ECONOMIC CONSEQUENCES OF CCC COMPANY DECISION ON THE BASIS OF ECONOMIC ANALYSIS USING MICROECONOMIC AND MACROECONOMIC DATA

1. Summary.

CCC - a joint-stock company with its registered office in Polkowice, in the Legnica Special Economic Zone. The company distributes shoes in Poland, the Czech Republic, Slovakia, Hungary, Germany, Austria, Croatia, Slovenia, Russia, Latvia, Lithuania, Estonia, Romania, Bulgaria, Ukraine and Serbia. The company has been listed on the Warsaw Stock Exchange since December 2, 2004.

2. Analysis.

My individual work is a financial analysis of CCC S.A. in the years 2014 - 2017, which will allow to determine its assets and financial condition.

In Table 1, I published the company's balance sheet in the years 2014-2017 in PLN million. In the following tables 2, I am presented with an analysis of the structure and dynamics of the balance sheet (so-called horizontal analysis in PLN million) of the audited company in 2014-2017. The structure ratios were referred to the balance sheet total, while the dynamics indicators were calculated as chain indicators, i.e. always referred to the previous period and indicating the actual change in a given value.

As it results from the calculations made, the main component of the assets of the audited entity were current assets. Among the current assets, inventory and other receivables played a major role. The analysis of the structure of liabilities showed, however, that the main source of financing of the assets owned by the company was equity, while in the audited period a clear decrease in the share of equity over the last two years in favor of foreign capital, mainly long-term liabilities could be observed.

The cash flow statement and cash flow statement of the company are presented in tables 3 and 4. Thanks to the research from this period, we can see that the situation of the CCC group was typical for a proper growing company. In 2014. compared to 2013 the cash flow situation was at a similar level. The only reason for the decrease in net cash flows from operating activities was a significant decrease in the inventory change by over PLN 200 million. The decrease in net cash flows from investing activities was influenced by an increase in expenses related to the acquisition of property, plant and equipment in the form of a constructed hall in Polkowice. The increase in cash flows from financing activities resulted from the issue of 5-year bonds with a total value of PLN 210 million. These funds were obtained for financing investments in logistics infrastructure and development of the sales network. In 2015. net cash flows from operating activities increased by around 270 million. The reason for this change was very good weather, which shifted in time and decreased the sale of shoes from the autumn-winter season. As a result, this resulted in an increase in inventories by PLN 330 million. In 2016. the company was characterized by high profitability, and the profits were allocated to the development of the company and the repayment of liabilities. The biggest investment was the acquisition of a new sales channel in the form of eobuwie.pl. ARE. and the purchase of a 75% stake in CCC Russia sp. o.o. The effect of these activities was a decrease in net cash flows from investing activities by PLN 222 million compared to the previous year and a PLN 170 million decrease in cash flows from financing activities due to inflows from borrowings. In 2017. changes in cash flows from operating activities were mainly caused by a decrease in inventories by approximately PLN 100 million. Expenditure in the amount of PLN 124.7 million intended for increasing the total area of stores in Poland and abroad by 80,000 m2 contributed to a change in flows from investing activities. The reason for the increase in net cash flows from financing activities was an increase of PLN 525.8 million in equity by issuing shares in September 2017.

In Table 5, we present the index analysis by calculating each of the indicators in the period 2014-2017 of the activity of CCC S.A .. Thanks to these indicators, we can see that in 2014-2017 the company always had a positive cash efficiency rate, which is a good sign of the company's condition. In the case of cash productivity, CCC S.A. also maintains a positive ratio, although in 2015 we could see a significant increase due to an increase in inventories by 330 million, which translated into a 5-fold increase in cash flows from operating activities. In 2017, stocks fell by around 100 million, which is reflected in the value of cash from operating activities. We can also notice that in 2016. CCC S.A. it had a negative value of the ability to generate net cash from operating activities due to large expenses for the purchase of shares in eobuwie.pl S.A. PLN 222 million, which translated into a negative net cash flow. We also see that CCC is characterized by high values of this indicator which makes interpretation difficult. Increase of net profit in 2014. it was caused by deferred tax.

Balance sheet CCC S.A.

Table 1

	Assets	2014	2015	2016	2017
A	Fixed assets	812,5	920,3	1287,3	1154,1
	Intangible assets	9,3	5,9	181,2	197,5
	Goodwill			106,2	106,2
	Property, plant and equipment	520,9	591,9	679,6	787,0
	Assets due to deferred tax	267,3	312,5	320,3	63,4
	Loans granted	15,0	10,0	-	-
B	Rotary assets	981,7	1151,7	1381,8	2215,8
	Inventory	741,3	680,5	1034,9	1417,7
	Receivables from recipients	35,9	51,3	91,7	95,7
	Receivables due to income tax		6,8	12,1	25,8
	Loans granted	0,5	18,0	11,1	9,1
	Other receivables	42,1	54,5	88,6	155,4
	Cash and cash equivalents	161,9	340,6	143,4	512,1
	TOTAL ASSETS	1794,2	2072,0	2669,1	3369,9
	LIABILITIES	2014	2015	2016	2017
A	Equity capital	952,2	1123,6	1236,1	1168,3
	Share and reserve capital from the sale of shares above their nominal value	78,4	78,4	123,1	649,0
	Exchange differences on the translation of foreign entities' statements	-2,4	-2,0	1,8	-1,3
	Current valuation of employee benefits				-0,3
	Profits retained	876,2	1047,2	1058,8	453,1
	Non-controlling shares			52,4	67,8
B	Liabilities and provisions for liabilities	842,0	948,4	1433,0	2201,6
	Long-term liabilities	256,9	335,0	660,4	1277,8
	Debt liabilities	216,0	296,0	366,0	436,0
	Deferred tax liabilities	6,5	6,4	34,1	33,2
	Reserves	5,7	6,5	7,2	9,4
	Subsidies received	28,7	26,1	23,5	21,3
	Liabilities due to the obligation to buy out non-controlling shares			229,6	777,9

	Current liabilities	585,1	613,4	772,6	923,8
	Debt liabilities	362,0	422,8	429,5	481,1
	Liabilities to suppliers	99,8	78,1	182,3	235,8
	Other liabilities	81,5	100,4	125,9	166,6
	Income tax liabilities	31,8	5,4	12,7	11,3
	Reserves	7,4	4,1	12,7	11,3
	Subsidies received	2,6	2,6	4,4	2,4
	LIABILITY TOGETHER	1794,2	2072,0	2669,1	3369,9

Horizontal analysis of CCC S.A.

Table 2

ASSETS	2014	2015	2016	2017
Fixed assets	812,5	920,3	1287,3	1154,1
Growth yr.r. in%	88,87	13,27	39,88	-10,35
Property, plant and equipment	520,9	591,9	679,6	787,0
Growth yr.r. in%	31,14	13,63	14,82	15,80
Rotary Assets	981,7	1151,7	1433,9	2155,8
Growth yr.r. in%	42,38	17,32	24,50	54,53
Inventory	741,3	680,5	1034,9	1417,7
Growth yr.r. in%	60,11	-8,20	52,08	36,99
TOTAL ASSETS	1794,2	2072,0	2721,2	3369,9
Growth yr.r. in%	60,24	15,48	31,33	23,84
LIABILITIES	2014	2015	2016	2017
Equity capital	952,2	1123,6	1237,2	1168,3
Growth yr.r. in%	60,90	18,00	10,11	-5,57
Profits retained	876,2	1047,2	1058,8	453,1
Growth yr.r. in%	69,97	19,52	1,11	-57,21
Liabilities and provisions for liabilities	842,0	948,4	1434,6	2201,6
Growth yr.r. in%	59,50	12,64	51,26	53,47
Long-term liabilities	256,9	335,0	660,4	1277,8
Growth yr.r. in%	32,90	30,40	97,13	93,49
Debt liabilities	216,0	296,0	366,0	436,0
Growth yr.r. in%	36,62	37,04	23,65	19,13

Current liabilities	585,1	613,4	774,2	923,8
Growth yr.r. in%	74,87	4,84	26,21	19,33
Debt liabilities	362,0	422,8	429,5	481,1
Growth yr.r. in%	113,19	16,80	1,58	12,01
LIABILITY TOGETHER	1794,2	2072,0	2671,8	3369,9
Growth yr.r. in%	60,24	15,48	28,95	26,13

CCC SAA Cash Flow Statement

Table 3

	2014	**2015**	**2016**	**2017**
A.Performance of cash from operating activities				
I. Profit before tax	**225,1**	**233,0**	**346,0**	**340,8**
II.Records together				
Depreciation	52,7	66,9	72,7	92,7
(Profit) loss on investing activities	9,0	4,4	(12,1)	1,6
Costs of external financing	19,4	16,8	21,6	31,2
Other adjustments of profit before tax	7,7	24,5	34,8	41,8
Income tax paid	(14,1)	(51,9)	(31,1)	(46,6)
Cash flow before changes in working capital	**299,8**	**293,7**	**431,9**	**461,5**
Changes in working capital				
Changes in inventories and impairment losses on inventories	(278,3)	60,8	(291,8)	(398,0)
Change in receivables	0,0	(27,6)	(72,3)	(64,1)
Change in short-term liabilities, except for loans and credits	32,5	(1,5)	106,9	78,8
Net cash flow from operating activities	54,0	325,4	174,7	78,2
B.Fees from investment activities				
I.Income				
Proceeds from the sale of property, plant and equipment	11,0	14,0	16,4	25,4
Repayment of loans and interests	5,4	0,6	4,0	2,0
II.Expenses				
Acquisition of intangible assets and property, plant and equipment	(206,2)	(156,9)	(160,0)	(244,7)
Loans granted	(15,4)	(13,2)	(0,1)	0,0
Acquisition of investments in eobuwie.pl S.A.			(222,3)	(5,0)
Net cash flow from investing activities	(205,2)	(155,5)	(362,0)	(222,3)

C. Cash flows from financing activities				
I.Income				
Proceeds from taking loans and borrowings	194,8	288,0	114,8	121,6
Net proceeds from issue of shares and bonds	209,4	0,0	44,7	525,8
II.Expenses				
Dividends and other payments to owners	(61,4)	(115,2)	(85,7)	(101,4)
Repayment of loans and borrowings	(154,6)	(147,2)	(62,1)	
Interest paid	(18,8)	(16,8)	(21,6)	(31,2)
Net cash flow from financing activities	169,4	8,8	(9,9)	514,8
NET CASH FLOWS	18,2	178,7	(197,2)	370,7
Net increase / decrease in cash and cash equivalents	18,2	178,7	(197,2)	368,2
Change due to exchange differences on cash valuation				
Change due to exchange differences from the valuation of cash and cash equivalents				(2,5)
Cash and cash equivalents at the beginning of the period	143,7	161,9	340,6	143,4
Cash and cash equivalents at the end of the period	161,9	340,6	143,4	514,1

Vertical analysis of CCC S.A.

Table 4

CCC	Cash Flow	2014	2015	2016	2017
	A.Performance of cash from operating activities	54,0	325,4	174,7	78,2
	B.Fluunes of cash inflows from investing activities	-205,2	-155,5	-362,0	-222,3
	C. Cash flows from financing activities	169,4	8,8	-9,9	514,8

Indicator analysis CCC S.A.

Table 5

	2014	**2015**	**2016**	**2017**
Cash sales performance indicator	0,027	0,141	0,055	0,019
Cash profit rate indicator	0,214	1,277	0,503	0,187
The performance rate of cash assets	0,037	0,168	0,074	0,026
The indicator of the ability to generate net cash from operating activities	2,967	1,821	-0,886	0,211
Net participation in net operating cash	7,785	0,797	1,806	3,866

Gold and silver balance rule.

Table 6

	2014	2015	2016	2017
Gold rule	1,17	1,22	0,96	1,01
Silver rule	1,49	1,58	1,47	2,12

The golden financial rule defines the possibility of financing fixed assets with equity. If you do not meet this rule, you can talk about a financial policy that may adversely affect your business. As you can see, CCC does not have any problems with that. Only in 2016 did it not meet this rule. The Silver balance rule is less stringent as compared to the golden balance sheet rule, since the numerator also includes long-term liabilities. As you can see CCC S.A. fulfilled this rule during the period in question.

Liquidity analysis of CCC S.A.

Table 7

	2014	2015	2016	2017
Current liquidity ratio	1,68	1,88	1,79	2,40
Total retail trade on the market	1,34	1,40	1,38	1,49
Fast financial liquidity ratio	0,41	0,77	0,45	0,86
Total retail trade on the market	0,46	0,51	0,52	0,55
Immediate liquidity ratio	0,28	0,56	0,19	0,55
Total retail trade on the market	0,13	0,13	0,12	0,21
Indicator of daily available money	73,52	144,97	37,47	93,07
Cash period indicator	53,08	85,59	44,61	77,14

The current liquidity ratio determines the company's ability to cover its current liabilities by liquidating its current assets. In practice, it is assumed that the optimal value of the indicator should be in the range of 1.5-2.0. However, it may vary depending on the industry being analyzed. In the case of CCC S.A., which operates in the retail sector, the average value of this indicator varies between 1.34 and 1.49. The increasing trend of this indicator for CCC S.A. testifies to the improving ability to pay short-term liabilities.

The fast financial liquidity ratio complements the current financial liquidity ratio. Similarly as before, the value of the indicator differs depending on the industry, however the generally accepted norm is 1. The years of 2015 and 2017 were marked by a sudden increase of this indicator for CCC. In the case of 2015, CCC increased the number of its short-term liabilities by lease agreements for retail space in Germany, Austria and the Czech Republic. However, in 2017 they did not carry out any major investments, which resulted in an increase to 0.86.

The immediate liquidity ratio defines the ability to settle current liabilities from cash held in the enterprise, i.e. the most liquid current assets. The cash deficit on the account is not synonymous with the loss of financial liquidity, because a company that manages well the collection of receivables from contractors is able to ensure a continuous inflow of cash. However, excessive liquidity is also not beneficial, as it has a negative impact on profitability and is the reason for the cost of lost profits. An example is 2017 for CCC, when no major investments were carried out. In turn, in 2015, the company recorded a sudden increase in cash caused by an increase in the balance of cash at the end of the audited period by short-term deposits up to three months.

The daily available money index shows how long the company could operate using only the most liquid current assets, ie short-term investments. The CCC falls out the best in this sector, especially in 2015, in which they concluded many lease agreements for commercial space between foreign companies, which contributed to the increase in investments. However, the drop recorded in 2016 to 37.47 was caused by a significant decrease in funds on short-term deposits (up to 3 months), which were accumulated for the purchase of shares of eobuwie.pl S.A.

The increase in the value of the cash security period indicator in 2017 for CCC shows that despite the large expenditure on the purchase of shares of eobuwie.pl S.A. in 2016, the company managed to raise cash to restore the level of cash security to the level similar to 2015.

Dynamic analysis.

Table 8

	2014	2015	2016	2017
The index of financing investment expenditures	4,10	0,52	2,19	3,19
Cash sales performance indicator	2,69%	14,10%	5,48%	1,86%

This ratio shows how much of the cash flows from operating activities cover investment expenses. A sudden drop in 2015 was caused by a large change in inventories and impairment losses on inventories, as the company acquired less intangible assets and property, plant and equipment. In turn, in 2016, due to the higher pre-tax profit, there was an increase in investment expenses with a simultaneous decrease in net cash flows from operating activities, including through the purchase of eobuwie.pl shares. In 2017, the purchase of intangible assets and tangible non-current assets increased, which resulted in another increase.

The monetary sales performance indicator determines the amount of monetary operating surplus generated from each sales unit. Higher value of this indicator means more cash from sales and higher security of maintaining financial liquidity. From 2015, the downward trend of the indicator can be seen, due to the increase in sales revenues and a decrease in net cash flows from operating activities.

3. Conclusion.

In conclusion, CCC S.A. is a company that improves its liquidity from year to year. The company makes better use of its current assets, which contributes to the objectives set for itself by the management, eg by 2015 they planned to increase the retail space by 80%, and they managed to increase by 123%. Even despite the poor weather, they maintained high sales, even if they did not achieve the intended profit. In 2016, they finalized the takeover of the eobuwie.pl internet platform, they again increased their commercial space through rental agreements in Bulgaria and Serbia and acquired shares in the company CCC Russia Sp. z o.o., and in 2017 concluded an agreement with Peeraj Brands International S.R.L. obliging the Company to run CCC stores on its own account and to sell CCC products on the territory of Moldova. Their goal for the coming years is further expansion in the countries in which they are already operating and opening the first salons on entirely new markets, including in the Middle East in 2018, thus abstaining from larger investments in 2017, entered into a non-binding preliminary agreement regarding the acquisition from a franchisee of an enterprise covering the operation of stores operating under the CCC brand in Romania and a letter of intent regarding the opening of CCC showrooms in Georgia and Kazakhstan.

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