



# **ECONOMIC-FINANCIAL ANALYSIS OF COVIÑAS V. COOPERATIVE**

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Abstract:

The following project deals with an economic-financial analysis of the leading winery cooperative in the wine sector, Coviñas, of the Utiel-Requena Denomination of Origin in the region of the Valencian Community.

Under the approach of the specialties of a Cooperative, the situation and evolution of “Coviñas Cooperativa Valenciana” is analyzed during the period from 2017 to 2019. The study emanates from the company's financial statements.

The objective pursued is to analyze the Cooperative's equity distribution, as well as the parameters of liquidity, solvency, profitability, and cash flow. For a more in-depth analysis, and to complete the contextualization process, a comparative analysis has been added with other cooperatives in the area: “La Baronía de Turís” and “Bodegas Bocopa” during the same period, in order to evaluate the company's position in the wine sector.

Keywords: [Cooperativism | Equity Analysis | Liquidity | Profitability].

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## 1. INTRODUCTION

### 1.1. WORK CONTEXTUALIZATION

The wine sector in Spain represents a notable part of its economy, society and culture.

Wine attracts tourists from all over the world. Approximately, three million tourists a year visit the wineries and museums of the Spanish Wine Route.

It is also a driving force for development in small, far-flung villages and towns. It provides employment, in the wineries and in the fields, and in other industries such as the hotel and catering trade and tourism. The product is produced in the seventeen Autonomous Communities, helping in the fight against the depopulation of rural areas. In addition, it is widely advancing in innovation and development.

The relevance of this project is determined by the importance of the wine sector in Spain, and a large part of it in the Valencian Community.

Spain is the country with the largest area of vineyards, ahead of the others that also have large areas such as France, Italy and Chile.

World wine production reached a record high in 2018, at 292 million hectoliters, which represented an increase of more than 17,3% compared to 2017. Spain is the world's third largest wine producer, behind Italy and France.

Furthermore, Spain is the country that exports the largest volume of wine. In 2018, around 21,1% of the turnover was channeled into the export market. (Spanish Wine Federation, 2020)

In 2018, world wine consumption was 246 million hectoliters, with a highly upward trend, which is possible due to the development of the international wine trade. The top consuming countries are: United States, France, Italy, Germany, China, United Kingdom and Russia; being in turn the largest importers of said product. (Íñigo, M. and García-Arranz, A., *The wine sector, 2018. International evolution, situation from the national point of view and boom in wine tourism*, 2019).

Grupo Coviñas is the leading winery of the Utiel-Requena Denomination of Origin (D.O.). Its turnover, in 2018, exceeded 51 million euros, making it the cooperative with the largest market share in the D.O. It covers more than 40% of the D.O.'s vineyard extensions and a significant part of its production is exported to more than one thirty countries. (Economía 3; "*Grupo Coviñas closes 2018 with more than 14 million bottles sold*", 01/04/2019)

This study is focused on the knowledge of the economic-financial situation of Grupo Coviñas (hereinafter Coviñas), during the period from 2017 and 2019, marked by increases in production, consumption, and trade worldwide of wine.

As a second-tier cooperative, which brings together 10 associated cooperatives in the region, it stands out from the conventional capital company, defending the fair treatment of its members, and the values of equality and democracy, always with the aim of promoting the wines and cavas they produce, offering the highest quality to the market. Its reason of being was to give greater added value to the product produced by its members, bottling the wine produced by them, with the objective of obtaining a better price of the grapes from the cooperative members.

Additionally, they follow an exhaustive quality control at all stages of production: ripening, harvesting, winemaking, ageing and bottling; seeking sustainable growth in the three dimensions of the concept of sustainability - social, economic, and environmental.

With a wide national and international projection, it has increased its recognition in the markets.

## 1.2. OBJECTIVE

The main objective that is sought to be achieved by carrying out this study is mainly to analyze and understand the economic and financial situation of the Cooperative, as well as its evolution during the financial years 2017, 2018 and 2019, in such a way that it may be useful for future decision-making, both for the company and its stakeholders.

In order to achieve this aim, the analysis is based on the interpretation of the Financial Statements of Coviñas, as well as those of its main competitors: 'La Baronía de Turís' and 'Bodegas Bocopa'. The annual accounts have been obtained directly from SABI database.

All the sections of this study are supported by graphs, tables and relevant figures for proper understanding, all of which are compared with the competitors in the wine sector, in order to understand the positioning of the Cooperative.

### 1.3. METHODOLOGY

The study's application methodology consists of traditional financial economic analysis.

For this purpose, in order to reach more accurate conclusions, we have the Financial Statements of different years (2017, 2018 and 2019), thus being able to make comparisons between them.

Given that the data expressed in the Annual Accounts available are represented in absolute values, more specifically in monetary units, besides working with these values, they are transformed into percentages. Two methodologies to calculate percentages are used: horizontal (the same mass of assets is compared in different periods in time) and vertical (the weight of each item on its mass of assets is compared).

Additionally, calculations are made using the data provided by each company in its Annual Accounts and the process of calculating the proposed ratios is explained in detail. The calculation and interpretation by ratios include: liquidity, solvency and profitability analysis (economic and financial).

The equity analysis of the Cooperative is analyzed through the joint interpretation of the economic and financial structure, by means of a detailed study of the most relevant items.

For a correct understanding of the situation of the company in its sector, the calculations of this work are compared with those of its competitors for the period 2017-2019.

Ultimately, it should be noted that all the data provided in the work come from the Official Accounts published annually by Coviñas, audited each year by Francisco Mondragón Peña. In this respect, it should be emphasized that the Reports present an unqualified favorable opinion in the three years, and therefore are useful for reaching reasonable conclusions.

#### 1.4. PROJECT CONTENT

In terms of content, this project is divided into sections:

- Section 2 analyzes the equity distribution of Coviñas, differentiating between the economic structure (composition of assets) and the financial structure (liabilities and equity).
- Section 3 provides an exhaustive analysis of the Cooperative's liquidity, through ratios and the study of its Working Capital and its Operational Fund Needs.
- Section 4 comprises the assessment of solvency and the levels of indebtedness, with the aim of analyzing their ability to generate resources to meet longer-term debts.
- In section 5, the company's results (operating and financial results) are interpreted to understand the evolution of its business.
- Section 6 focuses on understanding the Statement of Cash Flows to find out how Coviñas generates and consumes cash each year, to analyze its ability to meet its payments and face its planned investments and improvements.
- Section 7 calculates and interprets the return on assets and the financial return.
- Finally, after obtaining and analyzing the results of the previous sections, section 8 presents the main conclusions reached and some recommendations for the company to improve in the future.

The sections compare the results obtained with the competitors in the wine sector.

### 1.5. LINKAGE WITH THE DEGREE IN FINANCE AND ACCOUNTING

The links between the work and the subjects studied in the Finance and Accounting degree are detailed below:

- Introduction to Accounting (FC1001), Financial Accounting (FC1012), Advanced Financial Accounting (FC1025) and Management Accounting (FC1027), because they are fundamental to understand the accounting operation of a company and its Annual Accounts.
- The subject of Sectoral Accounting (FC1040) is directly related to the work, given the accounting and management specialty of Cooperatives, as opposed to commercial companies.
- Mathematics of Financial Operations (FC1003), Mathematics I (FC1005) and Mathematics II (FC1007) assist in the arithmetical calculations of the analysis.
- Analysis of Financial Statements (FC1016), Business Valuation (FC1030) and Financial Auditing (FC1032), are essential to critically interpret the economic and financial information of the company, as well as to understand the Audit Reports.
- English for Finance (FC1022) is key to writing, given the use of academic English for finance.
- Treasury Management (FC1035) is used to understand the functioning of the collection and payment policy, as well as aspects such as liquidity, solvency, profitability, and their ratios.

## 2. ASSETS ANALYSIS

The purpose of the following equity analysis is to study the composition of the Coviñas' balance sheet and its magnitudes, in such a way that it provides an overview of the Cooperative's evolution and situation. The balance sheet is made up of two parts that refer to the same reality: the economic structure (or assets) and the financial structure, which consists of liabilities and equity.

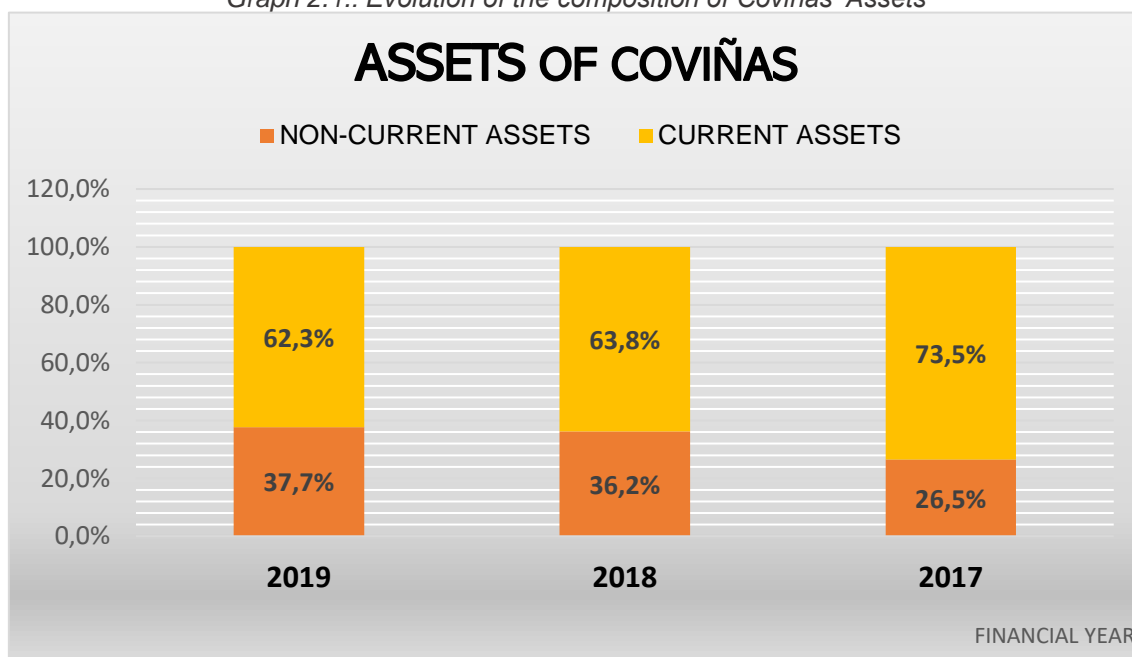
### 2.1. ECONOMIC STRUCTURE ANALYSIS

#### 2.1.1. DESCRIPTION OF THE EVOLUTION AND COMPOSITION OF THE ASSETS

The analysis of the economic structure consists of knowing the investments, the working capital, as well as the use of financial resources, that is, the assets. These assets make up the economic structure and are needed for the current operation of the company. They can be broken down into two main items:

- Non-Current Assets / Fixed Assets: They will remain in the company for a long time. They include buildings, machinery...
- Current Assets: These are the investments made by the company in the short term. It is made up of the elements that are linked to the operating cycle, which are necessary to carry out permanent investments.

Graph 2.1.: Evolution of the composition of Coviñas' Assets



Source: Own elaboration from the Annual Accounts of Coviñas



Non-current assets have increased slightly, mainly property, plant and equipment, especially in 2018 and to a lesser extent in 2019. Its weight in total assets increased from 26,5% to 37,7%.

The reason for these increases is the new investments that Coviñas has made in new and more innovative machinery, as well as technical installations, new industrial buildings, warehouses, etc. It should be noted that, in 2017-2018, it was agreed to acquire a new bottling line, which at the end of 2019 was still being assembled, as well as the construction of a warehouse building located next to the Cooperative's registered office.

All of Coviñas' tangible fixed assets are free of tax burdens. As an exception, it has a voluntary and permanent easement for the underground passage of electricity in a building located at the registered office.

Table 2.1.: Economic structure of Coviñas

COVIÑAS COOP. V.	2019	% V (2019)	2018	% V (2018)	2017	% V (2017)
<b>NON-CURRENT ASSETS</b>	<b>6.867.221</b>	<b>37,7%</b>	<b>6.610.776</b>	<b>36,2%</b>	<b>5.862.269</b>	<b>26,5%</b>
Intangible assets	70.008	0,4%	52.254	0,3%	25.476	0,1%
Tangible/fixed assets	6.701.189	36,8%	6.459.840	35,4%	5.735.452	25,9%
Investment property	0	0,0%	0	0,0%	0	0,0%
Long-term investment sin group companies and associates	47.000	0,3%	47.000	0,3%	47.000	0,2%
Long-term financial investments	33.075	0,2%	33.075	0,2%	33.075	0,1%
Deferred tax assets	15.949	0,1%	18.607	0,1%	21.265	0,1%
Non-current commercial debtors	0	0,0%	0	0,0%	0	0,0%
<b>CURRENT ASSETS</b>	<b>11.332.828</b>	<b>62,3%</b>	<b>11.631.981</b>	<b>63,8%</b>	<b>16.262.787</b>	<b>73,5%</b>
Non-current assets held for sale	0	0,0%	0	0,0%	0	0,0%
Inventories	6.178.303	33,9%	6.756.019	37,0%	6.403.191	28,9%
Trade and Other Accounts Receivable	4.821.657	26,5%	4.597.184	25,2%	9.656.251	43,6%
Customers	4.070.049	22,4%	4.162.866	22,8%	9.190.811	41,5%
Other Accounts Receivable	751.608	4,1%	434.318	2,4%	465.440	2,1%
Short-term investment sin group companies and associates	0	0,0%	0	0,0%	0	0,0%
Short-term financial investments	2.150	0,0%	2.000	0,0%	410	0,0%
Short-term accruals	30.166	0,2%	37.835	0,2%	38.384	0,2%
Cash and other liquid assets	300.552	1,7%	238.943	1,3%	164.550	0,7%
<b>TOTAL ASSETS</b>	<b>18.200.049</b>	<b>100,0%</b>	<b>18.242.757</b>	<b>100,0%</b>	<b>22.125.056</b>	<b>100,0%</b>

Source: Own elaboration from the Annual Accounts of Coviñas

The evolution of the most relevant items of Current Assets is explained below.

As can be seen in Table 2.1, a relevant item of current assets is "Trade and other accounts receivable", which represents the right of the company to receive a remuneration (monetary / in-kind collection rights) for the sale of goods and provision of services.

On the one hand, it includes receivables from customers for sales. On the other hand, the rest of the commercial debtors are comprised of rights against personnel, Public Authorities, shareholder partners, suppliers, etc.

As can be seen in the graph above, Coviñas' current assets decreased especially in 2018, and focused mainly on Customers, a circumstance that we understand to be due to the sharp reduction in its turnover in that year.

Coviñas' trade debtors account for 26,5% of its total balance sheet in 2019, remaining fairly stable compared to 2018, which accounted for 25,2%.

The weight of this Debtors item is due to the fact that in the wine sector sales are mainly on deferred payment, most of them bulk wine that is sold in large quantities. It does not seem a priori that there is a serious problem in this regard as it is a consequence of the sector in which it operates, and in addition, most of its accounts receivable (both domestic operations and exports) are guaranteed by credit insurance - as specified in the Annual Report of Coviñas for the 2018/19 financial year, section 9.3.a) -Credit risk.

However, in order to determine the impact that a high proportion of debtors may have, it would be useful to study: the concentration of customers and the collection period.

In order to reach a definitive conclusion on this significant fact of the company, it will be necessary to analyze the operating cycle through the customer turnover ratio, which will report the time it takes the company to turn all short-term debtors into cash. The ratio will also be compared with the supplier turnover ratio, in such a way that it will be possible to analyze the temporal relationship of collections-payments.

The movements of the valuation corrections due to impairment, for uncollectible credits related to commercial operations caused by latent situations of customer insolvency, during the period studied were as follows:

*Table 2.2.: Customers and Debtors of Coviñas*

<b>CUSTOMERS AND DEBTORS</b>	<b>2018/19 Financial year</b>	<b>2017/18 Financial year</b>
Initial balance	-130.397	-156.590
Financial year endowments	-5.218	-118.641
Excesses and applications	5.727	53.936
Canceled-failure amounts	12.509	90.898
<b>Closing balance</b>	<b>-117.379</b>	<b>-130.397</b>

*Source: Own elaboration from the Annual Accounts of Coviñas*

In 2018/19, Coviñas did not take into account bad loans, unlike in the previous year, when it took into account 28.127 euros of this kind.

Of the remaining balance sheet items, "Inventories" item is especially striking, which are "those assets owned by the company for sale in the ordinary course of operation, or for their transformation or incorporation into the production process" (General Plan of Accounting).

It includes the available merchandise for immediate sale (bulk wine, sparkling wine and bottled wine), the raw materials necessary for processing, auxiliary materials and spare parts...

It is worth mentioning that the Cooperative does not produce its wine directly but is responsible for supervising the production of the wine it buys from its cooperative members.

Inventories item remained slightly stable, both in 2018 and 2019, representing 37% and 33,9% of its balance, respectively.

Stocks of table wine amounted to 1.001.495 euros, which represents 16,2% of the wine produced for subsequent sale, with bulk wine making up the remainder. Compared to current assets, stocks represent 54,51% of current assets in 2019.

The length of time that a company keeps its stock in warehouse depends on the economic sector in which it operates. The wine sector, in the case of Coviñas, is a sector that requires storing a lot of stocks of both bulk wine and bottled wine during the year. This is due to the fact that the production process begins with the harvesting of the grapes, which usually oscillates between the months of September and October, and during the rest of the year the grapes are processed and marketed.

Later, the inventories item will be analyzed in more detail, through the average storage period.

## 2.1.2. COMPARATIVE ANALYSIS OF THE ECONOMIC STRUCTURE

Table 2.3.: Comparison of the evolution of the economic structure

	COVIÑAS				LA BARONÍA DE TURÍS				BODEGAS BOCOPA			
	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)
<b>NON-CURRENT ASSETS</b>	<b>6.867.221</b>	<b>37,7%</b>	<b>6.610.776</b>	<b>36,2%</b>	<b>3.505.492</b>	<b>55,5%</b>	<b>3.228.665</b>	<b>53,1%</b>	<b>4.243.570</b>	<b>44,6%</b>	<b>4.567.649</b>	<b>46,2%</b>
Intangible assets	70.008	0,4%	52.254	0,3%	9.811	0,2%	0	0,0%	21.218	0,2%	28.790	0,3%
Tangible/fixed assets	6.701.189	36,8%	6.459.840	35,4%	3.193.215	50,6%	2.919.750	48,0%	4.166.167	43,8%	4.482.029	45,3%
Investment property	0	0,0%	0	0,0%	0	0,0%	0	0,0%	38.585	0,4%	38.585	0,4%
Long-term investments in group companies and assoc.	47.000	0,3%	47.000	0,3%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term financial investments	33.075	0,2%	33.075	0,2%	284.540	4,5%	289.250	4,8%	13.381	0,1%	13.381	0,1%
Deferred tax assets	15.949	0,1%	18.607	0,1%	17.926	0,3%	19.665	0,3%	4.219	0,0%	4.863	0,0%
Non-current commercial debtors	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CURRENT ASSETS</b>	<b>11.332.828</b>	<b>62,3%</b>	<b>11.631.981</b>	<b>63,8%</b>	<b>2.811.255</b>	<b>44,5%</b>	<b>2.857.257</b>	<b>46,9%</b>	<b>5.264.859</b>	<b>55,4%</b>	<b>5.321.041</b>	<b>53,8%</b>
Non-current assets held for sale	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Inventories	6.178.303	33,9%	6.756.019	37,0%	1.490.549	23,6%	1.586.070	26,1%	2.392.422	25,2%	2.136.473	21,6%
Trade and Other Accounts Receivable	4.821.657	26,5%	4.597.184	25,2%	795.466	12,6%	916.991	15,1%	2.312.891	24,3%	2.413.284	24,4%
Customers	4.070.049	22,4%	4.162.866	22,8%	637.895		705.550	11,6%	2.157.688		2.292.594	23,2%
Other Accounts Receivable	751.608	4,1%	434.318	2,4%	157.571		211.441	3,5%	155.203		120.690	1,2%
Short-term investments in group companies and assoc.	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term financial investments	2.150	0,0%	2.000	0,0%	6.293	0,1%	6.060	0,1%	0	0,0%	0	0,0%
Short-term accruals	30.166	0,2%	37.835	0,2%	3.498	0,1%	1.961	0,0%	5.379	0,1%	4.029	0,0%
Cash and other liquid assets	300.552	1,7%	238.943	1,3%	515.450	8,2%	346.175	5,7%	554.167	5,8%	767.255	7,8%
<b>TOTAL ASSETS</b>	<b>18.200.049</b>	<b>100,0%</b>	<b>18.242.757</b>	<b>100,0%</b>	<b>6.316.747</b>	<b>100,0%</b>	<b>6.085.922</b>	<b>100,0%</b>	<b>9.508.429</b>	<b>100,0%</b>	<b>9.888.690</b>	<b>100,0%</b>

Source: Own elaboration from the Annual Accounts of the Cooperatives

The previous Table 2.6 is presented in section 11 "Annexes". It corresponds to Annex 2.

Coviñas' total assets at the end of 2019 were approximately 315,2% of those of La Barónía de Turís and 209,4% of those of Bodegas Bocopa.

- Both Barónía de Turís and Bocopa maintain a high percentage of assets in stock.
- In the assets of Bodegas Bocopa, trade debtors and other accounts receivable also has a high relative weight, however, La Barónía de Turís maintains a lower percentage, around 12% in 2019, with 795.466 euros.

In this sense, Barónía de Turís has fewer collection rights from customers and other debtors, which will mean less availability to request financing from banking entities to finance short-term receivables through the advance payment of its commercial portfolio.

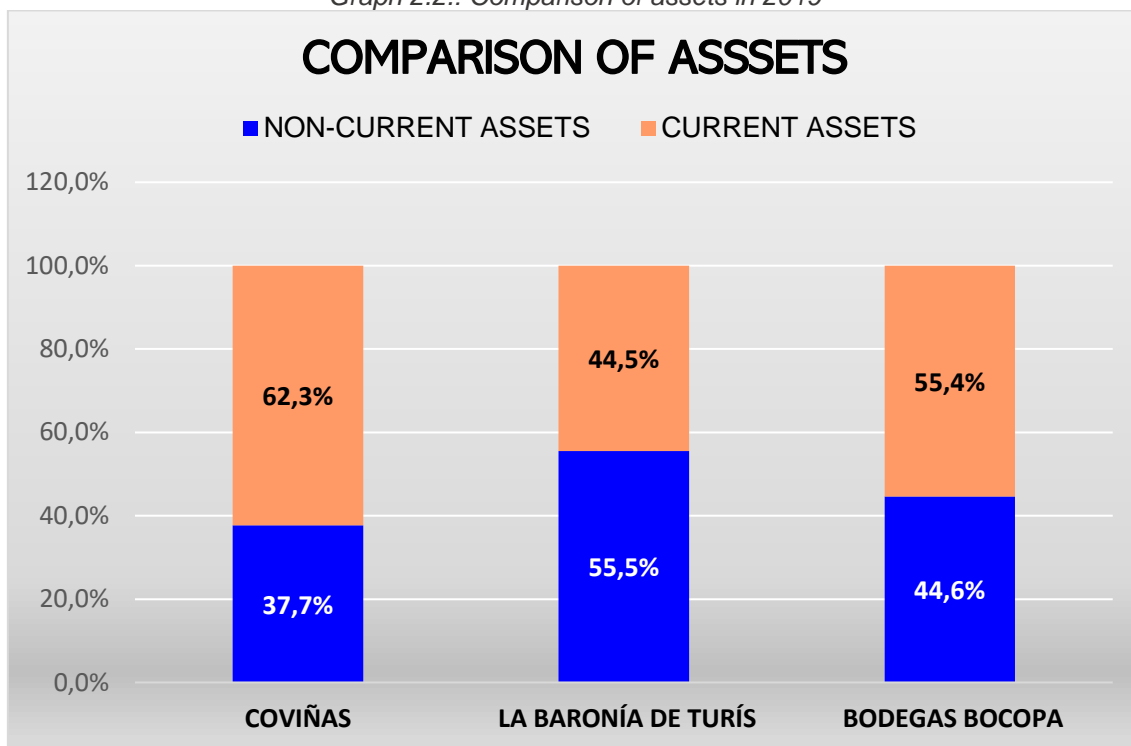
- La Barónía de Turís has allocated 251.465 euros more to long-term financial investments than Coviñas in 2019 (256.175€ more in 2018) and 271.159€ more than Bocopa in 2019 (275.869€ more in 2018). This indicates that shares have been purchased (not for speculative purposes, but to be held over time) or debt and/or money has been lent to another company with which there are no group/associate links.

However, Coviñas made investments in companies of the same group or long-term associates for 47.000€ in both years, that is, there was no movement.

In its case, they correspond to the constitution on 10/09/2017 of a company called Bobal Wine Cellars, S.L. (also called Bobal Wines), through which it acquired a 41,34% stake in its capital, being classified as associated companies. Subsequently, Bobal Wines increased its capital, and this shareholding was reduced to 39,50%. Located at the same registered office as Coviñas, its corporate purpose is the marketing and export of bulk wine, must and grapes.

- Coviñas has more than double the tangible fixed assets of La Baronía in both years, and more than 140% of Bodegas Bocopa. Regarding intangible fixed assets, it is also much higher than that of the competitors.

Graph 2.2.: Comparison of assets in 2019



Source: Own elaboration from the Annual Accounts of the Cooperatives

The graph above demonstrates what has been explained previously. The non-current assets of La Baronía de Turís are the highest of the three cooperatives, with Coviñas having the highest current assets, due to the aforementioned weight of trade debtors and stocks over the others.

## 2.2. FINANCIAL STRUCTURE ANALYSIS

### 2.2.1. DESCRIPTION OF THE FINANCIAL STRUCTURE

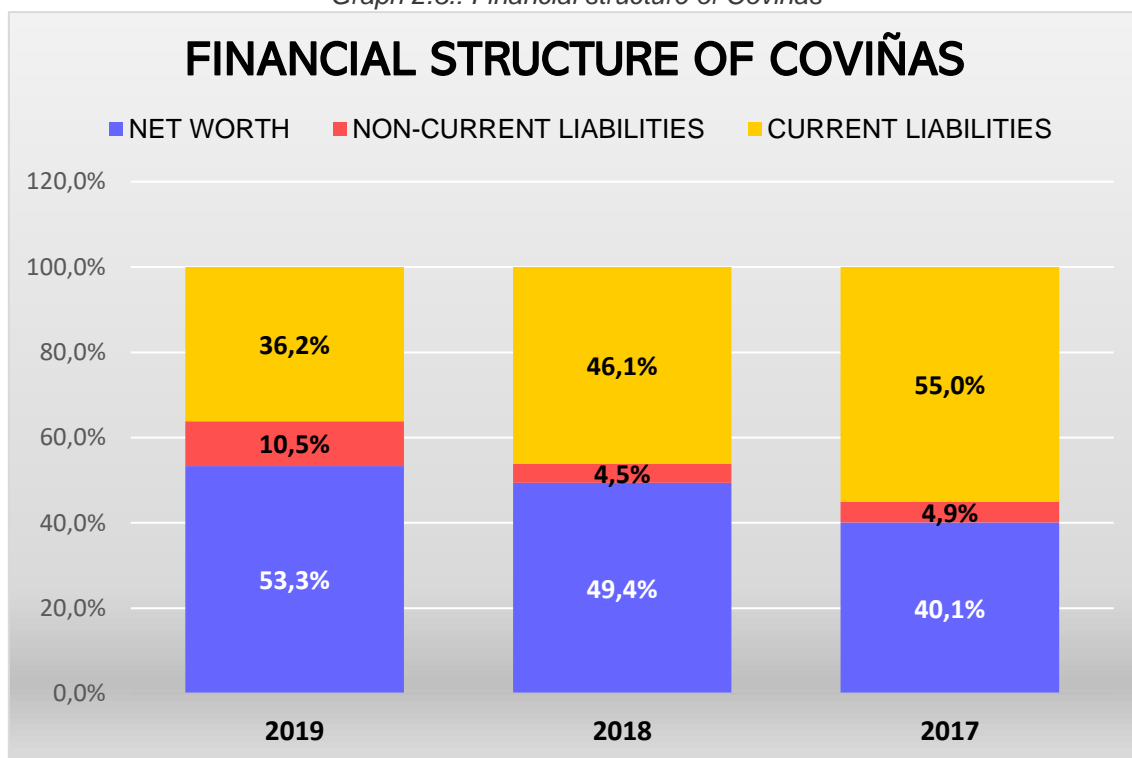
As a continuation, the evolution of liabilities and equity during the period in question will be studied. It will be analyzed which items finance the Asset, and in what percentage, being this the main function of the financial structure.

Table 2.4.: Financial structure of Coviñas

COVIÑAS	2019	% V (2019)	2018	% V (2018)	2017	% V (2017)
<b>NET WORTH</b>	<b>9.701.609</b>	<b>53,3%</b>	<b>9.014.464</b>	<b>49,4%</b>	<b>8.875.891</b>	<b>40,1%</b>
Capital	2.559.681	14,1%	2.559.681	14,0%	2.559.681	11,6%
Share premium	0	0,0%	0	0,0%	0	0,0%
Reserves	5.460.956	30,0%	5.129.303	28,1%	4.936.918	22,3%
Own shares	0	0,0%	0	0,0%	0	0,0%
Retained earnings	0	0,0%	0	0,0%	0	0,0%
Other contributions from partners (interests)	-76.791	-0,4%	-76.791	-0,4%	-76.791	-0,3%
Result of the Profit and Loss Statement	357.176	2,0%	328.118	1,8%	318.500	1,4%
Rest of net worth	1.400.587	7,7%	1.074.153	5,9%	1.137.583	5,1%
<b>NON-CURRENT LIABILITIES</b>	<b>1.911.162</b>	<b>10,5%</b>	<b>815.130</b>	<b>4,5%</b>	<b>1.077.449</b>	<b>4,9%</b>
Long-term provisions	34.867	0,2%	38.388	0,2%	42.615	0,2%
Long-term debts	1.720.674	9,5%	657.392	3,6%	908.437	4,1%
Long-term Liabilities Payable to Group companies and Associates	0	0,0%	0	0,0%	0	0,0%
Deferred tax liabilities	155.621	0,9%	119.350	0,7%	126.398	0,6%
Long-term accruals	0	0,0%	0	0,0%	0	0,0%
Long-term trade accounts payable	0	0,0%	0	0,0%	0	0,0%
Long-term debt with special characteristics	0	0,0%	0	0,0%	0	0,0%
<b>CURRENT LIABILITIES</b>	<b>6.587.278</b>	<b>36,2%</b>	<b>8.413.163</b>	<b>46,1%</b>	<b>12.171.715</b>	<b>55,0%</b>
Liabilities linked to non-current assets held for sale	0	0,0%	0	0,0%	0	0,0%
Short-term provisions	0	0,0%	0	0,0%	0	0,0%
Short-term debts	3.386.483	18,6%	3.538.815	19,4%	4.760.559	21,5%
Short-term Liabilities Payable to Group companies and Associates	0	0,0%	0	0,0%	0	0,0%
Short-term trade accounts payable	3.200.795	17,6%	4.874.348	26,7%	7.411.156	33,5%
Suppliers	1.946.027	10,7%	3.773.578	20,7%	6.318.588	0,0%
Rest of commercial creditors and other accounts payable	1.254.768	6,9%	1.100.770	6,0%	1.092.568	28,6%
Short-term accruals	0	0,0%	0	0,0%	0	4,9%
Short-term debt with special characteristics	0	0,0%	0	0,0%	0	0,0%
<b>TOTAL NET WORTH AND LIABILITIES</b>	<b>18.200.049</b>	<b>100,0%</b>	<b>18.242.757</b>	<b>100,0%</b>	<b>22.125.056</b>	<b>100,0%</b>

Source: Own elaboration from the Annual Accounts of Coviñas

Graph 2.3.: Financial structure of Coviñas



*Source: Own elaboration from the Annual Accounts of Coviñas*

We proceed to detail the changes in the composition of the Cooperative's Liabilities and Equity.

The Cooperative has a net worth at the closing date (31/09/2019) of 9.701.609€, which has been increasing over the last two financial years thanks to the reinvestment of annual profits, which increases the volume of reserves, while its share capital has remained stable.

If own funds are high, it is an indicator of solvency. Among the main items:

- It has reserves of 30% of its assets (5.460.956€). Reserves have increased by 331.662 euros from 2017 to 2019, mainly due to the following variations:

Legal and statutory reserve: Increase of 132.337 euros from 4.308.054€ (2018) to 4.440.391€ (2019).

A non-distributable reserve is the Reserve Requirement, which is intended for the consolidation, development and guarantee of the Cooperative. It constitutes:

- 20% of the net surplus for the year, prior to the application of the tax, until it reaches the amount of the subscribed capital.
- Membership fees for new cooperative members.

- Extra cooperative benefits and the proportion of 50% of the extraordinary benefits.

Other reserves: Correspond to Voluntary Reserves, which could be distributed in the future. Increase in the amount of 199.316 euros from 821.249€ (2018) to 1.020.565€ (2019).

- As a cooperative, Coviñas' capital is made up of mandatory and voluntary contributions made by members. These compulsory contributions have been established as refusable in the Articles of Association and, therefore, in the event of a member's withdrawal, the Governing Council may refuse to reimburse them. The capital contributed by the shareholders constitutes 14,1% of the assets, amounting to 2.559.681 euros.

Article 20 of the Cooperative's Statutes states that the obligatory contributions will be remunerated. For this reason, Coviñas pays interest each year to the members on their contributions for an amount of 76.791 euros, which is why they are shown in the balance sheet with a negative sign, as they represent a payment, an expense.

The accrual of interest on the aforementioned compulsory contributions is established by the Cooperative's Articles of Association, and the General Assembly can also be given this power.

In the case of Coviñas, the Assembly will agree on the remuneration of the contributions, setting an annual interest rate. The remuneration of the social contributions is conditional on obtaining positive results prior to the distribution, and the interest may not exceed the legal interest of the money by more than six points. The interest is paid by crediting an individual account for each cooperative member.

- The remaining of the net worth is mainly represented by capital grants from the Ministry of Agriculture, Fisheries and Food; Valencian Government; and the European Agricultural Fund for Rural Development (EAFRD) amounting to 1.400.587 euros in 2019 (326.434€ more than in 2018). Specifically, it received two new grants in 2018 from the Valencian Government and EAFRD for 30.222€ and 27.000€, respectively.



In 2019, it received two grants from EAFRD for 69.180 and 5.488 euros and another larger one from the Valencian Government for 420.753 euros, hence the growth in the item.

As is detailed in Coviñas' annual report, the items receiving the subsidy are transferred to the profit and loss account in proportion to the depreciation of the subsidized items.

It also received smaller operating grants of 107.552 euros in 2019, which were recorded as income in profit and loss.

On the other hand, with regard to the evolution of Liabilities:

- Non-Current Liabilities more than doubled, from 4,5% in 2018 to 10,5% in 2019, due to the long-term financing of investments in Property, Plant and Equipment in both 2019 and 2018.
- Regarding Current Liabilities, we emphasize the significant reduction experienced in 2018, which is the result of the significant reduction in sales experienced in the year, as is the case of Customers' item.

In 2019, its Short-Term Debts item is slightly reduced, and its Group Company Suppliers item continues to be significantly reduced.

As indicated above, the item "trade creditors and other accounts payable" has decreased over last two years. More specifically, commercial debts with suppliers have decreased. This is due to the partial payment of debts with suppliers relating to purchases of goods on credit, for which Coviñas has an obligation to pay.

It has made payments on account or settlements of debts contracted with creditors.

This decrease indicates that it was mainly due to lower supplier financing and a lower volume of transactions, as shown in the net turnover.

The debts item, according to the Annual Report, has the following breakdown:

Table 2.5.: Breakdown of debts

	ONE	TWO	THREE	FOUR	FIVE	MORE THAN FIVE	TOTAL
<b>DEBTS</b>	3.386.483	501.888	398.473	250.420	252.178	317.715	5.107.157
Debts with credit institutions	3.152.237	501.888	398.473	250.420	252.178	317.715	4.872.911
Other financial liabilities	234.246	-	-	-	-	-	234.246
<b>TRADE AND OTHER PAYABLES</b>	3.119.894	-	-	-	-	-	3.119.894
Suppliers	1.084.886	-	-	-	-	-	1.084.886
Partners Suppliers	859.670	-	-	-	-	-	859.670
Sundry creditors	916.654	-	-	-	-	-	916.654
Personnel	258.684	-	-	-	-	-	258.684
<b>TOTAL</b>	<b>6.506.377</b>	<b>501.888</b>	<b>398.473</b>	<b>250.420</b>	<b>252.178</b>	<b>317.715</b>	<b>8.227.051</b>

Source: Report of the Annual Accounts of Coviñas

Afterwards, in the Cash Flow analysis section, Coviñas' Cash Flow Statement will be studied in order to find out how it has generated cash in this financial year to repay the debts contracted.

As specified in the Coviñas Annual Report for the 2018/19 financial year, section 9.2.b) Non-compliance with contractual obligations "during the financial year there has been no non-payment of principal or interest on the loans".

Coviñas, in the 2018 financial year, had loans granted by Banco Popular (currently absorbed by Santander) and Cajamar, with long-term balances of 391.613 and 265.779 euros, respectively. In 2019, it paid part of these loans, remaining 240.960 euros outstanding with Banco Popular (Santander), and 163.788€ with Cajamar.

In the 2019 financial year, it requested a loan from CaixaBank for an amount of 1.315.926€, to finance investments in Property, Plant and Equipment made in the last two years.

Regarding short-term debts with credit institutions:

- Decreased credit facilities by an amount drawn down from 1.968.798€ (2018) to 1.686.032€ (2019).
- It has increased the debts for confirming operations from 481.200€ to 627.000€ from 2018 to 2019.
- The Cooperative has not required to anticipate its commercial portfolio in 2019, since there are no debts for discounted bills.
- Unmatured accrued interest 2.521€ (2019) and 299€ (2018).

To these figures, must be added the short-term debts for Loans maturing during the year, which amount to 836.684€, plus a further 234.246€ for Other Financial Liabilities (mainly corresponding to debts with Suppliers of Fixed Assets).

- There is an item earmarked for training, promotion of cooperativism, and carrying out activities between cooperatives, it is the Cooperative Training and Fund Promotion integrated into the set of long-term provisions.

Each year, 5% of the net surplus is assigned before the Cooperative tax.

Coviñas has fixed assets assigned to said fund: training course rooms, laboratory building, equipment, as well as furniture.

## 2.2.2. COMPARATIVE ANALYSIS OF THE FINANCIAL STRUCTURE

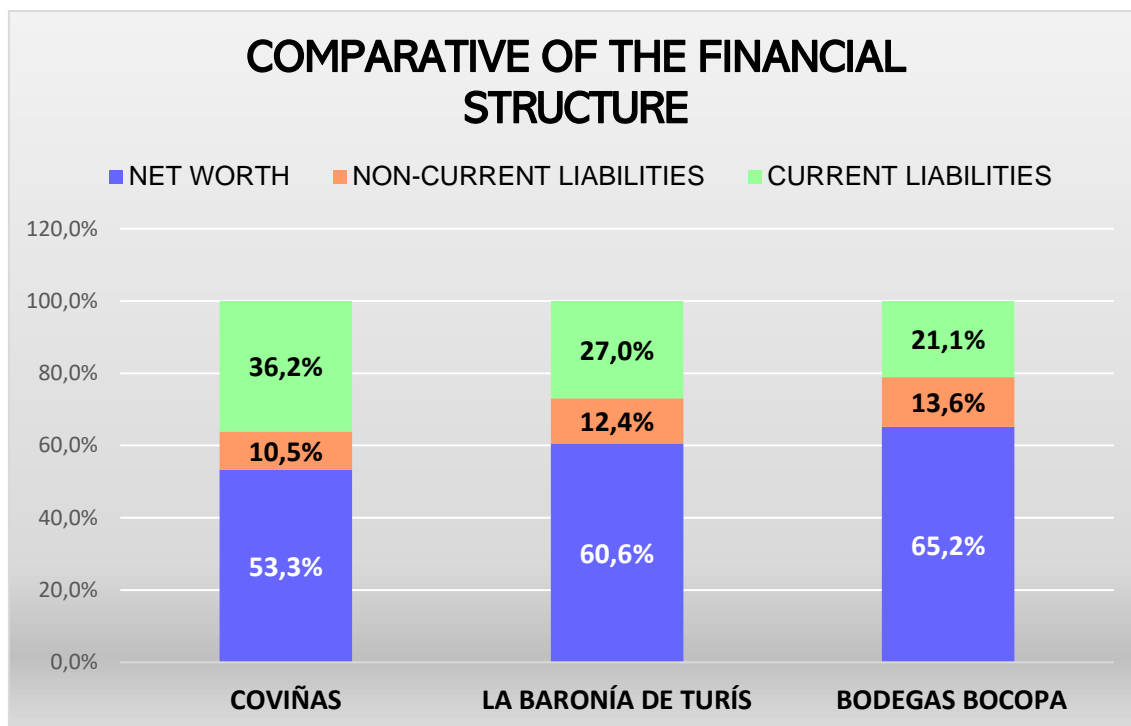
Table 2.6.: Comparison of the financial structure

	COVIÑAS				LA BARONÍA DE TURÍS				BODEGAS BOCOPA			
	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)
<b>NET WORTH</b>	<b>9.701.609</b>	<b>53,3%</b>	<b>9.014.464</b>	<b>49,4%</b>	<b>3.828.611</b>	<b>60,6%</b>	<b>3.634.506</b>	<b>59,7%</b>	<b>6.201.106</b>	<b>65,2%</b>	<b>6.048.987</b>	<b>61,2%</b>
Capital	2.559.681	14,1%	2.559.681	14,0%	1.158.739	18,3%	1.112.664	18,3%	0	0,0%	0	0,0%
Share premium	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Reserves	5.460.956	30,0%	5.129.303	28,1%	2.228.250	35,3%	2.219.097	36,5%	4.894.641	51,5%	4.780.680	48,3%
Own shares	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Retained earnings	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Other contributions from partners (interests)	-76.791	-0,4%	-76.791	-0,4%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Result of the Profit and Loss Statement	357.176	2,0%	328.118	1,8%	13.856	0,2%	15.147	0,2%	463.788	4,9%	348.606	3,5%
Rest of net worth	1.400.587	7,7%	1.074.153	5,9%	427.766	6,8%	287.598	4,7%	842.677	8,9%	919.701	9,3%
<b>NON-CURRENT LIABILITIES</b>	<b>1.911.162</b>	<b>10,5%</b>	<b>815.130</b>	<b>4,5%</b>	<b>785.597</b>	<b>12,4%</b>	<b>479.873</b>	<b>7,9%</b>	<b>1.297.761</b>	<b>13,6%</b>	<b>1.692.786</b>	<b>17,1%</b>
Long-term provisions	34.867	0,2%	38.388	0,2%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term debts	1.720.674	9,5%	657.392	3,6%	738.011	11,7%	447.889	7,4%	984.902	10,4%	1.360.671	13,8%
Long-term Liabilities Payable to Group companies and Associates	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Deferred tax liabilities	155.621	0,9%	119.350	0,7%	47.587	0,8%	31.984	0,5%	210.669	2,2%	229.925	2,3%
Long-term accruals	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term trade accounts payable	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term debt with special characteristics	0	0,0%	0	0,0%	0	0,0%	0	0,0%	102.190	1,1%	102.190	1,0%
<b>CURRENT LIABILITIES</b>	<b>6.587.278</b>	<b>36,2%</b>	<b>8.413.163</b>	<b>46,1%</b>	<b>1.702.539</b>	<b>27,0%</b>	<b>1.971.543</b>	<b>32,4%</b>	<b>2.009.562</b>	<b>21,1%</b>	<b>2.146.917</b>	<b>21,7%</b>
Liabilities linked to non-current assets held for sale	0	0,0%	0	0,0%	0	0,0%	14.126	0,2%	0	0,0%	0	0,0%
Short-term provisions	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term debts	3.386.483	18,6%	3.538.815	19,4%	217.985	3,5%	125.187	2,1%	342.628	3,6%	364.183	3,7%
Short-term Liabilities Payable to Group companies and Associates	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term trade accounts payable	3.200.795	17,6%	4.874.348	26,7%	1.484.553	23,5%	1.832.230	30,1%	1.666.934	17,5%	1.782.734	18,0%
Suppliers	1.946.027	10,7%	3.773.578	20,7%	1.074.524	17,1%	1.475.114	24,2%	1.028.374	10,8%	1.105.455	11,2%
Rest of commercial creditors and other accounts payable	1.254.768	6,9%	1.100.770	6,0%	410.029	6,5%	357.116	5,9%	638.560	6,7%	677.279	6,8%
Short-term accruals	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term debt with special characteristics	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>TOTAL NET WORTH AND LIABILITIES</b>	<b>18.200.049</b>	<b>100,0%</b>	<b>18.242.757</b>	<b>100,0%</b>	<b>6.316.747</b>	<b>100,0%</b>	<b>6.085.922</b>	<b>100,0%</b>	<b>9.508.429</b>	<b>100,0%</b>	<b>9.888.690</b>	<b>100,0%</b>

Source: Own elaboration from the Annual Accounts of the Cooperatives

The previous Table 2.6 is presented in section 11 "Annexes". It corresponds to Annex 3.

Graph 2.4.: Comparison of the financial structure in 2019



Source: Own elaboration from the Annual Accounts of the Cooperatives

In the comparative analysis of Cooperatives, the following main differences are found:

- The 2019 results of Barónía de Turís represent 4% of Coviñas and 3% of Bodegas Bocopa.
- Coviñas has much more short-term debt in percentage terms than the other two, with a greater similarity in the proportion that it represents on the balance between Bodegas Bocopa and La Barónía de Turís, although the results of Coviñas and Bocopa are more similar.
- The proportion of long-term debts with financial institutions, over the total of the financial structure, do not present relevant differences to show.
- Coviñas and La Barónía de Turís have no long-term debts with special characteristics. On the other hand, Bodegas Bocopa has this item with a balance of 102.290€ in both 2019 and 2018.

- Unlike Coviñas, La Baronía de Turís and Bodegas Bocopa do not pay interest on contributions to members.
- Neither do competing companies have reserves of financial resources reflected in their balance sheets to meet possible future payment obligations, that is, provisions (both long-term and short-term).
- As can be seen in Table 2.6, Bodegas Bocopa has no capital. This is an error made by SABI, the platform from which the annual accounts have been downloaded.
- Coviñas has lower percentage reserves than La Baronía de Turís and Bocopa.
- The three cooperatives have decreased the balance of "Trade creditors and other accounts payable" from 2018 to 2019. Bodegas Bocopa with a decrease of only -0,5%, La Baronía de Turís with -6,6% and Coviñas with -9,1%.  
In the case of Bocopa and Coviñas on account of a decrease in suppliers, and La Baronía due to a decrease in the rest of the creditors that are not suppliers, because of the type of business.  
As can be seen in Table 2.6, although La Baronía has increased the balance of its suppliers, the item as a whole has decreased.
- In percentage terms, deferred tax liabilities are similar in the case of Baronía de Turís and Coviñas. However, in Bocopa they have a greater weight, indicating that it will have to face higher payments for tax on profits.

### 3. LIQUIDITY ANALYSIS

#### 3.1. LIQUIDITY RATIOS

As a continuation of the study, the short-term liquidity or solvency position of the Cooperative, that is its ability to pay its debts falling due in the short term, will be assessed by means of a ratio analysis.

First of all, we analyze the Liquidity ratio, which serves as a measure of Coviñas' capacity to meet its short-term payments. It is essential that it exceeds the value of 1, as it is necessary to have a positive working capital.

$$\text{Liquidity ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

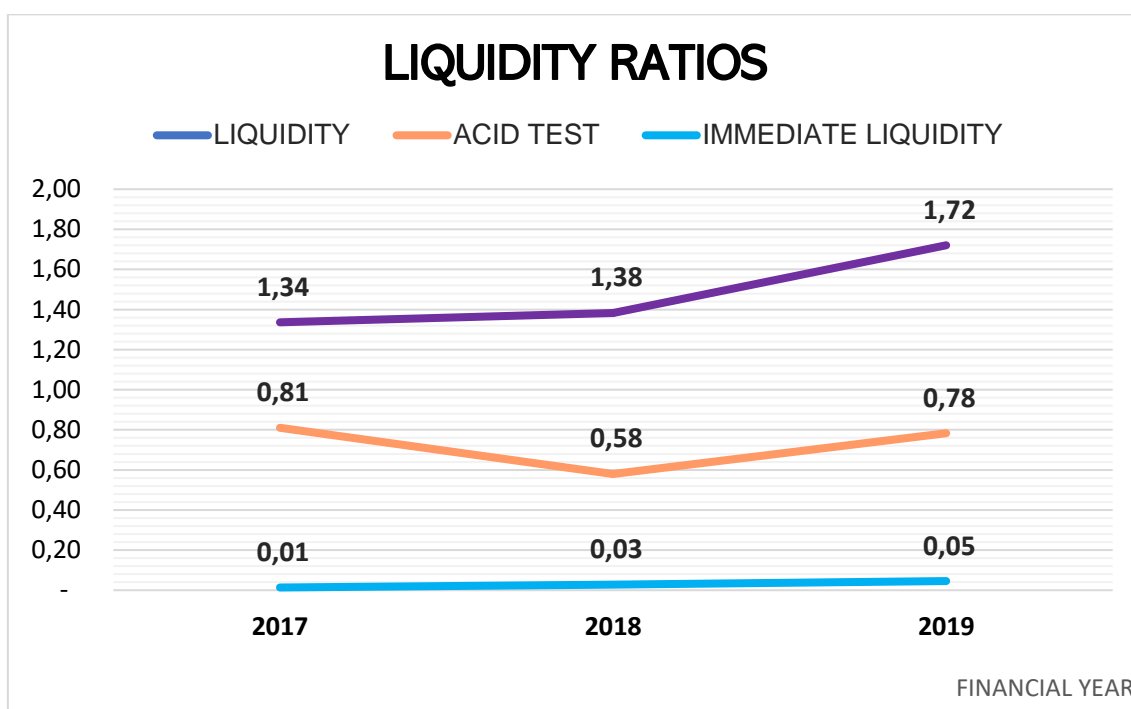
Secondly, the Acid Test ratio measures the capacity to generate sufficient liquidity with its available and realizable assets (such as customers, supplier advances or assets for sale), to pay short-term debts.

$$\text{Acid Test} = \frac{(\text{Current Assets} - \text{Stock})}{\text{Current Liabilities}}$$

Thirdly, Immediate Liquidity reports the Cooperative's cash flow, that is the amount of money in its cash or banks. It refers to the part of the short-term debts covered by items of the enterprise's assets that could be transformed into cash at maturity. It serves to measure its capacity to meet the most immediate payments.

$$\text{Immediate Liquidity ratio} = \frac{\text{Cash}}{\text{Current Liabilities}}$$

Graph 3.1.: Liquidity Ratios of Coviñas



Source: Own elaboration from the Annual Accounts of Coviñas

Table 3.1.: Coviñas' Liquidity ratios

LIQUIDITY RATIOS	2017	2018	2019
LIQUIDITY	1,34	1,38	1,72
ACID TEST	0,81	0,58	0,78
IMMEDIATE LIQUIDITY	0,01	0,03	0,05

Source: Own elaboration from the Annual Accounts of Coviñas

In the first place, as regards the liquidity ratio, the higher the ratio, the greater Coviñas' capacity to meet its short-term debts. Its recommended value is in the 1,5-2 range.

As can be seen in Table 3.1 and Graph 3.1, from 2017 to 2018, Coviñas increased its capacity to pay short-term debts slightly. Its value oscillated in both years around 1,3, thus representing a precautionary situation. It has a positive working capital, although it must monitor both the rotation of its stocks and its collection periods from customers and payments to suppliers.

From 2018 to 2019, there was a considerable increase in the ratio, falling within the recommended range. It represents a correct situation for the company, Coviñas offers adequate solvency to its creditors in the short term.

Secondly, the optimal value of the Acid Test ratio is between the values of 0,75 and 1. A significant reduction can be seen from 2017 to 2018, standing at a value of 0,58, well below what is recommended. In 2018, Coviñas may have had difficulties in meeting its short-term debts. In such a situation, it is advisable to convert short-term debt to long-term debt, improve inventory and collection periods or delay payments, or increase capital, thus reducing liquidity problems.

In 2019, it reached the optimum with a value of 0,78, similar to that of 2017. It represents the correct situation of the Cooperative, which has money to face debts, so we see that it does not have liquidity problems.

Thirdly, the immediate liquidity ratio must be maintained between the values of 0,1-0,3. In none of the years of the period studied, Coviñas reached the recommended minimum of 0,1. It represents a situation which must be approach with caution, as it may have occasional difficulties in meeting short-term payments with convertible assets cash on maturity of the debts at its disposal.

Additionally, to delve into the liquidity of the Cooperative, the static ratios calculated are complemented with an analysis of the average Lead Time.

*Table 3.2.: Average Lead Time*

	<b>2017</b>	<b>2018</b>	<b>2019</b>
AVERAGE STORAGE PERIOD	58	177	195
AVERAGE COLLECTION PERIOD	58	111	69
AVERAGE PAYMENT PERIOD	69	115	68
<b>AVERAGE LEAD TIME</b>	<b>47</b>	<b>173</b>	<b>197</b>

*Source: Own elaboration from the Annual Accounts of Coviñas*

Coviñas has a positive average Lead Time, which is indicative that its storage-sales-collection cycle is slower than the payment period by 47 days (in 2017), 173 days (2018) and 197 days (2019).

There is a noticeable increase in the Lead Time from 2017 to 2018, as it has more than doubled its storage, collection, and payment period. From 2018 to 2019, the Lead Time increases even more, due to the increase in the storage period. In contrast, the collection and payment periods have been reduced.



It should be noted that the reduction in collection periods is a positive development for the company and its liquidity, as the main objective of a company's collection policy is to accelerate the time between the delivery of the product to the customer and the actual disposition. In addition, it should be noted that companies do not usually reduce their payment terms, as their payment policy objective is to maximize the period between the receipt of the purchased goods and their actual payment. However, 68 days is a reasonable period that is in line with the payment terms according to Law 15/2010 (maximum period of 60 days).

The appropriate is that the average payment period should be longer than the average collection period, which means that the Cooperative collects earlier than it pays to its suppliers. In 2017 and 2018 we see how it happens in this way, however, in 2019, Coviñas gets paid one day later when it pays its suppliers for purchases made.

This is consistent with the existence of positive Operational Funding Needs, which are detailed in the following section.

### 3.2. WORKING CAPITAL AND OFN

*“Working capital, defined as the difference between current assets and current liabilities, represents the part of current assets that remains free after short-term payment commitments have been met. From the point of view of financing, working capital represents the part of current assets that cannot be financed with short-term debt, having to be financed with long-term resources.”* (Archel, P.; Lizarraga, F.; Sánchez, S. and Cano, M., *Financial Statements. Preparation, analysis and interpretation* (5th ed.), 2010, Editorial Pirámide).

$$\text{Working capital} = (\text{Equity} + \text{Noncurrent liabilities}) - \text{Noncurrent assets}$$

The Operational Funding Needs are the necessary net investments made by the company, after deducting the spontaneous financing generated by its own operations.

There are two ways to calculate OFNs:

1)

$$\text{Operational Funding Needs} = \text{Current Operating Assets} - \text{Current Operating Liabilities}$$

2)

Operational Funding Needs

= Optimal average stock of products

+ Optimal average balance of accounts receivable

– Optimal average balance of accounts payable

The implication of the above formula is that, for a given level of sales, increasing the efficiency of the production process, shortening collection periods and deferring payment to suppliers, that is, increasing the payment period, leads to a decrease in OFN.

Table 3.3 below shows Coviñas' Working Capital and Operational Funding Needs calculations.

*Table 3.3.: Coviñas' Funds Working Capital and Operating Needs*

<b>LIQUIDITY</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
WORKING CAPITAL	4.091.071	3.218.818	4.745.550
OPERATIONAL FUNDING NEEDS	8.851.220	6.755.633	8.129.883
FINANCING SURPLUS / DEFICIT	- 4.089.054	- 3.216.800	- 4.743.531

*Source: Own elaboration from the Annual Accounts of Coviñas*

On the one hand, Coviñas presents a positive working capital in each of the years. This means that part of current assets is financed with current liabilities, and the rest of current assets are financed with Long-Term Capital. Specifically, in 2019, Coviñas finances 4.745.550 euros of its current assets with permanent capital.

On the other hand, it has an Operating Cash Requirement of 8.129.883€ in 2019. From 2017 to 2018, the decrease in Operational Need of Funds is caused by the decrease in customers on the balance sheet, which in turn is due to the significant reduction in turnover.

From 2018 to 2019, Operational Funding Needs increased due to the increase in long-term debts, which financed the investments in tangible fixed assets in 2019 and especially those made in the previous year, 2018.

In the case of Coviñas, the working capital in each of the years is lower than the operational needs for funds, which means that it needs to resort to external financing, that is, it has a liquidity deficit.

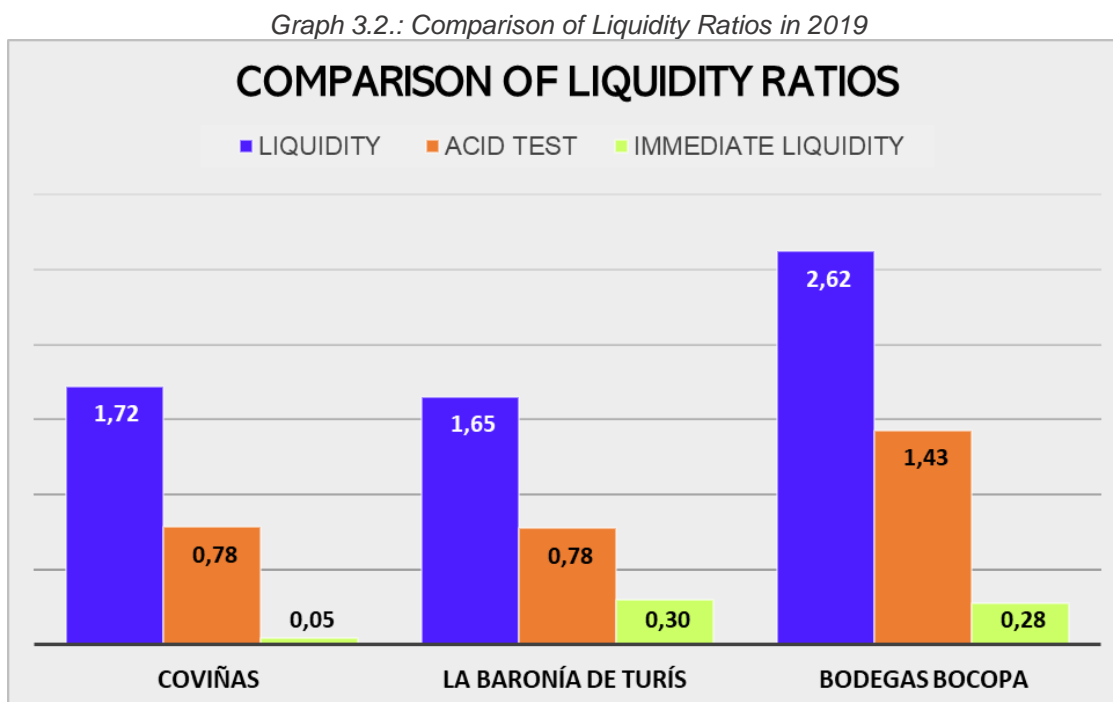
Figure 3.1.: Relationship between Working Capital and Operational Needs of Funds

NON-CURRENT ASSETS	6.867.221			NET WORTH	9.701.609
NON-OPERATING CURRENT ASSETS	2.150				
				NON-CURRENT LIABILITIES	1.911.162
		OPERATIONAL NEEDS OF FUNDS	WORKING CAPITAL		
		8.129.883	4.745.550 €		
OPERATING CURRENT ASSETS	11.330.678			CURRENT FINANCIAL LIABILITIES	3.386.483
				CURRENT OPERATING LIABILITIES	3.200.795

Source: Own elaboration from the Annual Accounts of Coviñas

Theoretically, according to the working capital definition itself, permanent capital finances current assets and part of non-current assets. However, there is a thinking that explains that Long-Term Capital should not finance short-term financing needs, because if it did, financial resources would remain idle, and this could have a negative impact on the profitability of the company.

## 3.3. COMPARED LIQUIDITY



Source: Own elaboration from the Annual Accounts of the Cooperatives

In terms of the three main ratios for liquidity analysis, we find the following similarities and differences:

- All three cooperatives have adequate liquidity, based on the calculated values of the liquidity ratio. They have values above 1,5. In the case of Bodegas Bocopa, it has a value of 2,62, well above 2, which represents a situation of attention, as it indicates that it has an excess of current assets, and runs the risk of obtaining a lower return from it than it could otherwise have. In this situation, it is advisable to reduce any excess cash, cash on hand, or inventories.
- A similar situation occurs with the Acid Test ratio. Coviñas and Baronía de Turís have the same ratio value of 0,78, while Bodegas Bocopa has a much higher value (1,43). The conclusion reached is the same as the one explained in the previous point.

- The immediate liquidity ratio of Baronía de Turís and Bocopa remains within the recommended values (0,1-0,3). They represent the optimal liquidity situation for the cooperatives. In contrast, Coviñas has a much lower value which does not reach the recommended minimum, which is an indication that it may have difficulties.

Table 3.4.: Comparison of Liquidity

COMPARED LIQUIDITY	COVIÑAS			LA BARONÍA DE TURÍS			BODEGAS BOCOPA		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
WORKING CAPITAL	4.091.071	3.218.818	4.745.550	766.492	885.714	1.108.716	3.136.114	3.174.124	3.255.297
OPERATIONAL NEEDS OF FUNDS	8.851.220	6.755.633	8.129.883	842.027	1.018.967	1.320.410	3.700.225	3.538.307	3.597.925
FINANCING SURPLUS / DEFICIT	- 4.089.054	- 3.216.800	- 4.743.531	- 75.535	- 133.253	- 211.694	- 564.111	- 364.183	- 342.628
AVERAGE STORAGE PERIOD	58	177	195	57	92	120	196	157	69
AVERAGE COLLECTION PERIOD	58	111	69	17	27	32	77	82	42
AVERAGE PAYMENT PERIOD	69	115	68	63	70	80	81	88	72
AVERAGE LEAD TIME	47	173	197	11	49	71	191	152	40

Source: Own elaboration from the Annual Accounts of the Cooperatives

- The average Lead Time of Coviñas and La Baronía de Turís increased progressively from 2017 to 2019. In the case of Coviñas, due to the increase in the average storage period of warehouse stocks. In the Baronía de Turís, due to the increase in the periods of storage, collection, and payment. However, Bodegas Bocopa presents a different situation. Its average Lead Time decreased over the years, due to the slight reduction in the storage period from 2017 to 2018, and the notable reduction from 2018 to 2019 in the average collection and payment periods.
- The working capital increased every year in La Baronía de Turís and Bocopa.

#### 4. SOLVENCY ANALYSIS

*“The use of ratios also makes it possible to analyze long-term solvency, known as distance to bankruptcy. The aim of this analysis is to assess the company's solvency in the long term, or what is the same, its continuity over time, by means of the possibility of repaying non-current or long-term liabilities.”* (Corona, E.; Bejarano, V. and González, J.R.; *Analysis of individual and consolidated financial statements*, 2015).

## 4.1. SOLVENCY AND FINANCIAL INDEBTEDNESS RATIOS

Financial autonomy represents the relationship between the own capital and the total permanent capitals necessary for financing (total liabilities). If its value is between 0,3 and 0,7, we say that it has good financial autonomy. The higher the self-financing value, the higher the solvency. If it is greater than 0,7, it represents the situation of excellent financial autonomy.

$$\text{Financial Autonomy ratio} = \frac{\text{Equity capital}}{\text{Total liabilities}}$$

The Solvency ratio relates the total assets of the company to the total liabilities due. It is a measure that allows evaluating the capacity of the Cooperative to meet its payment obligations. The higher the ratio, the greater the solvency, that is, it will mean that it is better prepared to go through difficult situations without compromising its future viability. Its optimal value is between 1,5 and 2,5.

$$\text{Solvency ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}}$$

The Indebtedness ratio represents the percentage of financial resources that come from third parties (debts) in relation to the company's own financial resources. It shows the extent to which the company makes sufficient profit to support its financial burdens, that is, it shows the degree to which it is dependent on its creditors. The higher the ratio, the lower the autonomy from creditors. A level of indebtedness of around 0,7-1,5 is considered acceptable, although it can go up to around 2 if it has high quality assets that serve as collateral for the company's credit operations.

The relationship of the Indebtedness ratio to the Solvency ratio is reversed.

$$\text{Indebtedness ratio} = \frac{\text{Total liabilities}}{\text{Equity capital}}$$

The debt ratio can be broken down by the percentage of financial resources to be repaid in the short and long term with respect to own financial resources.

$$\text{Long – term indebtedness} = \frac{\text{Non – current liabilities}}{\text{Equity capital}}$$

$$\text{Short – term indebtedness} = \frac{\text{Current Liabilities}}{\text{Equity capital}}$$

In order to analyze Coviñas' solvency situation, Table 4.1 shows the results obtained from the calculation of the ratios explained above.

*Table 4.1.: Coviñas' Solvency Ratios*

	<b>2017</b>	<b>2018</b>	<b>2019</b>
FINANCIAL AUTONOMY	0,67	0,98	1,14
SOLVENCY RATIO	1,67	1,98	2,14
INDEBTEDNESS RATIO	1,49	1,02	0,88
LONG-TERM INDEBTEDNESS	0,12	0,09	0,20
SHORT-TERM INDEBTEDNESS	1,37	0,93	0,68

*Source: Own elaboration from the Annual Accounts of Coviñas*

Firstly, Coviñas' financial autonomy has increased considerably from 2017 to 2018 and slightly from 2018 to 2019. It represents a situation of excellent self-financing of the Cooperative.

Secondly, the solvency ratio also shows continuous increases in the period under analysis. Being at optimal values, it shows its eminent capacity to meet its payment obligations without compromising the future of the Cooperative. It provides guarantees to its creditors that it has the capacity to pay its debts, both short and long term.

Thirdly, from the value of indebtedness we deduce that the degree of influence of third parties on Coviñas' ongoing operation and financial equilibrium is higher in 2017 than in 2018 and 2019.

The result is in line with the other ratios, with indebtedness decreasing it was becoming more autonomous. There is also evidence that there is more short-term debt than long-term debt, due to the notable weight of current liabilities over non-current liabilities.

## 4.2. COMPARED SOLVENCY

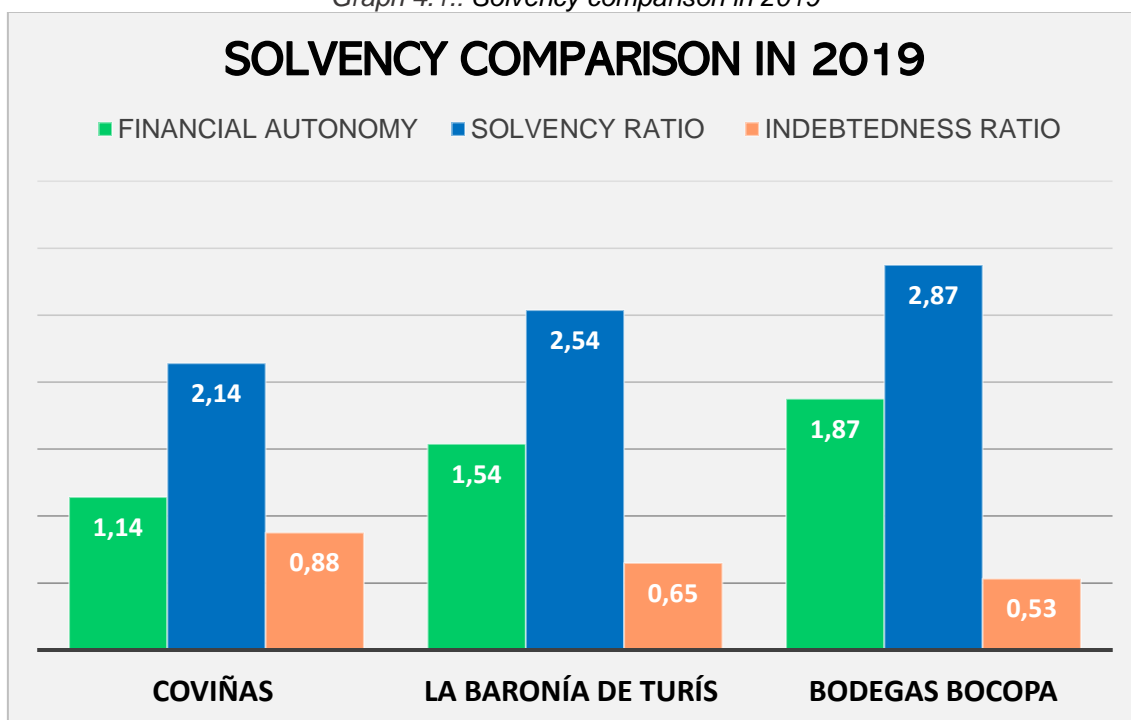
To compare the solvency situation in the three cooperatives, we delve into Table 4.2 and Graph 4.1.

Table 4.2.: Solvency comparison

	COVIÑAS			LA BARONÍA DE TURÍS			BODEGAS BOCOPA		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
FINANCIAL AUTONOMY	0,67	0,98	1,14	1,73	1,48	1,54	1,40	1,58	1,87
SOLVENCY RATIO	1,67	1,98	2,14	2,73	2,48	2,54	2,40	2,58	2,87
INDEBTEDNESS RATIO	1,49	1,02	0,88	0,58	0,67	0,65	0,72	0,63	0,53
LONG-TERM INDEBTEDNESS	0,12	0,09	0,20	0,05	0,13	0,21	0,25	0,28	0,21
SHORT-TERM INDEBTEDNESS	1,37	0,93	0,68	0,53	0,54	0,44	0,46	0,35	0,32

Source: Own elaboration from the Annual Accounts of the Cooperatives

Graph 4.1.: Solvency comparison in 2019



Source: Own elaboration from the Annual Accounts of the Cooperatives

Bodegas Bocopa and La Baronía de Turís have similar levels of financial autonomy, both above Coviñas' self-financing capacity at its best result in 2019 (1,14).

The same can be deduced from the comparison of the solvency ratio that relates the Cooperative's assets to its liabilities. Coviñas, although it has excellent payment capacity, is below the solvency of its competitors.



Among the competitors, it is observed how the solvency of La Baronía de Turís fluctuates in the period, decreasing from 2017 to 2018 and increasing from 2018 to 2019; while Bodegas Bocopa presents continued increases. If it is observed the most recent data, that of 2019, Bocopa's ability to pay its creditors is higher than the others.

The results for indebtedness, being inversely correlated with the above, lead to the same conclusions.

## 5. BUSINESS EVOLUTION

The evolution of the Cooperative's business will be studied through a differentiated analysis of the operating and financial results. To this end, Table 5.1 shows Coviñas' abbreviated Profit and Loss Account for each of the years.

Table 5.1.: Coviñas' Profit and Loss Account

PROFIT AND LOSS STATEMENT	2019	% V (2019)	2018	% V (2018)	2017	% V (2017)
Net turnover	17.878.525	100%	18.130.724	100,0%	23.957.464	100%
Variation in inventories of finished goods and work in progress	-400.709	-5,2%	345.602	1,9%	389.887	1,6%
Trabajos realizados por la empresa para su activo	0	0,0%	0	0,0%	0	0,0%
Supplies	-12.096.891	-69,4%	-13.534.272	-74,6%	-20.180.806	-84,2%
Other operating income	277.359	1,1%	328.463	1,8%	328.952	1,4%
Personnel expenses	-2.467.300	-12,2%	-2.212.233	-12,2%	-1.909.983	-8,0%
Other operating expenses	-2.197.811	-10,4%	-2.259.733	-12,5%	-1.843.058	-7,7%
Amortization	-598.533	-3,1%	-555.602	-3,1%	-503.331	-2,1%
Allocation of grants relating to non-financial assets and others	132.697	0,8%	127.699	0,7%	122.642	0,5%
Excess provisions	0	0,0%	0	0,0%	0	0,0%
Impairment and result on disposals of non-current assets	-110.000	0,0%	-624	0,0%	-1.449	0,0%
Exceptional Income and Expenses	7.910	0,0%	16.100	0,1%	29.500	0,1%
<b>NET OPERATING RESULT</b>	<b>425.247</b>	<b>1,6%</b>	<b>386.124</b>	<b>2,1%</b>	<b>389.817</b>	<b>1,6%</b>
Financial income	448	0,0%	5.832	0,0%	1.312	0,0%
Financial expenses	-45.093	-0,2%	-38.995	-0,2%	-50.404	-0,2%
Variation in fair value of financial instruments	0	0,0%	0	0,0%	0	0,0%
Exchange rate differences	-184	0,0%	-1.622	0,0%	-722	0,0%
Impairment and gains or losses on disposal of financial instruments	0	0,0%	0	0,0%	0	0,0%
<b>FINANCIAL RESULT</b>	<b>-44.829</b>	<b>-0,2%</b>	<b>-34.785</b>	<b>-0,2%</b>	<b>-49.814</b>	<b>-0,2%</b>
<b>INCOME BEFORE TAXES</b>	<b>380.418</b>	<b>1,4%</b>	<b>351.339</b>	<b>1,9%</b>	<b>340.003</b>	<b>1,4%</b>
Impuesto sobre beneficios	-23.242		-23.221		-21.503	
<b>RESULT</b>	<b>357.176 €</b>		<b>328.118 €</b>		<b>318.500 €</b>	

Source: Own elaboration from the Annual Accounts of Coviñas

## 5.1. OPERATING RESULT

With regard to the evolution of the Cooperative's results in recent years, it is observed that its Net Profit has increased slightly in both 2018 and 2019.

This circumstance is significant considering that its Sales decreased significantly in 2018 and, although to a much lesser extent in 2019, a year in which there was nevertheless a negative stock variation of 400.709€, compared to increases in previous years (345.602€ in 2018 and 389.887€ in 2017).

This deterioration in turnover can be explained by the difficult situation of the sector in the aforementioned years, both in terms of the volume of bottles sold and the fall in sales prices.

In order to maintain and even slightly increase its Gross Operating Profit, the company has had to reduce the percentage of sales accounted for by Supplies. This circumstance has been favored because it has transferred to its cooperative members the reduction in the price of the purchased product, despite the fact that one of the company's policies is always to pay to its cooperatives members a price for the wine purchased from them beyond the annual market price.

It is significant that the percentage of Supplies fell from 84,2% in 2017 to 74,6% in 2018 and 69,4% in 2019.

However, with regard to another item that represents a significant percentage of its Profit and Loss Account, namely Personnel Expenses, it should be noted that it increased in both 2017 and 2019, given that in 2017 and 2018 it remained stable at 49 employees on average and in 2019 it even increased to 53 employees. This meant that the percentage of sales increased from 8,0% in 2017 to 12,2% in 2018. In contrast, it remained stable at 12,2% in 2019.

Another significant item in its Operating account is that of Other Operating Expenses, which also increased significantly in 2018, from 7,7% of revenues in 2017 to 12,5% in 2018.

This increase, according to the Annual Report, was mainly due to the Transport expenses due to the increase in their prices and Publicity and Advertising as a decided policy of the Cooperative to boost its sales after the reduction experienced in the year.

In the 2019 financial year, however, the Other Operating Expenses item was slightly reduced, which represented the 10,4% of its total income, with practically all its subitems remaining stable, where can only be emphasized the 'Provisions for commercial operations' subitem: which went from 53 thousand euros in 2017, to 146 thousand euros in 2018, and to only 5 thousand euros in 2019, which has meant a significant improvement in the last financial year.

The Amortization item has increased in the three years from approximately 500 thousand euros to around 600 thousand euros, due to the new investments made (gross cost of inputs in 2017 of 1.047 thousand euros, in 2018 of 1.266 thousand euros and in 2019 of 1.178 thousand euros). These investments have been both for maintenance and to improve production capacity and productivity (expansion by the new bottling line, especially).

The Subsidies item has remained stable over the last three financial years at around 120/130 thousand euros per year. In this regard, it should be noted that the volume of Concessions accounted for according to the Report has increased from 1.844 thousand euros in 2017, to 2.098 thousand euros in 2018, and to 2.593 thousand euros in 2019.

It should be noted that in 2019 the company had a negative result of -110 thousand euros in Result on Disposal of Fixed Assets' item, due to the cancellation of the contract with the supplier of the bottling line caused by breach of contract.

Finally, the analysis is completed with the calculation of Coviñas' profitability threshold.

### Breakeven

*"The break-even point is defined as the minimum level of output sold necessary to cover the total fixed structural charges plus the variable charges associated with that level of activity. For that level of sales, the functional RAIT will be zero, which is why it is also called the break-even point. From that point on, any increase in turnover will lead to increases in corporate profit. "(Archel, P., Lizarraga, F., Sánchez, S. and Cano, M.; Accounting Statements. Preparation, analysis and interpretation, 2010).*

Figure 5.1.: Breakeven point in 2019

OPERATING INCOME	VARIABLE EXPENSES	FIXED EXPENSES
17.878.525		
	400.709	
	0	
	12.096.891	
277.359		
	-	2.467.300
	879.124	1.318.687
		598.533
132.697		
		-
		110.000
		7.910
<b>18.288.581</b>	<b>13.376.724</b>	<b>4.486.610</b>
BREAKEVEN POINT		<b>16.705.236</b>
VARIABLE COST PER EURO OF SALE		73,14%
VARIABLE MARGIN PER EURO SOLD		26,86%
+	INCOME AT THE PROFITABILITY THRESHOLD	16.705.236
-	VARIABLE EXPENSES AT THE PROFITABILITY THRESHOLD	12.218.626
-	FIXED COSTS	4.486.610
=	RESULT IN THE PROFITABILITY THRESHOLD	-
	INCOME EARNED	18.288.581
-	BREAKEVEN POINT	16.705.236
=	IT HAS EXCEEDED THE THRESHOLD IN	1.583.345
	FOR EACH EURO EXCEEDED WITH RESPECT TO THE BREAKEVEN POINT, IT OBTAINS THE VARIABLE MARGIN	425.247

$$1 - \frac{\text{Fixed expenses}}{\text{Variable expenses} + \text{Operating income}}$$

Source: Own elaboration from the Annual Accounts of Coviñas

Through the calculation made in the previous Graph, it is determined that Coviñas obtains increases in its business profit when it exceeds the figure of 16.705.236 euros of operating income, that is, below said figure it would incur losses. In 2019, it has exceeded it by 1.583.345 euros, and as a result has an operating profit of 425.247 euros.

## 5.2. FINANCIAL RESULTS

Table 5.2.: Structure of the Financial Result of Coviñas

	2018	2019
<b>NET OPERATING RESULT</b>	<b>386.124</b>	<b>425.247</b>
1 Financial income	5.832	448
2 Financial expenses	-38.995	-45.093
3 Variation in fair value of financial instruments	0	0
4 Exchange rate differences	-1.622	-184
5 Impairment and gains or losses on disposal of financial instruments	0	0
<b>FINANCIAL RESULT</b>	<b>-34.785</b>	<b>-44.829</b>
<b>INCOME BEFORE TAXES</b>	<b>351.339</b>	<b>380.418</b>
Tax on profits	-23.221	-23.242
<b>RESULT</b>	<b>328.118 €</b>	<b>357.176 €</b>

Source: Own elaboration from the Annual Accounts of Coviñas

To study the financial result, it is necessary to distinguish between the income and expenses that come from operations with financial assets (lines 1 and 5 of Table 5.2), and the financial expenses (line 2) that are a consequence of the existence of financial liabilities.

Very insignificant are the Financial Expenses for the Cooperative, given that they only represent 0,2% of its total income in the last three years, so we can only comment that they increased slightly in 2019 due to the increase in its financial debts, especially in the long-term because of the financing of its investments in tangible fixed assets.

## **6. CASH FLOW ANALYSIS**

The Cash Flow' analysis, a very important element for working capital management, comprises two different concepts. The first (Financial Cash Flow) is based on the company's income statement to establish cash flow, and the second (Economic or generated Cash Flow) is based on profit after tax, amount to which the amortization and provisions are added.

### **6.1. CASH FLOW EVOLUTION**

The Cash Flow Statement differentiates between: Operating Activities, Investing Activities, and Financing Activities.

In general, cash flows from operating activities tend to be positive, as the objective of any company is to earn a profit in the exercise of its operating activity.

On the other hand, investment flows will be negative if the company makes investments to expand its business.

Finally, financing flows will be negative if the company needs external financing.

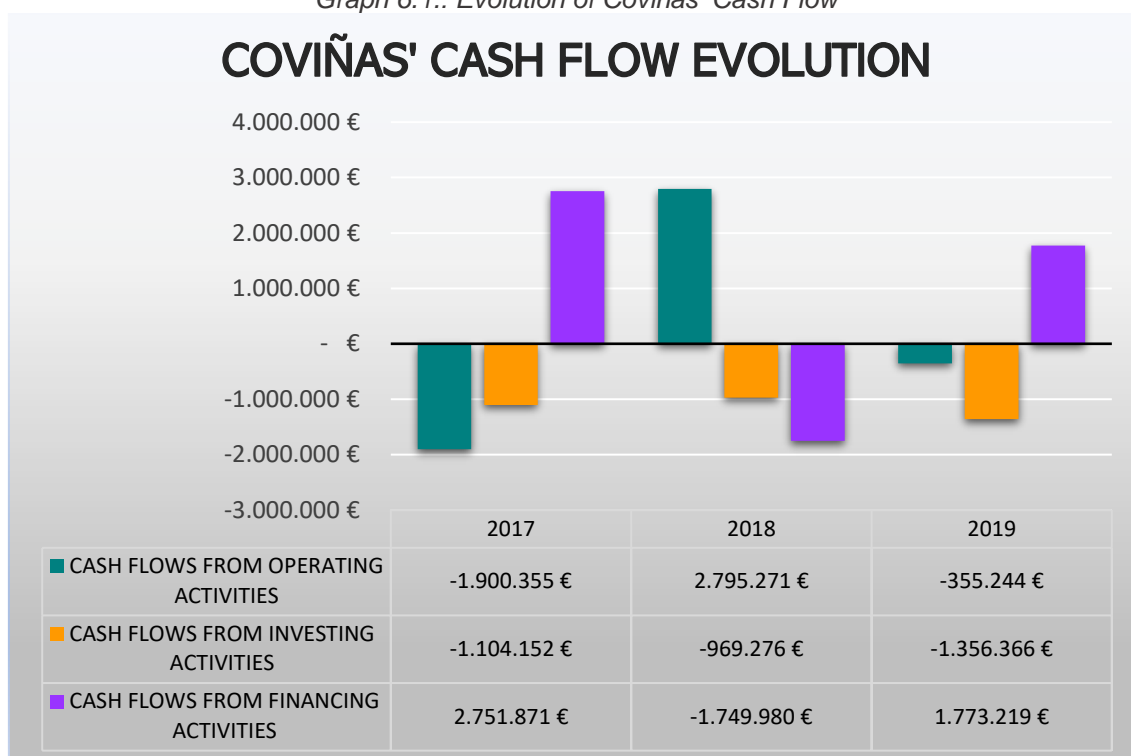
The breakdown of the Statement of Cash Flows is detailed in section 11 "Annexes". As a summary, Graph 6.1 and Table 6.1 are presented.

Table 6.1.: Summary of Cash Flows

CASH FLOWS ...	2017	2018	2019
FROM OPERATING ACTIVITIES	-1.900.355 €	2.795.271 €	-355.244 €
FROM INVESTING ACTIVITIES	-1.104.152 €	-969.276 €	-1.356.366 €
FROM FINANCING ACTIVITIES	2.751.871 €	-1.749.980 €	1.773.219 €

Source: Own elaboration from the Annual Accounts of Coviñas

Graph 6.1.: Evolution of Coviñas' Cash Flow



Source: Own elaboration from the Annual Accounts of Coviñas

In the Statement of Cash Flows, notable differences are observed between the three years analyzed, mainly as a result of the sharp drop in sales in 2018, as well as the significant investments made in all three years and their need for long-term financing.

The important changes in its working capital are also affected by the average Lead Time of the Cooperative, which has increased from 47 days in 2017 to 197 days in 2019 (especially due to the growth of its average storage period, as well as the lengthening of its average collection and payment terms in 2018, which return to more similar levels to 2017 in the 2019 financial year).

## 1.- CASH FLOWS FROM OPERATING ACTIVITIES:

Strong variation in recent years, from consuming cash of -1.900 thousand euros in 2017, to contributing cash of 2.795 thousand euros in 2018 and again consuming cash of -355 thousand euros in 2019, especially due to changes in its working capital, given that both its results and the adjustments to them have contributed cash in the last three years (as a whole the cash contribution was 608 thousand € in 2017, 935 thousand € in 2018 and 859 thousand € in 2019).

1.1) Earnings Before Taxes due to their growth in the three years and Adjustments to Earnings continue to provide cash to the Company, although it should be point out that to a lesser extent in 2017 and 2019 due to valuation corrections for impairment, which were nevertheless positive in 2018.

Cash is also provided by the depreciation charge, which rises from 503 thousand euros in 2017 to 599 thousand euros in 2019.

1.2) The changes in the Current Capital represent strong annual variations for the reasons explained in the heading of this section.

The most significant changes are detailed below:

- Inventories consumed cash both in 2017 and 2018 for around -450 thousand euros in each year, although in 2019 they contribute 727 thousand euros of cash due to the reduction in inventories in that year.
- Debtors and other accounts receivable represented a large cash outflow in 2017 of -4.356 thousand euros, but in 2018 they contributed cash of 5.024 thousand euros because of the sharp reduction in turnover experienced, which, by remaining more stable in 2019, only represented a cash outflow of -232 thousand euros.
- Creditors and other accounts payable contributed cash of -2.410 thousand euros in 2017, but in both 2018 and 2019 they consumed cash of -2.536 and -1.585 thousand euros, respectively, due to the reduction in supplies caused by lower sales.

## 2.- CASH FLOWS FROM INVESTMENT ACTIVITIES:

The investments made in the last three years have entailed a significant cash consumption for Investment Payments of -1.104 thousand euros in 2017, -969 thousand euros in 2018 and -1.356 thousand euros in 2019, only minimally compensated in 2019 with a cash contribution of 250 thousand euros for divestment of property, plant and equipment.

## 3.- CASH FLOWS FROM FINANCING ACTIVITIES:

3.1) Through equity instruments, the company obtained cash for 57 thousand euros in 2018 and 495 thousand euros in 2019, thanks to the granting of subsidies.

3.2) By Financial Liability instruments, we break down the cash inflows and outflows:

- Due to issuance with credit institutions, it had positive cash inflows in 2017 of 3.486 thousand euros, in 2018 of 978 thousand euros and in 2019 of 2.682 thousand euros.
  - It should be noted in particular that in 2019 these were for long-term loans taken out to finance investments in property, plant and equipment made in 2019, and especially in the previous year.
- Due to repayment/amortization, the company had cash outflows of -581 thousand euros in 2017, -2.785 thousand € in 2018 and -1.404 thousand € in 2019, corresponding both to the amortization of long-term loans, as well as especially to changes in its short-term credits/discount lines/confirming.

In this sense, it should be noted that the amortization schedule of its Debts in 2019 is as follows:

*Table 6.2.: Debt amortization schedule*

	ONE	TWO	THREE	FOUR	FIVE	MORE THAN FIVE	TOTAL
<b>DEBTS</b>	3.386.483	501.888	398.473	250.420	252.178	317.715	5.107.157
Debts with credit institutions	3.152.237	501.888	398.473	250.420	252.178	317.715	4.872.911
Other financial liabilities	234.246	-	-	-	-	-	234.246
<b>TRADE AND OTHER PAYABLES</b>	3.119.894	-	-	-	-	-	3.119.894
Suppliers	1.084.886	-	-	-	-	-	1.084.886
Partners Suppliers	859.670	-	-	-	-	-	859.670
Sundry creditors	916.654	-	-	-	-	-	916.654
Personnel	258.684	-	-	-	-	-	258.684
<b>TOTAL</b>	<b>6.506.377</b>	<b>501.888</b>	<b>398.473</b>	<b>250.420</b>	<b>252.178</b>	<b>317.715</b>	<b>8.227.051</b>

*Source: Annual Accounts Report*



As for year 1, its breakdown would be as follows:

1.- Other Liabilities for 234 thousand euros and

2.- 3.152 thousand euros of Debts with credit entities, of which:

- 836 thousand euros correspond to the short-term part of the loans,
- 627 thousand euros for drawdown of commercial confirming lines (limit of 1,4 million €),
- 1.686 thousand euros for drawdown on credit lines (limit of 2 million euros) and remaining
- 2 thousand euros accrued interest not due.

The company in 2019 had no debts for discounted effects.

We observe from this payment schedule that the Cooperative has adequate short-term financing lines to meet its working capital financing needs (in recent years it has used no more than 70% of its limits in credit facilities, discounting and confirming lines).

We also consider that given its solvency and capacity to generate resources, the company has adequate access to bank credit in case it requires an increase in working capital financing lines in the future.

Moreover, it should be noted that we consider its cash generation capacity to be ample to meet the annual amortization of its long-term loans.

Its access to future credit, in case of needing to finance new investments in fixed assets, is also considered adequate, given that it has been generating recurring profits and its provision for annual repayments/provisions is clearly higher than the annual repayment of its current loans, which would allow it to face new payments.

However, it should be noted that it should manage its current capital better, so that it is as positive as possible and provides additional cash.

In addition, note that the Cooperative continues to have the financial support of the Public Administrations in their investments through the grants they have been granting for their investment projects in recent years. In this sense, indicate that it has, according to the Report, 2.593 thousand euros in Grants granted with a final balance in 2019 pending application of 1.400 thousand euros.

## 7. PROFITABILITY ANALYSIS

### 7.1. ECONOMIC OR ASSETS PROFITABILITY

"Economic profitability measures the effective capacity of the company to remunerate all the invested capital." (Ortega, J.A.; *Business diagnosis through economic-financial analysis*, 2011, p.184.)

It measures the performance, profit or loss (before taxes and financial expenses), which is capable of being generated through the management of all its assets and rights that make up the company's assets, without considering how these elements have been financed.

$$\text{Economic or Assets Profitability} = \frac{\text{Earnings before taxes and financial expenses}}{\text{Average assets}}$$

Table 7 1: Breakdown of Economic Profitability of Coviñas

	2018	2019
RESULT BEFORE FINANCIAL EXPENSES AND TAXES	390.334	425.511
AVERAGE ASSETS	20.183.907	18.221.403
<b>RETURN ON ASSETS</b>	<b>1,93%</b>	<b>2,34%</b>
NET TURNOVER	18.130.724	17.878.525
MARGIN OF RETURN ON ASSETS = = $\frac{\text{Result before financial expenses and taxes}}{\text{Sales revenues}}$	2,15%	2,38%
ROTATION OF RETURN ON ASSETS = $\frac{\text{Sales revenues}}{\text{Average assets}}$	0,90	0,98
<b>ASSET RETURN CHECKING = MARGIN x ROTATION</b>	<b>1,93%</b>	<b>2,34%</b>

Source: Own elaboration from the annual accounts of Coviñas

The return on Coviñas assets in 2018 was 1,93%. For every euro invested in its assets, Coviñas has earned almost 2-euro cents. In this sense, we must reflect that, although the Cooperative puts its principles before its economic objectives, it does obtain benefits, as its ratio has a positive value.

As shown in Table 8.1, the breakdown of Assets Profitability in margin and turnover reflects that the sales figure has been 0,90 times the value of average assets (asset turnover), and for every euro sold, Coviñas has earned 2,15 cents (margin). Finally, the final return on average assets has been located at:  $0,90 \times 2,15\% = 1,93\%$ .

Similarly, the Assets Profitability result of 2,34% is obtained in 2019. Coviñas has increased its return on assets in the sense that, for every euro invested in it, it has earned more than 2-euro cents.

Regarding its calculation by margin and rotation, the sales figure in 2019 was 0,98 times the value of the average assets, and for each euro sold, the Cooperative has earned 2,38 cents of margin.

## 7.2. COMPARATIVE ANALYSIS OF ECONOMIC PROFITABILITY

Table 7.2.: Return on Assets compared

	COVIÑAS		LA BARONÍA DE TURÍS		BODEGAS BOCOPA	
	2018	2019	2018	2019	2018	2019
RESULT BEFORE FINANCIAL EXPENSES AND TAXES	390.334	425.511	17.121	37.996	404.352	529.249
AVERAGE ASSETS	20.183.907	18.221.403	5.762.042	6.201.335	9.844.958	9.698.560
<b>RETURN ON ASSETS</b>	<b>1,93%</b>	<b>2,34%</b>	<b>0,30%</b>	<b>0,61%</b>	<b>4,11%</b>	<b>5,46%</b>

Source: Own elaboration from the Annual Accounts of the Cooperatives

The return on assets of the three Cooperatives increases from 2018 to 2019.

Despite the fact that La Baronía de Turís doubled its profitability from 2018 to 2019, it was much lower than Coviñas' profitability and even lower than that of Bocopa.

The Economic Profitability of Bodegas Bocopa is higher than those of its competitors by far. It represents the excellent profitability of the assets it owns. For each euro invested in its assets, it has a return of 4 cents in 2018 and more than 5 in 2019.

## 7.3. FINANCIAL OR SHAREHOLDERS' RETURN

The financial return expresses the percentage of profit or loss for the year corresponding to each euro that is invested by the shareholders in the company's net worth (valued in average terms).

$$\text{Financial return} = \frac{\text{Result of Profit and Loss Statement}}{\text{Average Net Worth}}$$

Table 7.3.: Breakdown of the Financial Return of Coviñas

	2018	2019
RESULT OF THE INCOME STATEMENT	328.118	357.176
AVERAGE NET WORTH	8.945.178	9.358.037
<b>FINANCIAL RETURN</b>	<b>3,67%</b>	<b>3,82%</b>
RETURN ON ASSETS	1,93%	2,34%
AVERAGE LIABILITIES	11.238.729	8.863.367
AVERAGE FINANCIAL COST OF DEBT = i	0,35%	0,51%
FINANCIAL-ECONOMIC RETURN = (Return on assets - i)	1,59%	1,83%
AVERAGE INDEBTEDNESS	1,26	0,95
FINANCIAL LEVERAGE	1,99%	1,73%
FINANCIAL RETURN BEFORE TAXES	3,93%	4,07%
TAX RATE = t	6,61%	6,11%
TAX EFFECT = (1-t)	93,39%	93,89%
<b>FINANCIAL RETURN AFTER TAX</b>	<b>3,67%</b>	<b>3,82%</b>

Source: Own elaboration from the annual accounts of Coviñas

As can be seen in Table 7.3, the financial profitability is at a positive value of 3,67%, which means that a shareholder who had kept his investment in 2018 would have earned that percentage.

Considering the current interest rates in the banking system, if the Cooperative were to request financing, it would find loans and other financing options at low interest rates, lower than its current Financial Return. Therefore, the shareholders' return of Coviñas is adequate. With the profitability generated by its assets, it is able to cover its financial expenses and still have a surplus.

On the other hand, from the investor's point of view, by investing in the Cooperative during these years, he would obtain higher returns than if he were to buy other government financial products (Bonds, Treasury Bills or Obligations). It could only obtain more profitability in other financial instruments with higher risk, such as equity investment funds, derivatives, etc.

#### 7.4. COMPARATIVE ANALYSIS OF FINANCIAL RETURN

Table 7.4: Comparative of Financial Profitability

	COVIÑAS		LA BARONÍA DE TURÍS		BODEGAS BOCOPA	
	2018	2019	2018	2019	2018	2019
RESULT OF THE INCOME STATEMENT	328.118	357.176	15.147	13.856	348.606	463.788
AVERAGE NET WORTH	8.945.178	9.358.037	3.538.744	3.731.559	5.881.444	6.125.047
<b>FINANCIAL RETURN</b>	<b>3,67%</b>	<b>3,82%</b>	<b>0,43%</b>	<b>0,37%</b>	<b>5,93%</b>	<b>7,57%</b>

Source: Own elaboration from the Annual Accounts of the Cooperatives

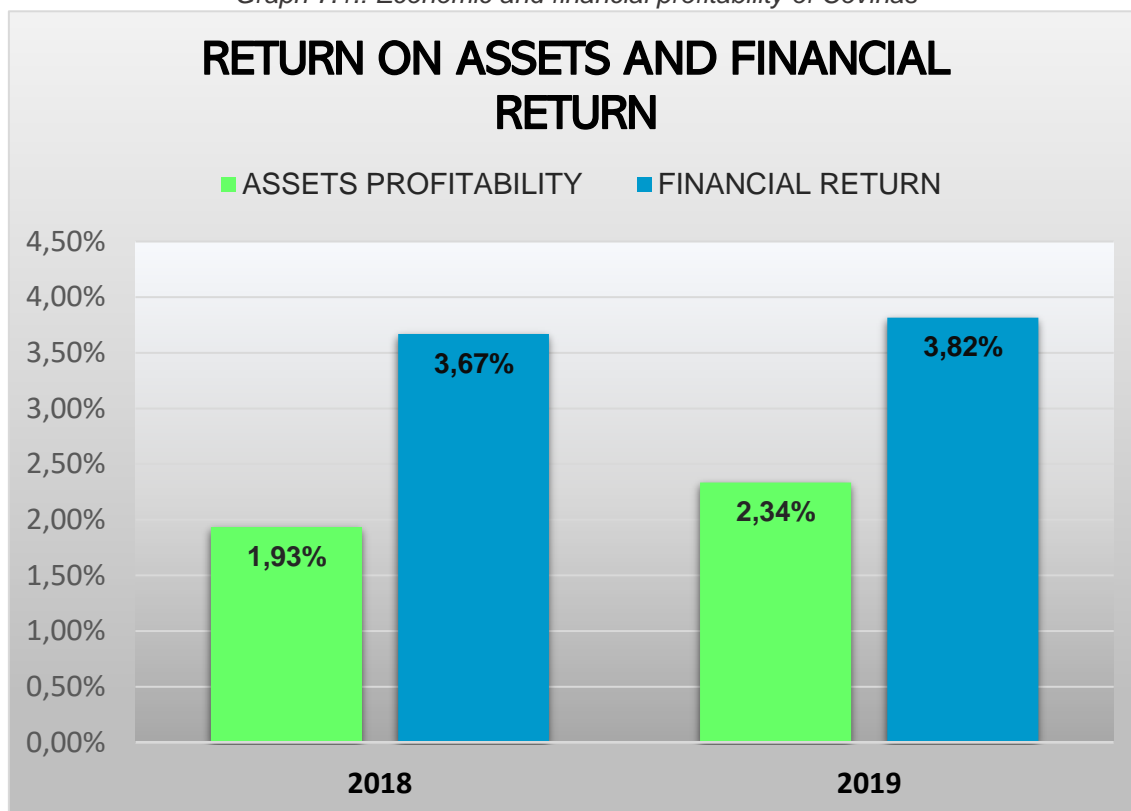
As with the return on assets, Coviñas' financial profitability is between that of La Baronía de Turís and that of Bodegas Bocopa. The profitability that Bocopa can generate in relation to the own resources that it uses to finance itself is the highest of the three cooperatives.

The investor who had invested in La Baronía would have obtained less than 1 scarce cent for each euro paid in. However, in Bodegas Bocopa he would have obtained approximately 6- or 7-euro cents of profit.

#### 7.5. RELATIONSHIP BETWEEN ROA AND ROE

The financial return of Coviñas is higher than the return on its assets in both years, which indicates that the Cooperative has incentives to borrow because the return on assets is higher than the cost of financing.

Graph 7.1.: Economic and financial profitability of Coviñas



Source: Own elaboration from the annual accounts of Coviñas

## 8. CONCLUSIONS

As a corollary to the detailed analysis carried out in this work, we summarize below the conclusions to the sections commented on it:

### 1.- ECONOMIC-FINANCIAL STRUCTURE

Coviñas' economic and financial structure is in line with that of other companies in the sector and we conclude that we consider it to be balanced in terms of its activity, where we highlight:

- A significant amount of tangible fixed assets necessary to develop its business, in which it has also been developing a continuous investment process both in maintenance investments and in improving its productive capacity and productivity, partly financed with bank loans and grants from the Public Administrations.
- A strong weight of its Current Assets, especially in Inventories with a long storage period, but whose percentage with respect to its billing and due to the circumstances of the sector we consider normal, taking into account the company's need to provide a quick service to its customers' orders in the great variety of bottled products that it produces.

We also consider the items of Trade Debtors and Trade Creditors adjusted to their activity and volume of sales/purchases, as well as their average collection and payment terms, which are practically within the legal terms.

- High Net Equity, with a significant weight of permanent resources represented by its Capital and its Legal and Statutory Reserves, to which must be added the satisfactory subsidy item and the company's profit reinvestment policy, which dedicates a high percentage of its results to reserves, being much lower the amount allocated to the interest of the contributions that it distributes to its Associated Cooperatives (in 2019, 79% of its profit is allocated to reserves and in 2018, a 77%).

## 2.- LIQUIDITY, OPERATIONAL NEEDS OF FUNDS AND SOLVENCY

- The company has healthy liquidity ratios that have improved especially in 2019, as well as its working capital, although its average storage period is high as a result of the demands of the sector where it carries out its activity.
- However, the Cooperative covers its Operational Needs of Funds adequately with its short-term financing lines, especially represented by credit facilities and, to a lesser extent, confirming lines and occasional commercial discounts, with adequate limits available to it on a medium/high basis and with adequate access to credit in case of future needs.
- It has a high financial autonomy and solvency, and we consider its debt ratios to be adequate based on its sector and the significant investments that the company has made in recent years.

## 3.- BUSINESS EVOLUTION

Although due to the economic situation experienced in 2018, the company experienced a notable reduction in its turnover in that year, we must point out that in 2019 the Cooperative maintained its turnover practically stable.

This circumstance was transferred especially to the Associated Cooperatives from which it buys the wine that it subsequently bottles, reducing the relative weight that its Supplies item represents with respect to its total income, which has even allowed it to improve its Gross Operating Result in the analyzed exercises.

Nevertheless, the company has not been able to reduce the cost of its personnel expenses since it has maintained its workforce practically stable and neither have its other operating expenses (due to the higher cost of transportation expenses) and its policy of spending on publicity and advertising that it has considered necessary in order not to lose market share.

## 4.- CASH-FLOW EVOLUTION

The company has been able to continue generating cash on a recurring basis through its profits, adding to this especially the amount for depreciation, and this despite the sharp reduction in sales experienced in 2018 and the investment process carried out in recent years.

In contrast, the reduction in sales and the increase in its average lead time has caused important changes in the evolution of its current capital, which above all have consumed a significant amount of cash in 2019.

This, along with the heavy investments made in 2018 and 2019, which have also consumed a significant amount of cash, have entailed in 2019 a significant need for financing to finance, especially the aforementioned investments in property, plant and equipment.

However, we consider that the Cooperative can comfortably face the payment schedule of its long-term debts, and that it also has adequate and sufficient short-term financing lines to meet its current working capital needs, adequately covering its Operational Funding Needs.

In addition, it is evidence that, given its solvency and its adequate and recurring generation of resources, the Cooperative has an adequate access to credit that will allow it to meet its possible financing needs in the future, both in the short and long term.

#### 5.- PROFITABILITY:

Its economic return is higher than its cost of financing, the Cooperative has incentives to borrow.

#### 8.1. FINANCIAL RECOMMENDATIONS

As financial recommendations to improve the management of the Cooperative, the following is advised:

- Ongoing study of the customer portfolio to reduce unpaid bills and improve its treasury management as from the company itself through the use of financial information services provided by institutions (such as the Commercial Register, Rating Agencies...) or reinsuring the collection of its portfolio with insurance companies, previously analyzing their cost.

It is also advisable to use financial instruments that reduce the exchange rate risk (exchange rate insurance, etc.), given that the Cooperative carries out a large number of exports.



- Automation of administrative and financial procedures using new technologies: Online banking, systems to automate processes, electronic invoices, to reduce administrative costs and to simplify tasks.
- Establishment of annual budgets, regular analysis of accounts and financial ratios, daily use of a treasury plan to determine the Cooperative's daily liquidity needs and an investment plan to study its financing needs, with the aim of minimizing its financial costs as far as possible.
- Minimize operating costs by accessing new suppliers and service providers and negotiating prices and payment terms with them, preferably through agreed plans.

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## Annex 1: Statement of Cash Flows of Coviñas

CASH FLOWS ...	2017	2018	2019
<b>A) FROM OPERATING ACTIVITIES</b>	<b>-1.900.355</b>	<b>2.795.271</b>	<b>-355.244</b>
<b>1. Earnings before taxes</b>	<b>340.003</b>	<b>351.339</b>	<b>380.418</b>
<b>2. Adjustments to Income</b>	<b>268.663</b>	<b>584.951</b>	<b>479.345</b>
a) Amortization of fixed assets (+)	503.331	555.602	599.743
b) Valuation adjustments due to impairment (+/-)	-156.528	114.089	-149.924
c) Variation in provisions (+/-)	-14.564	64.705	-509
d) Allocation of subsidies (-)	-122.642	-127.699	-132.697
e) Profit /(loss) on disposal of fixed assets (+/-)	1.449	624	110.000
g) Financial income (-)	-1.312	-5.832	-448
h) Financial expenses (+)	50.404	38.995	45.093
i) Exchange differences (+/-)	722	1.622	-
k) Other income and expenses (+/-)	7.802	-57.155	8.087
<b>3. Changes in current capital</b>	<b>-2.408.880</b>	<b>1.924.850</b>	<b>-1.160.053</b>
a) Stock (+/-)	-447.393	-466.917	727.640
b) Debtors and other accounts receivable (+/-)	4-4356748	5.024.623	-232.767
c) Other current assets (+/-)	-15.441	549	7.519
d) Creditors and other accounts payable (+/-)	2.410.702	-2.536.808	-1.585.654
e) Other current liabilities (+/-)	-	-89.674	-76.791
f) Other non-current assets and liabilities (+/-)	-	-6.923	-
<b>4. Other Cash Flows from operating activities</b>	<b>-100.141</b>	<b>-65.869</b>	<b>-54.954</b>
a) Interest payments (-)	-43.671	-45.499	-45.093
b) Interest income (+)	1.312	5.832	448
c) Collection/payment by tax on profits (+/-)	-57.782	-43.898	-10.309
d) Other payments/collections (+/-)	-	17.696	-
<b>5. Cash Flows from operating activities</b>	<b>-1.900.355</b>	<b>2.795.271</b>	<b>-355.244</b>
<b>B) FROM INVESTING ACTIVITIES</b>	<b>-1.104.152</b>	<b>-969.276</b>	<b>-1.356.366</b>
<b>6. Payments for investments (-)</b>	<b>-1.105.983</b>	<b>-969.523</b>	<b>-1.606.366</b>
a) Intangible assets	-11.298	-41.989	-40.178
b) Fixed assets	-1.047.685	-925.944	-1.566.188
c) Other financial assets	-47.000	-1.590	-
<b>7. Collections for disposal of assets (+)</b>	<b>1.831</b>	<b>247</b>	<b>250.000</b>
a) Fixed assets	-	247	250.000
b) Other financial assets	1.831	-	-
<b>8. Cash Flows from investing activities</b>	<b>-1.104.152</b>	<b>-969.276</b>	<b>-1.356.366</b>
<b>C) FROM FINANCING ACTIVITIES</b>	<b>2.751.871</b>	<b>-1.749.980</b>	<b>1.773.219</b>
<b>9. Collection and payments for equity instruments</b>	<b>-</b>	<b>57.222</b>	<b>495.401</b>
a) Grands, endowments and legacies received (+)	-	57.222	495.401
<b>10. Receipts and payments for financial liability instruments</b>	<b>2.905.451</b>	<b>-1.807.202</b>	<b>1.277.818</b>
a) Issuance:	3.486.890	978.792	2.682.757
Debts with credit institutions	3.486.890	978.792	2.682.757
b) Return and amortization of:	-581.439	-2.785.994	-1.404.939
Debts with credit institutions	-560.902	-2.785.994	-1.404.939
Other debts	-20.537	-	-
<b>11. Payments for dividends and remuneration of other instrum</b>	<b>-153.580</b>	<b>-</b>	<b>-</b>
<b>12. Cash flows from financing activities</b>	<b>2.751.871</b>	<b>-1.749.980</b>	<b>-1.773.219</b>
<b>D) EFFECT OF VARIATIONS IN EXCHANGE RATES</b>	<b>-722</b>	<b>-1.622</b>	<b>-</b>
<b>E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS</b>	<b>-253.359</b>	<b>74.393</b>	<b>61.609</b>
Cash or cash equivalents at the beginning of the financial year	417.909	164.550	238.943
Cash or cash equivalents at the end of the financial year	164.550	238.943	300.552

## Annex 2: Comparison of the Economic Structure

	COVIÑAS				LA BARONÍA DE TURÍS				BODEGAS BOCOPA			
	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)
<b>NON-CURRENT ASSETS</b>	<b>6.867.221</b>	<b>37,7%</b>	<b>6.610.776</b>	<b>36,2%</b>	<b>3.505.492</b>	<b>55,5%</b>	<b>3.228.665</b>	<b>53,1%</b>	<b>4.243.570</b>	<b>44,6%</b>	<b>4.567.649</b>	<b>46,2%</b>
Intangible assets	70.008	0,4%	52.254	0,3%	9.811	0,2%	0	0,0%	21.218	0,2%	28.790	0,3%
Tangible/fixed assets	6.701.189	36,8%	6.459.840	35,4%	3.193.215	50,6%	2.919.750	48,0%	4.166.167	43,8%	4.482.029	45,3%
Investment property	0	0,0%	0	0,0%	0	0,0%	0	0,0%	38.585	0,4%	38.585	0,4%
Long-term investment sin group companies and associates	47.000	0,3%	47.000	0,3%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term financial investments	33.075	0,2%	33.075	0,2%	284.540	4,5%	289.250	4,8%	13.381	0,1%	13.381	0,1%
Deferred tax assets	15.949	0,1%	18.607	0,1%	17.926	0,3%	19.665	0,3%	4.219	0,0%	4.863	0,0%
Non-current commercial debtors	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>CURRENT ASSETS</b>	<b>11.332.828</b>	<b>62,3%</b>	<b>11.631.981</b>	<b>63,8%</b>	<b>2.811.255</b>	<b>44,5%</b>	<b>2.857.257</b>	<b>46,9%</b>	<b>5.264.859</b>	<b>55,4%</b>	<b>5.321.041</b>	<b>53,8%</b>
Non-current assets held for sale	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Inventories	6.178.303	33,9%	6.756.019	37,0%	1.490.549	23,6%	1.586.070	26,1%	2.392.422	25,2%	2.136.473	21,6%
Trade and Other Accounts Receivable	4.821.657	26,5%	4.597.184	25,2%	795.466	12,6%	916.991	15,1%	2.312.891	24,3%	2.413.284	24,4%
<i>Customers</i>	<i>4.070.049</i>		<i>4.162.866</i>		<i>637.895</i>		<i>705.550</i>		<i>2.157.688</i>		<i>2.292.594</i>	
<i>Other Accounts Receivable</i>	<i>751.608</i>		<i>434.318</i>		<i>157.571</i>		<i>211.441</i>		<i>155.203</i>		<i>120.690</i>	
Short-term investment sin group companies and associates	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term financial investments	2.150	0,0%	2.000	0,0%	6.293	0,1%	6.060	0,1%	0	0,0%	0	0,0%
Short-term accruals	30.166	0,2%	37.835	0,2%	3.498	0,1%	1.961	0,0%	5.379	0,1%	4.029	0,0%
Cash and other liquid assets	300.552	1,7%	238.943	1,3%	515.450	8,2%	346.175	5,7%	554.167	5,8%	767.255	7,8%
<b>TOTAL ASSETS</b>	<b>18.200.049</b>	<b>100,0%</b>	<b>18.242.757</b>	<b>100,0%</b>	<b>6.316.747</b>	<b>100,0%</b>	<b>6.085.922</b>	<b>100,0%</b>	<b>9.508.429</b>	<b>100,0%</b>	<b>9.888.690</b>	<b>100,0%</b>

## Annex 3: Comparison of the Financial Structure

	COVIÑAS				LA BARONÍA DE TURÍS				BODEGAS BOCOPA			
	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)	2019	% V (2019)	2018	% V (2018)
<b>NET WORTH</b>	<b>9.701.609</b>	<b>53,3%</b>	<b>9.014.464</b>	<b>49,4%</b>	<b>3.828.611</b>	<b>60,6%</b>	<b>3.634.506</b>	<b>59,7%</b>	<b>6.201.106</b>	<b>65,2%</b>	<b>6.048.987</b>	<b>61,2%</b>
Capital	2.559.681	14,1%	2.559.681	14,0%	1.158.739	18,3%	1.112.664	18,3%	0	0,0%	0	0,0%
Share premium	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Reserves	5.460.956	30,0%	5.129.303	28,1%	2.228.250	35,3%	2.219.097	36,5%	4.894.641	51,5%	4.780.680	48,3%
Own shares	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Retained earnings	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Other contributions from partners (interests)	-76.791	-0,4%	-76.791	-0,4%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Result of the Profit and Loss Statement	357.176	2,0%	328.118	1,8%	13.856	0,2%	15.147	0,2%	463.788	4,9%	348.606	3,5%
Rest of net worth	1.400.587	7,7%	1.074.153	5,9%	427.766	6,8%	287.598	4,7%	842.677	8,9%	919.701	9,3%
<b>NON-CURRENT LIABILITIES</b>	<b>1.911.162</b>	<b>10,5%</b>	<b>815.130</b>	<b>4,5%</b>	<b>785.597</b>	<b>12,4%</b>	<b>479.873</b>	<b>7,9%</b>	<b>1.297.761</b>	<b>13,6%</b>	<b>1.692.786</b>	<b>17,1%</b>
Long-term provisions	34.867	0,2%	38.388	0,2%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term debts	1.720.674	9,5%	657.392	3,6%	738.011	11,7%	447.889	7,4%	984.902	10,4%	1.360.671	13,8%
Long-term Liabilities Payable to Group companies and Associates	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Deferred tax liabilities	155.621	0,9%	119.350	0,7%	47.587	0,8%	31.984	0,5%	210.669	2,2%	229.925	2,3%
Long-term accruals	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term trade accounts payable	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Long-term debt with special characteristics	0	0,0%	0	0,0%	0	0,0%	0	0,0%	102.190	1,1%	102.190	1,0%
<b>CURRENT LIABILITIES</b>	<b>6.587.278</b>	<b>36,2%</b>	<b>8.413.163</b>	<b>46,1%</b>	<b>1.702.539</b>	<b>27,0%</b>	<b>1.971.543</b>	<b>32,4%</b>	<b>2.009.562</b>	<b>21,1%</b>	<b>2.146.917</b>	<b>21,7%</b>
Liabilities linked to non-current assets held for sale	0	0,0%	0	0,0%	0	0,0%	14.126	0,2%	0	0,0%	0	0,0%
Short-term provisions	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term debts	3.386.483	18,6%	3.538.815	19,4%	217.985	3,5%	125.187	2,1%	342.628	3,6%	364.183	3,7%
Short-term Liabilities Payable to Group companies and Associates	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term trade accounts payable	3.200.795	17,6%	4.874.348	26,7%	1.484.553	23,5%	1.832.230	30,1%	1.666.934	17,5%	1.782.734	18,0%
<i>Suppliers</i>	1.946.027	10,7%	3.773.578	20,7%	1.074.524		1.475.114	24,2%	1.028.374		1.105.455	11,2%
<i>Rest of commercial creditors and other accounts payable</i>	1.254.768	6,9%	1.100.770	6,0%	410.029		357.116	5,9%	638.560		677.279	6,8%
Short-term accruals	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Short-term debt with special characteristics	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>TOTAL NET WORTH AND LIABILITIES</b>	<b>18.200.049</b>	<b>100,0%</b>	<b>18.242.757</b>	<b>100,0%</b>	<b>6.316.747</b>	<b>100,0%</b>	<b>6.085.922</b>	<b>100,0%</b>	<b>9.508.429</b>	<b>100,0%</b>	<b>9.888.690</b>	<b>100,0%</b>



