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Financial Analysis of Fortuna Entertainment Group
Finanční analýza společnosti Fortuna Entertainment Group N.V.

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The declaration

“Herewith I declare that I elaborated the entire thesis, including all annexes, independently.”

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1 Introduction

“Financial analysis includes several activities that involve the examination of financial and operational information, with the intent of deriving conclusions and presenting actionable recommendations to management. This is an exceedingly broad definition of the purpose of financial analysis.” Bragg (2014).

The original relevant data should be collected from the company’s financial report and organize them. It generates financial statements. The main statements are balance sheet, income statement and cash flow statement. The balance sheet shows the value of the firm’s assets and liabilities at a particular point in time. The income statement shows the revenues, expenses, and net income of a firm over a period of time. The cash flow statement shows the firm’s cash receipts and cash payments over a period of time.

Then, we use the common-size analysis to describe the proportional relation of relevant items. Generally, the horizontal common-size analysis is combined with vertical common-size analysis for using financial data well. And the financial ratios analysis contributes to a further analysis of financial data to show what level of the company’s profitability, liquidity, solvency, assets management and so on.

Furthermore, the return of equity is an important indicator to measure a company’s profitability. We can analyze and find which factors have impact on ROE by the method of DuPont analysis. The basic idea is decomposition of ROE ratio by several component ratios, which can perform in-depth analysis of financial performance. For the component ratios, we need to find whose changes have caused change in the basic ratio and which component ratios contributed to the change in basic ratio at most. So, we need influence quantification. There are methods of gradual changes, logarithmic decomposition method and functional decomposition method for calculation.

The goal of the thesis is to perform financial analysis of Fortuna Entertainment Group in period 2010-2014. It is the one of the largest Central European betting operator. The Fortuna Entertainment Group betting company operates on three European markets: the Czech

Republic, Slovakia and Poland, and has 20-year history. In the chapter 3, the more details about the company are introduced.

After introduction of financial analysis methodologies in chapter 2 and the background of Fortuna in chapter 3, we can assess Fortuna's financial performance using aforementioned methods in chapter 4.

2 Financial analysis methodologies

In this chapter, the basic financial analysis methodology is introduced. Financial analysis refers to a methodology making an analysis and judgement for the economic and business activities after the completion of the activity of economic, so that the next round of economic and business activities can achieve more reasonable requirements. First is financial statement which includes three basic statements summarizing information about a company: balance sheet, income statement and cash flow statement. Next part is about common-size analysis divided into two parts, vertical common-size analysis and horizontal common-size analysis. Then, we will explain what the financial ratio analysis is. Last but not least, using the DuPont analysis can help to analyze the financial situation of the selected company. The description in this chapter is based on the following references: Dluhošová et al. (2014).

2.1 Financial statements of company

Financial statement analysis is to know the company's characteristics of business activities assess its performance and find its problems. This method obtains the useful information from the statements which are based on the company's basic business activities. The objective of this method is to know the past, evaluate the present and predict the future, to help people for improving decision-making.

2.1.1 Balance sheet

The balance sheet is the fundamental financial statement. The balance sheet provides information about company's financial position at the end of the accounting period. It comprises three principal components: the assets the company control; the liabilities the company is obliged to meet; the equity interests of the company's owners. The balance sheet is represented by the following formula:

$$\text{Total Assets} = \text{Total Liabilities (Debt)} + \text{Total Shareholders' Equity.} \quad (2.1)$$

2.1.2 Income statement

Income statement is also called profit & loss (P&L) statement that shows the revenues, expenses,

and net income of a firm over a period of time (from an accounting perspective).

The basic equation is as follows:

$$\text{Revenues} - \text{Expenses (cost)} = \text{Profit \& Loss.} \quad (2.2)$$

The format of an income statement is shown in table 2.1.

Table 2.1 the income statement

+Net revenues
-Costs of goods
-Other operating costs
=Earnings before interest and taxes(EBIT)
+Financial revenues
-Financial cost
=Earnings before taxes(EBT)
-Income tax
=Net income(Earnings after taxes, EAT)

Source: Dluhošová et al. (2014, p.54)

2.1.3 Cash flow statement

Cash flow statement shows the firm's cash receipts and cash payments over a period of time, which is calculated on the accrual basis. There are two basic formulas:

$$\text{Net Cash Flow} = \text{Sum of inflows} - \text{Sum of outflows} , \quad (2.3)$$

$$\text{Cash at the end} = \text{Cash at the beginning} + (-) \text{net cash flow} . \quad (2.4)$$

Cash flow statement has three important items: cash flow from operating activities; cash flow from investing activities; cash flow from financing activities. The total cash flow equals to the three items summed together.

2.2 Common-size analysis

Common-size is to regard the amount of an item as basic on the financial statements, and

compare them with the remaining as percentage to show the relation among each item.

Common-size reflects the proportional relationship between each item within the same statement, showing the relative importance of each item. This method contains two different types. The one is vertical common-size analysis which shows the percentage proportion for each given item. And the basic item typically regarded as 100% which equals to the percentage of all the small items adding together. For example, according to comparison between the proportions of composition of assets in common-size balance sheet, we can observe the company's liquidity of assets and whether the proportion of each items are reasonable. Or according to the proportion of composition of liabilities and equity in common-size balance sheet, we can analyze the rationality of assets structure. The general formula is as follows:

$$\text{proportion} = \frac{U_i}{\Sigma U_i}. \quad (2.5)$$

where U_i is value of the analyzed item.

The other type is horizontal common-size analysis which shows us the relationship between the value of current period and the prior period .The formulas are as follows:

$$\text{absolute change} = U_t - U_{t-1} = \Delta U_t, \quad (2.6)$$

$$\text{percentage changes} = \frac{U_t - U_{t-1}}{U_{t-1}} = \frac{\Delta U_t}{U_{t-1}}, \quad (2.7)$$

$$\text{index of the exchange} = \frac{U_t}{U_{t-1}}, \quad (2.8)$$

where U_t is the value of analyzed item at current period, U_{t-1} is the value of prior period.

2.3 Financial ratios analysis

Ratio analysis is the basic tool for financial analysis. It is a method that is based on several important items of financial statements compared with each other at the same period. By this way, we obtain the ratio for analyzing and evaluating the company's business activities and the company's current and historical situation. Different people have different focus points, such as

analysts, creditors, management authorities, government agencies, etc. They have different purpose of financial analysis. In general, there are five important financial ratios, profitability ratios, liquidity ratios, solvency ratios, activity ratios and market-based ratios.

2.3.1 Profitability ratios

Profitability ratios can be applied for analyzing the company (financial health)'s ability to generate profit from invested capital during a period. They are the basis of corporation's survival and development. Investors, creditors, or business executives have increased attention for corporate's profitability ratio.

Operating profit margin (OPM)

Operating profit margin is applied to measure company's pricing strategy and operating efficiency. It measures the proportion of earning before interests and taxes (EBIT) per one unit of revenues. As EBIT, we also can name operating profit. It refers to the profit which the company's remaining after removing the depreciation, operating cost, like costs of sales of products and salary. The revenue refers to the total value of selling products minus damaged or missing goods. The operating profit margin can be calculated by a formula in the following way:

$$\text{operating profit margin} = \frac{EBIT}{\text{revenues}}, \quad (2.9)$$

where the *EBIT* is earning before interest and tax.

Net profit margin (NPM)

Net profit margin is similar to operating profit margin. It indicates the percentage of net income. It means the rest of revenues after all operating expenses, interest and taxes have been removed from total revenue. The net income is known as earning after tax (EAT). The formula is as follows:

$$\text{net profit margin} = \frac{EAT}{\text{revenues}}, \quad (2.10)$$

where the EAT is earning after tax.

Return on assets (ROA)

ROA is used to measure the resulting company to use all resources for investment management performance indicators. If the ratio is higher, it shows the company can well use of assets; on the contrary, the effect of using assets is poor. Besides shareholders the sources of assets are invested other creditors, such as banks or corporate bondholders, etc. Therefore, besides the after-tax attributable profit for shareholders, the payment of creditor interest expense should be added. So, the ratio is computed as follows:

$$ROA = \frac{EBIT}{total\ assets}, \quad (2.11)$$

$$or\ ROA = \frac{EAT + I(1-T)}{total\ assets}. \quad (2.12)$$

where, EAT is earning after tax, also net income, and I is interest, T is tax rate.

Return on equity

It is an important measure of the profitability of companies. It refers to profit to average equity ratio. The higher the ratio, the higher the income of investments is. If ROE is low, the profitability of equity would be weak. In general, increasing debt leads to a rise in ROE.

Corporate assets include two parts, one is the investment of shareholders, and the other part is the funds borrowed and occupied temporarily by the enterprise. ROE is an important method which measures the efficiency of shareholders' capital. There is the formula as follows:

$$ROE = \frac{EAT}{equity}. \quad (2.13)$$

2.3.2 Liquidity ratios

The company's solvency includes short-term solvency and long-term solvency. In order to reflect the short-term solvency, we will calculate the current ratio, quick ratio, and cash ratio. In general, the higher the current ratio and quick ratio, the stronger the liquidity of the corporate's assets, the stronger the short-term solvency will be; otherwise it will be weak. Of course, because of different industries, different operating situations, the normal standard of current ratio and quick

ratio will be different. It should be noted that these two ratios are not good if they are too high. The current assets are too much compared with the current liabilities; it might have too much unsold inventory, or too much cash, or both. The quick assets are more than quick liabilities; it might show the cash holdings are too much. The enterprise has heavy unsold inventory, indicating the poor business. Or maybe there are problems with inventory. The cash holdings are too much, indicating the poor financial management, and low efficiency of fund utilization.

The current ratio

Current ratio, also known as the working capital ratio, or real ratio, is the ratio of current assets to current liabilities of the enterprise. Current ratio reflects the ability of repaying short-term debt. The more the current assets is, the less the short-term debt, the big the current ratio, the stronger the short-term solvency of the corporation. Under normal operation, the main factors affecting the current ratio are the business cycle, the turnover rate of inventories and the amount of accounts receivable of current assets. There is the formula as follows:

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}, \quad (2.14)$$

The quick ratio

Quick ratio is the ratio of the quick assets to the current liabilities. It measures the ability of the enterprise that the current assets can be converted into cash immediately and applied to repay the current liabilities. The quick assets include monetary capital, short-term investments, notes receivable, accounts receivable and other receivables, etc. which can be converted into cash in short period of time. The formula is as follows:

$$\text{quick ratio} = \frac{\text{current ratio} - \text{inventory}}{\text{current liabilities}}, \quad (2.15)$$

The cash ratio

Cash ratio means the ratio of cash to current liabilities. Here, the cash means cash and cash equivalents. This ratio shows the ability of repayment of debt immediately. Cash ratio is a kind of liability ratio after deducting account receivables. It can directly reflect the ability to pay current

liabilities. Cash ratio is generally believed that the high ratio is better. But if the ratio is too high, the current liabilities will not be applied reasonably. And the low profitability of the cash assets, the great amount of such assets will lead to cost of business opportunities increase. The ratio is computed as follows:

$$\text{cash ratio} = \frac{\text{cash} + \text{short-term marketable securities}}{\text{current liabilities}}. \quad (2.16)$$

2.3.3 Solvency ratios

The solvency ratios are to reflect the long-term solvency which measures the ability to repay long-term debt of company. It includes debt ratio, debt-to-equity ratio and interest coverage. The company's long-term solvency, not only related to the safety of investors, but also to extend the operation of the company.

The debt ratio

Debt ratio is the percentage of total debt in the total assets. This indicator reflects the proportion of the assets provided by the creditors in total assets of the enterprise. It not only shows the level of risk as the creditors provide funds to the enterprise, but also reflects the ability of the corporate's leverage.

The greater the debt ratio, the larger the financial risk, the enterprise would face. Debt risk should be paid special attention, if the enterprise leads to particularly high of debt ratio. The enterprise should pay enough attention about it. The ratio is computed as follows:

$$\text{debt ratio} = \frac{\text{total debt (total liabilities)}}{\text{total assets}}. \quad (2.17)$$

The debt-to-equity ratio

Debt-to-equity ratio reflects the relative proportion of capital provided by shareholders and creditors. It shows the business is reasonable and stable or not. Meanwhile it can show the level of protection of creditors' investment capital by shareholders' equity.

In general, if the debt-to-equity ratio is high, the financial structure is high risk and high return. If the ratio is low, the financial structure is low risk and low return. For the shareholders, during

periods of inflation, the corporate has more debt.

During the economic boom years, leveraging can get additional profits. During the economic depression, less borrowing can reduce the interest burden and financial risk. The formula is as follows:

$$\text{debt to equity} = \frac{\text{total debt (total liabilities)}}{\text{equity}} . \quad (2.18)$$

The interest coverage

Interest coverage is the ratio of the operating profit and interest paid, also called the time interest earned. It can measure whether the earning before interests and tax is enough to pay the interest. The higher the interest coverage, the smaller the debt and interest pressure, the enterprise would face.

In other words, interest coverage is a risk warning indicator, especially in the period of low performance and less free cash flow, it indicates whether the company has the ability to pay interest against debt risks to turn the tables.

$$\text{interest coverage} = \frac{EBIT}{\text{interest paid}} . \quad (2.19)$$

2.3.4 Activity ratios

Activity ratios, also named assets management ratios, are applied to measure the efficiency of the companies' asset management. Company's assets include many items. In activity ratios, there are three important accounts needed, inventory, receivable accounts, and total assets. They are indicators that show the situation of the company's assets turnover, including the inventory turnover, the receivable turnover, and total asset turnover.

The inventory turnover

It can measure and evaluate the management status of the corporate in inventory purchase, production processes, sales and other aspects. The quality of inventory turnover indicator reflects the level of inventory management, which affects the ability of short-term solvency.

Generally, the faster the inventory turnover, the lower the occupancy level of inventories, the

stronger liquidity the inventory would have. And the inventory can be converted into cash or accounts receivable quickly. Therefore, increasing inventory turnover can improve a firm's liquidity.

There are the formulas as follows:

$$\text{inventory turnover} = \frac{\text{revenues}}{\text{average inventory}} . \quad (2.20)$$

$$\text{inventory days} = \frac{\text{average inventory}}{\text{revenues}} \cdot 360. \quad (2.21)$$

The receivable turnover

It refers to the average times of accounts receivable converted into cash in a year, indicating the rate of liquidity of receivables. The receivable turnover day's expresses how long it takes from the date of getting the right of amounts receivable to receive the amounts and converted to cash.

In general, the higher the accounts receivable turnover, the shorter the average collection period, which indicates the assets utilization is efficient. Otherwise, the company's working capital will be too sluggish in the accounts receivable, affecting the normal cash flow. The computations are as follows:

$$\text{receivable turnover} = \frac{\text{revenue}}{\text{average receivables}} . \quad (2.22)$$

$$\text{receivable days} = \frac{\text{average receivables}}{\text{revenues}} \cdot 360. \quad (2.23)$$

The total assets turnover

The assets turnover is an efficiency ratio which tells the efficiency of assets usage. It reflects the sales revenue per one unit of the total assets which is generated by company's financing activities. And it reflects the turnover rate of total assets, the faster the turnover, the stronger the ability of sales. Total assets turnover is applied to measure the ability of enterprises to apply the assets to make a profit. The ratio would be computed as follows:

$$\text{total assets turnover} = \frac{\text{revenues}}{\text{average total assets}} . \quad (2.24)$$

2.3.5 Market-based ratios

This kind of ratio is based on market data. There are four types of measures: the earnings per share, the price-to-earnings ratio, the dividend payout ratio and the dividend yield.

The earnings per share

Earnings per share, is also known as the after-tax earnings per share, earnings per share, refers to ratio of profit after tax and total equity. It is one of important index to measure the value of share investments. It is an important indicator to reflect the company's profitability. It is the ratio of net income and the number of shares at a certain period.

High ratio shows the more profits created. If the company has only common shares, earnings per share are the earning after tax and the number of shares is the number of common shares issued. If the company has preferred shares, the earnings per share should be deducted the interest of allocation to the preferred stockholders from earning after tax. The ratio is computed as follows:

$$\text{earning per share (EPS)} = \frac{EAT}{\text{number of shares}} \quad (2.25)$$

The price-to-earnings ratio

Price-to-earnings ratio is the ratio between the share price and the earning per share. Price-to-earnings ratio is frequently applied to assess whether the share price is reasonable or not. It is the most important indicator to estimate the common stock. A company has a very high price-to-earnings ratio, which indicates that investors generally believe that the company's earnings per share will grow rapidly in the future. It is a very important reference index for the investors.

The computation is as follows:

$$\text{price - to - earnings ratio (P \& E)} = \frac{\text{market share price}}{EPS} \quad (2.26)$$

The dividend payout ratio

Dividend payout ratio is the percentage of dividends distributed to shareholders from earning per share of the company.

Investors can find the blue chip companies by examining who the dividend payout ratio is higher than others.

There is the formula as follows:

$$\text{dividend payout ratio} = \frac{\text{dividend per share}}{EPS} . \quad (2.27)$$

The dividend yield

Dividend yield is the ratio of dividends and share price. In investment event, the dividend yield is an important factor to measure whether a company has investment value.

Dividend yield is a standard of the selection of shares gains an important reference. If the annual dividend ratio is more than 1-year deposit interest rates of bank, the share can be considered as earnings share. The higher the dividend yield, the more attractive the stock will be. The computation is as follows:

$$\text{dividend yield} = \frac{\text{dividend per share}}{\text{market share price}} . \quad (2.28)$$

2.4 DuPont Analysis

DuPont analysis is applied to analyze the financial situation of enterprises by the relationship between the several main financial ratios. Specifically, it is a classical method that applied to evaluate a company's profitability and the level of return on equity. The basic idea is decomposition of ROE ratio by several component ratios, which can perform in-depth analysis of financial performance.

So the return of equity (ROE) can be expressed as the following component ratios:

$$ROE = \frac{EAT}{equity} = \frac{EAT}{revenues} \cdot \frac{revenues}{total\ assets} \cdot \frac{total\ assets}{equity} , \quad (2.29)$$

where $\frac{net\ income}{revenues}$ is the net profit margin, $\frac{revenues}{total\ assets}$ is the assets turnover, $\frac{total\ assets}{equity}$ is

the financial leverage .

From this function, we find $\frac{net\ income}{revenues} \cdot \frac{revenues}{total\ assets} = \frac{net\ income}{total\ assets}$, and $\frac{net\ income}{total\ assets}$ is return

on assets. So, we can know the ROA is the most important indicator of impacting of ROE, and ROA depends on the level of the total assets turnover and the net profit margin on sales. Analysis of the assets turnover should analyze each factor affecting the assets turnover, in order to distinguish the main problem affecting the company's asset turnover. If the debt ratio is high, equity multiplier would be large. It indicates a high degree of liabilities. The company would have more leverage benefits, but the risk would be high. Otherwise, the result would be opposite. Furthermore, if we want to know what the taxes and interest have impact on ROE, we also can decompose the net profit margin as follows:

$$\frac{EAT}{revenues} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{revenues}, \quad (2.30)$$

Where, $\frac{EAT}{EBT}$ is tax burden, $\frac{EBT}{EBIT}$ is interest burden, $\frac{EBIT}{revenues}$ is operating profit margin.

2.4.1 Influence quantification

As mentioned earlier, there are many factors affecting the return of equity. So the problem is whose changes have caused change in the basic ratio and which component ratios contributed to the change at most. One of way to solve this problem is to apply influence quantification. There are three methods for quantification of influence: methods of gradual changes, logarithmic decomposition method and functional decomposition method. The description in this chapter is based on the following references: Dluhošová et al. (2014).

Methods of gradual changes

Influence quantification can enable to analyze indicators, whose changes have caused change in the basic ratio. It includes three methods, methods of gradual changes, logarithmic decomposition method and functional decomposition methods.

The methods of gradual changes can show us how the change in the component ratio influences the basic ratio.

$$\begin{aligned} \Delta x_{a_1} &= \Delta a_1 \cdot a_{2,0} \cdot a_{3,0}, \\ \Delta x_{a_2} &= a_{1,1} \cdot \Delta a_2 \cdot a_{3,0}, \\ \Delta x_{a_3} &= a_{1,1} \cdot a_{2,1} \cdot \Delta a_3, \end{aligned} \quad (2.31)$$

where x is basic ratio, Δx is absolute change in the basic ratio, a is component ratio, Δa is absolute change in the component ratio, Δx_{a_i} is absolute change in the basic ratio caused by the change in the first (a_i) component ratio.

Also, the three formulas can be merged into one:

$$\Delta x_{a_i} = \prod_{j<i} a_{j,l} \cdot \Delta a_i \cdot \prod_{j>i} a_{j,0} \cdot \frac{\Delta y_x}{\Delta x}. \quad (2.32)$$

Logarithmic decomposition method

This method has just one formula, and no matter how much component ratios we have. It simplifies the processes of calculation.

$$\Delta x_{a_i} = \frac{\ln I_{a_i}}{\ln I_x} \cdot \Delta x, \quad (2.33)$$

where x is basic ratio, Δx is absolute change in the basic ratio, $I_x = \frac{x_l}{x_0}$ is index of change in

basic ratio, $I_a = \frac{a_l}{a_0}$ is index of change in component ratio.

Functional decomposition methods

This method can show us the relative changes in basic ratio and component ratios. In this case, we assume that the same weight is given to each component. The each component is the same important. So the computation is as follows:

$$\begin{aligned} \Delta x_{a_1} &= \frac{I}{R_x} \cdot R_{a_1} \cdot \left(I + \frac{I}{2} \cdot R_{a_2} + \frac{I}{2} \cdot R_{a_3} + \frac{I}{3} R_{a_2} \cdot R_{a_3} \right) \cdot \Delta x, \\ \Delta x_{a_2} &= \frac{I}{R_x} \cdot R_{a_2} \cdot \left(I + \frac{I}{2} \cdot R_{a_1} + \frac{I}{2} \cdot R_{a_3} + \frac{I}{3} R_{a_1} \cdot R_{a_3} \right) \cdot \Delta x, \\ \Delta x_{a_3} &= \frac{I}{R_x} \cdot R_{a_3} \cdot \left(I + \frac{I}{2} \cdot R_{a_1} + \frac{I}{2} \cdot R_{a_2} + \frac{I}{3} R_{a_1} \cdot R_{a_2} \right) \cdot \Delta x, \end{aligned} \quad (2.34)$$

where x is basic ratio, Δx is absolute change in basic ratio, R_x is relative change in the basic ratio,

R_{a_i} is relative change in the component ratio.

3 Characteristics of Fortuna Entertainment Group N.V.

In Europe, there is the one of the largest Central European betting operator—The Fortuna Entertainment Group. It is a Czech firm originally established in 1990. Now it also operates on the Slovak and Polish markets. Up to now, the Fortuna has more than 20-year history. During this time, the group developed itself as a leader in European betting market. Because of the betting environment in Europe, the clients who have knowledge of sport are willing to set odds for betting. And the company make the clients feel sure that they can pay out to them quickly duo to the professional and rich experienced bookmakers. Therefore the company is attractive to clients as well.

3.1 Strategy and Values of the Fortuna

The mission of Fortuna is the provision of services to the clients who like sports as a hobby and bet on their favorite team. In particular, the Fortuna concentrates on strengthening their leading position on the betting market in the Central Europe. Fortuna is the main market mover. As regulation, the group fully respects and complies with national and European regulatory standards. They support a stable and transparent legal environment that allows fair competition between all entities operating on the market. In the operation of the market, the company is an active member of professional organizations, and with governments and parliaments in the creation of legal and fixed odds betting. Fortuna Entertainment Group is responsible for betting. Its main purpose is to introduce responsible betting, while stressing the age limit compliance. The Group has adopted this approach in all markets.

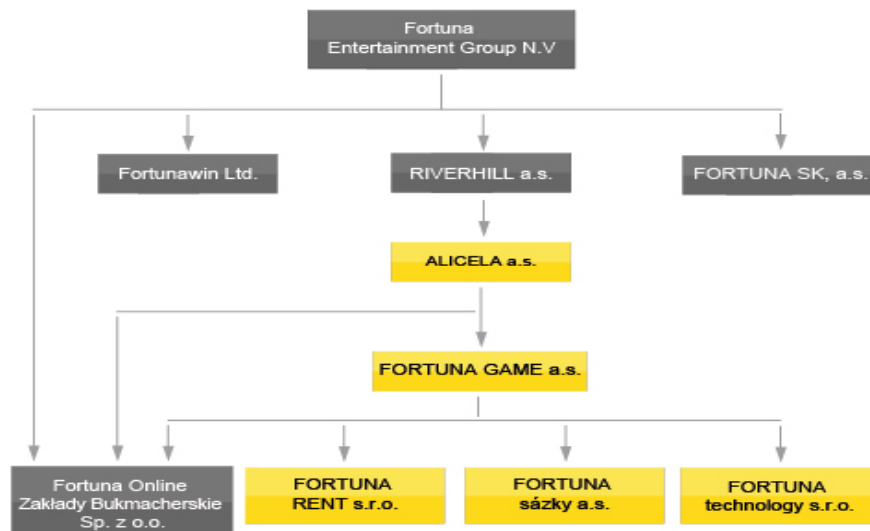
Because of betting on sport events, the Fortuna Entertainment Group is natural partner sports club. In addition to the traditional sponsorship activities, the company also provides funds to support disabled athletes and the development of regional sport with grants.

3.2 History of Fortuna Entertainment Group N.V.

The Fortuna Entertainment Group N.V. was established in 1990 in Prague. After the Velvet Revolution, it was one of the joint-stock companies in the former Czechoslovakia. The first

branch of this company was set up in 1990. A sister company, Terno, was opened a year later in Slovakia. In 1995, the electronic communication model was put into use at branches. Ten years later, Penta investments became the owner of the group, and the group entered into the market of Poland. In 2007, online betting was launched in the Slovak market, telephone betting into the Czech market. Two years later, online betting was launched in the Czech Republic. Next year, the Fortuna Entertainment Group holding was established and online betting market entry was made in Hungary via the Fortuna Win platform, launch of online betting in Croatia, lottery license obtained in the Czech Republic. The structure of branches is shown in Chart 3.1 as follows.

Chart 3.1 Organization schema



Source: <http://www.fortunagroup.eu/en/homepage/index.html>

3.3 Products and distribution channels

For its 20 years history, the Fortuna is a trustworthy brand and accepted by people. It has experienced bookmakers who have more knowledge about local market. They can set odds and make an attractive offer for the customer. Fortuna is a maker of trends and innovator in the betting industry in the Central European. Fortuna always has been in the field of sport betting.

Most of the bet are involved in football, tennis, ice hockey, basketball and volleyball. They're customers is willing to bet on teams they know and high level competitive or known sport events.

On the operating market, Fortuna applied a variety of channels to allocate, which includes

branches, online services or SMS messages. This is constantly committed to provide new betting chances, develop the form of betting and launch new products.

Online betting

Fortuna Entertainment Group was one of the operators who had first online betting service in Slovakia in 2007. Two years later, the group seized the opportunity to gain the experience in the domain of betting by entering the Czech online betting market. The group made sure immediately it became the No.1 in LIVE betting over the Internet. In the aspect of legislation, with the development of the national legislation, Poland betting in Internet was legal in 2012. And in the same year in January, the Fortuna became the first betting operator in Polish market with providing the online betting for the customers.

Fortuna Klub Plus

Fortuna Entertainment Group takes pride in keeping good relationship with customers. That is the reason that it established the Fortuna Klub Plus plan with more than 600,000 active members. Being the club's members, the customers can get special treatments, such as favorable odds, gifts and discount in partner shops and stores. The number of members of Fortuna Klub Plus in Czech Republic, Slovakia and Poland is as follows.

Table: 3.1 members in Fortuna Club Plus

state	members*
Czech Republic	306 369
Slovakia	139 902
Poland	157 064

* as of 31. 12. 2014

Source:http://www.fortunagroup.eu/en/about_fortuna_group/products_and_distribution_channels/fortuna_club_plus/index.html

Branches

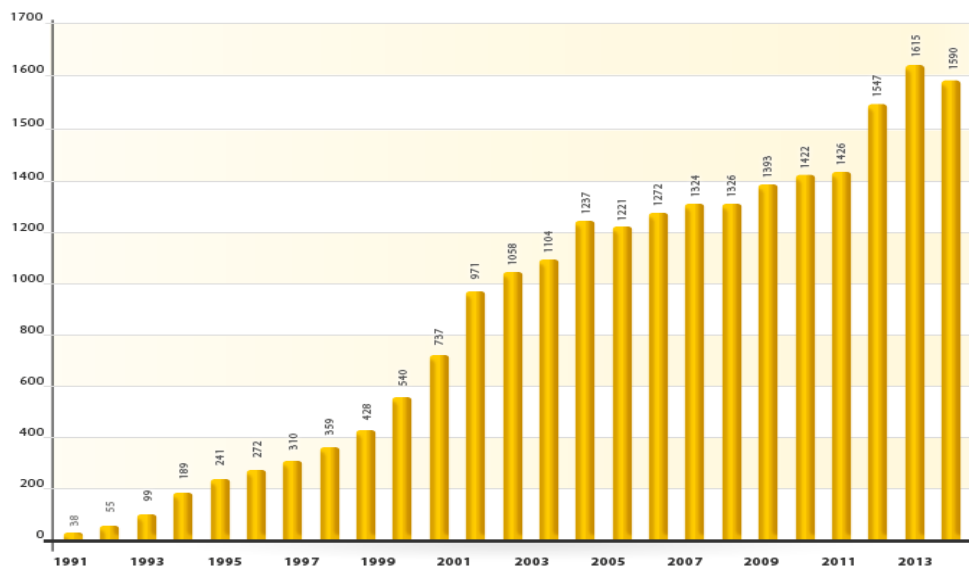
The Fortuna Entertainment Group has network of outlets comprising about 1600 betting shops. For the past of years, the numbers of branches are increasing quickly and most of them are placed in central city or main streets. This gives the group a good chance to communicate with the

customers directly, which is something the Internet operators cannot provide.

The oldest branch of the Fortuna and the field is Fortuna Klub U Nováků, in which the punters can be satisfied at watching live broadcasts of matches. The network of outlets also includes so-called “Fortunkas”, a franchise-based concept whereby Fortuna betting terminals are placed in bars and restaurants.

Kiosks are also part of the branch network. These are free-standing terminals with a screen that speeds up and simplifies the procedures for punters. These are primarily being planned for “Fortunkas” in the future. Development of the number of betting outlets is shown as follows:

Chart 3.2 development of the number of betting outlets



Source:http://www.fortunagroup.eu/en/about_fortuna_group/products_and_distribution_channels/branches/index.html

3.4 Leaders of Fortuna

There are main managers who play an important role in operation of the company. They all have rich experience of successfully managing companies.

Per Widerstrom is the Chairman of the Management Board and Chief Executive Officer (CEO) at Fortuna. He graduated from the London School and Gothenburg School. His major are finance, international accounting and business administration and the sport betting and gaming sector.

Richard van Bruchem is a member of the management board. He graduated from Nyenrode Business University in The Netherlands in the fields of international accounting and controlling and holds a master's degree.

Jaroslava Hirschová is the CFO of Fortuna Entertainment Group. She has a 20-years broad range of experience in in banking and financial services. She worked in top management positions and is a member of the Board of Directors.

Martin Todt is the CEO of FORTUNA sázková kancelář a.s. since 2005, but has been working for the company since 1991. He successively set up and managed the betting operations department, the helpdesk and IT support.

Marek Šmrha is a chairman of the supervisory board since 2011. He is responsible for evaluation of investment opportunities and managing acquisition processes. He studied in the University of Economics, Prague (VŠE); and then graduated from Manchester Business School in 2009, and London Business School in 2010. Šmrha started his career in London as an analyst with Bank of America.

3.5 Situation on the market

Fortuna is a public company and it went through a successful IPO on the stock exchanges in Prague and Warsaw, in October 2010. Next, we introduce the situation on market of Fortuna and the regulation in different markets.

3.5.1 Betting

The Central European fixed-odds betting market is highly competitive and is not particularly conducive to the entry of new players. The market is characterized by dozens of established betting shops, battling among each other for market share.

In recent years, the fundamental elements for business consolidation have been – and continue to be – a gradual easing of local regulations across the entire region, thus enabling and permitting internet-based gambling. This has not only opened up new sales channels, but also offers the opportunity for additional fine-tuning of customer services, and the further development and expansion of offered products and services.

Online sales channels will represent a fundamental component for the fixed-odds betting business in the ensuing years. As modern information technologies grow, so does the significance of new user interface opportunities across all accessible mobile platforms.

3.5.2 Regulation

The Fortuna Entertainment Group accepts the reasonable regulation of the betting sector. It supports a non-discriminative framework that allows customers to have access to services offered by serious market players. It believes that customers should have the option of choosing from operators who offer the highest standards in terms of security and customer care. This goal can be achieved through regulated and fair competition. Consequently, the Fortuna Entertainment Group supports a stable and transparent environment, which creates equal opportunities for all entities on the market.

At present, regulation comes fully under the purview of individual states. So far, no consensus has been reached at a European Union level which would lead to rules being set for this business. Nevertheless, it is possible to anticipate that the situation will change in time in tandem with the increasing share of online betting on the market.

Through its membership of interest groups and associations, the Fortuna Entertainment Group is prepared to participate in preparing amendments to existing laws as well as in public debates concerning possible legislative proposals.

Czech Republic

The law governing lotteries in the Czech Republic was last amended in 2013 to reflect developments in fixed-odds betting and the lottery market as a whole.

Slovakia

The situation has stabilized here with regard to betting. Legal amendments that are under discussion should not have a fundamental impact on market conditions. Online betting has been permitted here since 2007.

Poland

A new law came into effect as of 1 January 2010. This legislation increases from 10% to 12% the

taxes that betting companies must deduct from their income from betting. This represents an acceptable hike for the Fortuna Entertainment Group. Existing legislation does not allow online betting, but the Polish parliament is looking at the possibility of permitting online betting exclusively for Polish companies, which is something the Fortuna Entertainment Group would welcome. At the same time, it would also enter this sector without delay.

4. Financial Analysis of Fortuna Entertainment Group N.V.

Financial analysis is an important process of assessment the financial performance of a company. It can help to asset the current financial situation of a company, predict the development of the company and improve the decision-making in the future. In this part, many useful data are provided from the financial statements of Fortuna Company in Annex 1, 2, and 3. And we can apply these data to analyze Fortuna's financial performance by the methods aforementioned chapter 2.

4.1 Common-size analysis of Fortuna

In chapter 2, we know what common-size analysis is. This method can make it easier to analyze the data from the statement of this company at a specific period. Now we can select important data from the company's statement and use horizontal analysis and vertical analysis to present the business performance of this company by tables and charts. We can use formula (2.8) to calculate index ratio.

4.1.1 Vertical common-size analysis of Fortuna

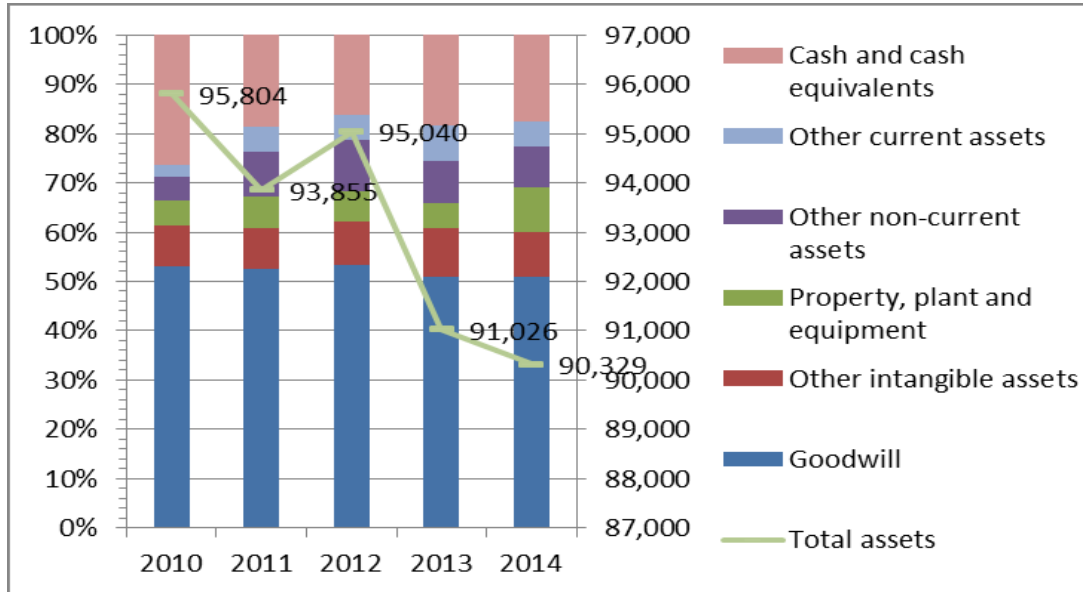
Vertical common-size analysis is a part of common-size analysis. Oppositely the horizontal common-size analysis is the other part. In this part, we can see the percentage proportion for most important items of balance sheet. There is vertical common-size statement for assets. We can choose the total assets as basic item and calculate index of the change of other items.

Table 4.1 Vertical common-size analysis for assets of balance sheet

Year	2010	2011	2012	2013	2014
Goodwill	53.02%	52.57%	53.28%	50.99%	50.83%
Other intangible assets	8.30%	8.30%	8.74%	9.72%	9.14%
Property, plant and equipment	5.13%	6.37%	6.25%	5.24%	9.02%
Other non-current assets	4.85%	9.10%	10.50%	8.59%	8.48%
Other current assets	2.25%	4.98%	4.95%	7.16%	4.90%
Cash and cash equivalents	26.44%	18.68%	16.29%	18.30%	17.63%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: own elaboration based on company's financial statements

Chart 4.1 Vertical common-size analysis for assets of balance sheet



Source: own elaboration based on company's financial statements

Table 4.1 and Chart 4.1 show us the percentage proportion for important items which belongs to company's assets. In the table, we know the total assets are regarded as basic data, 100%. There are six items of assets from 2010 to 2014. The goodwill belongs to intangible assets. The property, plant and equipment belong to non-current assets. And the cash and cash equivalents belongs to current assets. We can see the proportion of goodwill in assets was up to 50% in every year. For the investor, the value of a company's goodwill is very important. Goodwill represents that the potential economic value is brought by the excess profits in future periods for business. So, it means Fortuna is expected the higher level profitability of assets. The cash and cash equivalents was the second large proportion. And the percentage was up to 26% in 2010. It was the largest percentage during the five years. And we can see the total assets had a trend of general decrease during the five years, except in 2012. From 2012 to 2013, the total assets reduced by about four millions euro sharply. So, in 2013 and 2014, Fortuna had a problem about solvency because of lack of assets.

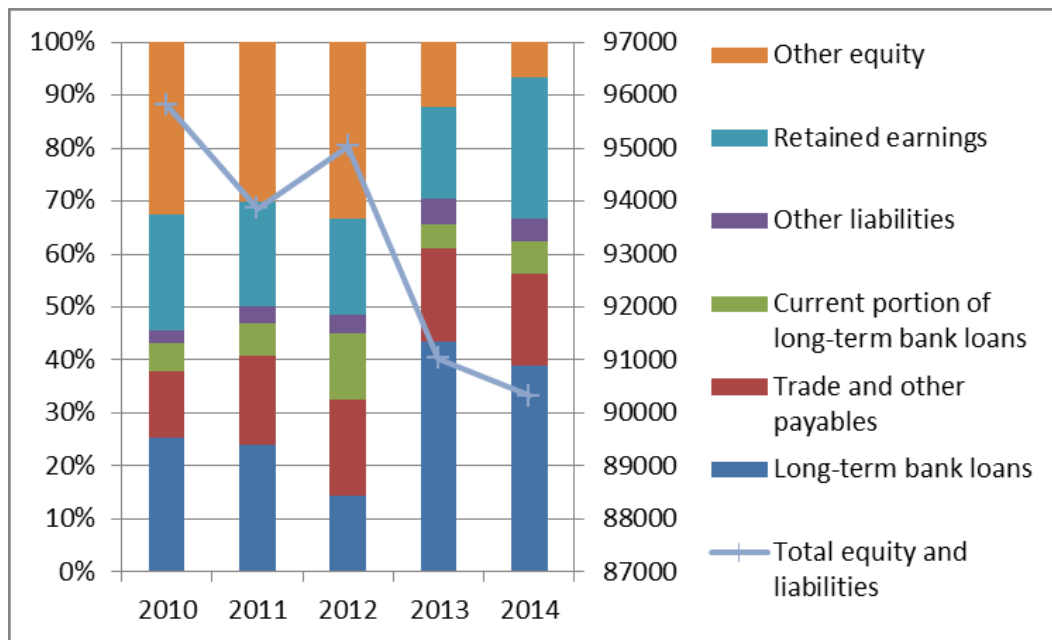
Then, we choose the liabilities as basic item to show the situation of selected items belongs to liabilities.

Table 4.2 Vertical common-size analysis for liabilities of balance sheet

Year	2010	2011	2012	2013	2014
Long-term bank loans	25.17%	24.05%	14.41%	43.41%	38.95%
Trade and other payables	12.76%	16.67%	18.03%	17.64%	17.38%
Current portion of long-term bank loans	5.24%	6.32%	12.57%	4.66%	6.04%
Other liabilities	2.54%	3.20%	3.48%	4.59%	4.33%
Retained earnings	21.81%	19.74%	18.28%	17.48%	26.65%
Other equity	32.48%	30.02%	33.23%	12.22%	6.65%
Total equity and liabilities	100.00%	100.00%	100.00%	100.00%	100.00%

Source: own elaboration based on company's financial statements

Chart 4.2 Vertical common-size analysis for liabilities and equity of balance sheet



Source: Own elaboration based on company's financial statements

From Table 4.2 and Chart 4.2, firstly we can see liabilities and equity. The liabilities include long-term bank loans, trade and other payables, current portion of long-term bank loans and other liabilities. The long-term bank loans and the trade and other payables had a great percentage proportion. For a company, the bank loans are important very much. The long-term bank loans can provide working capital for business to purchase assets such as equipment, plant but inventory, because the lottery operator has no tangible products. If a debt payment is required to be paid in longer than one year, it is recorded in the long-term debt section. So we can see in

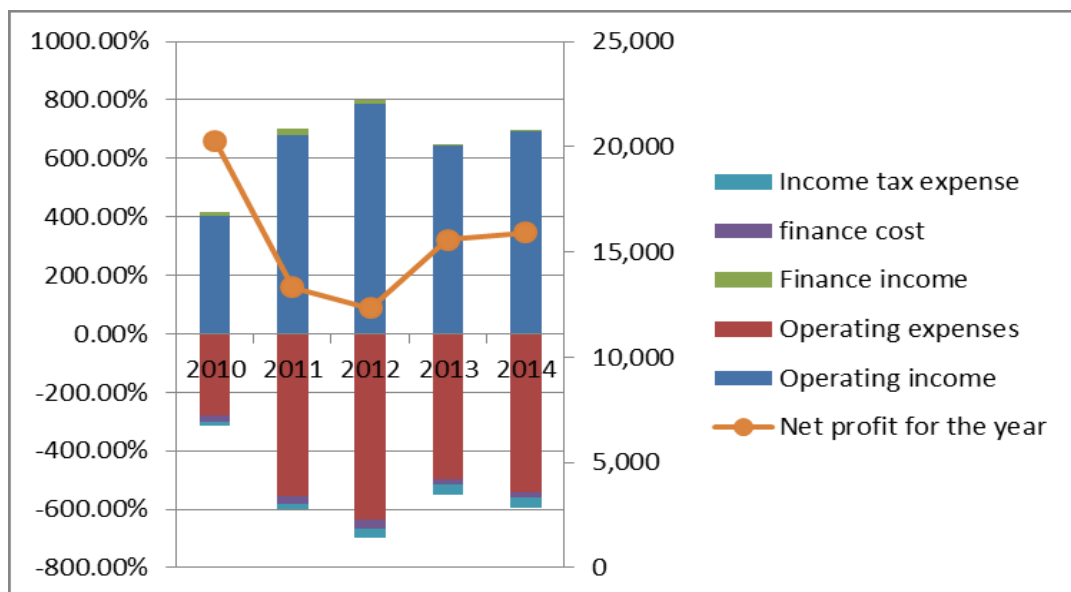
2012, the amount of long-term bank loans was smaller than other years, but the current portion of long-term bank loans was more than others. However, an increasing in the proportion of the long-term bank loans was apparent in 2013. And the trade and other payables in 2012 were the most during the five years. Then, we look at the equity. It includes retained earnings and other equity. As we know, the retained earnings are applied to reproduction in next period. In 2014, the proportion of retained earnings was the highest.

Table 4.3 Vertical common-size analysis for the income statement

Year	2010	2011	2012	2013	2014
Operating income	404.01%	680.11%	787.22%	644.76%	694.39%
Operating expenses	-278.93%	-553.75%	-637.67%	-497.10%	-543.39%
Finance income	11.01%	19.79%	12.17%	4.71%	0.78%
finance cost	-22.42%	-26.85%	-30.52%	-17.40%	-17.96%
Income tax expense	-13.67%	-19.30%	-31.20%	-34.97%	-33.81%
Net profit for the year	20,258	13,320	12,319	15,573	15,928

Source: own elaboration based on company's financial statements

Chart 4.3 Vertical common-size analysis for the income statement



Source: own elaboration based on company's financial statements

In table 4.3 and chart 4.3, the positive percentage means expenses and negative is income. And the basic item is net profit for the year. So, the ratio is other items of income statement to net profit. From the chart 4.3, we can see the expenses or cost and income close to a mirror image

relationship. But the income always had an advantage in proportion than expenses or cost. And the net profit for the year is the difference between the all of expenses and all of the income. In 2010, the net profit for the year peak its summit about 20 millions. But the expenses and the income were both below other years. The reason is that operating income was more than operating expenses in 2010. However, although the total expenses and income were both more than others, the net profit for the year is least in 2012. Although the operating income was more than others, the net profit was the lowest in 2012. The reason is that Fortuna has a high expense of IT services and third party services (legal, professional etc.). When the expenses were rise, the difference between the expenses and income was small, and the net profit is lower. So, in order to getting the maximum profit, Fortuna should reduce the operating cost and expend the operating income. But we should consider that if a company has a long-term strategy, it needs more expenses on operating activities.

4.1.2 Horizontal common-size analysis of Fortuna

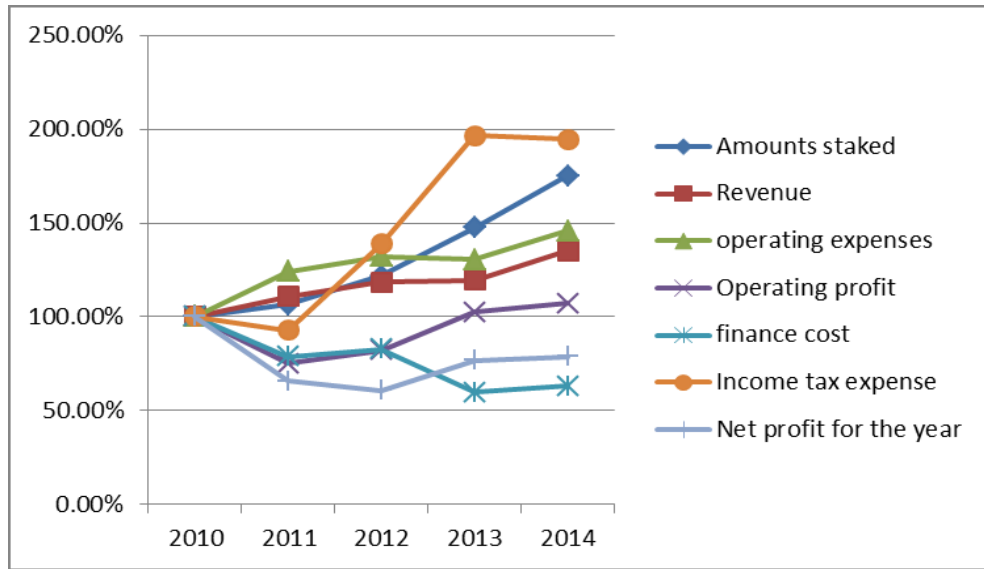
In this part, we use the horizontal common-size analysis to describe the income statement of Fortuna during recent five years. The data of 2010 are chosen as basic data, 100%. And the index rates of others years are shown in table 4.4. If the percentage of next year is greater than 100%, it shows an increment, otherwise it's a decrement. We choose income statement and cash flow statement to analyze Fortuna's financial situation. It can measure the company's income and expenses in important periods.

Table 4.4 Horizontal common-size analysis for the income statement

Year	2011	2012	2013	2014
Amounts staked	106.55%	121.79%	147.65%	175.03%
Revenue	110.65%	118.53%	119.53%	135.00%
operating expenses	124.19%	132.27%	130.35%	145.73%
Operating profit	74.96%	82.05%	102.41%	107.12%
Finance cost	78.75%	82.80%	59.66%	63.00%
Income tax expense	92.85%	138.79%	196.68%	194.51%
Net profit for the year	65.75%	60.81%	76.87%	78.63%

Source: own elaboration based on company's financial statements

Chart 4.4 Horizontal common-size analysis for the income statement



Source: Own elaboration based on company's financial statements

The table 4.4, the income statement, can be applied to reflect a company's profit or loss. So in recent years, whether the income level of the company was gloomy or not, it can be clearly observed from the table. There is an important data for Fortuna, amounts staked. As everyone knows, Fortuna is a betting operating. So the amounts staked are a large part of total revenues. It can measure operating performance in Fortuna. We can see the amounts staked have increased gradually in the five years. It is a great trend for management of Fortuna and shown this company has a grander prospect as well. Then, we can find that the revenues have been increasing consecutive five years. Particularly, it was worth mentioning its 5rd consecutive year of year-on-year revenue growth above five percent except 2013.

Compared with other data, the income tax expense increased dramatically since 2011. From 2011 to 2013, the income tax expenses jumped by nearly 104%. Obviously, we can see the other operating income reached the top income 2013. Other data, as operating expenses, financial cost and net profit for the year, improved steadily during the five years.

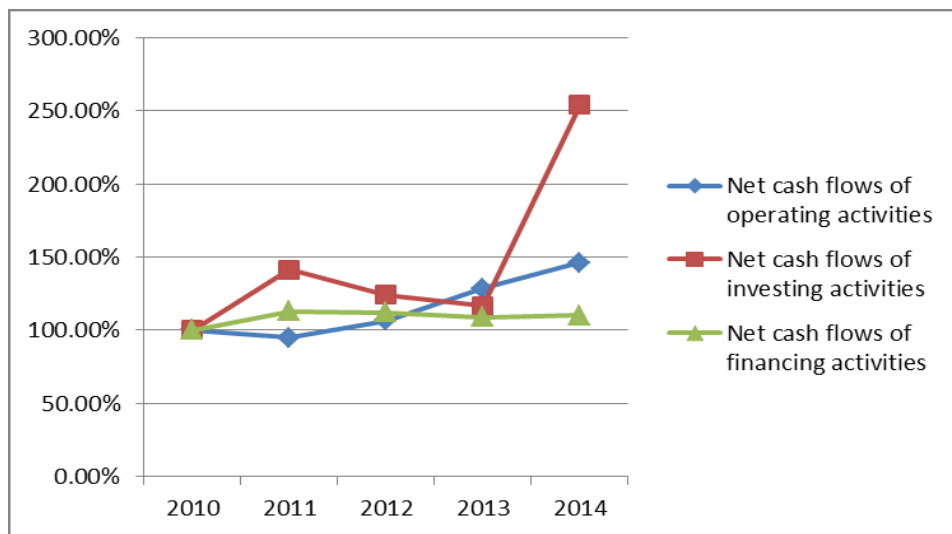
Next, we can choose 2010 year is a base year, and the index rates of other years are indicated in table 4.5.

Table 4.5 Horizontal common-size analysis for the cash flow statement

Year	2011	2012	2013	2014
Cash generated from operating activities	98.36%	108.95%	135.70%	157.57%
Corporate income tax paid	119.25%	124.36%	179.42%	228.32%
Net cash flows of operating activities	94.96%	106.45%	128.59%	146.06%
Purchase intangible assets	135.92%	120.65%	112.93%	91.57%
Net cash flows of investing activities	141.19%	124.18%	116.73%	253.85%
Net cash flows of financing activities	112.91%	111.95%	109.07%	110.02%

Source: own elaboration based on company's financial statements

Chart 4.5 Horizontal common-size analysis for the cash flow statement



Source: own elaboration based on company's financial statements

According to the table 4.5 and chart 4.5, the cash flow statement, is applied to reflect a short-term viability of a company. The cash flow statement includes three important items, net cash flow of operating activities, investing activities and financing activities. Firstly, the cash generated from operating activities is a principal positive cash flow of operating activities. And the corporate income tax paid is a principal negative cash flow of operating activities. So we can see the growth rate of net cash flows of operating activities is under the cash generated due to the higher growth rate of that negative factor, corporate income tax paid. Secondly, the purchase intangible

assets are principal cash flow of investing activities. So they both are negative. But in 2014, net cash flow of investing activities had a sharply rise. The reason is the item of acquisition of subsidiary, net of cash acquired, about 5000 thousands euro out cash flow. Last, the trend of net cash flow of financing activities is steady during the five years.

4.2 Financial ratio analysis

Financial ratio analysis is an important part of the financial analysis of a company. We can assess the financial performance of a company by the financial ratios. The financial ratios can reflect the relationships between each financial account. From the trend of financial ratio, we can find the changes of company's performances during the five years. The basic groups of financial ratios are profitability ratios, liquidity ratios, solvency ratios, activity ratios and Market-based ratios.

4.2.1 Profitability ratios

Profitability is an important ability for a company. Profitability ratios include four basic ratios: operating profit margin, net profit margin, return on assets and return on equity. We need the data from the financial statements as follows:

Table 4.6 Original data for profitability ratios (EUR thousands)

Year	2010	2011	2012	2013	2014
Revenues	81,195	89,844	96,238	97,053	109,617
EBIT	22,453	16,831	18,423	22,994	24,051
EAT	20,258	13,320	12,319	15,573	15,928
Total assets	95,804	93,855	95,040	91,026	90,329
Total equity	52,007	46,702	48,953	27,035	30,080

Source: Fortuna's annual financial statements

Operating profit margin

This indicator shows us how well the company manages its operations. We can use formula (2.9) to calculate the operating profit per one unit of revenues.

Table 4.7 Operating profit margin

Year	2010	2011	2012	2013	2014
Operating profit margin	27.65%	18.73%	19.14%	23.69%	21.94%

Source: own elaboration based on company's financial statements

From table 4.7, obviously we can see the net profit margin is up to the high point, 27.65% in 2010. Then it had a sharply decline to 18.73% in 2011. After a slight recovery in the following two years, a slight drop appeared in 2014. We know the higher percentage of net profit margin means the higher sale price of production and lower cost of product and other expenditures. According to this, we can infer Fortuna Company had a great competitive advantage in cost of product in 2010.

Net profit margin

We can use formula (2.10) to measure net profit per one unit of revenues.

Table 4.8 Net profit margin

Year	2010	2011	2012	2013	2014
Net profit margin	24.95%	14.83%	12.80%	16.05%	14.53%

Source: own elaboration based on company's financial statements

As we mentioned before, the earning after tax means the rest of revenues after all operating expenses, interest and taxes have been removed from total revenue. We can infer that the higher net profit margin indicates the higher proportion of net income in revenues. Through the table 4.8, the biggest proportion of net profit margin showed the great profitability of the company in 2010. Meanwhile, from 2011 to 2014, the fluctuation in net profit margin was lower than 2011, and the ratio remained lower level.

Return on assets

We can use formula (2.11) to measure the EAT as a percentage for each unit of company's assets.

If we choose EBIT to calculate, the following is the result:

Table 4.9 Return on assets (using EBIT)

Year	2010	2011	2012	2013	2014
Return on assets	23.44%	17.93%	19.38%	25.26%	26.63%

Source: own elaboration based on company's financial statements

According formula (2.11) we can see if the ratio of return on assets was higher, the more income was generated by the total assets. So, in table 4.9, compared with ratios of other period, the ratio of return on assets was neither better nor worse, in 2010. However, the ratio had dropped dramatically to 17.93% in 2011. The reason is that the EBIT had a sharply decline during this

years. Then ROA has been rising gradually continuous three years up to 26.63%, because the dual influence of the EBIT and total assets continuous growth. We can infer that in 2014, the ability of return earned by company's assets was stronger than previous four years.

Return on equity

We can use formula (2.13) to calculate the return on equity. The result can be used to assess the company's efficiency at generating profits from every unit of shareholders' equity.

Table 4.10 Return on equity

Year	2010	2011	2012	2013	2014
Return on equity	38.95%	28.52%	25.16%	57.60%	52.95%

Source: Own elaboration based on company's financial statements

Return on equity can measure the return earned by the company's equity capital. The higher ROE indicates the profitability of Fortuna has a high level by using shareholders' equity. But it doesn't mean that the shareholders can get more return. Because the net profit is divided into several important parts, retain earnings, surplus accumulation fund and dividends. The dividends are shareholders' return. From the table 4.10, we know the return on equity is not too stable. There was a decline about 25% from 2010 to 2011. And a sharp rise appeared in 2013. The ratio in 2013 was more than twice than ratio in 2012. Why did it have so huge changes? Compared the data of the two years in table 4.11, it was not difficult to find although the total equity in 2013 was less approximately 50% than 2012, the amount of net profit for 2013 was more than 2012 about 300 euro. Actually, this ratio is the most concerned by the share investor. If ROE is high, the company will be a good investment option.

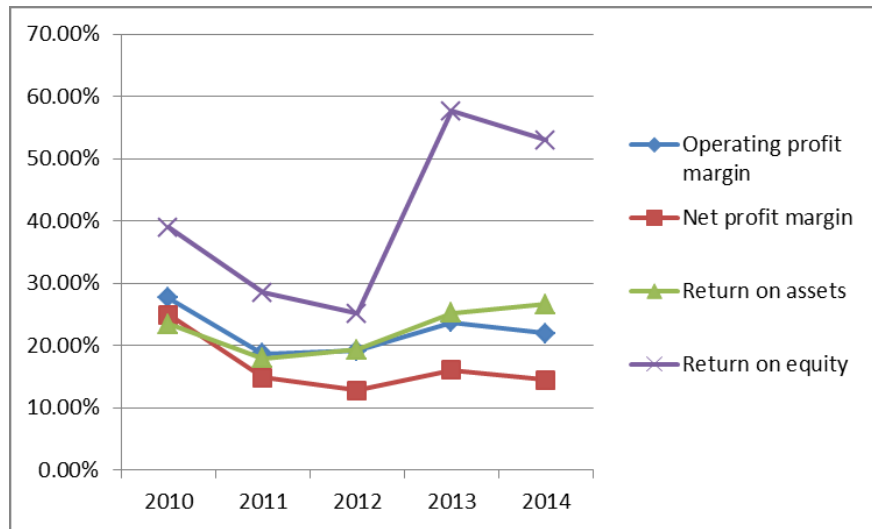
Table 4.11 Original data in 2012 and 2013 (EUR thousands)

Year	2012	2013
EAT	12,319	15,573
Total equity	48,953	27,035

Source: company's annual financial statements

According above data, we make the chart of profitability ratios.

Chart 4.6 Profitability ratios



Source: Own elaboration based on company's financial statements

Obviously, we can see the general trend from chart 4.6. In 2010, the profitability of company achieved a high point. But a sharply decline came on the heels of that. The weak profitability lasted two years. Then a slight recovery appeared on OPM, NPM and ROA in 2013, but the ratio was down again on ROE, OPM and NPM in 2014. Only the return on equity had a sharply rise in 2013.

4.2.2 Liquidity ratios

The groups of liquidity ratios include current ratio, quick ratio and cash ratio. It measures the firm's ability to meet short-term liabilities and obligation. The following data should be used for calculation.

Table 4.12 Original data for liquidity ratios (EUR thousands)

Year	2010	2011	2012	2013	2014
Total current assets	27,493	22,206	20,184	23,171	20,353
Total current liabilities	19,595	24,051	31,960	23,937	24,410
Cash and cash equivalents	25,335	17,533	15,480	16,654	15,926

Source: Fortuna's annual financial statements

Current ratio

We can use formula (2.14) to calculate the ratio of current assets to current liabilities. And we can know the relationship between the current assets and current liabilities.

Table 4.13 Current ratio

Year	2010	2011	2012	2013	2014
Current ratio	140.31%	92.33%	63.15%	96.80%	83.38%

Source: Own elaboration based on company's financial statements

From table 4.13, we can see the current ratio was up to 140.31% in 2010. It was the maximum during the five years. The total current assets were 4000 euro more than total liabilities. However, it continued to decline from 2011 until reaching a low point in 2012, only 63.15%. And the ratio was under 100% continuous four years. The appearance reason of the lowest percentage in 2012 is that the total current liabilities were more than total current assets a lot. We can infer that Fortuna had a lower level of liquidity in recent years. It was difficult for Fortuna to meet the short-term obligations, especially in 2012.

Quick ratio

We can use formula (2.15) to calculate the quick ratio. This ratio is a more stringent measure of liquidity than the current ratio.

Table 4.13 Quick ratio

Year	2010	2011	2012	2013	2014
Quick ratio	140.31%	92.33%	63.15%	96.80%	83.38%

Source: Own elaboration based on company's financial statements

From the table 4.13, compared with current ratio, we find the ratios are same. Because we know the quick ratio is current assets deducted inventory to current liabilities. For a lottery company, the inventory equals zero. So the current ratio is the same as quick ratio.

Cash ratio

We can use formula (2.16) to calculate the cash ratio

Table 4.14 Cash ratio

Year	2010	2011	2012	2013	2014
Cash ratio	129.29%	72.90%	48.44%	69.57%	65.24%

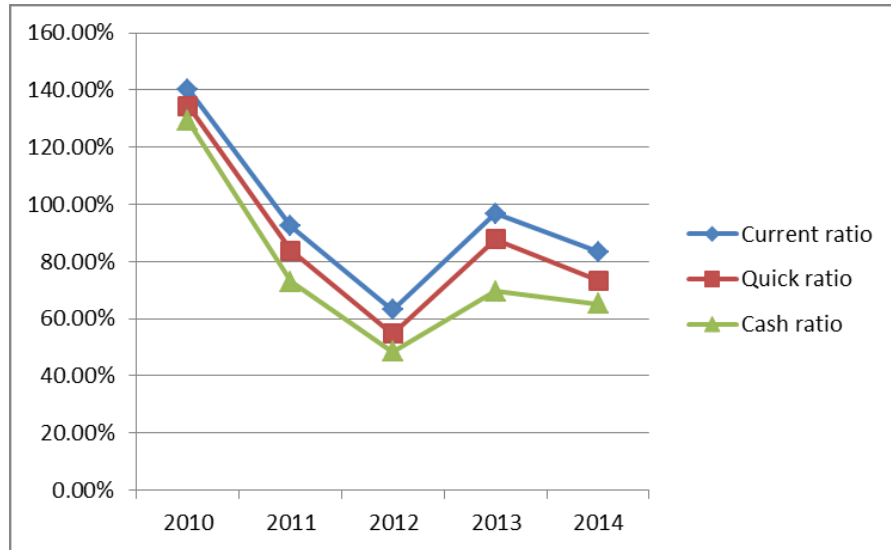
Source: Own elaboration based on company's financial statements

The cash ratio reflects the company's liquidity in a crisis situation. Only the cash and cash equivalents can be immediately used to pay. And the short-term marketable securities are cash

equivalents. They both are converted into cash quickly. We look at the table 4.14, the ratios are similar to cash ratio. The highest ratio appeared in 2010 and the lowest point in 2012.

According to above, we make a chart of liquidity ratios.

Chart 4.7 Liquidity ratios



Source: Own elaboration based on company's financial statements

From chart 4.7, we can see the level of liquidity was higher in 2010 than other years. However, after the highest point, the ratios were nearly linear decrease until 2012. The amplitude of fluctuation was bigger than profitability ratios by the comparison with chart 4.6.

4.2.3 Solvency ratios

Solvency ratios can measure ability to meet long-term obligations of a company. The following data is needed for calculations.

Table 4.15 Original data for solvency ratios (EUR thousands)

Year	2010	2011	2012	2013	2014
Total assets	95,804	93,855	95,040	91,026	90,329
Total equity	52,007	46,702	48,953	27,035	30,080
EBIT	22,453	16,831	18,423	22,994	24,051
Total liabilities	43,797	47,153	46,087	63,991	60,249
Interest paid	(4,541)	(3,576)	(3,760)	(2,709)	(2,861)

Source: Fortuna's annual financial statements

Debt ratio and Debt to equity

We can use formula (2.17) and (2.18) to calculate the debt ratio and ratio of debt to equity.

Table 4.16 Debt ratio

Year	2010	2011	2012	2013	2014
Debt ratio	45.72%	50.24%	48.49%	70.30%	66.70%
Debt to equity	84.21%	100.97%	94.15%	236.70%	200.30%

Source: Own elaboration based on company's financial statements

According the table 4.16, we can acquaint with the long-term viability of Fortuna. The higher ratio generally means weaker solvency. First, we can see the debt ratio. The ratio fluctuated steadily about 50% during 2010 to 2013. From 2013 to 2014, debt ratio had a sharply growth. Especially in 2013, it reached the top to 70.3%. We can know whether the financial structure of Fortuna is stable or not. Then, let us look at the change of debt to equity. In 2010 to 2012, the change was not too big. It stabled at around 95%. But in 2013 to 2014, we can find the data had a sharply rise. Especially in 2013, it rose to the top to 236.7%. The reason is from two sides, total liabilities increased and total equity decreased in general. All in all, we can infer solvency was strongest in 2010, next is in 2012, and the relative weakness were in 2013 and 2014.

Interest coverage

We can use formula (2.19) to calculate extends to which the company's operating profit is able to meet current interest payments.

Table 4.17 Interest coverage

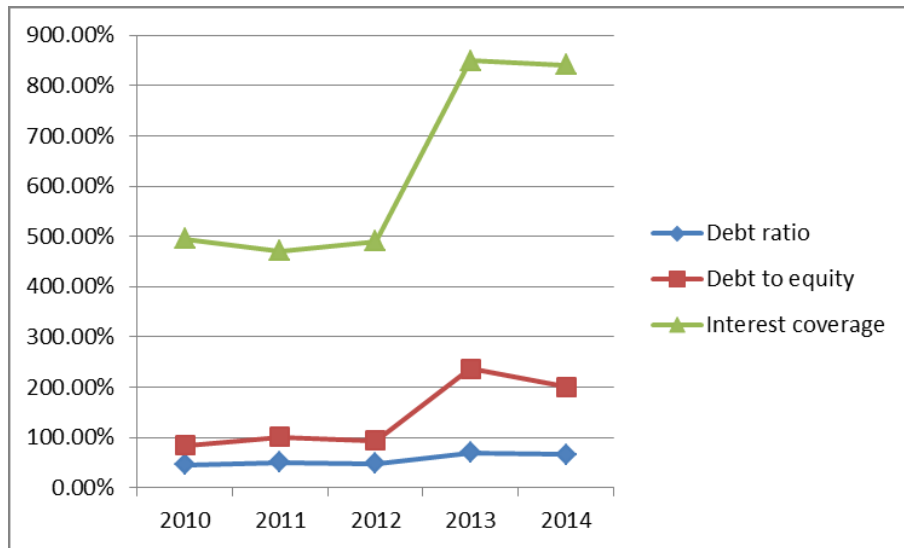
Year	2010	2011	2012	2013	2014
Interest coverage	494.45%	470.67%	489.97%	848.80%	840.65%

Source: Own elaboration based on company's financial statements

Table 4.17, interest coverage tells us whether a company has ability to repay the loan or not. The table shows the changes in the number of the data over the period from 2010 to 2014. It can be seen from the table that interest coverage had little change lasted for three years and then began to rise in 2013. It fell from 494.45% in 2010 to 489.97% in 2012, and then the trend reverse finishing at 848.8% in 2013. The number of 2013 was about one times as much as that of 2011. The fluctuation of EBIT and interest paid result in the interest coverage changes. In particular in

2013 and 2014, the EBIT was higher than previous years and interest paid was even half less than 2010. From the information above, it is seen that the ability to repay the loan of the company was enhancing. From three tables above, we calculate data to make this chart.

Chart 4.8 Solvency ratio



Source: Own elaboration based on company's financial statements

From chart 4.8, it reflects solvency of Fortuna. As can be seen from the chart, the three curves were shown the fluctuation of solvency ratio. There are a lot of similarities between interest coverage, debt to equity and debt ratio. The increase was more noticeable during the second half of the five years period. From the information above, we infer that operating efficiency of Fortuna is better than better.

4.2.4 Activity ratios

Activity ratios are applied to measure the efficiency of Fortuna's assets management. The following data is needed for calculations.

Table 4.18 Original data for activity ratios (EUR thousands)

Year	2010	2011	2012	2013	2014
Current receivables	1,007	2,613	2,030	4,348	1,949
Revenues	81,195	89,844	96,238	97,053	109,617
Total assets	95,804	93,855	95,040	91,026	90,329

Source: Fortuna's annual financial statements

Inventory turnover

According to the formula (2.20) and (2.21), we can see that the inventory turnover equals revenues divided by average inventory. But for Fortuna, a lottery company, there is no inventory. So we draw a conclusion that Fortuna's inventory turnover equals zero.

Receivable turnover

We can use the formula (2.22) and (2.23) to calculate the average times of accounts receivable converted into cash in a year.

Table 4.19 Inventory turnover

Year	2010	2011	2012	2013	2014
Receivable turnover	80.63	34.38	47.41	22.32	56.24
Receivable days	4.46	10.47	7.59	16.13	6.40

Source: Own elaboration based on company's financial statements

In general, the higher accounts receivable turnover has short receivable days, which indicates the higher liquidity of receivable. From the table 4.19, we can see in 2010, the receivable turnover was highest and receivable days were shortest. It means it took 4.46 days to convert receivable into cash. It was shorter than other years. And in 2013, the receivable days is approximately four times over 2010. It indicates the assets utilization is not efficient in 2013.

Total assets turnover

We can use the formula (2.24) to calculate the efficiency of assets usage.

Table 4.20 Total assets turnover

Year	2010	2011	2012	2013	2014
Total assets turnover	0.85	0.96	1.01	1.07	1.21

Source: Own elaboration based on company's financial statements

From the table 4.20, we can see the ability of Fortuna to use the assets to make a profit. In 2010, we can see the ratio was smallest. And the ratio increased gradually year after year. It means the assets usage was better year after year, because the revenues increased and the total assets decreased during the five years.

4.2.5 Market-based ratios

Fortuna Entertainment Group went through a successful IPO on the stock exchanges in Prague and Warsaw, in October 2010, which is a public company. From Fortuna's annual financial reports and Prague stock exchanges, we can find important data which can be applied to calculate market-based ratio. Because the market share price is in Czech Koruna, we need change the currency to Euro. The applied exchange rates are from ČNB.

Table 4.21 Market-based data

Year	2010	2011	2012	2013	2014
EAT (EUR thousands)	20,258	13,320	12,391	15,617	15,983
Number of shares (EUR thousands)	52,000	52,000	52,000	52,000	52,000
Market share price in EUR	4.138	3.556	3.453	4.408	4.314
Dividend per share	0.3	0.23	0.67	0.22	-

Source: Fortuna's annual financial reports and Prague stock exchange

Earnings per share

We can use the formula (2.25) to calculation for earnings per share.

Table 4.22 Earnings per share (EUR thousands)

Year	2010	2011	2012	2013	2014
Earnings per share	0.390	0.256	0.238	0.300	0.307

Source: Own elaboration based on company's financial statements

From table 4.22, we can see the earnings per share during the five years. In 2010, the earnings per share were highest. It indicates great expectations for investors that the market price and the company value will increase in the future. Because the number of shares is same as each year, the trend of earnings per share also is the same as EAT.

Price-to -earnings ratio

We can use the formula (2.26) to calculation for price-to -earnings ratio.

Table 4.23 Price-to -earnings ratio

Year	2010	2011	2012	2013	2014
Price-to -earnings ratio	10.62	13.88	14.49	14.68	14.03

Source: Own elaboration based on company's financial statements

According to the table 2.24, we can see the lowest ratio appeared in 2010. And then, it increased gradually year after year until 2013. In 2014, the ratio had a slightly decline. This ratio is relative to market share price. So, the higher ratio shows higher market price but lower ESP. It indicates the share of Fortuna has lower risk and lower return required by investors, especially in 2013.

Dividend payout ratio

We can use the formula (2.27) to calculation for dividend payout ratio.

Table 4.24 Dividend payout ratio

Year	2010	2011	2012	2013	2014
Dividend payout ratio	77%	90%	281%	73%	-

Source: Own elaboration based on company's financial statements

From the table 4.24, we can see there was no dividend in 2014, because the board of directors of Fortuna decided that the company will not pay any dividend of 2014. Fortuna confirms that the dividend policy is under review due to the planned investments into future growth opportunities, especially investments into a new IT platform. Then, we can look at the rest three years. The highest ratio is up to 281% in 2012. In line with the Company's earlier declaration that Fortuna is going to pay out 100% of the consolidated net profit for 2012 and possibly an additional dividend from its retained earnings from previous years. The Management decided that dividend had 0.23 EUR from consolidated net profit for 2012, 0.10 EUR from retained earnings and 0.34 EUR from share premium distribution. In total, the dividend payout is 0.67 EUR. This is the reason why the dividend payout ratio exceeded one hundred percent.

Dividend yield

We can use the formula (2.28) to calculation for dividend yield.

Table 4.25 Dividend yield

Year	2010	2011	2012	2013	2014
Dividend yield	7.25%	6.47%	19.41%	4.99%	-

Source: Own elaboration based on company's financial statements

From table 4.25, we can directly and clearly know the yield that investors can be expected from buying a share. In 2012, the dividend yield was highest and 2013 was lowest.

4.3 DuPont analysis

This method was introduced in section 2. DuPont analysis helps corporate management more clearly to see the determinants of return on equity. The earning on equity can be divided into three parts: net profit margin, assets turnover and financial leverage. In addition, the net profit margin can be divided into three parts: tax burden, interest burden and operating profit margin as well. Through comparison with two years, we can know which components caused the increase or decrease on ROE in the second year. According the result, Fortuna can adjust immediately for better development in next year. Then we can use three methods to calculate ratios for indicating which factors have positive impact on ROE and which negative or which factors have a serious impact on ROE and which slight.

Next, there are selected original data for calculation as follows:

Table 4.26 Original data for ROE (EUR thousands)

Year	2010	2011	2012	2013	2014
Total assets	95,804	93,855	95,040	91,026	90,329
Total equity	52,007	46,702	48,953	27,035	30,080
Revenue	81,195	89,844	96,238	97,053	109,617
Operating profit	22,453	16,831	18,423	22,994	24,051
Profit before tax from continuing operations	20,142	15,891	16,162	21,019	21,314
Net profit for the year	17,373	13,320	12,319	15,573	15,928

Source: Own elaboration based on company's financial statements

We can use formula (2.29) to calculate ROE, NPM, assets turnover and financial leverage.

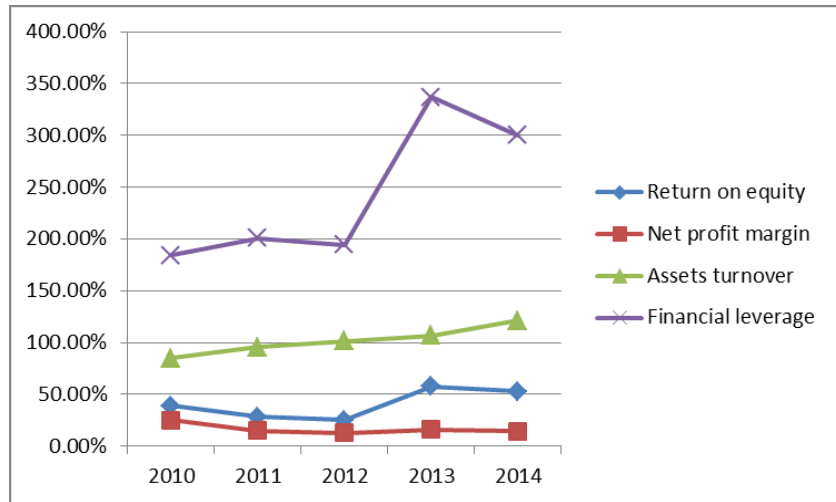
Table 4.27 Component and basic ratios for ROE

Year	2010	2011	2012	2013	2014
Return on equity	38.95%	28.52%	25.16%	57.60%	52.95%
Net profit margin	24.95%	14.83%	12.80%	16.05%	14.53%
Assets turnover	0.848	0.957	1.013	1.066	1.214
Financial leverage	184.21%	200.97%	194.15%	336.70%	300.30%

Source: Own elaboration based on company's financial statements

And then, we can make a chart to reflect the trend of the component ratios during the five years.

Chart 4.9 Component ratios for ROE



Source: Own elaboration based on company's financial statements

As previously mentioned, the assets turnover is an efficiency ratio which tells the efficiency of assets usage. It reflects the sales revenue per one unit of the total assets which is generated by company's financing activities. From the table 4.19 and the chart 4.9, we can see the assets turnover continued to rise gradually from 2010 to 2014. That reflected Fortuna's efficiency of assets usage was good year more than a year. Meanwhile, the higher financial leverage reflected the higher the debt ratio, indicating the stronger the company's financing. The leverage means that if the equity multiplier is four, the company is able to use four unit capitals after the shareholders invest one unit. From the table 4.19 and the chart 4.9, we can see, the highest point appeared in 2013. The ratio was up to 336.70%. It means Fortuna needs less equity capital to use more assets by financial leverage. To sum up, we can see the broken line of return of equity, from 2010 to 2012, the general trend appeared to decrease. Then, it had a sharply rise to 57.6% in 2013. It was more than twice than 2012.

Now, we can use formula (2.30) to calculate the effects of taxes and interest.

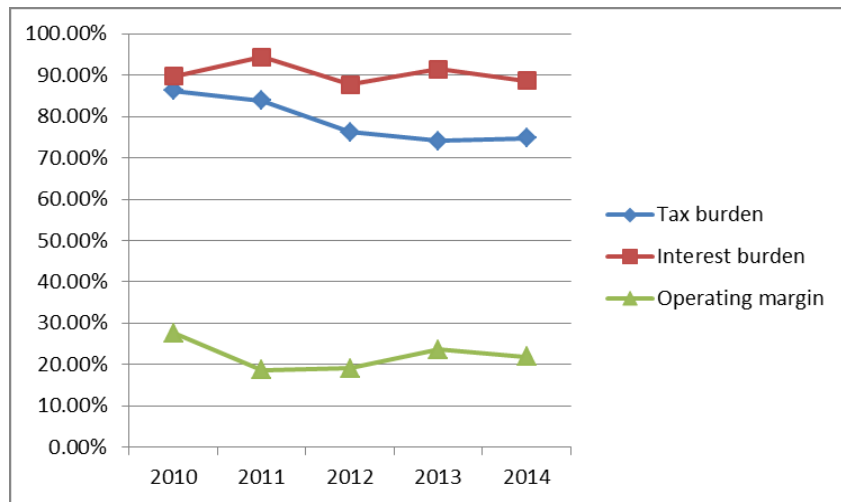
Table 4.28 Component ratios for ROE

Year	2010	2011	2012	2013	2014
Tax burden	86.25%	83.82%	76.22%	74.09%	74.73%
Interest burden	89.71%	94.42%	87.73%	91.41%	88.62%
Operating profit margin	27.65%	18.73%	19.14%	23.69%	21.94%

Source: Own elaboration based on company's financial statements

Then, let us make a chart to reflect the trend of the component ratios during the five years.

Chart 4.10 Component ratios for ROE

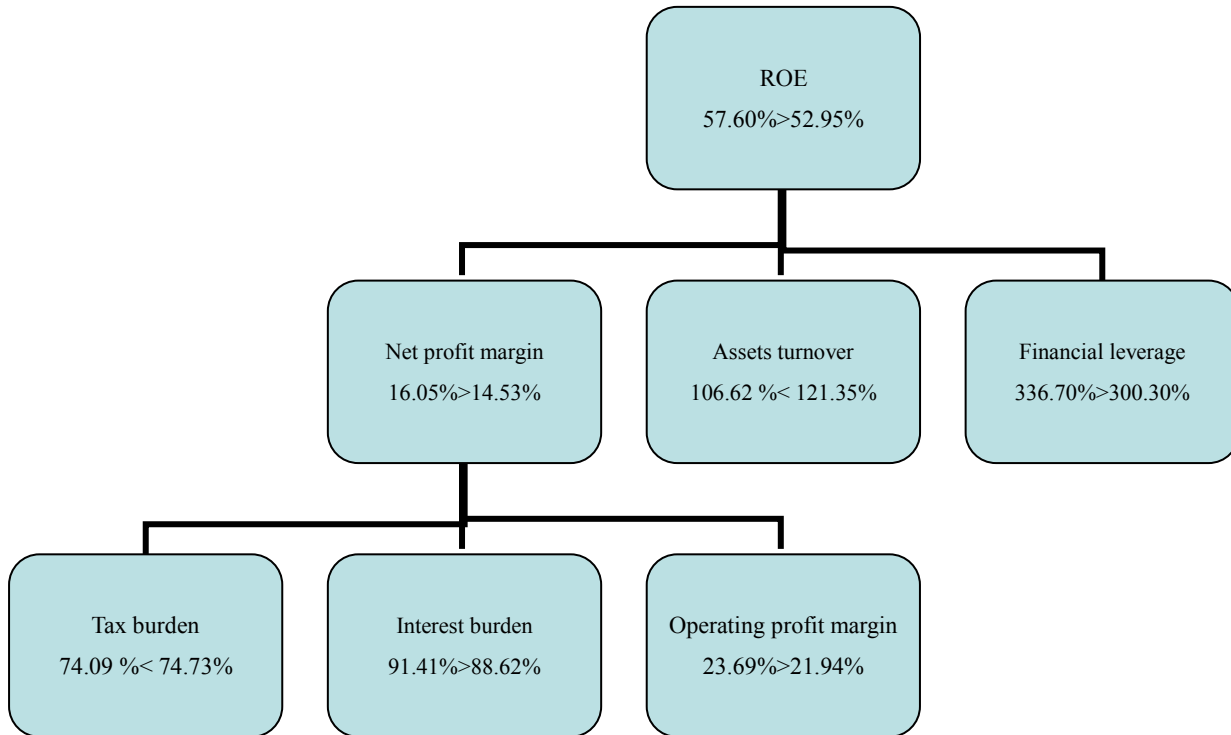


Source: Own elaboration based on company's financial statements.

The table 4.28 and chart 4.10 revealed a trend of fluctuations in different years. We can see in 2010, the rate of net income to earning before tax was 86.25%, which reflected the tax burden of Fortuna was more relaxed than other period, because the tax burden equals the net income divided by the earning before tax. If the rate of tax burden is higher, it means the taxes are relative lower. And there were no bigger changes of tax burden from 2012 to 2014. They were more stable. Then, we can look at interest burden. During the five years, this percentage increased twice and decreased twice. It should be kept more stable. And from this table and chart, it was obviously that the operating profit margin was less than other ratios during the five years. It means Fortuna had heavy operating expenses, such as production cost, personnel expenses, depreciation and other overhead costs.

As we all know, the DuPont analysis can be applied to measure which factors have an great effect on return on equity after compared with other data. We can make a structure chart to clearly indicate which factors directly or indirectly affect the ROE. We can select the highest ratio of ROE in 2013 to compare with the data of latest year in 2014, and analyze the reason of that decline. Then we can make appropriate adjustments and improve the decision-making in next year.

Chart 4.11 DuPont analysis structure chart in 2013 and 2014



Source: Own elaboration based on company's financial statements.

The ratio in 2013 is on the left and 2014 is on the right.

When coupled with the chart 4.11, it leads to possible conclusions. First of all, we can see the ability for controlling the production cost and overhead costs is one of the influence factors in 2014. Because the operating profit margin in 2014 was less than 2013. And we know the operating profit margin equals earnings before interest and tax divided by revenues. Then production cost and overhead costs can affect the operating profit margin and thus affect the net profit margin. So, Fortuna should control the costs of production and reduce the overhead costs like personnel expenses, depreciation and amortization and so on. Secondly, Fortuna should reduce the interest payment, because the interest burden was less than 2013. It indicated the percentage of interest in operating profit was large than 2013. Fortuna can reduce the bank loans or choose the bank to borrow the money which has relative lower interest. Thirdly, we can see the assets turnover in 2014 was more than 2013. It means Fortuna had a high level assets usage in 2013. So, another influence factor is financial leverage, instead of assets turnover. The lower

financial leverage indicates that the Fortuna's debt financing was weak in 2014. That shows if the shareholders invest one unit capital to Fortuna in 2014, Fortuna was able to apply 3 unit capitals. If the same amount of capital was invested in 2013, Fortuna would have approximate 3.37 unit capital to use.

4.3.1 Influence quantification

Up to now, we know which factors influence the ROE, but we do not know which component ratios contribute to the change in basic ratio at most. So, we need analyzing the impact of the changes in component ratios on the basic ratio by applying method of gradual changes, logarithmic method, and function method.

There is basic ratio values calculation as follows:

$$ROE_0 = EAT_0 / EQUITY_0 = 0.576 \quad (4.1)$$

$$ROE_1 = EAT_1 / EQUITY_1 = 0.53 \quad (4.2)$$

$$\text{Absolute change: } \Delta ROE^{abs} = ROE_1 - ROE_0 = 52.95\% - 57.60\% = -0.0465 \quad (4.3)$$

$$\text{Relative change: } \Delta ROE^{rel} = (ROE_1 - ROE_0) / ROE_0 = -0.0807 \quad (4.4)$$

$$\text{Index of the change: } I_{ROE} = ROE_1 / ROE_0 = 0.919 \quad (4.5)$$

Then we can let a_1 equal EAT divided by revenues, a_2 equal revenues divided by assets, a_3 equal assets divided by equity, and x mean ROE.

Method of gradual changes

We can use formula (2.31) or (2.32) for calculation, and order the results.

Table 4.29 Method of gradual changes

	2013	2014	Δa^{abs}	Δx_{ai}	rank
a_1	0.160	0.145	-0.015	-0.054	3
a_2	1.066	1.214	0.147	0.072	1
a_3	3.367	3.003	-0.364	-0.064	2
sum	-	-	-	-0.0465	-

Source: Own elaboration based on company's financial statements

$$\text{For } a_1: \Delta ROE_{a1} = -0.015 \cdot 1.066 \cdot 3.367 = -0.054$$

$$\text{For } a_2: \Delta ROE_{a2} = 0.145 \cdot 0.147 \cdot 3.367 = 0.072$$

$$\text{For } a_3: \Delta ROE_{a3} = 0.145 \cdot 1.214 \cdot (-0.364) = -0.064$$

Logarithmic decomposition method

We can use formula (2.33) for calculation as follows:

Table 4.30 Logarithmic decomposition method

	2013	2014	<i>Ia</i>	Δx_{ai}	rank
a_1	0.160	0.145	0.906	-0.055	3
a_2	1.066	1.214	1.138	0.071	1
a_3	3.367	3.003	0.892	-0.063	2
sum	-	-	-	-0.0465	-

Source: Own elaboration based on company's financial statements

$$\text{For } a_1: \Delta ROE_{a1} = (\ln 0.906 / \ln 0.919) \cdot (-0.0465) = -0.054$$

$$\text{For } a_2: \Delta ROE_{a2} = (\ln 1.138 / \ln 0.919) \cdot (-0.0465) = 0.071$$

$$\text{For } a_3: \Delta ROE_{a3} = (\ln 0.892 / \ln 0.919) \cdot (-0.0465) = -0.063$$

Function decomposition method

We can use formula (2.34) for calculation:

Table 4.31 Function decomposition method

	2013	2014	<i>Ra</i>	Δx_{ai}	rank
a_1	0.160	0.145	-0.094	-0.055	3
a_2	1.066	1.214	0.138	0.072	1
a_3	3.367	3.003	-0.108	-0.063	2
sum	-	-	-	-0.0465	-

Source: Own elaboration based on company's financial statements

$$\text{For } a_1: \Delta ROE_{a1} = 1 / (-0.0807) \cdot (-0.094) \cdot (1 + 1/2 \cdot 0.138 + 1/2 \cdot (-0.108) + 1/3 \cdot 0.138 \cdot (-0.108)) = -0.055$$

$$\text{For } a_2: \Delta ROE_{a2} = 1 / (-0.0807) \cdot 0.138 \cdot (1 + 1/2 \cdot (-0.094) + 1/2 \cdot (-0.108) + 1/3 \cdot (-0.094) \cdot (-0.108)) = 0.072$$

$$\text{For } a_3: \Delta ROE_{a3} = 1 / (-0.0807) \cdot (-0.108) \cdot (1 + 1/2 \cdot (-0.094) + 1/2 \cdot 0.138 + 1/3 \cdot (-0.094) \cdot 0.138) = -0.063$$

As shown in table 4.29, 4.30, 4.31, we can find the same result. Although the each component ratio values have a little error, the summed up results are the same as absolute change in ROE.

The positive impact on the ROE is on the assets turnover. It contributed about 0.072. But the negative impacts are on net profit margin and financial leverage, especially on net profit margin.

They were up to -0.055 and -0.063. Fortuna can adjust these items to get more ROE.

5 Conclusions

The goal of the thesis is to perform financial analysis of Fortuna Entertainment Group in period 2010-2014. Fortuna provides financial data for the recent five years. According to the relevant data of financial statement of Fortuna, we use aforementioned methods to analyze its financial situation from 2010 to 2014.

To sum up, we draw a conclusion that from the common-size of balance sheet, the largest proportion of the goodwill exceed 50% in total assets and the second larger proportion is cash and cash equivalents. And the proportion of long-term bank loans and trade and other payables are large part of total liabilities. In the common-size of income statement, the amounts staked have a greatly increased year by year. It shows Fortuna has a great operating performance.

And then, we use financial ratio analysis to assess Fortuna's profitability, liquidity, solvency, assets management and market-based situation. We draw a conclusion that the profitability and liquidity is well in 2010. But from 2011 to 2012, it has a sharply decline. Then it has a slightly rise in 2013, but down again in 2014. However, the solvency is better in 2013 and 2014. About the activity ratio, the receivable turnover was best in 2010. But it dropped sharply in 2011. The lowest point appeared in 2013. According market share price, we know the price decreased from 2010 to 2012, and rose sharply in 2013, then had a slightly decline. Considering impact of EAT, the trend of EPS is similar with market share price. And there is a special high data is dividend payout ratio in 2012. Because the management pay out not only approximately all the EAT, but also part of retained earnings as well as the share premium distributed. Meanwhile, the highest dividend yield appeared in 2013. It was up to 19.41%.

The DuPont analysis is an important method in financial analysis. We also can compare the ROE between 2013 and 2014. The ROE is lower in 2014. Through decomposition of ROE, we know the net profit margin and financial leverage are the factors whose changes have caused change in ROE in 2014. Furthermore, we know the interest burden and operating profit margin have impact on net profit margin. In order to know which component ratios contribute to the change in basic ratio at most, we use three methods for quantification of influence. We get the positive impact on

the ROE is on the assets turnover. But the negative impacts are on net profit margin and financial leverage, especially on net profit margin. It indicates if Fortuna wants to change this situation and have a high return of equity, it should consider the impacts of these component ratios.

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List of Abbreviations

EAT	Earnings after Taxes
EBT	Earnings before Taxes
EBIT	Earnings before Interest and Taxes
EPS	Earnings per share
NPM	Net profit margin
OPM	Operating profit margin
ROA	Return on Assets
ROE	Return on Equity
ČNB	Czech National Bank (Česká národní banka)

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List of annexes

Annex 1 Balance sheet of Fortuna Entertainment Group N.V.

Annex 2 Income statement of Fortuna Entertainment Group N.V.

Annex 3 Cash flow statement of Fortuna Entertainment Group N.V.

Annex 1

Balance sheet of Fortuna Entertainment Group N.V.

Consolidated statement of balance sheet (EUR thousands)					
	2010	2011	2012	2013	2014
Assets:					
Non-current assets:					
Goodwill	50,796	49,339	50,634	46,415	45,913
Intangible assets	7,953	7,789	8,308	8,850	8,253
Property, plant and equipment	4,919	5,976	5,937	4,773	8,150
Deferred tax assets	272	699	708	1,066	935
Restricted cash	3,743	6,913	7,512	4,761	4,718
Other non-current assets	628	933	1,757	1,990	2,007
Total non-current assets	68,311	71,649	74,856	67,855	69,976
Current assets:					
Current receivables	1,007	2,613	2,030	4,348	1,949
Income tax receivable	239	112	268	1	98
Other current assets	912	1,948	2,406	2,168	2,380
Cash and cash equivalents	25,335	17,533	15,480	16,654	15,926
Total current assets	27,493	22,206	20,184	23,171	20,353
Total assets	95,804	93,855	95,040	91,026	90,329
Equity and liabilities:					
Share capital	520	520	520	520	520
Share premium	25,942	25,942	25,942	8,262	8,262
Statutory reserve	3,004	3,502	5,021	5,414	797
Foreign currency translation reserve	1,647	(1,358)	468	(2,987)	(3,486)
Hedge reserve	-	(433)	(367)	(359)	(304)
Retained earnings	20,894	18,529	17,369	15,911	24,072
Equity attributable to equity holders of the parent	-	-	-	26,761	29,861
Non-controlling interest	-	-	-	274	219
Total equity	52,007	46,702	48,953	27,035	30,080
Non-current liabilities:					
Deferred tax liability	5	-	-	-	31
Provisions	53	524	400	507	591
Long-term bank loans	24,115	22,573	13,697	39,518	35,182
Other non-current liabilities	29	5	30	29	35
Total non-current liabilities	24,202	23,102	14,127	40,054	35,839

Current liabilities:					
Trade and other payables	12,223	15,650	17,140	16,056	15,700
Income tax payable	499	183	838	1,867	1,058
Provisions	208	488	487	834	1,366
Current portion of long-term bank loans	5,021	5,928	11,947	4,243	5,453
Derivatives	919	935	701	493	384
Other current financial liabilities	725	867	847	444	449
Total current liabilities	19,595	24,051	31,960	23,937	24,410
Total liabilities	43,797	47,153	46,087	63,991	60,249
Total equity and liabilities	95,804	93,855	95,040	91,026	90,329

Annex 2

Income statement of Fortuna Entertainment Group N.V.

Consolidated statement of profit or loss (EUR thousands)					
	2010	2011	2012	2013	2014
Amounts staked	384,172	409,344	467,881	567,231	672,429
Revenue	81,195	89,844	96,238	97,053	109,617
Governmental taxes and levies	(6,799)	(7,156)	(10,821)	(10,806)	(12,652)
License fees	-	(2,229)	(175)	(15)	-
Personnel expenses	(25,576)	(26,923)	(26,777)	(26,600)	(28,282)
Depreciation and amortization	(2,630)	(3,132)	(3,660)	(3,682)	(4,338)
Other operating income	649	746	740	3,355	985
Other operating expenses	(24,386)	(34,319)	(37,122)	(36,311)	(41,279)
Operating profit	22,453	16,831	18,423	22,994	24,051
Finance income	2,230	2,636	1,499	734	124
finance cost	(4,541)	(3,576)	(3,760)	(2,709)	(2,861)
Profit before tax from continuing operations	20,142	15,891	16,162	21,019	21,314
Income tax expense	(2,769)	(2,571)	(3,843)	(5,446)	(5,386)
Net profit for the year from continuing operations	17,373	13,320	12,319	15,573	15,928
Net profits for the year from discontinued operations	2,885	-	-	-	-
Net profit for the year	20,258	13,320	12,319	15,573	15,928
Consolidated statement of other comprehensive income:					
Profit for the year	20,258	13,320	12,391	15,573	15,928
Other comprehensive income:					
Net movement on cash flow hedges	(144)	(24)	81	(1)	70
Income tax effect	(90)	(16)	51	17	40
Exchange differences on translation of foreign operations	1,323	(3,025)	1,826	(3,455)	(499)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-	-	-	(3,447)	(444)
Other comprehensive income for the year, net of tax	1,206	(3,025)	1,892	(3,447)	(444)
Total comprehensive income for the year, net of tax	21,464	10,295	14,283	12,126	15,484

Attributable to:					
Equity holders of the parent	21,464	10,295	14,283	12,170	15,539
Non-controlling interest	-	-	-	(44)	(55)

Annex 3

Cash flow statement of Fortuna Entertainment Group N.V.

Consolidated statement of cash flows (EUR thousands)					
	2010	2011	2012	2013	2014
Cash flows from operating activities:					
Profit before tax from continuing operations	20,142	15,891	16,162	21,019	21,314
Loss before tax from discontinued operations	(1,301)	-	-	-	-
Profit before tax	18,841	15,891	16,162	21,019	21,314
Adjustments for:					
Depreciation and amortization	2,765	3,132	3,660	3,682	4,338
Changes in provisions	264	751	(125)	423	637
(Gain)/Loss on disposal of property, plant and equipment	30	(32)	(18)	(15)	(24)
Interest expenses and income	1,331	1,401	1,529	1,468	1,384
Change in fair value of derivatives	8	3	(162)	(200)	-
Unrealized foreign exchange loss on borrowings	-	-	-	-	106
Operating cash flow before working capital changes	23,239	21,146	21,046	26,377	27,755
(Increase)/Decrease in other current assets	(144)	(1,127)	(368)	(129)	(293)
Increase /(Decrease) in receivables	(138)	(2,328)	254	(2,017)	2,393
(Decrease)/Increase in payables and other liabilities	(3,655)	4,712	535	(348)	559
Increase /Decrease in restricted cash	-	(3,417)	(437)	2,310	-
Cash generated from operating activities	19,302	18,986	21,030	26,193	30,414
Corporate income tax paid	(2,701)	(3,221)	(3,359)	(4,846)	(6,167)
Net cash flows provided by/(used in) operating activities	16,601	15,765	17,671	21,347	24,247
Cash flows from investing activities:					
Interest received	526	202	151	108	66
Acquisition of subsidiary ,net of cash acquired	(320)	-	-	-	(4,917)
Earn out payment acquisition	-	(117)	(29)	(20)	(118)

Purchase of buildings, equipment and intangible assets	(3,394)	(4,613)	(4,095)	(3,833)	(3,108)
Proceeds from sale of buildings and equipment	20	55	39	47	35
Net cash flows provided by /(used in) investing activities	(3,168)	(4,473)	(3,934)	(3,698)	(8,042)
Cash flows from financing activities:					
Net proceeds from /(Repayments of)long term borrowings	5,127	(1,032)	(3,350)	27,597	(4,179)
Net proceeds from /(Repayments of)short term borrowings	(16,485)	1,045	(54)	(7,222)	1,276
Incurred transaction costs capitalized	(2,009)	-	-	(498)	(55)
Dividends paid	-	(15,600)	(11,960)	(34,840)	(11,440)
Receivable waived and additional withholding tax paid	-	-	-	-	(999)
Interest paid	(1,857)	(1,603)	(1,680)	(1,642)	(1,353)
Net cash flows provided by/(used in)financing activities	(15,224)	(17,190)	(17,044)	(16,605)	(16,750)
Net effect of currency translation in cash	7	(1,904)	1,254	130	(183)
Net(Increase)/decrease in cash and cash equivalents	3,769	(7,802)	(2,053)	1,174	(728)
Cash and cash equivalents at the beginning of the year	21,566	25,335	17,533	15,480	16,654
Cash and cash equivalents at the end of the year	25,342	15,629	16,734	16,784	15,743