

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.



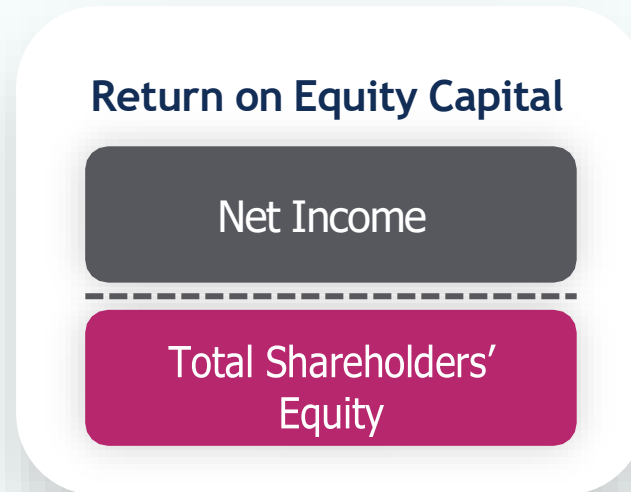
Use the DuPont Pyramid of ratios to get a more comprehensive view of a business.

Pyramid Analysis



Background to the DuPont Pyramid

The DuPont Pyramid of Ratios provides a structured approach to **understanding the factors driving a company's profitability and efficiency.**



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Return on Equity Capital

Net Income

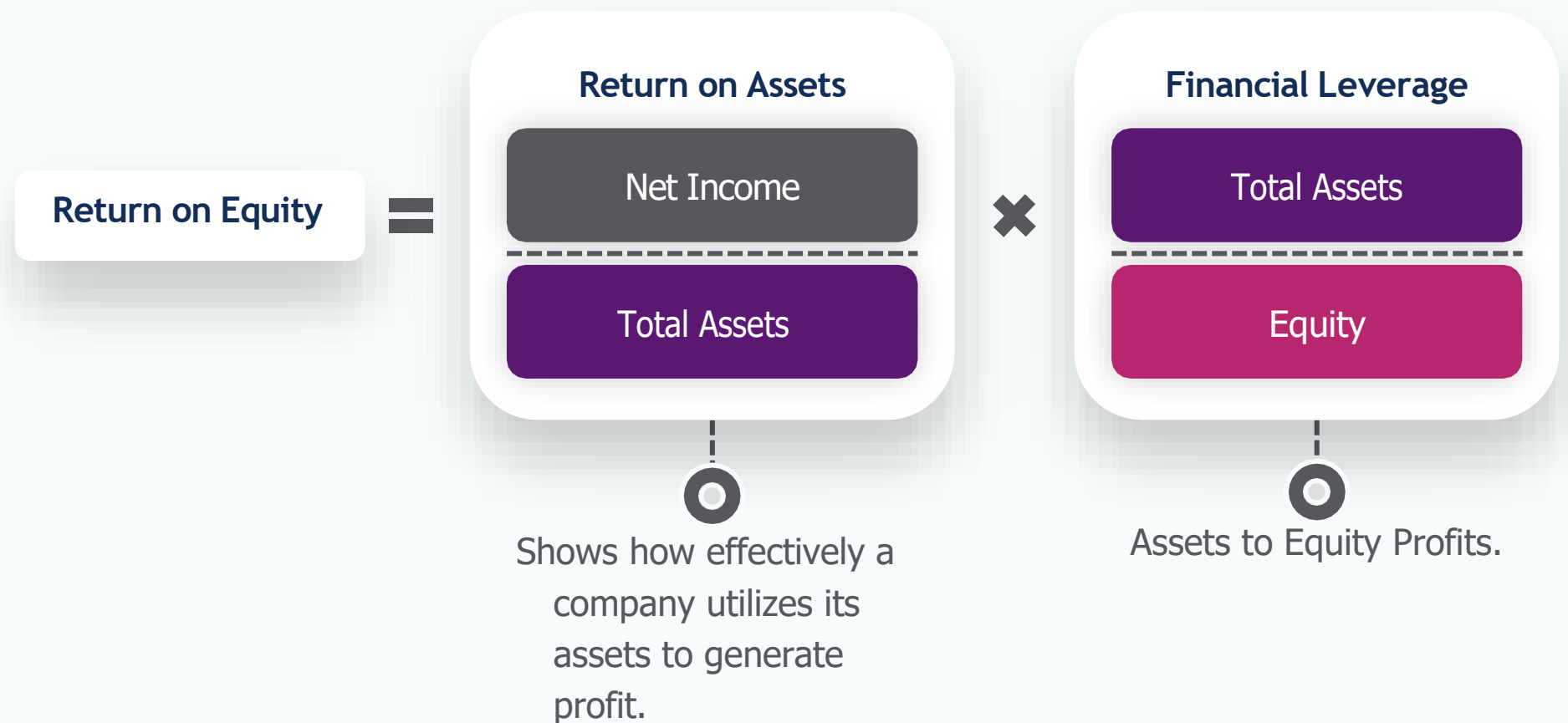
Total Shareholders' Equity



Assess a company's return on equity (ROE) by breaking it down into its key components.

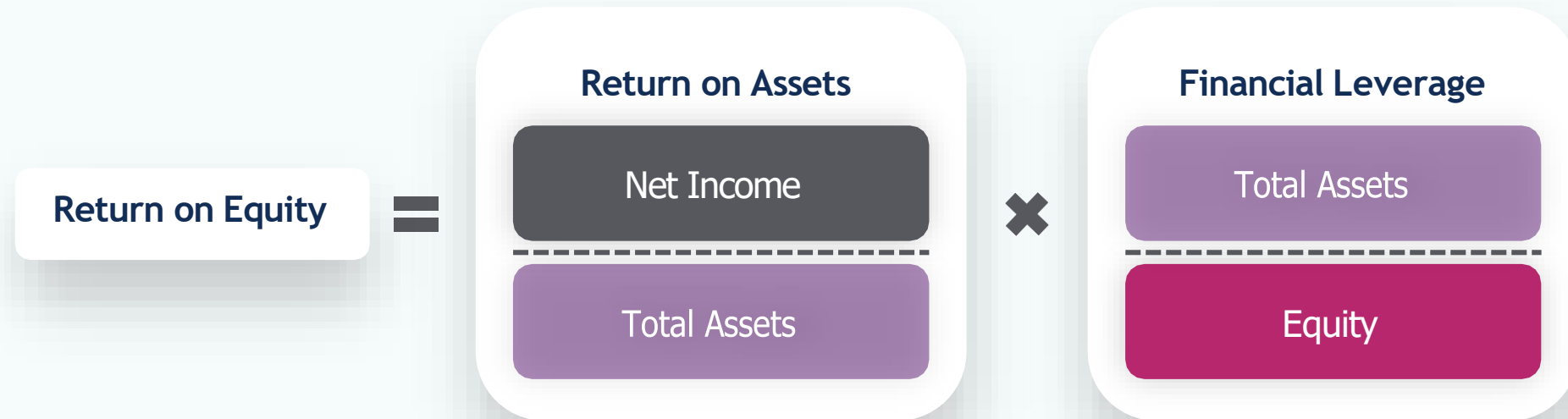
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Return on Assets Can Be Broken Down



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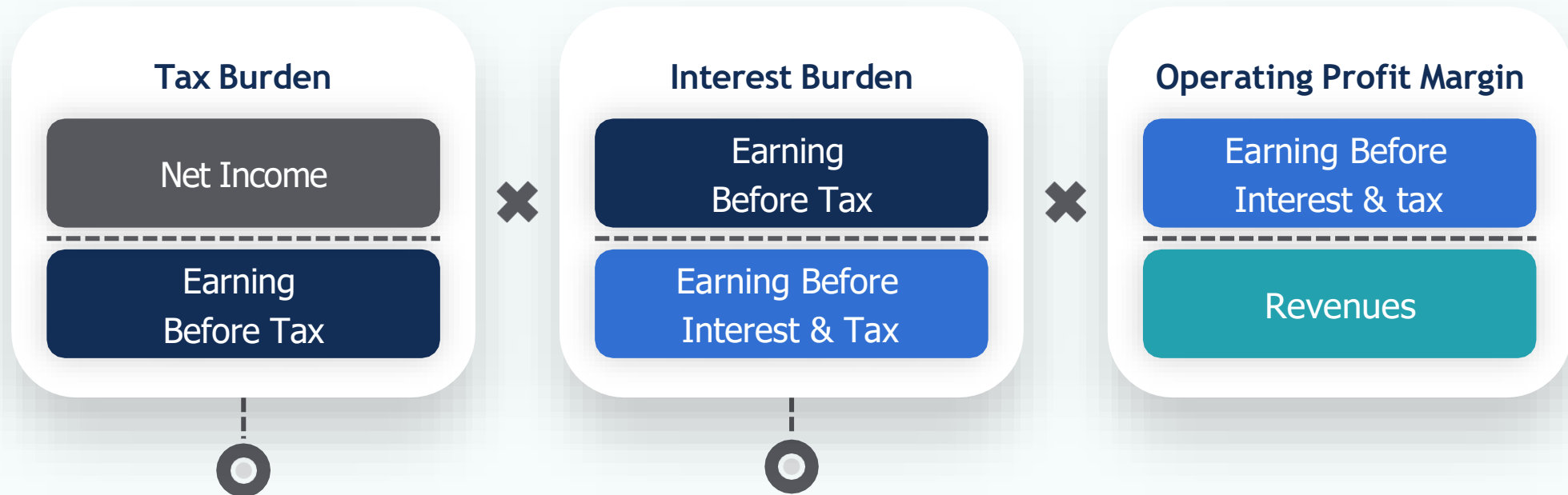
Breaking Down Net Profit Margin

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Net Profit Margin Three Levers

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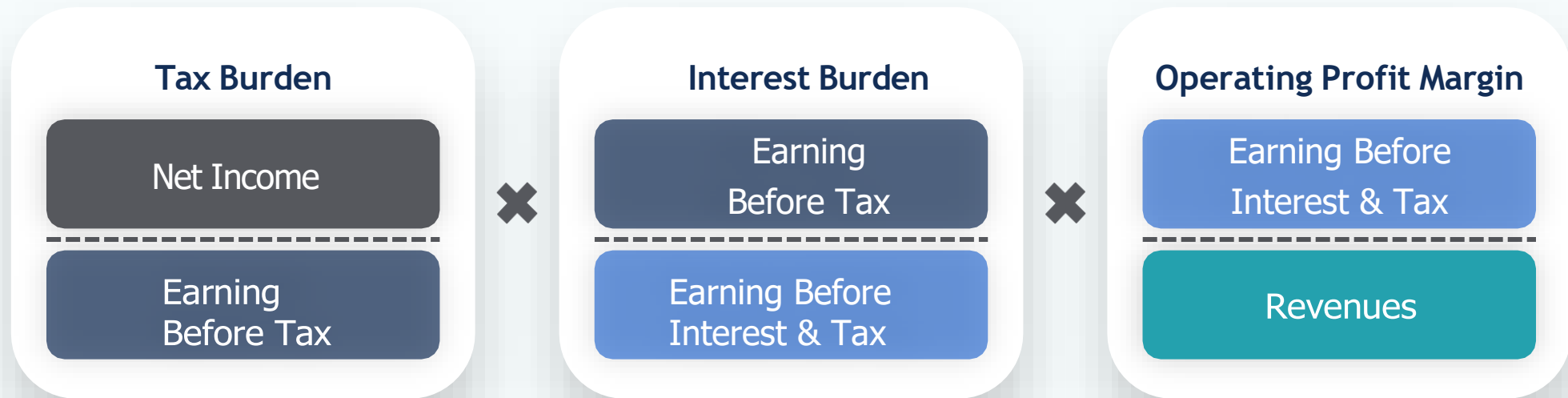


If Taxes are zero, these two values would be equal, and the ratio would equal one

If debt is zero, these two values would be equal, and the ratio would equal one.

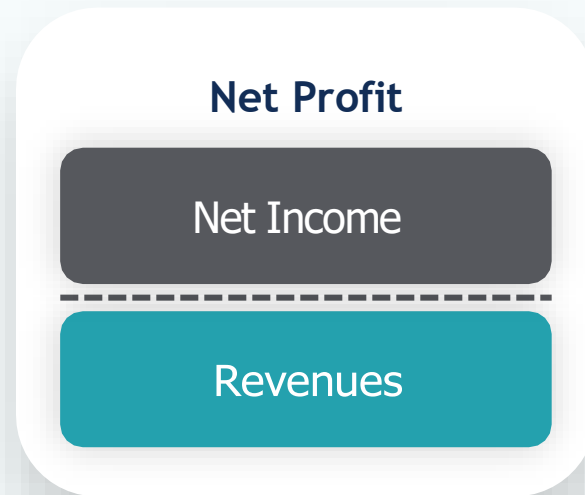
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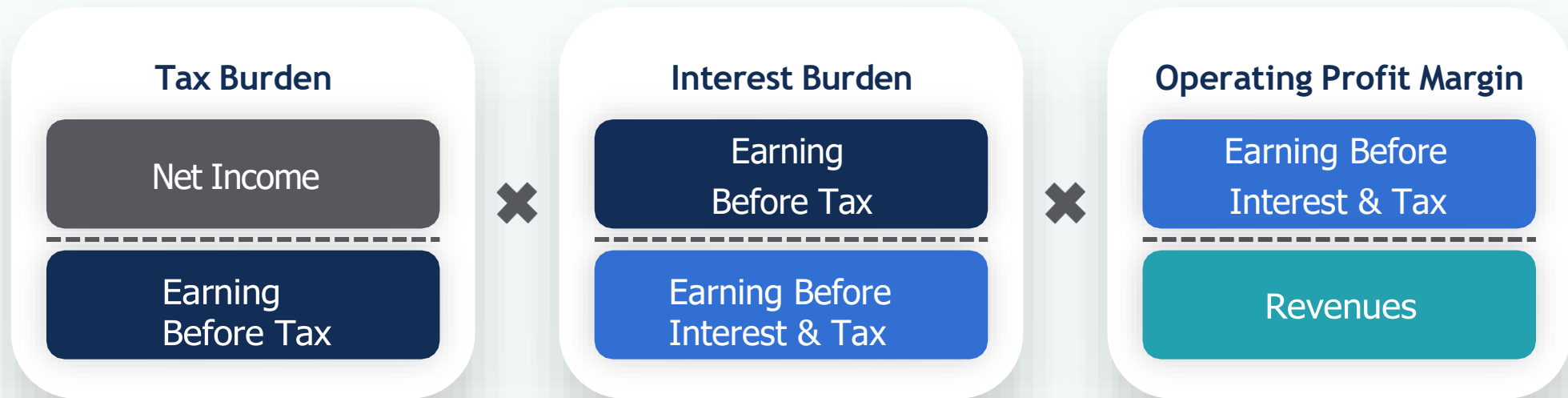
Net Profit Margin Three Levers

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Net Profit Margin Three Levers

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The Full Five Levers

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