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Analysis of Financial Performance of Banqsoft

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Abstract

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The aim of this paper is to give a financial analysis of Banqsoft AS. This is mainly done by calculating key performance indicators for the company between 2010 and 2013, and by benchmarking these ratios to those of other companies from the software industry (in which Banqsoft operates). Further on, the paper looks at the cost structure of the company in order to give an idea of how much capital is required to finance the operations after the biggest shareholder will be withdrawing from the company.

The calculations are illustrated both numerically and graphically, with a written analysis of each ratio. The different ratios and their analyses are connected to draw a bigger picture, based on key findings and recommendations are made.

The most important key finding is that the company seems to be running well, both compared to itself (trend analysis) and compared to other companies from the same industry. The company is amongst the most profitable companies of those observed in this paper. The company is also well able to manage short-term debt, and the company's cash flow is positive. On the flipside, the company does seem to be quite highly leveraged, largely due to a low amount of equity, and ratios that illustrate this are likely to worsen when their biggest shareholder withdraws from the company.

Keywords
Financial performance, key performance indicators, benchmarking, working capital, financial statements, profitability

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1 Introduction

The aim of this report is to calculate and analyse key ratios for a case company, Banqsoft AS, with a secondary aim of evaluating the working capital required for the company to operate. The report follows a zipper structure, in which theory and practise are combined. The author feels that such a structure is the most suitable for the topic on hand, as this allows the reader to have the theory easily available when looking at the practical calculations, rather than having to browse back and forth through the report.

Chapter 1 is an introduction to the report, in which the background and the objectives of the report will be explained, and the case company will be introduced.
Chapter 2 is dedicated to key performance indicators, and combines theory and practise, in that it includes explanations for each ratio, followed by calculations for these ratios, and finally comments on the figures obtained from the calculations. The main outcome in this chapter is a trend analysis of Banqsoft's key ratios throughout the timeframe.
Chapter 3 is dedicated to benchmarking. In this chapter Banqsoft's key ratios are illustrated together with those of other software companies. Comments will focus on how Banqsoft is doing compared to these companies and how the general trend looks for Banqsoft compared to those of the other companies.
Chapter 4 is dedicated to the how much working capital is required for the case company to continue operations.
Chapter 5 focuses on the results from chapter 2 and 3. In this chapter the author will reflect on the results, how much emphasis should be put on the results, and give suggestions for further action for the case company.
Finally the report includes a reference section in which all the sources used in the report are listed in alphabetical order.

1.1 Background of the thesis topic

Analysing how a company is performing financially is something that is important for a company. Most companies are required to file their financial results annually (e.g. income statement and balance sheet), however calculating key point indicators (KPIs), is

something which is up to the management to decide; it is not required to calculate or file, and is used internally. Most companies will calculate certain key point indicators, as these indicators give the management further information than the numbers from the income statement and balance sheet do. There are many different kinds of key point indicators, and this report aims to explain, calculate and analyse certain key point indicators for Banqsoft AS, a Norwegian software company (an introduction of the company can be found in subchapter 1.2).

There are numerous ways to analyse the performance of a company, let alone its financial performances. By analysing its financial performance, a company can see, in clear numbers, how well it is doing in various aspects, which might make it easier to see beyond the numbers of the income statement and balance sheet. Key point indicators often have certain levels, or standards, that a company can look at, which tell how well it is performing, many standards of which depend on the industry a company works in. Furthermore, many ratios are presented as percentages, which means that they can be used for comparing own performances with the results of other companies, regardless of the size of the companies, in addition to making it easy to compare to own results from previous years.

In addition to analysing key ratios, this report also aims to look at capital required to operate. Banqsoft's biggest shareholder, a company which currently owns 35 % of Banqsoft, is planning on withdrawing from Banqsoft in the summer of 2015. Due to this situation, in which the biggest shareholder of the company is leaving, capital will also be withdrawn from the company, and it is due to this that Banqsoft is interested in knowing how much capital is required from them in order to maintain their operations as they are.

1.2 Project objectives, scope and methods

Based on the objectives stated in subchapter 1.1, the main objective of this report can be summarised in a concise research question, as stated below:

How is Banqsoft performing financially?

In order to answer the abovementioned research question, the following investigative questions will be answered in this report, which when put together will form a whole, answering the research question:

1. How has the company's financial performances developed in recent years?
2. How is the company performing compared to other companies in the software sector?
3. Where is the company performing well, and are there areas in which the company could improve?
4. How much working capital is required in order to continue daily operations?

This report will focus solely on these questions. Further on, the scope of the report has been demarcated so that the key performance indicators covered in the report are chosen by the author (as opposed to calculating all key performance indicators), the companies used for benchmarking have been chosen by the author, and there is a set timeframe, as the report will focus on the years 2010-2013.

As the main focus of the report is on calculations, having the data necessary for doing these calculations is important. Due to this, there is one kind of resource in particular that is vital for accomplishing the report objectives; namely, annual reports. In these reports the financial statements, in particular the statement of financial position (balance sheet) and the statement of comprehensive income (income statement), include the numbers required for doing the calculations. What this means is that all the figures illustrated in this report have been calculated by using figures from annual statements, both for Banqsoft and for the other companies. The annual reports can typically be obtained directly from a company's website.

1.3 Case company introduction

Banqsoft AS is a software company which was founded in 1994 in Norway. Based in Oslo, in which the company's headquarters are located, the company has also got subsidiaries in Sweden, Finland and Poland, all countries with different currencies. In addi-

tion to the group's presence in the aforementioned markets, it also have clients in Denmark and in the Baltic countries. (Banqsoft 2014)

Banqsoft's core business is the development and selling of software solutions for effective management of deposit and credit portfolios, with an aim of combining cost efficient portfolio handling with automated handling of the sales and credit process. The company's products are highly specialised, and the company does not have any direct competitors. In terms of competition, their biggest threat comes from their customers themselves, as the financial institutions could potentially decide to develop their own software, rather than buying it from Banqsoft. (Banqsoft 2014)

Banqsoft's clients are primarily from the finance sector (banks, insurance companies, and other financial institutions) and the automobile sector. Their client list includes some of the biggest banks and insurance companies in the Nordic countries. The group as a whole (all countries included) had 126 employees at the end of 2013. (Banqsoft 2014)

1.4 Key concepts

In this subchapter some key concepts are explained. These concepts are meant to cover the main points of the report, whereas more specific terms will be explained as they become relevant throughout chapter 2.

Financial performance refers to how well a company is performing financially, which can be measured in a range of different ways, some of which will be utilised in this report. (Investopedia 2014b.)

Key performance indicators (KPI) are indicators that illustrate how well a company, an industry, an economy etc. is doing. There are many different key performance indicators, all of which have their own separate purpose, e.g. different ways of measuring profitability or liabilities, which looks beyond the simple monetary figures given in a financial statement. Because there are so many different key point indicators used for

different purposes, a company, an investor, etc. might be interested in certain indicators. (Cambridge University Press 2011, 473; Investopedia 2014e.)

Profitability, to put it simply, refers to the state when a company is making a profit, that is, the company's income exceeds their costs. Most companies (notable exceptions including non-profit organisations and often departments in the public sector) are aiming to make a profit, and as such figures illustrating profitability will always be interesting, both from a company's point of view, and from an investor's. (Cambridge University Press 2011, 664.)

Working capital refers to the money needed in order to operate a business. (Cambridge University Press 2011, 930.)

2 Financial analysis – theory and calculations

This chapter combines theory with practise. Each key performance indicator has its own subchapter, each following the same structure: First a theoretical explanation of the ratio (i.e. what does the ratio mean, for what purpose is it used), the formula used to calculate the ratio, then the actual figures are shown, both in a table, and as a chart. Finally the figures are analysed, through a trend analysis, before the report moves on to the next key figure (i.e. in the following subchapter), repeating the same structure. The key ratios will further on be compared to other software companies in chapter 3.

The calculations are based on the income statements and balance sheets from the annual reports, covering the years 2010-2013. Furthermore, as the indicators are used for different purposes, they will be divided into separate subchapters. All calculations have been done using figures for the entire group, not parent company (i.e. the ratios will be illustrating the entire Banqsoft group, not just the Norwegian parent company).

2.1 Volume of Business

This chapter serves as an introduction of the company, and includes some simple figures from the company's annual report. These are among the basic and essential figures, which should not need a long explanation, but it will be useful to compare them from year to year.

2.1.1 Turnover

A basic concept in business, turnover is another word for revenue or net sales, i.e. it shows how much money a company has earned through their operations. Turnover is essential for any business, and as such it is often mentioned already near the beginning of a company's annual statement, before the actual income statement and balance sheet. (Cambridge University Press 2011, 885.)

The turnover can be found in the income statement in the annual report. Table 1 below shows the net turnover for Banqsoft during the relevant time period.

Table 1: Net turnover

Net Turnover				
Year	2013	2012	2011	2010
Turnover	150 025	127 667	117 879	106 555
Difference	17.5 %	8.3 %	10.6 %	

The company's turnover shows a positive trend, having increased steadily from year to year. Increased income is good news for any company, however; turnover alone does not give a full picture of the overall result for the company, as expenses are likely to have risen during this time period as well.

2.1.2 Number of employees

An employee is a person who receives payment for working for someone. For the purpose of this section of the report is a rather straight-forward measurement, it simply deals with the total amount of employees in the Banqsoft group. (Cambridge University Press 2011, 281.)

Table 2 shows the total number of employees of Banqsoft during the relevant time period.

Table 2: Total number of employees

Total Number of Employees				
Year	2013	2012	2011	2010
Employees	126	112	107	112

There can be many reasons for why the number of employees change. Restructuring of the company, selling subsidiaries, bad times for the company, or a wish to cut costs, are all examples of reasons for decreasing the number of employees. Likewise restructuring of a company could potentially also lead to an increase in the amount of employees, as could good times for the company, or an expansion of the company, either by expanding the company itself, entering new markets, or through acquisitions of companies. Just to mention a few potential reasons for changes in the amount of employees.

In the case of Banqsoft, it can be seen that, despite a small reduction of employees in 2011, the company employed more employees at the end of 2013 than in any other year during this time period.

2.1.3 Balance sheet total

One of the required components of the annual financial report of a company, the balance sheet lists all of the company's assets, liabilities and shareholders' equity. The balance sheet gets its name from that these three parts must be in balance (total assets must equal total liabilities plus shareholders' equity: assets = liabilities + shareholders' equity), i.e. the figure showing total assets is the same as the figure showing the liabilities and shareholders' equity. The reason for this is simple; assets are something the company own, and in order to pay for assets, the company can either borrow money (liability), or get it from shareholders (shareholders' equity). This is why, when a company buys new assets, the liability and shareholders' equity side in the balance sheet will increase by the same amount as the asset side. (Investopedia 2014a.)

Table 3 shows the balance sheet total for Banqsoft during the relevant time period.

Table 3: Balance sheet total

Balance Sheet Total				
Year	2013	2012	2011	2010
Balance sheet total	80 411	72 647	59 015	56 804

The figures show an increase in the balance sheet total from year to year. Usually the reason for this is that a company acquires new assets, e.g. stock, property, equipment, cash or accounts receivable. In the balance sheet, these three categories are divided into multiple sub-parts, and it is from these that the reason(s) for the change in the balance sheet total can be seen.

2.2 Profitability

This subchapter focuses on key performance indicators that represent profitability, with a focus on different profit figures, that are illustrated both as monetary sums, and

as percentages, and on figures illustrating different forms of returns, expressed solely as percentages. Percentages are good for making comparisons, as they do not take the size of a company into consideration, which means that the figures from one company can be compared to those of another company, or to average rates, typically from the sector in which the company is operating. All ratios in this subchapter are based on the income statements and balance sheets covering the time period.

2.2.1 Gross profit

The gross profit shows a company's revenue less all costs of sales. The gross profit can be calculated as a ratio, in which case the figure will be given as a percentage. It is then called a gross profit ratio, also known as gross margin ratio. The gross profit margin is a ratio in which figures vary between different sectors. Software companies typically have a high gross margin. (Investopedia 2014c.)

Note that the gross profit margin technically should take labour directly attributable to the production of the products into account. Often, however, it can be difficult to tell how much of the labour costs are directly attributable to the production, and therefore labour costs are typically omitted altogether from the calculation of this ratio. This is the case also in this report.

The gross profit ratio can be calculated by using the following formula:

$$\frac{\text{Gross profit}}{\text{Turnover}} \times 100$$

Table 4 shows Banqsoft's gross profit margin for the relevant time period, while chart 1 illustrates the figures graphically.

Table 4: Gross profit margin

Gross Profit Margin				
Year	2013	2012	2011	2010
Gross Profit	140 720,00	117 479,00	107 202,00	98 513,00
Gross Margin	94 %	92 %	91 %	92 %

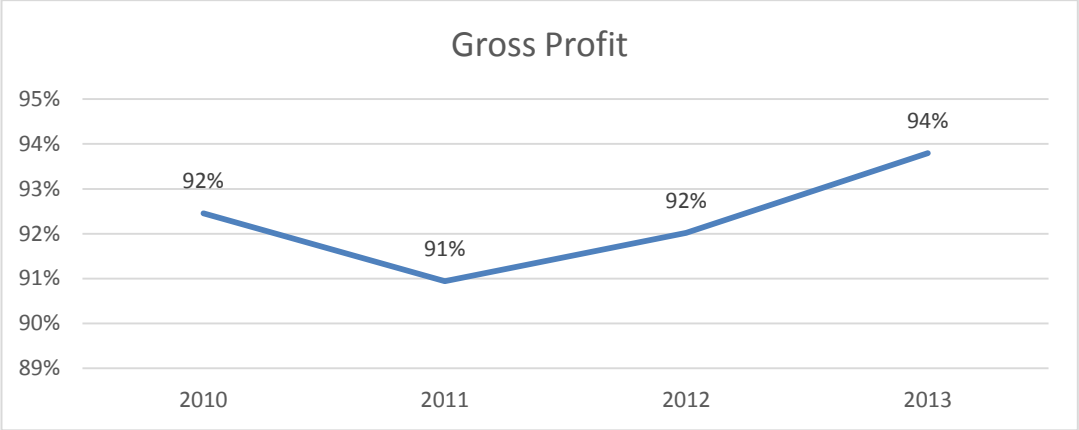

Chart 1: Gross profit margin

The figures show a positive trend, in that the gross profit margin has increased annually, after a small drop in 2011. This means that there is more left of the revenue to pay for other costs that were not costs of sales. As there are always costs that are not costs of sales, it is important to have a positive gross profit, in order to make a net profit, and as was mentioned above, these figures do not include labour costs, which is a type of expenditure that is typically relatively high in the software sector (more on this in chapter 3, in which Banqsoft's gross profit margin will be compared to the corresponding figures from other software companies).

2.2.2 Operating profit & operating loss

Operating profit is the profit a company earns from its day-to-day business operations, such as for example the sale of the products a company manufactures. The operating profit omits income from sources such as through ownership in other companies, or interest income, however it does include depreciation and amortisation. The operating income is commonly known as earnings before interest and taxes (EBIT). Should the figure be negative, it is called an operating loss, as opposed to an operating profit. (Investopedia 2014i.)

As a general figure, a figure higher than 10 % can be considered good, a figure between 5-10 % satisfactory, while a figure lower than 5 % can be considered insufficient.

The operating profit can be calculated by using the following formula:

Operating revenue - cost of goods sold - operating expenses - depreciation & amortisation

This operating profit can further be calculated as a percentage, using the following formula:

$$\frac{\text{Earnings before interest and taxes}}{\text{Turnover}} \times 100$$

The earnings before interest and taxes is given in the income statement, and the author has verified these numbers, before using the abovementioned formula to calculate the percentage form. Table 5 shows Banqsoft's operating profit and operating loss throughout the relevant time period, whereas Chart 2 illustrates the same figures graphically.

Table 5: Operating profit / operating loss

Operating Profit / Operating Loss (EBIT)				
Year	2013	2012	2011	2010
EBIT	22 637	15 138	-6 624	-1 577
Percentage	15.1 %	11.9 %	-5.6 %	-1.5 %

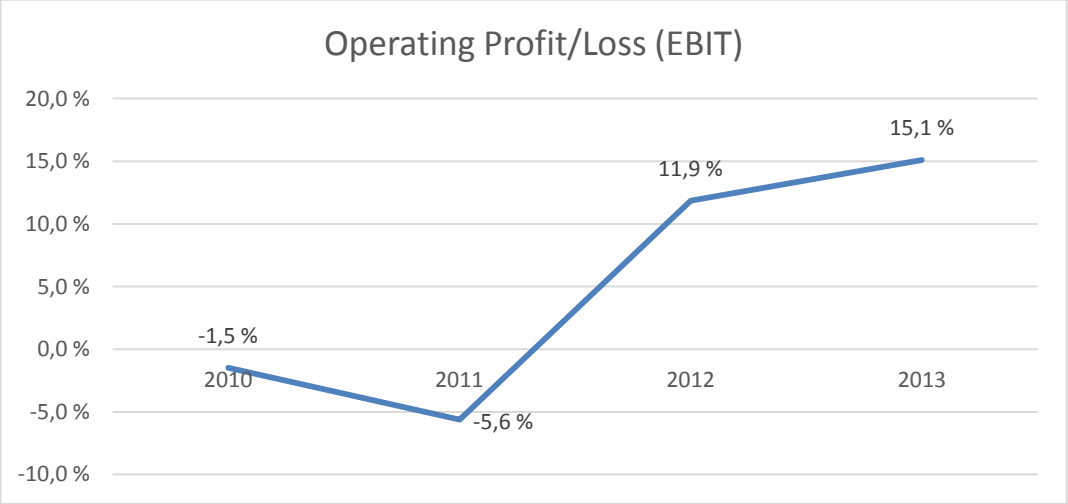

Chart 2: Operating profit/loss

The figures show an operating loss in 2010 and 2011, and that the operating loss increased in 2011, however, in 2012 it had changed into an operating profit, after having increased significantly, and the operating profit further increased in 2013. The figures show what is likely to be the beginning of a positive trend.

2.2.3 Operating margin

The operating margin shows how much of the revenue a company has made is left, after the company has paid for variable costs related to the production of the production, also known as the cost of goods sold (COGS). In other words, the operating margin shows how much money is left from the company's operations to pay its interest, taxes and shareholders. (Marr, B. 2012.)

The operating margin is also known as earnings before interest, taxes, depreciation and amortisation (EBITDA), and can be illustrated both as a monetary sum and as a percentage. As a percentage it is often referred to as the gross profit margin. Calculating the percentage means that different companies can be compared regardless of the size of the companies. It is important to note, however, that different industries have different norms for the operating margin. For instance it is common to see margins higher than 80 % in the software industry. (Investopedia 2014h; Marr, B. 2012, 17-19.)

The operating margin percentage can be calculating by using the following formula:

$$\frac{\text{(Revenue - Cost of goods sold)}}{\text{Revenues}} \quad \text{X 100}$$

Earnings before interest, taxes, depreciations and amortisation (EBITDA) is commonly a key figure that companies calculate, and it can usually be found early on in an annual report, either on its own, or as part of other key figures shown before the more detailed financial reporting. This is the case also for Banqsoft, however this report adds the margin figures to the monetary ones given in the company's annual report.

Table 6 below shows Banqsoft's operating margin throughout the relevant time period, whereas chart 3 illustrates the same figures graphically.

Table 6: Operating margin

Operating Margin, EBITDA				
Year	2013	2012	2011	2010
EBITDA	25 083	17 941	-5 219	1 006
Gross profit margin	16.72 %	14.05 %	-4.4 %	-0.9 %

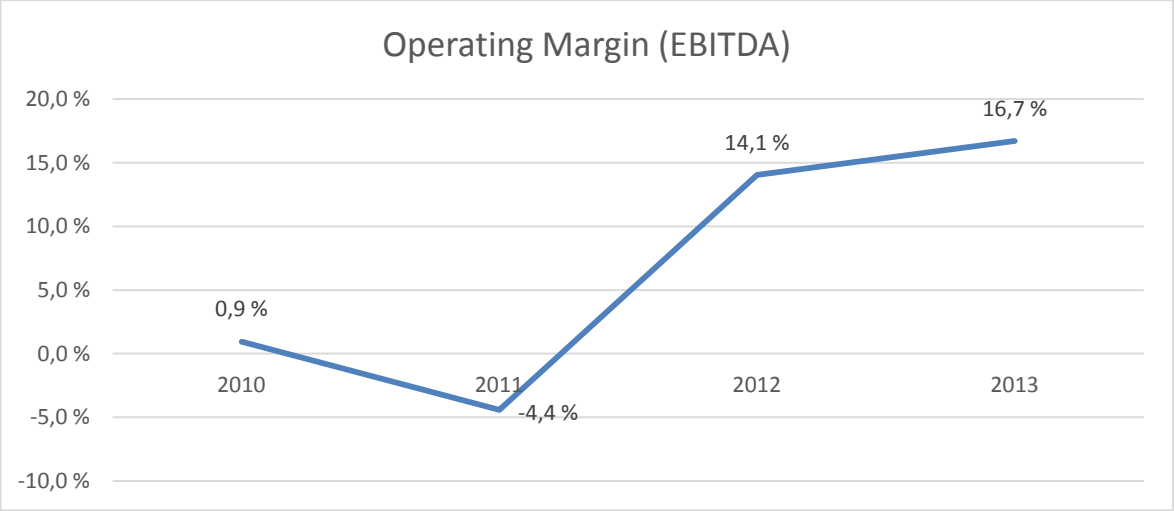

Chart 3: Operating margin

The figures show that a marginally positive operating margin in 2011 had turned negative in 2011, before increased quite significantly in 2012, and then increasing further in 2013. As there will still be costs to account for after the operating margin, it is important to have a bit of a margin in order to have a positive end result (net profit). After the increased operating margin in 2012, Banqsoft has managed to acquire such a margin. The trend, in other words, seems positive, although it would be useful to compare this numbers to the corresponding numbers for the coming few years, to see if the positive trend continues.

2.2.4 Net profit

The profit a company has made after all expenses have been paid, excluding extraordinary items. Net profit is perhaps the most important measure of performance, as profit forms the basis for any business. (Marr, B. 2012, 3.)

Net profit is a straightforward measurement. A number which is positive illustrates that the company has made a profit, whereas a negative number illustrates a loss made by the company. As such, in the latter case, where a loss has been made, this is called net loss, as opposed to net profit. The net profit is usually the final result for a company (the exception being in the case that there would be extraordinary items), and is found at the bottom of the income statement.

The net profit can be illustrated as percentage by using the following formula:

$$\frac{\text{Profit/loss before extraordinary items}}{\text{Turnover}} \times 100$$

Banqsoft's net profit throughout the relevant time period is illustrated in table 7 below, and graphically in chart 4.

Table 7: Net profit

Net Profit				
Year	2013	2012	2011	2010
Net profit	16 961	10 763	-7 270	-616
Net profit margin	11.3 %	8.4 %	-6.2 %	-0.6 %

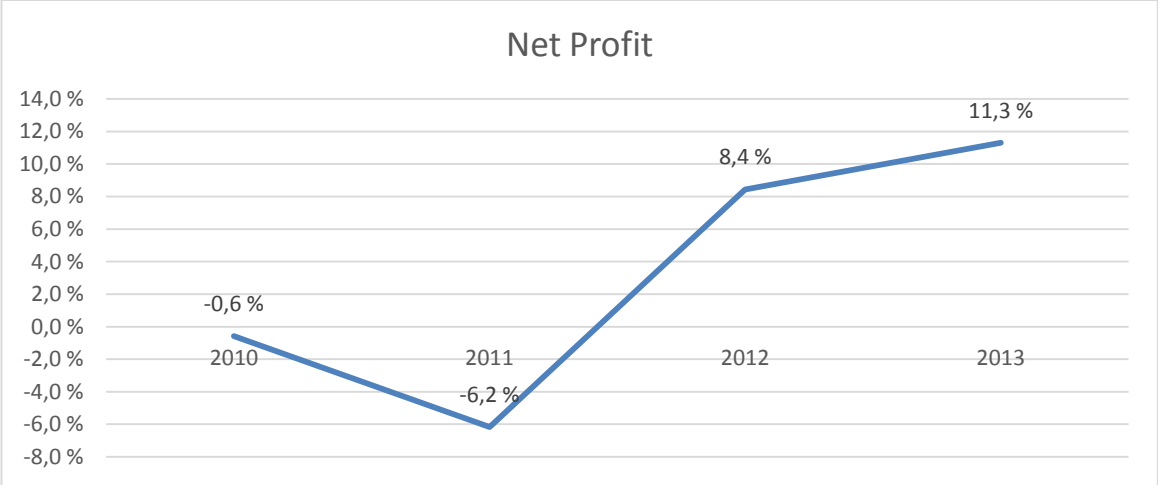

Chart 4: Net profit

The figures illustrate that a small net loss increased in 2011, before turning into a profit, following a significant increase in 2012, after which the net profit increased further in 2013. This is a positive change of results, and in line with what the operating profit and operating margin have shown, and as was the case with the aforementioned ratios, this suggests the beginning of a positive trend, which will be interesting to follow in the coming years.

2.2.5 Return on investment

Return on investment, commonly known as ROI, illustrates how much return is earned from investments. The return on investment is given as a percentage, and is a popular figure for investors and owners, as it shows the profitability of the investments. (Investopedia 2014l; Marr, B. 2012, 39-41.)

The return on investment should always be positive; otherwise the investment(s) have been inefficient and resulted in a loss. And positive return on investment figure is a positive one, however the bigger the better. Generally we could say that 0-9 % is sufficient, 10-14 % percent is good, and 15 % or higher is a very good return on investment.

An important thing to know about the return on investment, is that there are different ways of calculating it, and that these different methods can yield significantly different results. This is especially true due to the fact that the return on investment can be manipulated, e.g. one common formula for calculating the ROI is the following:

$$\frac{\text{(Gains - Cost)}}{\text{Cost}}$$

It is a good formula for calculating the return on investment, in its simplicity. However, how the gains and costs from an investment (or investments) are accounted for, can lead to different results, and someone could manipulate the numbers in order to yield a figure that will suit his or his company's purpose. The return on investment is, however, still a useful and popular tool. (Investopedia 2014d.)

The author is using the following formula to calculate the return on investment:

$$\frac{\text{EBIT}}{\text{Average capital employed (total assets less non-interest-bearing liabilities)}} \text{ X 100}$$

Table 8 below illustrate the return on investment for Banqsoft during the relevant time period, whereas Chart 5 illustrate the same figures graphically.

Table 8: Return on investment

Return on Investment (ROI)				
Year	2013	2012	2011	2010
Return on Investment	28.3 %	20.9 %	-11.4 %	-2.8 %

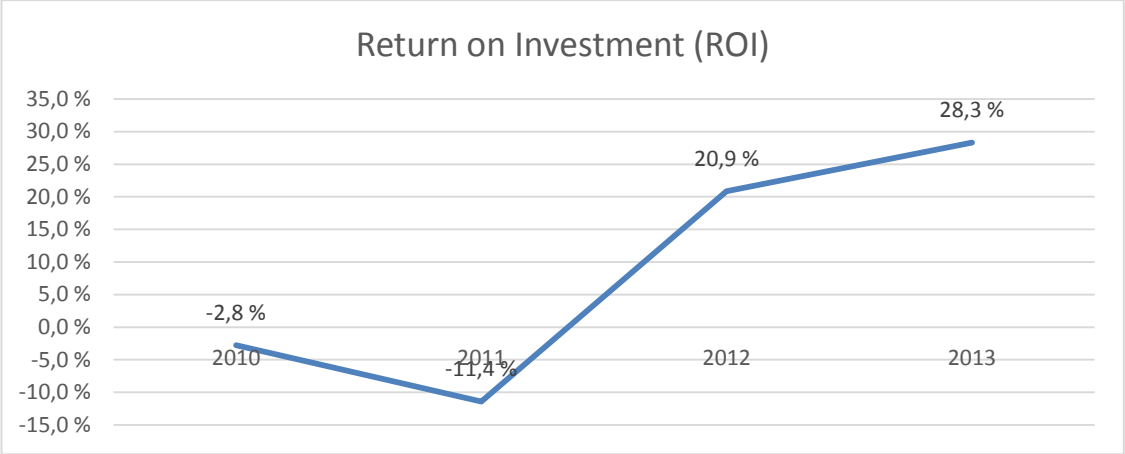

Chart 5: Return on investment

The figures show a similar pattern to the profitability ratios above, in that the figure for 2010 was low, the development in 2011 negative, before a significant positive development in 2012, increased further in 2013. Therefore the trend can be said to be positive. In accordance to the general rule for the return on investment, as stated above, it can be said that Banqsoft had a very good return on investment in 2012 and 2013. As is the case with most key ratios, however, standards and norms can vary between different industries, thus a comparison to other software companies will show a more comparable picture (see chapter 3).

2.2.6 Return on assets

The return on assets (ROA) shows the relation between the earnings before interest and taxes (EBIT) and the total assets of the company. What the ratio shows is how well the company uses its assets in order to gain earnings before expenses such as taxes and interest will have to be accounted for, i.e. it measures how efficient the company's assets are being used. (Investopedia 2014m; Marr, B. 2012, 49.)

The return on assets is calculated as a percentage, the higher the percentage, the more earnings the company has in proportion to its assets, which means that the company's assets is used in an effective manner. Because industries vary a lot in regards to how asset- or capital intensive they are, the return on assets will vary a lot between different industries, meaning that it is very useful to benchmark this ratio against other companies in a company's own industry. (Marr, B. 2012, 50-51.)

The return on assets can be calculated using the following formula:

$$\frac{\text{EBIT}}{\text{Average total balance sheet}} \times 100$$

In order to get the average total balance sheet, take the total assets from the beginning at the year, add the total assets at the end of the year, then divide by two.

Table 9 below show the return on assets for Banqsoft for the relevant time period, with chart 6 adding a graphical illustration of the figures.

Table 9: Return on assets

Return on Assets (ROA)				
Year	2013	2012	2011	2010
Return on assets	29.6 %	23.0 %	-11.4 %	-2.8 %

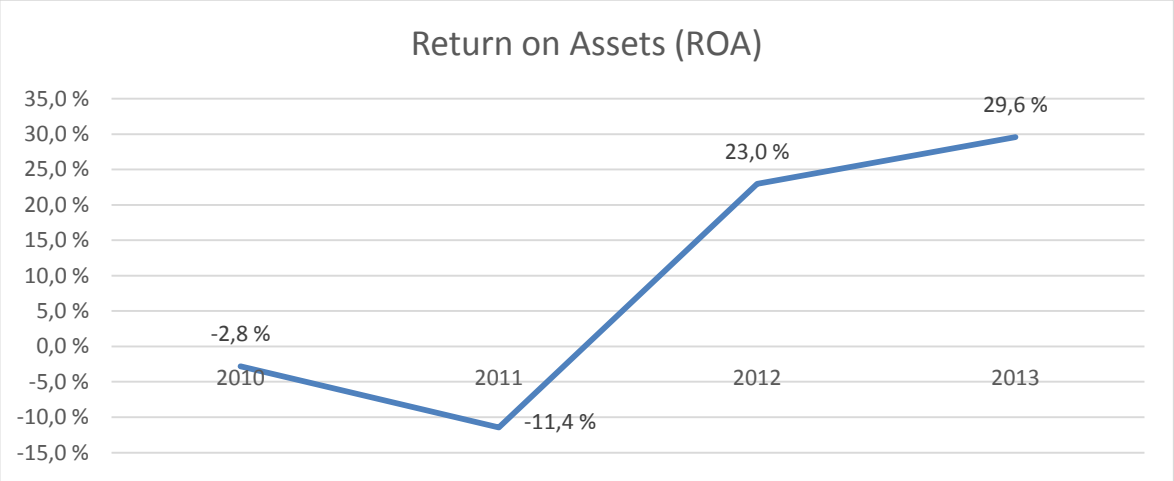

Chart 6: Return on assets

The figures show a low number in 2010, which decreased in 2011, before increasing significantly in 2012 and 2013. This development follows the overall profitability trend, as the company has gone from a loss, to a profit which has then increased. Using the numbers listed above the formula as benchmarking, the numbers from 2010 and 2011 seem insufficient, while the figures from 2012 and 2013 look solid. Another useful tool is to compare the figures to other software companies, which is done in chapter 3.

2.2.7 Return on owners' equity

The return on owners' equity (ROE) compares the net profit of a company to its share capital, and the purpose of the ratio is to illustrate how effectively the company uses its share capital in order to make a profit. The ratio is commonly used for comparing the profitability of different companies, and is therefore a popular ratio amongst investors. The return on owners' equity is also known as return on net worth (RONW), or simply as return on equity. (Investopedia 2014k; Marr, B. 2012, 53.)

Although the most useful benchmark will be against other companies from the same industry, the return on owners' equity can also be benchmarked against more general numbers, where figures greater than 20 % can be deemed good, figures between 10-20% can be deemed satisfactory, while figures below 10 % can be deemed insufficient.

There are different ways in which to calculate the return on owners' equity. Some formulas use the shareholders' equity at the end of the year; some use the average equity for the year, and some use the equity at the beginning of the year. The latter method is less susceptible to influence from decisions made during the course of the year, in which managers can make decisions that would make figures look better for that particular year, even though they have not actually added more value. (Taub, E. 2001). Hence by using the equity at the start of the year, the figures should be more reliable, and this is also the method used in this report. The formula can be seen below:

$$\frac{\text{Net profit}}{\text{Shareholders' equity at start of year}}$$

The return on equity for the relevant time period can be seen in table 10, together with a graphical illustration in chart 7.

Table 10: Return on owners' equity

Return on Owners' Equity (ROE)				
Year	2013	2012	2011	2010
Return on equity	76.8 %	50.1 %	-32.0 %	-2.1 %

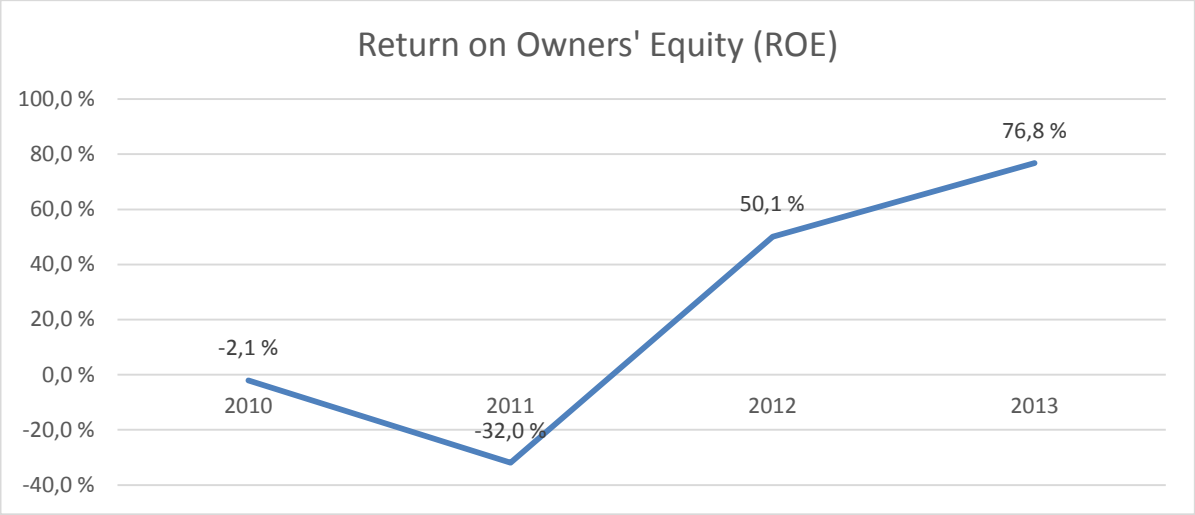

Chart 7: Return on owners' equity

The differences in the return on equity are quite large. That 2010 and 2011 show weak figures is due to the losses incurred during these years. A solid net profit in 2012 and 2013 lay the foundations for a big increase in the return on equity, and another factor is that the share capital in the company was fairly low, especially in comparison to the profit incurred during these years. It is important to note that a high return on equity is to be expected from a high growth company, and Banqsoft has undoubtly had a high growth during this time period. The return on equity is also a ratio of which it is useful to look at the historical picture, e.g. over the past 5-10 years, and it will be interesting to see how the figure will develop in the coming years, if the company maintains its good results from the last two years. Further on the ratio will be compared to those of other companies in subchapter 3.1.

2.2.8 Human capital value added (HCVA)

The human capital value added (HCVA) ratio illustrate how much value the average employee add to the company's financial performance. This is a useful ratio as employees are both the most important assets of a company, and also often the biggest expense of a company. The figure is given as a monetary measure, and is most useful for internal comparison, that is, trend analysis within the company rather than comparing to others. (Marr, B. 2012, 257-258.)

The human capital value added ratio can be calculated by using the following formula:

$$\frac{\text{(Salaries + EBITDA)}}{\text{Average number of employees}}$$

The return on equity for the relevant time period can be seen in table 11 below, together with a graphical illustration in chart 8.

Table 11: Human capital value added

Human capital value added (HCVA)				
Year	2013	2012	2011	2010
HCVA	898	896	686	663

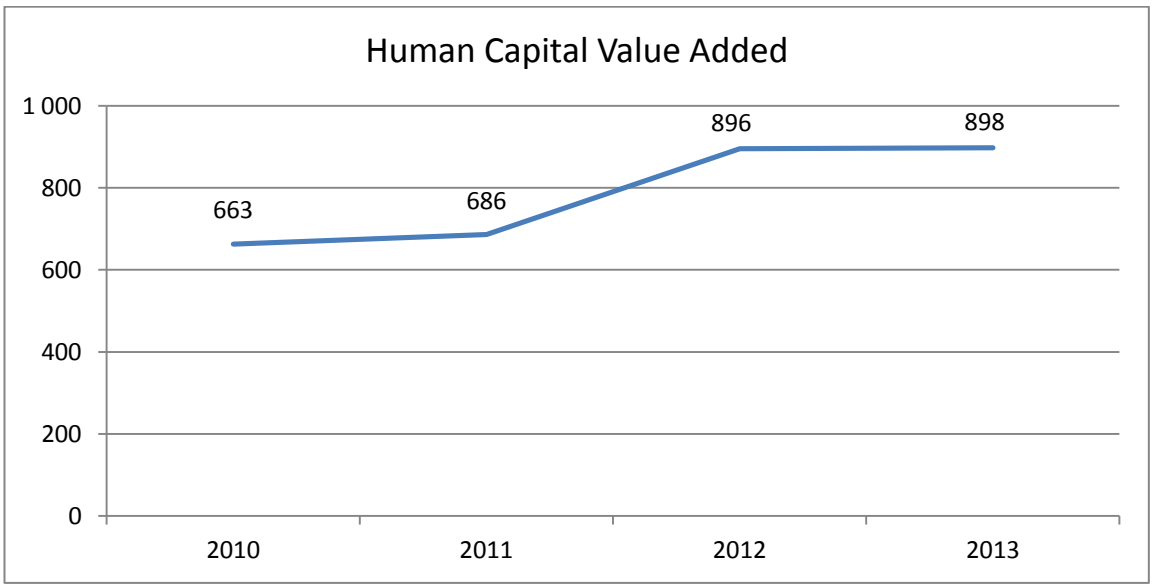

Chart 8: Human capital value added

The figures illustrate a positive trend, in which the human capital value added has increased annually. In 2012 in particular the figure increased quite significantly. The ratio remained more or less the same in 2013.

2.3 Liquidity

Liquidity is a term which has three different meanings, two of which are relevant to this report. One definition is used especially about assets, and means that the assets easily can be converted into cash. The second definition which is important in this report is the state in which a company is able to meet their short-term obligations. A company with insufficient liquidity stands in risk of bankruptcy. (Cambridge University Press 2011, 497; Investopedia 2014f.)

Having sufficient liquidity is important to any business, as a company which is not able to pay their obligations stands in the risk of bankruptcy. This subchapter has a focus on the short-term, that is, up to a year, but not more.

2.3.1 Quick ratio

Also known as an *acid test*, the quick ratio shows a company's ability to pay of its short-term obligations by using its current assets. In other words, the quick ratio shows much much quick assets the company has got, compared to its current liabilities. (Investopedia 2014j.)

Important to note about the quick ratio is that it is calculated using only quick assets; assets that can quickly be converted into cash. Such assets typically includes cash, marketable securities and accounts receivable, while stock (inventory) is left out of the equation. The reason for this exclusion is that stock typically does not quickly convert into cash, i.e. stock is typically less liquid. (Investopedia 2014j.)

The higher a company's quick ratio is, the stronger liquidity position the company finds itself in. Typically a quick ratio of 1.0 or higher can be considered as to be a very good number, whilst a ratio between 0.5 and 1 can still be deemed satisfactory. A ratio lower than 0.5, however, can be deemed insufficient, as this illustrates an inability to pay of current liabilities by using the company's liquid assets. To make the result seem more quantifiable, the ratio can be thought of in monetary terms, i.e. a ratio of 1.25 means that a company has 1.25 NOK (or any other given currency) of liquid assets available per 1.00 NOK of current liabilities.

The quick ratio can be calculated by using the following formula:

$$\frac{\text{Current assets - stock}}{\text{Current liabilities}}$$

By using the aforementioned formula, the quick ratio can be seen in table 12 below, with a graphical illustration in chart 9.

Table 12: Quick ratio

Quick Ratio (Acid Test)				
Year	2013	2012	2011	2010
Quick Ratio	1.34	1.29	1.32	1.07

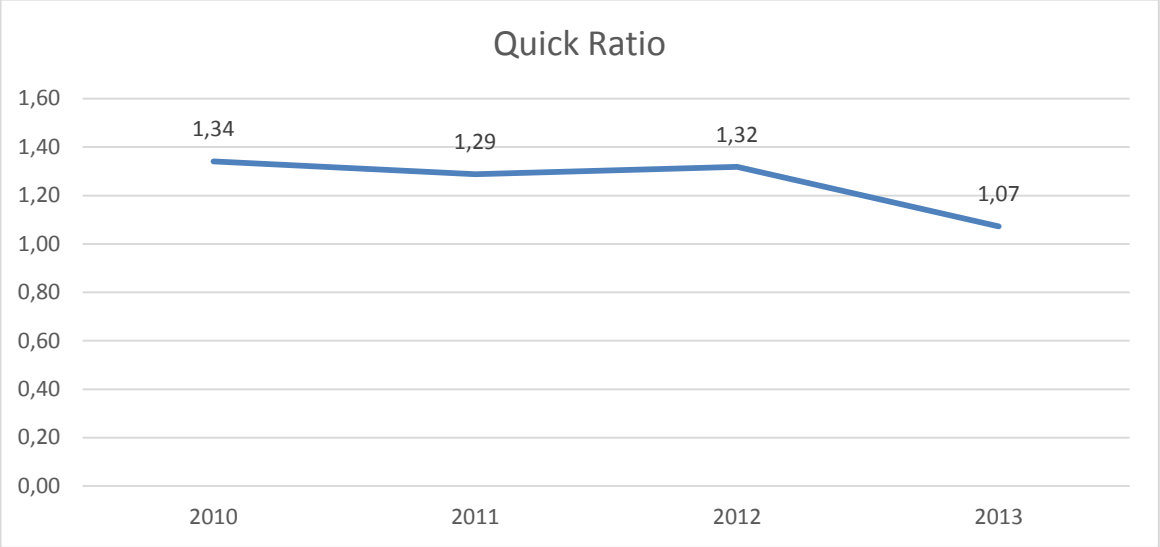

Chart 9: Quick ratio

Using the figures listed above as a means to benchmark, it can be seen that the quick ratio has been good throughout the entire period, with the highest ratio in 2012. The most recent figure, from 2013, is however lower than in previous years, which is a negative development. Looking at the numbers used in the calculation, it is clear that Banqsoft has a bigger amount of current assets, including stock, however the bigger difference seems to come from the current liabilities, which have increased quite much. A more detailed look into the current liabilities reveal that the most significant increases are in the tax liabilities and dividends to shareholders. This implies that the reason for the lower quick ratio is simply the increased profitability of the company, and it is also clear that the ratio would be significantly higher if not for these big increases in the aforementioned liabilities, and therefore the decreasing ratio should not be a cause of alarm. As mentioned the ratio is also within the range of what is considered a good figure.

2.3.2 Working capital ratio

The working capital, also known as net working capital, shows the amount of a company's current assets less its current liabilities. This means that the working capital can be used for illustrating a company's ability to meet its current obligations, and as such is a useful tool for illustrating the company's liquidity and efficiency. High working capital means more capital available, not only for meeting obligations, but also for expanding or otherwise improving operations. (Marr, B. 2012, 67-69.)

Working capital is calculated as a monetary figure, however it can also be calculated as a ratio, in which it is illustrated as a percentage, making it possible to compare to other companies. The ratio is positive when the value is higher than 1, and negative when the value is lower than 1, and the higher the ratio, the better. On the other hand it is generally not beneficial to have a very high workig capital ratio either, as this often means that the company has capital that could have been better invested elsewhere than in the working capital. To make the result seem more quantifiable, the ratio can be thought of in monetary terms, i.e. a ratio of 2.3 means that a company has 2.3 NOK (or any other given currency) of liquid assets available per 1.00 NOK of current liabilities. The working capital ratio is also known as the current ratio. (Marr, B. 2012, 67-69.)

The working capital ratio can be calculated by using the following formula:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Using the abovementioned formula, Banqsoft's current ratios can be seen in table 13 below, whereas chart 10 adds a graphical illustration.

Table 13: Working capital ratio

Working capital ratio				
Year	2013	2012	2011	2010
Current Ratio	1.34	1.29	1.32	1.07

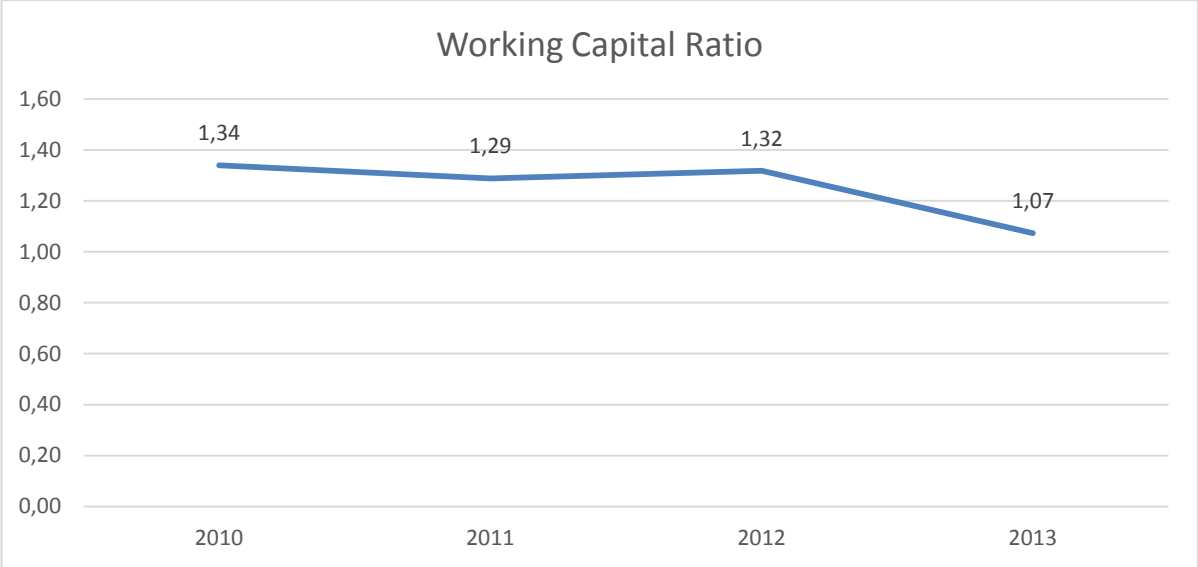

Chart 10: Working capital ratio

The figures show that Banqsoft's working capital ratio has been positive throughout the period. It can also be seen that the ratio dropped quite much in 2013. This implies more current liabilities relative to current assets, which means that the lower ratio is not a positive change. The ratio is still above 1, however, meaning that the working capital ratio, and hence the working capital, is positive, which is positive for the company. The reason that the current ratio is lower in 2013 than in 2012 due to the increased current liabilities, which, as explained in the paragraph about the quick ratio (see previous subchapter), is due to the increased profits, and the decrease should therefore not be seen as particularly alarming. Note that the figures are the same as for the quick ratio. It is typical with little or not difference in these ratios in the software industry, due to the relatively small amount of stock. For industries were stock makes up a larger part of the assets, the difference would be larger.

2.4 Solvency, gearing and leverage

Solvency means that a company is able to meet all of its obligations. This means that in addition to its short-term obligations (see subchapter 2.3; liquidity), the company is also able to meet all of its long-term obligations. In a situation where a company is unable to meet all of its obligations, the company is insolvent, and is in a state of insolvency. Such a company can file for insolvency, or bankruptcy. (Cambridge University Press 2011, 192, 441.)

This subchapter focuses on ratios which illustrate solvency and the capital structure of the company. The purpose of the ratios is to illustrate the financial health of the company, and whether they might stand in risk of insolvency.

2.4.1 Solvency rate

The solvency rate compares a company's equity to its balance sheet total (less received prepayments). What this means is that, as the balance sheet total equals equity plus liabilities, the solvency rate illustrates how much equity the company has got in relation to its liabilities. Received prepayments are subtracted due to the fact that these are money that the company will record as income later on, rather than being an obligation to pay others. For accounting purposes, however, received prepayments are recorded as liabilities. Due to the fact that the ratio illustrates equity to liabilities, a higher ratio is preferable to a lower one, as this indicates that the company is financed relatively less by debt compared to equity, than is the case with a higher value. Generally speaking, a ratio higher than 40 percent can be deemed good, a ratio from 20-40 can be deemed satisfactory, while a ratio below 20 can be deemed too low. This ratio however, as most other ratios, varies between industries, due to differences in the typical capital structure in different businesses. Because of this, it makes sense to focus on how the other companies in the same industry are doing (see subchapter 3.3). (Investopedia 2014o)

The solvency rate can be calculated by using the following formula:

$$\frac{\text{Equity}}{\text{(Total balance sheet - received prepayments)}}$$

Banqsoft's solvency rate for the relevant time period is illustrated numerically in table 14, and graphically in chart 11 below.

Table 14: Solvency rate

Solvency Rate				
Year	2013	2012	2011	2010
Solvency Rate	14,8 %	30.4 %	38.7 %	43.9 %

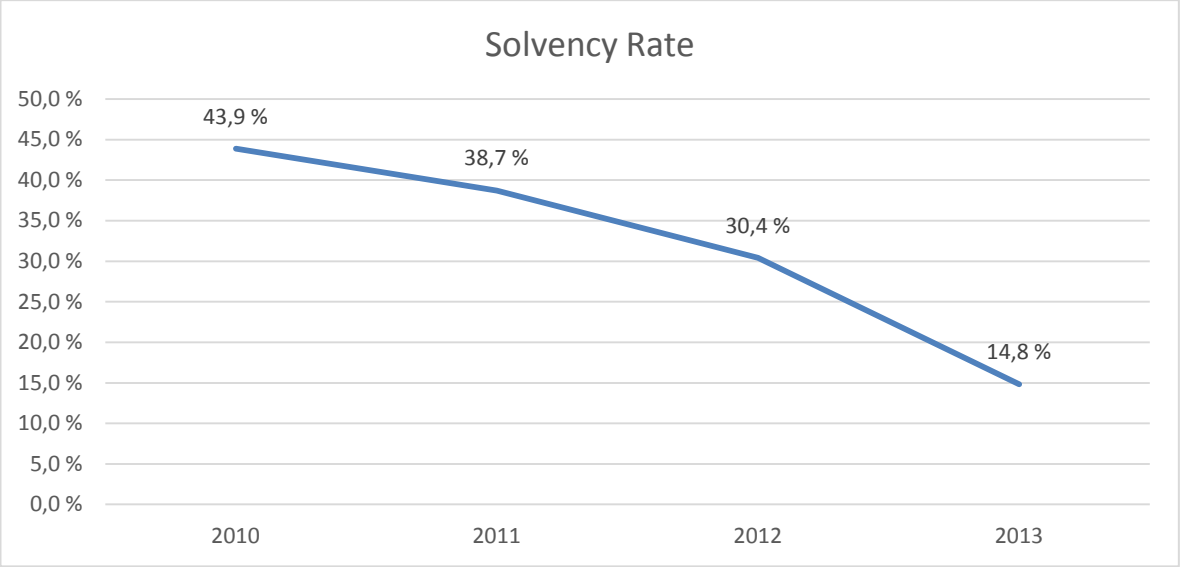

Chart 11: Solvency rate

The figures show that the ratio has decreased from year to year throughout the period, with quite a significant drop in 2013. A look at the balance sheet explains this drop: The equity in the company has decreased, while at the same time the balance sheet total has increased. Nonetheless, the trend is negative, and the 2013 ratio is at a level that, according to the general benchmarking numbers, can be deemed too low. In subchapter 3.3 the figures are benchmarked against other software companies, which might give a more accurate picture for the software industry.

2.4.2 Leverage on sales

The leverage on sales ratio illustrates the relation between a company's liabilities to its turnover. For this purpose, received prepayments are subtracted from the liabilities. The purpose of this ratio is to see how much liabilities a company has compared to its revenue. This means that the higher the ratio, the more liabilities the company has compared to its revenue, and conversely the lower the ratio is, the less liabilities the company has compared to its revenue. In other words, a lower figure is preferable, as this indicates less risk. (Melamies, J. 2013)

The leverage on sales can be calculated by using the following formula:

$$\frac{\text{(Total liabilities - received prepayments)}}{\text{Turnover}}$$

Table 15 and chart 12 below illustrate Banqsoft's leverage on sales throughout the relevant time period.

Table 15: Leverage on sales

Leverage on Sales				
Year	2013	2012	2011	2010
Leverage on sales	42.8 %	37.1 %	47.1 %	27.3 %

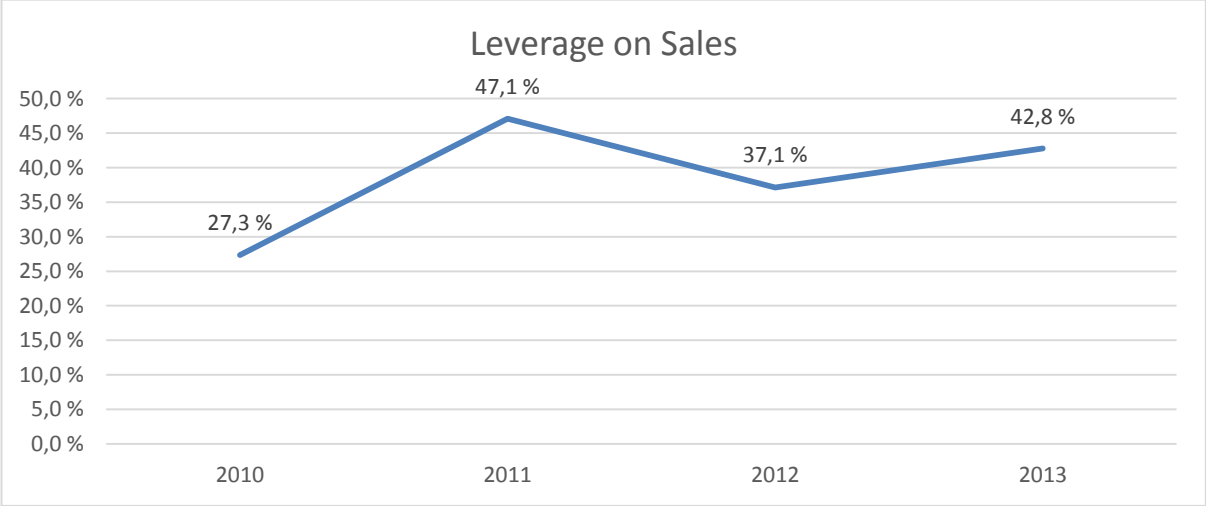

Chart 12: Leverage on sales

Banqsoft's leverage on sales ratios have been fluctuating throughout the period. This is likely due to that both sides of the equation (liabilities and turnover) have increased throughout the period, at different levels. The figures do, however, show a significantly higher leverage on sales in 2013 than in 2010. This implies that the company had relatively more liabilities to turnover in 2013 than in 2010, or in other words, that the liabilities have increased more than the turnover, which is a negative change.

2.4.3 Gearing ratio

There are different ways in which to calculate gearing, which illustrates financial leverage, that is, how the company is financed (i.e. to which degree is the company financed by debt, compared to equity). The gearing ratio is a way of illustrating leverage. The higher the leverage, the more a company is financed by debt, rather than by equity. Therefore a highly leveraged company is considered to be in a more risky position, in

which it could find itself in trouble with meeting all its obligations, especially if it hits hard times. (Financial Memos 2013)

Generally speaking, a lower gearing ratio is preferable to a high one. A percentage below 100 % is considered preferable, as a lower ratio implies lower risk. However it could be noted that high leverage is not necessarily an entirely bad thing, as a highly leveraged company could face higher profits, i.e. the potential returns are higher. Typically this happens during good times, when revenue and profits are high, however high leverage can be dangerous during bad times, when revenue and profits are failing. (Financial Memos 2013)

The following formula was used for calculating the gearing ratio. Note that the net debt consists of interest bearing liabilities less cash and cash equivalents.

$$\frac{\text{Net debt}}{\text{Equity}} \times 100$$

Table 16 and chart 13 illustrate Banqsoft's gearing ratio during the relevant time period.

Table 16: Gearing ratio

Gearing Ratio				
Year	2013	2012	2011	2010
Gearing Ratio	-386 %	-183 %	-96 %	-73 %

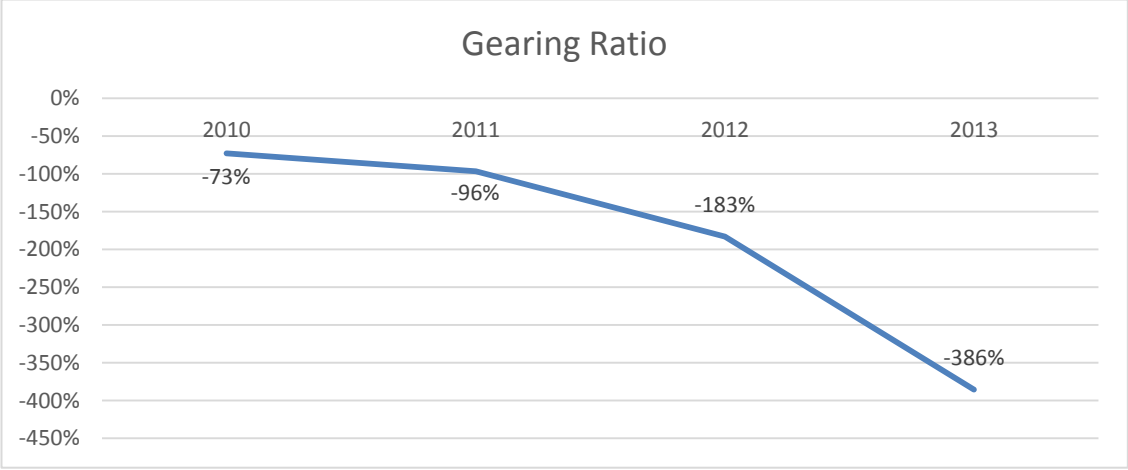

Chart 13: Gearing ratio

The figures show negative values throughout the entire period, and a trend in which the value has decreased from year to year. The explanation for this can be found in the formula and the balance sheet. Banqsoft do not have much in the way of interest bearing liabilities, however they do have cash and cash equivalents, and the cash and cash equivalents increased quite much in 2011, resulting in a big difference in the gearing ratio, whereas in 2013 the equity decreased a lot, further making a big impact on the ratio. The gearing ratio suggests that Banqsoft should have no problems with repaying their interest bearing liabilities, which comes as no surprise when having looked at their balance sheets.

2.4.4 Debt-to-equity ratio

There are different ways in which to calculate financial leverage, that is, how is the company financed, and how risky can the capitalisation be deemed. The gearing ratio (see above) is one such ratio, the debt-to-equity ratio another. What this ratio illustrates is the relation between total debt and total equity, i.e. the second part of the total balance sheet (the other part being the total assets). The higher the ratio, the more the company is financed through debt relative to equity. (Marr, B. 2012, 57-59.)

The debt-to-equity ratio can be calculated by using the following formula:

$$\frac{\text{Total liabilities}}{\text{Total equity}}$$

The debt-to-equity ratio of Banqsoft throughout the relevant time period is illustrated in table 17 and chart 14 below.

Table 17: Debt-to-equity ratio

Debt-to-equity ratio				
Year	2013	2012	2011	2010
Financial leverage	5.74	2.29	1.75	1.50

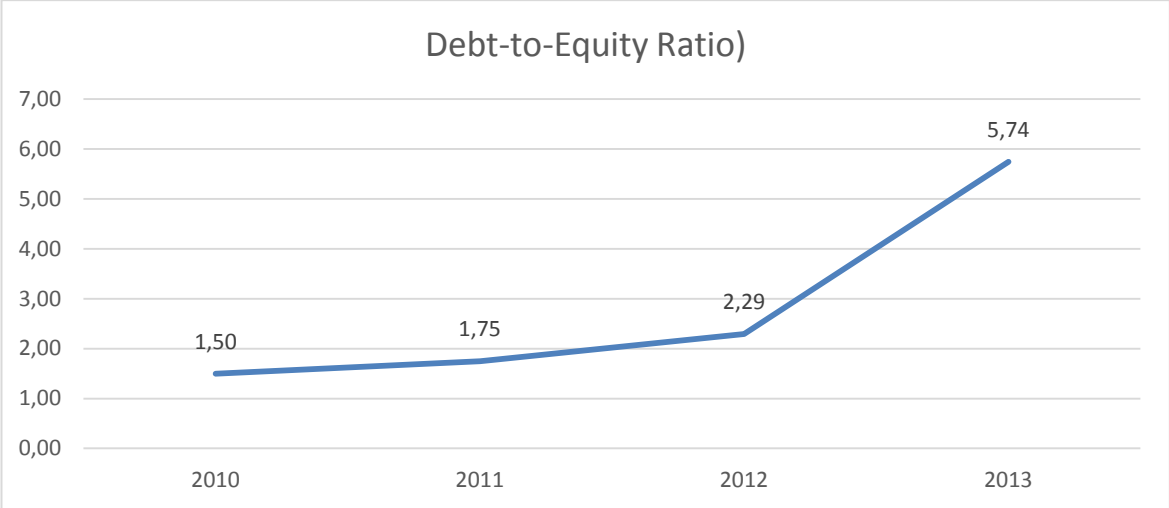

Chart 14: Debt-to-equity ratio

The figures show a trend that is increasing, with a significant increase in 2013. The reason for the increase in 2013 is easy to explain; the equity in the company was reduced quite significantly, while at the same time the liabilities went up. For the most part the increase in liabilities comes from dividends, taxes and advance payments from customers, so the increase largely stems from the fact that the company's profitability has increased, rather than that the company is financed more through debt. The biggest contributor for the increased figures are, however, the reduced equity.

2.4.5 Shareholders' equity ratio

The shareholders' equity ratio illustrates the proportion of shareholders' equity to a company's total assets. The ratio both indicates long-term solvency position of the company, and also illustrates how much the shareholders would receive of the company's assets in the event of liquidation. In the latter case, the ratio shows how much of the assets the shareholders would get, e.g. based on the 2013 figure, the shareholders would get 14.8 % of the assets. So the higher the ratio, the better for the shareholders. (Investopedia 2014n, ReadyRatios 2014b)

The shareholders equity ratio can be calculated by using the following formula:

$$\frac{\text{Shareholders' equity}}{\text{Total assets}} \times 100$$

Banqsoft's shareholders' equity for the time period is illustrated in table 18 and chart 15 below.

Table 18: Shareholders' equity

Shareholders' equity				
Year	2013	2012	2011	2010
Sharheolders' equity	14.8 %	30.4 %	36.4 %	40.1 %

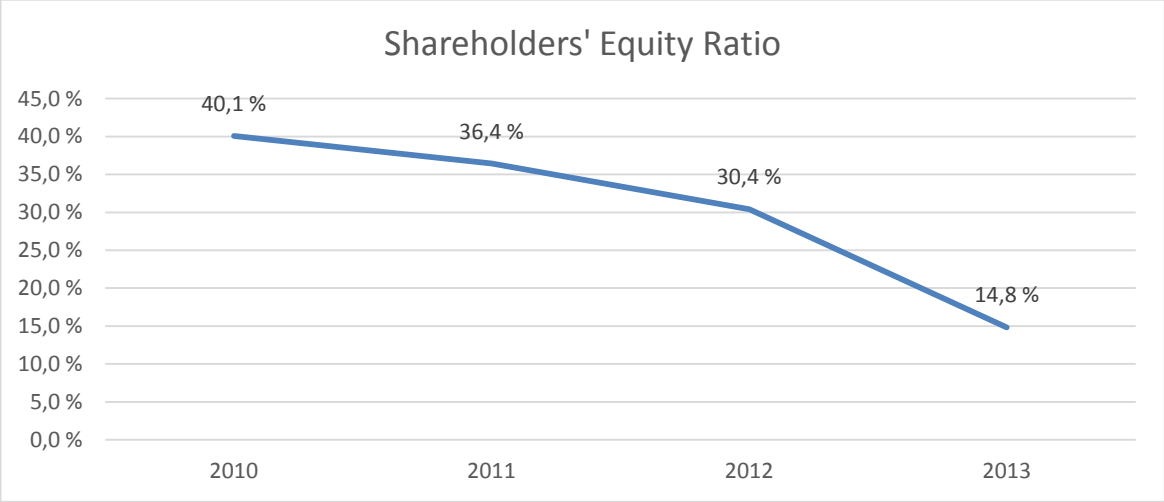

Chart 15: Shareholders' equity

The figures show a clear trend in which the shareholders' equity ratio has dropped each year, with a rather large drop in 2013. This trend has a simple explanation, in that the equity has decreased throughout the period, particularly in 2013 (mostly the statuary reserve), while at the same time the assets have grown steadily. Generally speaking a higher ratio is considered better, so this trend is not a positive one, and it is something that one might want to look more into, as low shareholders' equity ratio suggests that the company's assets are relatively more financed by liabilities rather than by equity.

2.4.6 Debt-to-assets ratio

The debt-to-assets ratio shows how much of the company is financed by financial institutions, i.e. through debt. The higher the number, the more of the company's assets are financed through debt, rather than equity, which means a lower number is preferable. The debt-to-assets has a connection with the shareholders' equity ratio (illustrated

above the debt-to-assets ratio), in that the two ratios add up to 100 %. (Michigan State University 2011)

The debt-to-assets ratio can be calculated by using the following formula:

$$\frac{\text{Total liabilities}}{\text{Total assets}}$$

Banqsoft's debt-to-assets ratio for the time period is illustrated in table 19 and chart 16 below.

Table 19: Debt-to-assets ratio

Debt-to-Assets Ratio				
Year	2013	2012	2011	2010
Debt-to-assets ratio	85.2 %	69.6 %	63.6 %	59.9 %

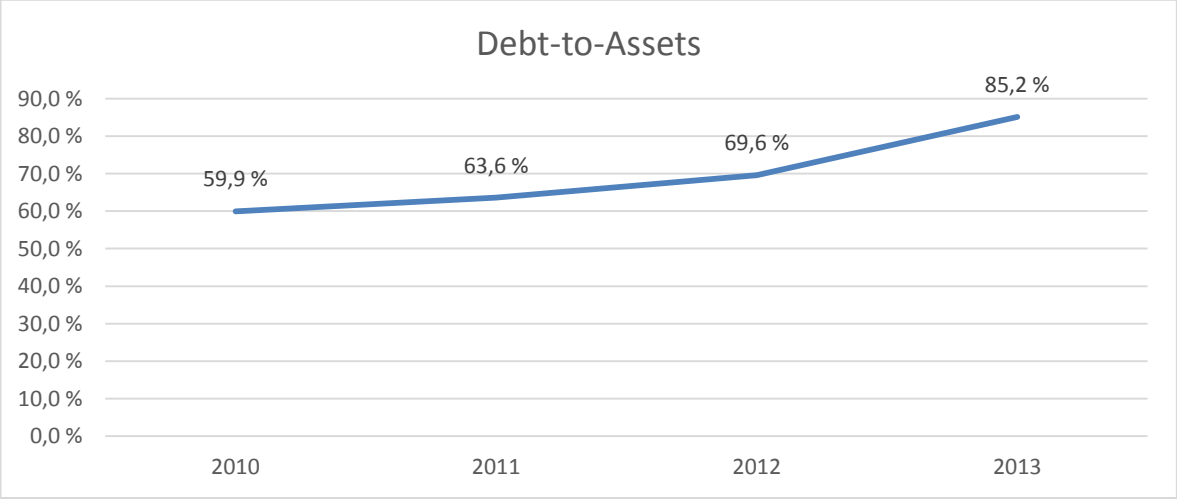

Chart 16: Debt-to-assets

As there is a correlation between the debt-to-assets ratio and the shareholders' equity ratio, they show more or less the same, but in different ways. It makes sense that they should add up to 100 %, as they show the relation between different parts of the equity and liability side of the balance to the assets, and these two sides should balance. Due to this, the trend analysis yields similar results as for the shareholders' equity ratio. The figures show that the ratio has grown throughout the period, which means that a rela-

tively larger part of the operations are financed through liabilities, rather than equity, and that especially in 2013 the ratio increased quite much.

2.4.7 Debt-to-EBITDA ratio

The debt-to-EBITDA ratio compares a company's debt to its earnings before interest, taxes, depreciation and amortization. Its purpose is to illustrate the liquidity position of the company. Unlike many other common ratios that illustrate liquidity and leverage, the debt-to-EBITDA ratio is based on earnings (non-cash expenses excluded), rather than assets or equity. The reason why the equation uses the EBITDA, as opposed to net profit, is that it is the EBITDA that is used for paying off debts. As is the case with most other liquidity and leverage ratios, a lower number indicates lower risk of liquidation and a more secure position, which is favourable. Generally speaking, a ratio below 3 is considered good, while higher ratios could be alarming. It should be noted, however, that the ratio can vary greatly between different industries, as companies in different industries typically have different capital requirements. Capital intensive industries require more financing, hence larger borrowings, than industries that are less capital intensive. It is also worth noting that the debt-to-EBITDA ratio has its limitations, as there could be big amounts spent on different investments, and it also does not take into consideration bad debt. Nonetheless it is a useful ratio for looking at a company's liquidity position, and is a popular tool both for management and financial analysts and credit rating agencies. (Investopedia 2014g; ReadyRatios 2014a)

The debt-to-EBITDA ratio can be calculated by using the following formula:

$$\frac{\text{Liabilities}}{\text{EBITDA}}$$

Banqsoft's debt-to-EBITDA ratio for the time period is illustrated in table 20 and chart 17 below.

Table 20: Debt-to-EBITDA ratio

Debt-to-EBITDA Ratio				
Year	2013	2012	2011	2010
Debt-to-EBITDA	2.73	2.82	7.19	33.85

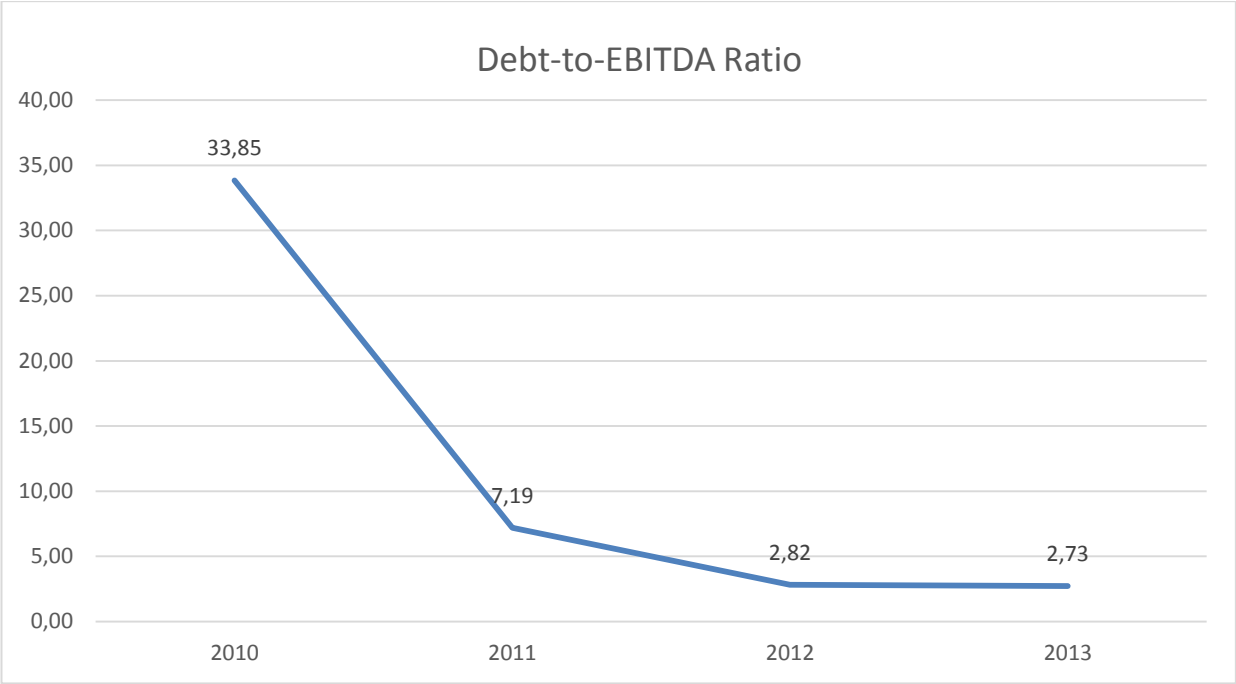

Chart 17: Debt-to-EBITDA ratio

As can be seen from the figures, Banqsoft had a very high debt-to-EBITDA ratio in 2010, which indicates high risk. The ratio has, however, decreased a lot since then, which is a positive trend. The change from 2012 to 2013 was minor, and it will have to be seen whether that is a trend that will continue, which would mean that the company will stabilise around that level. Although the trend has been positive, the figures do not give the full picture, as there are no figures to compare to (see subchapter 3.3 for benchmarking).

3 Benchmarking

Benchmarking is a concept that refers to the act of measuring something, by comparing the particular item with some sort of a standard. This standard could be a set, generally accepted standard, or in the case of for example a company, it can compare itself to other companies, typically other companies from the same industry, e.g. direct competitors. This is usually done in order to see in which position the company finds itself, either by comparing how the company has been doing in previous years (historical), by comparison to its competitors (or other companies from the same sector), or by comparison to given standard values. By doing this, the company might be able to improve its own results. (Cambridge University Press 2011, 68; Hope J., Player S. 2012, 87-88.)

This chapter is devoted to benchmarking, in which the author has compared the key performance indicators of Banqsoft, with those of some other companies from the same industry. Because Banqsoft offers specialised products, and the company does not have much in the way of direct competitors, the author has chosen the companies used for this purpose. The companies are all software companies, of various sizes, and from different countries (one company is Dutch, the rest are Nordic).

The structure will be similar to that from the previous chapter; for each ratio, the indicators from the different companies will be illustrated in a table, similar to those used in the previous chapter, paired up with visual illustrations from charts, followed by comments about the results. This chapter will, however, not repeat the theoretical part, instead it will focus on the figures and the analysis only. Thus this chapter will be more concise and to the point, with less text. Emphasis will be put on ratios that are expressed in percentage, as these discard the size of the company, i.e. monetary figures will not be included in this chapter.

3.1 Profitability

This subchapter corresponds to subchapter 2.2, with a focus on profitability.

3.1.1 Gross Profit

Table 21: Gross profit - benchmarking

Gross Profit				
Year	2010	2011	2012	2013
Banqsoft	**92%**	**91%**	**92%**	**94%**
Basware	94%	93%	92%	90%
Unit4	91%	90%	92%	93%
Visma	85%	86%	86%	86%
Ixonos	90%	88%	90%	91%
Solteq	80%	76%	73%	76%
Company X	99%	97%	89%	92%
IAR Systems	88%	91%	90%	94%

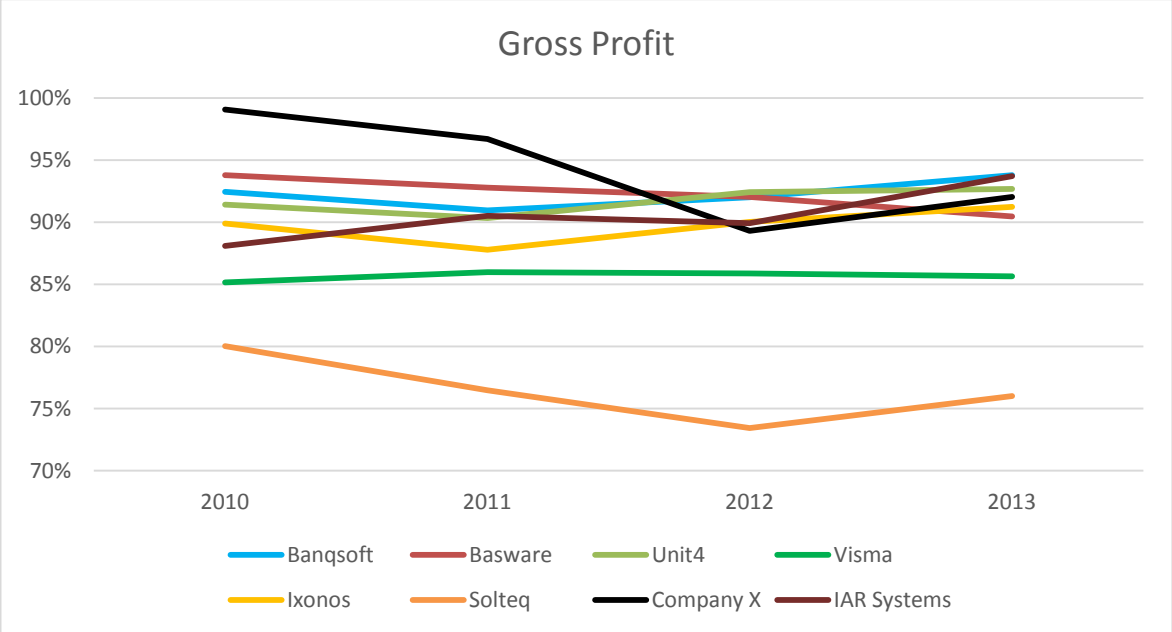

Chart 18: Gross profit - benchmarking

The figures show that the gross profit is quite similar for most of these companies, and that Banqsoft falls within this norm. Furthermore, at the end of 2013, Banqsoft had the highest gross profit, together with IAR Systems. If looking at the development of the figures, it can be seen that they vary; for most companies, the gross profit has increased slightly during this period, while for some it has decreased slightly. It can be seen that Banqsoft, besides having the highest gross profit, also follows a similar trend to most of the other companies in that the gross profit has increased slightly.
As was the case in the gross profit calculations in subchapter 2.2, labour costs have not been taken into account for any of these companies.

3.1.2 Operating profit/loss (EBIT)

Table 22: Operating profit/loss (EBIT) - benchmarking

Operating Profit/Loss (EBIT)				
Year	2010	2011	2012	2013
Banqsoft	**-1%**	**-6%**	**12%**	**15%**
Basware	10%	9%	7%	3%
Unit4	9%	8%	5%	7%
Visma	15%	12%	13%	15%
Ixonos	6%	2%	-43%	-40%
Solteq	-12%	5%	6%	5%
Company X	-30%	-23%	3%	16%
IAR Systems	7%	12%	15%	18%

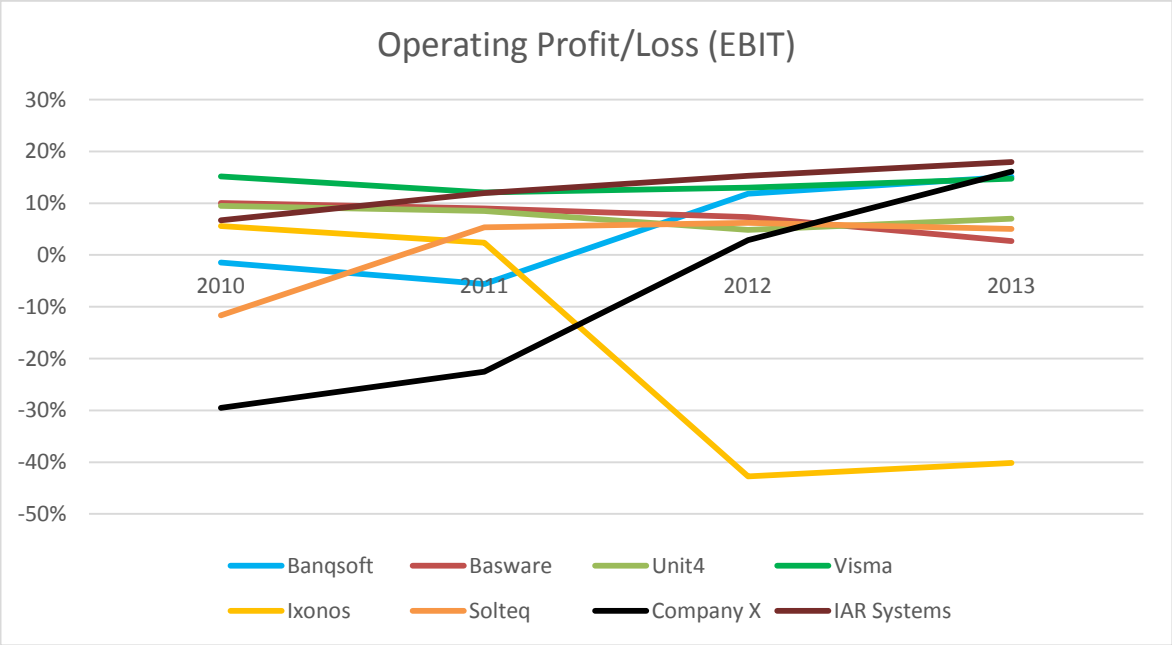

Chart 19: Operating profit/loss - benchmarking

The figures show that there are more differences in the operating profit/loss than was the case for the gross profit. While this is no surprise, it is worth noting that only two other companies have incurred operating losses, with one of them having improved their results so much during the time period that they had the second highest operating profit at the end of the time period, the other company having decreased significantly since 2011. There is no clear trend to be seen; some companies have improved, others have worsened. Banqsoft follows the more positive path, in that the operating profit

has increased quite much, and was among the companies with the highest operating profits at the end of the time period. Company X follows a similar trend, although more dramatic, in that it has increased significantly since 2011, and is now amongt the companies with the highest figures.

3.1.3 Operating margin (EBITDA)

Table 23: Operating margin (EBITDA) - benchmarking

Operating Margin (EBITDA)				
Year	2010	2011	2012	2013
Banqsoft	**1%**	**-4%**	**14%**	**17%**
Basware	15%	14%	13%	8%
Unit4	20%	19%	18%	19%
Visma	20%	18%	19%	21%
Ixonos	9%	8%	-33%	-32%
Solteq	-3%	8%	9%	8%
Company X	-8%	7%	22%	32%
IAR Systems	9%	15%	18%	22%

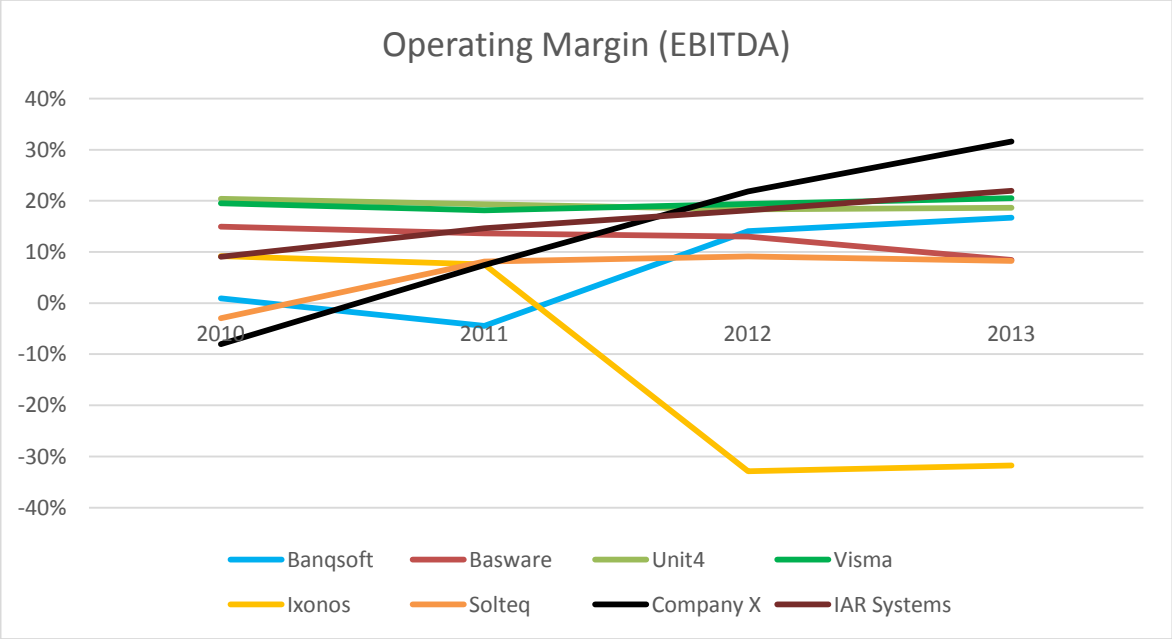

Chart 20: Operating margin - benchmarking

Some changes can be seen between the operating margin and the operating profit. Most notably, in the operating margin, in which depreciations have not been accounted for, Company X shows a much higher figure in 2013 than other companies, despite

not having the largest operating profit. It can be seen thatBanqsoftis farther behind the companies with the highest figures, than was the case in the operating profit. This suggests that depreciations and amortisations were relatively lower in Banqsoft than for some of these other companies.

3.1.4 Net Profit

Table 24: Net profit - benchmarking

Net Profit				
Year	2010	2011	2012	2013
Banqsoft	**-1%**	**-6%**	**8%**	**11%**
Basware	10%	9%	5%	2%
Unit4	6%	6%	5%	3%
Visma	9%	6%	7%	9%
Ixonos	3%	1%	-39%	-37%
Solteq	-10%	3%	4%	4%
Company X	-30%	-25%	1%	15%
IAR Systems	12%	-9%	6%	13%

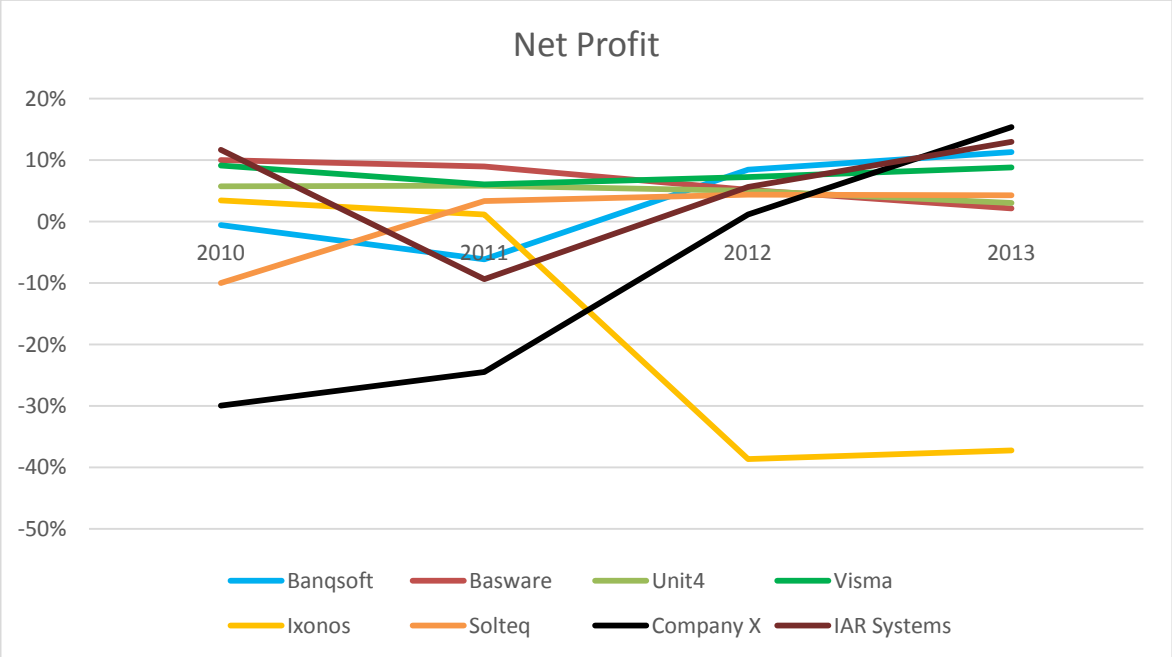

Chart 21: Net profit - benchmarking

The figures show that Banqsoft is doing quite well in terms of net profit. Only two companies had a higher net profit percentage in 2013 than Banqsoft. There is no clear trend, as some companies have increased their net profit, while others have decresed

their net profits, however what is clear is that Banqsoft is performing well in terms of net profit compared to the other companies, and that the company's trend is positive.

3.1.5 Return on investment (ROI)

Table 25: Return on investment (ROI) - benchmarking

Return on Investment (ROI)				
Year	2010	2011	2012	2013
Banqsoft	**-3%**	**-11%**	**21%**	**28%**
Basware	15%	10%	7%	3%
Unit4	10%	10%	6%	9%
Visma	16%	12%	14%	15%
Ixonos	13%	5%	-120%	-74%
Solteq	-35%	14%	15%	11%
Company X	-25%	-14%	4%	25%
IAR Systems	2%	10%	14%	14%

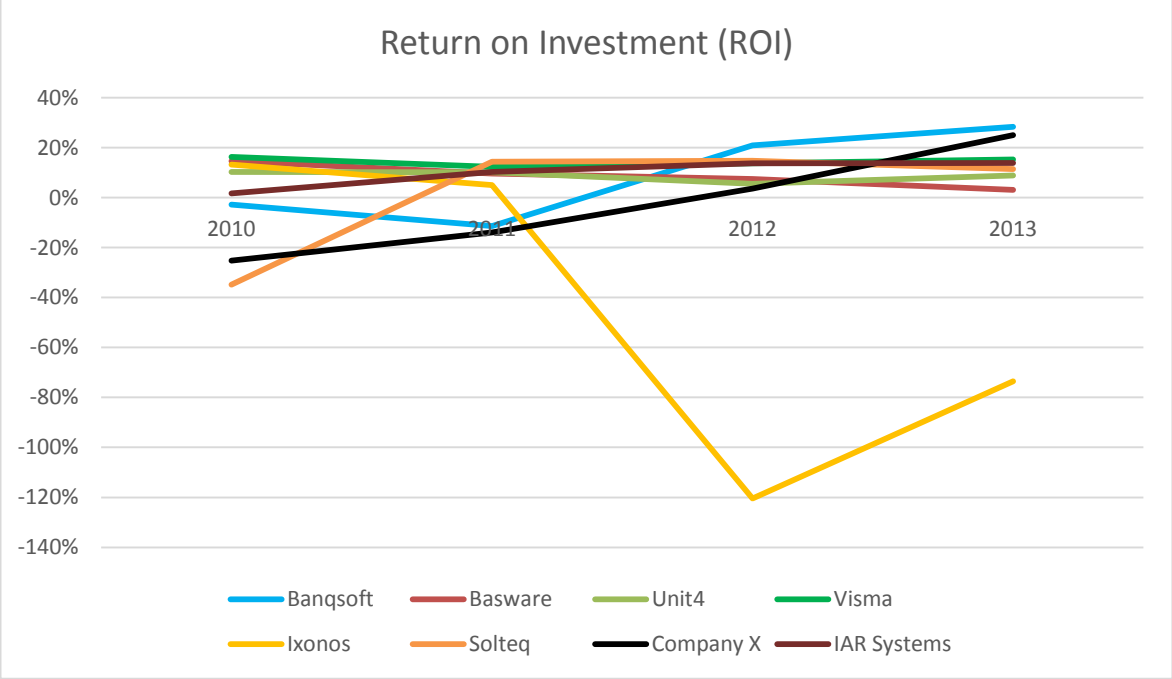

Chart 22: Return on investment - benchmarking

There is no clear trend in the return on investments during this time period; some companies have seen increasing figures, others have seen theirs decrease. What is clear is that Banqsoft had the highest figures both in 2012 and in 2013, and that only Company X were anywhere near as high a figure in 2013 as Banqsoft. It is also clear

that both these companies have seen a positive trend in 2012 and 2013, in which the return on investment increased significantly for both, which is a positive change.

3.1.6 Return on total assets (ROTA)

Table 26: Return on total assets (ROTA) - benchmarking

Return on Total Assets (ROTA)				
Year	2010	2011	2012	2013
Banqsoft	**-3%**	**-11%**	**23%**	**30%**
Basware	12%	9%	7%	3%
Unit4	8%	7%	4%	6%
Visma	13%	11%	10%	11%
Ixonos	9%	4%	-56%	-45%
Solteq	-23%	8%	11%	7%
Company X	-18%	-14%	3%	23%
IAR Systems	2%	8%	11%	11%

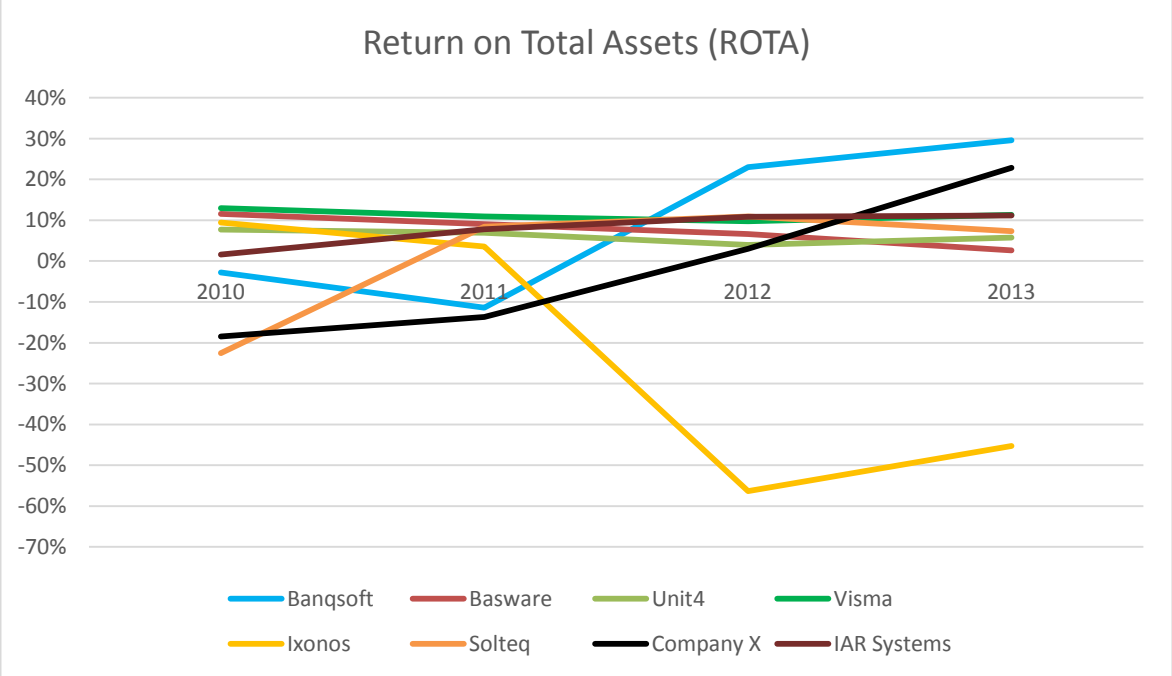

Chart 23: Return on total assets - benchmarking

The return on total assets figures draw a similar picture to those of the return on investment, that is, that Banqsoft and Company X are quite far above the rest of the companies; both companies increased their figures significantly in 2012 and 2013, and Banqsoft had the highest figures in 2012 and 2013. As a higher number is better, it is clear that these are solid figures for Banqsoft.

3.1.7 Return on owners' equity

Table 27: Return on owners' equity (ROE) - benchmarking

Return on Owners' Equity (ROE)				
Year	2010	2011	2012	2013
Banqsoft	**-2%**	**-32%**	**50%**	**77%**
Basware	18%	14%	6%	3%
Unit4	18%	12%	10%	6%
Visma	39%	27%	33%	38%
Ixonos	11%	3%	-75%	-166%
Solteq	-37%	17%	29%	16%
Company X	-153%	-68%	28%	347%
IAR Systems	4%	-3%	5%	12%

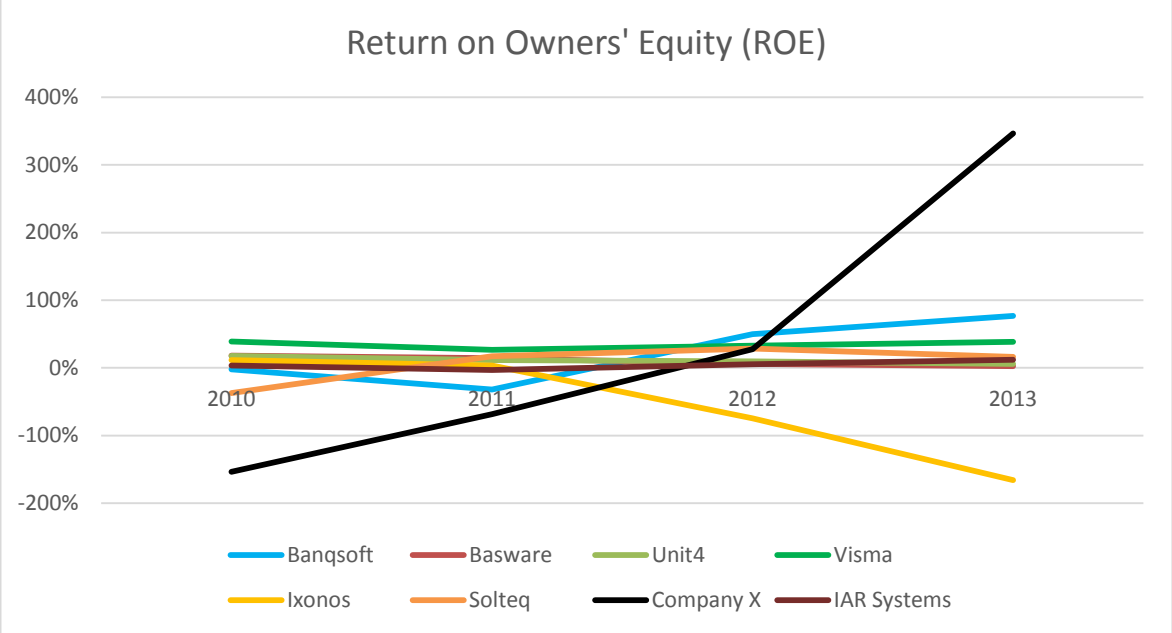

Chart 24: Return on owners' equity - benchmarking

The chart is not the clearest, due to the extremely high and low figures from Company X and Ixonos. Banqsoft has increased its profits quite much, relative to its equity, thus leading to a higher return on owners' equity. There is no general trend in this ratio, some have increased their ratio, some have decreased theirs. As a higher number is better, it can be said that Banqsoft is showing strong figures for this ratio.

3.2 Current assets and liabilities

This subchapter corresponds to subchapter 2.3, with a focus on liquidity.

3.2.1 Quick ratio (acid test)

Table 28: Quick ratio (acid test) - benchmarking

Quick Ratio (Acid Test)				
Year	2010	2011	2012	2013
Banqsoft	**1.34**	**1.29**	**1.32**	**1.07**
Basware	1.81	3.50	3.19	1.96
Unit4	0.77	0.66	0.63	0.63
Visma	4.24	1.12	1.40	1.57
Ixonos	1.13	1.08	0.50	0.31
Solteq	0.61	0.66	0.80	0.75
Company X	2.27	1.35	1.08	1.81
IAR Systems	0.69	0.69	0.71	0.80

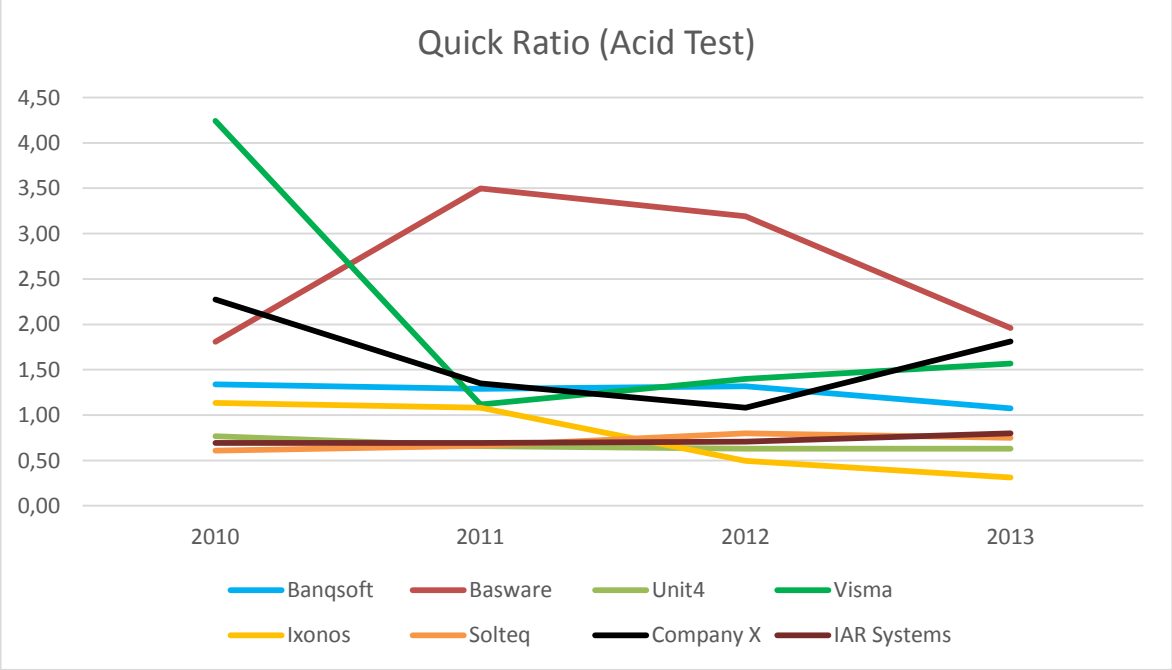

Chart 25: Quick ratio (acid test) - benchmarking

The figures show that that Banqsoft finds itself in the middle, with four companies having a lower quick ratio in 2013, and three having a higher one. As was explained in subchapter 2.3, a ratio higher than 1 is generally preferable, with a higher ratio suggesting better liquidity, whereas a lower ratio could indicate potential problems. Thus it can be seen that Banqsoft is doing quite well, both by having a ratio above 1, and by having a higher ratio than many of the other companies.

3.2.2 Working capital ratio

Table 29: Working capital ratio - benchmarking

Working capital ratio				
Year	2010	2011	2012	2013
Banqsoft	**1.34**	**1.29**	**1.32**	**1.07**
Basware	1.81	3.50	3.19	1.97
Unit4	0.79	0.68	0.63	0.63
Visma	4.26	1.14	1.42	1.59
Ixonos	1.13	1.08	0.50	0.31
Solteq	0.61	0.66	0.81	0.76
Company X	2.27	1.35	1.08	1.81
IAR Systems	0.72	0.77	0.77	0.85

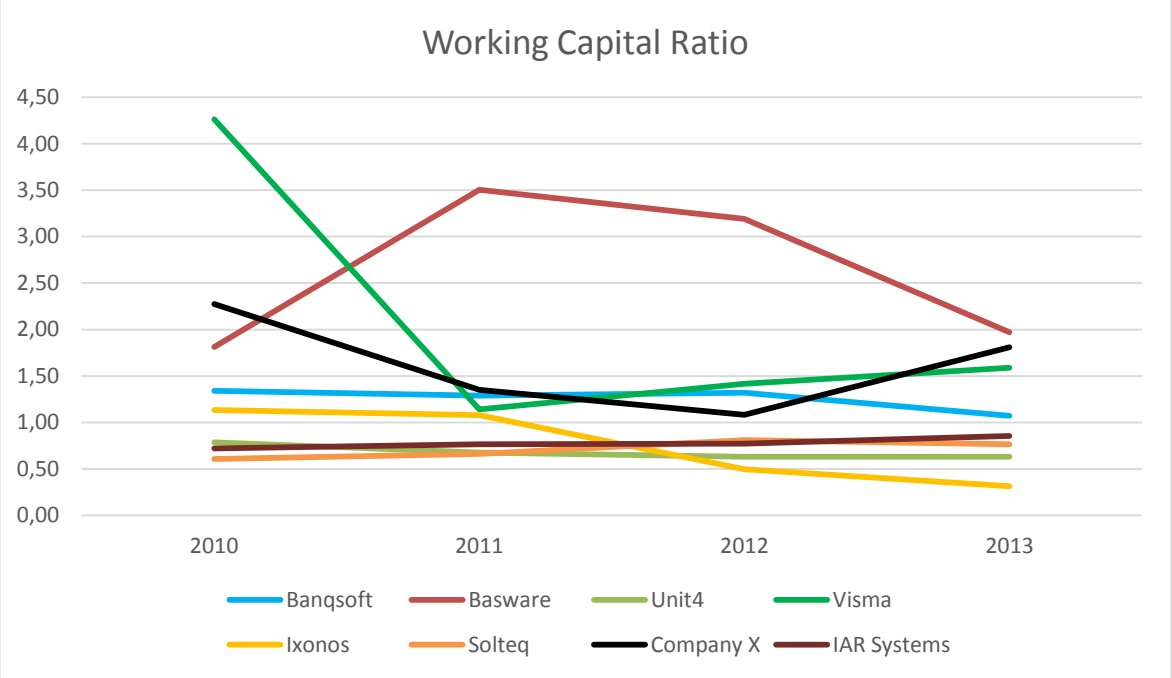

Chart 26: Working capital ratio - benchmarking

As was briefly mentioned in subchapter 2.3, the current ratio typically does not deviate a lot from the quick ratio for software companies, due to a relatively low value of stock, compared to many other industries. The figures confirm this, as there are only small, insignificant differences for some of the companies, compared to the quick ratio. As such, the conclusion will be the same as for the quick ratio: Banqsoft finds itself in the middle and is doing quite well, both by having a ratio above 1, and by having a higher ratio than many of the other companies.

3.3 Solvency, gearing and leverage ratios

This subchapter corresponds to subchapter 2.4, with a focus on solvency, gearing and leverage ratios.

3.3.1 Solvency rate

Table 30: Solvency rate - benchmarking

Solvency Rate				
Year	2010	2011	2012	2013
Banqsoft	**44%**	**39%**	**30%**	**15%**
Basware	83%	90%	84%	85%
Unit4	43%	47%	46%	47%
Visma	22%	18%	21%	24%
Ixonos	50%	56%	22%	14%
Solteq	37%	45%	47%	55%
Company X	31%	6%	8%	28%
IAR Systems	83%	88%	87%	88%

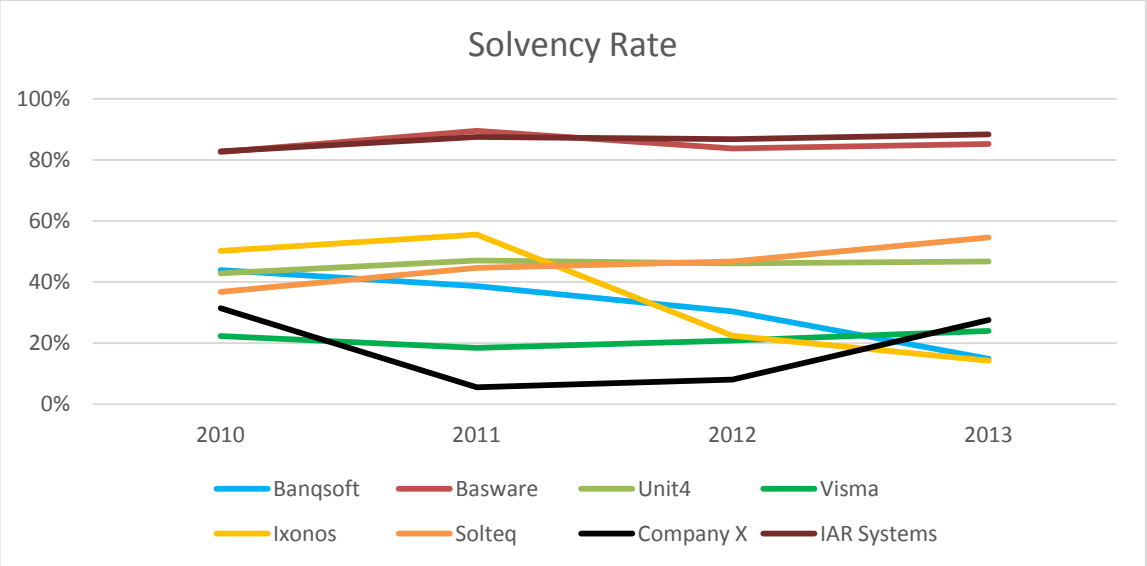

Chart 27: Solvency rate – benchmarking

The figures show four companies with figures above 40 percent, two companies between 20-40 percent, and two companies below 20 percent. There are significant differences between the companies, in other words. The ratio has decreased for Banqsoft during these years, and was at a low level in 2013, compared to the other companies. A

quick look at the company's balance sheet at the end of 2013 explains why the number is so low, as the equity is quite low, compared to the liabilities.

3.3.2 Leverage on sales

Table 31: Leverage on sales - benchmarking

Leverage on Sales				
Year	2010	2011	2012	2013
Banqsoft	**27%**	**47%**	**37%**	**43%**
Basware	14%	11%	17%	14%
Unit4	72%	59%	64%	57%
Visma	98%	109%	97%	96%
Ixonos	30%	29%	45%	79%
Solteq	24%	27%	29%	24%
Company X	110%	192%	97%	60%
IAR Systems	32%	17%	17%	17%

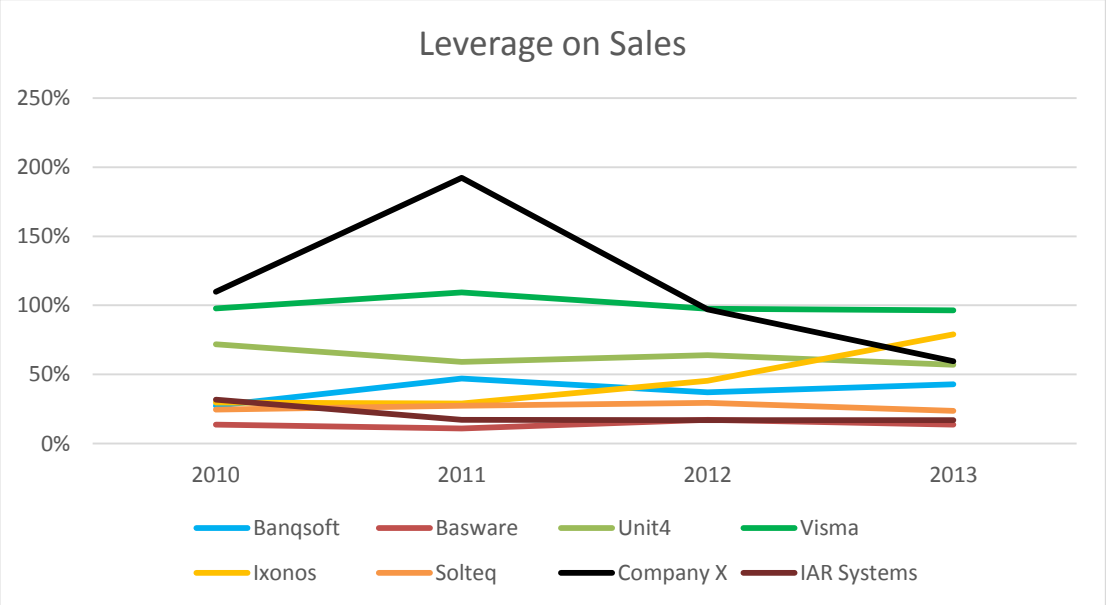

Chart 28: Leverage on sales – benchmarking

As explained in subchapter 2.4, the leverage on sales shows the relation between liabilities (less received prepayments) and revenue, in which lower ratios are better than higher ratios, as higher ratios could indicate higher risk of being unable to meet obligations. The figures show big differences between the companies, with Banqsoft finding itself in the middle, with a ratio below 50% at the end of 2013. There is no clear trend in this ratio, as some companies have lowered their figures, while other

have increased it. The figure has risen for Banqsoft, however the company still seems to be at a good level compared to some of the other companies.

3.3.3 Gearing ratio

Table 32: Gearing ratio - benchmarking

Gearing Ratio				
Year	2010	2011	2012	2013
Banqsoft	**-73%**	**-96%**	**-183%**	**-386%**
Basware	24%	17%	-24%	-5%
Unit4	57%	62%	47%	49%
Visma	145%	205%	163%	99%
Ixonos	37%	27%	163%	280%
Solteq	133%	65%	51%	29%
Company X	104%	1077%	814%	171%
IAR Systems	-2%	-14%	-18%	-27%

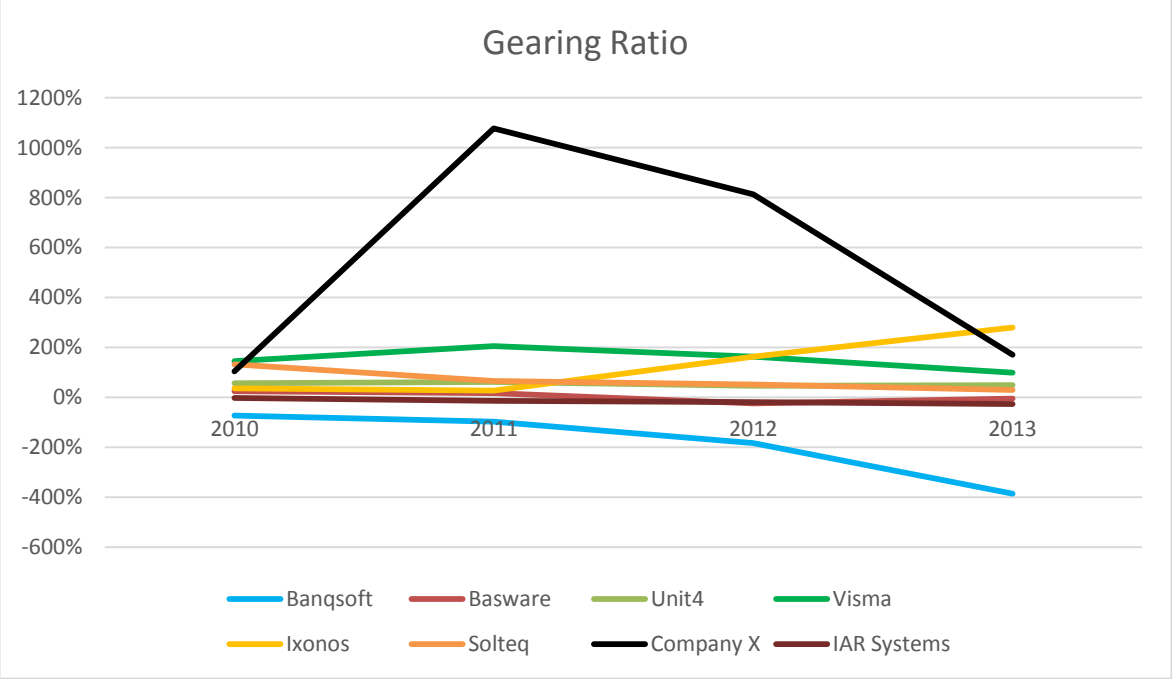

Chart 29: Gearing ratio – benchmarking

Extreme figures to both ends make the chart difficult to use, but the table shows that Banqsoft had by far the lowest gearing ratio in 2013, and has had the lowest ratio throughout the entire period. The table also shows that the ratios vary a lot between different companies, from -27 % to 280 % in 2013 (Banqsoft not included), thus it is difficult to draw any conclusions as to what might be the norm for the industry based

on these figures. For the most part the ratios suggest that most companies should be well able to handle their interest bearing liabilities, however there are a couple of companies with ratios considerably higher than what is typically deemed safe. In the case of Company X, however, it seems likely that their ratio will continue to move towards a safer value.

3.3.4 Debt-to-equity ratio

Table 33: Debt-to-equity - benchmarking

Debt-to-equity				
Year	2010	2011	2012	2013
Banqsoft	**1.50**	**1.75**	**2.29**	**5.74**
Basware	0.36	0.22	0.29	0.30
Unit4	1.51	1.30	1.38	1.35
Visma	3.84	4.94	4.29	3.60
Ixonos	0.99	0.80	3.45	6.04
Solteq	2.27	2.92	1.69	1.34
Company X	2.18	17.99	12.22	2.63
IAR Systems	0.13	0.28	0.28	0.25

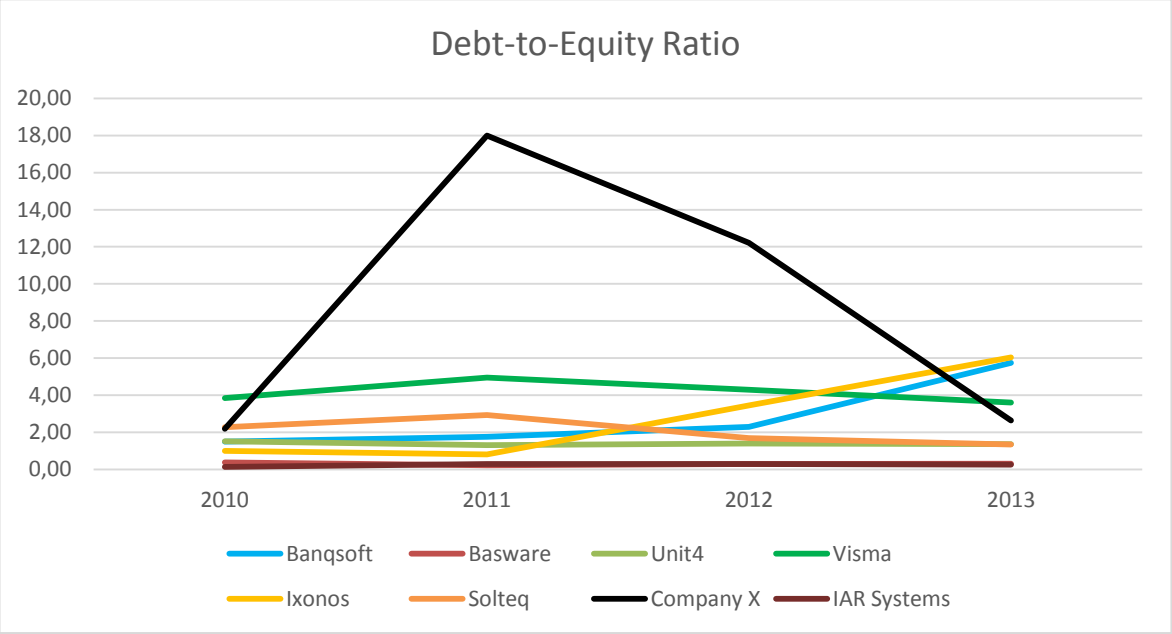

Chart 30: Debt-to-equity ratio – benchmarking

The figures show that Banqsoft, after a significant increase in 2013, had the second highest debt-to-equity ratio, with a margin down do other companies. The reason for

this increase in 2013 is explained in subchapter 2.4. Further on the figures show that the majority of companies had a ratio lower than 3 in 2013.

3.3.5 Shareholders' equity ratio

Table 34: Shareholders' equity - benchmarking

Shareholders' Equity Ratio				
Year	2010	2011	2012	2013
Banqsoft	**40%**	**36%**	**30%**	**15%**
Basware	73%	82%	78%	77%
Unit4	40%	43%	42%	42%
Visma	21%	17%	19%	22%
Ixonos	50%	56%	22%	14%
Solteq	31%	34%	37%	43%
Company X	31%	5%	8%	28%
IAR Systems	80%	78%	78%	80%

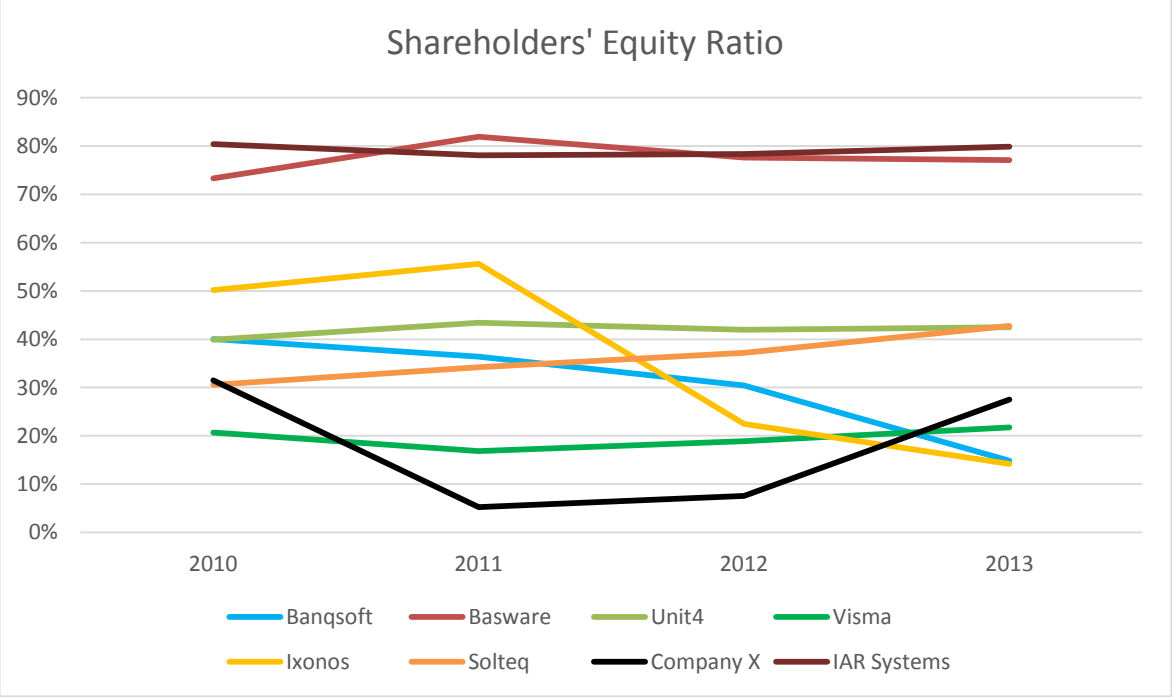

Chart 31: Shareholders' equity – benchmarking

The figures show big differences between the companies. Two companies had a very high ratio throughout the entire period, two companies find themselves more in the middle, two companies in the 20-30 % area, and two companies, including Banqsoft, at around 15 %. Further on the figures show that some companies have increased their

ratio, while others have seen theirs decrease. Due to these two reasons, neither a clear trend, nor a norm for values, can be deduced from the figures. It is still worth noting that Banqsoft had the second lowest shareholders' equity ratio in 2013.

3.3.6 Debt-to-assets ratio

Table 35: Debt-to-assets ratio - benchmarking

Debt-to-Assets Ratio				
Year	2010	2011	2012	2013
Banqsoft	**60%**	**64%**	**70%**	**85%**
Basware	27%	18%	22%	23%
Unit4	60%	57%	58%	58%
Visma	79%	83%	81%	78%
Ixonos	50%	44%	78%	86%
Solteq	69%	66%	63%	57%
Company X	69%	95%	92%	72%
IAR Systems	10%	22%	22%	20%

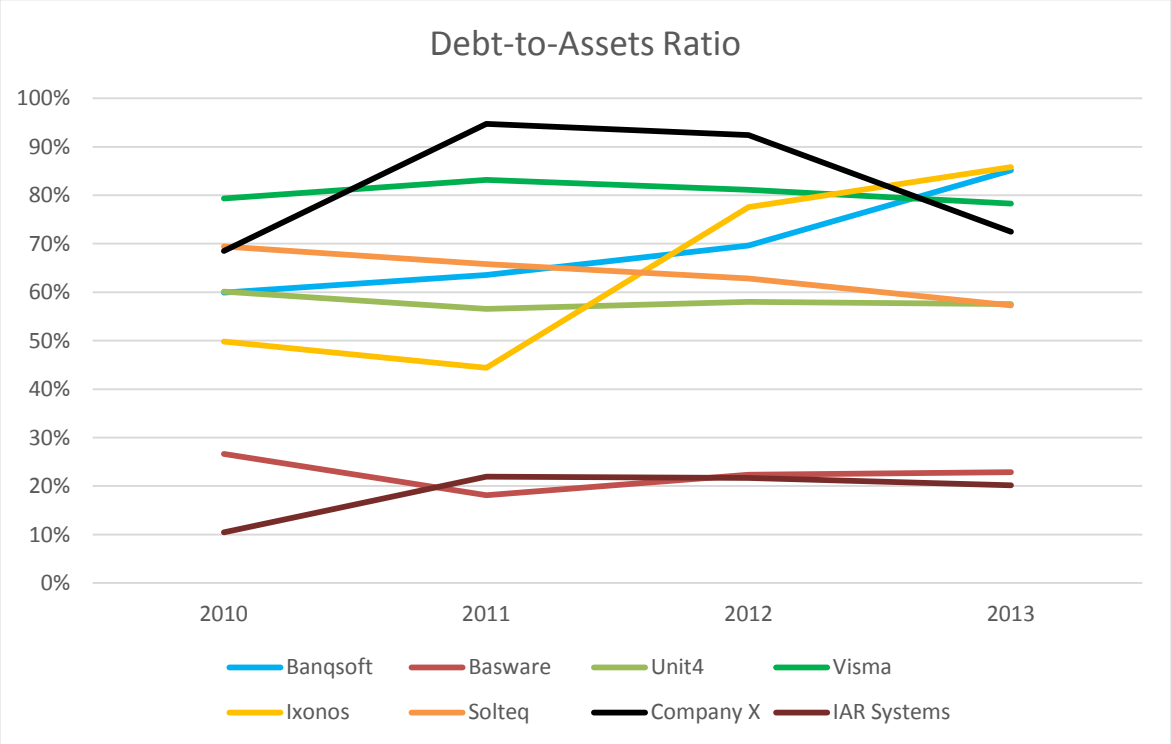

Chart 32: Debt-to-assets ratio – benchmarking

As was explained in subchapter 2.4, there is a correlation between the debt-to-assets ratio and the shareholders' equity ratio, in that the two add up to 100 %, i.e. the ratios show much the same, but with a different focus, one on equity-to-assets, and one to

debt-to-assets. Thus the figures are reversed, but the conclusions the same as for the shareholders' equity ratio: Two companies had a very low ratio in 2013, two are more in the middle, two are between the 70-80 % range, while two, including Banqsoft, are in the 80-90 % range. As was the case with the shareholders' equity ratio, there is no clear trend to be seen from these figures; some have improved their ratios, others have seen theirs decrease.

3.3.7 Debt-to-EBITDA ratio

Table 36: Debt-to-EBITDA ratio - benchmarking

Debt-to-EBITDA Ratio				
Year	2010	2011	2012	2013
Banqsoft	**33.85**	**7.19**	**2.82**	**2.73**
Basware	1.58	1.51	1.96	2.80
Unit4	3.97	3.55	4.14	3.64
Visma	5.51	6.74	7.02	5.32
Ixonos	3.23	3.83	-1.38	-2.09
Solteq	-10.95	5.19	4.78	4.61
Company X	-13.72	27.56	36.17	1.88
IAR Systems	4.84	2.31	1.68	1.47

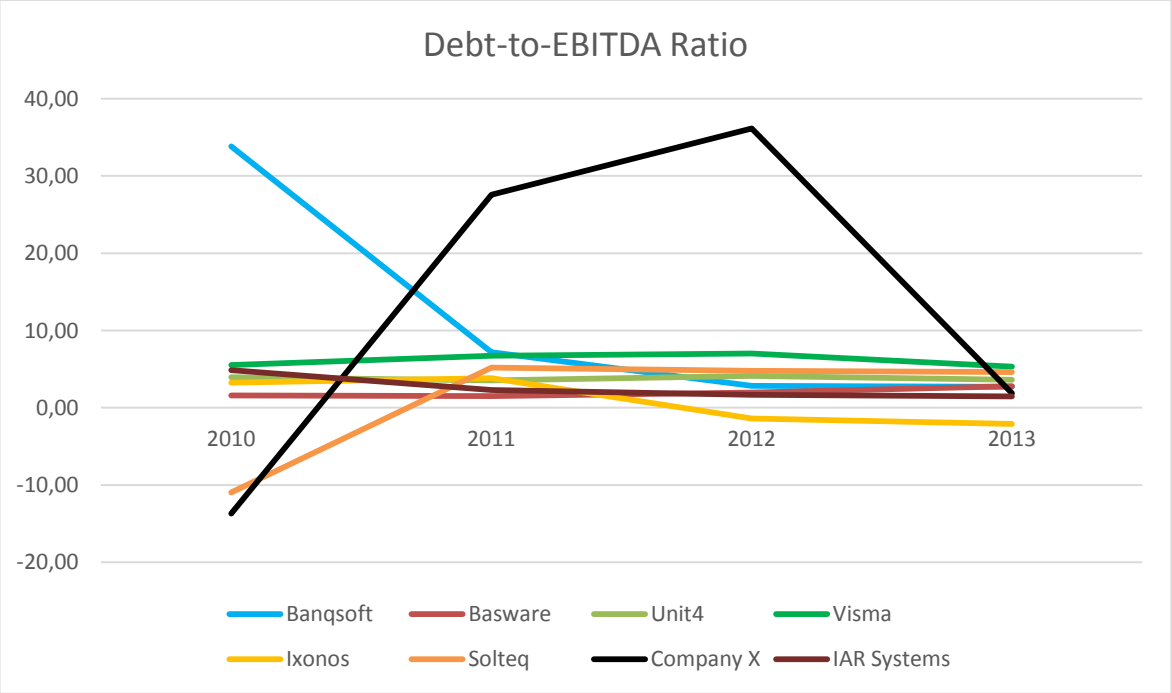

Chart 33: Debt-to-EBITDA ratio – benchmarking

Only one of the companies have had a debt-to-EBITDA ratio as high as Banqsoft's was in 2010, however Banqsoft has decreased its ratio significantly, and find themselves right in the middle. When the figure is negative, that is because of the companies having incurred losses (in the earnings before interest, taxes, depreciations and amortisations) during those years, so although a low number can be considered good, it should be a positive number. Some companies have increased their ratios, others have decreased theirs, but overall a trend can be seen in which most of the companies have improved their ratios. Banqsoft follows this trend, and by being in the middle, seems to follow the ratios of the other companies well, which could imply that the current ratio level is a good one.

4 Capital required to continue operations

The second objective of this report was to look at how much capital is required in order to continue operations, given the situation in which the company's biggest shareholder is planning to withdraw from the company in 2015. This chapter is dedicated to this issue.

This objective can be linked to the previous chapters, subchapter 2.4 in particular. As has been illustrated in this subchapter, Banqsoft's equity decreased quite much already in 2013, leaving the company more heavily leveraged, which increases the risk of insolvency. It should be noted, however, that although liabilities increased quite much in 2013, the lion's share of this increase comes from increased tax and dividend liabilities, both signs of increased profitability. As was illustrated in subchapter 2.4.7, the company has decreased its liabilities relative to its earnings quite a lot throughout this period, which suggests that it should have no trouble meeting its current obligations. The other larger part of the liabilities comes from other current liabilities, of which a large part comes from accrued expenses.

Table 37 on the following page shows that the company's operating costs do not increase much, relative to the expansion of the company. The cost of sales was lower in 2013 than it was in 2010, as were other operating expenses (marginally lower). Depreciations and amortisations have increased a bit, while employee expenses have increased, following a higher number of employees and certainly higher salaries in 2013 than in 2010. In other words, the capital requirement is fairly low for handling the operating expenses. The labour expenses make up the larger part of the expenses, which is typical for software companies. These are expenses that will have to be covered, and under the assumption that the amount of employees will not have decreased since 2013, and under the assumption that salaries have increased, it seems likely that the labour costs will increase in 2014 and 2015. Table 38 on the following shows some scenarios for what the total operating expenses would be, if increasing by the percentages shown in the table. This is obviously a simplified cost model, as the total operating expenses are highly unlikely to increase with these percentages, but rather some-

where between, however the figures do give an idea of what the operating expenses might be. For instance, if they increase by 5 %, then the total operating expenses would be 140,127 NOK, whereas if they increase by 20 %, they would be 152,866 NOK. This will of course affect how much capital is required. It does not seem unlikely that the total operating expenses will be around the 130,000-150,000 area in 2014, increasing further in 2015.

Table 37: Operating expenses

Operating expenses	2010	2011	2012	2013
Cost of sales	-10 677	-8 042	-10 188	-9 305
Employee benefit expenses	-73 201	-82 041	-77 878	-88 068
Depreciation and amortisation	-1 405	-2 583	-2 803	-2 446
Other operating expenses	-27 895	-26 790	-21 957	-27 569
TOTAL OPERATING EXPENSES	**-113 179**	**-119 456**	**-112 529**	**-127 388**
Annual change		5.5 %	-5.8 %	13.2 %

Table 38: Various total operating expenses scenarios

Change	
-5 %	-121 019
5 %	-133 757
10 %	-140 127
15 %	-146 496
20 %	-152 866
25 %	-159 235
30 %	-165 604
35 %	-171 974
40 %	-178 343

5 Discussion

The main aim of this report was to analyse the financial performance of Banqsoft AS, using key performance indicators, both through internal trend analysis and through benchmarking against other companies from the same industry. Comments on each key ratio were given throughout the report, where the ratios were illustrated. This chapter aims to connect and summarise the findings, in order to create a bigger picture and to give comments based on the bigger picture.

5.1 Key findings

Banqsoft is a fairly young company, still in its growth stage, which can be seen from the figures. During the time period examined (2010-2013), the company's total balance sheet has grown, as has its revenue and its amount of employees, and, as is usually the case in growing businesses like this, costs have also increased. So then the question is whether revenue has increased more than costs, i.e. is the company more profitable now than it was in 2010?

The answer to the question above is yes. All the different key ratios illustrating different aspects of profitability (see subchapter 2.2) have improved. These ratios all show a positive trend, and it seems likely that the growth stage of the company will continue (this is reinforced by that the company has got new clients during 2014), meaning that it seems likely that the profitability of the company will increase. Beyond the increased net profit, the company shows strong figures in the return on investment, return on assets and return on equity ratios, in addition to that the increased human capital value added. Further on, in subchapter 3.1, it can be seen that Banqsoft has shown good profitability and high returns, also compared to the other companies used for benchmarking in this report.

Further on, in accordance to subchapter 2.3, the ratios show that Banqsoft throughout the period has been able to meet all of its current obligations, by using its current assets. Compared to the other companies used for benchmarking, Banqsoft seems to be doing fairly well, finding itself right in the middle, with four companies having negative

numbers, and the remaining three companies having higher figures than Banqsoft. It should be noted that Banqsoft's figures have decreased, which is a negative development.

Subchapter 2.4 does, however, uncovers less positive key ratios. The ratios that show the company's financial structure show that a relatively large part of the company is being financed through liabilities, rather than through equity, and the trend shows that the capitalisation consists relatively more of liabilities at the end of 2013 than it did in 2010, something which implies higher leverage, meaning that there is a greater risk of facing insolvency. The other side of the coin is that high leverage typically also leads to higher returns when times are good, which, as shown earlier, has been the case for Banqsoft. The debt-to-EBITDA ratio illustrates this point quite well; even though the company, judging by these key ratios, was more heavily leveraged in 2013 than in 2010, it had a much lower debt-to-EBITDA ratio in 2013, meaning that the company's debts were much smaller in relation to the company's earnings than was the case in 2010. It should also be noted that a large part of the increased liabilities towards the end of the period comes from the increased profitability; once a company starts showing profits, and increase its profits, increased taxes follow, as do typically dividends. Dividends and taxes make up the lion's share of the increased liabilities during this period. Subchapter 3.3 showed that overall, for most of these ratios, Banqsoft found itself at the lower end of what is typically considered good, whereas its debt-to-EBITDA ratio was quite good in 2013. What is interesting to note is that companies such as Visma and Company X, which together with Banqsoft were three of the most profitable companies, also are three of the companies that seem to be in the most risky positions.

As was illustrated in chapter 4, it is likely that the company's operating expenses will increase, both in 2014 and 2015, and the company will have to be ready to cover these expenses, in addition to their liabilities. Simple scenarios shown in chapter 4 show that the company should be ready for total operating expenses around the area of 130,000-150,000 area in 2014, and perhaps up to 180,000 in 2015. The company has seen its revenue increase more than its costs, leading to higher profits, and the actual cash flow has also been positive for the past two years, meaning that the company had more cash

in 2013 than previously. In accounting and finance it is a common saying that 'cash is king', as all the profits in the world might not be able to help you meet your obligations if there is no cash. Therefore the positive cash flow is good news for the company.

5.2 Recommendations for the commissioning party

Banqsoft seems to be under good management. The company is clearly in a growth stage, and it is not surprising that it has incurred losses before turning those losses into profits. Further on the company has grown quite much, and seems to be performing well profit wise. It is likely that the company will continue to grow also during the next few years, further increasing profits. The company has got a sufficient amount of cash and cash equivalents, which adds security, and a positive cash flow. It is therefore difficult to give concrete recommendations for the future.

The weakest ratios have been related to the capital structure of the company, mostly due to a low amount of equity, and thus a big amount of liabilities. These ratios are likely to worsen further when Verdane withdraws from the ownership side. Although the company is profitable and has a positive cash flow, and they are having good times in their business, in which they should have no trouble meeting their obligations, it might still be advisable to consider increasing the equity. This would reduce the risk of not being able to meet all obligations, although on the flipside the potential returns might also decrease.

5.3 Limitations of the research

It should be noted that although key performance indicators give a good notion about how a company is doing in various aspects, they do not show the full picture, and therefore the company representative reading this report might not necessarily fully agree with the results and recommendations given, and should not make potential decisions solely based on results presented in this report. The key ratios are however good indicators of how the company is doing, and having benchmarked against other software companies enhances the usefulness of the ratios. It should also be noted that many key ratios, including several used in this report, go under different names, and

sometimes they are also calculated differently. Finally it should be noted that the companies used for benchmarking are at different stages, some are young, others are more established, which does show in some of the calculations. The size of the companies, however, is irrelevant, as the comparisons are all done in percentages.

5.4 Learning outcome for the author

The area of key performance indicators is a vast topic; there are a lot of different ratios, which meant that I had to go through some work to decide on which ones to use. This process was complicated further by that quite many ratios go under different names, and many ratios also have different variations of how to calculate them. There is no lack of resources on the subject, especially online, which lead to a process of selecting the material to be used in the report. Further on I had to choose companies which I could use for benchmarking, and find the material needed from them, and although all the companies used in this report follow the IFRS accounting standards, there are some variations in how the financial statements are reported. The implications mentioned have been the biggest challenges in this report, and I have learnt tremendously from going through annual reports and doing calculations. Quality control of the calculations has been a very important aspect to successfully meeting the objectives. Further on I have had to consider and make choices as to how to present the results in a reader friendly and functional manner. Having used Microsoft Excel a lot, I have also become quicker with setting up charts. The overall learning outcome from writing this report is that I have got a lot more experience in the key performance indicator area, and in addition I have learnt a lot about financial report. In other words, I have increased my knowledge when it comes to financial analysis, which is beneficial knowledge to take with me from my education, and could prove useful in my future career.

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