

# **A Financial Analysis of Palmira Service s.r.o. for the Period 2016-2019**

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## **ABSTRAKT**

Tato bakalářská práce se zabývá finanční analýzou společnosti Palmira Service s.r.o. Cílem této práce je provést finanční analýzu účetních výkazů společnosti za roky 2016-2019 zhodnocením finančního zdraví a stability podniku. V teoretické části práce jsou popsány nástroje, metody a zdroje finanční analýzy. V praktické části je představen podnik Palmira Service s.r.o., na nějž jsou aplikovány metody zmíněné v teoretické části. Na závěr jsou doporučeny kroky ke zlepšení finančního řízení podniku.

Klíčová slova: finanční analýza, horizontální a vertikální analýza, rentabilita, aktivita, likvidita, zadluženost

## **ABSTRACT**

This bachelor thesis deals with the financial analysis of the company Palmira Service s.r.o. The aim of this work is to make a financial analysis of the company's financial statements for the years 2016-2019 by evaluating the financial health and stability of the company. In the theoretical part of the work the tools, methods, and sources of financial analysis are described. In the practical part the company Palmira Service s.r.o. is introduced and analysed by the methods described in the theoretical part. Steps for improving and proposals of financial management of the company are recommended at the conclusion.

Keywords: financial analysis, horizontal and vertical analysis, profitability, liquidity, indebtedness

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## INTRODUCTION

A financial analysis of Palmira Service s.r.o. was chosen as the topic of this bachelor's thesis. This company, as the name implies, provides services in the field of electronics. A very interesting development has taken place in this company in recent years. This company is relatively new on the Ukrainian market and already makes a significant progress. This, in fact, was decisive in choosing a financial analysis of Palmira Service s.r.o. as a topic of this bachelor thesis.

The aim of the work is to develop an external financial analysis for Palmira Service s.r.o. in the years 2016-2019, and to identify possible drawbacks of the financial system. Also, after the analysis, solutions and possible steps which could lead into company's improvement will be provided.

A financial analysis reveals a lot of new and useful information which can be used in several ways for company. Either for comparing with other companies from the same field or for predicting potential problems. Or even to develop strong sides of the company. Businesses can also find information about their competitors, because all the necessary documents are available online, and then have a better understanding about others' financial success. The firm often faces the more difficult conditions because of the higher rate of competitiveness. On the other side, company can use those changes to convert them into its competitive advantage and be more profitable.

The bachelor's thesis will be divided into two parts: theoretical and practical. In the theoretical part, will be mentioned the methodology, which will be used in practical part, what data we need to make a financial analysis and who produces and uses financial analysis. The practical part focuses on applying specific tools to a given company. Also, in this basic information about Palmira Service s.r.o. and their business models will be presented.

For financial analysis will be used horizontal and vertical analysis of financial statements. Following steps employed are methods of ratio analysis. This method is valuable source of information about the company by counting its liquidity, profitability, activity and debt policy. The analysed period of time is four years, from 2016 till 2019. The result of the financial analysis will show the disadvantages of the financial system and will assess the situation in Palmira Service s.r.o.

## **I. THEORY**

## 1 THE ROLE OF FINANCIAL ANALYSIS

For financial and senior managers a financial analysis is a vital part of his life. Analysis helps them to assess the financial situation of the company and determine if the company is profitable enough, if the company has a good capital structure which will cover unexpected problems. Financial analysis also indicates if the company's assets are used efficiently and if they are able to repay its liabilities on time. Based on financial analysis, companies make their decisions about capital structure, price and dividend policy, as well as investment planning. Correct understanding of current financial situation in a certain company allows managers to make the right decisions in strategic planning. (Knápková, Pavelková, Remeš, Šteker 2017, 17)

In other words, the main task of financial analysis is to assess the financial situation of a company using a variety of indicators. Business should have an optimal capital structure that should bring maximum profit and cash flow. (Wahlen, Bradshaw and Baginski 2017, 2)

### 1.1 Users of financial analysis

Information about the financial condition of a company is important for many users who are associated with this organization. Financial analysis is important for shareholders, lenders and other users, as well as for corporate managers. Each of these groups has its own interests associated with a certain type of economic task. These users can be divided into two main groups: internal and external users. (Grünwald and Holečková 2010, 28)

#### 1.1.1 Internal users

Internal users are users which are somehow included in the business. For instance, they are managers, employees of senior positions, owners, shareholders, equity investors and creditors. Business management is one of the most important users of financial analysis. Results uses for operational and strategic financial management of the company (such as decision-making process on capital structure, investments, size and structure of authorized capital, profit distribution etc.). (Grünwald and Holečková 2010, 27-28)

##### **Owners and investors**

The main interest of owners and investors is to maximize the market price of the company, profitability and stability of the company. Based on financial analysis, they can also control the effectiveness and strategy of the company's management.

### Employees

Employees are primarily interested in the stability, prospects of the company and its prosperity. Based on these data, it is possible to assess potential wage growth and job prestige.

Table 1: Internal users of the financial statement analysis

User of Financial Statement Analysis	Primary Goal	Objectives
Equity investors	Valuation	Profitability Risk analysis Growth analysis
Creditors	Ability to repay debt	Liquidity Solvency
Management	Efficiency	Profitability Solvency Operating performance

(TEMTE, Andrew. Financial Statement Analysis. 2004. p.75)

### 1.1.2 External users

External users are people who are outside the company. They, as well as internal users, have a stake in the financial strength of the company in order to help it make investment decisions. They are financial institutions such as: banks or lending institutions, institutional investors, government, vendors, suppliers and in some cases competitors. (Grünwald and Holečková 2010, 27-28)

#### Government

Government institutions use financial analysis to compile statistical data or, for example, as an aid to policy planning.

#### Competition

Competitors focus primarily on financial condition, pricing policy, and stocks. In this case, the financial analysis serves primarily to compare own and competitive results.

#### Banks

Other external users of financial analysis include banks, which, based on the analysed data, decide on the riskiness of the company in providing loans.

## 1.2 Sources used for financial analysis

The key stages of financial analysis are created thanks to different documents, which can be conditionally divided into internal and external sources. They are also called financial statements. The financial statements of a company are a set of data reflecting the current economic position of the company, its results and changes in its financial position. Reporting is generated from accounting data.

### INTERNAL SOURCES:

- Balance sheet
- Income statement
- Cash flow statement
- Prediction of top management
- Company statistics
- Managers' report
- Auditor's report

### EXTERNAL SOURCES:

- Prediction of financial analyst
- Exchange news
- Economic news
- Official economic statistics
- Independent evaluation and prediction

The most valuable and at the same time vital internal sources are balance sheet and P&L statement. They have the most important information needed for its users. Every qualified manager who has these statements available is basically able to carry financial analysis out. (Knápková, Pavelková, Remeš and Šteker 2017, 72-73)

Any report is, first of all, a very large amount of information, so it is important to learn how to extract the very essence from it. Among the set of information, the most important indicators can be distinguished, with the help of which an opinion about the current situation is formed.

### 1.2.1 Balance sheet

A balance sheet gives us static information about firm's financial position at one specific point in time. Firm's financial composition of assets and liabilities is stated in the balance sheet. The balance sheet shows the assets owned by the company, the sources of funding for

these assets and borrowed funds. The balance sheet shows the situation not for the certain period, but for the day of the report. (Alexander 2018, 14)

The main aspect of the separation of assets is, first of all, the period of use, the speed and complexity of their transformation into cash (liquidity) in order to be able to pay the amounts due liabilities (liquidity aspect). (Knápková, Pavelková, Remeš and Šteker 2017, 38)

The left, property side is represented by assets, which are further divided into fixed and current assets. The first is called fixed assets and refers to assets, respectively. These assets, according to the law, are owned by the company for more than one year. This item is more subdivided into tangible assets, intangible assets and long-term investments. Examples of tangible assets are houses, cars or premises. Intangible assets are all assets that are intangible in the form of any kind of software, licenses or copyrights. Long-term investments are stocks, long-term loans, or works of art intended for a future business. Current assets belong to the second group. They are owned by the company for a shorter period, namely for a period which is less than one year. The item is divided into inventories, long-term receivables, short-term receivables, and short-term financial assets. The right part of a balance sheet is a capital part, the so-called liabilities, represent the structure of corporate capital. The liabilities side can also be designated in financial practice as a source of company financing. Liabilities are prioritized not in terms of timing, as in the case of assets, but in terms of ownership of funding sources. Equity is further divided into authorised capital of a company, capital funds, funds created from net profit, reserves, profit or loss of previous periods and profit or loss for the current period. The last and fourth group of balance sheet is called liabilities. This group represents all the liabilities of the company. It is divided into provisions, long-term, short-term liabilities and bank loans and borrowings. (Růčková, 2015, 23-26)

Table 2: Pro Forma Balance Sheets

<b>Scenario I</b>				
<b>Tangible assets</b>	\$1,000	\$400		\$1,400
<b>Intangible assets</b>	0	0		20
<b>Total assets</b>	1,000	400		1,420
<b>Liabilities</b>				
	800	340		1,140
<b>Shareholder's equity (SE)</b>	200	60	80	280
<b>Total liabilities and SE</b>	\$1,000	\$400		\$1,420
<b>Tangible assets/total liabilities</b>				
	1.25	1.18		1.23
<b>Total assets/total liabilities</b>	1.25	1.18		1.25
<b>Market capitalization</b>	200	60		280
<b>Scenario II</b>				
<b>Tangible assets</b>	\$1,000	\$400		\$1,400
<b>Intangible assets</b>	0	0		60
<b>Total assets</b>	1,000	400		1,460
<b>Liabilities</b>				
	800	340		1,140
<b>Shareholder's equity (SE)</b>	200	60	120	320
<b>Total liabilities and SE</b>	\$1,000	\$400		\$1,460
<b>Total assets/total liabilities</b>				
	1.25	1.18		1.28
<b>Tangible assets/total liabilities</b>	1.25	1.18		1.23
<b>Market capitalization</b>	300	90		520*

(Fridson, Alvarez 2011, 35)

### 1.2.2 Profit and loss statement

P&L can be named differently in different sources. It is also called P&L Statement (Profit and Loss) or Statement of Operations or Income statement. As a rule, if the income statement has a positive tendency, then this is a good sign for business and potential investors, while negative, on the contrary, shows that some changes have to be implemented. This is an informative document with the help of which the profitability of the activity is immediately determined. In addition, comparing the indicators of the report with similar data of the previous period, investors make conclusions about changes in business profitability, expansion of production. This report provides essential information through three main parameters. The information from the profit and loss statement is therefore an important basis for assessing the company's profitability.



The figures and information which are presented and putted in the P&L statement has a flow character. The economic result consists of current and extraordinary profit or loss. The current profit or loss is calculated by adding up the operating and financial profit or loss. (Krylov 2016, 9-10)

Table 3: Consolidated P&amp;L Statements

	2011	2012	2013	2014	2015
Net Revenues:					
Company-operated stores	\$9,632.4	\$10,534.5	\$11,793.2	\$12,977.9	\$15,197.3
Licensed stores	1,007.5	1,210.3	1,360.5	1,588.6	1,861.9
CPG, foodservice and other	1,060.5	1,532.0	1,713.1	1,881.3	2,103.5
<b>Total net revenues</b>	<b>\$11,700.4</b>	<b>\$13,276.8</b>	<b>\$14,866.8</b>	<b>\$16,447.8</b>	<b>\$19,162.7</b>
Cost of sales (including occupancy costs)	4,915.5	5,813.3	6,382.3	6,858.3	7,787.5
<b>Gross profit*</b>	<b>\$6,784.9</b>	<b>\$7,463.5</b>	<b>\$8,484.5</b>	<b>\$9,589.0</b>	<b>\$11,375.2</b>
Store operating expenses	3,594.9	3,918.1	4,286.1	4,638.2	5,411.1
Other operating expenses	392.8	407.2	431.8	457.3	522.4
Depreciation and amortization	523.3	550.3	621.4	709.6	893.9
General and administrative expenses	749.3	801.2	937.9	991.3	1,196.7
Gain on property sale	30.2				
Litigation charges			2,784.1	20.2	
Income from equity investees	173.7	210.7	251.4	268.3	249.9
<b>Operating income</b>	<b>\$ 1,728.5</b>	<b>\$ 1,997.4</b>	<b>\$ (325.4)</b>	<b>\$ 3,081.1</b>	<b>\$ 3,601.0</b>
Interest and other income	115.9	94.4	123.6	142.7	43.0
Interest expense	(33.3)	(32.7)	(28.1)	(64.1)	(70.5)
Income before income taxes	\$ 1,811.1	\$ 2,059.1	\$ (229.9)	\$ 3,159.7	\$ 3,903.0
Provision for income taxes	563.1	674.4	(238.7)	1,092.0	1,143.7
<b>Net income including noncontrolling interest</b>	<b>\$ 1,248.0</b>	<b>\$ 1,384.7</b>	<b>\$ 8.8</b>	<b>\$ 2,067.7</b>	<b>\$ 2,759.3</b>
Net income attributable to noncontrolling interest	(2.3)	(0.9)	(0.5)	0.4	(1.9)

(Wahlen, Bradshaw, Baginski 2017, 27)

### 1.2.3 Cash flow

Cash flow displays information about cash flows for the reporting period. Accounting profit does not yet reflect the full truth about our financial position. It captures the movement of funds in individual areas of activity (operational, investment, financial) for a certain period. Cash flow gives information about real available cash resources - a starting point for managing the company's liquidity. Informs about the way the company produced and used funds. Cash Flow is important for liquidity management. It measures how well a company manages its cash position which means how well the company generates cash to pay its debt obligations and fund operating expenses. It complements the balance sheet and income TBU in Zlín, Faculty of Humanities 30 statement as a mandatory part of a company's financial reports.

Cash flow is calculated directly or indirectly. The direct method tracks income and expenses separately, the indirect method adds profits that were not income to net income and subtracts expenses that were not expenses. Cash flows are tracked by both methods from operating, financing and investing activities. The CFS can be presented in 3 types: operational cash flow, investment cash flow, financing cash flow (Knápková, Pavelková, Remeš and Šteker 2017, 52-54)

Table 4: Consolidated Statements of CF

	2011	2012	2013	2014	2015
<b>Operating Activities:</b>					
Net earnings	\$ 1,248.0	\$ 1,384.7	\$ 8.8	\$ 2,067.7	\$ 2,759.3
Depreciation and amortization	550.0	580.6	655.6	748.4	933.8
Accounts receivable	(88.7)	(90.3)	(68.3)	(79.7)	(82.8)
Inventories	(422.3)	(273.3)	152.5	14.3	(207.9)
Accounts payable	227.5	(105.2)	88.7	60.4	137.7
Accrued liabilities	(81.8)	23.7	345.7	413.7	212.0
Other operating assets and liabilities	(22.5)	(19.7)	76.3	4.6	49.5
<b>Net cash provided by operating activities</b>	<b>\$ 1,612.4</b>	<b>\$ 1,750.3</b>	<b>\$ 2,908.3</b>	<b>\$ 607.8</b>	<b>\$ 3,749.1</b>
<b>Investing Activities:</b>					
Purchases, sales, maturities of investment securities	(536.0)	47.8	254.3	258.4	52.0
Acquisitions, net of cash acquired	(55.8)	(129.1)	(610.4)		(284.3)
Net additions to property, plant, and equipment	(414.5)	(850.9)	(1,151.2)	(1,160.9)	(1,303.7)
Other investments	(13.2)	(41.8)	96.1	84.8	15.7
<b>Net cash used in investing activities</b>	<b>\$(1,019.5)</b>	<b>\$ (974.0)</b>	<b>\$(1,411.2)</b>	<b>\$ (817.7)</b>	<b>\$(1,520.3)</b>
<b>Financing Activities:</b>					
Net (payments on) proceeds from short-term debt	30.8	(30.8)			
Net (payments on) proceeds from long-term debt			714.5	748.5	238.4
Repurchases of common equity shares	(555.9)	(549.1)	(588.1)	(758.6)	(1,436.1)
Cash dividends paid	(389.5)	(513.0)	(628.9)	(783.1)	(928.6)
Other	(20.2)	(59.0)	(111.0)	(84.2)	(93.6)
<b>Net cash used by financing activities</b>	<b>\$ (608.0)</b>	<b>\$ (745.5)</b>	<b>\$ (108.2)</b>	<b>\$ (623.3)</b>	<b>\$(2,256.5)</b>
<b>Net change in cash and cash equivalents</b>	<b>\$ (15.9)</b>	<b>\$ 40.5</b>	<b>\$ 1,387.1</b>	<b>\$ (867.3)</b>	<b>\$ (178.3)</b>
<b>Ending cash</b>	<b>\$ 1,148.1</b>	<b>\$ 1,188.6</b>	<b>\$ 2,575.7</b>	<b>\$ 1,708.4</b>	<b>\$ 1,530.1</b>

(Wahlen, Bradshaw, Baginski 2017, 34)

#### **1.2.4 Annual report**

This is a specific document that informs about selected areas of past, present and future business (or other) activities of the enterprise. The primary purpose of the annual report is to provide balanced and comprehensive information on the development of the entity's performance, operations and current economic position. The obligation to publish financial statements and the annual report applies to those entities that are registered in the Commercial Register or those to which this obligation is stipulated by a special legal regulation. The financial statements can be filed as part of the annual report and stored in the Collection of Documents of the Commercial Register. (Krylov 2016, 20)

## 2 METHODS AND INDICATORS OF FINANCIAL ANALYSIS

The fundamental stages of financial analysis are always carried out thanks to different documents, which can be divided into two main groups:

**Fundamental methods of technical analysis** - work with the arithmetic operations and indicators. Their main advantage is simplicity and speed. Those methods can be divided into following categories: absolute ratios analysis, proportion ratio analysis, differential ratios analysis, system of ratios analysis (Knápková, Pavelková, Remeš and Šteker 2017, 65)

The quality of the information that determines the success of financial analysis depends largely on input information used. It should be not only of high quality, but also informative. It is necessary to collect data that can actually show the results of the analysis financial well-being of the company. This data is most often taken from financial statements: balance sheets, profit and loss statement, statement of the creation and use of funds (cash flow statement).

**Higher financial analysis methods** – use more difficult mathematic methods and non-statistic methods such as: analysis of variance, regression analysis, testing statistical hypotheses, expert systems and Altman's Z-Score Model. (Knápková, Pavelková, Remeš and Šteker 2017, 65)

### 2.1 Analysis of Absolute Ratio

The analysis of absolute indicators uses the information contained in the financial statements. However, one period is not enough for an assessment, but we need to know the wider context. For this reason, we analyze indicators from the past, to better estimate the future of the company. We divide the analysis of absolute indicators into horizontal and vertical.

#### 2.1.1 Horizontal analysis

A horizontal analysis is a comparison of various changes in items reported in the financial statements in chronological order. This analysis helps us to determine the percentage by which each item has changed from last year, or how much a single item has changed in absolute terms. By using this method, it is possible to analyse both indicators during the change period and the variance of the indicators compared to the base period. The method of dynamics shows the trends of changes in the indicators under review and gives the possibility in the course of analysis to study the influence of different factors on the changes in the given indicators and to determine their value. This analysis requires data for at least

two consecutive periods. The individual items in the report are then compared horizontally (Tuovila, 2021).

### **2.1.2 Vertical analysis**

Or, column-by-column analysis analyses the structure of the report components. The basis for this analysis is the selected item, expressed as 100% (Kalouda 2016, 62). The result is the central expression of the shares of individual parts in the unit of interest, for example, the share of individual cost elements in total costs. Vertical analysis focuses on a balance sheet and an income statement. It provides us an insight into all items contained in both financial statements and focuses on their changes.

## **2.2 Analysis of Differential Ratios**

The name of these indicators is derived from the method of their calculation - they arise from the difference of two or more quantities. The source for this analysis is mainly values from financial statements, but in addition to them, other information is also used. The most significant difference indicator includes net working capital, known as NWC. (Kubíčková and Jindřichovská 2015, 97)

Among the basic funds we can include: net working capital, net quick assets, net cash assets.

### **2.2.1 Net-working capital**

Net working capital is an important indicator of a company's ability to pay its liabilities. It represents the amount of free operating funds of the company after payment of all its short-term liabilities. In the case of too high NWC, the company would finance the operation of the company from long-term external or own resources. (Fernando, 2021)

## **2.3 Ratio analysis**

Ratios are based on the compilation of individual items of statements and their groups into mutual ratios, according to which they are also named. The basic ratio indicators include the following indicators:

- Indicators of liquidity
- Indicators of activity (efficiency ratios)
- Indicators of profitability
- Indicators of solvency

### 2.3.1 Indicators of profitability

Profitability is a measure of a company's ability to generate new sources and consistently generate returns from capital invested. These ratios are used to measure and comprehensively assess the overall return on equity allocated by shareholders and lenders versus its costs and other costs incurred over a given period. If the ratios are higher or at the same level compared to competitors or previous years of business, this shows that the company is on the right way. Indicators of profitability are:

**Return on Total Assets (ROA)** - the ratio is used to measure how effectively profit is generated from the overall assets used. It is one of the most basic variables in measuring business success. It is calculated as a share of net profit and assets. (Hrdý, Krechovská 2013, 212)

**Return on Equity (ROE)**- return on equity characterizes the return on invested capital. It makes it possible to classify whether the invested funds are valued at an intensity corresponding to the investment risk. (Růčková, 2015, 60)

**Return on Sales (ROS)** – the ratio is used to measure the net income as a percentage of net sales. The value of the indicator tells you how the company can generate profit from their sales. The result is an assessment of how effectively the company uses its resources to generate profit. (Hrdý, Krechovská 2013, 13)

### 2.3.2 Indicators of liquidity

Liquidity ratios measure a company's ability to meet its short-term financial obligations. The liquidity results are based on a comparison of the most liquid assets (or those that can be easily exchanged for cash) and the company's short-term liabilities.

**Current ratio** is the most common method used for stating short-term liquidity of a company. This ratio tells us how many times a company is able to cover its liabilities in case of converting of all current assets into financial means (money on bank account or cash). (Růčková 2015, 55)

**Quick ratio** is method which is similar to current ratio. The big difference between these too is that quick ratio do not consider inventory as liquid source of financial means so inventory is subtracted from current assets in the formula.

**Cash ratio** is a method which is built on highly liquid items. The default value is around 0.5. (Kubíčková, Jindřichovská 2015, 132)

### 2.3.3 Indicators of solvency

Solvency ratios are used to measure a company's ability to meet long-term obligations and therefore avoid bankruptcy. It informs investors if the company was funded more by debt or equity. A high solvency ratio indicates the financial health of the company. An overall ratio of 20% and values above are considered as healthy. Lower values indicate the likelihood of a company default.

**Debt to equity** – the ratio indicates the extent to which a firm is using financial leverage. The recommended values of those ratios can depend on the industry. The industry with predictable earnings prefers a high ratio. Industry with nonstable earnings prefer a lower ratio.

**Debt ratio** – the ratio indicates the extent of leverage that is being used by the company. The debt ratio measures company's total liabilities (debt) to its total assets. The lower results of ratio mean the lower degree of dependence on the leverage and stronger company's equity position as well.

**Self – Financing Ratio** – the ratio indicates the extent of insolvency of owner's equity and inform about company's structure of finance. Both that ratio and debt ratio create together value. (Hrdý and Krechovská 2013, 214)

### 2.3.4 Indicators of activity

The indicators of efficiency are used to measure how well a company uses its assets and liabilities. The results of these ratios help the company to decide about questions of the inventory turnover, appropriate credit terms, efficiency of assets, etc. Those indicators are:

**Inventory Turnover** – the ratio is useful to measure how many times per year the company's inventory is turned over. It can be calculated by both formulas:

**Inventory Turnover Period** – the ratio is useful to find out the how many days is the inventory on the stock before its sale.

**Working capital turnover** – the ratio is useful to measure the amount of working capital that is required in order to produce sales.

**Assets Turnover** – the ratio is useful to measure the amount of sales which are generated from each item of the assets. The firm that calls for lower asset base and is able to have the same volume of sales, will be more attractive than firm requiring a higher asset base within the same conditions. (Nicolas, 2021)



## 2.4 Altman's Z-Score Model

Altman's Z-Score Model or as it is also called a bankruptcy identifier is based on a discriminatory analysis carried out in the late 1960s and 1980s on several dozen bankrupt and non-bankrupt companies. Professor Altman distinguished in his samples whether they were a limited liability company or a joint stock company.

Altman's analysis is one way to assess the overall financial health of a company. It is determined using a single number - the Z-score, which consists of five indicators and includes profitability, debt, liquidity and capital structure. Then, based on extensive empirical research, their weight is assigned to individual indicators.

$$Z = 0.717 x1 + 0.847 x2 + 3.107 x3 + 0.42 x4 + 0.998 x5$$

where:

x1 = Working Capital / Total Assets

x2 = Retained Earnings / Total Assets

x3 = Earnings Before Interest and Taxes / Total Assets

x4 = Book Value of Equity / Total Liabilities

x5 = Sales / Total Assets

Zones of Discrimination:

$Z > 2.9$  Safe Zone – low risk of bankruptcy

$1.3 > Z < 2.9$  Grey Zone – average risk of bankruptcy

$Z < 1.2$  Distress Zone – high risk of bankruptcy (Kenton, 2021)

## **II. ANALYSIS**

### 3 BASIC INFORMATION ABOUT PALMIRA SERVICE

"Palmira Service" S.R.O. was originally founded in Ukraine in 1997 as a subdivision of PREXIM D company. Today Palmira Service has the status - Samsung Service Plaza. This is the highest recognition by SAMSUNG COMPANY. Plaza status is a combination of experience, professionalism, quality of work, and attention to customers.

Service center "Palmira Service" has been operating as an independent unit since 2011. Initially, it was a part of Prexim-D S.R.O., as it was said before. The total number of years on the Ukrainian is 24. The service center is located and provides services for its clients in Odessa, Ukraine.

Most of the company's employees have more than 10 years of experience in working with Samsung equipment. During this time, the company was able to achieve the exclusive Samsung Service – Plaza status. Since 2012, the company annually receives the “Service # 1 in Ukraine” award, and the company continues to win and confirm this honorary title with its work. Thus, the company gains new customers and strengthens relationships with already existing customers.

Service center "Palmira Service" is one of the largest service centers in Odessa. Its area is 245 m<sup>2</sup>, of which 60 m<sup>2</sup> is occupied by a reception area for clients, 45 m<sup>2</sup> is allocated for cooperation with representatives of companies, courier services, representatives of other large companies that work with us in Odessa and Odessa region and in many other cities of Ukraine, such as Podolsk, Chernomorsk, Nikolaev, Kherson, Pervomaisk, Khmelnytsky. The rest of the area is professional modern workshops, equipped in the spirit of modern technology, warehouses where only original spare parts received from the supplier are stored, office premises that allow employees to take breaks from their hard work.

Service center engineers and customer service representatives have been trained at the Samsung Academy, where they gained all the necessary knowledge and skills to serve customers and perform quality repairs.

Spare parts are supplied directly from the manufacturer - Samsung electronics. This confirms the quality of the materials used in repairs. The company has a modern technological and diagnostic base for the repair of equipment. According to the latest data, which can be founded on the official website and which are updated every day, more than 294 thousand clients have been served and more than 378 thousand repairs have been carried out by Palmira Service. Moreover, in addition to repairs, the company carries out the selection, ordering and sale of original Samsung accessories. It is worth to mention that a lot

of successful Ukrainian companies such as "ALLO", "Comfy", "Mobilochka", "Foxtrot", "Eldorado" and "Rozetka", cooperate with Palmira Service.

### 3.1 History of Palmira Service S.R.O.

As it was mentioned before, originally there was a company which was called Prexim-D. And a service center was one of subdivisions of this company. The Prexim-D was established in 1997 by three friends, who were studying together. Their names are Andrii Bykhovskiy, Viacheslav Osyka and Yuri Semivolos. Prexim-D was a modern, progressive company that was engaged in the distribution of Samsung products from Europe and Asia in Ukraine.

One of the conditions from Samsung Company to conduct such a business was the presence of an authorized service center. Thus, Palmira Service begins to appear. Since it was 1997, and smartphones, tablets, headphones and other equipment had not yet appeared, repairs were limited to monitors from desktop computers.

Over time, the business grew rapidly, and after 9 years in 2006, a service center subdivision achieved a Plaza status from Samsung Company. What does it mean for customers? Plaza status is a combination of experience, professionalism, quality of work, and attention to customers. This is a sign of exclusivity of its kind. This achievement was the impetus for a new page in history. In 2012 a separation of the service center and the Prexim-D company happened. And from that year, Palmira Service S.R.O. began its independent history.

### 3.2 Key information about Palmira Service S.R.O.

The following table provides key information about the analysed company.

Table 5: Key information about company

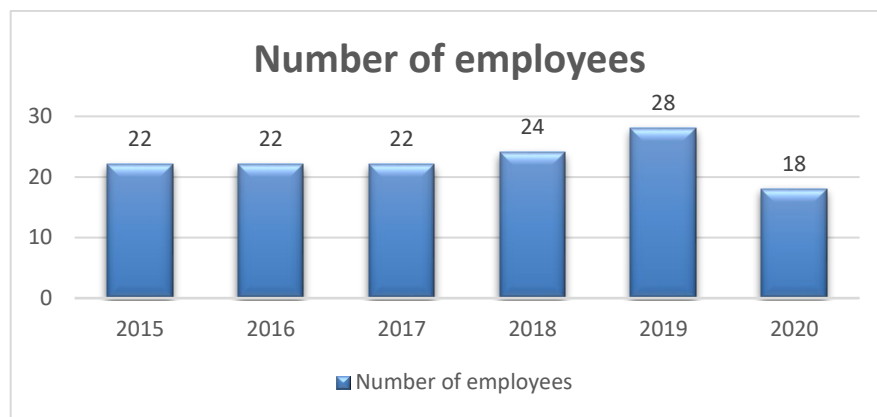
<b>Name of the legal entity</b>	Palmira Service S.R.O.
<b>Date of the entry in the Unified State Register of legal entities</b>	22.08.2012
<b>Location of the legal entity</b>	88 Lyustdorfka doroga street, Odessa 65080, Ukraine
<b>Legal form</b>	Limited Liability Company
<b>Authorized capital</b>	50 000 UAH
<b>Founder and owner</b>	Bogatyrskyi Serhii Volodymyrovych

(Ministry of justice of Ukraine, 2021)

### 3.3 Changing in the number of employees

The chart below illustrates changes in the number of employees in Palmira Service from 2015 till 2020. It can be seen that there were no significant fluctuations. Several facts influenced such a stable figures. First of all, as it was said before, to work in this company a high qualification is required, and in Odessa region there are not so many people who are able to work with Samsung products. They just do not have high enough knowledges. That is why company highly appreciate their employees and a large amount of the money is further invested in the development of the company and to train staff.

Figure 1: Number of employees



(Own processing based on data from company)

## **4 ANALYSIS OF ABSOLUTE INDICATORS**

In the practical part, the methods of financial analysis, which are very often used by managers, will be presented and shown. All users of financial analysis, from the manager to the government, always need to do everything quickly but efficiently in today's business environment. In the modern world, when every second counts, people cannot wait for weeks and make various key decisions, as this can lead to irreversible consequences. They need quick answers and solutions to make a right decision.

This part applies two of the most important and commonly used financial analysis tools. The first is called absolute analysis and the second is ratio analysis. After analysing the financial condition of the company, it will be possible to understand how successful the company's management is and advices on how to improve the financial performance will be given.

### **4.1 Analysis of a balance sheet**

In this section a balance sheet will be analysed with the help horizontal and vertical analyses.

#### **4.1.1 Horizontal analysis of a balance sheet**

The horizontal analysis serves as the ratio that shows changes between years in both currency and percentage form. It compares the historical financial data over the several periods or the ratios derived from those financial data. In order to create the horizontal analysis, the financial information for at least two years should be used, and subsequently compared to each other. Although, the horizontal analysis has some limitations because of the ongoing changes in the financial statements. The accounts such as assets, liabilities, revenues, or expenses may switch between various other accounts and that can cause dissimilarities during comparison of the accounts balances from one period to the others.

Firstly, the horizontal analysis of the balance sheet is used. The results are seen in the table 2. Those items are stated in absolute values (UAH) and in percentage as well.

Table 6: Horizontal analysis of a balance sheet

Account	31.12.2019	31.12.2020	UAH	%
<b>ASSETS</b>				
<b>Current Assets</b>				
Checking/Savings:	302 658	368 654	65 995	17
Accounts Receivable				
Accounts Receivable:	632 154	444 878	-187 276	-42
Other Current Assets				
Other Current Assets:	1 996 909	1 127 614	-869 295	-77
<b>Current Assets:</b>	<b>2 931 722</b>	<b>1 941 146</b>	<b>-990 576</b>	<b>-51</b>
<b>Fixed Assets</b>				
<b>Fixed Assets:</b>	<b>278 185</b>	<b>291 995.59</b>	<b>13 810</b>	<b>4</b>
<b>TOTAL ASSETS:</b>	<b>3 209 908</b>	<b>2 233 141</b>	<b>-976 766</b>	<b>-43</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Current Liabilities:</b>	<b>3 827 355</b>	<b>1 938 993</b>	<b>-1 888 362</b>	<b>-97</b>
Liabilities:	3 827 355	1 938 993	-1 888 362	-97
Equity				
<b>Equity:</b>	<b>-617 447</b>	<b>294 148</b>	<b>911 595</b>	<b>309</b>
<b>LIABILITIES &amp; EQUITY:</b>	<b>3 209 908</b>	<b>2 233 141</b>	<b>-976 766</b>	<b>-43</b>

(Own processing based on data from company)

The calculation of the financial indicators of the balance sheet of Palmira Service S.R.O., carried out by the horizontal method, allows to draw the following conclusions:

1) Cash flow from core activities increased by 17.9%. This was a direct result of the following ratio: total cash receipts from core activities in 2020 increased by UAH 65 995.

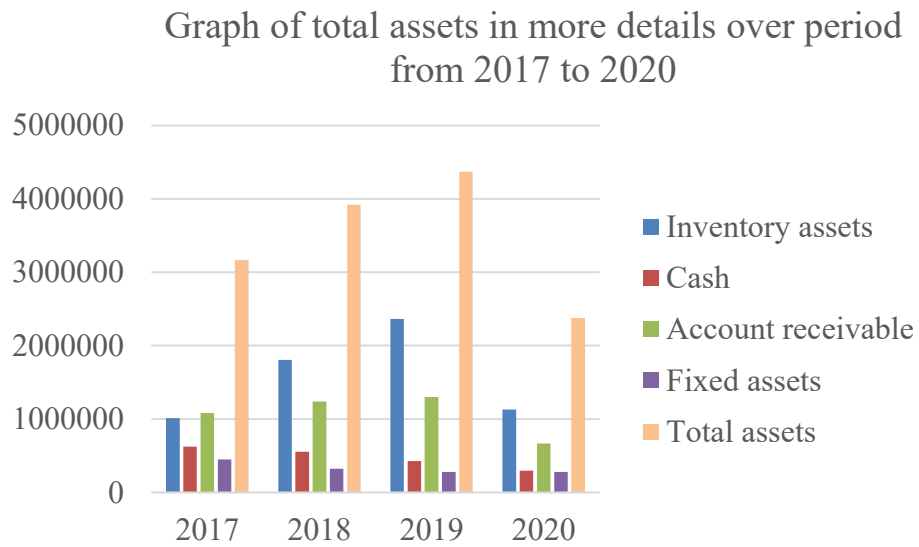
2) Due to the reduction in prices, the sale of stock balances in warehouses (inventory) was made, their total number decreased by 77%, which automatically reduced the company's total debt to suppliers (account receivable) by 42%, which in absolute terms amounted to UAH 869 295.

3) Total cash flow decreased by 51% in 2020, however, from this analysis it is clear that the financial result of 2019 was unprofitable, the loss from the company's economic activities amounted to UAH 617 447.

The main role in such a dramatic deterioration in the company's ability was played by the increase in cash payments in the form of dividends and cash payments for unreasonably high operating costs. The company was unable to compensate for the increase in these cash payments in 2019 by a corresponding increase in the receipt of money from consumers of the company's products.

A qualified financial analysis of the results of economic activities made it possible to obtain financial profit in 2020, increase it by 300% and bring the company out of a loss-making state. Three important steps were done: reduction of excess production space and reduction of rental payments for their use, decrease (reduction) in the number of administrative personnel and reduction of salaries for administrative personnel by 30-35%.

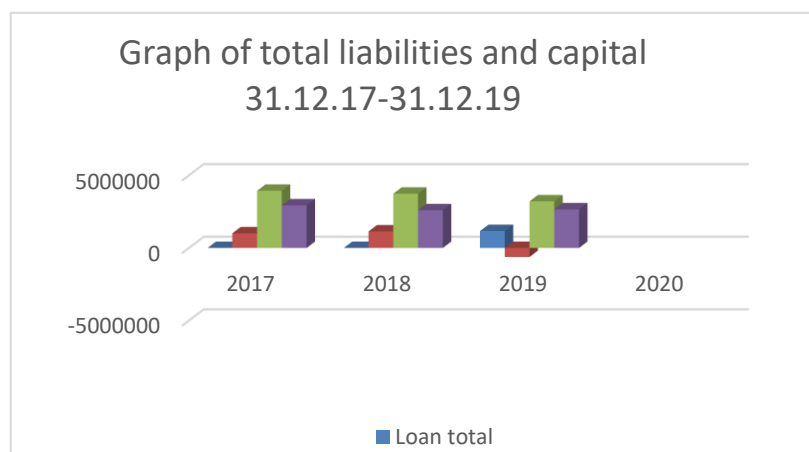
Figure 2: Graph of total assets



(Own processing based on data from company)

This diagram allows to see the change in the absolute value of the assets of Palmira Service in the period from 2017 to 2020.

Figure 3: Graph of total liabilities and capital



(Own processing based on data from company)



## 4.1.2 Vertical analysis of a balance sheet

Table 7: Vertical analysis of a balance sheet

Account	31.12.2019	%	31.12.2020	%	Change
<b>ASSETS</b>					
<b>Checking/Savings:</b>	302 658	9.43%	368 654	16.51%	7.08%
<b>Accounts Receivable:</b>	632 154	19.69%	444 878	19.92%	0.23%
<b>Other Current Assets</b>					
Inventory Asset	1 996 909		1 127 614		
<b>Other Current Assets:</b>	1 996 909	62.21%	1 127 614	50.49%	-11.72%
<b>Current Assets:</b>	2 931 722	91.33%	1 941 146	86.92%	-4.41%
Office Equipment	109 159	3.40%	122 969	5.51%	2.11%
Truck	169 025	5.27%	169 025	7.57%	2.30%
<b>Fixed Assets:</b>	278 185	8.67%	291 995	13.08%	4.41%
<b>ASSETS:</b>	3 209 908	100%	2 233 141	100%	
<b>LIABILITIES &amp; EQUITY</b>					
<b>Current Liabilities</b>					
<b>Accounts Payable:</b>	2 660 984	82.90%	1 938 993	86.83%	3.93%
LoanTotal	1 166 370				
Credit-Privat	82 330				
Credit-Aval	804 963				
Overdraft-Aval	279 077				
<b>Other Current Liabilities:</b>	1 166 370	36.34%		0,00%	-36.34%
<b>Current Liabilities:</b>	3 827 355		1 938 993		
<b>Liabilities:</b>	3 827 355	119.24%	1 938 993	86.83%	-32.41%
Opening Balance Equity	50 000,00		50 000		
<b>Equity:</b>	-617 447	-19.24%	294 148	13.17%	32.41%
<b>LIABILITIES &amp; EQUITY:</b>	3 209 908	100%	2 233 141	100%	

(Own processing based on data from company)

From the above vertical analysis of the balance, it can be seen that in the analysed period there were the following changes:

The share of account checking saving in the company's balance sheet increased by 7.08%. This means that the company has become much better at collecting money from debtors. Accordingly, the company's solvency has improved. The inventory asset decreased significantly by 11.72%, accordingly, there was an opportunity to pay off debts to suppliers, and they were significantly reduced in this period. Also, the recovered solvency of a company made it possible to repay and close all loans by the end of the financial year. Thus, the item of expenses on loans is completely excluded.

And, as a result, there were changes in the balance sheet for liabilities by -32.41%, and in this period the retained earnings of the enterprise are again positive (increased by 32.41% in comparison with the previous period).

Thus, due to timely decisions and due to their effective execution, the company's solvency was restored at the expense of its own resources without attracting external investors.

## **4.2 Analysis of income statement**

In this section the income statement will be analysed. Key figures will be shown and important steps will be described.

### **4.2.1 Vertical analysis of Income statement**

In this analysis of the profit and loss statement is proposed to have a look at the structure of the company's income and expenses for the period from 2016 till 2020. The structure of income consists of the following items:

- Gross sales (income from the sale of spare parts).
- Sales Discounts (Samsung loyalty rewards based on plan fulfillment and eligibility for Samsung Authorized Service Centers).
- Uncategorized Income (additional bonuses from the supplier company).
- Service (payment for the work of service engineers for warranty and post-warranty repair of devices).
- Gross Profit - this item displays the total income minus the cost of spare parts.

Thus, the company's income depends on the number and quality of the repairs carried out, as well as on the number of spare parts sold.

The structure of expenses consists of the following items:

- Administrative Expenses - these include costs associated with training of engineers, costs associated with obtaining permits and licenses for work performed, travel costs, and advertising and online advertising.
- Operating Expenses are the costs associated with the maintenance of company vehicles, costs associated with banking services, interest on loans, office costs, payments for the rental of industrial premises, security, Internet, communications.
- A separate item Salary GRP (salary of service center employees), which consists of the main salary + bonuses.

- Uncategorized Expenses is an expense item that displays dividends paid for the reporting period from distributed profits.
- Consumables Equipment (equipment costs).
- Consumables for Repair.
- Total taxes - taxes and fees, which consist of: income tax, land tax, Pension fund tax, VAT, military tax, personal income tax

Enterprise profit: Net Ordinary Income is the net profit from the main operating activities of the company, taking into account the paid dividends and Net Income.

Table 8: Vertical analysis of Income statement 2017-2018

<b>P&amp;L Year-to-Year</b>	<b>2017</b>	<b>%</b>	<b>2018</b>	<b>%</b>
<b>Total Income</b>	25 712 991	100	27 902 126	100
<b>Total Cost of Goods Sold</b>	18 074 567	70	18 074 567	67
<b>Gross Profit</b>	7 638 424	29	9 951 894	35.6
<b>Total Administration</b>	473 698	1.84	234 419	0.84
<b>Total Salary</b>	3 697 901	14.4	4 848 647	17.37
<b>Total Expense</b>	7 516 055	29.23	9 792 688	35.10
<b>Net Ordinary Income</b>	122 368	0.48	159 205	0.57
<b>Net Income</b>	862 009	3.35	923 097	3.31

(Own processing based on data from company)

Analysing this period, we can conclude that the financial year 2017 and 2018 were economically stable and profitable enough. Expenses and incomes were balanced, which made it possible to receive current income from operating activities. But, unfortunately, the economic crisis, which worsened in Ukraine in 2019 due to the political situation, became the reason that incomes were rapidly imbalanced in 2019, which led to a negative result at the end of the 2019 financial year and put on the brink of survival of the company. Therefore, it is proposed to consider in more detail through vertical analysis the period 2019-2020.

Table 9: Vertical analysis of Income statement 2019-2020

<b>Profit &amp; Loss Year-to-Year</b>	<b>2019</b>	<b>%</b>	<b>2020</b>	<b>%</b>
<b>Total Income</b>	21 972 924	100.00%	21 105 919	100%
<b>Total Cost of Goods Sold</b>	13 394 493	60.96%	12 823 183	60.76%
<b>Gross Profit</b>	8 578 430	39.04%	8 282 735	39.24%
<b>Total Administration</b>	439 113	2.00%	323 363	1.53%
<b>Total Automobile Expense</b>	179 319	0.82%	149 961	0.71%
<b>Bank Charges</b>	70 187	0.32%	55 912	0.26%
<b>Finance Charge</b>	92 457	0.42%	48 213	0.23%
<b>Bank Loan Percent</b>	147 400	0.67%	120 794	0.57%
<b>Total Expense</b>	10 345 759	47.08%	7 366 165	34.90%
<b>Net Ordinary Income</b>	-1 767 328	-8.04%	916 570	4.34%
<b>Net Income</b>	-920 522	-4.19%	916 570	4.34%

(Own processing based on data from company)

As it was mentioned above, in 2019 there was an imbalance between income and expenses: income decreased significantly, while expenses increased. Moreover, at the beginning of this period (at the beginning of 2019), dividends were paid based on the results of a company's activities in 2018. This payment drastically decreased the company's solvency, but the worst thing is that, unlike in previous years, operating profit continued to decline throughout 2019 and by mid-2019 became negative.

Therefore, at the end of 2019, the company's council developed a strategy for overcoming the crisis. The program for overcoming the crisis included the following steps:

- 1) Sale by all co-owners of the company their equal parts of an ownership stake and reinvestment of the proceeds in the business.
- 2) A decision was made to reduce the ineffectively used leased space.
- 3) A decision was made to negotiate about the reduction of a lease payments for the premises used.
- 4) A decision was made to reduce a part of the administrative staff, and also a decision was made to partially (by 30-35%) reduce the salary fund for administrative personnel.

In addition, decisions were made aimed at ensuring the profitable part of the enterprise (negotiations were held with chain electronics stores, with the provision of corporate service standards to them, corporate service programs for VIP enterprises were developed and proposed). For the end consumer, together with Samsung and Nova Poshta (Ukrainian non-state post), the PickUp Service program was developed, which provided free delivery for a broken device of Samsung company to the service center and from it. Thus, an end user from any region of Ukraine can contact a Samsung service center to provide repairs. The aforementioned measures made it possible to stop the decline in the volume of the revenue item and significantly reduce the expenditure item. Thus, with an almost equal income part (Gross Profit) in 2019 and 2020. 2019 – 8 578 430 UAH and, accordingly, in 2020 – 8 282 735 UAH, due to a significant reduction in expenses in 2020, Total Expenses – 7 766 165 UAH against expenses in 2019 – 10 345 759 UAH, in 2020 the company made a profit of 12.39% (Net Ordinary Income) higher and 8.53% higher for Net Income.

The key items of expenditure optimized, which made it possible to achieve such indicators, are the share of wages (Total Salary), compared to the previous period, decreased by 4.17%. Uncategorized Expenses - 3.84%. Works Expenses have been significantly reduced their share decreased by 1.37% from the total turnover. Taxes were cut by 1.35%. The total share of all expenses, compared to 2019, of the sales volume decreased by 12.18%. Thus, the following conclusion can be done: the work done to minimize costs in 2020 made it possible, with equal income in 2019, to receive a profit in the amount of 916 570 UAH at the end of the 2020, which is 8.53% more than in the previous period.

#### **4.2.2 Horizontal analysis of Income statement**

This type of analysis involves assessing the growth dynamics of individual articles. A strong and stable growth of income items is definitely a positive signal indicating the growth and development of the company, while an increase in cost items should be taken with caution. To conduct a horizontal analysis, you need to find the relative change in% of each indicator from the report compared to the previous period. Below is an example of a horizontal analysis of the income statement for Palmira Service.

Table 10: Horizontal analysis of Income Statement 2017-2018

<b>Profit &amp; Loss Year-to-Year</b>	<b>2017</b>	<b>2018</b>	<b>2017-2018 UAH</b>	<b>2017-2018 %</b>
<b>Total Income</b>	25 712 991	27 902 126	2 189 134	7.84
<b>Total Cost of Goods Sold</b>	18 074 567	18 074 567	0	0
<b>Gross Profit</b>	7 638 424	9 951 894	2 313 470	23.24
<b>Total Salary</b>	3 697 901	4 848 647	1 150 745	23.73
<b>Total Tax</b>	625 879	968 910	343 030	35.4
<b>Total Expense</b>	7 516 055	9 792 688	2 276 632	23.24
<b>Net Ordinary Income</b>	122 368	159 205	36 837	23.13
<b>Net Income</b>	862 009	923 097	61 088	6.61

(Own processing)

Table 11: Horizontal analysis of Income Statement 2018-2019

<b>Profit &amp; Loss Year-to-Year</b>	<b>2018</b>	<b>2019</b>	<b>2018-2019 UAH</b>	<b>2018-2019 %</b>
<b>Total Income</b>	27 902 126	21 972 924	-5 929 201	-26.98
<b>Bank Loan Percent</b>		147 400,73	147 400	100
<b>Total Expense</b>	9 792 688	10 345 759	553 070	5.34
<b>Total Tax</b>	968 910	1 281 379	312 469	24.38
<b>Net Ordinary Income</b>	159 205	-1 767 328	-1 926 534	- 109
<b>Net Income</b>	923 097	-920 522	-1 843 620	- 200

(Own processing)

Table 12: Horizontal analysis of Income Statement 2019-2020

<b>Profit &amp; Loss Year-to-Year</b>	<b>2019</b>	<b>2020</b>	<b>2019-2020 UAH</b>	<b>2019-2020 %</b>
<b>Total Income</b>	21 972 924	21 105 919	-867 004	- 4.1
<b>Bank Loan Interest</b>	147 400	120 794	-26 606	-22.02
<b>Total Expense</b>	10 345 759	10 345 759	553 070	5.34
<b>Net Ordinary Income</b>	1 281 379	946 029	-335 350	-35.44
<b>Net Income</b>	-920 522	916 570	1 837 092	200

(Own processing)

### 4.3 Analysis of a cashflow

The monitoring of the CFS is important with regards to the fact that there is the inconsonance between costs and expenditure, and between the revenues and receipts, profit and status of the financial sources. Cash flow represent the outflow and inflow of the financial sources of the company in the periods. Table 4 shows the cash flow statement for period from 2017 till 2020. Cashflow from operating activities is highly positive in 2017 and 2020 it had a clear effect on the final increase in cash resources. Unfortunately, as it was already mentioned, the year 2017 and 2018 were not successful at all.

Table 13: Development of cash flow

<b>Year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Cash and cash equivalents at beginning of year</b>	1 542 138	2 098 696	2 015 329	1 666 210
<b>Cash and cash equivalents at the end of year</b>	2 378 194	1 950 333	1 757 796	1 976 280
<b>Net cash outflow from operating activities</b>	836 056	-148 363	-257 533	310 370

(Own processing)

## 5 RATIO ANALYSIS

### 5.1 Liquidity ratios

In the practice of financial analysis there are three main indicators of liquidity: an absolute liquidity, an urgent liquidity and a current (total) liquidity.

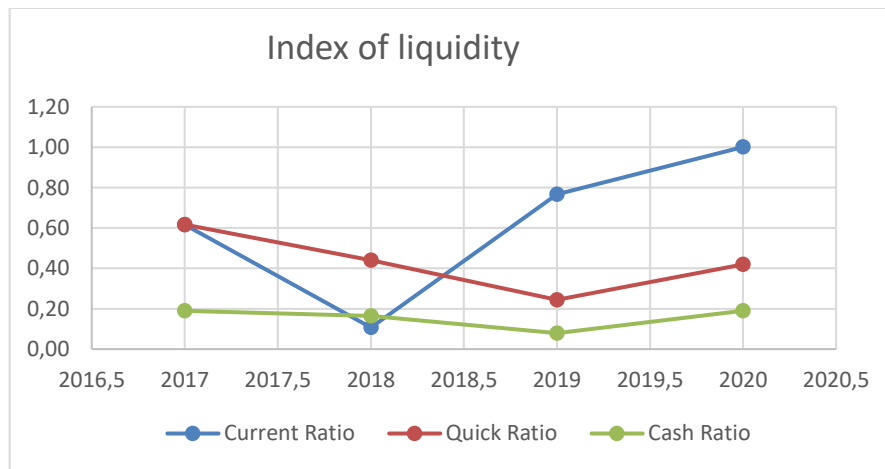
- Coefficient of an absolute liquidity (Cash ratio)
- Coefficient of an urgent liquidity (Quick ratio, QR)
- Coefficient of a current (total) liquidity (Current ratio, CR)

Table 14: Liquidity ratio analysis

	Current Ratio	Quick Ratio	Cash Ratio
<b>2017</b>	0.62	0.62	0.19
<b>2018</b>	0.11	0.44	0.16
<b>2019</b>	0.77	0.24	0.08
<b>2020</b>	1.00	0.42	0.19

(Own processing)

Figure 4: Index of liquidity



(Own processing based on data from a company)

This table shows the calculation of liquidity ratios of Palmira service. When calculating the Cash Ratio coefficient, the optimal coefficient is 0.2. From the table we can see that in 2018-2019 the company was close to this ratio. In 2019, the index fell sharply due to difficult financial situation. Thanks to smart decisions, the company managed to get out of the crisis in 2020 and the Cash Ratio ratio rose to 0.19. The higher the Quick Ratio, the better the financial position of the company. A value of 1.0 or higher is considered the norm. At the same time, the value may differ for different industries. If the ratio is less than 1, liquid assets do not cover short-term liabilities, which means there is a risk of loss of solvency, which is a negative signal for investors. The change in this index is also shown in the table. In 2017,



this indicator was the highest, then there was a decrease in this liquidity parameter and by 2020 it began to grow. The company's liquid assets again began to cover short-term liabilities. Current Ratio is a liquidity ratio that measures the company's ability to pay off short-term obligations or obligations maturing within one year. He tells investors and analysts how a company can maximize current assets on its balance sheet to pay off current debt and other payables. The dynamics of this coefficient allows us to conclude that by 2020 Palmira Service has maximized its current assets and repaid the debt. The coefficient is now 1.0. Solvency is related to the company's overall ability to pay off debt obligations and continue business operations, while liquidity is more focused on current or short-term financial accounts. To be solvent, a company must have more total assets than total liabilities; A company must have more current assets than current liabilities in order to be liquid. Although solvency is not directly related to liquidity, liquidity ratios represent preliminary expectations about a company's solvency.

## 5.2 Efficiency ratios

Table 15: Efficiency ratios

	2017	2018	2019	2020
<b>Assets turnover</b>	4.88	5.56	4.79	6.72
<b>Receivable turnover</b>	15.33	28.91	24.36	33.78
<b>Inventory turnover</b>	10.64	8.98	7.71	13.32

(Own processing based on data from a company)

The efficiency ratio is typically used to analyze how well a company uses its assets and liabilities internally. An efficiency ratio can calculate the turnover of receivable. Asset turnover is a financial indicator of the intensity of the organization's use of the entire set of available assets. There is no specific standard for turnover indicators, since they depend on the industry characteristics of the organization of production. In capital-intensive industries, asset turnover will be lower than in trade or services. Higher asset turnover desirable. Low turnover may indicate insufficient efficiency in the use of assets. In addition, the turnover depends on the rate of return on sales. With a high profitability, the asset turnover is usually lower, and with a low profitability rate, it is higher. In our case, we see a slight decrease in the coefficient in 2019 and its growth in 2020. The receivable turnover ratio measures the rate of repayment of an organization's accounts receivable, how quickly the organization receives payment for sold goods from its customers. By 2020, the ratio of accounts receivable turnover of Palmira Service took the highest value 33,78 for all four studied years.

### 5.3 Indicators of solvency

Table 16: Solvency ratios

	<b>Debt ratio</b>	<b>Debt to equity ratio</b>	<b>Equity ratio</b>	<b>Interest coverage ratio</b>
<b>2017</b>	0.74	2.92	0.26	-
<b>2018</b>	0.69	2.28	0.31	-
<b>2019</b>	1.19	-6.20	-0.19	3.44
<b>2020</b>	0.87	6.59	0.13	16.41

(Own processing)

With high Debt to Equity ratios, the company loses its financial independence and it is more difficult for it to attract additional loans. A low ratio indicates a missed opportunity by the company to increase the return on equity (share capital) by attracting borrowed funds - obtaining the effect of financial leverage. The essence of the leverage effect is that debt is almost always a less expensive source of financing than equity, because the interest cost of debt is deducted from the company's tax base, making debt less expensive. Moreover, during periods of inflation, the company pays off its debt in less expensive dollars, making it an even cheaper source of funding. In our case, the indicator is very high in 2020, however, the main task of 2019 was precisely the payment of external debt, which, in fact, was achieved as a result of the activities of Palmira Service. In the case of interest coverage ratio for 2017 and 2018 are absent, since the company had no loan obligations. Due to the difficult financial and economic situation in general, the company decides to take out a loan in 2019. Thus, in the year 2019 the ratio of interest coverage was very low in 2019 and the company was on the verge of survival. In 2020, the situation has improved a lot and the numbers prove this progress.

### 5.4 Altman Z-score analysis

The next step for analysing the sustainability of Palmira Service is Altman Z-score analysis. We will check the business for creditworthiness and the likelihood of bankruptcy. The Altman Z-Score will help us with this.

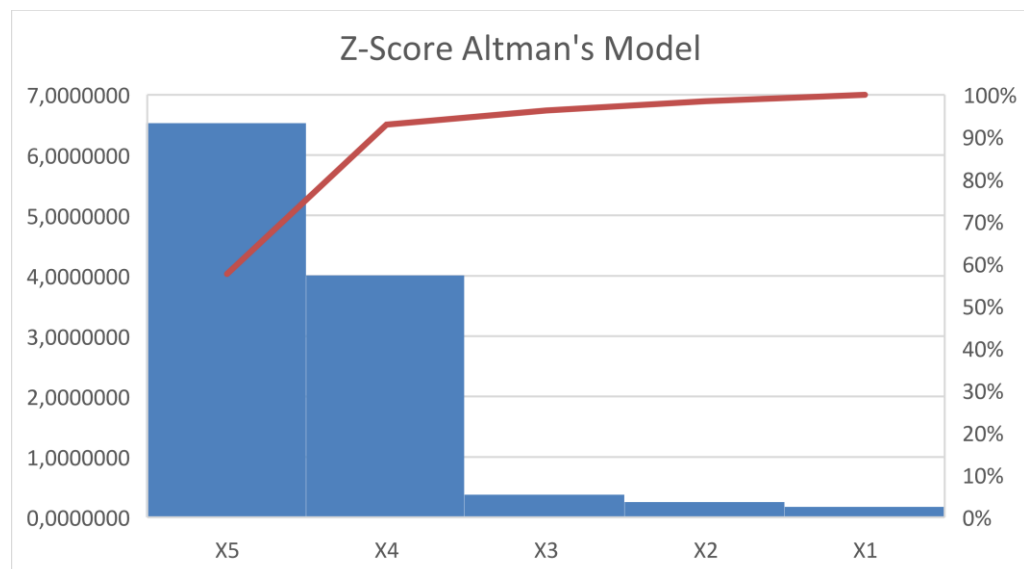
Table 17: Altman Z-score analysis

	2017	2018	2019	2020
<b>X1</b>	0.17	0.23	-0.27	0.0009
<b>X2</b>	0.25	0.30	-0.19	0.13
<b>X3</b>	0.37	0.50	0.15	0.88
<b>X4</b>	4.008	4.52	3.07	6.06
<b>X5</b>	6.52	7.46	6.84	9.45
<b>Z-Score</b>	10.74	12.55	8.60	16.20

(Own processing)

The forecast accuracy when calculating according to this model is 95% on the horizon of one year, and 83% on the horizon of two years. Thus, when choosing a company for investing using this method, you need the Z-Score to be higher than 3. The higher the Z-Score, the better.

Figure 5: Altman Z-score analysis



(Own processing)

From the above calculation, we can conclude that the company "Palmira Service" is in the low risk zone with respect to the likelihood of the company's bankruptcy. The company did not fall into the risk zone even in 2019, when its financial performance was plummeting

due to the company's difficult financial situation. This testifies to the correct management decisions

## 6 EVALUATION AND RECOMMENDATIONS

In recent years, Palmira has confidently taken a leading position in the Ukrainian market of service centers. This analysis has shown a number of events in recent years that have influenced this position. During these years, there have been both successful years and disastrous ones. But in the end, the analysis shows that the company is stable in the long-term period. On the verge of bankruptcy in 2019, the company took the necessary measures in time and today, their results are excellent. The main advantage of the company are their employees, the so-called intangible asset. Thanks to them the company can provide to their customers a very specific services in accordance with their needs and has no analogues in its region. The company also has a unique technologies that helps them in the repair process. This thesis analyses the financial condition for the period 2016-2019 of a company. The balance sheet, P&L statement and a cash flows were analysed. Also, the indicators of solvency, liquidity and efficiency were analysed.

The horizontal analysis of a balance sheet allows us to draw the following conclusions: cash flow from core activities increased by 17.9 and the total cash receipts from core activities in 2020 increased by UAH 65 995. Due to a decrease in prices, the amount of inventory decreased by 77%, which automatically reduced the company's total debt to suppliers (account receivable) by 42%, which in absolute terms amounted to 869 295. Total cash flow decreased by 51% in 2020. However, from this analysis it is clear that the financial result of 2019 was unprofitable, the loss from the company's economic activities amounted to 617 447. The main role in such a dramatic deterioration in the company's ability was played by the increase in 1) cash payments in the form of dividends and 2) cash payments for unreasonably high operating costs. The company was unable to compensate for the increase in these cash payments in 2019 by a corresponding increase in the receipt of money from consumers of the company's products.

A qualified financial analysis of the results of economic activities made it possible to obtain financial profit in 2020, which increased by 300% and bring the company out of a loss-making state.

In the vertical analysis of P&L it was proposed to consider the structure of the company's income and expenses for the period 2017-2020. Based on the analysis we can say that the years 2017-2018 were economically stable and profitable enough. Expenses and incomes were balanced, which made it possible to generate current operating income. But, unfortunately, the economic crisis, which worsened in Ukraine in 2019 due to the political

situation, became the reason that incomes were rapidly imbalanced in 2019, which led to a negative result at the end of the 2019 financial year and put the company on the brink of survival. At the beginning of 201, dividends were paid based on the results of activities in 2018. This payment sharply reduced the company's solvency, but the worst thing is that, unlike in previous years, during 2019, operating profit continued to decline and by mid-2019 became negative. Therefore, at the end of 2019, the company's management developed a strategy for overcoming the crisis.

The optimal coefficient is 0.2. From the analysis we can see that in 2018 the company was close to this ratio. In 2019, the index fell sharply due to the difficult financial situation. Thanks to smart decisions, the company managed to get out of the crisis in 2020 and the Cash Ratio ratio rose to 0.19.

The higher the Quick Ratio, the better the financial condition of the company. A value of 1.0 or higher is considered as the normal. At the same time, the value may differ from industry to industry. If the ratio is less than 1, liquid assets do not cover short-term liabilities, which means there is a risk of insolvency, which is a negative signal for investors. The change in this index is also shown in the table. In 2017, this indicator was the highest, then there was a decrease in this liquidity parameter and by 2020 it began to grow. The company's liquid assets again began to cover short-term liabilities.

From the above calculation, we can conclude that the company Palmira Service is in a low risk zone with respect to the likelihood of bankruptcy of the company. They also did not fall into the risk zone even in 2019, when their financial performance was plummeting due to the company's difficult financial situation. This is a sign of a high qualified management of a company. So, as a conclusion, I would recommend to the company Palmira Service to hold a number of events. Bring inventories to such a level that they do not exceed long-term loans in value terms. Ideally, they should be financed by own funds (equity capital). Reduce reserves that are not critical for the enterprise. For example, sell old goods at discount prices, improve warehouse storage and redistribute the additional areas freed up, Introduce a new or upgrade the effectiveness of the existing system of purchase orders, to optimize the process, review long-term liabilities in order to convert them into short-term ones. Explore the possibility of debt restructuring.

Also, for further stabilization of the financial condition of the company and increase in profit, the following set of measures is proposed: determine a minimum equity that will limit the available dividend payment. Then if it is financially possible to buy out the rented production space to reduce the most expensive item of rent expenses. Continue the

implementation and development of receiving orders from customers via the Internet using the PickUp service in order to increase the number of orders.

## CONCLUSION

The main purpose of this bachelor's thesis was to assess the financial condition and position of the Ukrainian company Palmira Service using various methods of financial analysis. This thesis is the first practical experience that allowed my knowledge and skills in the field of financial analysis and economics to be put into action. In the theoretical part I was explaining what the financial analysis is, who are using it, how it can help to different companies. Also, some specific methods of financial analysis were described. Last but not least, financial statements were shown which are used during financial analysis. In the practical part I provided a basic information about a company and also key points, such as: legal form, authorized capital, name, location and founder. Then I moved to the analysis itself. The results are shown above.

I gained deeper theoretical knowledge that was applied to the selected company. Since this work required continuous communication with the management of the company, I gained new experience in communicating with managers and people in high positions. All these experiences are important for my future career, because I plan to connect it with business analysis. Having made this analysis, I formulated my point of view on the financial situation of the company, which I stated in this work and also directly to the management of the company. I believe that new ideas can be gleaned from this analysis. At the same time, this work is a source of inspiration for the company and for me as well.



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**LIST OF ABBREVIATIONS**

CEO	Chief executive officer
CFS	Cash flow statement
EAT	Earnings after taxes
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, tax, depreciation, amortization
EPS	Earnings per share
P&L	Profit & Loss statement
ROA	Return on assets
ROE	Return on equity
ROS	Return on sales
ROI	Return on investment
WACC	Weighted average costs of capital

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