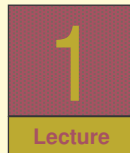


# International Accounting

(Financial Statement Analysis)



## Course overview and introduction to financial statement analysis

## Course presentation

**Course name:** International Accounting (*Financial Statement Analysis-FSA*)

**Credits:** 5

**Class**

- Monday 09:30-12:30

**Lecturer:**

- Davide Moro ([dmoro@liuc.it](mailto:dmoro@liuc.it))
- Office hours: Monday 12:30-13:30

**Textbook:**

- Wild, Subramanyam, Halsey, *Financial Statement Analysis – (9th ed.)*, McGraw-Hill, 2007

## Course presentation

### “Rules of the game”

- **Basic requirements:** The course requires an understanding of basic accounting concepts and practices. For this reason the course is recommended only to those students who have previously attended and passed a basic course in financial accounting.
- **Attendance:** highly recommended
- **Textbook:** its use is fundamental for class exercises and home study. Available at LIUC's bookshop and/or at LIUC University Library.
- **Overheads:** provided by the teacher on the course web site (course material)  
A paper copy for the class will be available at the International Student Office.
- **Examination:** written examination structured as following:
  - Open questions and multiple choices about the main topics of the course
  - Exercises: application of tools and techniques for financial statement analysis

## Course presentation

### “Rules of the game”: examination

#### Two options are provided:

1. Written examination divided into two parts (highly recommended for Erasmus students as well as LIUC students!!)
  - a. **Midterm examination:** written examination on topics presented within the first 5 lectures of the course
  - b. **Final examination:** written examination,
    - only on the remaining topics;
    - open only to those students that have passed (15/30) the Midterm examination
2. **Final comprehensive examination:** written examination on the whole course program

## Course presentation

### “Rules of the game”: examination

#### Final evaluation:

1. **Examination divided into two parts:** average between the marks obtained in the intermediate and in the final examination.
2. **Final comprehensive examination:** the exam is passed with a mark equal or higher than 18/30.

## Course presentation

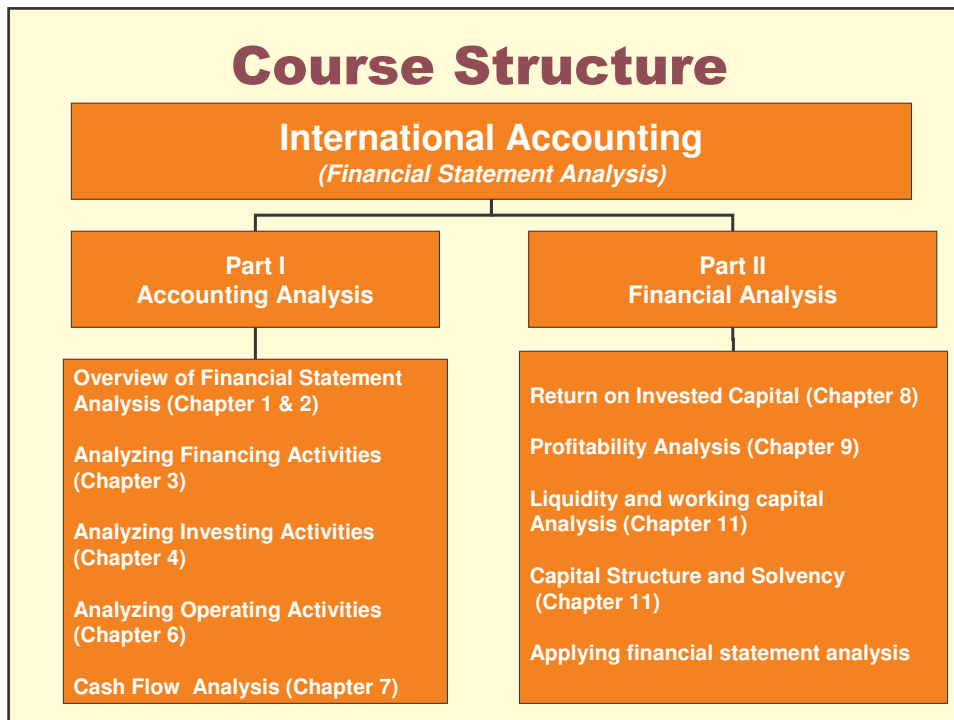
### “Rules of the game”: project work

Students who wish to **improve their final mark** and want to “put in practice” skills developed during the course may **prepare a final project work**. It will consist in writing a **financial statement analysis report** using a variety of financial analysis tools covered during the course (see the document delivered by the lecturer for further information).

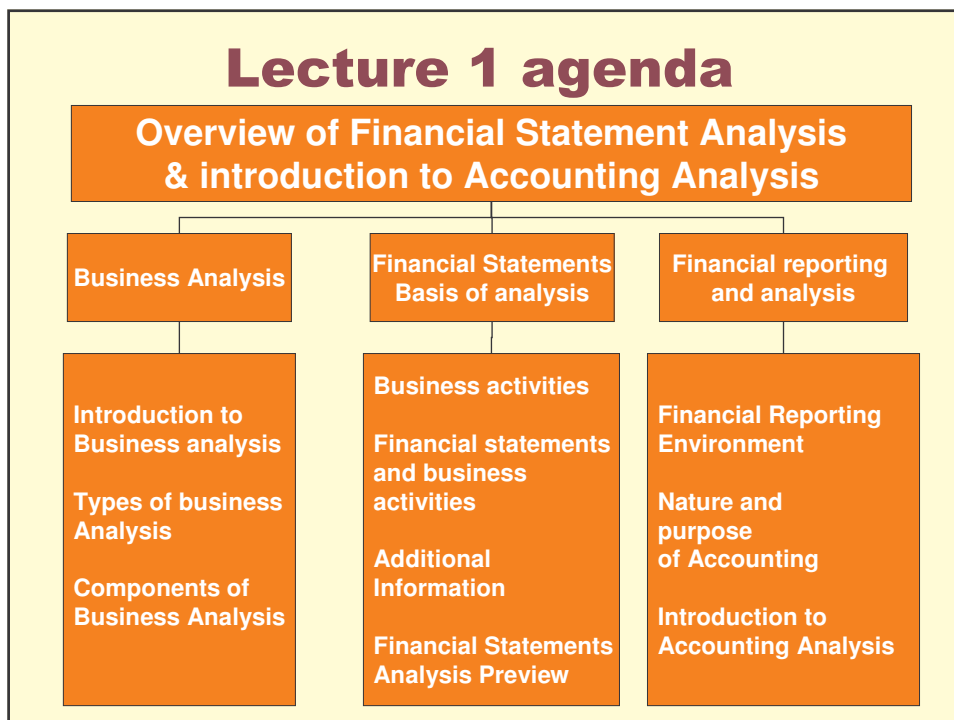
#### Some **basic rules**:

- a. The project work will be **developed in group**. Each group must be composed of **up to 5 students**
- b. It is up to the students the choice of **the company to analyse**.
- c. The lecturer will evaluate each project work and will decide how many marks to assign to each group (**from 1 up to 5 “extra points”**), according to the quality of work, the fullness and the consistency of the analysis conducted. Each member of the group will receive the same amount of “extra points”.
- d. Each group must hand the project work over to the lecturer by **21st of December**.

# Course Structure



# Lecture 1 agenda



# Business Analysis

Evaluation of a company's prospects and risks for the purpose of making business decisions



Evaluate Prospects



Evaluate Risks



## Business Decision Makers

- Equity investors
- Creditors
- Managers
- Merger and Acquisition Analysts
- External Auditors
- Directors
- Regulators
- Employees & Unions
- Lawyers

# Financial Statement Analysis

- It is part of business analysis
- It is the application of analytical tools and techniques to general –purpose financial statements and related data to derive estimates and inferences useful in business analysis
- Through it, an analyst will better understand and interpret both qualitative and quantitative financial information so that reliable inferences are drawn about company prospects and risks

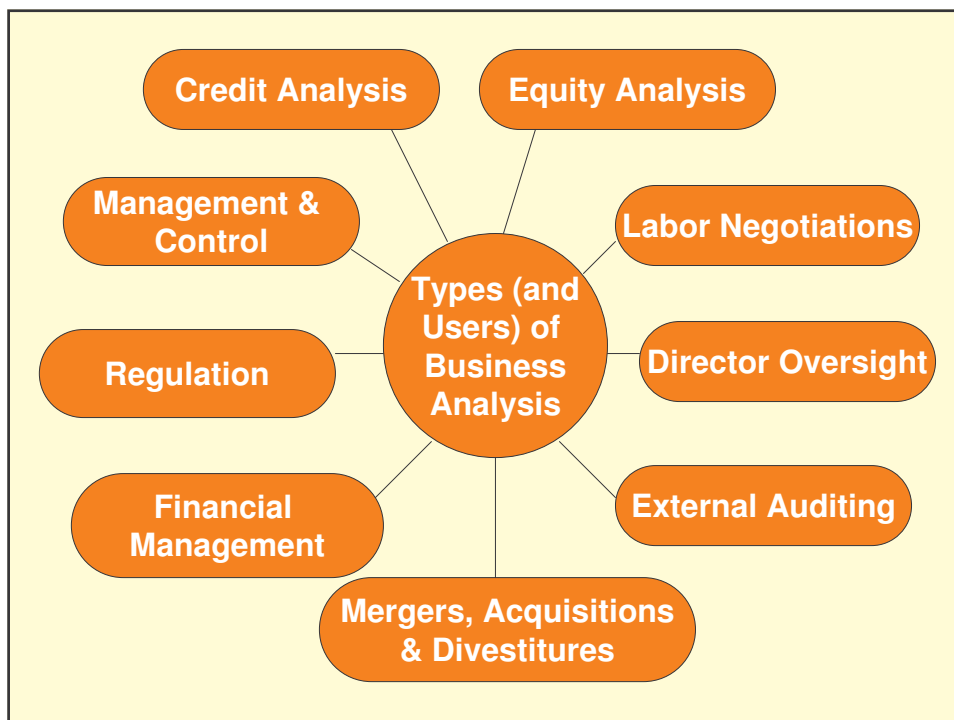
## Information Sources for Business Analysis

### Quantitative

- Financial Statements
- Industry Statistics
- Economic Indicators
- Regulatory filings
- Trade reports

### Qualitative

- Management Discussion & Analysis
- Chairperson's Letter
- Vision/Mission Statement
- Financial Press
- Press Releases
- Web sites



## Credit Analysis

**Credit worthiness: Ability to honor credit obligations  
(downside risk)**

### Liquidity

**Ability to meet short-term obligations**

*Focus:*

- Current Financial conditions
- Current cash flows
- Liquidity of assets

### Solvency

**Ability to meet long-term obligations**

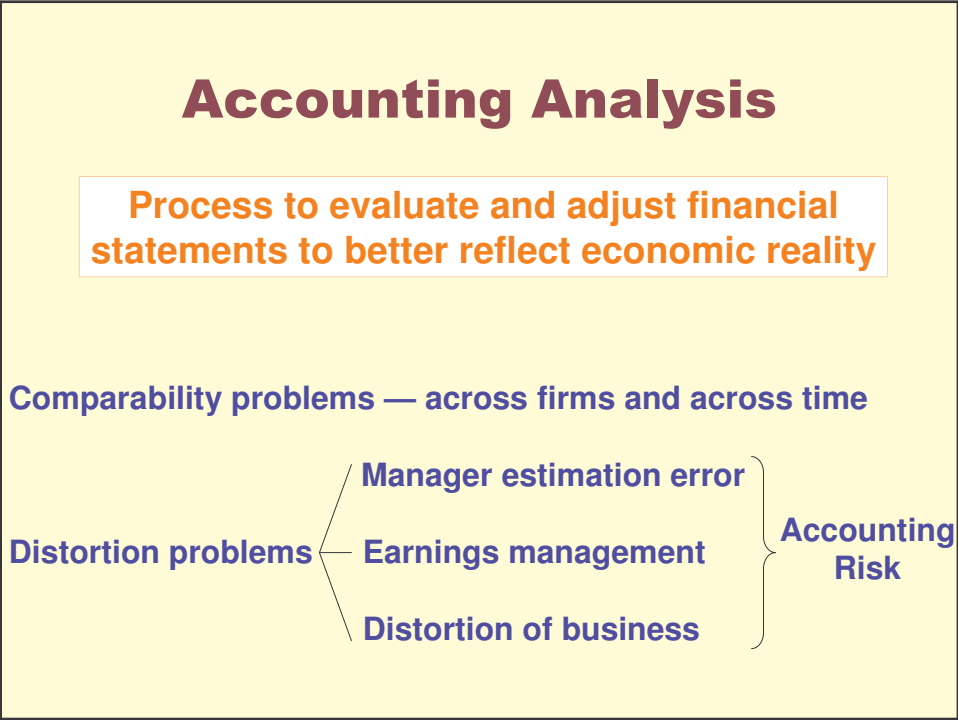
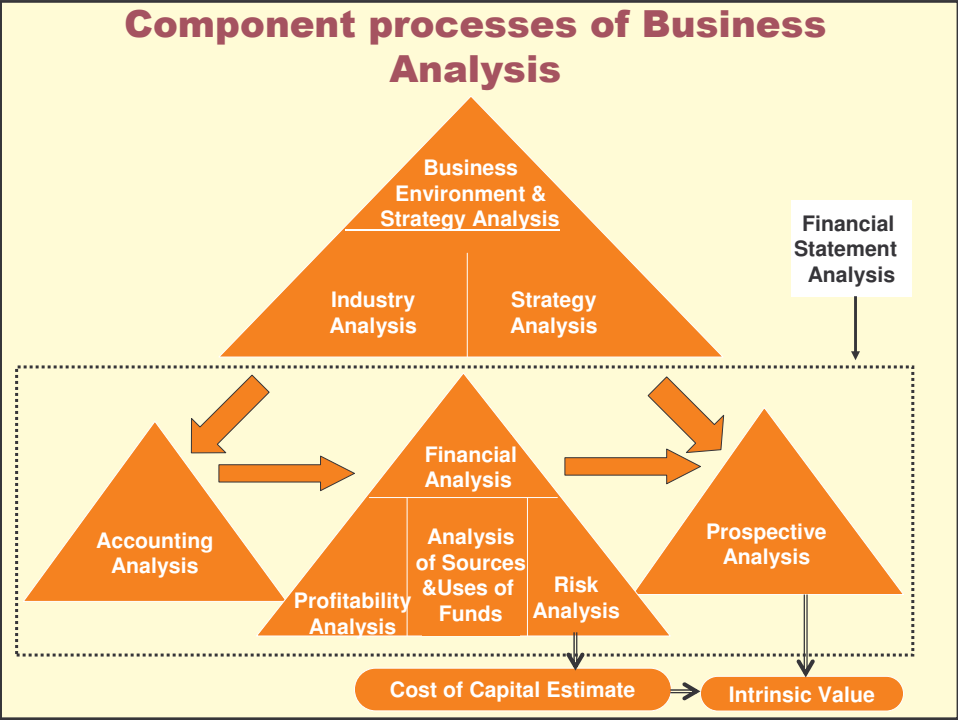
*Focus:*

- Long-term financial conditions
- Long-term cash flows
- Extended profitability (sustainable earning power): main source of assurance to meet long-term obligations

## Equity Analysis

**Fundamental analysis: process of determining the value of a company by analyzing and interpreting key factors for the economy, the industry and the company. (downside risk and upside potential)**

One of the major goals of fundamental analysis is to determine INTRINSIC VALUE





# Financial Analysis

Process to evaluate financial position and performance using financial statements

Profitability analysis—Evaluate return on investments

Risk analysis — Evaluate riskiness & creditworthiness

Sources and uses of funds analysis — Evaluate source & deployment of funds

Common tools

Ratio analysis

Cash flow analysis

Comparative analysis

# Prospective Analysis

Process to forecast future payoffs

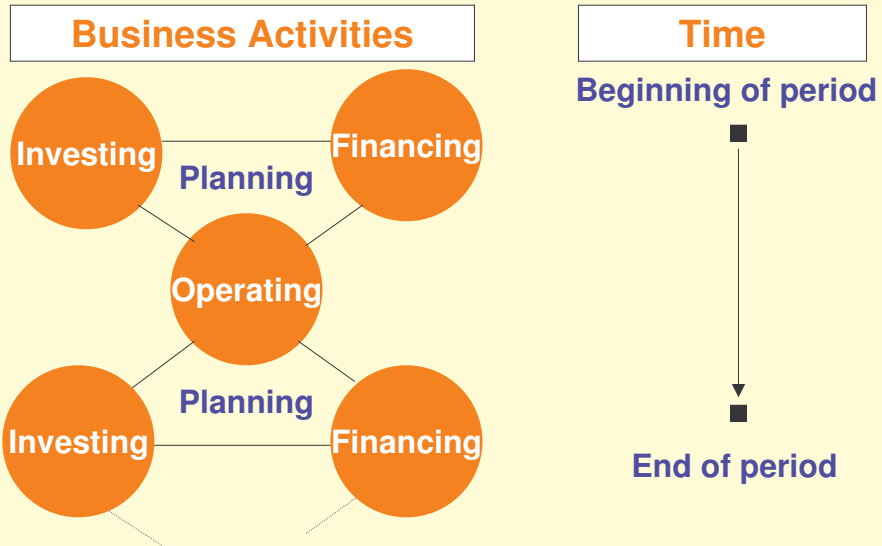
Business Environment & Strategy Analysis

Accounting Analysis

Financial Analysis

Intrinsic Value (Strategy value)

## Dynamics of Business Activities



## Business Activities



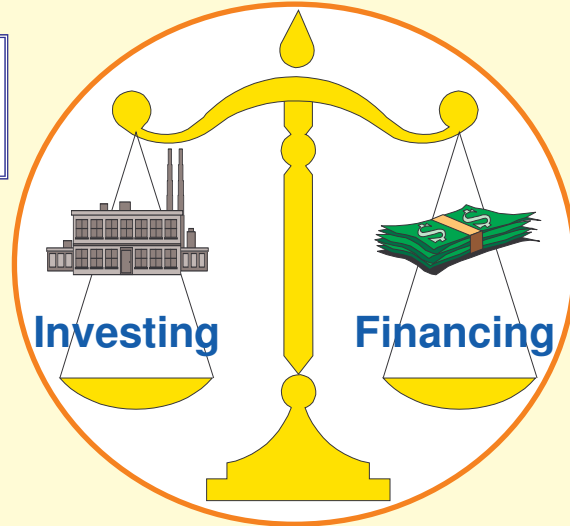
### Financing activities

- Owner (equity)
- Nonowner (liabilities)

# Business Activities

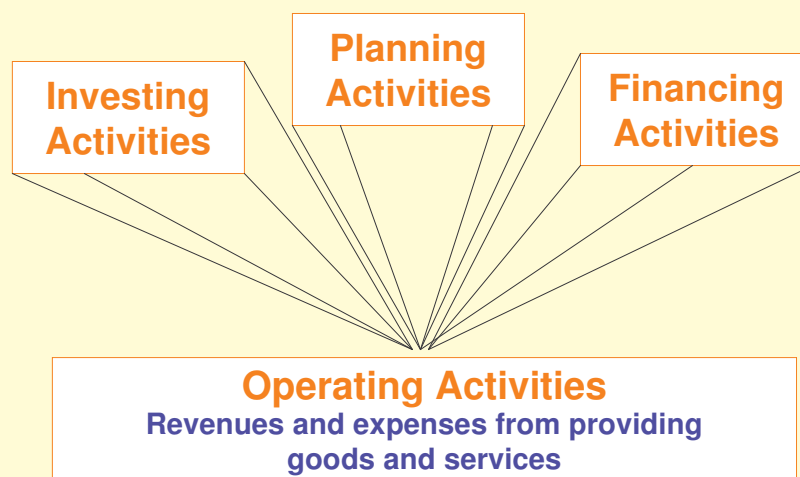
## Investing activities

- Operating assets
- Financial assets

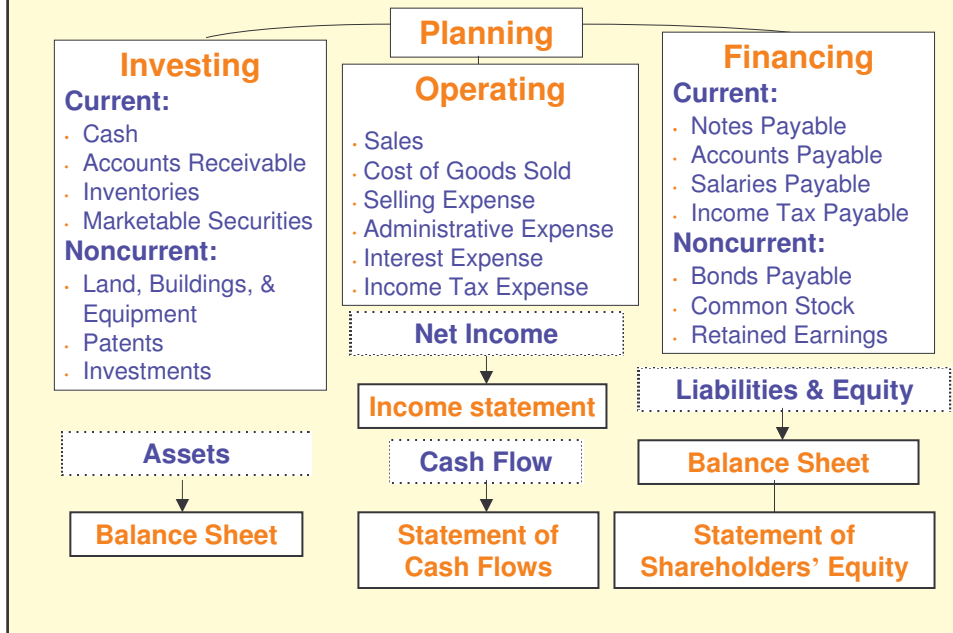


**Investing = Financing**

# Business Activities



## Financial Statements Reflect Business Activities



## Financial Statements

- **Balance Sheet**
- **Income Statement**
- **Statement of Shareholders' Equity**
- **Statement of Cash Flows**

| DELL INC.<br>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION<br>(in millions)   |                     |                     |
|---|---------------------|---------------------|
|   | January 28,<br>2005 | January 30,<br>2004 |
| <b>ASSETS</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents .....   | \$ 4,747            | \$ 4,317            |
| Short-term investments .....  | 5,060               | 835                 |
| Accounts receivable, net .....  | 4,414               | 3,635               |
| Inventories .....   | 459                 | 327                 |
| Other .....   | 2,217               | 1,519               |
| <b>Total current assets</b> .....   | <b>16,897</b>       | <b>10,633</b>       |
| Property, plant, and equipment, net .....   | 1,691               | 1,517               |
| Investments .....   | 4,319               | 6,770               |
| Other non-current assets .....  | 308                 | 391                 |
| <b>Total assets</b> .....   | <b>\$ 23,215</b>    | <b>\$19,311</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable .....  | \$ 8,895            | \$ 7,316            |
| Accrued and other .....   | 5,241               | 3,580               |
| <b>Total current liabilities</b> .....  | <b>14,136</b>       | <b>10,896</b>       |
| Long-term debt .....  | 505                 | 505                 |
| Other non-current liabilities .....   | 2,089               | 1,630               |
| <b>Total liabilities</b> .....  | <b>16,730</b>       | <b>13,031</b>       |
| Commitments and contingent liabilities (Note 8) .....   | —                   | —                   |
| Stockholders' equity:   |                     |                     |
| Preferred stock and capital in excess of \$.01 par value; shares issued and outstanding: none .....                                 | —                   | —                   |
| Common stock and capital in excess of \$.01 par value; shares authorized: 7,000; shares issued: 2,769 and 2,721, respectively ..... | 8,195               | 6,823               |
| Treasury stock, at cost; 284 and 165 shares, respectively .....   | (10,758)            | (6,539)             |
| Retained earnings .....   | 9,174               | 6,131               |
| Other comprehensive loss .....  | (82)                | (83)                |
| Other .....   | (44)                | (52)                |
| <b>Total stockholders' equity</b> .....   | <b>6,485</b>        | <b>6,280</b>        |
| <b>Total liabilities and stockholders' equity</b> .....   | <b>\$ 23,215</b>    | <b>\$19,311</b>     |

# Balance Sheet

**Total Investing = Total Financing**  
**= Creditor Financing + Owner Financing**

**Dell Financing**  
**(in \$billions)**

**\$23.215 = \$16.730 + \$6.485**

**DELL INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in millions, except per share amounts)

|  | Fiscal Year Ended   |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | January 28,<br>2005 | January 30,<br>2004 | January 31,<br>2003 |
| Net revenue .....                            | \$49,205            | \$41,444            | \$35,404            |
| Cost of revenue .....                        | 40,190              | 33,892              | 29,055              |
| Gross margin .....                           | <u>9,015</u>        | <u>7,552</u>        | <u>6,349</u>        |
| Operating expenses:                          |                     |                     |                     |
| Selling, general, and administrative .....   | 4,298               | 3,544               | 3,050               |
| Research, development, and engineering ..... | 463                 | 464                 | 455                 |
| Total operating expenses .....               | <u>4,761</u>        | <u>4,008</u>        | <u>3,505</u>        |
| Operating income .....                       | 4,254               | 3,544               | 2,844               |
| Investment and other income, net .....       | 191                 | 180                 | 183                 |
| Income before income taxes .....             | 4,445               | 3,724               | 3,027               |
| Income tax provision .....                   | <u>1,402</u>        | <u>1,079</u>        | <u>905</u>          |
| Net income .....                             | <u>\$ 3,043</u>     | <u>\$ 2,645</u>     | <u>\$ 2,122</u>     |
| Earnings per common share:                   |                     |                     |                     |
| Basic .....                                  | <u>\$ 1.21</u>      | <u>\$ 1.03</u>      | <u>\$ 0.82</u>      |
| Diluted .....                                | <u>\$ 1.18</u>      | <u>\$ 1.01</u>      | <u>\$ 0.80</u>      |

## Income Statement

**Revenues – Cost of goods sold = Gross Profit**

**Gross profit – Operating expenses = Operating Profit**

**Dell Profitability**  
(in \$billions)

**\$49,205 - \$40,190 = \$9,015 Gross Profit**

**\$9,015 - \$4,761 = \$4,254 Operating profit**

DELL INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in millions)

|   | Common Stock and Capital in Excess of Par Value |         | Treasury Stock |            | Retained Earnings | Other Comprehensive Income (Loss) |        | Total    |
|---|---|---------|----------------|------------|-------------------|-----------------------------------|--------|----------|
|   | Shares  | Amount  | Shares         | Amount     |                   | Other                             |        |          |
| Balances at February 1, 2002  | 2,654   | \$5,605 | 52             | \$ (2,249) | \$1,364           | \$ 38                             | \$(64) | \$ 4,694 |
| Net income  | —   | —       | —              | —          | 2,122             | —                                 | —      | 2,122    |
| Change in net unrealized gain on investments, net of taxes of \$14            | —   | —       | —              | —          | —                 | 26                                | —      | 26       |
| Foreign currency translation adjustments                                      | —   | —       | —              | —          | —                 | 4                                 | —      | 4        |
| Change in net unrealized loss on derivative instruments, net of taxes of \$42 | —   | —       | —              | —          | —                 | (101)                             | —      | (101)    |
| Total comprehensive income  | —   | —       | —              | —          | —                 | —                                 | —      | 2,051    |
| Stock issuances under employee plans, including tax benefits                  | 27  | 410     | —              | —          | —                 | —                                 | 6      | 416      |
| Repurchases   | —   | —       | 50             | (2,290)    | —                 | —                                 | —      | (2,290)  |
| Other   | —   | 3       | —              | —          | —                 | —                                 | (1)    | 2        |
| Balances at January 31, 2003  | 2,681   | 6,018   | 102            | (4,539)    | 3,486             | (33)                              | (59)   | 4,873    |
| Net income  | —   | —       | —              | —          | 2,645             | —                                 | —      | 2,645    |
| Change in net unrealized gain on investments, net of taxes of \$19            | —   | —       | —              | —          | —                 | (35)                              | —      | (35)     |
| Foreign currency translation adjustments                                      | —   | —       | —              | —          | —                 | 6                                 | —      | 6        |
| Change in net unrealized loss on derivative instruments, net of taxes of \$5  | —   | —       | —              | —          | —                 | (21)                              | —      | (21)     |
| Total comprehensive income  | —   | —       | —              | —          | —                 | —                                 | —      | 2,595    |
| Stock issuances under employee plans, including tax benefits                  | 40  | 805     | —              | —          | —                 | —                                 | —      | 805      |
| Repurchases   | —   | —       | 63             | (2,000)    | —                 | —                                 | —      | (2,000)  |
| Other   | —   | —       | —              | —          | —                 | —                                 | 7      | 7        |
| Balances at January 30, 2004  | 2,721   | 6,823   | 165            | (6,539)    | 6,131             | (83)                              | (52)   | 6,280    |
| Net income  | —   | —       | —              | —          | 3,043             | —                                 | —      | 3,043    |
| Change in net unrealized gain on investments, net of taxes of \$15            | —   | —       | —              | —          | —                 | (52)                              | —      | (52)     |
| Foreign currency translation adjustments                                      | —   | —       | —              | —          | —                 | 1                                 | —      | 1        |
| Change in net unrealized loss on derivative instruments, net of taxes of \$21 | —   | —       | —              | —          | —                 | 52                                | —      | 52       |
| Total comprehensive income  | —   | —       | —              | —          | —                 | —                                 | —      | 3,044    |
| Stock issuances under employee plans, including tax benefits                  | 48  | 1,372   | —              | —          | —                 | —                                 | —      | 1,372    |
| Repurchases   | —   | —       | 119            | (4,219)    | —                 | —                                 | —      | (4,219)  |
| Other   | —   | —       | —              | —          | —                 | —                                 | 8      | 8        |
| Balances at January 28, 2005  | 2,769   | \$8,195 | 284            | \$(10,756) | \$9,174           | \$( 82)                           | \$(44) | \$ 6,485 |

## Statement of Cash Flows

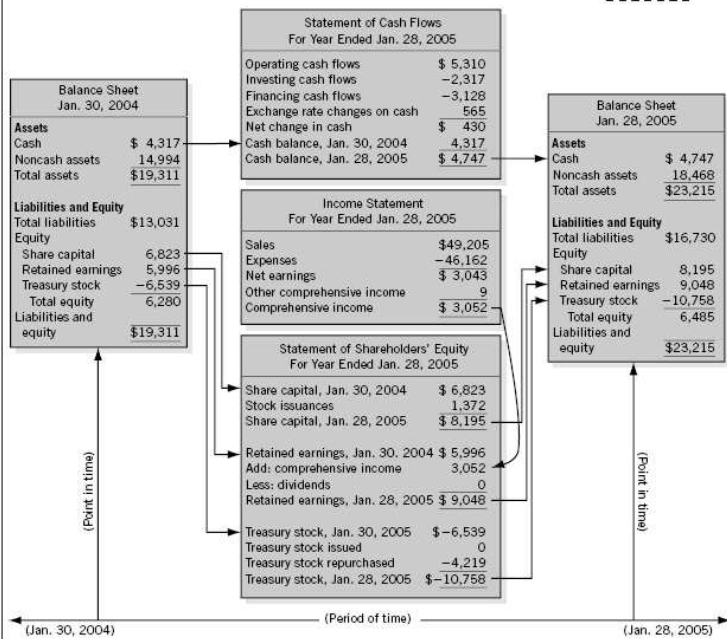
**Net Cash Flows from Operating Activities**  
**Net Cash Flows from Investing Activities**  
**Net Cash Flows from Financing Activities**

**DELL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

|   | Fiscal Year Ended   |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | January 28,<br>2005 | January 30,<br>2004 | January 31,<br>2003 |
| <b>Cash flows from operating activities:</b>  |                     |                     |                     |
| Net income  | \$ 3,043            | \$ 2,645            | \$ 2,122            |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                     |                     |                     |
| Depreciation and amortization   | 334                 | 263                 | 211                 |
| Tax benefits of employee stock plans  | 249                 | 181                 | 260                 |
| Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies | (602)               | (677)               | (537)               |
| Other   | 78                  | 113                 | 60                  |
| Changes in:   |                     |                     |                     |
| Operating working capital   | 1,755               | 872                 | 1,210               |
| Non-current assets and liabilities  | 453                 | 273                 | 212                 |
| Net cash provided by operating activities   | <u>5,310</u>        | <u>3,670</u>        | <u>3,538</u>        |
| <b>Cash flows from investing activities:</b>  |                     |                     |                     |
| Investments:  |                     |                     |                     |
| Purchases   | (12,261)            | (12,099)            | (8,736)             |
| Maturities and sales  | 10,469              | 10,078              | 7,660               |
| Capital expenditures  | (525)               | (329)               | (305)               |
| Purchase of assets held in master lease facilities  | —                   | (636)               | —                   |
| Cash assumed in consolidation of Dell Financial Services L.P.   | —                   | 172                 | —                   |
| Net cash used in investing activities   | <u>(2,317)</u>      | <u>(2,814)</u>      | <u>(1,381)</u>      |
| <b>Cash flows from financing activities:</b>  |                     |                     |                     |
| Repurchase of common stock  | (4,219)             | (2,000)             | (2,290)             |
| Issuance of common stock under employee plans and other   | 1,091               | 617                 | 265                 |
| Net cash used in financing activities   | <u>(3,128)</u>      | <u>(1,383)</u>      | <u>(2,025)</u>      |
| Effect of exchange rate changes on cash and cash equivalents  | 565                 | 612                 | 459                 |
| Net increase in cash and cash equivalents   | 430                 | 85                  | 591                 |
| Cash and cash equivalents at beginning of period  | <u>4,317</u>        | <u>4,232</u>        | <u>3,641</u>        |
| Cash and cash equivalents at end of period  | <u>\$ 4,747</u>     | <u>\$ 4,317</u>     | <u>\$ 4,232</u>     |

*Financial Statement Links—Dell*

*Exhibit 1.5*





## **Additional Information**

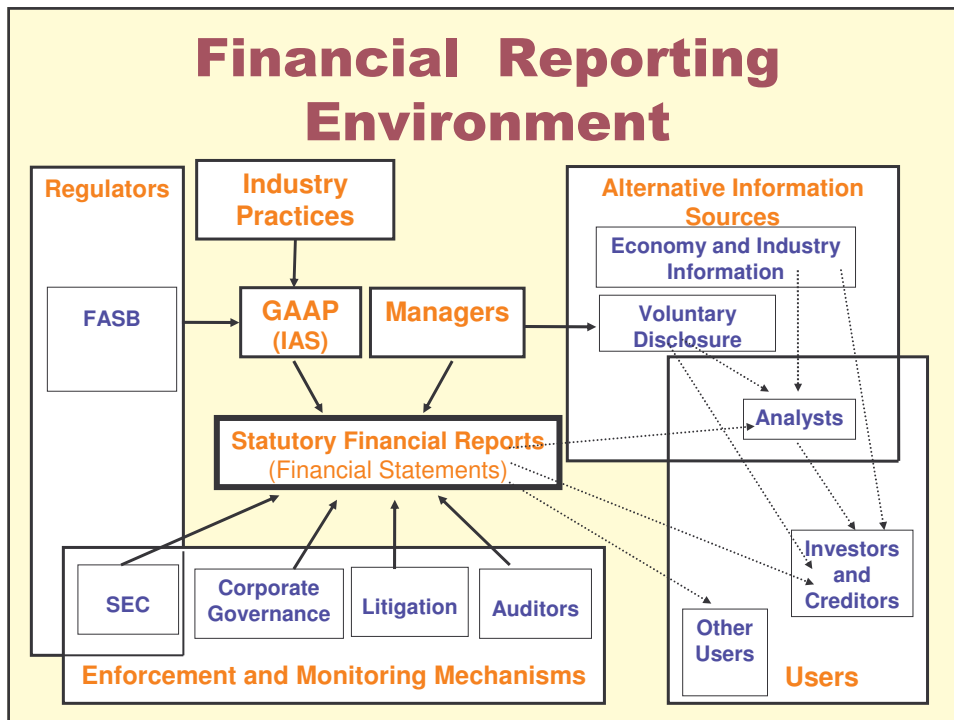
**(Beyond Financial Statements)**

- **Management Discussion & Analysis (MD&A)**
- **Management Report**
- **Auditor Report**
- **Notes to Financial Statements**
- **Supplementary information**



## **Financial Reporting and Analysis**

## Financial Reporting Environment



## Environmental Factors

**GAAP**  
 (Generally Accepted Accounting Principles)  
**IAS**  
 (International Accounting Standards)

- **Rules and guidelines of financial accounting:** collection of standards, pronouncements, opinions, interpretations, and practice guidelines set by professional and statutory bodies.
- **Determine measurement and recognition policies** such as how assets are measured, when liabilities are incurred, when revenues and gains are recognized, when expenses and losses are incurred, what information must be provided in the notes.

# Financial Accounting

## Desirable qualities of accounting information

- **Relevance** – capacity of information to affect a decision. It implies:
  - to have predictive value
  - to have feedback value
  - Timeliness (to be reported before it loses its capacity to affect decision)
- **Reliability** –
  - Verifiability: means that the information is confirmable
  - Representational faithfulness: information reflects reality
  - Neutrality: truthful and unbiased
- **Comparability** – information is measured in a similar manner across company
- **Consistency** – the same method is used for similar transaction across time.

# Accounting Analysis

Process of evaluating the extent to which a company's accounting numbers reflect economic reality

- Precondition for an effective financial analysis: the quality of financial analysis and the inferences drawn depend on the quality of the underlying accounting information
- It is the process an analyst uses to identify and assess accounting distortions in a company's financial statements

## Accounting Analysis

### Demand for Accounting Analysis

- Adjust for *accounting distortions* so financial reports better reflect economic reality
- Adjust general-purpose financial statements to meet specific *analysis objectives* of a particular user

## Accounting Analysis

### Sources of Accounting Distortions

- *Accounting Standards* – attributed to (1) political process of standard-setting, (2) accounting principles and assumptions, and (3) conservatism
- *Estimation Errors* – attributed to estimation errors inherent in accrual accounting
- *Reliability vs Relevance* – attributed to over-emphasis on reliability at the loss of relevance
- *Earnings Management* – attributed to window-dressing of financial statements by managers to achieve personal benefits

# Accounting Analysis

## Process of Accounting Analysis

Accounting analysis involves several inter-related processes and tasks that can be grouped into two broad areas:

### Evaluating Earning Quality (or accounting quality):

- Identify and assess key accounting policies
- Evaluate extent of accounting flexibility
- Determine the reporting strategy adopted by the company
- Identify and assess “red flags”

### Adjusting Financial Statements:

- Identify, measure, and make necessary adjustments to financial statements to better serve one’s analysis objectives (lectures 2-3 focus on adjusting – recasting the statements)

## Analysis Preview

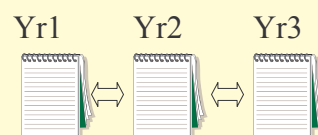
## Analysis Preview

### Sets of tools for financial analysis

1. Comparative financial statements analysis
2. Common-size financial statement analysis
3. Ratio analysis
4. Cash flow analysis
5. Valuation

## Analysis Preview

### Comparative Analysis



- Purpose: Evaluation of consecutive financial statements, from period to period
- Output: Direction, speed, & extent of any trend(s)
- Types:
- Year-to-year Change Analysis
  - Index-Number Trend Analysis

## Analysis Preview

*Dell's Comparative Income Statements*

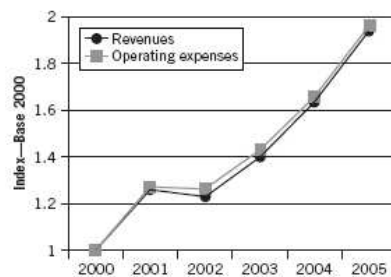
*Exhibit 1.6*

|  | 2005            | 2004            | Change<br>(in \$mil) | Change % |
|--|-----------------|-----------------|----------------------|----------|
| Revenues .....                                 | \$49,205        | \$41,444        | \$7,761              | 18.7%    |
| Cost of goods sold .....                       | 40,190          | 33,892          | 6,298                | 18.6     |
| Gross profit .....                             | 9,015           | 7,552           | 1,463                | 19.4     |
| Operating expenses:                            |                 |                 |                      |          |
| Selling, general, and administrative exp. .... | 4,298           | 3,544           | 754                  | 21.3     |
| Research and development .....                 | 463             | 464             | (1)                  | -0.2     |
| Operating profit .....                         | 4,254           | 3,544           | 710                  | 20.0     |
| Investment income .....                        | 191             | 180             | 11                   | 6.1      |
| Pretax income .....                            | 4,445           | 3,724           | 721                  | 19.4     |
| Income tax expense .....                       | 1,402           | 1,079           | 323                  | 29.9     |
| Net income .....                               | <u>\$ 3,043</u> | <u>\$ 2,645</u> | <u>\$ 398</u>        | 15.0     |

## Analysis Preview

*Dell's Index-Number Trend—Revenues and Operating Expenses*

*Exhibit 1.7*



## Analysis Preview

### Common-Size Analysis

- Purpose :
- Evaluation of internal makeup of financial statements
  - Evaluation of financial statement accounts across companies

Output: Proportionate size of assets, liabilities, equity, revenues, & expenses

## Analysis Preview

### Common-Size Analysis

| Common size                                  | 2005  | 2004  | 2003  | 2002  | 2001  |
|--|-------|-------|-------|-------|-------|
| Net revenue .....                            | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue .....                        | 81.7  | 81.8  | 82.1  | 82.3  | 79.8  |
| Gross margin .....                           | 18.3  | 18.2  | 17.9  | 17.7  | 20.2  |
| Selling, general, and administrative .....   | 8.7   | 8.6   | 8.6   | 8.9   | 10.0  |
| Research, development, and engineering ..... | 0.9   | 1.1   | 1.3   | 1.5   | 1.5   |
| Total operating expenses .....               | 9.7   | 9.7   | 9.9   | 10.4  | 11.5  |
| Investment and other income, net .....       | 0.4   | 0.4   | 0.5   | -1.7  | 1.3   |
| Income before income taxes .....             | 9.0   | 9.0   | 8.5   | 5.6   | 10.0  |
| Income tax provision .....                   | 2.8   | 2.6   | 2.6   | 1.6   | 3.0   |
| Net income .....                             | 6.2   | 6.4   | 6.0   | 4.0   | 7.0   |



# Analysis Preview

*Dell's Common-Size Balance Sheets*

*Exhibit 1.9*

|   | 2005         | 2004         |
|---|--------------|--------------|
| Cash and cash equivalents                 | 20.4         | 22.4         |
| Short-term investments                    | 21.8         | 4.3          |
| Accounts receivable, net                  | 19.0         | 18.8         |
| Inventories                               | 2.0          | 1.7          |
| Other current assets                      | 9.5          | 7.9          |
| <b>Total current assets</b>               | <b>72.8</b>  | <b>55.1</b>  |
| Property, plant, and equipment, net       | 7.3          | 7.9          |
| Investments                               | 18.6         | 35.1         |
| Other noncurrent assets                   | 1.3          | 2.0          |
| <b>Total assets</b>                       | <b>100.0</b> | <b>100.0</b> |
| Accounts payable                          | 38.3         | 37.9         |
| Accrued and other                         | 22.6         | 18.5         |
| <b>Total current liabilities</b>          | <b>60.9</b>  | <b>56.4</b>  |
| Long-term debt                            | 2.2          | 2.6          |
| Other noncurrent liabilities              | 9.0          | 8.4          |
| <b>Total liabilities</b>                  | <b>72.1</b>  | <b>67.5</b>  |
| Common stock and capital in excess of par | 35.3         | 35.3         |
| Treasury stock                            | -46.3        | -33.9        |
| Retained earnings                         | 39.5         | 31.7         |
| Other                                     | -0.5         | -0.7         |
| <b>Total stockholders' equity</b>         | <b>27.9</b>  | <b>32.5</b>  |
| <b>Total liabilities and equity</b>       | <b>100.0</b> | <b>100.0</b> |

# Analysis Preview

## Ratio Analysis

**Purpose :** Evaluate relation between two or more economically important items (one starting point for further analysis)

**Output:** Mathematical expression of relation between two or more items

**Cautions:**

- Prior Accounting analysis is important
- Interpretation is key -- long vs short term & benchmarking

# Analysis Preview

## Ratio Analysis

1. Credit (risk analysis)
  - Liquidity
  - Capital structure and Solvency
2. Profitability analysis
  - Return on investment
  - Operating performance
  - Asset utilization
3. Valuation (market measure)

# Analysis Preview

## Valuation

**Valuation - an important goal of many types of business analysis**

**Purpose:** Estimate intrinsic value of a company (or stock)  
**Basis:** Present value theory (time value of money)