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# **1FP571**

# **Special seminar – Advanced Corporate Finance**



EVROPSKÁ UNIE  
Evropské strukturální a investiční fondy  
Operační program Výzkum, vývoj a vzdělávání



MINISTERSTVO ŠKOLSTVÍ,  
MLÁDEŽE A TĚLOVÝCHOVY



# 1FP571 – Business Analysis using Financial Statements

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What to expect?

Advance your understanding of how to use financial information to analyze, manage and value/price firms.

Over the course, we shall adopt economics, accounting, finance, management and other skills to topical problems and business news to help us understand

- ✓ what is contained in financial reports,
- ✓ why firms report certain information, and
- ✓ how to understand them.



# Financial Statement Analysis

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Accounting information presented in financial statements forms the basis for many financial and business decisions.

Understanding financial statements and assessing company's financial condition are essential skill for CEOs, CFOs, managers, financial analysts or investors, i.e. both internal and external users alike.



# Financial Statement Analysis

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Internal users:

- Management at various levels

  - Performance evaluation

  - Competitive analysis

  - Investment decisions

  - Valuation of targets

- Current and future employees



# Financial Statement Analysis

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External users:

- Financial intermediaries (analysts)

  - Stock recommendations

- Lenders

  - Loan decisions

  - Monitoring

- Investment bankers

  - Valuation for M&A and IPO

  - Top management performance evaluation (EVA)



# Financial Statement Analysis

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Business Valuation and Analysis Using Financial Statements .. why?

Fundamental valuation techniques (how much is it worth?)

Pitfalls of accounting reports

Reading “between-the-lines” of financial reports

Financial Statements Information – users:

1) Management at various levels

performance evaluation

competitive analysis

investment decisions

valuation of targets (and defence against raiders)



# Financial Statement Analysis

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Financial Statements Information – users:

- 1) Management at various levels
- 2) Current and future employees

Is this firm going to pay me, are my stock options of any value?

- 3) External users (primarily)

financial intermediaries (analysts); stock recommendations

lenders (loan decisions, monitoring)

investment bankers (valuation for M&A, IPO), top management performance valuation



# Financial Statement Analysis

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Market efficiency and the role of financial statement analysis – implications of stock market efficiency:

- Many profit-maximizing, actively competing traders
- Information almost freely available to all participants
- Competition means that the full effects of new information on intrinsic values are reflected instantaneously in prices
- Stock prices rapidly adjust to new information such that the new price promises only a normal rate of return to an investor

*If markets are efficient, then what's the use of "Fundamental Analysis" and Valuation?*





# Financial Statement Analysis

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Conflicting evidence on market efficiency

– Markets are Efficient:

- Market's reaction to news events is instantaneous.
- Mutual funds have on average been unable to outperform broad indexes; in fact, generally underperformed.
- Why publish "secrets" instead of making money yourself?

– Markets are Inefficient:

- Growing evidence of "easy ways" to beat market.
- Greater acceptance of "Behavioral Explanations" for stock market fluctuations.



# Financial Statement Analysis

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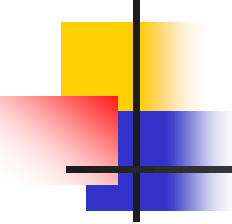


# Financial Statement Analysis

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Financial analysis:

a universal tool applied to financial statements compiled according to various accounting systems and national legislation standards (EU-listed companies must prepare their accounts in accordance with International Accounting Standards (IAS)/International Financial Reporting Standards, IFRS).



# Financial Analysis – Structure of Company Accounts

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Generally, financial analysis consists of two methods:

- ✓ horizontal/vertical analysis
- ✓ ratio analysis (assessing profitability, solvency, liquidity, and stability)

Three main types of elementary financial statements:

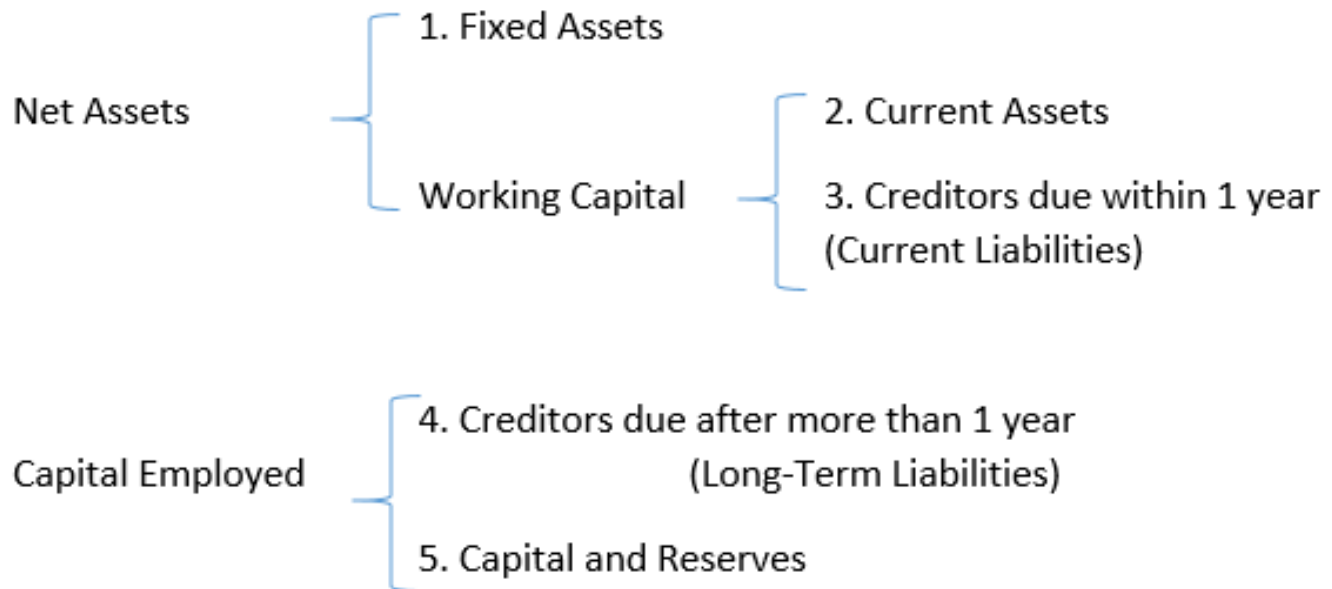
1. Balance sheet (BS)
2. Profit and Loss Statement (P&L)
3. Funds Flow (Cash Flow) Statement (CF)



# Balance Sheet Classification

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- Five main elements of the Balance Sheet





# Balance Sheet Classification

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**Fixed Assets:** intended for use on a continuing basis, tangible and intangible assets

**Current Assets:** cash or cashable within 12 months, listed from least to most liquid (stock to cash)

**Creditors due within 1 year** (Current Liabilities): proposed dividends, tax liabilities, trade creditors, etc.



# Balance Sheet Classification

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**Working Capital** (WC, Net Current Assets): circulating capital of the business, Current Assets – Current Liabilities; ATN: its net balance requires long-term capital to finance it.

**Capital Employed** (CE): Long-Term Liabilities + Capital + Reserves

**Creditors: amounts due after more than one year** (Long-Term Liabilities): LT borrowing

**Capital and reserves:** share capital (ordinary shares)



# Financial Statement Analysis

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- **Common-Size Financial Statements** (cross sectional analysis) – e.g. deflate all financial numbers by total assets; **vertical financial analysis**
- **Trend Financial Statements** (time-series analysis) – compare growth rates over time, **horizontal financial analysis**
- **Financial ratio analysis** (profitability, short-term liquidity, long-term solvency)





# Financial Statement Analysis

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