

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Michael Dibon
Advisor:	Mgr. Aleš Čornanič
Title of the thesis:	Working capital management in retail

into overview table. The author using standard descriptive statics and correlation matrix to describe data set.

Finally, in section presented results, I really like the visualisation of results either relationship of cash conversion cycle on corporate performance (Tobin's Q) in apparel retail or presenting Alpha coefficient for equal-weighted and value-weighted portfolios.

Literature

The author has performed a thorough literature review. The literature review starts with presenting pioneer studies that consider working capital solely from the credit perspective (liquidity/solvency). Furthermore, the author describes development of total cash cycle concept as important basis for cash conversion cycle concept which became a crucial building element for working capital management. I appreciate that author also discusses the limits of cash conversion cycle and presents alternatives to this well-known working capital indicator (e.g. weighted cash conversion cycle or net trade cycle). Following section introduces working capital management literature that analyse corporate profitability based on empirical/quantitative evidence. The author firstly summarizes working management literature based on accounting measures of corporate profitability that is followed by section dedicated to working management literature based on market measures as actual trend in working capital management research. In this part of literature review, I appreciate summaries of major accounting-based and market-based studies in overview table comparing all key relevant information (timespan, sector, working capital measure and dependent). The last section of literature review is dedicated to the comparison of the advantages and disadvantages of these two main groups of working capital management research. Overall, the literature review offers a balanced survey of historical and the most recent studies.

Manuscript form

The thesis is standardly structured and written in decent English. The text itself is understandable and easy to follow

Suggested questions for the discussion during the defense

- 1) *The author mentions that retail is being changed by new players who utilize agile business models that fasten the retail cycles, could he present some examples of such changes? Did he find any evidence supporting the statement in analysed data (e.g. shortening CCC)?*
- 2) *What is the average CCC of premium apparel retailer as Dior, LVMH or Tiffany and Pandora mentioned in thesis?*
- 3) *What does the author think is the reason of U-shape in apparel retail segment?*

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OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The intended contribution of the thesis is to provide industry specific evidence of working capital management (i.e. cash conversion cycle) as important determinant of corporate performance. The author analysed retail industry as expects relative higher importance of working capital management compared to standard industries due to asset-light characteristics of retail. Based on analysis of retail subsamples (apparel and non-apparel) the author points out the difference in optimal cash conversion cycle for apparel retail as result of its complexity (i.e. depth of assortment, seasonality, variety of sizes, colors). As another test of importance of cash conversion cycle as determinant of corporate performance, the author analyses if the investment strategies using portfolios based on different cash conversion cycle profiles (Portfolio test) could generate excess return. In addition, I highly appreciate the selection of topic as working capital management in retail industry seems to be relevant with respect to a dramatic shift in the last decade (e.g. e-commerce).

Methods

In order to analyse the relation between cash conversion cycle and profitability, the author uses fixed effects models. I appreciate that author performs several tests and applies selected treatments to select most appropriate models. As market-based proxy for corporate performance, the author selects Tobin's Q. Using Tobin's Q enables to capture market based corporate performance based on entire capital structure. The standard control variables are applied in regressions. The author also briefly discusses the role of each control variable with respect to corporate profitability, which increases credibility and transparency of its selection. Moreover, four sub-models are defined to test if the relation between cash conversion cycle and profitability is linear or parabolic and if relationship is different for apparel and non-apparel retail. In addition to general regression, the robustness of results is tested incorporating financial distress variable measured by Altman's Z-score model as suggested by relevant literature.

Second part of empirical analysis is using Portfolio test. Analysed portfolios are created based on cash conversion cycle quantiles and portfolio is rebalanced / updated on monthly basis. The portfolio is created based on equal-weighted as well as value-weighted approach. I appreciate that the author using adjusted cash conversion cycle that means company's cash conversion cycle is adjusted by sub-industry mean (e.g. apparel retail) in order to mitigate specific characteristics within the retail industry. Portfolios are assessed and compared using excess asset returns. The Fama French 3-factor and 5-factor models are used to estimate the excess return of portfolio (alpha).

The section dedicated to data collection and description provides beneficial insights and I especially appreciate the section describing creation of dataset, where the author transparently introduces every single treatment. From reader's perspective it would be beneficial to summarize the dataset creation

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Summary

I do find this thesis meeting academic standards for master thesis written at IES and I can recommend the thesis of Michael Dibon to defense at the IES FSV UK. With respect to comments above, I suggest grade "A".

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	28
<i>Methods</i> (max. 30 points)	26
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	91
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Aleš Čornanič

DATE OF EVALUATION: 10.6.2020



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	Average	Weak
30	15	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	Average	Weak
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	Average	Weak
20	10	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	Average	Weak
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F