Mendel University in Brno
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Economic Analysis of the Company with Respect to its' Localization

Diploma thesis

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I declare that I have submitted the diploma thesis prepared by myself with using the sources listed in the list of sources.

In Brno on 24 May 2015 _____

Abstract

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The main aim of this thesis is to find out if the chosen company is financially healthy and to evaluate the influence of the company on the region of its seat. In the first part of thesis, the literature review, the author deals with general definitions of terms such as region, regional development, regional policy and then more specifically, what is the economic analysis. The second part involves already practically made economic analysis of the selected company, characteristic of the region in which the company operates and localization analysis. The financial results are compared with company's competitor and with the particular industry. The localization analysis is described from the economical, social and environmental point of view.

Keywords

Region, Regional Development, Regional Policy, Regional Economy, Economic Analysis, Financial Analysis, South-Moravian Region, Business Environment, Competition

Abstract

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Hlavním cílem této práce je zjistit, jestli je vybraná společnost finančně zdravá a vyhodnotit její vliv na region, kde má své sídlo. V první části této práce, literárním přehledu, autor pracuje s obecnými definicemi termínů, jako je region, regionální rozvoj, regionální politika a potom více specificky, co je to ekonomická analýza. Druhá část již obsahuje prakticky vypracovanou ekonomickou analýzu vybrané společnosti, charakteristiku regionu, v kterém společnost podniká a lokalizační analýzu. Finanční výsledky jsou porovnány s konkurencí a s výsledky v určitém průmyslu. Lokalizační analýza je pojata s ekonomického, sociálního a environmentálního aspektu.

Klíčová slova

Region, Regionální rozvoj, Regionální politika, Regionální ekonomie, Ekonomická analýza, Finanční analýza, Jihomoravský region, Podnikové prostředí, Konkurence

Content

1 Introduction

When goals are preparing by the company, this is based on the assumption of behavior as the economic entity in the market that means to generate profit. Every company is therefore looking for strategies to achieve it. The primary objective how to make a profit is economic performance, which is affected by the position on the market, ensuring the stability of economic prosperity and ensuring the reputation of the company and increasing the market value of company.

The economic performance of the company depends on internal factors that influence the firm from inside. Among those we can rank the ability of management to ensure the profitability of the company, work efficiency of employees, fulfilling the expectation of owners, etc.

The economic performance of the company is also dependent on external factors that influence the venture from outside, with which the company must settle and become competitive. The key attribute for the competitiveness is the localization of company. Just select the place of business is important for the company because the terms of transport serviceability, technical facilities, availability of basic production factors, availability for customers, etc.. These location factors are crucial in relation to the potential of the selected area, whether the economic activity of the region is sufficient for business development, whether the conditions for the selected regional market are appropriate, what is a competitive market environment, what are the barriers to entry, whether it is required number of potential customers in place of business.

The aim of the economic analysis of the company is assessment of its economic performance. Economic performance here can be seen as one of the views on the success of the company, its potential and status. Economic performance are assessed on the basis of multiple criteria, which can be summed up into subgoals - an assessment of the financial health of the company, assess the value creation and its position in the industry, a competitive and strategic position of the company.

2 Objective of This Work and Its Contribution

This essay deals with economic activity of given company with respect to its localization. This topic was chosen because nowadays economic situation, especially financial one, is the most controlled aspect in many companies. This is meant in the terms, how the small and medium firms or corporations are leaded in relation to the turnover and profit of the company. Usually, these factors are compared with the forecasts, plans and previous years of their activity. Thus, it will be approached how the company manages its activities with respect to given competitor and industry. The economical, social and environmental insights were established for this localization analysis. *Thereafter with all these findings as the main aim, it should be able to discover if the company is financially healthy and if occupies the position of a leader or leading entity in area of its activity*.

In other words, it will be evaluated the economic activity with the help of common financial analysis. The next aim is to uncover how the chosen company influences the region of its seat.

To achieve the main aim of this thesis, it has to be splitted up to the following sub-objectives:

1. Compilation of the theoretical base related to the topic of this issue.
2. The assessment of the economic performance of the company and comparison of reached values with similar competitor and industry.
3. To make a localization analysis followed by subsequent evaluation of the status-quo regarding to the chosen company settled in its region and thus its significance for this region.
4. Creation of proposals and recommendations for improving the economic performance in the company and outline the direction of development in case of realization of recommended changes.

Based on the above objectives are compiled following research questions:

1. What is the economic level and development of the given company?
2. How large is the total impact of the company to the local region?

3 Literature Review

In this chapter, the overall information will be described, as what is the definition of the region, delimitation of the term region, what regional development means and regional policy as well, why we have it. Afterwards, how the instruments of the regional policy works, what kinds of regional policy do we have.

3.1 Region and Regional Delimitation

3.1.1 Region

Firstly, with the help of different authors, the variety of descriptions of region is introduced. Region is specified in a dozen publications in many ways. Actually, none of the definition is (and cannot) be regarded as a universal and generally valid. Ii could be only said that the correct definition of the region depends on the purpose for which is used. A common feature of all definitions of the region, however, is that the region is such a single geographic area that we can see as one object.

In the view of Ježek, 2008 the region is “result of a process of abstraction, generalization”.

In other view, “the region is a spatial unit that is using one or more characters; it is dissimilar from a wider area and is stated for an actual intention or a function.” (Metodická podpora regionálního rozvoje: online, 2014)

Dickinson, 2007 describes the region as “undoubtedly one of the catchwords of our day among both popular and scientific writers. To the practical man of affairs a region is just an area with certain characteristics (often mere size), in virtue of which it is a suitable unit for some particular purpose of business and administration. To the scientist, and above all to the geographer, a region is an area which is homogenous in respect of some particular set of associated conditions, whether of the land of the people, such as industry, farming, the distribution of population, commerce, or the general sphere of influence of a city.”

According The Regional Research Institute, 2013 the region is „in most instances a geographical area smaller than the nation in which it is found. So a region might be a city, a county, group of counties or a state. Regions often defy governmental boundaries, as when the issue under study relates to a labor market area or a watershed."

According this definition it could be seen the Brno-country, because on the map it is displayed as this delaminated area with own form, with own labor market, on which other smaller municipalities are connected and many other characteristics.

In contrast Anděl, 1996 speaks about region as a complex dynamic surround system (or sub-geographic system), which is created on the surface based on certain characteristics that differ it from its nearby. Regions can be perceived as systems. Some regions are not grounded in the inner similarity of phenomena, that compose it, but in the intensity of links (relations), which interconnect its various parts. This is such the big cities, which are surrounded by facilities for offering goods, services and employment opportunities (see Christaller theory of central places). It is a relationship of city versus background. These regions are called nodal. Difference in quality and characteristics of regions, resp. difference in size and complexity, it is possible to determine by ordering regions in so-called hierarchy. The nodal region is a major center or focal point (nodes, focus). This center is the bearer of progress (activities, innovation), and most crucially affect their background. This background is the territory that surrounds the center and it is apparent his influence. This is not same in the whole background. With increasing distance, the influence of the core decreases and shows the influence of nuclei neighboring regions. Therefore, the borders of regions are not mostly sharp, they are soft - they are oscillating. As said before for example Brno-Country is in fact this nuclei neighboring region because the Brno city is major center offering goods, services and employment opportunities and in some way is influencing this Brno-Country neighborhood.

3.1.2 Delimitation of Region

The way how the region is defined is called regionalization and region can be determined on the basis of many criteria. Toušek (2008) united these criteria to classification systems clarifying the general concept of region. It was used for classification four aspects: industry, methodological, taxonomic and formal.

From a sectorial point of view, regions are divided into three types: physical-geographical (natural) region; socio-geographical region and complex geographic region (Hampl, 1971). In terms of methodology, regions are judged according their purpose and can be divided into three groups: the region as a tool of geographic research (statistical region); geographic region as an object of research ("target" region); region as management area tool or planning region (Dziewoński, 1967).

From a taxonomic point of view we classify regions as individual and typological. Whereas, individual regions are defined as specific, unrepeatable, or unique territorial units, usually carrying a specific name (e.g. Šumava, Karpaty, etc.). Typological regions are then part of a certain type of region, which are for instance regions with a certain population density, with percentage of unemployment, national parks, etc. (Toušek et al., 2008). Viewpoint of form is considered the most important aspect of classification.

All classifications according the form are defined by two basic types of regions, whereas some authors still add to this classification a third type of region. From this perspective, then we can divide, by Haggett (1965) and Hampl (1971), regions into: homogeneous regions (also formal, scalar, uniform); nodal regions (nodes, vector, functional, or catchment) and planning regions (also organizational or development one).

Another aspect, according which it could be defined a certain type of region, is hierarchy. Hierarchical structures are used for orientation and for an analysis of phenomena and processes, also define the different levels of studied phenomena. Hierarchical structures differ in type of regions. In the case of physical-

geographic regions are indicated levels as*:* topical, choric, regional, planetary. A hierarchical system of socio-geographic regions consists of levels as: micro-regional, interregional, macro-regional, national and global (Toušek et al., 2008).

In terms of hierarchy can be defined a unified classification of territorial statistical units of the European Union (NUTS - from French translation La nomenclature des unités teritoriales statistiques), which in each Member State system unifies the administrative structure of the regions. These regions are classified according to number of inhabitants (as Table 1), and are defined by three main levels: NUTS I, NUTS II and NUTS III. In addition to these three main levels are also defined two lower-level administrative units with respect to the statistical division, called local administrative units (LAU). This division became mandatory since 2003 in Czech Republic. These units can then be more easily monitored and analyzed in their economic and social situation. There are several degrees of these units NUTS, the rule is that higher-order units are made up of a certain number of units of a lower order (Funds of European Union: Information about EU Funds, 2007).

Czech Republic has been historically traditionally divided into regions corresponding to NUTS level III, but due to the entrance into the European Union had established between the state and counties still one step breakdown of NUTS II level as cohesion regions. On the level of NUTS II is directed support from EU funds in the Convergence objective and partly Regional Competitiveness and Employment objective (Válkova, 2013).

Table 1. Administrative division of the state according the EU standards

Level	Name	Number of units	Minimal number of inhabitants	Maximal number of inhabitants
NUTS I	State	1	3 million	7 million
NUTS II	Cohesion regions	8	800 000	3 million
NUTS III	Counties	14	150 000	800 000
LAU I	Districts	76 + 10 in Prague districts	-	-
LAU II	Municipalities	6249	-	-

Source: http://www.strukturalni-fondy.cz. Modified by author, 2015.

To delineate the region can be used as well the internal differentiation, or an internal structure that allows individual regions to be structured into smaller units. In the case of homogeneous regions, internal structure is unit, but with increasing hierarchical levels and an increasing number of criteria homogeneity decreases. In these cases area can be divided into core and other parts. At the nodal regions, which are inherently heterogeneous, their structure can be divided into several parts: the core (nodus), background of core, semi-peripheral areas and peripheral areas (Toušek et al., 2008).

Furthermore, we can divide regions based on economic potential into groups: underdeveloped peripheral regions; declining old industrial regions; central regions; rapidly expanding regions (Hampl, 1996).

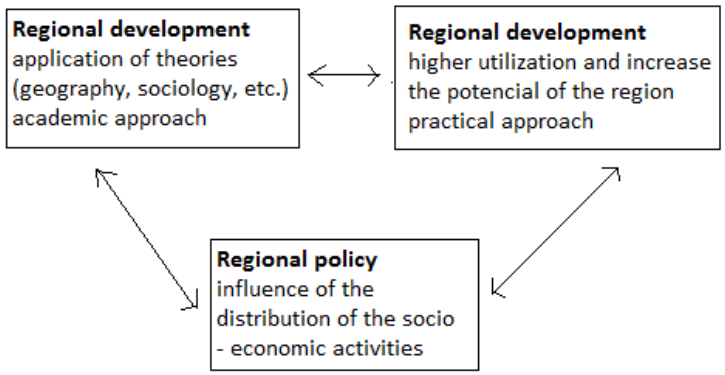
In light of state support may be divide regions according to Act No. 248/2000 Coll. Support of Regional Development as rural, urban, frontier, mountain, coastal areas and islands, regions with structural weaknesses or in decline.

3.2 Regional Development and Regional Policy

3.2.1 Definition of Regional Development

The concepts of regional development and regional policy are very closely linked together and they are complementary. Regional policy is the practical application of theories of regional development. Anyway regional development is quite a new discipline, approximately 70 years old. As it is said before, the link between these two terms are explained by two approaches as in the Figure 1.

Figure 1 Dual Understanding of Regional Development and Regional Policy



Source: Wokoun., 2008, p. 12., Modified by author.

Wokoun, et al. 2008 introduce this dual understanding as follows:

According practical approach is by regional development meant higher utility and increase the potential of given systematically delimited area. This area resulted from spacial optimization of socio – economic activities and utility of nature resources. This increase and higher utility signifies better competitiveness of private sector, standard of living and environmental conditions etc. The potential of region could be measured by indicators such as GDP per capita, level of unemployment, gross, salaries, educational structure, quality and availability of infrastructure. Natural- geographic potential could be evaluated for example by the amount and quality of scarce resources, by pollution of air, waters and

soil. This practical approach is widely used in nonacademic institutions, especially such as regional, city, municipal office, private corporation‘s one.

The second way how to understand the regional development is academical approach. This one is about application the theories namely economy, geography and sociology, that are solving phenomena, processes and relationships in the systematically defined area. These all is influenced by natural-geographic, economic and social conditions in given region. The search is primary for causal regularities, distribution economic activities, uneven settlement area and subsequently searching the tools for influencing these processes, controllable and uncontrollable factors, development etc. This explanation is often called regionalism and is typical for academic sphere.

Academic approach of regional development creates for regional policy findings, which are used afterwards for practical approach of regional development (closed circle as in Picture 1). By these findings Wokoun, Malinovský et all mean especially characteristic of regions, their developmental potential, drawbacks in development and subsequent searching of tools for regional policy. The awareness about these facts should lead to a better regional distribution of socio-economic activities. Based on this information the Strategic development plans could be created. Anyway, these Strategic plans are not enforceable by law (only the spatial plans), so it is up to the municipality, council or state if they use this potential to make strategy for its area.

So regional policy affects the real regional development on the basis of knowledge about regional development and regional development in turn affects the regional policy.

3.2.2 Strategy of Regional Development

Based on theories of regional development, two basic development strategies are reported by Ježek (1998):

- Exogenous strategy, which is aimed at "encouraging the settling of new businesses or promote the export capabilities of regional enterprises. This is mostly

on acquiring extra-regional sources (highly skilled workforce, capital, innovation). It focuses primarily on industrial enterprises ".

- Endogenous strategy is focused on "use of available resources and competitiveness of regional businesses." It is characterized by decentralization of public administration. The participation of local and regional actors in decision-making process is considered as a crucial factor. This strategy is focused on the development potential of the region, on its natural resources, capital, infrastructure, labor, culture, etc.

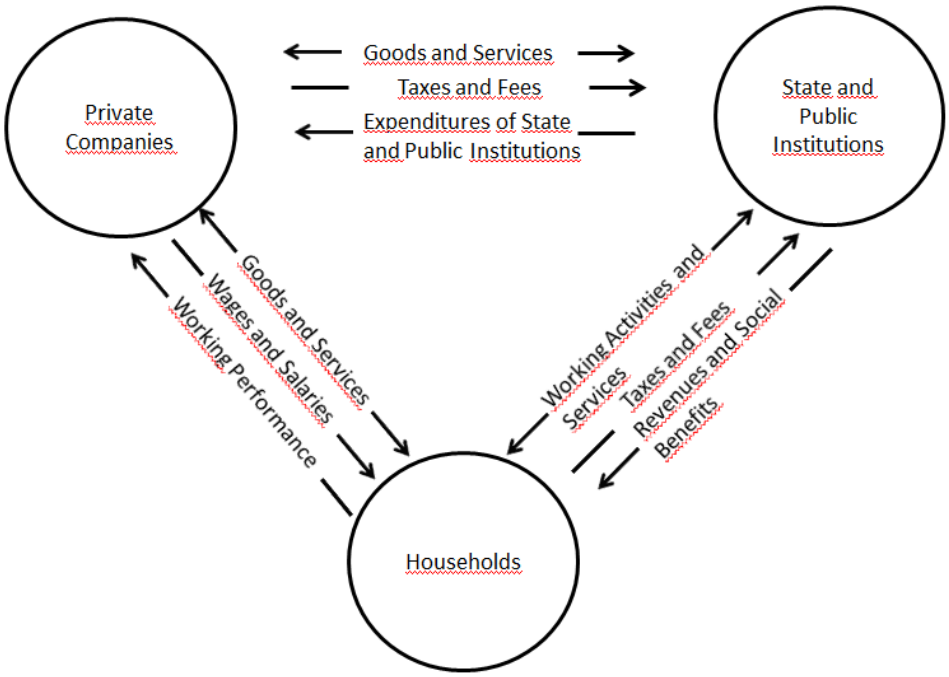
These factors should be used continuously, i.e. taking into account the ecological and environmental aspects. Exploiting this potential should be inter-sectorial focus. Small and medium-sized enterprises with a focus on competitiveness and innovation activity receive much more support. Especially, in the area with the higher unemployment rate it is promoted the economic activity at whole.

3.2.3 Actors of Regional Development

The key issue of regional policy is to create the basic institutional framework and partnership. Besides the direct implementer of regional policy measures is necessary to distinguish and define the relevant regional development actors, their mutual relations, rights and obligations. These networks will again vary according to the level of the concept of regional policy, assuming a certain spatial or factual composition, so called the key actors of county regional policy are one of the protagonists of national regional policy.

Ježek (1998) defines three main groups: business entities, private households and the public sector. All actors, which somehow figure in the economic area, they are getting to the common linkages that may have the nature of competition, specialization and coordination, cooperation and combination. And those linkages influence spatial organization of the economy in the region. If an economic entity wants to enter on the market, the analysis of these relationships is a key factor.

Figure 2 Actors of Regional Development



Source: Ježek, 1998

3.2.4 Definition of Regional Policy

Despite the fact that regional policy is for many people a relatively new policy direction, which got into the subconscious of people after joining their state to EU, it cannot be considered as a new discipline. Regional policy is evolving for several decades, and during that time has undergone many changes and it has been countless times defined and its objectives and tools have changed over the years. That is why today there is no single definition, but is given more definitions. The concept of regional policy can be explained as a tool for reducing inter-regional disparities (differences), which can be thought as different level of various socio-economic indicators or quality of the environment in the regions. Regional policy has then available tools that can correct these varieties (Válková, 2013).

There are countless definitions of regional policy, but none of them was considered to be generally acceptable. Yet can be completely defined the regional policy according Dictionary of Human Geography as “a part of the state policy influencing the distribution of the main economic sources and activities in the whole area of the state or in its part. Regional policy includes arrangements conducive on the one hand the growth of the level of economic activity in the area, where is high rate of unemployment and low chance for natural economic growth, and on the other are arrangements conducive the control of economic activities in area with overgrowth” (Wokoun, 2004).

Wokoun (2008) defines regional policy in general level *as* a set of objectives, measures and tools to reduce too large socio-economic levels of each region.

Similarly, the regional policy in Europe is also seen as an activity whose primary objective is to contribute to reducing the differences between the levels of development of individual regions and ensure the balanced development (Ministerstvo pro místní rozvoj, 2002).

Stejskal, Kovárník (2009) quote the most important definitions.

In the book “Velká ekonomická encyklopedie” is regional policy defined as set of objectives, measures and instruments leading to reducing too big disparities in socio-economic level of given regions (Žák, 2002).

Goodall (1987) mentioned that regional policy is a part of state and is trying to influence the allocation of the main economic activities throughout the country.

According Vanhove, Klaassen (1987) Regional policy should lead to the achievement of two interdependent goals - economic growth and improving social distribution of economic effects. Tool, according them, are all public interventions that help to achieve a better geographical distribution of economic activities.

Adamčík (1998) says that the objective of regional policy is effective distribution of economic and non-economic activities through public direct and indirect intervention of the state, region, villages and cities.

Taylor and Armstrong (2005) explain that regional policy exists because of persistent regional differences that have an impact on the prosperity of the region. However, it should be noted that the presence of regional differences in economic prosperity is not sufficient in itself to justify the existence of regional policy. It is necessary to identify the cause of the problem and use tools to increase the prosperity of the region, and thereby reduce inter-regional differences. Regional policy can be understood by the authors as part of a broader comprehensive economic policy involving the whole economy.

It does not represent the unity such that the regions must look like one another that even cannot be achieved. Each region is unique compared to others, in something peerless. The main purpose is to achieve that all regions would figure at same or at least comparable socio-economic level. In reality the most advanced regions usually do not wait for these less developed one and the differences are thus still increasing. Otherwise, if the most advanced regions wait for these less developed one, the process of development will be considerably delayed and this is politically unacceptable.

As said before we can look at the policy from the complex point of view. Wokoun et al. next different types of regional policy are defined in three forms (Wokoun et al., 2008):

1. *Growth-oriented regional policy*

Its objective is the optimal allocation of factors of production in the area through appropriate coordination of private and public investment activities.

2. *Stabilizing-oriented regional policy*

Its aim is relatively balanced economic structure in each region, which is achieved through the coordination of regional policy and sectorial policies.

3. *Infrastructure-oriented regional policy*

Its aim is more or less relatively equally set-out of individual regions‘ infrastructure.

3.2.5 General Goals of Regional Policy

The general objective of regional policy is the balanced development of regions, reducing economic disparities between regions and thereby contributing to the overall development of country. Specific objectives are based on the specific problems of the region, and it could be for example encouragement of entrepreneurial activity, housing construction in the region or improvement of technical infrastructure.

There are two approaches to regional policy - traditional and acceleration, as introduced Wokoun et al (2008):

1. Traditional approach (exogenous), based on state interventionism, control the development of problem areas. It tries to balance socio-economic disparities between regions and the creation of equal conditions, anyway social goals predominate. Depending on the type of problem regions (depressed, lagging, overloaded) are drawn national and regional development programs. The main instruments of regional policy are the direct and indirect support of private capital, constraints in the case of localization of private companies in congested regions, control in deployment of states‘ enterprises and infrastructure. Characteristic are redistributive processes. The doctrine of exogenous development was used in the first half of the 70s of the 20th century.
2. Acceleration (current, endogenous) approach, which is applied from the second half of the 70s of the 20th century to the present. There are two main types of models, the first of which puts emphasis on human capital accumulation and the other on the accumulation of knowledge capital (technical and technological innovation).

3.2.6 Tools of Regional Policy

It was spoken about the development tools by Blažek and Uhlíř (2011) in the book *Teorie regionálního rozvoje*. From Neoliberal aspect point of view the help in the development of any company is considered to facilitate easier access to the capital by convenient loans or qualified advice especially beginners, but generally all small and medium enterprises. Anyway, development tools we can in general describe as aids to performance and support of any activity. In the context of regional development and policy, tool designation can be defined as a generic term for all resources that help to achieve development goals of the territory. As it has been already mentioned more widely in Wokoun (2003), the regional policy tools focus on attracting more capital and entrepreneurial activities in region, stimulating the use of the internal development resources, resettled or stabilization of population in the region.

In the book *Úvod do regionálních věd a veřejné správy* Wokoun (2004) more closely described the tools as follows:

1. Macroeconomic tools

The use of macroeconomic tools is for the solving of the regional problems strongly influenced by national economic goals. Among the goals is especially included keeping the inflation rate on desirable level, equal balance of payments or realization of goals of industry or agrarian policy.

a) Fiscal policy

Through the state budget the interregional redistribution is implemented. Mechanism of the redistribution consists in the system of taxes and levies on one side and in structure of expenditures from state budget on second side.

b) Monetary policy

The main issue of monetary policy is influencing the value of money in economy. Its use is really strictly restricted for the solving of regional problem because its negative influence on inflation.

c) Protectionism

This is about the state influence of imports that are control through the different limits and import duties. The limits and import duties are product oriented, but their influence is huge. It is greater the higher the spatial concentration of production of protected commodities.

2. Microeconomic tools

The aim of microeconomic tools is regeneration of equilibrium at the regional labor markets by influencing the labor and capital in these regions.

a) Tools for relocation of labor forces

Instruments, especially in the early days of regional policy supported the emigration of the population from the economically weak and less developed regions. Currently, these tools aim to attract capital into the problem areas through retraining to improve the quality of the workforce and create new jobs.

An example may be training courses for jobseekers. These training courses are mediated by labor office and should increase the skills of jobseekers and thein future employability. However, if for any reason the need arises to encourage the emigration of the population of the region, used economic instruments focus on the partial reimbursement of costs associated with emigration.

b) Tools for capital relocation

The main aim of this tool is creation of new job opportunities in region. It could be achieved either through already established companies or by attracting new one. It is done through two ways and this is stimulation or restriction. Stimulation is usually about decrease in taxes rate and restriction is in contrast about increase in taxes rate.

This tool is implemented in South Moravian region. Its aim is to create the suitable environment for the new entrepreneurial small and medium entities and also create attractive area for foreign investment.

3. Other tools

a) Administrative tools

In the practice the administrative tools are rarely used in the countries with the market economy because these tools have been usually repressive with concerning economic subject. It is because the selected companies on the basis of an administrative decision were ordered to stop economic activity that did not meet the needs of the balanced development of the region.

b) Institutional tools

The main institutional tools for supporting the regional development are regional development agencies. Their main focus, however, is usually the creation of regional security programs and plans, providing services for businesses and for regional and local public authorities, municipalities and regional presentations, educational and training activities and finally participate in the preparation and implementation of the programs of the European Union.

3.3 Economic Analysis

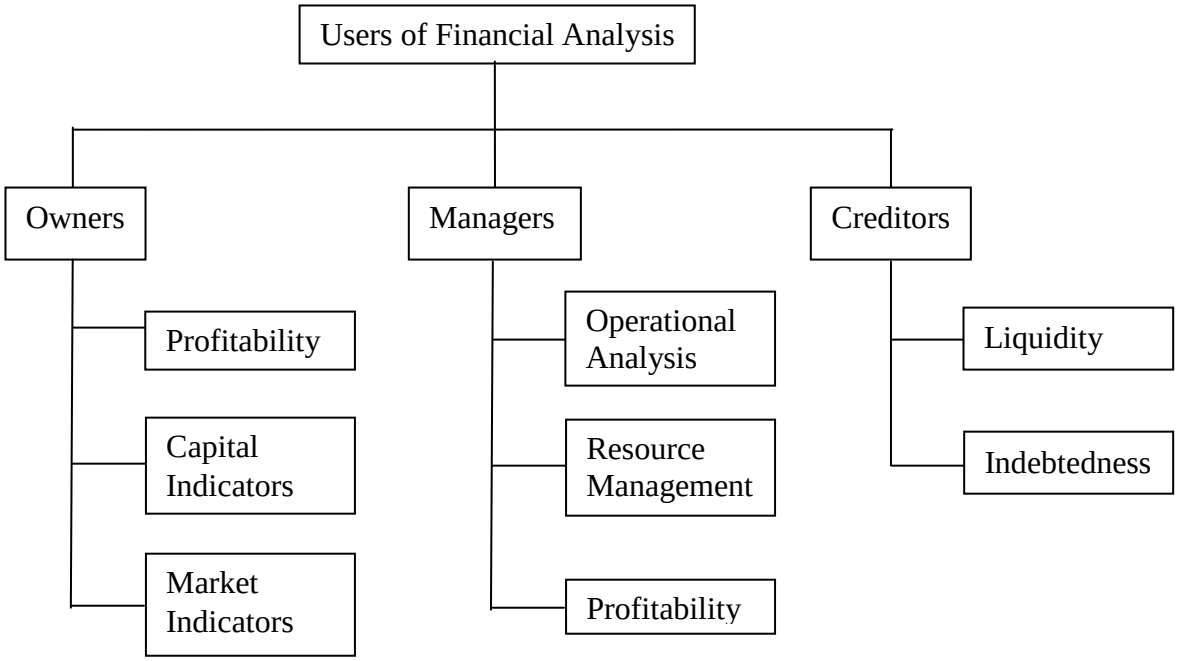
Synek (2003) described economic analysis as "monitoring of a given economic unit (phenomenon, process), its decomposition into sub-parts and more exploration and evaluation. The aim is determination of ways how to improve these sub-parts and their recomposition into the modified whole, in order to improve its functioning and performance improvement. Economic analysis can cover the company at all or separate parts. As the subject of research could be surveyed nor only financial activities of the company or also non-financial. The result is an assessment of the current state and suggestions for improvement.

For the partial evaluating of the results the individual indicators are used that are compiled on the basis of the evaluation criteria. As basic indicators can be considered standards resp. the planned value, time comparison resp. comparison of relative and absolute indicators, competitive comparisons also sectorial comparison, spatial comparison and general requirements for instance for em-

ployees (Synek, 2003). These criteria can then be both economic (in the form of monetary indicators), to which you can sort indicators for the analysis of assets and financial position and income indicators for analysis of the situation, and also non-economic (in the form of nonmonetary indicators), which can be regarded as the product of the market share, quality of management, image of products, innovative capability, customer satisfaction, etc.

The form, structure and content of economic analysis depend on determining to whom and what purpose it serves. For typical entities that use this analysis are considered: investors (shareholders, owners), managers, business partners (customers, suppliers), banks and other creditors, competitors, employees of the company, auditors, accountants, tax advisors, stockbrokers, state and national authorities (Hrdý, Horová, 2009). The focus of individual subjects is shown in Figure 3.

Figure 3 Focus on Users of Financial Analysis



Source: Hrdý, Horová; 2009

3.3.1 Financial Analysis - Horizontal and Vertical Analysis

Horizontal and vertical analysis are techniques of percentage financial statements and are particularly useful for identifying trends in the firm's assets, liabilities and income composition.

Horizontal in other word comparative financial statement analysis examines trends in individual items of financial statements and quantifies the annual changes. When horizontal analysis is assembling, so called year-to-year change analysis or index-number trend series analysis are most frequently used. This index-number trend series analysis determines the percentage change from the prior period, or you can use differentiation, the absolute differences between variables.

Year-to-Year Change Analysis:

Absolute change = current year balance – last year balance

Percentage change=[(current year balance – last year balance) / last year balance] * 100

Index-Number Trend Series Analysis:

index number = (current year balance / base year balance) * 100

Vertical analysis or structural analysis is in terms of percentage share of individual items of financial statements in the total value or as a proportion of o total group or subgroup an item represents. Since the sum of these individual items totals one hundred percent, this analysis technique is said to yield common-size financial statements. The balance amount can be understood not only as the sum of all items, as well as individual parts (for example, can be analyzed separately current assets, fixed assets, liabilities, etc.), but more often we assume the total assets of a single sub-heading according to the need of financial analysis (Chmelíková, 2005).

3.3.2 Financial Analysis – Differential Ratios

Differential ratios represent the difference of two absolute indicators. The most commonly used differential indicator is the net working capital, which forms part of long-term resources to covering current assets. Net working capital is an

indicator of solvency of the company. It is calculated as the difference between current assets (i.e. inventories, short-term receivables and financial assets) and current liabilities. It should be in positive values, with a negative result it is called as bad debt (Kislingerová, Hnilica, 2008; Hrdý, Horová, 2009).

Net Working Capital = Current assets – Current liabilities

3.3.3 Financial Analysis - Ratio Analysis

Financial ratio analysis, according to Blaha and Jindřichovská (2006), deals with the structure of company assets, quality and intensity of their use, the way of financing, cost structure, profitability, company solvency and liquidity. Its aim is to recognize the financial health of the company. Ratios are an essential tool of financial analysis, which are divided by Hrdý and Horová (2009) mostly into five groups of indicators: indicators of profitability, activity, liquidity, financial leverage and capital market indicators, which Kislingerová and Hnilica (2008) added by indicators of labor productivity and business performance. It is necessary to compare the resulting values with the particular situation in the sector and also to take into account the specifics of the given company. Many authors are engaged by ratio analysis in their publications, anyway structure a procedure of calculation is the same.

a) Liquidity Ratio

Liquidity indicators explain the relationship between current assets and current liabilities. These indicators determine the ability of the company to settle its current liabilities as described by Blaha and Jindřichovská (2006). They are counted from the balance sheet, where the assets are classified according to their degree of liquidity (the ability to be converted into cash). Below is listed the basic liquidity indicators along with their calculation.

Current ratio = Current assets / (Short-term liabilities + Short-term bank loans)

Quick ratio = (Current assets - Inventory) / (Short-term liabilities + Short-term bank loans)

Cash ratio = Short-term financial assets / (Short-term liabilities + Short-term bank loans)

b) Turnover (activity) Ratios

These indicators are discovering how a company manages its assets and if their size in relation to economic activities are appropriate. If a company has more assets than is optimal, is greatly burdened by interest and profits are squeezed by interest burden. If, on the other hand, company owns too few assets, it is forced to give up potentially favorable business opportunities, says Blaha, Jindřichovská (2006). When counting indicators of activity the data from the balance sheet and from the profit and loss account are used. We find the turnover - expresses the number of cycles (asset / inventory) for the period, during which it was achieved revenues and period of turnover - the number of days that it takes one turnover.

Total asset turnover ratio = Sales / Total assets
Fixed Asset turnover ratio = Sales / Fixed assets
Inventory turnover ratio = Sales / Inventory
Average collection period = 365/ Sales on Credit / Accounts receivable
Average debt period = 365/ Sales on Credit / liabilities

c) Debt Ratios

It measures the extent to which the company uses to finance its assets by foreign sources (financial leverage). Assets financing only by own equity is expensive and financing only by foreign capital is on the other hand too risky. In a well-functioning enterprise, however, even high financial debt contributes to the return on equity. Creditors are favor of lower debt (lower risk), while the owners of the company they want to use effects of financial leverage. It uses information from the balance sheet and profit and loss account.

Total Debt Ratio = Total debt / Total assets

Current debt ratio = (Short-term liabilities + Short-term bank loans) / Total assets

Long-term debt ratio = (Long-term liabilities + Long-term bank loans) / Total assets

Coefficient of self-financing = Common equity / Total assets
Equity multiplier = Total assets / Equity
Debt-equity ratio = Total debt / Common equity
Times interest earned = EBIT / Interest expense

d) Profitability Ratios

As reported by Synek (2011) profitability indicators measure the net result of company efforts. Combining the effect of liquidity, activity and indebtedness influence the profit (after taxation). According Kislingerová and Hnilica (2008) profitability ratios report on the effect achieved by inserted capital and most common form of this indicator is the income/capital. It uses data from the balance sheet and profit and loss account. The following paragraph lists the indicators of profitability.

Return on total assets ROA = Earnings before interest and taxes EBIT / Total assets
After tax version: **ROA** = (Earnings after taxes (EAT) + Interest expense after tax) / Total Assets
Return on equity ROE = Profit for the accounting period (Earnings after taxes) / Equity
Profit margin = (Earnings after taxes + Interest expense after tax) / Sales

Profitability ratios, most frequently return on assets and return on equity can be analyzed by using a pyramid system parameters. The principle is the decomposition of one indicator to more detailed indicators. The goal is to find the reasons behind the company's financial situation. This decomposition is also known as Du Pont diagram. The return on equity (ROE) is one of the most closely watched indicators in determining the performance of the company, which is based on the interaction of three factors - the net profitability of sales, total assets turnover and ratio of total assets to equity (i.e. Financial leverage, or Equity multiplier).

$$\mathrm{ROE} = \frac{\mathrm{EAT}}{\mathrm{Equity}} = \frac{\mathrm{EAT}}{\mathrm{Sales}} * \frac{\mathrm{Sales}}{\mathrm{Assets}} * \frac{Assets}{Equity}$$

ROE = Net profit margin * Total assets turnover * Financial Leverage
ROE = ROA * Financial Leverage

3.3.4 Predicting Financial Distress

Evaluation of the financial health of a company is not only for the owners, investors or other internal users, but also external parties such banking institutions are interested in these results. For banks, it is very important to analyze the company's economic situation since the results will decide whether to lend or not lend the required capital. For this reason, banks create their own systems for evaluating the creditworthiness of companies and through the results of the analysis to judge the risk to be borne if the company borrows. There are many ways and each banking institution generally uses its own rating system.

a) Altman‘s Z- Score

As described in Chmelíková 2005 presumably the most famed model of financial distress is Altman's Z-score. It uses multiple ratios to generate a predictor of distress. Statistical technique (multiple discriminant analysis) serves to produce a predictor that is a linear function of several explanatory variables. This predictor classifies or predicts the likelihood of bankruptcy or nonbankruptcy. Five financial ratios are included in the Z-score:

X_1 = Working capital / Total assets,

X_2 = Retained earnings / Total assets,

X_3 = Earnings before interest and taxes / Total assets,

X_4 = Shareholders' equity / Total liabilities,

X_5 = Sales / Total assets.

Depicted X1, X2, X3, X4 and X5 reflect (1) liquidity, (2) age of firm and cumulative profitability, (3) profitability, (4) financial structure, and (5) capital turnover rate, respectively. The Altman Z-score is computed as:

$$Z = 0{,}717\ X_1 + 0{,}847\ X_2 + 3{,}107\ X_3 + 0{,}420\ X_4 + 0{,}998\ X_5$$

A Z-score of less than 1.20 suggests a high probability of bankruptcy, while Z-scores above 2.90 imply a low probability of bankruptcy. Scores between 1.20 and 2.90 are in the gray or ambiguous area.

b) Index IN05

Neumaier, Neumaierová (2002) described the first three indexes (IN95, IN99, IN01), that take into account littering of the Czech environment during the calculations. These variations can be divided according their use as follows:

- Creditor approach
- Owners approach
- Complex approach

In 2005, most recently modified version of IN05 was developed, which will be applied in this work.

According Zikmud (2011) Index IN05 does not evaluate only whether the company will go bankrupt in the near future or not, but also if it brings some value to the owner. This method is very popular in the evaluation of Czech industrial enterprises, because it was created based on the research of Czech firms. Czech economists often prefer him before using Altman index. The success of the overall index is quite high - around 80%. Index IN05 is successful of 77% in the identification of the threat of bankruptcy, while regarding the medium-sized enterprises, the success of the bankruptcy estimation is of 78%. Index IN05 operates with five coefficients and the calculation formula is as follow:

X1 = total assets/total debt

X2 = earnings before interest and taxes/ interest expense

X3 = earnings before interest and taxes/total assets

X4 = sales/total assets

X5 = current assets/short-term liabilities

$$IN05 = 0{,}13(X1) + 0{,}04(X2) + 3{,}97(X3) + 0{,}21(X4) + 0{,}09(X5)$$

Interpretation of result:

1. IN > 1,6 – excellent, creating economic value added,
2. IN < 0,9 –not creating economic value added,
3. 0,9 < IN < 1,6 – so called „Gray Zone“.

3.3.5 Methods of Intercompany Comparison

The financial analysis' results in themselves do not have much explanatory power. It is always necessary to compare these results with other indicators or with other entities. In the case of inter-company comparison it must be aware according which criteria the comparison is made and at the same time which companies will be included in the evaluation. There are two types of methodology how to compare the results, the first one is one-dimensional method and the second one is the multidimensional method as is described more precisely by Kislingerová (2008):

1. **One-dimensional:** This assessment is simple, if we investigate the group of companies according to one indicator, for example by return on equity, size of company or volume of turnover, in other words a one-dimensional assessment. Each such group of enterprises should be defined in time (for what period of time), factual (what is its element) and space (the point at which firms will occur).
2. **Multi-dimensional:** For a more comprehensive evaluation of group of companies, the multiple criteria are used for the comparison. For this reason the multivariate methods are used. Among them are involved four principles. First is **method of order**, where enterprises are ranked according to final results of individual indicators and all values of order are numbered. The next methods are **method of score, method of standardized variables, method of distance from a fictitious object and method of weighted indicators.** Mostly, the method of weighted indicators will be used for the purpose of this thesis.

4 Methodology

The first fractional goal 1 is in theory involved in the part literature review. There is general description, what the region is and its delineation followed by detailed definition about the regional development and regional policy. As well as, there are listed all the matters and specialties regarding the economic analysis. Used publications will be mentioned in the chapter sources.

The second fractional goal 2 will be achieved by the determining the economic situation of the company with the help of financial analysis tools as it is horizontal and vertical analysis, net working capital, utilization ratios (indicators of liquidity, activity, debt and profitability). The financial health of the company is evaluated using Altman index of credibility and Index IN05. The economic analyses will be developed through the individual financial indicators and the results will be compared to the results of competing company from the same area of seat. Company Analysis is performed for the period 2009 – 2013.

The third fractional goal 3 will be achieved through the localization analysis with a company's position in the region of its seat. The next analysis will be comprised of the basic characteristic of the given region, then in terms of economic activity and the last is thoroughly analyzed the industry in the given region. Thereafter the influence of given company from the four aspects, which are political factors, economic factors, social and cultural factors, and technological factors. The last section the effect on regional industry through share sales and in number of employees will be determinate.

The fourth fractional goal 4 will be gained by the results received from the previous partial goals. The author will evaluate the company's performance and make a proposal of the direction of a future development.

5 Own Work

5.1 The Characteristic of the Company

5.1.1 The Basic Characteristic

The name of the Company: HARTMANN - RICO a.s.

The seat of the company: Masarykovo nám. 77, Veverská Bítýška, 664 71, Czech Republic

Legal form: The joint stock company

UIN-No.: CZ 44947429

Day of establishment: January 1st, 1992

The sole shareholder: PAUL HARTMANN AG; Heidenheim, Paul-Hartmann-Strasse, 89522, Germany; UIN-No. HRB 661090

Shares: 27000 pieces of common shares with a nominal value of 10 000,00 CZK in certificated form

The registered capital: 270 000 000 CZK

The scope of the business according CZ-NACE: 21200: Manufacture of pharmaceutical preparations; G: Wholesale and retail trade; repair of motor vehicles; 00: Production, trade and services not specified in Annexes 1 to 3 of the Trade Act; 32500: Manufacture of medical and dental instruments and equipments; 461: Agents involved in the representation of the wholesale and by proxy of wholesale; 52: Warehousing and support activities for transportation; 52290: Other transportation support activities; 68: Real estate activities; 7120: Technical testing and analysis; 772: Renting and leasing of personal and household goods

5.1.2 Brief History of the Company

The first products with brand Rico saw the light back more than a century. The beginning of a successful company can be found already in 1891, when it was known as Richter & Compagnon founded in Chomutov.

The company specialized in dressing materials and success was achieved in manufacture on a European scale. In 1914, the Vienna stock company established Rico, whose name is derived from the major shareholders, Mr. Julia Richter and Henry Kohn. A few years later, the plant emerged in today's company's' seat in Veverska Bityska. The company Rico was one of the prominent manufacturers of cotton wool, bandages and hygiene tools even after its nationalization in 1946 and the following years of socialist planning. Opportunity to get back on positions that had once belonged, Rico achieved it again but as late as after the political-economic changes in 1989.

History HARTMANN - RICO a.s. dates from December 1991. To the company Rico Veverska Bityska entered the world's leading manufacturer of medical devices and sanitary products Paul HARTMANN. In the ten years of its existence, HARTMANN - RICO became the largest Czech manufacturer in its field, one of the leading distributors and also a prominent exporter.

5.1.3 Company Profile

HARTMANN - RICO A.S. ranks among manufacturers and distributors of medical and hygiene devices in the Czech Republic. As was said before, it was established in 1991 when Paul Hartmann AG acquired the former company Rico Veverska Bityska. The company is a part of the international group HARTMANN with headquarters in Heidenheim, Germany. Chosen enterprise via its daughter company in Bratislva is active also on the Slovak territory and employs more than 1,300 employees in the area of the Czech Republic. The purpose of the work is to provide their customers with products and services, which promote healing and care for health. Both are for professionals and wide public.

The company is constituted by free plants, the main and biggest is in Veverska Bityska. History of the plant dates back to 1905, when a kaolin factory was set up. In 1938 the factory was acquired by Ráček company, which a year after started production of medical and hygienic devices. After its nationalization in 1948 it formed a national company Rico, whose key production range was hygienic products and cotton wool. In 1991 a German company Paul HARTMANN AG acquires the former national company Rico. This change brought to the Veverska Bityska plant large investments and new focus on production of medical devices.

In the recent years the plant in Veverska Bityska is engaged in production of disposable surgical drapes and surgical sets.

The second plant is situated in Havlickuv Brod, county Vysocina. This plant focuses mainly on components for the final production of disposable surgical drapes. The main customer for the products of Havlickuv Brod is the plant of Veverska Bityska, where the disposable surgical sets are completed.

Figure 4 The plants

Veverska Bityska Chvalkovice Havlickuv Brod

Source: Internal materials of the company HARTMANN-RICO, 2014

The third plant is located in Chvalkovice, county Hradec Kralove. Manufacturing program of this plant specializes in production of MediSets, packing of surgical gloves, production of plaster of paris as well as gauze products for the tra-

ditional wound healing. During its successful privatization the plant in Chvalkovice became a part of the company HARTMANN-RICO. In 1995 the Chvalkovice plant took over the first production operation from the Paul HARTMANN AG group – the sterile swab manufacturing technology from France. In the following years the plant underwent major construction and technology improvements completed at the beginning of 2005.

The company is aware of its commitment to the quality of the environment. In its decisions on corporate activities and strategic steps the environmental aspect is always taken into account. For this reason, the company decided to introduce the system of environmental management in accord with the norm ISO 14001 is an integral part of the new system of corporate management.

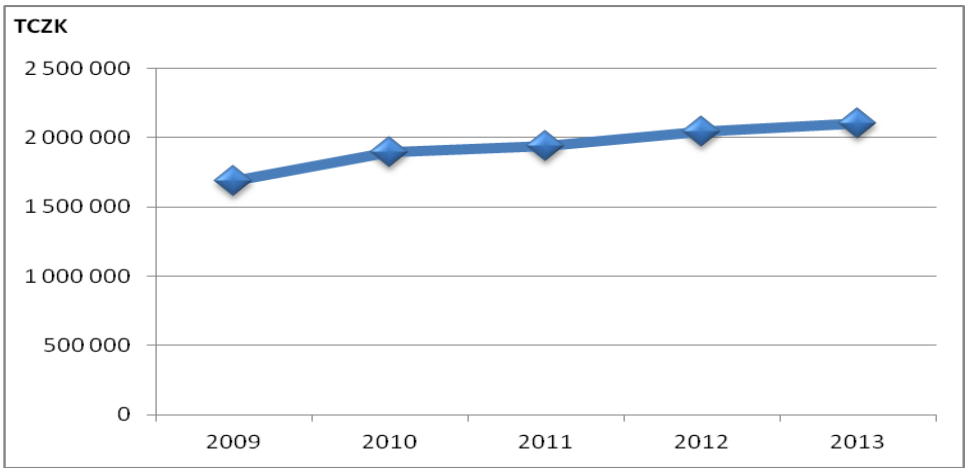
5.2 Financial Analysis

5.2.1 Horizontal Analysis

a) Horizontal Analysis of Balance Sheets

Horizontal analysis of the financial statements is done from the year 2009 until 2013. The final horizontal analysis is in the Annex 3.

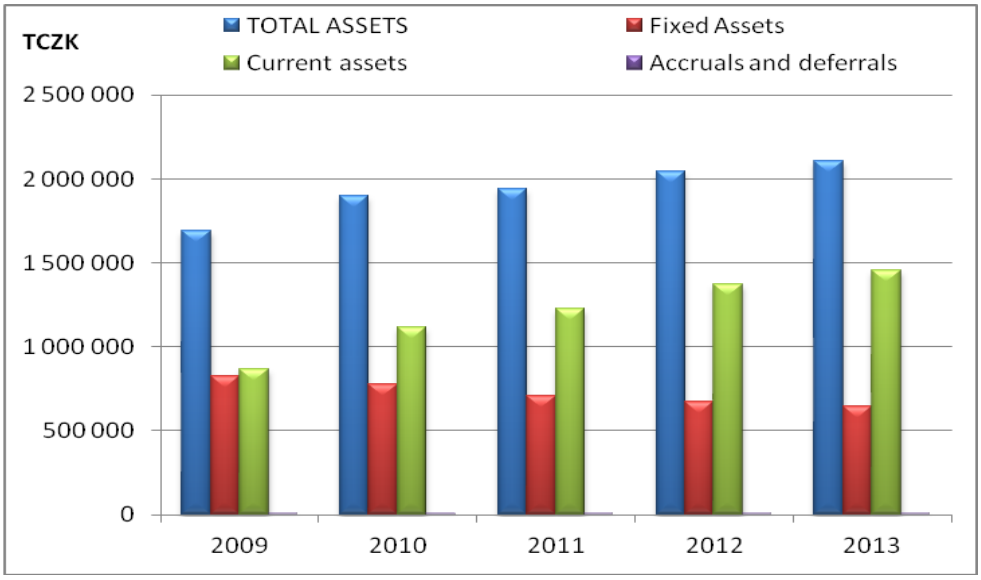
The chart 1. The Horizontal Analysis of the Total Assets



Source: Own work based on the financial statements of the analyzed company, 2014

It is obvious that in the chart the total assets reported slightly increasing trend for the whole period. From the year 2009 until 2013, the volume of the total assets increased mostly by 24, 55%.

The chart 2. The Evolution of the Total Assets



Source: Own work based on the financial statements of the analyzed company, 2014

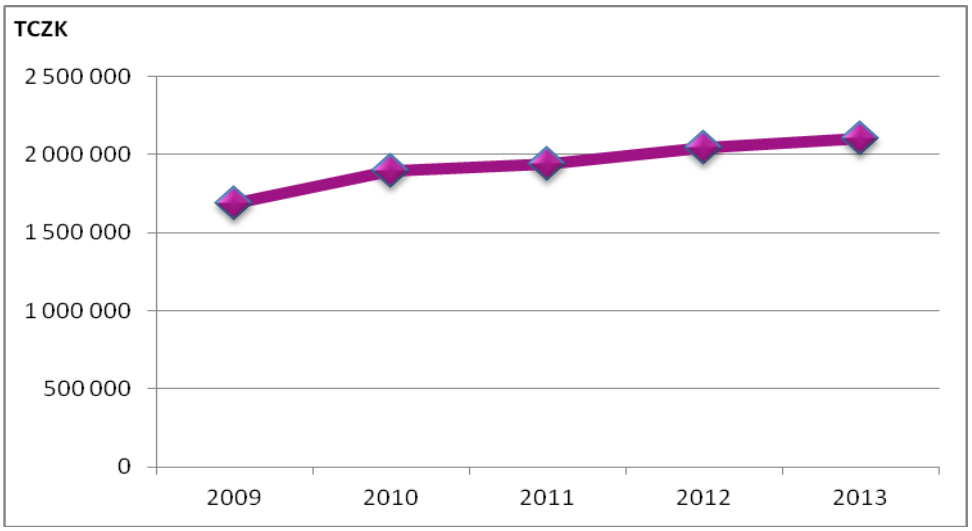
As it could be seen, the fixed assets have a negative trend, until 2011 decreasing (thereafter from 2012 is turnaround). It denotes that the firm is trying to be more liquid. In the year 2011 compared to the previous year, the biggest decline -9% was recorded in the amount of fixed assets and it was influenced by the cancellation of plant in Most. It was too expensive to keep this plant because it was almost the brownfield area and this plant became during the years unprofitable. Contrary to this the intangible assets have increasing trend until the year 2011 and the visibility is by the purchase of the new software.

The current assets are almost all the period at the same level except for the year 2009 and 2010, where was increase by 29%. The biggest portion on this fact has the influence of increase in inventories and short-term receivables. Either inventories or short-term receivables grew, which was caused mainly by the increase in trade receivables (especially with the hospitals and the situation that our health service in Czech Republic notes a significant problem with the liquid-

ity and underfunding). Only in one year the inventories dropped down and as was said before, because the cancellation of plant, where was storage of goods. Long-term receivables are not involved significantly on the value of assets.

The Accurals and Deferals are increasing during the period, especially the huge increase 153% in the year 2010 compared to 2009 and also between 2012 and 2013 by 143%. This is probably connected mostly with the increasing trend to buy services on licenses (especially the software one) and the costs of these licenses are splitted proportionally during the time. Anyway the total share of this item at the total volume of total assets is around 0,05-0,1%.

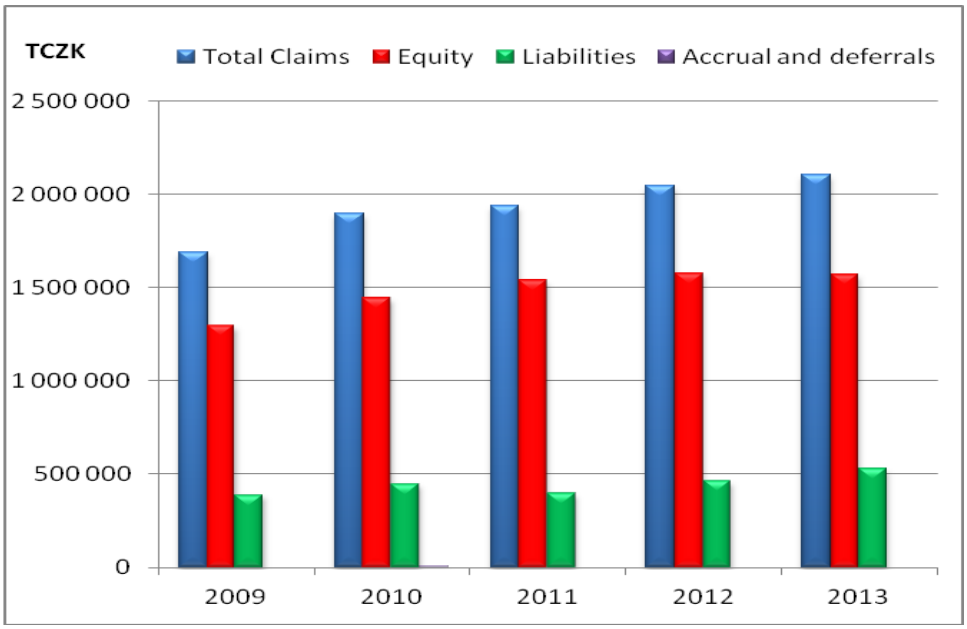
The chart 3. Development of Total Claims



Source: Own work based on the financial statements of the analyzed company, 2014

Logically the development of the total claims corresponds with the development of the total assets. Anyway, during the tracked period there are differences between the progress of owner equity and foreign liabilities. While the equity ratio increased year by year, despite the fact that its value in 2013 compared to 2012 has seen a relative decline of -0.33%, but overall equity grew during the whole period by 21.25%. As well as foreign sources recorded from 2009 to 2013, a total increase by 35.5%.

The chart 4. Development of Equity and Liabilities



Source: Own work based on the financial statements of the analyzed company, 2014

It is interesting that the company is relatively stable and the biggest effect on the increasing volume of the owner equity is that the company is keeping increasing trend in the item of retained earnings. For the whole period the increase was represented by 40%. However, it was recorded decline -1,2% in one year 2013. This may be caused by the fact that the owners of the company (PAUL HARTMANN AG) have asked for the higher payment of dividends (exactly for 149 000 TCZK in the year 2011 and 2012. In the year 2010, it was only 118 854 TCZK) and thus the financial sources were lower by 617 TCZK or by -0,21% at the end of the year 2012 than in the start. The next effect could be seen also in profit (loss) by current period when the rundown of the plant caused the loss of this item by -9% in the year 2011 and especially between the year 2012 and 2011 (-24%).

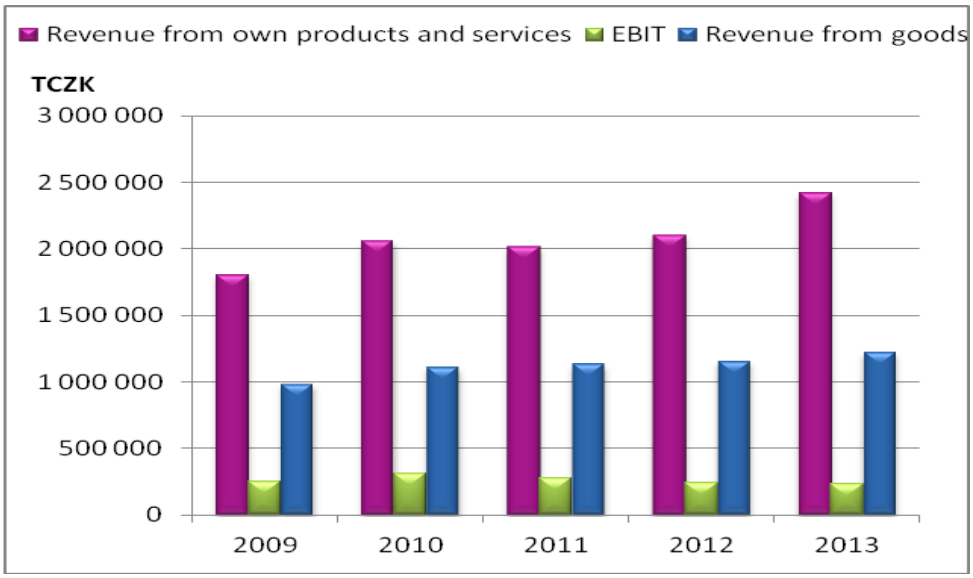
The liabilities are higher in the year 2010 by 15%. This effect is accompanied by increase in short-term liabilities by 25%, especially in trade payables to suppliers and tax liabilities and estimated payables. On the other hand, in the same

year, the decline was in item bank loan and overdrafts by -100% where these bank loans were paid at fully.

Because of the gradual decline and closure of the factory in Most, the company created a provision for restructuring in the amount of 17 013 TCZK in 2008. The provision was used in 2009-2011 and its balance as of December 31st, 2013 amounted to 125 TCZK. The company has also created provision for employee benefits, which reflects the expected liabilities of the company in accordance with the collective agreement. Further advances, the provision in amount of 49 170 TCZK was made to the income tax.

b) Horizontal Analysis of Profit and Loss Account

The chart 5. Time Trend of the Profit and Loss Account



Source: Own work based on the financial statements of the analyzed company, 2014

The complet horizontal analysis of this statement is enclosed in the attachment no. 3. The company is interesting for its variability that it is focused on the production area as well as the service area. Thus the revenues are composed both by sales of own produced goods and also by retail part (given products and services). The main part of the sold goods are exported directly to another divisions of Paul Hartmann in the whole world. Anyway, the revenue elements

has variable tendency. Specially, the revenues from own products and services are changing over the period but the peak was reached in the year 2013, when the growth was by 15%. Almost the same growth was noted in the year 2010 by 14%. The minimum is recorded in the year 2009 and it is amounted by 1 799 673 TCZK in contrast to the year 2013 with amount of 2 416 244 TCZK and thus the growth of 34,3%. These revenues from own pruduction create the core business in the copmany. On the other hand the revenue from goods has stable growing tendency (avereage growth is 5%) but with respect to the gross profit, which is declining during the years (even between the year 2012 and 2013 - 34%). This means that the earnings from the retail part are by each year less profitable.

The earnings before interest and taxes (EBIT item) have interesting development in the tracked time period. The comparison of the year 2010 and 2009 is positive and the EBIT grew by 26%. However from this year, the EBIT fell in negative trend and such view is not positive for the company, mainly for the headquoter in Germany. The minimum was catched in the year 2013 (230 357 TCZK) and this is drop of -6,8% from the year 2009. In a deep analysis, it is again done be the declining tendency in gross profit, which fall in the year 2011 by -3%, in 2012 by -7% and even in 2013 by -34%, what is drop - 124 257 TCZK. The next factors of decreasing EBIT are decreasing operating profit. The effect is made by the difference between the proceeds from disposals of fixed assets and raw material as revenue and net book value of fixed assets and raw material sold as a cost.

The meaningful effect is also impressed with the activity in financial operations. The drop of -216 069 TCZK (-70,6%) between the year 2009 and 2010 is significant impact and it was repeated also in the year 2012, when the depression was by -44%.

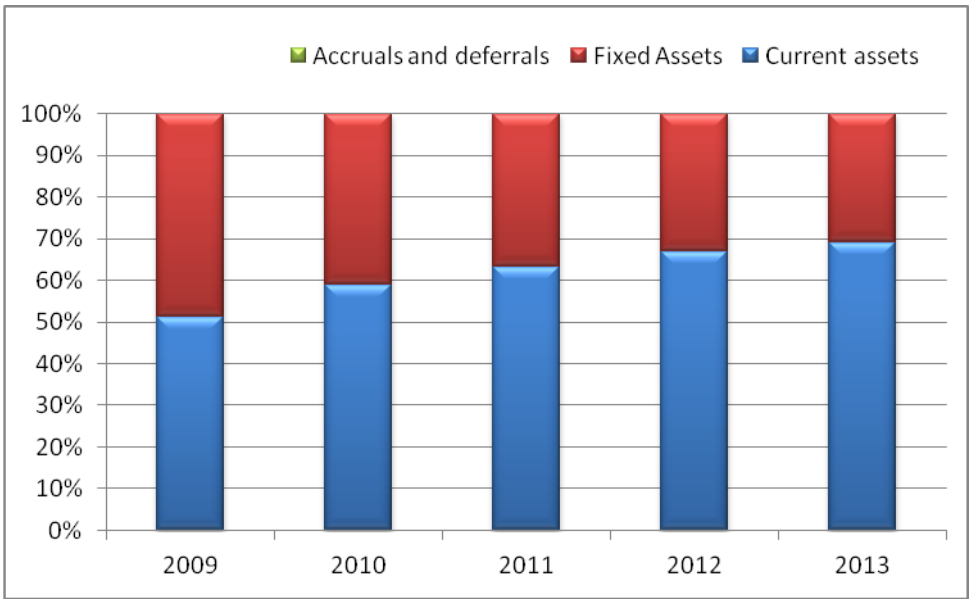
5.2.2 Vertical Analysis

a) Vertical Analysis of Balance Sheet

The final results are depicted in the graph no. 6. The whole results are shown in appendix no. 4.

The proportion of the total assets is divided in the three subgroups: fixed assets, current assets and accruals and deferrals. Thus the total assets, as the 100% item, create the base for calculation of composition.

The chart 6. The Proportion of Total Assets



Source: Own work based on the financial statements of the analyzed company, 2014

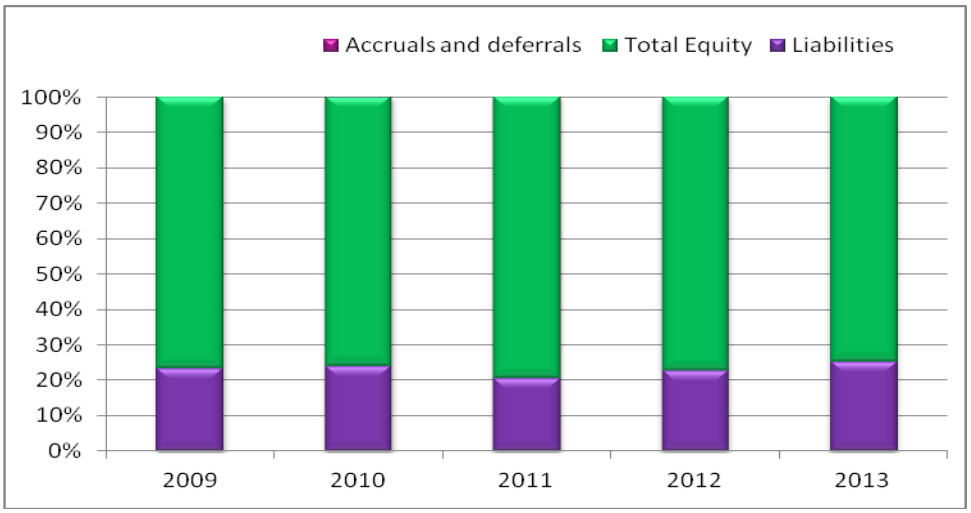
Obviously, the company is trying to keep more current assets than fixed one in all observed years. It is interestesting that is has increasing trend, it means in the year 2013 the current assets have the biggest portion of the total assets, exactly 69% and vice versa in the year 2009, the portion of this item is only 51%. With the such amount of total assets, it is really big skip in the strategy of composion of ownership. The most significant items are inventories and short-term receivables. It is done by the fact that the company has three factories, where it is invested in the stocks. The next fact is as mentioned before that

company makes a business with the public sector (namely hospitals, which have the difficulties to pay its obligation fully in time).

The average value of fixed assets is around 38%. Company is pushed to decrease the costs year by year and because the financing of the fixed assets is expensive and thus they are continually trying to keep the lower part. The most significant share was in the year 2009 (49%). The accurals and deferrals is negligible part of totals assets (only 0,12%).

From the graph 7, the equity item is visibly the dominant part of the claims (for the whole the average value is 77%, the highest value is in 2011 79%). Thus the fluctuation has slight trend. It means that the company is going in traditional steps of financing (lower financial leverage to avoid the higher risk of financing of own assets). The debts are changing over the period also a little, the highest values was reached in 2010 (24%) and the lowest in 2011 by 21%. Company draws short-term loans from the parent company. The amount of these loans varies depending primarily on the change of mutual trade balance with related parties. But these short term loans create the highest value of all liabilities (average value 87%). Accurals and deferrals are totally negligible factor in the part of claims (at 0% for whole period).

The chart 7. The Proportion of Claims

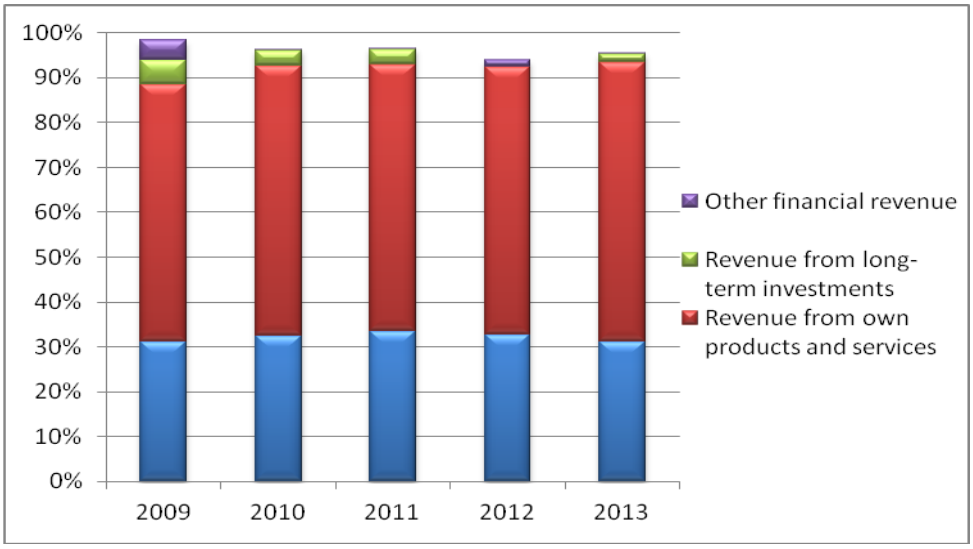


Source: Own work based on the financial statements of the analyzed company, 2014

b) Vertical Analysis of Profit and Loss Account

Because the company is occurring in retail and service and also production scope, the revenues are formed predominantly by sales of goods and by final own products and services, which is main contributor for the total revenues (around 60%). The sales of goods move along 30% of total revenues. The company is proceeding also in financial sector, where the biggest value from long-term investments was reached in 2009 (5,4% of total revenues). From the internal point of view, the company is trading with domestic market (they call it External business), with the related parties in foreign market (Internal business) and with unrelated parties in foreign market (Direct Export). Closer for apprehension the proportion of these items is depicted in the Graph 8.

The chart 8. Composition of Total Revenues



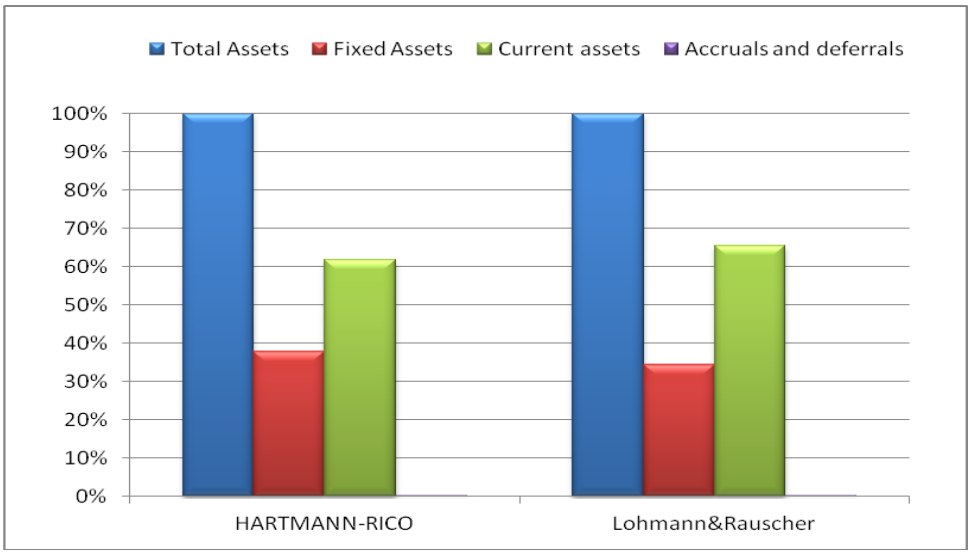
Source: Own work based on the financial statements of the analyzed company, 2014

Comparison with the competitor

The all results are enclosed in annex 9. From the first view the composition of total assets is the almost same in both companies. HARTMANN-RICO has a little bit higher volume of fixed assets than competitor and of course, a lower volume of current assets. More deeply what is interesting that

Lohmann&Rauscher keeps higher stocks than observed company (37,2% vs. 42,1%) and vice versa less short term-receivables (61,5% vs. 53,9%).

The chart 9. Total Assets Comparison

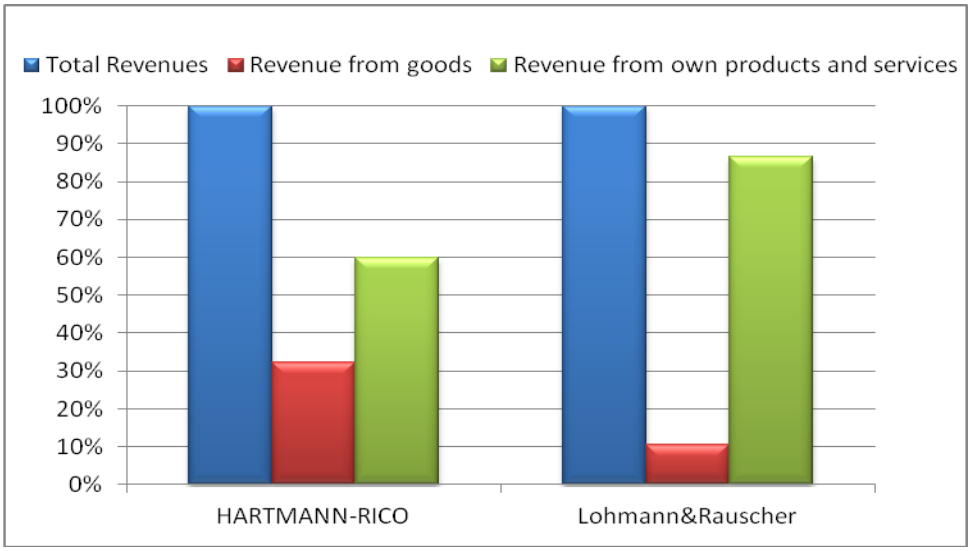


Source: Own work based on the financial statements of the analyzed company, 2014

Regarding the composition of total claims, it will be observed thereafter in the chapter of indebtedness ratios.

From the Profit and Loss Account point of view is visible that both firms are making the business from own production as well as from the direct sales of products and services as it is depicted in the Chart 10. However it is important that despite the HARTMANN-RICO has high amount of export in related parties in abroad and thus they support the HARTMANN subsidiaries and plants in foreign countries, they have more extensive revenues from own production of products and services than from retail part. Anyway, still the competitor receives proportionally more revenues from own production (86,6%) than from retail (only 10,6%). Compared to this, the share in HARTMANN-RICO is 59, 8% revenues from production and 32,2% from retail part.

The chart 10. Comparison of Income Statements' Items

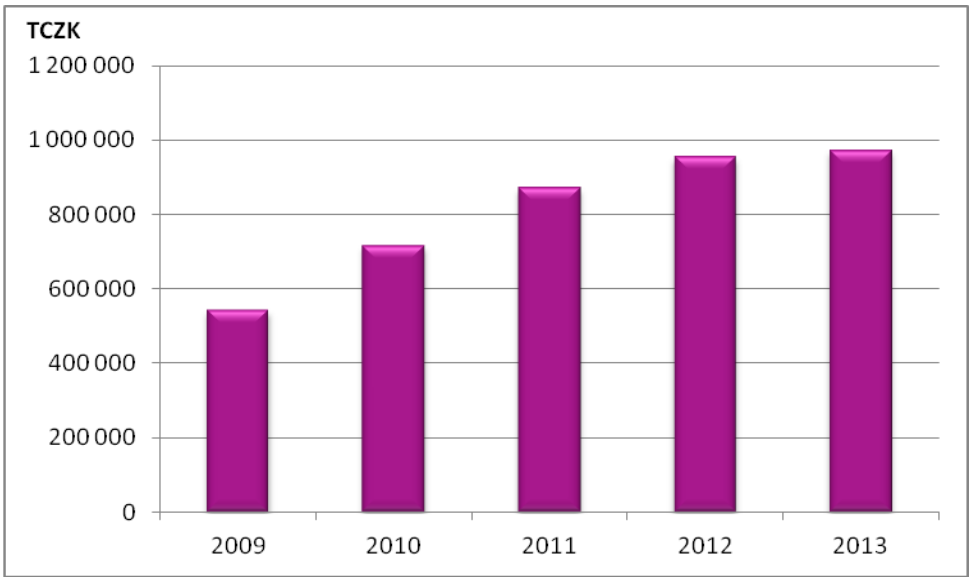


Source: Own work based on the financial statements of the analyzed company, 2014

5.2.3 The Analysis of Differential Ratios

The net working capital (NWC) represents the amount of financial means that would have left over paying of all current short-term liabilities. From the perspective of managers, it is desirable to have the highest value of net working capital. The owners of the company, on the contrary, prefer financing current assets from short-term sources and only fixed assets from long-term sources. Generally, the long-term sources are more expensive than short-term sources. If a company's current assets do not exceed its current liabilities, then it may run into trouble paying back creditors in the short term. The worst-case scenario is bankruptcy. Regarding the HARTMANN, it is relatively safety credit policy because the firm is using In-House-Banking (it means that the foreign capital is borrowed from the mother company and thus they are obliged to pay this capital in the end of the period).

The chart 11. The Evolution of NWC



Source: Own work based on the financial statements of the analyzed company, 2014

The final results of NWC are attached in annex no. 5. The NWC has increasing trend over the years and it is convenient that it is occurring in positive values. The large skip of NWC was between the years 2009 and 2010 (32% increase) despite the fact that at this time the short-term liabilities have the biggest increase as well (25%; 80 932 TCZK) but the current assets grew also by 29% (250 941 TCZK). The biggest contribution to the development of such numbers is given by increasing trend of current assets, especially by short-term receivables and inventories and by slower increasing tempo of short-term liabilities. However, it tells a lot also about the operational efficiency. Money that is tied up in inventories or in customers' obligations would not be collected in time and thus underlying problem in the company's operations. But this will be examined in ration analysis.

5.2.4 The Analysis of Financial Ratios

The chapter is consisted of Liquidity ratio, Turnover ratio, Debt ratio and Profitability ratio. The description of calculation procedure was already introduced in chapter 3.

a) Liquidity Ratios

Here are included three indicators; current liquidity, quick liquidity and cash liquidity.

Current liquidity ratio refers to the number how many times the company is able to pay its short-term liabilities, if firm enhances all current assets. As the optimum is given liquidity between 1,6 – 2,5. The company is not fulfilling this requirement in all observing years. In the year 2009 is a little bit above the boarder, anyway until 2011 the indicator is increasing, when even 1 CZK of short-term liabilities are covered by 3,4 CZK of current assets. However, since this year it has improved to current liquidity ration 3,0 (which is still above the boarder).

Table 2. The Liquidity Indicators

Liquidity Ratios	2009	2010	2011	2012	2013
Current ratio	2,7	2,8	3,4	3,3	3,0
Quick ratio	1,6	1,7	2,3	2,2	1,8
Cash ratio	0,05	0,07	0,05	0,02	0,01

Source: Own work based on the financial statements of the analyzed company, 2014

Quick ratio indicates the ability of firm to pay its own short-term obligations with the help of the current assets but without inventories' item. The proper range also exists for this indicator and it is between 1 – 1,5. As it is recognizable from the table 2, the quick ratio also floats above the optimal boarder. The highest value was captured in the year 2011 (2,3) and in 2013 it is again almost at optimum level (1,8).

Cash ratio tells if the company is able to pay immediately its ST liabilities only with the cash. The optimum margin is 0,2 – 0,7. It is interesting that in this case the company is totally below the level and keeps only the lowest minimum level. But it was already visible in the vertical analysis that the company owns more property in ST receivables and inventories than in cash.

Comparison with the competitor

As can be seen in Table 3, wherein comparison is made via the average values for all three indicators of liquidity. The company HARTMANN-RICO achieved in the case of current liquidity lower values of 5.6, by quick ratio lower values of 3.2 and the cash liquidity values are also lower by 0.3. For detailed view see the table of values listed in annex no. 9. It is evident that the company Lohmann&Rauscher went through changes in 2011, when it rapidly increased short-term receivables (by 135.3 miles. CZK) and short-term liabilities decreased by 35.1 mil. CZK, thereby its liquidity increased to high values and therefore the average was slightly distorted. Anyway, in terms of the boundaries of optimal values neither company does not reach optimum values.

Table 3. Liquidity Ratio Comparison

Liquidity Ratios	HARTMANN-RICO	Lohmann&Rauscher	Variance	*optimum*
Current ratio	3,03	8,60	5,6	*2*
Quick ratio	1,91	5,08	3,2	*1-1,5*
Cash ratio	0,04	0,33	0,3	*0,2-0,5*

Source: Own work based on the financial statements of the analyzed companies, 2014

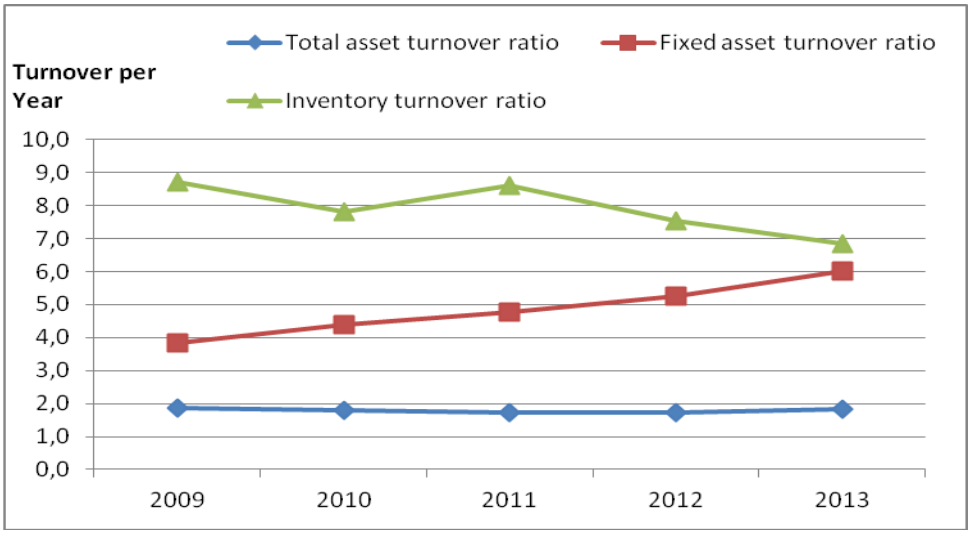
b) Turnover Ratios

These indicators tell us about the enterprise's ability to use its assets, thus the amount of turnovers of individual components in assets composition and their turnaround in time. The development of these indicators over time is shown as rather stable trend with slight changes. Turnover of individual components of assets are shown in Graph 12, while the values for all years are listed in table in the annex no. 4.

The inventory turnover ratio expresses the number of days that stocks are bound in the company until their consumption or sale. Must be valid that when the inventory turnover increases, so does the period of inventory turnover decreases, which is confirmed throughout the period. In 2013 inventory turnover fell to 6,8 days. The fact is also that in this sector is demanded to speed up the

deliveries and fulfill the needs of final customers because big amount of supplies are sending to hospitals, where the time of delivery is crucial.

The chart 12. Activity Indicators



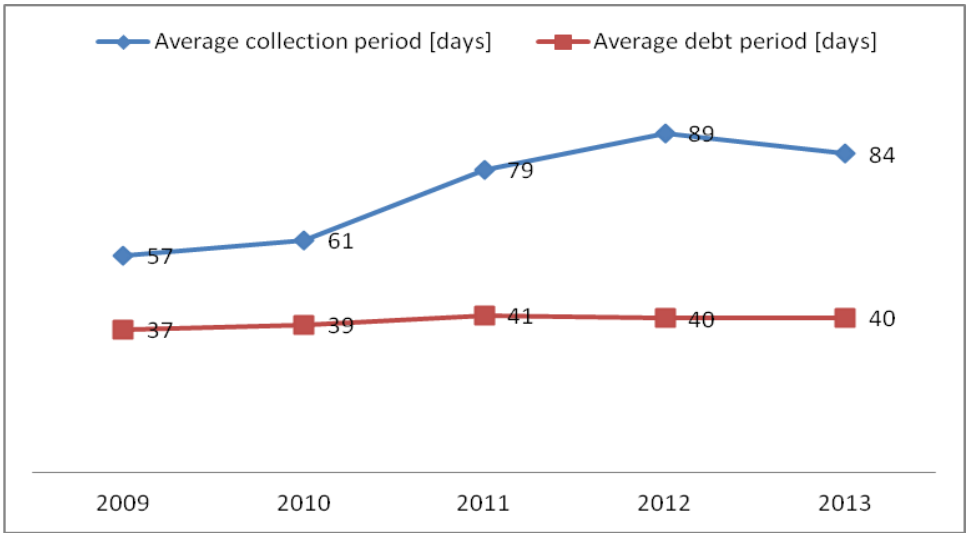
Source: Own work based on the financial statements of the analyzed company , 2014

The fixed assets turnover ratio indicates the extent to which firm is utilizing the property, plant and equipment to generate sales. It has increasing trend so it means that the period, for which the fixed assets are changing in revenues is boosting. In the year 2009 it was 3,8 but in the year 2013 already 6 and the recommended value is from 5,1.

The total assets turnover ratio specifies how effectively a firm uses total resources for which is corresponding a turnover of total assets in form of revenues. The values range from 1,7 to 1,9.

The average collection period says for how many days the company offers an interest-free loan to its customers. The enterprise has an interest to have this time as short as possible. Anyway, if the view is done at the chart 11, where the time trend is increasing during time (in 2009 57 days but in 2012 already 89, it means one month later), this is not demanded by the company. The company should check if generates enough sales and profits to justify the costs and determine if they do not have too liberal and credit policy.

The chart 13. Collection Period of Receivables and Debt Period



Source: Own work based on the financial statements of the analyzed company, 2014

Average debt period tells, in what time the firm pays its obligations to its suppliers. It is appropriate that this indicator would be higher than the average collection period, otherwise the company must fund this difference between the time gets paid and to pay them by other corporate sources. This is the case of the analyzed company. For the whole period the time trend is changing slightly and the average value is 39,6 days.

Comparison with the competitor

Table 4. The Activity Ratio of HARTMANN-RICO and Lohmann&Rauscher

Turnover Ratios	HARTMANN-RICO	Lohmann&Rauscher	Variance
Total asset turnover ratio	1,8	1,3	0,5
Fixed asset turnover ratio	4,9	4,0	0,9
Inventory turnover ratio	7,9	4,9	3
Average collection period	73,9	92,1	-18,2
Average debt period [days]	39,6	21,5	18,1

Source: Own work based on the financial statements of the analyzed company, 2014

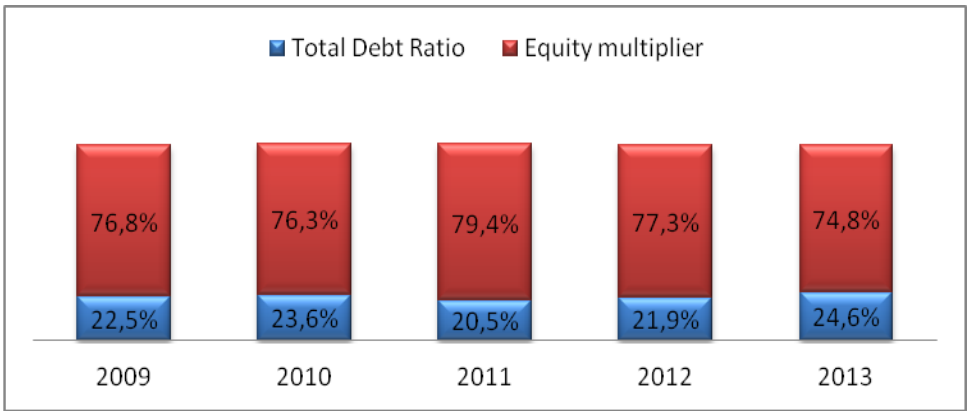
The turnover ratios of HARTMANN-RICO (HR) are in comparison to Lohmann&Rauscher (L&R) (considered as a default competitor) in average values for the given period. The variance means difference between HR's results

and L&R's results. It is visible that L&R has leading position in repaying their payables. HARTMANN has longer repayment period about 39,6 days. On the other hand the competitor has worse policy on safety of its receivables. HARTMANN gets back money of its receivables by 18,2 days faster than competitor and pays its obligations 18,1 days later. The reason is that HARTMANN has higher volume of export sales to the related parties than the competitor and by this fact the collection period by HARTMANN has faster tendency. As regards to other ratios, the variance is not so significant.

c) Debt Ratios

Total debt ratio characterizes the coverage of corporate assets by foreign sources. The highest values are reached in the year 2013 with amount of 25%. As it was said previously, the company is going more in traditional financing that the funding of enterprise's property is moving in lower values. The average value for the whole period is 23%. From the Chart 14 is also visible the contrast of funding by own equity, namely *equity multiplier*, and by foreign capital, which is kept for the whole period in the stable manner (only in the year 2011 the funding by own capital was the highest 79,4%). More deeply in funding of assets by foreign capital, namely by short-term liabilities, the exploration is achieved by *current debt ratio*. The firm is more favored to use the short-term liabilities (average value 20%) than long-term one (average value 2%). As wrote Chmelikova (p. 20), current debt normally costs less than long-term debt, but it creates more risk (the reason is that interest rate is not locked for the longer period of time and future credit terms are uncertain). The final results are stated in annex no. 4. The total debt ratio as well as current debt and long-term debt ratio have stable tendency.

The chart 14. Comparison of Equity Multiplier and Total Debt Ratio



Source: Own work based on the financial statements of the analyzed company, 2014

Time interest earned indicates the assurance regarding the payment of interest, how many times interests are covered by economic result for the period. The optimum value is considered to be 5 to 8. As we can see from the Table 5, the interests are covered in all years and even there are reached really positive values.

Table 5. Time Interest Earned

Debt ratios	2009	2010	2011	2012	2013
Times interest earned	49	147	300	438	371

Source: Own work based on the financial statements of the analyzed company, 2014

Comparison with the competitor

From the indebtedness point of view, HARTMANN covers its possession to a greater extent by foreign sources than Lohmann&Rauscher (this is proved by the Total Debt Ratio in Table 6). Average difference between total indebtedness is 11,4 %. This striking difference is due to the value of indicators in current-debt ratio, which compared two companies and shows a gap about 12,6 %. Lohmann&Rauscher exhibits low levels of short-term liabilities and short-term bank loans, making it highly favored to the overall financial stability.

Table 6. Debt Indicators

Debt ratios	HARTMANN-RICO	Lohmann&Rauscher	Variance
Total Debt Ratio (%)	22,6%	11,2%	11,4%
- Current debt ratio (%)	20,5%	7,9%	12,6%
- Long-term debt ratio (%)	2,1%	3,3%	-1,2%
Equity multiplier (%)	76,9%	87,5%	-10,6%
Times interest earned	261	1420	-1159

The comparison of long-term debt between competitors is very similar, the difference is only 1,2 percentage points. From the perspective of self-financing, thus covering the property by own resources is from the logical point of view opposite, exactly, has a difference of average values for the period -10,6 %.

d) Profitability Ratios

These indicators show how efficiently the company is able to lead a business. Concretely, the indicator *Return on assets* shows the ability of assets generate the profit and in the Table 7 is displayed profit before the tax version and after the tax version.

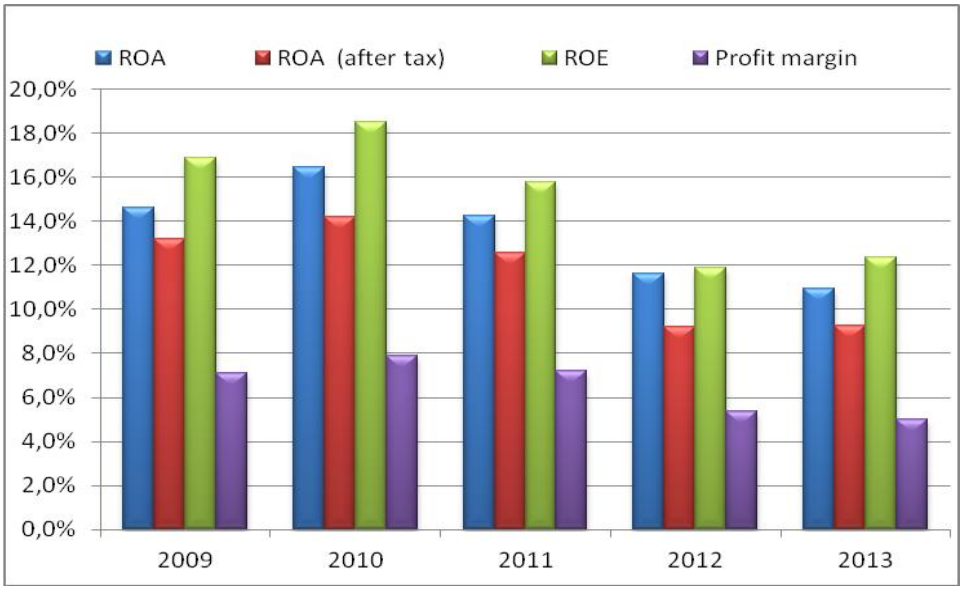
Table 7. The Profitability Ratios

Rentabilita	2009	2010	2011	2012	2013
ROA	14,6%	16,4%	14,3%	11,7%	10,9%
ROA (after tax)	13%	14%	13%	9%	9%
ROE	16,9%	18,5%	15,8%	11,9%	12,4%
Profit margin	7,1%	7,9%	7,2%	5,3%	5,0%

Source: Own work based on the financial statements of the analyzed company, 2014

It is obvious that the indicators have variable tendency. Only in the year 2010 a slight increase in the profit before as well as after tax version (by 1%) and since this year the indicators got the decreased tendency (in year 2013 ROA before tax is 11% and after tax only 9%, which is drop before and after tax version by 5%). It is caused primarily by the increasing volume of assets and significant drop in volume of profits until the year 2013.

The chart 15. The Profitability Ratios



Source: Own work based on the financial statements of the analyzed company, 2014

The ratio of earnings after taxes to common equity (total shareholders' equity) measures the *return on common equity (ROE)*. In other words, this indicator tells about the correlation between the shareholders" share of earnings and their previously contributed capital, including retained earnings (Chmelíková, 2005).

The evolution tendency is the similar as it was in the case of ROA indicator. In the second year was slight increase, exactly 2%, anyway since this year was rapid decrease from 19% to 12% (from 2010 until 2013). The reason is again, the lower volume of earnings after taxes (EAT) from the year 2010 until 2012 (drop 80 335 TCZK, even in the year 2013 was a slight increase in EAT and slight decrease in own equity, however it has no significant influence on the ROE (it rose only by 0,5% between year 2012 and 2013).

Another analyzed indicator is profitability of sales, namely *profit margin*, which indicates the percentage profit (after tax before considering interest charges) from one crown of revenues. It adverts to efficient management in making decision regarding pricing and control of costs at various levels. In this regard, the company is again at variable level. It copies the situation of other profitability

indicators, even it occurred the big growth in revenues in 2010 but it was compensated by increase in EBIT after tax in this year (in 2010 the increase in profitability sales was 0,8% but since 2010 with 7,9% it felt to 5,0%).

Comparison with the competitor

Table 8. Average values of profitability ratios between competitors

Rentabilita	HARTMANN-RICO	Lohmann&Rauscher	Variance
ROA (%)	13,6%	9,7%	-3,9%
ROA (after tax) (%)	11,7%	9,4%	-2,3%
ROE (%)	15,1%	10,5%	-4,6%
Profit margin (%)	6,5%	6,9%	0,4%

Source: Own work based on the financial statements of the analyzed company, 2014

In all indicators, except the return on sales (profit margin), the company HARTMANN-RICO is acting better than its competitor Lohmann&Rauscher. For example in the case of return on equity, the company HARTMANN-RICO would be more attractive for the new investors in shareholding of equity because they would get 4,6 CZK more from 1 CZK of equity than in the case of competitor. Only in the case of profit margin, the competing company is making better decision making process regarding the costs and revenues. They get 0,4 CZK more profits after taxes from 1 CZK of sales than observed company.

5.2.5 Comparison with Branch

The data of HARTMANN-RICO and whole branch are compared in the table below. This data are calculated from the average values from the years 2009-2013. The branches' indicators are taken from the website of the Ministry of Industry and Trade and they were available also for the whole observed period. Firstly, it is proper to mention that the observed company has a big influence on the sector regarding the revenues from the own goods. It means that the average value of the sector reaches 3 048 412 TCZK and the average value of company reaches 1 117 450 TCZK, which is in the fact 37% of the total. Obviously, the company can influence this sector item from more than one quarter and the al-

most is the same with the item gross margin, which is in the case of HARTMANN-RICO 36% of the sector value. But the indicator profit margin (as it is visible in the table below) the whole sector is making the decision regarding pricing control of costs better than the own company, what gives us in the fact the profit per crowns of sales.

However, the company has a small share in the case of revenue from own production in the sector (only 8% of the total). This is caused by the fact that in the Czech market are producing more companies in this filed (i.e. Lohmann&Rauscher, Mölnycke, Batist, Johnson&Johnson, Kimberly-Clarck etc.) because suitable conditions (low tax rate, low salaries, cheap other inputs..) for investors for settlement of the plants are in this market.

Total debt ratio comparing shows that HARTMANN-RICO is funding a little bit more own activities than whole field, where is operating, concretely by 3,5%. Another alternative to the total debt ratio is the equity multiplier and the results of this indicator are depicted in the Table 9.

Table 9. Comparison with Branch

Debt ratios	HARTMANN-RICO	Branch	Variance	
Total Debt Ratio (%)	22,6%	19,1%	3,5%	
Equity multiplier (%)	76,9%	79,7%	-2,8%	
Liquidity Ratios	HARTMANN-RICO	Branch	Variance	*optimum*
Current ratio	3,03	3,32	0,3	*2*
Quick ratio	1,91	2,25	0,3	*1-1,5*
Cash ratio	0,04	0,71	0,7	*0,2-0,5*
Turnover Ratios	HARTMANN-RICO	Branch	Variance	
Total asset turnover ratio	1,8	0,76	1,04	
Rentability Ratios	HARTMANN-RICO	Branch	Variance	
ROA (%)	13,6%	10,2%	-3,4%	
ROE (%)	15,1%	10,6%	-4,5%	
Profit margin (%)	6,5%	13,5%	7,0%	

Source: Own work based on the financial statements of the analyzed company, 2014

From the liquidity point of view, the company is managing the current ratio almost the same as a branch. Company is keeping more current assets than it is needed from this view and the same phenomenon is occurring in the whole sec-

tor. This aspect exhibits also in the case of quick ratio (after the deduction of inventories). On the other hand, companies' cash ratio is rather below the margin by 0,16 and sector's cash ration is vice-versa, 0,21 above the margin.

Total assets turnover ratio is higher than 1,04 in favor of company. From this aspect it is visible that the company is able to generate higher amount of its revenues from assets than it is trend in the field. The worst situation was caught in the year 2013 in the whole sector.

In the end, profitability ratios as return on assets and return on equity are better in the case of company sight. The profitability is higher than the average value in the sector, namely ROA by 3,4% and regarding the ROE even by 4,5%. This only confirms the company is operating in a good way and should continue in its direction. Related to the sector, the best year was 2010, when ROA reached 17,8% and ROE reached 18,92%.

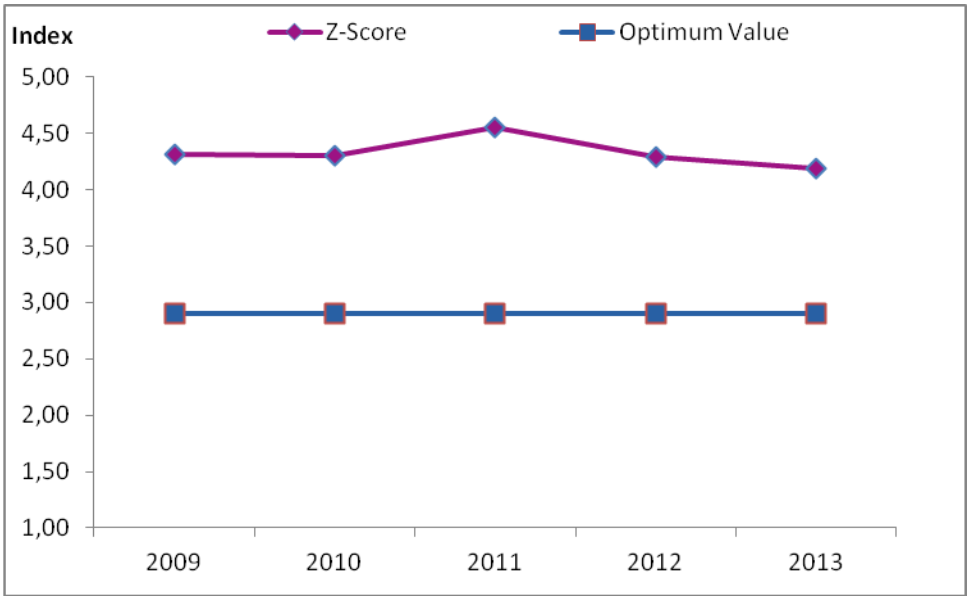
5.2.6 Value and Bankruptcy Models

The Altman Z-Score and Index In_{05} were used as value and bankruptcy models in this thesis. Again as the inputs for calculation the data was taken from balance sheet and from income statement.

a) Altman Z-Score

The formula for the calculation of this index is mentioned in the previous chapter. The margins of the financial healt are as follows: result less than 1,20 indicates huge possibility of bankruptcy and vice-versa number above the 2,90 leads to the low possibility of bankruptcy. The results between 1,20 and 2,90 are called as gray or ambiguous area. Conspicuously, related the HARTMANN'S results, according to Altman index, it can be said that the company is financially healthy and there is no threat in the form of financial risk (see annex 7).

The chart 16. Altman Z-Score



Source: Own work based on the financial statements of the analyzed company, 2014

In the year 2009 and 2010 the numbers are constant, however the year 2011 skipped to value of 4,55, but since this year the indicator has started to fall down. This is caused by the fact that EBIT decreased in these years and value of total assets rapidly increased.

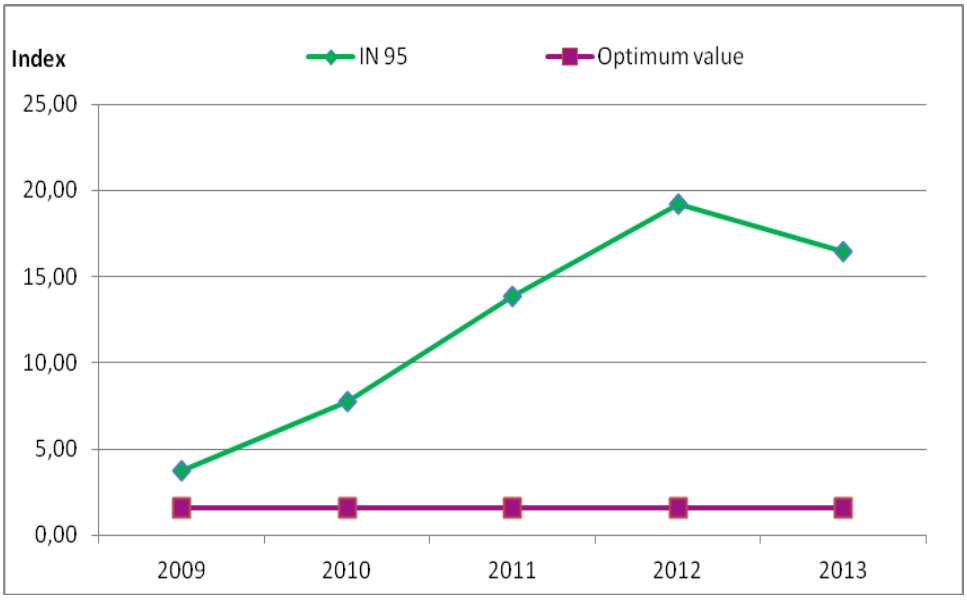
b) Index IN_{05}

Prediction financial situation in individual years shows increasing trend. Husbands Neumaiers established three zones during creation this model. According the outcome of this this model, the firms are as follows classified in the bankruptcy band, the gray zone band and zone of prosperity. The boundaries of these zones are in value of 0.9 (separating the gray areas band and the bankruptcy band) and a value of 1.6 (gray zone separating the zone from the zone of prosperity).

As it is obvious from the graph 17, the company is really in the stable situation, when the culmination of this indicator is in the year 2012 reaching the value of 19,23. This is especially done by the view that the company is able to really well manage the interest coverage (however in some publication it is recommended

to use the maximum value of indicator x2 of 9 and x1 is suitable maximum 2,78 – if the company does not use the foreign sources at all and thus no interest flowing from this). But, the original values stayed in the calculation below. This item from the formula is in the most positive numbers. The drop in 2013 was affected by the new short-term bank loan despite the increase also in current assets and also again by the drop in earnings and increase of interest expenses.

The chart 17. Index IN05



Source: Own work based on the financial statements of the analyzed company, 2014

5.3 Localisation Analysis

This chapter will be devoted to the localization analysis and locality, where the company seat is situated and how the enterprise can influence this area by its activities. Because there is no exact methodology of localization analysis and the three pillars of the regional development are social, economic and environmental aspect, so the analysis will be performed from this point of view.

5.3.1 Localization of the Company

The company HARTMANN-RICO has its seat in the South Moravian region, concretely in county Brno-Country with the municipality Veverska Bityska.

Since October 9th 2008, the municipality received the status of township. It's official title, and therefore it will be used this designation. Regarding the return of the statute of the township or town shall be entitled only to those municipalities that have used the sign before May 17, 1954, which is the day of the Act no. 13/1954 Coll., On National Committees. The township has only one cadastre with the cadastral area of 1364.8795 hectares and 3085 inhabitants. The inhabitants appreciate functioning net of services providing all from necessary civic amenities.

Compared to many other towns and villages, Veverska Bityska has a relatively good connection with neighboring towns owing to the thick bus-lines net.

It is also helped to spread by the private bus service, which has arisen with the help of the local authorities. There is a regular transport line of MHD Brno as well. Thanks to this you can easily commute to work, to school or to cultural occasions.

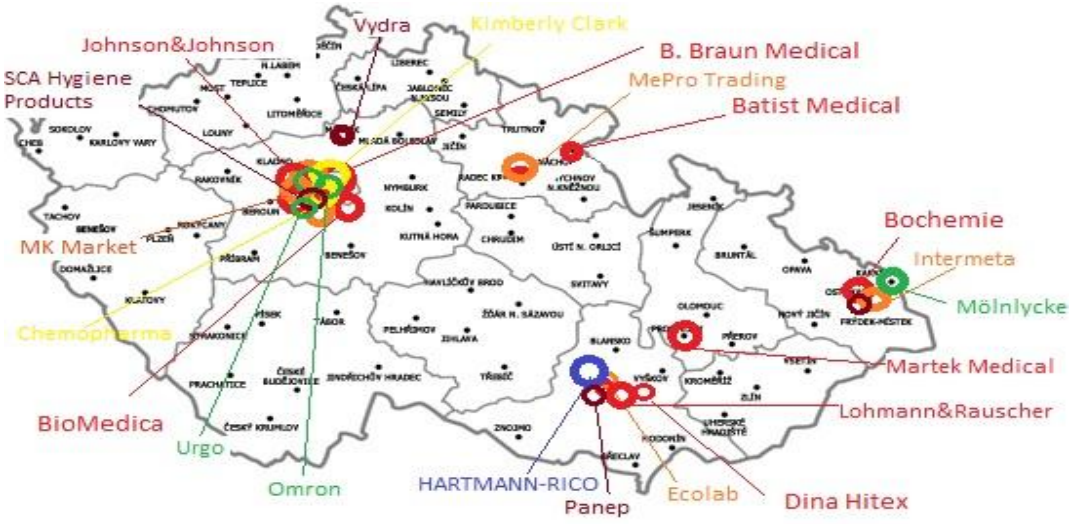
Basic education for children from the township and near villages is provided by local primary school. Their culture development is looked after by a high-quality primary art school (Veverska Bityska online, 2015). The total amount of economic entities in given township is of 376.

The position of the county (where the township is situated) regarding the unemployment rate is at the second place in the ranking among counties in South Moravian region, exactly 7,29%. It is also probably given by its localization near Brno and the presence of D1 motorway, an industrial zone is located in the township, which is due to efficient urban transport easily accessible to employees.

As it was said before, the company localization is convenient because D1 highway is approximately 9 km away, accurately exit 178. The main city of Moravia is Brno, which is cca 19 km away with its stop-way time around 15 minutes. Thus, when the decision process about the localization of the central department has been making, this stop-way aspect has been taken in account. There-

fore, in Brno Business Park almost all departments as sales and marketing, finance, logistics, strategic department, human-resource department are localized. The production department is situated in Veverska Bityska. One warehouse is placed in Rajhrad, what is the village near the Brno as well and one is situated in Tuchoměřice, which is locality between Prague and Kladno. This strategic arrangement of stores near Moravian center Brno and near Bohemian center Prague should primarily save the transport costs and to fulfill time delivery to customers in all corners of Czech Republic.

Figure 5 Company and its Competitors' Localization



Source: Own work, 2014

For the smooth business the Czech market is covered by team of sales representative distributed according the business channel. Each representative takes care about its own region and final customer (hospitals, pharmacy, nursing homes, institutions, retail chains and personal healt care).

The next business representation of HARTMANN-RICO is in Slovakia in Bratislava, namely HARTMANN-RICO spol. s r.o., what is cca 157 km away from Veverska Bityska. This way takes cca one and half hour. Also the company owns fully the SANICARE s.r.o. (lead from the center of Brno). The last entity making business at the area of Czech Republic is in Prague, where is based the distribution point for medical aids.

The biggest competitors as Mölnlycke, Kimberly Clark, Johnson&Johnson, BioMedica and Batist are situated in other regions than South Moravian region. Anyway close to the seat of HARTMANN-RICO, the important competitors are occurring as well. Among these it is meat the Lohmann&Rauscher with its seat in Slavkov u Brna, the next relevant competitor is Dina Hitex seated in Bucovice and making a business in manufacture of medical devices as well as Panep and Ecolab positioned in Brno.

In the Figure 5 twenty-eight companies are recorded. The condition for their inclusion was to have at least partial business activity same as observing company. Their selection is based on internal company data and consecutive examination of business activity and seat on the website justice.cz. Because the market is still changing, for sure all competitors will not be listed here. With these conditions, the map of competitors was created, which can be a quite good estimation.

It cannot be claimed that the localization of the company in the healthcare market is the most important aspect. What is important is reputation for quality and especially of course the price. For customers it is important that the company is easily accessible and available (immediate ordering, repair of machine malfunctions, complaints, etc.).

5.3.2 General Description of Locality

As it was mentioned before, the company is placed in the South Moravian region. Therefore in this chapter, this region will be described from the different point of view.

South Moravian Region with the area of 719 555 ha and population of 1, 169 mil. inhabitants, is located in the southeastern part of the Czech Republic near the border with Austria and Slovakia. The region's center is the second largest city of the Czech Republic, Brno, which is an important center for justice, economic and administrative center, a city of universities and exhibition center in Central

Europe with a long tradition of fairs, at which over one million of people arrives annually from worldwide.

The advantage of region is excellent accessibility and strategic location at the crossroads of trans-European road and railway distance routes, which are important arteries joining Western Europe to Eastern and North with the South. Brno Airport is placed at the second position in the number of passengers and goods in the long run in the Czech Republic. Throughout the year, domestic and international scheduled flights are handled. Brno has direct air links to the UK, Russia, Italy and the Netherlands.

South Moravian Region is a region with great economic potential. Especially in recent years, an increasing number of businesses in the field of computer technology, telecommunications, software development and other hi-tech industries have emerged. South Moravian region significantly supports the development of technology and biotechnology incubators designed for start-ups. On the above-average education level of the population in the county the quality of higher education system has influence.

The South Moravian agriculture occurs at a high level- agricultural land accounts for 60% of the area of the region, of which 83% is arable land. The specialty of South Moravian is especially viniculture on European level (in the region is over 90% of the vineyard areas in the Czech Republic), the region is typical of many small wine producers and wine cellars. There is a strong tradition of growing fruit and vegetables. Northern region are important centers of forestry and timber production.

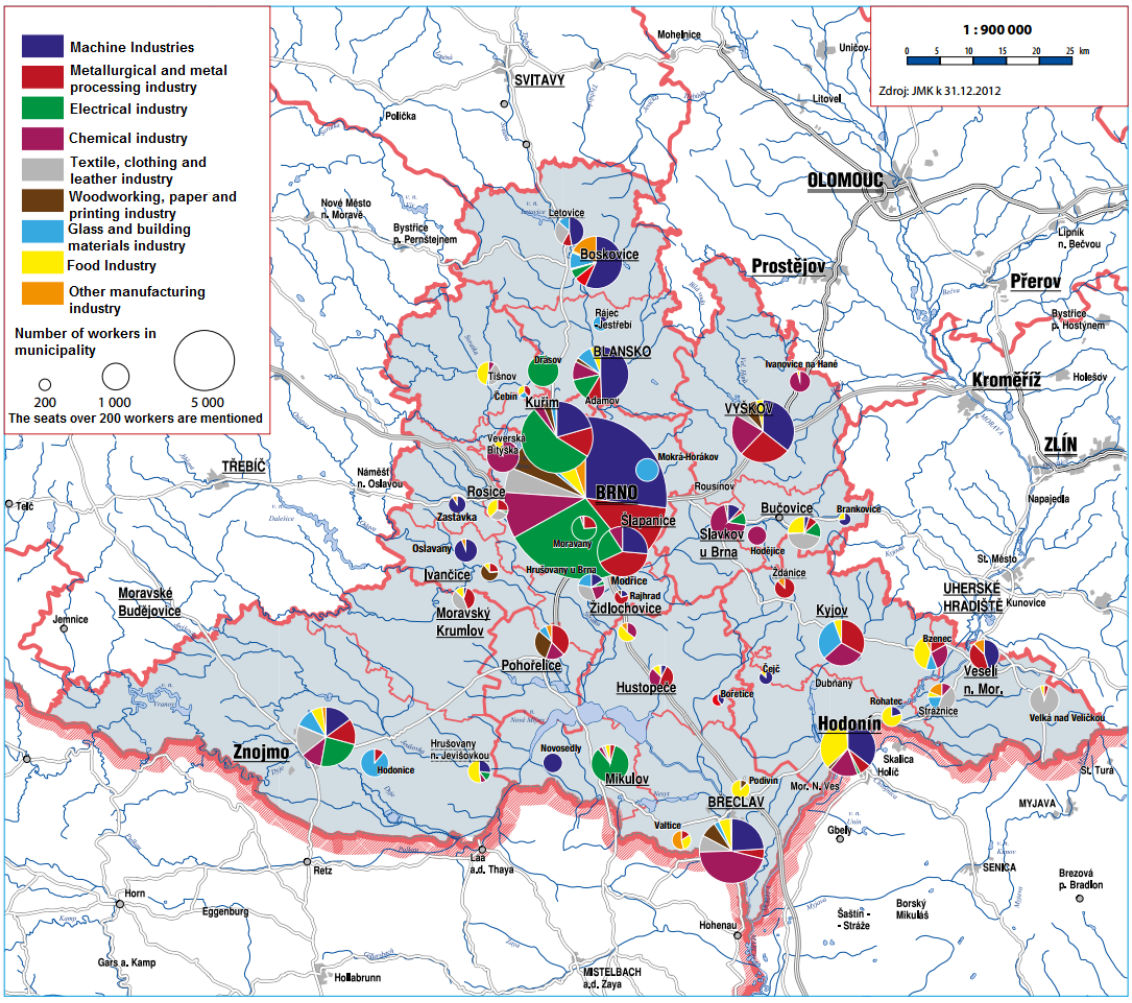
Big advantage of the Region is composed by quality of civic amenities. Health care is provided by a network of 22 hospitals with 7476 beds and plenty of other health care facilities, private practices of physicians and pharmacies. The region has secured sufficient network of preschool and school facilities. The dominant feature of the region is the system of higher education that is provided by public and private universities in Brno, Znojmo and Lednice.

The South Moravian regions is composed by 7 counties Blansko, Brno-City, Brno-Country, Breclav, Hodonin, Vyskov, Znojmo. Brno-Country is the locality, where the company has its seat. Population is second highest in the district Brno-Country compared to other districts in the South Moravian Region and it is gradually increasing. An important role is played by immigrants from Brno-City district that utilize good conditions for the construction of houses and apartments in quiet surroundings of villages and with a relatively good transport connections to Brno-City. Most inhabitants are in the town Kurim and Ivancice are the second largest town in the district. Veverska Bityska comes under the town Kurim with the extended power. Due to its location, the Brno-Country holds considerable traffic intensity. Road transport (Brno motorway towards Prague, Bratislava and Ostrava) and rail routes inevitably pass through the territory of the district and thus have a positive impact on the economy and business development. District Brno-Country remained industrialized agricultural district despite the structural changes in the economy over the past decade. Almost 26% of employees worked, according to data in industry, 13.9% in trade, hotels and restaurants and 8.6% of the employed worked in construction. The registered unemployment rate has long been among the lowest in the region, which is also due to the fact that residents of the district are finding the working opportunities especially in Brno.

It was depicted in the Thematic Atlas of South Moravian Region (2013), how the given industries are employing the workers in given municipalities in Brno-Country.

In the overview, which employers based in the South Region, employing more than 1000 employees, HARTMANN-RICO gets its own position as well. In the picture 6, the purple circle in the locality Veverska Bityska predominantly belongs to observing company. The enterprise is big contributor to the local employment level, but about this closer in the next chapter.

Figure 6 Industrie in Brno-Country



Source: Tematický atlas Jihomoravského kraje , 2013; Modified by author

5.3.3 Ekonomika Aspect of the Company in Given Locality

To characterize the company with respect to the position within the industry in the region, in which it operates, three indicators were defined. These indicators are expressed again for the period 2009-2013 and are defined for the companies with more than 100 employees in the field of manufacturing industry focused on manufacture of basic pharmaceutical products and pharmaceutical preparations. As it is visible in the table 10, the number of companies in the field of pharma products and preparation are quite stable. Only in the year 2010 deduction of one company happened but again in the year 2011 new company in

South-Moravia region emerged and the number of 6 companies was held until 2013. This is important fact because after the financial crisis a lot of companies had to finish its business actvity but usually types of pharma companies have a strong capital background to survive these circumstances. Thus from this view it could be said that this field is quite stable part of the manufacture industry and with the help of simple calculation it could be deduced hypothesis that company owns 1/6 of the market share, in other word 17% of the share in South – Moravia Region.

Table 10. Average Number of Enterprises by CZ-NACE in the South – Moravian Region

CZ-NACE	2009	2010	2011	2012	2013
Industry, total	**284**	**248**	**255**	**254**	**243**
Manufacturing	276	242	250	249	238
Manufacture of basic pharmaceutical products and pharmaceutical preparations	6	5	6	6	6

Source: Own work based on data from www.czso.cz, 2014

Regarding the share of sales of own products and services, company achieved an average of forty - percentage of sales in the industry during the period (see table 11), what makes the company one of the leader of the given market. This trend is certainly due to the existence of smaller companies, which have a much smaller portfolio of products and are not aimed at large industrial production. Next reason is based on the quality products, which is in this field the important criteria.

The strongest year for the observed company was in the year 2010, when the percent of the sales of own products and services reached 46% (almost one half of the market). From this perspective, the company HARTMANN-RICO has significant share of economic activity in the region. Anyway in the year 2011, the close of one plant was recorded and this matter of fact decreased the economic

activity by 6,55% compared to the year 2010. Since this year slight improve happened as in the year 2013 the share was already almost 42%.

Table 11. Sales of Own Goods and Services Incidental to Industry by CZ-NACE in the South - Moravian Region

CZ-NACE	2009	2010	2011	2012	2013
mil. CZK, current prices					
Industry, total	**156 137**	**164 107**	**187 881**	**183 610**	**179 506**
Manufacturing	147 084	155 132	179 710	174 292	169 159
Manufacture of basic pharmaceutical products and pharmaceutical	5 382	4 449	5 084	5 173	5 784
HARTMANN - RICO	1 800	2 054	2 014	2 101	2 416
Share %	33,45	46,17	39,62	40,62	41,77

Source: Own work based on data from www.czso.cz, 2014

The third indicator for the economic activity in the selected South Moravian region was defined the average gross monthly wage.

Table 12. Average Monthly Gross wage by CZ-NACE in the South – Moravian Region

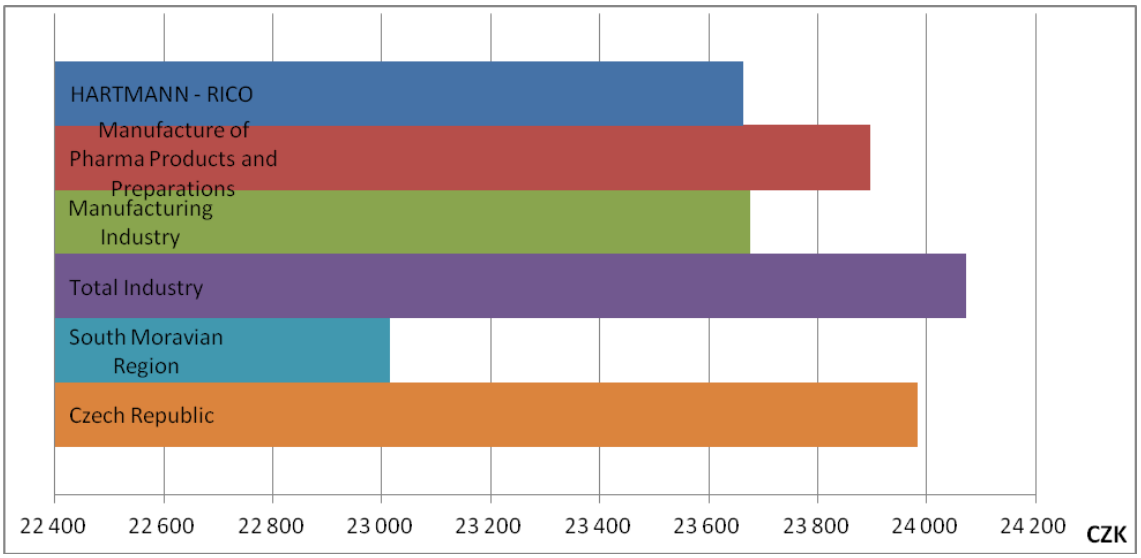
CZ-NACE	2009	2010	2011	2012	2013
CZK					
Industry, total	**22 510**	**23 451**	**23 978**	**25 158**	**25 263**
Manufacturing	22 130	23 038	23 663	24 731	24 822
Manufacture of basic pharmaceutical products and pharmaceutical preparations	24 013	22 273	23 962	24 613	24 624
HARTMANN - RICO	22 058	23 391	23 695	24 777	24 392
Difference in %	8,1	5,0	-1,1	-1,1	0,7

Source: Own work based on data from www.czso.cz, 2014

As shown in table 12, HARTMANN-RICO is in all the years except 2011 and 2012 above the gross income per employee in the manufacture of pharmaceuti-

cal products and preparations. The percentage difference in each year ranges from 8,1% in 2009 to -1,1% in 2012. Another trend captured during these years is a noticeable increase in gross income between periods, but in 2013 there was a slight decrease.

The chart 18. The Average Gross Wage per Employee



Source: Own work based on data from www.czso.cz, 2014

In terms of average wage of employee compared in terms of the 6 sectors, the company holds the semifinal place. This comparison is defined in Chart 18. The difference compared to the average wage achieved in the Czech Republic is -321 CZK, but compared to the average in the South Moravian Region this difference reaches 647 CZK and compared with the industry pharma production is the difference -409 CZK. Anyway, these differences are only hundreds of crowns.

5.3.4 Social Aspect of the Company in Given Locality

The social influence of the company HARTMANN-RICO will be described from the view of the number of employees in given region and again compared with the amount in the field of manufacturing industry with respect to the production of pharma products and preparations. The enterprises with more than one hundred employees with the registered office in the region serve again as the source of information. As it is depicted in table 13, the company HARTMANN-

RICO plays an important role in the percentage of employment in the region in terms of sectors. Company employs an average of 26,9% of the total number of employees in the manufacture of pharmaceutical products and preparations. It can be observed a slight change in individual years, with the largest share of the enterprise reached in 2010, when the total percentage stood at 29,14%. Because the company runs the production and also takes care about the subsequent sale and marketing, it needs the employees with different qualification (assembly lines, specified production and as well the educated staff for the other activities to achieve its goals).

Table 13. Average Number of Employees by CZ-NACE in South – Moravian Region

CZ-NACE	2009	2010	2011	2012	2013
Persons (headcount)					
Industry, total	**69 100**	**63 213**	**69 984**	**67 716**	**65 313**
Manufacturing	66 493	61 007	67 817	65 485	63 081
Manufacture of basic pharmaceutical products and pharmaceutical preparations	3 020	2 636	2 778	2 875	3 043
HARTMANN-RICO	745	768	758	761	812
Share %	24,67	29,14	27,29	26,47	26,68

Source: Own work based on data from www.czso.cz, 2014

As described by Šafr and Sedláčková in their study (2007), for representatives of purely instrumental concept of social capital as a source of purposeful behavior can be described American sociologist Nan Lin and the whole school of sociologists, especially the so-called new economic sociology. Since the early seventies, this direction has been studied functioning organizations, social networking application in finding or acquiring status and social anchoring of economic action, e.g. the relationships between companies in the market or the specifics of the immigrant communities. Social capital thus constitutes "investment in social

relations, leading to an expected profit in the markets." Markets may result in various forms, analytical level, whether it will be economic, political, labor market or community.

The company strongly realizes the importance of the investment in the social relationships in the area, where is the production situated and thus it was designed the program, so called “Dobrý soused”. It is based on the idea to promote and support financially the entities in Veverska Bityska. As was promoted by the company that everyone knows that a good neighbor is guarantee of relaxed living. And when you have in your neighborhood company that aims to contribute to the quality of life of people in the region, it pays double. The company HARTMANN-RICO in the year 2014 contributed to the improvement of public life in the vicinity of its plant in Veverska Bityska. From the fund for support of modern and healthy lifestyle called "Dobrý Soused" 200 TCZK were distributed. It supports activities and projects of twenty four organizations subscribed to this program. In other words, this fond serves for local civic associations and organizations that focus their activities on children, youth and the elderly, especially in the field of ecology, tourism, sports and culture. It depends on the director of the plant, who will receive the subsidy and how much.

Among the donee the following companies and projects were included (but it varies every year) nursery center Oříšek that used the allocation of subsidies for creation of wheelchair access or for purchases of teaching aids. The next is school clubs belonging to the Elementary School Veverska Bityska that used financial support for landscaping to ensure a safe stay and movement of children outside in the area of nursery grounds. The theater Prkno applied the donated amount for the purchase of rights and scenes in a play and creation of costumes.

Also the company supports as much as possible DEBRA nonprofit organization, which exist due to the people suffered by Epidermolysis bullosa or so called “disease of butterfly wings”.

From the internal point of view, how the firm tries to be socially beneficial, offers its employees part-time jobs (for example for mothers after maternity holi-

day), home-office working days and thus each has given laptops for home usage, 5 weeks of holidays, the contribution for meal tickets, hired minibus that ferries for free the employees from Bityska to Brno Business Park and back.

5.3.5 Ecological Aspect of the Company in Given Locality

For the purpose of this chapter, I would like to use the data achieved from the plant in Veverska Bityska, where the seat along with plant is situated, except the seat of offices in Brno city and one hall for storage purposes in Rajhrad.

Plant Veverska Bityska mainly specializes in the production of operational cover, assembling sets and their sterile packaging. In addition to this predominant production at the plant also picking of components for CPT is performed and completion of certain products such as first-aid kits. It is also necessary to mention the production bandages as Ara and Idealtex and expansion of production for knitting products Stulpa-fix and Pruban. Such production area and given production processes are logically environmentally demanding.

In an area of 6,524 ha are located:

- four production halls,
- hall with facilities as Ethylenoxid sterilization (ETOX)
- warehouse with raw material,
- large-scale warehouse designed for sterile products,
- laboratory and microbiology laboratory,
- office building,
- maintenance building,
- storehouse with pallets and materials,
- garages and,
- other objects designed for auxiliary operations.

The manufacturing plant is located at the confluence of the Bily creek and Svratka creek near Brno reservoir, about 20 kilometers northwest of the city of Brno and is part of the township Veverska Bityska. Housing area is therefore in the immediate vicinity of the plant as well as some medium-sized businesses (Bioster, Unimex, Pekny) and the next small traders. In the vicinity of the production site, there is no installation or facility that would pose a security risk. Plant or territory of Veverska Bityska falls within the Boskovicko furrow. The bedrock consists mainly of fluvial and diluvial sandy loam sediments. The area is part of the basin of Svratka and its significant portion falls within the floodplain of the river Svratka and Bily Stream. In terms of biogeographic division, the interest area belongs to Brno bioregion.

Plant has developed a system that helps identify regulatory requirements to the extent arising from the applicable legislation of the Czech Republic. Information about changes in legislation gives the department RA / S in the form of a mass e-mail. For the area of environmental protection software EnviParagraf is the most commonly used and for job security and fire protection the software SIB-LEX is applied. Finally, it uses a website of the Ministry for Environment Protection in the Czech Republic and the Ministry of Interior of the Czech Republic. The plant has implemented environmental management system ISO 14001: 2004 and the system of OSH and OHSAS 18001: 2007.

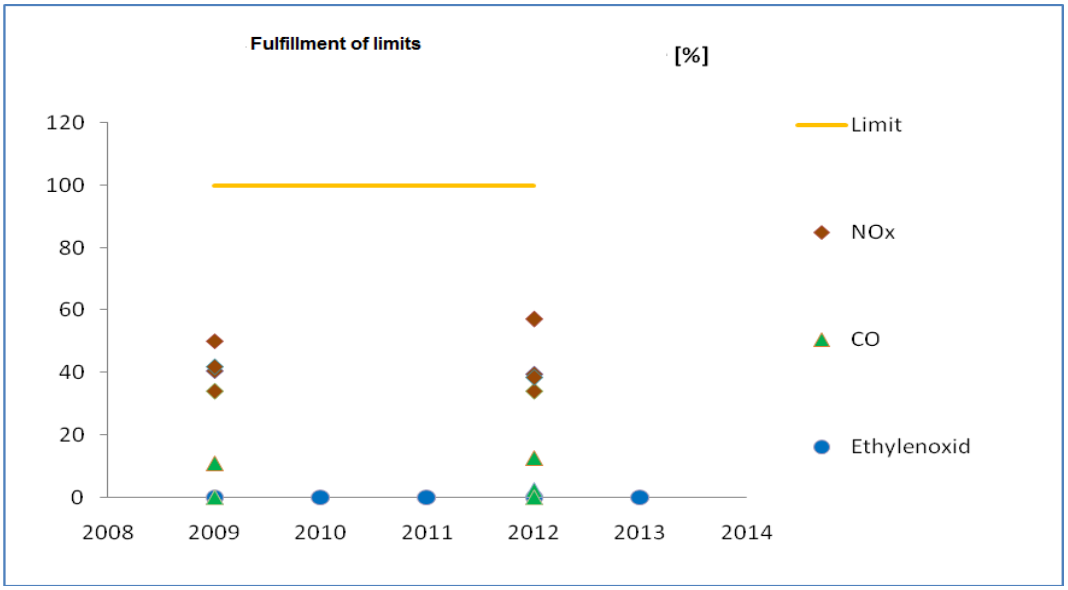
Environmental aspects were determined by analysis of all the activities of the plant, including the production and auxiliary processes. Identified aspects were evaluated according to the importance of their environmental impact as possible using the most specific criteria. As significant environmental aspects were identified following facilities and activities: recirculating wastewater treatment plant, liquid petroleum hydrocarbon separator, dishwasher big boxes, sewer lines, ETOX sterilization, buffer tank and catalytic incinerator, machines Arachne on the knitting room, compressor, regulating gas station, fleet and plant transport, backing line, K1, knitting, ITB, central point, health center incl. dental practice and the surrounding area (located outside the factory premises,

waste water drained into the sewer racing), the building garage, store of chemicals, rally hazardous waste, store of gas sterilization and storage of flammable liquids, cleaning of production equipment, transport of ethylene oxide.

As the indicator were chosen the sources and amounts of emissions released into the atmosphere. The sources that release the emissions are as follows:

1. combustion sources: boiler Buderus 1320 kW, Buderus 590 kW, Viessman 575 kW and Viessman 720kW for water rating during sterilization – emissions arise from gas flaring; emissions are measured once in three years
2. ETOX sterilization: catalytic combustion of used gas sterilization, middle source, emissions are measured once in three years, once a year will be controlled also the state of flue ways
3. next sources of emissions: two diesel pumps, CHP unit, 10 others that are in accordance with the laws of the Czech Republic classified as not listed sources of air pollution, - this group consists of combustion sources and sources, which produce volatile organic compounds measurement is not a legal obligation. The plant produces no emissions of halogenated hydrocarbons.

Figure 7 Fulfillment of Limits of Released Emissions into the Atmosphere



Source: Internal Sources, Healthy Safety Environmental Profil, 2013

The numerical values of emission released into the atmosphere are stated in annex no. 10. From the picture is visible that after authorization measures were carried out for all the sources of pollutants listed, it was proved the fulfillment of emission limits.

6 Discussion

Financial analysis was made for the period 2009-2013. From the results of horizontal analysis it is visible that the company's earnings before interest and taxes are highly declining from 2010 (from 2010 until 2013 the drop of 81 759 TCZK). Firstly, this is brought about by lowering gross profit item. It means that the earnings from the retail part are by each year less profitable (again from 2010 until 2013 the drop of 165 630 TCZK). This could be influenced by the fact that the one of customers of such goods are hospitals with hospitality service and only way, how to get involved in such business is via public tenders, where the only criteria is playing role is price and not the quality. In such tendres usually an aggressive competitor with lowest price and lower qulity wins the public procurement. Anyway generally, the products of HARTMANN-RICO belong to the higher priced products due to the higher quality. Recommendation could be to make new pricing strategies regarding the given market (find a cheaper supplier with same quality, or to suggest new products in already stable market). Secondly, the next reason of lowering EBIT is smaller operating profit from the year 2011. The company should control more the operating costs (average 21% of all costs from which the personal expenses make 16% of all costs) and also the costs of goods sold (average 23% of all costs, especially expenditures connected with sales and marketing department as advertisement, benefits for its employees, events for customers etc.), which raise by higher speed than the revenues from goods. The personal expenses from the economic point of view are at higher level than the average wage in industry sector, but the company should keep this level to let employees be motivated and try to make their activity more effective. Since the company has started with some motivated programs from employees, it should be kept it in the future. The next striking effect of EBIT was made by lowering other financial revenues and revenues from long-term investments during the years. It seems that the company had some money extra that could be used for financial investments to generate higher EBIT (the average current liquidity 3,03 and optimum is 2) but

these money are bounded in stores and receivables. If we check the cash ratio liqudity the average number is strongly below the recommended level 0,2 and the company is at 0,04. The company may allow this ratio because they do not use the credits from the external banks but it uses the so called “in house banking”, company borrows from its mother, when it has agreed better interest rates and does not have to pay its debts immediately. Also the indebtedness (average 22,6%) of the company corresponds to the fact they are not inclined to use foreign sources.

The results of the vertical analysis shows that the company is formed from the viewpoint of total assets with an average of 61% of current assets in all years, with the highest proportion of them are short-term debt, and 38% of fixed assets, which mainly takes tangible assets. In terms of the ratio of total claims, which are constitute from majority by owners equity in most of the period from 75%. The share of 25% is foreign capital. This ratio confirms to some extent the financial stability of the company, but on the other hand disadvantageous, since possession of foreign capital in the company is more profitable for the company in terms of interest (tax shield). Recommendations for the company is focused on increasing the share of foreign capital in total liabilities, which would reduce the tax burden in terms of usage as a tax-deductible interest expense (as sadi before tax shield) and the possibility of using equity for further investment for example in new assembly lines, new storage areas, financial investments etc.

The analysis ratios show that the company very effectively manages its assets (turnover rate of 1.8 per year). Turnover of the individual components of assets is also good and inventory turnover shows a good value, which is about 46 days. It means that the company's stock is varied relatively quickly with respect to the sector (compared to selected competitor and its stock replacement for 75 days on average). As regards receivables activity ratio with an average of 4.8 times per year and turnover time of about 74 days is not so high burden for the company, given that the company issues invoices with a maturity of 60-90 days for public sector and for private sector it depents on bargaining, but commonly

30 days. However, it is apparent that some customers have delays in payment. In this regard, the company should set stricter rules and sanctions to have cash available, which can be better utilized. This matter is related also to the vertical analysis, where the main share of current assets consists of just short-term receivables. In terms of liabilities, the average turnover is 40 days during the period, with an average of 9 times per year. It is just the short-term liabilities that increase the share of foreign sources in total liabilities. In terms of stability and credibility of the company before the suppliers, the company seeks to shorten the time of turnover, whereas financial resources could be ensured, to some extent, by timely payment of customers. The value of indicators of liquidity also reveal the ability to repay its obligations, which are, in terms of comparison with the optimal values achieved in the industry, over these boundaries. In addition, a large part of current liabilities is also within the company, it means between the parent headquarters and local company, so business is not forced to urgently meet these obligations. About this stability of the company reveal the value of indicators of indebtedness as well.

However, from the perspective of the individual profitability indicators, which showed that the value of the return on equity is in all years higher than the return on total assets, it can be stated that the company can keep its stability. On partial profitability indexes the development of financial results bounced, when they became at least profitable in 2012. The company closed one of the production and also in that year had no financial income compared with other years. The values of individual indicators are above the industry average. The most profitable appears the owners equity (average 15,1 %), despite the fact that the proportion of equity to total liabilities is predominant. It is confirmed also by the high return on assets (average of 13,6%). From this viewpoint, the company should strive to maintain the profitability of all parts of the property, thereby achieving an increase in income in the coming years. Furthermore, the possibilities of using foreign sources (usage of tax shield), which should be cheaper than generally holding equity that could be invested in other activities.

Partial results of the analysis were projected also in the model of financial distress prediction IN 05, which proves that the company holds itself significantly above the recommended level in all the years (since it does not use so much foreign sources, hence the interest is minimal). Maximum was reached in 2012 with an index of 19.23, while in 2013 the index again fell slightly to 16.45 due to the increase in total liabilities and the interest arising from it.

The next what was investigated is the localization from the point of view of the company and then description of the given locality. In the next subchapters are included the economic analysis of the situation of the company in the South Moravian region, including the definition of its significance for the region. This analysis shows that the company is one of 6 companies operating in the South-Moravian Region with more than 100 employees in the manufacture of pharmaceutical products and preparations classified by CZ-NACE. It was found from the results that the firm produces an average of 40 % of the total sales of own products and services achieved in the sector in the region. This indicates very strong relevance in terms of performance for the South Moravian Region, especially for township Veverska Bityska, where there are strong bindings on the given company. The importance of enterprise is also proved by its comparison with sector in the average monthly gross wages. The results show that the gross monthly wage of HARTMANN-RICO is above average in terms of the South Moravian Region but below the industry average. From the social perspective, another conclusion of this analysis was to determine the share of employment in the sector in the region. The company employs in given field for almost 27% of the total number of people employed in the sector in this region. The next examination of the social impact of the company was analyzed through the activities carried out in given locality. From the findings, it can be stated that the South Moravian Region, especially locality Veverska Bityska is strongly dependent on existence of enterprise HARTMANN-RICO. From this fact arise the question if the company could abuse its dominant position and market power for enforcing

its own interests in the given locality. Thus situation could play off the region against company in not convenient position.

From the environmental point of view, the plant is located in Brno bioregion. The company produces certain amount of emissions, which are regularly controlled and were always under the limits, so there should be no risk to the environment. Also the risky sterilization processes are highly controlled by external entities and also by technicians inside the company.

7 Conclusion

The main objective of this work was to find out if the company is financially healthy and if occupies the position of a leader or leading entity in area of its activity. This objective has been fulfilled through four sub-objectives divorced in each chapter.

The first sub-objective includes a summary of the theoretical basis for the establishment of economic analysis, which is divided into three chapters. These chapters contain knowledge about the region, regional policy and regional development and tools to build their own economic analysis.

The second sub-objective is already focused in a practical way and includes the characteristics of a given enterprise, which is defined by a general description of the company, the history, and this part also contains the company's profile. Another point of this chapter is a compilation of economic analysis for the years 2009 - 2013, with partial results of this analysis, which were compared with the results achieved by competitor and then with average values achieved in the industry. The results of the analysis show that HARTMANN-RICO manages their assets well. Compared with a competitor, these values are above average, as well as with the values of the sector. The analysis of liquidity indicators shows from the first view that the company is able to fulfill its obligation, but quick ratio is below suitable limit, because the company has bounded its current assets primarily in inventories and long-term receivables. However, the company is not inclinable to foreign sources, and if there are any foreign sources, they are sourced predominantly from the parent company. So HARTMANN-RICO is not pushed to keep the immediate money at accounts. In comparison with competitor remains at lower level and compared to industry slightly below average as well. Consequently, from the debt ratios can be concluded that the company is completely stable, despite the comparison with competitor, when HARTMANN-RICO has even higher proportion of total debt than competitor. In any case, compared to industry is slightly above average. With respect to the

profitability, event so the company noticed the higher drop of earnings in the year 2012, however they are still optimally profitable. To keep and increase the growing tendency, the recommendations were suggested in previous chapter. Profitability of the company is above the results of competitor and even of industry. To determine the financial health of the company has been calculated index IN05 and Altman Z-score, which show that the company is significantly financialy healthy and drives its activities well-considered.

The third sub-objective deals with localization analysis. As was mentioned in previous chapter, from the economical and social point of view the company has a well-connected market power and the South Moravian region especially Brno-Country is strongly dependent on this company. Regarding the environmental aspect, despite the company operates intensive production, fulfills all established limits and makes a regular control measurement.

The last fourth objective was build proposals and recommendations for improving the economic performance of the company and outline the direction of development of the company, if there had been recommended changes, which are collectively defined in the previous chapter.

The answers on research questions, which were compiled on the basis of partial goals, are:

What is the economic level and development of the given company?

The economic level is really well, the company is still profitably healthy and found deficiencies in financial activities are removable. The company has a good profitable potential in the future. Together with maintaining the quality of products, stable marketing support, creation of new investments and applying updated strategies can strengthen its already good market position, maintain existing customer portfolio and gain new customers.

How large is the total impact of the company to the local region?

The impact is huge; because the company significantly contributes to development level of given locality South Moravian Region and concretely township Veverska Bityska.

It can be announced that the company if financially healthy, make well-advised strategic decisions and thus keep its position of a leader in given market. As said before, it could happen that company can abuse its position that if it would want to enforce something, can incline to push the local headquarters even through their importance for the given locality. However, still for the local region it is really profitable to keep and support such international company in its area, to be still more competitive with respect to other regions.

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9 Annex

Annex 1. Balance Sheet – Total Assets in TCZK

BALANCE SHEET (kCZK)		2009	2010	2011	2012	2013
	TOTAL ASSETS	**1 689 637**	**1 897 395**	**1 939 561**	**2 043 185**	**2 104 377**
A.	**Receivables for subscribed registered capital**	0	0	0	0	0
B.	**Fixed Assets**	**823 109**	**778 643**	**707 014**	**671 017**	**644 623**
B.I.	**Intangible fixed assets**	**10 959**	**11 524**	**14 503**	**12 952**	**12 711**
3.	Software	9 763	9 803	14 358	12 785	12 711
7.	Intangible fixed assets under construction	1 195	1 721	145	167	0
B.II.	**Tangible fixed assets**	**811 323**	**766 292**	**691 684**	**657 238**	**631 085**
1.	Land	14 052	14 052	14 052	11 248	11 248
2.	Buildings, halls and structures	377 326	370 088	329 354	312 666	316 017
3.	Property, plant and equipment	403 947	377 597	347 795	303 986	269 710
7.	Tangible fixed assets under construction	15 898	4 223	383	19 579	24 523
8.	Advanced payments for tan. fixed assets	100	332	100	9 759	9 587
B.III.	**Long-term investments**	**827**	**827**	**827**	**827**	**827**
1.	Investments in group undertakings	641	641	641	641	641
3.	Other long-term securities and ownership interests	186	186	186	186	186
C.	**Current assets**	**865 692**	**1 116 633**	**1 229 474**	**1 370 361**	**1 455 274**
C.I.	**Inventories**	**361 523**	**436 866**	**391 881**	**466 162**	**567 402**
1.	Raw materials	138 383	179 266	161 615	191 828	239 734
2.	Work in progress and semi-finished products	35 047	49 094	41 062	48 329	66 527
3.	Finished goods	106 747	113 933	101 226	114 198	137 853
5.	Goods for resale	81 346	94 573	87 978	111 807	123 288
C.II.	**Long-term receivables**	**410**	**460**	**400**	**450**	**405**
7.	Other receivables	410	460	400	450	405
C.III.	**Short-term receivables**	**488 846**	**649 246**	**819 512**	**896 619**	**882 015**
1	Trade receivables	447 470	599 561	518 965	565 482	664 066
2	Receivables from group undertakings	0	1 277	273 117	283 070	157 474
6	Tax receivables and state subsidies receivable	4 388	1 471	5 470	0	19 138
7	Other advances paid	4 179	8 670	8 752	12 077	7 115
8	Estimated receivables	32 695	38 122	12 624	35 896	34 175
9	Other receivables	114	145	584	94	47
C.IV.	**Short-term financial assets**	**14 913**	**30 061**	**17 681**	**7 130**	**5 452**
1.	Cash	840	772	754	764	489
2.	Bank accounts	14 073	29 289	16 927	6 366	4 963
D.I.	**Accruals and deferrals**	**836**	**2 119**	**3 073**	**1 807**	**4 480**

BALANCE SHEET (kCZK)		2009	2010	2011	2012	2013
	Total Claims	1 689 637	1 897 395	1 939 561	2 043 185	2 104 377
A.	**Equity**	1 298 093	1 447 111	1 540 627	1 579 165	1 573 962
A.I.	**Registered capital**	**270 000**	**270 000**	**270 000**	**270 000**	**270 000**
1.	Registered capital	270 000	270 000	270 000	270 000	270 000
A.II.	**Capital contributions**	0	0	**0**	**0**	**0**
A.III.	**Reserve funds**	**54 000**	**54 000**	**54 000**	**54 000**	**54 000**
1.	Statutory reserve	54 000	54 000	54 000	54 000	54 000
A.IV.	**Retained earnings**	**755 167**	**855 238**	**973 670**	**1 067 627**	**1 055 164**
1.	Retained profits	755 167	855 238	973 670	1 067 627	1 055 164
A.V.	**Profit (loss) for current period**	**218 926**	**267 873**	**242 957**	**187 538**	**194 798**
B.	**Liabilities**	**391 544**	**450 221**	**398 934**	**464 020**	**530 415**
B.I.	**Provisions**	**12 199**	**2 182**	**1 702**	**16 427**	**12 404**
4.	Non-deductible provisions	12 199	2 182	1 702	16 427	12 404
B.II.	**Long-term liabilities**	**54 651**	**45 735**	**37 596**	**29 908**	**33 654**
2.	Liabilities to group undertakings	7 720	0	0	0	0
10.	Deferred tax liability	46 931	45 735	37 596	29 908	33 654
B.III.	**Short-term liabilities**	**321 372**	**402 304**	**359 636**	**417 685**	**444 399**
1.	Trade payables	195 689	271 217	230 191	245 813	299 116
2.	Liabilities to group undertakings	7 720	0	14 506	38 025	3
5.	Payables to employees	22 633	22 916	20 584	21 953	23 116
6.	Payables to social security and health insurance	11 756	12 655	11 740	12 255	12 865
7.	Tax liabilities	5 197	8 222	4 906	16 959	2 861
10.	Estimated payables	70 248	78 006	77 528	82 109	104 399
11.	Other payables	382	1 512	181	571	2 039
B.IV.	**Bank loans and overdrafts**	**3 322**	**0**	**0**	**0**	**39 958**
1.	Long-term bank loans	0	0	0	0	0
2.	Short-term bank loans	3 322	0	0	0	39 958
3.	Short-term financial liability	0	0	0	0	0
C.	**Accrual and deferrals**	0	63	0	0	0

Table 14: Own work based on data from www.justice.cz, 2014

Annex 2. Profit and Loss Account in TCZK

Profit and loss Account	2009	2010	2011	2012	2013
Revenue from goods	979 483	1 110 005	1 128 607	1 153 520	1 215 635
Cost of goods sold	588 128	702 646	734 914	787 534	973 906
Gross profit	**391 355**	**407 359**	**393 693**	**365 986**	**241 729**

Revenue from production	**1 747 557**	**2 072 659**	**2 003 939**	**2 108 733**	**2 453 672**
Revenue from own products and services	1 799 673	2 053 523	2 013 861	2 100 509	2 416 244
Change in inventory of own production	-52 307	18 864	-9 977	8 197	37 389
Own work capitalized	191	272	55	27	39
Cost of sales	**1 565 857**	**1 698 779**	**1 635 890**	**1 757 280**	**1 962 099**
Materials and consumables	1 167 167	1 261 467	1 236 225	1 323 468	1 495 287
Services	398 690	437 312	399 665	433 812	466 812
Added value	**573 055**	**781 239**	**761 742**	**717 439**	**733 302**
Personnel expenses	**507 030**	**491 168**	**472 383**	**498 460**	**516 805**
Wages and salaries	378 619	360 065	342 757	366 451	378 466
Remuneration of board members	0	0	0	0	0
Social security and health insurance expenses	123 739	125 986	123 170	125 033	130 915
Social expenses	4 672	5 117	6 456	6 976	7 424
Taxes and charges	**1 153**	**1 467**	**1 488**	**2 229**	**3 304**
Depreciation of intangible and tangible fixed assets	**119 648**	**112 533**	**111 713**	**111 044**	**104 973**
Proceeds from disposals of fixed assets and raw material	**31 481**	**18 113**	**13 041**	**72 713**	**21 004**
Proceeds from disposals of fixed assets	23 788	4 380	2 815	2 708	10 063
Proceeds from disposals of raw material	7 693	13 733	10 226	70 005	10 941
Net book value of fixed assets and raw material sold	**45 045**	**29 188**	**19 434**	**81 646**	**75 849**
Net book value of fixed assets sold	30 133	3 651	1 515	2 098	54 704
Raw material sold	14 912	25 537	17 919	79 548	21 145
Change in provisions and adjustments relating to operating	23 631	5 097	15 247	-1 351	-62 427
Other operating revenues	72 803	93 579	120 653	128 344	124 632
Other operating expenses	54 306	39 035	50 217	41 643	64 864
Operating profit (loss)	**-73 474**	**214 443**	**224 954**	**184 825**	**175 570**
Proceeds from sale of securities and ownership interests	0	0	0	0	0
Securities and ownership interests sold	0	0	0	0	0
Revenue from long-term investments	**170 780**	**117 567**	**112 152**	**0**	**71 456**
Revenue from intercompany securities and ownership	170 780	117 567	112 152	0	71 456
Interest revenue	149	91	286	1 648	230
Interest expense	4 996	2 118	924	543	621
Other financial revenue	141 175	30	29	52 547	1
Other financial expenses	901	25 432	61 060	930	18 477
Profit (loss) from financial operations	**306 207**	**90 138**	**50 483**	**52 722**	**52 589**
Income tax on ordinary profit (loss)	21 296	41 096	32 869	50 009	34 638
- current	32 036	43 321	41 099	57 697	31 192
- deferred	-10 740	-2 225	-8 230	-7 688	3 446

Profit (loss) on ordinary activities after taxation	**211 437**	**263 485**	**242 568**	**187 538**	**193 521**
Extraordinary revenue	0	0	0	0	0
Extraordinary expenses	-9 414	-5 417	-480	0	-1 577
Income tax on extraordinary profit (loss)	1 925	1 029	91	0	300
- current	0	0	0	0	0
- deferred	1 925	1 029	91	0	300
Transfer of profit or loss to partners	0	0	0	0	0
Extraordinary profit (loss)	**7 489**	**4 388**	**389**	**0**	**1 277**
Profit (loss) for accounting period	**218 926**	**267 873**	**242 957**	**187 538**	**194 798**
Profit (loss) for accounting period before tax	**242 147**	**309 998**	**275 917**	**237 547**	**229 736**
Total Revenues	3 143 428	3 412 044	3 378 707	3 517 505	3 886 630
Total Cost	2 901 281	3 102 046	3 102 790	3 279 958	3 656 894

Table 15: Own work based on data from www.justice.cz, 2014

Annex 3. Horizontal Analysis

Year-to-Year Change Analysis - Total Assets				
absolute change	2010/2009	2011/2010	2012/2011	2013/2012
Total Assets	207 758	42 166	103 624	61 192
Fixed Assets	-44 466	-71 629	-35 997	-26 394
Current assets	250 941	112 841	140 887	84 913
Accruals and deferrals	1 283	954	-1 266	2 673
percentage change	2010/2009	2011/2010	2012/2011	2013/2012
Total Assets	12%	2%	5%	3%
Fixed Assets	-5%	-9%	-5%	-4%
Current assets	29%	10%	11%	6%
Accruals and deferrals	153%	45%	-41%	148%

Year-to-Year Change Analysis - Claims				
absolute change	2010/2009	2011/2010	2012/2011	2013/2012
Total Claims	207 758	42 166	103 624	61 192
Owner Equity	149 018	93 516	38 538	-5 203
Liabilities	58 677	-51 287	65 086	66 395
Accruals and deferrals	63	-63	0	0
percentage change	2010/2009	2011/2010	2012/2011	2013/2012
Total Claims	12%	2%	5%	3%
Owner Equity	11%	6%	3%	-0,33%
Liabilities	15%	-11%	16%	14%
Accruals and deferrals	100%	-100%	0%	0%

Year-to-Year Change Analysis - Profit&Loss account				
absolute change	2010/2009	2011/2010	2012/2011	2013/2012
Revenue from goods	130 522	18 602	24 913	62 115
Revenue from own products and	253 850	-39 662	86 648	315 735
Gross Profit	16 004	-13 666	-27 707	-124 257
Operating Profit	287 917	10 511	-40 129	-9 255
Profit (loss) from financial	-216 069	-39 655	2 239	-133
Extraordinary profit (loss)	-3 101	-3 999	-389	1 277
EBIT	64 973	-35 275	-38 751	-7 733
percentage change	2010/2009	2011/2010	2012/2011	2013/2012
Revenue from goods	13%	2%	2%	5%
Revenue from own products and	14%	-2%	4%	15%
Gross Profit	4%	-3%	-7%	-34%
Operating Profit	-392%	5%	-18%	-5%
Profit (loss) from financial	-70,6%	-44,0%	4,4%	-0,3%
Extraordinary profit (loss)	-41%	-91%	-100%	0%
EBIT	26%	-11%	-14%	-3%

Table 16: Own work based on data from www.justice.cz, 2014

Annex 4. Vertical Analysis

Common size financial statement analysis Total Assets					
Share in %	2009	2010	2011	2012	2013
Total Assets	100%	100%	100%	100%	100%
Fixed Assets	49%	41%	36%	33%	31%
Current assets	51%	59%	63%	67%	69%
Accruals and deferrals	0,049%	0,112%	0,16%	0,09%	0,21%

Common size financial statement analysis Total Claims					
Share in %	2009	2010	2011	2012	2013
Total Claims	100%	100%	100%	100%	100%
Total Equity	77%	76%	79%	77%	75%
Liabilities	23%	24%	21%	23%	25%
Accruals and deferrals	0,000%	0,003%	0,000%	0,000%	0,000%

Common size financial statement analysis P&L Account					
Share in %	2009	2010	2011	2012	2013
Total Revenues	100%	100%	100%	100%	100%
Revenue from goods	31%	33%	33%	33%	31%
Revenue from own products	57%	60%	60%	60%	62%
Revenue from long-term	5,433%	3,446%	3,319%	0,000%	1,839%
Other financial revenue	4%	0%	0%	1%	0%

Table 17: Own work based on data from www.justice.cz, 2014

Annex 5. Net Working Capital Analysis

Net Working Capital	2009	2010	2011	2012	2013
	540 998	714 329	869 838	952 676	970 917

Table 18: Own work based on data from www.justice.cz, 2014

Annex 6. Ratio Analysis

Debt ratios	2009	2010	2011	2012	2013
Total Debt Ratio (%)	22,5%	23,6%	20,5%	21,9%	24,6%
- Current debt ratio (%)	19,2%	21,2%	18,5%	20,4%	23,0%
- Long-term debt ratio (%)	3,2%	2,4%	1,9%	1,5%	1,6%
Equity multiplier (%)	76,8%	76,3%	79,4%	77,3%	74,8%
Debt-equity ratio	2/7	1/3	1/4	2/7	1/3
Times interest earned	49	147	300	438	371

Turnover Ratios	2009	2010	2011	2012	2013
Total asset turnover ratio	1,9	1,8	1,7	1,7	1,8
Fixed asset turnover ratio	3,8	4,4	4,8	5,2	6,0
Inventory turnover ratio	8,7	7,8	8,6	7,5	6,8
Average collection period	57	61	79	89	84
Average debt period [days]	37	39	41	40	40
Inventory turnover in days	42,0	46,7	42,3	48,4	53,3

Liquidity Ratios	2009	2010	2011	2012	2013
Current ratio	2,7	2,8	3,4	3,3	3,0
Quick ratio	1,6	1,7	2,3	2,2	1,8
Cash ratio	0,05	0,07	0,05	0,02	0,01

Rentabilita	2009	2010	2011	2012	2013
ROA (%)	14,6%	16,4%	14,3%	11,7%	10,9%
ROA (after tax) (%)	13%	14%	13%	9%	9%
ROE (%)	16,9%	18,5%	15,8%	11,9%	12,4%
Profit margin (%)	7,1%	7,9%	7,2%	5,3%	5,0%

Table 19: Own work based on data from www.justice.cz, 2014

Annex 7. Prediction of Financial Distress

Z-score	2009	2010	2011	2012	2013
x_1	0,3202	0,3765	0,4485	0,4663	0,4614
x_2	0,4469	0,4507	0,5020	0,5225	0,5014
x_3	0,1463	0,1645	0,1427	0,1165	0,1095
x_4	3,3153	3,2142	3,8619	3,4032	2,9674
x_5	1,860	1,798	1,742	1,722	1,847
Z-Score	**4,31**	**4,31**	**4,55**	**4,29**	**4,19**

IN 05	2009	2010	2011	2012	2013
x_1	4,3153	4,2144	4,8619	4,4032	3,9674
x_2	49,4682	147,3636	299,6115	438,4715	370,9452
x_3	0,1463	0,1645	0,1427	0,1165	0,1095
x_4	1,8604	1,7983	1,7420	1,7216	1,8469
x_5	2,6662	2,7756	3,4187	3,2808	3,0045
IN 05	**3,75**	**7,72**	**13,86**	**19,23**	**16,45**

Table 20: Own work based on data from www.justice.cz, 2014

Annex 8. Financial Analysis of Industry

Debt ratios	2009	2010	2011	2012	2013
Total Debt Ratio (%)	22,8%	21,6%	17,0%	17,2%	17,0%
Equity multiplier (%)	73,08%	76,33%	79,70%	79,32%	79,87%
Liquidity Ratios	2009	2010	2011	2012	2013
Current ratio	2,77	2,770	3,340	3,650	4,060
Quick ratio	1,90	1,940	2,270	2,410	2,730
Cash ratio	0,37	0,520	0,800	0,950	0,900
Turnover Ratios	2009	2010	2011	2012	2013
Total asset turnover ratio	0,84	0,79	0,80	0,70	0,66
Rentabilita	2009	2010	2011	2012	2013
ROA (%)	6,26%	17,08%	10,16%	9,30%	8,17%
ROE (%)	6,25%	18,92%	10,73%	8,10%	8,92%
Profit margin (%)	7,41%	21,6%	12,7%	13,3%	12,3%

Table 21: Own work based on data from www.mpo.cz, 2014

Annex 9. Financial Analysis of Lohmann&Rauscher s.r.o.

Common size financial statement analysis					
Share in %	2009	2010	2011	2012	2013
Total Assets	100%	100%	100%	100%	100%
Fixed Assets	36%	34%	31%	30%	40%
Current assets	63%	66%	69%	70%	60%
Accruals and deferrals	0%	0%	0%	0%	0%

Common size financial statement analysis Total Claims					
Share in %	2009	2010	2011	2012	2013
Total Claims	100%	100%	100%	100%	100%
Total Equity	76%	86%	92%	92%	91%
Liabilities	24%	14%	8%	8%	9%
Accruals and deferrals	0,002%	0,000%	0,002%	0,014%	0,001%

Common size financial statement analysis P&L Account					
Share in %	2009	2010	2011	2012	2013
Total Revenues	100%	100%	100%	100%	100%
Revenue from goods	11%	11%	10%	10%	10%
Revenue from own products and	82%	86%	88%	88%	89%
Revenue from long-term	0,000%	0,000%	0,000%	0,000%	0,000%
Other financial revenue	0%	0%	0%	0%	0%

Debt ratios	2009	2010	2011	2012	2013
Total Debt Ratio (%)	21%	11%	7%	8%	9%
- Current debt ratio (%)	9%	10%	6%	7%	8%
- Long-term debt ratio (%)	12%	1%	1%	1%	1%
Equity multiplier (%)	76%	86%	92%	92%	91%
Debt-equity ratio	2/7	1/8	0	0	0
Times interest earned	350	108	85	6556	0

Liquidity Ratios	2009	2010	2011	2012	2013
Current ratio	6,8	6,6	11,5	10,1	7,9
Quick ratio	3,5	3,4	7,3	6,6	4,6
Cash ratio	0,53	0,23	0,35	0,28	0,24

Turnover Ratios	2009	2010	2011	2012	2013
Total asset turnover ratio	1,283	1,374	1,435	1,331	1,269
Fixed asset turnover ratio	3,526	4,069	4,574	4,442	3,164
Inventory turnover ratio	4	4	6	5	5
Average collection period	79	78	89	110	105
Average debt period [days]	26	26	19	17	20
Inventory turnover in days	87,6	86,4	64,2	66,8	71,2
Rentabilita	2009	2010	2011	2012	2013
ROA (%)	5%	11%	13%	11%	8%
ROA (after tax) (%)	5%	10%	13%	11%	8%
ROE (%)	7%	12%	14%	12%	9%
Profit margin (%)	4%	8%	9%	8%	6%

Table 22: Own work based on data from www.mpo.cz, 2014

Annex 10. Value of Released Emissions into Atmosphere

Emise CO_2 [t]	2008	2009	2010	2011	2012	2013
elektrická energie	6.499	6.560	7.098	6.470	6.620	5.973
zemní plyn	1.828	1.723	1.707	1.716	1.561	1.425
Koncentrace [mg/m³] – Buderus 1.320 kW	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
SO_2 (35 mg/m^3)	-	0,0	-	-	0,0	-
NO_X (200 mg/m^3)	-	100,2	-	-	114,0	-
CO (100 mg/m^3)	-	11,0	-	-	12,7	-
Koncentrace [mg/m³] – Buderus 590 kW	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
SO_2 (35 mg/m^3)	-	0,0	-	-	0,0	-
NO_X (200 mg/m^3)	-	67,7	-	-	67,7	-
CO (100 mg/m^3)	-	0,0	-	-	2,5	-
Koncentrace [mg/m³] – Viessman 575 kW	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
SO_2 (35 mg/m^3)	-	0,0	-	-	0,0	-
NO_X (200 mg/m^3)	-	81,2	-	-	78,6	-
CO (100 mg/m^3)	-	0,0	-	-	0,0	-
Koncentrace [mg/m³] – Viessman 720 kW	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
SO_2 (35 mg/m^3)	-	0,0	-	-	0,0	-
NO_X (200 mg/m^3)	-	83,7	-	-	76,6	-
CO (100 mg/m^3)	-	0,0	-	-	0,0	-
Koncentrace [mg/m³] – ETOX kat. spalování	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Ethylenoxid (při hm.toku >50 g/h je limit 5mg/m^3)	<0,1	<0,1	<0,2	-	-	1,1/0,17
Počet překročení limitů	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
	0	0	0	0	0	0

Table 23: Data from HARTMANN-RICO A.S. *HSE Profil 2013*, 2015