

Financial Analysis Fundamentals



Learning Objectives



Undertake a comprehensive financial analysis using wide range of ratios



Use ratios to analyze the income statement and profitability.



Look at ratios to analyze operating assets and asset utilization.



Analyze capital structure with ratios.



Recommend how a business can improve operations, capital structure, and asset utilization.

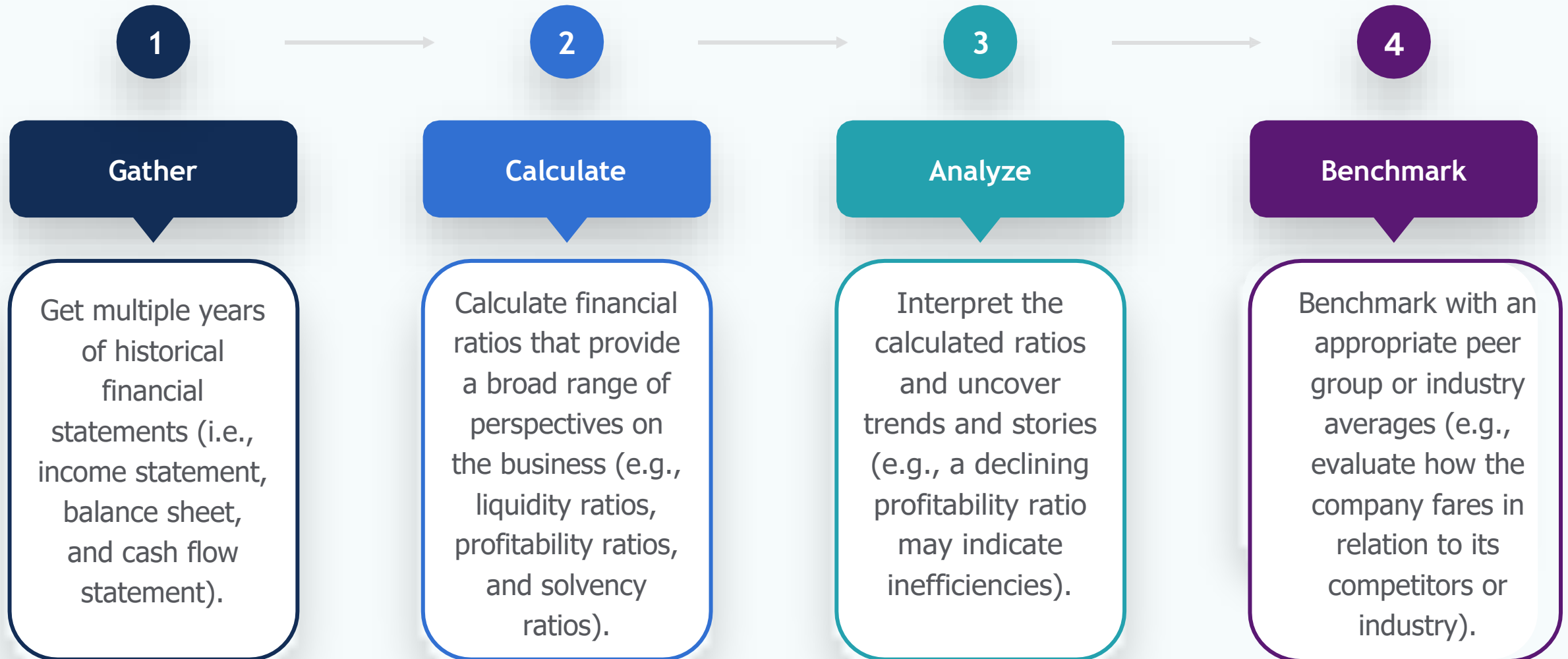


Use the DuPont Pyramid of ratios to get a more comprehensive view of a business.

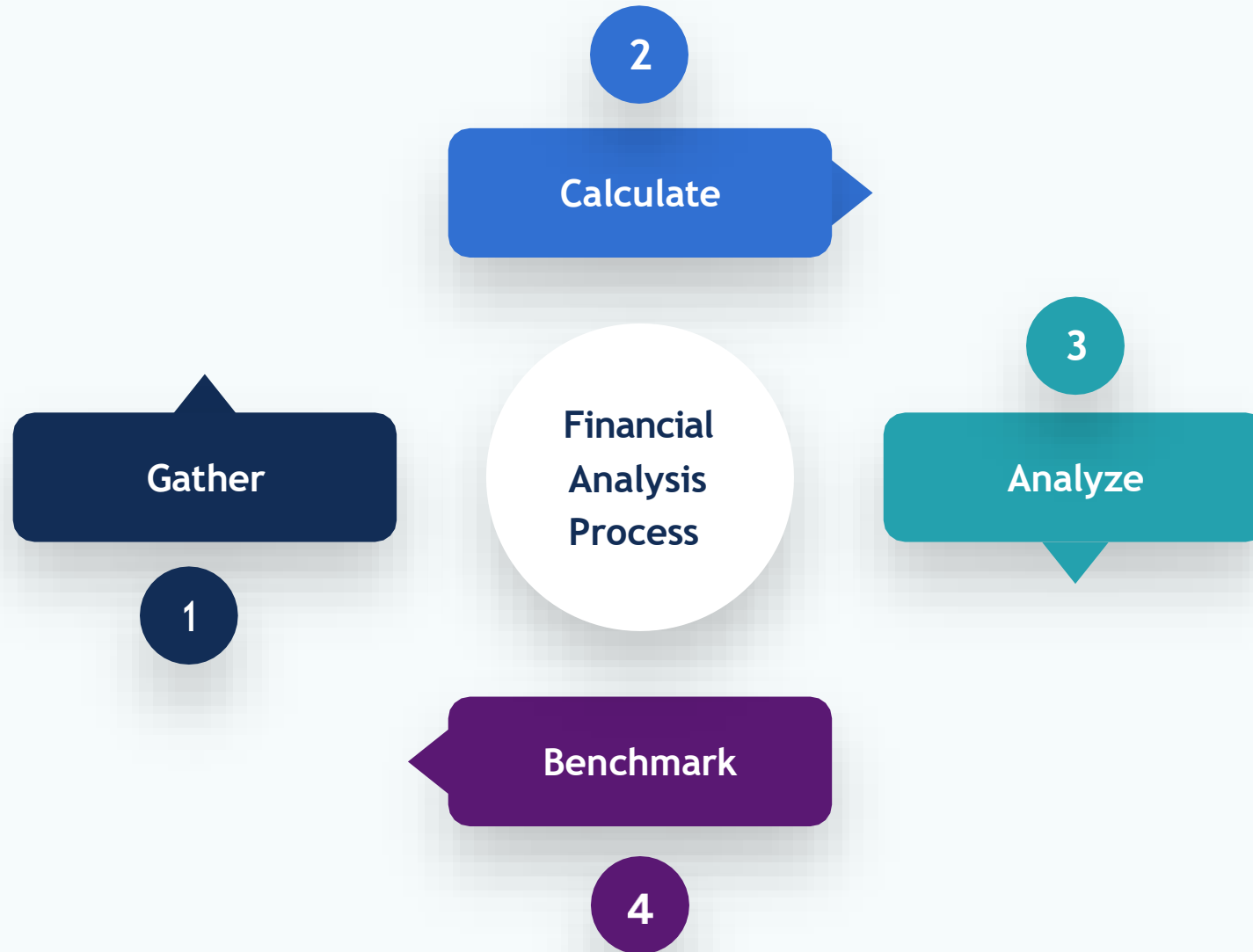
Liquidity Ratios



What Is Best Practice Financial Analysis



What Is Best Practice Financial Analysis



Critical Tips for Effective Financial Analysis



- Gather a minimum of five years of historical financial performance to better identify trends over time.



Make your calculations in Excel transparent so that you can trace from financial statements to ratios.



Need to identify an appropriate peer group, which is broader in scope, as it is rare to find two companies that are exactly similar.

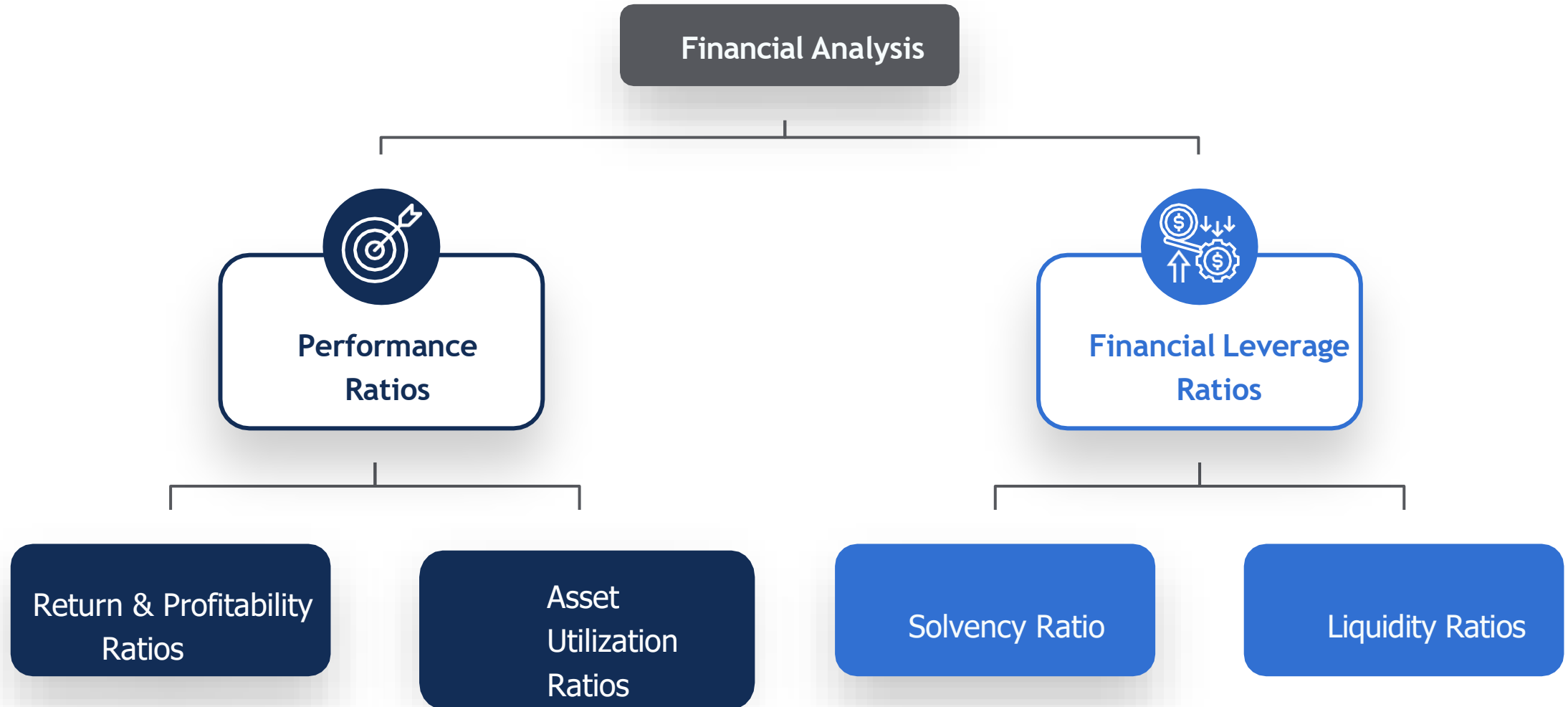


Keep adjustments of ratios to a minimum, as there is more room for error to creep in.



Averages are typically more academically sound, but in practice, virtually everyone uses closing balances.

Financial Analysis Ratio Categories



Quick Recap of the Three Financial Statements

Let's do a quick Recap of the three financial statements.



Income Statement

Revenues

Expenses

Profit Or loss



Balance Sheet

Assets

Liabilities

Equity



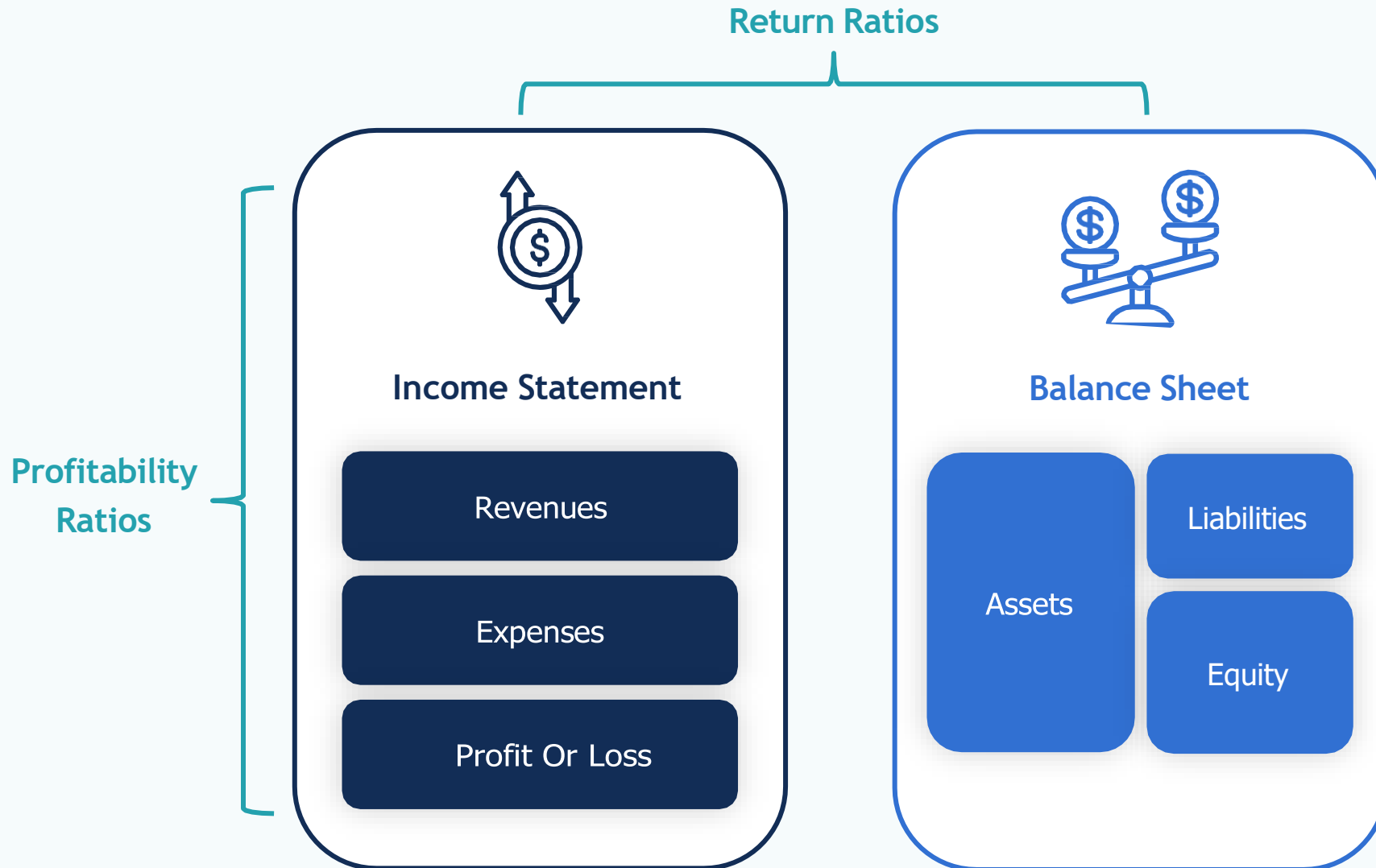
Statement of Cash Flows

Operating

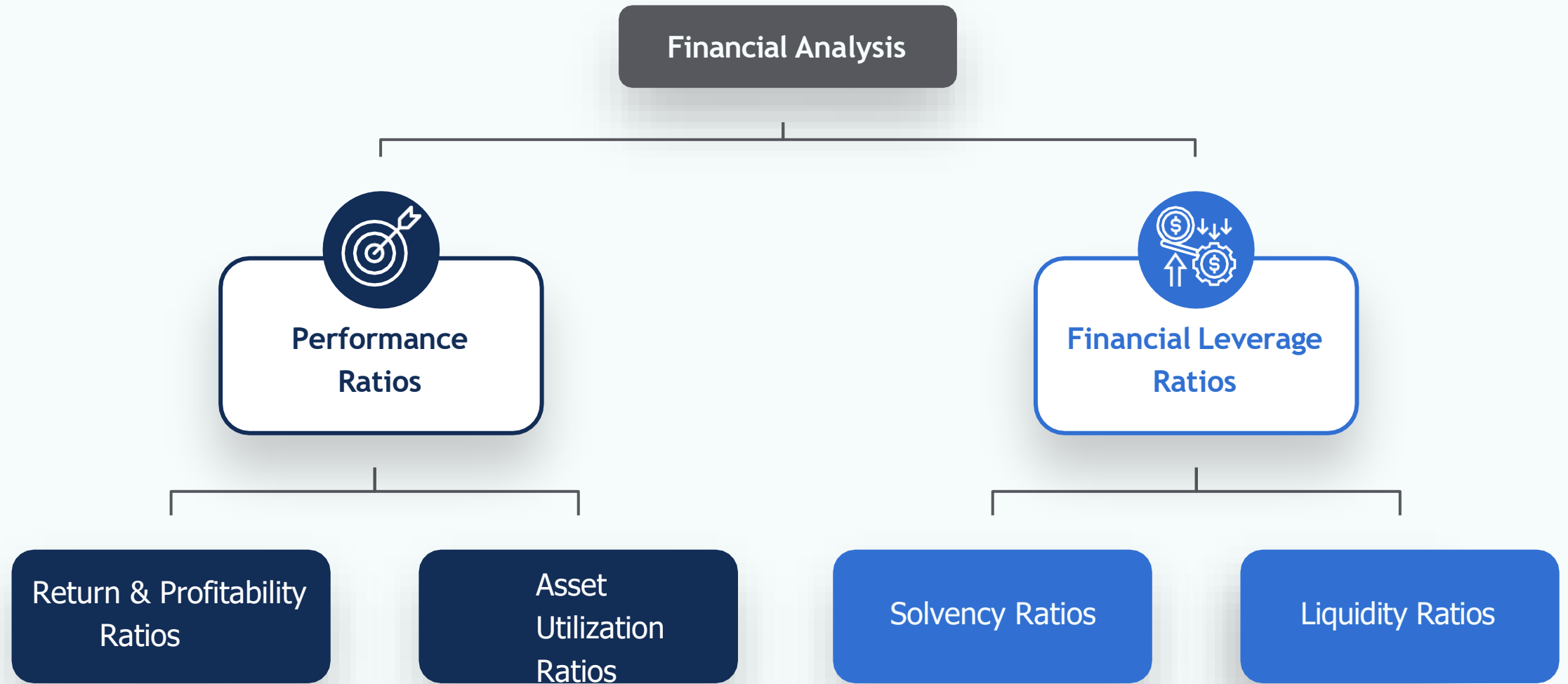
Investing

Financing

Quick Recap of the Three Financial Statements



Introduction to Liquidity Analysis



Introduction to Liquidity Analysis



Liquidity Ratios
assess the
company's short-
term cash position
and ability to handle
immediate financial
needs



1. **Current Ratio**
2. **Quick Ratio**
3. **Interest Coverage**

These ratios generally
quoted as multiples.



With **all liquidity ratios**,
the higher the number,
the better, but there
are different benchmarks
for different industries.

Current and Quick Ratios

Current Ratio

Current Assets

Current Liabilities



Shows how company maximize liquidity of current assets.



Example

A current ratio above 1 indicates a company has more current assets than current liabilities (it has sufficient liquidity to cover short-term obligations).

Quick Ratio

Current Assets

Inventory

Current Liabilities



Measures the ability of a company to pay its short-term liabilities by liquid assets.



Why deduct inventory

Deducting inventory assesses a company's immediate liquidity without relying on potential inventory sales.

EBITDA to Interest Ratio

EBITDA to Interest (Interest Coverage)

EBITDA

Interest Expense



Assesses A company's ability to cover its interest payments with its earnings before interest, taxes, depreciation, and amortization (EBITDA).



With **all liquidity ratios, generally the higher the number, the better**, but There are different benchmarks for different industries.