THOMAS COOK[1]

1. HISTORY OF THE FIRM

Thomas Cook was an English businessman who created in 1845 the first travel agency in history. At the time it was the first company to carry out an organized trip and despite not obtaining benefits, Cook trusted the future of the business. The first years it only operated in England, but from 1855 the company began offering vacation packages in various countries in Europe.

At the beginning of the 20th century, the company expanded its vacation destinations, including Africa and some cities in the United States in its lists. It was a pioneer in creating both lines and thanks to this it obtained great benefits. During World War II, the company was bought by the English state for fear that it would be controlled by the Nazis. This gives us an insight into how important the company was to the English economy. Around 1972 the company was completely liberalized again.

In 2001, the German company C&N Touristic AG buys Thomas Cook & Son, forming Thomas Cook AG. in order to take advantage of synergies in terms of cost savings. From here, this business absorption began to operate in two different segments: one as a tour operator and the other as an airline. The company, thanks to both its English and German roots and its economic potential, was listed on both the London and Frankfurt Stock Exchanges at the same time.

[1] Case developed by Abel Real Ambrinos, Meritxell Ibáñez Torres and Luis Monzón Holguín.

In addition, after the union of both companies, the purchase of numerous tourist companies was carried out, such as the booking website Hotels4U.com, Elegant Resort, Öger Tours, among others.

From 2010 the situation began to be unsustainable. The debts contracted from previous purchases along with the mismanagement by the company's administrators led the English company to bankruptcy in 2018.

	2014	2015	2016	2017	2018
Sales (million €)	8.588	7.834	7.810	9.006	9.584
Expenses (million €)	8.435	7.591	7.580	8.742	9.484
Final Profit (million €)	-118	23	4	10	-163
Assets (million €)	5.794	5.958	6.943	6.605	6.569
Liabilities (million €)	3.894	3.702	4.633	4.339	4.222
Dividends per share	0	0	0	0.5	0.6

Figure 1: Relevant data between 2014 and 2018.

Thomas Cook was created in a moment in which the middle class demanded leisure services and tourism, all that was favoured by the increase in the income per capita that took place in the United Kingdom at the end of the XIX century. Hence, we can say that Thomas Cook took profit of the advantages of the context in which the company operated. Its most important economic activity it was located in the United Kingdom, although the company also get some space in other countries like for examples in Germany, where it was established a branch. Thomas Cook achieved to establish a business network that expanded around the world, accumulating hundreds of physical shops, and thousands of workers. Its logo is recognizable by almost all the citizens in the United Kingdom because of the longevity of the company. In order to fully understand the survival and growth of so many years, it is necessary to analyze key factors that lead the company to the success.

Their products were sold through their agencies (they arrived to have 555). This establishments were located not only in the most crowded streets of the United Kingdom but also in the peripheral neighbourhoods. By doing this, the company was trying to reach the maximum public as possible, and they also wanted to create an appearance of proximity.

The tour operator stood out for its longevity in the sector, and this guaranteed the trust of the clients, that booked package holidays until the last moment of the long live of the company. The destinations of the package holidays were so wide ranging that the firm sold travels around the world, they were also adapted to the budgets of the majority of people, fact that allowed an increase in the market share. With the opening of their own airline they were able to offer flights and create a space in the aeronautical market. So, although their main product were holiday packages, their intention was to occupy a greater market share lead them to diversify and offer from flights or rental car to insurances of travels.

The last flight took place the 9th of October of 2019, this provoked the definitive cease of the activity of the company due to the grave insolvency problems, which forced the bankruptcy of the company. The Chinese group Fosum, acquired a part of the brand and most of the possessions of Thomas Cook. In relation with the rest of the assets, are being liquidated according to the law, in order to defray the costs originated by the severance pays.

2. ANALYSIS OF THE INDUSTRY AND ITS COMPETITORS

The tour operator industry is basically in charge of selling flights, accommodation and experiences. Traditionally, this business was carried out in person but, in recent years, this business model has become online in order to adapt to new current challenges and thus reach a wider audience and, above all, to reduce costs.

The airline sector is the industry in charge of air freight and passenger transport and, despite being a booming sector, it has weaknesses due to strict regulations, such as the fight against climate change or the high security required.

The Thomas Cook company had a presence in both the tour operator and airline sectors, since it was vertically integrated. However, Thomas Cook excelled in the tour operator sector.

For all of the above, Thomas Cook's competition was the airlines and those that were dedicated to the organization and sale of trips. But we believe that, obviously, within the sector, there are very different business models and that, therefore, it would be very extensive to analyze all the companies in the sector. That is why, next, we will analyze Thomas Cook's tour operator competition:

- **TUI:** It was the biggest competition of Thomas Cook (it surpassed it in 2012) and is currently the largest tour operator in the world. Initially it was an industrial and transport group but in the mid-1990s it decided to invest in tourism. It is currently the largest group in the tourism sector worldwide, being present throughout the European Union. TUI has travel agencies, receptive agencies, hotels, airlines, cruise ships and tour operators, as well as being a major maritime container ship company (the 5th worldwide).
- **AirBnB:** is a company that offers a software platform dedicated to the rental of private accommodation, and which functions as a link between the host and the guest. It also offers experiences. The only thing it does not offer is the possibility of contracting flights.
- **Booking.com:** is an online platform that acts as a search engine for apartments and hotels, allowing the user to filter according to budget, location or score by other users.

We also want to highlight the importance of other online flight or accommodation search platforms that, although they do not have the same weight as Booking.com or AirBnB, were also the direct competition of Thomas Cook. These companies are Expedi On The Beach, Jet2Holidays and British Airways Holidays, among others.

2.1. WHY DID THE COMPETITION OVERTOOK THOMAS COOK?

We will now describe the main disadvantages that Thomas Cook suffered and that were harmful to his business as they served the competition to position himself advantageously in the tourism sector:

Problem # 1: The technology.

Thomas Cook was late to update his business model. The company had a too high number of premises and travel agencies located in areas with excessively high rents. This was beneficial on the one hand to the company as it gave it a very good reputation but on the other hand the costs of maintaining it were very high. If Thomas Cook had made his business a more technological one, it could have reached a wider audience.

In addition, online sales currently already contribute more than 30% of the turnover of travel agencies, according to the conclusions of the Sectors Study *Tour Operators and Travel Agencies*, published by the Informal DBK Sector Observatory. This Thomas Cook could not see; otherwise, it could have reduced the costs of travel agencies and opted for a powerful website that positioned it as the first in the sector.

Problem # 2: The high costs of running an airline.

Most of Thomas Cook's competition did not operate flights directly. It was from the year 2000 that the company began its journey in the aeronautical sector accumulating shares of the German airline Condor and later founded its own under the name of Thomas Cook Airlines. This was a great challenge for the company because although it is difficult to manage a travel agency (especially at a time when the tourism sector was revolutionized with the appearance of Internet), it is also difficult to run an airline due to the high costs involved: entry barriers, purchase of airplanes or competing in a sector with low profit margins.

In addition, it was beneficial to them in the holiday seasons since they could transport their own clients, however, this strategy did not work in times of low season when the airline had to propose various alternatives since the travel agency was not able to fill the airplanes.

At this point we can say that Thomas Cook specialized as a travel agency, as an airline and to a lower degree as a hotel chain. Tui, on the other hand, the company's main rival, chose to further diversify and, in addition to be a travel agency, dared to invest not only in hotel complexes and in its own airline, but also acquired cruises. Today, Tui ensures that 70% of its benefits come from the naval tourism sector and its wide range of hotels around the world; only 30% of them are generated by the agency and by the airline itself.

Problem # 3: Vacation packages in decline.

On the other hand, we can emphasize how unattractive their strategy was for millennials and subsequent generations, because today, internet access is enough for you to organize your own vacation. In fact, pages like Booking.com offer this service. In addition to be a more original method, it allows you to personally compare the different prices of the services offered and, above all, personalize the activities. Thus, a certain detachment is appreciated for the vacation packages in which the travel itinerary is already designed and offers little room for change.

Problem # 4: Brexit.

Thomas Cook's critical situation was further exacerbated by Brexit, which while also affecting competition, is not at the epicenter of the political problem like Thomas Cook. The British, the company's main clientele, decided to postpone their holidays last summer as a direct consequence of the uncertainty caused by the UK's departure from the EU. By operating mostly with the British pound, in addition, it was also the victim of the multiple shocks that this currency suffers and that weakens it compared to other currencies; especially with the dollar and remember that the fuel for your aircraft is purchased with the latter.

2.2 SWOT ANALYSIS OF THE TOUR OPERATOR SECTOR

WEAKNESSES	**THREATS**
1. High maintenance costs 2. High personnel costs 3. Generally, it is a fairly seasonal business 4. New competitors entering the sector with a more attractive business model.	1. Decaying business model 2. New competitors more adapted to new customer needs 3. Unattractive business model for new generations
STRENGTHS	**OPPORTUNITIES**
1. Business model with a high possibility of adaptation and reinventing itself. 2. High profit margins	1. Opportunity to reach a wider audience through the internet 2. Cost reduction if sales and marketing strategies are applied through digital channels.

2.3 SWOT ANALYSIS OF THE AIRLINES SECTOR

WEAKNESSES	THREATS
1. Very high competence 2. High fixed costs 3. In the case of *low-cost* firms, low profit margin.	1. Very strong regulations (environmental-friendly regulations, for instance)
STRENGTHS	**OPPORTUNITIES**
1. Possibility of merge to other companies	1. Booming sector 2. High demand of transporting goods (due to online purchases)

3. PROBLEMS AND CHALLENGES OF THE COMPANY

As the company is in bankrupt today, we will focus on that could have led to such an insolvent situation.

First of all, the company possessed a great number of non-profitable fixed assets. Thomas Cook had many hard assets compared to its competitors. Therefore, we can talk about a comparative disadvantage. This was a huge problem that the company could have tackled with by selling off part of its non-current assets and making layoffs. We will develop further this section later in order to analyze precisely the role the ROA and the asset rotation ratio played.

Another challenge that the company had to deal with was its out-of-date way of doing business based on selling its products physically whilst there were companies already selling the same products digitally. Thomas Cook's system had worked so far, but the customers' preferences increasingly changed and started booking their trips through online platforms.

On the other hand, it is important to remember the large amount of debt Thomas Cook had. The debt plus the loss of shareholder's confidence were undoubtedly the biggest challenges the company had to deal with. Thomas Cook's short term debt was so considerable that caused serious problems of immediate liquidity. As we will see later, current liabilities represented a large part of the company's total debt, making the situation both unsustainable and critical.

Another great challenge was a political one, Brexit. Even though the referendum on the situation of the United Kingdom respect to the European Union was celebrated in 2016. The uncertainty provoked for such a context affected negatively Thomas Cook as it did to many other European firms.

Furthermore, as we can see on the graph attached at the end of this paragraph, there was another problem related to the marginal income. The net marginal income had been falling since 2007, it even became negative in 2010. This downward trend was really dangerous and although Thomas Cook's managers focused on it, they did not manage to overcome.

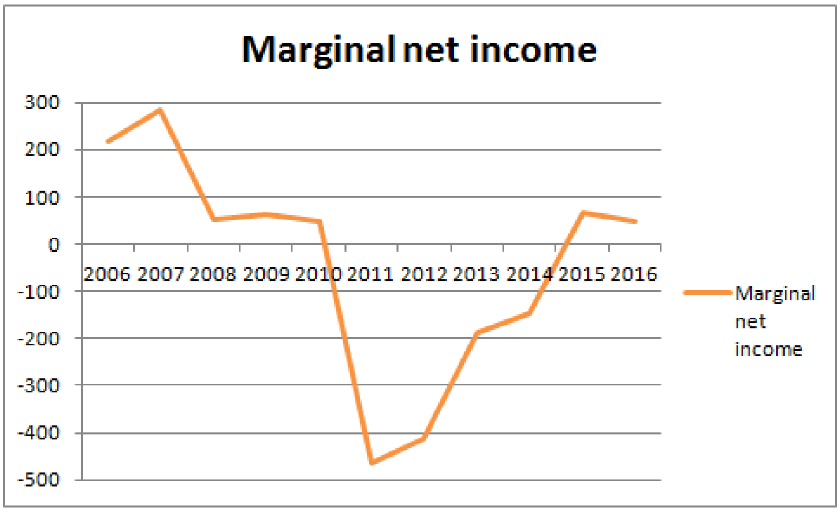

Figure 2: Marginal Net Income from 2006 to 2016.

4. FINAL QUESTIONS

4.1. Identify the main weaknesses, strengths, threats and opportunities of Thomas Cook.

4.2. Comment on the working capital of the firm.

4.3. Has the management of the assets in which the company has been invested been efficient?

4.4. Was Thomas Cook an attractive company for investors?

4.5. Analysis of the liquidity, solvency, debt and leverage of the company.

4.6. Comment on growth and self-funding.

APPENDIX

Balance sheet 2006-2011	2006	2007	2008	2009	2010	2011
Non-current assets	2556,1	6028,5	5190,0	6058,9	6304,4	5804,6
Intangible assets	1214,3	4126,8	3609,7	4250,8	4448,4	4143,2
Tangible fixed assets	875,4	1198,2	958,3	1118,6	1171,4	1093,5
Other fixed assets	466,4	703,5	622,0	689,6	684,5	567,9
Current assets	1386,2	2303,2	2181,9	1903,4	1712,7	2003,1
Inventories	10,5	27,4	25,4	30,4	37,3	45,2
Other currents assets	639,7	1383,0	1357,2	1253,5	1280,9	1538,6
Cash and cash equivalent	736,0	892,8	799,3	619,5	394,5	419,3
Total Assets	3942,3	8331,7	7371,9	7962,3	8017,1	7807,7
Shareholder Funds	598,1	3042,4	2108,6	1944,8	2024,7	1380,9
Capital	842,7	97,7	62,8	65,0	67,0	69,1
Other shareholder funds	-244,6	2944,7	2045,8	1879,9	1957,6	1311,8
Non-current liabilities	1252,3	1541,7	1326,3	1326,2	2059,8	2010,7
Long term borrowings	167,8	187,0	436,9	361,3	1111,1	1129,5
Obligations under finance leases	513,1	515,3	239,7	53,7	74,9	72,5
Other non-current liabilities	571,4	839,4	649,8	911,2	873,7	808,7
Current liabilities	2091,9	3747,6	3936,9	4691,3	3932,7	4416,1
Borrowings	17,5	74,7	72,9	91,1	108,3	114,0
Other current liabilities	865,7	1626,8	1915,4	2455,5	1708,5	1033,9
Trade and other payables	1208,7	2046,1	1948,6	2144,7	2115,9	3268,1
Total shareholder funds and liabilities	3942,3	8331,7	7371,9	7962,3	8017,1	7807,7

Figure 12: Balance Sheets of Thomas Cook from 2006 to 2011 (data in millions of €).

Balance sheet 2012-2016	2012	2013	2014	2015	2016
Non-current assets	5370,0	5220,1	5090,7	5345,1	5021,2
Intangible assets	3870,6	3783,8	3688,6	3806,8	3593,9
Tangible fixed assets	1030,2	960,7	969,3	1099,5	991,6
Other fixed assets	469,2	475,6	432,7	438,7	435,7
Current assets	1867,6	2318,5	2348,3	2772,7	3102,2
Inventories	37,4	33,8	43,7	43,6	50,2
Other currents assets	1266,2	978,7	996,3	956,5	977,6
Cash and cash equivalent	564,0	1306,0	1308,3	1772,6	2074,4
Total Assets	7237,6	7538,6	7438,9	8117,8	8123,4
Shareholder Funds	561,1	657,4	365,9	501,4	456,7
Capital	73,5	82,0	88,6	94,0	80,6
Other shareholder funds	487,5	575,4	277,3	407,4	376,1
Non-current liabilities	2338,9	2437,5	2073,5	2572,4	2258,9
Long term borrowings	1197,9	1336,0	918,0	1414,3	989,3
Obligations under finance leases	245,8	218,3	188,7	201,7	164,7
Other non-current liabilities	895,2	883,2	966,8	956,5	1104,9
Current liabilities	4337,7	4443,7	4999,5	5044,0	5407,8
Borrowings	46,3	211,7	576,5	298,4	1040,7
Other current liabilities	1830,4	1838,7	1748,7	2049,2	1824,4
Trade and other payables	2461,0	2393,2	2674,4	2696,4	2542,7
Total shareholder funds and liabilities	7237,6	7538,6	7438,9	8117,8	8123,4

Figure 13: Balance Sheets of Thomas Cook from 2012 to 2016 (data in millions of €).

Income statement 2006-2011	2006	2007	2008	2009	2010	2011
Revenue	7780,20	9439,30	8516,26	10436,67	10328,52	11447,97
Cost of providing tourism services	(5966,7)	(7207,6)	(6551,27)	(7968,14)	(7932,07)	(9000,91)
Gross profit	1813,50	2231,70	1964,99	2468,53	2396,44	2447,06
Personnel expenses	(840,4)	(1085)	(941,03)	(1223,74)	(1238,01)	(1311,00)
Net operating expenses	(700,1)	(796,4)	(694,82)	(827,61)	(748,90)	(1207,95)
Depreciation and amortisation	(156,7)	(154,2)	(134,39)	(188,72)	(177,52)	(195,02)
Others	101,9	31,4	(53,33)	(43,58)	(37,99)	(45,40)
Profit from operations (EBITDA)	218,20	227,50	141,42153	184,8892	194,0206	-312,31596
Finance income	76,40	109,30	71,81	57,65	60,53	55,90
Finance costs	(101,8)	(110)	(161,26)	(174,19)	(208,08)	(213,23)
Others	26,20	57,50	(1,15)	(5,18)	1,98	3,73
Profit before tax (EBT)	219,00	284,30	50,82	63,17	48,45	(465,91)
Tax	(39,2)	(58,8)	5,04	(42,56)	(45,19)	(139,82)
Profit for the year	179,80	225,50	55,85	20,61	3,25	(605,72)

Figure 14: Income Statement of Thomas Cook from 2006 to 2011 (data in millions of €).

Income statement 2012-2016	2012	2013	2014	2015	2016
Revenue	11266,63	11172,74	11026,13	10673,83	9124,42
Cost of providing tourism services	(8777,56)	(8749,39)	(8627,81)	(8259,48)	(6996,32)
Gross profit	2489,07	2423,35	2398,33	2414,35	2128,10
Personnel expenses	(1356,53)	(1290,54)	(1205,58)	(1207,18)	(1075,73)
Net operating expenses	(890,79)	(864,48)	(812,71)	(651,28)	(557,14)
Depreciation and amortisation	(205,73)	(205,95)	(222,11)	(238,44)	(238,27)
Others	(244,45)	(46,78)	(88,59)	(29,98)	(17,52)
Profit from operations (EBITDA)	-208,42	15,59	69,33	287,49	239,44
Finance income	58,94	57,10	12,84	13,63	7,01
Finance costs	(265,15)	(263,17)	(231,10)	(243,89)	(197,39)
Others	1,96	0,84	2,57	10,90	0,00
Profit before tax (EBT)	(412,68)	(189,64)	(146,36)	68,13	49,06
Tax	(127,55)	(59,38)	(1,28)	(42,24)	(38,54)
Profit for the year	(540,23)	(249,02)	(147,65)	25,89	10,51

Figure 15: Income Statement of Thomas Cook from 2012 to 2016 (data in millions of €).

Cash flow 2006-2011	2006	2007	2008	2009	2010	2011
Cash generated by operations	227,00	281,50	441,90	230,49	376,54	374,52
Income taxes paid	(44,30)	(43,90)	(66,88)	(29,95)	(28,70)	(37,70)
Net cash from operating activities	182,70	237,60	375,02	200,54	347,84	336,83
Dividends received from associates	6,00	0,00	0,00	0,00	0,00	6,89
Proceeds on disposals	206,40	180,90	13,86	26,91	9,06	20,19
Purchase of subsidiaries	0,00	265,90	(311,19)	(80,17)	(31,60)	(22,41)
Purchase of tangible and financial assets	(48,30)	(35,60)	(86,30)	(147,51)	(227,83)	(138,30)
Purchase of intangible assets	(28,20)	(58,60)	(63,20)	(77,13)	(90,39)	(79,36)
Movement of non-current assets	0,00	(7,20)	0,00	(5,40)	4,30	5,49
Purchase/Disposal of short-term securities	(59,60)	(294,00)	140,79	141,09	(0,35)	0,00
Additional loan investments	0,00	0,00	0,00	(4,17)	(1,39)	(0,70)
Net cash from investing activities	76,30	51,40	(306,05)	(146,38)	(338,20)	(208,21)
Interest paid	(49,70)	(47,40)	(57,95)	(115,53)	(75,63)	(114,73)
Dividends paid to shareholders	(1,80)	0,00	(84,10)	(98,41)	(69,36)	(107,37)
Draw down of borrowings	0,00	0,00	768,84	204,82	1298,89	566,04
Repayment of borrowings	(114,70)	(22,50)	(232,76)	(145,14)	(1114,75)	(415,49)
Repayment of finance lease obligations	(34,30)	(68,30)	(95,86)	(196,37)	(229,34)	(19,49)
Purchase of own shares	0,00	(7,30)	(260,17)	(53,03)	0,00	0,00
Proceeds from issues of ordinary shares	0,00	10,60	2,31	0,00	0,00	0,00
Expenses of issue of ordinary shares	0,00	(17,90)	0,00	0,00	0,00	0,00
Net cash used in financing activities	(200,50)	(152,80)	40,32	(403,67)	(190,19)	(91,03)
Net increase in cash and cash equivalents	58,50	136,20	109,29	(349,51)	(204,36)	32,45
Cash and cash equivalents at beginning of year	670,90	733,70	625,74	841,69	589,03	369,74
Effect of foreign exchange rate changes	4,30	(14,90)	49,77	78,71	(14,30)	(3,38)
Cash and cash equivalents at end of year	733,70	855,00	784,80	570,88	370,37	398,80

Figure 16: Cash Flow Statement from 2006 to 2011 (data in millions of €).

Cash flow 2012-2016	2012	2013	2014	2015	2016
Cash generated by operations	228,89	482,44	471,19	670,35	474,21
Income taxes paid	(34,68)	(37,18)	(41,08)	(24,53)	(17,52)
Net cash from operating activities	194,21	445,25	430,11	645,83	456,69
Dividends received from associates	0,00	3,00	2,57	0,00	0,00
Proceeds on disposals	192,00	(40,18)	102,71	27,25	10,51
Purchase of subsidiaries	39,70	(2,88)	(5,14)	0,00	0,00
Purchase of tangible and financial assets	(118,73)	(123,31)	(151,50)	(177,13)	(136,66)
Purchase of intangible assets	(50,73)	(56,98)	(48,79)	(95,38)	(103,95)
Net cash from investing activities	62,25	(220,35)	(100,14)	(245,25)	(230,10)
Interest paid	(142,75)	(164,93)	(178,46)	(182,58)	(157,68)
Dividends paid to shareholders	(40,80)	0,00	(5,14)	(8,18)	0,00
Draw down of borrowings	1065,03	1642,72	160,49	764,36	183,38
Repayment of borrowings	(1140,14)	(1299,78)	0,00	(613,13)	(397,12)
Repayment of finance lease obligations	(28,79)	(38,74)	(56,49)	(47,69)	(44,38)
Purchase of own shares	0,00	(19,31)	(11,56)	0,00	0,00
Payment of facility set-up fees	(35,90)	(45,46)	(267,05)	(24,53)	0,00
Proceeds from issues of ordinary shares	0,98	495,99	0,00	125,35	0,00
Proceeds on sale and finance leaseback	232,07	0,00	0,00	0,00	0,00
Net cash used in financing activities	(90,30)	570,48	(358,21)	13,63	(415,81)
Net increase in cash and cash equivalents	160,39	761,56	(26,96)	414,20	(192,72)
Cash and cash equivalents at beginning of year	418,69	543,97	1399,45	1385,66	1502,05
Effect of foreign exchange rate changes	(23,40)	2,40	(66,76)	(47,69)	131,98
Cash and cash equivalents at end of year	555,67	1307,93	1305,73	1752,18	1441,31

Figure 17: Cash Flow Statement from 2012 to 2016 (data in millions of €).

Ratios	2006	2008	2010	2012	2014	2016	Formula
Liquidity							
Liquidity Ratio	0,66	0,55	0,44	0,43	0,47	0,57	CA/CL
Cash Ratio	0,35	0,20	0,10	0,13	0,26	0,38	Cash and cash equivalent/CL
Acid Test Ratio	0,66	0,55	0,43	0,42	0,46	0,56	(CA-Inventories)/CL
Operating Cash Flow Ratio	0,09	0,10	0,09	0,04	0,09	0,08	Operating cash flow/CL
Leverage							
Debt to Equity Ratio	5,59	2,50	2,96	11,90	19,33	16,79	L/SE
Interest Coverage Ratio	4,39	2,44	2,57	1,46	-0,39	-1,52	Operating income/Interest expenses
Leverage	-1,09	-2,72	-4,00	-5,56	-5,10	-4,40	(A/SE)*(EBIT/EBIT)
Growth							
Return on Equity	0,30	0,03	0,00	-0,96	-0,40	0,02	Net income/SE
ROA	0,06	0,02	0,02	-0,03	0,01	0,03	EBIT/A
ROE	0,82	0,39	0,02	2,59	-2,13	0,04	Net income/EBITDA
Debt							
Debt quality	0,63	0,75	0,66	0,65	0,71	0,71	CL/L
Indebtedness	0,57	0,59	0,63	0,92	0,95	0,94	L/A

Figure 18: Thomas Cook's ratios analyzed every two years in a period of 11 years.

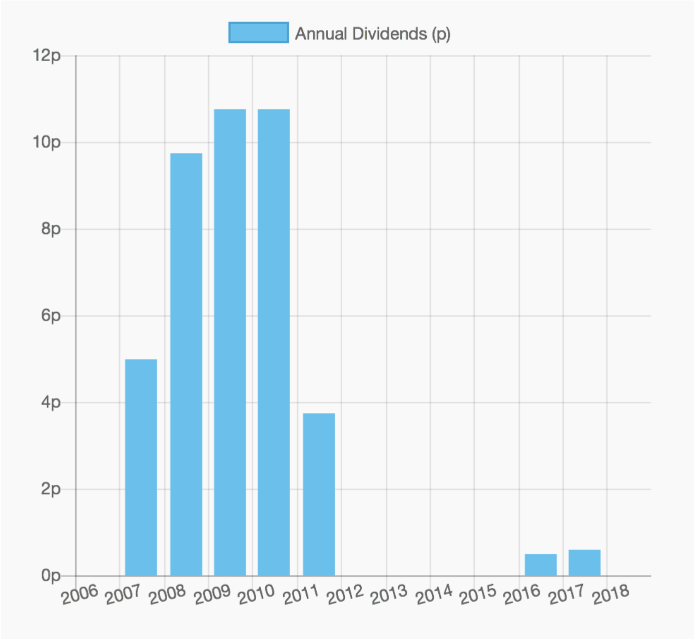

Figure 18: Annual dividends from 2006 to 2018[2].

[2] https://www.dividendmax.com/united-kingdom/london-stock-exchange/travel-and-leisure/thomas-cook-group/dividends

FINAL QUESTIONS AND ANSWERS

4.1. IDENTIFY THE MAIN WEAKNESSES, STRENGTHS, THREATS AND OPPORTUNITIES OF THOMAS COOK.

WEAKNESSES	THREATS
1. High rent costs of the offices 2. Weak and underdeveloped computer system 3. Joined different sectors (for instance, the hotelier) too late. 4. High staff costs. 5. Decaying business model. 6. Reduced target of clients (young people stopped buying Thomas Cook trips). 7. Very reduced marginal revenues.	1. Airlines sector has not a loyal set of customers. 2. Very high number of competitors (limited market share. 3. Uncertainty of the sector. 4. Context of unstable demand when prices change 5. The existence of face-to-face agencies is less and less necessary. Online travel sales rank among the most effective methods. 6. The sector faces a big problem related with environmental respectful policies. 7. Uncertainty due to Brexit.
STRENGTH	**OPPORTUNITIES**
1. Optimal location of its agencies. 2. Association of the brand with prestige. 3. Well-diversified product portfolio. 4. Affordable prices. 5. Customization and flexibility of trip packages. 6. Worldwide presence. 7. Well recognized brand over the world.	1. Air transport is increasingly used, it is a booming sector not only for passengers but also for carrying goods. 2. People demand more international journeys in which flying is necessary.

4.2. COMMENT ON THE WORKING CAPITAL OF THE FIRM.

By analyzing the differences between current assets and current liabilities, we find that in most of the past years, Thomas Cook had a negative working capital. *Ex ante* could seem strange and even dangerous, but if we compare to other companies of the same sector, we realize they also face a negative working capital current liability are higher than current assets. This situation is the result of how the cash flow work. Firms like Thomas Cook or TUI have a very short customer collection period since they pay in cash whereas they pay their suppliers using credit. Also, this kind of companies have no productive process so there is no need for them to store stock. The result is a negative cash flow. Therefore, travel agencies obtain more funding from their suppliers than what they need of current assets (liquidity). Then, it is not alarming that their real working capital is negative.

On the contrary, it is alarming that the necessary working capital is less than the real working capital of the company. Although we have not calculated the necessary working capital yet, we suspect that it is smaller than the difference between the current assets and the current liabilities.

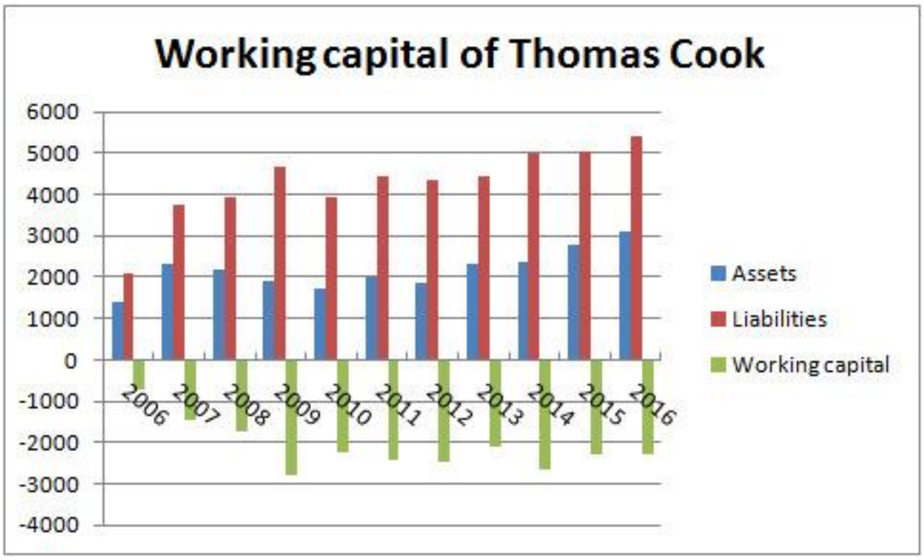

Figure 3: Working capital of Thomas Cook from 2006 to 2016 (data in millions of €).

4.3. HAS THE MANAGEMENT OF THE ASSETS IN WHICH THE COMPANY HAS BEEN INVESTED BEEN EFFICIENT?

In order to answer the question if the assets gave benefits to the company, we will calculate the ROA (Return On Assets). The ROA is the result of multiplying the margin that the firm has achieved in a year, multiplied by the rotation of the assets of the same year. Normally, it is conceived a 5% of ROA as a reasonably good value, although this number can fluctuate according to the sector in which we are operating. In order to avoid these issues, we show you a table that includes different companies of the sector:

Thomas Cook	2005	2010	2011	2013	2014
Margin	0,0236	0,018	-0,027	0,00139	0,00628
Rotation of assets	1,842	1,28	1,46	1,482	1,482
Rotation of NCA	6,148	1,63	1,972	2,95	2,98
ROA	0,0434	0,023	-0,023	0,00205	0,0093

Figure 4: Relevant ratios

Rest of the sector	2007	2013	2014	2015
Margin	0,019	0,02	0,022	0,021
Rotation of assets	1,95	1,943	2,1	2
ROA	0.0329	0,0315	0,035	0,029

Figure 5: Relevant data

- In the case of Thomas Cook we have chosen these years because it was convenient to have years in which the firm worked well (2005), and the rest of the years are useful to explain some of the reasons of the bankruptcy of the firm.
- With the numbers of the margin we can see how Thomas Cook kept a comparable value with the rest of his competitors during the first decade of the XXI century. We also can observe that the difference between 2010 and 2011 it is very big, and this is caused by a fall in the EBIT. According to the data provided by Thomas Cook in their official page, their earnings from sales in

both years were similar, so only the fall in the EBIT can explain the decrease in the margin.

- With the rotation of assets, we can see how efficient the company was when handling their assets in order to create sells. Here we start to observe big differences of Thomas Cook in respect with the competence from 2010. With the appearance in the market of companies that were more advanced technologically, like it was the case of TUI or
- Booking.com, we can see how the British firm distanced from the numbers of other companies. Some companies of the tour-operators sector like TUI were ground-breaking in offering travels in their own hotels, that is to say, they integrated vertically a part their business, and worked very well. Thomas Cook had a big portion of his assets dedicated to keep the travel agencies, which little by little gave less profitability to the company.
- Another interesting ratio is the rotation of non-current assets, that is obtained from dividing the sales by the fixed assets. We have decided to include it because there is an important difference between this ratio in 2005 and the rest of the years. This ratio reflects that the fixed assets in 2005 were profitable, this means that that assets produced sales, while the same assets were useless some years later.
- The ROA gives us an explanation of the cause of the crisis of Thomas Cook. While in the year 2005 the ROA was higher than the competence, from 2010 the numbers start to fall sharply, even they became negative in some years, due to a negative value in the EBIT. Here we find how a big part of the assets of Thomas Cook did not produce sales, because of the change suffered in the tour-operator sector with the revolution of Internet.
- For a deeper analysis we have looked whether the ROA was higher or lower than the average cost of funding. With the data that offer Thomas Cook we can see that the ROA was lower than the average cost of funding since 2010, this is caused by the interests produced by the great loans which the company owed to financial entities. With this fact, we can affirm that the profit that Thomas Cook got could not cover the cost of financing, letting the firm in a very harmful situation.

4.4. WAS THOMAS COOK AN ATTRACTIVE COMPANY FOR INVESTORS?

Another relevant issue to analyze is the return on investment in Thomas Cook. Iit is interesting to study the dividends distributed by the company. We will focus on data from the merger of Thomas Cook AG and MyTravel Group in 2007 that led to the formation of Thomas Cook Group.

By observing *Figure 18* in the appendix, we observe that the company distributed dividends to shareholders during the periods 2007-2011 and 2016-2017. At the period between the years 2012 and 2015, the company could not distribute dividends because it suffered large losses.

To get an idea of financial profitability, it is helpful to analyze the ROE (Return on Equity), a ratio that relates net profit to net worth, for some years:

	2014	2015	2016	2017	2018
ROE	-31.8	7.64	1.14	3.59	-58.9

Figure 6: ROE (in %)

This way, we see how in the 2014 Thomas Cook obtained negative benefits of £ 31.8 for every £ 1 of investment. This is an example of the critical moments that the company went through.

The company has had more than one economic hardship in its history and has been reflected in its evolution on the London Stock Exchange. At certain times, its share price plummeted, reaching minimum levels. In addition, on some occasions, it had to suspend the distribution of dividends not for lack of positive benefits but to try to reduce the suffocating level of debt.

In short, we can see that investing in this company in recent years has not been interesting in the long term since apparently no dividends were distributed until 2016; two years later it went bankrupt. However, perhaps it would have been beneficial to invest in Thomas Cook shares in the short term when their prices were very low in 2012 to sell them the following year thanks to their great appreciation[3].

[3] https://www.thomascookgroup.com/investors/share_price

4.5. ANALYSIS OF THE LIQUIDITY, SOLVENCY, DEBT AND LEVERAGE OF THE COMPANY

LIQUIDITY = Current Assets/Current Liabilities

	2008	2009	2010	2011	2012	2013	2014	2015
Thomas Cook	0.55	0,40	0,43	0.44	0.45	0,43	0,47	0.55
Sector	0,71	0,54	0,54	0,51	0,46	0,55	0,64	0,57

Figure 7: Liquidity Ratio from 2008 to 2015

Liquidity is the ability of a company to convert assets into money. In this case, we see that even Thomas Cook's liquidity is similar to the values of the sector, it is below.

SOLVENCY = Debt/Assets

	2008	2009	2010	2011	2012	2013	2014	2015
Thomas Cook	0,71	0,75	0,75	0,82	0,92	0,92	0,95	0,94
Sector	1,38	1,31	1,27	1,27	1,22	0,81	0,46	0,34

Figure 8: Solvency Ratio from 2008 to 2015

Solvency is the ability of the company to deal with long-term debts. Comparing to the sector, we can say that Thomas Cook is in a situation of inverse solvency. Among companies in this sector, the important thing is to increase equity and decrease liabilities. Thomas Cook, on the other hand, decreases his equity by increasing the liabilities. The reason has to do with its insolvency at facing short-term obligations. Therefore, we can say that it is dragging the debt by increasing the long-term debt that in the end, it will not be able to face either.

DEBT TO EQUITY OF THE COMPANY = Liabilities/Equity

	2008	2009	2010	2011	2012	2013	2014	2015
Thomas Cook	2,5	3,1	2,9	4,6	11,9	10,4	19,3	15,1
Sector	2,5	3,2	3,6	3,6	1,18	1,17	1,21	1,25

Figure 8: Debt to Equity Ratio

The debt ratio of the sector is lower than that of Thomas Cook, which means that companies in the sector do not need as much external financing since they prefer own financing. It has short-term problems with debt which implies that in the long term it will also have problems because it is dragging the debt. The company has carried losses, has a small equity and debts that cannot face.

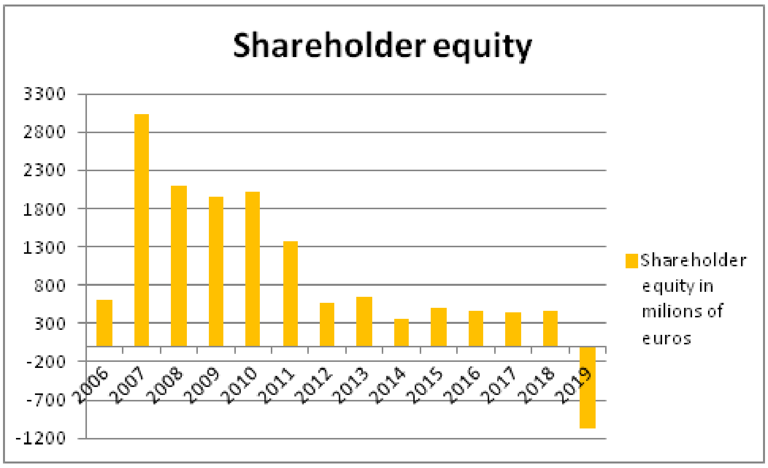

Figure 10: Evolution of Shareholder Equity

Another aspect to highlight is the leverage ratio, to calculate it, we have included financial leverage.

Year	2014	2013	2012	2011	2010	2009	2008
Leverage	-42.92	-139.45	25.54	8.44	0.97	1.4	1.26

Figure 11: Financial Leverage Ratios from 2008 to 2014

Through this table, we corroborate the problems related to the company's debt, which began to be relevant around 2010. In the previous years of 2010, we found leverage rates above 1, which meant it was profitable for the company to borrow more since it would have produced higher benefits. This dynamic however changed completely from 2010 on as leverage rates began to drop to levels as lower as in 2013. The collapse in the leverage ratio is basically due to the large drop in the BAII of the company, which from 2011 on began to be negative and, ultimately, global leverage was negative as well.

4.6. COMMENT ON GROWTH AND SELF-FUNDING

$$\text{Sustainable growth capacity} = \frac{M(1-D)*E}{\left(\frac{1}{R}\right) - M(1-D)*E}$$

- **M (Net profit over sales generated by the company)** = Net profit/Sales
- **R (Rotation of assets)** = Sales/Assets
- **D (Shared dividends)** = Dividends/Net profit in year N-1
- **E (Financial structure)** = Assets /Shareholder equity

Thanks to the Higgins indicator, we can see if the growth of the company was viable with its own resources and without resorting to external financing to be able to undertake its future projects.

This way, and following the formula mentioned at the beginning of this section, we calculated this indicator for 2007, which was one year before it carried out one of its largest requests for external financing.

$$0{,}019(1-0)0{,}76/(1/1{,}95)-0{,}019(1-0)0{,}76 = 0{,}144/0{,}39 = \boxed{\mathbf{0{,}37}}$$

Thus, given this result, we can say for sure that the sustained growth by Thomas Cook was not possible and that the request for external financing from financial entities could be considered necessary. In fact, not distributing dividends that year was already an indicator of the poor business situation in which the travel agency was. However, the financial amount they requested was perhaps excessive and they did not carry out adequate investment strategies.

The type of growth Thomas Cook performed was the "flight forward". This type of growth consists of growing a lot, above what would be prudent, instead of solving previous existing problems. In the case of Thomas Cook, excessive indebtedness, led to bankruptcy, and to the suspension of payments years later.

Flight forward growth is characterized by the following statements:

SADB

- **(S)** Stable sales (without big falls compared to previous years)
- **(A)** Uncontrolled growth of assets
- **(D)** Indebtedness above solvency possibilities
- **(B)** Low benefits due to the high level of debt