especially costs. Cost management helps to allocate individual types of costs, manages economical spending, and therefore increases the total efficiency of the company (MADURA, FOX, 2014).

**Wage productivity**

Calculation of the wage productivity indicates how much revenue is accounted for £1 worth of paid wages. This indicator should have a growing trend. The numerator contains turnover (excluding exceptional), while the denominator is substituted by payroll costs (MAYES, 2013).

**Formula 21: Wage productivity**

$$Wage\ productivity = \frac{Turnover\ (excl.\ exc.)}{Wages}$$

**Linkage of stock on turnover**

This indicator shows the amount of stock bounded to a £1 of turnover (excluding exceptional). The value should be minimal - high values mean a faulty stock management (MAYES, 2013).

**Formula 22: Stock turnover linkage**

$$Stock\ turnover\ linkage = \frac{Stock}{Turnover\ (excl.\ exc.)}$$

**The total cost of turnover from sales**

This figure indicates a burden of the overall costs on the sales. The value should decline over the time (MAYES, 2013).

**Formula 23: Total cost of sales turnover**

$$Total\ cost\ of\ sales\ turnover = \frac{Total\ costs}{Turnover\ (exlc.\ exc.)}$$

### 1.7.6      Indicators on the cash flow basis

There are many indicators based on the cash flow; they do not rely only on a balance sheet or profit & loss account, but also on the cash flow statement. This statement is less prone to be biased, as these indicators are more reliable. They are reflected as percentages and capture warning signals of possible payment difficulties, while serving to assess the internal financial potential of the company.

**The profitability of sales (ROS from CF)**

This indicator expresses the company's efficiency. It is less influenced by the investment cycles or depreciation of non-current assets (SEDLÁČEK, 2010).

**Formula 24: Profitability of sales**

$$Profitability\ of\ sales = \frac{Operational\ CF}{Sales}$$

**The profitability of equity from CF**

This indicator assesses the internal financial potential of the company's capital. It is an additional indicator of return on equity (ROE), which is not affected by the depreciation or creation of reserves (SEDLÁČEK, 2010).

**Formula 25: Profitability of equity**

$$Profitability\ of\ equity = \frac{Operational\ CF}{Equity}$$

**The degree of debt relief**

This indicator reflects the company's capacity to settle the incurred liabilities from the own financial strength. It demonstrates the efficiency of the financial policy of the company. The recommended value ranges between 20 and 30%. A falling value in time indicates a growing financial distress in the company (RŮČKOVÁ, 2008).

**Formula 26: Degree of debt relief**

$$Degree\ of\ debt\ relief = \frac{Operational\ CF}{External\ resources}$$

**Creditworthiness from CF**

This indicator shows how many times a company must create the amount of financial funds to cover all of its obligation from its own resources. The higher value of the indicator means that the company has to spend more on the loan repayments, leaving less on the development and investments (RŮČKOVÁ, 2008).

**Formula 27: Creditworthiness**

$$Creditworthiness = \frac{External\ resources}{Operational\ CF}$$

## 1.8 Analysis of the set of indicators

Unlike previously described differential and ratio analysis, the analysis of the set of indicators evaluates the overall financial situation of the company, not only a section of company's activities. For a brief expression of a complex financial situation, various sets of indicators are used. The sets of indicators are distinguished by their approach into two groups (BROOKS, 2010):

I.   Hierarchically arranged sets

Typical examples are the pyramid systems, which are used to identify the economic and logical links between the indicators and their breakdown.

II.   Purposely selected sets

The aim is to compile a selection of the indicators that would be able to diagnose the quality of a financial situation of the company and possibly predict its crisis development. The indicators are compiled based on a comparative-analytical or mathematical-statistical methods. These selections are further divided into two groups according to their purpose:

**Creditworthiness models**

These models replace individual analytical indicators of different values and express the financial situation of the company by selecting a few indicators. They are primarily based on the theoretical knowledge. Among the most common are creditworthiness indicators are Kralicek Quick test or Tamari model (MRKVIČKA, KOLÁŘ, 2006).

**Bankruptcy models**

The bankruptcy models can provide us with an early warning of the possibility of a bankruptcy. Examples of such bankruptcy models are Altman model (Z-Score), Taffler index or index of credibility (MRKVIČKA, KOLÁŘ, 2006).

### 1.8.1 Pyramid models

These indicators collectively illustrate several characteristics of the financial health of the company at once. The levels are determined using financial ratios, while also creating space for a comparison of the interrelationships between liquidity, financial structure and the company's profitability. The most commonly used method, which uses ratios is called Du Pont Diagram. It was developed and first used in a multinational chemical company Du Pont de Nomeurs (MAYES, 2013).

The following diagram shows the dependence of a return on equity (ROE), profit margin, asset turnover and a ratio of assets to equity. The diagram can be established either based on profit after tax or before tax. It is divided into two parts (branches) - the left side of the formation derives from the profit margin, while the right side works with the balance sheet items (BROOKS, 2010).
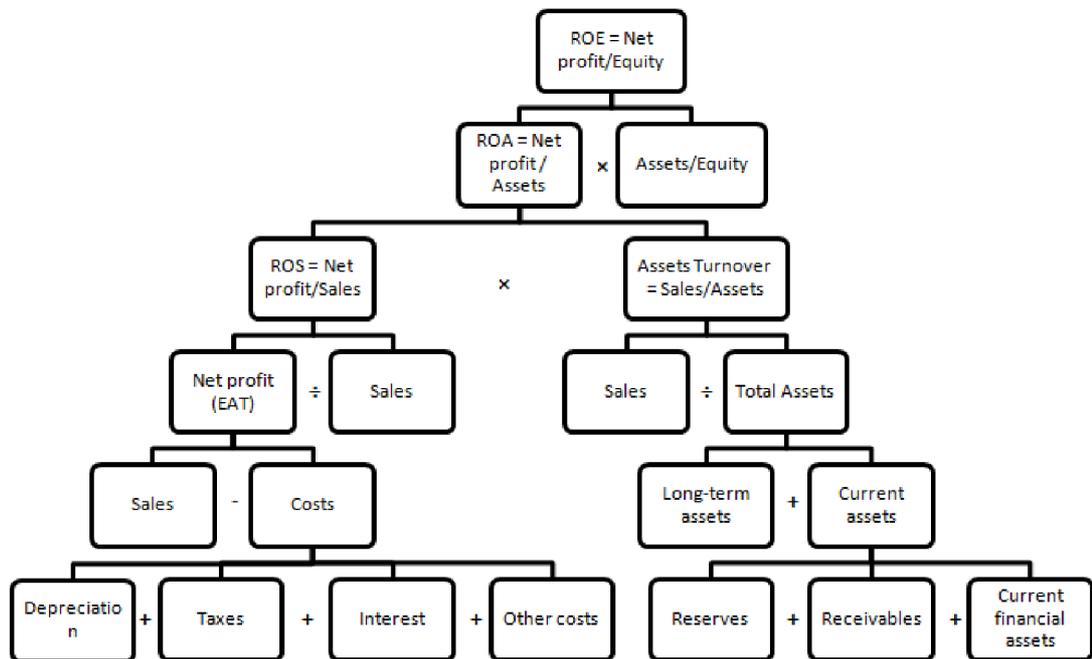
Picture 1: Du Pont decomposition (Source: managementmania.com, 2013).

## 1.8.2 Creditworthiness models

Falling to the category "diagnostic", these models are focused on both owners and investors of the company. They are designed to evaluate the quality of the company by its performance, thus creating a single indicator, which reflects whether the company is good or bad (SEDLÁČEK, 2011).

**Kralicek quick test**

This test was created by Kralicek in 1991. It is used for a first assessment of the financial situation of the company. The main advantages are speed and availability of the necessary data. It consists of four ratios that have the same weight. The results of these indicators are compared to the rating scale and the arithmetic average of the obtained values represents the final result (RŮČKOVÁ, ROUBÍČKOVÁ, 2012).

The 4 indicators include:

- ▪ R1: Shareholder equity ratio = Equity / Total assets

- R2: Debt repayment period from Cash flow = Total Liabilities / Operating CF
- R3: Cash flow in % of sales = Operating CF / Sales
- R4: Return on assets (ROA) = EBIT / Total Assets

| Indicators | 1 excellent | 2 very well | 3 well | 4 poor | 5 dangerous |
|---|---|---|---|---|---|
| R1 *Equity / Total Assets* | ≥ 30% | ≥ 20% | >10% | ≥ 0% | Negative |
| R2 *Debt Settlement Period from Cash Flow* | < 3 years | < 5 years | < 12 years | < 30 years | > 30 years |
| *Financial Stability* | *Arithmetic mean of total assets and Debt Settlement Period from Cash Flow* | | | | |
| R3 Operating Cash Flow / Sales | > 10 % | > 8 % | > 5 % | > 0 % | negative |
| R4 EBIT/ Total Assets | > 15 % | > 12 % | > 8 % | > 0 % | negative |
| *Profit Situation* | *Arithmetic mean of Operating Cash Flow and ROA* | | | | |
| **Total Grading** | **Arithmetic mean of all four indicators** | | | | |

**Picture 2: Kralicek Quick test estimates (Source: POLO, CACA, 2014, p.149)**

Individual indicators are calculated for a specific period, followed by a "marking" according to the values listed in the table above. Furthermore, the final grade is calculated as a simple arithmetic average of the marks obtained for the each indicator - a financial stability mark and a profit (yield) situation mark. Lastly, an overall grade is given to the entire Quick test. The grade is than again assessed by the values in the table. If it is 1 or 2, the company is considered to be creditworthy, if it is more than 3, the company might be heading for bankruptcy (POLO, CACA, 2014).

### 1.8.3    Bankruptcy models

As the title indicates, the function of these models is to inform about an impending bankruptcy in the near future. Their advantage is the practicability, however at the cost of high specificity. The model was derived from the companies that prospered in the past, and also from those who went bankrupt. It is based on an assumption that prior to the bankruptcy, companies face various unusual phenomena that signal a future financial distress (MAYES, 2013).

**Altman index of financial health (Z-Score)**

The model was introduced by prof. Edward Altman in 1996. The so-called Altman formula of bankruptcy, also known as the Z-Score is based on a discriminator analysis, which the professor carried out on a sample of 33 bankrupting and 33

prospering companies. Altman identified the key ratios that have an impact on the financial health of the company. Ultimately, he chose five indicators that have, in his opinion, the best ability to predict the probability of a survival or a bankruptcy of the company (BROOKS, 2010).

*The greater resulting value, the greater chance of survival.* Altman index is able to predict the imminent bankruptcy of the company about two years in advance.

The equation for English companies, that are not traded on the capital market is stated below (SEDLÁČEK, 2011):

**Formula 28: Altman index**

$$Z = 0.717 \times X_1 + 0,847 \times X_2 + 3,107 \times X_3 + 0,42 \times X_4 + 0,998 \times X_5$$

where:  $X_1$ - net working capital / assets    (liquidity indicator)

$X_2$ - retained earnings / assets    (long-term profitability indicator)

$X_3$ - EBIT / assets    (profitability indicator)

$X_4$ - equity / liabilities    (debt indicator)

$X_5$ - sales / assets    (activity indicator)

Boundaries for the predictions of the financial situation of the company are presented in the table below:

| Z > 2.9 | "Safe" zone |
|---------|-------------|
| 1.2 < Z < 2.9 | "Grey" zone |
| Z < 1,2 | "Distress" zone |

Table 1: The boundaries for predictions (Source: Own elaboration according to SEDLÁČEK, 2016)

The safe zone boundary predicts that the company is not threatened by an immediate chance of bankruptcy, thus assigning it a label "financially healthy". The grey zone represents an intermediary result, when it is not certain whether the company is about to thrive or suffer. However, the companies that appear in the distress zone, are in a precarious position. This stage indicates that the company is imminently threatened by a financial distress & bankruptcy and it needs to take some radical actions in order to prevent it.

## 1.9 Strategic analysis

One of the essential prerequisites for a successful functioning of the company on the market is to have a clear and well-defined strategy that tries to gain (or retain) a competitive advantage. The basic starting point for a formulation of the company's strategy evolves from the findings of a strategic analysis. The analysis includes various techniques, that are used to identify the relationship between the company's environment and the company itself. The aim of the strategic analysis is to identify, analyze and evaluate all relevant factors, which could affect the decision-making process behind objectives and business strategy. With regards to the objectives of strategic analysis, we define two main areas of focus - analysis of the external environment of the company and analysis of internal resources and capabilities of the company (KOTLER, ARMSTRONG, 2004).

### 1.9.1 Analysis of the external environment

The external environment analysis focuses on the identification and inspection of the factors that influence its strategic position, and creates a potential opportunities and threats for its operations. The analysis should be focused on the detection of the trends in individual environments (macro and micro), usually defined by the sectors which can have a significant impact in the future (SEDLÁČKOVÁ, BUCHTA, 2006).

**Macro environment analysis**

The macro environment is described as an overall political, economic, social and technological framework, in which the company operates. The effects of this environment includes e.g. tax policy of the state, import & export regulations, standard of living or trends in the development and research. All of these factors can have a major impact on the success and efficiency of the business. The difference between successful and unsuccessful companies is portrayed by a speed of the reaction to cope with these factors.

The method **PEST** is based on the analysis of past and current development of the four major factors and the prediction of their future development. Its name is

derived from the first letter of the four main areas (GRASSEOVÁ, DUBEC, ŘEHÁK, 2012):

- **P -** political

Political and legislative factors such as stability of foreign and national political situation, EU membership etc., represent great opportunities for businesses, however they contain also threats. Political restrictions affect every company through the influence of tax laws, antitrust laws, regulation of import and export, environmental protection, pricing policies and many others. The sole existence of a series of laws, norms and decrees not only defines the business space, but also regulates it. It can significantly affect the decisions about the future of the business.

- **E -** economical

Economic factors are characterized by the general state of the economy and its development. The company's decision-making is affected by the progress of macroeconomic trends. The basic indicators of the economic state of the environment are the growth rate, interest rate, inflation rate, fiscal policy, exchange rate etc. Economic growth leads to the increased consumption and increased opportunities in the market. Similarly the level of interest rate affects the overall profitability by reducing the cost of capital and increasing the investment activity of the company. Another important aspect is the exchange rate, which primarily affects the competitiveness of businesses in foreign markets.

- **S -** socio-cultural

Social and demographic factors reflect the effects associated with the attitudes and lives of the population. Changes in the demographic structure have created space for a distinctive companies, e.g. cosmetics for a younger population. Aging population generally produces much greater opportunities for the development of areas such as health & comfort products, much higher than it used to be. Lifestyle of the population is reflected in the way of leisure, fashion style etc. In connection with the growing interest in the quality personal life, we can observe a change in business behaviour, e.g. offering employees more flexible working hours, short-time work agreements, longer vacation

etc. instead of just a salary increase. All of those elements are a result of cultural, economic, demographic, educational and ethical conditions of a modern human being. Like other areas, social factors are in a constant evolution, inclining the efforts to fulfil peoples individual desires and needs. Knowing the trends in this area "in time" leads to an advantage over the competitors in the battle for customer.

- **T -** technological

In order for the company to avoid underdevelopment and demonstrate innovative activity, it must be informed about every technical and technological change that occurs in its field. These changes could dramatically affect the business environment, where a foresight of such development could lead to a business success. The key to a successful forecasting in this area consists of the accurate predictability of the company's capabilities and the impact of changes.

**Micro environment analysis**

The analysis of a micro environment - unlike macro analysis - analyzes the status of the areas that are in an immediate contact with the company. This means especially the industry, in which the company operates, with an emphasis to its customers, suppliers and competitors. With regards to these important factors, we can say that this analysis represents an important part of the strategic analysis.

### 1.9.2    Analysis of the internal environment

The internal environment analysis is used to identify resources and capabilities of a company (strategic responsiveness), which allows it to respond to the threats and opportunities continuously arising in its vicinity. This analysis is an essential tool, because it is focused on the individual sources of the company and its ability to use them effectively. The comprehensive analysis of the inner environment seeks to identify the specific virtues that the company possesses as a basis for the competitive advantage (SEDLÁČKOVÁ, BUCHTA, 2006).

Model 7S, developed by McKinsey, is considered to be one of the fundamental analysis methods of the internal environment of the company. This model systematically describes and analyzes the mutual relationships between the strategic

management, corporate culture, organization structure and other relevant factors. Under this model, each firm is viewed as a set of seven key factors that are interdependent and influence the decision-making & implementation of the corporate strategy. To find the set of key success factors, it is important to reconcile the following components of the 7S model (KEŘKOVSKÝ, VYKYPĚL, 2006):

- **Strategy -** the firm's ability to set goals (based on the vision and mission) and ways to achieve them (future business ventures).
- **Structure -** the contextual and functional definition of the organizational structure in terms of superiority, subordination, collaboration, information sharing and control mechanisms.
- **Systems -** the instruments, processes and systems that serve to manage various corporate activities, e.g. communication, information or supervision.
- **Style -** the management style and its approach to the encountered problems.
- **Staff -** human resources (management and ordinary employees) in the company, their behaviour, relationships, claims, motivation, attitude, loyalty to the company and others.
- **Skills -** professional skills, competencies and qualifications of the company employees.
- **Shared values -** a reflection of the basic facts, ideas and principles that are respected by the staff and other stakeholders interested in the success of the company.

### 1.9.3 SWOT analysis

SWOT analysis is a conceptual framework that is used for a systematic analysis, with a focus on characterization of the key factors that are influencing the strategic position of the company. This analysis uses the findings of the previous analyzes that identify the internal situation of the company (its strengths and weaknesses) and compares it with major influences from around the company (opportunities and threats). These factors may lead to the basis in the formulation and selection of the strategic goals and future activities. The main objective of the analysis is to develop the strengths, suppress the weaknesses and at the same time prepare the company for any potential opportunities and threats (KOTLER, 2001).

The combination of the key potential opportunities and threats along with the expected strengths and weaknesses allow the SWOT analysis to consider four different situations (KOTLER, 2001):

- **SO Strategy -** a proactive approach, the ability of the company to take advantage of the strengths in order to promote and utilize the opportunities from the environment.
- **ST Strategy -** a diversification strategy, which identifies the threats that are eliminated by employing the strengths of the company
- **WO Strategy -** a turnaround strategy, where the emphasis is put on the use of opportunities to overcome the company's weaknesses.
- **WT Strategy -** a defensive strategy, which focuses on the minimisation of the weaknesses and risks. It is often based on the undertaking compromises and an abandonment of certain positions.

# 2 ANALYTICAL PART

This section of the thesis analyses the financial situation of the company and its environment. The period of the analysis is six years, from 2010 until 2015. The data used in this part will be complemented with the commentary and insights that I obtained on my 3-month internship in the company.

Using the obtained data, together with the strategic analysis of the micro and macro environment of the company, a solid base for the concrete recommendations will be constructed.

## 2.1 Company introduction

**Business name**:          James Lakeland Limited

**Registered in:**          Accountancy House, 90 Walworth Road, London

**Day incorporated:**       22. September 1993

**Legal structure:**        Limited company

**Shareholders:**           James Lakeland

                            Michelle Lakeland

                            Philippa Lakeland

**Director:**               James Lakeland

**Issued Share Capital:**   £100 (companycheck.co.uk, 2016).



**Picture 3: Logo of the company (Source: jameslakeland.net, 2016)**

The company James Lakeland Ltd. (JL Ltd.) was incorporated on 22. September 1993 in London UK. It started as a single small shop selling clothes and accessories, which were designed by Mr. Lakeland, but produced in the fashion country - Italy. After a couple of years, the brand became popular and the expansion began. Currently, the company operates 6 shops and 10 concession stores throughout the UK, but it also sells its goods to many other wholesale resellers and boutiques, as well as worldwide via internet. The tradition of James Lakeland remained over the years - the goods are designed in the UK, but the manufacture is outsourced primarily to the Italy, however, some products are manufactured in the UK or in China (~10%).

According to the UK Standard Industrial Classification of Economic Activities (SIC), the company fits into the section "Wholesale of clothing and footwear".

The company employs about ~100 employees, which classifies it to the SME's category. Its operations are run from the London Head office, which closely co-ordinates the company's activities with the stockroom and individual shops. Picture 4 further illustrates the organizational structure.
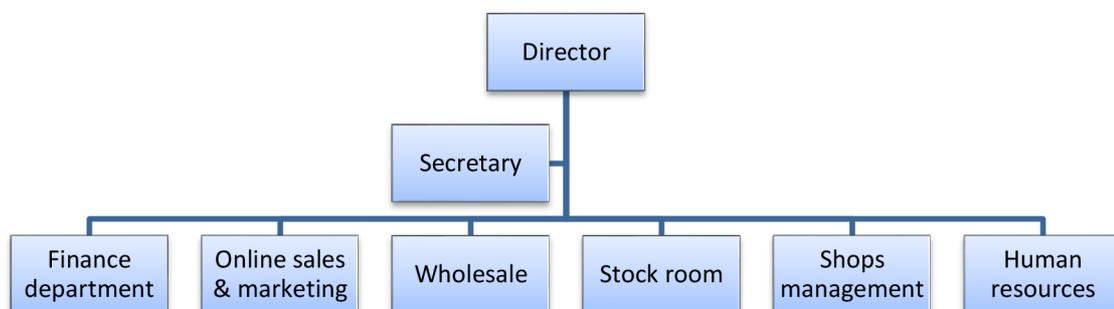


**Picture 4: Organigram (Source: Own processing according to JL, 2016)**

The structure above states, that the director poses as a CEO of the whole company, and unlike the Czech meaning of secretary (assistant), UK meaning represents a deputy director. Further breakdown shows five departments:

- **Finance** deals with the wages, accounting, receivables and payables etc.,
- **Online & Marketing** attends to the online sales and brand promotion,

- **Wholesale** manages the purchases from suppliers and sales to the other wholesalers,

- **Stock room** oversees all the inventories (freight forwarding, labelling, packing),

- **Shops management** controls the shops & concessions, (weekly sales, stock requests, complaints, refunds, shop sales targets),

- **Human resources** oversees the employees - recruitment, contracts, home office enquires.

## 2.2 Financial analysis

This sub-section is dedicated to the financial analysis of the concerned entity. During its processing, I will use the methods and indicators contained in the theoretical part of thesis. The main basis for the preparation of the financial analysis are the financial statements of the company (Balance sheet, Profit and Loss account) for the period 2010-2015. Another important information source of information are the cash flow statements of the company.

Firstly, the analysis of absolute indicators will be conducted, using horizontal and vertical analysis of the financial statements. Then, I will progress to the analysis of the differential indicators and ratios. The conclusion of this sub-section will be dedicated to the analysis of the sets of indicators, to which I have included the Du Pont diagram, Kralicek Quick test and Atlman analysis.

The resulting values of the individual indicators of the company will be divided into tables.

### 2.2.1 Horizontal analysis

Horizontal analysis informs us about the absolute (in £) and relative (in %) change of the financial statement items between two periods. It allows us to better understand the development of the individual items over a certain period of time.

**Balance sheet**

Through the horizontal analysis of the balance sheet, we observe the development of the individual components of the assets and sources of their financing.

First, the horizontal analysis of assets is processed, followed by the analysis of liabilities.

The analysis of each asset's development is reflected in the following table.

**Table 2: Horizontal analysis of the assets (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| **Total Assets** | 350 397,00 | 15,65 | 10 827,00 | 0,42 | 1 380 314,00 | 53,07 | -1 433 333,00 | - 36,00 | 841 189,00 | 33,02 |
| **Fixed Assets** | 285 658,00 | 18,79 | - 31 243,00 | - 1,73 | 1 333 896,00 | 75,15 | -1 696 721,00 | - 54,58 | - 951 147,00 | - 67,35 |
| Intangible assets | - | - | - | - | 2 313,00 | - | - 257,00 | - 11,11 | - 257,00 | - 12,50 |
| Tangible assets | 285 658,00 | 18,79 | - 31 243,00 | - 1,73 | 1 331 583,00 | 75,02 | -1 696 464,00 | - 54,61 | - 950 890,00 | - 67,43 |
| **Current assets** | 64 739,00 | 9,00 | 42 070,00 | 5,37 | 46 418,00 | 5,62 | 263 388,00 | 30,20 | 1 792 337,00 | 157,82 |
| Stocks | 186 532,00 | 77,29 | - 77 360,00 | -18,08 | 129 123,00 | 36,84 | - 98 640,00 | - 20,57 | 313 000,00 | 82,15 |
| Debtors | - 122 594,00 | -25,85 | 122 303,00 | 34,78 | - 88 953,00 | - 18,77 | - 42 889,00 | - 11,14 | 466 954,00 | 136,49 |
| Cash at bank | 801,00 | 23,35 | - 2 873,00 | -67,90 | 6 248,00 | 460,01 | 404 917,00 | 5 323,65 | 1 012 383,00 | 245,41 |

According to the results of the horizontal analysis, a trend of growth can be visible in the field of *total assets*, with the exception of year 2014. Up to the year 2012, the changes were minor, but in 2013, 50% increase occurred. This is fully ascribed to the revaluation of the property (head office & stock room) - the freehold land and building was re-valued on an open market basis by the director, based on the fact that the property was then sold in January 2014.

Later in the year, a new property for Head office was purchased (40% new mortgage), while the rest of the profits from the sale of the last property were used for new investments (a shop in Glasgow, renovations etc.) and paying standing debts. However this property had a much lower value, thus the significant decrease in the *tangible assets* in 2014.

In 2015, the management decided to move out of the Central London in order to cut costs, so the freshly purchased Head office building was re-sold. During the year, no further purchase was made, however the company plans to buy a property in East Finchley. That is the reason behind the little value in *tangible assets* and high value in *cash* at the end of 2015.

The *intangible assets* represent a negligible book value of patents, which were first claimed to the brand in 2013.

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As for the *current assets*, a fully positive trend can be observed (up to the year 2013, a steady growth of ~7%, followed by a 30% jump in 2014 and 158% in 2015). However, the *stocks* figures are very volatile - no visible trend can be monitored. Increase in 2011 by 77%, followed by a decrease of 20% 2012, ending with an increase of 80% in 2015. This can be ascribed to the nature of a fashion industry, which is very volatile to the seasonal and economical changes.

The *debtors (receivables)* are a volatile article as well, usually depending on the amount of wholesale orders. The most notable increase, however, is in 2015 (136,5%) - caused by a very significant increase in wholesale orders.

*Cash* has probably forgone the highest change in the past 6 years. A decrease in 2012 (68%) seems large, but in absolute figures represents only £3000. This figure is followed by a 460% increase. The compelling boost in cash is noted in 2014, after the profit-making sale of the property, which escalated to 5324% rise (£405 000). The sale of the next property, with no counter purchase increased the value of cash by further 245% (£1 012 400).

The second part of the horizontal analysis of a balance sheet is dedicated to the analysis of liabilities, i.e. the sources of the financing of the company. The analysis of the items is reflected in the following table.

Table 3: Horizontal analysis of the liabilities (2010-2015) (Source: Own elaboration, 2016)

| Balance sheet entry / Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Total Liabilities + Euqity | 350 397,00 | 15,65 | 10 827,00 | 0,42 | 1 380 314,00 | 53,72 | -1 433 333,00 | - 36,00 | 814 390,40 | 31,96 |
| Capital and reserves | 303 588,00 | 67,17 | 23 191,00 | 3,07 | 1 255 850,00 | 161,28 | - 876 452,00 | - 43,08 | 841 566,00 | 72,67 |
| Called up share capital | - | - | - | - | - | - | - | - | - | - |
| Revaluation reserve | 302 597,00 | 151,30 | - | - | 1 363 329,00 | 271,26 | -1 865 926,00 | -100,00 | - | - |
| Profit and loss account | 991,00 | 0,39 | 23 191,00 | 9,17 | - 107 479,00 | - 38,94 | 989 474,00 | 587,17 | 841 566,00 | 72,68 |
| Liabilities | 46 809,00 | 2,62 | -12 364,00 | - 0,67 | 124 464,00 | 6,83 | - 556 881,00 | - 28,61 | - 27 175,60 | - 1,96 |
| Current liabilities | 108 436,00 | 8,68 | 50 647,00 | 3,73 | 537 723,00 | 38,17 | -1 108 153,00 | - 56,93 | 524 096,40 | 62,51 |
| Bank loans and overdrafts | 16 505,00 | 4,29 | -11 323,00 | - 2,82 | 327 291,00 | 83,88 | - 700 619,00 | - 97,65 | 143 136,00 | 848,77 |
| Trade creditors | 36 390,00 | 5,27 | 36 657,00 | 5,04 | 92 890,00 | 12,17 | - 402 135,00 | - 46,96 | 63 641,00 | 14,01 |
| Taxation and social security | 27 534,00 | 14,29 | -41 067,00 | - 18,65 | - 92 655,00 | - 51,73 | 98 344,00 | 113,73 | 114 939,00 | 62,19 |
| Other creditors | - 1 993,00 | - 17,02 | 66 380,00 | 683,13 | 210 197,00 | 276,22 | - 103 743,00 | - 36,24 | 202 380,00 | 110,86 |
| Non-current liabilities | - 31 627,00 | - 11,45 | -63 011,00 | - 13,23 | - 413 259,00 | -100,00 | 551 272,00 | 100,00 | -551 272,00 | -100,00 |
| Bank loan | - 31 627,00 | - 11,45 | -63 011,00 | - 13,23 | - 413 259,00 | -100,00 | 551 272,00 | 100,00 | -551 272,00 | -100,00 |

According to the horizontal analysis, the development of the *total liabilities and equity* copies the development of the *total assets*. The value of *equity* has a growing character, which is interrupted in 2014 (-36%), due to the transformation of the *revaluation reserve* into *profit and loss account* and a purchase of a new property (*assets*). The new property was then re-sold in 2015, thus greatening the *equity* again by £842 000 (73%).

The *profit and loss account* was experiencing a very slow paced growth in 2011 (0,4%), followed by a 9% increase in 2012. However, it dropped by almost 40% in 2013 due to the lowest sales figure in the entire observed period. Following year, the company earned almost 600% more than last year, even though its *trading profit* was -£590 000. However, this is again ascribed to the sale of property, as well as the growth in 2015 (73%).

The *liabilitie*s have a volatile development, however the major change occurred in 2014, when they dropped by almost 30%. This drop can be ascribed to the repayments of the *bank loans and creditors* (payables) by the *exceptional profit*.

The *current liabilities* have a growing tendency, again with an exception of 2014. The biggest increase is in the years 2015 (63%) and 2013 (38%). This notable

increase in the *current liabilities* is triggered by the transformation of *non-current bank loans*. In 2013, the company knew that they want to sell the property next year (and repay the mortgage on the bespoken property), so the *liability* became *current* (repayable within a year). In 2015, the *current liabilities* rose again, partly because the mortgage transformation.

The *trade creditors* rose by 5 to 12 % up until the 2014, when most of the debts were settled. However in 2013, the amount of trade creditors was so high, that the "activity indicator (creditor days)" resulted in more than 100 days to pay an invoice. In 2015 it rose again by 14%, due to a large increase in sales. The item *other creditors* mostly copied the *trade creditors* trend, however the reason behind this is probably the increase in the number of shops throughout the UK and its consequent costs (rent, utilities, business rates), as well as the increase in the professional fees (consultancy).

As far as the *taxation* is concerned, the development reflects the amount of VAT tax and corporation tax. In the first years, the tax copies the amount of purchases, with a slight changes of 14% in 2011 and -19% in 2012. In 2013, the drop was higher (-51%), because the amount of purchases was lowest from the observed period, as well as the operating profit. Next two years, the *taxation* rose - even though the trading profit was negative, the sale of the property pushed the taxes up by 114% (due to the rollover relief, the tax from the exceptional profit was not applied to the full amount, because there was an intention of investing it in another property). In 2015, the *tax* rose again, by the margin of 62%. This can be ascribed to the large amount of purchases and the sale of a property.

The *Non-current liabilities* are represented solely by a *bank loan (mortgage)*, which was being paid of year by year, until it was transformed into current liability (as mentioned before). In 2014, new mortgage was acquired on the new property, which was further eliminated in 2015 after its sale.

**Profit & Loss account**

The following analysis is conducted similarly as the previous one, but with the focus on the profit and loss account. In the next table, the development of specific statement's items is illustrated.

**Table 4: Horizontal analysis of the Profit & Loss account (2010-2015) (Source: Own elaboration, 2016)**

| Profit & Loss entry/ Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Turnover | -328 321,00 | - 8,22 | -218 364,00 | - 5,96 | -628 507,00 | - 18,23 | 130 472,00 | 4,63 | 1 102 312,25 | 37,38 |
| Cost of sales | -191 717,00 | - 11,11 | 84 210,00 | 5,49 | -295 814,00 | - 18,28 | 583 865,00 | 44,16 | 230 170,95 | 12,08 |
| Gross profit | -136 604,00 | - 6,02 | -302 574,00 | - 14,20 | -332 693,00 | - 18,19 | - 453 393,00 | - 30,30 | 872 141,30 | 83,64 |
| Administrative expenses | -209 549,00 | - 9,85 | -298 958,00 | - 15,59 | -164 118,00 | - 10,14 | 182 169,00 | 12,52 | 103 039,45 | 6,29 |
| Trading profit | 72 945,00 | 51,90 | 9 384,00 | 4,40 | -180 611,00 | - 81,04 | - 631 609,00 | -1 394,26 | 778 022,00 | 132,02 |
| Operating profit (TP+exc.) | 72 945,00 | 51,90 | 9 384,00 | 4,40 | -180 611,00 | - 81,04 | 1 218 962,00 | 2 883,82 | - 137 618,15 | - 10,91 |
| Interest payable | - 1 374,00 | - 9,68 | - 1 355,00 | - 10,57 | - 1 391,00 | - 12,14 | 3 805,00 | 37,79 | - 6 143,00 | - 44,28 |
| Profit before taxation | 74 320,00 | 58,81 | 10 739,00 | 5,35 | -179 000,00 | - 84,66 | 1 214 933,00 | 3 747,02 | - 131 475,15 | - 10,54 |
| Tax | 16 322,00 | 57,53 | 6 539,00 | 14,63 | - 37 390,00 | - 72,98 | 138 956,00 | 1 003,80 | - 15 643,42 | - 10,24 |
| Net profit | 57 998,00 | 59,19 | 4 200,00 | 2,69 | -141 610,00 | - 88,40 | 1 075 977,00 | 5 790,74 | - 115 831,70 | - 10,58 |
| Dividends | - 10 000,00 | - 6,06 | - 18 000,00 | - 11,61 | - 10 940,00 | - 7,99 | - 20 976,00 | - 16,64 | 32 076,00 | 30,52 |
| Retained earnings | 67 998,00 | 101,48 | 22 200,00 | 2 340,16 | -130 670,00 | - 563,45 | 1 096 953,00 | 920,62 | - 147 907,70 | - 14,95 |

The resulting values of the chosen items of the profit and loss account show a volatile evolution. Up to the year 2013, we can see a decline in *turnover* by ~7% in 2010 - 2012 and 18% in 2013. In the year 2014, the company felt a light upturn of 5%, followed by a major improvement of 37%, resulting from widening its reach towards more wholesale customers like Costco or T.K.Maxx. Although according to the economic normal, as described by Synek (2011), the turnover should rise more than the receivables ($I_t > I_r$). However, this was not the case; James Lakeland Ltd. had recorded an opposite trend, e.g. when a 6% drop in turnover in 2012 was associated by a 30% increase in receivables. Moreover, the turnover increase of 37% in 2015 was accompanied by a 137% increase in receivables, which is a significantly disproportionate margin. Another unfavourable development can be noted in the department of the asset utilization, where the stock fluctuation ($I_s$) negatively exceeds the turnover fluctuation ($I_t$) (economic normal states that $I_t > I_s$). The biggest differences can be observed in 2011, when the turnover decreased by 8%, while the stock increased by 77%, or in 2015, when the turnover rose by 37%, although the stock has almost doubled.

The *cost of sales* mostly copies the *turnover* progress, however some misalignments can be noted. In 2012, the development is opposite to the turnover (positive), with an upturn of 6%. This can be ascribed to the higher commissions paid during the year, as more products were sold in the department stores (concessions). Another notable discrepancy occurred in 2014, where the growing percentage of sales in concessions took its toll, further greatening the cost of sales by 44%, followed by a 12% increase in 2015.

The *gross profit* experienced a worrying decline, reaching a -30% mark in 2014. However, the aforementioned upturn in turnover in 2015 changed the trend to a remarkable 84% change.

*Administrative expenses* (which components are described in the appendices I and II), are decreasing with the turnover, by a margin of -10, -16 and -10% until 2013. In 2014, the expenses rose by 13% with the opening of new stores, rising the rent & business rate expenses, as well as a rise in the advertising activities. The growth in 2015 is only 6%, ascribed to the use of professional and legal service providers.

The development of the *trading profit* starts positively, with an increase of 52% in 2011, followed by a marginal increase of 4%. In 2013 however, a drop of 81% is noted, followed by a huge drop of almost 1400%, sending company's trading profit (loss) to almost -£600 000. This figure recovered in 2015 by 132%, to a more standard trading profit of £188 000. The operating profit fully copies the trading profit until 2013, because no exceptional profits were made during those years. However in 2014, the company made a profit of almost £2 mil. from the sale of property, sending the operating profits to the astronomical heights by 2884%. The sale of the property in 2015 was less profitable, thus lowering the operating profit by 11%.

The *profit before taxation* (PBT) almost fully copies the operational profit, because the interest payable creates a very little component in the overall costs.

The corporate *tax* figures however, represent more significant item. Its growth in 2011 by 57%, followed by a 15% increase in 2012 is easily explainable by a growth in the PBT, which was achieved by cost-cutting, not by the increase in turnover. Despite this fact, the PBT was very low in 2013, thus lowering the *tax* by 73%. The *taxes* in

2014 rose by 1000%, due to the sale of the property. Following year, the *taxes* fell by 11%, partly because of the sale of the new property (for much less than the first one). The aforementioned Business Asset Rollover Relief was applied to the both sales of the property, which means that if the proceedings from the sale of assets are used for a purchase of new assets, the tax does not have to be paid.

The *net profit* developed positively in the first two years, by 59% in 2011 and by 3% in 2012. These profits were followed by a big drop of 88%. In 2014, the *net profit* rose significantly (5791%), due to the sale of the property. As mentioned previously, the exceptional profit was lower in 2015, resulting in the decrease of 11% in 2015.

During the six observed years, the *dividends* were fluctuating between £165 000 and £105 000. The amount was decreasing until 2014 and started growing in 2015. These amounts were decided by the shareholders of the company.

*Retained earnings* represent the amount (£), that the company keeps for its further business operations from the current year. Years 2011 and 2012 observed an upturn of 102% and 2340%, however these relative figures might be misleading, as the change from 2010-2011-2012 was ranging from -£67 000 to £1000 to £23 000. In 2013, the retained earnings were negative, illustrated by the 563% drop to -£107 000. 2014 was the year of the property sale, greatening the *retained earnings* to almost a £1 mil., followed by a 15% drop in 2015.

### 2.2.2    Vertical analysis

The vertical analysis of the financial statements is used to express the percentages of the individual items of these statements in the total amount (sum). In the case of the balance sheet, the sum refers to the total assets or liabilities, while the profit and loss account's basis is the total income.

**Balance sheet**

Using the vertical analysis of the balance sheet, we follow the structure of the assets and liabilities, which informs us about the ratio of the individual items of the

statement, based on the total sum. The following table illustrates a vertical analysis of the assets.

**Table 5: Vertical analysis of the assets (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / year | 2010 % | 2011 % | 2012 % | 2013 % | 2014 % | 2015 % |
|---|---|---|---|---|---|---|
| Total Assets | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 |
| Fixed Assets | 67,89 | 69,74 | 68,25 | 78,09 | 55,43 | 13,60 |
| Intangible assets | 0,00 | 0,00 | 0,00 | 0,06 | 0,08 | 0,05 |
| Tangible assets | 67,89 | 69,74 | 68,25 | 78,03 | 55,35 | 13,55 |
| Current assets | 32,11 | 30,26 | 31,75 | 21,91 | 44,57 | 86,40 |
| Stocks | 10,78 | 16,52 | 13,48 | 12,05 | 14,95 | 20,48 |
| Debtors | 21,18 | 13,58 | 18,22 | 9,67 | 13,43 | 23,87 |
| Cash at bank and in hand | 0,15 | 0,16 | 0,05 | 0,19 | 16,19 | 42,05 |

The *asset* structure of the studied company is inclined towards the *fixed assets* since the beginning of the observed period. This is usually common for the production company, however the value of fixed assets (in this case mainly buildings & property) has risen with the "London housing crisis", which erupted after the financial crash in 2008. The value of all properties in London has grown ever since, resulting into the observed distribution of value in assets.

We can see very steady development of the *tangible assets* in the first 3 years, where the value was fixed in the property ~90% and other *tangible assets* (vehicles, stockroom inventory and office equipment) ~10%. In the year 2013, the value of *tangible assets* rose due to the revaluation of property, which was then sold in 2014, subsequently with the purchase of a new, cheaper property (hence the 22% decrease). In year 2015, the company again sold the acquired building, with no counter-purchase in the same year, thus having only 13,5% in *tangible assets*, represented by only one shop in Glasgow (the only one in possession of JL Ltd.) and vehicles & equipment. *Intangible assets* represent the patent, which was obtained on the brand in 2013.

The *current assets* represent ~40% of all assets on average. This amount is however, distorted by the high values reached in the year 2015. The development in the first 3 years is stable, with a minor redistribution of value in *stocks* or *debtors* (receivables). In 2013, the revaluation of property decreased the *current asset*

proportion by 10%. In the field of *stocks* and *debtors*, the one notable change is the increase of both items (6% stocks, 10% debtors) in the year 2015, which can be ascribed to the high volume of sales, mostly to the wholesale customers, whose pay conditions are less strict (~3 months). The most notable change occurred in *cash* in 2014, when the *cash* of the company rose very sharply as a result of a successful property sale. The company had suddenly found itself in a position of having ~£400 000 in the bank, in contrast to the average of ~£4 000 for the past 4 years. Another major bump in *cash* (26%) can be noted in the year 2015, where the second sale occurred. However, this money is intended to be spent on the purchase of a new, long-term property outside of Central London.

The following segment of the vertical analysis of the balance sheet is focused on the sources of funding of the company. The ratio of the selected items to the total *liabilities + equity* is expressed in the next table.

Table 6: Vertical analysis of the liabilities & equity (2010-2015) (Source: Own elaboration, 2016)

| Balance sheet entry / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| **Total Liabilities + Euqity** | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 |
| **Capital and reserves** | 20,18 | 29,17 | 29,94 | 51,10 | 45,45 | 59,47 |
| Called up share capital | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Revaluation reserve | 8,93 | 19,41 | 19,32 | 46,87 | 0,00 | 0,00 |
| Profit and loss account | 11,24 | 9,76 | 10,61 | 4,23 | 45,45 | 59,47 |
| **Liabilities** | 79,82 | 70,83 | 70,06 | 48,90 | 54,55 | 40,53 |
| **Current liabilities** | 55,80 | 52,44 | 54,17 | 48,90 | 32,91 | 40,53 |
| Bank loans and overdrafts | 17,19 | 15,50 | 15,00 | 18,02 | 0,66 | 4,76 |
| Trade creditors | 30,83 | 28,06 | 29,35 | 21,51 | 17,83 | 15,40 |
| Taxation and social security | 8,60 | 8,50 | 6,89 | 2,17 | 7,25 | 8,92 |
| Other creditors | 0,52 | 0,38 | 2,93 | 7,19 | 7,17 | 11,45 |
| **Non-current liabilities** | 24,02 | 18,39 | 15,89 | 0,00 | 21,64 | 0,00 |
| Long term Loan & Mortgage | 24,02 | 18,39 | 15,89 | 0,00 | 21,64 | 0,00 |

This part of the vertical analysis brings us very important results, which affect the current financial situation of the company the most.

The growing trend of the *equity* in almost whole observed period can be labelled as a very positive phenomenon, however, the data can be slightly misleading. The *equity* is divided into three sections. The *called up share capital* does not exceed one hundredth of a percent in a single year (the share capital is £100, £1 per share). The two other items are the core of the *equity*, namely the *revaluation reserve*, which represents

a higher future value of the asset than the recorded historic cost of the same asset, and profit and loss account, which represents the cumulative *retained earnings*.

We can observe a growth in the *revaluation reserve*, which reached a very high rise in 2013 (47% of the total E+L), which was partly transformed into profit and loss account in 2014, after the sale of the re-valued asset. In 2015, the *profit and loss account* rose again, due to the second property sale.

As for the *liabilities*, the *current* ones represent on average 47% of total *L+E*, while the *non-current* ones 13% on average. The *non-current liabilities* are solely represented by the mortgages, which are taken by the company with a purchase of a new property. The null amounts in 2013 and 2015 are partly due to their full repayment or partial transformation into *short-term bank loan*.

The *current bank loans and overdrafts* were very commonly used by the company in the first four years. This methods of financing the debt was very expensive, and resulted in the decision to sell the property, in order to repay all debts and start being independent. In 2014, we can observe the *bank loan* figure to drop to a marginal 0,66% (although *non-current mortgage* was acquired on the new property). In 2015, the *bank loan* figure represented almost 5%, which is ascribed to the purchases by the credit cards *(overdrafts)*.

The proportions of the *trade creditors* (payables) is steadily decreasing. However, the structure is very distorted by the incremental gains in *revaluation reserve*, as for the example of the *trade creditors*, the absolute figure grew every year, with the exception of 2014 (when most of the debts were settled).

The average proportion of *tax* is 7% for the observed period. The lowest is noted in the year 2013, when the profit was lowest (with the exception of 2014, where the company experienced a trading loss, but high exceptional gains).

Lastly, the item *other creditors* (payables) represents payables, which are not directly related to the core operating business of the company. From the analysis, we can see an incremental growth of the *other creditors*, which (by the highest margin) can

be explained by the expansion of the shops & concessions, growing business rates and a use of the professional & legal services.

**Profit and loss account**

The basic principle of this analysis is identical to the vertical analysis of the balance sheet. The fundamental difference, however, is the determination of an appropriate basis, which is represented by the *total assets/liabilities* on the balance sheet. In the case of profit and loss account, I have chosen *total income* as a basis, represented by the *turnover from sales* and *exceptional gains*, which are offset by the individual expenses and *retained earnings*. The analysis is illustrated in the following table.

**Table 7: Vertical analysis of the profit and loss account (Source: Own elaboration, 2016)**

| Profit & Loss Entry / Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| | % | % | % | % | % | % |
|---|---|---|---|---|---|---|
| Total Income | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 | 100,00 |
| Turnover from sales | 100,00 | 100,00 | 99,62 | 99,97 | 61,38 | 81,02 |
| Exeptional gains | 0,00 | 0,00 | 0,38 | 0,03 | 38,62 | 18,98 |
| Stock movement | -5,01 | -5,09 | 2,24 | -4,58 | 2,05 | -6,26 |
| Purchases | 42,12 | 39,76 | 37,12 | 43,01 | 27,66 | 35,05 |
| Freight and carriage | 2,13 | 2,66 | 1,20 | 1,44 | 0,78 | 0,94 |
| Commisions | 3,97 | 4,52 | 6,20 | 7,03 | 9,18 | 12,99 |
| Administrative expenses | 53,27 | 52,33 | 46,79 | 51,60 | 34,07 | 34,80 |
| Interest payable | 0,36 | 0,35 | 0,33 | 0,36 | 0,29 | 0,15 |
| Tax | 0,71 | 1,22 | 1,48 | 0,49 | 3,18 | 2,74 |
| Dividends | 4,13 | 4,23 | 3,96 | 4,47 | 2,19 | 2,74 |
| Retained earnings | -1,68 | 0,03 | 0,67 | -3,81 | 20,60 | 16,83 |

The only business activity conducted by the company is the sale of goods, hence its representation of the vast majority in the income structure. However, years 2014 and 2015 were out of ordinary, as the company made *exceptional gains* due to the sale of the property. This slightly changed the evolution of the income structure, which should stabilize itself after the purchase of a new long-term property.

The *stock movement* portrays the difference between the opening stock and closing stock. If the company has more stock at the end of the year, the value is negative (-), and if the stock levels decreased, the value is positive (+). This is easily explained by the fact, that if there is more stock at the end of the year, the "*expenses*" are

transferred to the next year as an opening stock. We can see that the trend is mostly negative (a lot of stock is being kept), and the values are around ~5%.

*Purchases* are very straight forward - the purchase of goods intended for further resale. On average, they represent the second highest expense. The lowest proportion of *purchases* can be observed in 2014 - mainly due to a rapid change of the basis (big growth in *total income*), despite the fact that the purchases reached the lowest absolute figure in 2013. Excluding the year 2014, purchases represent ~39% of the expenses per year on average.

*Freight and carriage* reflects the expenses spent on the transportation of goods from the supplier, through the stockroom, to the shops and final customers. Their proportions dropped by 1% in 2012 (a drop of ~£50 000), which can be ascribed to a new cost-saving shipping provider used by the company.

The rising tendency of the *commissions* is clearly illustrated by the analysis. Every year, higher proportion of sales is made through concession stores & department stores, which demand ~30% *commission* from each sale. The biggest business partner of the James Lakeland Ltd. is the department store House of Fraser.

*Interest payable* represents a very marginal amount, and its structural fluctuation is no higher than 0,15% (~£5 000 increase in 2015).

The proportion of *taxes* was slowly growing until 2013, when the EBT reached the lowest point, thus the low *taxes*. However, in the next two years, the proportion of *taxes* rose, due to the profits made on the sale of property.

The *dividends* to *total income* ratio was around ~4% for the first 4 years, even though the *dividends* were decreasing by ~£10 000 each year. Last two years, the ratio was 2,2% and 2,74% respectively, due to the big increase of the total *income*.

*Retained earnings* represent the funds earned in the current year, which will be kept by the company for its further operations. For the first four years, the margins were either very low, or even negative. The significant increase in the *retained earnings* proportion occurred in 2014 & 2015, when the company sold its properties.

### 2.2.3 Analysis of the differential indicators

In this chapter, I will analyze the differential indicators that are used by the companies to manage their financial situations, especially in the area of liquidity. As the name suggests, the indicators reflect the difference between the selected sum of items (current assets and current liabilities). The indicators classified among the differential analysis are *Net working capital*, *Net quick capital* and *Net cash-receivables fund*. The results of the analysis are in the table below.

**Table 8: The analysis of the differential indicators (2010-2015) (Source: Own elaboration, 2016)**

| Indicator / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Net working capital ('000 £) | -531 | -574 | -583 | -1074 | 297 | 1565 |
| Net quick capital ('000 £) | -1246 | -1354 | -1408 | -1939 | -426 | 62 |
| Net cash-receivables fund ('000 £) | -772 | -1002 | -934 | -1554 | -84 | 871 |

**Net working capital**

The indicator of the *net working capital* is used to study the solvency (paying capabilities) of the inspected company. In the case of James Lakeland Ltd., we can observe negative values of the indicator, with a deepening trend in the 2010 - 2013 period. In 2013, the value plummeted to almost double its negative value, however this was caused mainly by the increase of the payables, namely bank loans and overdrafts due to the transformation of the mortgage. The *short-term liabilities* started to cover the *long-term assets*, which assesses the status of the company as non-liquid. James Lakeland Ltd. was then forced to sell its *fixed assets* (2014), in order to stop the shortcoming insolvency, and after doing so, the company purchased a new, cheaper property. This "manoeuvre" helped stabilise the financial health, which reflected on the change in *net working capital*. In 2015 the new property was sold without any counter-purchase, which sky-rocketed the *net working capital* to ~£1,5 mil, which is due to be reduced after the more permanent acquisition of property, scheduled for 2016.

**Net quick capital**

The *net quick capital,* also known as the cash fund indicator, is used for tracking the "cash position" liquidity (as an absolute figure). The company is again dealing with negative values, exhibiting a deepening trend for the first four years. This adverse development poses as a significant problem to the the *quick financial capital*, which would be used to pay off the *short-term liabilities*. The main cause of the observed development is a noticeable increase in the *short-term liabilities*, which is not followed with an appropriate increase of the *short-term financial capital*.

The *cash* rose only by ~£4 000 during the first year, while the *non-current liabilities* almost by ~£700 000 (~£200 000 if we exclude the transformation of the mortgage). In any case, the development is non-equivalent, resulting into the drop of *net quick capital*. In 2014, the value decrease to a quarter (~-£426 000), due to the sale of property. In 2015, the indicator reached a positive value, however this state is only temporary, as a significant part of the cash will be used for the aforementioned purchase of the new property.

**Net cash-receivables fund**

The values of this indicator repeat the trend of the previous ones - big negative development for the first four years, with an improvement in 2014 (to ~-£84 000), followed by a positive increase to ~£871 000 in 2015, thanks to the high cash value generated from the sale of the property.

From the differential indicators' analysis, we can observe a huge change in the individual values between 2013 and 2014. The company was becoming more and more insolvent, with a significant problems in the field of liquidity. The management had to take a radical decision of selling the company's long-term lucrative assets, in order to repay the debts and restore the financial health. As we can see from the analysis, the decision seems to have worked, however the overall impact can be accurately detected after the scheduled acquisition of a new long-term property in 2016.

### 2.2.4    Analysis of the profitability ratios

Using the indicators of profitability, we can measure a ratio between the profit achieved by the company and other variables. These indicators reflect how successful the company is at achieving its objectives (by measuring the ability of a company to create an adequate profit through the invested capital). The key accomplishment of the company would be to secure a growth of the values of the given indicators, which express the efficiency of the asset & capital management of the company.

The indicators were elaborated on the basis of profit without exceptional gains, as it would not adequately illustrate the profitability of the company. The analysis is listed in the table below, followed by a description of the individual indicators.

**Table 9: The analysis of the profitability indicators (excl. exceptional profit) (2010-2015) (Source: Own elaboration, 2016)**

|       | 2010   | 2011   | 2012   | 2013  | 2014     | 2015  |
|-------|--------|--------|--------|-------|----------|-------|
| ROA   | 6,28%  | 8,24%  | 8,57%  | 1,06% | -23,13%  | 5,57% |
| ROCE  | 11,33% | 13,70% | 14,40% | 1,41% | -36,17%  | 8,93% |
| ROE   | 21,68% | 20,65% | 22,04% | 0,91% | -50,89%  | 9,44% |
| ROS   | 3,52%  | 5,82%  | 6,47%  | 1,50% | -19,99%  | 4,66% |

**ROA**

The *return on assets (ROA)* indicates, how much cash (pennies) does the company make on one invested pound, regardless of the source of its financing. In the first three years, we can observe a slow increase from 6,28 pennies to 8,57 pennies per one invested pound. In the year 2013, the trading profit plummeted to a quarter of its prior value, while the value of the assets had risen by 75%. This rapid change influenced all profitability indicators, foreshadowing a major change of course for the company. In 2014, the company made a trading loss of ~£600 000, mainly due to a significant growth in commission expenses and a renovation of individual shops, as well as an increase in marketing and advertising. These actions have significantly helped the company get back on track, with a notable recovery in 2015.

**ROCE**

The *return on the capital employed* (ROCE) measures the ratio between the profit and the invested equity & non-current liabilities. We can observe a similar development as with the other indicators, where the trend in the first three years is positive. This can be explained by a proportionally higher growth in profits than in the capital employed (53% increase in the profits, 20% increase in the employed capital). However, in 2013 the employed capital rose, as the property was revaluated and its value grew by almost ~£1,3 million. 2014 was a year of the "high loss", with a decrease in capital employed (transformation of a part of the revaluation reserve into the profit & loss account). In 2015, the value of ROCE was restored, signalling a new age of the company.

**ROE**

The value of the *return on equity* (ROE) is the amount of pennies from the net profit, which the company earns from a pound invested by owners (equity). The progression of the value of ROE is not concerning in the first 3 years. The fluctuation is no higher than 1,5% eventually resulting in a growth. As noted previously, the values have dropped in 2013 and 2014 forcing the company to take serious actions in order to keep it in business. The value of ROE in 2015 does not even reach half of its value in 2010, however, it is in the area of 10%, which is only slightly under the recommended value.

According to EY (2015), the interest rate of the risk-free investment did not exceed 4% since 2010, thus making the investment in the company far more lucrative (excluding the re-structure in 2013-2014). Simultaneously, the condition of ROE > ROA was fulfilled, suggesting a positive effect of the financial leverage.

**ROS**

The indicator *of return on sales* (ROS) reflects how many pennies of the company's net profits were made from a pound of sales. While the sales were dropping for the first three years, the expenses (either cost of sales or administrative) were dropping quicker, thus greatening the ratio from 3,52 to 6,47%. The net profit in 2013

was very low, followed by a 20% drop into negative. The big increase in sales as well as an efficient cost management in 2015 returned the ratio into ~5% dimension.

### 2.2.5 Analysis of the activity ratios

The activity indicators are used to express the company's operational efficiency. The analysis of the individual ratios therefore serves to answer the questions of how the company manages its assets and how this management affects the profitability and liquidity. Within the analysis, I will focus on the total asset turnover, inventory turnover, inventory days, receivable days and payable days. The resulting values are in the following table.

Table 10: The analysis of the activity ratios (2010-2015) (Source: Own elaboration, 2016)

|                          | 2010  | 2011  | 2012  | 2013   | 2014  | 2015  |
|--------------------------|-------|-------|-------|--------|-------|-------|
| Total asset turnover     | 1,78  | 1,42  | 1,33  | 0,71   | 1,16  | 1,20  |
| Inventory turnover       | 16,55 | 8,57  | 9,83  | 5,88   | 7,74  | 5,84  |
| Inventory days           | 21,76 | 42,03 | 36,61 | 61,27  | 46,51 | 61,67 |
| Receivable (debtors) days| 42,75 | 34,54 | 49,50 | 49,18  | 41,77 | 71,90 |
| Payable (creditors) days | 64,51 | 75,80 | 84,91 | 111,01 | 46,15 | 48,09 |

**Total asset turnover**

This ratio indicates how many pounds of the total sales account for a pound of the invested capital. The highest value was reached in the first observed year (1,78). The value was then falling until 2013, when the total assets overpowered the total sales. In 2014, the turnover reached 1,16, followed by 1,20 in 2015.

**Inventory turnover & inventory days**

The *inventory turnover* states how many times a year does the company transform its stock to total sales. Throughout the observed period, the indicator has dropped to a third of its starting value. This development can be directly ascribed to a constant fall in sales (2010-2013) and a wavering development of the stock. On average, the value of stock in the period 2011-2015 is by ~£150 000 higher than in 2010. This indicates an inefficient stock management, which unnecessarily fixes financial capital that could be used elsewhere.

The *inventory days* is a time interval, which indicates for how many days is the stock fixed (bounded) in the company. The development of these values basically copies the turnover indicators, translated into days. The best value was recorded in the year 2010, when the company changed its inventory every 22 days. The development varied over the years, but the 2015 resulted in the worst value of 62 days, which is almost triple the value of 2010.

**Receivable & payable days**

The indicator of *receivable days* expresses the average maturity of the company's receivables against its customers. The values range from 35 to 50 days for the first five years, with a slight fluctuation in the amount of receivables in respective years. However, we can see a big increase in 2015 to 72 days, which is caused by a ~£450 000 increase in receivables, due to the new wholesale customers. These customers usually have 90 days to pay their invoices.

The *payable days*, on the other hand, shows an average time designated for the payments of the current liabilities. We can observe a severe deterioration of the payment discipline in the first four years, prolonging the interval from 65 days in 2010 to 111 days in 2013. This represents one of the reasons, why the company was forced to sell its lucrative property in order to repay its debts and improve its payment discipline. The results are significant, improving the value of this indicator to 46 days in 2014 and 48 days in 2015.

The *payable days* should be higher than the *receivable days*, in order to secure a financial balance of the company. This was secured over the first five years, however, due to the aforementioned increase of wholesale customers in 2015, the receivable days exceeded the payables by 23 days.

### 2.2.6 Analysis of the gearing (debt) ratios

The indicators of debt reflect the company's dependence on external financial resources compared to own. They also focus on the ability of the company to pay the costs of arising debts. The resulting values are shown in the following table.

**Table 11: The analysis of the debt ratios (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total indebtedness | 0,80 | 0,71 | 0,70 | 0,49 | 0,55 | 0,41 |
| Equity ratio | 0,20 | 0,29 | 0,30 | 0,51 | 0,45 | 0,59 |
| Gearing ratio | 3,96 | 2,43 | 2,34 | 0,96 | 1,20 | 0,69 |
| Interest cover | 9,91 | 16,66 | 19,45 | 4,20 | 90,91 | 145,34 |

**Total indebtedness & equity ratio**

This indicator shows the level of creditors risk - showing how much does the company hedge its assets through the foreign resources. The level of *indebtedness* started of a really high value (80%; 2010), however, it has decreased throughout the whole observed period. In 2015, the value was halved compared to 2010; and the foreign equity represented only 40% of the company's financing. This was caused mainly by the increase in cash and decrease in long-term liabilities, which were eliminated after the sale of property. The development of the values can be appealing for prospective investors, who could potentially want to invest in the company.

The *equity ratio* (also known as self-finance coefficient), is a supplementary indicator to the previous one. It expresses the state of the company's own capital. The addition of the two indicators creates a full, 100% source of capital.

**Gearing ratio**

The *gearing ratio* represents the ratio of external funds to equity. Its significance lies in a situation when a company asks the bank for a loan. The optimum value of the foreign capital should not exceed one and half times the value of equity. This was not the case for the first three years of the observed period, ranging from 3,96 in 2010 to 2,34 in 2012. The value plummeted to 0,96 in 2013, as the property was re-valued; increasing the equity by ~£1,2 mil. In 2014 the gearing reached an optimal value of 1,2, as the company took a mortgage on a new property and still disposed of the profit made on the sale of the previous one. In 2015, the second property was sold - the mortgage was eliminated and the profit & loss account skyrocketed again. This drove the gearing ratio to as low as 0,69.

**Interest cover**

The *interest cover* indicator represents the complete cover of the costs associated with the use of external resources to earnings before interest and taxes (EBIT). The suggested minimum value is 6. The company does not meet the value only in 2013, when the trading profit dropped by 80% to the previous year. Overall, the interest ranges from ~£14 000 in 2010 to ~£8 000 in 2015. Due to the positive development of EBIT in 2010-2012, the interest cover grew, whereas in 2014-2015 it gained huge values, due to the profits accounted for the sale of the properties.

### 2.2.7    Analysis of the liquidity ratios

Generally, we understand the term liquidity as a firm's ability to meets its due obligations properly and on time. The liquidity indicators are based on the ratio between current assets and current liabilities. Depending on the conversion of such current assets to cash, we identify three degrees of liquidity - current, quick and immediate (cash position). The resulting values of these parameters are shown in the following table.

**Table 12: The analysis of the liquidity ratios (2010-2015) (Source: Own elaboration, 2016)**

| Liquidity / Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Current Ratio | 0,58 | 0,58 | 0,59 | 0,45 | 1,35 | 2,15 |
| Quick Asset Ratio | 0,38 | 0,26 | 0,34 | 0,20 | 0,90 | 1,64 |
| Cash Position Ratio | 0,00 | 0,00 | 0,00 | 0,00 | 0,49 | 1,05 |

**Current ratio**

The *current ratio* indicators, also known as the third degree liquidity, expresses how many times  are the current assets (CA) able to cover the current liabilities (CL). From the analysis, we can see that the development from 2010 to 2012 was very stable - the CA have grown proportionally to the CL. In 2013, the indicator has dropped by 0,14 points, due to the significant increase in CL, caused by the transformation of non-current mortgage into a mortgage repayable within a year. After the company sold its old property in 2014, the current ratio rose to 1,35. The following year, company sold its newly purchased building, increasing its cash immensely. This caused a shining recovery of the current ratio, which will presumptively fall to a ~1,3 value after the scheduled purchase of a new property.

**Quick asset ratio**

The second degree liquidity, also called *quick asset ratio*, is a modification of the previous indicator, although the numerator (current assets) is freed of the item "stocks". The lowest value of the indicator was measured in 2013, due to the reasons explained in the paragraph before. However, the development did not fully copy the current ratio for the first three years. This is mainly because of the stock management, i.e. in year 2011, lots of stock remained unsold, resulting in a fixation of a much needed capital. Year 2014 was a major improvement (to a recommended value), as the cash rose, but more importantly the stock value at the end of the year decreased by ~£100 000. In 2015, the indicator had almost doubled; however, this state is only temporary, as a big part of the cash will be used for an investment into a new property. Moreover, the level of stock in 2015 has reached a historic high, and in my opinion currently poses the biggest threat to the company.

**Cash position ratio**

The first degree of liquidity represents the strictest level. It is also known as the immediate liquidity, and it counts only the short-term financial capital, which represents the most liquid component of the company's assets. It is clear from the analysis that for the first four years, the company had almost no financial capital, which basically means, that the company was not always able to pay its due liabilities. The cash figures rose dramatically in 2014 & 2015, increasing the value of this indicator - in 2014 to the max. recommended value, but almost doubling it in 2015. This means an inefficient use of the financial capital.

**2.2.8     Analysis of the operational indicators**

The operational indicators are usually used to analyze the company's primary activities. For the calculation of their values, we use the so-called flow parameters, among which the expenses are the most significant. Especially by the management of the individual types of expenses can the company achieve a balanced spending that helps the efficiency and overall economy of the business. The resulting values of the selected operating indicators are shown in the following table.

**Table 13: The analysis of the operational indicators (2010-2015) (Source: Own elaboration, 2016)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Wage productivity | 4,07 | 3,87 | 4,12 | 3,76 | 3,87 | 4,69 |
| Stock turnover linkage | 0,06 | 0,12 | 0,10 | 0,17 | 0,13 | 0,17 |
| Total cost of turnover | 0,96 | 0,94 | 0,94 | 0,99 | 1,20 | 0,96 |

**Wage productivity**

Using the *indicator of wage (labour) productivity*, we can express exactly how much revenue accounted for £1 of labour costs. For the calculation, I used the turnover from sales as a numerator and wages & salaries as a denominator. The development of the wage productivity is very oscillating. The value went from 4,07 to 4,12 in the first three years, but then it experiences a sudden drop to 3,76 in 2013 caused by a big fall in sales. The value then rose to 4,69 in 2015, due to the improvement of total sales. Even though the number of shops and concessions grew over the observed period, the wages & salaries decreased by about 10%. This is mainly due to the cuts, made by the management in order to reduce costs. The full-time employees were substituted by a part-time and "on-call" workers, thus slightly decreasing the number of fully registered employees.

**Stock turnover linkage**

The link expressed by this indicator determines the value of stock bounded for a £1 of turnover. The value should be minimal, however we can observe a severe worsening of the situation in the company. The value has almost tripled over the observed period, from the original 0,06 to the 0,17 in 2015. This is a negative sign in the field of stock management, as a lot of financial resources are bounded in the unsold stock.

**Total cost of turnover**

The *total cost of turnover (revenues)* is an operating indicator, which expresses how many pounds were spent on a one pound of revenue. Generally, the value should decrease over time. However, this is not the case in James Lakeland Ltd. The total cost of turnover started at 96 pence in 2010, and decreased to 94 in 2011 and 2012. However, very marginal profit was made in 2013, when 99 pence had to be spent for a one pound revenue. In 2014, the company experienced a big loss; for every earned

pound, £1,2 had to be spent. The value of the indicator came back to its original value of 96 pence in 2015.

**The structure of expenses**

The indicator of the structure of costs can be very helpful in the evaluation of the company's spending. It measures the ratio of a selected type of cost to the total sum of costs. As we can observe from the table 14, the costs are distributed between the cost of sales and administrative costs. The proportion, however, switched over the observed period from 45%-55% (CoS-Admin) to an opposite 55%-45%. The dramatic change happened in 2014, when the company's sales started to go mainly through the department stores where high commission fees apply. These fees rose in 2015 as well, alongside the purchases, as new wholesale customers were acquired.

**Table 14: The schedule of total expenses (2010-2015) (Source: Own elaboration, 2016)**

| Schedule of total expenses | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total expenses | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Cost of sales | 44,78% | 44,43% | 49,98% | 47,61% | 53,80% | 55,11% |
| Administrative | 55,22% | 55,57% | 50,02% | 52,39% | 46,20% | 44,89% |

The detailed schedule of administrative expenses is attached in the Appendices I & II.

## 2.2.9  Indicators on the cash flow basis

These indicators record warning signs of a possible trouble with payable obligations and assess the internal financial potential of the company. The analysis of the selected indicators based on the cash flow is provided in the following table.

**Table 15: The analysis of the cash flow based indicators (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| ROS from CF | 3,44% | 5,34% | 5,66% | 0,62% | -19,28% | 4,13% |
| ROE from CF | 30,40% | 25,90% | 25,06% | 0,86% | -49,08% | 8,37% |
| The degree of debt relief | 7,68% | 10,67% | 10,71% | 0,89% | -40,90% | 12,04% |
| Creditworthiness | 13,01 | 9,37 | 9,34 | 111,91 | -2,44 | 8,31 |

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**The profitability of sales from cash flow**

The profitability of sales from cash flow shows a very similar development as a previously analysed ROS. First three years, the value rose thanks to reduced spending, which ultimately increased the profit margin. In 2013, however, the profits were marginal. The following year, situation has even worsened - the company made a loss of more than ~£0,5 mil., making a loss of 20p per every invested pound. The value of ROS (cf) grew in 2015, to an average original value of 4,13p per £1 of sales.

**Profitability of the equity from CF**

The pattern of the development of ROE (cf) has the same outcome as the ROS (cf). The progress of values more or less copies the previously calculated ROE. The values fluctuated by only 5% from 2010 to 2011, and remained the same in 2012. The change between '10-'11 was caused by an increase of the operational cash flow by ~40%. The situation was grim in 2013 and 2014, as the operational CF reached only ~£17 000 and ~-£568 425 in the respective years. The CF then recovered in 2015 to its average pre-crisis value, however, the equity had almost tripled since then; hence the value of the indicator (8,37%).

**The degree of debt relief**

This indicator should range between 20-30%. The company has not met this range during the observed period, which supports the fact that it had to sell the long-term assets in order to settle debts. The value experiences an overall increase of ~4,5% over the period, which can be a little assuring indication of the improvement of health.

**Creditworthiness**

Apart from the two years of the "crisis period" (2013-2014), the value of this indicator was dropping. That is a good sign, because it means that the company has to spend less money on the loan instalments, leaving more funds for the further development or investments.

### 2.2.10 Analysis of the set of indicators

In this sub-chapter, I will focus on the analysis of the set of indicators that assess the overall financial situation of the company, unlike a certain business segment analysis conducted previously. The first analysis is so-called Du Pont decomposition of ROE, which is the most popular method of using ratios in a pyramid form. The two following methods assess whether the company is good or bad. First, the creditworthiness model will be carried out (Kralicek Quick test), followed by the bankruptcy model (Altman index).

**Du Pont analysis**

The following diagram shows the dependence of return on equity (ROE) on the profit margin (EBIT/Sales), total asset turnover (Sales/Assets) and the financial leverage ratio (Assets/Equity).
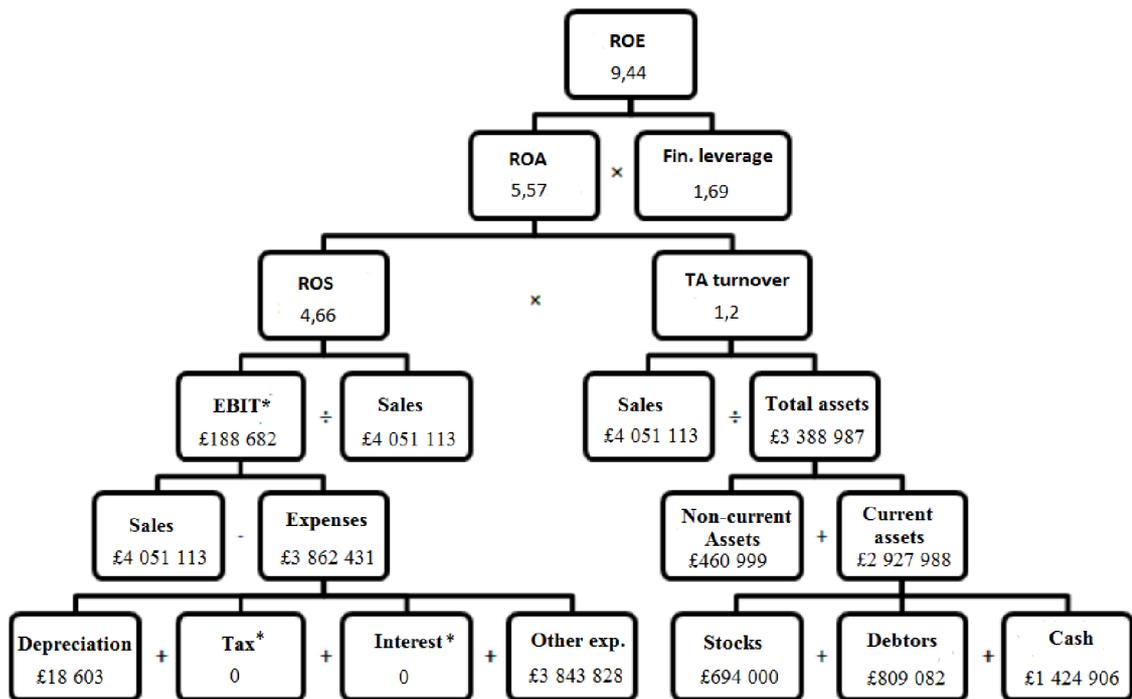


*Due to the consistency of work, the calculation of ROS was based on the EBIT, hence the exclusion of the Tax and Interest costs.

**Picture 5: The Du Pont analysis (2015) (Source: Own elaboration, 2016)**

For the purpose of the Du Pont decomposition of ROE, I chose the year 2015; as it is the most recent year and the company is getting back on track. The analysis does

not count the extraordinary profit on the sale of property, which was excluded from all calculations (incl. tax).

Financial leverage in combination with the use of external capital increases the profitability of equity. However, the profitability increases only when the interest rate of the external capital is lower than the return on assets. The value of the financial leverage must be greater than one; in 2015, the value was 1,69 - thus meeting the necessary predispositions and positively affects the return on equity. The decomposition at other levels is divided into two parts. The left part derives the creation of profit margin, while the rights side works with the items of balance sheet.

In comparison to the pre-crisis year of 2012, we can see a drop in the value of ROE, caused by the individual values of each brackets in the decomposition. The return on equity in 2012 was 22%, which is more than double of the value recorded in 2015. The main cause of the higher value of ROE in 2012 was the financial leverage ratio of 2,6 - meaning that there was higher proportion of the external capital, leading to its more efficient use. Furthermore, as the assets had about £800 000 lesser value (due to the revaluation of the property), the ROA was higher by 3%. Next level indicates lower profit margin in 2015 (ROS), which can be ascribed to the large wholesale customers, who have negotiated much lower prices than other customers, together with a slightly higher total asset turnover (although there is a huge difference between the turnover of the non-current assets, as the company did not own any property in 2015 [4,17 : 1,38]). Last, but not least, is the level of stock accumulated in the respective years - the value of stock in 2015 has doubled its previous 2012 value, which also indicates an improper fixation of the capital.

**Kralicek Quick Test**

The Kralicek Quick Test evaluates the financial situation of the company through the financial distress prediction; in other words, it helps to identify a possible upcoming bankruptcy. The following table shows the calculations of the indicators necessary for the evaluation of the test.

**Table 16: The Kralicek Quick Test (2010-2015) (Source: Own elaboration, 2016)**

| Year | Capital power | | Debt repay. period | | Financial stability | Financial efficiency | | ROA | | Profit situation | Total grading |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | mark | years | mark | mark | % | mark | % | mark | mark | |
| 2010 | 20,18 | 2 | 13,0 | 4 | 3 | 3,44 | 4 | 6,28 | 4 | 4 | 3,5 |
| 2011 | 29,17 | 2 | 9,4 | 3 | 2,5 | 5,34 | 3 | 8,24 | 3 | 3 | 2,75 |
| 2012 | 29,94 | 2 | 9,3 | 3 | 2,5 | 5,66 | 3 | 8,57 | 3 | 3 | 2,75 |
| 2013 | 51,10 | 1 | 42,5 | 5 | 3 | 1,63 | 4 | 1,06 | 4 | 4 | 3,5 |
| 2014 | 45,45 | 1 | 1,2 | 1 | 1 | 38,30 | 1 | -23,13 | 5 | 3 | 2 |
| 2015 | 59,00 | 1 | 1,4 | 1 | 1 | 24,81 | 1 | 5,57 | 4 | 2,5 | 1,75 |

The evaluation scale is set from 1 to 5, where 1 is the best mark (the company is creditworthy) and conversely the worst mark is 5 (the company is at risk of insolvency). The overall grades exhibit an improving trend, except for year 2013, when the operating profit dropped significantly. Otherwise, we can see a well-directed development, from a worrying mark (3,5) to a soothing mark (1,75). This progress, however, was caused by a necessary sale of the long-term assets, which is by many authors described as the last resort of help (in order to avoid bankruptcy). This might be the case, however thanks to higher investment in marketing and professional services, the company widened its reach and increased its customer base to the large UK wholesale market. This should assure a stable growth in the future, with a healthy and balanced financial situation.

**Altman analysis**

Altman analysis is a commonly used method, which comprehensively assesses the financial situation of the company. Its result (Z-Score) is composed of five factors, evaluating the company's profitability, indebtedness, liquidity and capital structure. The resulting values of each factors including the Altman index are contained in the following table.

**Table 17: The Altman analysis (2010-2015) (Source: Own elaboration, 2016)**

| Altman index | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| x1 | -0,24 | -0,22 | -0,22 | -0,27 | 0,12 | 0,46 |
| x2 | -0,03 | 0,00 | 0,01 | -0,03 | 0,39 | 0,25 |
| x3 | 0,06 | 0,08 | 0,09 | 0,01 | 0,50 | 0,33 |
| x4 | 0,25 | 0,41 | 0,43 | 1,05 | 0,83 | 1,44 |
| x5 | 1,78 | 1,42 | 1,33 | 0,71 | 1,16 | 1,20 |
| Z-Score | 1,89 | 1,68 | 1,62 | 0,96 | 3,46 | 3,37 |

The results of the performed Altman analysis affirm us about the development of the financial health observed in the number of previous inquiries. The company's Z-Score started off in the middle of the "Grey zone", where the probability of bankruptcy was unclear. However, the decreasing trend of the score inclined the company towards the "Distress zone", in which the company ended up in the year 2013. The company was then forced to sell its non-current assets in order not to default on its liabilities. This move improved the rating of the Z-Score very significantly, moving it to the "Safe zone". The value dropped by a little margin in 2015, however, the company has still remained in the top level.

It is hard to say which factors have affected the Z-score the most, as all of them changed significantly in 2014 and 2015 due to the changes in the asset management. However, in my opinion, factor $X_1$ has recorded a major upgrade from the negative region, convincingly increasing the company's liquidity and net working capital. Second largest improvement occurred in factor $X_4$, which indicates a reduction of external financing of the company, thus drawing the company as a more self-sufficient entity.

Despite the fact that the company recovered from a very unfavourable situation during the last two years, it needs to keep track of its financial health, in order not to end up in a similar position. Certainly, the sale of the property helped reimburse the company by a major margin, however, the development of sales and growing customer base indicate a sustainable growth.

## 2.3 Intercompany comparison

In this subchapter, I will compare the selected results of the financial analysis of the James Lakeland Ltd. with the values of the same financial indicators of other fashion firms operating in the UK. I have selected two companies from the whole market spectrum - a small specialized company (FWM) and a fashion-wear giant (New Look). This variation of the competitors can better illustrate the development according to the small company as well as to the market leader such as New Look.

### 2.3.1 Companies introduction

**Business name**:                FENN WRIGH MANSON Limited

**Registered in:**              Oldmeldrum Road, Inverurie, Aberdeenshire, AB51 0TP

**Day incorporated:**         1988

**Legal structure:**           Limited company

FWM Ltd. is a company similar to the James Lakeland. Its core business is a sale of designer women-wear fashion products. It's market is currently only in the UK.

**Business name**:            New Look Retailers Ltd.

**Registered in:**              New Look House, Mercery Road, Weymouth DT3 5HJ

**Day incorporated:**         1969

**Legal structure:**           Limited company

The New Look company is 4th largest apparel company in the UK. It started off as a single fashion store in 1969, from where it has grown to a leading fast-fashion brand, with 575 stores in the UK and more than 260 around the world. Their online store ships to more than 120 countries worldwide, which generates about 13% of sales. The company has a significant presence in social media, more than three million Facebook fans and over million Instagram followers. Moreover, almost five million people are subscribed to the e-mail alerts (New Look, 2016).

### 2.3.2    Competitor's horizontal & vertical analysis

*Although this analysis does not have a significant informational value (comparable), I will conduct it for the illustrative purposes.*

*FMW*

From the horizontal analysis, we can see that the company's growth of assets was dynamic, with an increase of ~5% during first 4 years, followed by a 13% and 20% increase. This growth was cause mainly due to the rise of current assets, particularly stock in 2015 and debtors in 2013 & 2014.  The development of total liabilities & equity copied the total asset development. This growth was reflected mainly in the yearly growth of P&L reserve (except 2010-2011). Otherwise, both current and non-current

liabilities show an inconsistent development. The biggest changes in turnover occurred in 2011 (19% drop) and in 2014 (8% increase). Otherwise the variations fluctuate around 1% margin. Administrative expenses are dropping for the first two years (by 20% respectively), however they grow back up in 2013 and then double in 2014. The retained earnings halved their value in 2011, however recovered by 150% in 2012, followed by slight growth and subsequent descending tendency.

The vertical analysis illustrates that the company does not possess any intangible assets, however, the fixed assets dropped from 46% to 32% over the observed period. As previously mentioned, this was offset by the growth of current assets; mainly stocks and debtors. We can observe that the company possesses a large portion of their current assets in cash. Next notable thing is the growing proportion of total capital & reserves in 2014 and 2015. The low values in trade creditors may indicate that the company does not sell to any wholesale customer or boutiques, thus not creating invoices. The company might only sell in their own shops around the UK. In the cost analysis, we can observe that the two highest expenses are consistently Cost of sales and Wages & Salaries.

### New Look

The horizontal analysis of New Look tells us, that there has been a steady ~4% growth in total assets until 2014, when it dropped by almost 60%. The big drop was mainly caused by a decrease in debtors by 80%. As previously noted, liabilities & equity copy the total asset development. We can see a consistent 10% increasing tendency in P&L reserve, except for the year of 2014, where we can note a 77% drop. The field of current liabilities is decreasing, mainly due to a drop of taxation and social security & trade creditors respectively. The turnover fluctuated the most in 2013, representing an increase of 3,5%. The cost of sales have been steadily growing by ~3%, except for the year 2013. Net profit shows an inconsistent development caused by the variations of Taxes and Interest payables. The retained earnings are growing only in 2013 (50%).

In the vertical analysis, we can observe a 10% drop of fixed assets in the 2010-2013 period caused by a depreciation of both tangible and intangible assets. As

intangible assets continued its depreciation, the company bought new tangible assets which increased its proportion by 18%. The development of current assets is naturally opposite. The biggest change occurred in 2014 & 2015; the value of debtors halved, while the value of stock & cash has doubled. In the field of L+E, the equity has grown by 5 % over the observed period, mainly due to the accumulation of profit and loss reserve. The liabilities then naturally decreased, mainly the long term mortgage. The profit & loss account has a very proportionate distribution over the whole 6 years. There are only minor changes, which lead to the most notable descent of the retained earnings, which represent 11% in 2010, but only 2,5% in 2015.

### 2.3.3    Competitor's analysis of the differential indicators and ratios

*FMW*

Unlike the concerned entity, the FMW's differential indicators all exhibit positive values during the whole observed period. However, the net working capital and net cash-receivables fund both lost around two thirds of their value, net quick capital gained only one third. That indicates a worsening financial situation.

Similar situation occurred in the field of profitability. All of the ratios have consistently decreased over the six years. The biggest drops were experienced by ROA ( from 11,5% to 4,5%) and ROE (from 15% to 4%), both of which were higher in James Lakeland at the end of 2015.

The signs of the deteriorating state can also be observed in the field of liquidity. Current ratio started off at the level of 10,9 in 2010, but dropped to 4,3 in 2015. Quick ratio followed with a drop from 10 to 3. Both of these values doubled the results of James Lakeland's analysis. The interesting part, however, is the high levels of Cash position ratio, which has remained almost the same for the whole period (~4,5). The company has a lot of reserves in the cash department, however, the ratio is well above the recommended value, thus signalising improper and inefficient use of cash.

The efficiency is further explored by the activity ratios. The total asset turnover has worsened dynamically from 0,66 to 0,37 alongside the inventory turnover (7,76 to 3,38). This increased the inventory days from relatively acceptable 46 days to extremely

high 107 days. James Lakeland's inventory days in 2015 were half those in FMW and the asset turnover almost triple the value. Creditor days have not changed much, as we can see that the company is consistently paying its payables in 30 days max.

The ratios regarding gearing show that the company slowly "took over", similarly to the case of James Lakeland Ltd. It started off at the level of 46% indebtedness, but decreased this value to 28%.

The operational indicators show a static wage productivity, fluctuating around the value 4. The same applies to the total cost of turnover, which remains on the value of 0,87. On the other hand, we can see a 230% increase in the stock turnover linkage, which hints an inefficient inventory management and possible obsolete & excess stock. The wage productivity is the same as the James Lakeland's, however the cost of turnover is lower by 10% every year.

*New Look*

New Look's net working capital experienced a dynamic development, starting off at ~£102 million, reaching almost ~£1 billion in 2012, and then settling at £600 million. The cash-receivables fund also noted an increase, concretely from -£9 million to an appealing £463 million. On the other hand, the net quick capital decreased from -£187 million to -£300 million.

Unlike the FMW or James Lakeland, New Look exhibits an increasing tendency of all profitability ratios. ROA increased from 14% to 28%, while ROE increased from 15% to 43%. The most notable bump occurred in 2014, when all indicators except ROS almost tripled their values.

The current and quick ratio also noted improvements. Both of them tripled their value to 3,8 and 3,5 respectively in 2012, after which a slow descend to 2,5 and 2,2 occurred. The cash position ratio, on the other hand, decreased from the original value of 0,5 in 2010 to 0,23 in 2015. The values of quick and current ratios in 2015 correspond to those of James Lakeland, however the cash position ratio of New Look represent only a fourth of the Lakeland's value.

In the field of activity ratios, the biggest improvement can be observed in the total asset turnover. The value dropped from 0,9 to 0,8 over the first four years, however, an increase to 1,9 followed in 2014, which remained until the end of the observed period. Inventory turnover slightly fluctuated around the value of 10, but overall decreased from 11,1 to 9,6. This fact is also reflected in the inventory days, which grew from 32,4 to 37,6 days. The increasing value of receivable days from 2,7 to 6,5 can mean that the company has started to sell its products to the other wholesalers, rather than just sell the goods solely in their stores. Payable days have risen similarly, from the original 25 days in 2010 to 30 days in 2015.

The company's financial sources were mostly internal in 2010, when the levels of indebtedness was 33%. This value further decreased to 24% in 2013, which is the lowest value over the observed period. In 2015, the indebtedness rose to final 54%, which means that the financing of the company was almost evenly distributed. The use of external finances in the James Lakeland had an opposite development - a drop from 80% to 41%.

The operational indicators remain very stable. The wage productivity developed the most, from 6,9 in 2010 to 7,9 in 2015. The stock turnover linkage fluctuated between 9% and 10%, while the cost of turnover fluctuated between 63% and 65%. All three of these values are significantly better than those of the other analysed companies, probably due to the economy of scale.

### 2.3.4 Competitor's analysis of the set of indicators

*FMW*

The overall development of the Kralicek quick test on the FMW's financials was not so unstable, as it was in the James Lakeland's case. The total grading worsened by 0,5 marking points over the observed period, while JL's grading improved by 1,75. The most notable fields of the FMW's analysis are Capital power and Financial efficiency, both of which had perfect mark over the whole six years.

As for the Altman index analysis, there was only 0,04 overall increase in the Z-score. Although, the value rose to 2,87 in 2014, allowing the company to move into the

Safe zone for a year. This increase was mainly caused by the 300% rise of the factor $X_4$, which represents a reduction of external financial sources. In 2015, the value dropped back to 1,62. This means, that the company has spent majority of its time in the Grey zone, which is similar to the case of James Lakeland, however, James Lakeland managed to reform its finances and kept the Z-Score above 3 for the last two years of the observed period.

*New Look*

The Kralicek Quicktest of the New Look resembles an example case. Total grading was close to perfect for the first for years, after which it got improved to absolute perfect. The company achieved it by reducing its assets, which improved its ROA marking from 3 to 1.

Altman index analysis placed the company to the upper part of the Grey zone for the first four years. In 2014, however, the value increased by 22% to 3,15, which put the company to the Safe zone. It managed to remain there in 2015 with the overall grade of 3,13.

## 2.4 Strategic analysis

This section analyzes the external and internal environment of the company. The analysis of the external environment is carried out by the "PEST" analysis, while the analysis of the industry environment is conducted more generally, with a focus on the customers, suppliers and competition. To assess the internal environment of the company, I will use the McKinsey 7S model. The outcomes of these three analyses will create a solid base for a further SWOT analysis.

### 2.4.1 PEST analysis

As a part of this analysis, various external factors that affect the performance of James Lakeland Ltd. are discussed. These factors consist of the **P**olitical, **E**conomic, **S**ocial and **T**echnological.

**Political (legal)**

The United Kingdom national government, as well as the European Union plays a major part in influencing all of the business activities in the UK. The three main fields are:

- taxes & spending
- regulations, directives & laws
- encouragement of activities through subsidies

The first "federal" taxation is a corporation tax, which is a tax levied on the net profits of any company operating in the UK. The tax rate currently remains on the 20% level, representing the fourth largest source of the governmental revenue (after income, national insurance contribution and value added tax). The total net corporation tax in the UK increased by £2,7 billion (7%), to the 2015 value of £43 billion (GOV.UK, 2016)

The second "municipal" taxation (also called the business rate) represents a charge to occupiers of a non-domestic property. These rates are paid to the local government, and serve as a fee for running a business (e.g. having a shop). Since James Lakeland Ltd. operates 16 shops and headquarter in various areas throughout the UK, it is obliged to pay 17 instances of business rates a year. These bills are calculated on the basis of a Uniform Business Rate multiplier, which is referred to in the legislation (a rateable value of £40 000 and a multiplier of 5p produces a £2 000 annual bill). These bills are usually distributed  into instalments, which are then paid over the financial year. In 2015, the total net business rate receipt in the UK represented £22.9 billion (GOV.UK, 2016).

The combination of these two taxes has accounted for various proportions in the total costs of the company during the observed period. The lowest was recorded in the year 2012 (2,1%), while the highest reached 7% in 2014 (due to the partial taxation of exceptional profit on the sale of property).

The third "value added" tax (VAT) is a general broadly based consumption tax assessed on the value added to goods and services. In the United Kingdom, the tax rate on the standards goods and services (which include clothing) increased in 2011 from

previous 17,5% to current 20%. The company does not reflect this tax in its financial statements, as the entry "Total turnover" is already cleared of the VAT provisions.

There is no indication of change in these three aforementioned taxes, as the national government has sovereign power over its tax policies, as well as the municipal governments on their business rates (regarding possible Brexit).

From the legislative (regulatory) point of view, there are two main areas that concern James Lakeland Ltd.; the Employment law and the Consumer protection law.

The Employment law is aimed at the protection, safety and rights of the employees, amongst which are:

- *Employment protection act 1978,* which states that there has to be a binding contract between the employee and employer, that protects against unfair treatment or dismissal.
- *Sex Discrimination Act 1975,* which prohibits the employer to sexually discriminate in employment, training or recruitment.
- *Race Relations Act 1976,* which makes it illegal to discriminate someone due to their race, colour or ethnic group.
- *Health and Safety at Work Act 1974,* which obliges the employers to provide safe working environment and machinery. They further have to ensure that the health of the workers is not at risk (GOV.UK, 2016).

The probability of further changes to the current legislation is viable, due to the possible withdrawal of the country from the European Union. The UK would then have to replace the EU legislation with its own. This change poses as a threat of uncertainty and its impact can not be accurately predicted.

The Consumer protection law makes sure that all of the customers are treated fairly. The main acts are:

- *Sale and Supply of Goods Acts 1994* that states, that the goods must be of satisfactory quality as described on the label.
- *Trade Description Act 1968,* which prevents the businesses to sell goods or services that do not perform in the way that was advertised.

- *Consumer Credit Act 2006,* which protects the consumer borrowing money or buying on credit (GOV.UK, 2016)

Additional influence of the political factor might happen after the submission of this paper, on the basis of results of the *"Brexit"* referendum, which effects the country's status in Europe. Currently, according to the BBC (2016) polls, the nation is divided on this matter. However, if The UK decides to leave, it will have a major impact on their current common "EU stance" on the free movement of people, capital and goods, which will negatively impact on the businesses dealing with EU. In the case of James Lakeland Ltd., which buys 90% of its goods from the Italy, this would have a very negative impact. This scenario, however would be at least two years from the referendum, as the article 50 in the Lisbon Treaty states that upon its activation, the country has two years before its complete removal. This period can be prolonged if all of the members vote to agree.

**Economic**

The economy of the United Kingdom grew by almost 3% in 2014, which was the biggest figure since the pre-crisis period, and simultaneously the strongest growth in the G7. The development slowed to 2,2% in 2015, as the growth of global economy moderated. Despite this, the domestic demand rose, due to the rising employment and historically low oil prices, which greatened the real earnings in 2015 (ONS, 2016).

The economic growth is seen as "disappointing" since the global financial crisis (compared to the previous recoveries), however, in relation to the other G7 economies it is ranked at the top. The reason behind the slow growth is ascribed to the low customer spending prior to 2012, caused by rising prices of food and energy, high VAT and strict restrictions for lending from banks. The spending levels resumed during 2013, as the prices fell back and the restrictions eased (PWC, 2016).

The general interest rate in UK set by the Bank of England remains on the 0,5% since 2009, where it dropped from the 5%. The inflation (general increase in the price levels over time) rose from the 3,3% in 2010 to 4,5% in 2011, when it turned and started to descend to the 0% in 2015 (TRADING ECONOMICS, 2016).

The unemployment rate in UK experienced rather positive development. Although it rose from 7,7% in 2010 to 8,5% in 2012, the levels then dropped significantly to 5,5% in 2015. As the workload of the James Lakeland's Ltd. employees is not physically challenging, I do not think that there is a risk of insufficiency in the field of new potential employees.

During the observed period, the highest inflation in Italy occurred in 2012, when its levels reached the 3% mark. However, during the year 2015, its value descended to the same value as it was in the UK - 0%. (GOV.UK, 2016)

**Table 18: The UK economic trends (2010-2015)  (Source: Own elaboration according to PWC, 2016)**

| Annual averages % | GDP growth | Household expenditure growth | Inflation (CPI) | Current account balance |
|---|---|---|---|---|
| 2010 | 1,5 | 0 | 3,3 | -2,8 |
| 2011 | 2 | -0,1 | 4,5 | -1,7 |
| 2012 | 1,2 | 2 | 2,8 | -3,3 |
| 2013 | 2,2 | 1,9 | 2,6 | -4,5 |
| 2014 | 2,9 | 2,6 | 1,5 | -5,1 |
| 2015 | 2,2 | 3 | 0 | -5,4 |

The result of British EU referendum may significantly influence the exchange rates between the euro (€) and pound (£), as the financial markets are feared of uncertainty - the prognosis say that if the UK votes to leave, the value of Pound sterling will plummet. This would have a very negative effect on the James Lakeland Ltd., who buys its products in Italy for Euros (according to the financial experts, the purchase power of Pound in Europe will deteriorate). The development of GBP/EUR exchange rate over the observed period is captured in the following graph.



**Graph 1: The development of EUR per 1 GBP exchange rate  (Source: xe.com, 2016)**

**Social**

It is safe to presume, that the society is constantly changing. This aspect focuses on the influencing forces within the society such as friends, colleagues or neighbours, but also more general, like celebrities or media. These forces can have a significant impact on the sales of certain products - both positive and negative. The changes in population also affects the businesses by switching the demand and supply of the goods and services. Declining population can indicate an upcoming drop of demand, as well as a greater competition.

According to the 2011 census, there were 63,2 million people in the United Kingdom. Latest estimates (2014) hint an increase to 64,6 million, mostly ascribed to a high immigration rate. It is expected, that the recent trends of 0,6% increase per annum will remain, which estimates a population of 73,3 million people in 2037. Current gender distribution is 50,8% females and 49,2% males. As for the age groups, 15,3m people are under 19 years old, 7,9m are above 70, with the remaining 41,5m are in the range of 20 to 70 years old (ONS, 2016).

The reach of James Lakeland Ltd. is throughout the whole United Kingdom, therefore the potential customers are represented nation-wide. The company sells only women-wear, so it is safe to assume that only women are the potential customers. As the products are branded as "luxurious", the focused segment of customers is the working class between 19 and 70 years of age (~20mil. women) (ONS, 2016).

The fashion industry is amongst those that are most affected by the socio-cultural impacts of trends. As the competition widens, the customers are getting more "picky". They seek higher quality products with affordable prices. This leads in their general interest in the materials, origin or methods of processing of the goods. The seal of quality "Made in Italy", which has been the slogan of the James Lakeland Ltd. since its incorporation is an advantage towards competitors, who commonly get their goods in China or other Asian countries.

**Technological**

The technological factors probably affect the business the least. As for the tangible technology, James Lakeland does not have in possession any valuable, technologically advanced machinery, as the production is outsourced.

However, in the recent years, the company has kept up the advance in the field of intangible technological field. The emergence of the internet and the improvement in communication technologies have extremely sped up the information flow of new brands & trends. James Lakeland Ltd. has partially took an advantage of the internet, by increasing the traffic on their web page (as well as on the web page of their departmental page on House of Fraser), increasing the proportion of web sales by 40% over the observed period. Furthermore, the company's Facebook page is being regularly updated with up to date information about upcoming events, promotions or sales.

**2.4.2    Micro (competitive) environment analysis**

The company operates in a highly **competitive** market. Over the time, the fashion-wear industry has grown into a giant, which is encountered on an everyday basis. However, the company only faces *direct* competitors online, as the location of each shop was carefully picked in order to avoid such confrontation. There are many companies selling clothes, however James Lakeland Ltd. specializes in exclusively high quality clothes & accessories for women. These companies pose as *indirect* competitors, and their presence is inevitable.

Among the online "Top Brands" in the House of Fraser web store, James Lakeland Ranks at the 10$^{th}$ place. The first three ranks are occupied by the Phase Eight, Yumi and Dorothy Perkins. These companies could be defined as the *direct competitors;* on the other hand, the fashion giants like H&M, Zara, New Look or Primark rank amongst the *indirect competitors*. Although the market is currently very saturated, James Lakeland has managed to establish a solid customer base over the time, with an increasing attention of the wholesale customers such as Costco or T.K.Maxx.

The regular **customers** have the most important role in securing the company's success, as the shop sales & online sales represent about 75% of the total turnover in

2015 (decrease from 90% in 2010). The other 25% is represented with the wholesale customers. The difference between the two is that the wholesale customers buy the company's products in very high quantities, in order to re-sell these goods. The wholesale customers have various requirements, as to what products, in what quantity and where to deliver them, thus increasing their bargaining power above the "regular" customers, that do not have almost any. They also set the payable days of their invoices to 90 days, which is very hurtful to the company's cash flow. On the other hand, the "regular" customers pay immediately when purchasing a product - both online and in the store.

The product price evolution has been stable over the past years. The company sets the prices at around 300% of its purchasing price for the shops & online stores, while offering prices between 140-200% to the wholesale customers, according to the quantity and individually negotiated terms.

The majority of **suppliers** manufacture the designed products in the Italy. The relationship between the director & designer (James Lakeland) and the Italian suppliers is friendly and mutually prosperous, as he used to live and study fashion in there. Even when the company was in the period of crisis, the Italian suppliers did not untie the relationship with the company, as they knew that all of the outstanding invoices will be paid (the average period was ~111 days in 2013). Currently (2015), the average payable days period is 48 days.

The relationship is strong with about 20 stable manufacturing companies, in which the James Lakeland's goods are produced. Other's are of very low significance, only for small orders. The contracts with the main suppliers are always negotiated personally by the director in Italy, which increases the company's bargaining power. However, due to the long-term relationship between these companies, double-sided compromise is always achieved.

James Lakeland Ltd. is not threatened with any **substitute** products, as currently there are no viable substitutes to clothes, that could endanger the company's product portfolio.

### 2.4.3 McKinsey analysis

The McKinsey analysis (also known as 7S model) represents an analysis of the internal environment, in which the company evaluates seven interrelated factors that may affect the business. The analysis of these values is an important step towards the creation of a harmony between these factors, which can help with the estimation of the key success factors of the organization.

**Strategy**

The vision of the company is to create a brand of high quality fashion-wear for women, that could be recognised all over the Europe. Part of the vision is to have the sale points in all major European cities, as well as fully covered United Kingdom.

The main mission of the organisation is to ensure a continuous supply of the women-wear products in the shops and online. The primary aim is then a generation of a reasonable profit, with a focus on meeting the requirements and wishes of the customer. The operational strategy is derived from this vision. Its essence lies in the constant outsourced production of the newly designed products, with an emphasis on the Italian quality fashion.

The overall strategy of how to reach the vision is through the preservation of the brand. Using this strategy, the company's continuous high quality policy ensures the expansion of brand awareness among customers. Moreover, the designs of the individual shop's interiors are designed futuristically, with the intention of attracting the attention of possible customers.

The company tries to constantly greaten its solid customer base. Either via "customer's cards", or by the "loyalty cards". All they need to do is sign up (either online or at the shop), and receive weekly/monthly news, updates, sales or other promotions in the form of newsletter via e-mail.

**Structure**

We can characterize the company as a *medium-sized* enterprise, according to its approx. 100 employees. The main predisposition of the creation of the organisational

structure was the optimal distribution of competences and responsibilities of workers. The result is quite steep organisational structure, which encompasses relatively small number of levels between the "frontline workers" and senior management. The way of the delegation of the responsibility & authority resembles centralized structure, i.e. in the hands of a limited number of individual area managers, head office executives or director himself.

The top of the organisational structure is represented by a single managing director, who has a directly subordinated company's secretary, who deals purely with the head office operations. Further levels consist of the individual departmental managers (as illustrated in the subchapter 2.1), followed by regular workers, i.e. accountants, stock room operators, shop assistants etc.

**Systems**

Currently, the company uses a handful of information systems. The accounting system Sage 50 is used to track both payable and receivable invoices, including their payment deadlines, overall supplier & customer statistics, bank account reconciliations, internal audit trails etc.

Since the company has many branches across the whole UK, it needs a system that tracks the stock in real time. For this purpose, a system called TrackIt is used. Individual shops can entry the barcode of a sold/transferred/returned item, which makes the information available to the stock room management. These information are crucial, as many times, various sizes or colours are sold in one shop, while not being popular in another. The stock management can then transfer these items.

Another systems used are i.e. Wordpay, which provides the shops with card machines, making the payment with card available to the customers. The shop tills generating the purchase bill are also among the used systems.

Furthermore, the company uses the computer technology, such as desktop computers, laptops, printers, fax machines etc, with an addition of a remote desktop provider, which enables the employees to work from home.

**Style**

The whole operation of the company is overseen by the director, who is the only representative of the senior management. His main role (apart from the designer) is to ensure that the company is operable, and check whether it can achieve its sales targets (Weekly shop sales target, e.g. London £6 000; Glasgow £4 500). His direct subordinates - the company's secretary and the departmental managers - are involved in leading individual parts of the organisation. The managers then outsource their tasks to the line employees, while overseeing and controlling their progress. These workers hold their tasks, which are determined according to their employment contract. They are expected to have a responsible approach towards their duties, since almost every worker bears a considerable amount of responsibility. The communication between the head office executives and the line employees is exclusively through the shop manager appointed in every James Lakeland Ltd. shop or concession, either by phone or more generally by post (Memo). Upon the occurrence of any problem, the first two stages of solving are written official warnings, followed by terminating of the contract.

**Staff**

The friendly interpersonal relationships are an immensely important element needed to achieve a competitive advantage. Therefore, the company tries to ensure that all of the employees have a pleasant working climate that will motivate them to a better job performance. The whole bulk of employees are divided into individual groups, in accordance to their posting (by shop/concession or head office department). The occurrence of any problem is usually solved by the direct superior.

The core work-force that is employed on a full-time basis does not fluctuate, however there had to be some lay-offs due to the financial difficulties in the 2013-2014 period. These workers were substituted by a part-time employees, whose fluctuation is slightly higher.

**Skills**

The owner of the company is responsible for the continuous development of the company. Therefore, the product portfolio has to be constantly changing, while

comparing it with the competition and worldwide trends. His attention is also focused on the search of various new materials and technologies used to manufacture the products, in order to bring a remarkable set of goods that could highlight the brand.

The regular employees are usually trained prior to their posting. The shop assistants best gain the experience and expertise during work, which is most beneficial to them as well as the company. Furthermore, all of the employees are informed about all of the planned changes and internal developments, company's achievements or global fashion trends. The company began doing this in 2013 via corporate newsletters, which aim to raise awareness and skills of the current employees.

**Shared values**

Shared values represent an interconnecting centre of McKinsey's model. The common ground for both the management and regular employees is to ensure the operational capability of the company to its full potential. By the motto of "quality fashion at reasonable price", the company represents their values, among which it ranks teamwork, simplicity, openness and straightforwardness. According to the director, if the company lives by its fundamental values, it is predetermined for a long-term success.

### 2.4.4 SWOT analysis

This analysis summarizes the **S**trengths & **W**eaknesses and **O**pportunities & **T**hreats arising from the financial and strategic analysis of the company, which were conducted in the previous parts of this thesis. The strengths and weaknesses represent the internal potential of the firm, therefore they arise from within the company. They express the company's ability to utilize the external environment in order to increase its intrinsic value. Strengths and weaknesses can be influenced to a large extent. Opportunities and threats, on the other hand, represent the external environment of the company i.e. the business environment in which the company operates (PEST factors). This environment can not be influenced, however, any changes can be timely identified and used to the company's advantage.

**Table 19: SWOT analysis of James Lakeland Ltd. (Source: Own elaboration, 2016)**

| Strengths | Weaknesses |
|---|---|
| → Increasing turnover from sales<br>→ Satisfactory liquidity<br>→ Low indebtedness<br>→ Recovered profitability ratios<br>→ High net working capital<br>→ Creditworthiness<br>→ Growing network of "Repeat customers"<br>→ Long-term market presence<br>→ Italian quality-assured products<br>→ Growing interest of the wholesalers | → Inefficient use of the financial resources<br>→ Flawed stock management (inventory days)<br>→ Longer receivable days than payable days<br>→ Low levels of the non-current tangible assets<br>→ Increasing commission expenses |
| **Opportunities** | **Threats** |
| → Expansion of the shops network due to the rising demand and higher domestic spending<br>→ Increased traffic on the company's website<br>→ Increase in the purchase power parity<br>→ Higher demand of quality fashion products<br>→ The increase in Pound sterling value (£)<br>→ The drop in Euro value (€)<br>→ Taking advantage of some new marketing tactics in the fashion industry<br>→ Growing attendance in various competitions & exhibitions<br>→ Donating the clothes to magazines for photo shoots | → "Brexit" (British exit from the EU)<br>→ Loss of the suppliers & increase of the production price - due to the increase of material costs, labour costs or due to the separation of UK from European Union<br>→ Drop of the value of Pound sterling (£)<br>→ Increase in the value of Euro (€)<br>→ Decrease in purchase power parity<br>→ Loss of current customers & wholesalers<br>→ Fall in the prices of women-wear<br>→ Higher inflation & taxes<br>→ Higher commissions for the concession stores<br>→ Highly competitive market due to saturation |

The results of SWOT analysis illustrate that strengths dominate the weaknesses, while opportunities and threats are pretty much even. I think, however, that the company should try and eliminate as many weaknesses and threats as it can, in order to fully restore its financial health and begin a new era with a "clean shield". Therefore, I would recommend the company to utilize the WT strategy, mainly to reduce the risk it takes (foreign exchange) and to reduce the costs it bears (shipping, head-office related costs, outstanding receivables etc.).

# 3  PRACTICAL PART

This chapter consists of the proposals, that could contribute in the improvement of the company's current financial situation. The recommendations were selected based on the results from the financial and strategic analysis. These decisions were further supported by the company's management on a personal consultation during my internship. In order to improve the current financial situation, I propose the company to take into consideration the following measures:

- Inventory management optimalization
- Active asset management
- Elimination of the foreign exchange risk

## 3.1 Inventory management optimalization

The development of the stock level poses a significant issue that needs to be dealt with. The inventory turnover had fallen from 16,5 to 6 and the inventory days had trebled from 22 days to 62 days in just five years. It is an indication of inefficient use of the capital and its subsequent fixation to stock. In the last year of the analysis, the value of stock was £694 000, representing 17% of the same years turnover. In 2010, this figure was only 6%. The value of stock is constantly dropping, as the goods are seasonal and have to be sold on large discounts off-season.

James Lakeland Ltd. even has goods in stock that are more than 5 years old. These products are, however, stocked with everything else, without any organisation and overview. In order to improve the stock management, the company needs to arrange its stock - either via type (trousers, dresses, tunics etc.), or via reporting levels (safety, replenishment and excess & obsolete). The obsolete stock, which represents about 60% of total stock levels, needs to be gotten rid of, because it rather poses as a liability than a current asset. The costs of keeping this stock, combined with its deteriorating value represent an unwanted expense to the company.

At the end of 2015, the obsolete stock was roughly valued at ~£400 000. The price at which the company could sell this stock can be set between £350-500 000, as it would be necessary to apply high discounts and various promotions (such as 2+1 free).

There is a couple of ways to get rid of the **obsolete stock**.

- Pop-up shop (flash retailing), which means an opening of a short-term sales space, usually in a mall, designed to attract the walking by potential customers, with large discounts on the goods. The pop-up shop can also be a form of marketing, where you the seller can create a unique environment that engages the customers and generates a feeling of relevance and interactivity.
- Discounted wholesale: All of the goods that are in a bulk (more sizes and colours of the same type) can be sold to the wholesale customers - usually at the purchase price, which at least covers the cost of sales.
- Outlets: This type of sales is a common way of reducing the obsolete stock. However, only famous brands can still make profit of the outlet sales. In the sphere of relatively unknown brands like James Lakeland, the outlet stores usually offer marginal prices. The outlets than offer the goods at around its original purchase price. This method is not very efficient, but it is necessary to abolish the excess stock as soon as possible, and cut the losses at the minimum.

**Table 20: Possible revenue streams from the obsolete stock (Source: Own elaboration, 2016)**

|  | Estimated revenue | Profit/Loss | Profit/Loss |
|---|---|---|---|
| Pop-up shop | £ 500 000,00 | 25,00% | £ 100 000,00 |
| Discounted wholesale | £ 420 000,00 | 5,00% | £ 20 000,00 |
| Outlets | £ 370 000,00 | -7,50% | -£ 30 000,00 |

Table 20 illustrates a hypothetical situation, when a stock is sold exclusively by the respective methods. As previously mentioned, the obsolete stock is valued at £400 000. The pop-up shop could sell the goods with a 25% profit margin, but it is unlikely that it will sell all of the products. Discounted wholesale could produce a marginal profit, but wholesalers only buy products that are in more sizes and colours, therefore it is impossible to sell them the whole stock. Lastly, the outlets usually buy anything, but at the price lower than its purchase price. Best method would be the combination of all three, where the collections could be sold immediately to the wholesalers, pop-up shops could try to sell as much as they can, and the rest of the unwanted goods could be sold to the outlets. The distribution of sales could be 40% wholesale, 30% pop-up shop and 20% outlets. This could roughly generate a profit of:

$$0,4 \times 20000 + 0,3 \times 100000 + 0,2 \times (-30000) = \pounds 32\,000$$

The next step is to improve the future stock management. In order to do so, the company needs to increase the usage of the Trackit! software and its components, as I have witnessed its improper use. The monitoring capabilities of this system are far beyond its current use, and I would strongly recommend a training course regarding stock management in Trackit! provided by various IT firms, academies, or Trackit! owner BNC Ltd. For example, BNC offers an online 8 hour-long interactive training with a skilled professional for £400, which could be a very cost-effective investment for the company. I would advise the stock room manager and stock-master to take part in such training.

The company further faults at not determining the safety stock levels. The stock is basically every product that the company possesses, regardless its location, value or age. The company needs to start having an appropriate distinction between the safety & replenishment and excess & obsolete stock levels, in order to separate these two absolutely different types of goods. It could help determine the minimum safety stock, which is needed to provide an insurance policy against supply chain glitches (distribution uncertainties, refunds, reclamations), so that the customers get what they ordered. Additionally, it could help the company to find its optimal levels of safety stock, which could lead to avoidance of backlog of excess or obsolete inventory, which as I mentioned previously, generate an unnecessary cost.

Last, but not least problem regarding stock is in the distribution department. Over the years, James Lakeland Ltd. has not improved its channels of distribution, neither from the manufacturer to the warehouse, nor from the warehouse to its shops & concessions. Although its overall expenses have lowered by almost 45% in the observed period, it still represented more than £47 000 in costs in 2015 (Appendix I). The distribution channels from Italy are inefficient - monthly, 40 orders are made on average. Each of these deliveries are dispatched individually by a private company (DHL, FedEx, UPS), resulting in high prices. However, there is a few companies in Italy that offer "Freight Consolidation Services". This is a method of assembling several smaller shipments, which are then shipped together for a better consolidated price. Companies like WCS International, Vanguard or LKW Walter provide monthly pickups

on the Apennine Peninsula, with a direct delivery of the goods to London the day after. The charge for 40 singular shipments (depending on the size) is about £2 000, however, the consolidated freight delivery ranges between £700 and £1 200. On average, James Lakeland Ltd. could save up to £12 600 per year using freight consolidation.

**Table 21: Difference in costs between current and proposed shipping method (Source: Own elaboration, 2016)**

|  | 1 month | 1 year |
|---|---|---|
| Average regular cost | £2 000,00 | £24 000,00 |
| Average consolidated cost | £ 950,00 | £11 400,00 |
| Savings | £1 050,00 | £12 600,00 |

Concerning the channel between the warehouse and the shops & concessions, there is not too much space for improvements. Currently, the company uses the services of either Royal Mail or DHL, both of which are financially exhaustive. Other possible method, that could be used for a trial period is a private company van with a driver, that could do the large deliveries throughout the UK. This operation could run on a part-time basis, as the deliveries are made twice a week on average.

## 3.2 Active asset management

From the analysis conducted in the Chapter 2, we can observe a significant changes in the proportions of the assets, as well as their overall absolute value. This subchapter will deal with the possible improvements that could optimise the asset's effective usage.

### 3.2.1 Non-current tangible assets

Despite the fact that the company possesses an adequate value of assets, its distribution is currently disadvantageous. Due to the recent changes in the field of long-term property, the company has generated a significant amount of extraordinary profit. This profit represents a transformation of the non-current assets (property) into the current assets (cash). Needless to say, the company's management experienced two profitable trades on the real-estate market that kept the company healthy and vital, however, it currently does not own any building where the head office & stock room could operate, hence it is forced to lease a place. On the other hand, it operates with

almost £1,5 mil. in cash. These transformations caused a shift in the asset distribution from 68-32% (fixed - current) in 2010 to 14-86% in 2015.

This cash is used ineffectively. Supported by the analysis (2.2.7), the cash position ratio exceeds the median of the recommended value more than tri-fold. Additionally, the company pays ~£5 000 per month to rent a property to run the business from.

Since the incorporation of James Lakeland Ltd., the company has run its operations from the offices located in the London city centre. Over the years, this location proved to be very cost-inefficient, mainly due to the everyday stock operations (inwards and outwards) and various fees (high business rates, congestion fees, council tax etc.). The company has an idea of where to "start over", however it has not made the purchase yet.

The priority area chosen by the management is East Finchley, which is about 8 kilometres north from the city centre. The average prices of the properties are about 20% lower than those in the downtown. The ideal state would be to make a purchase, while keeping a healthy net working capital for the business. The building has to have an office area of at least 150 m$^2$ and the stock room area of at least 300 m$^2$. During my internship, a very satisfactory property has been discovered with a purchase price of £1 625 000.

The company should make the purchase in the proportion of 60% own capital (£975 000) and 40% external capital (£650 000). This action would reflect in a several indicators:

- even proportion between non-current and current assets,
- equalizing capital structure to 50/50 (shareholders/creditors) (50% indebtedness),
- implementing residual cash and reaching a median recommended value of cash position ratio of 0,3,
- eliminating the costs related to the rent & high fees in city centre,

- decrease in the asset turnover to 1,0 & increase of financial leverage to 2,0; resulting in a slight decrease of ROA (from 5,6 to 4,6) and ROE (from 9,4 to 9,3).

I would recommend the company to purchase this property, in order to utilize its residual cash and lower the incremental costs of future periods (that can be better used as a mortgage repayment). The company should settle in the new location in order to fully restart its operation and stabilise its growth.

### 3.2.2 Receivables (debtors)

The previous financial analysis (2.2.5) revealed that the development of the receivable days has been relatively steady for the past five years. It ranged from as low as 35 days to the maximum of 50 days. During this period, not once has it exceeded the payable days. However, in 2015, with the much needed attention of large wholesale customers with high bargaining power, this equation has changed. The receivable days rose to 72 days, with payable remaining just under 50 days. This rings an alarm on the future capability of the company to pay its immediate liabilities, due to the inevitable distortion of the cash flow.

The James Lakeland Ltd. has the usual expiration period of the issued invoices set to 30 days. The wholesale customers, who order goods for £20 000 & more, usually have 90 days to pay their liabilities towards the company. These large customers have always paid the full invoiced amount on time, so the issue of unpaid invoices arises from the small wholesalers (boutiques, concessions etc.), who generate receivables past the maturity date as described in the following table.

Table 22: Proportion of outdated receivables (2010-2015) (Source: Own elaboration, 2016)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Receivables total | £474 261 | £351 667 | £473 970 | £385 017 | £342 128 | £809 082 |
| Receivables past maturity date | £37 941 | £24 617 | £47 397 | £50 052 | £54 740 | £75 882 |
| up to 30 days | £16 315 | £11 816 | £16 589 | £26 528 | £20 801 | £25 041 |
| 30-90 days | £17 073 | £8 124 | £13 271 | £22 523 | £27 918 | £37 182 |
| more than 90 days | £4 553 | £4 677 | £17 537 | £1 001 | £6 021 | £13 659 |

According to the table above, the proportion of the unsettled receivables has ranged from as low as 7% of total receivables in 2011 through 9% in 2015 to 16% in 2014. The highest amount (on average) is contained in the period of 30 to 90 days, with the lowest amount contained in more than three months. The development looks fairly proportionate to the development of total receivables, however, if we substitute the base of the calculations with the total sales, the development is much more frightening. The company experienced almost the same total sales in 2015 as it did in 2010, but the amount of receivables past maturity date had doubled. It can not be blamed upon the increase of the large wholesalers who have longer payment periods, as they are very responsible.

The observed increase in the outstanding receivables should be perceived as a disconcerting situation. It is necessary to start solving this problem, as it could lead to an escalated dependence on customers, and significantly reduced liquidity of the company. Decreasing payment morale is a negative phenomenon, because the company must replace the delayed debt collections with its own cash pool or overdraft, in order to secure the operational continuum.

The company should start paying attention to their receivables prior to their creation. It is the "first point prevention", which could lead in the evasion of the problems related to the insolvent customers.

**Prevention**

To prevent the problem of un-paying customers, the company should increase its focus on the detection of creditworthiness of their new customers, but also monitor the creditworthiness of the existing customers. Screening of the business partners reduces the risk of bad debts and the related risk of subsequent indebting of the company. There are various methods that help the company to assess the credibility of other organisations. The information regarding creditworthiness of established partners can be found out within the internal data obtained from previous operations. Another way is to use external resources, e.g. references from other suppliers, business partners or chambers of commerce, information from public databases, or on the basis of the financial statements demanded prior to making a deal. To avoid making a deal with

defaulters, the potential customer should be scanned through the *list of bankrupts and insolvent debtors in The National Archives*. There is also number of private companies that offer services to monitor businesses and their solvency, for example Creditsafe Business Solutions Ltd. or Experian Ltd.

James Lakeland Ltd. should always check the creditworthiness and financial position of their new potential customers. It is upon the consideration of the management to decide which tool to use. The first step, however, should always be the screening on the publicly available information source on the internet. This step verifies the sole existence of the potential customers, as well as the correctness of their basic identifications.

I would also recommend the company to use the most widely used UK database, provided by the company Creditsafe. In order to gain detailed and up-to-date information about companies within the United Kingdom, I would advice James Lakeland Ltd. to buy a one year subscription for £650. This database serves as a quick scan of businesses - an employee just have to fill in the identification number or name of the company and browse through the information (Reports, Risk Trackers, Prospects, "Monitoring guide", Debt development etc.). This service also includes an access to the registry of debtors and automatic notifications of additions of business partners into the registry.

A regular check-up of the customers should be conducted by the financial department, as the stability and creditworthiness of the individual companies can vary.

**Deposits**

The request of deposits (issuance of the advance payments invoices) is a tool of asking the customers to pay before the delivery date of the product. The advance payment (partial or full) decreases the risk that the buyer withdraws from the contract or does not pay the at all. Therefore, it serves as a motivation for the business partners to pick up the ordered products, without any cancelations. I would recommend the company to apply this instrument on the new customers with reduced levels of creditworthiness, whose contract are higher than £1 000. The recommended amount of the advance payment should be set at least at 25% of the total contracted amount. The

amount of the advance payments may, however, be provided for each customer individually, according to their trustworthiness, credibility and references. The system of deposit payments should also be applied to the existing customers, whose payment discipline has gradually eroded. Through the establishment of the advance payments, the company will receive a portion of funds before the final delivery of the products, which may be used to purchase additional material or for other operational purposes.

**Recovery of receivables**

Due to the size of the company, there is only one person in charge of the receivables department. There is no established system of recovery. Some of the debtors are reminded promptly after the maturity date, some of the long-term trusted partners have a couple of "pardoned days". The standard procedure has been limited to phone, e-mail and letter dunning so far. A personal phone call to the customer is the most used method of reminding the business partner, due to its prompt speed, ease and low cost. By phone, the employee can immediately find out the purpose of failing to pay of the receivable. If the customer can not be reached via phone, e-mail or letter is sent.

I would recommend to introduce some changes, that would unite the procedures of the receivables recovery. The proposed procedure can go as follows:

- In the day of the maturity of an invoice, the company should call the customer to make sure, whether they have received the invoice and whether it is formally correct. This step would be used only on the new customers without established relationship.
- If the payment has not came through the day after maturity, the company should be contacted again to find the cause of non-compliance. With a company that has an established relationship, this step can be postponed up to five working days.
- In the case of the continuing non-compliance in the next five working days past the maturity date (10 days in the case of long-term partners), the company should send an official debt-collection letter, with a reminder of an immediate payment and a warning of the interest, fee, sanction etc.

- Three weeks after the maturity day, the company should send a second warning letter, with a proposition of repayment calendar. This step could lead in an upcoming phone call and a personal face-to-face meeting with an authorised person, which is a debtor to the James Lakeland Ltd.
- If the debtor is unresponsive for a month, the last step is a registered letter. The letter would contain a final warning, including a warning regarding a reporting of the company to the registry of debtors and filing a complaint in the Creditsafe database. Simultaneously, the debtor would be informed of passing the receivable to the company's law representative with an attention of possible incurred costs. The menace of legal action usually forces the debtor to act, or at least to contact the sender.

During my internship in the company, I found out that the warning letters (also known as chase letters) are created individually. However, the company uses an advanced accounting system Sage 50 premium, which can track the outstanding invoices, debtors, days of the delay and company statistics. The system can generate a default chase letter, that can be sent to the debtor either via e-mail, or printed out and sent via post. The program can be set to three forms of the chase letters (1 week, 3 weeks, 4 weeks), with the trusted partners excluded. The program then generates individual letters to each customer, and upon request, sends it to their corresponding e-mail addresses all at once. If needed, selected letters can be printed out. This system saves times immensely, and I would highly recommend the company to take advantage of it.

According to the (Appendix I), there has been a lot of unrecovered receivables that represent "Bad debts". Those are the receivables not paid by customers, that are considered non-claimable anymore. In the year 2012, the amount was almost devastating (£63 000), in 2015 it was £6 320. I would advise the company to outsource the management of outdated receivables (after 6 weeks of unsuccessful recovery), in order to avoid bad debts. In this case, additional costs incur (5-20% of the invoiced value), however, it is better than 100% cost of unpaid invoice. Second available option is through the court of law, but this way is very lengthy and expensive, without any assurance of victory. Due to the size of the company and the amount of receivables, the

company should use the commercial debt collectors in the UK like Mazars Ltd., EOS Solutions Ltd. or Access Credit Management Ltd.

## 3.3 Elimination of the foreign exchange risk

Over the observed period, the company has spent on average ~£1,45 mil. per year on product purchases. 90% of these purchases (~£1,3 mil.) are denominated in Euros (€), which is not the base currency of the company. These operations trigger a so called *"Transaction exposure"*, which occurs whenever a contractual cash flows (receivables and payables) are subject to changes in exchange rates, due to the fact that contract are in a foreign currency.

Applying the public accounting rules as stated in the Director's report, the foreign currency translation is translated in the profit and loss account as follows:

*"Monetary assets and liabilities denominated in foreign currencies are translated into sterling (£) at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account."*

James Lakeland Ltd. does not use any tools to reduce or eliminate the FE risk. The company buys Euros from the Lloyds bank on a monthly basis, according to the needs and Euro reserves. Despite the fact that the company has made a profit on the foreign exchange every year (with the exception of 2013), this outcome is a sheer coincidence. The fact that according to the Appendix I, the loss on foreign exchange in 2013 accounted for almost £33 000, is disturbing and undesirable.

There are many methods of minimizing the foreign exchange risk, however, for a company of this size only few are applicable. The most common method is *hedging*, of which I will focus on forward contracts and options. HULL (2006) defines these derivatives as follows:

- A forward contract locks in an exchange rate today, at which the currency transaction will occur at the future date.

- An option sets an exchange rate at which the company may choose to exchange currencies. If the current exchange rate is more favourable, then the company will not exercise this option.

With a forward contract, the other party (bank) derives the benefit, while with an option the company retains the benefit by choosing not to exercise the option if the exchange rate moves in its favour.

The general rule is to hedge *certain* foreign currency cash flows with forwards, and *uncertain* foreign cash flows with options. Since James Lakeland Ltd. knows its future cash flows (as majority of the Italian invoices are payable after 3 months), the fitting way to hedge its transactions is through forward contracts. Lloyds Bank offers these contracts for their clients and they are basically free of charge. However, if the spot price moves in the favour of the bank, it will translate into a loss on the foreign exchange for the James Lakeland Ltd. On the other hand, the possible loss is offset by the advantages that the forward brings:

- Eliminating the risk of disadvantageous exchange rate development.
- Budgeting for all purchase operations in Italy with more financial security.
- Knowing the exact costs.
- Fixing the rate of exchange on foreign currency transactions for a specified date.

The level of uncertainty on financial markets is very high due to the Brexit referendum. This means that the development of POUND/EUR exchange rate is very volatile and unpredictable. The company should partially cover the risk of foreign exchange, in order to evade a possibly big loss on pound depreciation. The recommended portion of hedged transaction usually ranges between 60-80%.

## 3.4 Overview of the proposals

In the following table, I will briefly explore the main proposals, their effect and recommended implementation period.

**Table 23: Overview of the proposed measures, their effect and period of implementation (Source: Own elaboration, 2016)**

| Measure | Effect | Implementation |
|---|---|---|
| **Reduction of the obsolete stock** | ▪ Elimination of the costs related to the storage of the stock<br>▪ Generating an estimated profit of £32 000 | Sale of the collections to the wholesalers between August-September 2016, followed by the sale of the individual items in pop-up shops between October-February 2016, concluded by the sale of the unsold obsolete stock to the Outlet shops in March 2017 |
| **Improvement of the logistics** | ▪ Estimated yearly savings in the freight & carriage expenses by £12 600 | Set up the contract with the freight consolidation company by September 2016 |
| **Purchase of the new Head office & Stock room** | ▪ Setting up a new long-term headquarters ourside city centre<br>▪ Saving costs on rent, lower business rates, congestion fees etc.<br>▪ Equalizing indebtedness and utilizing rezidual cash | Until the end of 2016 |
| **Management of outdated receivables** | ▪ Laying out an exact procedure of the prevention and recovery of the receivables beyond maturity date | Immediately |
| **Elimination of the foreign exchange risk** | ▪ Planing the exact costs for budgeting purposes<br>▪ Elimination of the possible risks related to the Pound/Euro fluctuation | Set the first contract with Lloyds bank in September 2016 |

# CONCLUSION

The main aim of the thesis was to assess the financial health of the women's apparel company James Lakeland Ltd. for the period 2010-2015 using appropriately selected methods of financial and strategic analysis and subsequently propose a package of measures and recommendations that would mitigate or eliminate the shortcomings identified in the individual analyzes.

The thesis is divided into several chapters. The first one captures a theoretical framework, which states the basic principles and methodology of the financial analysis. The following chapter introduces the company and its developing situation. Various methods of strategic analysis assessed the company's internal and external environment, while financial analysis evaluated its financial situation, including intercompany comparison with two selected companies - similarly sized FMW Ltd., and industry giant New Look Ltd. The last chapter examines the proposals and recommendations for an improvement of the current situation.

Within the strategic analysis, outcomes from the selected methods were summarized in the SWOT analysis, which served to obtain an overview of the strengths and weaknesses of the company, including the possible opportunities and threats. Through the methods of financial analysis, several problematic areas were highlighted. The main areas are considered to be the activity, liquidity and profitability, among which we can observe an increasing period of inventory days, inefficient use of cash residues or significant proportion of outstanding invoices.

Based on the results from the analyzes, viable measures were proposed. Within asset management, the attention is given to the long-term property and receivables. In the case of receivables, the proposals are mainly focused on the vigilance in monitoring of the creditworthiness of both new and existing customers, as well as tightening the credit conditions in the form of advance payment or deposits for new and problematic customers. Other measure is dedicated to design a process of dunning and enforcing the outstanding invoices. If the company is unsuccessful in the recovery of overdue receivables on their own, it is recommended to rather take advantage of the special enforcement agencies, than to use the judicial enforcement method. In the area of long-

term company assets, it is recommended to utilize the residual cash in order to buy a new property for headquarters, from where the whole operation can be managed from.

Next area concerns the improvement of inventory management. The company needs to get rid of the excess stock, in order to reduce the cost of its storage and fully utilize its value. It is also recommended to set the levels of safety stock in such manner, that the company will not get flooded by the obsolete stock again. Another measure deals with the reduction of shipping costs via freight consolidation

The last area of proposals deals with the elimination of foreign exchange risk. Due to the current uncertainty and volatility of the financial markets, it is recommended to hedge at least 60% of their transactions.

I believe that the summarized findings of the financial analysis alongside the proposed measures can be beneficial to the company, both in improving its current financial situation as well as in its future decision-making.

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# APPENDICES

**Appendix I: The schedule of administrative expenses in James Lakeland Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Schedule of administrative expenses | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| TOTAL | 2 127 491 | 1 917 942 | 1 618 984 | 1 454 866 | 1 637 035 | 1 740 074 |
| Wages and salaries | 981 696 | 947 482 | 836 126 | 749 619 | 761 084 | 864 370 |
| Director's remuneration | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 |
| Employer's N.I. contributions | 78 656 | 67 184 | 51 232 | 36 443 | 47 480 | 54 384 |
| Staff pension costs | - | - | - | - | 5 088 | 5 041 |
| Staff training | - | - | - | - | 400 | 300 |
| Staff redundancy | - | - | - | 325 | 2 655 | 900 |
| Rent & service charges | 207 674 | 225 899 | 200 018 | 102 433 | 139 291 | 147 030 |
| Business Rates | 162 162 | 159 381 | 16 588 | 99 196 | 95 178 | 111 845 |
| Recruitment fees | 470 | 559 | 101 | - | 195 | 3 440 |
| Insurance | 18 568 | 15 960 | 15 984 | 15 953 | 14 906 | 17 320 |
| Light and heat | 26 332 | 12 465 | 23 115 | 15 798 | 19 531 | 16 886 |
| Cleaning | 15 687 | 8 098 | 3 538 | 3 361 | 4 474 | 5 780 |
| Repairs and maintenance | 42 910 | 35 954 | 28 994 | 26 974 | 35 738 | 39 850 |
| Printing, postage and stationery | 22 367 | 11 780 | 10 624 | 11 734 | 11 333 | 13 569 |
| Advertising | 238 280 | 149 199 | 121 160 | 96 040 | 240 388 | 97 780 |
| Telephone | 26 190 | 26 107 | 13 909 | 19 121 | 20 135 | 25 313 |
| Computer running costs | 5 299 | 400 | 1 075 | 1 044 | 1 839 | 4 289 |
| Hire of equipment | 758 | 642 | 6 709 | 4 446 | 4 348 | 4 776 |
| Motor vehicle leasing | 3 881 | 1 984 | - | - | - | - |
| Performing Right Society | 2 392 | 1 697 | 632 | 745 | 696 | 720 |
| Travelling | 73 803 | 49 490 | 47 146 | 37 853 | 73 241 | 60 163 |
| Entertainment | 18 586 | 13 467 | 7 837 | 7 334 | 18 439 | 19 479 |
| Legal and professional fees | 34 693 | 36 510 | 45 793 | 35 283 | 56 839 | 122 480 |
| Accountancy fees | 12 050 | 11 630 | 12 240 | 10 900 | 11 835 | 9 905 |
| Bank charges | 27 485 | 24 481 | 20 826 | 31 285 | 13 886 | 32 574 |
| Credit card charges | 24 741 | 20 788 | 18 907 | 18 432 | 14 002 | 12 290 |
| Bad debts | 7 648 | 12 535 | 63 161 | 19 983 | (5 613) | 6 320 |
| (Profit)/loss on FE | (3 580) | (9 301) | (8 167) | 32 837 | (25 231) | (31 297) |
| Subsistence | 12 730 | 7 191 | 12 032 | 13 229 | 14 675 | 15 230 |
| Penalties | 660 | 1 206 | 9 028 | 402 | 230 | 5 594 |
| General expenses | 20 061 | 22 303 | 2 433 | 2 062 | 2 193 | 13 250 |
| Charitable donations | 1 745 | 300 | 700 | 501 | 4 157 | 2 585 |
| Subscriptions | 1 296 | 1 016 | 1 000 | 1 837 | 2 772 | 10 357 |
| Amortisation on long leasehold | 12 050 | 9 640 | 7 712 | 6 170 | 4 936 | 3 949 |
| Deprecation | 25 201 | 26 895 | 23 531 | 17 394 | 20 915 | 18 603 |
| (Profit)/loss on disposal of tangibles | - | - | - | 11 132 | - | - |

**Appendix II: The vertical proportion of administrative expenses in James Lakeland Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Schedule of total expenses | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Administrative | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Wages and salaries | 46,14% | 49,40% | 51,65% | 51,52% | 46,49% | 49,67% |
| Director's remuneration | 1,18% | 1,30% | 1,54% | 1,72% | 1,53% | 1,44% |
| Employer's N.I. contributions | 3,70% | 3,50% | 3,16% | 2,50% | 2,90% | 3,13% |
| Staff pension costs | - | - | - | - | 0,31% | 0,29% |
| Staff training | - | - | - | - | 0,02% | 0,02% |
| Staff redundancy | - | - | - | 0,02% | 0,16% | 0,05% |
| Rent & service charges | 9,76% | 11,78% | 12,35% | 7,04% | 8,51% | 8,45% |
| Business Rates | 7,62% | 8,31% | 1,02% | 6,82% | 5,81% | 6,43% |
| Recruitment fees | 0,02% | 0,03% | 0,01% | - | 0,01% | 0,20% |
| Insurance | 0,87% | 0,83% | 0,99% | 1,10% | 0,91% | 1,00% |
| Light and heat | 1,24% | 0,65% | 1,43% | 1,09% | 1,19% | 0,97% |
| Cleaning | 0,74% | 0,42% | 0,22% | 0,23% | 0,27% | 0,33% |
| Repairs and maintenance | 2,02% | 1,87% | 1,79% | 1,85% | 2,18% | 2,29% |
| Printing, postage and stationery | 1,05% | 0,61% | 0,66% | 0,81% | 0,69% | 0,78% |
| Advertising | 11,20% | 7,78% | 7,48% | 6,60% | 14,68% | 5,62% |
| Telephone | 1,23% | 1,36% | 0,86% | 1,31% | 1,23% | 1,45% |
| Computer running costs | 0,25% | 0,02% | 0,07% | 0,07% | 0,11% | 0,25% |
| Hire of equipment | 0,04% | 0,03% | 0,41% | 0,31% | 0,27% | 0,27% |
| Motor vehicle leasing | 0,18% | 0,10% | - | - | - | - |
| Performing Right Society | 0,11% | 0,09% | 0,04% | 0,05% | 0,04% | 0,04% |
| Travelling | 3,47% | 2,58% | 2,91% | 2,60% | 4,47% | 3,46% |
| Entertainment | 0,87% | 0,70% | 0,48% | 0,50% | 1,13% | 1,12% |
| Legal and professional fees | 1,63% | 1,90% | 2,83% | 2,43% | 3,47% | 7,04% |
| Accountancy fees | 0,57% | 0,61% | 0,76% | 0,75% | 0,72% | 0,57% |
| Bank charges | 1,29% | 1,28% | 1,29% | 2,15% | 0,85% | 1,87% |
| Credit card charges | 1,16% | 1,08% | 1,17% | 1,27% | 0,86% | 0,71% |
| Bad debts | 0,36% | 0,65% | 3,90% | 1,37% | -0,34% | 0,36% |
| (Profit)/loss on FE | -0,17% | -0,48% | -0,50% | 2,26% | -1,54% | -1,80% |
| Subsistence | 0,60% | 0,37% | 0,74% | 0,91% | 0,90% | 0,88% |
| Penalties | 0,03% | 0,06% | 0,56% | 0,03% | 0,01% | 0,32% |
| General expenses | 0,94% | 1,16% | 0,15% | 0,14% | 0,13% | 0,76% |
| Charitable donations | 0,08% | 0,02% | 0,04% | 0,03% | 0,25% | 0,15% |
| Subscriptions | 0,06% | 0,05% | 0,06% | 0,13% | 0,17% | 0,60% |
| Amortisation on long leasehold | 0,57% | 0,50% | 0,48% | 0,42% | 0,30% | 0,23% |
| Deprecation | 1,18% | 1,40% | 1,45% | 1,20% | 1,28% | 1,07% |
| (Profit)/loss on disposal of tangibles | - | - | - | 0,77% | - | - |

| Balance sheet entry / Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Total Assets | 194 304 | 3,06 | 135 475 | 2,07 | 344 274 | 5,15 | 930 823 | 13,24 | 1 638 559 | 20,59 |
| Fixed Assets | 222 037 | 7,54 | -98 198 | -3,10 | -275 039 | -9,00 | -52 919 | -1,89 | 326 253 | 11,91 |
| Tangible assets | 222 037 | 7,54 | -98 198 | -3,10 | -275 039 | -9,00 | -52 919 | -1,89 | 326 253 | 11,91 |
| Current assets | -27 733 | -0,80 | 233 673 | 6,91 | 619 313 | 17,13 | 983 742 | 23,23 | 1 312 306 | 25,14 |
| Stocks | 19 200 | 3,55 | 2 820 | 0,50 | -18 890 | -3,36 | 56 960 | 10,47 | 448 286 | 74,60 |
| Debtors | -49 003 | -20,10 | -54 326 | -29,40 | 1 091 817 | 837,09 | 532 916 | 43,60 | 91 197 | 5,20 |
| Cash at bank and in hand | 2 070 | 0,08 | 285 179 | 10,80 | -453 614 | -15,50 | 393 866 | 15,95 | 772 823 | 26,99 |

**Appendix IV: The horizontal analysis of liabilities and equity in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Total Liabilities + Euqity | 194 304,00 | 3,06 | 135 475,00 | 2,07 | 344 274,00 | 5,15 | 930 823,00 | 13,24 | 1 638 559,00 | 20,59 |
| Capital and reserves | -27 441,00 | -0,08 | 384 284,00 | 11,21 | 401 198,00 | 10,52 | 2 436 070,00 | 57,80 | 266 280,00 | 4,00 |
| Called up share capital | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Profit and loss account | -27 441,00 | -0,08 | 384 284,00 | 11,37 | 401 198,00 | 10,66 | 331 346,00 | 7,96 | 325 517,00 | 7,24 |
| Liabilities | 221 745,00 | 7,65 | -248 809,00 | -8,00 | -56 924,00 | -2,00 | -1 505 247,00 | -53,50 | 1 372 279,00 | 104,80 |
| Current liabilities | 231 702,00 | 29,28 | -236 934,00 | -23,20 | -13 923,00 | -1,80 | -61 042,00 | -7,90 | -113 283,00 | -15,90 |
| Bank loans and overdrafts | -755,00 | -7,84 | 31 625,00 | 356,50 | -16 304,00 | -60,25 | 116 550,00 | 481,77 | -98 214,00 | -70,00 |
| Trade creditors | -6 912,00 | -2,23 | -67 631,00 | -33,30 | 7 546,00 | 3,39 | -64 058,00 | -37,80 | 98 836,00 | 59,42 |
| Taxation and social | 239 369,00 | 49,49 | -200 928,00 | -37,60 | -5 165,00 | -1,00 | -113 534,00 | -21,90 | -113 905,00 | -28,20 |
| Non-current liabilities | -10 712,00 | -0,05 | 19 750,00 | 0,92 | -59 305,00 | -2,70 | -1 319 121,00 | -62,50 | 1 380 033,00 | 174,40 |
| Bank loan | -10 712,00 | -0,05 | 19 750,00 | 0,92 | -59 305,00 | -2,70 | -1 327 655,00 | -64,26 | 1 387 348,00 | 187,90 |
| Other non-current finances | 0,00 | 0,00 | 0,00 | 1,00 | 0,00 | 0,00 | 8 534,00 | 19,18 | -7 315,00 | -13,50 |

**Appendix V: The horizontal analysis of profit and loss account in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Profit & Loss entry/ Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Turnover | -800 043,00 | -19,05 | -15 445,00 | -0,45 | -79 577,00 | -2,30 | 258 542,00 | 7,82 | -18 446,00 | -0,50 |
| Cost of sales | -420 591,00 | -18,80 | -66 911,00 | -3,68 | -89 084,00 | -5,10 | 86 064,00 | 5,18 | 41 650,00 | 2,38 |
| Gross profit | -379 452,00 | -19,34 | 51 466,00 | 3,25 | 9 507,00 | 0,58 | 172 478,00 | 10,50 | -60 096,00 | -3,31 |
| Administrative expenses | -30 866,00 | -19,61 | -23 276,00 | -18,40 | 36 837,00 | 35,68 | 145 140,00 | 103,60 | 86 279,00 | 30,25 |
| Operating profit | -151 064,00 | -20,78 | 71 197,00 | 12,36 | -10 008,00 | -1,55 | 14 489,00 | 2,27 | -206 118,00 | -31,64 |
| Interest payable | 32 093,00 | 42,11 | 55 905,00 | 51,62 | -11 620,00 | -7,07 | -15 870,00 | -10,40 | -21 955,00 | -16,06 |
| Profit before taxation | -186 112,00 | -27,29 | 25 778,00 | 5,20 | -27 015,00 | -5,17 | 37 465,00 | 7,57 | -188 561,00 | -35,44 |
| Tax | -23 756,00 | -14,11 | -7 197,00 | -5,00 | -43 929,00 | -31,97 | 112 253,00 | 120,12 | -128 431,00 | -62,43 |
| Net profit | -162 356,00 | -31,60 | 32 975,00 | 9,38 | 16 914,00 | 4,40 | -74 788,00 | -18,64 | -60 130,00 | -18,42 |
| Dividends | 378 750,00 | 100,00 | -378 750,00 | -100,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Retained earnings | -541 106,00 | -105,30 | 411 725,00 | 150,00 | 16 914,00 | 4,40 | -74 788,00 | -18,64 | -60 130,00 | -18,42 |

**Appendix VI: The vertical analysis of assets in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Assets | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Fixed Assets | 46,33% | 48,35% | 45,90% | 39,74% | 34,43% | 31,95% |
| Tangible assets | 46,33% | 48,35% | 45,90% | 39,74% | 34,43% | 31,95% |
| Current assets | 53,67% | 51,65% | 54,10% | 60,26% | 65,57% | 68,05% |
| Stocks | 8,51% | 8,55% | 8,42% | 7,74% | 7,55% | 10,93% |
| Debtors | 3,68% | 2,82% | 1,95% | 17,39% | 22,05% | 19,24% |
| Cash at bank and in hand | 41,48% | 40,28% | 43,73% | 35,13% | 35,97% | 37,88% |

**Appendix VII: The vertical analysis of liabilities and equity in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Liabilities + Euqity | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Capital and reserves | 54,39% | 52,36% | 57,05% | 59,96% | 83,56% | 72,07% |
| Called up share capital | 0,79% | 0,77% | 0,76% | 0,72% | 0,63% | 0,53% |
| Profit and loss account | 53,60% | 51,59% | 56,29% | 59,24% | 82,92% | 71,54% |
| Liabilities | 45,61% | 47,64% | 42,95% | 40,04% | 16,44% | 27,93% |
| Current liabilities | 12,45% | 15,62% | 11,76% | 10,99% | 8,93% | 6,23% |
| Bank loans and overdrafts | 0,15% | 0,14% | 0,61% | 0,34% | 1,77% | 0,44% |
| Trade creditors | 4,68% | 4,44% | 3,33% | 3,28% | 2,09% | 2,76% |
| Taxation and social security | 7,62% | 11,05% | 7,82% | 7,36% | 5,08% | 3,02% |
| Non-current liabilities | 34,01% | 32,83% | 32,46% | 30,03% | 9,94% | 22,62% |
| Long term Loan & Mortgage | 33,31% | 32,15% | 31,80% | 29,40% | 9,28% | 22,15% |
| Other non-current finances | 0,70% | 0,68% | 0,67% | 0,63% | 0,67% | 0,48% |

**Appendix VIII: The vertical analysis of profit and loss account in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Profit & Loss Entry / Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Income | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Cost Of Sales | 53,28% | 53,44% | 51,71% | 50,26% | 49,03% | 50,46% |
| Administrative expenses | 3,75% | 3,72% | 3,05% | 4,24% | 8,01% | 10,48% |
| Wages And Salaries | 24,13% | 24,86% | 25,06% | 24,89% | 23,51% | 25,30% |
| Director Emoluments | 1,54% | 1,04% | 1,05% | 1,34% | 1,17% | 1,20% |
| Audit fees | 2,15% | 2,25% | 2,25% | 2,29% | 2,28% | 3,85% |
| Interest payable | 0,18% | 0,33% | 0,34% | 0,39% | 0,33% | 0,35% |
| Depreciation | 1,81% | 3,19% | 4,85% | 4,62% | 3,84% | 3,24% |
| Tax | 4,01% | 4,25% | 4,06% | 2,83% | 5,77% | 2,18% |
| Dividends | 0,00% | 11,14% | 0,00% | 0,00% | 0,00% | 0,00% |
| Retained earnings | 12,23% | -0,81% | 11,36% | 12,14% | 9,16% | 7,51% |

**Appendix IX: The analysis of differential indicators in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Net working capital ('000 £) | 5934 | 4508 | 3463 | 2830 | 2359 | 2619 |
| Net quick capital ('000 £) | 2038 | 1927 | 2151 | 1683 | 1840 | 2845 |
| Net cash-receivables fund ('000 £) | 5393 | 3948 | 2900 | 2286 | 1759 | 1570 |

**Appendix X: The profitability analysis in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| ROA | 11,44% | 8,79% | 9,68% | 9,06% | 8,19% | 4,64% |
| ROCE | 9,28% | 7,02% | 8,21% | 7,88% | 5,82% | 3,97% |
| ROE | 14,86% | 10,25% | 10,08% | 9,52% | 4,91% | 3,85% |
| ROS | 17,31% | 16,94% | 19,12% | 19,28% | 18,29% | 12,57% |

**Appendix XI: The liquidity analysis in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Liquidity / Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Current Ratio | 10,93 | 7,34 | 5,49 | 4,60 | 3,31 | 4,31 |
| Quick Asset Ratio | 10,02 | 6,55 | 4,76 | 3,91 | 2,72 | 2,98 |
| Cash Position Ratio | 4,41 | 3,71 | 3,79 | 3,14 | 2,80 | 4,60 |

**Appendix XII: The turnover analysis in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total asset turnover | 0,66 | 0,52 | 0,51 | 0,47 | 0,45 | 0,37 |
| Inventory turnover | 7,76 | 6,07 | 6,01 | 6,07 | 5,93 | 3,38 |
| Inventory days | 46,36 | 59,31 | 59,88 | 59,26 | 60,72 | 106,57 |
| Receivable (debtors) days | 0,06 | 0,16 | 0,15 | 0,08 | 0,17 | 0,12 |
| Payable (creditors) days | 25,49 | 30,76 | 23,71 | 25,10 | 16,81 | 26,93 |

**Appendix XIII: The indebtedness analysis in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total indebtedness | 0,46 | 0,48 | 0,43 | 0,40 | 0,16 | 0,28 |
| Equity ratio | 0,54 | 0,52 | 0,57 | 0,60 | 0,84 | 0,72 |
| Gearing ratio | 0,84 | 0,91 | 0,75 | 0,67 | 0,20 | 0,39 |
| Interest cover | 9,54 | 5,32 | 3,94 | 4,17 | 4,77 | 3,88 |

**Appendix XIV: The analysis of operational indicators in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Wage productivity | 4,14 | 4,02 | 3,99 | 4,02 | 4,25 | 3,95 |
| Stock turnover linkage | 0,13 | 0,16 | 0,17 | 0,16 | 0,17 | 0,30 |
| Total cost of turnover | 0,87 | 0,89 | 0,89 | 0,87 | 0,86 | 0,87 |

**Appendix XV: The Altman index analysis in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Altman index | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| x1 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| x2 | 0,08 | 0,00 | 0,06 | 0,06 | 0,04 | 0,03 |
| x3 | 0,11 | 0,09 | 0,10 | 0,09 | 0,08 | 0,05 |
| x4 | 1,19 | 1,10 | 1,33 | 1,50 | 5,08 | 2,58 |
| x5 | 0,66 | 0,52 | 0,51 | 0,47 | 0,45 | 0,37 |
| Z-Score | 1,58 | 1,25 | 1,41 | 1,43 | 2,87 | 1,62 |

**Appendix XVI: The Kralicek Quick test in FMW Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Year | Capital power | | Debt repay. period | | Financial stability | Financial efficiency | | ROA | | Profit situation | Total grading |
|---|---|---|---|---|---|---|---|---|---|---|---|
|  | % | mark | years | mark | mark | % | mark | % | mark | mark |  |
| 2010 | 54% | 1 | 4,5 | 2 | 1,5 | 15% | 1 | 11% | 3 | 2 | 1,75 |
| 2011 | 52% | 1 | 6,1 | 3 | 2 | 15% | 1 | 9% | 3 | 2 | 2 |
| 2012 | 57% | 1 | 4,9 | 2 | 1,5 | 17% | 1 | 10% | 3 | 2 | 1,75 |
| 2013 | 60% | 1 | 4,5 | 2 | 1,5 | 19% | 1 | 9% | 3 | 2 | 1,75 |
| 2014 | 84% | 1 | 2,5 | 1 | 1 | 15% | 1 | 8% | 4 | 2,5 | 1,75 |
| 2015 | 72% | 1 | 5,3 | 3 | 2 | 14% | 1 | 5% | 4 | 2,5 | 2,25 |

**Appendix XVII: The horizontal analysis of assets in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
|  | £ | % | £ | % | £ | % | £ | % | £ | % |
| Total Assets | 45 211 000 | 3,30 | 54 359 000 | 3,84 | 95 729 000 | 6,51 | -906 617 000 | -58,00 | 43 652 000 | 6,60 |
| Fixed Assets | -21 968 000 | -6,50 | -47 549 000 | -13,40 | -32 351 000 | -10,50 | -26 478 000 | -9,50 | -17 646 000 | -7,00 |
| Intangible assets | -20 000 000 | -17,50 | -20 000 000 | -21,50 | -20 000 000 | -27,30 | -20 000 000 | -37,50 | -20 000 000 | -60,20 |
| Tangible assets | -1 968 000 | -0,07 | -27 549 000 | -10,50 | -12 351 000 | -5,30 | -6 478 000 | -3,00 | 2 354 000 | 1,10 |
| Current assets | 67 179 000 | 6,70 | 101 908 000 | 9,60 | 128 080 000 | 11,00 | -880 139 000 | -68,20 | 61 298 000 | 15,00 |
| Stocks | 8 047 000 | 7,20 | -13 337 000 | -11,30 | 6 819 000 | 6,50 | -2 842 000 | -2,50 | 27 118 000 | 24,80 |
| Debtors | 81 343 000 | 11,60 | 90 214 000 | 11,55 | 216 441 000 | 24,80 | -868 862 000 | -80,00 | 23 281 000 | 10,60 |
| Cash at bank and in hand | -22 211 000 | -12,20 | 25 031 000 | 15,60 | -95 180 000 | -51,50 | -8 435 000 | -9,50 | 10 899 000 | 13,40 |

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**Appendix XVIII: The horizontal analysis of liabilities and equity in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Total Liabilities + Euqity | 45 211 000,00 | 3,30 | 54 359 000,00 | 3,80 | 95 729 000,00 | 6,51 | -906 617 000,00 | -57,90 | 43 652 000,00 | 6,60 |
| Capital and reserves | 89 689 000,00 | 9,80 | 76 143 000,00 | 7,60 | 117 465 000,00 | 10,90 | -907 251 000,00 | -75,80 | 31 177 000,00 | 10,80 |
| Called up share capital | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Profit and loss account | 89 689 000,00 | 9,80 | 76 143 000,00 | 7,60 | 117 465 000,00 | 10,90 | -907 251 000,00 | -76,80 | 31 177 000,00 | 10,80 |
| Liabilities | -44 478 000,00 | -10,00 | -21 784 000,00 | -5,30 | -21 736 000,00 | -5,60 | 634 000,00 | 0,20 | 12 475 000,00 | 3,40 |
| Current liabilities | -24 581 000,00 | -6,30 | -12 207 000,00 | -3,30 | -13 860 000,00 | -3,90 | 5 534 000,00 | 1,60 | 21 905 000,00 | 6,30 |
| Bank loans and | -1 182 000,00 | -1,00 | 17 058 000,00 | 12,70 | -5 509 000,00 | -3,60 | 4 279 000,00 | 2,92 | -4 529 000,00 | -3,00 |
| Trade creditors | 36 831 000,00 | 43,60 | -37 238 000,00 | -30,70 | 8 962 000,00 | 10,70 | -5 202 000,00 | -5,60 | 20 508 000,00 | 23,40 |
| Taxation and social security | -60 230 000,00 | -35,00 | 7 973 000,00 | 7,16 | -17 313 000,00 | -14,50 | 6 457 000,00 | 6,30 | 5 926 000,00 | 5,50 |
| Non-current liabilities | -19 897 000,00 | -30,70 | -9 577 000,00 | -21,14 | -7 876 000,00 | -22,35 | -4 900 000,00 | -17,90 | -9 430 000,00 | -42,00 |
| Bank loan | -19 897 000,00 | -30,70 | -9 577 000,00 | -21,14 | -7 876 000,00 | -22,35 | -4 900 000,00 | -17,90 | -9 430 000,00 | -42,00 |

**Appendix XIX: The horizontal analysis of profit and loss account in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Profit & Loss entry/ Year | Change 2011-2010 | | Change 2012-2011 | | Change 2013-2012 | | Change 2014-2013 | | Change 2015-2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | % | £ | % | £ | % | £ | % | £ | % |
| Turnover | -16 215 000,00 | -1,30 | -9 498 000,00 | -0,80 | 42 711 000,00 | 3,50 | 25 349 000,00 | 2,00 | 36 588 000,00 | 2,90 |
| Cost of sales | 25 952 000,00 | 5,00 | 24 804 000,00 | 4,50 | -2 586 000,00 | -0,45 | 22 919 000,00 | 4,00 | 8 696 000,00 | 1,50 |
| Gross profit | -42 167 000,00 | -6,00 | -34 302 000,00 | -5,10 | 45 297 000,00 | 7,14 | 2 430 000,00 | 0,40 | 27 892 000,00 | 4,10 |
| Administrative expenses | -53 054 000,00 | -13,50 | -1 285 000,00 | -0,40 | -1 797 000,00 | -0,50 | 2 720 000,00 | 0,80 | 8 410 000,00 | 2,50 |
| Operating profit | 23 724 000,00 | 17,00 | -26 727 000,00 | -16,50 | 47 406 000,00 | 35,05 | -5 826 000,00 | -3,20 | 21 974 000,00 | 12,40 |
| Interest payable | -122 000,00 | -52,50 | -111 000,00 | -100,00 | 38 000,00 | 100,00 | 2 944 000,00 | 7 747,40 | -2 524 000,00 | -84,70 |
| Profit before taxation | -63 515 000,00 | -39,70 | -28 284 000,00 | -29,30 | 53 719 000,00 | 78,80 | -4 953 000,00 | -4,10 | 28 515 000,00 | 24,40 |
| Tax | -17 878 000,00 | -70,20 | -15 746 000,00 | -7,70 | 13 205 000,00 | 161,70 | -2 819 000,00 | -55,90 | 3 205 000,00 | 144,30 |
| Net profit | -45 637 000,00 | -33,90 | -12 538 000,00 | -14,10 | 40 514 000,00 | 53,00 | -2 134 000,00 | -1,90 | 25 310 000,00 | 22,10 |
| Dividends | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 74 334 000,00 | 100,00 | 33 446 000,00 | 45,00 |
| Retained earnings | -45 637 000,00 | -33,90 | -12 538 000,00 | -14,10 | 40 514 000,00 | 53,00 | -76 468 000,00 | -75,40 | -8 136 000,00 | -20,10 |
| Export | -24 565 000,00 | -100,00 | 0,00 | 0,00 | 0,00 | 0,00 | 137 506 000,00 | 100,00 | -27 236 000,00 | -19,80 |

**Appendix XX: The vertical analysis of assets in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Assets | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Fixed Assets | 27,56% | 25,13% | 20,96% | 17,61% | 37,84% | 32,97% |
| Intangible assets | 8,26% | 6,59% | 4,98% | 3,40% | 5,04% | 1,88% |
| Tangible assets | 19,29% | 18,54% | 15,98% | 14,21% | 32,79% | 31,09% |
| Current assets | 72,44% | 74,87% | 79,04% | 82,39% | 62,16% | 67,03% |
| Stocks | 8,09% | 8,40% | 7,19% | 7,18% | 16,64% | 19,46% |
| Debtors | 51,07% | 55,19% | 59,28% | 69,49% | 33,22% | 34,47% |
| Cash at bank and in hand | 13,28% | 11,28% | 12,57% | 5,72% | 12,31% | 13,10% |

**Appendix XXI: The vertical analysis of liabilities and equity in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Balance sheet entry / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Liabilities + Euqity | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Capital and reserves | 66,65% | 69,90% | 71,49% | 73,08% | 73,03% | 72,12% |
| Called up share capital | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| Profit and loss account | 66,65% | 69,90% | 71,49% | 73,08% | 73,03% | 72,12% |
| Liabilities | 33,35% | 30,10% | 28,51% | 26,92% | 26,97% | 27,88% |
| Current liabilities | 28,62% | 26,83% | 25,94% | 24,93% | 25,33% | 26,93% |
| Bank loans and overdrafts | 9,93% | 9,84% | 11,08% | 10,68% | 10,99% | 10,66% |
| Trade creditors | 6,17% | 8,86% | 6,14% | 6,79% | 6,41% | 7,91% |
| Taxation and social securi | 12,53% | 8,13% | 8,72% | 7,45% | 7,92% | 8,36% |
| Non-current liabilities | 4,72% | 3,27% | 2,57% | 2,00% | 1,64% | 0,95% |
| Long term Loan & Mortga | 4,72% | 3,27% | 2,57% | 2,00% | 1,64% | 0,95% |

**Appendix XXII:: The vertical analysis of profit and loss account in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Profit & Loss Entry / Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total Income | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |
| Cost Of Sales | 42,28% | 44,98% | 47,39% | 45,56% | 46,46% | 45,82% |
| Administrative expenses | 24,83% | 27,57% | 27,68% | 26,59% | 26,28% | 26,19% |
| Wages And Salaries | 14,42% | 13,93% | 13,60% | 13,08% | 13,00% | 12,68% |
| Director Emoluments | 0,55% | 0,19% | 0,11% | 0,13% | 0,38% | 0,14% |
| Interest payable | 0,02% | 0,01% | 0,00% | 0,00% | 0,23% | 0,03% |
| Depreciation | 4,91% | 5,37% | 5,55% | 4,84% | 4,44% | 4,01% |
| Tax | 2,07% | 0,62% | -0,68% | 0,40% | 0,17% | 0,41% |
| Dividends | 0,00% | 0,00% | 0,00% | 0,00% | 5,84% | 8,22% |
| Retained earnings | 10,92% | 7,31% | 6,33% | 9,36% | 3,17% | 2,46% |

**Appendix XXIII: The analysis of differential indicators in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Indicator / year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Net working capital ('000 £) | 101852 | 62459 | 948132 | 806192 | 692077 | 600317 |
| Net quick capital ('000 £) | -187032 | -187338 | -156773 | -265813 | -286455 | -300137 |
| Net cash-receivables fund ('000 £) | -9044 | -56484 | 842526 | 693767 | 582494 | 463616 |

**Appendix XXIV: The profitability analysis in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| ROA | 10,09% | 11,45% | 9,20% | 11,67% | 26,85% | 28,31% |
| ROCE | 13,78% | 8,50% | 6,85% | 9,55% | 37,77% | 42,14% |
| ROE | 14,73% | 8,86% | 7,08% | 9,77% | 39,67% | 43,71% |
| ROS | 11,23% | 13,33% | 11,22% | 14,63% | 13,88% | 15,17% |

**Appendix XXV: The liquidity analysis in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Current Ratio | 1,28 | 1,18 | 3,78 | 3,27 | 2,88 | 2,53 |
| Quick Asset Ratio | 0,98 | 0,84 | 3,47 | 2,95 | 2,58 | 2,18 |
| Cash Position Ratio | 0,49 | 0,46 | 0,54 | 0,25 | 0,22 | 0,23 |

**Appendix XXVI: The turnover analysis in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total asset turnover | 0,90 | 0,86 | 0,82 | 0,80 | 1,93 | 1,87 |
| Inventory turnover | 11,10 | 10,22 | 11,42 | 11,10 | 11,62 | 9,59 |
| Inventory days | 32,42 | 35,24 | 31,53 | 32,42 | 30,97 | 37,56 |
| Receivable (debtors) days | 2,74 | 3,12 | 4,82 | 3,97 | 4,52 | 6,45 |
| Payable (creditors) days | 24,70 | 35,94 | 25,10 | 26,83 | 24,82 | 29,77 |

**Appendix XXVII: The indebtedness analysis in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Total indebtedness | 0,33 | 0,29 | 0,27 | 0,24 | 0,56 | 0,54 |
| Equity ratio | 0,67 | 0,71 | 0,73 | 0,76 | 0,44 | 0,46 |
| Gearing ratio | 0,50 | 0,41 | 0,36 | 0,31 | 1,28 | 1,19 |
| Interest cover | 593,38 | 1459,30 | - | 4806,87 | 59,30 | 434,08 |

**Appendix XXVIII: The analysis of operational indicators in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Wage productivity | 6,94 | 7,18 | 7,36 | 7,65 | 7,69 | 7,89 |
| Stock turnover linkage | 0,09 | 0,10 | 0,09 | 0,09 | 0,09 | 0,10 |
| Total cost of turnover | 0,64 | 0,65 | 0,66 | 0,64 | 0,65 | 0,63 |

**Appendix XXIX: The Altman analysis in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Altman index | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| x1 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| x2 | 0,10 | 0,06 | 0,05 | 0,07 | 0,06 | 0,05 |
| x3 | 0,10 | 0,11 | 0,09 | 0,12 | 0,27 | 0,28 |
| x4 | 2,00 | 2,43 | 2,76 | 3,24 | 0,78 | 0,84 |
| x5 | 0,90 | 0,86 | 0,82 | 0,80 | 1,93 | 1,87 |
| Z-Score | 2,13 | 2,29 | 2,31 | 2,58 | 3,15 | 3,13 |

**Appendix XXX: The Kralicek Quicktest in New Look Ltd. (2010-2015) (Source: Own elaboration, 2016)**

| Year | Capital power | | Debt repay. period | | Financial stability | Financial efficiency | | ROA | | Profit situation | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | mark | years | mark | mark | % | mark | % | mark | mark | grading |
| 2010 | 67% | 1 | 2,6 | 1 | 1 | 14% | 1 | 10% | 3 | 2 | 1,5 |
| 2011 | 71% | 1 | 1,9 | 1 | 1 | 18% | 1 | 11% | 3 | 2 | 1,5 |
| 2012 | 73% | 1 | 1,9 | 1 | 1 | 17% | 1 | 9% | 3 | 2 | 1,5 |
| 2013 | 76% | 1 | 1,5 | 1 | 1 | 19% | 1 | 12% | 3 | 2 | 1,5 |
| 2014 | 44% | 1 | 1,6 | 1 | 1 | 18% | 1 | 27% | 1 | 1 | 1 |
| 2015 | 46% | 1 | 1,6 | 1 | 1 | 19% | 1 | 28% | 1 | 1 | 1 |