University of Economics in Prague
Faculty of Management

Bachelor Thesis

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2019

VŠE

University of Economics, Prague

Faculty of management

Department of Management

The evaluation of economic situation of the company SPORTEN, a.s.

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Year of submission: 2019

Truthful declaration

I, Leona Tomášková, hereby declare that the Bachelor thesis „Evaluation of economic situation of the company SPORTEN, a.s.“
has been developed independently and all the literature that has been used was sourced properly and stated in the attached bibliography.

In Prague, 20th April 2019

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signature

ASSIGNEMENT OF THE BACHELOR THESIS

Author: **Leona Tomášková**

Study programme: Economics and Management

Subject: Management

Topic: **Evaluation of economic situation of the company**

Guides to writing a thesis:

1. The aim of this Bachelor thesis is to undertake a financial analysis and evaluation of SPORTEN, a.s. using the essential tools of financial analysis. It includes a summary of results and recommendations to improve in conclusion.

Length of thesis: 60 pages

List of academic literature:

1. SYNEK, M. Ekonomická analýza. Praha: Oeconomica, 2003. ISBN 80-245-0603-3.
2. SYNEK, M. -- KOPKÁNĚ, H. -- KUBÁLKOVÁ, M. Manažerské výpočty a ekonomická analýza. 1. vyd. Praha: C.H.Beck, 2009. 297 p. Beckova edice ekonomie. ISBN 978-80-7400-154-3.
3. KOLÁŘ, P. -- MRKVIČKA, J. Finanční analýza. Praha: ASPI, 2006.
4. KISLINGEROVÁ, E. -- HNILICA, J. Finanční analýza krok za krokem. 1. vyd. Praha: C.H.Beck, 2005. 137 p. ISBN 80-7179-321-3.
5. SCHOLLEOVÁ, H. Ekonomické a finanční řízení pro neekonomy. Praha: Grada Publishing, 2012. ISBN 978-80-247-4004-1
6. ALLEN, F. -- BREALEY, R A. -- MYERS, S C. Principles of corporate finance. New York: McGraw-Hill, 2011. ISBN 978-0-07-353073-4.

Bachelor thesis topic submission date: October 2018

Deadline for submission of Bachelor thesis: April 2019

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Title of the Bachelor Thesis:

Evaluation of economic situation of the company

Abstract:

This bachelor thesis deals with the evaluation of the economic situation of SPORTEN, a.s. through financial analysis. This bachelor thesis is divided into two parts –the theoretical part and the practical part. The theoretical part describes the methods and explains the terms used in the financial analysis. The analysis of differential indicators, ratio analysis, prediction models are explained in detail. The aim of this part is to create a comprehensible basis for the subsequent practical part. In the practical part, I introduce SPORTEN, a.s. company. Further, I address the analysis of ratios, balance rules, horizontal and vertical analysis, analysis of net working capital, ratios, prediction models and comparison of individual indicators in the same industry. The conclusion of the thesis is the evaluation and subsequent recommendations for further direction of the company.

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Introduction

"Time is the friend of the wonderful company, the enemy of the mediocre."

Warren Buffett

The current state of the world economy, numerous competitive environments, and rapidly changing conditions make it difficult for companies to maintain their position in the current market. Companies must successfully manage not only the business sphere, but also the financial consideration should be considered. In most company's success is measured in the form of profit. Profit can be achieved by properly setting up business operations. Whether the company is profitable or not can be found in the Annual Report, from which the necessary information can be extracted and then applied to financial analysis. Based on financial analysis, I will be able to identify certain shortcomings of the company and to suggest possible improvement in the future.

Financial analysis first appeared in the United States and transferred to the Czech Republic in the early 20th century. Since then, it has become a very important and popular method in evaluating a business. The definition of financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their performance and suitability (Sturdy, 2012). Financial analysis is broad in practice, and is used by corporate shareholders, auditors, investors, business valuations, business partners, employees, banking institutions and others (Synek et al., 2003).

In this thesis, I evaluate SPORTEN (further "SPORTEN") using financial analysis tools. SPORTEN is the only preserved company for ski production in the Czech Republic. It has been active in the Czech market for more than 120 years and regularly appears in the top 100 companies in the Czech Republic. My reason for choosing this ski production company is my passion for winter sports and the fact that the company I work for is the parent company of SPORTEN. The acquisition of SPORTEN was undertaken by Consillium, owned by Tomas Nemec, in 2016. SPORTEN was acquired by Consillium, owned by Tomas Nemec, in 2016. *"Tomas Nemec is a successful Czech entrepreneur with over 35 years of professional experience. As a CEO, Chairman of the Board of Directors and co-owner of CGS, he contributed to the substantial growth of the company, making CGS the second largest global off-road tire manufacturer in the world. In 2015, he and his partner sold their 100 % stake in the company to the Swedish group Trelleborg"* (Consillium, 2019). SPORTEN was Consillium´s first acquisition, and as the parent company Consillium is responsible for the economic stability of SPORTEN. Referring to the results in this thesis, I intend to present to Consillium the economic situation of SPORTEN based on financial analysis. I will use the basic financial analysis tools to evaluate the business, according to which I can assess the

current situation of the company and propose possible recommendations for efficiency in the future.

Aim and methodology

The aim of this thesis is to evaluate the economic situation of the company SPORTEN. Based on this financial analysis I will be able to make actionable recommendations for the company. The analysed entity is a manufacturing enterprise, and as such it is necessary to use methods that are part of the standard financial analysis of manufacturing enterprises. In this thesis I will conduct quantitative research, especially elementary mathematical operations will be used in this report. Quantitative outputs will be interpreted as a numeric indicator or as a graph, if necessary, these will complement the quantitative data. It can be expected to act primarily on the company's management comments. I combine the technical analysis together with the fundamentals, while performing the analysis. The aim of this thesis is to answer the following research questions:

- *How can the overall financial health of the examined company be assessed in the reporting period?*

- *Is the company able to meet its liabilities?*

- *How does the company compare within its industry?*

Due to data sensitivity there are restrictions on the calculations that can be performed. One such restriction is the limited ability of financial statements to reflect the actual situation. This fact can be partially reduced by additional comments from the Annual report and management. Other limitations are associated with a comparative analysis that results from a sample of subjects being compared. It is impossible to find subjects with the same activity and situation, especially in the Czech Republic.

Firstly, I will introduce this company. After introducing the company, I will begin to conduct a financial analysis based on a knowledge from the theoretical part. I chose an approach to financial analysis that is oriented to internal but also external users of accounting information. Data are processed from the financial statements as compiled according to the methodology used in the financial accounting. I commit myself not to disclose the internal data to the public. For this reason, I will only work with publicly available data. Data used for the calculation of ratios are presented in the financial statements of the company and are publicly available in the Public Register and the Collection of Documents. Basic technical financial analysis includes an analysis of absolute indicators such as horizontal and vertical analysis that I apply to the Balance Sheet and the Profit and Loss Statement in the reporting period from 2013-2017. Data from 2018 were not available in the time for composition of this thesis. The analysis includes both relative and absolute difference. At the end of this horizontal and vertical analysis is illustrated a gold balance rule, golden rule of risk

settlement, golden pari rule and gold ratio rule. Then I will focus on the analysis of the difference indicators, specifically the analysis of net working capital. After that, I will make a direct analysis of the ratios where I include a return on assets, return on equity and return on sales. Evaluation of a solvency and financial health of a company is based on different models, which is Altman´s model and IN Index. From these indicators and models is evaluated overall stability of a selected company and are deduced appropriate results.

For this thesis to have added value, I would therefore compare the company with industry based on the basic indicators of financial analysis. The first step in processing the application part of the company's comparison with the industry is the characteristics of the sector in which SPORTEN operates. Classification of Economic Activities 32. - Other manufacturing. Main CZ-NACE 32300 is the manufacture of sporting goods. I will compare the industry after introducing the company and becoming acquainted with its financial situation. For the application of these methods, three criteria are chosen: balance sheet total, annual turnover and EBIT. The balance sheet is available in the annual report of the company (total assets). The annual turnover is calculated from the income statement as the sum of sales of goods and services sold. For EBIT, an operating profit or loss is used for company and industry comparisons, which is also observable from the profit and loss statement. After methods are applied, the industry file is compared. For comparison purposes, the data of the Ministry of Industry and Trade, specifically the Financial Analysis of Other Manufacturing, are used. Data on CZ-NACE 32 are used in financial analyses from public domains. The necessary data ratios are then calculated from the industry data obtained, which are then compared with the company's indicators in the file.

1 Economic analysis

According to Synek (2003), an economic analysis can be understood as observing a selected economic unit spread over smaller parts, which are further examined and evaluated to find possibilities for their improvement. These parts are then re-assembled into the modified unit in order to increase its performance (Synek et al., 2003). Economic analysis focuses not only on the analysis of financial indicators, but also includes several partial analyses of qualitative-non-economic-characteristics. The object of economic analysis can be both the enterprise and some of its sub-units or conversely the whole group that is part of the enterprise. An important characteristic of the economic analysis is the analysis of the object under investigation and the subsequent synthesis of the findings, the evaluation of the situation and the proposal of the solution variant for achieving better results in the future (Synek et al., 2009). For each analysis is important to determine to whom and for what purpose the evaluation serves. The most significant subjects include (Synek et al., 2003):

- Business management,
- Statutory authorities,
- Shareholders,
- Employees and trade unions,
- Financial authorities,
- Statistical authorities,
- Banks,
- Investment companies,
- Creditors, etc.

1.1 Financial analysis

Financial analysis is the selection, evaluation and interpretation of financial data and other pertinent information to assist in evaluating the operating performance and financial condition of a company. The operating performance of a company is a measure of how well a company has used its resources—its assets, both tangible and intangible, to produce a return on its investment. The financial condition of a company is a measure of its ability to satisfy its obligations, such as the payment of interest on its debt in a timely manner (Peterson Drake a Fabozzi, 2012).

1.1.1 External and internal financial analysis

There is a wide range of users of financial analysis and each user needs it for different purposes. We can divide financial analysis into two areas: internal and external. The internal analysis is based not only on data and indicators for external analysis, but also on internal data that are not readily available (data from financial and managerial accounting, in-house accounting, calculations). External business analysis is done externally. The source of data is normally available data provided by financial statements such as balance sheet, profit and loss account, attachment, cash flow statement, annual report, auditor's statements and etc. (Synek et al., 2003).

1.1.2 Data sources of financial analysis

According to (Kislingerová, 2010), the largest source of data needed for financial analysis is data contained in the financial statements published regularly by the companies. The financial analysis is therefore closely linked to financial accounting, which, through the financial statements: balance sheet, profit and loss account, cash flow statement, changes in equity, together with the appendix, provide the necessary complex data to implement it. According to (Růčková, 2010), companies with a statutory audit have the task of compiling an annual report that provides the financial analysis with important information on the performance and financial position of the enterprise, along with its expected development.

1.1.3 Forms of profit in financial analysis

Depending on the purpose for which the financial analysis is being processed, we use different categories or profit indicators. We can look at profits from various points of view (Kislingerová a Hnilica, 2005) in Table 1:

Table 1 - Forms of profit in financial analysis

EBITDA *(Earnings before interest, taxes, depreciation and amortization)*		
EBIT *(Earnings before interest and taxes)*		Depreciation
EBT *(Earnings before taxes)*		Interest
EAT (*Earnings after taxes*)	Taxes	

Source: Own construction based on Dluhošová (2010)

Revenue-costs (excluding depreciation, interest, taxes) = Earnings before depreciation, interest, taxes (EBITDA, EBDIT)

EBITDA-Depreciation = Earnings Before Interest and Taxes (EBIT)

EBIT-Interest = EBT

EBT-Income Tax = Earnings after Taxes (EAT)

NOPAT (Net operating profit after taxes)

Net operating profit after tax (NOPAT) is a measure of profit that excludes the costs and tax benefits of debt financing. Put another way, NOPAT is earnings before interest and taxes (EBIT) adjusted for the impact of taxes (Investing Answers, 2019a).

1.2 Economic methods

In view of the goal, we should always choose the appropriate method, because the better methods we use, the better results we can expect. Not only the choice of the financial analysis method is important, but it is necessary to know for whom the results of the analysis are determined and to adapt the resultant presentation of these results. In connection with the methods of financial analysis we can meet their basic breakdown on fundamental analysis and technical analysis (Mrkvička et al., 2006).

   Fundamental financial analysis is focused on the evaluation of qualitative data on the company and its basic method is a professional estimate based on the empirical and theoretical experience of the analyst. Quantitative information is used here, but is not usually processed by algorithmic procedures (Mrkvička et al., 2006).

   Technical financial analysis represents the quantitative processing of economic data, using mathematical, mathematical and statistical methods and other algorithm methods. The results are quantitated, but they are also evaluated qualitatively (Mrkvička et al., 2006).

   o **Higher methods** – e.g. point estimates, regression modelling, scattering analysis, factor or discriminatory analysis. In these methods it is necessary to use high-quality software equipment and mostly they deal with specialized firms, they are rarely used in common company practice(Mrkvička et al., 2006).
   o **Elementary methods** are the simplest of mathematical methods. They evaluate the financial situation of the company using state, difference and ratio indicators. Sedláček (2005) divides elementary methods used in technical analyses into these groups:

1) **Analysis of absolute indicators**
   - Horizontal analysis (Trend Analysis),
   - Vertical analysis (Percentage Analysis of Components),
2) **Differential indicators analysis**
   - Analysis of net working capital,

- Analysis of clean,
- Analysis of net cash receivables,

3) Analysis of ratios

- Analysis of liquidity indicators,

- Analysis of activity indicators,

- Analysis of profitability indicators,

- Analysis of debt ratios and financial structure,

- Analysis of capital market indicators,

4) Analysis of the set of indicators

- Predictive models,

- Pyramidal decay of pointers

5) Extended economic indicators

- Operating and financial leverage.

Using several financial calculation indicators will not uncover the nature of the company's problem. However, they are an appropriate tool to summarize a large amount of financial data and compare business performance. Indicators can help us ask the right questions, but rarely respond to them (Brealey, 2009).

1.2.1 Analysis of absolute indicators

Analysis of absolute indicators is a basic element of the financial analysis. It is an analysis of an entrance data that are included in the basic financial statement of a company. These data always have their specific monetary value and are divided into status values or flow values. These absolute indicators allow to see relations between individual items of balance sheet or income statements (Kislingerová, 2004).

Horizontal analysis

The horizontal analysis compares changes of indicators in the time line with retrospective from five to ten years. It considers horizontally (line by line) both changes of absolute indicators and proportional changes of particular components in financial statements (Sedláček, 2005).

Vertical analysis

Vertical analysis shows how the different components of a financial statement relate to a total figure in the statement. The analyst sets the total figure at 100 percent and computes each component's percentage of that total. On the balance sheet, the

figure would be total assets or total liabilities and stockholders' equity, and on the income statement, it would be net revenues or net sales (Needles et al., 2008). The main advantage of vertical analysis could be the fact that it is independent of the interim inflation and therefore it allows the comparability of results of analysis from various years and even comparison of various companies (Sedláček, 2005).

1.2.2 Balancing rules

These rules are indicators that testify to business success. They indicate how the property structure should be conceived. It is only a recommendation because each individual enterprise has many specifics. (Kislingerová, 2007). There are four rules.

Gold fundamental funding rule

This rule is based on the need to reconcile the time horizon of using assets in an enterprise with the time horizon of resources, financed with liabilities. Therefore, it is for an enterprise to secure the financing of its long-term assets through equity and (or) long-term foreign sources. Of course, the interest must be taken (the price) of the different sources, the risk of the individual sources; that is, their own prospects for the future. Conversely, current assets should be financed by the company from its short-term sources. However, it is appropriate to realize the practical nature of the inventory that the enterprise operates, and which is so in its balance sheet. Regarding fixed or long-term stocks, they need to be financed through long-term, time-matched sources (Wöhe et al., 2007).

$$Fixed\ assets = Equity/Other\ sources$$

Golden rule of risk settlement

This rule deals with the ratio of own and foreign capital. The resources manage it. It recommends a maximum ratio of 1:1 with the statement that it depends on the field in which the firm operates. The ratio of equity / other sources of 1: 1 expresses the philosophy that the contribution of the owners of the company to their business should be at least as large as the contribution of creditors, e.g. other sources (Kislingerová, 2007).

$$Fixed\ assets = Other\ sources/Equity\ x\ 100$$

Golden pari rule

Respectively, the rule assumes a predominance of equity within the total long-term resources needed to cover long-term assets. Reconciliation of the size of owned funds with the size of typical long-term assets present in the enterprise. Under this

rule, equity should not be too low, but not excessively compared to long-term assets as a total and a typical item of fixed assets (Kislingerová, 2007).

Golden ratio rule

The rule of thumb deals with the relationship between the development of the company's investments and revenues. The point is that the growth rate of investment does not lead to a growth in revenue. This requirement seems logical: excessively high investment would burden the business for the future for several reasons (Kislingerová, 2007):

- reduced profitability

- liquidity problems

- loss of competitiveness

- capacity utilization

1.3 Analysis of differential indicators

Differential indicators analyse the financial situation of a company, especially its liquidity. They are sometimes referred to as funds. The fund can be understood as aggregating certain stock indicators expressing assets or liabilities, or the difference between the sum of certain items of short-term assets and liabilities, the so-called net fund (Sedláček, 2011). Differential indicators include:

- net working capital,

- clean, readily available means,

- net cash-debt fund.

In my thesis I will only deal with net working capital, which also has greater use in terms of availability of information.

1.3.1 Analysis of net working capital

The difference between the current assets and other sources is known as the net current assets or net working capital. It roughly measures the company's potential reservoir of cash (Brealey et al., 2011). Several methods can be used to calculate net working capital (Mrkvička et al., 2006):

$$Net\ working\ capital = Current\ assets - short - term\ payables$$

$$Net\ working\ capital = (Long - term\ payables + equity) - fixed\ assets$$

The amount of net working capital is a significant indicator of the company's solvency. The higher the net working capital, the better the firm's financial background and hence the ability to pay financial obligations. On the other hand, it is a property funded by long-term other sources, which are more expensive, and thus it is the effort of many companies to minimize the amount of equity. Desirable status is not a complete minimization of this indicator but a reasonable amount of each item of current assets that will ensure the smoothness of the core business functions (Mrkvička et al., 2006). Needles and Powers (2008) mention that the net working capital could be used to purchase inventory, obtain credit, and finance expanded sales. When a company lacks the net working capital, it can lead to a company's failure.

Turnover cycle of money

Every business should have just as much current assets as it needs. If it is less than the investment property of the enterprise (buildings, machines, production capacity) is not used, which is uneconomical, and the overall development of the company is hampered. If it has more, then his part is inactive, which raises unnecessary costs. In order to determine the optimum required amount of current assets a so-called turnover cycle of money can be used, which expresses how much and for how long it is necessary to invest in production in order to realize the order. The longer the turnover cycle, the greater is the cash requirement for reimbursing expenses over time. The effort is therefore to reduce the turnover cycle of money to reduce resources. We define the turnover cycle as follows (Scholleová, 2012):

$$TCM = Inventory\ turnover\ time\ +\ receivable\ turnover\ time - short - term\ liabilities$$

The need for net working capital

The required amount of working capital is the result of the product of the turnover cycle of money and average daily operating costs. Average operating costs include costs of sold goods, production consumption, personal expenses, other operating expenses and taxes and fees. We divide this result by 365 (Režňáková, 2010).

$$NWC = TCM\ *\ average\ daily\ operating\ expenses$$

This calculation usually underestimates the need for net working capital because it is calculated with the need for resources only to finance operating expenses. Therefore, it is appropriate to count with a certain amount of money in your bank account (Režňáková, 2010).

1.3.2 Ratio indicators with net working capital

In economic analysis, it is often expedient to use ratio indicators based on net working capital, which measure the ability of an enterprise to generate its financial resources to meet its own needs (Lesser Financial Indicators, 2019).

Indicator of NWC´s share of assets

This indicator gives a ratio of net working capital to total assets and tells us what part of NWC's assets are. The recommended value for manufacturing enterprises is 10-15%, which means a relatively large volume of funds tied to long-term assets (buildings and machinery) for these enterprises. It is calculated by (Lesser Financial Indicators, 2019):

$$NWC/A = (Current\ assets - short - term\ payables) \ / \ assets$$

Indicator of NWC's share in current assets

With this indicator, it is possible to see what part of the current assets net working capital is. Ideally, the value of this indicator should be between 30% and 50% (Lesser Financial Indicators, 2019).

Profitability of NWC

This indicator informs one about how net working capital is being valued. It is desirable that the achieved value be as high as possible. We calculate the pointer by (Lesser Financial Indicators, 2019):

$$Profitability\ of\ NWC\ =\ NP \ / \ NWC$$

1.4 Analysis of ratios

Ratio indicators belongs to intensive indicators, which are one of the basic tools of financial analysis. These indicators represent the share of two financial statement indicators. In order to correctly read the information provided, the interrelation between the indicators measured is important and therefore it is always necessary to know in advance the objective to be achieved (Strouhal, 2006).

1.4.1 Profitability ratios

The profitability is a measure of a company's ability to earn a satisfactory income by means of capital investment. Generally, profitability ratios are used for evaluating of total effectiveness of a given activity. Shareholders and potential investors are unambiguously interested in these indicators (Růčková, 2008).

Return on equity (ROE)

The return on equity indicator evaluates the profitability of capital which has been invested into the company owners or stakeholders. The rate of the profit which is calculated from the company's own estate indicates if capital brings enough profit to the owners, stakeholders, and other investors. This means indicates if capital is used with an intensity that corresponds to the size of their risk (Kovanicová a Kovanic, 1997)

$$ROE = Earnings\ after\ tax\ (EAT)\ /\ equity$$

Return on assets (ROA)

ROA is considered a key measure of profitability. It uses net profit in relation to net assets in order to see how the firm is able to utilize its assets to create profit (Dluhošová, 2008a).

$$ROA = Earnings\ before\ interest\ and\ taxes\ (EBIT)\ /\ total\ assets$$

Return on sales (ROS)

In ROS profit can be in the form of EAT, EBT of EBIT. This ratio describes a profit margin, which is an important feature for the success of the business. These margins are compared to the other companies in the industry (Knápková et al., 2013).

$$ROS = EAT\ /\ Revenue\ from\ the\ sale\ of\ the\ own\ products\ and\ services$$

1.4.2 Liquidity ratios

Liquidity is a company's ability to pay bills when they are due and to meet unexpected needs for cash (Needles et al., 2008). They express the relationship between what is paid and what is reality. This is the ratio of current assets and short-term payables. The company's liquidity is deduced from the following indicators:

Current ratio

Current ratio measures how many times current assets cover a company's current liabilities. The optimum value of the ratio is 1.5–2.5. The current ratio is the most commonly used indicator of short-term solvency. In general, creditors would like to see a high current ratio. If the company is getting into financial trouble, it will begin paying its bills much more slowly and borrowing from the banks, and thus its current liabilities will increase. If current liabilities increase faster than current assets, the current ratio will decrease, and this situation could cause problems. The high current

ratio from the perspective of shareholders means that a company has a substantial amount of money tied up in non-productive assets (Brigham a Ehrhardt, 2008).

$$Current\ liquidity\ =\ current\ assets\ /\ short-term\ payables$$

Cash ratio

Only the most liquid assets of current assets-swift payment instruments (financial assets-money on a regular or other account, money at the cash desk, freely negotiable securities or checks), enter this indicator. The recommended value for instant liquidity in our conditions is 0.2, but more acceptable value can be zero (Dluhošová, 2006).

$$Cash\ liquidity\ =\ short-term\ financial\ assets\ /\ short-term\ receivables$$

Quick ratio

This ratio is defined the same way as Current ratio, but does not include inventories, that are usually hard to change to cash (Quick ratio, 2019b). It is also recommended to adjust numerator by the receivables after maturity that are also in low liquidity. The advised value of Quick ratio is from 1 to 1.5. The magnitude of a firm also depends on the type of business, whole sector and also its strategy (Dluhošová, 2008b)

$$Quick\ ratio\ =\ current\ assets-inventory\ /\ short-term\ receivables$$

1.4.3 Activity ratios

These indicators measure how effectively the business manages with its assets. The goal of the indicators is to provide an idea of the volume, structure and bonding of assets in an enterprise. It shows how much assets an enterprise needs to ensure sufficient revenue. It can generate unnecessary costs and thus lower profits if he has more assets than it is expedient. They will lose revenue that they could get if they are in short supply(Kovanicová a Kovanic, 1995). Their values are expressed in units of time (Kovanicová a Kovanic, 1995).

Assets turnover ratio

The first activity indicator is the turnover of total assets. Asset ratios measure how effectively a company manages its assets (Sedláček, 2005). This indicator is mainly used for intercompany comparisons. The higher the value, the more efficiently the enterprise uses assets. The trend is growing. Recommended values are 1.6-3 (Dluhošová, 2006).

$$Assets\ turnover\ ratio\ =\ Revenues\ /\ assets$$

Receivables turnover ratio

Receivables turnover ratio tells what strategy a company uses to manage its receivables and gives information of how fast the receivables are paid. This ratio should not exceed payback period (Dluhošová, 2008a).

$$Receivables\ turnover\ ratio\ =\ Receivables\ /\ revenues$$

Liabilities turnover ratio

This indicator expresses the number of days the vendor provided business interest. It characterizes the enterprise's payment discipline towards suppliers. The trend should be stable (Dluhošová, 2006).

$$Liabilities\ turnover\ ratio\ =\ Short-term\ payables\ /\ daily\ revenues$$

1.4.4 Debt management ratios

The debt indicates the fact that a company uses liabilities for financing its assets. When using liabilities, it influences both return on capital employed and business risk. Today it would be unthinkable for larger companies to finance all assets either from equity or from liabilities. It is not possible to finance assets only by liabilities because the legal system demands a certain amount of equity (Kislingerová, 2007).

Debt ratio

Debt Ratio is defined as the percentage of funds provided by current liabilities and long-term debt. Creditors prefer low debt ratios because the lower ratio, the greater the cushion against creditors' losses in the event of liquidation. Stockholders, on the other hand, may want more leverage because it magnifies expected earnings (Brigham a Ehrhardt, 2008).

$$Debt\ ratio\ =\ Liabilities\ /\ total\ assets\ *\ 100$$

Equity ratio

Equity Ratio is an additional indicator of debt ratio which indicates the company's financial independence. Equity ratio also shows the proportion of the company's assets that is financed by stockholders (Růčková, 2008).

$$Equity\ ratio\ =\ Equity\ /\ total\ assets\ *\ 100$$

Debt to equity

Debt to Equity Ratio measures capital structure and leverage by showing the amount of a company's assets provided by creditors in relation to the amount provided by stockholders (Needles et al., 2008).

$$Debt\ to\ equity\ ratio\ =\ Liabilities\ /\ equity\ *\ 100$$

Interest coverage ratio

Interest Coverage Ratio indicates how many times the net income is higher than interest payment. If the ratio is equal to 1, it means that revenues are needed to pay interest expenses (Sedláček, 2005).

$$Interest\ coverage\ ratio\ =\ EBIT\ /\ Interest\ expense$$

1.5 Prediction models

This category of systems includes credit and bankruptcy models. There is no strictly defined boundary between these two groups; both groups assign to the company a numerical characteristic that determines the financial health of the firm. The difference lies primarily in the purpose for which they were created (Dluhošová, 2010). In my thesis I will only focus on the bankruptcy models.

1.5.1 Bankruptcy models

Bankruptcy and solvency models are often described as early-warning models, models of identification of future solvency or predication models. Bankruptcy models state if the firm is likely to go bankrupt or not. These models are also able to predict future development of an industry with a specific probability (Kalouda, 2015).

Altman analysis

The first version was published in 1968 by Edward I. Altman and was subsequently supplemented by revisions in 1983 and 1995. The calculation is determined as the sum of the values of five common ratios to which different weight is assigned. This original model was modified in 1983 for companies not publicly traded on the capital markets, so it is also applicable to small and medium-sized companies and this version is referred to as Z-score or ZETA score(Altman a Hotchkiss, 2006):

$$Z\ =\ 0{,}717\ X1\ +\ 0{,}847\ X2\ +\ 3{,}107\ X3\ +\ 0{,}420\ X4\ +\ 0{,}998\ X5$$

X1 = NWC / total assets,

X2 = EAT / total assets = retained earnings / total assets,

X3 = EBIT / Total Assets,

X4 = market value of equity / carrying amount of debt,

X5 = revenues / total assets

Results:

Z > 2,99 → the satisfactory financial situation of the company,

1,81 < Z ≤ 2,99 → gray zone of indeterminate results,

Z ≤ 1,81 → the company is threatened with bankruptcy.

Index IN

These bankruptcy indices are written by Inka and Ivan Neumaier. The first IN95 index was established in 1995 and was gradually added to IN99, IN01 and the latest IN05 from 2005. These variants can be divided according to their use as follows (Vochozka, 2011):

- creditor variant IN95,

- ownership variant IN99,

- complex IN01

- modified complex variant IN05.

The model was compiled using the method of discriminatory analysis and enterprise data. It evaluates not only the risk of bankruptcy of the respective companies but also asks whether the company creates value for its owners in the period under review.

The formulas for the calculation are as follows (Scholleová, 2012):

$$IN\ 05\ =\ 0{,}13\ x\ (assets/other\ sources)\ +\ 0{,}04\ x\ (EBIT/interest\ expenses)$$
$$+\ 3{,}97\ x\ (EBIT/assets)\ +\ 0{,}21\ x\ (revenues/assets)$$
$$+\ 0{,}09\ x\ (current\ assets/other\ sources)$$

Results:

IN05 <0, 9 → the enterprise goes bankrupt (with a probability of 86 %),

0,9 <IN05 <1,6 → a zone called the "gray zone"

IN05>1,6 → the enterprise is a value (with a probability of 67 %).

When calculating IN05, there may be situations where the firm is indebted or very low indebted, and the cost coverage indicator is a large figure. For this case, it is recommended to limit the value of the EBIT / interest coverage ratio to 9 in calculating IN05 (Scholleová, 2012).

2 Practical part

In the practical part of the thesis, the methods of economic analysis, which were introduced in the theoretical part will be used in order to perform an economic analysis of SPORTEN, a.s. The actual application of the methods to the selected business will provide a simple introduction to the subject of the analysed business through the introduction of the company and its brief characteristics.

2.1 Company description

SPORTEN is a Czech company that has been producing skis for more than 120 years. The main focus of this company is on the production of alpine skis, freestyle skis, cross-country skis, back country skis, snowboards, special skis, jumping, aerials, moguls, roller skis and hunting skis. The uniqueness of the products is in manufacturing a wooden core in each ski.

Picture 1 – Logo of the company

Source: Internal source of SPORTEN, a.s.

2.1.1 Basic data and structure of the company

Business name:	SPORTEN, a.s.
	(* company has changed the name for KÄSTLE CZ, a.s. from 1st February, 2019)
Identification number:	15531457
Address:	U Pohledce 1347, 592 31 Nové Město na Moravě
Date of establishment:	6. 3. 1991
Legal form:	Joint-stock company
Basic capital:	34 988 595 CZK paid
Scope of business:	hazardous waste management business
	innkeeper activity
	carpentry, flooring

production, trade and services not listed in appendices 1 to 3 of the Trade Licensing Act

sales of fermented alcohol, alcohol and spirits

Table 2 - Payment of dividends in the last two years

Thousand CZK per share	Ordinary	Priority	Total
Dividends paid for 2016 in 2017	16133	4070	20203
Dividends paid for 2015 in 2016	71518	3256	74774

Source: Annual report of 2017 SPORTEN, a.s.

Statutory director:	Ing. Vladimír Dušánek, date of birth. 1.7.1963, 43401 Most, Topolová 1376, date of membership: 24.9.2001
Number of members:	1
Course of action:	Statutory Director is the statutory body of the company that represents the company in all matters.
Supervisory Board:	
Chairman of the Board:	JUDr. Lubomír Svátek, date of birth 20.6.1958
	Dědinova 1982/4, Chodov, 148 00 Prague 4, date of membership: 27.6.2017
Member of the Management Board:	Ing. Tomáš Klápště, date of birth 23.12.1970
	Orlí 103, Zdiměřice, 252 42 Jesenice, date of membership: 27.6.2017
Member of the Management Board:	Ing. Ondřej Palát, date of birth 7.1.1976
	Bermanova 996/17, Čakovice, 196 00 Prague 9, date of membership: 27.6.2017
Number of members:	3

The sole shareholder: ConsilTech, a.s., IN: 056 17 928

Purkyňova 2121/3, New Town, 110 00 Prague 1

Stocks: 54 266 registered priority registered shares in paper form with a nominal value of 5 CZK , 84,025 ordinary nominal registered shares in nominal value of 50 CZK transferable with the approval of the Board of Directors, 780 ordinary registered shares in paper form with a nominal value of 5 CZK transferable with the approval of the Board of Directors, 186 ordinary nominal registered shares in a nominal value of 2.50 CZK transferable with the approval of the Board of Directors, 14,855 ordinary registered shares in the registered form at a nominal value of 1,500 CZK transferable with the approval of the Board of Directors, 54,828 ordinary nominal registered shares at a nominal value of 150 CZK transferable with the approval of the Board of Directors, 66 ordinary registered shares in the registered form with a nominal value of 75 CZK transferable with the approval of the Board of Directors (Justice.cz, 2019).

2.1.2 Development and current situation

SPORTEN is a company that exports about 80 percent of its products, skis and snowboards to many countries around the world. In order to maintain the ability of competitors on world markets, they have to spend a considerable amount of research and development costs on new products each year.

Research and product development cannot be done without machines and equipment by which production takes place. These machines and equipment are subject to such specific requirements that SPORTEN has proceeded to their development and production in the company. It utilizes the long-term capabilities and experience of its developers and designers. The company originally focused on the number of

skis produced rather than the quality of skis, but it changed its strategy when it obtained grinding Montana [1] in 2016. SPORTEN currently focuses on producing more expensive and more high-quality skis. With the new owner and management of the Consillium investment group, there was a fundamental redefinition and restructuring of the existing product portfolio and a necessary increase in the technical and design levels of most products. Within the Consillium Group, the acquisition of the renowned Austrian ski brand KASTLE and the DIFFERENCES brand took place in 2017 and, in 2018, the new structure of the group was able to use the very traditional domestic ARTIS brand. Effective sharing of R&D results, technologies, know-how, and mutual transfers of the product portfolio or its components can be expected, which should contribute to better utilization of production capacities and higher but effective investment activity.

2.1.3 Organization of the company

The organizational structure of the company is linear, in which the positions and relationships of the superior and subordinate are organized and oriented vertically. Each supervisor has clearly assigned subordinates, and each subordinate has a clearly assigned supervisor. The organizational structure of the company is as follows:

....

[1] The MONTANA technology of base grinding structures on the base of skis and snowboards precisely to optimize gliding properties in accordance with all snow conditions.

Picture 2 – Structure of the company
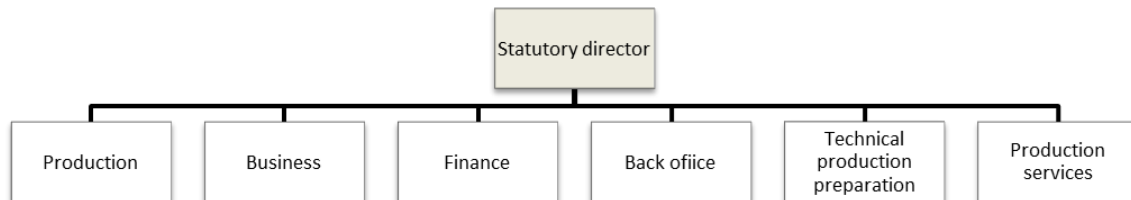
Source: Author

2.1.4 Organization of the company

The company's number of employees grew until 2011. In the following years it was characterized by a gradual decrease until 2015. The fall in employment was due to the uncertain economic situation as well as the reduced demand. Since 2016, how-ever, employees have been increasing again.

Table 3 - Number of employees

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employees	158	168	187	162	151	152	150	163	173

Source: Financial statements, annual reports

Graph 1 – Average recalculated number of workers

AVERAGE RECALCULATED NUMBER OF WORKERS

■ 2015 ■ 2016 ■ 2017

	Manufacturing workers	Overhead workers	Technical and economic worker	Others
■ 2015	70	36	34	10
■ 2016	75	41	36	11
■ 2017	83	44	36	10
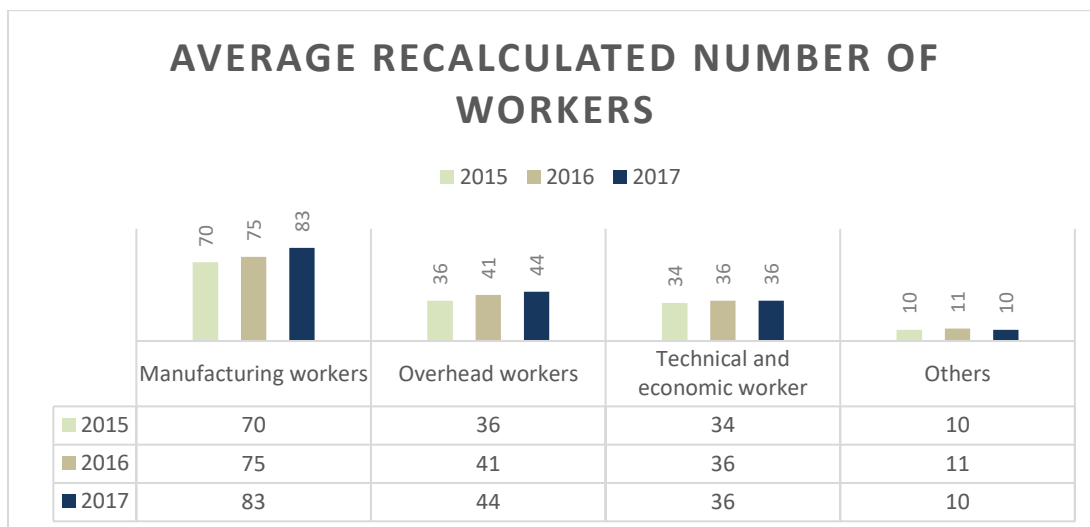
Source: Annual report 2017 of SPORTEN, a.s.

2.1.5 Customers

Sales in specialized sports outlets or rentals play a key role in the sale. SPORTEN owns a single brick-and-mortar shop in Nové Město na Moravě, while 126 specialized stores are located all around the Czech Republic. The SPORTEN brand has a long tradition, and the products are of a high quality and affordable for a wide range of customers. Their motto is „The Joy of Winter" (Sporten.cz, 2019). The strong point is in effective private label production, cutting-edge technology, in-house R&D and in-house production.

Martin Koukal, Aleš Valenta, Zuzana Staňková, Zuzana Holikova, Martin Zeman and Ondřej Bank are among the most important ambassadors. Brand production is divided into 15% of SPORTEN and 85% of OEM. The main current OEM customers are Faction, Åsnes, Aspens (Happy Sport), Good Boards and Hagan. A diversified customer base is in the USA, Canada, Central and Eastern Europe, and Asia.

2.1.6 Competitors

Competition is considerable in both the Czech and foreign markets. The ski market is saturated. There is no other company as large as SPORTEN in the Czech market. The main Czech competitors are the Lusti, Choc and RCS Carbonski brands. These competitors cannot measure with SPORTEN. Sporten has the advantage of uniqueness in the Czech market, where many customers prefer the traditional Czech brand to foreign ones. Abroad, however, SPORTEN faces strong competition, especially among the strongest companies in the market, such as Amer Sports, which includes brands such as Salomon, Atomic and Armada and K2-MDV, under which K2 and Völki

are the same brand. Rossignol, the third-largest firm on the market, is the brand name of Dynastar. These three companies dominate the market mainly in the production of produced pairs of skis as well as in annual sales. As well as ski production, these companies combine the production of cross-country skis and snowboards. Others are Fischer, Tecnica and Blizzard and Nordica, followed by Elan and Stöckli. The Austrian brand Kästle is no longer a competitor, as Tomas Nemec of ConsilTech, a.s. purchased the majority stake in this company in the beginning of 2018. SPORTEN will therefore join forces with Kästle in the coming years.

2.2 Analysis of absolute indicators

The chapter deals with the analysis of the financial statements of the described company. For clarity it is accompanied by short graphs.

2.2.1 Horizontal analysis of assets

Table 4 - Horizontal analysis of assets

ASSETS	Absolute difference					Relative difference				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Total Assets	-19552	41876	22052	-46216	11560	-6%	14%	7%	-13%	4%
Fixed assets	-2807	7441	-2286	2286	-2809	-5%	15%	-4%	4%	-5%
Intangible fixed assets	-1667	-89	609	403	79	-75%	-16%	129%	37%	5%
Tangible fixed assets	-1140	5995	-1360	-926	1224	-2%	12%	-2%	-2%	2%
Long-term financial assets	0	1535	-1535	0	0	0%	0%	-100%	0%	0%
Current assets	-16432	34 430	24 741	-46136	10941	-6%	14%	9%	-15%	4%
Inventory	63047	8104	8 212	2 709	-6297	246%	9%	8%	3%	-6%
Long-term receivables	-15824	49991	228	-50228	26	-100%	555456%	0%	-100%	0%
Short-term receivables	26771	-59503	41477	973	36681	37%	-59%	102%	1%	44%
Short-term financial assets	-30426	35838	-25176	-64303	0	-36%	67%	-28%	-100%	0%
Accruals	-313	5	-403	443	-684	-25%	1%	-42%	81%	-221%

Source: Author's own calculations based on the Annual Reports of the company from 2013 – 2017

Note: Values of absolute difference are in thousands of CZK

From the above table, asset growth has alternated with declining trends. The first fluctuation took place in 2009, when the balance dropped by 6%, the following year it had already increased by 14%. Since 2012, the assets have increased and reached CZK 358.120 thousand in 2014. The significant growth that affected the balance was contributed by the purchase of investments such as photovoltaic power plants, the purchase of 2 cars and the structuring of cross-country skiing in 2013. The most significant and costliest investment was the purchase of Montana Saphir II Grinding

Machines in 2014. This is depreciated in subsequent years, and therefore both relative and absolute changes are negative. The fleet increased by one car and a dryer and a conveyor was purchased this year. One year later, the Grinding Line, Oil Line, Polishing and Sculpting Line was purchased. The LINE NIS Automatic Linkage Machine was purchased in 2016 as well as a robotic drill and granulate dryer. The last investments were the purchase of a sealing belt assembly machine, a ski oxygenation line and a skiing line. These investments were made in 2017. Long-term property was composed of most of the tangible property. Long-term intangible and financial assets were a minimum share. However, in 2016, intangible assets increased to CZK 1.484.000 thousand new software purchases, and in 2017 the Fixed Assets software fluctuated between CZK 50.521 thousand and CZK 58.262 thousand. The highest figure was reached in 2014 and 2016, when it increased by 14% compared to 2013 and 4% compared to 2015. In the last period under review, real estate decreased by 4%. Tangible fixed assets showed a rise and fall over the reported period. The value of the property was also reduced by depreciation.

The development of current assets was almost identical to the development of total assets and is fluctuating with a subsequent decline and increase. Their first increase was 14% between 2013 and 2014, then between 9% and 2014 and 20% between 2016 and 2017. Between 2015 and 2016, the most significant decrease in current assets was 15%. This significant drop was caused by the contradiction of Melt Sports GmbH, which placed a ski order and subsequently refused to cancel it. This dispute was brought to trial in 2017. Short-term financial assets were represented by money and bank accounts. Both items showed both rising and falling values. The highest amount on the bank account was the amount of 2014 and specifically 88,965 CZK. In the following years, the amount was around 63,900 CZK. In 2017, it fell to almost half to 44,767 CZK.

Long-term receivables were gradually rising until 2014, when they dropped significantly due to the loss of cooperation with Decathlon. They quickly steady from this loss.

Graph 2 – Development of assets
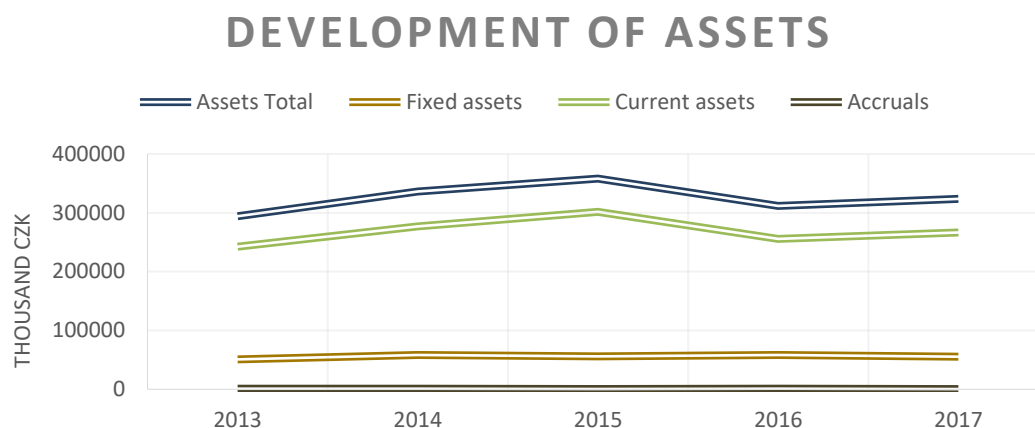
DEVELOPMENT OF ASSETS

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

As we can see from the above graph, current assets are the main item of total assets.

2.2.2 Horizontal analysis of liabilities

The development of the most important liability components is shown in the following table. A complete table is given in the appendix

Table 5 - Horizontal analysis of liabilities

LIABILITIES	Absolute difference					Relative difference				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Total Liabilities	14148	41 876	22 052	-46216	11580	5%	14%	7%	-13%	4%
Equity	10563	43 561	14 952	-54913	-3193	4%	16%	5%	-16%	-1%
Registered capital	0	-54550	0	0	0	0%	-61%	0%	0%	0%
Capital funds	-438	103404	0	-332	696	0%	-23608%	0%	0%	1%
Reserve funds	39	-18194	0	0	0	0%	-100%	0%	0%	0%
Retained earnings of past years	8331	10 189	12 085	-57313	0	6%	7%	7%	-32%	0%
Profit/Loss current year	2631	2 423	2 924	2795	-3883	27%	19%	20%	16%	-19%
Other sources	2687	-1557	6867	9000	14448	19%	-9%	44%	40%	46%
Reserves	-2002	-170	474	3 931	356	0%	-14%	0%	263%	7%
Long-term payables	0	25	-25	397	1	0%	0%	0%	0%	0%
Short-term payables	5349	-2 072	6 418	4672	14509	48%	-13%	45%	22%	57%
Bank loans and bailouts	0	0	0	0	0	0%	0%	0%	0%	0%
Accruals	238	532	233	-303	307	205%	150%	26%	-27%	38%

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

Note: Values of absolute difference are in thousands of CZK

Total liabilities were affected by components of equity and other sources. The increase in liabilities was due to a larger increase in equity. The gradual increase in equity in the years 2014 and 2015 was outweighed by a drop in other sources, which led to a decrease in the balance sheet. The equity of the company was always growing, with the most significant increase in the years 2014 and 2015, when the annual increase was 16% and 5%.

During the reporting period, the registered capital was reduced in the balance sheet from 89,539 thousand CZK to 34,949 thousand CZK by 61% in 2014. The reason for this decrease was the increase in reserve funds from -438 thousand CZK to 103,404 thousand CZK. The annual report of 2014 mentioned the increase in the registered capital by 134,308 thousand CZK. Reserve funds increased by 23608 % thanks to this increase. Other sources of the enterprise recorded a decline of 11% in 2014. In the coming years they had a rising tendency of around 40%.; in 2017 even 46% due to credit that was provided by ConsilTech Under Bank Loans and Assistance, the value remained at 0 for all years. Accruals only account for deferred expenses, and are on a rising trend, increasing by almost 205% since 2013. The only decrease was recorded in 2016 by 27%. Graph 2 shows the evolution of individual components of liabilities from 2013 to 2017. Equity has always been a major part of the liabilities and has influenced their development. Own and other sources is unbalanced, which means that the company prefers to use its equity. In the year 2017 there was a slight increase in the above mentioned 46%.

Graph 3 – Development of liabilities
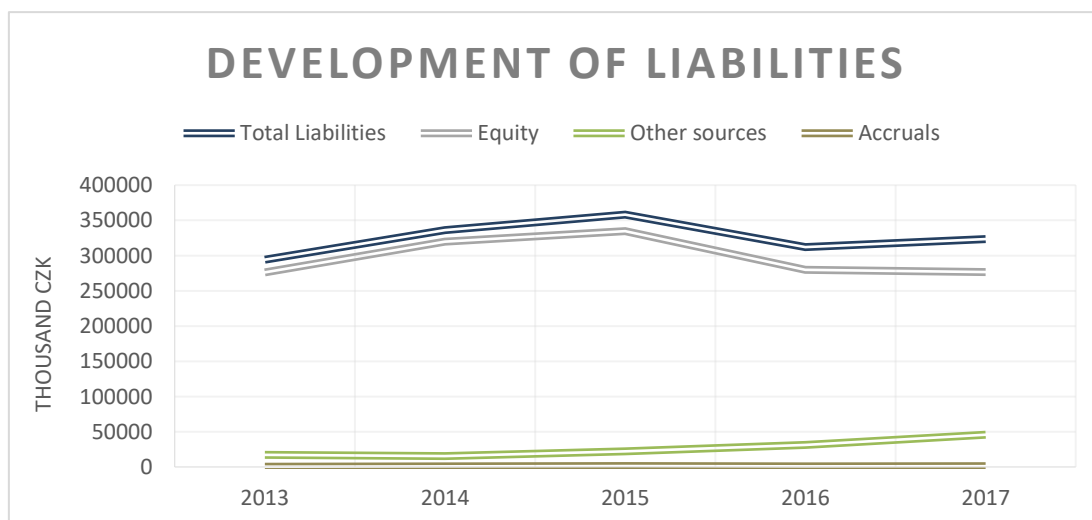
Source: Author's own calculations based on the company's annual reports from 2013 to 2017

As we can see from the graph, the highest value from the total liabilities was from equity. Other sources increased since 2013, but it is a low value.

2.2.3 Vertical analysis of assets

Table 6 - Vertical analysis of assets

Assets		VERTICAL ANALYSIS				
		2013	2014	2015	2016	2017
Total Assets		100%	100%	100%	100%	100%
B	Fixed assets	17.3%	17.3%	15.6%	18.7%	17.1%
B.I	Intangible fixed assets	0.2%	0.1%	0.3%	0.5%	0.5%
B.II.	Tangible fixed assets	17.1%	16.7%	15.3%	17.3%	17.1%
B.III	Long-term financial assets	0.0%	0.5%	0.0%	0.0%	0.0%
C.	Current assets	82.4%	82.4%	84.2%	81.9%	82.4%
C.I.	Inventory	30.1%	28.8%	29.3%	34.5%	31.3%
C.II.	Long-term receivables	0.0%	14.9%	14.0%	0.0%	0.0%
C.III.	Short-term receivables	34.0%	12.1%	22.9%	26.6%	37.0%
C.IV.	Short-term financial assets	18.2%	26.6%	18.0%	0.0%	0.0%
D.I.	Accruals	0.3%	0.3%	0.2%	0.3%	0.1%

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

Long-term assets were only 17.3% at the beginning of the reporting period, down 20.6% in 2015, which was linked to the decline in investments in that year compared to the previous year when the largest acquisition was the purchase of Grinding Montana. The most important item was tangible fixed assets, which is understandable due to the nature of the business. Within the tangible assets, the item was dominated by separate movable items whose share fluctuated around 17%.

Graph 4 – The property structure

THE PROPERTY STRUCTURE
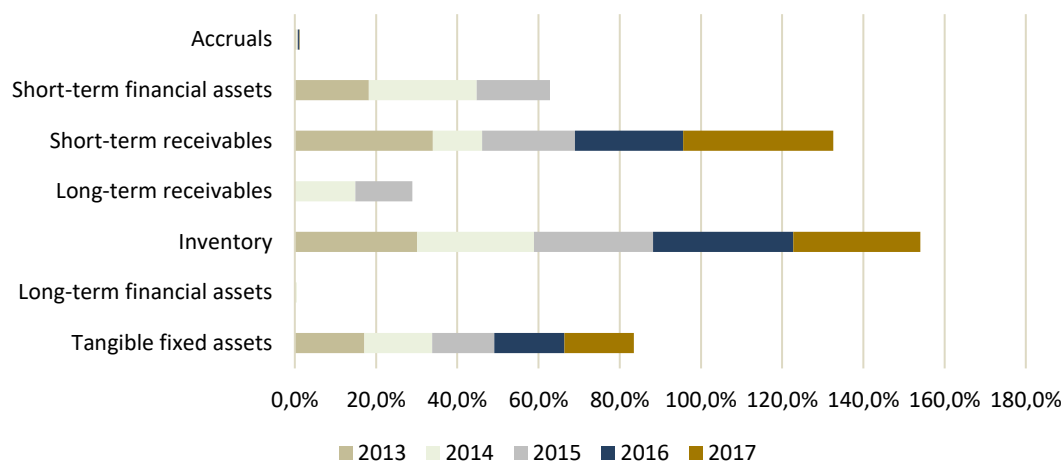
Source: Author's own calculations based on the company's annual reports from 2013 to 2017

Short-term receivables were the highest in 2013 and 2017 and the lowest in 2014. Inventory are evenly distributed without major fluctuations in all years. From the graph of the property structure we can see that SPORTEN increased its inventory in 2016 and 2017.

2.2.4 Vertical analysis of liabilities

Vertical analysis of liabilities is described in the following table.

Table 7 - Vertical analysis of liabilities

	Liabilities	VERTICAL ANALYSIS				
		2013	2014	2015	2016	2017
Total Liabilities		**100%**	**100%**	**100%**	**100%**	**100%**
A.	Equity	93.9%	95.1%	93.5%	89.7%	85.5%
A.I.	Registered capital	30.4%	10.4%	9.8%	11.2%	10.8%
A.II.	Capital funds	-0.1%	30.6%	28.8%	32.9%	31.9%
A.III.	Reserve funds	6.2%	0.0%	0.0%	0.0%	0.0%
A.IV.1.	Retained earnings of past years	53.2%	49.6%	49.9%	38.9%	37.5%
A.V.	Profit/Loss current year	4.3%	4.4%	5.0%	6.6%	5.2%
B.	Other sources	5.8%	4.6%	6.2%	10.0%	14.1%
B.I.	Reserves	0.4%	0.3%	0.4%	1.7%	1.8%
B.II.	Long-term payables	0.0%	0.0%	0.0%	0.1%	0.0%
B.III.	Current payables	5.6%	4.3%	5.8%	8.2%	12.4%
B.IV:	Bank loans and bailouts	0.0%	0.0%	0.0%	0.0%	0.0%
C.I.	Accruals	0.1%	0.3%	0.3%	0.3%	0.3%

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

Equity significantly exceeded above the other sources in 2013. Gradually, the company began to use more foreign sources. Equity represented 93.9% from the whole liabilities in 2013. Other sources represented just 5.8%. In the end of the year 2017 the percentage share of equity decreased to 85.5% and other sources increase to 14.1%. We can assign this unprecedented inflow of foreign capital to the new investor of ConsilTech, which provided loans to SPORTEN. Profit and loss in the current year gradually grew until 2016. This year was the highest with a total of 6.6%. The next year 's profit and loss decreased to 5.2%. Registered capital was 30.4% in 2013 and decreased to 10.8% in the end of the year 2017. Capital funds increased from the year 2013 to 2017 from -0.1% to 31.9%. The highest values from the other sources are current payables. Current payables were 5.6% in 2013 and increase to 12.4% in 2017.

Graph 5 – Capital structure

CAPITAL STRUCTURE
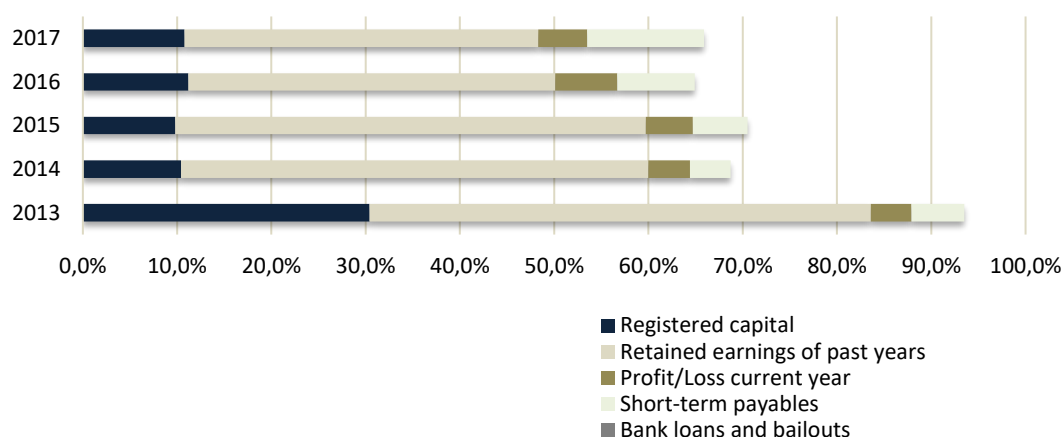
Source: Author's own calculations based on the company's annual reports from 2013 to 2017

The reason for the decrease in the share capital was the optimization of the share capital of the company to the Company's share capital.

2.2.5 Horizontal analysis of profit and loss statement

Table 8 - Horizontal analysis of profit and loss statement

	PROFIT AND LOSS	Absolute difference					Relative difference				
		2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
I.	Revenue from the sale of the own products and services	-5988	-6890	3841	1213	9744	-28%	-44%	44%	10%	70%
A.	Revenues of goods sold	-27227	14 028	30 643	-172 255	8912	-16%	10%	20%	-94%	86%
II.	Production consumption	-37839	23656	28056	-65299	25750	-22%	17%	17%	-35%	21%
B.	Personal expenses	-5334	14 738	4 077	8 364	1226	-12%	38%	8%	15%	2%
C.	Adjustments to intangible and tangible fixed assets	-2504	-159	1014	1233	2044	-23%	-2%	12%	13%	20%
D.	Revenues from long-term assets sold	-151	1 752	-285	3 840	-4613	-75%	3504%	-16%	253%	-86%
E.	Net book value sold by tangible fixed assets	-18	1555	-536	-819	680	-100%	0%	-34%	-80%	340%
III.	Changes in inventories from their own activities	-10141	8 762	-3 261	-5 421	9061	-179%	-196%	-76%	-529%	-206%
F.	Other operating income	-3876	3610	-1546	4847	-1719	-84%	487%	-36%	173%	-22%
G.	Other operating expenses	724	2 373	5 111	-7 080	6573	49%	107%	111%	-73%	251%
IV.	Operating profit/loss	-12578	14543	3236	9015	-1776	-86%	740%	20%	46%	-6%
H.	Interest income	1018	-809	994	290	-1872	260%	-57%	166%	18%	-99%
*	Other interest expenses	0	0	0	11	115	0%	0%	0%	0%	1045%
X.	Other financial income	4893	-5 817	-385	-150	720	300%	-89%	-54%	-46%	416%
N.	Other financial expenses	-3954	55	1176	-1135	4405	-89%	11%	216%	-66%	753%
XI.	Profit/Loss form financial operations	9865	-7 393	145	1 264	-5672	-408%	-99%	279%	642%	-388%
O.	Income tax	-5344	4727	457	7484	-9574	-238%	-153%	28%	358%	-100%
*	Profit before tax	-2713	7 150	3 381	10 279	-7448	-22%	76%	20%	52%	-25%
Q.	Profit after tax	2631	2423	2924	2795	2126	27%	19%	20%	16%	10%
**	Profit / loss for the accounting period	2631	2 423	2 924	2 795	2126	27%	19%	20%	16%	10%

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

The analysed company is engaged in the production and revenues of its own products, and therefore the total amount of revenues was mainly generated by sales of its own products and services and sales of goods. Revenues also included profit on financial operations, but the financial result had little effect on the minimal share of revenues. There was an increase in revenues in 2016. This increase was mainly due to increased production of more expensive and more demanding downhill skis, constant improvement of technology and suitably selected investments. In the past year it achieved a profit after tax of CZK 20.646 thousand.

Graph 6 – The evaluation of the economic result
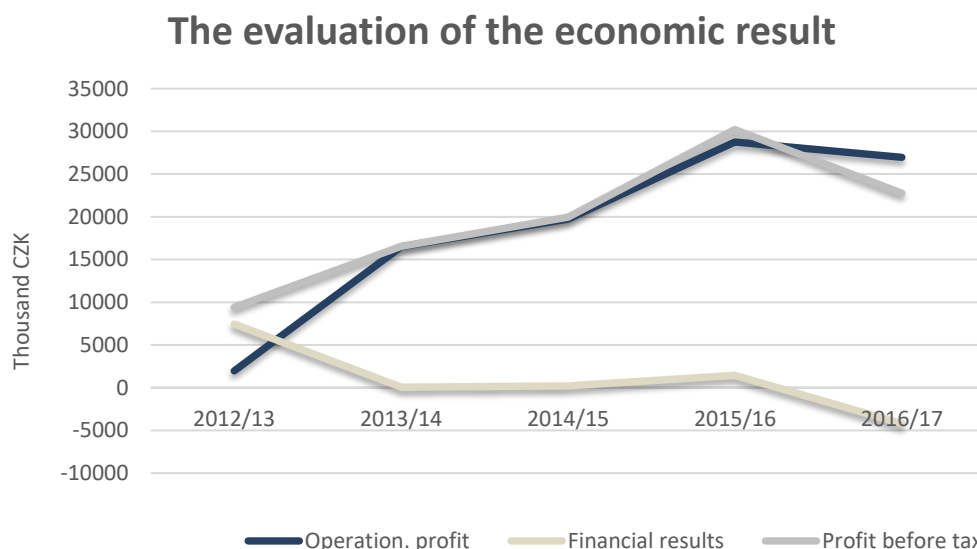
Source: Author's own calculations based on the company's annual reports from 2013 to 2017

From the graph of the evaluation of the economic result we can see, that the highest value is from the profit before tax.

2.2.6 Vertical analysis of profit and loss statement

The profit and loss statement will be analysed in the same way as the balance sheet. The individual values of the yield items are measured against the total amount of the proceeds and the cost items are measured against the total cost.

Table 9 - Vertical analysis of revenue

PROFIT AND LOSS			VERTICAL ANALYSIS				
			2013	2014	2015	2016	2017
	TOTAL ASSETS		100%	100%	100%	100%	100%
I.	Revenue from sold goods	1	10.2%	5.2%	6.5%	6.4%	9.2%
II.	Production consumption	4	89.5%	94.8%	96.9%	57.4%	58.4%
II.1.	Revenue from the sale of the own products and services	5	89.8%	89.4%	93.5%	93.6%	90.8%
II.2.	Change in inventory of own products	6	-2.9%	2.5%	0.5%	-2.0%	2.0%
II.3.	Activation	7	2.6%	2.9%	2.8%	-2.1%	-1.8%
III.	Revenues from sale of fixed assets	19	0.0%	1.1%	0.8%	2.5%	0.3%
IV.	Other operating profit/loss	26	0.5%	2.6%	1.4%	3.5%	2.3%
X.	Interest revenues	42	0.9%	0.4%	0.8%	0.9%	0.0%
XI.	Other financial revenues	44	4.2%	0.4%	0.2%	0.1%	0.3%

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

Most revenues come from the beginning of the period under review from the revenue of own products and services. It can be seen from the table above that this

structure has gradually changed. Revenues from the sale of own products and services accounted for 89.8% of total revenue in 2013, and their share dropped to 0.4% in the following year. The increase again reached 93.5% in 2015 and continued also in the following years to 90.8%.

Table 10 - Vertical analysis of expenses

	PROFIT AND LOSS		Vertical analysis				
			2013	2014	2015	2016	2017
	TOTAL EXPENSES		100%	100%	100%	100%	100%
A.	Expenses from sold goods	2	7.5%	4.0%	5.6%	4.7%	7.6%
B.	Production consumption	8	51.2%	56.3%	57.0%	56.2%	59.1%
B.1.	Consumption of material and energy	9	43.8%	48.6%	48.4%	46.9%	44.0%
B.2.	Services	10	7.4%	7.7%	8.7%	4.6%	7.4%
C.	Personal expenses	12	37.4%	33.2%	30.5%	29.8%	26.4%
C.1.	Labor expenses	13	25.8%	21.6%	20.3%	22.3%	19.4%
D.	Income tax	15	-2.1%	1.0%	1.1%	4.3%	0.0%
E.	Adjustments to intangible and tangible fixed assets	17	5.6%	5.1%	4.9%	4.7%	4.9%
O.	Other financial expenses	18	0.3%	0.3%	0.9%	0.3%	2.0%

Source: Author's own calculations based on the company's annual reports from 2013 to 2017

The highest percentages are in production consumption, of which the highest value is from consumption of material and energy. This is obvious because it is a production company and with good winter conditions the demand increased, and the consumption of material and energy also increased. The following highest number is from personal expenses. Although the percentage of the personal expenses dropped in the following years, it was caused by the increasing total expenses. Conversely, the personal expenses increased every year. With the higher demand, the production increased and with it also the need for more employees.

2.2.7 Balancing rules

Balancing rules are only recommendations of the company's management when its objective is to achieve long-term financial equilibrium and firm stability. In this chapter, the company is analysed from the point of view of the balance sheet rules and it is determined whether any of these is being respected.

Gold balance rule

Gradually, the company began to use more foreign sources.

Requirement: Fixed assets should be financed mainly from equity or long-term payables; current assets from the corresponding short-term payables.

Table 11 - Gold balance rule

Gold balance rule	2013	2014	2015	2016	2017
Fixed assets	50 821	58 262	55 976	55 453	56 791
Other sources	17 667	15 450	22 317	31 317	45 765
OS-FA	-33 154	-42 812	-33 659	-24 136	-11 026
OS/FA	**34.76%**	**26.52%**	**39.87%**	**56.47%**	**80.58%**

Source: Author

The company meets this rule. Fixed assets were higher than other sources in every year. Other sources increased substantially in the last year, which was caused by the shareholder´s loan.

Golden rule of risk settlement

Requirement: Equity should, if possible, outweigh other sources and in the extreme case they should be equal.

Table 12 - Golden rule of risk settlement

Golden rule of risk settlement	2013	2014	2015	2016	2017
Equity	276 171	319 732	334 684	279 771	276 578
Other sources	17 667	15 450	22 317	31 317	45 765
E-OS	258 504	304 282	312 367	248 454	230 813
E/OS	**1563.20%**	**2069.46%**	**1499.68%**	**893.35%**	**604.34%**

Source: Author

The company meets this rule. Equity over the entire period exceeded other sources. However, over time, the company failed to reduce the amount of short-term liabilities that represented the main component of foreign capital. This condition is beneficial for the lender; the business owner tolerates the higher risk.

Golden pari rule

Requirement: Long-term assets of an enterprise should be equal to or less than the value of equity, i.e. long-term assets should be a cover from equity.

Table 13 – Golden pari rule

Golden pari rule	2008	2009	2010	2011	2012
Fixed assets	50 821	58 262	55 976	55 453	56 791
Equity	276 171	319 732	334 684	279 771	276 578
E-FA	225 350	261 470	278 708	224 318	219 787
E/FA	**543.42%**	**548.78%**	**597.91%**	**504.52%**	**487.01%**

Source: Author

This requirement was also met. The value of equity in each year was higher than the value of fixed assets. Both pari and gold balance rules have been met. The ratio between equity and fixed assets was again high.

Gold ratio rule

Requirement: In order to maintain long-term financial equilibrium, the rate of growth of investments should not exceed the growth rate of revenues in the short term.

Graph 7 – Golden ratio rule

	2013	2014	2015	2016	2017
Fixed assets	4%	15%	-4%	-1%	2%
Revenues	-22%	5%	21%	11%	19%
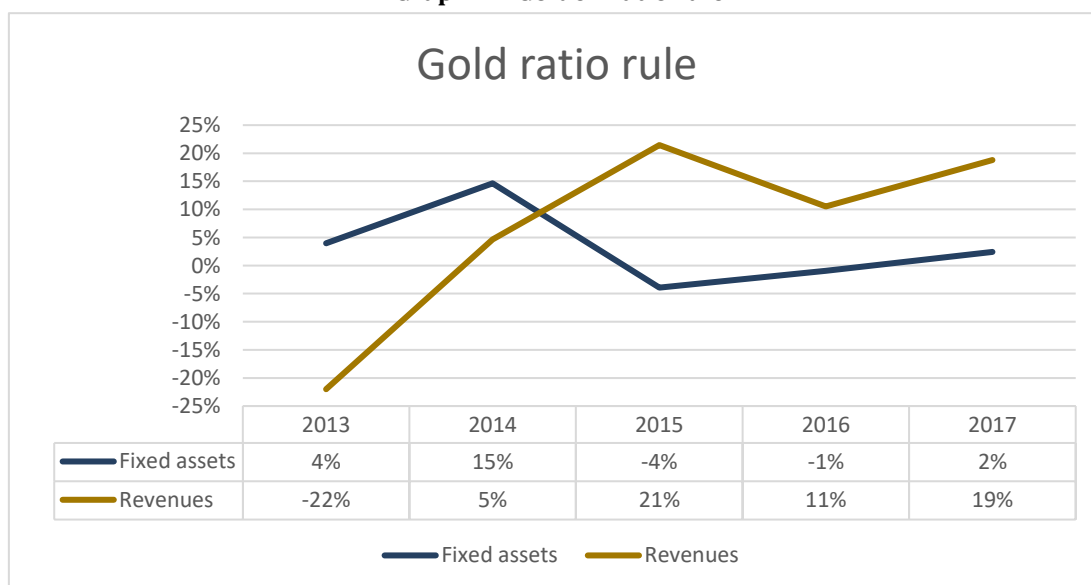
Source: Author

The company has met the rule since 2015, when the growth rate of fixed assets did not exceed the growth rate of sales. The cause was better winter conditions and increase in skis sold.

2.3 Analysis of net working capital

Net working capital indicates how much operating resources will be available to the company when it meets all its short-term liabilities. Net working capital should be linked to other important financial indicators.

2.3.1 NWC

Only net working capital was examined in the context of the difference indicators. We can look at NWC from two aspects: from the managerial point of view, in which the highest value of the working capital is desirable, and from the point of view of the owner, who prefers minimum net working capital; the large amount of funds deposited within current assets is not very effective for the owners.

Table 14 – Analysis of net working capital

NWC	2013	2014	2015	2016	2017
Inventory	88 673	96 777	104 989	107 968	101 401
Short-term receivables	100 100	40 597	82 074	83 047	125 048
Long-term financial assets	53 641	89 479	64 303	0	0
Other sources	16 478	14 406	20 824	25 496	40 005
Short-term bank loans	0	0	0	0	0
Accruals of liabilities	354	886	1 119	816	1 123
Net working capital	**225 582**	**211 561**	**229 423**	**164 703**	**185 321**

Source: Author

Net working capital was positive throughout the selected period. The lowest value was 164, 703 thousand CZK in 2016. Contrariwise the highest value was reached the previous year in 2015. Net working capital was affected by the evolution of the asset structure and its resources. Long-term financial assets decreased every year while other sources increased. We can consider the amount of NWC as a sign of good financial situation; the company did not have any uncovered debt and had enough financial reserves in the event of unforeseen situations. The development of NWC

was positive in terms of liquidity. However, excessively large NWC can reduce profitability and does not represent earnings, which is the situation in SPORTEN.

2.3.2 Turnover cycle of money

Graph 8 – Turnover cycle of money

Turnover cycle of money	2 013	2 014	2 015	2 016	2 017
■ Inventory turnover time	111,0	113,0	101,4	174,3	134,3
☐ Collection time of receivables	237,9	205,7	247,4	140,5	170,5
■ Payback of short-term payables	21,8	16,8	20,4	70,5	86,5
■ Turnover cycle of money	327,1	301,9	328,4	244,4	218,4
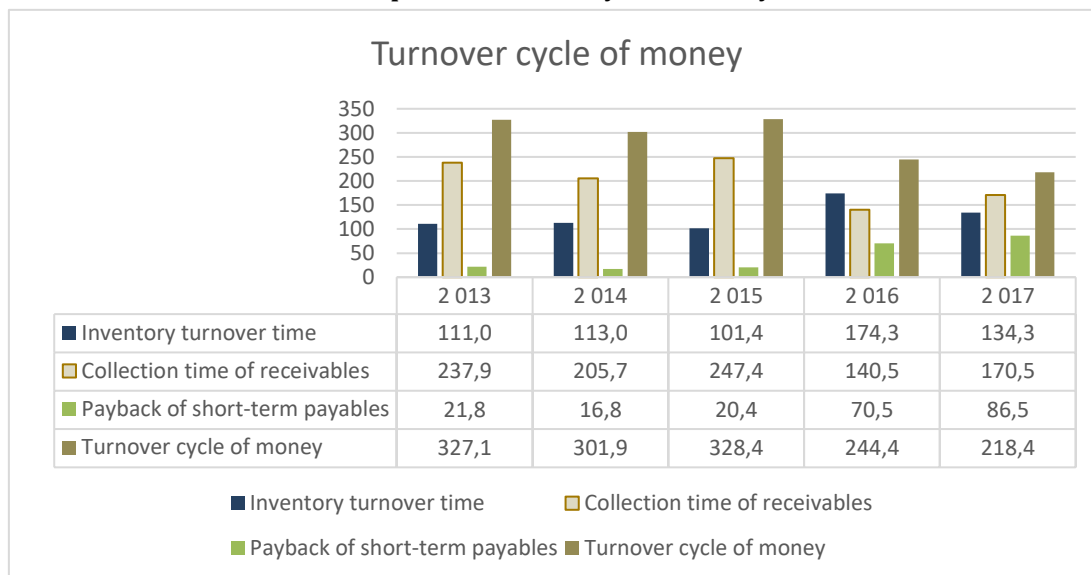
Source: Author

Note: Values are determined in days

The graph shows that the largest role was played by collection time of receivables. This situation was caused by unpaid receivables of Faction. The negative phenomenon is that the short-term payables exceeded the collection period for short-term receivables over the entire selected period. Turnover cycle of money gradually decreased. The lowest value was the last year in 2017. The turnover cycle of money was 218 days, of which 134 days were from inventory turnover time. The collection time of receivables was 171 days. The number of days achieved means that the company had to finance these 218 days of production with its own funds.

Table 15 – Turnover cycle of net working capital

The need of net working capital	2013	2014	2015	2016	2017
Inventory turnover time	111.0	113.0	101.4	174.3	134.3
Collection time of receivables	237.9	205.7	247.4	140.5	170.5
Payback of short-time payables	21.8	16.8	20.4	70.5	86.5
Turnover cycle of money	327.1	301.9	328.4	244.4	218.4
Average daily operating expenses	915.1	1017.2	1203.2	556.0	672.7
Need of NWC	299 323	307 067	395 059	135 873	146 882
NWC	225 582	211 561	229 423	164 703	185 321
Surplus / lack of NWC	**-73 741**	**-95 506**	**-165 636**	**28 830**	**38 439**

Source: Author

The need for working capital was calculated by using the money turnover cycle and average daily operating costs. The need for working capital arose in 2016. In 2017, the daily operating expenses increased despite the shortening of the money turnover cycle; the need for capital increased.

2.3.3 Indicator of NWC´s share of assets

Table 16 – Indicator of the ratio of NWC to assets

	2013	2014	2015	2016	2017
NWC/A	76.7%	63.0%	64.1%	52.8%	57.3%

Source: Author

Table 14 shows the evolution of net working capital to assets. In any year the indicator did not reach the recommended value and it is evident that it gradually moves away from the ideal values. The positivity is that the value decreases every year. While in the base year 2013 the indicator value was 76.7%, in 2017 it reached 57.3%. From the financial stability point of view, it is appropriate that a portion of current assets be covered by long-term resources. If this part of the current assets is excessively high, the capital is not used and is bound in the company in the form of stocks and receivables.

2.3.4 Indicator of the share of NWC in current assets

Table 17 – Share of net working capital on current assets

	2013	2014	2015	2016	2017
NWC/CA	93%	76%	76%	64%	68%

Source: Author

The ideal value is between 30-50%. The recommended interval of values was exceeded in almost all monitored years. This increase was due to a sharp decline in short-term liabilities. In the last two years it decreased by 68%.

2.3.5 Profitability of net working capital

Table 18 – Profitability of net working capital

	2013	2014	2015	2016	2017
R/NWC	68.1%	76.0%	85.1%	155.6%	116.4%

Source: Author

Outperforming sales growth - SPORTEN is unable to grow business. The company does not manage to grow and must have more capital to raise new sales, which spins.

2.4 Analysis of ratios

The chapter is devoted to the analysis of ratios, indicators of profitability, liquidity, activity and indebtedness. The analysis of capital market indicators is deliberately omitted as SPORTEN does not hold publicly traded shares.

2.4.1 Profitability indicators

The development of the profitability indicators can be summarized in the following graph.

Graph 9 – Development of profitability indicators

	2 013	2 014	2 015	2 016	2 017
ROE (EAT/E)	3%	5%	6%	7%	8%
ROA (EBIT/A)	1%	5%	6%	9%	8%
ROS (EAT/R)	6%	10%	10%	10%	9%
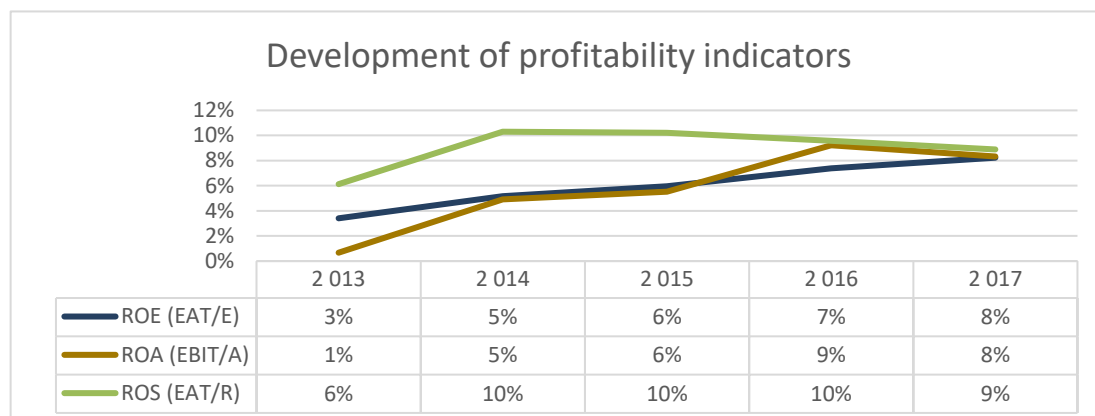
Source: Author

The ROE calculation is based on the Net Earnings (EAT) and Equity ratios so that we can monitor the profitability development without including interest and tax on profits. The calculation is then more beneficial for owners who are interested in a rather pure yield, which is intended to be distributed, rather than the gross yield. The ROE increased during the whole reporting period. It was 3 % in 2013 and 8 % at the end of the reporting period. The equity evaluates in the reporting period. SPORTEN has no bank loans.

Return on total capital is the ratio of profit to total assets and shows how efficiently these assets have been spent. In my calculations, I worked with a profit versus EBIT (Profit Before Tax and EBIT) version of the total capital. Assets include all the invested capital and the right side of the balance sheet. The company performance enormously increased from 1 % in 2013 to 8 % in 2017.

Unlike the previous indicators, ROS works with the value of revenue instead of assets. The calculated value indicates the amount of profit realized from CZK 1 of revenue. A pointer is referred to as a profit margin and serves to express a profit margin, a statement of net profit from the company's revenue. Net profit was used to calculate the indicator.

2.4.2 Liquidity indicators

The ability of an enterprise to convert its short-term assets (stocks, receivables, etc.) into cash and pay off their liabilities. The resulting figure was calculated on the basis of short-term payables, short-term bank loans and accruals of liabilities (Krupová et al., 2005).

Graph 10 – Development of liquidity indicators

Liquidity indicators

	2 013	2 014	2 015	2 016	2 017
Current liquidity	14,71	19,22	14,48	10,02	6,66
Cash ratio	9,33	12,50	9,44	5,78	4,12
Quick ratio	3,26	6,21	3,09	0,00	0,00

Current liquidity — Cash ratio — Quick ratio
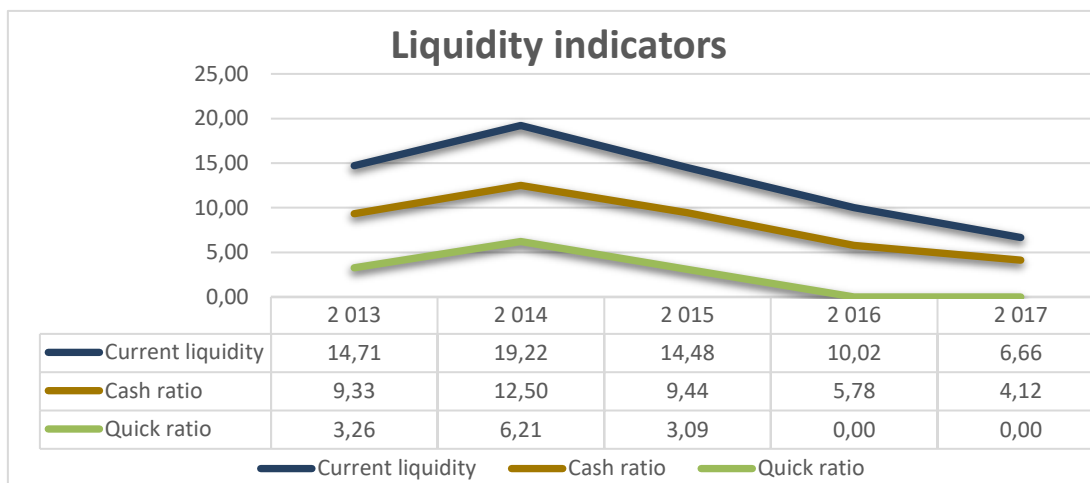
Source: Author

In addition to profitability indicators, liquidity indicators are one of the most monitored. They compare what can be paid with what needs to be paid. The result was calculated based on short-term liabilities, which include short-term liabilities, short-term bank loans and deferrals on the liability side. The value of the current liquidity was higher in the beginning of the reporting period than in the end. In 2013 was the value 14.71, while it was 6.66 in 2017. The highest value was 19.22 in 2014. These values are high comparing to what is recommended. The ideal value should be between 1.5–2.5, which none of these values accomplish. However, not all high values can be considered favourable. The slight decrease was caused by the loan from the shareholder ConsilTech in 2016 and 2017.

Cash ratio ensured the current liquidity. The first year was the value 9.33 and the last year was the lowest value of 4.12. The highest value was 12.50 in the same year as for the current liquidity in 2014. None of these values was considered ideal. The ideal value is supposed to be 1. The high value indicates the tying of assets in the form of cash ratio that brings minimal interest.

With the quick ratio the ideal value gain in the last two years. The value was 0.0, which the better one is 1. The highest value was 6.21 in 2014. The development was caused by changes in the ratio of financial assets and short-term liabilities.

2.4.3 Activity ratios

Activity ratios examine the relationship of assets and their components in relation to revenues. Activity is measured in terms of binding, turnover and turnaround times. The optimum ratio depends on the specific business conditions, especially the sector in which it operates.

The development of selected activity ratios is shown in Table 19.

Table 19 – Activity ratios

Activity ratios	2 013	2 014	2 015	2 016	2 017
Tied to total assets (A/R)	1.92	2.09	1.83	1.22	1.50
Turnover of total assets (R/A)	0.52	0.48	0.55	0.82	0.67
Turnover time of assets (A/R/365)	0.01	0.01	0.01	0.00	0.00
Turnover of receivables (R/Re)	0.34	0.32	0.35	0.45	0.40
Turnover time of receivables (Re/R/365)	0.01	0.01	0.01	0.01	0.01
Turnover of payables (R/P)	9.32	11.14	9.37	9.90	5.39

Source: Author

The lower value of tied to total assets is the better and the company´s production increase. For production companies are value below 1 considered as a favourable value. SPORTEN reached 2.09in 2014. That was the highest value, but it shows the fact, that SPORTEN had to increase sources. The positive fact is that values have been decreasing in following years.

The turnover time of assets is similar. The indicator expresses the time for which asset turnover occurs. The value was almost constant for the reporting period. The value was 0.01 in the first years and the value has reached 0.00 in 2016 and 2017.

The turnover of total assets indicates the value of indicators, which the company is able to generate from its sources. The value increased during the reporting period. The highest value was 0.82 in 2016 and it decreased to 0.67 the following year. The recommended minimum value is 1, which SPORTEN failed to meet yearly. Adverse developments can be prevented by increasing sales or divesting unused assets that hamper turnover.

Time of collection of receivables and payables

The recommended value of the receivable collection period is 50 days, its decrease can be achieved by more efficient management of the company's assets and thereby increasing the profitability. Turnover time of receivables is minimal in SPORTEN. The value was 0.01 in every reporting year.

The recommended value of the receivables collection period is 50 days. In this case is SPORTEN doing well. The value was around 9 days most of the reporting years, specifically in 2013, 2015 and 2016. The highest value was 11.14 days in 2014. The turnover of payables was higher than turnover time of receivables in every year, so

the collection from the customers took place before the company paid its own liabilities.

2.4.4 Debt ratios

Table 20 – Debt ratios

Debt ratios	2013	2014	2015	2016	2017
Indicator of credit risk (E/A)	6%	5%	6%	10%	14%
Self-financing factor (A/E)	94%	95%	93%	90%	86%
Debt ratio E (FS/E)	6%	5%	7%	10%	14%

Source: Author

The indicator of creditor risk (debt ratio) expresses the total debt of the company. The higher the indicator is, the higher and more dangerous is the debt. The indicator should range from 30 % to 60 %. The indicator of credit risk and debt ratio progressively increased. The highest value was in 2016 and 2017, because SPORTEN took a loan from the shareholder in the amount of 490 thousand CZK in 2016 and 20 000 thousand CZK in 2017. An additional indicator that corresponds to proportionality that corresponds to the company's relative activity financed by shareholder money. The self-financing factor is very high in every year of reporting period. That means that the company can repay its liabilities. The highest value was in 2014, when 95 % was financed by shareholder´s money.

The debt ratio of equity shows that the company is currently mainly financed by its own resources. The value increased in every year of reporting period from 6 % in 2013 to 14 % in 2017.

2.5 Predictions models

The following chapter is devoted to the overall characteristics of the financial and economic situation of the company and its performance, which is expressed through creditworthiness and bankruptcy models. In my thesis I will only use bankruptcy models.

2.5.1 Bankruptcy models

Index IN05

Table 21 – Index IN05

The creditworthiness indicator	scale	2 013	2 014	2 015	2 016	2 017
X1	0.13	17.30	21.75	16.05	9.96	7.07
X2	0.04	0	0	0	2614.45	214.15
X3	3.97	0.01	0.05	0.06	0.09	0.08
X4	0.21	0.52	0.48	0.55	0.82	0.67
X5	0.09	14.71	19.22	14.48	10.02	6.66
IN05		3.71	4.85	3.72	107.31	10.56
zone		prosperity	prosperity	prosperity	prosperity	prosperity

Source: Author

SPORTEN has the probability that it will not bankrupt and that will create a value. The value was more than 1.6 in every year of reporting period.

Altman´s model

A modified formula for Czech companies was used to calculate the Z coefficient. The default data is shown in the following table.

Table 22 – Altman´s analysis

Creditworthiness indicator	scale	2013	2014	2015	2016	2017
X1	0.717	0.77	0.63	0.64	0.53	0.57
X2	0.847	0.03	0.05	0.06	0.07	0.07
X3	3.107	0.01	0.05	0.06	0.09	0.08
X4	0.42	15.63	20.69	15.00	8.93	6.04
X5	0.998	0.52	0.48	0.55	0.82	0.67
Coefficient of Z		7.68	9.81	7.52	5.29	3.93
zone		prosperity	prosperity	prosperity	prosperity	prosperity

Source: Author

Based on Altman's analysis, I discovered that the company is financially healthy and that is in the prosperity zone. The Z coefficient decreased in the last 3 years up to 40 %, but it is still in the prosperity zone.

2.6 Comparison

In this section, I introduce the overall industry before comparing SPORTEN with the associated industry. I describe the characteristics of the industry from 2013 to 2017 as I make the intercompany comparison within this period.

2.6.1 Characteristics of industry

SPORTEN belongs to CZ-NACE 32 - Other manufacturing. The main CZ-NACE 32300 is the production of sport goods. The basic characteristics of the aggregation are shown in graph 11 to 12. These characteristics of industry will show the last two years. Number of employees grew by almost 14 thousand year-on-year, mostly in the manufacturing industry. Year-on-year as well as an increase in sales by CZK 252 billion (6,1 %) and an increase in total assets by CZK 76.5 billion (Ministry of Trade and Industry, 2018).

Graph 11 – Number of employees

	2016	2017
■ Industry	576364	590204
■ Mining & quarrying	22699	20380
■ Processing industry	504923	518777
■ Electricity, gas, heat, etc	25476	27429
■ Water & waste	23233	23618
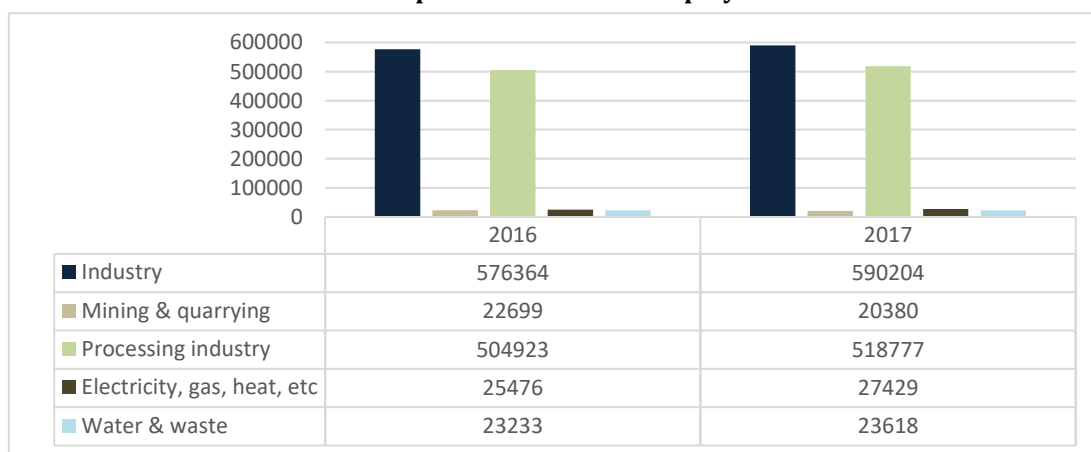
Source: MIT calculation from CZSO data 2017

The highest number of employees in other manufacturing is in industry and the second one in processing industry. However, revenues are also the highest in industry as well as in total assets. The second place belongs to processing industry and the third one to Electricity, gas, heat, etc. The lowest of all indicators is Mining & quarrying.

Graph 12 – Revenues

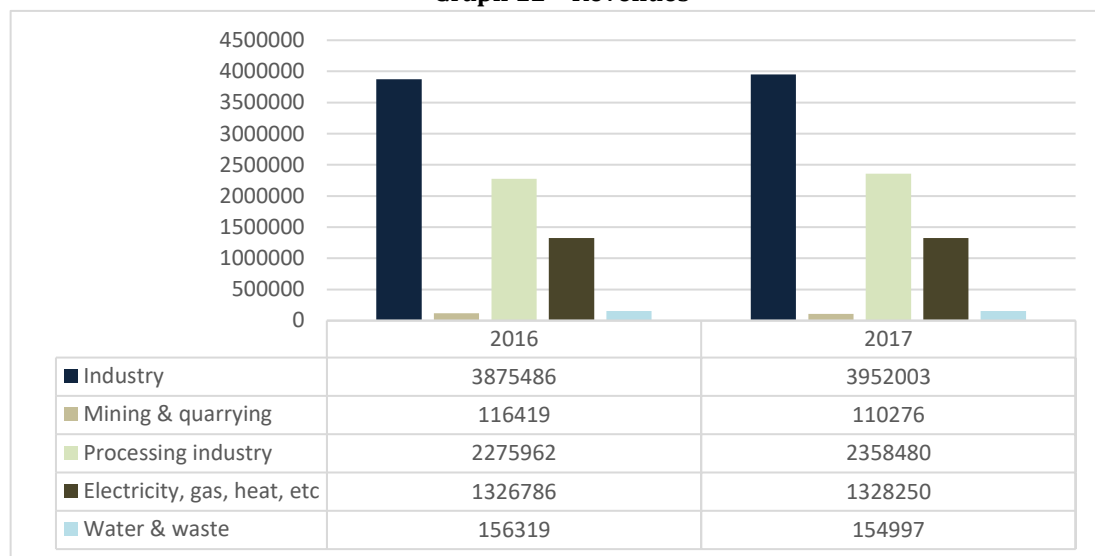|	2016	2017
■ Industry	3875486	3952003
■ Mining & quarrying	116419	110276
■ Processing industry	2275962	2358480
■ Electricity, gas, heat, etc	1326786	1328250
■ Water & waste	156319	154997

Source: MIT calculation from CZSO data 2017

Note: Values are determined in millions of CZK

Graph 13 – Total assets

	2016	2017
■ Industry	4172419	4424711
■ Mining & quarrying	68830	85413
■ Processing industry	3118383	3228165
■ Electricity, gas, heat, etc	919913	1040831
■ Water & waste	65294	70303
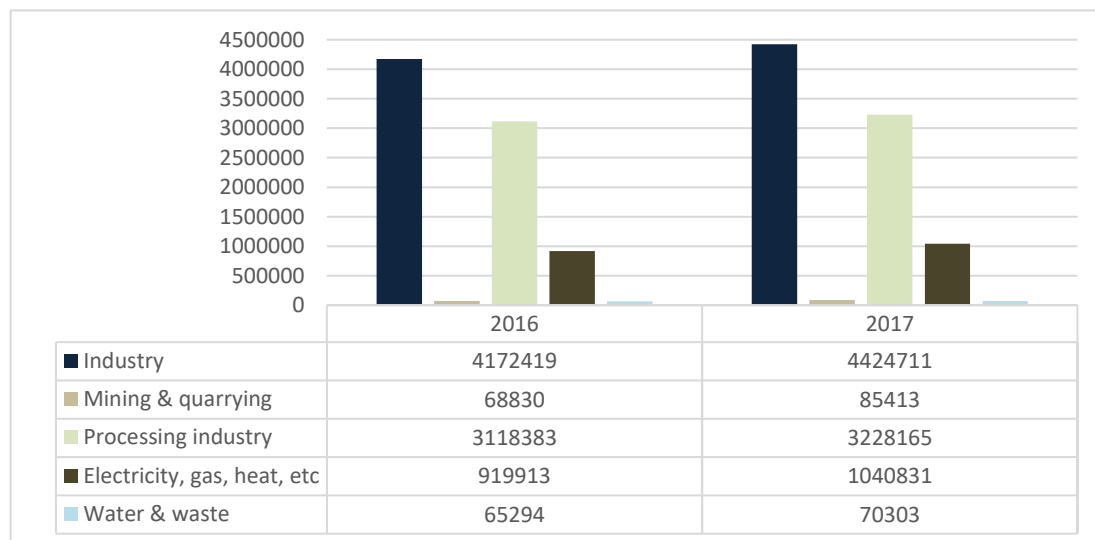
Source: MIT calculation from CZSO data 2017

Note: Values are determined in millions of CZK

I compare SPORTEN indicators with the industry based on the data in the following tables. I choose the 3 main indicators for comparison, which are total assets, turnover, and EBIT. These indicators are considerable: total assets of the industry are 29.329.447 thousand CZK and of SPORTEN 294.192 thousand CZK in 2013. This

means that SPORTEN covers with its assets 1% of the entire industry. When we compare the beginning and end of the reporting period, we see a significant increase in both total assets, turnover and EBIT. This significant increase is due to more favourable snow conditions from 2015 to 2017 for SPORTEN and the overall positive economy in the Czech Republic. In 2016, the figures slightly decreased compared with 2015 in the industry, but still exceeded the values of previous years. In 2016, SPORTEN reduced the production of skis by 2,000 thousand pairs, but also recorded an 11% increase in revenues. This growth was due to the production of more expensive and more high-quality downhill skis and suitably selected investments in 2016. Year 2016 was particularly important for SPORTEN because Consillium investment group joined the company. In 2017, SPORTEN dedicated increased attention to processes and, in particular, to the technology base, which was reflected in increased maintenance and repairs. Along with the establishment of new investment projects, these steps should result in further improvements in product technical quality and quality stability, the possibility of introducing new products and productivity growth in the future.

Table 23 – Comparison

Indicators	Year	SPORTEN	Industry	Difference
ROE	2013	0.34	1.29	0.95
	2014	0.52	1.79	1.27
	2015	0.60	1.65	1.06
	2016	0.74	1.81	1.07
	2017	0.82	1.52	0.69
ROA	2013	0.32	0.63	0.31
	2014	0.49	1.15	0.66
	2015	0.55	1.12	0.57
	2016	0.92	1.17	0.25
	2017	0.83	1.10	0.26
Total assets turnover ratio	2013	0.52	0.72	0.20
	2014	0.48	0.83	0.35
	2015	0.55	0.94	0.39
	2016	0.82	0.74	-0.08
	2017	0.66	0.73	0.07
ROS	2013	0.61	0.87	0.26
	2014	1.03	1.48	0.45
	2015	1.02	1.20	0.18
	2016	0.81	1.58	0.77
	2017	1.06	1.50	0.44
Equity ratio	2013	9.39	5.78	-3.61
	2014	9.51	5.77	-3.74
	2015	9.35	5.28	-4.07
	2016	8.97	5.09	-3.88
	2017	8.55	5.64	-2.91
Current ratio	2013	14.71	1.68	-13.03
	2014	19.22	1.47	-17.75
	2015	14.48	1.17	-13.31
	2016	10.02	1.06	-8.96
	2017	6.79	1.13	-5.66

Source: Author

Note: Values are determined in percentage point

Return on equity expresses the return on capital invested by the business owner. The higher percentage the company has, the better. I note a percentage increase in SPORTEN from 2013 to 2017. The industry has fluctuating tendencies. The increase in capital occurred in 2014, which led to the resulting ROE in that year. Profit grew

about 19% in 2014. Favourable results were achieved mainly due to the increase in the efficiency of the company where the indicator spread improved thanks to the ROE. Another significant impact was the reduction in risk, when the portion of it measured by the return on 10-year government bonds dropped. However, the internal factor reducing the profitability of equity by owning the business sector had an adverse effect on ROE in 2016. The engine of growth was the manufacturing industry that benefited from growing domestic and foreign demand, at lower cost of raw materials and energy. By contrast, low energy prices are unfavourable in year-on-year developments in mining and energy production. Based on lower energy prices, SPORTEN decided to use electricity from the operation of photovoltaic power plants for its own purposes.

Return on assets have increased for SPORTEN and for industry in the reporting period. It was more significant for SPORTEN. The company invested in the acquisition of new machines and the profit increased due to favourable snow conditions. In the industry, profits and assets also increased due to a strong economy.

The asset turnover ratio can be used as an indicator of the efficiency with which a company uses its assets to generate revenue. Value is assumed to be higher than 1, which none of SPORTEN and industry fulfil. Total assets turnover has a growing tendency for SPORTEN. Compared to the industry, SPORTEN has lower value, apart from year 2016 when the ratio increased to 0.82 for SPORTEN and 0.74 for industry. This increase for SPORTEN was caused of higher revenues and investments to LINKA NIS and a robot drilling line. In the following year there was a decrease in the company and in the industry. There are significantly negative defects in the supply of certain materials and semi-finished products (especially plastic), as well as the difficulties with their quality, which affected SPORTEN and the whole sector.

The difference in return on sales between SPORTEN and industry is not as high as are the other ratios. The normal value is between 2% - 50%, which the company and industry fulfil. It is usual to have a lower value in this segment. SPORTEN and industry rise in the reporting period. As already mentioned, the increase was due to more positive snow conditions and the strong economy.

Equity ratio of SPORTEN is high in contrast with industry. In this direction, SPORTEN managed very well and paid the total assets out of its equity. However, in 2016 it took out a loan from the new shareholder ConsilTech and its value dropped from 93.46% to 89.70%. A year later, ConsilTech provided SPORTEN with another loan and the value dropped to 85.50%.

   Current ratio of SPORTEN is high comparing to the liquidity of industry. Higher figures of SPORTEN indicate that the company is able to meet its liabilities from its short-term assets, although the values suggest that SPORTEN has large-scale supplies with a slow turnover and enforceable bundle of overdue receivables. This occurred in 2014 when the negative snow conditions caused large-scale supplies in stock. Liquidity indicator soared to 19. SPORTEN has become more efficient in the last year and liquidity is around 6.

Recommendation

SPORTEN is a ski production company, which has been on the Czech market for more than 120 years. During this period the company has gone through a lot of changes. Not only has the company changed name, but also changed their production technique. In this report I analysed the company for the 2013 to 2017 timeframe, because more information can be gained from the financial situation of the company in this time period. Based on my financial analysis I would like to point out and recommend my findings and suggested course of action to the company.

Based on the golden rule of risk settlement, I found that the company failed to reduce the amount of short-term liabilities, that represented the main component of other sources over time. This condition is beneficial for the lender, but the business owner tolerate the higher risk. SPORTEN has enormously high net working capital (NWC), which can reduce profitability and does not represent earnings. I would recommend decreasing the value of net working capital and to keep the decreased value for an extended period. This will ensure the smooth operation of the company and does not increase the risk of unnecessarily large costs of financing from long-term or own resources. In turnover of cycle money, the highest value was from collection time of receivables caused by unpaid liabilities from FACTION. I recommend reducing collection time for FACTION by providing discounts for past payments. This could provide earlier payment of invoices. Another recommendation to consider would be ensuring factoring2 for the company to minimize non paid receivables. Indicator of NWC´s share of assets is higher than is recommended - 57.3 % compared to 15 %. The value decreased by 19.4 % compared to 2013 and 2017, which is the positive indicator for the company. If the indicator of NWC´s share of assets is too high, it can cause unused capital, which is the case of SPOTEN. I would recommend decreasing the net working capital to the company to lower the value of the indicator. Based on the profitability of net working capital, SPORTEN does not handle well its own growth. The situation has changed and little bit improved last two years, but before that the net working capital exceeded revenues. Indicator of credit risk increased from 6 % in 2013 to 14 % in 2017, which is more than double. The percentage is still acceptable, but I would recommend not to take more loans from the shareholder in the future and avoid increasing the credit risk.

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2 Factoring is a financing method in which a business owner sells accounts receivable at a discount to a third-party funding source to raise capital

Based on climate change, it is necessary for the company to start focusing on the summer product selection as well. The snow conditions have improved since 2013, but the company should avoid complacency not count solely on the winter season in the future. Indeed, it appears that this year the winter season has stopped one month earlier than normal, and this may affect the coming years. Profitable items for the summer season could be bicycle, roller skates, skates or kites.

While I was searching for the information's about the company on their website my recommendation would be to make more efficient e-shop for their customers. In today´s world it is a must to have an e-shop for easy access to customers, because if not, SPORTEN is in danger of losing market share. Due to a competitive market I would recommend focusing on a new design of skis to attract a wider range of customers.

Conclusion

The aim of this thesis was to evaluate the economic situation of the company SPORTEN. To achieve this aim, I applied the elementary methods of the financial analysis to evaluate the economic situation of the company. I combined the technical analysis together with the fundamentals, while performing the analysis. Not only based on the quantitative information contained in the financial statements, but also to look for causes of the development and in external influences such as the market situation of SPORTEN. I asked three questions at the beginning of my research, which I tried to answer in my thesis. The questions were: *"How can the overall financial health of the examined company be assessed in the reporting period?", "Is the company able to meet its liabilities?"* and *"How does the company compare within its industry?".* Since SPORTEN is a production company that produce skis and snowboards, snow conditions are the one of the most powerful influencers on this company. The development of this company in the selected period was very interesting, because we were able to see it in an unfavourable position due to suboptimal snow conditions in 2013 and 2014. Due to this, we saw lowered revenue, which decreased by 28 % in 2013 and a further 44 % to 160 734 thousand CZK the following year. During this time, the number of employees fell to its lowest number, which was 150 employees, due to a reduction in cost and cost savings. Profitability is reflected in the ratios as ROE, RAO and ROS, where values were the lowest in the reported period. SPORTEN faced financial difficulties in 2013, but this was also a true for the rest of the industry. This was also caused by the enduring global economic crisis from 2009 and thus reduced demand for goods in the Czech Republic. Out of the years analysed, 2013 was the least successful year for SPORTEN, along with the rest of the industry. In 2014, SPORTEN lost its cooperation with Decathlon, which was in the overall financial appreciation for that year as well. These all-pricing factors have caused a 20 % reduction in registered capital, which has subsequently been shifted to equity funds. The profitability of the company and industry increased comparing to the previous year. Snow conditions improved and with it the demand for skis. With the increasingly favourable employment development and low inflation, the overall industry started to flourish.

Even more favourable prospects for the company appeared in 2015 when the snow conditions improved significantly, and the company's revenue increased by 18 % to 195 218 thousand CZK. With higher demand, the production increased and with it the need for more employees as well. SPORTEN started to approach the profitability ration of the industry, which slowed to 4% profitability of ratios compared to the year before. Between 2015 and 2016, the most significant decrease in current assets was 15 % for the company. This drop was caused by the contradiction of Melt Sports

GmbH, which created the ski order previously referenced and subsequently refused to remove it. This dispute was brought to trial in 2017. 2016 was the most successful year for the industry based on profitability ratios. The value reached the highest number in the reported period. Considerable improvements were in return on equity and return on assets. These abnormal values were caused by the strong economy in the Czech Republic. The highest profitability ratio for SPORTEN was in return on assets and which connected to total assets turnover ratio. This was caused by a new investment in the technology of grinding Montana. The profitability ratios of SPORTEN were still lower than to industry. In the following year, revenue continued to increase, and in 2017 it went up by 16 % to 256 308 thousand CZK compared to 2016. SPORTEN increased its inventory in 2016 and 2017. The total value added increased by 22 % in 2017 comparing to 2016. The total value added of SPORTEN is positive and it covers personal costs. In 2017, increased attention was also paid to process organization and the technology base, which was reflected in increased maintenance and repair costs. Together with the establishment of new investment projects, these steps should result in further improvements in the technical level of products, quality, the ability to bring new products and increase productivity in the future. Financial success was helped by long winter and good economic situation in the Czech Republic in 2017.Even though, SPORTEN has lower profitability ratios than industry, the business is increasing its wealth and is more likely to keep its position on the market.

Based on the findings in my report, SPORTEN is trending very positively and is financially stable. It pays its liabilities on time, has good financial health and prosperity based on the calculations of absolute indicators, analysis of ratios, analysis of net working capital (NWC) and bankruptcy models. Profit covers its costs; however, it shows an increased percentage of other sources due to loans from the shareholder´s company ConsilTech in 2016 and 2017 in reported period. This loan was caused by a non-paid receivable from the company FACTION and we could see it by decreasing the current ratio. Comparing to industry, SPORTEN has a better prosperity by 5.66 percentage point. Significant negative defects in the supply of certain materials and semi-finished products (mainly plastic), affected the entire industry in 2017. Another negative impact was the development of the CZK currency against all major export currencies.

Based on my evaluation of SPORTEN, the company has a bright future and if it follows its current trajectory, should firmly settle in next its industry peers in the not so distant future.

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Appendix

1. Appendix – Profit and loss statement of SPORTEN, a.s.

PROFIT AND LOSS	SPORTEN, a.s.				
	2012/13	2013/14	2014/15	2015/16	2016/17
Sales of goods	15695	8805	12646	13859	23603
Cost of goods sold	137901	151 929	182 572	10317	19229
Power consumption	137406	161 062	189118	123819	149569
Personal expenses	55931	53281	57358	65722	66948
Adjustments to intangible and tangible fixed assets	8336	8177	9191	10424	12468
Revenues from long-term assets sold	50	1 802	1 517	5357	744
Net book value sold by DM	0	1 555	1 019	200	880
Changes in inventories from their own activities	-4477	4285	1 024	-4397	4664
Other operating income	741	4351	2 805	7652	5933
Other operat. costs	2215	4588	9699	2619	9192
Operation. profit	1965	16 508	19 744	28759	26983
Interest income	1409	600	1594	1884	12
Interest charges and similar charges	0	0	0	11	126
Other financial income	6525	708	323	173	893
Other financial costs	489	544	1 720	585	4990
Financial results	7445	52	197	1461	-4211
Income tax	-3094	1 633	2090	9574	0
Profit before tax	9410	16560	19941	30220	22772
Profit after tax	12504	14927	17851	20646	22772
Profit / loss for the accounting period	12504	14927	17851	20646	22772

2. Appendix – Total revenues of SPORTEN, a.s.

PROFIT AND LOSS		SPORTEN, a.s.				
		2013	2014	2015	2016	2017
Total Revenues		153596	169867	195218	215733	256308
B	Sales of goods	15695	8805	12646	13859	23603
B.I	Power consumption	137406	161 062	189118	123819	149569
B.II.	Sales of goods and services	137901	151929	182572	201874	232705
B.III	Changes in inventories from their own activities	-4477	4285	1 024	-4397	4664
C.	Activation	3982	4848	5522	-4483	-4674
C.I.	Revenues from long-term assets sold	50	1 802	1 517	5357	744
C.II.	Other operating income	741	4351	2 805	7652	5933
C.III.	Interest income	1409	600	1594	1884	12
C.IV.	Other financial income	6525	708	323	173	893

3. Appendix – Total expenses of SPORTEN, a.s.

PROFIT AND LOSS		SPORTEN, a.s.				
		2013	2014	2015	2016	2017
Total Expenses		149647	160316	188036	220441	253204
A	Cost of goods sold	11297	6 405	10 438	10317	19229
B	Power consumption	76688	90 276	107239	123819	149569
B.I.	Consumption of material and energy	65541	77989	90951	103372	111512
B.II.	Services	11147	12287	16288	10130	18828
C.	Personal expenses	55931	53281	57358	65722	66948
C.I.	Labor costs	38543	34708	38163	49101	49247
D.	Income tax	-3094	1 633	2090	9574	0
E.	Adjustments to intangible and tangible fixed assets	8336	8177	9191	10424	12468
O.	Other financial costs	489	544	1 720	585	4990

4. Appendix – Total assets of SPORTEN, a.s.

ASSETS		SPORTEN, a.s.				
		2013	2014	2015	2016	2017
Total Assets		294192	336068	358120	311904	323464
B	Fixed assets	50821	58262	55976	58262	55453
B.I	Intangible fixed assets	561	472	1081	1484	1563
B.II.	Tangible fixed assets	50260	56255	54895	53969	55193
B.III	Long-term financial assets	0	1535	0	0	0
C.	Current assets	242423	276 853	301594	255458	266399
C.I.	Stocks	88673	96777	104 989	107698	101401

C.II.	Long-term receivables	9	50000	50228	0	26
C.III.	Short-term receivables	100100	40597	82074	83047	119728
C.IV.	Short-term financial assets	53641	89479	64303	0	0
D.I.	Accruals	948	953	550	993	309

5. Appendix – Total liabilities of SPORTEN, a.s.

Liabilities		SPORTEN, a.s.				
		2012/13	2013/14	2014/15	2015/16	2016/17
Total Liabilities		**294192**	**336 068**	**358120**	**311904**	**323484**
A.	Equity	276171	319 732	334684	279771	276578
A.I.	Registered capital	89539	34989	34989	34989	34989
A.II.	Capital funds	-438	102 966	102 966	102634	103330
A.III.	Reserve funds	18194	0	0	0	0
A.IV.1	Retained earnings of past years	156372	166 561	178646	121333	121333
A.V.	The result of economic activities during standard financial period	12504	14927	17 851	20646	16763
B.	Foreign sources	17007	15450	22317	31317	45765
B.I.	Reserves	1189	1 019	1 493	5424	5780
B.II.	Long-term liabilities	0	25	0	397	0
B.III.	Current liabilities	16478	14406	20824	25496	40005
B.IV.	Bank loans and bailouts	0	0	0	0	0
C.I.	Accruals	354	886	1 119	816	1123

6. Appendix – Forms of profit in financial analysis for SPORTEN, a.s.

	2 013	2 014	2 015	2 016	2 017
EAT	9410	16560	19941	20646	22772
EBT	9410	16560	19941	30220	22772
EBIT	1965	16508	19744	28759	26983
EBITDA	10301	24685	28935	39183	39451
EBITDA margin	*7%*	*15%*	*15%*	*18%*	*15%*

7. Appendix – Forms of profit in financial analysis for SPORTEN, a.s