Profitability Analysis of Samsonite Company

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1. Introduction
2. Description of the Financial Analysis Methodology
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Annexes
1 Introduction

The process of financial analysis makes it possible to look insight to the real condition of a company and then decide whether it deserves to be invested or put forward some useful suggestions for better performance.

The objective of this thesis is using the financial analysis methodology to find out the real condition of Samsonite Company from 2008 to 2012 and the factors that result in this condition. Besides, the suggestions according to the financial analysis for Samsonite Company’s better performance are mentioned.

The bachelor thesis is mainly divided into four parts. In the first part, the financial analysis methodology is presented for analyzing the financial performance of Samsonite Company. There are four main methods of financial analysis being used, which include common-size analysis, factor analysis, financial ratio analysis, and pyramidal decompositions.

In the second part, the financial characteristic of Samsonite Company is described. This part is consisted of three parts. The first one is the general introduction of Samsonite Company. The second one is the statement of the key financial data of Samsonite Company from 2008 to 2013. And the third one is the financial analysis of Samsonite Company, which means the theoretical methodology is put into practice.

In the third part, the focus is the profitability of Samsonite Company and which index is the key determinant of its overall value. Firstly, the most important profitability ratio – ROE is decomposed in order to find out which factors have influence on the changing of the ROE. Secondly, the ROE is further decomposed to find out which factor has the biggest impact on the ROE and it is proved to be the net profit margin. Thirdly, in order to find out the final reason of the changing of the ROE, the net profit margin is decomposed. After this, the conclusion can be drawn.
2 Description of the financial analysis methodology

Chapter two is divided into three parts. The first part is the introduction of financial analysis. The second part is the introduction of documents used in financial analysis. The last part is the introduction of four main methods of financial analysis.

2.1 The introduction of financial analysis

Financial analysis is a process of selecting, evaluating and interpreting financial data of businesses in order to determine whether they are suitable or not to be invested in. It aims to formulate the assessment of the company’s present and future financial position. According to a serious of financial analysis, it is able to evaluate the company’s operations, expenses management, credit policy, and so on. When researching one certain company, the financial analysis mainly focuses on the balance sheet, the income statement, and the cash flow statement.

As for the purpose of financial analysis, financial analysts conduct a series of researches into the business to report a suggestion to effectively increase profits and decrease liabilities. The primary information that a financial analyst is supposed to record, examine and optimize includes financial data, market data, and economic data. Financial data come from the three main financial statement; market data are based on securities’ prices and industry statistics; economic data mean GDP, producer price index, and consumer price index.

Finally, financial analysis, which aims to provide valuable information for management decisions, is a significant tool for business owners and managers to measure their progress in order to reach company’s goals, as well as compete with other companies within the same industry. The results of the financial analysis are for both internal needs and external needs. Besides, the evaluation of the financial analysis results include results evaluation over the time, results comparison with competition or industry statistics, comparison of true results with the plan, and comparison with recommended values.
2.2 Documents used in financial analysis

The three main sources of data for financial analysis are balance sheet, income statement (or named profit/loss statement, P/L statement), and cash flow statement.

2.2.1 Balance sheet

The balance sheet summarizes the information about what the company owns and the value of these assets and mix of capital used for financing these assets. The balance sheet must follow the following formula: \( \text{Assets} = \text{Liabilities} + \text{Shareholders’ equity} \). Generally speaking, assets include fixed assets and current assets. Fixed assets are assets which are held for more than 1 year, relatively long life and in relatively low liquidity, including tangible assets just like equipment, land and buildings; intangible assets like patents, trademark and goodwill; financial investment like stocks and bonds. Current assets are relatively short life and in high liquidity, in the form of cash or can be relatively quickly converted into cash. They include receivables; inventories like raw material, goods for sale held by a firm for eventual sale; cash and cash equivalents that will be converted to cash within 1 year.

The balance sheet also includes two categories of liabilities that are current liabilities and long-term liabilities. Current liabilities are debts that must be paid back within 12 months, such as accounts payables, accrued expenses and short-term notes. Long-term liabilities are money that has been borrowed for longer than 12 months, including loans from banks, issued bonds, etc. Liabilities are very important for financial analysts to take into consideration, because businesses have the same obligation as individuals to pay their bills regularly.

Besides, the balance sheet commonly includes shareholders’ equity accounts, which are mix of capital for financing of the company’s assets. The total equity usually represents the shareholders’ investment or capital and the contribution by the owners or by the company’s profit. In general, the more equity that is held by a business, the better the ability is to borrow additional funds of the business.
2.2.2 Income statement

In contrast to the balance sheet, the income statement indicates the amount of profit or loss generated by a company over a certain period of time, often one year. It compares the company’s revenues and company’s costs. The basic equation underlying the income statement is: \( \text{Revenues} - \text{Costs} = \text{Net income/loss} \). Revenues are amounts charged for the delivery of goods or services in the ordinary activities of the company; costs are amounts that must be spent in the ordinary activities of the company. There are two main subtotals should be calculated: operating activity, calculated as a difference between the sum of operating revenues and operating costs, and financing activity, calculated as a difference between the sum of financing revenues and financing costs. Sum of operating and financing income is equal to the profit before taxes \( (EBT) \). Next, the company’s tax \( (T) \) is calculated by applying corporate tax rate \( (t) \): \( T = EBT \cdot t \). Then, using \( EBT \) minus \( T \) and the resulting number is the profit after tax \( (EAT) \).

2.2.3 Cash flow statement

The cash flow statement provides information about company’s cash inflows and cash outflows during a period, often one year. There are two basic formulas: \( \text{Net cash flow} = \text{Sum of inflows} - \text{Sum of outflows} \), \( \text{Cash at the end} = \text{Cash at the beginning} + (-) \text{Net cash flow} \). It should be paid attention that \( \text{Income statement} \neq \text{Cash flow} \). There are three main kinds of cash flows. The first one is the cash flow from operating activities, including inflows and outflows from day-to-day company’s activities. The second one is the cash flow from investing activities, including inflows and outflows as a result of selling and purchasing of investment. And the third one is the cash flow from financing activities, including inflows and outflows from obtaining and repaying capital. Here is an equation that \( \text{Total cash flow} = \text{cash flow from operating activities} + \text{cash flow from investing activities} + \text{cash flow from financing activities} \).
2.3 The methods of financial analysis

The methods of financial analysis can be divided into 4 main groups. They are common-size analysis, which includes the horizontal common-size analysis and the vertical common-size analysis; factor analysis approach; financial ratio analysis; and pyramidal decompositions. Each method is important and has its own characteristics which are different from others. Those methods are ought to be well understood and able to be put into practice.

2.3.1 Common-size analysis

The common-size analysis is an analysis of financial statements data and their changes over the time. It aims to identify the trends and major differences. This type of financial statement allows easy analysis between companies or between some time periods of one company.

There are two key types of the common analysis: the horizontal analysis and the vertical analysis. The horizontal analysis is an analysis of evaluating the financial statements data over the time or their changes with respect to a given period as a benchmark. While the vertical analysis is an analysis of the changes in the proportions of selected benchmarks like total revenues, total assets, total liabilities, etc. Thus, it can be concluded that the horizontal analysis is the review of the results of multiple time periods, while the vertical analysis is the review of the proportion of accounts to each other within a single period.

2.3.2 Factor analysis

Factor analysis is a statistical approach. It can be used to analyze great number of interrelated variables and then to categorize these variables according to their common aspects.

This approach involves finding a way of getting rational variables together to create a new and smaller set of derived variables with the minimum loss of information. Thus, it is a type of a data reduction tool.
There are two main types of factor analysis, which are principal component analysis and common factor analysis. Principal component analysis provides a unique solution so that the original data can be reconstructed from the results. Common factor analysis uses a computation of common differences among the original variables in order to generate the solution.

Factor analysis has two key uses. On the one hand, factor analysis makes it possible to identify those underlying factors, which makes it possible to gain insight to categories. On the other hand, factor analysis enables to identify groupings so that it is able to select one variable in order to represent many variables.

2.3.3 Financial ratio analysis

Financial ratio analysis is a comparison of financial data in the form of financial ratios to assess the financial health of the company. It is one of the most useful management tools that can improve the understanding of financial results and trends over a period of time, and provide key indicators for managers to pinpoint strengths and weaknesses of the company. Financial ratios are calculated from financial data and market data.

Ratios can be divided into five major categories, including profitability ratios, liquidity ratios, solvency ratios, activity ratios, and market ratios.

a) Profitability ratios

One of the most frequently used tools of financial ratio analysis is profitability ratios which measure the ability to generate profit from invested capital in the form of return during a period. Profitability ratios show the overall efficiency and performance of a company. Profitability ratios can be divided into two main types: margins and returns. Ratios that show margins represent the company’s ability to translate sales dollars into profits, while ratios that show returns represent the company’s ability to measure the whole efficiency in generating
returns for its shareholders. The higher the profitability ratios are, the better competitive position of the company is.

Operating profit is a measure of a company’s earning powers from operations, which is also called operating income or $EBIT$ (profit before interest and tax). Operating profit margin is the ratio of operating profit which is divided by revenues. It is usually presented in percent. This financial metric measures levels and rates of profitability. Operating profit margin is calculated as:

$$\text{Operating profit margin} = \frac{\text{operating profit}}{\text{revenues}}. \quad (2.1)$$

Net profit margin is a ratio of profitability calculated as net profit divided by revenues, which is also called net income or $EAT$ (profit after tax). Net profit margin shows the amount of each dollar of sales which is remained after all expenses have been paid. It is very useful when comparing companies among similar industries. A higher net profit margin means that a company is more efficient at converting sales into actual profit.

Net profit is calculated as:

$$\text{Net profit} = \text{total revenues} - \text{total cost}. \quad (2.2)$$

Net profit margin is calculated as:

$$\text{Net profit margin} = \frac{\text{net profit}}{\text{revenues}}. \quad (2.3)$$

Return on assets ($ROA$) is an indicator of how profitable a company is relative to its total assets. Shoestring operations usually have a relatively higher $ROA$, such as software companies, because their required assets are minimal. The number of $ROA$ may vary widely across different industries. This is why it is better to compare $ROA$ with the previous $ROA$ in a company or a similar industry. $ROA$ can be computed as:
\[ ROA = \frac{\text{net profit}}{\text{total assets}} = \frac{\text{operating profit}}{\text{assets}}. \]  

(2.4)

If \( ROA \) is over 5\%, it is generally considered good. A low ratio may mean that the competitors have found a way to operate more efficiently. The \( ROA \) figure gives investors an idea of how effectively the company is converting the money invested into net income. Because the company is earning more money on less investment, the higher the \( ROA \) is the better.

Return on equity (\( ROE \)) reveals how much profit a company earned compared with the total amount of shareholders’ equity. It measures the profitability of a corporation in a way of exposing how much profit a company generates with the money that shareholders have invested. Besides, it extents a company’s efficiency at generating profits from every unit of shareholders’ equity, which are also known as net assets. \( ROE \) is expressed as a percentage and calculated as:

\[ ROE = \frac{\text{net profit}}{\text{equity}}. \]  

(2.5)

Generally, if \( ROE \) is between 15\% and 20\%, it is considered good.

Return on capital employed (\( ROCE \)) is a measure of the returns that a business is achieving from the capital employed. Capital employed equals to a company’s equity plus non-current liabilities or total assets minus current liabilities, in other words, all the long-term funds used by the company. \( ROCE \) indicates the efficiency and profitability of a company’s capital investments. \( ROCE \) is calculated as:

\[ ROCE = \frac{\text{EBIT}}{\text{capital employed}} = \frac{\text{EBIT}}{\text{equity + non-current liabilities}} = \frac{\text{EBIT}}{\text{total assets - current liabilities}}. \]  

(2.6)
b) Liquidity ratios

Liquidity ratio measures the company’s ability to meet its immediate or short-term liabilities and obligations. They analyze the company’s liquid assets and short-term liabilities and obligation. The liquidity ratio is the result of dividing the total cash by short-term borrowings. It shows the number of times short-term liabilities which are covered by cash. If the value is greater than 1, it means that it is fully covered. Liquidity ratios include current ratio, quick ratio, and cash ratio.

The current ratio is a financial ratio that measures whether a company has enough resources or not to pay its debts in the following 12 months. It compares a company’s current assets with its short-term liabilities, which are debt and payables. The higher the current ratio is, the more capable the company is of paying its obligation. Current ratio is calculated as:

\[
\text{Current ratio} = \frac{\text{current assets}}{\text{short-term liabilities}}. \tag{2.7}
\]

The quick ratio, which is an indicator of a company’s short-term liquidity, measures a company’s ability to use its near cash or quick assets to extinguish or retire its short-term liabilities immediately. It is a more complex alternative to the current ratio for the reason that it measures the most liquid current assets, excluding inventory but including accounts receivable and certain investments. Quick ratio is calculated as:

\[
\text{Quick ratio} = \frac{\text{cash} + \text{short-term marketable investments} + \text{receivables}}{\text{short-term liabilities}}. \tag{2.8}
\]

The cash ratio is a ratio of a company’s total cash and cash equivalents to its short-term liabilities. Because of the fact that accounts receivable and inventories are left out of the equation, the cash ratio is generally a more conservative look at a company’s ability to cover its liabilities compared with liquidity ratios. A strong cash ratio is useful to creditors when
deciding how much debt they would be willing to extend to the asking party. Cash ratio is calculated as:

\[
\text{Cash ratio} = \frac{\text{cash + short} - \text{term marketable investments}}{\text{short} - \text{term liabilities}}.
\]  (2.9)

c) Solvency ratios

Solvency ratios measure the company’s ability to meet its long-term obligations. They indicate whether a company’s cash flows, including cash inflows and cash outflows, are sufficient to meet its liabilities. In other words, solvency ratios have to prove that the company is able to service its debt as well as pay the principal when the debt matures. The lower a company’s solvency ratio is, the greater the probability that it will default on its debt obligations.

Debt-to-assets ratio is a financial ratio that shows the percentage of a company’s assets that are provided via debt. It is the ratio of total debt which is the sum of current liabilities and long-term liabilities, and total assets which is the sum of current assets, fixed assets and other assets such as goodwill. The higher this ratio, the more leveraged the company and the greater its financial risk. Debt-to-assets ratio is calculated as:

\[
\text{Debt-to-assets} = \frac{\text{total debt}}{\text{total assets}}.
\]  (2.10)

Debt-to-equity ratio is a financial ratio showing the relative proportion of a company’s equity and debt used to finance a company’s assets. If the ratio is increasing, the company is being financed by creditors rather than from its own financial sources which may be a dangerous trend. Lenders and investors usually prefer low debt-to-equity ratios because their interests are better protected in the event of a business decline. Thus, companies with high debt-to-equity ratios may not be able to attract additional lending capital. Debt-to-equity ratio is calculated as:
Debt-to-equity = \frac{\text{total debt}}{\text{total equity}}. \tag{2.11}

Financial leverage indicates reliability of a company to on its debt. It helps investors determine the company’s solvency and dependency upon its borrowings. Business companies with high leverage are considered to be at risk of bankruptcy if they are unable to repay the debts, it might lead to difficulties in getting new lenders in future. However, financial leverage is not always bad, it can lead to an increased shareholders’ equity on investment. Financial leverage is calculated as:

\[ \text{Financial leverage} = \frac{\text{assets}}{\text{equity}}. \tag{2.12} \]

The interest coverage ratio is a measure of a company’s ability to meet its interest payments. Interest coverage ratio is equal to EBIT for a time period, often one year, divided by interest expenses for the same time period. The lower the ratio, the more the company is burdened by debt expense. When a company’s interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. Interest coverage ratio is calculated as:

\[ \text{Interest coverage} = \frac{\text{EBIT}}{\text{interest payments}}. \tag{2.13} \]

Fixed charge coverage ratio is the ratio that indicates a company’s ability to satisfy fixed financing expenses such as interest and leases. This means that the fixed charges that a company is obligated to meet are met by the company. This ratio is calculated by summing up earnings before interest and taxes or EBIT and fixed charge which is divided by fixed charge before tax and interest. Fixed charge coverage ratio is calculated as:

\[ \text{Fixed charge coverage} = \frac{\text{EBIT} + \text{lease payments}}{\text{interest payments} + \text{lease payments}}. \tag{2.14} \]
d) Activity ratios

Activity ratios generally measure how well a company uses its assets. It has a direct impact on liquidity to utilize assets efficiently. These ratios are important in determining whether a company’s management is doing a good job or not of generating revenues or cash from its resources. There are two main forms of activity ratios: days of turnover and number of turnover.

Inventory turnover is a measure of the number of times inventory is sold or used in a given time period such as 1 year. It is a good indicator of inventory quality, efficient buying practices and inventory management. Inventory turnover is calculated as:

\[
\text{Inventory turnover} = \frac{\text{cost of goods sold}}{\text{average inventory}}.
\]  

(2.15)

Receivables turnover is an accounting measure used to quantify a company’s effectiveness in extending credit as well as collecting debts. It is an important indicator of a company’s financial and operational performance and can be used to determine if a company is having difficulties collecting sales made on credit. Receivables turnover is calculated as:

\[
\text{Receivables turnover} = \frac{\text{revenues}}{\text{average receivables}}.
\]

(2.16)

Assets turnover is a financial ratio that measures the efficiency of a company’s utilization of its assets to product sales. Generally speaking, the higher the ratio, the better it is, since it implies that the company is generating more revenues per unit of assets. Assets turnover is calculated as:

\[
\text{Assets turnover} = \frac{\text{revenues}}{\text{average total assets}}.
\]

(2.17)
e) Market ratios

Market ratio measures investor’s response to owning a company’s stock and also the cost of issuing stock. These are concerned with the return on investment for shareholders, and with the relationship between return and the value of an investment in a company’s shares.

Earnings per share (EPS) are a part of the company’s profit which is allocated to each outstanding share of common stock. It is a very good indicator of the profitability of any organization, and it is one of the most widely used measures of profitability. EPS is calculated as:

\[
EPS = \frac{\text{net profit}}{\text{number of shares outstanding}}.
\]  

(2.18)

Price-to-earnings ratio (P/E ratio) is a valuation ratio of market price per share to earnings. In general, a high P/E suggests that investors are expecting higher earnings growth in the future when compared to companies with a lower P/E. P/E ratio is calculated as:

\[
P/E = \frac{\text{market price per share}}{\text{EPS}}.
\]  

(2.19)

Dividend payout ratio compares the dividends paid by a company with its earnings. Because it provides how well earnings support the dividend payments, investors interested in short term earnings prefer to invest in companies with high dividend payout ratio. On the contrary, investors who prefer to have capital growth would like to invest in companies with lower dividend payout ratio. Dividend payout ratio is calculated as:

\[
\text{Dividend payout ratio} = \frac{\text{dividends paid}}{\text{net profit}}.
\]  

(2.20)
### 2.3.4 Pyramidal decompositions and influence quantification

Pyramidal decomposition enables to analyze which factors have impact on the value of financial ratios. Its principle is to express selected ratio or basic ratio as a product of component ratios. The fundamental example of the pyramidal decomposition is the DuPont analysis that is decomposing ROE ratio by three component ratios. Then the formula can be written as:

\[
ROE = \frac{\text{net profit}}{\text{equity}} = \frac{\text{net income}}{\text{revenues}} \cdot \frac{\text{revenues}}{\text{total assets}} \cdot \frac{\text{total assets}}{\text{equity}}.
\]  

(2.21)

Besides, if separating the effects of taxes and interest, the profit margin can be decomposed as follows:

\[
\frac{\text{net income}}{\text{revenues}} = \frac{\text{net income}}{\text{EBT}} \cdot \frac{\text{EBT}}{\text{EBIT}} \cdot \frac{\text{EBIT}}{\text{revenues}}.
\]  

(2.22)

After substituting into DuPont analysis, the formula becomes:

\[
ROE = \frac{\text{net income}}{\text{EBT}} \cdot \frac{\text{EBT}}{\text{EBIT}} \cdot \frac{\text{EBIT}}{\text{revenues}} \cdot \frac{\text{revenues}}{\text{total assets}} \cdot \frac{\text{total assets}}{\text{equity}}
\]

\[
= \text{Tax burden} \cdot \text{Interest burden} \cdot \text{EBIT margin} \cdot \text{Assets turnover} \cdot \text{Financial leverage}.
\]  

(2.23)

Influence quantification enables to analyze indicators, whose changes have caused change in the basic ratio. There are four main methods for influence quantification: gradual changes method, decomposition with surplus method, logarithmic decomposition method, and functional decomposition method. Typically, gradual changes method and logarithmic decomposition method are used to analyze the financial data.

The gradual changes method enables to quantify the change in the basic ratio caused by the changes in the component ratios. In the case of decomposition with three component ratios, influences are quantified without a residue as follows:
\[
\Delta x_{a_1} = \Delta a_1 \cdot a_{2,0} \cdot a_{3,0} \\
\Delta x_{a_2} = a_{1,1} \cdot \Delta a_2 \cdot a_{3,0} \\
\Delta x_{a_3} = a_{1,1} \cdot a_{2,1} \cdot \Delta a_3
\] (2.24)

In the equation above, the \( x \) is a basic ratio, the \( \Delta x \) is the absolute change in the basic ratio, the \( a \) is the component ratio, and the \( \Delta a \) is the absolute change in the component ratio.

The logarithmic decomposition method only needs one formula for the impact quantification regardless of how many component ratios. Influences of particular indicators can be formulated in such a way:

\[
\Delta x_{x_i} = \frac{\ln I_{x_i}}{\ln I_x} \cdot \Delta x.
\] (2.25)

In this equation, the \( x \) is a basic ratio, the \( \Delta x \) is the absolute change in the basic ratio, the \( I_x = \frac{x_i}{x_0} \) is the index of change in the basic ratio, and the \( I_a = \frac{a_i}{a_0} \) is the index of change in the component ratio.
3 Financial Characteristic of the Samsonite Company

Chapter three is divided into three parts. The first part is the general introduction of the Samsonite Company. The second part is the statement of the key financial data of the Samsonite Company from 2008 to 2013, including net sales, operating profit, net profit, total assets, and total liabilities and so on. The third part is the financial analysis of the Samsonite Company.

3.1 The general introduction of the Samsonite Company

Samsonite International S.A. is famous as the world’s largest travel luggage company, which is founded in Colorado, the United States in 1910. The company is with a heritage dating back more than 100 years. What make Samsonite to win the love and recognition of consumers all around the world are excellent and outstanding product quality, design style with the time synchronization, considerate practicability and reliability and perfect after-sales service. The company mainly focuses on the design, manufacture, sourcing and distribution of luggage, business and computer bags, outdoor and casual bags, and travel accessories throughout the world, especially under the Samsonite® and American Tourister® brand names. Samsonite® is the core brand of the Samsonite Company and is one of the most well-known travel luggage brands in the world. Statistics suggest that 70% of European people know Samsonite, while it has a high profile in USA, which is up to 90%\(^1\).

Uses of Samsonite luggage cover travel, document, leisure and children. People are able to find their desired products from Samsonite either long trips or short trips. Samsonite Company introduces new and innovative product designs continuously, which aims to be adapted to the needs of consumers in different markets. It also stays true to the core values of lightness, strength and functionality. The company is engaged in achieving growth

\(^1\) This is based on http://en.wikipedia.org/wiki/Samsonite.
organically, and at the same time making acquisitions that have a compelling strategic and financial rationale.

Samsonite Company is well positioned to benefit from continued growth in the global travel market, especially in emerging markets in Asia. Despite the troubled situation in the Eurozone, the company’s sales grow strongly in Asia and the USA, which is a useful advance in this region.

Top three competitors for Samsonite International S.A. are Land’s End, Inc., LVMH Moët Hennessy Louis Vuitton SA and Hartmann Incorporated. Land’s End is an American clothing retailer that specializes in casual clothing, luggage, and home furnishings. The majority of Land’s End’s business is conducted through mail order and Internet sales, but the company also runs more than a dozen retail operations. LVMH Moët Hennessy Louis Vuitton SA is the world’s largest luxury goods company, with brands that are bywords for the good life and everything showy. LVMH makes wines and spirits, perfumes, cosmetics, fashion and leather goods, and watches and jewelry. Hartmann Incorporated manufactures upscale brief cases, wheeled luggage, wallets, garment bags, personal leather goods, and other accessories. The company’s products are distributed and sold through high-end department stores and luggage shops in the US and internationally.²

For the year ended December 31, 2012, Samsonite Company’s net sales increased to a record level of US$1,771.7 million, reflecting a 13.2% increase from the previous year. Excluding foreign currency effects, net sales increased by 16.8%. Reported profit for the year increased by 60.8% to US$166.6 million. Adjust net income increased by 22.2% to US$167.2 million. The company generated US$203 million of cash from operating activities during 2012 compared to US$64.5 million during 2011. As for December 31, 2012, the company has cash and cash equivalents of US$151.4 million and financial debt of US$35.4 million, excluding

² This is based on http://www.hoovers.com/company-information/cs/competition.Samsonite_International_SA.5aba39c890142d68.html.
deferred financing costs of US$3.1 million. It can be concluded that it providing Samsonite Company with a net cash position of US$116 million. On March 18, 2013, Samsonite Company’s Board of Directors recommended that a cash distribution in the amount of US$37.5 million, or US$0.02665 per share, be made to the Samsonite Company’s shareholders, a 25% increase from the US$30 million distribution paid in 2012\(^3\).

Nowadays, Samsonite Company still uphold the same purpose to continue leading the industry and designing new creative products, while expanding the target consumption group. The new slogan of Samsonite Company is *Life’s a Journey*, which reflects its direction of future development specifically and symbolizes Samsonite is able to integrate into tourism’s various domains of life.

### 3.2 Samsonite Company’s key financial data from 2008 to 2013

In order to know Samsonite Company well, it is significant to analyze its key financial data for at least five years. This part is the statement of the key financial data of the Samsonite Company from 2008 to 2013.

Chart 3.1 net sales from 2008 to 2013

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\(^3\) From Samsonite International S.A. 2012 Annual Report
From Chart 3.1 above, it is obvious that the net sales have decreased from 2008 to 2009, while they keep increasing from 2009 to 2013. Because of the worldwide financial crisis, Samsonite Company has a great deficit in 2008 and 2009. However, the economic condition of Samsonite Company becomes gradually better since 2010. In order to celebrate the 100th birthday in 2010, Samsonite Company creates a new revolutionary product named B-Lite, which is the lightest soft suitcase of Samsonite. At the same year, Cosmolite series won two big prizes, that is Red Dot Design Award and Best of the Best. Thus, 2010 is a meaningful year to Samsonite Company. What’s more, in 2013, Samsonite Company’s total net sales increased 15.02% from the previous year to a record US$2,037.8 million. Besides, Samsonite Company announced plans to sell luggage for $50 in emerging markets such as India in 2013.

Chart 3.2 $EBIT$, $EBT$, Taxation, Interest, and $EAT$ from 2008 to 2013

Chart 3.2 shows the changes of operating profit ($EBIT$), profit before taxation ($EBT$), taxation, interest, and net profit ($EAT$) from 2008 to 2013. Both $EBT$ and $EAT$ have increased sharply from 2008 to 2009, have decreased from 2009 to 2011, and are relatively stable from 2011 to 2013. In 2009, $EBT$ and $EAT$ are up to US$1,137.2 million and US$1,202.4 million. As for $EBIT$, it has increased from 2008 to 2010 from a negative number to a positive number and has decreased from 2010 to 2011. The changes of interest are contrary to the change of $EBT$.
and $EAT$ which has decreased from 2008 to 2009 and keeps increasing from 2009 to 2013. Besides, the taxation changes slightly during 2008 to 2013 when compared with the other five financial data. 2012 is the first full year post the listing of Samsonite Company on the Main Board of The stock Exchange of Hong Kong Limited in June 2011. As of December 31, 2012, Samsonite Company’s products were sold at more than 45,000 points of sale in over 100 countries. Thus, it can be concluded that 2012 is a successful year in a sense.

The following two charts set forth a breakdown of net sales by region from 2010 to 2012, both in absolute terms and as a percentage of total net sales.

Chart 3.3 Net sales by region from 2010 to 2012$^4$

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Net sales increased across all of the Samsonite Company regions. Excluding foreign currency effects, net sales in 2011 increased 24.3% to US$295.7 million compared with the previous year. Seen from Chart 3.3 above, net sales in Asia, Europe, North America and Latin America have increased during 2010 to 2011. The fact shows that it is a wise choice to develop global economies of scale in an era of globalization. Conclusion can be drawn that Samsonite Company is well positioned to benefit from continued growth in the global travel market, especially in emerging markets in Asia. Net sales for the Asian region has increased year by year, which makes Samsonite Company become the largest, fastest growing and most profitable region.

Net sales increased 13.2% from US$1,565.147 million to US$1,771.726 million in 2012 compared with 2011. Excluding foreign currency effects, net sales increased 16.8%. Samsonite Company continues to benefit from the worldwide increase in travel. Except in Europe, net sales in Asia, North America and Latin America also kept increasing in 2012. The World Tourism Organization announced that International tourist arrivals grew by 4% in 2012.
to over one billion for the first time ever. Besides, seen from Chart 3.4 above, the percentages of total net sales, it is clear that markets in Asia is the major markets among the whole world.

The following two charts set forth a breakdown of net sales by brand from 2010 to 2012, both in absolute terms and as a percentage of total net sales.

Chart 3.5 Net sales by brand from 2010 to 2012

Chart 3.6 Net sales by brand as a percentage from 2010 to 2012

Net sales of the Samsonite® brand increased 33.3% to US$1,223.4 million in 2011 compared with the previous year. Net sales of the American Tourister® brand increased 55.1% to US$249.9 million in 2011 compared with 2010. American Tourister® brand aims at the youth market, so it is priced in medium and high-end commodities and is widely welcomed. The data suggest that Asia accounted for 89.6% of the US$88.756 million increase in American Tourister® brand sales in 2011 when compared with 2010. These increases were attributable to expanded product offerings and further penetration of existing markets, which were all supported by Samsonite Company’s targeted advertising activities.

Net sales of the Samsonite brand increased 5.9% in 2012. Excluding foreign currency effects, net sales of the Samsonite® brand increased 9.7%. Net sales of the American Tourister® brand increased 41.9%. Excluding foreign currency effects, net sales of the American Tourister® brand increased 47.4%. Asia accounted for US$85.7 million of the US$104.7 million increase in the American Tourister® brand sales for the year.

Samsonite Company sells products in four principal product categories, that is travel, business, casual and accessories. Different categories have different characteristics and suit different people. Travel has been the Samsonite Company’s largest product category up to now and has been Samsonite Company’s traditional strength. At the same time, Samsonite Company keep trying to improve the other three categories and the results are good. As one of the best sellers in the luggage industry, when people are going to have a trip, no matter a long trip or a short trip, no matter for travel or for business, Samsonite Company’s luggage may be always the first consideration for most people.

The following two charts set forth a breakdown of net sales by product category from 2010 to 2012, both in absolute terms and as a percentage of total net sales.
The US$349.840 million increase in net sales in 2011 compared with 2010 was largely driven by an increase in net sales in the travel product category, which increased by 33.9% to US$1,186.683 million. Net sales in business product category increased by 71.8%, reflecting Samsonite Company’s efforts to further penetrate the business bag market. Excluding the effect of the termination of the Lacoste and Timberland licensing agreements, net sales in the

\[\text{Net sales by product category from 2010 to 2012}^6\]

\[\text{Net sales by product category as a percentage from 2010 to 2012}\]

casual product category increased 32.4%, reflecting Samsonite Company’s strategic focus on expanding its casual product offerings. Net sales in the accessories product category increased 41.0%, reflecting expanded accessories product offerings. Net sales in the other product category decreased 36.0%, reflecting Samsonite Company still focuses on its core product offerings. Besides, Samsonite Company’s marketing expenses increased 19.9% to US$122.8 million, which is approximately 8% of net sales, reflecting the company’s commitment to utilize advertising and promotion to drive sales growth worldwide.

The US$206.579 million in net sales in 2012 was largely driven by an increase in net sales in the travel product category, which increased 14.4%. Country-specific product designs, locally relevant marketing strategies and expanded points of sale were the key factors contributing to this increase. Net sales in the business product category remained consistent year-to-year, and increased 2.4% excluding foreign currency effects. The slight constant currency increase in business product category net sales was driven by a 5.9% increase in Asia, a 20.8% increase in North America and a 6.7% increase in Latin America due to additional product placements and expanded offerings. These increases were marginally offset by a 19.3% decrease in Europe resulting from the economic challenges within the region, as well as the timing of product introductions, a strong competitive environment and stock reductions at key retailers limiting sell-in.

3.3 Financial analysis of Samsonite Company

The general information of the financial statement of Samsonite Company will be introduced in this subchapter. Because the data in 2013 are only for the first half of 2013, the data from 2008 to 2012 will be chosen to be analyzed, which does not matter a lot. The three main types of financial statement will be analyzed through the common-size analysis method. The horizontal analysis method is used to compare the changes of the basic data of each financial statement during 2008 to 2012 and the financial ratio analysis method is used to analyze the four types of basic ratios of Samsonite Company.
3.3.1 General information of financial statement

In this subchapter, the general situation of the three main financial statements of Samsonite Company is described and then analyzed by using the common-size analysis method.

a) General situation of the balance sheet

The first part is the general situation of the balance sheet of Samsonite Company from 2008 to 2013. In this part, the tendency of the main components of the balance sheet and the reasons causing them will both be discussed.

Chart 3.9 The changes of three main components of balance sheet from 2008 to 2013

From the chart above, the total assets and the total shareholders’ equity continue increasing from 2008 to 2013. Because of the financial crisis in 2008, the total liabilities are quite high, which is up to US$2,479.3 million, while the total shareholders’ equity is a negative number. It can be easily seen that during 2008 to 2009, the total liabilities is decreasing sharply due to a series of adjustments, typical example is Samsonite’s restructuring plan. Besides, after 2009, the economic condition becomes better and better step by step, reflecting that Samsonite Company is recovering from the financial crisis gradually. It is encouraging that the total asset rises to a new height in 2013 after unremitting efforts of Samsonite Company.
Chart 3.10 compares the percentage that each value contributes to the total assets of Samsonite Company across categories. Total assets are equal to the summation of current assets, fixed assets, and other assets. It is obvious that other assets account for about half of total assets during the whole period. Other assets include deferred tax assets, bond issue costs, advances to officers, prepaid pension costs, long-term prepayments and so on. The second most are current assets, such as receivables and inventories, which account for nearly 30% to 40%. And the least, compared to current assets and other assets, are fixed assets, such as equipments and buildings of Samsonite Company, which account for only no more than 10% for the whole period.

b) General situation of the income statement

The second part is the general situation of the income statement of Samsonite Company from 2008 to 2013. In this part, the most important components of the income statement, those are the revenues and the net income, are analyzed by using the horizontal analysis method.
Chart 3.11 shows the percentage of the net income accounted for the revenues. Chart 3.1 and Chart 3.2 show the changes of the total revenues and the net income during 2008 to 2012. The lowest percentage is in 2008 because of the financial crisis, while the highest percentage is in 2009, which means Samsonite Company has a better ability to generate profit from a certain amount of total assets.

In 2009, the net income is obviously much higher when compared with other years while the total revenue is relatively lower when compared with other years. Thus, the percentage of the net income accounted for the revenues in 2009 is the highest without doubt. The retail sectors of Samsonite Company applied for bankruptcy in September, 2009. This is a part of Samsonite’s restructuring plan, which aims to closing nearly half of the 173 American stores.

c) General situation of the cash flow statement

The third part is the general situation of the cash flow statement of Samsonite Company from 2008 to 2012. In this part, the cash flow from the three major activities and the general cash flow of each year are analyzed.
Chart 3.12 General information of the cash flow statement

The operating activities include the day-to-day activities of Samsonite Company that create revenues. They affect Samsonite Company’s inflows and outflows directly, and determine its net income. Cash inflows result from sales of goods or services and sales of shares. Cash outflows result from equipment and inventory purchases, salaries, dividends, interest and principal payments, and various other expenses. Seen from Chart 3.12, the net cash flow from operations is with a trend of increasing from 2008 to 2012.

The investing activities are deals or transactions involving sales or purchases of equipment, properties, securities, and other assets generally not held for immediate resale. Cash inflows result from sales of equipment, properties, securities, and other intangible or long-term assets. Cash outflows result from purchases of the assets. From 2008 to 2011, the net cash flow from investing activities is relatively stable, while it has decreased sharply from 2011 to 2012.

The financing activities include the transactions and issuing of stocks, bonds, loans, etc. They are employed and undertaken by the company to achieving its economic objectives. Cash inflows result from cash from issuing shares or bonds and cash from credits and borrowings. Cash outflows result from paying out dividends, repaying bonds, and repaying credits and borrowings. From 2008 to 2009 and from 2010 to 2011, the net cash flow from financing
activities has decreased. From 2009 to 2010 and from 2011 to 2012, the net cash flow from financing activities has increased. So, the trend of it looks like the letter “w”.

Chart 3.13 General information of the cash flow statement

Excluding 2008, the results of operating activities from 2009 to 2012 are all cash inflows from operations which mean that the cash as sales and receivables are more than the payments for purchases, salaries, dividends, other expenses and so on. It is particularly worth mentioning that the cash inflows from operations in 2012 reach a new height, which is up to US$202.9 million.

As for the net cash flow from investing activities, there are all cash outflows during the whole period from 2008 to 2012, which means that Samsonite Company purchases a large amount of assets to produce their products. From 2008 to 2011, it is obvious that the cash outflows from investing activities are ranging from 0 to US$50.0 million from Chart 3.13 above. However, in 2012, the cash outflows increased sharply, up to US$179.2 million.

During 2008 to 2012, there are all cash outflows from financing activities, which means that Samsonite Company’s payment of bonds and dividends are more than it receives from issuing stocks and bonds. In 2009 and 2011, the cash outflows are much higher than other three years.
3.3.2 Financial ratio analysis of Samsonite Company

When talking about the financial analysis method, financial ratio analysis is one of the most important methods of financial analysis. In this subchapter, the different financial ratios, including liquidity ratios, solvency ratios, activity ratios and profitability ratios are calculated, and the financial situation of Samsonite Company from the ratios is discussed during 2008 to 2012. The following financial ratios include liquidity ratio, solvency ratio, activity ratio and profitability ratio.

a) Liquidity ratio analysis

To assess the liquidity, current ratio, quick ratio and cash ratio should be used. By using (2.7), (2.8) and (2.9) these three equations, it is easy to calculate the liquidity ratios of Samsonite Company during 2008 to 2012.

Chart 3.14 Liquidity ratios from 2008 to 2012

The current ratio in 2008 is lower than 100%, which means that it is unable to meet debts as they fall due. A high current ratio shows that too much money is tied up in current assets, such as giving customers too much credit.
From Chart 3.14, the trends of three liquidity ratios are nearly the same. From 2008 to 2009, all of the three liquidity ratios go up sharply, because the total current liabilities has decreased a lot, from US$2,207.9 million to US$335.4 million; while from 2009 to 2012, all of them go down. This can respect the tendency of Samsonite Company’s ability to meet its short-term obligations during these years. From 2008 to 2009, Samsonite Company’s ability to meet its short-term obligation becomes better. From 2011 to 2012, it tends to be relatively stable.

b) Solvency ratio analysis

To assess the solvency, debt to equity, debt to assets, financial leverage, and interest coverage ratio should be analyzed. The lower a company’s solvency ratio is, the greater the probability that it will default on its debt obligations.

Chart 3.15 Solvency ratios from 2008 to 2012

From 2008 to 2009, debt-to-equity ratio has increased sharply because the total equity becomes a positive number from a negative number, which implies higher interest expenses and beyond a certain point it may affect Samsonite Company’s credit rating, making it more expensive to raise more debt. Debt-to-equity ratio has increased from 2009 to 2011, because the total equity has increased while the total assets change slightly according formula (2.11) and Chart 3.6.
Debt-to-assets is the highest in 2008 because the total debt is the highest and the total assets is the lowest, which indicates a greater degree of leverage, and consequently, financial risk. From 2009 to 2012, debt-to-assets keeps relatively stable when compared with other four solvency ratios.

Financial leverage is the lowest in 2008 because the total equity is a negative number. From 2008 to 2009, it has increased more sharply than debt-to-equity ratio, because total equity turns a negative number into a positive number and total assets are nearly the same as the previous year. Besides, financial leverage in 2009 is extremely high due to a low total equity.

Interest coverage ratio varies considerably during 2008 to 2012, which is from -843.8% to 6155.9%. Interest coverage ratio is much higher in 2012 than previous years, because the interest expense is the lowest in 2012. It means Samsonite Company’s ability to cover its interest expense is the best in 2012 compared with previous years.

c) Activity ratio analysis

To assess the activity, fixed assets turnover, inventory turnover and total assets turnover should be used. The following chart shows the trends of three main activity ratios during 2008 to 2012.

Chart 3.13 Activity ratios from 2008 to 2012
Fixed assets turnover is very high in 2008 and 2009 mainly because the fixed assets are relatively low, which means that management’s effective use of the Samsonite Company’s fixed assets. From 2009 to 2010, it has decreased quite sharply because the increasing of the fixed assets while the total net sales are nearly the same as the previous year.

Inventory turnover is relatively stable compared with the other two activity ratios. Its trend from 2008 to 2012 is roughly the same with fixed assets turnover’s trend seen from Chart 3.13 above. When the cost of goods sold is nearly the same from 2008 to 2012, the inventory is the lowest in 2009, thus, the inventory turnover is the highest.

Total assets turnover keep decreasing from 2008 to 2010, from 121.1% to 73.0%, because the total assets have increased while the total revenues have decreased. It reflects that Samsonite Company’s utilization of its assets to product sales becomes worse during this period. And from 2010 to 2012, it becomes relatively better.

d) Profitability ratio analysis

To assess the profitability, operating profit margin, net profit margin, \textit{ROA, ROE}, and \textit{ROCE} should be used. The following chart is the main profitability ratios of Samsonite Company during 2008 to 2012.

Chart 3.14 Profitability ratios from 2008 to 2012
Differences among the ratios are not obvious during 2010 to 2012, so it is necessary to research ratios in this time period in details.

Chart 3.15 Profitability ratios from 2010 to 2012

From 2010 to 2011, the operating profit margin has decreased. According to Chart 3.1 and Chart 3.2 above, the operating profit has decreased and the net sale has increased in 2011 when compared with these two data in 2010. Thus, the operating profit margin has decreased, which is obviously not the optimal situation for Samsonite Company. And from 2011 to 2012, the operating ratio tends to be stable. Samsonite Company is earning more per dollar of sales, if its operating margin is increasing.

The net profit margin has decreased from 2009 to 2011, especially in from 2009 to 2010. According to Chart 3.2 above, the net profit was decreasing and the net sale was increasing during 2009 to 2010. Net profit margin in 2012 is higher than it in 2011, which means that Samsonite Company is more efficient at converting sales into actual profit in 2012.

The change in $ROA$ is similar with the change in net profit margin. It has decreased a lot from 105.53% to 21.32% from 2009 to 2010. If the $ROA$ is decreasing, Samsonite Company’s ability of generating income from a given level of assets is decreasing. However, the higher the $ROA$ number, the better, which means that Samsonite Company is earning more money on less investment, and vice versa.
The ROE of Samsonite Company in 2009 is extremely high, which is up to 307.11%. Although it is better for ROE number to be high, a higher ROE does not necessarily mean better financial performance of the company. In the DuPont formula, \( \text{ROE} = \text{net profit margin} \cdot \text{asset turnover} \cdot \text{financial leverage} \), which shows that the higher ROE can be the result of high financial leverage, but too high financial leverage is dangerous for a company’s solvency. This is because the financial leverage is measured as the ratio of total debt to total assets, in other words, the greater the amount of debt, the greater the financial leverage.

The ROCE number is quite high in 2008 and 2009, but it has decreased sharply from 2009 to 2011. A higher ROCE shows more efficient use of capital. It should be higher than the company’s capital cost; otherwise it indicates that the company fails to employ its capital effectively and generate shareholder value.

When researching the profitability ratios in previous year, it is not hard to find that the operating profit and the net profit are decreasing year by year. There exists two main identify potential threats in Samsonite Company: one is the huge loans, and another is the loss of the target customers.
4 Profitability analysis of Samsonite Company

In this chapter, the ROE ratio is analyzed by being decomposed into three parts in the pyramidal decomposition method in order to find out which factor has the biggest impact on the value of ROE ratio. The method of gradual changes is the mainly used method of the analysis.

4.1 Decomposition of ROE

It is necessary to find out which factor drives the value of the Samsonite Company’s ROE most, because ROE is quite important measure of profitability. The pyramidal decomposition method is a useful technique used to decompose ROE ratio by three component ratios.

According to the formula (2.21), ROE can be expressed by net profit margin, assets turnover, and financial leverage.

Chart 4.1 the relevant change of component ratios
From Chart 4.1, it is obvious that the trend of the relevant change of net profit margin is quite similar with the relevant change of ROE, which indicates the changing of net profit margin has a great influence on the changing of ROE. Then the gradual changes method is used.

Chart 4.2 Component ratios of ROE

From Chart 4.2, ROE has increased a lot during the period of 2008 to 2009, which due to the increase of the net profit margin and the financial leverage, and the proportion of the decrease of the assets turnover is not stronger than the other two ratios. In other words, the increase of ROE during this period is due to the increase of the profit the Samsonite Company makes for every one dollar it generates in revenue and the better use of leverage.

However, there is a big decrease of ROE during 2009 to 2010, which results from the big decrease of both the net profit margin and the financial leverage. The ROE has decreased 259.15% from 2009 to 2010 and 38.51% from 2010 to 2011 and total decrease from 2009 to 2011 is 297.66%. The net profit margin has decreased 111.27%, the assets turnover has increased 11.00%, and the financial leverage has decreased 122.77% from 2009 to 2011. Thus, the decrease of ROE during 2009 to 2011 is resulted from the less effectiveness of
converting revenue into profit and the worse use of leverage. From 2011 to 2012, the relevant change of ROE is 49.42% and the relevant change of net profit margin is 51.26%, while the relevant change of assets turnover and financial leverage are -3.55% and 2.49%. Therefore, it can be concluded that the relevant change of ROE is mainly resulted from the relevant change of net profit margin.

### 4.2 Analysis of the decomposition of ROE

The method of gradual changes can be used which is one of the techniques of the influence quantification method to analyze the decomposition of ROE.

Chart 4.3 the impact of component ratios on ROE

[Chart 4.3 showing the impact of component ratios on ROE]

Chart 4.3 is the figure of the absolute changes of ROE caused by absolute change of the net profit margin, the assets turnover and the financial leverage during the period from 2008 to 2012. In other words, this figure reflects the impact on ROE from the three component ratios and obviously ROE is the basic ratio.

As what Chart 4.3 shows, the absolute change of financial leverage has the most impact on the absolute change of ROE from 2008 to 2009, while the absolute change of net profit
margin has the most impact on the absolute change of $ROE$ during the period from 2009 to 2012.

From 2008 to 2009, net profit margin has the negative impact on $ROE$, while assets turnover and financial leverage have the positive impact on $ROE$, where the conclusion can be drawn that the more effectiveness of converting revenue into assets and the greater use of the debt financing are the main drivers of the increase of $ROE$ during this period.

From 2009 to 2010 and from 2010 to 2011, net profit margin still has the negative impact on $ROE$, which is resulted from the negative absolute change of net profit margin during this two period. As shown in Chart 3.1 and Chart 3.2, total net profit is decreasing and total revenues are increasing during 2009 to 2011. And from the annual report of Samsonite Company, the decrease of the profit is resulted from its strategy of increasing marketing spend broadly in line with sales as the company is convinced that the global recognition of its brands is a major source of competitive advantage and an important driver of the long run profitability of its business. Investment in marketing increased from 2010 to 2011 by 19.9% to US$122.8 million, and currently stands at 7.8% of net sales. Over time, Samsonite Company expect to raise the marketing spend behind its brands significantly in absolute terms and broadly in line with sales growth. Besides, Samsonite Company is faced with the inevitable inflationary pressure on costs resulting from higher prices of commodity goods and labor which is felt by all players in the market. So the company works closely with its manufacturing partners to improve their cost effectiveness as well as reviewing new sources for inputs and production.

From 2011 to 2012, net profit margin still has the biggest impact on $ROE$ just like the previous two years, but the impact switch from negative to positive, which indicates that the company’s profitability is rising. As shown in Chart 3.1 and Chart 3.2, both total net profit and total revenues are increasing during 2011 to 2012. In 2012, the Samsonite Company’s total revenues increased by 13.2% from the previous year to a record US$1,771.726 million. One area of significant improvement over 2011 is the cash flow generated from operating activities, which increased from US$64.502 million in 2011 to US$202.992 million in 2012.
Most of the growth in 2012 came from travel products, up 18.5% in constant currency terms and now accounting for 76.6% of the total Company sales. Globally, the hard side luggage market has been buoyant. Also, much of the growth under the American Tourister® brand has been in the travel segment. It was a disappointing year for the business category: whilst sales were up 20.8% in the US, the Samsonite Company could only manage 5.9% in Asia and a fall of 19.3% in Europe.

In conclusion, the net profit margin has the most negative impact on ROE while the financial leverage has the most positive impact during 2008 to 2009. The net profit margin has the most negative impact on ROE during 2009 to 2011. The net profit margin has the most positive impact on ROE during 2011 to 2012. In general, the net profit margin has the most impact on ROE during the whole period and the impact of the assets turnover on ROE is always relatively slight.

4.3 Further decomposition of net profit margin

Net profit margin is a good indicator of the profitability, which can tell how much income a company derives per on money unit of sales. As from the last subchapter, it can be concluded that the net profit margin has the most impact on ROE. Therefore, it is better to decompose the net profit margin in order to find out the original factor of the change of ROE.

According to the formula (2.23), it is able to separate the effects of taxes and interests. Then the further decomposed ROE can be expressed by the tax burden, the interest burden, the EBIT margin, the assets turnover and the financial leverage. The following chart shows the three component ratios of net profit margin, which include the tax burden, the interest burden and the EBIT margin.
Chart 4.4 Component ratios of net profit margin

Chart 4.5 Impact of component ratios on net profit margin from 2008 to 2012

Chart 4.4 shows the evolution of the tax burden, interest burden and \textit{EBIT} margin from 2008 to 2012. Chart 4.5 is the impact of changing of three components on the change of net profit margin and it is obvious that the \textit{EBIT} margin has the biggest impact on the net profit margin during the whole period.
From 2008 to 2009, the tax burden and EBIT margin have the positive impact on the net profit margin and the negative impact of interest burden is not as strong as the other two component which results in the increase of net profit margin during this period. The EBIT margin is positive indicates that the company’s operations are more profitable during this period. And the positive impact of tax burden indicates that the company has a lower tax rate during this period because a higher value of the tax burden means the company can keep a higher percentage of its pretax profits.

From 2009 to 2010, the absolute change of EBIT still has the biggest impact on the absolute change of net profit margin, but the influence of the tax burden is higher. Both of the interest burden and EBIT margin have the negative impact on the net profit margin, while the positive impact of tax burden is slighter during this period. This results in the decreasing of the net profit margin. The impact of EBIT is relatively stronger than the other two ratios, which indicates that the Samsonite Company is less efficient in its operations than the previous years.

From 2010 to 2011, the three component ratios all have the negative impact on the net profit margin. This phenomenon indicates that the Samsonite Company not only has less efficient operating profitability, but also has higher cost of borrowing which results in the decreasing of the interest burden and higher tax rate which results in the decreasing of the tax burden.

From 2010 to 2012, the three component ratios all have the positive impact on the net profit margin and the EBIT margin still has the biggest impact on the net profit margin. The tax burden and interest burden indicates the lower tax rate and lower interest rate. This results in the increase of the net profit margin.

In conclusion, the EBIT margin ratio is the most important component of the decomposition of the net profit margin, which represents the subjective reason of the changing of the company’s net profit margin. While the tax burden and interest burden is also important, but they are the objective reasons because the tax rate and the interest rate depend on the financial
market and the government policy. Thus, in this case, the Samsonite Company should raise the efficiency of operations. In other words, under the situation where the company has nearly nothing to do with those objective factors, such as the tax burden and interest burden, it is recommended that the company should try its best to improve the quality of the company’s management.

To most businesses, the reasons and the goals include increasing profitability, improving customer service and business expansion. It is easy to find that the economic condition needs improving in 2008 and 2009. According to Samsonite Company’s actual situation, there may be three main recommendations. Firstly, expand the target customers. Because of the high prices of most products, not everyone is able to afford them. Therefore, it is beneficial to output more civilian products just like *American Tourister®* brand, which can make more people afford them and increase sales. Secondly, advertising is a efficient way. Through advertising, more and more people will know about Samsonite Company and its products. It will be better to employ prestigious people to advocate the products. Thirdly, continuous innovation is important. Introduce new and innovative product designs, adapted to the needs of consumers in different markets, whilst maintaining the core values of lightness, strength and functionality. Only by creating newer and better products can Samsonite Company perpetuate an economic boom.
5. Conclusion

The objective of this thesis is using financial analysis methodology to find out the real condition of Samsonite Company from 2008 to 2012 and the reason that is resulted in this condition. The useful suggestions are also mentioned.

The thesis is mainly divided into three chapters.

In the second chapter, the four main methods of financial analysis are described, which includes common-size analysis, factor analysis, financial ratio analysis, and pyramidal decompositions. The common-size analysis method pays attention to analyzing the financial statement data and their changes over the time. The factor analysis method is usually used to analyze great number of interrelated variables and is a type of a data reduction tool. The financial ratio analysis method compares the financial data in the form of financial ratios so that assessing to the financial health of the company. The pyramidal decompositions method makes it possible to analyze what drives the value of financial ratios.

In the third chapter, the key financial data of Samsonite Company from 2008 to 2013 are presented. There are several charts showing the changes of these data during the whole period. As the net sales of Samsonite Company has decreased from 2008 to 2009 and has increased from 2009 to 2013. Attention is paid to the financial ratio analysis in this chapter. From the liquidity ratios, it can be known that Samsonite Company’s ability to meet its short-term obligation becomes better from 2008 to 2009, while the situation gets a little worse from 2009 to 2012. From the solvency ratios, it can be known that Samsonite Company’s total debt is extremely high in 2008 which is not good for its creditworthiness. Thus, the advice is that it had better reduce the total debt financing and improve the efficiency of the fund utilization. From activity ratios, it can be known that the efficiency of Samsonite Company’s management of assets has decreased from 2008 to 2009. From the profitability ratios, it can be known that almost every profitability ratio is the highest in 2009 except for the operating profit margin.
In the fourth chapter, the combination of financial ratio analysis, pyramidal decompositions and influence quantification method is used in order to analyze the profitability of Samsonite Company. First of all, the ROE is decomposed into three parts, including the net profit margin, the assets turnover, and the financial leverage. Then, it can be found out that the net profit margin has the biggest impact on the value of the ROE. In order to find out the final reason for every year’s changing of profitability, the net profit margin is decomposed further into three parts, including the tax burden, the interest burden and the EBIT margin. Finally, the conclusion can be drawn that the EBIT margin ratio is the original factor of the change of the ROE.
Bibliography


Electronic Bibliography

Samsonite’s Balance Sheet. Available on

Samsonite’s Cash Flow. Available on

Samsonite Company. Samsonite’s annual report of 2011. Available on

Samsonite Company. Samsonite’s annual report of 2012. Available on

Samsonite’s Financial Ratios. Available on

Samsonite’s Profit/Loss. Available on
List of Abbreviations

<table>
<thead>
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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>ROCE</td>
<td>Return on Capital Employed</td>
</tr>
<tr>
<td>EBIT</td>
<td>Profit before Interest and Tax</td>
</tr>
<tr>
<td>EBT</td>
<td>Profit before Tax</td>
</tr>
<tr>
<td>EAT</td>
<td>Profit after Tax</td>
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Ostrava dated 2015

Yuan, Tian
List of Annexes

Annex 1: Balance Sheet of Samsonite Company from 2008 to 2013


Annex 3: Cash Flow Statement of Samsonite Company from 2008 to 2012

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Annex 6: Net sales by brand from 2010 to 2012

Annex 7: Net sales by product category from 2010 to 2012

Annex 8: Computation of the decomposition of ROE

Annex 9: Computation of decomposition of net profit margin
Annex 1 Balance Sheet

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<td>124,782</td>
<td>127,975</td>
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<td>Current assets</td>
<td>474,571</td>
<td>567,784</td>
<td>722,527</td>
<td>611,367</td>
<td>713,367</td>
<td>835,358</td>
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<tr>
<td>Other assets</td>
<td>500,370</td>
<td>52,296</td>
<td>817,692</td>
<td>805,173</td>
<td>963,973</td>
<td>944,186</td>
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<td><strong>Total assets</strong></td>
<td>1,031,445</td>
<td>1,139,370</td>
<td>1,665,001</td>
<td>1,544,546</td>
<td>1,813,164</td>
<td>1,934,891</td>
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<td>Long-term liabilities</td>
<td>271,340</td>
<td>412,426</td>
<td>508,030</td>
<td>242,946</td>
<td>28,032</td>
<td>240,392</td>
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<td>Current liabilities</td>
<td>2,207,923</td>
<td>335,407</td>
<td>416,763</td>
<td>383,469</td>
<td>493,539</td>
<td>501,743</td>
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<td><strong>Total liabilities</strong></td>
<td>2,479,263</td>
<td>747,833</td>
<td>924,793</td>
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<td>Share capital</td>
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<td>22,200</td>
<td>22,214</td>
<td>14,071</td>
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<td>Reserves</td>
<td>-1,470,018</td>
<td>369,337</td>
<td>717,994</td>
<td>904,060</td>
<td>1,037,522</td>
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<td><strong>Total Equity</strong></td>
<td>-1,447,818</td>
<td>391,537</td>
<td>740,208</td>
<td>918,131</td>
<td>1,051,593</td>
<td>1,192,756</td>
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Major items

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<tr>
<td>Inventory</td>
<td>198,206</td>
<td>113,227</td>
<td>222,704</td>
<td>236,957</td>
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<td>Total debt</td>
<td>1,426,988</td>
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<td>258,741</td>
<td>11,767</td>
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Annex 2 Income Statements

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<tr>
<td>Revenue</td>
<td>1,249,565</td>
<td>1,029,374</td>
<td>1,215,307</td>
<td>1,565,147</td>
<td>1,771,726</td>
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<td>Gross profit</td>
<td>624,186</td>
<td>515,550</td>
<td>689,679</td>
<td>856,948</td>
<td>951,005</td>
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<td>Operating profit</td>
<td>-1,397,464</td>
<td>-34,691</td>
<td>543,602</td>
<td>209,930</td>
<td>241,742</td>
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<td>Profit before taxation</td>
<td>-1,571,687</td>
<td>1,137,172</td>
<td>514,589</td>
<td>139,298</td>
<td>224,700</td>
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<td>Taxation</td>
<td>-147,671</td>
<td>-72,163</td>
<td>147,775</td>
<td>35,680</td>
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<td>Interest</td>
<td>9,717</td>
<td>6,902</td>
<td>11,792</td>
<td>16,870</td>
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<td>Net profit</td>
<td>-1,433,733</td>
<td>1,202,433</td>
<td>355,022</td>
<td>86,748</td>
<td>148,439</td>
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Annex 3 Cash Flow Statements

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td>42,410</td>
<td>34,441</td>
<td>64,502</td>
<td>202,992</td>
<td>193,033</td>
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<td>Net cash flow from return on investments &amp; Serving of finance</td>
<td>-6,476</td>
<td>-4,944</td>
<td>-9,689</td>
<td>-39,424</td>
<td>-47,650</td>
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<td>Interest Paid</td>
<td>-1,662</td>
<td>-260</td>
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<td>-1,791</td>
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<td>Dividend Paid</td>
<td>-4,814</td>
<td>-4,684</td>
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<td>-36,479</td>
<td>-45,859</td>
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<td>Taxes (Paid) / Refunded</td>
<td>-8,625</td>
<td>-21,022</td>
<td>-37,301</td>
<td>-54,143</td>
<td>-60,460</td>
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<td><strong>Net cash flow from investing activities</strong></td>
<td>-14,662</td>
<td>-29,515</td>
<td>-35,711</td>
<td>-179,181</td>
<td>-53,933</td>
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<td>Additions to fixed assets</td>
<td>-15,154</td>
<td>-29,575</td>
<td>-37,172</td>
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<td>-57,239</td>
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<td>Increase in investments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-141,953</td>
<td>0</td>
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<td>Others</td>
<td>492</td>
<td>60</td>
<td>1,401</td>
<td>713</td>
<td>3,306</td>
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<td><strong>Net cash flow before financing activities</strong></td>
<td>22,934</td>
<td>242</td>
<td>23,341</td>
<td>-12,668</td>
<td>93,241</td>
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<tr>
<td><strong>Net cash flow from financing activities</strong></td>
<td>-148,469</td>
<td>-25,966</td>
<td>-170,292</td>
<td>-16,514</td>
<td>-64,652</td>
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<tr>
<td>New loans</td>
<td>65,560</td>
<td>17,031</td>
<td>2,766</td>
<td>21,034</td>
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<td>Loans repayment</td>
<td>-17,644</td>
<td>-38,330</td>
<td>-384,021</td>
<td>-1,069</td>
<td>-18,793</td>
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<td>Equity financing</td>
<td>106,115</td>
<td>17</td>
<td>216,353</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Increase (decrease) in cash &amp; cash equivalents</td>
<td>176,965</td>
<td>-21,040</td>
<td>-141,561</td>
<td>7,297</td>
<td>74,448</td>
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<tr>
<td>Cash &amp; cash equivalents at beginning of year</td>
<td>86,913</td>
<td>290,533</td>
<td>285,798</td>
<td>141,259</td>
<td>151,399</td>
</tr>
<tr>
<td>Net cash flow due to change in exchange rate / Others</td>
<td>26,655</td>
<td>16,305</td>
<td>-2,978</td>
<td>2,843</td>
<td>-500</td>
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<tr>
<td>Cash &amp; cash equivalents at end of year</td>
<td>290,533</td>
<td>285,798</td>
<td>141,259</td>
<td>151,399</td>
<td>225,347</td>
</tr>
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### Annex 4 Financial ratios

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<tbody>
<tr>
<td><strong>Profitability ratios</strong></td>
<td></td>
<td></td>
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<tr>
<td>Operating profit margin</td>
<td>-111.84%</td>
<td>-3.37%</td>
<td>44.73%</td>
<td>13.41%</td>
<td>13.64%</td>
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<tr>
<td>Net profit margin</td>
<td>-114.74%</td>
<td>116.81%</td>
<td>29.21%</td>
<td>5.54%</td>
<td>8.38%</td>
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<tr>
<td>ROA</td>
<td>-139.00%</td>
<td>105.53%</td>
<td>21.32%</td>
<td>5.62%</td>
<td>8.19%</td>
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<tr>
<td>ROE</td>
<td>99.03%</td>
<td>307.11%</td>
<td>47.96%</td>
<td>9.45%</td>
<td>14.12%</td>
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<td>ROCE</td>
<td>121.87%</td>
<td>149.56%</td>
<td>28.44%</td>
<td>7.47%</td>
<td>11.25%</td>
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<td><strong>Liquidity ratios</strong></td>
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<td>Current ratio</td>
<td>21%</td>
<td>169%</td>
<td>173%</td>
<td>159%</td>
<td>145%</td>
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<tr>
<td>Quick ratio</td>
<td>13%</td>
<td>136%</td>
<td>120%</td>
<td>98%</td>
<td>88%</td>
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<tr>
<td>Cash ratio</td>
<td>4%</td>
<td>87%</td>
<td>69%</td>
<td>37%</td>
<td>31%</td>
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<tr>
<td><strong>Solvency ratios</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Debt-to-equity</td>
<td>-98.60%</td>
<td>67.90%</td>
<td>35.00%</td>
<td>1.30%</td>
<td>3.10%</td>
</tr>
<tr>
<td>Debt-to-assets</td>
<td>138.30%</td>
<td>23.30%</td>
<td>15.50%</td>
<td>0.80%</td>
<td>1.80%</td>
</tr>
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<td>Financial leverage</td>
<td>-71.20%</td>
<td>291.00%</td>
<td>224.90%</td>
<td>168.20%</td>
<td>172.40%</td>
</tr>
<tr>
<td>Interest coverage ratio</td>
<td>-843.80%</td>
<td>-35.90%</td>
<td>3375.60%</td>
<td>563.00%</td>
<td>6155.90%</td>
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<td><strong>Activity ratios</strong></td>
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<tr>
<td>Fixed assets turnover</td>
<td>2211.50%</td>
<td>2088.40%</td>
<td>974.00%</td>
<td>1223.00%</td>
<td>1304.40%</td>
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<tr>
<td>Inventory turnover</td>
<td>630%</td>
<td>909%</td>
<td>546%</td>
<td>661%</td>
<td>638%</td>
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<tr>
<td>Total assets turnover</td>
<td>121.10%</td>
<td>90.30%</td>
<td>73.00%</td>
<td>101.30%</td>
<td>97.70%</td>
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### Annex 5 Net sales by region from 2010 to 2012

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<thead>
<tr>
<th>Region</th>
<th>2010 US$'000</th>
<th>%</th>
<th>2011 US$'000</th>
<th>%</th>
<th>2012 US$'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>405,143</td>
<td>33.30%</td>
<td>578,316</td>
<td>37.00%</td>
<td>684,154</td>
<td>38.60%</td>
</tr>
<tr>
<td>Europe</td>
<td>406,696</td>
<td>33.50%</td>
<td>479,089</td>
<td>30.60%</td>
<td>465,383</td>
<td>26.30%</td>
</tr>
<tr>
<td>North America</td>
<td>302,968</td>
<td>24.90%</td>
<td>388,190</td>
<td>24.80%</td>
<td>499,924</td>
<td>28.20%</td>
</tr>
<tr>
<td>Latin America</td>
<td>88,960</td>
<td>7.30%</td>
<td>108,601</td>
<td>6.90%</td>
<td>112,556</td>
<td>6.40%</td>
</tr>
<tr>
<td>Corporate</td>
<td>11,540</td>
<td>1.00%</td>
<td>10,951</td>
<td>0.70%</td>
<td>9,709</td>
<td>0.50%</td>
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<tr>
<td>Net sales</td>
<td>1,215,370</td>
<td>100.00%</td>
<td>1,565,147</td>
<td>100.00%</td>
<td>1,771,726</td>
<td>100.00%</td>
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</table>

### Annex 6 Net sales by brand from 2010 to 2012

<table>
<thead>
<tr>
<th>Brand</th>
<th>2010 US$'000</th>
<th>%</th>
<th>2011 US$'000</th>
<th>%</th>
<th>2012 US$'000</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td><strong>Samsonite</strong></td>
<td>917,792</td>
<td>75.50%</td>
<td>1,223,353</td>
<td>78.20%</td>
<td>1,259,706</td>
<td>73.10%</td>
</tr>
<tr>
<td><strong>American Turister</strong></td>
<td>161,117</td>
<td>13.30%</td>
<td>249,873</td>
<td>16.00%</td>
<td>354,563</td>
<td>20.00%</td>
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<td><strong>Lacoste / Timberland</strong></td>
<td>53,934</td>
<td>4.40%</td>
<td>4,661</td>
<td>0.30%</td>
<td>29,623</td>
<td>1.70%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>82,464</td>
<td>6.80%</td>
<td>87,260</td>
<td>5.50%</td>
<td>91,834</td>
<td>5.20%</td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td>1,215,307</td>
<td>100.00%</td>
<td>1,565,147</td>
<td>100.00%</td>
<td>1,771,726</td>
<td>100.00%</td>
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### Annex 7 Net sales by product category from 2010 to 2012

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<th>2012</th>
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<tr>
<td></td>
<td>US$'000</td>
<td>%</td>
<td>US$'000</td>
</tr>
<tr>
<td>Travel</td>
<td>885,944</td>
<td>72.90%</td>
<td>1,186,683</td>
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<tr>
<td>Business</td>
<td>110,321</td>
<td>9.10%</td>
<td>189,582</td>
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<tr>
<td>Casual (excl. Lacoste &amp;)</td>
<td>58,279</td>
<td>4.80%</td>
<td>77,188</td>
</tr>
<tr>
<td>Casual (Lacoste &amp; Timberland only)</td>
<td>53,934</td>
<td>4.40%</td>
<td>4,661</td>
</tr>
<tr>
<td>Accessories</td>
<td>50,186</td>
<td>4.10%</td>
<td>70,786</td>
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<tr>
<td>Other</td>
<td>56,643</td>
<td>4.70%</td>
<td>36,247</td>
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<tr>
<td>Net sales</td>
<td>1,215,307</td>
<td>100.00%</td>
<td>1,565,147</td>
</tr>
</tbody>
</table>
Annex 8 Computation of the decomposition of ROE

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Net profit margin</td>
<td>-114.74%</td>
<td>116.81%</td>
<td>29.21%</td>
<td>5.54%</td>
<td>8.38%</td>
</tr>
<tr>
<td>Assets turnover</td>
<td>121.10%</td>
<td>90.30%</td>
<td>73.00%</td>
<td>101.30%</td>
<td>97.70%</td>
</tr>
<tr>
<td>Financial leverage</td>
<td>-71.24%</td>
<td>291.00%</td>
<td>224.94%</td>
<td>168.23%</td>
<td>172.42%</td>
</tr>
</tbody>
</table>

Annex 9 Computation of the decomposition of net profit margin

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Tax burden</td>
<td>110.30%</td>
<td>94.00%</td>
<td>141.62%</td>
<td>141.13%</td>
<td>150.57%</td>
</tr>
<tr>
<td>Interest burden</td>
<td>-125.78%</td>
<td>110.47%</td>
<td>42.34%</td>
<td>8.90%</td>
<td>12.68%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>100.62%</td>
<td>99.39%</td>
<td>97.71%</td>
<td>87.89%</td>
<td>99.47%</td>
</tr>
</tbody>
</table>