COLEGIO UNIVERSITARIO DE ESTUDIOS FINANCIEROS

GRADO BILINGÜE EN ADMINISTRACION Y DIRECCIÓN DE EMPRESAS .

Trabajo de Fin de Grado

ANALYSIS OF THE MAIN ECONOMIC-FINANCIAL RATIOS OF INDITEX S.A. AND ADOLFO DOMINGUEZ

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1. INTRODUCTION

The main objective of this study is to analyze and compare two Spanish companies that belong to the textile sector: Inditex and Adolfo Dominguez. For this, an analysis of these two companies from 2012 to 2017 will be carried out.

This particular period of time has been chosen since it shows the most recent years and also the years in which Spain was recovering from the crisis it suffered in 2008.

The motivation of this study is that the activities belonging to the textile sector are some of those that have the greatest volume of business and importance not only in Spain but throughout the world. They have a great influence when it comes to defining commercial agreements at the international level, they create a lot of employment and we should also highlight that it is an activity that is part of our daily life.

These two companies, Inditex and Adolfo Dominguez, both from Galicia, although apparently they are very famous in Spain and may seem similar, their size is very different and we will be able to see later that accountingly speaking they are very different too.

For this we will carry out an accounting-financial analysis that will help us obtain a true image of the equity of both companies, understand their situation, their results and evolution over the years through the method of ratios. This information obtained from the analysis can be very interesting both for internal users such as partners or shareholders, company managers and employees, as well as for external users such as investors, lenders, suppliers etc.

In this project we will calculate and interpret the ratios that will provide us with information about the liquidity, solvency and profitability situation of both companies from the balance sheet and income statement.

2. THE SPANISH TEXTILE SECTOR

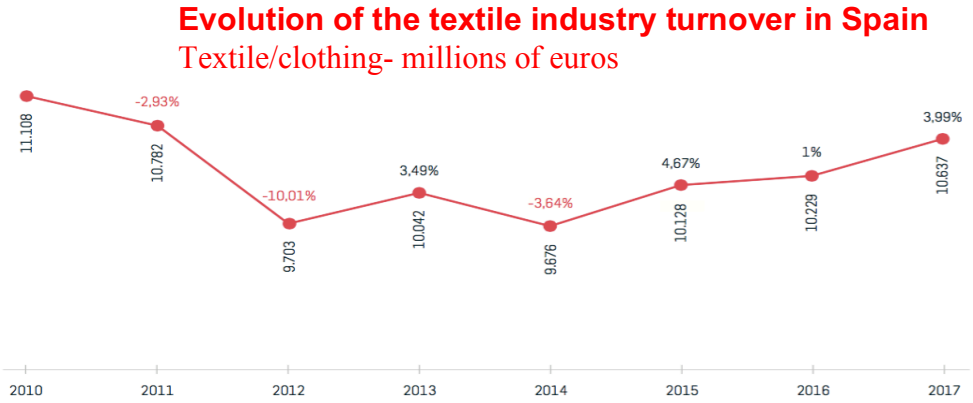
2.1. CHARACTERISTICS OF THE TEXTILE SECTOR

First, we will study the Spanish textile-confection sector for which we will analyze the evolution from 2012 to 2017 of the textile industry in Spain, the evolution of the number of workers in this sector, the evolution of the number of companies dedicated to it and the contribution of this sector to the Spanish GDP.

Spain has achieved worldwide recognition in the sector for the creation of innovative business models based on fast fashion, with Inditex as the reference operator of the sector in the whole world. This model offers a fashion product

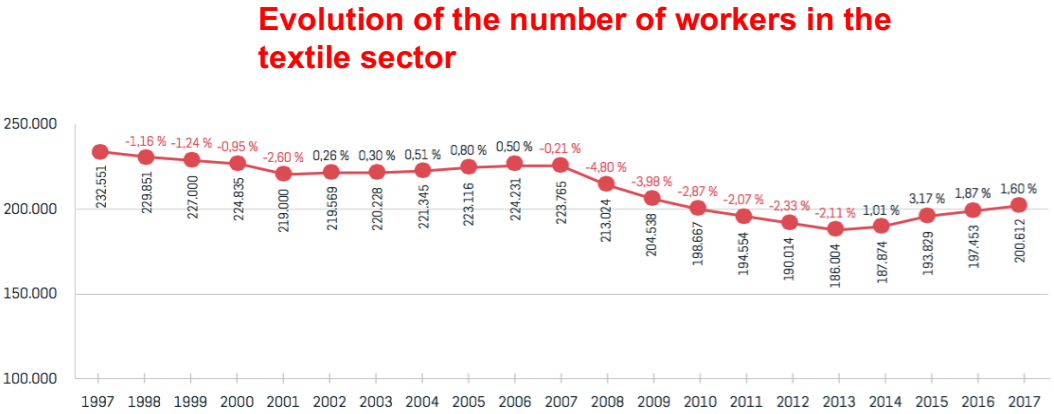
adapted to the tastes of the consumer, in multiple countries, with a great value for money, in a spectacular store environment and with the best locations in streets and shopping centers. The textile sector is one of the largest contributors of exports and imports in Spain and the opening of markets is tending to increase exports and imports.

Regarding the turnover evolution of the textile industry in Spain we can see that it has been changing irregularly. However, we have seen that from 2014 to 2017 its general trend has been towards an increase of 10,637 million in 2017, which represents an increase of 3.99% over the previous year and therefore an improvement and growth of this sector.



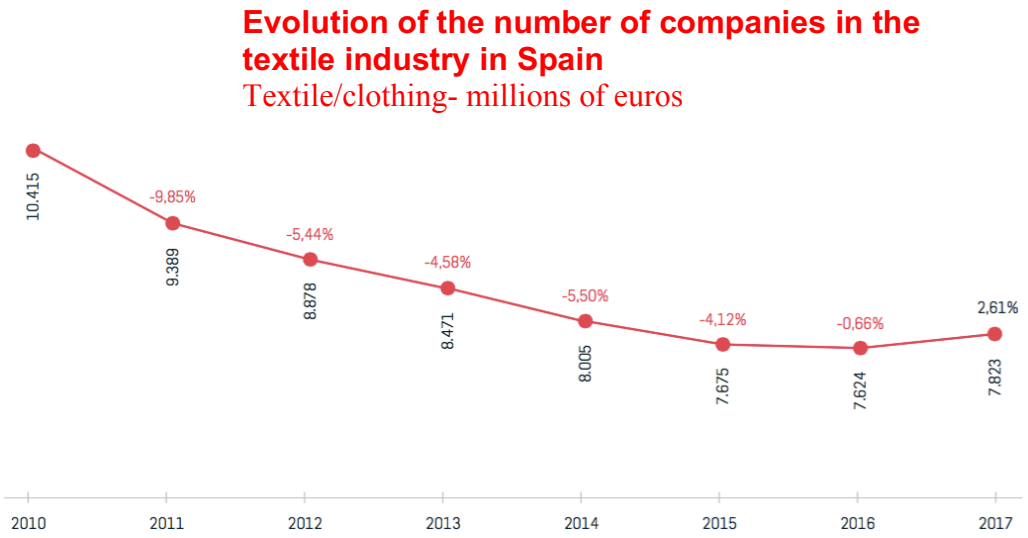
Graph 1: Evolution of the textile industry turnover in spain (millions of euros)
Source: Report "El comercio textil en cifras". ACOTEX

As for the evolution of the number of workers in this sector, we can observe that it follows the same direction as the evolution of billing since, after several years of falling number of workers, as of 2014 the figures begin to increase reaching in the year 2017 a figure of 200612 .



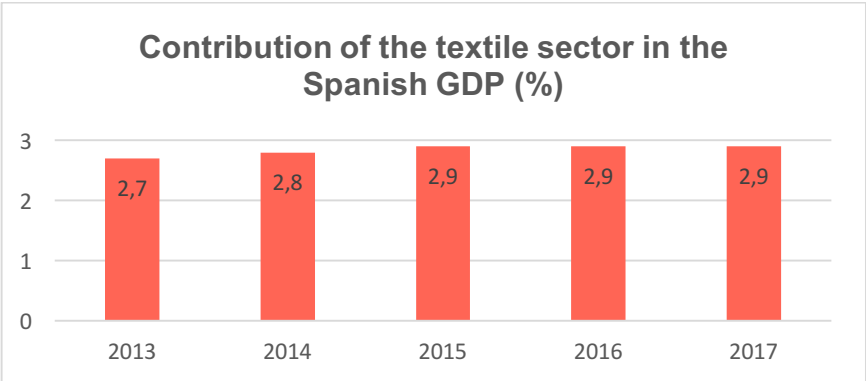
Graph 2: Evolution of the number of workers in the textile sector
Source: Report "El comercio textil en cifras". ACOTEX

When analyzing the evolution of the number of companies that dedicate their activity to this sector, we can see that they have been decreasing reaching a number of 7624 million companies in 2016, which represents a reduction of 0.66% with respect to the previous year. However, in 2017 there was an increase of 2.61% compared to the previous year, increasing the figure to 7823 million companies.



Graph 3: Evolution of the number of companies in the textile industry in Spain
Source: Report "El comercio textil en cifras". ACOTEX

Finally, the following graph shows the contribution of the textile sector in the spanish PIB. We understand as GDP the set of goods and services produced in a country during one year. We can see in the graph that the values are between 2,7% and 2,9% and that it has been slightly growing throughout the years.



Graph 4: contribution of the textile sector in the Spanish GDP (%)
Source: Report " El sector de la moda en España". ISEM and ACMC

2.2. HISTORY OF INDITEX

Indinex is one of the largest fashion distribution companies in the world, selling in 202 markets through its online platform or its more than 7,000 stores in 96 markets. The group consists of eight brands: Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe.

The business started in 1963 by Amancio Ortega in a small workshop in A Coruña where they made dresses and dressing gowns for women. In 1977 the factories and their current headquarters were built in Arteixo (Spain) and in 1983 Zara began to open stores throughout Spain with great success which allowed them to continue their growth.

In 1985, Inditex was founded as the holding company of the Group under which the rest of its brands are grouped. As a group, they were able to establish the foundations of a distribution system that meets the high demands of the market and adapts to a very rapid growth rate. From this moment, the growth and expansion of Inditex to countries all over the world has been unstoppable: Portugal, USA, France, Mexico, Greece, Belgium and Sweden, Malta, Cyprus, Norway, Israel, United Kingdom, Japan, Venezuela , Turkey... and although its dimensions have changed and increased, the idea that its customers are at the center of everything they do is unchanging.

In 1991 Inditex incorporates two new brands to the group: Pull & Bear and Massimo Dutti, 1998 Bershka brand is also added being an innovative concept for young people and in 1999 Inditex includes its fifth brand to the group, Stradivarius. Stradivarius joins Inditex aimed primarily at young and dynamic women, although now it also has a men's collection.

In 2001 Oysho, specialized in lingerie, begins to be part of the group. In the same year Inditex starts trading on the Madrid stock exchange market. Two years later, Zara home is born, its seventh brand which is destined to the sale of home decoration items. Zara Home becomes the first chain to sell through the internet. Later they launch their eighth brand, Uterqüe, initially specialized in accessories and also establish their first eco-efficient Zara store in Greece.

Inditex has an Environmental Strategic Plan whose main objective is to ensure that all its operations are environmentally sustainable. In 2010 Zara began to operate through the internet and in a few months had managed to sell online in 16 European markets. The following year, the year in which Pablo Isla, CEO of Inditex since 2005, assumes the presidency of the group, all Inditex brands were already selling online.

Inditex has been able to gather in a single company the essential elements for the creation of fashion and thus offer customers their products at affordable

prices and at the right time: design, manufacturing, logistics / distribution and sale in stores and online.

Their business model is based on the creation of fast fashion, known as a "Just in Time" model, in which a minimum stock is maintained with a dynamic and synchronized system that guarantees a constant renewal. In addition, its products are adapted to each of the cultures of the countries in which they operate.

2.3. HISTORY OF ADOLFO DOMINGUEZ

Adolfo Dominguez (AD from now on) was born in Ourense. He is a Spanish businessman who created the clothing brand that bears his name. He devoted his studies to art and cinema in Paris. He reached the Spanish fashion industry influenced by the Japanese designers of the moment.

He opened his first store in Ourense in 1976 where he showed his first collection that was only for men. Later, staying loyal to the philosophy of his brand, the Adolfo Dominguez women's line was born. At this time the slogan that would remain eternal in the fashion of Spain emerges: "the wrinkle is beautiful". A slogan that reflects the taste of the brand for the natural, and its conviction that clothing is our second skin.

His designs and achievements began to appear in publications of great recognition internationally. At the end of the 80s, the men's fashion magazine L'Uomo Vogue of great prestige, dedicated Adolfo Dominguez a report, in which he was described as one of the most relevant European fashion designers of the moment, thus being recognized his talent throughout Europe. The collections were marketed in fashion temples like Harrods.

In 1990 Adolfo Dominguez launches his first perfume with a very high number of sales, being the first designer in Spain to market a perfume under his own name.

From the decade of the 90s on, the Company began to expand to other countries and cultures not only to sell their products, but also to exchange values and ideas. Their growth was very fast, in ten years they had reached three continents, opening stores in countries such as Belgium, Mexico, Great Britain, Japan, Argentina etc. Today the firm has more than 500 stores spread all over the world.

On March 18, the shares of Adolfo Dominguez entered the Spanish stock Exchange market to be listed as the first fashion brand in the country to enter the stock market.

In the year 2000 Adolfo Dominguez developed their first young line and in 2004 they expanded their collections by dedicating one of their lines to the youngest.

In this same year, the brand was responsible for dressing more than 10,000 employees of the main Spanish airline Iberia.
The company has a high level of commitment to the environment and climate change, so in 2007 the company´s corporate social responsibility acquires a greater role. The company chose a large building located on Calle Serrano in Madrid to show their products.

Adolfo Dominguez continued growing in sales, in his expansion to countries such as Japan and also in the digital reality to achieve an improvement in the customer experience and encourage purchases in an omnichannel environment. The company has a policy of free shipping and returns, which allows them to reach the great majority of parts of the world getting the creator of the brand to be seen as a benchmark for European design.

3. BALANCE SHEET ANALYSIS

The objective of the balance sheet analysis is to study the structure of the balance sheet of a company analysing its two main parts: The assets and the net equity+ liabilities. In this way it will be possible to determine if the Company is in equilibrium or imbalance. This information will be more valuable if the balance sheets for several consecutive periods are studied, so that trends and changes in different periods can be viewed. In this case an analysis of the financial statements of inditex and Adolfo Dominguez from 2012 to 2017 will be done. To do this, a decomposition analysis will be carried out. The balance sheets of both companies from year 2012 to year 2017 are shown below:

INDITEX	28/02/2012 mll EUR	29/02/2013 mll EUR	28/02/2014 mll EUR	28/02/2015 mll EUR	28/02/2016 mll EUR	29/02/2017 mll EUR
Non current assets	5.521,89	6.198,17	6.991,30	8.271,05	8.907,91	9.723,09
Intangible assets	832,20	819,89	845,74	882,01	888,26	911,25
Tangile assets	4.063,07	4.662,41	5.137,58	6.040,57	6.597,47	7.283,43
Other non-current assets	626,62	715,87	1.007,98	1.348,46	1.422,19	1.528,41
Current assets	5.437,29	6.692,15	6.764,96	7.105,95	8.449,24	9.898,35
Inventories	1.277,01	1.581,30	1.676,88	1.859,52	2.195,02	2.549,20
Clients	548,28	906,54	910,86	930,10	757,89	968,50
Cash	3.466,75	3.842,92	3.846,73	3.797,93	4.225,53	4.115,91
Other current assets	145,25	361,39	330,49	518,41	1.270,80	2.264,74
Total assets	10.959,18	12.890,32	13.756,26	15.377,00	15.377,00	17.357,15
Shareholder´s Equity	7.455,58	8.481,86	9.278,36	10.468,70	11.450,79	12.751,55
Share capital	93,50	93,50	93,50	93,50	93,50	93,50
Other shareholdres equity	7.362,08	8.388,36	9.184,86	10.375,20	11.357,29	12.658,05
Non current liabilities	800,83	923,39	1.015,61	1.159,47	1.236,20	1.419,31
financial debt	1,54	4,31	2,13	2,27	0,75	0,50
Other non current liabilities	799,28	919,09	1.013,47	1.157,21	1.235,46	1.418,81
Supplies	147,32	144,33	147,77	200,61	145,29	241,61
Current liabilities	2.702,77	3.485,06	3.462,29	3.748,83	4.670,15	5.450,57
financial debt	-	2,44	2,52	7,82	10,25	61,70
Commercial creditors	2.475,14	3.243,28	3.332,45	3.507,88	4.514,27	5.095,13
Other current liabilities	227,63	239,35	127,32	233,13	145,63	293,75
Shareholder´s equity + liabilities	10.959,18	12.890,32	13.756,26	15.377,00	17.357,15	19.621,44

Table 1: Inditex balance sheet (millions of Euros)
Source: SABI

ADOLFO DOMINGUEZ	28/02/2012 mll EUR	29/02/2013 mll EUR	28/02/2014 mll EUR	28/02/2015 mll EUR	28/02/2016 mll EUR	29/02/2017 mll EUR
Non current assets	83,07	70,24	65,85	58,22	43,45	32,12
Intangible assets	2,35	0,98	0,78	2,47	2,33	1,65
Tangile assets	63,59	39,65	32,11	27,07	14,99	13,74
Other non-current assets	17,13	29,62	32,96	28,68	26,13	16,73
Current assets	99,01	78,93	68,05	61,93	69,07	52,44
Inventories	53	42,73	34,31	27,89	29,52	30,5
Clients	32,82	17,01	22,84	20,69	16,07	13,25
Cash	10,36	9,29	10,91	13,35	22,64	8,04
Other current assets	2,83	9,9	0	0	0,84	0,66
Total assets	182,08	149,17	133,91	120,16	112,52	84,56
Shareholder´s Equity	121,72	95,72	85,01	75,1	83,42	60,49
Share capital	5,48	5,56	5,56	5,56	5,56	5,56
Other shareholdres equity	116,23	90,15	79,45	69,54	77,85	54,92
Non current liabilities	19,85	31,73	25,56	17,79	3,25	1,37
financial debt	18,93	30,38	24,57	17,19	2,77	0,79
Other non current liabilities	0,92	1,35	0,99	0,6	0,48	0,58
Supplies	0,2	0,2	0,17	0,22	0,27	0,33
Current liabilities	40,51	21,72	23,33	27,26	25,85	22,71
financial debt	15,7	2,58	4,93	6,24	0,9	0,62
Commercial creditors	17,75	14,97	14,45	14,73	18,15	17,67
Other current liabilities	7,05	4,17	3,95	6,28	6,79	4,41
Shareholder´s equity + liabilities	182,08	149,17	133,91	120,16	112,52	84,56

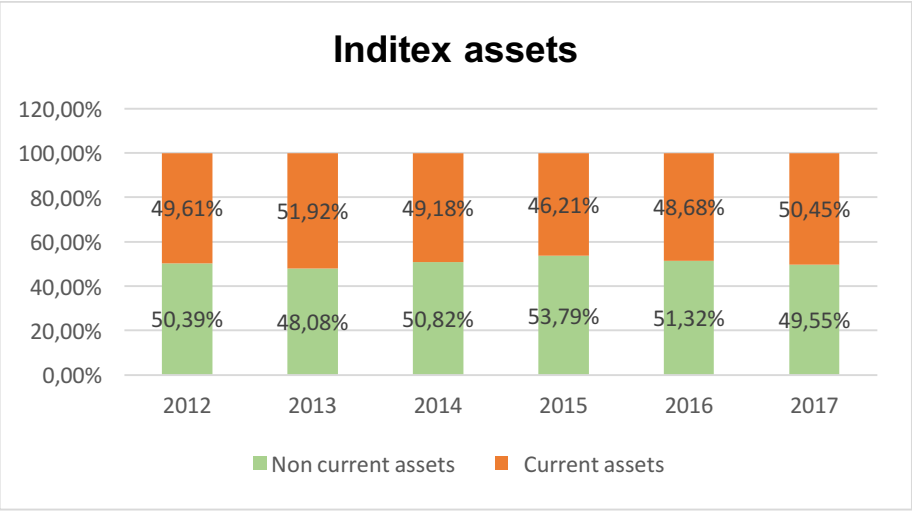
Table 2: AD balance sheet (millions of Euros)
Source: SABI

To continue, we will carry out a vertical analysis, that will be shown in the next point and that will consist on transforming the amounts of the different components of the balance sheet into percentages, taking as a base of comparison a significant magnitude.

An horizontal analysis will also be carried out to identify the evolution of the different elements of the balance sheet from one year to the next. They give the analyst the necessary information to obtain evidence of trends. It should be noted that, as it is logical, the informative capacity of this method of analysis is enriched when data from several exercises is available. That is why we will analyze the data from year 2012 to 2017.

3.1. EVOLUTION OF ASSETS, LIABILITIES AND NET EQUITY OF INDITEX

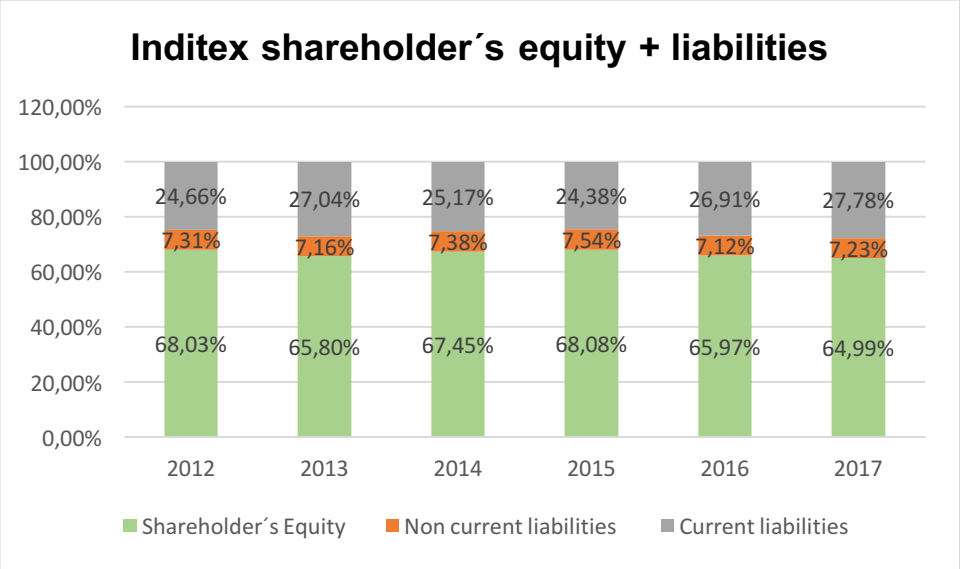
Graph 5 shows the proportion of each one of the elements that constitute the assets part of the balance sheet of Inditex and graph 6 shows the proportion that presents each one of the elements that constitute the liabilities and shareholder 's equity of Inditex balance sheet. Table 3 (horizontal analysis) shows the evolution of the balance sheet elements of a year with respect to the previous year.



Graph 5: Inditex assets (%)
Source: own elaboration from the annual accounts

In terms of the evolution of the assets we can see In the graph that in general, in almost every year, the proportion of non-current assets is slightly higher than current assets, this proportion being between 48.08% in 2013 and 53.79% in 2015 with respect to total assets. In this case it is due to the 8 sub-brands that form Inditex which have their own plants. As for the evolution of current assets, we need to take into account the business context of the company. In this case demand is increasing every year and current assets in general increased too as well as inventories so we can conclude that the evolution of current assets and inventories is consistent with the evolution of demand.

It can also be seen, according to the horizontal analysis carried out, that the total assets have increased every year compared to the previous year, which shows a solidity of the assets due to the positive results of the company.



Graph 6: Inditex shareholders equity+ liabilities (%)
Source: own elaboration from the annual accounts

Having a look to the financial structure of the company we can see that shareholders equity accounts for the biggest proportion being between 64,99% and 68% of the total shareholders equity + liabilities, followed by current liabilities with values between 24,38% and 27,78% and finally the non current liabilities with a percentage of 7% in every year. Therefore we can say that Inditex doesn't depend much on external financing.

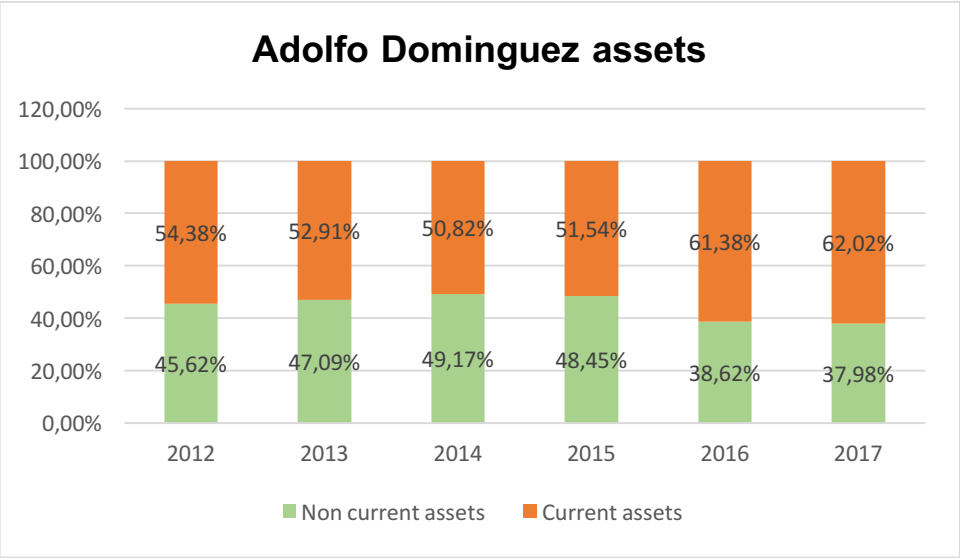
Taking into account the information of the sector we can say that Inditex is the leader company in terms of level of capitalization with 84180,77 MILL EUR

INDITEX	2013	2014	2015	2016	2017
Non current assets	12,2 %	12,8 %	18,3 %	7,7 %	9,2 %
Intangible assets	-1,5 %	3,2 %	4,3 %	0,7 %	2,6 %
Tangile assets	14,8 %	10,2 %	17,6 %	9,2 %	10,4 %
Other non-current assets	14,2 %	40,8 %	33,8 %	5,5 %	7,5 %
Current assets	23,1 %	1,1 %	5,0 %	18,9 %	17,2 %
Inventories	23,8 %	6,0 %	10,9 %	18,0 %	16,1 %
Clients	65,3 %	0,5 %	2,1 %	-18,5 %	27,8 %
Cash	10,9 %	0,1 %	-1,3 %	11,3 %	-2,6 %
Other current assets	148,8 %	-8,6 %	56,9 %	145,1 %	78,2 %
Total assets	17,6 %	6,7 %	11,8 %	0,0 %	12,9 %
Shareholder´s Equity	13,8 %	9,4 %	12,8 %	9,4 %	11,4 %
Share capital	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Other shareholdres equity	13,9 %	9,5 %	13,0 %	9,5 %	11,5 %
Non current liabilities	15,3 %	10,0 %	14,2 %	6,6 %	14,8 %
financial debt	178,9 %	-50,5 %	6,2 %	-66,9 %	-33,5 %
Other non current liabilities	15,0 %	10,3 %	14,2 %	6,8 %	14,8 %
Supplies	-2,0 %	2,4 %	35,8 %	-27,6 %	66,3 %
Current liabilities	28,9 %	-0,7 %	8,3 %	24,6 %	16,7 %
financial debt	-	3,4 %	210,3 %	31,1 %	501,7 %
Commercial creditors	31,0 %	2,7 %	5,3 %	28,7 %	12,9 %
Other current liabilities	5,1 %	-46,8 %	83,1 %	-37,5 %	101,7 %
Shareholder´s equity + liabilities	17,6 %	6,7 %	11,8 %	12,9 %	13,0 %

Table 3: Inditex balance sheet horizontal analysis (%)
Source: own elaboration from the annual accounts

3.2. EVOLUTION OF ASSETS, LIABILITIES AND NET EQUITY OF ADOLFO DOMINGUEZ

Graph 7 shows the proportion of each one of the elements that constitute the assets part of the balance sheet of AD and Graph 8 shows the proportion that presents each one of the elements that constitute the liabilities and shareholder 's equity of AD balance sheet. Table 3 (horizontal analysis) shows the evolution of the balance sheet elements of a year with respect to the previous year.

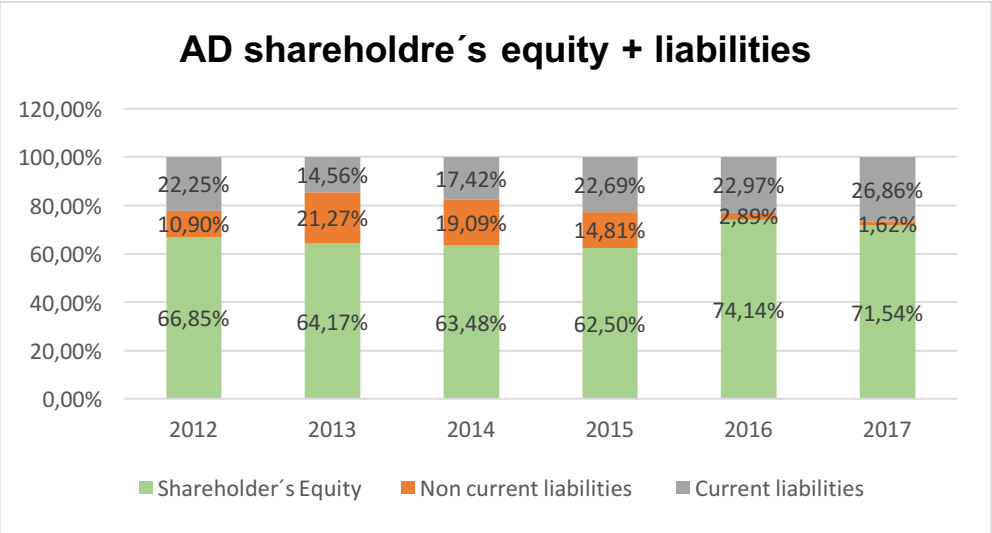


Graph 7: Adolfo Dominguez assets (%)
Source: Own elaboration from the annual accounts

In the case of Adolfo Dominguez, in graph 7 we can observe that, unlike Inditex, the proportion of non-current assets is lower than that of current assets in all years, being clearly lower in the last two years, 2016 and 2017 with 38.62% and 37.98%. This is due to, apart from the greater number of stores that Inditex owns, to the worse management of collections of AD with respect to Inditex as we will see later. That is, AD takes longer to charge its customers and pay its suppliers.

This fact, together with a slower entry and exit of inventories in the company, makes the value of stocks to be higher, thus increasing current assets. As for the evolution of current assets we have to take into account that demand for AD has been decreasing every year except for year 2017, and current assets, in general, have evolved in the same direction as demand as well as inventories. We should keep in mind that CA is the most flexible section within the balance sheet.

According to the horizontal analysis conducted we can see that the total assets of Adolfo Dominguez, unlike Inditex, have been decreasing every year compared to the previous year with its maximum fall in 2017 compared to 2016 with a decrease of 24.85. This might have been due to the sale of many of their stores that were not profitable.



Graph 8:AD shareholder´s equity+ liabilities (%)
Source: own elaboration from the annual accounts

Regarding the analysis of the shareholders equity and liabilities, we can observe that the shareholders equity accounts for the biggest proportion out of the total shareholders equity + liabilities. This means that it doesn´t depend much on external financing. In this case, the non current liabilities have a bigger proportion than Inditex, although they have been decreasing each year going from 10.90% in 2012 to 1.62% in the year 2017. This might have been due to the decrease in financial debt through the sale of assets by, as we mentioned before, selling some of their stores that were not profitable.

ADOLFO DOMINGUEZ	2013	2014	2015	2016	2017
Non current assets	-15 %	-6 %	-12 %	-25 %	-26 %
Intangible assets	-58 %	-20 %	217 %	-6 %	-29 %
Tangile assets	-38 %	-19 %	-16 %	-45 %	-8 %
Other non-current assets	73 %	11 %	-13 %	-9 %	-36 %
Current assets	-20 %	-14 %	-9 %	12 %	-24 %
Inventories	-19 %	-20 %	-19 %	6 %	3 %
Clients	-48 %	34 %	-9 %	-22 %	-18 %
Cash	-10 %	17 %	22 %	70 %	-64 %
Other current assets	250 %	-100 %	0 %	-	-21 %
Total assets	-18 %	-10 %	-10 %	-6 %	-25 %
Shareholder´s Equity	-21 %	-11 %	-12 %	11 %	-27 %
Share capital	1 %	0 %	0 %	0 %	0 %
Other shareholdres equity	-22 %	-12 %	-12 %	12 %	-29 %
Non current liabilities	60 %	-19 %	-30 %	-82 %	-58 %
financial debt	60 %	-19 %	-30 %	-84 %	-71 %
Other non current liabilities	47 %	-27 %	-39 %	-20 %	21 %
Supplies	0 %	-15 %	29 %	23 %	22 %
Current liabilities	-46 %	7 %	17 %	-5 %	-12 %
financial debt	-84 %	91 %	27 %	-86 %	-31 %
Commercial creditors	-16 %	-3 %	2 %	23 %	-3 %
Other current liabilities	-41 %	-5 %	59 %	8 %	-35 %
Shareholder´s equity + liabilities	-18 %	-10 %	-10 %	-6 %	-25 %

Table 4: AD balance sheet horizontal analysis (%)
Source: own elaboration from the annual accounts

4. ANALYSIS AND COMPARINSON OF THE MAIN ECONOMIC MAGNITUDES.

In order to carry out an analysis of a company, in this case of Inditex and Adolfo Dominguez, three elements must be taken into account: the solvency, liquidity and the profitability of the companies analyzed.

To continue, the calculation and interpretation of the main financial indicators that provide us information about the situation of this two companies based on these three elements will be made below.

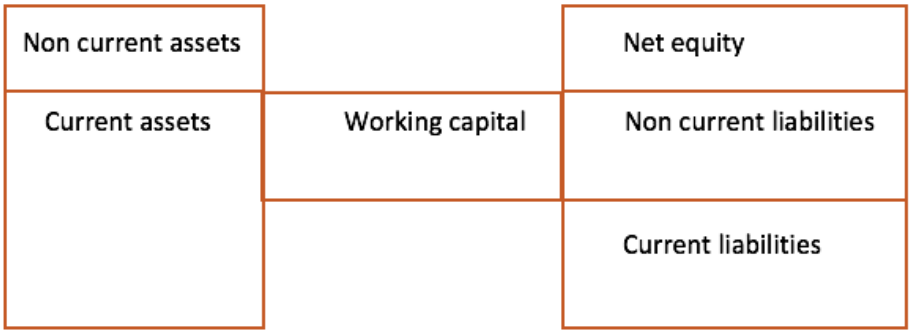
4.1. LIQUIDITY ANALYSIS

4.1.1. Working capital:

Working capital can be defined as the short-term financial resources that a company needs to carry out its activity. Therefore the working capital is the part of the current assets that is financed with short-term resources. A positive working capital will mean that the company is in a good financial position while a negative working capital means that the company will be unable to cope with its short-term debts. The greater the working capital, the more solid the situation of the company will be. To reach financial equilibrium, fixed capital must cover fixed assets and minimum or ideal working capital.

WORKING CAPITAL=CURRENT ASSETS - CURRENT LIABILITIES

This concept of working capital can be easily seen graphically in the following image:



Therefore, according to this formula, working capital will be the difference between current assets and current liabilities.

	2012 mll EUR	2013 mll EUR	2014 mll EUR	2015 mll EUR	2016 mll EUR	2017 mll EUR
Working capital INDITEX	4.447,77	3.779,08	3.357,13	3.302,67	3.207,09	2.734,52
Working capital AD	58,50	57,21	44,72	34,67	43,22	29,74

Table 5: Working capital (Millions of Euros)
Source: Own elaboration from the annual accounts

Inditex presents a positive working capital in all years analyzed and has been slightly decreasing reaching its minimun figure in 2017,but always keeping good values. Therefore, it can be said that Inditex is in a good financial position.

In the case of Adolfo Dominguez we can see that he also presents a positive working capital during all the years although in the last year, 2017, there is a clear decrease due to a decrease in the turnover.

Since Inditex working capital not only has a greater evolution but is also greater than that of Adolfo Dominguez, we could at first approach, think that the financial health of Inditex is better although we still do not have enough information to draw conclusions.

4.1.2. Current ratio :

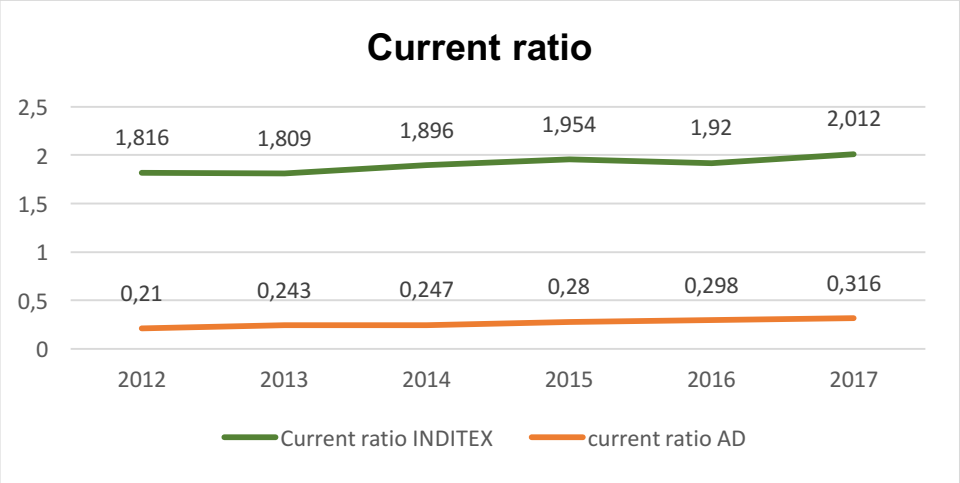
This ratio shows the relationship between current assets and current liabilities. It shows the ability of the company to carry out, with short-term charges, sufficient liquid resources to meet its commitments to pay current liabilities. That is, the ability of the company to meet its payment obligations equal or less than one year.

CURRENT RATIO=CURRENT ASSETS/CURRENT LIABILITIES

As for its interpretation, the higher the value, the better the company's liquidity, however, excessive liquidity can lead to a reduction in the company's profitability, therefore the optimum value will be between 1.5 and 2 although it will also depend on the sector in which the company carries out its activity.

	2012	2013	2014	2015	2016	2017
Current ratio INDITEX	1,816	1,809	1,896	1,954	1,92	2,012
Current ratio AD	0,21	0,243	0,247	0,28	0,298	0,316

Table 6: Current ratio (%)
Source: Own elaboration from the annual accounts



Graph 9: current ratio (%)
Source: own elaboration from the annual accounts

In the case of Inditex, we can see that the current ratio has increased slightly since 2012 with a value of 1.8 in this first year, reaching its maximum level in 2017 with a value of 2. These values are very positive because they reflect that Inditex is able to cope with its short-term obligations. Comparing this values with the value of the current ratio of the textile sector in Spain in 2016, being this value of 1.87, we can say that Inditex is slightly above this value and as we can see its tendency is to continue improving even more.

On the other hand, the values of Adolfo Dominguez, although they have been improving slightly each year, are below 1 in all years between 0.2 in 2012 and 0.316 in the last year (2017).

Clearly, we can see that the current ratio of AD, is below the one of the Spanish textile sector ,wich, as we mentioned before, is 1.87.
All this shows us that AD is not able to cope with his short term obligations and therefore it can be said that they have liquidity problems although this can not be affirmed with total security since it will also depend on other peculiarities of the company that will be studied later.

4.1.3. Acid test:

The acid test can be defined as the relationship between current assets excluding the value of inventories, non-current assets held for sale and current liabilities. It informs us about the ability to cover current liabilities without the need to sell stocks or non-current assets. The formula for the calculation is shown below:

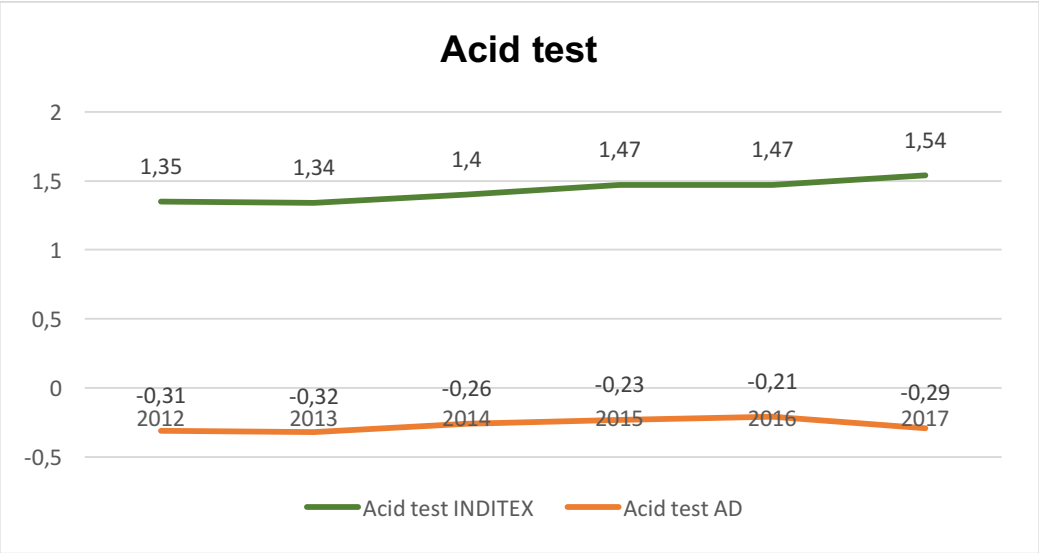
ACID TEST=CURRENT ASSETS-INVENTORIES/CURRENT LIABILITIES

Excluding stocks avoids problems such as the company's choice of the appropriate method to value these stocks (FIFO, PMP etc). On the other hand, an excessive accumulation of stocks increases the numerator, leading to a wrong assessment of the company as it would seem more liquid than it actually is.

As for its interpretation, the optimal situation will place the acid test around 1 which means that the company does not have liquidity problems since the amount of its cash and collection rights will be equal to the short term debts. It will also depend on the sector to to which the company belongs.

	2012	2013	2014	2015	2016	2017
Acid test INDITEX	1,35	1,34	1,4	1,47	1,47	1,54
Acid test AD	-0,31	-0,32	-0,26	-0,23	-0,21	-0,29

Table 7: acid test (%)
Source: Own elaboration from the annual accounts



Graph 10: acid test (%)
Source: own elaboration from the annual accounts

We can see that the the acid test values of Inditex are between 1.35 in 2012 and its maximum 1.54 in the year 2017. From 2012 to 2017 it has been increasing progressively and always remaining stable and in good condition. These values are similar and evolve similarly to the values of the current ratio, which means that the proportion of supplies with respect to total current investments is very small. This means that Inditex does not have solvency problems in the short term as it can face its short-term payment commitments without having to sell at loss.

The situation of AD is very different from the one of Inditex. All of its values are negative during all years between -0.32 and -0.21.This means that AD's current liabilities are excessive, that they have liquidity problems and that they are not able to cope with their short-term debts. For this reason, they will need to sell part of their inventories.

It is also important to note that the acid test of the textile sector is 1.2, therefore Inditex is above this value while AD is clearly below.

4.1.4. Cash ratio:

This ratio relates the liquid means that the company has with the current liabilities. Its result will indicate the capacity of the company to respond immediately to its commitments to pay their current debts from the production cycle, ie, what percentage of debt is the company able to return with the money that is available at that time regardless of the expiration of each one of those debts.

The formula for the calculation would be the following:

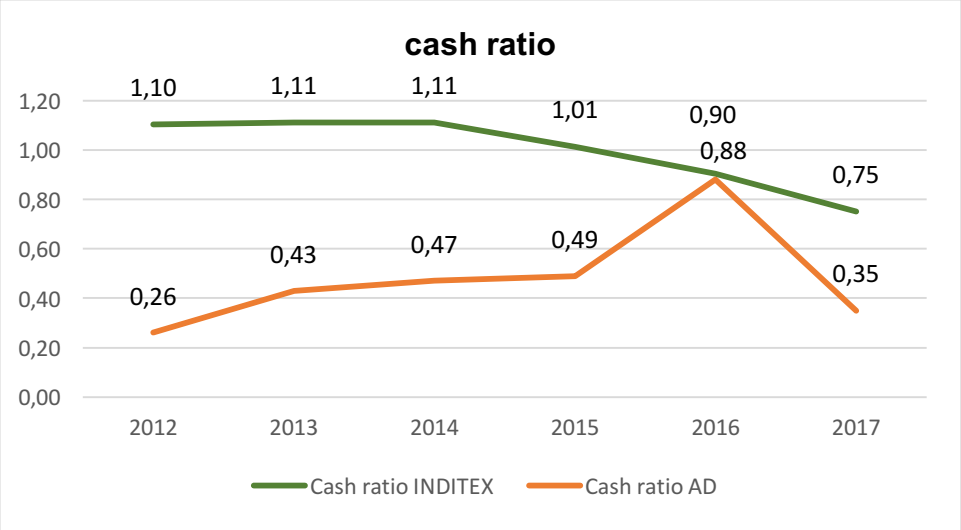
CASH RATIO=CASH/CURRENT LIABILITIES

It is necessary to emphasize that the result that we will obtain will depend on the type of company, and of the sector to which they belong, in this case the textile sector.

Regarding the interpretation of the result that will be obtained, it must be taken into account that an excess of liquid means would mean a deterioration of the effectiveness and profitability while a shortage of these liquid means would mean the existence of additional financial costs as the company will need to go into deb to cover these payment obligations. It is estimated that the optimal value would be around 1.

	2012	2013	2014	2015	2016	2017
Cash ratio INDITEX	1,10	1,11	1,11	1,01	0,90	0,75
Cash ratio AD	0,26	0,43	0,47	0,49	0,88	0,35

Table 8: cash ratio (%)
Source: own elaboration from the annual accounts



Graph 11: cash ratio (%)
Source: own elaboration from the annual accounts

When analyzing this ratio we can see that in the case of Inditex it is very stable from 2012 to 2015 with values of approximately 1 and with a slighlyt decrease from year 2014. Nevertheless, at all times its values reflect that Inditex has the ability to pay its debts in the short term.
On the contrary, AD has a very low cash ratio between 0.26 and 0.88 in 2016, where there was an improvement. These values show that this company is not able to pay its debts in the short term.

It must be borne in mind that the value of the cash ratio can be affected by the closing date of the company's fiscal year. In this case it should be noted that this date is different for these two companies. In the case of Inditex it is January 31st

and for AD on February 28th. Therefore we can say that in this aspect AD is more benefited since it closes after the sales period.

4.1.5. Operating cycle (OC):

In order to analyze the dynamic liquidity of a company it is necessary to study its operating cycle.

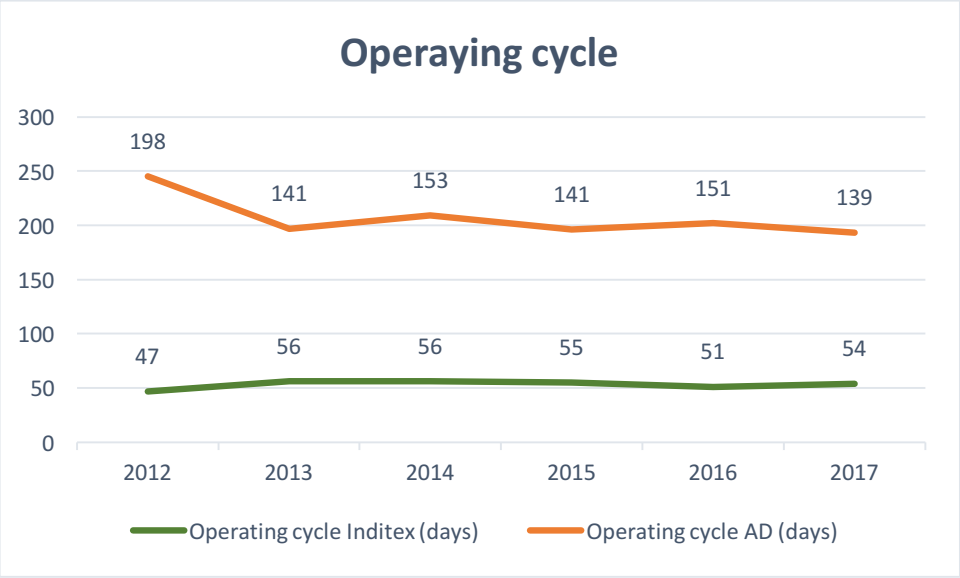
The operating cycle consists of the period of time between the purchase of raw materials needed to carry out the business activity and the moment you get this investment back through the sale and collection of the product offered, in this case clothing. This period in turn is formed by several stages depending on whether the activity carried out by the company is of an industrial, commercial or service type.

In this case AD is commercial and Inditex is commercial but also carries out the manufacturing process. However, since it is difficult to estimate the period of manufacture and storage, a simplification of the OC will be made reducing it to the stock, collection and payment periods that will also be calculated.
The formula for calculating the operating cycle is the following:

OPERATING CYCLE = STOCK PERIOD + COLLECTION PERIOD

	2012	2013	2014	2015	2016	2017
Operating cycle Inditex (days)	47	56	56	55	51	54
Operating cycle AD (days)	198	141	153	141	151	139

Table 9: Operating cycle (days)
Source: Own elaboration from the annual accounts



Graph 12: operating cycle (days)
Source: Own elaboration from the annual accounts

As for the operating cycle of the two companies analyzed, we can see a great difference between them. Inditex presents a very low operating cycle with values between 47 and 56 days. This means that it has a very efficient and effective organization and that the number of rotations (number of times the cycle is repeated) is greater. Inditex stands out for having a very dynamic operating cycle.

In the case of Adolfo Dominguez, their operating cycle is much higher with values between 139 and 198, which implies a low turnover, a greater volume of financing and also higher costs. Therefore, this means that AD is less efficient.

The operating cycle for the sector during year 2015 was 185 days so Inditex is clearly much more efficient having excellent values of operating cycle and AD is just slightly better than the average of the sector.

4.1.6. Stock period:

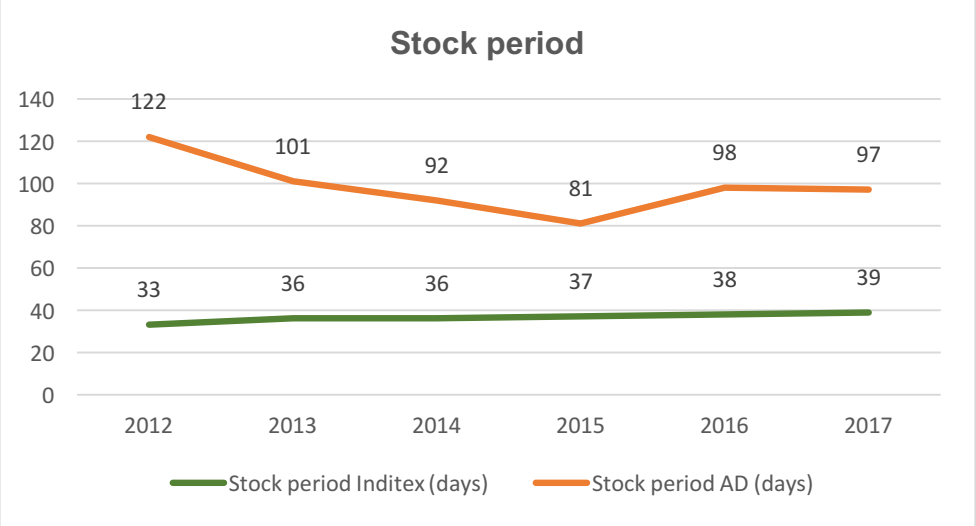
Commercial companies, are characterized because they do not transform or elaborate a product, instead they act as "distributors" so the stock period can be defined as the average time that passes from the entry of the product into the company until It is sold to the customer.
The formula for the calculation is shown below:

STOCK PERIOD= 360/INVENTORY TURNOVER RATIO

INVENTORY TURNOVER RATIO= COGS/INVENTORIES

	2012	2013	2014	2015	2016	2017
Stock period Inditex (days)	33	36	36	37	38	39
Stock period AD (days)	122	101	92	81	98	97

Table 10: Stock period (days)
Source: own elaboration from the annual accounts



Graph 13: stock period (days)
Source: own elaboration from the annual accounts

The values of the stock period of Inditex have been growing slightly from 33 days in 2012 to 39 in 2017 and as we can see always staying at very favorable values. This means that they have a large number of rotations of their inventory, which means a lower risk of keeping obsolete merchandise, higher billing and more space to store their products among other advantages. One of the keys to success of Inditex is thanks to their logistics. They hardly need stock as they produce what they know that they are going to sell more and produce less or stop producing what attracts less to the consumer. This way they avoid having more storage costs and selling their products at loss.

However, AD shows a clear worse rotation of inventory with more irregular values. In 2012 its value was 122 days and it was reduced until it reached 81 days in 2015. However, in the next two years (2015 and 2016) AD increased its stock period up to 97 days.

In the case of commercial companies, it is essential for the health of their business to adapt inventories to the rhythm of sales.
In this case, the average of the sector in 2015 was 104 days, which leads us to affirm that Inditex has a stock period difficult to be improved as it is already excellent while, although AD´s stock period is not bad at all, it is very similar to the average of the sector.

4.1.7. Collection period

The collection period is a fact to be taken into account when analyzing the liquidity of a company because it reflects the average time that passes since the finished products are sold, in our case clothes, until they are charged. This term is expressed in days. As for its interpretation, if the average payment period exceeds the term initially granted by the company, the management will be deficient and may be due to a delay in the payment of customers.

The formula will be the following:

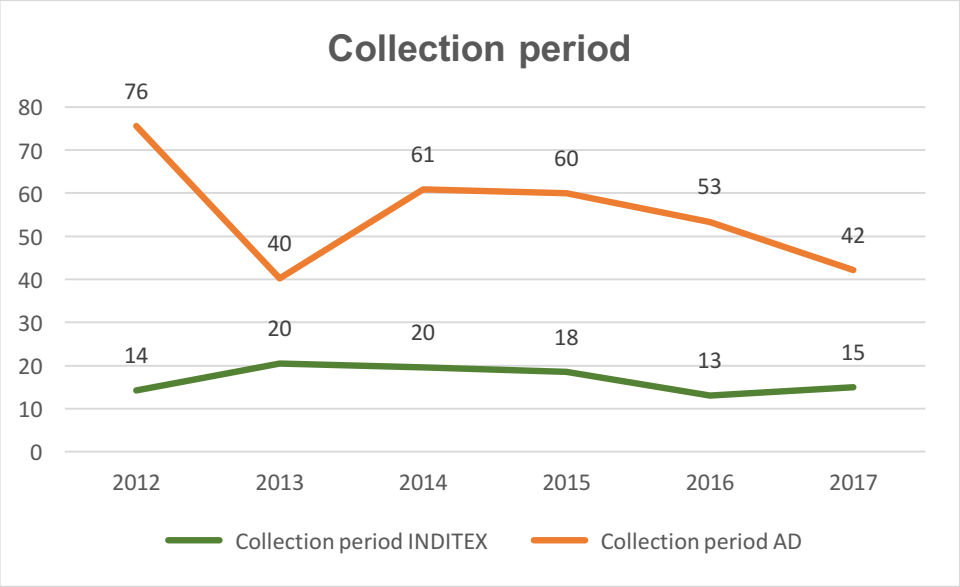
COLLECTION PERIOD=360/TRADE RECEIVABLES TURNOVER RATIO

RECEIVABLES TURNOVER RATIO = SALES/TRADE RECEIVABLES

As you can see, to calculate the collection period first, it is necessary to calculate the receivable turnover ratio that reflects the time it takes the company to recover on average the credits granted to its customers, that is, the number of times it is charged to customers.

	2012	2013	2014	2015	2016	2017
Collection period INDITEX	14	20	20	18	13	15
Collection period AD	76	40	61	60	53	42

Table 11: Collection period (days)
Source: Own elaboration from the annual accounts



Graph 14: Collection period (days)
Source: Own elaboration from the annual accounts

According to the calculations made, we can see that Inditex has a collection period (between values of 14 and 20) much lower and stable than Adolfo Dominguez whose values are between 40 and 76. This means that it clearly it takes Inditex less days to charge its customers than AD and as a result, Adolfo Dominguez will need a higher investment in accounts receivable from clients. In 2013 we can see that AD has a sudden reduction in the collection period.

Comparing both companies with the data of the sector, 81 days in 2015, we can reafirm that the collection period of Inditex is excellent and that of Adolfo Dominguez is slightly better than the average of the sector.

4.1.8. Payment period

On the other hand it is also important to take into account the payment period that reflects the average time that elapses from the purchase of merchandise until the suppliers are paid.

It will be calculated as follows:

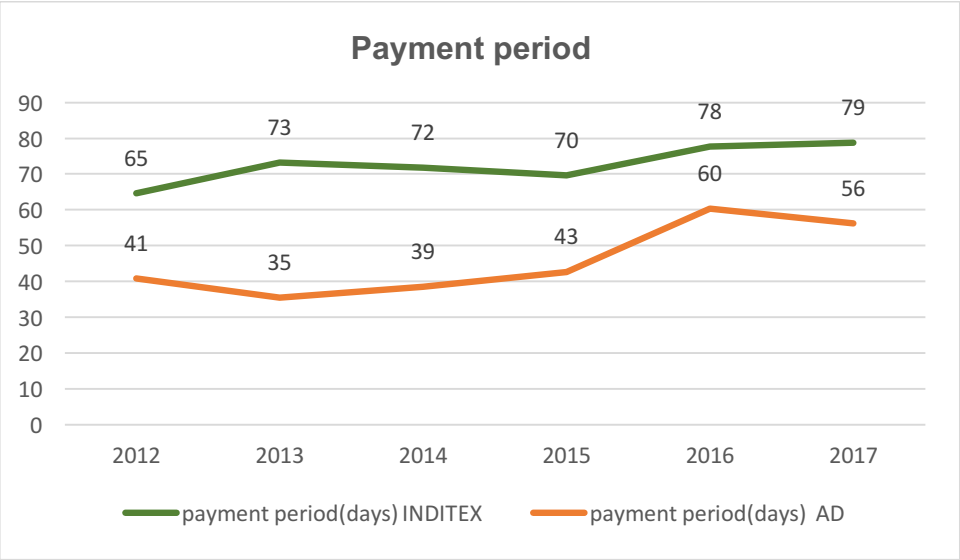
PAYMENT PERIOD=360/PAYABLES TURNOVER RATIO

PAYABLES TURNOVER RATIO=PURCHASES/CURRENT LIABILITIES

In this case, to calculate the payment period we need to calculate previously the payables turnover ratio that shows the number of times suppliers are paid in a given period of time.

	2012	2013	2014	2015	2016	2017
payment period(days) INDITEX	65	73	72	70	78	79
payment period(days) AD	41	35	39	43	60	56

Table 12: Payment period (days)
Source: own elaboration from the annual accounts



Graph 15: payment period (days)
Source: Own elaboration from the annual accounts

Inditex payment period has been increasing and ranges between 65 and 79 days while the one of AD ranges between 35 days and 60 days. At first sight we can say that the payment period of AD is lower and may be due to the lack of confidence of AD´s suppliers due to the companie´s delicate situation showed in their accounts.

However, to conclude if these companies have an adequate payment period it is necessary to study it together with the collection period that we have previously calculated. If we compare the collection period of both companies with the payment period of these, we can observe that in the case of Inditex the collection period is clearly inferior to the payment period which shows the ideal situation: to charge before paying.

On the other hand, the case of AD is the opposite, its collection period is superior to its payment period so the company should try to correct this situation because, in addition, the difference is very wide. This indicates that the liquidity of the company is not solid and that it is not in a good position to face future payments.

The payment period for the sector in year 2015 was 51 days so once again Inditex is better than the sector and in this case AD is worse than the sector.

4.2. SOLVENCY ANALYSIS

Solvency refers to a company´s ability no meet its long term obligations (maturity times are higher than one year) as they become due. This analysis of the solvency is concentrated on the long term financial and operating structure of the business and on the long term debt in the capital structure. It should be denoted that solvency depends a lot on the profitability as a company will not be able to pay the debts in the long run unless it is profitable.

4.2.1. Interest coverage ratio :

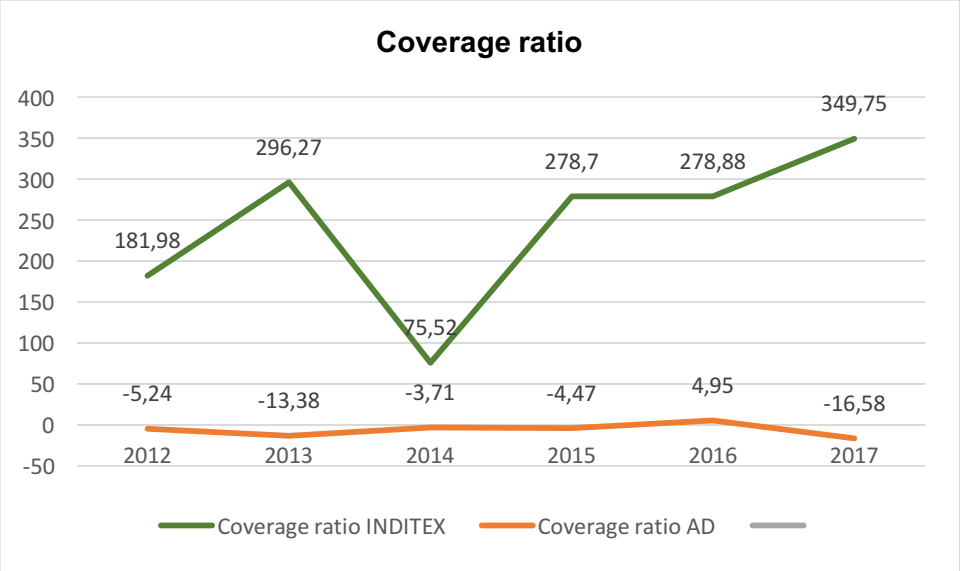
This ratio indicates the importance of financial expenses in the accounts of the company, that is, if the company can face its debt expenses with the benefits generated before taxes and interest. It also indicates the security margin of the creditors as a collateral of collection of the agreed interests.
Formula for the calculation of this ratio would be:

INTEREST COVERAGE RATIO=EBIT/INTEREST EXPENSE

At the time of its interpretation, it should be taken into account that if this ratio is high this would indicate the long-term survival of the company. If it was low, it would mean that the company has total losses since the interests "monopolize" the entire benefits of the company.

	2012	2013	2014	2015	2016	2017
Coverage ratio INDITEX	181,98	296,27	75,52	278,7	278,88	349,75
Coverage ratio AD	-5,24	-13,38	-3,71	-4,47	4,95	-16,58

Table 13: Coverage ratio (X:times)
Source: Own elaboration from the annual accounts



Graph 16: coverage ratio (X:times)
Source: own elaboration from the annual accounts

We can see that the Inditex coverage ratio is very variable but always showing very high and positive values reaching its maximum in 2017 with a value of 349,75. However, although AD is much more stable, its values are negative in all years except in 2016. Its worst value, -16.58, is in 2017.

4.2.2. Equity ratio

This ratio measures the amount of assets that are financed by owners' investments by comparing the total equity (numerator) with the total assets(denominator) the Company has. The objective of this indicator is to determine how much can the assets be deteriorated so that own resources become unable to absorb the losses, and therefore, run the risk of not being able to pay the creditors, i.e after all of the liabilities are paid, the investors will end up with the remaining assets.
The formula is the following:

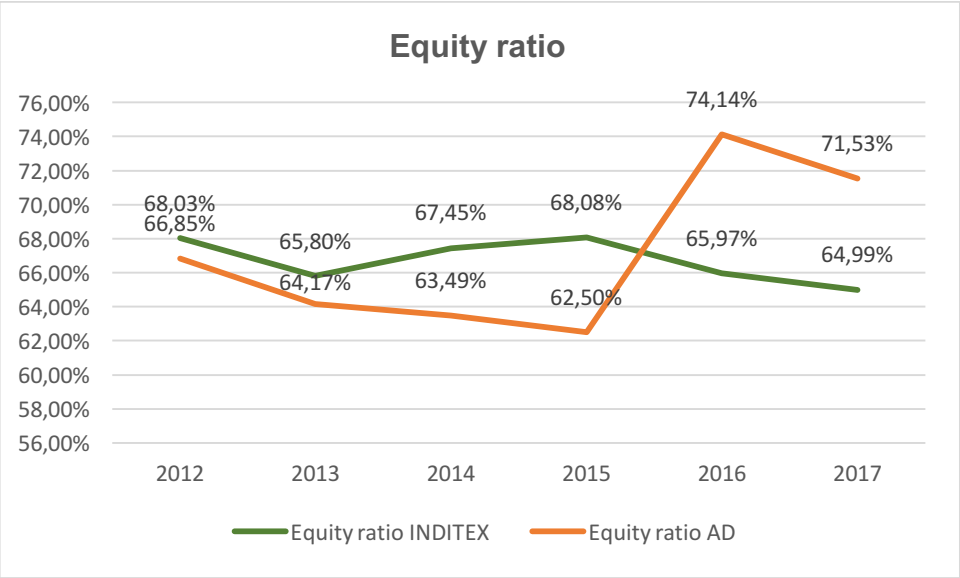
EQUITY RATIO= EQUITY/TOTAL ASSETS

A high index would indicate a good solvency situation in the short run able to face crisis situations as the company will be able to use its own resources in order to face looses. A low index would mean that the company uses external resources to finance part of the assets which mens that in difficult economic periods they could not compensate the losses with their own resources and could end up declaring themselves insolvent.

However, it should be denoted that an excess of capital could act negatively on the profitability of the shareholders in the case there were other financing options with a lower cost.

	2012	2013	2014	2015	2016	2017
Equity ratio INDITEX	68,03%	65,80%	67,45%	68,08%	65,97%	64,99%
Equity ratio AD	66,85%	64,17%	63,49%	62,50%	74,14%	71,53%

Table 14: Equity ratio (%)
Source: own elaboration from the annual accounts



Graph 17: equity ratio (%)
Source: own elaboration from the annual accounts

Inditex shows a stable equity ratio during all the years and with values between 64% and 68% which means that it has sufficient capital to finance more than half of its investments. Therefore, it is in a good solvency situation.

To see the percentage of short-term investments that are more sensitive to deterioration, we must observe the structure of current assets. It can be observed that the relative percentage of current assets is lower at all times at the equity ratio. This means that the possibility of the company becoming insolvent is practically nul since it would have to deteriorate all the current assets and part of the non current assets. Inventories is the component of the current assets that have the most risk of loss of value but in the case of Inditex there is no reason to worry since in all years it represents 13% of the current assets except in 2017 that shows a value of 14% . In the case of Adolfo Dominguez, the equity ratio is lower than the one of Inditex until 2015 that shows a big increase reaching a 74%.

4.2.3. Debt ratio

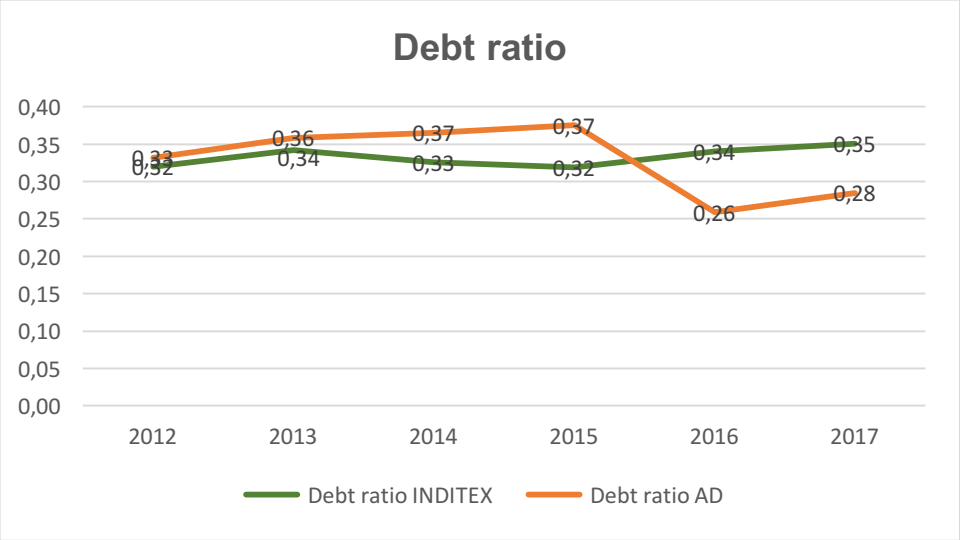
This ratio is used to measure the degree of indebtedness of a company in relation to its total assets i.e. the debt ratio shows how many assets the company must sell in order to pay off all of its liabilities. Companies with higher levels of liabilities compared with assets are considered highly leveraged and more risky for lenders. The lower the percentage, the less leverage a company is using and the stronger its equity position is. In general, the higher the ratio, the more financial risk the company is considered to have taken on.

The formula will be the following:

DEBT RATIO= DEBT / TOTAL ASSETS

	2012	2013	2014	2015	2016	2017
Debt ratio INDITEX	0,32	0,34	0,33	0,32	0,34	0,35
Debt ratio AD	0,33	0,36	0,37	0,37	0,26	0,28

Table 15: Debt ratio (%)
Source: own elaboration from the annual accounts



Graph 18: Debt ratio (%)
Source: Own elaboration from the annual accounts

This graph shows that both companies finance their assets with, more or less, 35% of debt and the rest with equity. However, it should be mentioned that Inditex is more stable than AD. It should be mentioned that the debt ratio for the textile sector in spain in years 2013, 2014 y 2015 was 0.4.

4.2.4. Debt to equity ratio

This ratio that we will calculate below reflects the amount of payment commitments that the company has regarding the own resources the company owns, therefore, it indicates the degree of debt of the company. As a result, it also measures the financial risk faced by shareholders and creditors since the proportion between external and internal capital depends on the stability of the company and its capacity for future indebtedness. Companies can choose two ways to finance their activity: with their own funds or through their creditors. Companies should find the optimal capital structure depending on their needs.

The formula will be the following:

DEBT TO EQUITY RATIO= DEBT/EQUITY

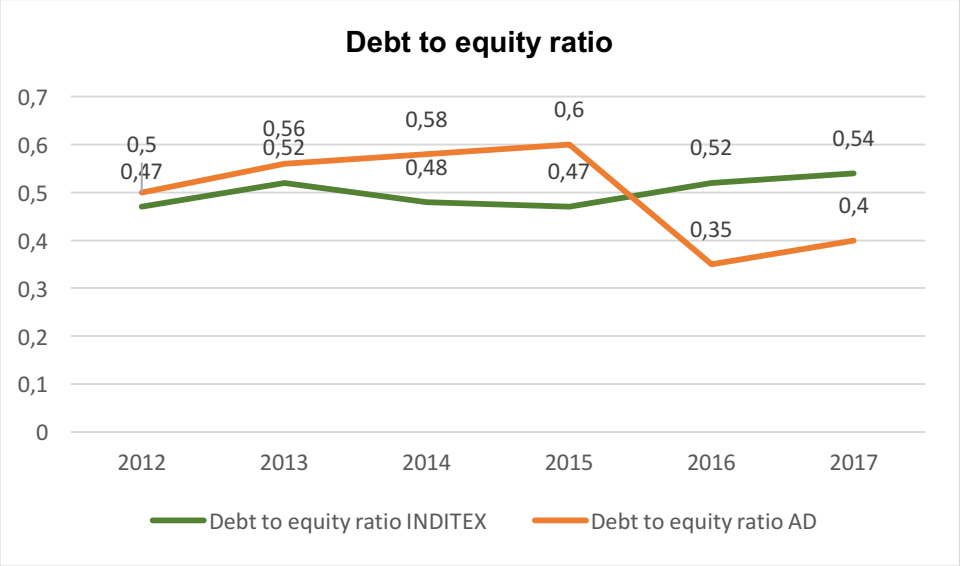
Specifically, it indicates how many monetary units of debt are used for each monetary unit of own resources.

Regarding its interpretation, it should be noted that the greater this ratio, the greater the probability of insolvency, the indebtedness of the company and as a consequence, greater risk and worse situation for the creditors. However, a very

low result would indicate an excess of own capital and although it would have a very good solvency, it could negatively affect the profitability of the shareholders. There is not an estimation about an ideal value but there should be a balance between own resources and those of others and between the risk of investors and creditors.

	2012	2013	2014	2015	2016	2017
Debt to equity ratio INDITEX	0,47	0,52	0,48	0,47	0,52	0,54
Debt to equity ratio AD	0,5	0,56	0,58	0,6	0,35	0,4

Table 16: Debt to equity ratio (%)
Source: own elaboration from the annual accounts



Graph 19: Debt to equity ratio (%)
Source: own elaboration from the annual accounts

This ratio for Inditex is quite stable between values of 0.47 and 0.54 while for AD it is slightly more unstable since it varies more with values between 0.40 and 0.60. In both cases the level of leverage is not very high. Keep in mind that the lower the leverage the greater the equity. Therefore, a low level of leverage means a greater risk for the partners since its contribution to the financing of the assets is greater. From the point of view of the creditors, the lower the leverage, the lower their risk since the assets will be financed mostly by liabilities.
In order to be more accurate in the analysis it should me mentioned that the value of this rato for the sector is of 0,49.

4.3. PROFITABILITY ANALYSIS

The main objective of a company will be to maximize the profitability of the financial resources that are invested without risking the continuity of the activity of the company. the profitability will measure the performance of the company through the calculation of two ratios: ROE and ROA.

4.3.1. ROA:

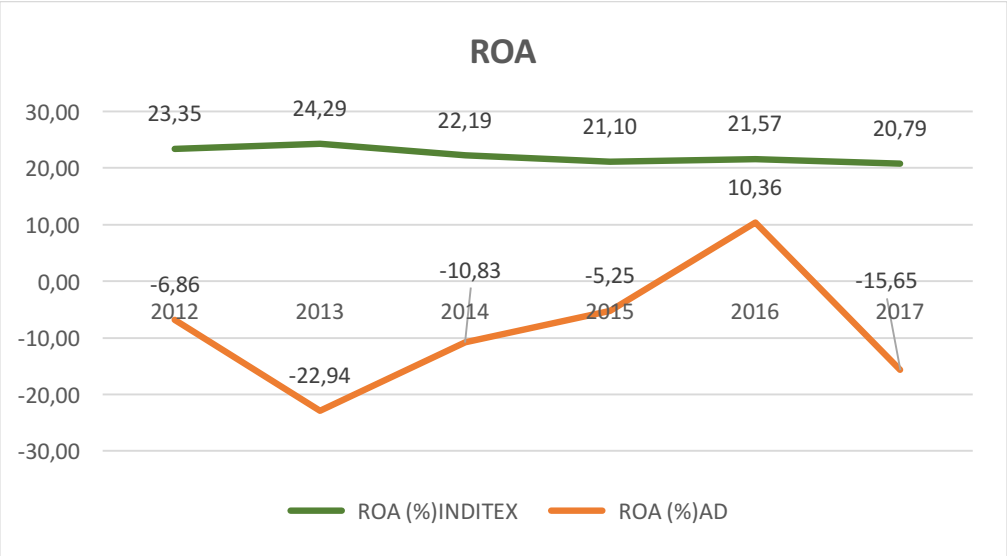
Ratio that measures the profitability of the company calculating the profitability of the total investments regardless of the way of financing them. The calculation will be made using the benefit before interests and taxes (EBIT). The higher the economic profitability, the greater the profitability of the company's assets and therefore the situation of the company will be better. If it is negative, it indicates that the company does not obtain returns from its activity, so it must be restructured, reduce expenses or quit the activity.

The calculation will be made with the following formula:

ROA=EBIT/TOTAL ASSETS

	2012	2013	2014	2015	2016	2017
ROA (%)INDITEX	23,35	24,29	22,19	21,10	21,57	20,79
ROA (%)AD	-6,86	-22,94	-10,83	-5,25	10,36	-15,65

Table 17: ROA (%)
Source:Own elaboration from the annual accounts



Graph 20: ROA (%)
Source: Own elaboration from the annual accounts

The values of ROA of Inditex are between 21.10% in the year 2015 and 24,29% in 2017. It has been slightly decreasing progressively but always maintaining itself in very positive values. These reflects a great stability of the assets of the company and therefore also a great stability of the company as a whole.

However, in the case of Adolfo Domínguez, the same can not be said. Its values have been negative during all years since 2012 except in 2016.

These negative values mean that the company does not receive returns for its activity, so they should consider a restructuring, reduction of expenses or even abandon. Due to these negative values in 2013, during the first semester of 2014 AD was forced to carry out a restructuring plan closing a large number of stores.

Once again, comparing the values of these two companies with industry data (ROA of 3 in year 2015) leads us to conclude that Inditex is in a much better position than the sector while AD is in a worse position.

4.3.2. ROE:

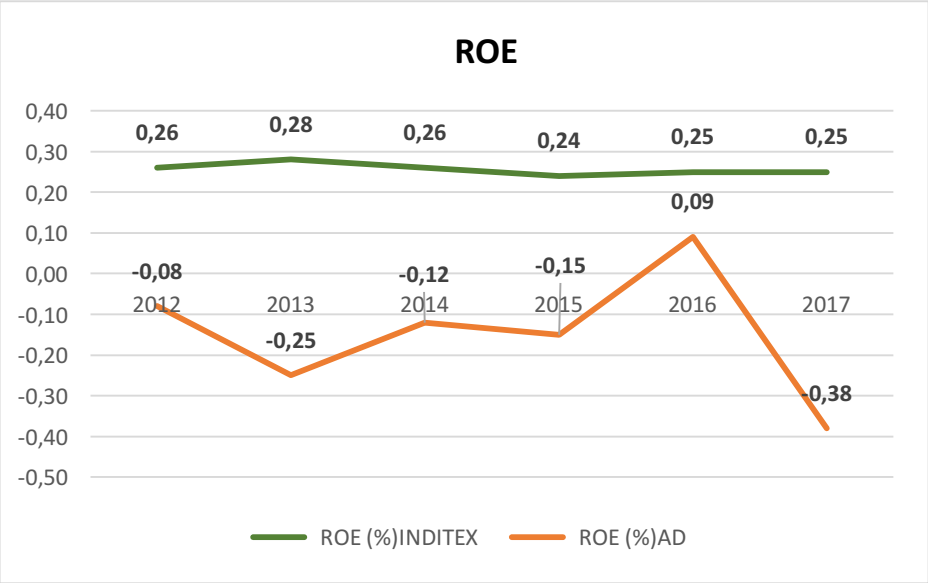
Ratio that measures the profitability of the company that remains exclusively to the shareholders. In this case, the form of financing will be taken into account. The calculation will be made using the benefit before interests and taxes (EBIT). The bigger the ROE the better as this means that the wealth of the shareholders will be maximized. Positive ROE means that shareholders get returns while negative ROE indicates that shareholders are loosing funds in the company.

The calculation will be made by using the following formula:

ROE=NET INCOME/NET EQUITY

	2012	2013	2014	2015	2016	2017
ROE	0,26	0,28	0,26	0,24	0,25	0,25
ROE	-0,08	-0,25	-0,12	-0,15	0,09	-0,38

Table 18: ROE (%)
Source: Own elaboration from the annual accounts



Graph 21: ROE (%)
Source: Own elaboration from the annual accounts

In the case of Inditex it presents a positive and stable ROE in all years which supports the results and affirmations previously made about its good situation. Inditex values are between 0,24 and 0,28 which means that the shareholders of this company, effectively, get retuns. Nevertheless the ROE of Adolfo Dominguez reflects its delicate situation since in all the years it presents negative ROE values except in year 2016 that had a ROE of 0,09, as in the case of the ROA. These negative values mean that their shareholders do not get returns, they are loosing funds in the company.

The value of the sector for this ratio leads us to be sure about our statement that Inditex is way better than the sector while AD is loosing funds

5. CONCLUSIONS:

After having made the accounting analysis and comparison of both companies through the method of ratios a series of conclusions about the situation of Inditex and Adolfo Dominguez can be drawn:

1. Regarding the interpretation of the balance sheet of both companies, we have seen that Inditex has evolved positively each year while AD has been having a negative evolution every year since 2012 in all its balance sheet components.
2. Regarding the ratios that provide information about the liquidity situation of the company we can say that they show that Inditex is fully capable of dealing with its debts and therefore has no solvency or liquidity problems . On the other hand, the results of AD show that this company does have problems when it comes to paying its debts and therefore it has liquidity problems.
3. The operating cycle is an indicator that has given us a lot of information and that allows us to clearly perceive the differences between these two companies. In the case of Inditex, we can say that it is characterized by its very low and dynamic operating cycle showing a great efficiency of the company. Their collection period is always lower than the payment period, so Inditex charges before paying, which is the ideal situation. On the contrary, AD has a much higher operating cycle, being less efficient its collection period, and unlike Inditex, it is at all times superior to the payment period, which reflects a not very solid liquidity.
4. Likewise, the data obtained when calculating the ratios that provide information on the solvency situation of the companies lead us to conclude that Inditex is much more solvent than AD. Moreover, it can be said that AD has solvency problems.
5. Finally, when performing the profitability analysis we were able to conclude that:

- As for the results obtained when calculating the ROA, they lead us to reaffirm that Inditex is in a very positive and stable situation. AD shows negative ROA values during all the years leading to the conclusion that it does not receive returns from their activity, so it is in a critical situation in which the proposal of restructuring, cost reduction or even abandonment arises.
- In terms of ROE, it is reflected that Inditex shows a stability much greater than that of AD and that the shareholders of Inditex get returns while those of AD do not since their values are negative.

Therefore, this analysis shows the predominant role of Inditex finding itself in an excellent economic and financial situation. On the other hand it also leads us to conclude that AD is in a very delicate situation, with consecutive losses and in this way being forced to close many of its stores. Inditex is not only in a better situation than AD but, taking into account the data of the sector, it can be said that Inditex is also well above the average of the sector.

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