

Usage of Financial Accounting Tools for Evaluation of Financial Position and Performance

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Bachelor Thesis
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ZADÁNÍ BAKALÁŘSKÉ PRÁCE

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Téma práce: **Využití nástrojů finančního účetnictví při hodnocení finanční pozice a výkonnosti podniku**

Zásady pro vypracování:

Teoretická část

Provedte průzkum literárních pramenů a zpracujte teoretické a metodické poznatky týkající se finanční analýzy podniku.

Praktická část

Analyzujte vývoj hospodaření ve vybrané společnosti v letech 2005 -2008 pomocí nástrojů finanční analýzy.

Na základě zpracované analýzy zhodnoťte dosavadní hospodaření firmy AMIPOL ZLÍN, s.r.o. a navrhněte možné kroky, které povedou ke zlepšení současné finanční situace podniku.

Rozsah práce:

Rozsah příloh:

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VALACH, Josef a kol. Finanční řízení podniku. 2. vyd. Praha : Ekopress, 1999. 324 s. ISBN 80-86119-21-1.

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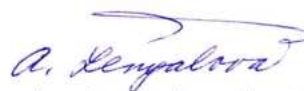
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Ve Zlíně dne 8. ledna 2010



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ABSTRAKT

Tato bakalářská práce se zabývá finanční analýzou firmy AMIPOL ZLÍN, s.r.o. Cílem práce je zanalyzovat informace o podniku za roky 2005 – 2008 a navrhnou možná řešení a opatření, která by vedla ke zlepšení finanční situace podniku. Práce je rozdělena do dvou částí – teoretické a praktické. V teoretické části jsou popsány metody finanční analýzy a zdroje dat pro analýzu. V praktické části jsou uvedeny charakteristiky společnosti a následné vypracování finanční analýzy, při kterém jsou použity ukazatele a metody, které jsou popsány v části teoretické. Získané hodnoty jsou porovnány s hodnotami z odvětví. Závěr shrnuje celkovou finanční situaci podniku a navrhuje možná řešení a opatření pro další činnost podniku.

Klíčová slova: finanční analýza, rozvaha, výkaz zisků a ztrát, absolutní, poměrové, rozdílové a souhrnné ukazatele.

ABSTRACT

This bachelor thesis deals with a financial analysis of the company AMIPOL ZLÍN, s.r.o. The aim of this thesis is to analyze the information about the company from the years 2005 – 2008 and then recommend possible solutions and measures for improvement of the financial situation in the company. The thesis is divided into two parts – theoretical and practical. The theoretical part deals with the methods of financial analysis and sources of data for the analysis. The practical part is introduced by a short characteristic of the company and is followed by the actual financial analysis. In this analysis are used ratios and methods described in the theoretical part. The reached values are then compared with the industry. The conclusion sums up the financial situation of the company and suggests possible solutions and improvements for further activity of the company.

Keywords: financial analysis, balance sheet, income statement, absolute indicators, ratio analysis, subtractive indicators, cumulative indicators.

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INTRODUCTION

Nowadays it is necessary for companies to have different financial statements. These financial statements include balance sheet which represents the state of the economic resources of a company, income statement which represents the financial performance of a company during a specified amount of time and sometimes the statement of cash flows. The first two statements mentioned above are obligatory. They have to be made according to the law of the country where the company is doing its business because at the end of every year these documents have to be submitted to an appropriate tax office. The data in these statements then can be used in the financial analysis.

Financial analysis is used to determine the financial health of a company and also to give feedback if the plans that company set out were fulfilled or not.

Financial analysis is not only important to a company but also to potential customers and creditors which are interested in doing business with a certain firm. Also when company is applying for a bank loan bank has to do a complex analysis of that company so the bank knows if to authorize or deny the loan.

For my bachelor thesis I chose the company AMIPOL ZLÍN, s.r.o. The company is based near my home and provides truck transport. During five years I saw a lot of new trucks standing in company's depot. I got curious that from such a small company the company is getting bigger and bigger and obviously making more and more money because of the new trucks it was buying.

The second thing why I chose this company is that the company executive is a young man and I would love to take some business advices from him. The company executive gave his consent for me to make a financial analysis of his company. He also provided me with all the materials that I needed and was a really big help for me when I needed to consult something with him.

My bachelor thesis is divided into two parts. The first part is theoretical. It sums up and explains terms which are connected with financial analysis. The second part, the practical part, is the actual financial analysis of AMIPOL ZLÍN, s.r.o. and applies terms from the theoretical part on this company. The data used for AMIPOL ZLÍN, s.r.o. are then compared with the freight industry. Unfortunately the data provided by MIT for freight industry are calculated only for years 2007 and 2008. I wrote an email to the MIT asking if there are any available data for years 2005 and 2006. I got an answer stating that

unfortunately there are no data available for the years requested by me. So for freight industry I have analyzed only years 2007 and 2008.

At the end of my bachelor thesis there is a complete evaluation of financial analysis of AMIPOL ZLÍN, s.r.o. and recommendations for further improvement of the company.

I. THEORY

1 CHARACTERIZATION OF FINANCIAL ANALYSIS

The economical environment nowadays is still changing. This leads to changes in companies which are part of this environment. It is important for a successful company to do the analysis of its financial situation. The most common method of analysis – financial indicators – used in financial analysis is used for evaluating of the company's strategy following the economical environment. (Kislingerová and Hnilica 2008)

There exist a lot of ways how to define “financial analysis”. But the most exact definition is that financial analysis is systematical analysis of acquired data contained in financial statements. Financial analysis contains the evaluation of company's past, present and prediction of the future financial conditions. (Růčková 2010)

1.1 Object and purpose of financial analysis

The goal of financial analysis is to determine the financial health (financially healthy company is a company, which at a moment is able to fulfill the purpose of its existence (Valach 1999)) of the company, identify weaknesses that could lead to problems and determine the strong sides. Financial analysis leads to knowledge, what would company's finance stand and should result in confirmation or modification of existing financial politics. (Holečková 2008)

The main purpose of financial analysis is to comprehensively state the ownership and financial structure of company. That means catch all of its elements (analysis of the profitability of assets, analysis of debt, analysis of the risk of insolvency etc.) and also prepare mounts for the internal decisions of company's management. (Holečková 2008).

Generally speaking financial analysis contains a lot of methods used for many decision-making roles. In terms of purpose financial analysis can be divided into: (Pavelková and Knápková, Podnikové finance: Pomůcka pro distanční studium 2008)

1. *Analysis of financial position of a company* – its goal is to globally analyze financial position of a company. Data for this analysis are derived from many financial and non-financial sources. The most important non-financial sources are statements of financial accounting and notes to them. (Pavelková and Knápková, Podnikové finance: Pomůcka pro distanční studium 2008)
2. *Analysis connected with specific decision-making roles* – management of every area is connected with many decision-making roles, which go beyond the scope of one financial aspect. (Pavelková and Knápková, Podnikové finance: Pomůcka pro distanční studium 2008)

1.2 Users of financial statements

Financial analysis can be divided into two sections, internal and external analysis, depending on who is creating it and who needs it.

The users of financial analysis mainly are:

- Managers
- Investors, Security Analysts and Shareholders
- Banks and other creditors
- Business partners (buyers and suppliers)
- Employees
- Government

Managers. Managers need financial statements so they can make decisions about finances of the company. A financial-statement based variable, such as the current debt-to-equity ratio or the interest coverage ratio, is frequently important in deciding how much long-term debt to rise. Also managers can use the financial statements of other companies for their decision making. For example when managers decide where to re-direct the resources of the company the financial statement of another company can show areas where high profit margins are currently being earned. (Sess 1: Users and Suppliers of Financial Statements Information 2010)

Investors, Security Analysts and Shareholders. These are major recipients of financial statements of corporations. Based on financial statements they can make decisions if to buy, retain or sell shares of the company and they can time the purchase of those shares. Typically, their decisions have either an investment focus or a stewardship focus; in some cases, both will occur simultaneously. In an investment focus, the emphasis is on choosing a portfolio of securities that is consistent with the preferences of the investor for risk, return, dividend yield, liquidity and so on. (Sess 1: Users and Suppliers of Financial Statements Information 2010)

Banks and other creditors. When bank provides a loan for a company it has a lot of evaluation procedures that stipulate a certain amount of liquidity, leverage and profitability. Having these ratios in mind the bank decides about the amount of the loan. (Sess 1: Users and Suppliers of Financial Statements Information 2010)

Business partners (buyers and suppliers). Financial statement can play a significant role in this relationship. New buyer or supplier needs to make sure that company has a good financial health. (Sess 1: Users and Suppliers of Financial Statements Information 2010)

Employees. Employees have several motivations. They want the company to continue to generate profit. Financial statements for them are really good source of potential future profitability and solvency. They also might need financial statements to monitor the viability of their pension plans. (Sess 1: Users and Suppliers of Financial Statements Information 2010)

Government. The demand for financial statements by government can arise in a diverse set of areas such as; Revenue rising, e.g. for income tax, sales tax, or value-added tax collection. Government contracting, e.g. for reimbursing suppliers paid on a cost-plus basis or for monitoring whether companies engaged in government business are earning excess profits.

1.3 Source of Information for Financial Analysis

1.3.1 The Balance Sheet

The main purpose of the balance sheet is to set out the financial position of a business in a particular time. Sometimes it is referred to balance sheet as to *position statement*, because it provides the user with a picture of the financial position of a firm. The balance sheet reveals the forms in which wealth of a business is held and how much wealth is held in each form. It sets out assets of the business on one side and the claims against the business on the other. (Atrill and McLaney 2005)

1.3.2 Income statement

A financial statement that reports profits and losses business made in a certain time period. It is derived by deducting from total revenue for a period, the total expense associated with that revenue. (Atrill and McLaney 2005)

1.3.3 Cash Flow

Cash flow is movement of cash (Atrill and McLaney 2005) and is divided into 3 groups:

1. *Operating cash flow* – basic activity of a company which is supposed to generate profit.
2. *Investment cash flow* – acquisition and disposal of fixed assets. Eventually it can be activity connected with loans and bailouts that is not considered as an operating activity.
3. *Financial cash flow* – results in changes in amount and structure of equity and long-term liabilities. (Grünwald and Holečková 2007)

1.3.4 Note to the financial statement

Note to the financial statement contains information which can't be found in the income statement nor the balance sheet. The note is very useful for the external users of financial analysis and based on it external users can form correct judgment about the financial situation of a company and profit of a company, compare financial situation now and in the past and estimate possible future development. (Holečková 2008)

1.3.5 Annual report

The annual report is the most important report corporations issue to their stockholders. There are two types of information provided in annual report:

1. *Verbal section* – presented as a letter from the CEO and describes company's operating results in the past year and discusses new developments that will influence future operations. (Brigham, Financial Management: Theory and Practice (Harcourt College Publishers Series in Finance) 2005)
2. *Financial statements* – The annual report presents four basic financial statements the balance sheet, the income statement, the statement of retained earnings and the statement of cash flow. Together these statements give an accounting picture of the company's operations and financial position. Detailed data are provided for the two or three most recent years, along with historical summaries of key operating statistics for the past five or ten years. (Brigham, Financial Management: Theory and Practice (Harcourt College Publishers Series in Finance) 2005)

2 METHODS OF FINANCIAL ANALYSIS

Financial analysis of financial statements can be done by several methods, in different rates of punctuality and by many forms and techniques. Financial analysis explores the financial situation of a company. Financial situation of a company is tested by quantitative methods which process data in financial statements. It is needed to prepare indicators of financial situation of a company from these statements and from knowledge of theorems from financial management deduce the criteria for its evaluation. But financial situation can't be evaluated only by simple calculation. The overall image of the financial situation is presumed by analytics based on their experience and indicia designated by relevant quantitative relations which were put into a test. (Holečková 2008)

The basis of financial analysis is using the ratio indicators whereas absolute and subtractive indicators play certain additional role. The size of the absolute indicators in many ways depends on the size of the company and on other factors. Absolute indicators can't be used for intercompany comparison. Very useful is trend comparison of absolute indicators in time, i.e. their growth and downturn in consequential period (years, quarters, months). (Dluhošová 2008)

2.1 Absolute Indicators

2.1.1 Horizontal analysis

Also called as analysis of trends horizontal analysis looks into the changes of absolute indicators in time and expresses percentual or index change of a certain item. The aim of the horizontal analysis is to measure the movement of individual items absolutely and relatively and to measure their intensity. Horizontal analysis examines two problems. Absolute change and percentual change of items. (Holečková 2008)

Absolute change. This method calculates the difference between two consecutive years.

$$\text{absolute change} = \text{value}_t - \text{value}_{t-l}$$

Percentual change. Expressed as a percentage to the value of the base year.

$$\text{percentual change} = \frac{\text{absolute change}}{\text{value}_{t-l}} \times 100 (\%)$$

2.1.2 Vertical analysis

Vertical analysis deals with inner structure of absolute indicators. Sometimes it is called as an analysis of components. Individual items of financial statements are compared to the total sum of assets and liabilities. (Růčková 2010)

2.2 Subtractive indicators

Net working capital (NWC) also known as working capital is the most used subtractive indicator calculated as a difference between current assets and current liabilities. Working capital contains current assets without liabilities of a company which has to be paid within one year. (Holečková 2008)

$$NWC = \text{current assets} - \text{current liabilities}$$

“Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets (cash, accounts receivable and inventory).” (Working Capital 2010)

“If a company's current assets do not exceed its current liabilities, then it may run into trouble paying back creditors in the short term. The worst-case scenario is bankruptcy. A declining working capital ratio over a longer time period could also be a red flag that warrants further analysis. For example, it could be that the company's sales volumes are decreasing and, as a result, its accounts receivables number continues to get smaller and smaller.” (Working Capital 2010)

“Working capital also gives investors an idea of the company's underlying operational efficiency. Money that is tied up in inventory or money that customers still owe to the company cannot be used to pay off any of the company's obligations. So, if a company is not operating in the most efficient manner (slow collection), it will show up as an increase in the working capital. This can be seen by comparing the working capital from one period to another; slow collection may signal an underlying problem in the company's operations.” (Working Capital 2010)

2.3 Ratio analysis

Ratios are the most widely used tools for financial analysis because they provide clues to and symptoms of underlying conditions. A ratio can help in uncovering trends and conditions difficult to detect by inspecting individual components making up the ratio.

Ratios are often future oriented, they are often adjusted for their probable future trend and magnitude and their usefulness depends on skillful interpretation. (Wild 2006)

A ratio expresses a mathematical relation between two quantities and can be expressed as percent, rate or proportion. Computation of a ratio is a simple arithmetic operation but its interpretation is not. For the ratio to be meaningful it must refer to an economically important relation. (Wild 2006)

2.3.1 Liquidity ratios

A liquid asset is one that trades in an active market and hence can be quickly converted to cash at the going market price, and a company's "liquidity ratios" deal with a question if the company is going to be able to pay off its debts as they come due over the next year or so. A full liquidity analysis requires the use of cash budgets but by relating the amount of cash and other current assets to current obligations, ratio analysis provides a quick, easy-to-use measure of liquidity. (Brigham 2005)

2.3.1.1 Ability to Meet Short-Term Obligations: The Current Ratio

The **current ratio** is calculated by dividing current assets by current liabilities. (Brigham 2005)

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

Current assets normally include cash, marketable securities, accounts receivable, and inventories. Current liabilities consist of accounts payable, short-term notes payable, current maturities of long-term debt, accrued taxes, and other accrued expenses (principally wages). (Brigham 2005)

2.3.1.2 Quick (Acid-Test) Ratio

Some assets are closer to cash than others. When there are troubles, inventories may not sell at anything above fire-sale prices. Troubles usually come because customers are not buying and company's warehouse is filled with unwanted goods. So, managers often focus on cash, short-term securities, and bills that customers have not yet paid. (Brealey and Myers 2002)

$$\text{Quick Ratio} = \frac{(\text{cash} + \text{short-term securities} + \text{receivables})}{\text{current liabilities}}$$

2.3.1.3 Cash Ratio

The most liquid assets that company can have are its holdings of cash and marketable securities. That is the reason why analysts look also at the **cash ratio**. (Brealey and Myers 2002)

$$\text{Cash ratio} = \frac{(\text{cash} + \text{short-term securities})}{\text{current liabilities}}$$

2.3.2 Solvency Ratios

The term *solvency* refers to a company's long-run financial viability and its ability to cover long-term obligations. Analysis of solvency is a long term and uses less precise but more encompassing measures than liquidity. The most important component in company's solvency analysis is the composition of a company's capital structure. *Capital structure* is company's financing sources. (Wild 2006)

2.3.2.1 Debt Ratio

Debt ratio measures the percentage of funds provided by sources other than equity. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors' loses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. (Brigham 2005)

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

2.3.2.2 Equity Ratio

“Equity ratio is a very good indicator of the level of leverage used in a company. The equity ratio measures the proportion of the total assets that are financed by stockholders and not by creditors. A low equity ratio will produce very good results for the stockholders as long as the company earns a rate of return on assets that is greater than the interest rate paid by creditors.” (Equity Ratio n.d.)

$$\text{Equity ratio} = \frac{\text{Total equity}}{\text{Total assets}}$$

2.3.2.3 Debt-to-Equity Ratio

Debt-to-Equity Ratio is a measure to assess the risk of a company's financing structure. A company financed mainly with debt is more risky because liabilities must be repaid – usually with periodic interest – whereas equity financing does not. (Wild 2006)

$$\text{Debt-to-Equity} = \frac{\text{Total liabilities}}{\text{Total equity}}$$

2.3.2.4 Times-Interest-Earned Ratio (TIE)

Times-Interest-Earned Ratio tells us if the company is able to pay interests. The TIE ratio measures the extent to which operating income can decline before the company is unable to meet its annual interest costs. Failure to meet this obligation can bring legal action by the company's creditors, possibly resulting in bankruptcy. (Brigham 2005)

$$\text{Times-interest-earned (TIE) ratio} = \frac{\text{EBIT}}{\text{Interest charges}}$$

2.3.3 Profitability Ratios

Profitability refers to a company's ability to generate an adequate return on invested capital. Return is judged by assessing earnings relative to the level and sources of financing. Also profitability is relevant to solvency. (Wild 2006)

2.3.3.1 Net profit margin

Net profit margin shows us the proportion of sales that finds its way into profits. Sometimes net profit margin is measured as net income ÷ sales. But this ignores the profits that are paid out to the shareholders as interest and should therefore not be used to compare companies with different capital structures. (Brealey and Myers 2002)

$$\text{Net profit margin} = \frac{(\text{EBIT} - \text{tax})}{\text{sales}}$$

2.3.3.2 Return on Assets (ROA)

ROA is an indicator that shows us how profitable company is relative to its total assets. ROA gives an overall idea on how the management effectively uses company's assets to

generate earnings. ROA is displayed as percentage and is sometimes referred to as Return on Investment (ROI). (Return On Assets (ROA) 2010)

$$ROA = \frac{(EBIT - tax)}{average\ total\ assets}$$

2.3.3.3 Return on Common Equity (ROE)

ROE is probably the most important accounting ratio. It is calculated as net income to common equity. The main reason stockholders invest to a company is to get a return on their money. ROE tells stockholders how well they are doing in an accounting sense. (Brigham 2005)

$$ROE = \frac{Earnings\ available\ for\ common\ stockholders}{Average\ equity}$$

2.3.3.4 Basic earning power (BEP)

BEP is calculated by dividing EBIT by total assets. BEP shows the raw earning power of company's assets before the influence of taxes and leverage. BEP is useful for comparing companies with different tax situations and different degrees of financial leverage. (Brigham 2005)

$$Basic\ earning\ power\ ratio\ (BEP) = \frac{EBIT}{Total\ assets}$$

2.3.4 Asset management ratios

Asset management ratios measure how effectively is company managing its assets. If a company has excessive investments in assets then its operating assets and capital will be unduly high which will reduce its free cash flow and its stock price. But on the other hand if the company does not have enough assets it will lose sales. This will hurt profitability, free cash flow and the stock price. Therefore it is crucial to have the right amount invested in assets. (Brigham 2005)

2.3.4.1 Fixed Assets Turnover

Fixed Assets Turnover ratio measures how effectively the company uses its plant and equipment. It is the ratio of sales to net fixed assets. (Brigham 2005)

$$\text{Fixed assets turnover ratio} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

2.3.4.2 Inventory turnover

A ratio that shows how many times a company's inventory is sold and replaced over a certain period. (Inventory Turnover 2010)

$$\text{Inventory turnover ratio} = \frac{\text{Sales}}{\text{Inventories}}$$

2.3.4.3 Total Assets Turnover

Total assets turnover shows how the company is able to use its assets to generate sales. This ratio is an important indication of operating efficiency. (Wild 2006)

$$\text{Total asset turnover} = \frac{\text{Net sales}}{\text{Average total assets}}$$

2.3.4.4 Accounts receivable turnover

Accounts receivable turnover ratio measures how frequently a company converts its receivables into cash. (Wild 2006)

$$\text{Accounts receivable turnover} = \frac{\text{Net sales}}{\text{Average accounts receivable}}$$

2.3.5 Market-Value Ratios

Market-Value ratios relate the company's stock price to its earnings, cash flows and book value per share. These ratios are very useful for management because they give an indication of what investors think of the company's past performance and future prospects. If the liquidity, asset management, debt management and profitability ratios all look good,

then the market value ratios will be high and the stock price will probably be as high as can be expected. (Brigham 2005)

2.3.5.1 Price-earnings ratio (P/E)

The Price-earnings ratio measures the price that investor are prepared to pay for each dollar of earnings. (Brealey and Myers 2002)

$$P/E \text{ ratio} = \frac{\text{Stock price}}{\text{earnings per share}}$$

2.3.5.2 Dividend yield

Dividend yield shows the annual amount of cash dividends distributed to common shares relative to their market value. (Wild 2006)

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Stock price}}$$

2.3.5.3 Market-to-book ratio

“Market-to-Book Ratio is the ratio of the current share price to the book value per share. It measures how much a company worths at present, in comparison with the amount of capital invested by current and past shareholders into it.” (Market-to-Book Ratio 2010)

$$\text{Market-to-book ratio} = \frac{\text{stock price}}{\text{book value per share}}$$

2.4 Cumulative indicators

2.4.1 The Dupont system

The Dupont system was firstly introduced and used by The Du Pont Company of the US. This system analysis considers important interrelationships between different elements based on the information found in the financial statements. (TheManageMentor - Finance - DU Pont Analysis 2010)

The Du Pont system is illustrated on this scheme:

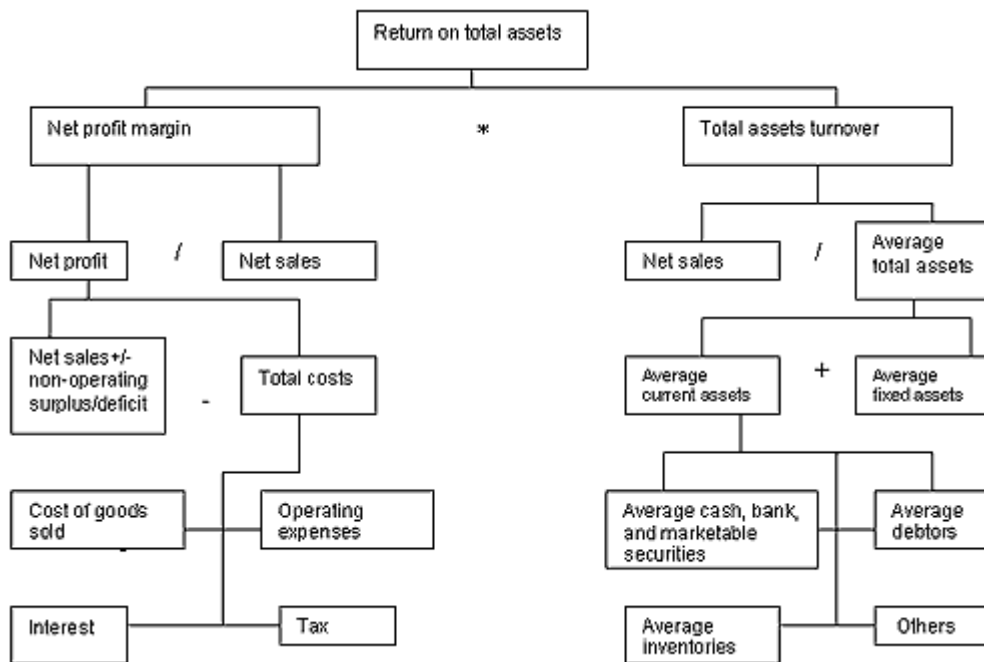


Figure 1. The Du Pont System

At the apex of the Du Pont chart is Return on total assets (ROTA). ROTA is defined as the product of the Net Profit Margin and the Total Assets Turnover Ratio. This decomposition helps us understand how the return on total assets is influenced by the net profit margin and the total assets turnover ratio. (TheManageMentor - Finance - DU Pont Analysis 2010) The left part of the Du Pont chart shows the details underlying the net profit margin ratio. The detailed examination of this part presents to us areas where cost reductions may be effected to improve the net profit margin. (TheManageMentor - Finance - DU Pont Analysis 2010)

On the right side of the chart are highlighted the determinants of total asset turnover ratio. If this study is supplemented by the study of other ratios such as inventory, debtors, fixed asset turnover ratios, a deeper insight into efficiencies and inefficiencies of asset utilization can be sought. The basic Du Pont analysis can be extended to explore the determinants of the Return on Equity (ROE). (TheManageMentor - Finance - DU Pont Analysis 2010)

$$Return\ on\ equity = Asset\ turnover \times Net\ profit\ margin \times Leverage$$

By breaking ROE into these three parts allows us to evaluate how well one can manage company's assets, expenses, and debt. A manager has basically three ways of improving operating performance in terms of ROA and ROE. These are:

- Increase capital asset turnover
- Increase operating profit margins
- Change financial leverage

“Any decision affecting the product prices, per unit costs, volume or efficiency has an impact on the profit margin or turnover ratios. Similarly any decision affecting the amount and ratio of debt or equity used will affect the financial structure and the overall cost of capital of a company. Therefore, these financial concepts are very important to evaluate as every business is competing for limited capital resources. Understanding the interrelationships among the various ratios such as turnover ratios, leverage, and profitability ratios helps companies to put their money areas where the risk adjusted return is the maximum.” (TheManageMentor - Finance - DU Pont Analysis 2010)

2.4.2 Altman Z-Score

“The Altman Z-Score is a quantitative balance-sheet method of determining a company's financial health. “Safe” companies, i.e. companies that have a low probability of bankruptcy; have an Altman Z-Score greater than 3.0. The Altman Z-Score is a measure of a company's health and likelihood of bankruptcy. Several key ratios are used in the formulation of an Altman Z-Score Value. The Z-Score model is the 1960's brainchild of Professor Edward Altman of NYU.” (The Altman Z-Score — The Graham Investor 2010)

There are 5 variables:

$X_1 = (\text{Working Capital}/\text{Total Assets}).$

$X_2 = (\text{Retained Earnings}/\text{Total Assets}).$

$X_3 = (\text{EBITDA}/\text{Total Assets}).$

$X_4 = (\text{Market Value of Equity}/\text{Total Liabilities}).$

$X_5 = (\text{Net Sales}/\text{Total Assets}).$

For Public Companies, the Model is calculated as follows:

$$Z = 1,2 \times X_1 + 1,4 \times X_2 + 3,3 \times X_3 + 0,6 \times X_4 + 1,0 \times X_5$$

The above mentioned values of single ratios correspond to the model from 1968. In 1983 these values were adjusted to the companies not traded on public markets. (Pavelková and Knápková, Výkonnost podniku z pohledu finančního manažera 2005)

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

The Interpretation of Altman Z-Score:

“Z-SCORE ABOVE 3.0 –The Company is considered ‘Safe’ based on the financial figures only.”

“Z-SCORE BETWEEN 2.7 and 2.99 – ‘On Alert’. This zone is an area where one should ‘Exercise Caution’.”

“Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years of operations from the date of financial figures given.”

“Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very high.” (The Altman Z-Score — The Graham Investor 2010)

“If the Altman Z-Score is close to or below 3, then it would be as well to do some serious due diligence on the company in question before even considering investing.” (The Altman Z-Score — The Graham Investor 2010)

2.4.3 Economic Value Added (EVA)

EVA is an estimate of a business’s true economic profit for the year, and it differs sharply from accounting profit. EVA represents the residual income that remains after the cost of all capital, including equity capital, has been deducted, whereas accounting profit is determined without imposing a charge for equity capital. There is no depreciation added when calculating EVA. EVA also measures the extent to which the company has increased shareholder value. Therefore, if managers focus on EVA, this will help to ensure that they operate in a manner that is consistent with maximizing shareholder wealth. EVA can be determined for divisions as well as for the company as a whole, so it provides a useful basis for determining managerial performance at all levels. (Brigham 2005)

The basic EVA formula is as follows:

EVA = Net operating profit after taxes (NOPAT)

– After-tax dollar cost of capital used to support operations

= EBIT × (1 – Tax rate) – (Total net operating capital) × (WACC)

II. ANALYSIS

3 CHARACTERISTICS OF AMIPOL ZLÍN, S.R.O.

The company AMIPOL ZLÍN, s.r.o. is a freight forwarding company which specializes in complex freight and storage services for domestic and international customers.

The company was established in 1998 as an association of two individuals. After one year of operating in the freight industry AMIPOL ZLÍN ingratiated many domestic and international customers.

The company was transformed into a limited company in 1999. AMIPOL ZLÍN disposes of 40 trucks and transports cargo into every west European country.

Table 1. Number of employees – AMIPOL ZLÍN, s.r.o

	2005	2006	2007	2008
Number of employees	28	34	40	50

Table 2. SWOT analysis – AMIPOL ZLÍN, s.r.o.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Young company executive • Lot of satisfied customers • Skilled staff • Many trucks 	<ul style="list-style-type: none"> • Fluctuation of drivers • Badly situated company's HQ • Some of the staff is unnecessary • Not paying liabilities in time
Opportunities	Threats
<ul style="list-style-type: none"> • New contracts • New foreign customers • Expand more into western Europe 	<ul style="list-style-type: none"> • Large competition • Border restrictions • Changes in laws in other countries

4 METHODS

I divided my bachelor thesis into sections according to a method used in a section – absolute indicators, subtractive indicators, ration analysis and cumulative indicators. When analyzing AMIPOL ZLÍN, s.r.o. it was necessary not only to pay attention to balance sheet and income statement but also to an events that happened during the analyzed years.

4.1 Absolute indicators

Absolute indicators give us the essential insight on the basic financial situation in a company. It displays various items from balance sheet and income statement.

4.1.1 Vertical and horizontal analysis of balance sheets

Table 3. Vertical analysis of the balance sheet – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005		2006		2007		2008	
TOTAL ASSETS	27 644 154	100,0%	40 491 176	100,0%	40 521 507	100,0%	58 348 307	100,0%
Fixed Assets	5 463 279	19,8%	5 627 721	13,9%	5 890 435	14,5%	6 243 811	10,7%
Intangible Assets	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Tangible Assets	5 463 278	19,8%	5 627 721	13,9%	5 890 435	14,5%	6 243 811	10,7%
Non-Current Financial Assets	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Current Assets	21 231 739	76,8%	34 633 010	85,5%	34 486 108	85,1%	52 015 885	89,1%
Inventories	1 365 485	4,9%	5 031 833	12,4%	9 940 744	24,5%	2 177 149	3,7%
Long-Term Receivables	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-Term Receivables	14 797 079	53,5%	27 080 654	66,9%	20 444 505	50,5%	44 101 722	75,6%
Current Financial Assets	5 069 176	18,3%	2 520 522	6,2%	4 100 859	10,1%	5 737 013	9,8%
Accruals	949 137	3,4%	230 445	0,6%	144 963	0,4%	88 611	0,2%
TOTAL LIABILITIES & EQUITY	27 644 154	100,0%	40 491 176	100,0%	40 521 107	100,0%	58 348 307	100,0%
Equity	4 487 232	16,2%	5 473 145	13,5%	9 555 524	23,6%	11 688 439	20,0%
Share Capital	100 000	0,4%	100 000	0,2%	100 000	0,2%	100 000	0,2%
Capital Funds	1 300 000	4,7%	1 300 000	3,2%	0	0,0%	0	0,0%
Statutory Funds	10 000	0,0%	10 000	0,0%	10 000	0,0%	10 000	0,0%
Retained Earnings	2 681 584	9,7%	3 077 232	7,6%	4 063 145	10,0%	8 269 054	14,2%
Profit or Loss of the Current Period (+-)	395 648	1,4%	985 913	2,4%	5 382 380	13,3%	3 309 386	5,7%
Liabilities	23 082 832	83,5%	34 929 167	86,3%	30 945 878	76,4%	46 659 867	80,0%
Reserves	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-Term Liabilities	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-Term Liabilities	16 242 432	58,8%	27 727 167	68,5%	21 382 278	52,8%	30 139 799	51,7%
Bank Loans and Borrowings	6 840 400	24,7%	7 202 000	17,8%	9 563 600	23,6%	16 520 069	28,3%
- Short-Term Bank Loans	2 000 000	7,2%	3 000 000	7,4%	6 000 000	14,8%	13 000 000	22,3%
- Long-Term Bank Loans	4 840 400	17,5%	4 202 000	10,4%	3 563 600	8,8%	3 520 069	6,0%
Accruals	74 090	0,3%	88 865	0,2%	20 105	0,0%	0	0,0%

Table 4. Vertical analysis of the balance sheet – Freight industry

(in CZK)	2007		2008	
TOTAL ASSETS	501 593 209	100,0%	482 666 452	100,0%
Fixed assets	393 326 834	78,4%	377 594 845	78,2%
Intangible + tangible fixed assets	372 113 561	74,2%	342 642 512	71,0%
Non-current financial assets	21 213 273	4,2%	34 952 333	7,2%
Current assets	108 266 385	21,6%	105 071 607	21,8%
Inventories	6 478 346	1,3%	6 489 205	1,3%
Receivables	68 212 236	13,6%	73 011 395	15,1%
Current financial assets	33 575 793	6,7%	25 571 007	5,3%
Accruals	0	0,0%	0	0,0%
TOTAL LIABILITIES & EQUITY	501 593 209	100,0%	482 666 452	100,0%
Equity	319 396 881	63,7%	333 042 742	69,0%
Share capital	163 733 548	32,6%	173 679 319	36,0%
Retained earnings	145 078 850	28,9%	152 148 197	31,5%
Profit or loss for the current period (+-)	9 584 483	1,9%	7 215 226	1,5%
Liabilities	182 196 328	36,3%	149 623 710	31,0%
Reserves	9 745 386	1,9%	15 580 896	3,2%
Long-term liabilities	6 024 779	1,2%	15 756	0,0%
Short-term liabilities	123 247 235	24,6%	89 348 154	18,5%
Bank loans	43 178 928	8,6%	44 678 904	9,3%
- Long-term bank loans	37 807 476	7,5%	40 026 886	8,3%
- Short-term bank loans	5 371 452	1,1%	4 652 018	1,0%
Other liabilities	0	0,0%	0	0,0%

Table 5. Horizontal analysis of a balance sheet – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005	2006	2007	2008	06/05	07/06	08/07	08/05
TOTAL ASSETS	27 644 154	40 491 176	40 521 507	58 348 307	46,5%	0,1%	44,0%	111,1%
Fixed Assets	5 463 279	5 627 721	5 890 435	6 243 811	3,0%	4,7%	6,0%	14,3%
Intangible Assets	0	0	0	0	x	x	x	x
Tangible Assets	5 463 278	5 627 721	5 890 435	6 243 811	3,0%	4,7%	6,0%	14,3%
Non-Current Financial Assets	0	0	0	0	x	x	x	x
Current Assets	21 231 739	34 633 010	34 486 108	52 015 885	63,1%	-0,4%	50,8%	145,0%
Inventories	1 365 485	5 031 833	9 940 744	2 177 149	268,5%	97,6%	-78,1%	59,4%
Long-Term Receivables	0	0	0	0	x	x	x	x
Short-Term Receivables	14 797 079	27 080 654	20 444 505	44 101 722	83,0%	-24,5%	115,7%	198,0%
Current Financial Assets	5 069 176	2 520 522	4 100 859	5 737 013	-50,3%	62,7%	39,9%	13,2%
Accruals	949 137	230 445	144 963	88 611	-75,7%	-37,1%	-38,9%	-90,7%
TOTAL LIABILITIES & EQUITY	27 644 154	40 491 176	40 521 107	58 348 307	46,5%	0,1%	44,0%	111,1%
Equity	4 487 232	5 473 145	9 555 524	11 688 439	22,0%	74,6%	22,3%	160,5%
Share Capital	100 000	100 000	100 000	100 000	0,0%	0,0%	0,0%	0,0%
Capital Funds	1 300 000	1 300 000	0	0	0,0%	-100,0%	0,0%	-100,0%
Statutory Funds	10 000	10 000	10 000	10 000	0,0%	0,0%	0,0%	0,0%
Retained Earnings	2 681 584	3 077 232	4 063 145	8 269 054	14,8%	32,0%	103,5%	208,4%
Profit or Loss of the Current Period (+-)	395 648	985 913	5 382 380	3 309 386	149,2%	445,9%	-38,5%	736,4%
Liabilities	23 082 832	34 929 167	30 945 878	46 659 867	51,3%	-11,4%	50,8%	102,1%
Reserves	0	0	0	0	x	x	x	x
Long-Term Liabilities	0	0	0	0	x	x	x	x
Short-Term Liabilities	16 242 432	27 727 167	21 382 278	30 139 799	70,7%	-22,9%	41,0%	85,6%
Bank Loans and Borrowings	6 840 400	7 202 000	9 563 600	16 520 069	5,3%	32,8%	72,7%	141,5%
- Short-Term Bank Loans	2 000 000	3 000 000	6 000 000	13 000 000	50,0%	100,0%	116,7%	550,0%
- Long-Term Bank Loans	4 840 400	4 202 000	3 563 600	3 520 069	-13,2%	-15,2%	-1,2%	-27,3%
Accruals	74 090	88 865	20 105	0	19,9%	-77,4%	-100,0%	-100,0%

Table 6. Horizontal analysis of a balance sheet – Freight industry

(in CZK)	2007	2008	08/07
TOTAL ASSETS	501 593 209	482 666 452	-3,8%
Fixed assets	393 326 834	377 594 845	-4,0%
Intangible + tangible fixed assets	372 113 561	342 642 512	-7,9%
Non-current financial assets	21 213 273	34 952 333	64,8%
Current assets	108 266 385	105 071 607	-3,0%
Inventories	6 478 346	6 489 205	0,2%
Receivables	68 212 236	73 011 395	7,0%
Current financial assets	33 575 793	25 571 007	-23,8%
Accruals	0	0	x
TOTAL LIABILITIES & EQUITY	501 593 209	482 666 452	-3,8%
Equity	319 396 881	333 042 742	4,3%
Share capital	163 733 548	173 679 319	6,1%
Retained earnings	145 078 850	152 148 197	4,9%
Profit or loss for the current period (+-)	9 584 483	7 215 226	-24,7%
Liabilities	182 196 328	149 623 710	-17,9%
Reserves	9 745 386	15 580 896	59,9%
Long-term liabilities	6 024 779	15 756	-99,7%
Short-term liabilities	123 247 235	89 348 154	-27,5%
Bank loans	43 178 928	44 678 904	3,5%
- Long-term bank loans	37 807 476	40 026 886	5,9%
- Short-term bank loans	5 371 452	4 652 018	-13,4%
Other liabilities	0	0	x

Looking at the property of AMIPOL ZLÍN, s.r.o. (table 3) there is visible that current assets fill the most of the total assets (approx. 90% overall). The biggest item in current assets is short-term liabilities. This is because AMIPOL ZLÍN, s.r.o. has a lot of trucks and all of these are making a big amount of transportations. That means a lot of invoices to different customers have to be made and paid. We can also see a slight rise in tangible assets because of the company buying new accessories to their trucks. There are no long-term receivables but the amount of short-term receivables is rising. This is because the company is getting more transportation requests from more customers. The number of inventories is rising and drops in the year 2008. AMIPOL ZLÍN, s.r.o. is buying defective cables from a company called "DRAKA Kably" and processes the copper from these cables. They were keeping the resources of copper in their warehouse and in the year 2008 when the price of copper skyrocketed, they sold it.

Comparing the structure of AMIPOL ZLÍN, s.r.o. with the freight industry, we can see that freight industry is more balanced than the analyzed company. The biggest difference is in liabilities and equity. Freight industry has much more bigger equity than liabilities. The analyzed company has much more liabilities than equity. That is because AMIPOL ZLÍN, s.r.o. is using a lot of bank loans.

It is also visible that the capital funds of AMIPOL ZLÍN, s.r.o. disappeared in the year 2007. The company executive told me that he was considering to put this money into equity but then he decided that they we're going to divide the money into half with another company executive. There is also visible a big growth of profit for the current period for the year 2007 (Table 5). That is because the company got a big contract in 2006 from an automotive company. AMIPOL ZLÍN, s.r.o. was transporting the whole factory and it took them a whole year. That is why the profit skyrocketed. AMIPOL ZLÍN, s.r.o. is using a lot of bank loans. The positive thing is that the amount of long-term bank loans is lowering. But the negative is that the amount of short-term liabilities is growing. The biggest growth of short-term liabilities can be noticed in the year 2008. That is because the bank allowed a bigger overdraft for AMIPOL ZLÍN, s.r.o. and the company used it.

Very positive thing is growth of equity (Table 5). This is caused by the retained earnings which are staying in the company.

4.1.2 Vertical and horizontal analysis of income statements

Table 7. Vertical analysis of the income statement – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005		2006		2007		2008	
Sales of sold goods	42 732	0,1%	347 077	0,3%	102 659	0,1%	371 623	0,2%
Production	83 758 688	99,4%	134 696 727	99,4%	151 295 996	98,3%	165 796 478	98,3%
- Sales of own products and services	83 758 688	99,4%	134 696 727	99,4%	151 295 996	98,3%	165 796 478	98,3%
- Change in internally produced inventory	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Sales of sold fixed assets and materials	0	0,0%	0	0,0%	581 832	0,4%	0	0,0%
Interest revenues	8 209	0,0%	8 126	0,0%	8 944	0,0%	11 835	0,0%
Other operating revenues	23 954	0,0%	244 879	0,2%	113 408	0,1%	26 356	0,0%
Other financial revenues	443 423	0,5%	167 499	0,1%	1 878 514	1,2%	2 251 385	1,3%
Extra revenues	0	0,0%	100	0,0%	1 090	0,0%	169 332	0,1%
REVENUES	84 277 007	100,0%	135 464 408	100,0%	153 982 443	100,0%	168 627 008	100,0%
Costs of sold goods	41 257	0,0%	288 676	0,2%	79 124	0,1%	326 700	0,2%
Purchased consumables and services	75 483 957	90,0%	123 066 464	91,5%	131 543 020	88,5%	144 338 950	87,3%
Interest costs	299 702	0,4%	458 943	0,3%	473 326	0,3%	1 069 409	0,6%
Depreciation of tangible and intangible assets	204 264	0,2%	191 920	0,1%	270 971	0,2%	393 929	0,2%
Staff costs	4 791 241	5,7%	6 151 672	4,6%	7 879 655	5,3%	9 707 493	5,9%
Other operating costs	1 520 482	1,8%	2 412 446	1,8%	2 694 189	1,8%	2 434 490	1,5%
Other financial costs	873 214	1,0%	778 332	0,6%	793 322	0,5%	2 594 730	1,6%
Change in reserves and provisions relating to operating activities and complex deferred expenses	0	0,0%	18 366	0,0%	0	0,0%	-18 366	0,0%
Income tax	173 420	0,2%	375 100	0,3%	1 906 080	1,3%	920 640	0,6%
Taxes and tolls	425 640	0,5%	736 576	0,5%	2 959 520	2,0%	3 549 649	2,1%
Extra costs	68 182	0,1%	0	0,0%	0	0,0%	0	0,0%
COSTS	83 881 359	100,0%	134 478 495	100,0%	148 599 207	100,0%	165 317 622	100,0%

Table 8. Vertical analysis of the income statement – Freight industry

(in CZK)	2007		2008	
Sales of sold goods	9 890 716	3,3%	9 757 345	3,2%
Production	291 647 126	96,7%	296 131 215	96,8%
- Sales of own products and services	289 290 129	95,9%	293 983 071	96,1%
- Change in internally produced inventory	-52 375	0,0%	32 229	0,0%
- Activation	2 409 372	0,8%	2 115 915	0,7%
REVENUES	301 537 842	100,0%	305 888 560	100,0%
Costs of sold goods	12 803 269	4,4%	12 340 378	4,1%
Purchased consumables and services	163 015 061	55,8%	168 436 854	56,4%
Interest costs	2 158 946	0,7%	2 233 945	0,7%
Depreciation of tangible and intangible assets	29 769 085	10,2%	27 411 401	9,2%
Staff costs	72 051 188	24,7%	77 205 602	25,8%
Tax	12 155 813	4,2%	11 045 154	3,7%
COSTS	291 953 362	100,0%	298 673 334	100,0%

Table 9. Horizontal analysis of the income statement – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005	2006	2007	2008	06/05	07/06	08/07	08/05
Sales of sold goods	42 732	347 077	102 659	371 623	712,2%	-70,4%	262,0%	769,7%
Production	83 758 688	134 696 727	151 295 996	165 796 478	60,8%	12,3%	9,6%	97,9%
- Sales of own products and services	83 758 688	134 696 727	151 295 996	165 796 478	60,8%	12,3%	9,6%	97,9%
- Change in internally produced inventory	0	0	0	0	x	x	x	x
Sales of sold fixed assets and materials	0	0	581 832	0	x	x	-100,0%	x
Interest revenues	8 209	8 126	8 944	11 835	-1,0%	10,1%	32,3%	44,2%
Other operating revenues	23 954	244 879	113 408	26 356	922,3%	-53,7%	-76,8%	10,0%
Other financial revenues	443 423	167 499	1 878 514	2 251 385	-62,2%	1021,5%	19,8%	407,7%
Extra revenues	0	100	1 090	169 332	100,0%	990,0%	15435,0%	169332,0%
REVENUES	84 277 007	135 464 408	153 982 443	168 627 008	60,7%	13,7%	9,5%	100,1%
Costs of sold goods	41 257	288 676	79 124	326 700	599,7%	-72,6%	312,9%	691,9%
Purchased consumables and services	75 483 957	123 066 464	131 543 020	144 338 950	63,0%	6,9%	9,7%	91,2%
Interest costs	299 702	458 943	473 326	1 069 409	53,1%	3,1%	125,9%	256,8%
Depreciation of tangible and intangible assets	204 264	191 920	270 971	393 929	-6,0%	41,2%	45,4%	92,9%
Staff costs	4 791 241	6 151 672	7 879 655	9 707 493	28,4%	28,1%	23,2%	102,6%
Other operating costs	1 520 482	2 412 446	2 694 189	2 434 490	58,7%	11,7%	-9,6%	60,1%
Other financial costs	873 214	778 332	793 322	2 594 730	-10,9%	1,9%	227,1%	197,1%
Change in reserves and provisions relating to operating activities and complex deferred expenses	0	18 366	0	-18 366	18366%	0,0%	-18366,0%	0,0%
Income tax	173 420	375 100	1 906 080	920 640	116,3%	408,2%	-51,7%	430,9%
Taxes and tolls	425 640	736 576	2 959 520	3 549 649	73,1%	301,8%	19,9%	734,0%
Extra costs	68 182	0	0	0	-100,0%	x	x	-100,0%
COSTS	83 881 359	134 478 495	148 599 207	165 317 622	60,3%	10,5%	11,3%	97,1%

Table 10. Horizontal analysis of the income statements – Freight industry

(in CZK)	2007	2008	08/07
Sales of sold goods	9 890 716	9 757 345	-1,35%
Production	291 647 126	296 131 215	1,54%
- Sales of own products and services	289 290 129	293 983 071	1,62%
- Change in internally produced inventory	-52 375	32 229	161,54%
- Activation	2 409 372	2 115 915	-12,18%
REVENUES	301 537 842	305 888 560	1,44%
Costs of sold goods	12 803 269	12 340 378	-3,62%
Purchased consumables and services	163 015 061	168 436 854	3,33%
Interest costs	2 158 946	2 233 945	3,47%
Depreciation of tangible and intangible assets	29 769 085	27 411 401	-7,92%
Staff costs	72 051 188	77 205 602	7,15%
Tax	12 155 813	11 045 154	-9,14%
COSTS	291 953 362	298 673 334	2,30%

In the year 2007 there is a big rise in production, specifically in sales of own products and services, approx. 61% (Table 9). That is because of the big contract I mentioned in the analysis of balance sheet above. In 2008 we can see some sale of fixed assets. The company sold 2 of its trucks. Very positive thing is that revenues are rapidly rising (about a 100% when comparing 2005 and 2008). There is a visible growth in purchased consumables and services which is obvious because of a rising number of contracts. Staff costs are also rising due to the growing amount of employees during the reference period. The increasing price of the interest cost is because of the bigger loans AMIPOL ZLÍN, s.r.o. was using.

Table 11. Profit or loss 2005 – 2008 – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005	2006	2007	2008
Operating profit or loss	1 358 533	2 422 562	6 666 559	5 461 613
Financial profit or loss	-721 284	-1 061 649	620 811	-1 400 919
Extraordinary profit or loss	0	100	1 090	169 332
Profit or loss for the current period (+/-)	395 648	985 913	5 382 380	3 309 386
Profit or loss before taxation	569 068	1 361 013	7 288 460	4 230 026
Profit or loss before taxation and interests cost	868 770	1 819 956	7 761 786	5 299 435
Interests costs	299 702	458 943	473 326	1 069 409
Income tax on ordinary activities	173 420	375 100	1 906 080	920 640

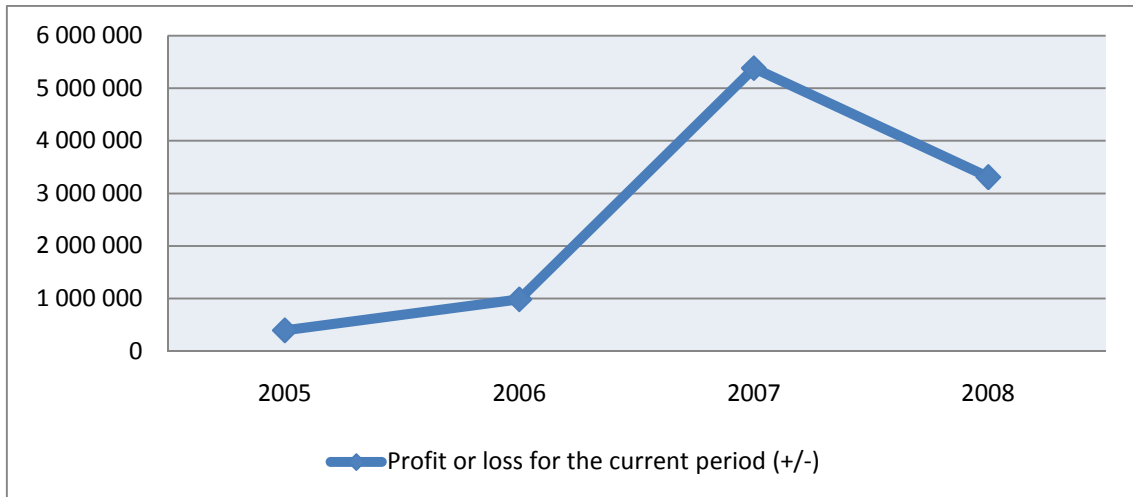


Figure 2. Profit or loss 2005 – 2008 – AMIPOL ZLÍN, s.r.o.

Table 12. Subdivision of EBIT 2005 – 2006 – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005	2006	2007	2008
EBIT	569 068	1 361 013	7 288 460	4 230 026
Creditor (Interests costs)	299 702	458 943	473 326	1 069 409
State (tax)	173 420	375 100	1 906 080	920 640
Company (EAT)	395 648	985 913	5 382 380	3 309 386

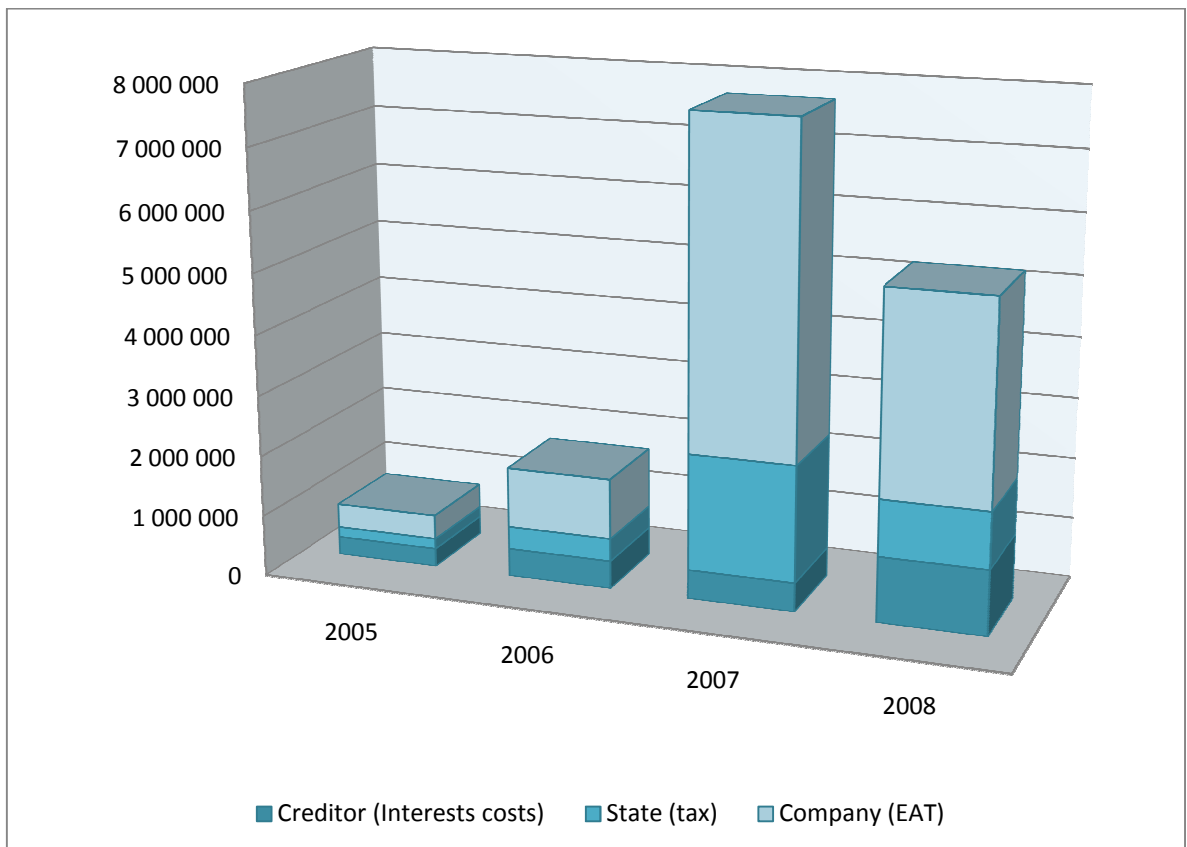


Figure 3. Subdivision of EBIT 2005 – 2008 – AMIPOL ZLÍN, s.r.o.

As there is visible from tables 11, 12 and figures 2 and 3 AMIPOL ZLÍN, s.r.o. behaves in a profitable way. The profit in 2007 is caused by the big contract AMIPOL ZLÍN, s.r.o. got in 2007. Looking at the table 11 we can see that the interest costs are rising due to drawing bigger bank loans and also we can see increasing tendency on the income tax because AMIPOL ZLÍN, s.r.o. was generating a bigger profit. Overall the profit has rising tendency.

4.2 Subtractive indicators

Table 13. Net working capital – AMIPOL ZLÍN, s.r.o.

(in CZK)	2005	2006	2007	2008
NWC	4 989 307	6 905 843	13 103 830	21 876 086

The table number 13 shows a progress in net working capital of AMIPOL ZLÍN, s.r.o. during the years 2005 – 2008. At first we have to state a positive fact, that the NWC is bigger than zero and has increasing tendency during the reference period. That means that short-term liabilities are lower than short-term assets, which is the source of paying for these liabilities. The positive NWC indicates that the financial cushion of the company is big enough for coverage of unforeseen liabilities. The financial cushion is getting bigger during the reference period because of the increasing tendency of NWC.

4.3 Ratio analysis

4.3.1 Solvency ratios

Table 14. Solvency ratios – AMIPOL ZLÍN, s.r.o.

	2005	2006	2007	2008
Total debt	83,50%	86,26%	76,37%	79,97%
Debt rate	5,14	6,38	3,24	3,99
Long-term liabilities/Liabilities	20,97%	12,03%	11,52%	7,54%
Long-term liabilities/Long-term capital	51,89%	43,43%	27,16%	23,15%
Equity/Fixed assets	0,82	0,97	1,62	1,87
Long-term capital/Fixed assets	1,71	1,72	2,23	2,44
Interest coverage	1,90	2,97	15,40	3,96

Table 15. Solvency ratios – Freight industry

	2007	2008
Total debt	36,32%	31,00%
Debt rate	0,57	0,45
Long-term liabilities/Liabilities	24,06%	26,76%
Long-term liabilities/Long-term capital	12,07%	10,73%
Equity/Fixed assets	0,81	0,88
Long-term capital/Fixed assets	0,92	0,99
Interest coverage	11,07	9,17

The total debt ratio of AMIPOL ZLÍN, s.r.o. (table 14) is much higher than the debt ratio of freight industry (table 15). In comparison to the industry the company is using more bank loans than the whole industry. Very important parameter when assessing the long-term financial balance of a company is that the long-term assets should be covered by long-term liabilities also known as the “golden rule of financing”. That means the Long-term capital/Fixed assets ratio should be greater than 1. As it is visible from table 14 AMIPOL ZLÍN, s.r.o. fulfilled this rule during the whole reference period. On the other hand the freight industry doesn't meet the requirement for this rule. The interest coverage ratio should be around 5. As seen from table 14 AMIPOL ZLÍN, s.r.o. is fluctuating in this ratio. Most of the time the ratio was smaller than 5 but it is increasing in other years which is off to a good start.

4.3.2 Liquidity ratios

Table 16. Liquidity ratios – AMIPOL ZLÍN, s.r.o.

	2005	2006	2007	2008	Advised numbers of MIT
Current ratio	1,16	1,13	1,26	1,21	1,5-2,5
Quick ratio	1,09	0,96	0,90	1,16	1-1,5
Cash ratio	0,28	0,08	0,15	0,13	0,2-0,5
NWC/Current assets	23,50%	19,94%	38,00%	42,06%	
NWC/Total assets	18,05%	17,06%	32,34%	37,49%	

Table 17. Liquidity ratios – Freight industry

	2007	2008	Advised numbers of MIT
Current ratio	0,84	1,12	1,5-2,5
Quick ratio	0,79	1,05	1-1,5
Cash ratio	0,26	0,27	0,2-0,5
NWC/Current assets	-13,84%	14,96%	
NWC/Total assets	-2,99%	3,26%	

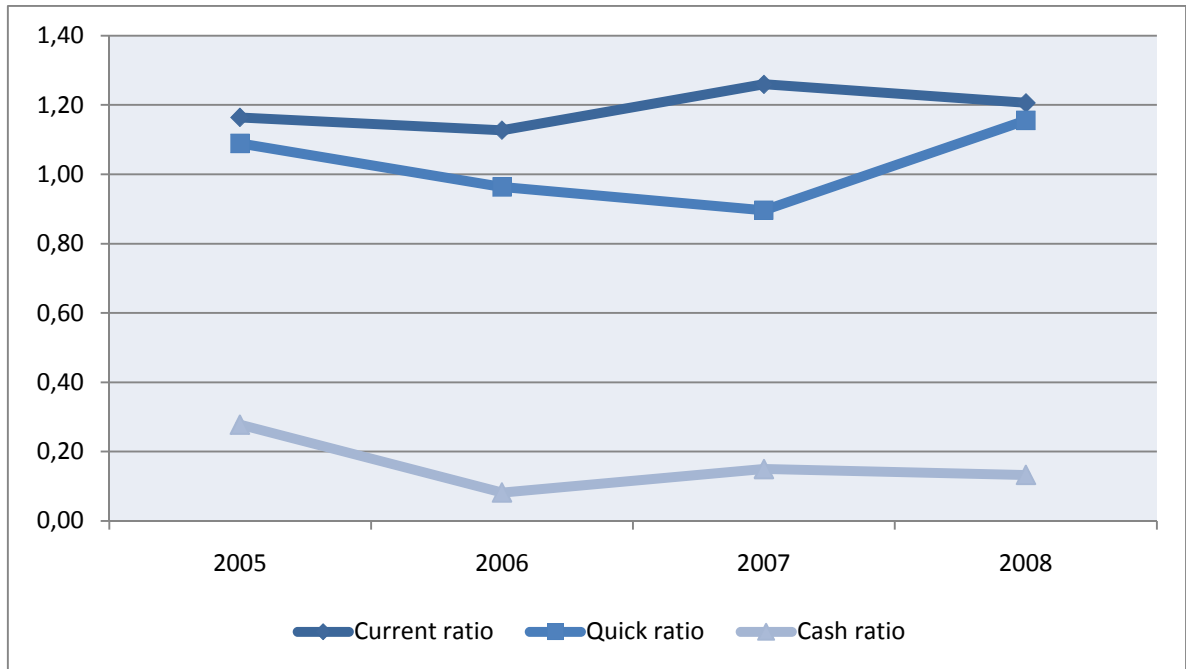


Figure 4. Liquidity ratios 2005 – 2008 – AMIPOL ZLÍN, s.r.o.

Looking at table 16 we can see that current ratio is under the advised numbers from MIT. The situation is the same in the whole industry.

The quick ratio is also not looking very good for AMIPOL ZLÍN, s.r.o. nor the whole industry.

Different situation occurs when analyzing the cash ratio. Numbers for the whole industry are sufficient to the numbers advised by MIT. The cash ratio for AMIPOL ZLÍN, s.r.o. is not looking very good. If some unexpected situation will rise the company can get into problems with solvency. Company is also using short-term liabilities especially overdrafts as the source for financing their operational funding. This is really expensive and a point to think about, if there is some better way of financing their operational funding.

The liquidity ratios are not the only way how to determine the cash situation of a company. The cash flow ratio is much more accurate and used for a prognosis of a future liquidity.

4.3.3 Profitability ratios

Table 18. Profitability ratios – AMIPOL ZLÍN, s.r.o.

	2005	2006	2007	2008
Return on sales	0,47%	0,73%	3,56%	1,99%
Return on income	1,03%	1,34%	5,04%	3,14%
Return on assets	3,14%	4,49%	19,15%	9,08%
Return on equity and interest-bearing liabilities	12,70%	25,27%	81,16%	32,08%
Return on equity	8,82%	18,01%	56,33%	28,31%

Table 19. Profitability ratios – Freight industry

	2007	2008
Return on sales	3,20%	2,38%
Return on income	7,93%	6,70%
Return on assets	4,76%	4,25%
Return on equity and interest-bearing liabilities	6,59%	5,43%
Return on equity	3,00%	2,17%

The above mentioned profitability ratios show that AMIPOL ZLÍN, s.r.o. is profitable during the reference period. The highest profitability ratios are in the year 2007 when the company got the big transportation contract. The Return on equity and interest-bearing liabilities ratio is bigger than ROE because company uses bank loans. Comparing profitability ratios with the whole industry it is obvious that AMIPOL ZLÍN, s.r.o. is more profitable than industry.

Table 20. Multiplier – AMIPOL ZLÍN, s.r.o.

	2005	2006	2007	2008
EBT/EBIT	0,66	0,75	0,94	0,80
Total assets/Equity	6,16	7,40	4,24	4,99
Multiplier	4,04	5,53	3,98	3,98

The table 20 shows the multiplier ratio. The multiplier shows the effect of financial leverage. If the multiplier is greater than 1 then the increasing share of liabilities is profitable for the company and the financial leverage is working. As we can see from the table above multiplier is much greater than one. This means that financial leverage has a good effect and AMIPOL ZLÍN, s.r.o. uses liabilities effectively.

4.3.4 Asset utilization ratios

Table 21. Asset utilization ratios – AMIPOL ZLÍN, s.r.o

	2005	2006	2007	2008
Total assets turnover	3,03	3,34	3,74	2,85
Total assets turnover (Revenues)	3,05	3,35	3,80	2,89
Days in inventory	6	13	24	5
Average collection period	64	72	49	96
Days in liabilities	70	74	51	65
Receivables turnover	5,66	4,99	7,41	3,77
Liabilities turnover	5,16	4,87	7,08	5,51

Table 22. Asset utilization ratios – Freight industry

	2007	2008
Total assets turnover	0,60	0,63
Total assets turnover (Revenues)	0,60	0,63
Days in inventory	7,80	7,69
Average collection period	82,08	86,53
Days in liabilities	148,30	105,90
Receivables turnover	4,39	4,16
Liabilities turnover	2,43	3,40

Total assets turnover is much higher for AMIPOL ZLÍN, s.r.o. than for the whole industry. The recommended value for total assets turnover is 1. That means 1 CZK of assets should generate at least 1 CZK on revenues. As we can see in the company’s situation 1 CZK of assets is making approx. 3 CZK on revenues. Which compared to the whole industry is very positive. That means the company is effectively using its assets. The days in inventory number is higher for the company. For the industry is lower.

The average collection period is pretty high but slightly lower than in the industry. Comparing average collection period and days in liabilities we can see that company gets paid receivables earlier than it pays its liabilities. And again both of these indicators are overall lower than in the industry. This is an advantage for AMIPOL ZLÍN, s.r.o.

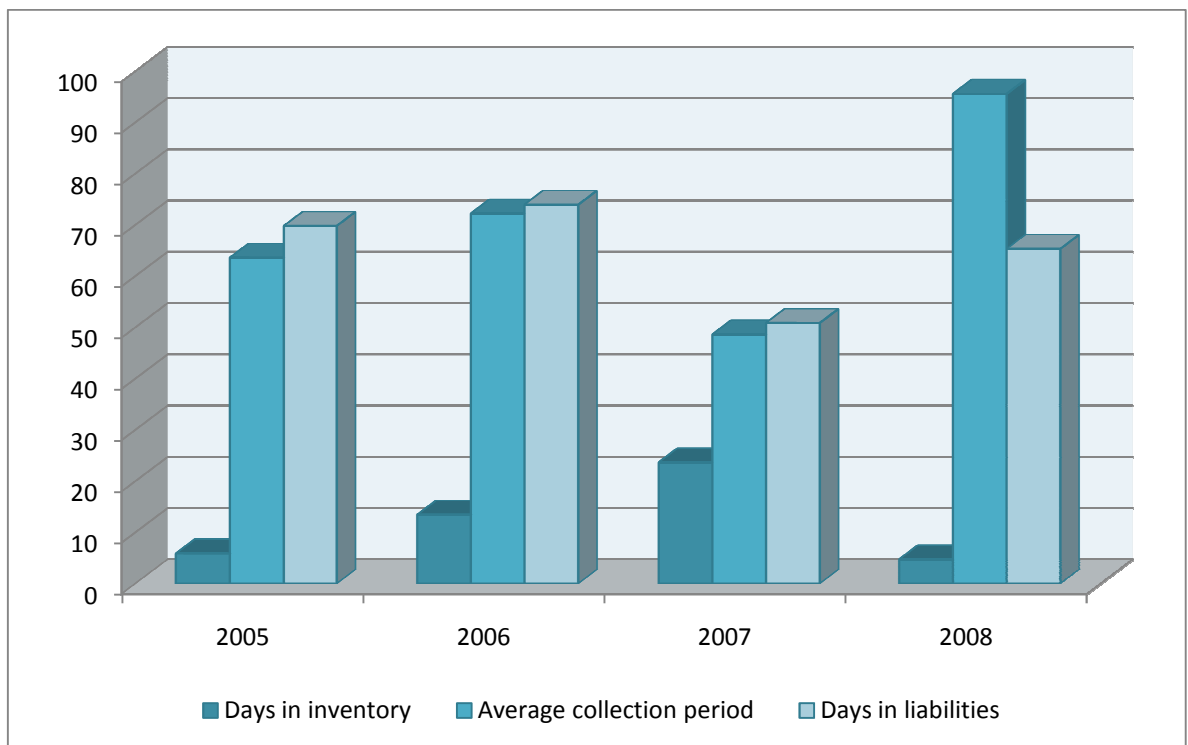


Figure 5. Asset utilization ratios 2005 – 2008 – AMIPOL ZLÍN, s.r.o.

4.3.5 Spider analysis

Table 23. Different ratios in 2008 – AMIPOL ZLÍN, s.r.o.

			AMIPOL ZLÍN, s.r.o.	Freight industry
Solvency	A.1	Return on equity	28,31%	2,17%
	A.2	Return on assets	9,08%	4,25%
	A.3	Return on income	3,14%	6,70%
Liquidity	B.1	Current ratio	1,21	1,12
	B.2	Quick ratio	1,16	1,05
	B.3	Cash ratio	0,13	0,27
Debt	C.1	Equity/Assets	0,2	0,69
	C.2	Long-term liabilities/Fixed assets	2,44	0,99
	C.3	Interest coverage	3,96	9,17
Activity	D.1	Total assets turnover	2,85	0,63
	D.2	Receivables turnover	3,77	4,16
	D.3	Liabilities turnover	5,51	3,4

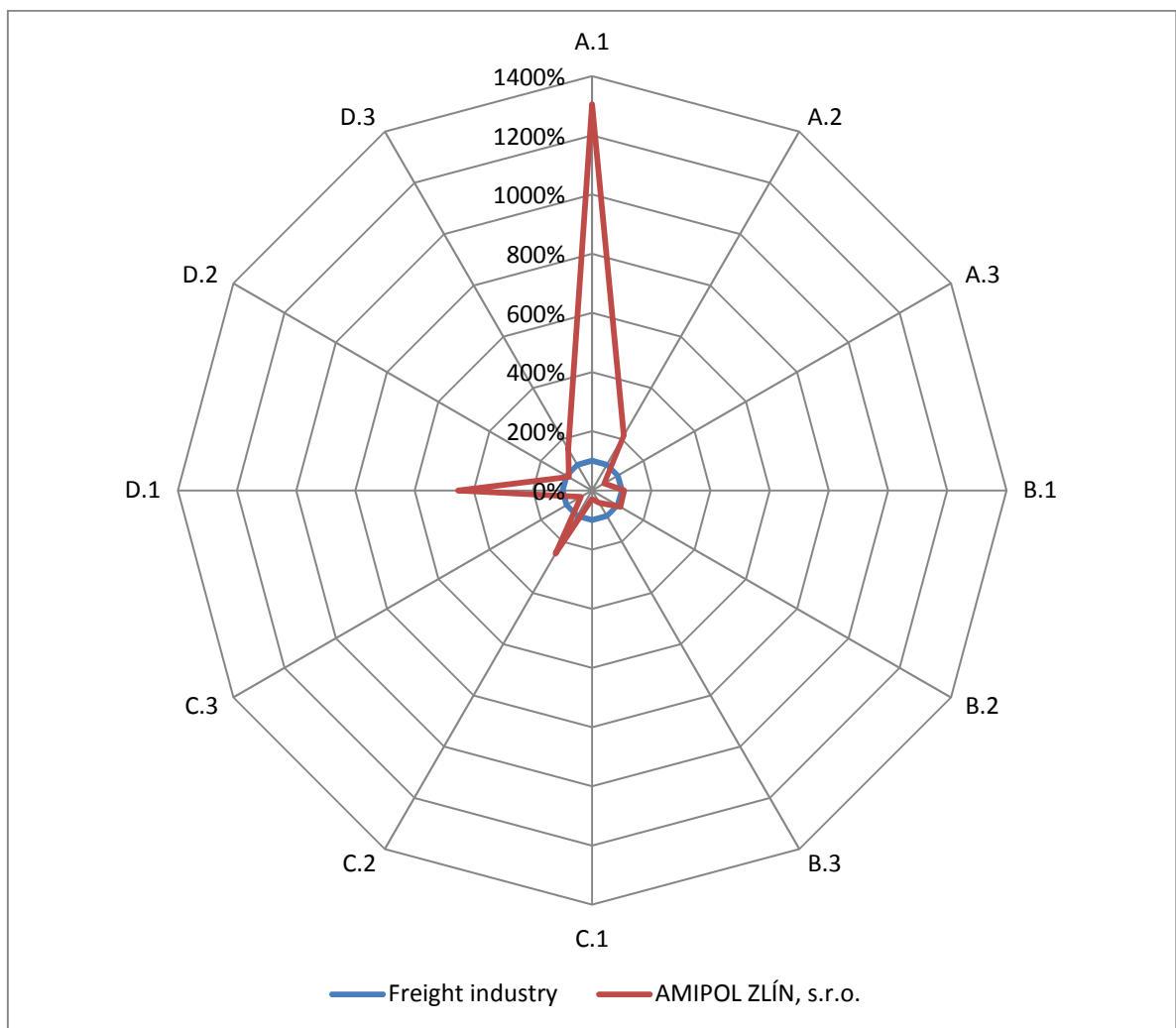


Figure 6. Spider analysis 2008 – AMIPOL ZLÍN, s.r.o., Freight industry

The table 23 and figure 6 show that AMIPOL ZLÍN, s.r.o. Is better in profitability and liquidity ratios except the ROI and cash ratio. In the debt ratios we can see that the industry is better. Especially in C.3. The D.2 ratio is very positive for AMIPOL ZLÍN, s.r.o. instead for the whole industry.

4.3.6 Other ratios

Table 24. Other ratios – AMIPOL ZLÍN, s.r.o.

	2005	2006	2007	2008
Value Added/Number of employees	295 579	343 784	494 413	430 049
Sales/Number of employees	2 992 908	3 971 877	3 799 512	3 323 362
Personal costs/Number of employees	171 116	180 932	196 991	194 150
Purchased consumables and services/Revenues	89,57%	90,85%	85,43%	85,60%
Personal costs/Revenues	5,69%	4,54%	5,12%	5,76%
Depreciation/Revenues	0,24%	0,14%	0,18%	0,23%
Interests/Revenues	0,36%	0,34%	0,31%	0,63%
Value added/ Revenues	9,82%	8,63%	12,84%	12,75%
Personal costs/Value added	57,89%	52,63%	39,84%	45,15%
Depreciation/Value added	2,47%	1,64%	1,37%	1,83%
Interests/Value added	3,62%	3,93%	2,39%	4,97%
EBT/Value added	6,88%	11,64%	36,85%	19,67%

Table 25. Other ratios – Freight industry

	2007	2008
Purchased consumables and services/Revenues	54,06%	55,06%
Personal costs/Revenues	23,89%	25,24%
Depreciation/Revenues	9,87%	8,96%
Interests/Revenues	0,72%	0,73%
Value added/ Revenues	41,69%	40,90%
Personal costs/Value added	57,31%	61,71%
Depreciation/Value added	23,68%	21,91%
Interests/Value added	1,72%	1,79%
EBT/Value added	17,29%	14,60%

As we can see the “Value added/ Number of employees” ratio has an increasing tendency in 2005, 2006, 2007 and it has slightly decreased in 2008. It is understandable for this ratio to have increasing tendency because the number of employees was growing. The “Sales/Number of employees” has a big increasing tendency in 2006 and then in 2007. That is because of the big contract that AMIPOL ZLÍN, s.r.o. got. In 2008 sales have decreased. Comparing the “Sales/Number of employees” ratio and “Personal costs/Number of employees” ratio we can see that the first ratio has slightly decreasing tendency and the second ratio has slightly decreasing tendency. We can say that this is quite negative thing because sales are dropping and the value that every employee adds to the company is dropping too.

Comparing these ratios with the whole industry we can see that AMIPOL ZLÍN, s.r.o. is in a much more better position than the industry. This is a very positive fact for AMIPOL ZLÍN, s.r.o.

4.4 Cumulative indicators

Table 26. Altman Z-Score – AMIPOL ZLÍN, s.r.o.

	2005	2006	2007	2008
0,717xNWC/A	0,129	0,122	0,232	0,269
0,847xEAT/A	0,012	0,021	0,113	0,048
3,107xEBIT/A	0,064	0,104	0,559	0,225
0,420xEq/L	0,082	0,066	0,130	0,105
0,998xS/A	3,025	3,328	3,743	2,842
Altman Z-Score	3,313	3,642	4,776	3,489

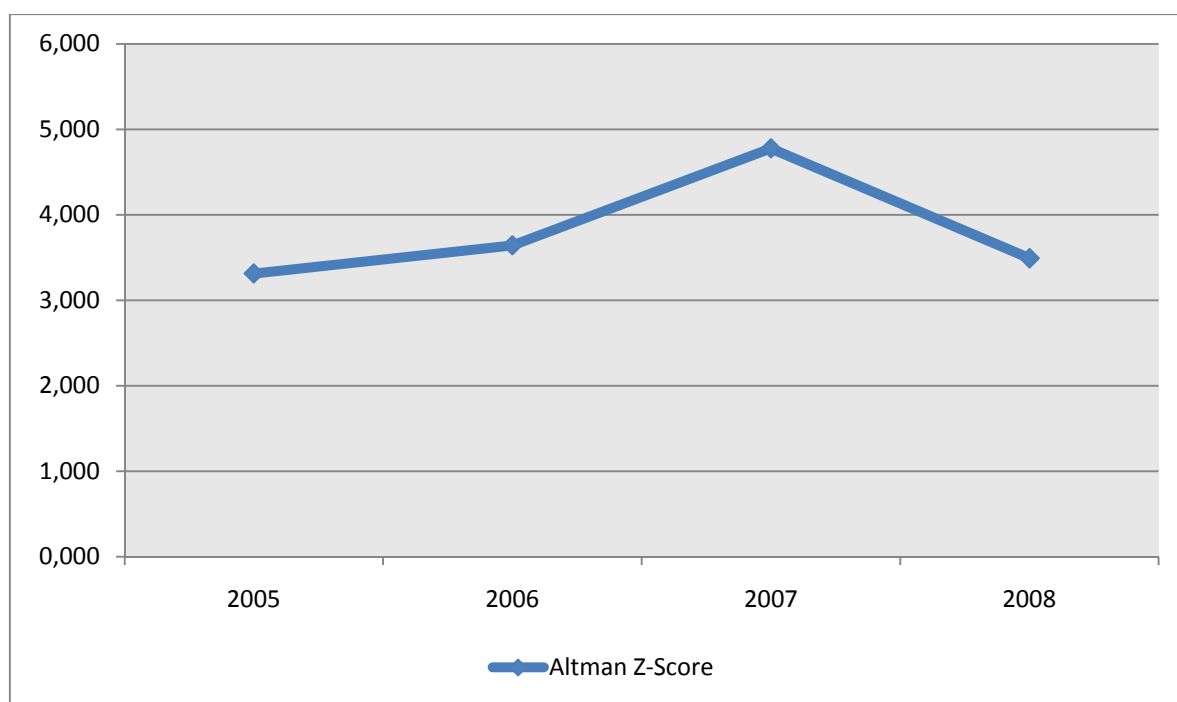


Figure 7. Altman Z-Score 2005 – 2006 – AMIPOL ZLÍN, s.r.o

According to Altman Z-Score we can say that the company is financially healthy and safe because all the figures are above 3. We can say that in the near future there aren't going to be any financial problems or possible bankruptcy of the company.

CONCLUSION

In this detailed financial analysis different strengths and weaknesses of AMIPOL ZLÍN, s.r.o were shown. AMIPOL ZLÍN, s.r.o. became well known in the field of truck cargo transportation in the Czech Republic. The company started as a little association of two men. Soon the business picked up and the company was transformed into a limited company. The company became well known in the Czech Republic and also abroad. Expansion into international market was the key element in the company's success.

During the reference period we can see very positive growth of profit. The year 2006 was very important for AMIPOL ZLÍN, s.r.o. because of the big contract the company got from an international customer.

Looking at solvency ratios we can see that for AMIPOL ZLÍN, s.r.o. these ratios are much higher than for the whole industry. The reason why the debt ratios are so high is that the company is using a lot of bank loans. This is because they are using overdrafts as a source for their operating expenses. And they are also using operative lease to acquire trucks. That is why the debt ratios are so high. The problem is the company bought a large number of trucks in a very short period. The recommendation to lower the debt is that for a couple of following years the company shouldn't buy assets which will be financed by operating lease. Instead of buying new assets the company should focus on paying back the current leases. And when the leases are paid or nearly paid then take another lease but not as high as the company did in the reference period because it would be possible to get into financial troubles. The interest coverage ratio is not very good looking during the reference period. We can see a big growth of this ratio in 2007. That is because the big contract from 2006 was paid by a customer in 2007 and the profit was really high. The recommended Interest coverage ratio is 5. As there is obvious AMIPOL ZLÍN, s.r.o. didn't reach that. This is because of the big loans which are described above. The solution for this is also described above. Very positive is that the company fulfilled the golden rule of financing. This rule says that the long-term liabilities should be covered by long-term assets and the short-term liabilities should be covered by short-term assets. The ratio is growing which is a very good sign. I don't think I should recommend something here because the company is following the golden rule of financing and is doing exactly what this rule says. The multiplier showed that the financial leverage is working in the case of AMIPOL ZLÍN,

s.r.o. The increased share of liabilities in capital structure has a positive effect on return on equity in every analyzed year. The recommendation is to calculate this ratio on a yearly basis so that the positive effect of financial leverage is assured.

Looking at the current and quick ratio we see that during the reference period they didn't reach the numbers advised by the MIT. The current ratio is slightly below the advised numbers. We can see that it grew in 2007 because more of the short-term liabilities were paid than throughout the whole reference period. The recommendation for this is to pay the short-term liabilities in shorter time than the company is doing now. During my observation in AMIPOL ZLÍN, s.r.o. I found out that they are paying the short-term liabilities in a longer time that they should be. So paying short-term liabilities in a shorter time is my advice. We can see that the numbers for the cash ratio are lower than advised by the MIT. As this can seem as a negative fact in reality it isn't. AMIPOL ZLÍN, s.r.o. has a big overdraft on their bank accounts so when unforeseen expenses occur these overdrafts can be used to finance it.

The total asset turnover is very positive for AMIPOL ZLÍN, s.r.o. The rate is highly above 1 (that means from 1 CZK of assets should be reached 1 CZK of revenues). In the company's situation we see that the revenues reached 3 CZK from 1 CZK of assets. Comparing to the industry we see that Total assets turnover and Total assets turnover (Revenues) are much higher for AMIPOL ZLÍN, s.r.o. Which indicates the company is effectively using its assets. The days in inventory ratio is really high in 2007 comparing to industry. That is because the company intended to sell the copper stocks when the prices were at a peak. The company did so in 2008. That is why the days in inventory dropped in 2008. The average collection period and days in liabilities are lower for AMIPOL ZLÍN, s.r.o. than for the whole industry. We have to appreciate the fact that mostly during the reference period the days in liabilities ratio is higher than the average collection period.

We can see that the Value Added/Number of employees and Sales/Number of employees had an increasing tendency to the year 2007 but then slightly dropped in 2008. The company's Personal costs/Revenues ratio is much lower than the industry's. The EBT/Value added is higher for AMIPOL ZLÍN, s.r.o.

The cumulative indicators confirmed the outcomes of the previous analysis – AMIPOL ZLÍN, s.r.o. is in a rather strong financial position. Referring to Altman Z-Score which is higher than 3 for AMIPOL ZLÍN, s.r.o. the company is considered safe based on the financial figures only. That means no financial troubles or possible bankruptcy shouldn't occur in the following years.

Overall AMIPOL ZLÍN, s.r.o. is in a strong financial position and I am going to present my recommendations to the executives of this company. The most important recommendation for AMIPOL ZLÍN, s.r.o. is to lower the amount of bank loans it is using.

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LIST OF ABBREVIATIONS

A	Assets
BEP	Basic earning power
C	Costs
CZK	Czech crowns
EAT	Earnings after taxes
EBIT	Earnings before taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBT	Earnings before taxes
Eq	Equity
EVA	Economic value added
FA	Fixed assets
IC	Interest costs
Inv	Inventories
L	Liabilities
MIT	Ministry of Industry and Trade
NWC	Net working capital
P/E	Price/Earnings
ROA	Return on assets
ROE	Return on equity
ROTA	Return on total assets
TIE	Times-interest-earned
WACC	Weighted costs of capital

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APPENDICES

P I AMIPOL ZLÍN, s.r.o.

P II Financial statements of AMIPOL ZLÍN, s.r.o. 2005 – 2008

APPENDIX P I: AMIPOL ZLÍN, S.R.O.



HQ of AMIPOL ZLÍN, s.r.o.



Rolling-stock of AMIPOL ZLÍN, s.r.o.

**APPENDIX P II: FINANCIAL STATEMENTS OF AMIPOL ZLÍN,
S.R.O. 2005 – 2008**

(in CZK)	2005	2006	2007	2008
TOTAL ASSETS	27 644 154	40 491 176	40 521 507	58 348 307
Fixed Assets	5 463 279	5 627 721	5 890 435	6 243 811
Intangible Assets	0	0	0	0
Tangible Assets	5 463 278	5 627 721	5 890 435	6 243 811
Non-Current Financial Assets	0	0	0	0
Current Assets	21 231 739	34 633 010	34 486 108	52 015 885
Inventories	1 365 485	5 031 833	9 940 744	2 177 149
Long-Term Receivables	0	0	0	0
Short-Term Receivables	14 797 079	27 080 654	20 444 505	44 101 722
Current Financial Assets	5 069 176	2 520 522	4 100 859	5 737 013
Accruals	949 137	230 445	144 963	88 611
TOTAL LIABILITIES & EQUITY	27 644 154	40 491 176	40 521 107	58 348 307
Equity	4 487 232	5 473 145	9 555 524	11 688 439
Share Capital	100 000	100 000	100 000	100 000
Capital Funds	1 300 000	1 300 000	0	0
Statutory Funds	10 000	10 000	10 000	10 000
Retained Earnings	2 681 584	3 077 232	4 063 145	8 269 054
Profit of Loss of the Current Period (+-)	395 648	985 913	5 382 380	3 309 386
Liabilities	23 082 832	34 929 167	30 945 878	46 659 867
Reserves	0	0	0	0
Long-Term Liabilities	0	0	0	0
Short-Term Liabilities	16 242 432	27 727 167	21 382 278	30 139 799
Bank Loans and Borrowings	6 840 400	7 202 000	9 563 600	16 520 069
- Short-Term Bank Loans	2 000 000	3 000 000	6 000 000	13 000 000
- Long-Term Bank Loans	4 840 400	4 202 000	3 563 600	3 520 069
Accruals	74 090	88 865	20 105	0

(in CZK)	2005	2006	2007	2008
Sales of sold goods	42 732	347 077	102 659	371 623
Production	83 758 688	134 696 727	151 295 996	165 796 478
- Sales of own products and services	83 758 688	134 696 727	151 295 996	165 796 478
- Change in internally produced inventory	0	0	0	0
Sales of sold fixed assets and materials	0	0	581 832	0
Interest revenues	8 209	8 126	8 944	11 835
Other operating revenues	23 954	244 879	113 408	26 356
Other financial revenues	443 423	167 499	1 878 514	2 251 385
Extra revenues	0	100	1 090	169 332
REVENUES	84 277 007	135 464 408	153 982 443	168 627 008
Costs of sold goods	41 257	288 676	79 124	326 700
Purchased consumables and services	75 483 957	123 066 464	131 543 020	144 338 950
Interest costs	299 702	458 943	473 326	1 069 409
Depreciation of tangible and intangible assets	204 264	191 920	270 971	393 929
Staff costs	4 791 241	6 151 672	7 879 655	9 707 493
Other operating costs	1 520 482	2 412 446	2 694 189	2 434 490
Other financial costs	873 214	778 332	793 322	2 594 730
Change in reserves and provisions relating to operating activities and complex deferred expenses	0	18 366	0	-18 366
Income tax	173 420	375 100	1 906 080	920 640
Taxes and tolls	425 640	736 576	2 959 520	3 549 649
Extra costs	68 182	0	0	0
COSTS	83 881 359	134 478 495	148 599 207	165 317 622