INTELLECTUAL OUTPUT 4
Case Study IO4- Microeconomic

Evertis Iberica, S.A: The challenger of the environmental responsibility

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1. Summary

Evertis is a Portuguese company owned by the IMG Group, functioning in the polymers industry since 1959. This group was a pioneer operator in PET film extrusion. Specifically, *Evertis Iberica S.A.* is focused on the production of semi rigid barrier films for packaging.

Nowadays, the environmental protection and growing concern in citizens and governs are a critical point that may affect to the production of this kind of packaging. Is the consumption reduction of polymers affecting to the economic situation of *Evertis Iberica S.A.*?

This question can be answered by analyzing the financial statements of *Evertis Iberica S.A.*, which presents several problems with its financing structure and it has a negative economic position. So, this company present problems on guaranteeing its financial situation and a low capacity to repay its debts.

2. Introduction

As it has been previously explained, this case study has been elaborated within the context of the 3economy+ project, in which three areas are represented: Melilla (Spain), Alentejo (Portugal) and Malta (Malta).

In the case of Alentejo (Portugal), the firm selected is *Evertis Iberica S.A.* (Industries Packaging and Containers) whose activity is focused on the production of semi rigid barrier films for packaging. The firm belongs to the Group IMG, aimed to the production of polymers and pioneers in PET film extrusion. Evertis is present in Portugal, Brazil and Mexico and is an expert in "the production of mono and multilayer semi rigid barrier films essentially for the food packaging industry, thermoformers and blisters" (Evertis, n.d.).

Evertis' mission is to develop PET packaging solutions enhancing global partnerships, providing superior client service and innovative solutions, fostering sustainability and being commitment with health, safety and environmental standards.

3. Aims

The firm's activity and performance are affected by their own decisions and strategies, but also by the environment, the political decisions of the governments and trends. Companies are social being so they are continuously interacting with other companies and operators. So their financial and economic situation is the result of several factors.

In this context, the financial and economic analysis is intended to study the company's evolution, its performance and its strangeness and weaknesses. So, analysing data coming from the financial statements it is possible to conclude whether a firm is stable, solvent and profitable enough to warrant a monetary investment (Rodríguez-Ariza et al., 2016).

So, the main objective of this case study is to investigate if *Evertis Iberica S.A.* is being affected by the growing environmental concern and protection and identify the main points of action that the company should focus on.

4. Method

The financial and economic analysis of companies is mainly based on the information coming from financial statements, specifically from the balance sheet and the income statement. The methodology of this kind of analysis is divided in several phases.

First, the balance sheet and the income statement must be transformed in order to give a better picture of the company. For this purpose, the vertical and horizontal analysis are applied to these financial statements (Rodríguez Ariza et al., 2016).

Specifically, the "vertical analysis" consists on calculate the percentages (weights) of the magnitudes included in the balance sheet and the income statement, so a column is added to the financial statements with these percentages, which are calculated in reference to the total magnitude (total assets, in the case of the balance sheet or, net sales in the income statement). On the other hand, the horizontal analysis obtains the interannual variation of each magnitude in the financial statements. The advantage of this procedure is that it facilitates the comparison between previous firm's data and with other companies and industry's average percentages.

When the percentages and variation are calculated we have the common-sized balance sheet and income statement, so, secondly the analyst must to study the information of these financial statements.

In order to analysis this data, a ratio analysis must be applied. A ratio describes the relationship between different items in the financial statements and it is important to consider financial ratios, related with the solvency, liquidity, indebtedness, operating ratios, most focused on the short-term activity as working capital and cash conversion cycle, and economic ratios, centred on profitability.

So, following these stages, this case study presents a brief summary of the company's characteristics. Then it is presented the financial analysis, for which we present the common-sized balance sheet and a list of financial ratios that are analysed according to the context of the firm. Finally, the economic analysis is performed through the study of the common-sized income statement and a series of economic ratios.

5. Results

Financial analysis

Table 1 presents Everti's common-sized balance sheet for years 2015 and 2016. As it can be observed by the vertical analysis, total assets of the company have increased in 2016 over a 20.14%. Concretely, in 2016 non-current assets present a slightly higher weight than current assets (50.08% and 49.92%, respectively). The weight of these elements differs in 2015, as current assets were higher than non-current assets. However, both elements have increased.

Within current assets, the highest element is the accounts receivables (43.50% and 44.88% in 2016 and 2015, respectively). Inventories are around 6% and cash is over 0.50%. This structure is common for companies operating in the industry sector.

Table 1. Common-sized balance sheet from *Evertis Iberica S.A.*, 2015 and 2016

ASSET	2016	%	2015	%	Variation
Non-current Assets	**60,241,625**	**50.1%**	**47,849,189**	**47.8%**	**25.9%**
Current Assets	**60,045,535**	**49.9%**	**52,271,422**	**52.2%**	**14.9%**
Inventories	7,041,232	5.8%	6,729,168	6.7%	4.6%
Account Receivables	52,327,748	43.5%	44,938,777	44.9%	16.4%
Cash	676,555	0.6%	603,477	0.6%	12.1%
TOTAL ASSET	**120,287,160**		**100,120,611**		**20.1%**

EQUITY AND LIABILITIES	2016	%	2015	%	Variation
EQUITY	**6,346,288**	**5.3%**	**75,373**	**0.1%**	**8319.8%**
LIABILITIES	**113,940,872**	**94.7%**	**100,045,238**	**99.9%**	**13.9%**
Long-term Liabilities	32,272,835	26.8%	20,526,956	20.5%	57.2%
Current asset	81,668,037	67.9%	79,518,282	79.4%	2.7%
Accounts Payables	28,669,118	23.8%	25,306,166	25.3%	13.3%
Short-term financial liabilities	50,809,946	42.2%	52,447,245	52.4%	-3.1%
TOTAL EQUITY AND LIABILITIES	**120,287,160**		**100,120,611**		**20.1%**

Source: Own elaboration derived from data from financial statements for Evertis Iberica, S.A.

Following with equity and liabilities, we can observe that Evertis is mainly financed by external fund both years (94.72% and 99.92%), representing equity the 5.28% in 2016 and 0.08% in 2015, over total assets. Equity and liabilities have increased.

If we analyse the composition of liabilities, during 2016 and 2015, long-term liabilities (26.83% and 20.50%, respectively) are lower that short-term liabilities

(67.89% and 79.42%, respectively). Within current liabilities, short-term loans are the highest element.

Considering, the whole analysis, this financing structure could be risky for the firm.

Table 2 summarizes financial ratios for Evertis. In this case, the firm present a positive value for solvency (current assets represent the 73.5% over current liabilities).

When the available assets are compared with current liabilities (liquidity), the value decreases until 24.6%. The same situation occurs with quick ratio, that compares cash with current liabilities, whose value very low (0.83%).

As it has been previously explained, Evertis is mainly financed by external funds (debt to equity), being enormously in debt (1795.4% and 132733%, in 2016 and 2015, respectively). Although, the increase of equity has improved this ratio (-98.6%).

Long-term liabilities represent the 39.52% in 2016 of current liabilities, so short-term debt ratio is higher that long-term debt ratio.

If we analyse working capital, it presents a negative value indicating that current liabilities cover part of non-current assets. Net liquid resources are also negative and higher than working capital, so operational financing needs are positive.

Cash conversion cycle is wide and Evertis need external financing on average during 130 days in 2016 to cover its exploitation cycle.

The inventories last on average 47 days in being sold, Evertis provides financing to its customers during 268 days and it last 184 days in pay to its suppliers.

The firm needs to revise its collection policy, in order to decrease it and decrease the external financing of the operating cycle.

Finally, if we analyse long-term equilibrium, Evertis would present problems on guaranteeing its financial situation as total assets are similar to total liabilities and it present a low capacity to repay its debts. It would necessary to change the firm's finance structure, indeed, with the increase on equity in 2016, Evertis is implementing this political change.

Table 2. Financial ratios for *Evertis Iberica S.A.* , 2015 and 2016

FINANCIAL ANALYSIS	2016	2015	Variation
Financial position and Corporate indebtedness			
Solvency	73.52%	65.74%	11.85%
Liquidity (acid test ratio)	24.56%	26.59%	-7.64%
Quick ratio	0.83%	0.76%	9.16%
Debt to equity or Indebtedness	1,795.39%	132,733.52%	-98.65%
Debt composition	39.52%	25.81%	53.08%
Long-term debt	508.53%	27,233.83%	-98.13%
Short-term debt	1,286.86%	105,499.69%	-98.78%
Short-term financial equilibrium			
Working Capital	-21,622,502	-27,246,860	-20.64%
Operational Financing Needs	30,699,862	26,361,779	16.46%
Net Liquid Resources	-52,322,364	-53,608,639	-2.40%
Cash Conversion Cycle	130.63	123.40	5.86%
Days inventory	46.90	47.19	-0.62%
Days receivables	267.56	251.43	6.41%
Days payables	183.82	175.22	4.91%
Long-term financial equilibrium			
Equity guarantee	105.57%	100.08%	5.49%
Short-term debt repayment capacity	0.47%	1.36%	-65.68%
Long-term debt repayment capacity	0.34%	1.08%	-69.05%
Time to return financial credits	213.72	73.35	191.37%

Source: Own elaboration derived from data from financial statements for *Evertis Iberica S.A.*

Economic analysis

Common-sized income statement for Evertis is presented in Table 7. As it can be observed, the firm present a negative net result during both years, 2016 and 2015.

The firm presents a gross margin over 18.09% and 19.16% in 2016 and 2015, respectively, indicating that the highest cost element is cost of sales, representing the 91.91% and 80.84%, respectively, over total revenues.

EBITDA margin decreases until a weight of 7.75% and 8.91%, respectively, mainly due to the weight of cost of personnel. When the amortization and depreciation are subtracted, EBIT margin decreases radically to 0.58% and 1.71%, respectively.

The financial result is negative so it makes negative the margin. This situation is indicating that Evertis need to revise the amortization politic and financial costs, originated by the financing structured.

Table 3. Common-sized income statement from Evertis Iberica, S.A., 2015 and 2016

	2016	%	2015	%	Variation
Revenues and other income	66,165,540	100.00%	63,222,781	100.00%	4.65%
Cost of sales	-54,195,719	81.91%	-51,112,219	80.84%	6.03%
GROSS MARGIN	**11,969,821**	**18.09%**	**12,110,562**	**19.16%**	**-1.16%**
Other Income operating	723,549	1.09%	1,378,751	2.18%	-47.52%
Cost of personnel	-6,343,696	9.59%	-6,370,442	10.08%	-0.42%
Other operating expenses	-,1219,466	1.84%	-1,483,140	2.35%	-17.78%
E.B.I.T.D.A.	**5,130,208**	**7.75%**	**5,635,731**	**8.91%**	**-8.97%**
Amortization and deprec.	-5,962,972	9.01%	-4,251,615	6.72%	40.25%
E.B.I.T.	**382,134**	**0.58%**	**1,084,116**	**1.71%**	**-64.75%**
Financial income					--
Financial cost	-2,992,176	4.52%	-3,309,737	5.24%	-9.59%
FINANCIAL results	**-2,992,176**	**-4.52%**	**-3,309,737**	**-5.24%**	**-9.59%**
GROSS results	**-2,610,042**	**-3.94%**	**-2,225,621**	**-3.52%**	**17.27%**
NET INCOME	**-2,553,735**	**-3.86%**	**-2,178,246**	**-3.45%**	**17.24%**

Source: Own elaboration derived from data from financial statements for *Evertis Iberica S.A.*

Considering ratios presented in Table 4, Evertis present a negative economic position, as both return on assets and return on equity present negative values.

Table 4. Economic ratios for Evertis, S.A., 2015 and 2016

ECONOMIC ANALYSIS	2016	2015	Variation
Gross Margin Ratio	18.09%	19.16%	-5.56%
Operating Profit Margin	0.58%	1.71%	-66.32%
Profit Margin (after tax)	-3.86%	-3.45%	12.02%
Return on assets	-2.12%	-2.18%	-2.42%
Return on equity	-40.24%	-2889.96%	-98.61%

Source: Own elaboration derived from data from financial statements for Evertis Ibérica S.A.

6. Discussion

The interpretation of the financial statements provides a systematic and efficient basis for the analysis of the business, since it allows (a) to know the origins that cause the current situation of the company, (b) to judge the policies developed by its managers, (c) to make comparisons to show their evolution and with other companies or with the sector, and, (d) to prepare a diagnosis on key issues of the organization in order to facilitate decision-making. In summary, it allows to the analyst to know the cause-effect relationships that have motivated the present situation, to distinguish those aspects that have been positive from those that have a negative significance, in order to detect strengths and weaknesses.

In this sense, Evertis presents financial tensions and a negative position, as both return on assets and return on equity present negative values and, although, the latest available financial data reflects a positive evolution of sales, but not of net results.

This company is confronting a change in their structure and in long-term it must deal with changes in the consumption patterns as the growing environmental concern and possible plastic limitations may affect to the sales of the company.

7. Conclusions and Recommendations

From the analyses performed, several conclusions can be highlighted. First, Evertis Iberica S.A. presents several problems with its financing structure and it has a negative economic position.

Second, Evertis presents problems on guaranteeing its financial situation as total assets are similar to total liabilities and has a low capacity to repay its debts. The levels of negative working capital and net liquid resources are affecting the normal functioning of the company. This implies that the liabilities that need to be paid within one year exceed the current assets over the same period. At the same time, the negative net liquid resources result in the increase of operational financing to attend to the payments.

Finally, it would necessary to change the firm's finance structure, indeed, with the increase on equity in 2016, Evertis is implementing this political change.

8. References

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