

How has El Corte Inglés evolved in the last decade?

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Abstract

The aim of this work is to show the different economic situations that El Corte Inglés has encountered in the last decade. In order to be able to explain these situations in depth, the main financial ratios of a company of this size will be calculated and compared.

For that purpose, through the balances between 2008 and 2017 and its subsequent treaty, the reader will be given the opportunity to draw his or her own conclusions regarding the project.

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1. Introduction

In order to carry out this project, an analysis of El Corte Inglés will be carried out. El Corte Inglés is a company with prestige at national level that is located in numerous Spanish cities. El Corte Inglés has been chosen because it is a company of considerable magnitude and from which abundant information can be obtained for the development of this report. Another reason is that what differentiates El Corte Inglés from its competitors is the ability to concentrate all the companies that make up the El Corte Inglés Group in the same center. This characteristic gives it a distinctive differentiating feature. Finally, it is not a publicly traded company, so the management of the company is not governed by the shareholders' most common interest, which is obtaining high returns. Otherwise, it pursues the interests of the heirs of the family that founded the company.

This financial analysis is carried out taking the information contained in the consolidated annual accounts of the El Corte Inglés Group from the year 2008 to 2017, which have been obtained through the SABI database. From these, the ratios necessary to reach the relevant conclusions and explain the economic evolution of Grupo El Corte Inglés have been calculated. The ratios are going to be the central figure of our work, since sufficient information can be extracted from them for the reader to obtain his own conclusions.

The objective of this research project is to carry out an analytical study of the accounts of the El Corte Inglés Group, both qualitatively and quantitatively. With this analysis, the economic evolution of El Corte Inglés during the last decade (2008-2017) will be made known. These years have been selected to show more clearly how the financial crisis suffered in Spain has affected it and which measures have been taken to overcome this situation.

2. Historical context

Before starting the economic analysis, it is vitally important to contextualize the readers of all the characteristic aspects of El Corte Inglés. It is a company with a long history, trajectory and a reference company a national level. The history of El Corte Inglés is detailed below.

History

In this section we are going to relate the life and the way in which the department stores have evolved from their birth in 1935 to the present day. The history of the evolution of department stores has been structured over decades, in this way the information is presented in a clear and orderly way, making it easier to read. The information to carry out this epigraph through two reliable sources such as the El Corte Inglés website and the book written by Javier Cuartas (2005, Biografía de El Corte Inglés), which specifically details the evolution that the entity has shown.

The most relevant information for decades is shown below:

- Decade of the 30's:

In the middle of this decade, the birth of El Corte Inglés by the hand of Cesar Rodriguez in 1935, when he bought a small tailoring shop, whose name was El Corte Inglés, located in Rompelanzas Street in Madrid. This purchase was made since Cesar made quite a fortune far from Spanish borders, exactly in Cuba, where he took ownership of the Commerce Bank of the Cuban capital, acquired shares of Banc Hispano Americano in the Spanish capital, invested in different businesses and bought real estate in Cuba. In this tailoring shop, it only occupies the ground floor. In the year 1936, Cesar's nephew, Ramón Areces, joined the tailoring shop (Cuartas, 2005, p.801).

At the end of this decade, in the year 1939, the acquisition of a building takes place, which would be the future headquarters of El Corte Inglés on Preciados Street in Madrid ([ECI, 2019](#)).

- Decade of the 40's:

In 1940 El Corte Inglés was incorporated as a limited company with the contribution of capital, exactly, at 50% in the amount of 1.000.000 pesetas, by Cesar Rodríguez and Ramón Areces. Ramón, due to the lack of resources to contribute the amount of half a million pesetas, had to be guaranteed by his uncle for the granting of the loan. Some time later, there was another capital increase, this time only by Cesar for an amount of

300,000 pesetas, which means that Cesar obtained the 61.5% of the company while Ramón would keep 38.5%(Cuartas, 2005, p.190).

Already in 1945 Ramon Areces, who is shareholder and manager of El Corte Inglés, together with his uncle Cesar, both manage the acquisition of an adjacent building in order to carry out an extension of the building where the El Corte Inglés store was located in Preciados Street. With this extension and the remodelling that the building suffered, they could have the totality of the floors of the building for the business, which led to the birth of a sale that is characteristic of the department stores and is denominated; *sale by departments*. At the end of this decade, El Corte Inglés founded Induyco SL, a textile supply company, distributor and marketer of chemical products, perfumes and all types of electronics, which supplied the department stores through all its subsidiaries during the years of insufficiency and also to meet the demand produced at that time (Cuartas, 2005, p.246).

- Decade of the 50's:

At the beginning of this decade an important event took place for El Corte Inglés, its transformation into a corporation under the name of "El Corte Inglés S.A". This journey began with a capital of 10,000,000 pesetas, bellowing the 63% to Cesar Rodriguez, while his nephew, Ramon Areces, owned the 25% and the remaining 12% was divided among José Manuel Carrera and Luis Areces. This fact caused El Corte Inglés to progress from a tailoring shop to a department store, the latter being the second to be established in Madrid. Another outstanding fact is the acquisition of the property of numbers 9 and 11 from Tetuán Street and number 5 of the Preciados Street for the extension of the department stores in 1955. The same people who formed the administrative board of El Corte Inglés transformed Induyco in a public limited company, a subsidiary of El Corte Inglés, with a capital of 1,000,000 pesetas. This same year, Cesar Rodriguez accepted the charge of president of the firm, just as Ramón Areces accepted becoming the vice president. In 1957, Isidoro Álvarez, a recent graduate in Economics, integrated in the administrative board of El Corte Inglés and Induyco.

- Decade of the 60's:

An important decade for the succession of events that would mark a turning point for department stores. One of these events is the expansion of the only store they had until then. But the fact that marked the growth of El Corte Inglés was the expansion of

department stores to the main Spanish cities such as Barcelona, Seville and Bilbao in 1962, 1968 and 1969 respectively (Cuartas, 2005, p.290).

In the middle of that decade Cesar Rodriguez died, with this fact, the department stores establish a frenetic development difficult to follow by their competitors. This growth is based on building large shopping centers, creating subsidiaries such as "Viajes El Corte Inglés in 1969" or expanding supplier and production companies (Cuartas, 2005, p.331).

Ramón Areces takes over as director of El Corte Inglés and Induyco after César's death (Cuartas, 2005, p.803-804).

- Decade of the 70's

The 70's stand out for continuing with an accentuated growth within the national territory opening new centers in new cities such as Valencia in 1971, Murcia in 1973, Vigo in 1975, Las Palmas in 1977 and Malaga in 1979. This growth also continued in cities where it already had a department store, such as the cities of Barcelona and Madrid (Cuartas, 2005, p.804-805).

Other significant events in this decade are the opening of new subsidiaries to El Corte Inglés such as Óptica 2000 in 1976, Confecciones Teruel in 1975 and a supermarket subsidiary called Hipercor in 1979.

- Decade of the 80's

Intense years for the El Corte Inglés Group, continuing with its national expansion in cities such as Zaragoza, Sevilla, La Coruña, Valladolid and Alicante, but also internationally with the acquisition of a department store called Harris in the United States. In these years the hypermarket of El Corte Inglés continued growing with its opening in different Spanish cities. The insurance brokerage of El Corte Inglés and the Informática El Corte Inglés S.A. were created in these years.

This decade culminated in the death of Ramón Areces, president of El Corte Inglés and one of Spain's wealthiest managers, in July 1989. After his death, all of his assets went to the Ramón Areces Foundation, making the foundation the main shareholder in the department stores at the same time. With the death of Areces, in book value and not at market price, El Corte Inglés reached 37,000 million pesetas. It is in book value, not having the El Corte Inglés Group any company listed on the stock exchange. A few weeks later, it was known who the successor of Areces would be, the elected one was

Isidoro Álvarez, who obtained the presidency of El Corte Inglés, affiliated companies and also of the Ramón Areces Foundation (Cuartas, 2005, p.549-552).

- Decade of the 90`s

With the appointment of Isidoro as president, El Corte Inglés adopted a very different model to that of its main competitor, Galerías Preciados, and is called; large format store model (Cuartas, 2005, p.553). Very marked years for the company giving itself an accentuated growth thanks to the acquisition of Galerías Preciados when this one was declared in bankruptcy in 1995, acquiring the 22 establishments and part of its employees (Cuartas, 2005, p.811).

- From the 2000s to the present day.

With the entry of Isidoro Álvarez into the presidency, the company lives a few years of plenitude and change, producing precepts that years ago were impossible to change. There is a strong horizontal diversification adopting new commercial formats, a new concept of mixed store appears mixing the department stores with its own hypermarkets. They are introduced in the complex commercial department stores and there is a commercial deepening to cover all the areas and market segments by means of a horizontal development. These years of plenitude can be observed both with the acquisition of the British department stores Marks & Spencer operating in Spain that turn El Corte Inglés into a monopolist of the large stores that are divided into departments in Spanish territory and with the landing of El Corte Inglés in Portugal with the construction of two department stores in its largest cities, Lisbon and Porto (Cuartas, 2005, p.812-814).

At the moment, El Corte Inglés has 131 hypermarkets at its disposal, almost 400 delegations of Viajes El Corte Inglés, 20 Sfera stores in a total of 35 cities that make it have a total of 92 centers in Spanish territory and 2 in Portugal in 2017 compared to the scarce 13 centers that counted the department stores in the 70's as can be seen in the following image.

Evolución de la marca



Los grandes almacenes

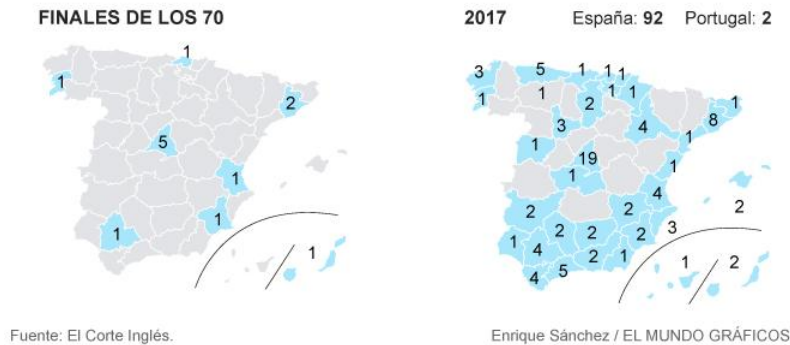
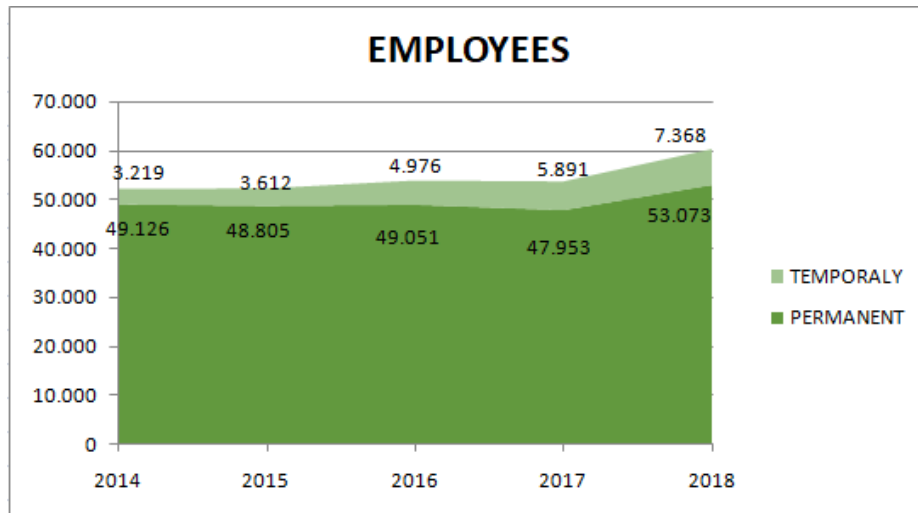


Illustration 1: Evolution of the El Corte Inglés.

3. Economic sector: Department Stores

El Corte Inglés S.A. is a distributor of different types of goods, focusing on its beginnings in the textile section of men and children but, over the years, has evolved towards the universal, adding other departments to its centers such as home, computer, furniture or electrical appliances (Cuartas, 2005, p.266). El Corte Inglés Group, formed by the following companies; Supercor, Brico, Óptica 2000, Sfera, Viajes El Corte Inglés, Seguros El Corte Inglés and Informática El Corte Inglés (ECI, 2019), stands out for innovation, adaptation to the needs of society, quality, personalised customer service and excellent value for money (ECI, 2019).

One of the qualities that make El Corte Inglés stand out from the rest of its competitors is the ability to offer, within the same center, a wide variety of activities on which it focuses and to be able to have all the companies that make up the group in the same building. This is thanks to the fact that El Corte Inglés is located on large surfaces to be able to place these activities. It also has the peculiarity of having its centers in symbolic places in the cities where it has a presence. As has already been said, El Corte Inglés has a large number of open department stores, both in our territory and in Portuguese territory, providing employment to more than 60,000 people.

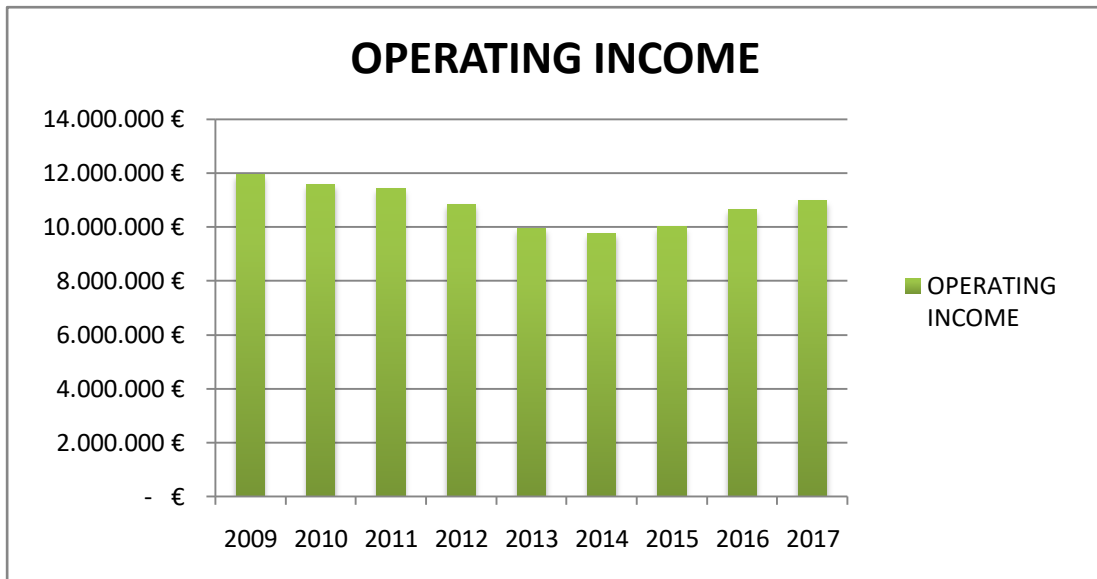


Graphic 1: Number of Employees of the company. Own elaboration.

The graph above shows the evolution of employees over the last four financial years. In this period, the total number of employees has increased significantly from just over 52,000 in 2014 to 60,000 in 2018. On one hand, figures are obtained for permanent employees, whose participation in the company has been reduced from more than 93% to 88% in barely 4 fiscal years. However as can be seen in the graph, the number of permanent employees varied during the years mentioned above, ending 2018 with a total of 53,000 permanent employees.

On the other hand, there is a total number of temporary employees of the company, which has increased during all periods. In 2014, they accounted the 6% of the total number of employees, while in the last financial year they multiplied their participation, accounting for more than 12% of the total. The significant increase in temporary employees occurs between 2017 and 2018, from almost 6,000 employees to more than 7,000.

The company's operating income shows a decline in sales produced mainly by the economic crisis of 2008 where the income fell from almost 12 million in 2009 to below 10 million in 2014. From this moment on, the company experienced an increase in its sales, causing its income to rise again to 11 million in 2017. The following graph shows the evolution of the operating income explained previously.



Graphic 2: Operating Income. Own Elaboration

3.1 Sector of El Corte Inglés

The sector in which El Corte Inglés is found is the textile trade, more specifically, as described in SABI, is the marketing in large areas of different consumer products such as furniture, decoration, costume jewellery, computers or a wide variety of articles, although during its long life, it has been adapting to new demands or fashions that have been required.

As can be seen in the following image taken from the ranking of companies by sectors of El Economista (2019), El Corte Inglés competitors are not only from the registered CNAE, but also from different sectors such as textiles, electronics, food or currently, online purchase. In the mentioned CNAE, in which it operates, El Corte Inglés is undisputed leader with a turnover of 11,483,748,000€ while its competitors in the sector are very far from the results obtained by the department stores as can be seen in the following table.

Nº	COMPANY	TURNOVER
1	EL CORTE INGLÉS S.A.	11.483.748.000
2	LAGARDERE TRAVEL RETAIL S.A.	89.010.196
3	CLIPPER 1959 S.L.	73.282.741
4	BIJOU BRIGITTE MODISCHE ACCESORIES S.L.	46.279.129
5	TIGER STORES SPAIN S.L.	40.155.494

Table 1: Sector of the Department Store. Own elaboration.

3.2 Main competitors of El Corte Inglés

As previously mentioned, the El Corte Inglés Group is integrated by a total of 7 companies. It means that El Corte Inglés has a greater number of competitors, such as Mercadona, Leroy Merlin or Zara as its main adversaries.

In Spain, the group's department stores are experiencing a privileged situation compared to their competitors, because they have two advantages that make them stand out from the rest. The first of these, is the extensive network of stores throughout Spain and good logistical growth, which are two important factors for the growth of electronic commerce. The second one is diversification in several different businesses to reduce the sensitivity of department stores to situations which are similar to the economic crisis of 2008 ([El Español, 2019](#)).

The following is a brief discussion of the main competitors of El Corte Inglés and Grupo El Corte Inglés at the national level:

3.2.1 Mercadona

The supermarket was born in the year 1977 as a result of the marriage between Francisco Roig and Trinidad Alfonso Mocholí. This activity began within the Group that formed Cárnicas Roig that became ultramarines. In 1981, one of the sons of the couple, Juan Roig, took over the presidency of the supermarkets and opened 8 stores.



A few years later, Mercadona acquired Supermercados Superette, bringing the total number of stores in Valencia to 30 in 1985. In 1989 the first establishment was opened outside the Valencian community and the Spanish capital was chosen. After a few years of great expansion, the number of employees reached 10,000 and a total of 150 establishments opened in 1992. In the year 2006, the company reached the number of 1000 opened stores. Finally, in 2016, the project to open stores in Portugal was approved ([Mercadona, 2019](#)).

Regarding some of Mercadona's financial data, the operating income in 2017 is 21,072,429,000€ and its earnings after tax are 322,225,000€.



3.2.2 Leroy Merlin

The French company was founded by Adolphe Leroy and his wife Rose Merlin in 1923 but until 1960 did not receive the name by which the company is known today, Leroy Merlin. This company is dedicated to the sale of construction material, but it mainly focuses on offering products and services for the end consumer in gardening, furniture and home-improvement.



In 1989 the first establishment was built in Spain, located in Madrid. It has an accentuated growth opening an average of 2 establishments per year in Spain ([Leroy Merlin, 2019](#)).

In 2017, its operating income was 1,843,078,000€ while the after-tax profits amounted to 77,653,000€.

3.2.3 Zara

It could be said that it is the main competence of the department stores, since as it has been clarified previously; El Corte Inglés focuses on the textile section. Zara has been chosen as the main competitor since both Zara for Inditex and Sfera for El Corte Inglés are their respective flagships, as far as the textile sector is concerned.



Amancio Ortega opened Zara's first store in 1975 in A Coruña. The brand became strong thanks to its affordable prices and the coverage of people's preferences. In 1983 Zara grew outside Galicia, settling in the most prestigious shopping centers in the most important Spanish cities. The decade of the 80's ends with the opening of an establishment in the city of Lisbon (Portugal) and in the heart of Manhattan, New York. During the following years, Inditex grew exponentially, opening stores in several European countries such as France, Belgium, Malta, Sweden and Greece ([Zara, 2019](#)).

Zara's operating income for the last year is 1,910,088,769,000€ and its earnings after tax amount to 286,364,063,000€.

3.2.4 Media Markt

Media Markt was founded in Germany in 1979 creating a business model based on competitive prices and large establishments to incorporate a wide variety of electronic products such as computers, washing machines, televisions or stereos. With their international expansion, they landed in Spain in 1999 in Madrid. Today, these megastores have 85 opened locations in our country becoming the main competitor in the electronics department of El Corte Inglés ([Media Markt, 2019](#))



This company has operating income and after-tax profits of €57,748,493,000 and €200,223,000 respectively.

4. Financial Analysis of El Corte Inglés

In order to carry out this analysis, a broad timeline has been chosen with the objective of observing more clearly the evolution of department stores over the last decade. Exactly, the years selected are the ones from 2008 to 2017.

The information detailed in the following section has been obtained from the SABI database and the financial data taken are the Balance Sheet and the Profit and Loss account for the years previously mentioned.

4.1 Study of the Profitability

In this section, a study will be carried out on the different returns found in society. The first sub-section will detail the economic return (ROA) and the determinants that make up this return. A second sub-section will explain the financial performance (ROE) and its determinants. The break-even point is then described in another sub-section. Afterwards the liquidity analysis will be carried out with their respective average maturation periods. Finally, there is the financial structure, where the working capital, the current ratio and the ratios of the financial structure have been detailed.

4.1.1 Economic Profitability (ROA)

Economic profitability is defined as the return generated by the company managing all the assets at its disposal without taking into account the way in which these have been financed. To analyze the ROA, you start from the formula:

$$ROA = \frac{NET\ INCOME}{AVERAGE\ TOTAL\ ASSETS}$$

With a series of adjustments, the formula of economic profitability would be as follows, where the division of economic profitability into the determinants that make it up, profit margin and turnover of assets can be appreciated.

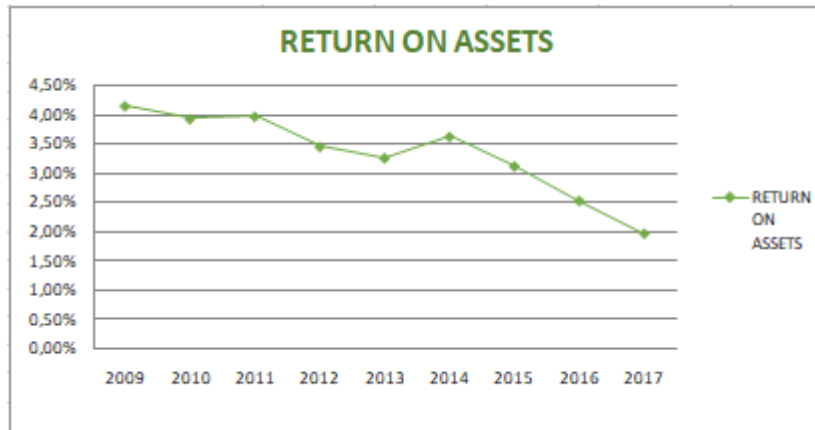
$$\text{ROA} = \frac{\text{NET INCOME}}{\text{NET SALES}} \times \frac{\text{NET SALES}}{\text{AVERAGE TOTAL ASSETS}}$$

MARGIN
TURNOVER

The evolution of the ROA between 2009 and 2017 is illustrated below.

The economic profitability obtained by department stores decreases constantly over the time analyzed. From 2009, when the profitability was 4.13 percentage points, to 2017, when it reached 1.96 percentage points, profitability has fallen by more than 2 percentage points, finally falling below 2 percentage points. In view of this decrease in the economic profitability, it is worth noting that the only year in which there has been a slight increase was in 2014, going from 3.25 points in 2013 to 3.61 points in 2014, but the following year it would fall immediately. The worst year for El Corte Inglés' economic profitability was between 2015 and 2016, as its profitability fell by close to 0.60%.

The perceived decrease in ROA in the previously mentioned period is due to the fact that the net result has been affected by the decrease in sales, which leads to a lower turnover of assets. However, it is also affected by the structure of expenses of the company. This structure of expenses is affected both by the high amount of personnel expenses that the company has, and by the high number of buildings that the company holds. Both expenses are independent of the operating revenue figure, whether the sales are abundant or, as in the case of this period, the sales are scarce.



Graphic 2: Return On Assets evolution. Own elaboration

4.1.1.1 Determinants of Economic Profitability

For the analysis of the determinants of profitability, two analyses would be carried out, the first of which would be the Cross-section and the second would be a Time Series. In our case, in order to avoid a comparison of El Corte Inglés with its main competitors, the time series will be carried out directly in order to be able to expose the conclusion that we want to reach with the accomplishment of this work.

The economic profitability can be separated in two main parts; the first would refer to the profit margin and the second to the Rotation of the assets.

1. Margin

The first determinant that forms the economic profitability gives us an idea about the efficiency that the company has at the time of consuming its resources to generate the sales in the period. In order to calculate this determinant, the formula described above has been used, where "Net Income" is the profit before financial expenses and taxes and "Net Sales" is the net sales. The following image shows the results obtained in the analysed time.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
MARGIN	4,07%	4,22%	4,39%	4,12%	4,35%	4,91%	4,01%	3,03%	2,26%

Table 2: Margin of El Corte Inglés. Own elaboration.

The illustration above shows the profit margin obtained by El Corte Inglés. This margin is the wealth obtained by the company for each monetary unit it sells. The margin has been increasing since the beginning of this analysis, standing at around 0.043 until it reached 0.049 in 2014. From that year onwards, the margin began to fall, reaching 0.023 percentage points by 2017.

The Margin does not suffer strong deviations in time remaining around 0.045 percentage points, but it can be seen that the last three years there has been a significant decline. This decrease is due to the high competition that El Corte Inglés has in all the sectors in which it operates and to the intensification of online shopping in portals such as Amazon, which affects the operating income.

2. Turnover

This second determinant compares the amount of sales with the assets needed to generate those sales. In other words, the number of times during a year that assets financed by the company are sold. The following table shows El Corte Inglés' asset turnover in the years analyzed.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
TURNOVER	1,02	0,93	0,90	0,84	0,75	0,74	0,77	0,83	0,87

Table 3: Turnover of the company. Own elaboration

The table above shows that the asset turnover decreases continuously, varying by 0.15 percentage points in 10 years. It started on 2009 with 1,015 points and finished the analysis with 0,869 percentage points. This fall in turnover is due to the fall in operating income, mainly due to the fall in sales. There has only been a slight increase in the last three years, increasing by around 0.01 point. This perceived increase is due to the improvement of the Spanish economy producing an increase in sales.

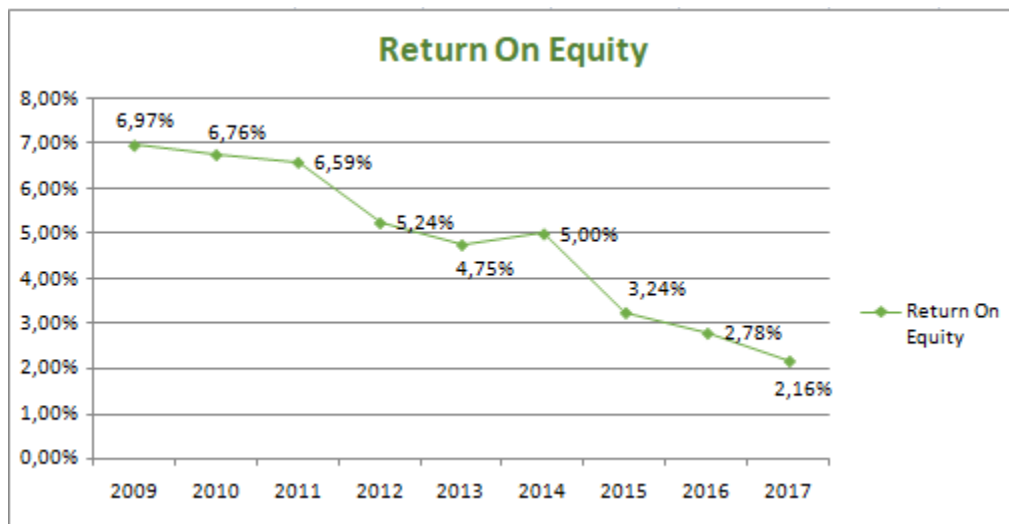
In conclusion, regarding the point of economic profitability in the period analysed, this profitability has decreased almost steadily. This decrease has been caused by the fall of both determinants that form it. In the first period, from 2009 to 2014, the increase in the profit margin has been reduced because of the decrease in the rotation of assets and this decrease produces this negative economic profitability. While in a second term, from 2014 to 2017, the opposite happens in terms of the determinants. There is a reduction in the profit margin, which is covered by the increase in the rotation of assets and which means that economic profitability has this negative slope.

4.1.2 Financial Profitability (ROE)

The financial profitability is defined as the patrimony of the entity thanks to the contributions of the partners. This ratio helps the shareholder or a potential shareholder to make a decision regarding the investment or a future investment. The investor must take into account the binomial profitability-risk when investing in a company.

Forming the financial profitability (ROE) are; on the one hand, the Economic Profitability (ROA) and on the other hand the financial leverage, which is obtained by

multiplying the degree of indebtedness and the leverage margin. The following is an illustration of the financial performance of El Corte Inglés over the last decade.



Graphic 3: Return On Equity. Own elaboration

As observed in the previous graphic, the financial profitability of El Corte Inglés has fallen considerably in all the years analysed (2009-2017). During this period, investors have seen their investments significantly affected. In the first year analysed, 2014, the financial profitability was very close to 7 percentage points and, as the years went by, the profitability fell until the end of the last year, 2017, with 2.16 percentage points.

In order to be able to detail in greater depth the evolution of Financial Profitability in the period to be analysed, it is required to look at the determinants that make it up. Starting from the formula;

$$ROE = \frac{NET\ INCOME}{AVERAGE\ NET\ EQUITY}$$

And with several adjustments, the above formula looks like this;

$$ROE = ROA + \frac{AVERAGE\ LIABILITIES}{AVERAGE\ NET\ EQUITY} \times \frac{ROA - FC}{LEVERAGE\ MARGIN}$$

LEVERAGE DEGREE
LEVERAGE MARGIN

Financial Profitability (ROE) is made up of Economic Profitability (explained in the previous section) and Financial Leverage. The latter is separated into a first part called the Financial Leverage Grade and a second part called the Financial Leverage Margin. The first of these parts is the entity's indebtedness as it is made up of the average

liability divided by the average net worth, and the second part is the leverage margin, which is the ROA less financial costs (FC).

After analyzing the above equations, it's possible to conclude that investors will get incentives when the ROA is higher than the Financial Costs (FC) because the company has got incentives to borrow and the ROE will be increased. As the degree of indebtedness increases, creditors will begin to demand a higher interest rate and to reverse that effect; the leverage margin would have to decrease.

4.1.3 Break-even Point

The break-even point (BP) is the amount of operating income from which both fixed and variable operating expenses have been covered and from which a positive operating result is obtained. In other words, it would be the time when the company starts to make a profit because it has covered all its expenses. In order to achieve the purposes of this section, financial information has been obtained through the company's profit and loss account.

The following formula is used to calculate the break-even point:

$$\text{BREAK-EVEN POINT} = \frac{\text{FIXED EXPENSES}}{1 - \frac{\text{VARIABLE EXPENSES}}{\text{OPERATING INCOME}}}$$

	2009	2010	2011	2012	2013	2014	2015	2016	2017
OPERATING INCOME	401.733,00 €	385.887,00 €	396.021,00 €	391.464,00 €	416.327,00 €	331.982,00 €	335.541,00 €	358.229,00 €	396.247,00 €
FIXED EXPENSES	2.362.924,00 €	2.330.444,00 €	2.393.215,00 €	2.294.243,00 €	1.978.943,00 €	2.444.532,00 €	2.296.783,00 €	2.451.465,00 €	2.457.623,00 €
VARIABLE EXPENSES	9.347.699,00 €	9.023.785,00 €	8.873.709,00 €	8.457.455,00 €	7.734.342,00 €	7.607.194,00 €	7.803.256,00 €	8.278.739,00 €	8.562.680,00 €
BREAK-EVEN POINT	10.825.958,53	10.532.116,91	10.649.015,75	10.385.641,55	8.821.059,73	10.987.356,61	10.362.866,45	11.011.482,18	11.085.899,19

Table 4: Break-even Point of the company

As can be seen in the previous table, the break-even point evolves in a negative way at the end of the last decade and at the beginning of this one. This negative evolution represents a loss of approximately 2 million in just 5 years, going from 10.8 million to 8.8 million. This drop in the profitability threshold between 2009 and 2013 is mainly due to the fall in the company's level of activity, a drop-in sale as a result of the country's economic downturn. Already in 2014 there was a strong rise to reach 11 million caused by the improvement in the economy.

4.1.4 Liquidity Analysis

The economic cycle of maturation will be taken into account in the explanation of the liquidity that the company obtains. This economic cycle defines a series of events that occur repeatedly in the company. The economic cycle that the company goes through

begins with the acquisition of goods, the storage of these goods, the charging of customers for these goods and the payment to suppliers for the purchase of goods.

Defined the average period of economic maturity by [Expansión \(2019\)](#) as: "*the time that, in average terms, elapses between the exit and the recovery of the money that has been used to meet the financing needs of the company's operating cycle*" or more simply, the time from the time between the raw material is purchased from the supplier until the company charges the customer for the sale of that good.

By means of the following illustration, it is possible to observe in a clear and synthesized way the four phases that compose the cycle of the businesses concerning a short term of time.

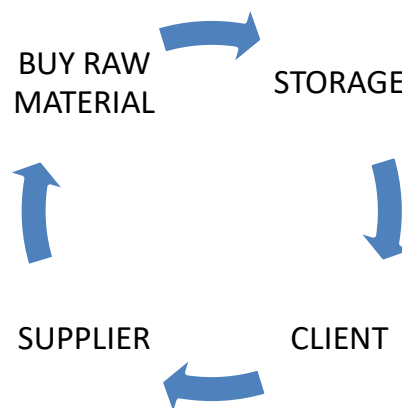


Illustration 2: Financial Cycle of the company.

As a commercial enterprise, the average maturation period (AMP) is divided into three components: storage period, customer collection period and supplier payment period, which have been defined and explained in detail below. This average maturation period is divided into two periods: the average economic maturation period (AEMP), which is made up of the sum of the storage period of raw materials and the term of collection from customers; and the average financial maturation period (AFMP) which is the difference between the AEMP and the term of payment to suppliers.

Below, each component of the Medium Maturation Period will be explained.

- Storage period: It is the time that raw materials or purchased goods are in the warehouse until they are made available for sale.
- Term of collection from customers: This is the time taken by customers to pay for the goods they have purchased. Time between the sale of the article and the collection of this.

- Term of payment to suppliers: the period from the time the raw material or goods are purchased from suppliers until the purchase is paid to them.

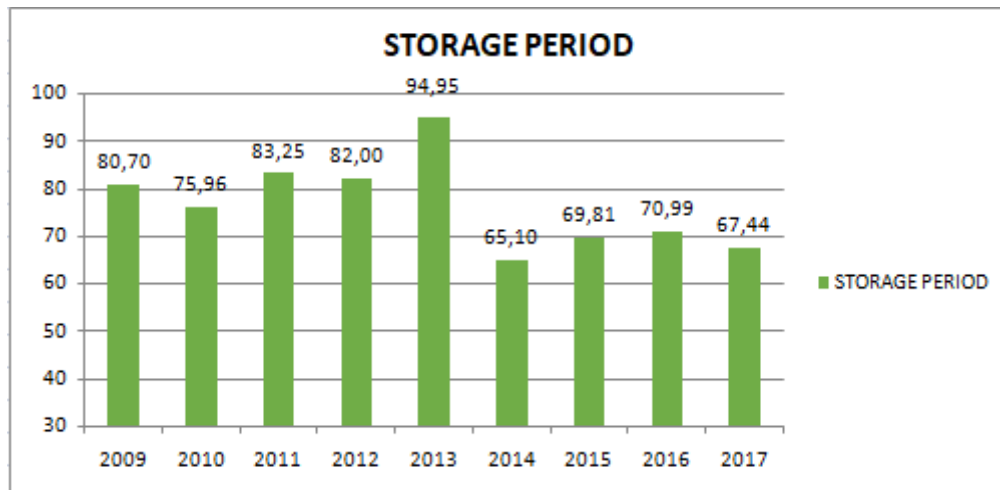
Through these three components, both the average period of economic maturity and the average period of financial maturity can be obtained.

1. Average economic maturation period (AEMP): Obtained with the sum of the storage period and the period of collection from customers.
2. Average financial maturation period (AFMP): This is the difference between the average economic maturation period and the term of payment to suppliers.
This period indicates how long the company will be financed by suppliers and how long it will need financing. The higher this amount of payment to suppliers, the greater the financing obtained from suppliers and the lower the need for financing.

4.1.4.1 Time series of AEMP

The evolution of El Corte Inglés in terms of its average period of economic maturity over the decade analysed is summarised below. Firstly, the average storage period of raw materials and goods is analysed and, secondly, the period of collection from customers is detailed.

- Storage period

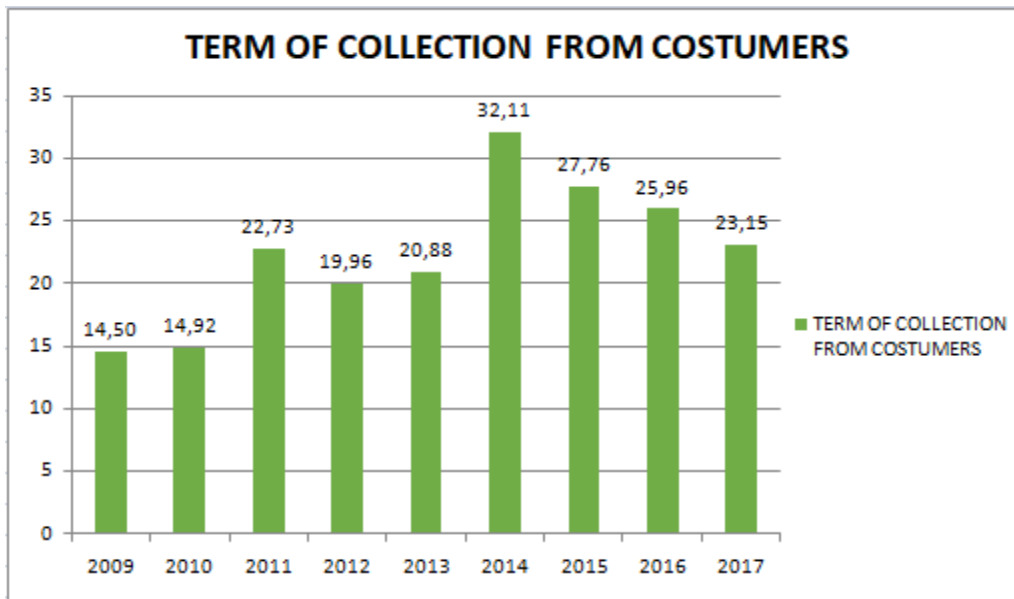


Graphic 4: Storage Period of the company.

As can be observed in the previous graph, this period contains constant oscillations, maintaining around 80 days between the 2009-2012 periods, being 2013 being the year when the maximum storage period of the company's assets is reached at 95 days. In the following four years, the period falls sharply below 70 days, reaching 65 days of storage by 2014.

It could be concluded that the longer the period in which stocks are in the warehouse, the lower the rotation of these stocks. This occurs in periods where the company has fewer sales of goods. While when the storage period is low it means that sales of goods have increased and that there is a greater turnover of stocks which leads to an increase in operating income.

- Terms of collection from costumers

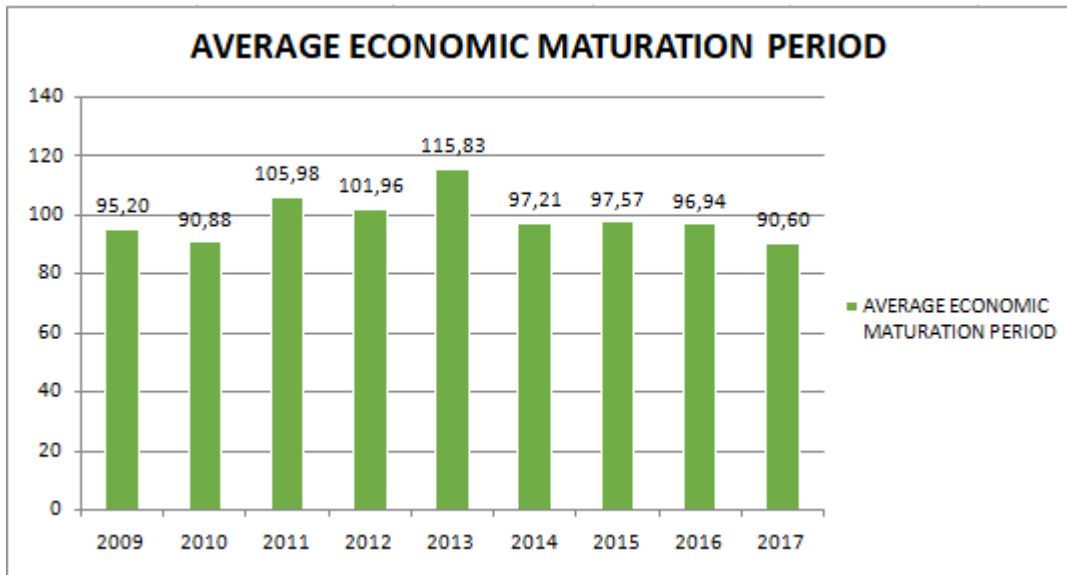


Graphic 5: Term Of Collection From Costumers. Own elaboration.

As can be seen in the previous graph, the term of collection from customers has grown over time. In 2009, this period was only 14.5 days, but over the years it has increased to reach its highest peak on the year 2014 with 32 days. From this moment on, it can be seen that it has began to decrease until the end of the analysis with a collection period of 23 days.

In order to conclude with the period of collection from customers, the higher the figure of collection from customers, the greater the investment to be made by the company to cover that debt of customers with the company. This analysis shows relatively low collection periods, with the first periods of this analysis being the shortest and the last periods the highest. This is due in the first place, to the few sales that were recorded by the economic crisis and secondly, by the economic improvement that occurs in the country. El Corte Inglés stands out for charging customers on a daily basis and not for short-term financing with these.

Once the components that make up the average period of economic maturity have been explained, this will be detailed in a graph:



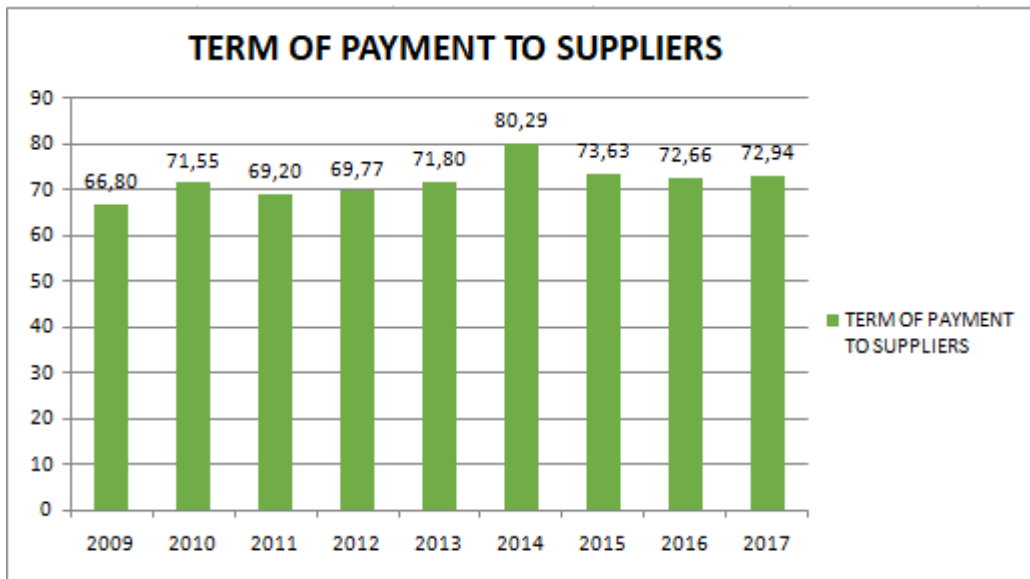
Graphic 6: Average Economic Maturation Period. Own elaboration.

In the previous graph, where the average period of economic maturation is shown, it can be observed that the evolution that has followed during the years analysed has not undergone major alterations. It can be seen that all the years have similar figures, and this is thanks to the fact that, when the average storage period was high it was counterbalanced by a period of low collection from customers and vice versa from 2013 onwards. The year 2013 stands out with a period of 115 days of average economic maturation.

4.1.4.2 Time series of AFMP

The average period of financial maturity, as mentioned above, is the difference between the average period of economic maturity (explained in the previous section) and the term of payment to suppliers. First, the payment period to suppliers is discussed and then the evolution of the AFMP in the years is analyzed.

- Term of payment to suppliers



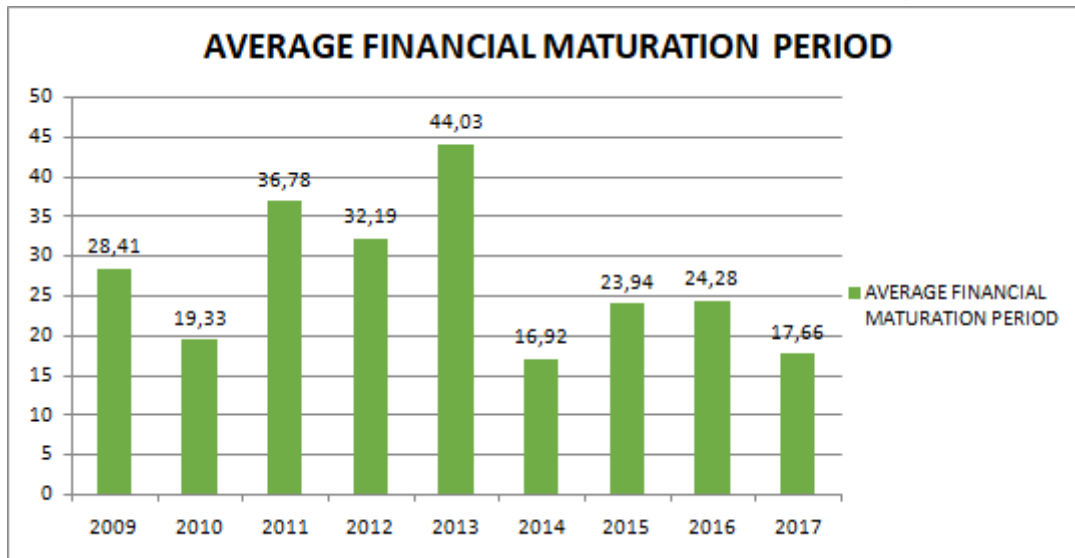
Graphic 7: Term of Payment To Suppliers. Own elaboration.

With regard to the period for payment to suppliers, there has been a slight increase in the days for payment to suppliers, although practically all the years analysed in this project are very close to or above 70 days. Both the years 2009 and 2014 stand out with 66 and 80 days respectively.

This means that the company is financed by the suppliers in approximately 70 days. Regarding this period of payment to suppliers, the longer it is, the more beneficial it is for the company since the greater is the financing it obtains thanks to the suppliers. In this component of the average period of financial maturity, the facts happening are the opposite to the components of the average economic period, since it does not undergo strong oscillations with the passage of the years studied.

To conclude with the average period of financial maturity, its evolution is detailed below:

It is visualized in the following graph that there is enough oscillation during the whole period. This is due to the fact that, as the average period of economic maturation increases or has high figures and the same happens in the period of time for suppliers, the average period of financial maturation is reduced. A clear example can be seen in the year 2014, which was the year with the highest figure and the lowest AFMP for both the PMME and for the term of payment to suppliers.



Graphic 8: Average Financial Maturation Period. Own elaboration.

4.1.5 Financial Estructure

To finish with the financial analysis, this section details the financial structure of El Corte Inglés, which is made up of three sub-sections: the working capital, the current ratio and the ratios that make up this structure. These are explained more precisely below.

4.1.5.1 Working Capital

Working capital is the part of the asset that is financed by the company's long-term resources (net worth + non-current liabilities) of the company. Another way to explain it would be the difference a company has between its current assets and its current liabilities. The situations in which the working capital can be found are the following:

- Working capital less than 0: deficit situation. Own resources and long-term debt are not sufficient to cover the company's short-term needs. It occurs in companies with poor financial planning or close negotiations with suppliers or customers.
- Working capital equal to 0: equilibrium situation. The company has sufficient long-term financial resources to meet its needs.
- Working capital greater than 0: surplus situation. The company has more financial resources than necessary to cover its needs. These financial resources come from bank loans, bonds and/or net worth.

In the following illustration it is possible to observe more clearly the above definition on the working capital;

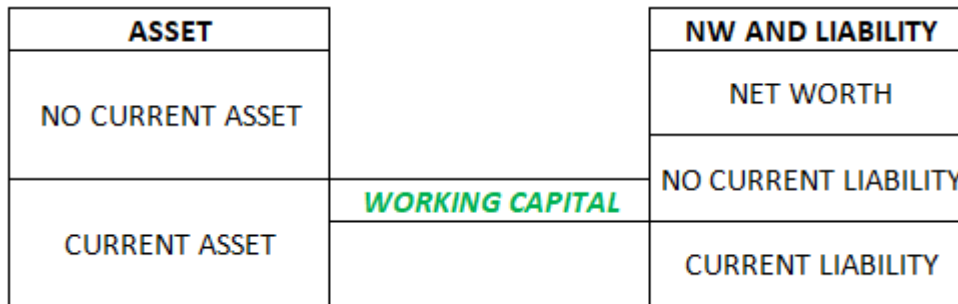


Illustration 3: Working Capital. Own elaboration.

The El Corte Inglés Working Capital will be presented below throughout the period under analysis. For this purpose, a table is drawn up with the data obtained, followed by an illustration to better visualise the oscillations that the parameter can take in the different years.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
WORKING CAPITAL	- 1.749.883	- 1.336.586	- 1.262.331	- 1.974.252	- 1.627.521	- 179.469	- 144.064	- 413.330	- 297.035

Table 5: Working Capital. Own elaboration

As observed in the previous table, the Working Capital is negative during all the years analyzed. In 2009 the figure was -1,749,883 and over the last decade it has increased by -1,452,848 to reach 2017 with a figure of -297,035. Between 2013 and 2014 the company had a decrease in its working capital, from -1,627,521 to -179,469.

This increase in working capital is due to the increase in short-term assets and the reduction in short-term bank debt.

4.1.5.2 Ratios of the Financial Structure

The following is an analysis of some of the ratios that make up the financial structure of El Corte Inglés throughout the decade analyzed. The ratios to be explained are, on the one hand, the debt ratio, defined as the proportion of financial resources coming from third parties with respect to the total net worth. On the other hand, there is the self-financing ratio, which is defined as the part of the total assets that is financed by the own funds. The latter ratio is within the long-term liquidity ratios.

The following formulas are those explained in the previous paragraph.

Debt Ratio → **(Current Liability + Non Current Liability)/Net Worth**

Self-financing Ratio → **Net Worth /Asset**

	2009	2010	2011	2012	2013	2014	2015	2016	2017
DEBT RATIO	1,33	1,27	1,20	1,41	1,46	1,52	1,48	1,26	1,24
SELF-FINANCING RATIO	0,43	0,44	0,45	0,42	0,41	0,40	0,40	0,44	0,45

Table 6: Financial Structure. Own elaboration.

The previous image shows the ratios described above in order to be able to visualize more clearly the evolution obtained in the period studied.

The first of these is the debt ratio, which in 2009 was 1.33 and in 2017 was 1.24. It has suffered a slight decrease of 0.09 percentage points, especially in 2014, when it reached a maximum of 1.52 points. This means that in that year the company's liabilities were 1.52 times its net worth.

The second, the self-financing ratio, which has varied minimally since in 10 years has only varied 0.02 from 0.43 in 2009 to 0.045 in 2017. This increase shows us that the company has more and more assets financed with the company's own resources.

The conclusions drawn from the financial ratios previously explained are: in the case of indebtedness, the entity to deal with the difficult situation in which it found itself increased its debt. This increase in debt observed until 2014 was destined to make investments and build new facilities to achieve an increase in sales and be able to reverse the situation in which it was. From that year onwards, this indebtedness decreased due to the improvement in the economic situation and the improvement in sales, increasing the operating income. As for self-financing, it has been increasing and decreasing slowly over the years, maintaining correct levels required to be a company of this size.

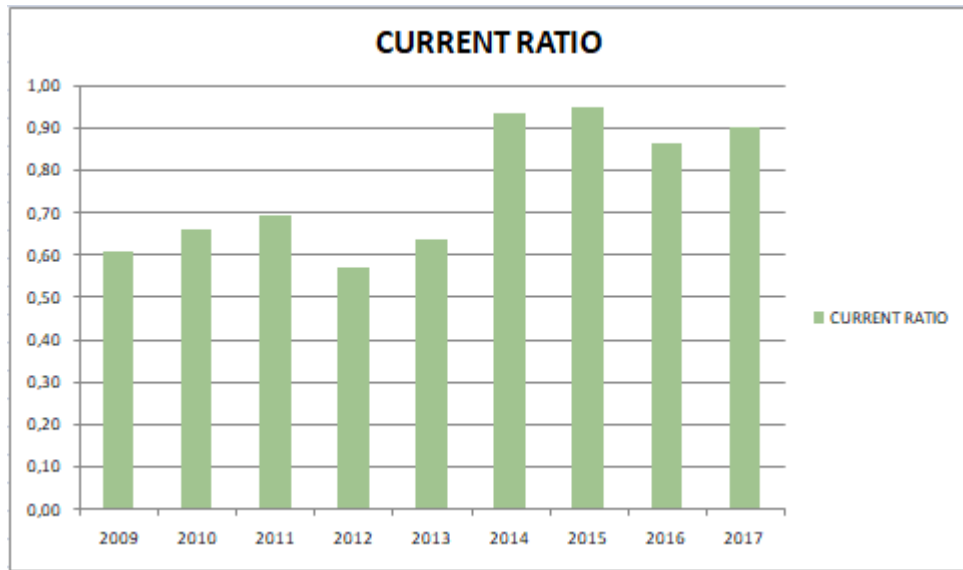
4.1.5.3 Current Ratio

The current ratio is the number of times the current asset comprises the current liability or, in other words, the number of times the short-term asset meets the short-term liabilities. For the calculation of this parameter the following formula has been used;

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSET}}{\text{CURRENT LIABILITY}}$$

With this formula, the current ratio of El Corte Inglés has been calculated and the data has been obtained, which are illustrated by means of a graph below. When this ratio is over the unit, it indicates that the company has more short-term assets than short-term liabilities, while if it is below the unit exactly the opposite occurs, which is that the company has more short-term liabilities than short-term assets. With the data obtained from the Current Ratio of El Corte Inglés, the first thing that can be observed is that

none of the years analysed is greater than one, so it can already be deduced that every year the company has a greater amount of current liabilities than current assets. The current ratio has increased by 0.30 points in the last decade, going from 0.61 in 2009 to 0.90 in 2017. This increase in this parameter is due to the increase in current assets, thanks to the increase in sales, and a decrease in current liabilities. The year where the lowest ratio was obtained was 2012 with a figure of 0.57, almost half of what would be advisable to maintain a balance between current assets and current liabilities.



Graphic 9: Current ratio. Own elaboration.

5. Conclusions

In order to better understand the economic evolution followed by El Corte Inglés over the last decade. A summary of the main conclusions has been included. In this way, the reader will be put into context about what has been written in the previous report.

In both economic and financial profitability, the same effect occurs from the outset, both of which have a negative slope in the period from 2009 to 2017. The first profitability, the economic one, has been negatively affected by the decline in sales, managing to reduce operating income both due to the economic situation experienced in the country and due to the strong competition that society has in all the sectors in which it operates. This drop in economic profitability affects asset turnover, leading to an increase in the time it takes to rotate assets and causing the profit margin to fall sharply by the entity's operating expense structure.

The second profitability, the financial one, is marked by two important aspects when it comes to indicating the slope of financial profitability, the first of which is the reduction in economic profitability due to what has been explained above and the second is the reduction in the margin of leverage. This reduction in the leverage margin is marked by the decrease in the level of indebtedness of the company and by the increase in equity. This is due to the improvement in the economy that leads to an improvement in the sales of goods that the company has, since the company does not need to get into debt to make an investment as in years of economic crisis.

As for the liquidity of the company, there is the average period of economic maturity, the slope of which is descending over the time analyzed in this project. This period stands out until 2014 due to the low figure of collection time to customers, as customers pay for the good almost instantly to obtain them, and the high storage time of the goods produced by the little movement that occurs in those years due to low sales produced. But from that year the situation is reversed, experiencing a growth in sales that result in a shorter storage period of goods. The other average maturation period is the financial period, with the same slope as the previous one, which between 2009 and 2017 has seen a financial period that has deteriorated especially in recent years due to the increase in the term of payment to suppliers.

The company's working capital is negative for all the years analysed, but has steadily increased until it reached almost a positive goodwill in the last financial year. A negative working capital fund does not have to be damaging for society and less so for El Corte Inglés, since due to its size and the company's policy of collecting from clients, which is almost daily in the textile sector, it can face up to the short-term debts it holds.

This is possibly this is thanks to the improvement in the country's economy, the increase in sales leading to an increase in operating income, the business policy of El Corte Inglés and to short-term financing.

The current ratio obtained by the company has improved over the course of the years, achieving an increase of 0.30 percentage points in ten years. Although the current ratio is not above the unit in any period, this gives us a clear indication that current assets do not cover all short-term financial resources.

To end the project on the evolution of El Corte Inglés over the last decade, a few years in which Spain has been involved in a serious economic crisis and this has led many companies to change their economic policies to cope with that moment. The society analysed in this project has not changed its economic policy to adapt to the changes produced by this crisis but has continued to opt for the financial policy it has implemented since society was established. The economic policy in question was to continue making new investments and opening new establishments in new cities with the intention of reversing the bad situation it was going through. And all this growth has been achieved by increasing society's debt levels.

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