

FINANCIAL PERFORMANCE ANALYSIS OF THE COMPANY THROUGH PROFITABILITY RATIOS

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Abstract

Financial analysis involves applying methods and techniques of analysis to financial reports and other related data to obtain useful information. This information is regarded as a significant relationship between data and their trends, showing a company's performance and financial position, as well as the results or consequences of previous management decisions. Additionally, they are used to make forecasts that can directly impact the decisions of financial statement users. Current and potential investors are interested in a company's future profitability. Therefore, the continuity of a company's past profits should represent a prediction of future profits. Many external users, such as creditors, are interested in knowing the level of a company's solvency rather than its profitability.

Performance is a widely used concept in both literature and practice. In many cases, defining this concept is insufficient; often the focus is on measuring performance, which varies for each individual information user, rather than defining the concept of performance. Achieving performance involves meeting a primary necessary condition, namely, developing and implementing a specific system of indicators for measurement. In general, any economic entity, whether it is a micro-enterprise or a corporation, must have a current performance measurement system. This system is very important for the success and continuity of the entity's activities.

This paper aims to highlight how a company's performance can be estimated and determined, respectively, measuring the extent to which the company's objectives have been achieved over a period of time. From this perspective, unachieved objectives, the reasons for not achieving them, and possible improvement methods for the future can be observed. The strengths and weaknesses of the company are identified in the performance evaluation stage specific to financial management, resulting in an analysis of behavior and identifying methods to improve activities.

Keywords: *performance, profitability, financial analysis, financing, profit.*

1. Introduction

Being a plurivalent concept, financial performance provides the necessary information for interested information users. For example, in the case of companies listed on stock exchanges, the stock market performance of the enterprise is important, calculated using specific indicators such as stock prices and dividend payouts. The increase in the market value of a company is an opportunity for potential investors interested in investing.

Profitability can be defined as the ability of an enterprise to make a profit through the use of production factors and owned capital, regardless of their source. Profitability is one of the most comprehensive forms of expressing efficiency.

The two categories of indicators used in expressing and calculating profitability are profit and profitability rates. Profit attests to the absolute magnitude of profitability, while profitability rates show the extent to which the capital or resources used by the enterprise generate profit.

Financial performance is an objective that all managers strive to achieve. Economic information leads to a profound understanding of the situation, the entire economic context, and the factors that determine the fluctuation of certain indicators. Economic and financial analysis provides all the necessary information for management and leadership decisions. Additionally, it is the scientific discipline that enables the exposure of economic reality and the understanding of the company's current state, compared to previous periods or direct

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competitors, through the application of specific theories and methods for deciphering the language of accounting.

2. Technical approach to profitability rates

2.1. Profitability rates

Profitability rates are efficiency indicators calculated according to the input/output model, where the output represents various forms of profit, and the input is represented by capital (either own or permanent), resources consumed by the enterprise, parts of assets or total assets, and revenues. The profitability rate is a relative measure and expresses the extent to which a company's capital generates profit. Profitability rates can be expressed in different forms depending on the type of profit desired to be calculated (net profit or gross profit). This rate is useful for different categories of information users. For example, indicators calculated based on capital are of interest to existing or potential investors, while indicators calculated using consumed resources are of interest to managers of the company.

The main profitability rates are:

- Commercial profitability rate;
- Cost profitability rate;
- Economic profitability rate;
- Financial profitability rate.

2.1.1. Commercial profitability rate

The validation of a company's management quality is observed in the appreciation of its products in the market in which it operates, by consumers. This situation is highlighted by the turnover.

The commercial profitability rate refers to the efficiency of a company's commercial activity. It establishes a connection between profit and net turnover. Specialised literature¹ presents several models for calculating the commercial profitability rate, with the most commonly used being the following:

- a) $R_c = \frac{Pr}{CA} \times 100$
- b) $R_{Mb} = \frac{Mb}{CA} \times 100$
- c) $R_{cn} = \frac{Pn}{CA} \times 100$

, where:

R_c - commercial profitability rate;

R_{cn} - net commercial profitability rate;

R_{Mb} - gross sales margin rate;

CA - net turnover;

Pr - net profit to turnover;

M_b - gross margin to cost of goods sold;

P_n - net profit.

Current legislation² states that large companies are recommended to calculate and present, in the explanatory notes of their financial statements, indicators that show economic and financial performance. An example of such indicators is the gross profit margin rate of sales. Considering that these rates are calculated based on accounting profit, they will be influenced by the accounting policies applied by the company in question (inventory valuation method, fixed assets depreciation method, provision policy).

In international literature³, the net commercial profitability rate (Return on Sales) is commonly encountered. This is calculated based on information from the Comprehensive Income Statement and can be more easily calculated by external information users, as they do not have access to the management accounting information of the company in question. One factor that can affect the net commercial profitability rate is the tax policy adopted by the company, which can influence the size of the profit. In addition to this, the net commercial profitability rate can also be influenced by other operations carried out within the company, other than sales.

In order to obtain pertinent and relevant information regarding the company's performance, financial

¹ See V. Robu, I. Anghel, E.C. Șerban, *Analiza economico-financiară a firmei*, Economică Publishing House, 2014, http://opac.biblioteca.ase.ro/opac/bibliographic_view/200443?pn=opac%2FSearch&q=vasile+robu#multimediaArea.

² See Order of the Ministry of Public Finances no. 1402/2014 and Law no. 82/1991, republished.

³ See R.C. Higgins, *Analysis for Financial Management*, Business One Irwin, 1992.

analysts recommend analysing the evolution of the net commercial profitability rate over a period of 3 to 5 years. This should be compared with the sector's average rate of activity and the net commercial profitability rate for other companies in the same line of business as the analysed company.

Generally, the commercial profitability rate should be compared with:

- the sector average;
- the commercial profitability rate of the main direct competitor in the market;
- commercial profitability rates from previous periods;
- the level predicted by the Stock Exchange.

The main categories of information users interested in knowing the commercial profitability rate are: managers, investors, and the main competitors in the market.

2.1.2. The cost profitability rate

The cost profitability rate (or the rate of return on consumed resources) shows the relationship between the profit related to turnover and the total expenses related to sales. The factors influencing the rate of consumed resources are unit costs, unit selling prices, and the quantity sold across product structures.

Considering the reporting on operating activities, the cost profitability rate is calculated as follows:

$$R_r^{rc} = \frac{RE}{Che} \times 100^4$$

, where RE - operating result;

Che - operating expenses.

The factors influencing the rate of consumed resources are unit costs, unit selling prices, and the quantity sold across product structures.

Discussing based on the presented relationship and taking into account the other components of operating income, such as other operating revenues and expenses, variations in inventory production and fixed asset production, and real estate investments. Therefore, these elements should not be included in the calculation of the cost profitability rate since they are not related to the sale of goods.

Therefore, the agreed calculation variant for the rate of return on consumed resources is:

$$R_r^{rc} = \frac{Pr}{ChCA} \times 100^5$$

, where:

Pr - The profit related to turnover;

Ch - expenses related to turnover.

In specialised literature⁶ opinions stating that the optimal level of the cost profitability rate falls within the range of 9% to 15%.

2.1.3. Economic profitability rate

Economic profitability rate is one of the most important rates due to the fact that it provides the performance of the total assets usage of the company and the capital invested in obtaining it.

Specialised literature provides more computation methods, out of which we present:

$$R^e = \frac{\text{Operating result (RE)}}{\text{Operating assets (Ae)}} \times 100$$

or

$$R^e = \frac{\text{Gross operating result (EBE)}}{\text{Total assets (At)}} \times 100$$

or

$$R^e = \frac{\text{Gross Profit}}{\text{Total assets (At)}} \times 100$$

The economic profitability rate can be constructed using various types of results, as presented in the formulas provided, which leads to a different representation of the outcome:

- if operating profit is used, an economic profitability rate independent of fiscal policy and financing policy will be calculated;
- if gross operating surplus is used, an economic profitability rate independent of the policy regarding the depreciation of fixed assets will be calculated;

⁴ See V. Robu, I. Anghel, E.C. Șerban, *Analiza economico-financiară a firmei*, Economică Publishing House, 2014, http://opac.biblioteca.ase.ro/opac/bibliographic_view/200443?pn=opac%2FSearch&q=vasile+robu#multimediaArea.

⁵ *Ibidem*.

⁶ *Ibidem*.

• if gross operating surplus is used, an economic profitability rate useful for company managers will be calculated, resulting in a higher rate;

If we were to transpose the calculation relationship of the economic profitability rate into international theory and practice, this rate is known by the formula:

$$ROA = \frac{EBIT}{TA} \times 100$$

, where:

ROA - *return on assets*;

EBIT - *earnings before interests and taxes*;

TA - *total assets*;

The category of information users interested in the values provided by this rate are creditors.

Factorial analysis of economic profitability rate

$$R^e = \frac{\text{Gross profit}}{\text{Total assets}(At)} \times 100 = \frac{CA}{At} \times \frac{Pr}{CA} \times 100$$

2.1.4. The financial profitability rate

The financial profitability rate measures how profitable the investment made by the owners of capital has been. If the financial profitability rate is higher than the cost of equity capital, the company creates additional value for shareholders through its activities.

The financial profitability rate is determined using the following calculation method:

$$Rf = \frac{\text{Net profit}(Pn)}{\text{Equity}(Kp)} \times 100$$

Factorial analysis of the financial profitability rate

After DU PONT, as follows:

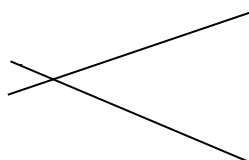
$$Rf = \frac{Pn}{Kp} \times 100 = \frac{Vt}{At} \times \frac{At}{Kp} \times \frac{Pn}{Vt} \times 100, \text{ where:}$$

$\frac{Vt}{At}$ - Total assets turnover ratio;

$\frac{At}{Kp}$ - The average equity multiplier or the financial leverage ratio;

$\frac{Pn}{Vt}$ - Net profit to RON 1 sales.

Figure 1. Factorial analysis model of the financial profitability rate



Managers can influence the financial profitability rate by monitoring and affecting the following elements:

- sales generated through asset utilisation;
- the method of financing assets from equity and debt;
- the net profitability of revenues.

When analysing and calculating the total asset turnover ratio, it's important to consider the company's industry sector. For better efficiency in total asset utilisation, this indicator should have a higher value. Similarly, the higher the equity multiplier, the higher the financial profitability rate, but it's worth mentioning that this indicator also reflects the company's level of indebtedness. A high level of indebtedness poses a significant risk to the company.

Another important point to mention is that this indicator is influenced by the company's industry sector and the assets it holds. For example, companies with a consistent cash flow from operating activities and a high level of predictability may result in a high equity multiplier. Net profit per unit of revenue reflects the company's ability to adopt an efficient pricing policy and its ability to control expenses.

Studies show that companies with a high net profit per unit of revenue tend to have a lower economic profitability rate, while those with a low net profit per unit of revenue tend to have a higher economic profitability rate. This is because of the practice of high commercial markup, which increases net profit per unit of revenue but has a pronounced effect on the total asset turnover ratio, unfavorably influencing it for the

company.

The factors influencing investors' interest are:

- the economic profitability rate of assets;
- the company's level of indebtedness.

Regarding the role of financial leverage on the level of financial profitability, we can present two scenarios:

1. „Risk - Profit” case: the company achieves additional economic performance beyond the cost of borrowing, increasing the remuneration of the company's shareholders as the financial leverage increases ($R_f > R_e$);

2. „Risk - Loss” case: obtaining loans increases the level of financial leverage, but does not generate an economic profitability of assets that exceeds the interest rate; thus, the financial profitability is lower than the economic profitability ($R_f < R_e$).

The financial profitability rate provides information to parties who invest in companies not listed on the capital market. Once these companies enter the capital market and become known to external information users, for shareholders, the possibility of making high profits from their investment merges with information about the stock price.

2.2. Breakeven point

The breakeven point (also known as the critical point or equilibrium point) represents the level of activity of a company at which the revenues from the sale of goods or services are equal to the variable expenses related to the volume of activity and total fixed expenses, resulting in zero profit.

Expenses are classified into fixed expenses and variable expenses. Variable expenses remain constant per unit of product because the total variable expenses increase directly proportional to the volume of sales, while fixed expenses vary per unit of product because total fixed expenses are constant and decrease inversely proportional to the increase in the volume of activity.

The breakeven point reflects the relationship between operating expenses and the volume of activity that must be achieved so that the revenues from the sale of goods cover the expenses incurred.

The methods of computation and analysis of the breakeven point varies depending on the study conducted: per product or for the entire enterprise.

The advantages arising from conducting and analysing profitability based on the breakeven point are:

- determining the production size at which the company's operations become profitable;
- showing the volume of production needed to achieve a certain level of profit;
- indicating the degree of utilisation of production capacity associated with the breakeven point;
- calculating the period of time in which the company will recover its expenses;
- highlighting the correlations between production dynamics and cost dynamics;
- determining the maximum profit that will be obtained under certain conditions.

2.3. The impact of profitability rate over a company's development

Many companies use internal analysis systems or standards that divide the impact on decisions affecting performance, total revenues, or shareholder forecasts into components. Regarding the analysis of a company's financial position, focusing on the importance and role of financial profitability rate, it starts from the relationship between assets, capital, and liabilities.

It is important for a company to understand the financial structure on which it can operate profitably, as well as the level of indebtedness it employs without having adverse effects on its financial profitability. Failure to meet this condition can lead to financial imbalance. Financial profitability is an indicator that is directly influenced by the efficiency of the capital employed (the rate of economic profitability), the commercial policy (the rate of commercial profitability), and the financial policy of the enterprise.

Profit reflects a portion of the enterprise's capital and is an important source of financing for the enterprise. It rewards the participation of capital owners through dividends. The growth of profit indicates the efficiency of the activity from the perspective of equity capital.

Rates of economic profitability and rates of financial profitability are extremely important for information users, but there are many difficulties in their use, some of which are represented by the result of the capital taken into account.

2.4. Analysis of Profitability Ratios at ZENTIVA S.A.

Zentiva S.A. is a pharmaceutical company. It produces, sales and develops a wide range of generic and OTC (over-the-counter) medicines.

The company's net turnover recorded an increase in 2021 compared to the previous year by approximately 22,57% (Net turnover 2021 = 683.865.264 RON, Net turnover 2020 = 557.960.940 RON). The average selling price of finished products and goods produced and marketed by ZENTIVA S.A. per unit sold recorded an increase of 12,74% during the analysed period (average selling price 2021 = 4,69 RON compared to average selling price 2020 = 4,16 RON).

The company's management categorises the price increase as a result of changing the product mix by significantly increasing the share of products related to hospitals and chronic diseases.

Table no. 1. Information on turnover ZENTIVA S.A.

Element	2020	2021
Net income of goods sales (mln RON)	540,4	667,9
Quantity sold (mln units)	129,8	142,4
Average selling price (RON / sold unit)	4,16	4,69

Source: Workings on the annual report of ZENTIVA S.A., at: <https://www.zentiva.ro/-/media/files/zentivacom/investors/ro/financial-reports/2021/aprilie>

The share of external sales in the total turnover decreased in 2021, from 43,2% (241,1 million RON in 2020) to 42,4% (290,2 million RON in 2021).

2.4.1. Turnover net profit analysis

Table no. 2. Status of operating profit ZENTIVA S.A.

Element	2020	2021
Turnover	557.960.940	683.865.264
Operating expenses	(506.450.323)	(625.778.854)
Operating profit	73.345.277	116.046.580

Source: Workings on the annual report of ZENTIVA S.A., at: <https://www.zentiva.ro/-/media/files/zentivacom/investors/ro/financial-reports/2021/aprilie>

Model: $Pr = CA \times pr$

Absolute change of the turnover profit indicator:

$$\Delta Pr = Pr_1 - Pr_0 = 116.046.580 - 73.345.277 = 42.701.303 \text{ RON}$$

This increase was mainly driven by the growth in turnover.

2.4.2. Analysis of the commercial profitability rate

Validation of a company's management quality is observed in the appreciation of its products on the market by consumers. This situation is highlighted by the turnover. The commercial profitability rate refers to the efficiency of a company's commercial activity. It connects profit with net turnover.

In the following, we will calculate the commercial profitability rate for ZENTIVA S.A. using the information presented above.

Computation formula: $R_c = \frac{Pr}{CA} \times 100$

Regarding 2020:

$$R_c = \frac{Pr}{CA} \times 100 = \frac{73.345.277}{557.960.940} \times 100 = 13,15\%$$

Regarding 2021:

$$R_c = \frac{Pr}{CA} \times 100 = \frac{116.046.580}{683.865.264} \times 100 = 16,97\%$$

$$\Delta R_c = R_{c1} - R_{c0} = 16,97 - 13,15 = +3,82\%$$

The level of commercial profitability rate is influenced by the structure of the sold production, the average selling price (excluding VAT), and the total unit cost. The increase in operating profit during the studied period signifies an enhancement in the commercial activity efficiency of the enterprise, in this case, rising by 58,22% compared to 2020. Generally, the growth in the commercial profitability rate related to operating activity reflects a favorable status and is primarily attributed to the adherence to the equation Sales Index > Expenditure Index. It is worth mentioning that the expenditure index slightly precedes the sales index (Expenditure Index = 123,56%, Sales Index = 122,57%).

Net commercial profitability rate

Computation formula:

$$R_{cn} = \frac{Pn}{CA} \times 100$$

Regarding 2020:

$$R_{cn0} = \frac{65635440}{557.960.940} \times 100 = 14,94\%$$

Regarding 2021:

$$R_{cn1} = \frac{105563554}{683.865.264} \times 100 = 15,39\%$$

$$\Delta R_{cn} = R_{cn1} - R_{cn0} = 15,39 - 14,94 = +0,45\%$$

For the analysis of the net commercial profitability rate, we have selected the indicator "Net Income/Loss for the Financial Year" from the Statement of Comprehensive Income. It can be observed that in 2020, the net commercial profitability rate increases due to the revaluation of buildings and land in amount of 21.227.460 RON, while in 2021, the net commercial profitability rate decreases due to the "Other elements of comprehensive income" element in amount of (337.035) RON. As we have outlined in the first part of the report, the company's fiscal policy influences this indicator. The net commercial profitability rate of ZENTIVA S.A. increased by 0,45 percentage points from 2020 to 2021, which represents a favorable situation for the company.

2.4.3. The analysis of the cost profitability rate

The rate of return on consumed resources, or the rate of return on costs, shows the relationship between the profit related to turnover and the total expenses related to sales. The factors influencing the rate of consumed resources are: unit costs, unit selling prices, and the volume of sales on product structures.

Computation formula: $R^{rc} = \frac{Pr}{ChCA} \times 100$

Regarding 2020:

$$R^{rc} = \frac{Pr}{ChCA} \times 100 = \frac{73.345.277}{506.450.323} \times 100 = 14,48\%$$

Regarding 2021:

$$R^{rc} = \frac{Pr}{ChCA} \times 100 = \frac{116.046.580}{625.778.854} \times 100 = 18,54\%$$

$$\Delta R^{rc} = R_1^{rc} - R_0^{rc} = 18,54 - 14,48 = +4,06\%$$

Regarding Zentiva S.A., following the analysis conducted, it is notable that the rate of return on consumed resources increases in 2021 compared to 2020 by 4,06 percentage points, which is a positive outcome for the company. This implies the efficient use of consumptions related to turnover (efforts), yielding the desired results (effects).

2.4.4. The analysis of economic profitability rate

The economic profitability rate shows the performance of the total assets used by the enterprise and the capital invested to obtain them.

Computation formula:

$$R^e = \frac{\text{Gross profit}}{\text{Total assets (At)}} \times 100$$

Regarding 2020:

$$R^e = \frac{\text{Gross profit}}{\text{Total assets (At)}} \times 100 = \frac{80549018}{1033264019} = 7,80\%$$

Regarding 2021:

$$R^e = \frac{\text{Gross profit}}{\text{Total assets (At)}} \times 100 = \frac{80549018}{119210366} = 11,36\%$$

$$\Delta R^e = R_1^e - R_0^e = 11,36 - 7,8 = +3,56\%$$

Factorial analysis of economic profitability rate

$$R^e = \frac{\text{Gross profit}}{\text{Total assets (At)}} \times 100 = \frac{CA}{At} \times \frac{Pr}{CA} \times 100$$

Table no. 3. Statement of profit before tax for ZENTIVA SA

Element	2020	2021
Total assets	1.033.264.019	1.049.605.515
Turnover	557.960.940	683.865.264
Profit before tax	8.0549.018	119.210.366

Source: Computation on the Annual report of the Administration Council of ZENTIVA S.A., at:

https://www.zentiva.ro/-/media/files/zentivacom/investors/ro/financial-reports/2021/aprilie-2022/scd_zentiva-raport-anual-2021-ro.pdf?la=ro-ro&hash=89104B445CAC4B064622249878FFA7CAF3F16BB

The modification of the indicator depending on:

1. The influence of changes in the total asset turnover:

$$\Delta \frac{CA}{AT} = \frac{CA1}{AT1} \times \frac{Pr0}{CA0} \times 100 - \frac{CA0}{AT0} \times \frac{Pr0}{CA0} \times 100 = +1,61\%$$

2. The influence of changes in the commercial profitability rate

$$\Delta R_c = \frac{CA1}{AT1} \times \frac{Pr1}{CA1} \times 100 - \frac{CA1}{AT1} \times \frac{Pr0}{CA0} \times 100 = +1,95\%$$

Based on the analysis conducted, it is noted that the economic profitability rate increased by 3,56% in 2021 compared to 2020, as a result of the significant influence of the increase in commercial profitability, in line with an acceleration of total asset turnover. The increase in the economic profitability rate in 2021 compared to the previous year reflects high performance of the funds invested in the company's activities.

In the analysed case, the total asset turnover expressed in the number of rotations is attributed to an optimal correlation between the dynamics of total assets (Total Asset Index = 101,58%), compared to that of sales (Sales Index = 122,57%).

As an efficiency ratio, we understand that it reveals appropriate management of economic resources within the company (Sales Index > Current Asset Index).

Thus, the asset turnover calculated as Total Assets over Sales had an influence of +1,61 percentage points on the increase in economic profitability rate. The main causes of this situation could be:

- avoiding excess acquisitions;
- utilising unused fixed assets;
- assessing the workforce to influence production rhythm;
- timely collection of receivables.

The commercial profitability rate is the main influencing factor, leading to an increase in the economic profitability rate by +1,91%. This is a result of the following:

- increasing sales;
- enhancing the company's bargaining power with suppliers and obtaining advantageous purchase prices;
- improving the sales structure by increasing the proportion of items with higher profit margins;
- accelerating inventory turnover;
- optimising expenses;
- adjusting commercial policies;
- avoiding excessive acquisitions;
- better asset management to prevent fixed asset depreciation;
- workforce qualification;
- reducing accounts receivable collection periods;
- accelerating current asset turnover;
- improving the return on fixed assets through their intensive use and considering their performance.

2.4.5. The analysis of financial profitability rate

The financial return rate indicates the measure to which the investment made by the owners of capital has been profitable. If the financial return rate is higher than the cost of equity, the company generates additional value for shareholders through its activities.

Computation formula:

$$Rf = \frac{\text{Net profit}(Pn)}{\text{Equity}(Kp)} \times 100$$

Regarding 2020:

$$Rf = \frac{\text{Net profit}(Pn)}{\text{Equity}(Kp)} \times 100 = \frac{65635440}{785364075} \times 100 = 8,36\%$$

Regarding 2021:

$$Rf = \frac{\text{Net profit}(Pn)}{\text{Equity}(Kp)} \times 100 = \frac{105563554}{890772594} \times 100 = 11,85\%$$

$$\Delta Rf = Rf_1 - Rf_0 = 11,85 - 8,36 = +3,49\%$$

Factorial analysis of the financial profitability rate

After DU PONT system, as follows:

$$Rf = \frac{Pn}{Kp} \times 100 = \frac{Vt}{At} \times \frac{At}{Kp} \times \frac{Pn}{Vt} \times 100$$

Figure 2. Model of factorial analysis of the financial profitability rate

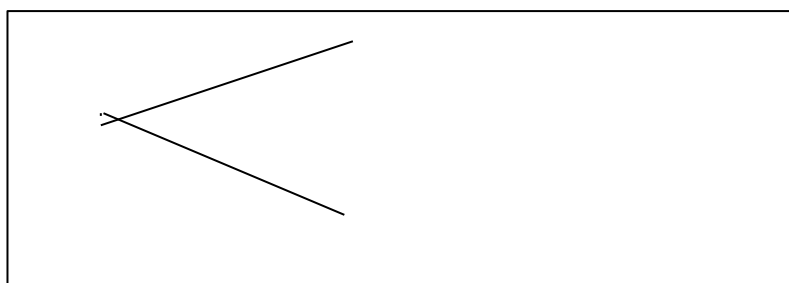


Table no. 4 Computation of the financial profitability rate for ZENTIVA S.A.

Crt. no	Indicators	Symbol	2020	2021	Indicator (%)
1	Total revenue (RON)	Vt	591.042.942	748.973.128	126,72%
2	Total assets (RON)	At	1.033.264.019	1.049.605.515	101,58%
3	Shareholders' equity (RON)	Kp	785.364.075	890.772.594	113,42%
4	Net profit (RON)	Pn	65.635.440	105.563.554	160,83%
5	Total asset turnover (number of turnovers)	Vt/At	0,57	0,71	126,72%
6	Equity multiplier	At/Kp	1,32	1,18	126,72%
7	Net profit per 1 RON of total revenue	Pn/Vt	0,11	0,14	126,92%
8	Financial profitability rate (percentage points)	Rf	8,36%	11,85%	141,80%

Source: authors' analysis

The influence of asset turnover ratio:

$$\Delta \frac{Vt}{At} = \left(\frac{Vt1}{At1} - \frac{Vt0}{At0} \right) \times \frac{At0}{Kp0} \times \frac{At0}{Kp0} \times \frac{Pn0}{Vt0} \times 100 = 2,068$$

The equity multiplier factor:

$$\Delta \frac{At}{Kp} = \frac{Vt1}{At1} \times \left(\frac{At1}{Kp1} - \frac{At0}{Kp0} \right) \times \frac{Pn0}{Vt0} \times 100 = -1,088$$

Net profit per 1 RON of total revenue (RON)

$$\Delta \frac{Pn}{Vt} = \frac{Vt1}{At1} \times \frac{At1}{Kp1} \times \left(\frac{Pn1}{Vt1} - \frac{Pn0}{Vt0} \right) \times 100 = 2,513$$

Financial profitability increased by 3.49 percentage points during the 2020-2021 period, which is a favorable economic and financial situation. This increase was mainly due to a 48% increase in net profit and a 13,42% increase in equity.

The asset turnover ratio represents total revenue per 1 RON of total assets. During the 2020-2021 period, this indicator increased by 0,14 rotations, leading to a 2,068 percentage point increase in financial profitability. The total revenue index of 127,72% was higher than the total asset index of 101,57%. The efficiency of total assets increased due to efficiency in the operating and/or financial areas;

The equity multiplier or financial leverage ratio decreased by 0,14 percentage points during the 2020-2021 period, resulting in a 1,088 percentage point decrease in financial profitability. The total asset index was lower than the equity index (101,58% compared to 113,42%). Therefore, there was an increase in the firm's leverage, having a negative impact on financial profitability because the leverage effect of borrowing is negative, indicating that the assumed financial risk is not under control;

The net profit margin represents net profit per 1 RON of total revenue and increased by 0,03 during the 2020-2021 period, leading to a 2,513 percentage point increase in financial profitability. In this case, the net profit index was higher than the total revenue index (160,83% compared to 126,72%), reflecting increased productivity and increased commercial profitability.

Managers can improve financial profitability by monitoring and influencing the financing of assets from equity and liabilities. Regarding the role of financial leverage on the level of financial profitability, considering the values of economic profitability rate of +3.56% and financial profitability rate of 11,85%, we deduct that the financial profitability rate is higher than the economic profitability rate. Therefore, we are in the "risk-profit" scenario, meaning that the company achieves economic performance exceeding the cost of borrowing, thus increasing shareholder remuneration.

3. Conclusions

From the analysis conducted on ZENTIVA S.A., it resulted that the company has a stable economic and financial situation, with most of the calculated indicators showing favorable increases for the company.

The most significant increase at the level of fixed assets is represented by the element Rights to use assets, which increased by 62,79% during the studied period. This increase is due to the fact that the company recognized, at the level of fixed assets: the leasing of cars for company personnel, the leasing of the assembly line, and the lease contract for the storage space held by FM Logistic. Overall, fixed assets recorded an increase of 2,27%.

Considering that ZENTIVA S.A.'s main activity is production, current assets have a very high proportion of the company's total assets - 76,77%. An important proportion of current assets is represented by Cash-pooling - receivables from affiliated parties. The company mentioned in the annual reports that in 2020, this category was included in the Cash and cash equivalents element, resulting in a 51,17% share of this element in 2020, transferring to the respective category in 2021.

Most of the Equity elements do not change during the studied period: Subscribed capital, Capital premiums, and Revaluation reserves. Legal reserves and other reserves recorded an increase of 3.397.329 RON.

Overall, equity recorded an increase of 13,42% during the studied period.

Regarding the absolute change in long-term liabilities elements, most of them recorded decreases, indicating that the company manages its debts correctly.

The proportion of Long-term liabilities in Total liabilities and equity is 10,87%. The proportion of current liabilities in Total Liabilities is 89,13%. Total liabilities in Total liabilities and equity represent 15,13%. There was a slight increase of 1,58% in the liability side.

Net sales revenue increased by 22,57% during the 2020-2021 period, which is a favorable situation for the company. A significant increase in revenue is represented by the element Other operating income, which recorded a growth of 153,98%.

Marketing expenses decreased considerably in 2021 compared to 2020 by approximately 50%, indicating that ZENTIVA S.A. did not allocate a large budget for advertising.

As seen in the previous financial statements, provisions were carried forward in 2021, reflected in the profit and loss account, resulting in a 763,13% increase in the element Reversals from/provisions expenses.

Operating profit recorded an increase of 58,22% during the studied period. Gross profit in 2021 was 119.210.366 RON, registering a 48% increase compared to 2020.

In 2020, the net commercial profitability rate increased due to the revaluation of buildings and land in the amount of 21.227.460 RON, while in 2021, the net commercial profitability rate decreased due to the element Other elements of the global result in the amount of (337.035) RON.

Regarding Zentiva, following the analysis conducted, it is noteworthy that the rate of return on consumed resources increased in 2021 compared to 2020 by 4,06 percentage points, which is a positive consequence for the company.

Following the analysis conducted, it is observed that the economic profitability rate increased by 3,56% in 2021 compared to 2020, as a result of the significant influence of the increase in commercial profitability, in line with an acceleration of total asset turnover. The increase in the economic profitability rate in 2021 compared to the previous year practically reflects the high performance of the funds brought in the company's activity.

Financial profitability increased by 3,49 percentage points during the 2020-2021 period, which is a favorable economic and financial situation, a growth that was mainly due to a 48% increase in net profit and a 13,42% increase in equity. The company aims to continue its activity and expand in the pharmaceutical market.

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