Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

Financial analysis of InterierTech s.r.o.

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Thesis title

Financial analysis of InterTech s.r.o.

Objectives of thesis

Objective of thesis is to evaluate the economic situation of the chosen company
with financial analysis. Further objective is to make evaluation of the financial situation and give possible
recommendations for improvement based upon the results of the analysis.

Methodology

The methodology of work consists of the analysis, synthesis and compilation of relevant data from litera-
ture, internal data of the company and other professional resources. The resulting economic and financial
data will then be processed using standard mathematical and statistical methods, which will allow the
evaluation of the financial situation in the given company.

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Keywords

financial analysis, horizontal analysis, vertical analysis, financial statement

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Declaration

I declare that I have worked on my diploma thesis titled "Financial Analysis of InterierTech s.r.o." by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 30. 11. 2018 _____

Financial Analysis of InterierTech s.r.o.

Abstract

Diploma thesis "Financial Analysis of InterierTech s.r.o." evaluates the selected company InterierTech s.r.o. in terms of its economic situation through the methods of financial analysis from data through the years from 2013 to 2016.

First part of the thesis deals with the necessary theoretical background needed for the conduction of the financial analysis of the selected company and the understanding of methods with which this thesis deals in the practical part of the thesis. Firstly, it provides theoretical information of the environment surrounding enterprises and continues with the background for the financial analysis itself. It continues with the description of data sources usually used for the conduction of financial analysis and finally describes methods of financial analysis which are later used in the practical part.

Second part of the thesis starts with the overview and analysis of the Czech furniture industry, in which the company InterierTech s.r.o. conducts their business. Following the overview of the industry, the thesis provides overview of the company itself, resulting in the financial analysis using methods described in the theoretical part. This thesis ends with a conclusion of the analysis and gives recommendations for the company based on the results. For the purpose of this thesis there were used data from the financial statements of the company, of its main competitor and data from the Ministry of Industry and Trade of the Czech Republic.

Keywords: financial analysis, czech furniture industry, balance sheet, income statement, horizontal analysis, vertical analysis, ratio analysis, credit and bankruptcy models, spider analysis, economic value added

Finanční analýza InterierTech s.r.o.

Abstrakt

Diplomová práce „Finanční analýza Interier Tech s.r.o." vyhodnocuje vybranou společnost Interier Tech s.r.o. z hlediska ekonomické situace prostřednictvím metod finanční analýzy z dat účetních uzávěrek společnosti za roky 2013 až 2016.

První část práce se zabývá potřebným teoretickým zázemím pro provedení finanční analýzy vybrané společnosti a pochopení metod, jimiž se tato práce zabývá v praktické částí práce. Nejdříve poskytuje teoretické informace o podnikatelském prostředí, pokračuje v deskripci pozadí samotné finanční analýzy, dále popisem zdrojů dat běžně používaných pro provádění finanční analýzy a nakonec této části popisuje metody finanční analýzy, které se později používají v praktické části.

Ve druhé části práce probíhá analýza a přehled českého nábytkářského průmyslu, ve kterém společnost InterierTech s.r.o. podniká. V návaznosti na analýzu a přehled průmyslu práce poskytuje přehled samotné společnosti, který dále vede k samotné finanční analýze za použití metod popsanými v teoretické části. Tato práce končí závěrem analýzy a doporučením pro společnost na základě výsledků. Pro účely této práce byly použity data z účetní závěrky společnosti, z Českého statistického úřadu a Ministerstva průmyslu a obchodu ČR.

Klíčová slova: finanční analýza, český nábytkářský průmysl, rozvaha, výkaz zisků a ztrát, horizontální analýza, vertikální analýza, analýza poměrových ukazatelů, Bonitní a bankrotní modely, spider analýza, ekonomická přidaná hodnota

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List of abbreviations

A – assets

B – bonds

BA – bank accounts

CA – current assets

CCC – cash conversion cycle

CL – current liabilities

E - equity

EAT – earnings after taxes

EBIT – earnings before interest and taxes

EBT – earnings before taxes

EBITDA – earnings before interest, taxes, depreciation and amortization

IR – interest rate

NOPAT – net operating profit after taxes

NWC – net working capital

ROA – return on assets

ROE – return on equity

ROCE – return on capital employed

ROS – return on sales

WACC – weighted average cost of capital

1 Introduction

Financial analysis, when properly evaluated, is a provider of very important and valuable information. If a business wants to prosper, it is highly recommended to monitor finances, the whole financial situation and then evaluate it on a regular basis. For this purpose, we use a financial analysis, which monitors the financial health of a company. With methods of the financial analysis it is possible to evaluate the whole set of indicators, compare them over time, compare them with benchmarks, with the industry or with other subjects. Based on the results of the financial analysis, we can effectively evaluate the state of the past, present, detect the strengths and weaknesses of the company and provide information for the strategic planning of the future.

The work is divided into two basic parts. The first part of the thesis is the theoretical part, which describes the financial analysis as such and its individual instruments. In the second part these tools are applied to the selected enterprise and the obtained values are commented on and put into context. Lessons learned from the practical part are summarized at the end.

2 Objectives and Methodology

2.1 Objectives

Objective of this thesis is to evaluate the economic situation of the chosen company with the methods of financial analysis described in the theoretical part. Further objective is to make evaluation of the financial situation and give possible recommendations for improvement based upon the results of the analysis.

This thesis aim as well to answer the following research questions.

RQ1: What impact on the financial situation of the firm had the purchase of a new production facility?

RQ2: What is the main negative factor of the financial performance of InterierTech?

The hypothesis which is being tested by this thesis is the following: The company InterierTech is an average competitor in the furniture industry.

2.2 Methodology

The methodology of work consists of the analysis, synthesis, compilation and comparison of relevant data from literature, internal data of the analysed company and its main competitor, industry data from the Ministry of Labour and Social Affairs of the Czech Republic, the Czech Statistical Office and other professional resources. The resulting economic and financial data are processed using standard methods of financial analysis of absolute indicators, ratio analysis, spider analysis, and analysis through credit and bankruptcy models, which allow the evaluation of the financial situation in the company as well to provide recommendations for future.

3 Literature Review

3.1 Enterprise

The concept of a company can be defined in several ways. The most general definition says that a company can be imagined as an entity in which the inputs change to outputs. More extensive explanation of an enterprise states, that it is a defined unit, both legally and economically, that exists for a profit. It has its legal autonomy, which is expressed in freedom of business.

From the point of view of law, the enterprise is a set of personal, tangible and intangible components of a business. The business includes the rights, things, and other property values that are in the ownership of the owner and are used to run the business. (Srpová, Řehoř 2010)

The main functions of enterprise include:
- production function,
- supply function,
- scientific and technical function,
- economic function,
- social function,
- political function,
- educational function,
- safety function,
- social responsibility function.

"*The production function is the production associated with the creation of products and services. The supply function satisfies certain market needs. The scientific and technical function uses new scientific knowledge and new technologies. The economic function is based on the generation of profit, on the basis of satisfying foreign needs and creating the conditions for further development. Social is such a function that employee income affects business operations. Political function strengthens or weakens political decisions.* "

(Synek, 2011)

3.1.1 Objectives of an enterprise

Companies are microsystems with a target behaviour. Most economists believe, that with the exception of the non-profit sector, the main goal of any company is to maximize its profits generated by the higher amount of revenues than costs. The company strives for such quality, price and volume of production to maximize profit as much as possible. This can be achieved in the so-called long or short period. Companies specializing in maximizing profits over a long period of time are willing to give up profit in a short period of time in favour of long-term growth. These efforts are often included in the company's alternative goals, which may be in the form of an increase in the market share, technological leadership, etc.

Apart from the economic environment, companies are also in a political, social, environmental and cultural environment. Modern companies focus on all of these areas. Their goals may include, for example, improving the image from the environmental or humanitarian point of view. However, these goals usually support the main goal of maximizing profits. (Jurečka 2015)

3.2 Market

The term "market" means any system of purchase and sale. The market is a mechanism that coordinates the different efforts of entities to buy and sell goods. There is exchange of activities through shifts. There is a demand for supply that has many forms. The market is related to the division of labour, when differently specialized companies exchange their products for money. Products for exchange are called goods. (Jurečka, 2015)

Markets can be broken down by:
- Territory - the local market is a basic unit, for example the Prague market. Connection of local markets creates the national market. By combination of national markets, the world market is created.
- The number of goods - divided into partial markets, where only one type of commodity is traded and the aggregate market where all goods in the economy are traded.
- The subject of purchase – brakes down to the market of production factors, the money market and the product market. The production factor market is demands

and offers jobs, land and capital. The money market is interconnected with the capital market. The product market or product and service market is the most important market in economic theory. Economic and financial analyses are always based on this market. (Macáková, 2002)

In economic theory, we distinguish three basic entities that enter all of the above-mentioned types of markets. They are households, businesses, and the state (government). Households demand products on the product market that meet their needs. They gain means to meet their needs in the production factors market by offering companies what they own, i.e. work, land and capital. These household incomes from companies are called pensions. The production factors are essential for the production of products and services, which then the companies sell on the market of products and services to households, thus closing the cycle. The goal of companies is to maximize profits. The state, in most cases represented by the government, is the third entity in the market. It seeks to reduce the negative impact on the economy and, on the contrary, to promote its positive effects. (Jurečka, 2015; Macáková, 2002)

3.3 Competition

Competitive environment needs at least two dependent entities. These participants are always on the market in the form of a seller and a buyer (offer and demand). Their interests are clearly contradictory. If the entities are dependent on each other, the price is a compromise. This competition is referred to as the cross-market competition. (Fuchs, 2003)

Competitive struggle can also occur on the demand side. Its participants combine the effort to buy as cheaply as possible, which often goes to buy at the expense of others. The rising price is subsequently eliminated by other entities either due to lack of financial resources or unwillingness to pay a higher price.

On the supply side, competition takes place in different forms depending on the market situation. In this thesis, we will be most concerned about this type of competition, the supply competition. Its positive impact is to stimulate the movement of the market environment.

The increase of competition is mainly due to the dominance of supply over demand, which causes a price drop and drive attempts to improve production. The goal is to gain an advantage over competitors, which is realized in the form of a profit that is higher than that of competitors. The main forms of competition are:

- Price competition, historically the first form of competition. The purpose of this form is to produce more at a lower price in order for the company to attract buyers' demand to their product. The secondary objective is to threaten the positions of competitors, in order for them not to be able to keep production at a lower price. Manufacturers are generally seeking for lowest costs as possible. At a price drop, only the lower price guarantees the realization of the production, but does not have to ensure the return of the costs embedded in the production. Under conditions where a firm cannot change the market price, it can use cost cutting as a method of price competition.
- Non-price competition. In the 20th century, price competition is weakening and the form of non-price competition is growing. The methods of attracting buyers' demand include:
  - quality of production
  - wider terms of sale (service, guarantee, credit, etc.)
  - advertisement,
  - good company name,
  - Branding, etc. (Fuchs, 2003)

According to a widely held view, competition is measured by the number of manufacturers on the market, the more companies on the marker, the competition. However, this view of competition is too static and can lead to incorrect economic decisions. (Holman, 2005)

3.4 Financial Analysis

The results and conclusions of the individual areas of the financial analysis of an enterprise are sources of information, which provide the company with data on its

profitability, indebtedness, liquidity, activity, but also on how it perceives the external environment. Financial statements are the source of information for financial analysis.

Thanks to the financial analysis, we are able to evaluate the development of individual indicators over time and compare them with competitors or the market itself if necessary. To achieve a fair result, it is important not to just look at the individual areas of the financial analysis, but it is necessary to perceive them as a complex picture of the business. This is not always simple and it highly depends on the analyst's experience. Financial analysis provides information on whether an enterprise is in a situation where problems arise and, if so, whether the business is able to get out of these problems or whether it will be better to end the business.

Financial analysis is a valuation of the past, present and anticipated future of financial performance of the company. Its goal is to identify financial health, identify weaknesses that could lead to problems in the future and determine the strengths the company could build. (Blaha and Jindřichovská, 2006)

3.4.1   Objectives of financial analysis

One of many definitions of financial analysis states, that financial analysis is here to create a comprehensive assessment of the current financial situation inside the company. Obtained analytical information serves several different users for making conclusions about the economy itself and about the overall financial situation of the company. This information also helps company management and other interested subjects to make decisions that lead to long-term prosperity or, on the contrary, they can serve as a very helpful tool for coping with the unexpected situation of a financial crisis. (Sedláček, 2011).

It is important to determine a specific target, before proceeding with the practical application of financial analysis methods. This goal does not have to be set from the point of view of the company as a whole, but of the individual departments of the company as well.

For the purposes of a financial analysis, it is important to monitor the time indicator. The company's development can be evaluated over a certain period of time from the past

(ex-post). Financial analysis is seen as the basis from which we can assess forecasts (ex-ante). This consider short-term planning, where the planning considers a normal course of the business or long-term, which is associated for example with a future investment or further expansion of the company (Růčková, 2015).

The objective of the financial analysis can be summarized to two basic criteria: the ability to generate profits and to secure the balance of payments. The ability to make a profit, that is to ensure the valuation of the capital injected, is referred to as the most important criterion, as it explains the basic nature of the business. Every entrepreneur or investor runs the risk in order to achieve an appreciation of their capital. Equally important is the secured balance of payments. Without the ability to repay its liabilities, it is not possible to operate the company further. If the company has no secured ability to pay, it is exposed to the risk of bankruptcy (Růčková, 2015).

Financial analysis helps to create variants of further development with selection of the most appropriate variant, which includes comparison of results of the monitored business entity with another entity, mostly in the same industry or with the industry standard. The processed results serve the creditors and owners, among other things, as the company evaluation (Kubíčková and Jindřichovská, 2015).

3.4.2 Users of financial analysis

Financial analysis is interesting to a wide range of users. Users of the financial analysis are not only interested in the analysis of the financial management of the past but are interested in the forecast of the financial perspectives as well. Users range from the business management, owners and shareholders, employees, financial institutions, customers, competitors to the state institutions. (Knápková and Pavelková, 2010)

Business management

Business management plays the most important role as it decides on the optimal asset and equity structure, dividend policy, business valuation, free cash deposit, and more. With the help of the results of a financial analysis, managers monitor the financial position of the entity, which helps to identify the strengths, weaknesses, threats and opportunities. At the

same time, these results serve as an essential aspect for strategic decisions regarding the future of the business.

Owners and shareholders

Owners are particularly interested in how their business is managed and how their investments are being handled. Their interest mainly concerns the concepts of return on capital invested, the amount of dividends paid and the liquidity of the company. Shareholders primarily monitor the return on equity and the potential for future returns.

Employees

Employees monitor the wage and social situation in the enterprise, as information related to this issue helps as arguments for dealing with the company management and also serves for the future employment forecasts in an enterprise.

Financial Institutions

Financial institutions, through financial intelligence, decide whether to grant or reject a loan for an enterprise. They will investigate whether the entity will be able to repay its debt properly and offer an adequate guarantee. If the entity is not able to repay, the bank is interested in valuing an enterprise as a form of a liquidation value. Business creditors focus on the results of the financial analysis from the point of view of the company's solvency and liquidity. Holders of debt securities monitor information on financial stability and liquidity.

Customers

Customers are mostly interested in the financial information, which answer the question if the business is not getting into financial difficulties that could affect the quality or punctuality of deliveries. The problem arises when the buyer has only one supplier, because in the event of bankruptcy, the buyer in certain sectors will not find any compensation.

Competitors

Competitors compare results of the financial analysis with their own results within comparative ratios. They are interested in information on pricing policy, promotion,

investment activity, research and development. All of this data helps competitors to choose their market behaviour.

Potential investors

Potential investors monitor the overall financial performance of the business as they decide on future investments on the basis of this information.

State authorities

State authorities focus on factors that affect the level of budget revenue, such as customs duties, income tax and VAT. They formulate financial policy towards the corporate sector in their territory. (Knápková and Pavelková, 2010)

3.5 Data source

The processing of the financial analysis depends on the quality of input data and information. We differentiate between the internal and external analysis based on the level of access to the business information. The more data there is an access to, the processor will achieve a higher level of information value. (Kline, 2007)

Basic data sources include internal financial statements - balance sheets (position statement), income statements (profit/loss account), cash flow statements and statement of changes in equity, other valuable source is the annual report, official economic statistics, professional press commentaries and others.

3.5.1 Balance sheet

The Balance Sheet is a basic financial statement informing about the composition of the company's assets and liabilities, resources from which the entity is financed. The balance sheet is compiled to a certain date and must be in the basic balance, the sum of assets is equal to the sum of liabilities.

$$Assets = Equity + Liabilities$$

The ownership structure (assets), which are probable future economic benefits and resources owned or controlled by the entity (property) are further broken down according to their "life expectancy", or from the point of view of their ability to be converted back into cash. That includes, fixed assets current assets and accrual. The financial structure consists of equity, liabilities and accruals as well. (Kline, 2007)

3.5.1.1 Assets

The asset structure (company's ownership structure) informs about the distribution of the company's invested capital. Generally, more profitable investments are in the long-term assets and the least profitable are the cash. The manager has to optimally balance the ratio of permanent and current assets. The ownership structure is formed depending on the subject matter of the business and his financial policy. (Sedláček, 2011)

Fixed Assets

This is a property that serves the enterprise for a long period of time, its consumption is progressing. Consumption is in the form of depreciation (the enterprise can choose different ones (linear depreciation, digressive or progressive depreciation methods). Depreciation - wear and tear of the property is a significant cost item, which reduces profit of the entity. Fixed assets are divided as follows:

- Long-term intangible assets - Valuable rights, goodwill, software, the results of research or design activities
- Tangible fixed assets - land, buildings, buildings, works of art, collections, objects of cultural value, articles from precious metals other the movable things themselves
- Long-term financial assets - securities and shares, loans granted intra - group companies and other loans with maturity longer than one year (Sedláček, 2011)

Current assets

This property of the entity participates in the economic activity of the enterprise and is consumed within one year. This property, which is mainly in circulation, is not depreciated. Nevertheless, there are adjustments that represent a temporary lowering in the value of the property. Current assets include following:

- Inventory
- Long-term and short-term receivables
- Financial property
- Cash (Synek, 2011)

3.5.1.2 Equity and liabilities

The company's capital structure (liabilities) reveals the source, from which the assets were created. The capital is divided into own equity (inserted by the owner or group of owners) and external liabilities (e.g. bank). The amount of liabilities is derived from the amount of the assets which the company needs for its business (from enterprise size).

Equity

Own equity is the main bearer of business risk and its share of total capital shows how the company is financially independent.

- Registered capital - own part of the capital, which is invested in the company at the time of foundation.
- Capital funds - this is the external capital the company has earned from the outside - the share premium, gifts or contributions of the shareholders.
- Profit funds - reserve fund, statutory funds.
- Past performance - this is part of the profit that was not used in funds or pay-per-share profits, and transferred to the next period.

Liabilities

These are liabilities to creditors from which interest must be paid, as well as other fees resulting from obtaining a loan.

- Reserves
- Long-term liabilities - trade payables longer than one year.
- Short-term liabilities - payables to suppliers shorter than 1 year.
- Bank credits and loans - Long-term bank loans, routine loans and short - term financial assistance (Knápková and Pavelková, 2010)

3.5.2 Income statement (Profit/loss account)

Although the balance sheet is the basis of the accounting, from all the financial statements published in the annual reports, the most valuable information is being attributed to be found in the profit and loss statement. The basic difference between these two statements is that the balance sheet displays assets and liabilities at a certain point in time, while the profit and loss account is a summary of operations over a certain period of time. An analysis of the profit and loss account helps find the answer to the question of how the individual items of the profit and loss account affected the profit or loss. This analysis significantly contributes to the corporate profitability. (Růčková, 2015; Kline 2007).

The profit and loss account is used to determine the amount and the way of creating the components of the financial result. The profit and loss statement includes costs and revenues for the current period. We can simplify this relationship using the formula:

Revenue - Expenses = Profit or Loss

When revenues exceed expenses, the entity finds itself in Profit (net income). When expenses exceed revenues, the entity finds itself in loss (net loss).

Costs are defined as the monetary consumption of the factors of production. In fact, costs in the profit and loss statement are shown as consumption, increase in liabilities and asset impairment (depreciation). Revenues are expressed in financial amounts from the operations of the business including sale of goods and services. (Kline, 2007)

The profit and loss statement is based on a simplified cost breakdown. Costs and revenues consist of business activities and are organized into certain areas that we divide into operational, financial and extraordinary activities. According to the Czech legal regulations, the profit and loss statement is expressed in the vertical form of the statement and the profit is recorded separately for each activity.

The profit or loss for ordinary activities is the cumulative result of the operating and financial activities of the enterprise. The economic result is tracked in three forms as operational, financial and extraordinary. Based on results mentioned above, the success and economic quality of the business can be determined. It is calculated as the sum of the operating and financial profit, less the current tax. If the economic result is positive, the enterprise achieves a profit. Negative outcome results in a loss of the ordinary business. The profit or loss from operating activities consists of the core and recurrent activities of the enterprise. On the example of a manufacturing enterprise, the result of operating activities consists of revenues from the sale of own products and services, from which we deduct the costs of the enterprise, which include the production consumption, which is further divided into the consumption of material, energy, services and personnel costs, including salaries and health and social insurances. Taxes, fees and depreciation must not be forgotten as well.

The report can be compiled in a generic breakdown (monitors the nature of the costs) or purposeful breakdown (follows the cause of the cost and examines for what purpose was the cost issued). (Růčková, 2015)

3.5.3 Statement of Cash Flows

The cash flow statement shows the increments and disposals of cash and cash equivalents and further explains why they occurred, according to the chosen criteria.

Revenue - Expenses = cash flow

Cash flow is further subdivided into CF from operating (routine) activity, as the operating area is the core of the enterprise's existence and the CF from the investment

activity, which provides information whether the enterprise invests in the company's long-term assets and CF from a financial activity that shows the inflow or the outflow of cash flows from or to the owners and to creditors of the enterprise.

The cash flow statement can be compiled using 2 basic methods - direct (based on actual payments) or indirect (from the profit or loss). Just like the balance sheet and the income statement, the statement of cash flows is defined in the Czech Republic by the decree No. 500/2002 Coll.

The benefit of the cash flow statement in comparison to the profit and loss statement is also the fact that its results, whether partial or final, are not affected by items that are not related to the increase or decrease in cash. Specifically, these include depreciation, reserves and adjustments. At the same time, it is not influenced by inflation. (Knápková and Pavelková, 2010)

3.6 Methods of financial analysis

Although the methods of financial analysis have been relatively standardized over the years, their exact content, unlike the statutory financial accounting, is not strictly defined. That is why there are problems with the inconsistency of some used terms. As mentioned above, financial analysis has as its primary objective the examination of the financial situation using data from the financial statements. The methods of financial analysis may be based on technical or fundamental analysis methods. (Grünwald and Holečková, 2009)

The analysis based on the technical analysis relies on mathematical and statistical methods, which quantitatively process the data and then assess it in the same manner. On the other hand, the fundamental analysis uses mathematical and statistical methods very rarely. The fundamental analysis is further divided into elementary and higher. It is based on information on the interrelationship between economic and non-economic phenomena. It can be said that the basis of fundamental analysis is the identification of the environment. In particular, it is possible to present an analysis of the impacts of an enterprise on both the

external and the internal economic environment, the analysis of the company's objectives or the current life stage of the company. Classic examples of the fundamental analysis are:

- SWOT analysis,
- Method of critical success factors.

When performing a financial analysis, main focus should be given to its effectiveness, cost and reliability. Although this does not seem to be obvious at first sight, financial analysis carries a lot of costs because it requires qualified work and sometimes rather extensive period of time. The amount of these costs should be proportionate to the size of the company and to some extent also recoverable. A meaningful analysis should have a high degree of reliability. This consider mainly the reliability and correctness of data. (Růčková, 2015).

Which method will be used depends on the circumstances of the analysed business. The choice is in the hands of the analyst, who must choose a procedure that will lead to a successful financial analysis. This is also related to correctly selected indicators that will be used. Last but not least, it is very important to evaluate the results and their subsequent interpretation, which also depends on the particular analyst, especially on his experience. (Sedláček, 2011)

In this chapter, the individual methods of the technical analysis will be discussed in more detail.

3.6.1 Analysis of absolute indicators

The analysis of status or absolute indicators is considered to be the simplest and usually the first part of technical financial analysis. In this analysis, the volume indicators are extracted out from the financial statements and captured in absolute terms. The analysis of absolute indicators includes mainly horizontal and vertical analysis.

3.6.1.1 Horizontal analysis

Horizontal analysis (Trend Analysis) deals with the development of individual values over time. Emphasis should be placed on the creation of quality time series, as this is the basis for the subsequent correct interpretation of the results. If the values are compared between different periods and the number of the given indicator changes, it is possible to speak of the absolute change in time. However, if the comparison is the percentage change compared to the previous period, we are dealing with a relative change over time. (Pinson, 2013)

$$Absolute\ change = value\ t - value\ t\text{-}1$$
$$Relative\ (\%)\ change = (Absolute\ change * 100) / value\ t\text{-}1$$

3.6.1.2 Vertical analysis

Vertical analysis (percentage analysis) assesses individual components of the so-called asset and liability structure. The vertical analysis compares the percentage of item under investigation to a particular aggregate item. In the case of a balance sheet, the total amounts of assets, liabilities and equity are considered to be the basis. For the profit and loss statement, it is then the total revenue item, or costs and revenue item. Vertical analysis is used when it is necessary to compare the development of the structure over time or in a multi-business comparison. (Knápková and Pavelková, 2010).

$$Pi = (Bi / \Sigma\ Bi) * 100,\ where\ Pi\ is\ share\ of\ i - the\ item\ in\ (\%)$$
$$Bi = size$$
$$\Sigma\ Bi = sum\ of\ all\ items$$
$$i = item\ number$$

3.6.1.3 Analysis of differential indicators

This analysis is also called an analysis of funds. It serves mainly to express and evaluate the financial situation of the company, especially its liquidity.

The analysis of the differential indicators is primarily used with statements that display flow variables. This is mainly a profit and loss statement and a cash flow statement.

The differential indicator is basically the difference, between two absolute values. (Holečková, 2008).

Net working capital is the most commonly used difference indicator. It expresses the difference between current assets and short-term liabilities. It is sometimes referred to as working capital or net current assets. It measure the potential corporate cash resources and therefore has a significant impact on the company's ability to pay In order to maintain sufficient solvency of the company, an enterprise must show a surplus of short-term liquid assets over short-term sources. Net working capital represents the part of current assets financed by long-term capital. Below are formulas used for computing net working capital. (Brealey, Myers and Allen, 2011)

Net working capital = Current assets – Current liabilities

Net working capital = (Equity + Long-term liabilities) - Fixed assets

3.6.2 Ratio analysis

Ratio indicators are often used in analytical practice mainly for their simplicity and processing speed. This analysis expresses the ratio between two broad indicators. Since ratios as such are not capable of explaining the calculated effects, the analysis of the identified problematic areas should be based on the ratio analysis. It is also very appropriate to compare the resulting indicators, because there are no universal benchmarks for these indicators, as opposed to, for example, credit and bankruptcy models. (Růčková, 2015)

3.6.2.1 Liquidity ratios

Liquidity is the ability of an enterprise to meet its obligations within a certain period of time. We can express liquidity in the form of ratios, which are often called liquidity levels. The liquid enterprise is stable, if it is not, the company becomes illiquid and unable to pay which results in insolvency. Insolvency is a condition in which an enterprise is not able to pay its liabilities in their maturity dates.

On the other hand, a disadvantageous situation occurs also with the state of excess liquidity, which reduces the risk of insolvency but at the same time reduces the profitability of the company. The most ideal state is to aim for optimal liquidity, optimal asset structure, and at the same time for the highest profitability which the management of the company should be trying to achieve.

Liquidity and profitability about which will be the next subchapter, are indicators that are considered to be the main criteria of the financial health of an enterprise. Liquidity ratios appear as part of the economic analyses in the annual reports of joint stock companies. Three basic indicators are usually used: the current ratio, the cash ratio and the quick ratio. (Brealey, Myers and Allen, 2011)

Current ratio

The Current Ratio (3rd Degree liquidity) shows how many times current assets cover short-term liabilities. The indicator is especially important for short-term creditors because it gives them insight in how their short-term investments are covered by assets. The higher the value, the better the business. It is generally stated that the value of the indicator should be 2:1, i.e. one unit of short-term liabilities should be covered by two units of current assets. In some circumstances, this indicator is limited in its capability. If its value is higher than one and current assets and short-term liabilities increase equally, the value of this indicator will decrease. Conversely, if they drop by the same amount, the indicator will increase. If the value is less than one, the development is exactly the opposite. This may mean, for example, in times of recession where both current assets and liabilities are low, the indicator may increase. Another drawback is that the indicator does not take into account the structure of current assets in terms of liquidity and short-term liabilities in terms of their maturity. Ratio analyses the future solvency of the entity and the indicator should be higher than 1,5. (Valach, 1998)

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

Quick ratio

Quick ratio (2nd Degree liquidity), shows the ratio of swift current assets to short-term liabilities. This removes the least liquid part from the assets. If the liquidity value is significantly lower than the current ratio, an entity owes an excess inventory to assets. The value of the indicator should be 1. In this case, an enterprise would settle its obligations without selling inventories. The higher its value, the better it is for the lender, but less for the business itself. High value means that the enterprise has current assets tied mainly in a form that give very little or no interest. (Valach, 1998)

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

Cash ratio

The last indicator of liquidity is the Quick Ratio, which is considered to be the 1st Degree liquidity. This indicator only measures the relationship between cash and short-term liabilities. Cash and cash equivalents are present in the numerator, under which we can present freely tradable short-term securities, checks, etc. For the purpose of better reporting ability, it is also appropriate to replace current liabilities in the denominator with immediately repayable liabilities, but we may not always have the data. (Valach, 1998)

$$Cash\ ratio = \frac{Cash + Cash\ equivalents + Invested\ funds}{Current\ liabilities}$$

3.6.2.2 Profitability ratios

Profitability indicators compare earnings with the amount of enterprise resources used to achieve it. In other words, these indicators inform us about the process of capitalizing on embedded equity and liabilities. Given the primary business goal of generating profits, we consider returns as one of the most important. Profit is achieved if the returns are higher than costs. For the purpose of financial analysis, we usually distinguish three basic types of profit. What profit is used to calculate the indicator, depends on the purpose of the analysis. (Holečková 2008)

- Profit before tax and interest (EBIT). Profit before tax and interest is calculated as the pre-tax profit minus the interest expense. It is clear from the calculation that the earnings achieved must be settled in interest to the creditors, the tax on the tax office and ultimately the satisfaction of the owners of the company in the form of a profit share.

- Profit before tax (EBT). Profit before tax is recognized directly in the income statement. It can also be calculated in order to add to the net profit income tax for ordinary and extraordinary activities. It is used especially for the analysis of time trends and if the tax rate has been changed. Another good opportunity to use this type of profit is its use in inter-company comparisons, where different taxation can be expected.

- Earnings after taxes (EAT). Net profit or after-tax profit is recognized in profit or loss, respectively. In the balance sheet, it is designated as "profit or loss for the current period". This is the profit that belongs to the business owner. In essence, this is an EBT less tax. (Holečková 2008)

Return on Assets (ROA)

This indicator represents the percentage of return of all the assets invested in the enterprise. In other words, it informs whether the assets embedded in the business are being used efficiently. The formula to calculate this indicator looks like this:

$$ROA = \frac{EBIT}{total\ assets}$$

Return on Equity (ROE)

Return on Equity or return on equity, or return on equity, is a very important element of information for business owners. It assesses the percentage returns of their investment in the form of funds injected into the enterprise. For this reason, the net profit is also reported in the numerator, which is only attributable to the owners. The ROE calculation is based on the following formula:

$$ROE = \frac{net\ income}{equity}$$

Return on Capital Employed (ROCE)

The Return on Capital Employed is measuring EBIT and capital that bears the burden. ROCE should exceed the interest rate at which the loans were provided to the enterprise. Capital employed includes equity and interest-bearing liabilities, i.e. short-term and long-term bank loans. (Groves, 2007)

$$ROCE = \frac{EBIT}{capital\ employed}$$

Return on sales (ROS)

The importance of Return on Sales is in assessing the effectiveness of an enterprise, more specifically how much profit an enterprise can produce per unit of revenue. This indicator therefore represents EBIT in relation to net sales. Unlike the previous profitability indicators, ROS compares two flow variables.

$$ROS = \frac{EBIT}{net\ sales}$$

Very similar to ROS, there are indicators called profit margins. These, as well as ROS, compare two flow variables. In this case, we compare different kinds of profit to net sales. These comparisons give us the Gross profit margin, Operating profit margin and Net profit margin. (Brealey, Myers and Allen, 2011)

$$gross\ profit\ margin = \frac{gross\ profit}{net\ sales}$$

$$operating\ profit\ margin = \frac{operating\ profit}{net\ sales}$$

$$net\ profit\ margin = \frac{net\ income}{net\ sales}$$

3.6.2.3 Activity ratios

Activity indicators give an overview of how the business manages assets and how it has an impact on returns and liquidity. Various types of indicators are tracked - usually the rate or the time of turnover of inventories, assets and receivables. (Sedláček, 2011)

Total asset turnover

Total asset turnover shows how many times the assets turn into a revenue per year. The value should be higher than 1 because the low value indicates the inefficient use of the asset. But it always depends on the situation in the sector.

$$Total\ asset\ turnover = \frac{net\ sales}{total\ asset}$$

As well as the Total asset turnover, it is common to use Turnover of fixed assets as well. This indicator tells us how many times long-term assets turn into revenue per year. The Turnover Value of Fixed Assets and Total Assets is affected by depreciation because the value of the asset is stated here in the "net" value, i.e. after deduction of depreciation. The longer the property is depreciated, the higher the value this indicator gets.

Inventory turnover

Inventory turnover shows how many times current assets are converted into other forms of current assets to the sale of finished products and re-purchase of inventory. If the indicator is higher than the industry, it means that the company does not accumulate unneeded or unsold stocks and has a good purchasing policy.

$$Inventory\ turnover = \frac{net\ sales}{inventories}$$

Inventory period

      The inventory turnover in days tells how long it takes to turn, or how long the current assets are bound in the form of inventory. The optimal inventory turnover time is one in which the cost of inventory management is minimal. (Sedláček, 2011)

$$Inventory\ period = \frac{inventories}{net\ sales/365}$$

Accounts receivable turnover

      Accounts receivable turnover shows how quickly receivables are converted into cash.

$$Accounts\ receviable\ turnover = \frac{net\ sales}{receviables}$$

Accounts receivable period

      The time of receivables turnover shows how long an enterprise receives payment for its receivables (so-called collection period). The higher its value, the more the business grows, because it has a higher need for loans.

$$Accounts\ receviable\ period = \frac{receviables}{net\ sales/365}$$

Payables period

      The payables period is the number of days the business needs to meet its obligations. The lower the period, the more it is more favourable for short-term creditors. Higher values are, however, better for the enterprise.

$$Payables\ period = \frac{Payables}{net\ sales/365}$$

It is important that the turnover time of receivables is shorter than the turnover time of payables. This means that customers pay their claims earlier than the company's obligations to suppliers. (Sedláček, 2011)

3.6.2.4 Stability ratios

Stability ratios show the amount of risk of the enterprise for a given amount and a structure of equity and foreign resources. The higher the indebtedness, the higher the risk. But this does not mean that the debt is undesirable in any amount. The interest on liabilities reduces the tax burden on the company. The company should therefore always try to find the optimal financial structure. (Růčková 2015)

Debt ratio

Debt Ratio is one of the basic indicators. Its optimal value should be in the range of 30-60%. The higher the value, the higher the company's debt and the risk.

$$debt\ ratio = \frac{total\ liablities}{total\ assets}$$

Debt equity ratio

Debt Equity Ratio measures external sources and equity. This indicator is particularly important for banks when providing loans. If this indicator increases over time, the financial stability of the company may be jeopardized. (Růčková 2015)

$$debt/\ equity\ ratio = \frac{total\ liablities}{equity}$$

Interest coverage ratio

Interest Coverage measures how many times EBIT could decrease before the company reaches a level where it will no longer be able to pay its interest obligations. The minimum value of this indicator should be greater than 5. (Blaha and Jindřichovská, 2006)

$$interest\ coverage\ ratio = \frac{EBIT}{interest\ expenses}$$

3.6.3 Economic Value Added

EVA (Economic Value Added) allows you to measure how an enterprise has contributed with its activities to the increase or decrease the value for owners. The higher the value, the higher the value for the owners. The economic added value is calculated as follows: (Grünwald and Holečková, 2010)

$$EVA = NOPAT \text{ - } WACC * C,$$

where NOPAT = earnings from main business after tax
C = capital in assets that are used in the core business
WACC = average weighted cost of capita
l

3.6.4 Solvency and Bankruptcy Models

The primary objective of the solvency and bankruptcy models is to assess the current economic situation of the company, but also to predict its future development. Both solvency and bankruptcy models aim to add a certain numerical characteristic to the business, which can then be simply assessed. Each of these models was designed for different uses.

Bankruptcy models or forecasting models aim to provide information on the possible current threat to the financial health of the company, based on an examination of the behaviour of selected indicators. Bankruptcy models are based on a past real data and mathematical-statistical methods. The most common symptoms that should be a sign of possible bankruptcy include:

- High current ratio,
- Inadequate amount of net capital,

- Inadequate Return on total invested capital.

Bankruptcy itself is preceded by the financial distress of the company, the solution of which is only possible when the necessary changes are made, both in the operational and financial field of the company. Solvency or diagnostic models can be characterized as models for the position of a particular enterprise in a cross-sectional comparison. At the same time, when using solvency models, it is possible to express the company's financial health by importing the results to a grading system of a particular model. (Sedláček 2011)

3.6.4.1 Kralicek's Quick-test

Kralicek's Quick-test was drafted in 1990 by an Austrian Professor Peter Kralicek. It belongs to a group of solvency models, and it is considered to be a one-dimensional model. This model explores four areas: stability, liquidity, profitability and profit, with a single indicator being selected. The Quick Test uses the following metrics:

The first indicator represents the equity quota and reflects the financial strength of the business.

$$R1 = \frac{Equity}{Total\ assets}$$

Another indicator focuses on the time of repayment of the debt from the cash flow. It shows when the company is able to repay all its debts if it produces the same cash flow every year as it is in the given period. The cash flow is calculated as the economic result for the accounting period (i.e. EAT) + depreciation + change in reserve position.

$$R2 = \frac{Liabilities - Cash}{Cash\ Flow}$$

The third indicator shows revenue profitability, measured not by a profit but by a cash flow, which has a higher reporting ability.

$$R3 = \frac{Cash\ Flow}{Net\ Sales}$$

The third indicator represents the return on assets or the return on capital invested in the enterprise.

$$R4 = \frac{EBIT}{Total\ assets}$$

The evaluation is carried out by assigning a mark to each of the four indicators according to the following table. The resulting rating is then calculated by the arithmetic mean of the marks of all four indicators. (Sedláček 2011)

Table 1 - Kralicek's Quick Test Estimates

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

Source: (Polo and Caca, 2014)

3.6.4.2 Altman Z-score

The Altman model is one of the basic bankruptcy models. It is available in several variants - for example, for joint stock companies, limited liability companies, small and medium-sized businesses or non-manufacturing companies. There is also a modified version of the Altman model for the Czech Republic created by Inka and Ivan Neumaier. (Kubíčková and Jindřichovská, 2015)

In the framework of the diploma thesis I will work with the model for limited liability companies (s.r.o.), which was compiled in 1983 and has the following form:

$$Z = 0.717 * X1 + 0.847 * X2 + 3.107 * X3 + 0.420 * X4 + 0.998 * X5,$$

where: *X1 = working capital / total assets*

Working capital is calculated as the difference between current assets and current liabilities.

X2 = retained earnings / total assets

X3 = EBIT / asset value

This indicator represents the return on assets. According to Altman, ROA affects the financial health of the business. For this reason, he is given this indicator the highest weight.

X4 = book value of equity / total liabilities

X5 = sales / total assets

This indicator shows the asset turnover rate. (Kubíčková and Jindřichovská, 2015)

The grading scheme can be seen in the table below.

Table 2 – Interpretation of Altman Z-Score

Value of Z-Score	Interpretation
Z > 2,7	Financially stable entity
1,2 < Z <= 2,7	The Grey Zone
Z <= 1,2	Threat of bankruptcy

Source: own table based on (Kubíčková and Jindřichovská, 2015)

3.6.5 Benchmarking

Benchmarking serves as an intercompany comparison. Companies are compared to those conducting business in the same industry, producing the same type of product or with

close competitors. From the results of the comparison, an enterprise can identify its strengths and weaknesses and take action to improve the market position. (Synek, 2015)

Based on the character of the benchmarking, benchmarking can be broken down into the performance type of benchmarking, functional benchmarking and process benchmarking. Based on the environment, it can be broken own to internal and external.

3.6.5.1 Performance Benchmarking

Performance Benchmarking compares various performance parameters such as employee performance or performance of a particular assembly line. It is mostly used for comparison with manufacturers of the same products or providers of the same services. Based on this, companies have the ability to determine their relative performance.

3.6.5.2 Functional benchmarking

Functional benchmarking compares the functions of certain organizations. This may include, for example, the scope of after-sales services, supplier relationships, or employee involvement. It is mainly used in services and in the non-profit sector. Unlike performance benchmarking, it is easier to find a business for comparison, as there is no need to be a direct competitor here.

3.6.5.3 Process benchmarking

Process benchmarking focuses on comparing and measuring a particular organization process. This may include billing, quality of service, or internal communication. Same as in the functional benchmarking, the benchmarking entity does not need to be a direct competitor. However entities have to share the same processes.

3.6.5.4 Internal benchmarking

Internal benchmarking takes place within a single organization among selected organizational units (e.g. divisions) that provide the same or similar products, processes and functions. The goal is to find the best internal performance standard. The advantage of internal benchmarking is that it takes less time and, thanks to its results, the company can effectively reduce the differences in performance of individual organizational units. However, it is not possible in most cases to use internal benchmarking in small and medium sized companies. (Nenadál, Vykydal and Halfarová, 2011)

3.6.5.5 External benchmarking

External benchmarking is used to compare the company with another organization or the industry itself. However, the problem may be in finding a suitable company. If we have found a suitable benchmark entity, external benchmarking allows us to learn from others and thus remove the weaknesses of the business. (Nenadál, Vykydal and Halfarová, 2011).

As one of the forms of benchmarking can be used the so-called Spider Analysis.

3.6.5.6 Spider analysis

Spider analysis can be used to graphically evaluate the indicators. This allows the analyst and user of the analysis to judge the performance of the monitored business relatively to other businesses or industries. The output of this analysis is a radar chart (spider web chart), representing chosen ratios, which allows for rapid intercompany comparison.

Values in the graph are indicators of the enterprise in the percentage form compared to the benchmark, which is the average value of the sector or a value of a competitor's indicator. The spider's chart is based on concentric circles, the first circle from the centre

refers to industry averages (benchmark values), i.e. 100% of the value of indicators, other circles are representing the increasing percentage. (Synek, 2011)

4 Practical Part

4.1 Overview of the Czech furniture industry

In the furniture industry (Division CZ-NACE 31 from the classification of economic activities) the products are mainly made from agglomerated boards, plywood, veneers and pre-treated wood. One of the identification signs of the CZ-NACE 31 section is the high material intensity that accounts for up to 80% of the total cost of production. The use of new techniques and technologies in the section, including nanotechnologies for surface treatment of products and the needed compliance with required legislation, guarantees that products are safe and do not endanger customers or the environment. For these reasons, especially the wooden furniture is 100% recyclable. Furniture production includes a wide range of products not only for basic usage such as seating furniture, furniture for living and children's rooms, bedrooms and other living quarters, kitchen furniture, but also includes a wide range of specialized office and other work type of furniture. (Filgas, 2014)

Graph 1 – Comparison of Production, Export and Import

Comparison of production, export and import in billions of CZK.
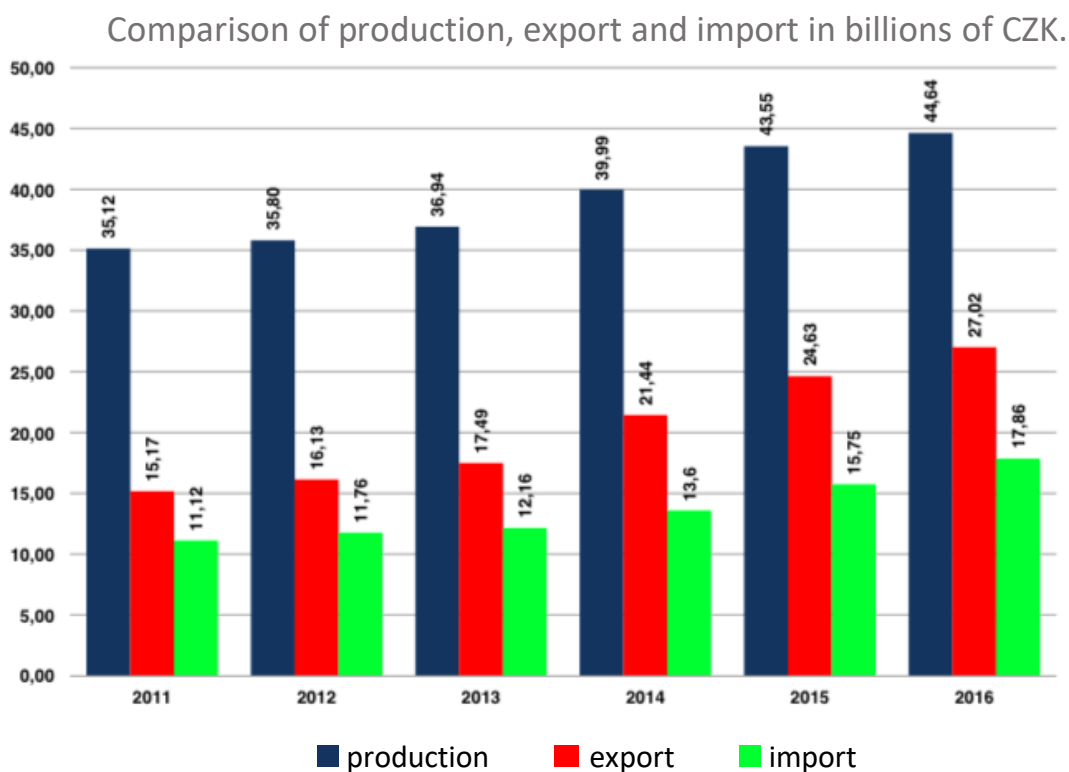
Source: Export and import ČSÚ, production assed by www.czechfurniture.com

When analysing the current state of the Czech furniture industry, it can be said, that overall it has been growing for the sixth consecutive year and that it is very successful in exporting.

Domestic consumption on the other hand is not that successful, but it shows a moderate recovery. Furniture production in the Czech Republic rose from CZK 36.94 billion in 2013 to CZK 44.64 billion in 2016, which accounts for a very positive development.
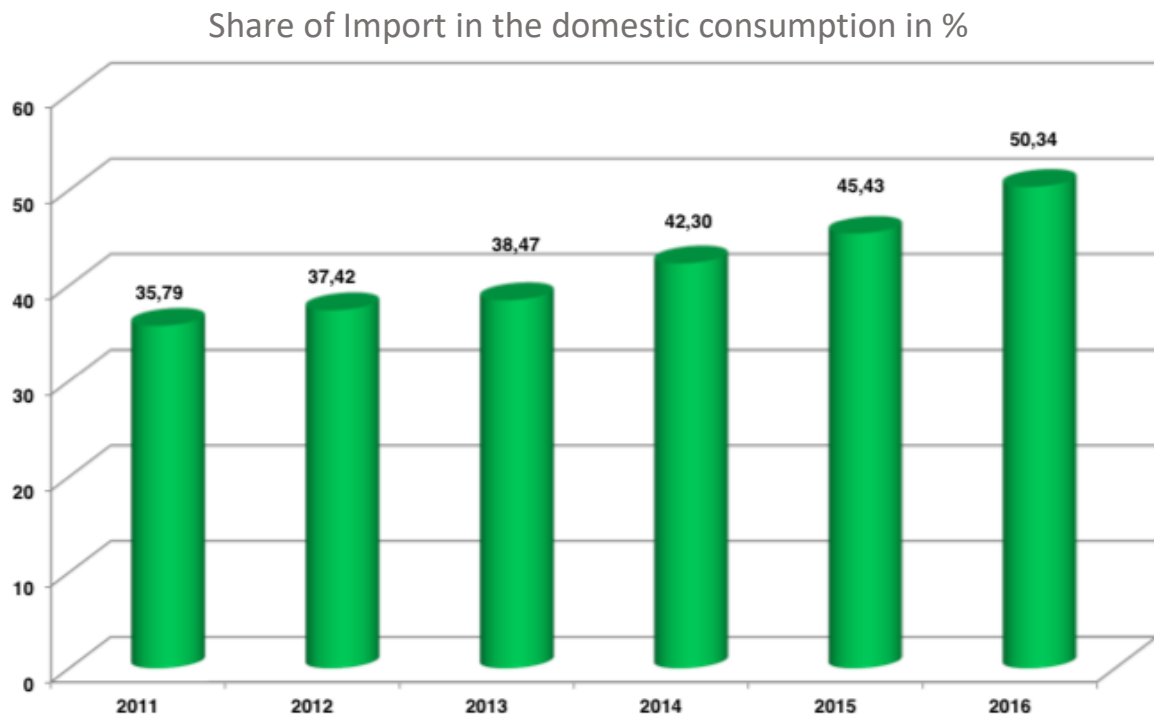
Graph 2 – Domestic consumption of furniture

Domestic consumption of furniture in billions of CZK
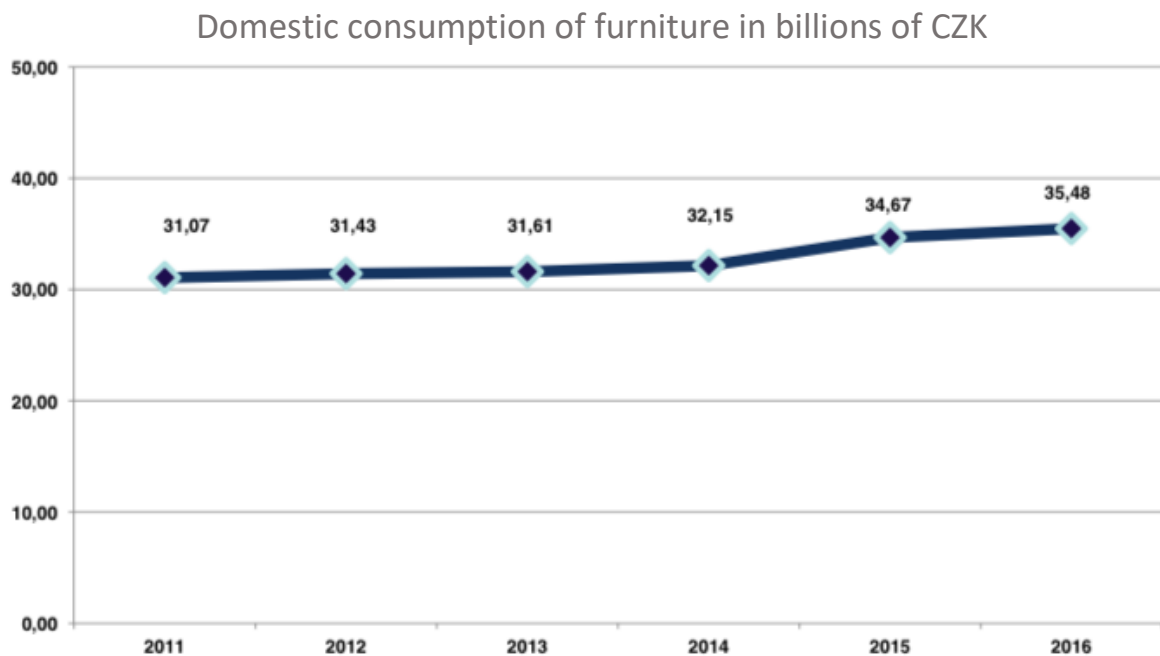
Source: Estimate of www.czechfurniture.com

In the year 2016, the growth of domestic furniture consumption slowed slightly again, while still exceeding the consumption of the previous year. That is part of the reason why the good results of the furniture industry are even more reliant on the export success over the past years. The volume of imported furniture from abroad remains essentially balanced, while the share of imports on domestic consumption is increasing. The share of import in the domestic consumption exceeded 50% for the first time in 2016. (Lukeš, 2017)

Graph 3 – Share of Import in the domestic consumption

Share of Import in the domestic consumption in %

The largest furniture importers to the Czech Republic are mainly large specialized furniture markets. The largest share of furniture imports into the Czech Republic comes from Poland, followed by Germany, third China, and fourth Slovakia. The largest share of exports goes to Germany, followed by Slovakia and France. (Lukeš, 2017)

4.2 Overview of InterierTech s.r.o.

InterierTech s.r.o. was established in 2010 and it is specializing in quality furniture made of laminated chipboard. With the capital stock of 210 thous. CZK and with 22 employees, the company ranks among small companies in the industry, which are on average the most common types in this field. Due to the increasing demand tendency, the company moved their production in the middle of 2015 to a facility with a production area of 2400 square metres. Since 2010 till the first part of 2015 it has a facility of production area of 1200 square metres at their disposal. (Urban, 2017)

In the furniture industry, the company offers comprehensive services necessary for the development, production and delivery of furniture according to the individual customer needs. The company specializes in custom-made furniture, where it tries to combine the ideas and wishes of the clients with accordance of the company know-how.

InterierTech offers office furniture, home furniture, furniture for educational institutions, dormitories and social care homes. The company provides all services related to the project starting from the measurements of the objects, 3D visualization, turnkey implementation, including seating furniture and atypical furniture. These services are complemented by superior warranty and post-warranty service.

The products have the necessary certificates and attestations which guarantee maximum protection of the health of all clients and users. For instance, InterierTech carry the certificate "Environmentally Friendly Product" and are as well certified in the field of consumer safety and protection. Frequent clients include education facilities, health and social facilities where a health certificate for lamellar products is required. All products meet strict ergonomic EU criteria for office and hotel furniture. A total of 70% of the company's revenue comes from the domestic market. The other 30% of the company generates in foreign markets, mainly in France, where it has realized several projects of complete interior equipment of student dormitories. (Urban, 2017)

4.3 Competitor overview

According to the production manager of InterierTech, Mr. Lukas Urban, the main competitor of InterierTech s.r.o. is the company Interiér Říčany a.s. That is why this company will be used as a benchmark in several methods during the financial analysis.

Interier Říčany a.s. is a proven manufacturer of office, accommodation and nursing furniture. It has been a company in the Czech furniture market since its foundation in 1978. It has established itself as a leader in the middle and lower segment of the office furniture market. It employs about 22 people, making it a small business. Its own line of Alfa furniture is according to statistics the best-selling and most used furniture in the Czech Republic. The

company's product range includes: office equipment, call centres equipment, meeting room facilities, atypical furniture, hotel furniture and accommodation facilities, home care facilities, and home furnishings. (Interiér Říčany, 2017)

4.4 Analysis of absolute indicators

The analysis of absolute indicators is based on an analysis of the structure of the active and passive side of the balance sheet and of the profit and loss account, as well as the development over time.

4.4.1 Horizontal analysis of Assets

The following table shows the development of the individual asset items of the balance sheet over time.

Table 3 – Horizontal analysis of assets

| Items in thous. CZK	2013/2014		2014/2015		2015/2016	
	Difference	% Change	Difference	% Change	Difference	% Change
Total Assets	21 492	55%	-924	-2%	12 465	32%
Total Fixed Assets	11 836	73%	-492	-3%	-1 101	-7%
Long-term intangible assets	-214	0%	0	0%	0	0%
Long-term tangible assets	11 836	73%	-492	-3%	-1 101	-7%
Total Current Assets	9 870	42%	-432	-2%	13 566	60%
Inventory	569	31%	-292	-16%	4 195	273%
Accounts Receivable	1 375	25%	2 982	54%	2 024	24%
Cash & Equivalents	7 926	50%	-3 122	-20%	7 347	58%
Accruals	-214	x	0	x	0	x

Source: Own calculation from the balance sheet of InterierTech s.r.o.

Through the monitored period, we observe that the least successful year from the point of view of asset development is the year 2015, where all the items from the balance sheet are in red numbers. The enterprise does not have any reported financial or intangible property, from the exception of holding the value of 214 000 CZK in intangible assets in the year 2013. Between the first two periods, InterierTech recorded an increase in fixed tangible assets by 73%, which is equivalent to 11,836 million CZK. This relatively significant increase, according to the information obtained from the production manager Mr. Lukas

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Urban, was mainly due to the purchase of a new production facility. In the following period, the year-on-year change was slight and accounted for -3%. This was followed by another slight drop of 7%. A year-on-year change between 2015 and 2016, with inventories of the company rising by 273%, is certainly worth mentioning. This phenomenon occurred due to the above-mentioned purchase of a new production facility, which was bought in 2014. In the middle of 2015, the company was ready to move to this bigger production facility and among other things, this facility was able to store significantly more inventories than the older one. This came very handy, as the production area doubled and the enterprise were able to process more inquires. A slightly negative sign is the fact that, the receivables are continuously rising through the monitored period.

Graph 4 – Development of Assets
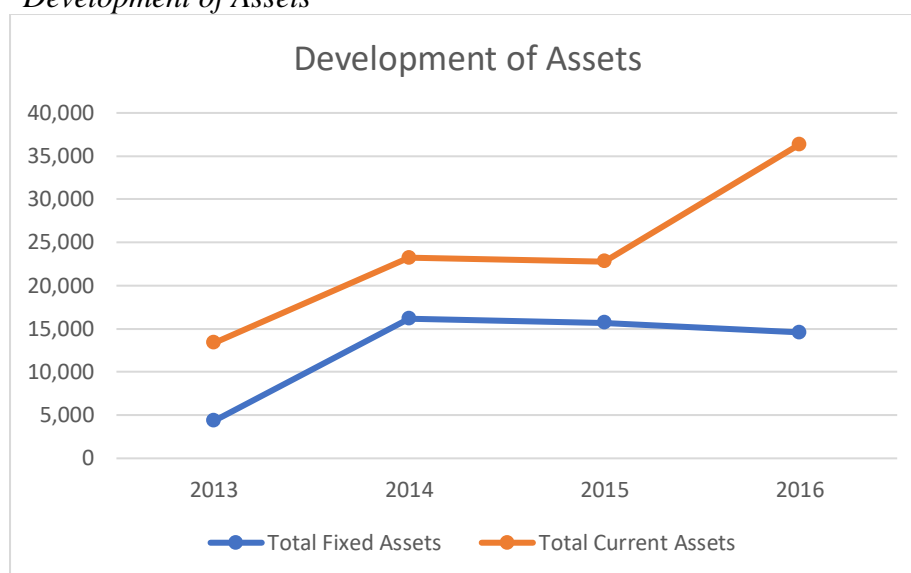
Source: Own calculation from the balance sheet of InterierTech s.r.o.

From this graph we can see the absolute numbers of Total Fixed Assets and Total Current Assets over the monitored period. Both items rose significantly from 2013 to 2014, mainly due to the purchase of a new production facility, only Current Assets rose again significantly from 2015 to 2016.

4.4.2 Horizontal Analysis of Equity and Liabilities

The following table shows the development of the individual Equity and Liabilities items of the balance sheet over time.

Table 4 – Horizontal analysis of Equity and Liabilities

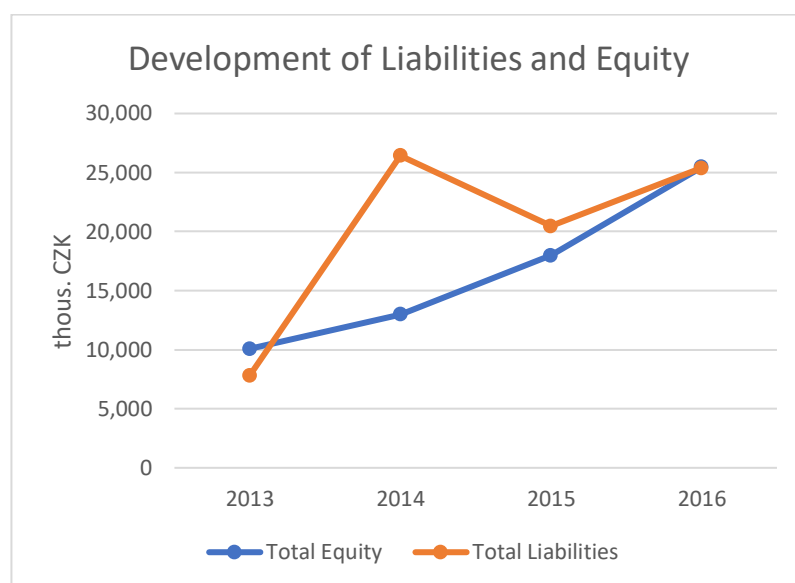| Items in thous. CZK	2013/2014		2014/2015		2015/2016	
	Difference	% Change	Difference	% Change	Difference	% Change
Total Liabilities & Equity	21 492	120%	-924	-2%	12 465	32%
Total Equity	2 895	29%	5 007	39%	7 467	42%
Capital Stock	0	0%	0	0%	0	0%
Funds from profits	0	0%	0	0%	0	0%
Other equity accounts	4 023	69%	2 859	29%	5 482	43%
Retained Earnings	-1 128	-28%	2 148	74%	1 975	39%
Total Liabilities	18 597	238%	-5 962	-23%	4 924	24%
Long Term Liabilities	11 573	640%	-2 414	-18%	1 985	18%
Current Liabilities	6 870	114%	-3 353	-26%	3 013	32%
Bank loans	12 150	x	-1 736	-14%	2 043	20%
Accruals	334	-186%	-133	-86%	84	400%

Source: Own calculation from the balance sheet of InterierTech s.r.o.

Equity shows a steadily growing tendency over the monitored period. From the horizontal analysis of equity, it is clear that the value of the capital stock and funds from profits in the period under review did not change.

Liabilities of the company are made up over the time almost half and half from current and long-term liabilities with the exception of the first monitored year, where the majority of liabilities are in the form of the current liabilities. It changes in 2014 because of an acquired bank loan for the purposes of a purchase of the new production facility. That is why we can observe a major increase in Bank loans, and long-term liabilities in 2014. After this year the development of liabilities dropped by 24% only to rise again at the almost the same value the following year.

From the graph below we can observe the relationship between equity and liabilities during the monitored period. In this chart the dominating observation is the fact of the acquired bank loan in 2014, which consequently immensely increased the Total Liabilities. On the other hand, other monitored years show a balanced relationship between the Equity and Liabilities.

Graph 5 – Development of Equity and Liabilities

Source: Own calculation from the balance sheet of InterierTech s.r.o.

4.4.3 Horizontal analysis of the Income Statement

Table 5 – Horizontal analysis of Equity and Liabilities

Items in thous. CZK	2013/2014		2014/2015		2015/2016	
	Difference	% Change	Difference	% Change	Difference	% Change
Net Sales	7 655	13,87%	18 277	29,08%	9 696	11,95%
Cost of Goods Sold	7 859	17,95%	14 491	28,06%	7 542	11,40%
Gross Profit	-204	-1,79%	3 786	33,82%	2 154	14,38%
Personnel expenses	201	4,02%	982	18,89%	129	2,09%
Depreciation	392	21,34%	-117	-5,25%	-273	-12,93%
Other operating revenues	-82	-98,80%	27	2700,00%	95	339,29%
Other operating expenses	-13	-37,14%	90	409,09%	-35	-31,25%
Operating Profit	-866	-18,77%	2 858	76,25%	2 428	36,75%
Financial revenues	-633	-97,69%	119	793,33%	382	285,07%
Interest expense	151	232,31%	264	122,22%	-162	-33,75%
Financial results	-785	-134,65%	-144	71,29%	544	-157,23%
Income Before Taxes	-1 650	-31,75%	2 713	76,49%	2 972	47,48%
Income Taxes	-486	-41,40%	529	76,89%	558	45,85%
Net Income	-1 164	-28,93%	2 184	76,39%	2 414	47,87%
EBIT	-1 499	-28,49%	2 977	79,11%	2 810	41,69%

Source: Own calculation from the income statements of InterierTech s.r.o.

It can be seen from the above table that the sales and costs are increasingly growing between 2013 and 2015, with a slightly lower increase in 2016. On the contrary, Net income declined between the year 2013 and 2014, this was mainly due to the bad financial result and decrease in operating revenues. With the bigger production area, almost all items on the income statement have risen. Most significantly the Net Sales, Cost of goods sold and Net income. Surprisingly, the operating revenues recorded the biggest percentage increase as well as financial revenues, in which the company started being successful.

Graph 6 – Development of Net Income
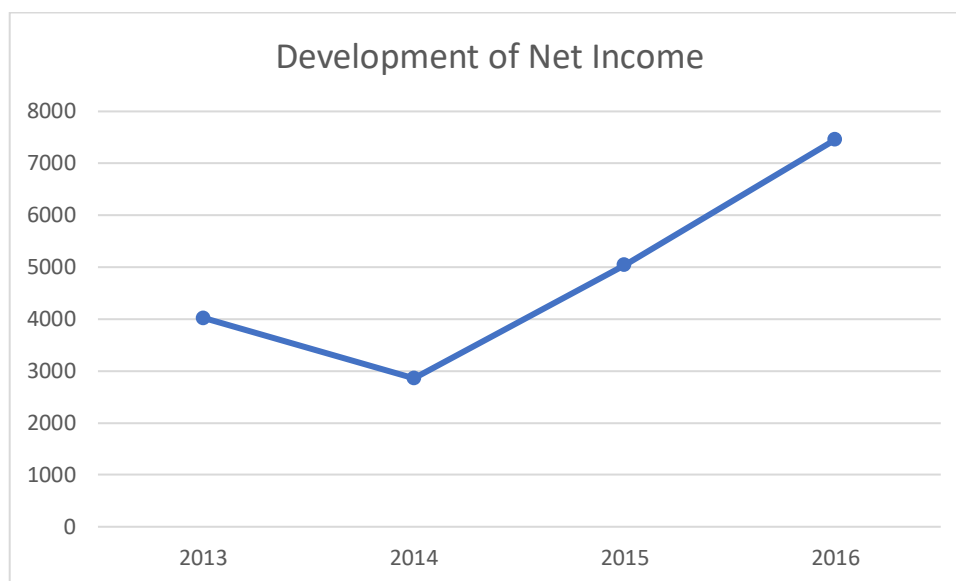
Source: Own calculation from the income statements of InterierTech s.r.o.

From this graph, we can observe a drop of Net Income in 2014 and then a steep raise of Net Income in the following years. That is caused by several factors. First, because of the overall positive development of the company, secondly because of the rapid increase in sales, by almost 18,3 million CZK from 2014 to 2015. That was caused mainly due to the availability of a bigger production area and an acquirement of high volume inquiries from partners from the Republic of France, mainly for the furniture equipment of dormitories.

4.4.4 Vertical analysis of Assets

The vertical analysis determines the percentage of the individual items of the balance sheet or the profit to the selected base, which is in this case the Total Assets item.

Table 6 – Vertical analysis of Assets

Items in thous. CZK	2013	2014	2015	2016
Total Assets	100,00%	100,00%	100,00%	100,00%
Total Fixed Assets	24,20%	41,04%	40,75%	28,61%
Longterm intangible assets	1,20%	0,00%	0,00%	0,00%
Longterm tangible assets	24,20%	41,04%	40,75%	28,61%
Total Current Assets	74,61%	58,96%	59,25%	71,39%
Inventory	7,02%	4,63%	3,99%	11,25%
Accounts Receivable	23,12%	14,00%	22,09%	20,65%
Cash & Equivalents	44,46%	40,33%	33,18%	39,48%
Accruals	1,20%	0,00%	0,00%	0,00%

Source: Own calculation from the balance sheets of InterierTech s.r.o.

The share of long-term assets in the total asset item has a slightly fluctuating tendency in the period under review, due to changes in the volume of long-term assets attributed to the horizontal balance sheet analysis. The minimum value for total assets is reached in 2010, when the ratio of long-term assets and total assets is only 24.2%. On the other hand, the maximum value comes up one year later, i.e. in 2014, when the investment in the building was reported. In this year, this asset component accounts for 41,04% of the total assets of the company. In 2015, this share was slightly lower and in 2016 it dropped to 28,61%. The only component of the total value of fixed assets (with the exception of 2013) is tangible property, which consists mainly of machinery and property.

Current assets, unlike long-term assets, have a decisive influence on the total assets item. In 2013 and 2016, this ratio even exceeded 70% of the company's total assets. This can be considered as natural, taking into account the subject matter of the company's business.

4.4.5 Vertical analysis of Equity and Liabilities

Table 7 – Vertical analysis of Equity and Liabilities

Items in thous. CZK	2013	2014	2015	2016
Total Liability & Equity	100,00%	100,00%	100,00%	100,00%
Total Equity	56,30%	32,93%	46,74%	49,96%
Capital Stock	1,17%	0,53%	0,55%	0,41%
Funds from profits	0,06%	0,03%	0,03%	0,02%
Other equity accounts	32,66%	25,05%	33,09%	35,75%
Retained Earnings	22,47%	7,35%	13,11%	13,78%
Total Liabilities	43,70%	67,07%	53,18%	49,83%
Total Long-Term Debt	10,10%	33,97%	28,51%	25,43%
Total Current Liabilities	33,54%	32,68%	24,75%	24,61%
Long Term Debt	0,00%	30,84%	27,07%	24,46%
Accruals	-1,01%	0,39%	0,05%	0,21%

Source: Own calculation from the balance sheets of InterierTech s.r.o.

Looking at the passive side of the balance, there is a decisive high impact of Liabilities in the year 2014, when the purchase of a new production facility had to be financed and the percentage share rose to staggering 67,07%. Otherwise the relationship between Equity and Liabilities is balanced, where both of items do not go lower than 43% of share at the total Liability and Equity item. The capital stock of the company is only 210 thousand CZK, which corresponds, for example, to only 0.41% of the total liabilities of the company in 2016. In 2013 the share was over 1% due to a lower amount of both Liabilities and Equity in total.

4.4.6   Analysis of differential indicators

In this part of the analysis, we will be analysing the working capital of the company InterierTech s.r.o.. Data of the company Interiér Říčany a.s. will be used as a benchmark.

Graph 7 – Development of Working Capital
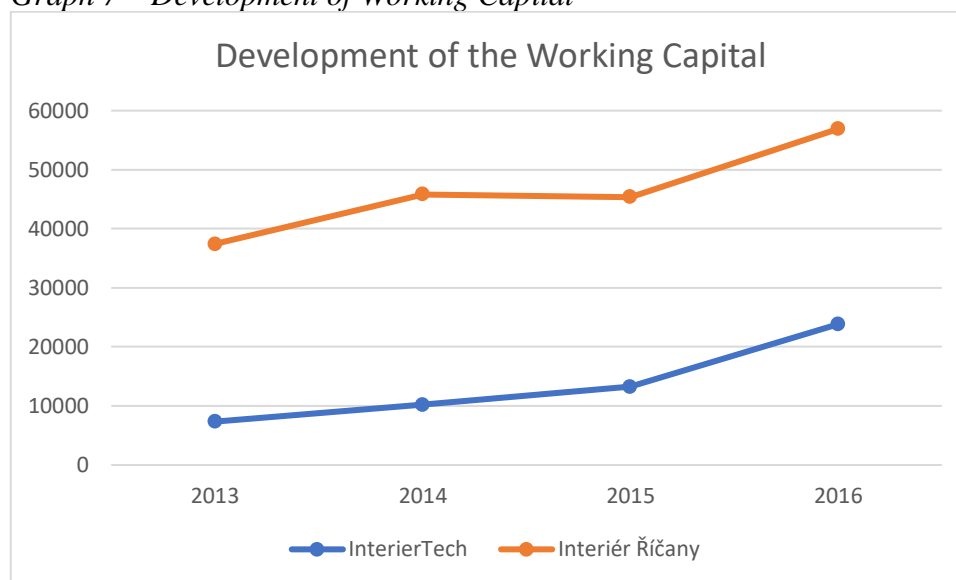
Source: Own calculation from income statements of InterierTech s.r.o. and Interiér Říčany.

Calculation of net working capital is calculated as the difference between the current assets of the company and its short-term liabilities. We can observe a steady grow of the Working Capital on the side of the analysed company InterierTech s.r.o.. Interiér Říčany a.s. experiences a slight drop in 2015, otherwise both companies have a very similar development including the highest raise of the Working Capital during the monitored period between the years 2015 and 2016. InterierTech possess roughly 4 times lower working capital than Interier Říčany.

4.5 Ratio analysis

The analysis of the ratio indicators will be carried out according to the categories of these indicators. The calculations will only concern the most basic ones, which are considered to be the most important in regard of the focus of this thesis. In selected cases, a comparison will be made using company Interiér Říčany as a benchmark. At the same time, some results will be complemented with a graphic representation of the development of specific indicators.

4.5.1 Liquidity ratios

Liquidity analysis shows the ability of an enterprise to cover its debts in a timely manner. Liquidity indicators measure the ability of an enterprise to convert different types of assets into funds that can be then used to pay off debts. In order to compare the results, the Liquidity Ratios of Interiér Říčany are also included

Table 8 – Liquidity Ratios of InterierTech

LIQUIDITY RATIOS	2013	2014	2015	2016
Current ratio	2,22	1,78	2,39	2,90
Quick ratio	2,01	1,64	2,23	2,44
Cash ratio	1,32	1,22	1,34	1,60

Source: Own calculation from income statements of InterierTech s.r.o

Table 9 – Liquidity Ratios of Interiér Říčany

LIQUIDITY RATIOS	2013	2014	2015	2016
Current ratio	3,96	2,44	3,08	4,43
Quick ratio	2,70	1,95	2,78	3,78
Cash ratio	0,23	0,04	0,01	0,02

Source: Own calculation from income statements of Interiér Říčany

The recommended minimum of the Current Ratio is 1.5. This value is met by both enterprises in all the monitored periods. Only time when an enterprise comes close is 2014 for InterierTech. As mentioned above, in 2014, the company acquired a large debt to finance its new production facility. Best liquidity is met in 2016. Overall better liquidity reports the competitor, with the exception of Cash Ratio, where InterierTech would have still some Cash available after paying off their current liabilities. We cannot say the same about their competitor.

4.5.2 Activity ratios

When analysing the activity, the efficiency of the company will be measured, taking into account the use of resources and according to the turnover time of the individual items of the balance sheet. The results obtained will indicate how the analysed company manages its assets in relation to their profitability.

Table 10 – Activity Ratios of InterierTech

ACTIVITY RATIOS	2013	2014	2015	2016
Inventory turnover	34,83	28,28	43,11	12,86
Inventory period	10,48	12,91	8,47	28,38
Receivables turnover	13,33	11,39	9,55	8,63
Receivables period	27,38	32,03	38,23	42,29
Payables turnover	7,29	4,01	6,97	5,93
Payables period	50,06	90,99	52,38	61,58

Source: Own calculation from income statements of InterierTech s.r.o

Inventory turnover shows how many times it would be possible to pay off inventory revenue. The value of this indicator is fluctuating, making the top in 2015 and a slightly lower value in 2013 despite the growing tendency of Net Sales.

The Value of the Inventory period is given in days and informs us of the average time in which the inventories are removed for sale. The company's inventory is inconsistent over time. The highest number of days is reached in 2016 due to the rising amount of inventory.

Receivables Turnover should be as high as possible. In the analysed period, it reached its highest value in 2013, then it kept falling to the value of 8,63 in 2016 which is not a positive development.

Receivable period shows how many days are the customers owing the company. This indicator is steadily growing over the measured period of time.

On the other hand, the Payables period tells how many days the company owes on average for its trade payables. The highest amount of days the company reached in 2014 at Almost 100 days. It is beneficial for a company that the value of this indicator is higher,

because it can use the free funds for another payment. It should be noted that the company should not violate the agreed maturity so as not to receive a fine or other sanction.

4.5.3 Profitability ratios

Table 11 – Profitability Ratios of InterierTech

PROFITABILITY RATIOS	2013	2014	2015	2016
Gross profit margin	20,66%	17,82%	18,47%	18,87%
Operating profit margin	8,36%	5,96%	8,14%	9,95%
Net profit margin	7,29%	4,55%	6,22%	8,21%
ROA net	22,74%	7,26%	13,11%	14,64%
ROA gross	29,75%	9,55%	17,52%	18,75%
ROE net	39,87%	22,08%	28,04%	29,30%
ROE gross	52,15%	29,06%	37,48%	37,53%
ROCE	44,26%	14,28%	23,28%	24,87%
ROS	8,36%	5,96%	8,14%	9,95%

Source: Own calculation from income statements of InterierTech s.r.o

From the Margin indicators we can observe, that the highest gross profit margin was reached surprisingly in 2013, which indicates that this year was the year of the least amount of costs for products sold. On the other hand, both operating and net profit margin, which are more important in terms of profitability, were achieved in the year 2016.

Return on assets reached the highest value in 2013 in both net and gross version. Subsequently there was recorded a significant drop the year later, when ROA net reached only 7,26%. On a positive note, in the following years ROA were increasing again and almost doubling its value right in the following year.

The ROA value is way below the ROE value, which applies over the entire reporting period. Return on equity is the return on investment for investors with regard to the risk involved. The ROE should be higher than the than the cost of the company's equity. The Development of ROE copies the development of ROA, reporting the highest value in 2013 and the lowest in 2014.

4.6 Spider analysis

In this chapter, there is conducted a comparison between the industry (CZ-NACE 31) and the company InterierTech s.r.o. with the help of spider charts.

Graph 8 – Spider chart 2013

Comparison of selected indicators between the industry and InterierTech in 2013
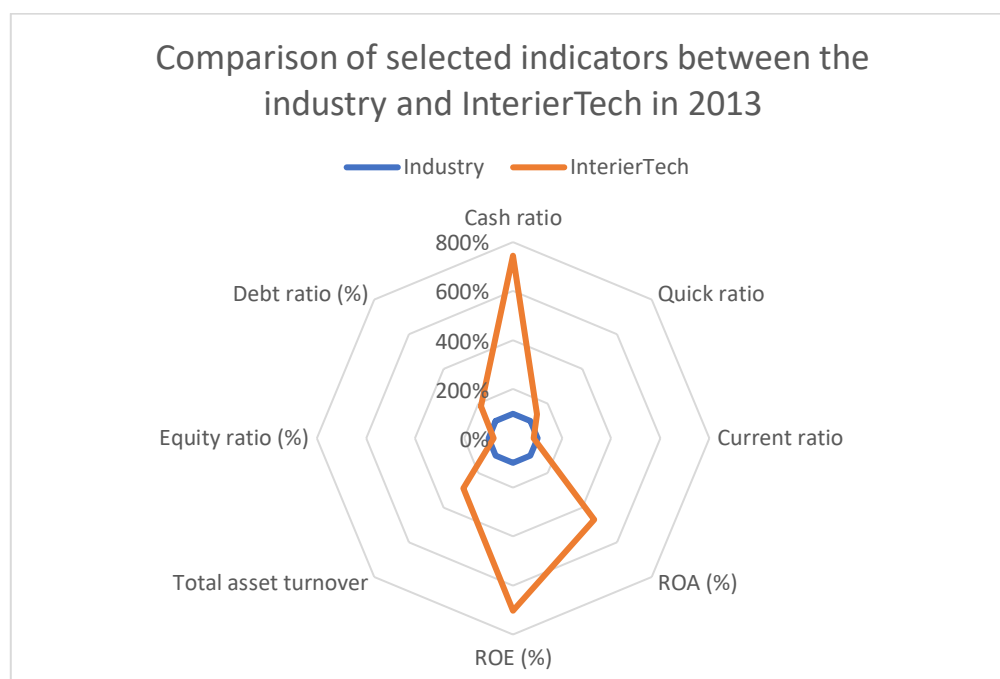
Source: Own calculation from income statements of InterierTech s.r.o and data from MPO.

From this chart we can observe, that in 2013 InterierTech is only below average in the indicators for Current Ratio and Equity Ratio. Even though is under the average of the industry, InterierTech still has Current Ratio higher that the recommended minimum of 1,5.

InterierTech is on the other hand way above the average in the Cash Ratio, due to the rather high amount of available Cash and Equivalents, which is positive in a sense that the company is able to repay its current liabilities immediately and still have a high amount of cash at their disposal. In a different point of view is InterierTech wasting money by not investing the spare cash in order to make a financial income.

The ROE indicator is as well way above the average, which is a great signal to their investors.

Graph 9 – Spider chart 2014
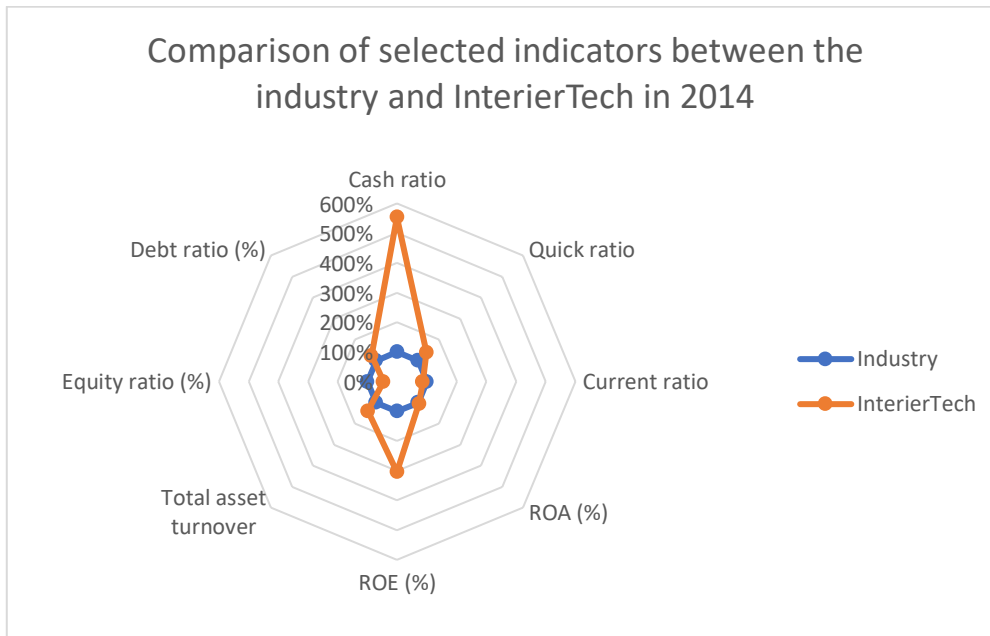
Comparison of selected indicators between the industry and InterierTech in 2014

Source: Own calculation from income statements of InterierTech s.r.o and data from MPO.

In 2014 the Cash Ratio still stays as the most above the average indicator. ROE comes second as well. In this period we observe a drop of Equity ratio, which can be explained by the raise in Total Liabilities due to the financing of the acquisition of the new production facility.
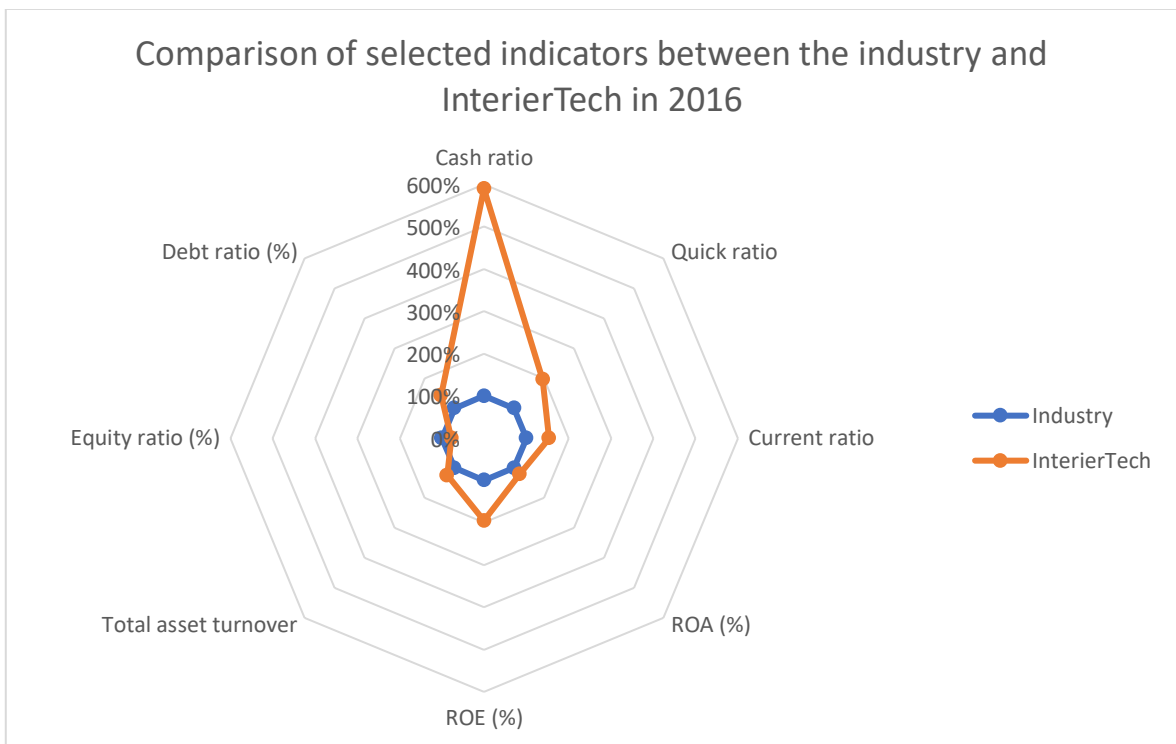
Graph 10 – Spider chart 2015
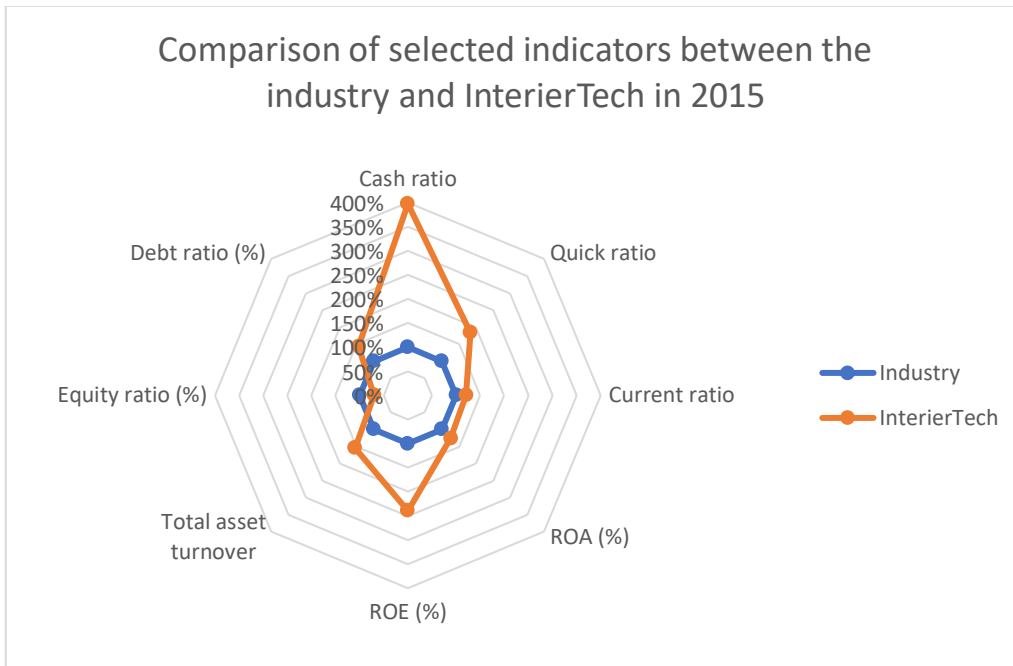
Comparison of selected indicators between the industry and InterierTech in 2015

Source: Own calculation from income statements of InterierTech s.r.o and data from MPO.

In 2015, there can be observed a drop in the previous highly scored indicators such as Cash ratio and ROE, nevertheless they are still placing high above the average.

Graph 11 – Spider chart 2016

Comparison of selected indicators between the industry and InterierTech in 2016

Source: Own calculation from income statements of InterierTech s.r.o and data from MPO

The final comparison between the industry and InterierTech shows a similar relationship as seen before with the exception of repeated increase in the Cash ratio indicator.

4.7 Credit and bankruptcy models

In this subchapter, bankruptcy and credit models will be applied to the selected company, from which it will be possible to see a comprehensive view of the current economic situation of the company and moreover, the predictions of the future direction of the company.

4.7.1 Kralicek Quick test

Kralicek Quick test, is a credit model which combines the assessment of the financial stability of the company and the assessment the profit situation. The calculation is designed to distinguish between these two areas and to evaluate the overall situation of the enterprise. The calculated results and the associated lockout points are listed in the following table:

Table 12 – Kralicek Quick test

Quick Test Indicators	2013	2014	2015	2016
X1	57,04%	32,87%	46,74%	49,96%
Grade of X1	**1**	**1**	**1**	**1**
X2	0,01	3,78	1,37	0,68
Grade of X2	**1**	**2**	**1**	**1**
Ø Financial Stability (X1+X2)	1	1,5	1	1
X3	7,51%	4,39%	6,93%	8,49%
Grade of X3	**3**	**4**	**3**	**2**
X4	29,75%	9,55%	17,52%	18,75%
Grade of X4	**1**	**1**	**1**	**1**
Ø Profit Situation (X3+X4)	2	2,5	2	1,5
Arithmetic mean of all four indicators	1,50	2,00	1,50	1,25

Source: Own calculation from income statements of InterierTech s.r.o

From the achieved results, we can state that from the stand point of Financial Stability, the company is doing very well, which only confirms the previous findings obtained by means of individual ratios. As can be observed, from the year 2013 to 2016 the

company obtained in the Financial Stability Assessment mark 1, which, according to the interpretation created for the purposes of this test, is interpreted as excellent.

As far as the profit situation is concerned, it cannot be evaluated as 100% excellent, but the grades are still very favourable. In analysing this result, it is clear that the year 2014 was the worst in terms of profitability. This result is mainly due to the low value of Cash Flow. The opposite development trend can be seen in the profitability of the total capital, when this indicator comes from significantly above average values to almost average values. This also corresponds to his point rating.

Overall, the business can be rated very well by Quick Test. For a better idea of the development of the results of this test and of the point assessment in individual years, the chart below will serve.

Graph 12 – Development of Kralicek Quick Test
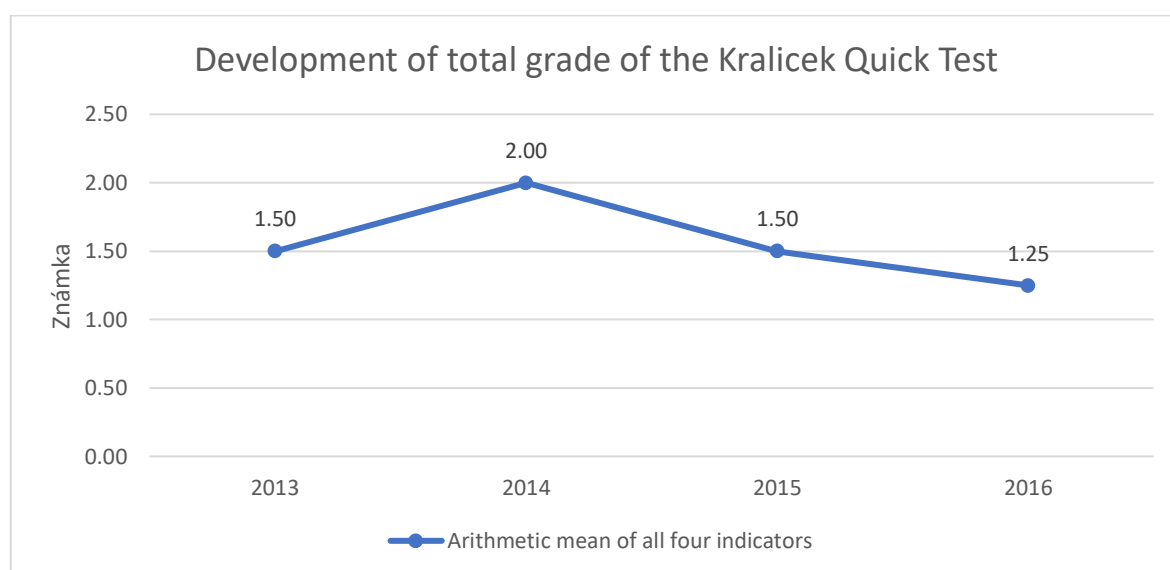
Source: Own calculation from income statements of InterierTech s.r.o

4.7.2 Altman Z-Score

The Altman Z-score aims to estimate the company's financial position in and to point out a possible bankruptcy in a timely manner. The result of this index is based on Z-score, which should be as high as possible. For the calculation, the version of the Altman model for limited liability companies is used.

Table 13 – Altman Z-Score

Z-Score Indicators	2013	2014	2015	2016	weight
X1	0,4151	0,2586	0,3450	0,4678	**1,2**
X2	0,2274	0,0726	0,1311	0,1464	**1,4**
X3	0,2975	0,0955	0,1752	0,1875	**3,3**
X4	1,2622	0,4925	0,8789	1,0026	**0,6**
X5	3,1196	1,5951	2,1085	1,7829	**1**
Z-Score value	5,68	2,62	3,81	3,77	

Source: Own calculation from income statements of InterierTech s.r.o

From the Z-Score indicators we can observe, that the highest score was obtained in the first monitored period. In 2014 thanks to increased long term liabilities, the enterprise entered the grey zone. As already seen from previous indicators, the last two monitored periods were more balanced and obtained far greater value than 2,7, which makes InterierTech a financially stable entity. Below is a visual representation of the development over the whole monitored period.

Graph 13 – Development of Z-Score value
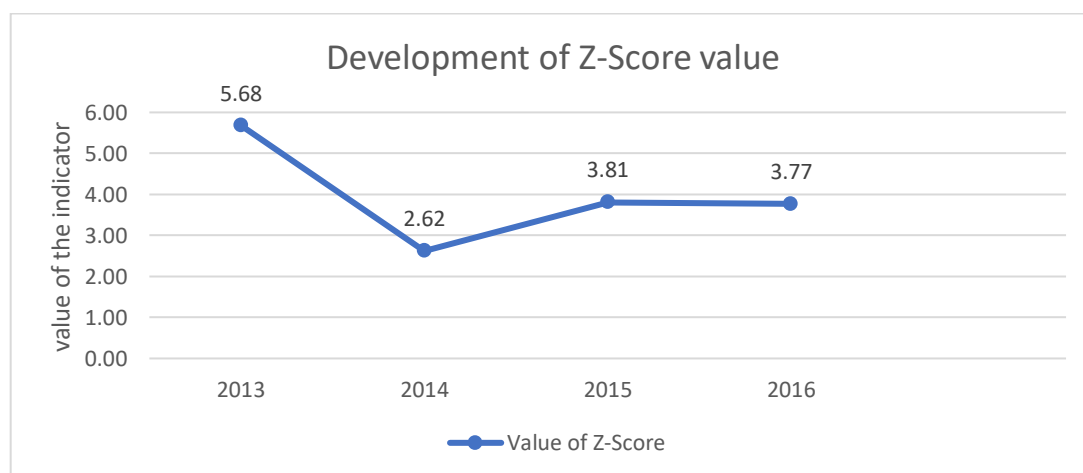
Source: Own calculation from income statements of InterierTech s.r.o

5 Conclusion

In the theoretic part of this diploma thesis were at first explained and described all necessary phenomena regarding the conduction of a financial analysis of an enterprise. In the second part of this thesis were put all of the above mentioned phenomena into practise.

RQ1: What impact on the financial situation of the firm had the purchase of a new production facility?

Besides the obvious impact on the analysis of absolute indicators, where both long term assets and long term liabilities significantly increased and made the relationship between liabilities and equity considerably unbalanced in the favour of liabilities. This occurrence subsequently influenced almost every indicator in the analysis and made the year 2014 the lowest performing year of the monitored period. Most notably the Kralicek Quick Test and Altman Z-Score confirmed that the year 2014, the year of the purchase, had scored the least favourable marks out of the monitored period and the company was rated as "In the Grey zone". After the year of 2015 the relationship between total liabilities and equity became balanced. Consequently a major increase of inventories occurred after the relocation to the new facility which was even further increased by obtaining high volume inquiries from partners in the Republic of France. This development can be seen as well on the positive change of analysed indicators. Kralicek Quick test interpreters, that the enterprise is from the year of 2015 in excellent shape in terms of financial stability. Regarding the profitability of the company, there is an opportunity for improvement. Overall the solvency of the company rates between very well and excellent with a positive development in the recent years. Altman Z-Score analysis confirmed the results of the previous test, where InterierTech was rated again as Financially stable entity.

From the development of previously mentioned tests, from the development of net income and other analysed indicators, it can be stated that the purchase of the facility had a short-term negative effect on the whole financial performance of the company. On the other hand, the full relocation to the new production facility had a positive effect in the long run.

RQ2: What are the main negative factors of the financial performance of InterierTech?

When benchmarking InterierTech through the spider analysis with the industry, the most positive value occurred in the ROE indicator, which steadily holds substantially higher percentage than the average of the industry, which makes a positive impact for possible investors with regard to the risk involved. On the other hand, other indicator which is steadily multiple times higher than the average is the cash ratio, which can be seen as a negative factor and a signal that InterierTech is not investing enough of spare cash in order to make revenue.

The capital stock of the company corresponds to only 0.41% of the total liabilities of the company in 2016. In 2013 the share was over 1% due to a lower amount of both Liabilities and Equity in total. That is why, it would be probably worth considering its increase, which could have a positive impact on the creditworthiness and credibility of the business. Especially towards its business partners. However, it should be noted that in practice such a phenomenon is standard in the given field.

Analysing the activity ratios, InterierTech reports a negative development in Receivables Turnover, thus the efficiency of the usage of firms assets is declining. Contrarily the payables turnover is fluctuating. Therefore it should be recommended to collect payments from customers in a shorter period of time.

When comparing the results of ratio analysis and analysis of differential indicators of InterierTech with its competitor Interiér Říčany, one of the leaders of their field, it can be concluded, that especially their development of relationship between current liabilities and current assets is similar. Interiér Říčany holds approximately 4 times the amount of working capital of InterierTech. From a liquidity standpoint, there is a room for improvement for InterierTech. On the other hand, InterierTech is maintaining a positive cash ratio over the whole monitored period, which allows them to still possess available Cash after paying off their current liabilities, which is not the case for Interiér Říčany.

The hypothesis: "The company InterierTech is an average competitor in the furniture industry." Has to be disproved according to the above mentioned evidence, where although InterierTech shows signs of typical average company in its field, by the amount of employees

and overall size of the enterprise or their high amount of inventories and low capital stock and overall the fact that their current assets have a decisive influence on the total assets of the company which is as well determined by the area of their business. Other mainly liquidity and profitability ratios, which in comparison with the industry are substantially higher are making the company InterierTech stand out for possible business partners or investors.

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7 Appendix

1) Balance Sheet of InterierTech s.r.o. (simplified)

BALANCE SHEET - simplified, in thousands CZK				
ASSETS	**2013**	**2014**	**2015**	**2016**
Total Assets	17 904	39 396	38 472	50 937
Total Fixed Assets	4 332	16 168	15 676	14 575
Long-term Intangible assets				
Long-term Tangible assets	4 332	16 168	15 676	14 575
Total Current Assets	13 358	23 228	22 796	36 362
Inventory	1 257	1 826	1 534	5 729
Accounts Receivable	4 140	5 515	8 497	10 521
Cash & Equivalents	7 961	15 887	12 765	20 112
Accruals	214			
EQUITY AND LIABILITIES	**2013**	**2014**	**2015**	**2016**
Total Liability & Equity	17 904	39 396	38 472	50 937
Total Equity	10 090	12 949	17 992	25 449
Capital Stock	210	210	210	210
Funds from profits	10	10	10	10
Other Equity Accounts	5 847	9 870	12 729	18 211
Retained Earnings	4 023	2 895	5 043	7 018
Total Liabilities	7 994	26 293	20 459	25 383
Long Term Liabilities	1 809	13 382	10 968	12 953
Current Liabilities	6 005	12 875	9 522	12 535
Bank Loans		12 150	10 414	12 457
Accruals	-180	154	21	105

Source: Own calculations, data from Balance Sheets of InterierTech s.r.o. 2013-2016

2) Income Statement of InterierTech s.r.o. (simplified)

INCOME STATEMENT, simplified, in thousands CZK				
	2013	**2014**	**2015**	**2016**
Net Sales	55186	62841	81118	90814
Cost of Goods Sold	43786	51645	66136	73678
Gross Profit	11400	11196	14982	17136
Personnel expenses	4997	5198	6180	6309
Depreciation	1837	2229	2112	1839
Other operating revenues	83	1	28	123
Other operating expenses	35	22	112	77
Operating Profit	4614	3748	6606	9034
Financial revenues	648	15	134	516
Interest expense	65	216	480	318
Financial results	583	-202	-346	198
Income Before Taxes	5197	3547	6260	9232
Income Taxes	1174	688	1217	1775
Net Income	4023	2859	5043	7457
EBIT	5262	3763	6740	9550

Source: Own calculations, data from Income Statements of InterierTech s.r.o. 2013-2016

3) Balance sheet of Interiér Říčany a.s. (simplified)

BALANCE SHEET - simplified, in thousands CZK				
ASSETS	**2013**	**2014**	**2015**	**2016**
Total Assets	50 208	77 473	66 714	73 183
Total Fixed Assets	-6	-297	-310	-461
Long-term Intangible assets	174	25	2	0
Long-term Tangible assets	-180	-322	-310	-461
Total Current Assets	50 085	77 615	67 125	73 493
Inventory	15 889	15 827	6 611	10 736
Accounts Receivable	30 999	60 240	60 366	62 163
Cash & Equivalents	2 946	1 277	148	252
Accruals	129	155	50	0
EQUITY AND LIABILITIES	**2013**	**2014**	**2015**	**2016**
Total Liability & Equity	50 208	77 473	66 714	73 183
Total Equity	14 396	17 840	19 673	32 837
Capital Stock	2000	2000	2000	2000
Funds from profits	546	546	546	546
Other Equity Accounts	9 083	3 444	1 832	13 164
Retained Earnings	2 757	11 850	15 295	17 127
Total Liabilities	21 804	38 880	27 233	23 155
Reserves	3 115	1 800	4 794	2 669
Long Term Liabilities	6 039	5 310	4 794	3 685
Current Liabilities	12 650	31 764	21 762	16 601
Bank Loans	0	0	0	0
Accruals	14008	20753	19808	17191

Source: Own calculations, data from Balance Sheets of Interiér Říčany a.s. 2013-2016

4) Income statement of Interiér Říčany a.s. (simplified)

INCOME STATEMENT, simplified, in thousands CZK				
	2013	**2014**	**2015**	**2016**
Net Sales	116488	128824	166699	234043
Cost of Goods Sold	83208	94691	125056	177376
Gross Profit	33280	34133	41643	56667
Personnel expenses	4632	8292	9266	10232
Depreciation	227	350	233	33
Other operating revenues	671	367	288	581
Other operating expenses	17244	21646	29281	31278
Operating Profit	11848	4212	3151	15705
Financial revenues	14	215	113	63
Interest expense	93	71	108	200
Financial results	-79	144	5	-137
Income Before Taxes	11769	4358	3156	15568
Income Taxes	2686	912	1324	2404
Net Income	9083	3444	1832	13164
EBIT	11676	4287	3048	15368

Source: Own calculations, data from Income Statements of Interiér Říčany a.s. 2013-2016