

# CORPORATE FINANCIAL STATEMENT ANALYSIS & VALUATION

## The Dynamics of Financial Analysis from a Theoretical & Practical Perspective

### Overview

This course is designed to explain how financial measures of corporate performance are calculated and used to assess credit worthiness of a business. The course covers the basics of financial statement analysis and enables participants to confidently use financial terminology. This is an introductory level course designed for users of financial reports and accounts who have no prior or limited knowledge of corporate financial information; it focuses on the numbers behind the risks rather than the risks themselves.

### Course Objectives

- How a company's business and financing activities are reflected in its financial statements
- The components of financial statements: Balance sheet, profit and loss and cash flow and key notes to the accounts
- The distinction between cash flow and profits
- How to measure operating, investing and financial performance using appropriate ratios and cash flow tools

### Target Participants

- Bank credit officers
- Investment bankers
- Management consultants
- Bond credit analysts
- Fixed income/credit traders
- Fixed income/credit sales people
- Fund managers
- Treasurers
- Compliance officers
- Financial decision makers in corporations

## COURSE CONTENTS

### INTRODUCTION

- Corporate, business unit and operational strategy compared with strategic vs. business planning
- Establishing the reporting entity vs. legal entity
- Review of reporting standards: domestic (GAAP) vs. international (IFRS)
- Transactional accounting vs. economic perception worlds
- A structured approach for analysis (accounting analysis, financial analysis and prospective analysis)
- Types and purpose of financial reports and statements
- A structure for effective initial reading of the annual report/audited accounts
- The importance of strategic analysis for understanding life cycle context of financial statements
- Business model - used to understand the 'business'

### ACCOUNTING ANALYSIS

- Review of fundamental accounting principles, concepts and mechanics underlying financial statements.
- Introduction to the structure and format of 'core' financial statements including consolidated or group accounts.
- Financial statement building blocks

#### Statement of financial position

- **Tangible non-current assets (fixed)**
  - level required to support the business
  - basis of valuation
  - real value they add to the business
  - held off-balance sheet
  - charges/prior claims
- **Intangibles/goodwill**
  - valuation
  - liquidity
  - 'void in bankruptcy' issues
  - how funded
- **Investments**
- **Working capital**
  - type
  - liquidity
  - valuation
  - quality and efficiency
  - seasonality
  - distortions
  - when is cash not really cash
- **Liabilities**
  - relative level
  - maturity profile
  - structure, terms and conditions of debt facilities

- **Capital**
  - quality and types
  - access to further capital
  - types of reserves

#### Income Statement

- Revenue volatility
- Operational costs and leverage
- Finance costs
- Sustainable vs. comprehensive income
- Items picked up by comprehensive income
- Movements on reserves
- Cleaning the numbers: restructuring costs, profit/loss on sale of assets, non operational income or expenses

#### Statement of Cash Flow:

- Direct vs. indirect methods
- Source and application of funds
- preparing a cash flow statement for valuations

**Practical:** Analysing and interpreting the annual report and financial statements

#### The Dangers & Distortions of Creative Accounting Management Accounts

- Difference between financial and management accounts
- Advantages and disadvantages
- How they fit with the business model and with the audited accounts
- What to look out for
- Assessing reliability

#### FINANCIAL ANALYSIS

##### Ratio Analysis

- Purpose and uses of ratios
- Key functional areas:
  - operating management
  - investment management
  - financing decisions
  - dividend policy
- Benchmarking/peer group analysis
- Identifying sustainable growth rate
- The impact of financial gearing and leverage on equity returns
- Different industry characteristics/profiles
- The tendencies of ratios over the long term
- Identifying the weak/moderate/strong/very strong companies

**Practical:** Interpreting the financial health of the business using ratios

##### Cashflow Analysis

- Review of the cash flow statement structure
- Identifying the primary cash drivers
- EBITDA in perspective
- Calculating free cash flow
- Specific cashflow ratios
- Establishing cash flow sustainability
- Calculating debt capacity
- Debt Service Cover Ratio ('DSCR')

##### Liquidity Analysis

- Definition
- Credit Risk
- Operational liquidity
- Non-operational sources of liquidity
- Liquidity reserves
- External factors impacting a company's liquidity

**Practical:** Analysing the financial cash and credit position

#### PROSPECTIVE ANALYSIS

##### Financial Statement Forecasting

- Budgets vs. forecasts
- Preparation approach
- Period of preparation
- Assumption setting
- Sensitivity analysis
- Accounting returns vs. investment returns vs. cashflow returns
- Monitoring and control

**Practical:** Constructing financial forecasts

### An Introduction to Valuation

- The importance of intrinsic fundamental valuation price vs. value
- Valuation techniques requiring or not requiring forecasting.
- Brief introduction to valuation techniques and the central concepts
- The use of Discounted Cash Flow (DCF) techniques such as Free Cash Flow
- The Investment horizon and competitive advantage period
- Discussions around top down or bottom-up Weighted Average Cost of Capital (WACC) for company and project valuation
- Using relative multiples to value or check the reasonableness of DCF.
- Introduction to Strategic Value Added (SVA) and the principles of economic profit.

**Practical:** Using previous financial forecasts for indicative valuation

### End of Course & Closure

COURSE DURATION	DELIVERY MODE	DELEGATE CLASS SIZE	COURSE FEE/PARTICIPANT
5 DAYS	In-Plant	8 (Guaranteed Minimum)	For quote, please click <a href="http://demvros.com/contact/">http://demvros.com/contact/</a>
Discount is available for class size above the minimum. Please visit <a href="http://www.demvros.com">www.demvros.com</a> or call 08056154199 or e-mail for further enquiries.			