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FINANCIAL ANALYSIS OF THE ENTERPRISE IN THE CONTEXT OF ENTERPRISE'S INNOVATIONS

Abstract: Enterprise's innovations are an important part of strategic enterprise's management. Good and effective management of the enterprise, achievement the required level of performance, as well as long-term prosperity and success is not possible without a detailed knowledge of the enterprise's financial situation. The financial situation reflects the quality and output of the enterprise, the level of its marketing and commercial activities, as well as its innovative activities. Information is essential for proper strategic management. The sources of these information are enterprise's processes that are reflected in the financial statements of the enterprise. The financial analysis of the enterprise is a tool to turn this summary information into the efficient analytical information. The aim of the paper is to analyze the financial situation and financial performance of competing enterprises in the selected sector in the context of enterprise's innovations. The result of the research is the finding that the conclusions of financial analysis have a significant impact on the evaluation of the financial situation and financial performance of the enterprise in terms of understanding the financial health of the enterprise, introducing enterprise's innovations, evaluating market position of the enterprise, establishing a suitable enterprise's strategy and taking actions to improve the financial situation and financial performance of the enterprise.

Keywords: Financial Analysis, Strategic Management, Innovation, Enterprise

1. INTRODUCTION

Financial analysis is an indispensable activity that allows the enterprise to know its financial situation, market position compared to other competitors, as well as helps to predict the state of financial health in the future. When adverse events are identified, it enables the enterprise to respond to their causes in a timely manner, to set up an appropriate enterprise's strategy and to take the necessary corrective action. In order to avoid an unfavorable financial situation, which is often linked to bankruptcy and extinction, it is necessary to identify and eliminate the weaknesses in the enterprise's management in a timely manner, as well as to explain the reasons that prevent the enterprise from achieving better results. When analyzing the position of the enterprise on the market, it is important to gain an overview of the financial situation of the main competitors in the sector, to reveal reserves in the management of the enterprise in comparison with competitors, and then to strategically plan the further development of the enterprise. A detailed knowledge of the financial situation of the enterprise enables to manage the enterprise in a quality and efficient way, to achieve the required level of management as well as long-term prosperity and success. The financial situation reflects the quality and volume of the enterprise's production, the level of its marketing and commercial activities, as well as its innovative activities. Innovation is an important part of strategic enterprise's management. For strategic management of the enterprise is necessary

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information obtained from financial analysis of financial statements. Financial analysis has an irreplaceable role in analyzing the financial situation of enterprises. Every enterprise needs to know its management, its position compared to its competitors, as well as its projected financial health forecast for the future, so that it can take the necessary measures in time and set the appropriate enterprise's strategy. The forms of financial analysis hidden in economic processes have existed since the beginning of the exchange and the emergence of the market itself. Already in ancient societies, where the market began to operate and there was a single currency, intuitive considerations arose that had a similar basis to the current financial analysis. Initially, these were hand-made analyzes of the trader for his own needs. The structure and methods of financial analysis have gradually evolved and improved, but its substance has ultimately been preserved. Financial analysis, as a modern tool of knowledge, originated in the USA, from where it gradually came to Europe and later to Slovakia. In Slovakia, until the end of 1992, the term "economic activity analyzes" was used in connection with financial analysis. Their structure consisted of binding indicators whose selection was subordinate to the centrally planned economy. The concept of financial analysis began to be used and established in Slovakia since approximately 1989. Gradual development, mainly related to the development of computer technology, has improved the methods and tools of financial analysis.

The aim of the paper is to analyze the financial situation and financial performance of competing enterprises in the selected sector in the context of enterprise's innovations.

2. LITERATURE REVIEW

Financial analysis is an analysis of any economic activity with the main task of money and time. In the case of the enterprise, financial analysis is a versatile analysis of its financial situation (Slosarova, & Blahusiakova, 2020). Financial analysis is a set of methods by which the economic situation of the enterprise can be determined and based on its results. It is an effective diagnostic tool for assessing the enterprise's financial health (Kotulic, Kiraly, & Rajcaniova, 2018). A financially healthy of the enterprise is one that can meet its enterprise's objectives now and in the future. From an economic point of view, this means consistently achieving the level of capital appreciation required by investors in view of the level of risk in the business area. The financial analysis evaluates the results of the enterprise's financial management achieved in the past, present and future. Its aim is to identify the financial health of the enterprise, to identify weaknesses that may lead to problems in the future and to determine the strengths on which the business can build. Financial analysis allows to assess the volume and quality of production, marketing activity, innovation structure, efficiency, economy, capacity utilization and other indicators. The results of the financial analysis have an impact on sustainable production as a means of generating innovations, considering environmental, economic, and social considerations (Germani, Luzi, Marilungo, Papetti, & Peruzzini, 2016). Innovation is a specific tool for entrepreneurs to use change as an opportunity to differentiate their entrepreneurship (Drucker, 2007). Innovation means the restoration of systems and processes in a closed circle (Schumpeter, & Swedberg, 1989). Innovation is the design, producing, technical, marketing and management activities associated with launching a new product or first commercially using a new process or device (Freeman, 2008). Innovation is a strategy-oriented change that brings benefits to customers and a blue ocean enterprise (Chan Kim, & Mauborgne, 2015). The strategic objective of any enterprise must be to achieve continuous process improvement in order to improve process performance (Cokins, 2004). Innovations in the launch of new products on the market can bring many benefits to the enterprise, such as gaining a positive image in the eyes of the public, obtaining a favorable position on the market early, choosing distribution channels, gaining quickly through low production costs (Synek et al., 2011). Financial analysis is a material dealing with the recapitulation and evaluation of the enterprise's results for the analyzed period, identifying and quantifying the determinants, prolonging the current development and the results achieved in the future and compressing all these activities into a proposal of measures designed to achieve the enterprise's objectives. (Zalai, 2016). The main objective of financial analysis is to identify the weaknesses of the enterprise, which can cause problems in the future, and at the same time identify the strengths that the enterprise can use in the future for its benefit. Therefore, financial analysis makes it possible to know the financial health of the enterprise by correctly interpreting the indicators resulting from the financial analysis. The implementation of the financial analysis requires an individual approach and the sequence of steps always results from the specific situation and intention of the financial analysis. The procedure of financial analysis includes preparation of financial analysis, realization of financial analysis and utilization of financial analysis outputs. Preparation of financial analysis means to determine its intent, subject, scope and possibilities, personnel representation, to prepare a timetable, prepare relevant data for financial analysis and select methods and means for its implementation. The actual implementation of financial analysis involves a sequence of steps that arise from the requirements and conditions of the enterprise. It includes the calculation of financial ratios of the analyzed enterprise, comparison of enterprise's indicators in time, space, between two or more enterprises and comparison with the plan, analysis of interrelations between indicators and proposal of measures for the analyzed enterprise (Kralovic, & Vlachynsky, 2011). The use of financial analysis outputs means adopting proposals to improve the enterprise's financial situation, predictions, plans and estimates for the future, changes in decisions and opinions in enterprise's activities, including enterprise's innovations. Financial analysis can be designed according to time orientation as retrospective or perspective. Retrospectively focused financial analysis (ex post) obtains sources of information mainly from the data contained in the financial statements of the enterprise, its main objective is to explain the current state of the enterprise by looking into the past. Prospective financial analysis (ex-ante) focuses on predicting the development of the enterprise's financial situation using appropriate financial indicators and methods of financial analysis (Vlachynsky

et al., 2009). For quality processing of retrospective and perspective financial analysis it is necessary to have access to information about the enterprise. The depth of the analysis varies depending on the access to the information. Important sources of information for financial analysis include financial statements, annual reports, professional press comments and official economic statistics (Penman, 2013). The most important source of information for financial analysis is accounting, which is compulsorily kept in each enterprise. Within accounting, the financial statements, which include the balance sheet, income statement and notes including a cash flow statement, are of importance in providing information. The balance sheet represents a clear arrangement of assets and sources of their coverage in monetary terms at a certain date. Data in the balance sheet express the state of the economic quantity. These quantities are referred to as state quantities. The balance sheet principle must be applied in the balance sheet, according to which the sum on the assets side must equal the sum on the liabilities side (Sedlacek, 2011). The balance sheet thus includes elements of assets, equity and liabilities. Assets are investments that are expected to generate benefits for the enterprise. On the contrary, the commitments express the creditors' claims for the benefits in question. Equity that is part of liabilities represents the proportion of equity of assets. Based on the structure of assets is evaluated and analyzed primarily liquidity of the enterprise. It means the ability of the enterprise to pay its liabilities. The structure of liabilities is the basis for the analysis of financial autonomy (degree of indebtedness) of the enterprise. The income statement is the main source of information on the profitability of the enterprise. It provides information on the costs, revenues and profit or loss of the enterprise, having a logical and material link to the balance sheet. Data from the income statement describe the course and result of the enterprise's reproduction process. At the same time, they point out factors that influenced the economic result of the enterprise. Source data from the income statement are of an interval character, cumulating from month to month. For financial analysis, it is very important to look at the financial flow of the enterprise and to determine whether the enterprise was always able to manage its cash flows so that it always had enough cash. The cash flow statement provides information from the financial statements on cash receipts (positive cash flows) and cash outflows (negative cash flows) made by the enterprise, which caused the cash balance at the end of the monitored period to change to the beginning of the accounting period. The cash flow statement is included in the notes to the financial statements. We can say that it displays flow values on a cash basis. It describes the course and results of the reproduction process in the enterprise.

3. DATA AND METHODOLOGY

The object of the research are two Slovak enterprises operating in the same sector. Selected analyzed enterprises deal with production and distribution of individually manufactured orthopedic-prosthetic devices. These are non-state specialized health care facilities, which are aimed at the customer group of physically disabled citizens, including persons with severe disabilities. Although enterprises do not reside in the same cities, they have many branches, technical workplaces and metering locations throughout the Slovak Republic, in order to increase the availability and efficiency of healthcare. Individual measurements are taken at measurement sites and orthopedic device tests are performed. The main products offered are orthopedic shoes, orthopedic insoles, limb orthoses, torso, head, limb prostheses, bandages and corsets. Each customer first registers in the filing cabinet appropriate office worker. Subsequently, according to the type of orthopedic device needed, the patient is given an orthopedic technician who takes the measures for making the device. The orthopedic aid is then made based on the measurements taken with the assistance of an orthopedic mechanic and a tailor. These enterprises have concluded contractual relations with all health insurance enterprises in the territory of the Slovak Republic. In order to maintain the required anonymity of enterprises, we used fictitious names of enterprises. The main object of the research is enterprise ALFA, Ltd. It was established in 1995 by registration in the Commercial Register. The enterprise focuses not only on the production and sale of orthopedic-prosthetic and rehabilitation devices, but also on medical-preventive care and counseling service for physically handicapped citizens. Its activity is certified by ISO 9001:2008 quality management system. It currently employs 28 people. Competing enterprise is BETA, Ltd., which provides comprehensive services in orthopedics and prosthetics since 1994. The enterprise gradually expanded its services to include outpatient care and rehabilitation. The enterprise has implemented a quality management system ISO 9001:2000, not only in the production part of the enterprise, but also in the outpatient. It currently employs 47 people. When evaluating enterprise's processes through financial analysis, we usually use two approaches, fundamental and technical analysis. Fundamental financial analysis is based on the evaluation of mainly qualitative data about the enterprise. Technical financial analysis focuses on quantitative processing of enterprise data using mathematical and statistical methods. Technical financial analysis includes analysis of absolute indicators, differential indicators, flow indicators, ratio indicators, analysis of models based on ratio indicators and analysis of indicator systems. Higher methods of technical financial analysis include point estimates, statistical tests, correlation coefficients, regression analysis, discriminant analysis and variance analysis. We will conduct a financial analysis of selected competing enterprises through differential indicators of liquidity, activity, profitability and indebtedness.

The subject of the paper is to assess is to evaluate the impact of the financial analysis of the financial situation and financial performance of the enterprise on knowledge of the financial health of the enterprise, the introduction and evaluation of enterprise's innovations, evaluating market position of the enterprise, establishing a suitable enterprise's strategy and taking actions to improve the financial situation and financial performance of the enterprise. Several methods of exploration were used in the paper, where epistemology was applied as a basic method of research. Standard methods of research, such as observation, synthesis, analysis, analogy, deduction, classification, and comparison presenting basic methodical approach to paper processing are applied. The knowledge gained using these research methods has created a

new, higher level of knowledge of research problems. Ways of understanding and explaining impact of financial analysis on enterprise's innovations, the inductive-deductive and analytic-synthetic logical scientific methods are used. Finally, financial analysis have a significant impact on the evaluation of the financial situation and financial performance of the enterprise in terms of understanding the financial health of the enterprise, introducing enterprise's innovations, evaluating market position of the enterprise, establishing a suitable enterprise's strategy and taking actions to improve the financial situation and financial performance of the enterprise.

4. RESULTS AND DISCUSSION

Selected enterprises must monitor their financial situation and financial performance. We will measure enterprise's financial health of ALFA, Ltd., through differential indicators of liquidity, activity, profitability and indebtedness of the selected enterprises for the period of years 2015-2019. We will quantify the financial indicators based on the data from the enterprise's financial statements. Subsequently, we compare the observed values of indicators of liquidity, activity, profitability and indebtedness with the selected enterprise from the same sector for the period of years 2015-2019.

Liquidity indicators measure how quickly an enterprise can convert its assets into cash. At the same time, they show the enterprise's ability to pay its short-term liabilities. In assessing whether an enterprise has adequate liquidity, an analysis of its past funding requirements, its current liquidity position, anticipated future financing needs, and options for reducing funding needs are required. We distinguish three levels of liquidity, namely quick liquidity, current liquidity and total liquidity. We calculate the liquidity financial indicators as a ratio of current assets to liquidity and short-term liabilities. In the financial analysis of the liquidity of ALFA, Ltd., we found that it reaches the values of liquidity indicators within the set recommended values or exceeds the recommended maximum during the reference period. Very high liquidity of the enterprise is related to the high values of equity, which accounts for up to 66.22% of total capital. Therefore, we can evaluate the very positive ability of the enterprise to pay its short-term liabilities because the enterprise does not have liquidity risk, it is in an excellent form when converting assets into cash and subsequent repayment of short-term liabilities. On the other hand, very high values of liquidity indicators are not desirable, because in this case they indicate that the enterprise does not use cash productively, it reduces the profitability of the enterprise and the enterprise could use it more efficiently to achieve higher profitability. Quick liquidity values of the enterprise in the referenced period indicate the good ability of the enterprise to immediately repay its liabilities, except in 2018, when the enterprise did not reach the recommended minimum due to quick liquidity, mainly due to low short-term payables. Current liquidity values followed a volatile trend. In all years, the requirement was met that the volume of financial assets and short-term receivables significantly exceeded the amount of short-term liabilities. The highest value of current liquidity was recorded in 2015, when the volume of financial assets and short-term receivables exceeded short-term liabilities up to 3.15 times. Even in the case of total liquidity, we noticed positive values above the recommended maximum. Current assets covered the short-term liabilities of the enterprise with a growing-declining year-on-year trend. The total liquidity was closest to the recommendations in 2018 with a value of 2.64 times and in 2016 of 2.75 times, when current assets covered short-term liabilities. Above-average values of total liquidity of ALFA, Ltd., indicate a higher volume of inventory than is necessary for the enterprise. In the enterprise there is an annual increase in the volume of inventory held in stock. In 2019, compared to the previous year, the stock increased by 62.38%. At present, the share of inventories held by the enterprise in stock makes up 21.85% of total assets. This tells us about the excess commitment of funds in inventories, and thus the enterprise is losing higher potential profits. The recommendation for ALFA, Ltd., is to reduce inventory levels through the introduction of digital patient use technology. In 2019, BETA, Ltd., achieved an immediate liquidity value of 0.24, a current liquidity value of 1.46 and a total liquidity value of 1.72. In terms of total liquidity, we noticed below-average values ranging from 1.11 to 1.72. Quick liquidity and current liquidity are within the recommended values, although they are 50% lower than ALFA, Ltd. Total liquidity is below the recommended value, which means that even after the transformation of inventories into cash, BETA, Ltd., would not have sufficient funds to cover its short-term liabilities and would have to sell long-term assets. The calculated liquidity indicators of ALFA, Ltd., are shown in Table 1.

Table 1: The liquidity indicators – ALFA, Ltd.

Indicator/Year	2015	2016	2017	2018	2019	Recommended Values
Quick Liquidity	0.7240	0.5666	0.4406	0.1264	0.5510	0.2-0.6
Current Liquidity	3.1472	2.2865	2.4208	2.0082	2.3702	1.0-1.5
Total Liquidity	3.7615	2.7465	3.1445	2.6363	3.1016	2.0-2.5

Source: Own processing based on Enterprise financial statements

Activity indicators express the ability of the enterprise to use the invested funds, to generate revenues (sales). When assessing the use of the deposited funds, it is necessary to focus either on the rate of turnover of the individual elements of the property or on the number of days (turnover period) during which the financial resources are tied in the individual elements of the property. Typical indicators are asset turnover time (expresses the ratio of assets in sales), asset turnover (expresses the ratio of sales in assets), inventory turnover time (expresses the ratio of inventories in sales), inventory turnover (expresses the ratio of sales in inventories), short-term receivables turnover time (expresses the ratio of receivables in sales) and period of repayment of liabilities (expresses the ratio of liabilities in sales). When analyzing

activity indicators, we observe how the enterprise manages its assets and how it affects profitability and liquidity. Indicators of turnover time of individual balance sheet elements are therefore more favorable for the enterprise, thus achieving lower values. In the financial analysis of the activity of ALFA, Ltd., we found that the asset turnover time, inventory turnover time and short-term receivables turnover time has a growing tendency, which is not favorable for the enterprise. The aim should be to reduce turnover time, because if the enterprise does not use the assets efficiently, it incurs excess costs and thus makes a lower profit. On average, the assets of the enterprise turn in 131 days per year. Since 2015, we can observe the increasing trend of this indicator, except in 2017, when its value fell to 124 days, due to the increase in sales of own products and services. The inventory turnover time increases from year to year, with the highest value reaching the enterprise in 2019, when the time required for the transfer of funds through production and commodity form again to cash takes 31 days. In the case of increasing inventory turnover time, we recommend that the enterprise reduce the increasing volume of inventory tied in the enterprise, because the shorter the inventory tied in the enterprise, the more advantageous for the enterprise. Turnover indicators show how many euros of sales produce 1 euro of assets or inventory. The aim of the enterprise should be to increase the value of these indicators. Total assets of the enterprise in 2019 turned 2.52 times, which means approximately every 143 days. The enterprise achieved in the period of years 2015-2019 higher annual sales than the average value of assets, and therefore we can evaluate the enterprise's performance as good. However, the asset turnover slowed in the monitored period from the original 2.88 turnovers in 2015 to 2.52 turnovers in 2019, which means approximately 18 days, which can be evaluated as a negative development, because the enterprise should increase the values of turnover indicators. Inventory turnover slowed in the period under review from approximately 18 to 12 turns per year. While in 2015 the inventory in the enterprise turned 18.49 times, approximately every 19 days, in 2019 one turnover of inventory took 31 days. Developments in inventory turnover can therefore also be assessed negatively. Therefore, the enterprise should focus on researching the causes of the slowdown in sales. Negatively we can evaluate the yearly increase of the short-term receivables turnover time in the enterprise except for 2017, when the value of this indicator decreased by 4 days, due to the reduction of short-term receivables. Period of repayment of liabilities has an increasingly declining year-on-year trend. We consider the development of this indicator positive, as its values to 2019 decreased by 20 days compared to the previous year. In order to ensure optimal short-term financing, the period of repayment of liabilities should be higher than the short-term receivables turnover time, which is not the case with ALFA, Ltd. High values of short-term receivables turnover time may mean that the enterprise has concluded commercial relations with customers whose payment discipline is not optimal. As the volume of short-term receivables, which represents on average up to 59.64% of assets, grows annually, the enterprise should strive to reduce their volume and urge their repayment to customers by shortening the maturity of issued invoices. Comparison of activity indicators of the selected enterprises will be performed from the point of view of the indicators of inventory turnover and period of repayment of liabilities. The enterprise BETA, Ltd., reached inventory turnover 24.68 in 2015, 23.90 in 2016, 19.44 in 2017, 14.06 in 2018, and 21.99 in 2019. In the enterprise ALFA, Ltd., we can evaluate the development of inventory turnover negatively, because it is a downward year-on-year development trend. Inventory turnover has slowed down gradually from 18.49 turns to 11.55 turns per year and is lower than BETA, Ltd. Inventories are turning faster at BETA, Ltd., on average 20.81 times a year. However, inventory turnover in this enterprise had a downward trend until 2018. A significant acceleration of inventory turnover occurred in 2019 from 14.06 turns to 21.99 turns per year, which means about 10 days. It follows that by accelerating the turnover of inventories, BETA, Ltd., achieves higher sales without increasing the demand for funds. The enterprise BETA, Ltd., reaches the lowest year-on-year value of the period of repayment of liabilities. This enterprise reached period of repayment of liabilities 22 days in 2015, 6 days in 2016, 9 days in 2017, 63 days in 2018, and 28 days in 2019. In 2018, the value of this indicator increased significantly by 54 days, which means approximately by 600%, mainly due to a significant increase in short-term trade payables. ALFA, Ltd., has a worse position than BETA, Ltd., because it shows higher value of period of repayment of liabilities. In 2019, however, in the enterprise ALFA, Ltd., we observe a significant decrease in the period of repayment of liabilities by 36.36% compared to the previous period, thus improving its position compared to BETA, Ltd. However, when assessing the evolution of the turnover indicators of ALFA, Ltd., over time, we could observe a decrease in the calculated values, which we evaluate as a negative trend, because the profitability. In the enterprise ALFA, Ltd., inventories turn more slowly, on average 15 times, while in the enterprise BETA, Ltd., inventories turn on average 20 times. ALFA, Ltd., should aim at more efficient planning of production and sales, thus avoiding excessive stockpiling. In monitoring the evolution of period of repayment of liabilities, ALFA, Ltd., had a worse payment discipline to its suppliers than BETA, Ltd. The enterprise ALFA, Ltd., deferred payment of invoices to suppliers on average 20 days longer than BETA, Ltd., thus creating a risk of disrupting supplier relations. The calculated activity indicators of ALFA, Ltd., are shown in Table 2.

Table 2: The activity indicators – ALFA, Ltd.

Indicator/Year	2015	2016	2017	2018	2019
Asset Turnover Time	125	128	124	133	143
Asset Turnover	2.88	2.81	2.90	2.70	2.52
Inventory Turnover Time	19	21	27	28	31
Inventory Turnover	18.49	17.25	13.21	12.98	11.55
Short-Term Receivables Turnover Time	75	78	74	75	77
Period of Repayment of Liabilities	37	55	45	55	35

Source: Own processing based on Enterprise financial statements.

Profitability indicators represent the ability of an enterprise to capitalize on invested capital and create new sources of financing. They relate the economic result to the resources that were used to achieve it. Their level reflects the development and level of indicators of liquidity, activity and indebtedness. When calculating profitability indicators, we consider profit after tax. The most important indicators include return on investments, return on equity, return on assets and return on sales. The values of profitability indicators in ALFA, Ltd., developed in a rising-declining year-on-year trend. The primary reason was the management's effort to improve profitability by expanding the product range to include specially folded 3D orthopedic insoles for various uses (hiking, golf, running, cycling, football, and skating). Positive reaction of buyers to the new range was an increase in sales of own products in 2019 compared to the previous year by 44.46%. At the last monitored period, all indicators recorded a significant increase in values over the previous year, which can be justified by the management's efforts to improve profitability through the expansion of the range sold. The aim of the enterprise is to continuously increase the values of profitability indicators. The return on investments reaches the highest percentage values in 2019 for the whole period under review. Compared to 2018, there was a significant increase of 24.73% in this indicator. It is desirable for the enterprise if the value of this indicator increases, so we can evaluate the increase positively. High return on equity is a positive signal for owners of enterprise. During the referenced period, the enterprise achieved return on equity of more than 60%, which reflects the high return on equity invested in the enterprise, except in 2018, when the shareholder contribution only appreciated by 31.64%. This was a year-on-year decrease of 31.31% compared to 2017, mainly due to a decrease in profit after tax. The evolution of the values of return on assets in 2019 compared to 2018 shows the effective use of the total assets of the enterprise. The increase in return on assets from 20.19% to 42.92% was positively influenced by a more significant increase in profit after tax by 234.21% compared to a milder increase in total assets of the enterprise by 54.59%. The market success of the enterprise is represented by the return on sales, which increased from 14.94% in 2015 to 17.80% in 2019 due to a sharp increase in profit after tax. The enterprise generated 0.18 euros of profit from 1 euro of sales in 2019. The aim of the enterprise ALFA, Ltd., is to continuously increase the values of profitability indicators, for example through the implementation of enterprise's strategy aimed at expansion. The enterprise plans to set up new distribution points and branches in Eastern Slovakia in the future. The enterprise can increase its profitability by reducing input costs into production, by concluding more advantageous supplier-customer relations. We propose to ensure the supply of material from several suppliers who are forced to offer lower input prices due to competitive pressure. In 2019, BETA, Ltd., achieved return on investments of 29.68%, return on equity of 42.49%, return on assets of 29.66%, and return on sales of 20.14%. Within the return on investments, ALFA, Ltd., achieved a higher rate of appreciation, which was able to generate 0.45 euros of profit from 1 euro, which is 0.15 euros more than BETA, Ltd. In terms of return on equity, ALFA, Ltd., can generate a higher rate of appreciation, which was able to generate 0.66 euros of profit from 1 euro, which is 0.23 euros more than BETA, Ltd. Within the return on assets, ALFA, Ltd., was more effectively used assets. ALFA, Ltd., was able to generate 0.45 euros of profit from 1 euro, which is 0.15 euros more than BETA, Ltd. BETA, Ltd., achieved a lower value for all profitability indicators compared, except for return on sales. Based on this indicator we can say that it has a better success in the market. In 2019, BETA, Ltd., generated 0.20 euros of profit from 1 euro, which is 0.02 euros more than ALFA, Ltd. The calculated profitability indicators of ALFA, Ltd., are shown in Table 3.

Table 3: The profitability indicators – ALFA, Ltd.

Indicator/Year	2015	2016	2017	2018	2019
Return on Investment	43.35%	36.45%	42.01%	20.19%	44.92%
Return on Equity	60.24%	59.43%	62.95%	31.64%	66.02%
Return on Assets	43.04%	36.31%	41.99%	20.19%	44.92%
Return on Sales	14.94%	12.93%	14.48%	7.48%	17.80%

Source: Own processing based on Enterprise financial statements.

Indebtedness indicators assess the overall financial structure of an enterprise and its ability to pay its debts. They allow to evaluate the share of equity and foreign capital in financing the needs of the enterprise and the impact of this share on economic results. When analyzing indebtedness indicators, we are looking for an optimal relationship between equity and foreign capital of the enterprise, which means capital structure. Therefore, we assess the ratio of own and external resources in financing commercial activities. A high proportion of own resources ensures the stability and independence of the enterprise, but on the other hand, at a low share, the enterprise is unstable and more vulnerable to market fluctuations and creditors' insecurity. Indebtedness is not always a negative characteristic of the enterprise, but it is true that the higher the indebtedness, the greater the risk of doing business and the more difficult to obtain external sources of financing. The selected indebtedness indicators are the degree of self-financing (expresses the ratio of equity in total capital), the degree of indebtedness (expresses the ratio of foreign capital in the total capital) and financial leverage (expresses the ratio of assets in equity). The enterprise ALFA, Ltd., wants to have the right ratio of own and external resources, because the growth of indebtedness can lead to the growth of the total profitability, which increases the market value of the enterprise, but on the other hand increases its financial instability. Overall, from the point of view of indebtedness indicators, the financial stability of the enterprise is good, because it reaches average to low indebtedness for the period of years 2015-2019. Degree of self-financing is a complementary indicator to the degree of indebtedness and their sum represents 100%. Based on this analysis we can conclude that the enterprise ALFA, Ltd., uses its own resources to finance its activities. The ratio of its own and external resources for the referenced period was 66:34 on average, which can be evaluated positively in terms of financial stability and independence of the enterprise. The financial leverage indicator shows an

average value for the monitored period of 1.51, which is not optimal in terms of compliance with the golden financing rule. The total capital of the enterprise should optimally be twice as high as equity. The closest to this value was ALFA, Ltd., in 2016, when the total capital of the enterprise was 1.64 times higher than equity. It represents the best value within the monitored period. The share of external resources used to finance the activities of the enterprise is in the recommended range of values from 31% to 50%, with the exception of 2015, when the assets of the enterprise were covered by external sources only 28.55%, mainly due to low achieved values of short-term payables. In terms of recommendations, it was a low value of degree of indebtedness, which could adversely affect the growth in profitability, and thus the market value of the enterprise. The enterprise achieved a low level of indebtedness ranging from 28.55% to 38.92%, and therefore it is low risk from the point of view of the creditors. The aim of the enterprise is to be creditworthy from the point of view of the creditors, therefore it seeks to maintain the stated share of own resources in total capital. When considering the inverse degree of self-financing indicator, we can evaluate that the enterprise ALFA, Ltd., realizes most of the financing of its needs from its own resources, which in 2019 reach a high value of 449 672 euros. Their share in total capital is up to 68.05%, which ensures high stability and independence of the enterprise. ALFA, Ltd., has zero creditworthiness throughout the referenced period because it has not drawn any current or long-term bank loans and borrowings to finance its activities. However, indebtedness does not always represent a negative characteristic of the enterprise. The enterprise ALFA, Ltd., has a higher prospect of profit and stability due to the increase in profit after tax in 2019 compared to the previous year by 243.91% and for that reason it should use a higher share of foreign capital for its development. The enterprise ALFA, Ltd., optimally contribute to higher profitability because the foreign capital is cheaper than equity. The enterprise BETA, Ltd., reached degree of indebtedness of 36.20% in 2015, of 26.98% in 2016, of 31.83% in 2017, of 34.85% in 2018, and by 30.21% in 2019. Degree of indebtedness of ALFA, Ltd., and BETA, Ltd., was in the same range of recommended values, and therefore their degree of indebtedness can be assessed as average. In 2018, the assets of BETA, Ltd., covered by external resources of 34.85%, while in 2019 the external resources decreased by 10.88%, resulting in a decrease in degree of indebtedness to 30.21%. In the enterprise ALFA, Ltd., we can also observe a positive decline in degree of indebtedness from 36.18% in 2018 to 31.95% in 2019, which was caused by a more significant increase in total capital by 54.59% compared to a more moderate increase in the enterprise's liabilities by 36.55%. The calculated indebtedness indicators of ALFA, Ltd., are shown in Table 4.

Table 4: The indebtedness indicators – ALFA, Ltd.

Indicator/Year	2015	2016	2017	2018	2019
Degree of Indebtedness	0.2855	0.3892	0.3330	0.3618	0.3195
Degree of Self-Financing	0.7145	0.6108	0.6670	0.6382	0.6805
Financial Leverage	1.3996	1.6371	1.4992	1.5668	1.4696

Source: Own processing based on Enterprise financial statements.

5. CONCLUSION

Good and effective management of the enterprise, achieving the required level of management, as well as long-term prosperity and success is not possible without a detailed knowledge of their own financial situation and financial performance. The financial situation and financial performance reflect the quality and volume of enterprise's output, the level of its marketing and commercial activities, as well as its innovative activities. Analysis of the financial situation and financial performance provides management with valuable information about the financial health of the enterprise, helps to identify weaknesses and strengths in management, pointing out the causes that affected the financial situation and financial performance, and then allows the timely take the necessary measures. The enterprises should monitor their financial situation and financial performance more often. The enterprises typically conduct financial analysis annually after the financial statements have been prepared for the purposes of the annual report. Nowadays, applications and service packages are available on the market to help enterprises monitor the financial situation and financial performance, find new customers, monitor the financial health of their business partners and, last but not least, they can compare with the competition, which gives space for further evaluation of their financial situation and financial performance. From the results of the analysis of the liquidity indicators, we conclude that ALFA, Ltd., is in excellent shape in converting assets into cash and subsequently repaying short-term liabilities. Because the enterprise achieved relatively high total liquidity values during the referenced period, which were well above the recommended limits, we recommend that the enterprise use the funds more productively to achieve higher profitability, especially by reducing excess inventory. From the results of the analysis of the activity indicators, we conclude that ALFA, Ltd., is not using its assets sufficiently efficiently even though it had increasing values of turnover indicators of assets, inventories and receivables. Therefore, the enterprise incurs excess costs and thus achieves lower profits. Because the volume of short-term receivables grows in the enterprise every year, we recommend striving to reduce the number of short-term receivables by timely claiming repayment of issued invoices to customers. Within the indicators of turnover assets, we rated the enterprise's performance as good, because the enterprise achieved higher annual sales than the average value of its assets. From the results of the analysis of the profitability indicators, we noticed a significant increase in values compared to the previous year, which we evaluate positively. The role of the enterprise is to improve profitability mainly by expanding the range of products sold and reducing input costs to production by concluding more advantageous supplier-customer relations. From the results of the analysis of the indebtedness indicators, we concluded that ALFA, Ltd., used mostly its own capital to finance its

commercial activities and did not draw any current or long-term bank loans and borrowings. In terms of indebtedness, we can talk about high financial stability and independence of the enterprise. In terms of comparison of selected financial indicators of ALFA, Ltd., with BETA, Ltd., we evaluate the competitive ability of ALFA, Ltd., in the same sector during the referenced period very positively.

Based on the research results, we can state that financial analysis have a significant impact on the evaluation of the financial situation and financial performance of the enterprise in terms of understanding the financial health of the enterprise, introducing enterprise's innovations, evaluating market position of the enterprise, establishing a suitable enterprise's strategy and taking actions to improve the financial situation and financial performance of the enterprise.

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