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ANALYSIS OF FINANCIAL STATEMENTS OF A COMPANY: LTD BETOONIMEISTER

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TABLE OF CONTENTS

ABSTRACT

This thesis gives an overview of the Estonian concrete market share and the financial statements of its three market leaders Betoonimeister, HC Betoon and Rudus. Focusing on the financial statements of Betoonimeister and using comparitive analysation method between the three market leaders. In this thesis the methods to analyse the companies to each other are: horizontal, vertical and ratio analysis. The concrete market reached its peak in 2007 and, as a result of the subsequent economical crisis, it has yet to reach thisits previous level again. The aim of the thesis is to understand what are the differences in financial statements and efficiency of companies that are funded by Estonian investors as opposed to those funded by foreign investors. HC Betoon and Rudus are two leaders who have parent companies in foreign countries while Betoonimeister is a company that is fully based in Estonia. There biggest difference between the local and foreign funding is the flexibilty of reacting to certain situations that local management can process much faster. The Betoonimeister company is more efficient due to its lower numbers in raw material and service expenses, the profit margins for this company are also higher than for the two other ones.

Keywords: Concrete companies, financial statement analysis, Estonia

INTRODUCTION

In a daily life of a business owner, the most challenging parts are predicting the future. No one really knows what is going to happen and how business is going to increase or decrease in the near or far future. This is where the importance of analysing and measuring its performance comes in. Many entepreneurs are lacking the skills of analysing their company financially and this might be one of the reasons why there are many failures.

Financial analysis gives the owner valuable information about the company's financial condition, also what could be done better in the future to maintain or upgrade its performance. Balance sheet and income statement are the main information sources for people over a certain period of time. Statement of cash flows that give an overview of how money is going in an out of the company is the third information source. These statements are used to give an overview of the process of evaluating companies and other finance-related organizations. Most likely financial analysis is used to understand whether an entity is stable and profitable enough to invest in it in the future.

Construction field in the business world is emerging and growing constantly and competition is quite tough. This paper focuses on analysing financial statements of a concrete producing company. The Estonian concrete market has changed over the past 10 years but the economic crisis that started in 2009 affected all of the market and it has not reached its previous 2007-year peak level. The sales volumes are 20% lower than before in the whole market. In this paper, the author focuses on one Estonian company Betoonimeister specifically and compares it to the other market leaders. Company's annual reports are used to analyse its income statement, balance sheet, and cash flow statement. When doing a financial analysis, some helpful tools are horizontal, vertical and ratio analysis that show the main information and numbers about the company. It is interesting to focus on one company's financial reports and how it is performing in Estonian concrete market currently. The aim is to get a clear understanding what in financial statements has changed in the past years. The author uses Betoonimeister, because among the three market leaders this is the only company that is fully Estonian funded.

There are four main hypotheses that the author has stated when analysing the company's financial statements:

1) Estonian concrete market has not recovered from the economic crisis that lasted from 2009 to 2010 but is increasing its sales volume every year.
2) Companies with parent companies outside Estonia perform better in the local market than Estonian funded ones.
3) Concrete market price indices increase quicker than the general economical price indices.
4) Company Betoonimeister is solvent enough to pay off its debts.

The structure of the paper is divided into two main chapters. The first chapter of the thesis is theoretical, where the author explains what the theoretical basics of financial analysis are. In the second part gives an overview of the concrete market in Estonia and background of the company Betoonimeister. On the third chapter the author brings out the most important results from the financial statements and comparing these between the companies. To analyse these three reports, the author is using horizontal and vertical analysis. The last part of the chapter is the ratio analysis where the activity, profitability, short term liquidity and long-term solvency ratios are compared between the companies.

1. THEORETICAL BASIS OF FINANCIAL STATEMENT ANALYSIS

Financial statements are representing a companys financial position, its transactions and also the results of the companys performances but also changes in the financial position of the entity. When analysing these the decision makers of the company can understand what to do in the future. To achive this financial statements must conclude the following information: assets, liabilities, equity, income and expenses and cash flows of the company. There are regulations of how it should be done, which are covered in the International Accounting Standards that all the companys have to follow when doing their annual reports. (Plesco 2013)

Financial statements give a good overview of the past and present. How the companies have been doing over the past years. There are three main analysis used while doing this type of analysis. First one is horizontal analysis, that shows the percentage changes between years. In this case there is a base year and normally two other years taken to compare with it. In the vertical analysis there is a base category amount taken and others are shown as a percentage from it. Ratio analysis shows the relationships between data taken from the financial statements and this helps analysts to know the company's profitability, liquidity, solvency and analyse how it is performing. These rates are good to compare with the same industry companies, this is also done by the author in this thesis. Financial statements that are used in this and most of the financial analysis are balance sheet, income statement and cash flow statement.

The income statement shows the amount of sales done and how much profit is earned. It also contains different expenses that have been made by the company. The statement is also known as the profit and loss statement and expense. Income statement normally covers a certain period such as a year, a quarter or a month and it is a written review of costs and revenues for a certain time of period chosen by the company. Here comes out also the main difference compared to the balance sheet meaning that it is comprised by items presented in the company at the one particular day of an account closure - usually the last day of the year. "The income statment reflects the operation of a business over a specific period of time, whereas the balance sheet reflects the financial position at a given point in time.” (Edmonds 1975). Balance sheet and income statement are both accounting statements, the structure of which is determined by the department of finance and every organization is obligated to include them in the annual reports. But when it comes to cash flow statement this type of statement does not have a certain structure that it needs to follow. This does not mean that the cash flow statement has a lower value compared to the income statement and balance sheet. Its importance for the analysis is high especially for the big companies that want to determinate the dynamic of its large assets. Annual reports usually also include the information about the company’s accounting and how paperwork is done within. (Bowman 2003)

The balance sheet in the financial statements provides an overview of a company’s assets, liabilities and shareholders equity during a specific time, normally one-year period. It also shows the computing rates and capital structure. Balance sheet gives information of what the company is owing to others and what it owes. In the balance sheet, assets are always equal to the liabilities and equity of the company. This is where this statement got its name – balance sheet. Assets are company’s items that have legal title and have a value that can be measured. Current asset means that it can be converted, when needed, to cash within one year time of period. Cash, accounts receivable, inventory, raw material, equipment and intangible assets are all part of the asset part in balance sheet. Liabilities include debts that the company either owes to the bank, employees or suppliers. This part consists of two main type of liabilities: short-term and long-term liabilities. Short-term liabilities are also known as current liabilities and these need to be paid within on year. The owners equity in the balance sheet is the money owned by its shareholders, this includes all the capital invested and the retained earnings of the organization. (Bowman 2003 pp. 36-37)

Cash flow belongs to the financial statements, it is concluding all the cash and cash equivalents that are coming in and going out from the company. The cash flow statement evaluates how efficiently the company makes the cash to pay its debt and other expenses. The cash flow is the inflow and outflow from the business. The difference between these two are the net cash flow. Cash flow statements are projecting the received and used cash during one year period. This shows the sources where it has been gathered or what type of payments are made. All the receipts either incoming or outgoing are gathered and put into cash flow statement. The cash flow statement concludes all the changes, positive and negative, that are made during one year. Cash flow is divided into three parts: cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. (Murphy 2018) Cash-flow statement contains many different stages how the company generates cash. First cash is gathered from the company's investors or borrowed from the banks. Next part is to use this to buy assets, inventory, plant, property and equipment for the company to exist and to start functioning. This includes also the employees for the company. This also is depending on what type of company and in what industry it is in. Third part is that all this would start to generate profit and cash for the company to pay for its expenses. Last part is to pay back to the investors and lenders that invested to the company at first. (Harper 2010) Cash flow from investing point of view is attached mainly with the long-term fixed assets and transactions on the long-term financial markets. Cash flow from financial activities is the last part of this statement contains short-term loans, income and share issue. It is rarely seen that the horizontal and vertical analysis are done on cash flow statement. However the horizontal analysis is made more often than the vertical analysis since it shows the trend over the years. (Murphy 2018)

1.1 Horizontal analysis and vertical analysis

Horizontal analysis, also described as base year analysis, is a tool used in appraising the financial statements of one or many companies in a given period of time. The purpose for this analysis is to understand the changes within the company. Either the data inserted has increased or decreased over the years. The analysis is used mainly for comparisons inside the company. When making an horizontal analysis it is seen that it is really straightforward although there are some complications that can happen when doing it. The amounts can vary from the year, for example if the amount for the base year is 0, but some amount does exist for next year, the percentage change can not be calculated. Another complication can be when one year the amount is positive and the next year negative. (Bragg 2017) Horizontal analysis is a great tool for analysts to get the acknowledgement about the company over the period of different years. The percentage points give an easier overview how the company is performing over the given period. (Weygandt et al. 2002)

Vertical analysis is another tool used in analysing financial statements over a period of time. In this case not years are compared to each-other but different data is used as a total amount and other items are shown as the percentage from it. Vertical analysis is a static analysis, reason is that it is made separately each singe time period. (Saxena 2016) Vertical analysis in balance sheet evaluates different assets and the amount that they make from the total assets. In liabilities part each data amount is compared to the total amount of liabilities. The vertical analysis of income statement is comparing every given amount to the total amount of sales. In the cash flow statement, the total amount that every item is separately compared to is total cash inflow. (Lakada et al. 2017) Vertical analysis compares the statements between companies but also between industries. It is also a good tool to help analyse different periods in one company. All the amounts in vertical analyses are shown in percentages, this helps analysts to clearly understand the differences between years and companies.

1.2. Ratio analysis

*"*The use of financial ratios is a time-tested method of analyzing a business. Wall Street investment firms, bank loan officers and knowledgeable business owners all use financial ratio analysis to learn more about a company's current financial health as well as its potential." (Auerbach 1995 pp 5) Ratios are most widely used tools of financial analysis. There are many reasons for this. First, like other analysis tools, ratios are usually future oriented and it helps analysts to see trends would be difficult to detect one by one. Ratio can be shown in three different ways - as a percent, rate or as proportion. The usefulness of a ratio analysis depends on the user and how well he or she can get the information from it. Ratio analysis can be used to evaluate three basic qualities of an organisation that are solvency, profitablity and liquidity.

The first time ratios were discussed in the book "Some Empirical Bases of Financial Ratio analysis" by James O. Horrigan (1965). Horrigan described a number of sources related to financial statement analysis and decided to put ratios into liquidity and profitability ratio groups. The liquidity is diveded into two different categories, first one is short-term liquidity and second long-term solvency. (Siimann 2018) Financial ratio analysis is a method that helps to find out the company's overall financial condition. This analysis mainly concentrates on internal information and it helps the managers in making decisions on how to keep the company on its growth path. The purpose of the analysis is to find out company's leverage to the assets but also to help analyze the financial indicators. (Husna 2016) Another reason is to understand how the company is doing internally and what risks might come when applying some new methods. Financial ratio analysis is beneficial to the company understanding how well it is performing financially and what future investments could be done. (Peterson Drake 2018) Some of the ratios that Horrigan (1965) reviewed in his book are also used to analyse the company in this paper and are described below.

1.2.1. Profitability ratios

Profitability ratios are financial metrics that are used to calculate organisations ability to generate earnings, taking also into consideration its expenses. Company's analysts can compare the ratios between companys but also between the years of the same company so it will show what trend is the company going. Profitability ratios are the ones that shows the companys' capability to gain the profits through selling their product, cash, capital and number of employees. (Muhammad 2013)

The return on assets shortly ROA is a ratio that is appraising the performance of a company. It is the net profit divided by total assets. It is used to measure company's efficiency of using its assets to generate profit. (Gadoiu 2014)

$$ROA = \frac{Net\ profit}{Total\ assets} \tag{1}$$

The rate of return on equity, shortly for ROE is net income divided by the total shareholders equity. ROE is a ratio that is using both balance sheet and income statement. It appraises the company's ability to generate profit from its investments. (Duran 2016)

$$ROE = \frac{Net\ profit}{Equity} \tag{2}$$

Operating profit margin and net profit margin are two ratios that measure how efficiently the sales are turned into profits. The difference between these margins are the different stages of measuring the profitability. The operating profit margin is including all the expenses that are associate with business activities. The net profit margin on the other hand is appraising the profitability while using all the revenues and expenses that are made during the business activities. (Muhammad 2013)

$$Net\ profit\ margin = \frac{Net\ profit}{Sales\ revenue} \tag{3}$$

$$Operating\ profit\ margin = \frac{Operating\ income}{Sales\ revenue} \tag{4}$$

1.2.2. Activity ratios

Activity ratios are a company's measurement for balance sheet numbers. These ratios make analysts understand what helps the company to make more cash or sales. These ratios are also a good overview whether companys managers are doing a positive job with it to generate revenues. (Peterson Drake 2018) The asset turnover is a ratio between total sales and avarege total assets. The larger the base value is, the larger and more positive the ratio is. The minimal value of this ratio is told to be 1 but in many cases it differentiates between industries. The lower the value of the ratio the more inefficient the business is on the asset part. (Baran *et al.* 2016)

$$Asset\ turnover = \frac{Total\ sales}{Average\ \ total\ assets} \tag{5}$$

1.2.3. Short-term liquidity ratios

Liquidity ratios are ratios that show the companys ability to pay its current debts without raising external capital. Liquidity ratios are most useful used in comparative form, for example, within the same company, but fior different years. For instance, in this analysis the ratios are viewed through years 2015-2017.

Current ratio is used in measuring short-run solvency. Current liabilities are the most urgent debts that need to be paid within a one year period. Current assets are the source from where the instant cash would come from. (Tugas, Rosario 2012)

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities} \tag{6}$$

The quick ratio rate is also measuring the short-run solvency with the difference of not using inventory in it. This means that the current assets are the least liquid and most likely the source of losses. (Muhammad 2013)

$$Quick\ ratio = \frac{Current\ assets - inventory}{Current\ liabilities} \tag{7}$$

The cash ratio shows the amount of cash that the company has in its account to cover current liabilities. The ideal cash ratio is 0.2, the meaning behind it is that for every rupee the company owes to its creditors in the next year is 0.2 in cash. (Wohlner 2018)

$$Cash\ ratio = \frac{Cash\ and\ cash\ equivalents}{Current\ liabilities} \tag{8}$$

1.2.4. Long-term solvency ratios

Solvent company is a company that owns more to itself than to others. The company has to have positive balance on the net income and can pay off the debts it has taken. Solvency ratios show the ratios of how well the company is doing all that. The debt to equity ratio is between total liabilities and shareholder's equity. It measures the company's overall finances and how it is using different sources to grow. (Muhammad 2013)

$$Debt\ to\ equity\ ratio = \frac{Total\ liabilities}{Total\ shareholders\ equity} \tag{9}$$

The debt to capital ratio is a financial leverage ratio that measures relationship between interest, bearing debt and equity. This shows the financial leverage that (Hargrave 2019)

$$Debt\ to\ capital\ ratio = \frac{interest - bearing\ debt}{(interest - bearing\ debt + equity)} \tag{10}$$

The interest coverage ratio is earnings before interest and taxes (EBIT) divided by interest expense. This ratio is used to appraise how well company is paying off its interest on the debt taken. (Kenton 2019)

$$Interest\ coverage\ ratio = \frac{EBIT}{Interest\ expense} \tag{11}$$

Equity multiplier is ratio where total assets are divided by total shareholders equity. This formula measures the assets that are financed by the equity. (Smirnov 2018) The higher the multiplier is the larger part of the assets are financed by the debt. If the multiplier is really low the company is unable to meet its debt from the debtor's. Another reason for low multiplier could be that the managers are avoiding the debt to buy more assets. (Nickolas 2018)

$$Equity\ multiplier\ ratio = \frac{Total\ assets}{Total\ shareholders\ equity} \tag{12}$$

2. COMPANY OVERVIEW AND RESEARCH METHODOLOGY

2.1. Concrete market in Estonia

The Estonian concrete market is mostly divided between three bigger companies that each own around 30% of the market. These three main competitors are Rudus, HC Betoon and the last one is the one discussed in this paper, Betoonimeister. HC Betoon and Rudus both have their headquaters in foreign countries and Betoonimeister is the one with full Estonian-based funding. From the concrete market 2005-2017 figure (Figure 2.1.) provided by the Estonian Concrete Association it can be read that in the year 2005 there were only two major companies HC Betoon and Rudus.

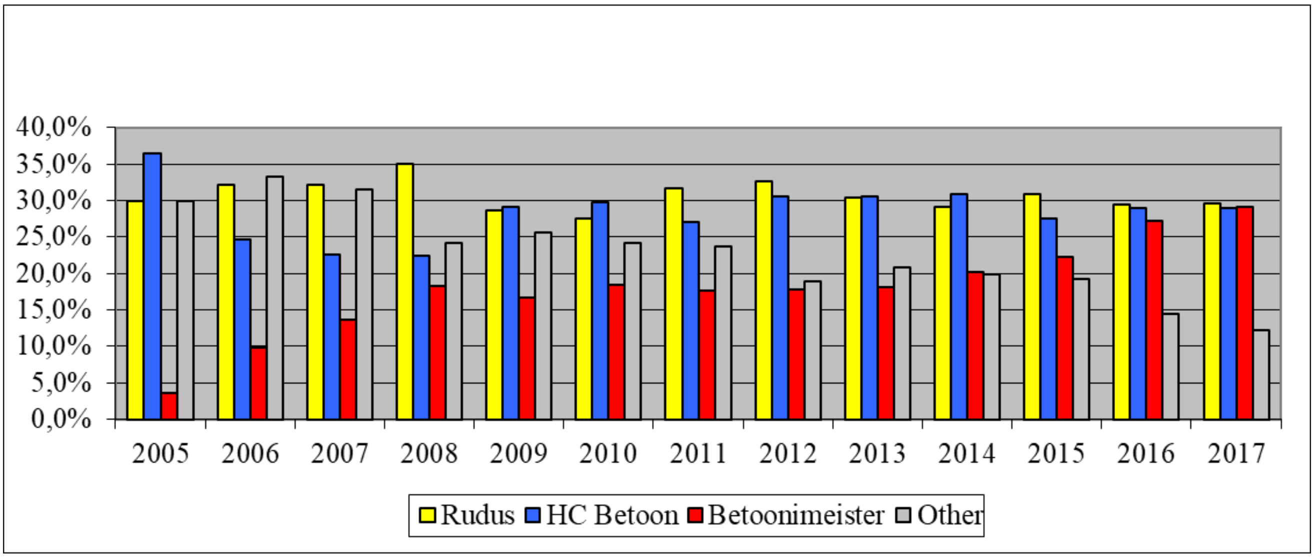

Figure 2.1. Estonian concrete market share 2005-2017

Source: Appendix 16

Since then Betoonimeister has grown its market share over the years, now reaching to the same level as the others. Before that the market consisted of the two leaders and several smaller companies that together took the other 30% of the market share. When asked from the financial manager how Betoonimeister managed to grow its market the reasons were given as simple investments to the right place at the right time and aggressive coming to the market. Another big reason was the customer service and its quality. Communication with they buyers is most important in this type of business according to the financial manager. (Appendix 17) In the table it is well documented that the economical crisis affected the whole market in 2009 and 2010, with the production dropping to 360 and 352 thousand cubic meters per year accordingly. In comparison, in 2016, the whole market production was almost double that amount with 624 thousand cubic meters in 2016 and 692 thousand cubic meters in 2017. From the previous research of the author it can be seen that the mean price of the whole concrete market the cubic meter price has grown. When in 2006 the average price was 68.02 euros then in 2016 the price was 81.81 euros. This means that average increase per year is 1.86%. The whole industrial production price index has increased about 2.4% per year and consumer price index 3.1% per year over the same period. (Estonian Statistics Association, 2019b, Estonian Statistics Association, 2019c) In conclusion the concrete market price indices have increased slower than the general price indices of economy. From the company Betoonimeister point of view, their price per cubic meter has always run slightly lower than the market means.

2.2. Overview of Ltd. Betoonimeister

Ltd. Betoonimeister is a construction concrete company that was founded in 2005 and is fully Estonian based and funded. Betoonimeister produces various concrete mixes for both large concrete contractor companies but also for individuals, they also transport and pump it into the construction sites. The company has years of experience and it has helped it to become a professional and a good partner to the customers and also other service providers. Company's marketing strategy is to serve clients in the best way possible and to concentrate more on quality than low price. The company has five factories in Estonia: Tallinn, Jõhvi, Tartu and Tapa, offering its services in most of the Estonian counties. The yearly amount of manufacturing is around 200 thousand cubic meters per year. (Betoonimeister 2018) According to the last research made by the author about the Betoonimeister company in 2007 during the last significant financial crisis the company had just made big investments a year before in 2006, overall market crashed by 50% and the price went down by 30%. The company failed to pay its debts as cash flow was negative. Since the company could not cover their debt obligations, the owners had to put in more capital. The economic crisis was therefore a difficult period, but since then the company has become one of the main concrete producers in Estonia and has won 32,4% of the market in the beginning of 2017. According to the annual report of Betoonimeister in 2017 there was 693 thousand cubic meters of concrete produced in the whole Estonian market. Market capacity increased by 11% but the mean price of the concrete decreased by 2%. In comparison 10 years ago in 2007 when the last high peak of economy was, there was 840 thousand cubic meters of concrete produced. This number is 20% higher than today. The volume of the sales has increased but the production capacity is much higher than the demand is in the whole construction sector. This is the reason why competition is high and selling price under strong pressure. The company's board of management has stayed the same over the years. Concrete business is a volume-based market meaning that to cover the overall costs that occur then the company has to produce a lot. The higher the production the better it is for the company. Betoonimeister has become one of the three market leaders in Estonian concrete market over the 10 years. When in 2007 the market share was 22,6% then in 2017 it was already 29,2%. From the interview with the financial manager of Betoonimeister Mr. Rebane he told that this happened due to modern plants that no other company had in Estonia and skilled management who also are the shareholders in the company. This gave them flexibility to make strategical decisions during the financial crisis. The company also has a marketing strategy that includes knowing all the clients, big or small. (Appendix 17)

2.3. Data and methodology

The author collected consolidated financial statements of the company Betoonimeisterfrom years 2015-2018 and financial statements from the two competitors HC Betoon and Rudus through years 2015-2017. More precisely author gathered all the balance sheets, income statements and cash flow of those years to do a comparitive analysis on those statements. Using that a comparitive analysis is made between those three companies. The overview includes a short analysis, which is used to compare the data of the years by method of vertical, horizontal and ratio analysis. The fundamental sources for the financial analysis are the balance sheet, income statement and cash flow statement that are all collected from the annual reports of Ltd. Betoonimeister. This papers analysis is based on the data from these sources and also includes some addition information from the company Betoonimeister manager. A e-mail based interview was made with the financial manager of Betoonimeister, Mr. Rebane. Financial statements give information mainly to the external users but also to the company's internal users. Organizations are obligated to publish financial statements at least once a year but there are companies that do that every six months or also quaterly. When it comes to Ltd. Betoonimeister and its competitors the annual reports are released once a year.

3. FINANCIAL STATEMENT ANALYSIS

3.1. Income statement analysis

The income statement of the companies have changed significantly over the period and the percentage change is a good way to compare these three. (Appendix 1) (Appendix 6) (Appendix 11) Over the three year period it can be seen that from the year 2015 to 2016 the net sales were increased in HC Betoon and Betoonimeister but were in a small decline compared to 2015 for Rudus. The increase was biggest in the company Betoonimeister that was 46.83% compared to the year 2015. When looking at the operating income row the highest increase was at the Rudus company with of 58.36% that happened beacause of the decrease raw materials that decreased almost 300,000 euros. From 2016 to 2017 there was a decrease in operating income due to other expenses made an increase in expenses line but another reason was the significant increase of raw materials with 4 million euros. HC Betoon and Betoonimeister have both increased their net sales and total revenue over the three years.

Surprisingly, the company Rudus has decreased its wage expenses between both years while at HC Betoon, wages slightly increased and for Betoonimeister they have more than doubled between the year 2015 and 2017. One reason behind the wage doubling is certainly the new factory that Ltd. Betoonimeister bought in Tartu in 2016. The change that might affect wages most can be the competition growth in the market in 2015. Betoonimeister's part of market share according to the Estonian concrete market table was 22.3% in 2015 and in 2017 already 32.4%. (Appendix 16) In comparison year 2015 two other big market owners were HC Betoon and Rudus 27.5% and 30.9% respectively. In 2017 they all shared slightly below 30% of the market. Another reason why the expenses have risen is beacause of the avarage gross wages growth in Estonia over the past years according to the Estonian Statistical Office. In 2015 the avarage gross wages were 1065 euros and in 2017 it had increased to 1221 euros. (Estonian Statistics Association 2019a)

Since Ltd. Betoonimeister has challenged the market and has been able to grow it's market share in Estonia, net income has also grown from 2015 at 134,559 euros to 800,000 euros in 2017, growing by 451.21% in 2016 and 7.86% in 2017. For Rudus company the net income has decreased between 2016 and 2017 but increased comparing to year 2015 by 35.4%. For HC Betoon year 2016 to 2017 was also a significant increase in net income and when in 2015 they were still in loss then the increase between the last years was 657.85%. In case of HC Betoon the profit does not only come from producing and selling concrete but also from the rubble. In the annual reports all the incomes and expenses are consolidated meaning that the author can not be sure if the increase in profit came only due to increase in concrete production.

From the vertical analysis it can be found that total operating expenses have been cut down by two percentage points from the year 2015 it was 96% and in 2016 and 2017 it was 94% compared to the sales revenue in Betoonimeister. (Appendix 2) (Appendix 7) (Appendix 12) Material and service expenses make the largest percentage points amount in all the companies. For HC Betoon and Rudus raw material and service expenses make up around 80% of the whole amount but in Betoonimeister this number in 2017 is 75% and growing in 2018 to 77%. This explains why the margins are better thant the other two companies and the company is more efficient than HC Betoon and Rudus. Operating margin for Betoonimeister has shown a little growth over the years, which could be a result of more orders and a larger market share for this company. While salary an wages expense has grown from 11% to 13% for Betoonimeister, for the other two they have rather shown a decrease. In comparison, in 2018, the number stayed the same with 13% of the total amount of net sales. The gain of market share and more orders for Betoonimeister can be also seen when looking at the net income changes that have grown from 1% to 5% over two years. For the authors surprise prediction that with the purchase of another factory in 2016 the material and service expenses have not increased that much. For this to happen on of the reason could be that according to the financial managers interview the factory that was bought was already a working factory in Tartu. With the factory came all its resources and employees and this did make things a lot easier to the company. (Appendix 17)

3.2. Balance sheet analysis

The assets are quite high in Betoonimeister and the reason is because the company has it's own car park and own technology. (Appendix 3) It is also the newest and most advanced technology according to the companys financial manager compared to the competitors and the most factories in Estonia. They are the fastest ones in decision making processes and mobility in all over Estonia, company can move their cars and workers to where they are mostly needed. (Appendix 2) (Appendix 4) (Appendix 17) On the assets side of horizontal analysis in balance sheet of Betoonimeister there has been a change in accounts recievables the growth between 2015 and 2017 was 48%. There was also a growth in cash and property, plant and equipments. Cash increased from 2015 to 2016 for 65% and property plant equipment for 15% in between those same years. The total assets have grown significantly over the years from 2015 to 2016the assets grew 19% and added 4% from 2016 to 2017. From 2017 to 2018 assets again increased by 25%. The company could have bought new machinery to their new factory which could explain the significant increase on the asset side. According to the vertical analysis the prepaid expenses have come up to 1% in the year 2017 and decreased a bit in 2018. Cash has made an 1% incease over these years. The change has affected the total current assets that in 2015 made up 28% of the total assets, but in 2017 already 32% and 31% in 2018.

The liabilities part of the balance sheet shows that the long term debt has decreased at the end of the year by 2% and at the end of 2017 by 18%, meaning that Betoonimeister has paid its long term debt. At the same time when long-term liabilties have decreased the current or short-term liabilities total have increased over the years. (Appendix 3) When looking more percisely why the current liabilities have increased it can be seen that the short-term debt has increased significally from 647,127 euros to 1,099,296 euros which is a 70% change over the years. Accrued expenses have also decreased from the year 2015. In 2016 the change was -82% and -79% in 2017. Accrued expenses are operating expenses that companies have incurred during an accounting period but not yet paid so when these numbers are decreasing that means that the company has paid more of the accrued expenses. Altogether, the growth in total liabilities has decreased from 10% to 3%. The vertical analysis shows that the proportion of short term or current debt has also gone up to 13% in 2017 while in 2016 it was 9% compared to the total liabilities and equity, meaning that the company did take in more obligations. Accounts payable has also risen for the two years when in 2015 it was 9% then in 2016 and 2017 it increased 14% and 13% percent respectivly meaning that the company has not paid its suppliers for the materials or services yet. This can affect the company positively since it has a higher free cash flow. In the vertical analysis this also comes out that compared to the liabilities and equity wages payable has stayed the same 2% over the three years but in horizontal analysis it had grown. This is because even though the salarys and wages have rised they have done it together with liabilities and equity.

Betoonimeister's balance sheet can tells the same information about the company's market share growth shown on the net profit and owners equity percentages that have been rising from 2016 to 2017 at 408% to 495% and 125% to 271% respectively. Retained earnings have also grown through the years for 156%. (Appendix 2) The vertical analysis shows that retained earnings have changed from -8% to 3% this means that the company has been profitable and has refrained from paying profits out in dividends.

For Betoonmeister competitors HC Betoon and Rudus the balance sheet looks a bit different in numbers.While assets in Rudus company have increased about 6% yearly in case of HC Betoon from year 2016 to 2017 the assets increased by 13%. Betoonimeister has increased the assets from 2015 to 2017 for 24.5%. As seen on the balance sheet the property, plant and equipment numbers are much smaller in HC Betoon and Rudus. The reason is that in Rudus and HC Betoon significant amount of assets are indicated under the requierments. From the balance sheet it is seen that neither of these companies have nor shot or long term debt in their company. This might come from the reason that all the financial decisions come from the parent company and subsidiaries in Estonia do not need to take out loan of themselves. In equity comparison between these companies, in terms of growth, Betoonimeister increased its equity significally over the years, but in absolute terms HC Betoon and Rudus still are larger. (Appendix 8) (Appendix 9) (Appendix 13) (Appendix 14)

3.3. Cash flow statement analysis

From the horizontal analysis of the cash flow statement of Ltd. Betoonimeister it can be concluded that the business profit has changed toward the positive side, the difference of 2015 to 2016 is 161% and from 2016 to 2017 is 8%. (Appendix 5) Total cash flow from operating activities has beed positive in each year meaning that the business has consistently made positive cash flow, that strengthens the company’s financial position. On one side this is affected by the increase in revenue but also from the decreasing of the prepayment changes. On the balance sheet vertical analysis there is shown that company debts to its suppliers increased, that is the reason for the positive changes in prepayment. As a result, the company's free cash flow is higher.

In the years 2016 and 2017 there has been a negative outflow from the investment activities and in both years the loan repayments have been higher than the actual loan itself. In 2016 cash increased and decreased in 2017 but all together there are more cash and cash equivalents in accounts than in 2015. In Rudus cashflow there is a cash outflow from acquisition of subsidiaries with an amount of 15,681,000 million euros. Other companies do not have this type of cashflow in their reports. (Appendix 15) The reason behind it would be because the earned profit in Estonia is under government tax and to reduce that sum the compay decided to purchase a company outside Estonian market. Cash and cash equivalents at the end of the years for Rudus company has grown over these three years. For HC Betoon this number has decreased significantly the change from 2015 to 2016 was 53% and from 2016 to 2017 37%. (Appendix 10) In the case of Betoonimeister cashflow increased from 2015 to 2016 for 46% but declined over the last year for 13%.

3.4. Financial ratio analysis

Table 3.1 presents the activity, profitability, short-term liquidity and long-term solvency ratios for Betoonimeister and both of its main competitors in the Estonian concrete market. The ratios have been calculated for the period 2015-2017 for all companies and are based on information gathered from the companies' annual reports. For the profitability ratios it can be concluded that the profit margins are seemingly very small for such companies, but since it is a construction field and the competiton is high then the margins are understandably lower. Betoonimeister’s managers have not taken out any dividends over the years and the realtively low profit margins might be one of the main reason for this. When the margins rise up to 5-10 then the managers could start thinking about doing that. The operating margin means that every 1 euro of sales the company makes, for example in 2017, 5% of sales or 0.06 euros in operating earnings. This margin measures efficiency and the higher the number is the more profitable company is. It is best measured within the same market field of company’s. (Muhammad 2013) In comparison the operating margin for HC Betoon in 2017 was 1 and for the company Rudus the operating margin for 2017 was 0.07.

Table 3.1. Calculated financial ratios of Betoonimeister, HC Betoon and Rudus

	Betoonimeister			HC Betoon			Rudus		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Activity ratios									
Asset turnover	1.41	1.85	1.98	1.65	2.10	2.14	0.92	0.89	1.01
Inventory turnover	25.59	52.41	57.99	38.53	45.76	43.42	27.71	30.11	41.01
Profitability ratios									
Profit margin	0.01	0.05	0.05	-0.02	-0.02	0.00	0.04	0.04	0.08
Operating margin	0.04	0.07	0.06	1.03	1.03	1.00	0.4	0.4	0.07
ROA	0.02	0.09	0.09	-0.04	-0.02	0.01	0.04	0.04	0.07
ROE	0.25	0.00	0.37	-0.05	0.00	0.01	0.04	0.00	0.07
Short term liquidity ratios									
Current ratio	1.20	1.08	1.06	4.00	4.13	4.18	10.96	13.22	12.03
Quick ratio	1.03	0.95	0.93	3.76	3.83	383	10.51	12.80	11.70
Cash ratio	0.15	0.17	0.13	0.01	0.00	0.00	0.02	0.04	0.05
Long term solvency ratios									
Debt to equity	9.71	4.34	2.43	0	0	0	0	0	0
Interest coverage ratio	1.64	4.46	5.73	0	0	0	0	0	0
Equity multiplier	12.41	6.59	4.16	1.25	1.24	1.25	1.09	1.07	1.08
Debt to capital	0.91	0.81	0.71	0	0	0	0	0	0

Sources: Betoonimeister annual reports 2015-2017, HC Betoon annual reports 2015-2017, Rudus annual reports 2015-2017

Return on assets ratio means how profitable a company is to is total assets. In the calculations it can be seen that this has grown in Betoonimeister over the two years from 2% to 9% which is a good sign. HC Betoon ROA has also grown over the last three years, when in 2015 it was negative, -4% then in 2017 1% for company Rudus for the first two years it was stable 4% and has grown at the last year to 7%. When looking at both the growth of the ROA ratios and absolute levels between the companies, it can be said that to the investors, Betoonimeister would look the most attractive.

Retun on equity ratio has increased in the years in 2016 it was 0% and in 2017 37%. A rise in ROE suggests that a company making larger profits without needing proportionally as much equity capital as before. For the companies HC Betoon and Rudus year 2016 was the same with 0% ratio of ROE. In 2017 the numbers were 1% and 7% respectively. ROE measures a company's efficiency and according to the numbers the growth from 2016 to 2017 Betoonimeister has been the most efficient. Quick and current ratios show that Betoonimeister has the lowest liquidity ratios but these are close to 1 that is considered to be optimal. HC Betoon and Rudus both have high liquidity ratios meaning that these companies have accumulation of assets. In HC Betoon quick ratio has increased over the years and in 2017 it reached to 3.83. For Rudus company the quick ratio is the highes compared to the two others with 11.70 in 2017. In the case of Rudus company the claims for related parties are also concluded into the calculations.

The cash ratio shows the company's cash and its equivalents to its current liabilities and this number is the highest in Betoonimeister company. This shows how well the company is able to pay off its debts using only the cash and cash equivalents that it has currently. On the results it can be seen that none of the company's has it equal or above one, meaning that they would not be able to pay off the debt with these resources. When the asset turnover is above 1 it shows that the company is efficient, the asset turnover ratio shows that for every euro company generated that amount of sales. Compared these three companys the asset turnover has some differences. Over these past three years HC Betoon company has reached to 2.10 and 2.14 in 2016 and 2017 respectively. While Betoonimeister has also shown a positive growth trend but still stays below 2.0 line. For Rudus asset turnover is lower than the other two company's with 1.01 in 2017. Inventory turnover in 2017 was the highest in company Betoonimeister with 57.99. Betoonimeister made a huge increase in from 2015 to 2017. When in 2015 the inventory turnover was only 25.59.

Reason for this kind of increase is behind the new factory bought by Betoonimeister in 2016. For HC Betoon and Rudus these numbers are for 2017 43.42 and 41.01 respectively.

Long-term solvency ratios mean that enterprise's ability to meet its debt and other obligations. The solvency ratio indicates whether a company's cash flow is sufficient to meet its short-term and long-term liabilities. Debt-to-equity ratio show how is credit compared to its assets and whether the company has loans. In this ratio analysis it can be seen that the ratio is rather high but has decreased over the years. For Betoonimeister company it was 9.71 in 2015 4.34 in 2016 and 2.43 in 2017. The reason behind is that the company is still recovering from the financial and economical crisis that happened. This also was seen in the whole market when the whole sales of concrete decreased in 2009 and 2010. (Appendix 16). During that crisis Betoonimeister company did not make much profit and before that they made some big financial investments, buying two new factories in Estonia. The interest coverage ratio has grown for the company from 2015 to 2017 from 1,63 to 5,73. This is a good growth meaning that the company now has much more capability to pay back its interest payments. Normally 1,5 ratio is considered to be a bare minimum for the organisations. The author was unable to calculate these ratios for the other two companies because these subsidiaries do not have ha long term debt of therir on, which mainly comes from the financial decisions of the parent companies.

The equity multiplier ratio for Betoonimeister has decreased from 12.41 in 2015 to 4.16 in 2017. When the multiplier is high it is showing that company uses more debt finance its assets. For HC Betoon and Rudus these numbers are fairly lower. In 2017 for HC Betoon this number was 1.25 and for Rudus 1.08. Lower number in this given ratio is always better, meaning that the company's assets were not funded that much by the debt. Other reason for the numbers to be that low for HC Betoon and Rudus are because these companies do not have a debt taken by their own and are more funded by the parent company. Debt to capital ratio is again important to find out financial leverage. In this case the ratio has stayed quite stable within the three years for the company Betoonimeister. Concerning others this ratio was not able to be calculated because of the absence of long - term debt.

CONCLUSION

Financial analysis is a necessary part of getting to know the company's performance and it gives an overview to either internal or external users. This type of comparison between market leaders in Estonian concrete market gave a good overview of the competition. The competition in the first three leaders is tight and market share between them is quite equal. The market share is also growing each year meaning that the smaller companies are not surviving in this industries market very well. Hypotheses number 1 was that the Estonian concrete market has not fully recovered from the economic crises that started in 2009. This hypothesis is correct and the numbers from the Estonian Concrete Association show that the sales volume compared to the year 2007 is not the same level as then.

For the Betoonimeister company in 2016 there was a purchase of a new factory in Tartu so this did give an impact on the financial statements, the asstets increased and inventory turnover was affected the most. From the marginals point of view Betoonimeister has been the most efficient comparing to HC Betoon and Rudus. This shows mostly on the raw material and service expenses data. For HC Betoon and Rudus, raw material and service expenses make up around 80% of the whole amount in 2017 but in Betoonimeister this number in is 2017 with 75%. The lower that number is the more efficient the company can be considered. This explains why the margins are better for Betoonimeister in comparison to the other two companies.In general, the company is more efficient than HC Betoon and Rudus. Ratio analysis calculations also helped to answer the hypothesis number 2. HC Betoon and Rudus, who have parent companies situated outside of Estonia are not more successful than fully Estonian funded Betoonimeister. From the financial manager of Betoonimeister's point of view Estonian companies have better flexibility to react such situations as the economical crisis was. The market growth and the profit increase over the years has affected the company only in a good way and the ratios of profitability are showing a positive trend meaning that company has starting to come out from the economical crisis. During the years 2016 and 2017 profitability ratios have increased quite a bit for Betoonimeister company but still not enough for the company to take out dividens. Return to equity is starting to increase year by year suggesting that company can produce more profit with out increasing the capital.

Thirdly the concrete field market price indeces were compared to the general economical price indices, provided by the Estonias Statistics Association. The authors third hypotheses did not was not true about the concrete price index increasing quicker than general ones. According to the comparison the general economical price index increases about 2,4% per year and consumer price index 3,1% per year. The fourth hypothesis was that the company is solvent enough to pay its commitments. According to the balance sheet the liabilities do not exceed the value of assets meaning that the company is solvent enough to meet its obligations. The debt to equity ratio shows us that the that the ratios are quite high compared to the normal range said in the books but again we have to take into the consideration that this is the construction field and the ratios can be higher because of the assets they own. Another reason why this is so high it is because of the economical crisis that happened a few years back and now the company starts coming out of it.

The concrete market in Estonia is highly competitive and for new Estonian companies it is hard to come to the market. The three leading companies have been taken the most part of the market share but according to Mr. Rebane in the future Betoonimeister will focus even more on improving the margins. Instead of getting larger amount of the market share the company would like to have higher EBITDA. Estonian concrete market is in its full development and the author is positive that in the future the whole market will grow and reach to its high peak that was similar to the on in 2007.

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APPENDICES

Appendix 1. Horizontal analysis of income statement Ltd. Betoonimeister (2015-2018)

	2015	**2016**		**2017**		**2018**	
Net sales	9 401 062	13 803 906	46,83%	16 445 000	19,13%	20 058 000	22%
Other income	8 565	61 353	616,29%	13 000	-78,81%	114000	777%
Operating income	**9 409 627**	**13 865 259**	47,35%	**16 458 000**	18,70%	**20 172 000**	23%
Expenses							
Material, service expenses	6 797 710	10 049 092	47,83%	12 377 000	23,17%	15 522 000	25%
Other expenses	1 236 939	1 486 469	20,17%	978 000	-34,21%	1 105 000	13%
Salary, wages expenses	1 030 030	1 373 660	33,36%	2 134 000	55,35%	2 686 000	26%
Total operating expenses	**9 064 679**	**12 909 221**	42,41%	**15 489 000**	19,98%	**19 313 000**	25%
Operating income	344 948	956 039	177,15%	969 000	1,36%	859 000	-11%
Interest expenses	210 389	214 337	1,88%	169 000	-21,15%	158 000	-7%
Income tax	0	0		0		0	
Net income	**134 559**	**741 702**	451,21%	**800 000**	7,86%	**701 000**	-12%

Source: Annual Reports of Ltd. Betoonimeister (2015 – 2018)

Appendix 2. Vertical analysis of income statement Ltd. Betoonimeister (2015-2018)

	2015		**2016**		**2017**		**2018**	
Net sales	9 401 062	100%	13 803 906	100%	16 445 000	100%	20 058 000	100%
Other income	8 565	0,09%	61 353	0,44%	13 000	0,08%	114000	0,57%
Operating income	**9 409 627**	100%	**13 865 259**	100%	**16 458 000**	100%	**20 172 000**	101%
Expenses								
Material, service expenses	6 797 710	72%	10 049 092	73%	12 377 000	75%	15 522 000	77%
Other expenses	1 236 939	13%	1 486 469	11%	978 000	6%	1 105 000	6%
Salary, wages expenses	1 030 030	11%	1 373 660	10%	2 134 000	13%	2 686 000	13%
Total operating expenses	**9 064 679**	96%	**12 909 221**	94%	**15 489 000**	94%	**19 313 000**	96%
Operating income	344 948	4%	**956 039**	7%	**969 000**	6%	**859 000**	4%
Interest expenses	210 389	2%	214 337	2%	169 000	1%	158 000	1%
Income tax	0		0		0		0	
Net income	**134 559**	**1%**	**741 702**	**5%**	**800 000**	**5%**	**701 000**	**3%**

Source: Annual Reports of Ltd. Betoonimeister (2015 – 2018)

Appendix 3. Horizontal analysis of balance sheet Ltd. Betoonimeister (2015-2018)

	2015	2016		2017		2018	
Cash	243408	401306	65%	346701	-14%	589000	69,89%
Account recievables	1 383 470	1 794 304	30%	2049315	14%	2271000	10,82%
Other requierments	3 255	4 058	25%	3017	-26%	3000	-0,56%
Prepaid expenses	16006	17093	7%	44014	157%	44000	-0,03%
Inventory	258722	268057	4%	299071	12%	381000	27,39%
Total current assets	**1904861**	**2484818**	30%	**2742118**	10%	**3288000**	19,91%
Long term investments	0	0		0			
Property plant and equip	4885183	5626820	15%	5715825	2%	7328000	28,21%
Total assets	**6790044**	**8111638**	19%	**8457943**	4%	**10616000**	25,52%
Liabilities							
Short term debt	647127	762037	18%	1399296	84%	1948000	39,21%
Accounts payable	621901	1117335	80%	1080531	-3%	1478000	36,78%
Taxes payable	156750	224233	43%	215105	-4%	270000	25,52%
Wages payable	124976	184477	48%	180476	-2%	224000	24,12%
Accrued expenses	19844	3588	-82%	4 093	14%	3000	-26,71%
Buyer advances	10412	12078	16%	8917	-26%	9000	0,94%

Appendix 3 continued

Interest expenses				2000		10000	400,00%
Short term liabilities total	**1581009**	**2303746**	46%	**2890418**	25%	**3942000**	36,38%
Long term liabilities							
Long term debt	4661702	4576583	-2%	3485000	-24%	3919000	12,45%
Government grants				51000		25000	-50,98%
Long term liabilities total	**4661702**	**4576583**		**3536000**		**3944000**	11,54%
Total Liabilities	**6242712**	**6880329**	10%	**6426418**	-7%	**7886000**	22,71%
Equity							
Share capital in nominal value	531226	531226	0%	531226	0%	531226	0,00%
Unregistered registered capital with premiums written							
Share premium	351836	351836	0%	351836	0%	351836	0,00%
Mandatory reserv capital	53123	53123	0%	53 123	0%	53 123	0,00%
Retained earnings of previous periods	-523410	-388853	26%	295125	156%	109500	-62,90%
Profit for the year	134558	683977	408%	800104	495%	699000	-12,64%
Total owners equity	**547333**	**1231309**	125%	**2031414**	271%	**273000**	-86,56%
Liabilities and owners equity total	**6790044**	**8111638**	19%	**8457832**	25%	**10616000**	25,52%

Source: Annual Reports of Ltd. Betoonimeister (2015-2018)

Appendix 4. Vertical analysis of balance sheet Ltd. Betoonimeister (2015-2018)

	2015		2016		2017		2018	
Cash	243408	4%	401306	5%	346701	4%	589000	6%
Accounts recievables	1 383 470	20%	1 794 304	22%	2049315	24%	2271000	21%
Other requierments	3 255	0,05%	4 058	0,05%	3017	0,04%	3000	0,03%
Prepaid expenses	16006	0,24%	17093	0,21%	44014	1%	44000	0,41%
Inventory	258722	4%	268057	3%	299071	4%	381000	4%
Total current assets	**1904861**	28%	**2484818**	31%	**2742118**	32%	**3288000**	31%
Long term investments	0		0		0			
Property plant and equip	4885183	72%	5626820	69%	5715825	68%	7328000	69%
Total assets	**6790044**	100%	**8111638**	100%	**8457943**	100%	**10616000**	100%
Liabilities								
Short term debt	647127	10%	762037	9%	1099296	13%	1948000	18%
Accounts payable	621901	9%	1117335	14%	1080531	13%	1478000	14%
Taxes payable	156750	2%	224233	3%	215105	3%	270000	3%
Wages payable	124976	2%	184477	2%	180476	2%	224000	2%

Appendix 4 continued

Accounts payable	621901	9%	1117335	14%	1080531	13%	1478000	14%
Taxes payable	156750	2%	224233	3%	215105	3%	270000	3%
Wages payable	124976	2%	184477	2%	180476	2%	224000	2%
Accrued expenses	19844	0,29%	3588	0,04%	4 093	0,05%	3000	0,03%
Buyer advances	10412	0,15%	12078	0,15%	8917	0,11%	9000	0,08%
Interest expenses							10000	
Short term liabilities total	**1581009**	23%	**2303746**	28%	**2588418**	31%	**3942000**	37%
Long term liabilities								
Long term debt	4661702	69%	4576583	56%	3838110	45%	3919000	37%
Goverment grants							25000	
Long term liabilities total	4661702		4576583		3838110		3944000	37%
Total Liabilities	**6242712**	92%	**6880329**	85%	**6426529**	76%	**7886000**	74%

Appendix 4 continued

Equity								
Share capital in nominal value	531226	8%	531226	7%	531226	6%	531226	5%
Unregistered registered capital with premiums written								
Share premium	351836	5%	351836	4%	351836	4%	351836	3%
Mandatory reserv capital	53123	1%	53123	1%	53 123	1%	53 123	1%
Retained earnings of previous periods	-523410	-8%	-388853	-5%	295125	3%	109500	1%
Profit for the year	134558	2%	683977	8%	800104	9%	699000	7%
Total owners equity	**547333**	8%	**1231309**	15%	**2031414**	24%	**273000**	3%
Liabilities and owners equity total	**6790044**	100%	**8111638**	100%	**8457943**	100%	**10616000**	100%

Source: Annual Reports of Ltd. Betoonimeister (2015 – 2018)

Appendix 5. Cash flow statement of Ltd. Betoonimeister (2015-2018)

	2015	**2016**	**2017**	**2018**
Cash flow from business				
Business profit	344000	898000	969000	859000
Adjustments				
Depreciation	564000	647000	601000	723000
Other adjustments	0	50000	-2000	0
Profit (loss) from selling assets				-37000
Total adjustments	564000	697000	599000	686000
Prepayment changes	-489000	-412000	-251000	-265000
Change in inventory	-19000	-9000	-61000	-39000
Notes payable changes	764000	609000	-51000	452000
Interest paid	-210000	-214000	-218000	-160000
Total cash flow from operating act	954000	1569000	987000	1533000
Cash flow from investing activities				
Tangible and intangible fixed assets	-90000	-670000	-690000	-961000
The sale of tangible and intangible assets				62000

Appendix 5 continued

Government grants				25000
Total cash flows from investing activities	-90000	-670000	-690000	-829000
Cash flow from financing activities				
Loans recieved	1340000	240000	1700000	0
Loans repayed	-1015000	-515000	-2E+06	-629000
Change in overdraft balance	62000	62000	193000	589000
Repayments of principal finance lease	-236000	-522000	-265000	-422000
Paid interest	-803000			
Cash flows from financing activities	-652000	-741000	-351000	-462000
Total cash flows	212000	158000	-54000	242000
Cash and equivalents at the beg	**31000**	**243000**	**401000**	**347000**
Cash and equivalents change	**212000**	**158000**	**-54000**	**242000**
Cash and equivalents at the end	**243000**	**401000**	**347000**	**589000**

Source: Annual Reports of Ltd. Betoonimeister (2015 – 2018)

Appendix 6. Horizontal analysis of income statement of Ltd. HC Betoon (2015-2017)

	2015	2016		2017	
Net sales	11 677 661	14 863 566	27,28%	16 256 065	9,37%
Other income	48 245	68 845	42,70%	81 171	17,90%
Operating income	**11 725 906**	**14 932 411**	27,35%	**16 337 236**	9,41%
Expenses					
Material, service expenses	-9 354 640	-11 977 152	28,03%	-12 856 595	7,34%
Other operating expenses	-850 343	-897 793	5,58%	-1 102 444	22,79%
Salary, wages expenses	-1 296 304	-1 535 035	18,42%	-1 713 669	11,64%
Depreciation and impairment of fixed assets	-495 581	-463 636	-6,45%	-261 799	-43,53%
Other expenses	-5 987	-7 319	22,25%	-12 598	72,13%
Total operating income	**-276 949**	**51 476**	-118,59%	**390 131**	657,89%
Other revnues and expenses	44	3	-93,18%	1	-66,67%
Net income	**-276 905**	**51 479**	-118,59%	**390 132**	657,85%

Source: Annual Reports of Ltd. HC Betoon (2015 – 2017)

Appendix 7. Vertical analysis of income statement of Ltd. HC Betoon (2015-2017)

	2015		2016		2017	
Net sales	11 677 661	100,00%	14 863 566	100,00%	16 256 065	100,00%
Other income	48 245	0,41%	68 845	0,46%	81 171	0,50%
Operating income	**11 725 906**	100,41%	**14 932 411**	100,46%	**16 337 236**	100,50%
Expenses						
Material, service expenses	-9 354 640	-80,11%	-11 977 152	-80,58%	-12 856 595	-79,09%
Other operating expenses	-850 343	-7,28%	-897 793	-6,04%	-1 102 444	-6,78%
Salary, wages expenses	-1 296 304	-11,10%	-1 535 035	-10,33%	-1 713 669	-10,54%
Depreciation and impairment of fixed assets	-495 581	-4,24%	-463 636	-3,12%	-261 799	-1,61%
Other expenses	-5 987	-0,05%	-7 319	-0,05%	-12 598	-0,08%
Total operating expenses	**-276 949**	-2,37%	**51 476**	0,35%	**390 131**	2,40%
Operating income	**12 002 855**	102,78%	**14 880 935**	100,12%	**15 947 105**	98,10%
Other revnues and expenses	44		3	0,00%	1	0,00%
Net income	**-276 905**	-2,37%	**51 479**	0,35%	**390 132**	2,40%

Source: Annual Reports of Ltd. HC Betoon (2015-2017)

Appendix 8. Horizontal analysis of balance sheet of Ltd. HC Betoon (2015-2017)

	2015	2016		2017	
Cash	11371	5388	-52,62%	3 415	-36,62%
Accounts recievable	2 710 033	2 210 924	-18,42%	2 455 537	11,06%
Other requierments	2 511 544	3 108 260	23,76%	3 971 174	27,76%
Prepaid expenses	51932	35 834	-31,00%	37 929	5,85%
Inventory	277 014	372 664	34,53%	376 175	0,94%
Claims against related parties	7 200	0	-100,00%	0	
Total current assets	**5569094**	**5733070**	2,94%	**6 844 230**	19,38%
Long term investments	0	0		0	
Property plant and equip	1 498 299	1 383 218	-7,68%	1 218 419	-11,91%
Total assets	**7 067 393**	**7 116 288**	0,69%	**8 062 649**	13,30%
Liabilities					
Short term debt	0	0		0	
Accounts payable	1 080 238	1 041 013	-3,63%	1 225 345	17,71%

Appendix 8 continued

Taxes payable	128 115	132 197	3,19%	160 432	21,36%
Wages payable	176 677	200 846	13,68%	228 140	13,59%
Accrued expenses	3 630	9 650	165,84%	17 792	84,37%
Buyer advances	3 485	5 854	67,98%	5 651	-3,47%
Short term liabilities total	**1392145**	**1 389 560**	-0,19%	**1637360**	17,83%
Long term liabilities	0	0		0	
Long term debt	0	0		0	
Total Liabilities	**1392145**	**1 389 560**	-0,19%	**1637360**	17,83%
Equity					
Share equity in nominal value	40 011	40 011	0,00%	40011	0,00%
Unregistered registered capital with premiums written					
Share premium	6 916 774	6 916 774	0,00%	6 942 338	0,37%
Mandatory reserv capital	2 556	2 556	0,00%	2556	0,00%
Retained earnings of previous periods	-1 007 188	-1 284 092	27,49%	-949 748	-26,04%
Profit for the year	-276 905	51 479	-118,59%	390 132	657,85%
Total owners equity	**5 675 248**	**5 726 728**	0,91%	**6425289**	12,20%
Liabilities and owners equity total	**7 067 393**	**7 116 288**	0,69%	**8062649**	13,30%

Source: Annual Reports of Ltd. HC Betoon (2015 – 2017)

Appendix 9. Vertical analysis of balance sheet of Ltd. HC Betoon (2015-2017)

	2015		2016		2017	
Cash	11371	0,16%	5388	0,08%	3 415	0,04%
Accounts recievable	2 710 033	38,35%	2 210 924	31,07%	2 455 537	30,46%
Other requierments	2 511 544	35,54%	3 108 260	43,68%	3 971 174	49,25%
Prepaid expenses	51932	0,73%	35 834	0,50%	37 929	0,47%
Inventory	277 014	3,92%	372 664	5,24%	376 175	4,67%
Claims against related parties	7 200	0,10%	0	0,00%	0	0,00%
Total current assets	**5569094**	78,80%	**5733070**	80,56%	**6 844 230**	84,89%
Long term investments	0	0,00%	0	0,00%	0	0,00%
Property plant and equip	1 498 299	21,20%	1 383 218	19,44%	1 218 419	15,11%
Total assets	**7 067 393**	100,00%	**7 116 288**	100,00%	**8 062 649**	100,00%
Liabilities						
Short term debt	0	0,0%	0	0,00%	0	0,00%
Accounts payable	1 080 238	15,3%	1 041 013	14,63%	1 225 345	15,20%

Appendix 9 continued

Taxes payable	128 115	1,8%	132 197	1,86%	160 432	1,99%
Wages payable	176 677	2,5%	200 846	2,82%	228 140	2,83%
Accrued expenses	3 630	0,1%	9 650	0,14%	17 792	0,22%
Buyer advances	3 485	0,0%	5 854	0,08%	5 651	0,07%
Short term liabilities total	**1392145**	19,7%	**1 389 560**	19,53%	**1637360**	20,31%
Long term liabilities	0	0,0%	0	0,00%	0	0,00%
Long term debt	0	0,0%	0	0,00%	0	0,00%
Total Liabilities	**1392145**	19,7%	**1 389 560**	19,53%	**1637360**	20,31%
Equity		0,0%		0,00%		0,00%
Share equity in nominal value	40 011	0,6%	40 011	0,56%	40011	0,50%

Appendix 9 continued

Unregistered registered capital with premiums written		0,0%		0,00%		0,00%
Share premium	6 916 774	97,9%	6 916 774	97,20%	6 942 338	86,10%
Mandatory reserv capital	2 556	0,0%	2 556	0,04%	2556	0,03%
Retained earnings of previous periods	-1 007 188	-14,3%	-1 284 092	-18,04%	-949 748	-11,78%
Profit for the year	-276 905	-3,9%	51 479	0,72%	390 132	4,84%
Total owners equity	**5 675 248**	80,3%	**5 726 728**	80,47%	**6425289**	79,69%
Liabilities and owners equity total	**7 067 393**	100,0%	**7 116 288**	100,00%	**8062649**	100,00%

Source: Annual Reports of Ltd. HC Betoon (2015 – 2017)

Appendix 10. Cash flow statement of Ltd. HC Betoon (2015-2017)

	2015	2016	2017
Cash flow from business			
Business profit	-276 949	51 476	390 131
Adjustments			
Depreciation	495 581	463 636	261 799
Other adjustments	0	-13 930	-50 000
Total adjustments	495 581	449 706	211 799
Prepayment changes	-33 278	522 408	-246 708
Change in inventory	52 106	-95 650	-3 511
Notes payable changes	378 176	-2 585	247 800
Total cash flow from operating activities	615 636	925 355	599 511
Total cash flow from investing activities			
Payed tangible and intangible fixed assets	0	-352 625	-97 000
Recieved tangible and intangible fixed assets	0	18 000	50 000
Given loans	-633 879	-596 716	-862 914
Recieved interests	50	3	1
Total cash flows from investing	-633 829	-931 338	-909 913

Appendix 10 continued

Cash flows from financing activities			
Other recievables from financing	0	0	308 429
Total cash flows from financing	**0**	**0**	**308 429**
Total cash flows	**-18 193**	**-5 983**	**-1 973**
Cash and equivalents at the beginning	**29 564**	**11 371**	**5 388**
Cash and equivalents change	**-18 193**	**-5 983**	**-1 973**
Cash and equivalents at the end	**11 371**	**5388**	**3 415**

Source: Annual Reports of Ltd. HC Betoon (2015 – 2017)

Appendix 11. Horizontal analysis of income statement of Ltd. Rudus (2015-2017)

	2015		2016		2017
Net sales	22 234 000	-0,88%	22 038 000	21,70%	26 820 000
Other income	73 000	80,82%	132 000	-99,24%	1 000
Change in FG and WIP	-26 000	-100,00%	0		0
Raw material and services	-17 363 000	-1,72%	-17 065 000	24,68%	-21 276 000
Operating expenses	-1 575 000	-14,86%	-1 341 000	48,55%	-1 992 000
Salary, wages expenses	-1 982 000	-2,67%	-1 929 000	-3,53%	-1 861 000
Depreciation and impairment of fixed assets	-420 000	-14,52%	-359 000	-13,09%	-312 000
Other expenses	-14 000	-42,86%	-8 000	1125,00%	-98 000
Operating income	**927 000**	58,36%	**1 468 000**	-12,67%	**1 282 000**
Profit (loss) from subsidiaries	0		94 000	-100,00%	0
Other financial revenues and expenses	35 000	222,86%	113 000	-81,42%	21 000
Net income	**962 000**	74,12%	**1 675 000**	-22,21%	**1 303 000**

Source: Annual Reports of Ltd. Rudus (2015 – 2017)

Appendix 12. Vertical analysis of income statement of Ltd. Rudus (2015-2017)

	2015		2016		2017	
Net sales	22 234 000	100,00%	22 038 000	100,00%	26 820 000	100,00%
Other income	73 000	0,33%	132 000	0,60%	1 000	0,00%
Operating income	**22 307 000**	100,33%	**22 170 000**	100,60%	**26 821 000**	100,00%
Change in final goods and work in progress	-26 000	-0,12%	0	0,00%	0	0,00%
Raw material and services	-17 363 000	-78,09%	-17 065 000	-77,43%	-21 276 000	-79,33%
Operating expenses	-1 575 000	-7,08%	-1 341 000	-6,08%	-1 992 000	-7,43%
Salary, wages expenses	-1 982 000	-8,91%	-1 929 000	-8,75%	-1 861 000	-6,94%
Depreciation and impairment of fixed assets	-420 000	-1,89%	-359 000	-1,63%	-312 000	-1,16%
Other expenses	-14 000	-0,06%	-8 000	-0,04%	-98 000	-0,37%
Total operating expences	**-21 380 000**	-96,16%	**-20 702 000**	-93,94%	**-25 539 000**	-95,22%
Operating income	**927 000**	4,17%	**1 468 000**	6,66%	**1 282 000**	4,78%
Other financial revenues and expenses	35 000	0,16%	113 000	0,51%	21 000	0,08%
Net income	**962 000**	4,33%	**1 675 000**	7,60%	**1 303 000**	4,86%

Source: Annual Reports of Ltd. Rudus (2015 – 2017)

Appendix 13. Horizontal analysis of balance sheet of Ltd. Rudus (2015-2017)

	2015	**2016**		**2017**	
Cash	48000	68000	41,67%	97000	42,65%
Accounts recievable	2030000	2200000	8,37%	2 418 000	9,91%
Other requierments	14861000	18000	-99,88%	11000	-38,89%
Prepaid expenses	43000	63000	46,51%	29000	-53,97%
Inventory	815000	649000	-20,37%	659000	1,54%
Claims against related parties	3286000	19891000	505,33%	21 877 000	9,98%
Total current assets	**21083000**	**22889000**	8,57%	**25091000**	9,62%
Long term investments	0	9000		0	-100,00%
Property plant and equip	3 060 000	2 729 000	-10,82%	2192000	-19,68%
Total assets	**24 143 000**	**25 627 000**	6,15%	**27283000**	6,46%

Appendix 13 continued

Liabilities					
Short term debt	0	0		0	
Accounts payable	1 426 000	1 288 000	-9,68%	1 621 000	25,85%
Taxes payable	223000	202000	-9,42%	202000	0,00%
Wages payable	275000	242000	-12,00%	263000	8,68%
Accrued expenses	0	0		0	
Buyer advances	0	0		0	
Short term liabilities total	**1924000**	**1732000**	-9,98%	**2086000**	20,44%
Long term liabilities	0	0		0	
Long term debt	0	0		0	
Total Liabilities	**1924000**	**1732000**	-9,98%	**2086000**	20,44%
Equity					
Share equity in nominal value	452000	452000	0,00%	452000	0,00%
Unregistered registered capital with premiums written					
Share premium	3555000	3555000	0,00%	3555000	0,00%
Mandatory reserv capital	255000	255000	0,00%	255000	0,00%

Appendix 13 continuned

Retained earnings of previous periods	16 995 000	17 957 000	5,66%	19 632 000	9,33%
Profit for the year	962000	1 675 000	74,12%	1 303 000	-22,21%
Total owners equity	**22219000**	**23894000**	7,54%	**25197000**	5,45%
Liabilities and owners equity total	**24143000**	**25626000**	6,14%	**27283000**	6,47%

Source: Annual Reports of Ltd. Rudus (2015 – 2017)

Appendix 14. Vertical analysis of balance sheet of Ltd. Rudus (2015-2017)

	2015		**2016**		**2017**	
Cash	48000	0,20%	68000	0,27%	97000	0,36%
Accounts recievable	2030000	8,41%	2200000	8,58%	2 418 000	8,86%
Other requierments	14861000	61,55%	18000	0,07%	11000	0,04%
Prepaid expenses	43000	0,18%	63000	0,25%	29000	0,11%
Inventory	815000	3,38%	649000	2,53%	659000	2,42%
Claims against related parties	3286000	13,61%	19891000	77,62%	21 877 000	80,19%
Total current assets	**21083000**	87,33%	**22889000**	89,32%	**25091000**	91,97%
Long term investments	0	0,00%	9000	0,04%	0	0,00%
Property plant and equip	3 060 000	12,67%	2 729 000	10,65%	2192000	8,03%
Total assets	**24 143 000**	100,00%	**25 627 000**	100,00%	**27283000**	100,00%
Liabilities						
Short term debt	0		0		0	
Accounts payable	1 426 000	5,91%	1 288 000	5,03%	1 621 000	5,94%
Taxes payable	223000	0,92%	202000	0,79%	202000	0,74%
Wages payable	275000	1,14%	242000	0,94%	263000	0,96%
Accrued expenses	0		0		0	
Buyer advances	0		0		0	
Short term liabilities total	**1924000**	7,97%	**1732000**	6,76%	**2086000**	7,65%
Long term liabilities	0	0,00%	0	0,00%	0	0,00%
Long term debt	0	0,00%	0	0,00%	0	0,00%

Appendix 14 continued

Total Liabilities	**1924000**	7,97%	**1732000**	6,76%	**2086000**	7,65%
Equity						
Share equity in nominal value	452000	1,87%	452000	1,76%	452000	1,66%
Unregistered registered capital with premiums written						
Share premium	3555000	14,72%	3555000	13,87%	3555000	13,03%
Mandatory reserv capital	255000	1,06%	255000	1,00%	255000	0,93%
Retained earnings of previous periods	16 995 000	70,39%	17 957 000	70,07%	19 632 000	71,96%
Profit for the year	962000	3,98%	1 675 000	6,54%	1 303 000	4,78%
Total owners equity	**22219000**	92,03%	**23894000**	93,24%	**25197000**	92,35%
Liabilities and owners equity total	**24143000**	100,00%	**25626000**	100,00%	**27283000**	100,00%

Source: Annual Reports of Ltd. Rudus (2015 – 2017)

Appendix 15. Cash flow statement of Ltd. Rudus (2015-2017)

	2015	**2016**	**2017**
Cash flow from business			
Business profit	927000	1 468 000	1 282 000
Adjustments			
Depreciation	420000	359000	312000
Other adjustments	-72000	-131000	82000
Total adjustments	348000	228000	394000
Prepayment changes	-255000	-189000	-182000
Change in inventory	-25000	166000	-10000
Notes payable changes	-85000	-191000	354000
Interest paid			
Total cash flow from operating activities	910000	1 482 000	1838000
Total cash flow from investing activities			
Payed tangible and intangible fixed assets	-26000	-27000	-18000
Recieved tangible and intangible fa	72000	98000	160000
Paid to subsidiaries	0	-15681000	0
Loans given	-1 759 000	-1 746 000	0
Interest recieved	35000	111000	19000
Dividends recieved	0	15775000	0

Appendix 15 continued

Other payouts from investing	0	0	-1986000
Other reciavables from investing	0	8000	16000
Total cash flows from financing	**-1 678 000**	**-1 462 000**	**-1809000**
Total cash flows	**-768000**	**20000**	**29000**
Cash and equivalents at the beginning	**816000**	**48000**	**68000**
Cash and equivalents change	**-768000**	**20000**	**29000**
Cash and equivalents at the end	**48000**	**68000**	**97000**

Source: Annual Reports of Ltd. Rudus (2015 – 2017)

Appendix 16. Estonian concrete market (2005-2017)

th. M3	**Rudus**	**HC**	**Betoon**	**Other**	**Estoni**	**%**	**Rudus**	**HC**	**Betoon**	**Other**	**Estoni**
2005	210	255	25	210	700	**2005**	30,0%	36,4%	3,6%	30,0%	100%
2006	260	200	80	270	810	**2006**	32,1%	24,7%	9,9%	33,3%	100%
2007	270	190	115	265	840	**2007**	32,1%	22,6%	13,7%	31,5%	100%
2008	210	135	110	145	600	**2008**	35,0%	22,5%	18,3%	24,2%	100%
2009	103	105	60	92	360	**2009**	28,6%	29,2%	16,7%	25,6%	100%
2010	97	105	65	85	352	**2010**	27,6%	29,8%	18,5%	24,1%	100%
2011	140	120	78	105	443	**2011**	31,6%	27,1%	17,7%	23,7%	100%
2012	160	150	87	93	490	**2012**	32,7%	30,6%	17,8%	19,0%	100%
2013	159	160	95	109	523	**2013**	30,4%	30,6%	18,2%	20,8%	100%
2014	151	160	105	103	519	**2014**	29,1%	30,8%	20,2%	19,8%	100%
2015	164	146	118	102	530	**2015**	30,9%	27,5%	22,3%	19,2%	100%
2016	184	181	169	90	624	**2016**	29,4%	29,0%	27,2%	14,4%	100%
2017	205	201	202	84	692	**2017**	29,6%	29,0%	29,2%	12,2%	100%

Source: Estonian Concrete Association (2015-2017)

Appendix 17. Interview with Betoonimeister financial manager Mr. Sander Rebane

1. In 2007 (10 years ago) Betoonimeister had a market share 22,6% and in 2017 32,4%. How did Betoonimeister manage to grow its market share over the 10 years?

In 2007 Betoonimeister had the newest and most modern plants, mixer trucks, pumps etc. compered to competitors. Combined with strong financial controlling shareholder and skilled management (who are also shareholders in company), it gave us flexibility to make fast strategical decisions during the crisis and afterwards. Our main competitors are part of international cement consortiums where decisions making process is vertical and time-consuming resulting in inability to react quickly to the market changes. When market started to grow again after 2009-2010, we were more aggressive. Also finding the right people was and will continue to be a challenge, labour shortages in Estonia has become more severe, but Betoonimeister was successful in keeping top management people in office and in the plant sites in company through the crisis and up to present day.

2. How did buying a new factory in 2016 affected your financial results in the next two years? Was it already a working factory?

The financials improved – profit and margins improved significantly; sales volumes rose in Tartu area as we got bigger market share. The factory was already working, we took over the running business together with all labour force working in the unit.

3. Did the new factory buying was planned long before?

No, it was not planned long before. TMB owners decided to focus only on concrete element production and it was TMB strategical decision to divest ready-mix concrete production unit in Tartu. Betoonimeister grabbed the opportunity and after quick negotiations with the seller we concluded the TMB ready-mix business unit assets buyout deal.

4. Does the company have a plan to expand to markets outside Estonia?

No, we do not have expansion plan outside Estonia. Estonia is our core market, we know the local market, competitors, clients. Going abroad will not give us extra synergy. We will focus on Estonian market, looking for opportunities in Pärnu area, where to build up the plant if Rail Baltic infrastructure project will start.

Appendix 17 continued

5. How is the competition in Estonian market in your opinion?

The ready-mix concrete market has witnessed a steady growth rate during the period 2010-2019. Main problem is price competition. The competition is very intense, big clients are very price sensitive and it is hard to implement price increases to offset the cost inflation what results in narrowing margins.

6. What is the Company's marketing strategy?

We know our big clients and target customers and they know us, we are not spending a lot of advertising and marketing money on them. From marketing point of view the main question (strategy plan) is how to reach small clients. We use mainly the internet – google Ads, Internet campaigns to lead small clients to visit our webpage.

7. In Your opinion is it easier in Estonia to operate as fully Estonian funded company or rather someone from outside?

In our case post crisis experience has shown that Estonian funded company with decision making on site has competitive edge – it gives more flexibility and ability to react quickly to market changes, fluctuations on volumes, client demands etc.

8. What do You think is going to happen in the concrete market in Estonia in the next 5-10 years? Will Betoonimeister show its constant market growth even then or will the market share stay the same as currently?

Estonian ready-mix concrete industry is dominated by three major participants – HC Betoon, Rudus and Betoonimeister. Betoonimeister has steadily grown his market share and in the future, we will focus more on improving margins, we would like to have higher EBITDA instead of going after even bigger market share.

9. Are there any newcomer companies who might also manage to grow its market share in future to reach into the level of three biggest companies right now?

High initial investments for setting up manufacturing plants combined with price pressure and shrinking margins will keep back possible newcomers from entering the market. But rising government spending on new highways and Rail Baltic could lead to market expansion over the upcoming years, it could bring some newcomers. In our opinion they are big foreign construction

Appendix 17 continued

companies who may bring on the constructions sites small movable plants what will be dismantled and taken away after constructions are finished.

The biggest threat for us could be Schwenk Zement who bought from Cemex big cement plant in Broceni and several ready-mix plants situated in Latvia and now maybe would like to expand ready-mix business to Estonia.

Source: Rebane 2019