MODULE 2

HOW DO I ANALYZE FINANCIAL STATEMENTS?

BOONE BOWLES

Agenda

1. Where can I find financial information?
2. What should I know about financial statements?
3. How do I analyze financial statements?
4. How does this help me with valuation?



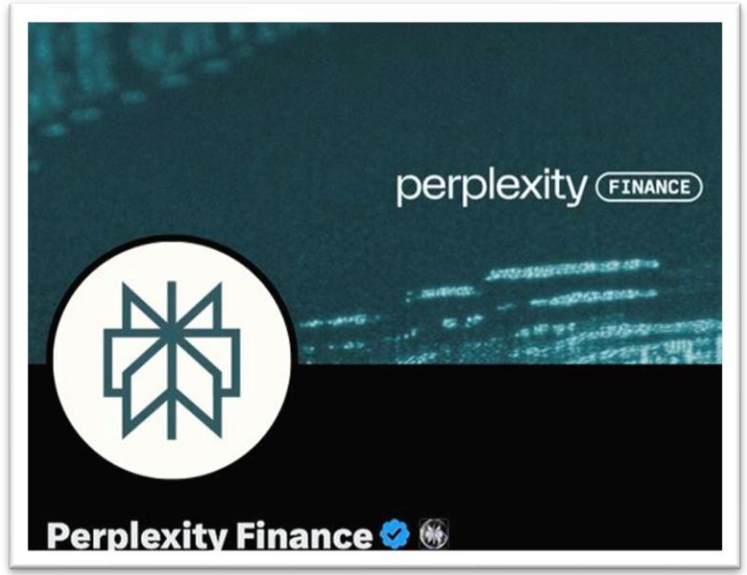
Where can I find financial information?



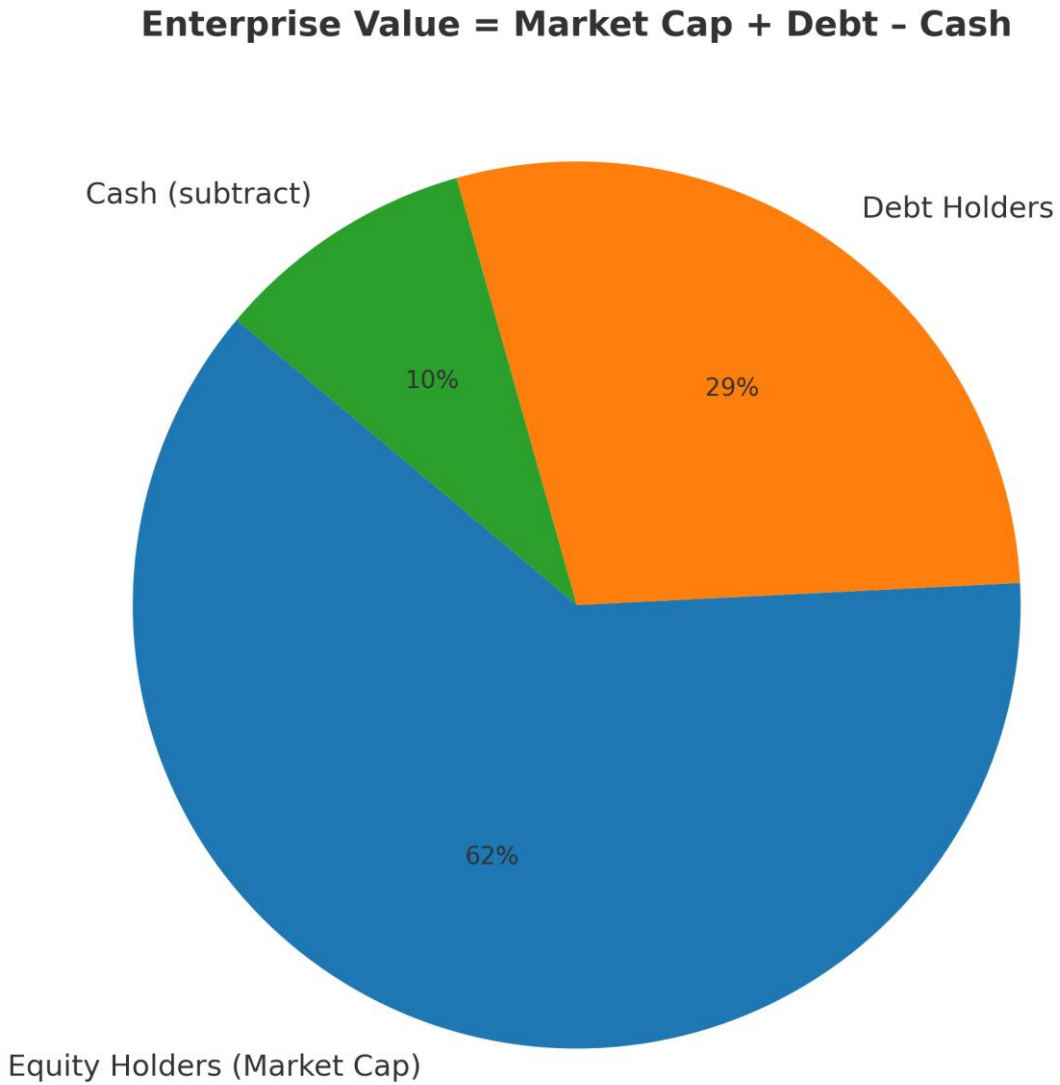








Enterprise Value



Financial Ratios

Profitability/Operating

- Gross Margin = Gross Profit / Revenue
- Net Profit Margin = Net Income / Revenue
- EBIT Margin = EBIT / Revenue
- ROA = (Net Income + Interest Exp) / Total Assets
- ROE = Net Income / Equity

Liquidity/Working Capital

- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Cash + ARs + ST Investments) / Current Liabilities
- AR Days = (Accounts Receivable / Revenue) × 365

Leverage/Coverage

- Debt-to-Equity = Total Debt / Equity
- Equity Multiplier = Total Assets / Book Equity
- Interest Coverage = EBIT / Interest Expense

Efficiency

- Asset Turnover = Revenue / Total Assets
- Inventory Turnover = COGS / Inventory

Valuation

- P/E Ratio = Price per Share / Earnings per Share
- Market-to-Book = Market Cap / Book Value of Equity
- Enterprise to Revenue = Enterprise Value / Sales

Walmart or Target?

Option	Net Profit Margin	Asset Turnover	Equity Multiplier	ROE
Option A	2.9%	2.61×	2.87×	21%
Option B	3.8%	1.85×	3.94×	28%

Costco or Procter & Gamble?

Option	Net Profit Margin	Asset Turnover	Equity Multiplier	ROE
Option A	2.9%	3.57×	2.64×	28%
Option B	19%	0.67×	2.41×	31%

Nike or Target?

Option	Net Profit Margin	Asset Turnover	Equity Multiplier	ROE
Option A	7.0%	1.27×	2.77×	24%
Option B	3.8%	1.85×	3.94×	28%

What is the Free Cash Flow from Maroon Inc?

Income Statement (2023)	
Sales	1,000
– COGS	500
– Depreciation	100
– SG&A	50
= EBIT	350
– Interest	50
= EBT	300
– Taxes (25%)	75
= Net Income	225

Balance Sheet Extract	2023	2022
Cash	130	100
Accounts Receivable	400	350
Inventories	560	550
Total Current Assets	1,090	1,000
Net PP&E	1,610	1,500
Total Assets	2,700	2,500
Accounts Payable	70	50
Income Tax Payable	190	200
Total Current Liabilities	260	250
Long-Term Debt	330	300
Common Stock & Paid-In Surplus	810	800
Retained Earnings	1,300	1,150
Total Liabilities & Equity	2,700	2,500

What did we learn here?

1. **Where can I find financial information?**
   - **EDGAR, IR sites, Yahoo, CNBC, Perplexity.**

2. **What should I know about financial statements?**
   - **Balance Sheet, Income Statement, Enterprise Value, Market-to-Book, EBITDA**

3. **How do I analyze financial statements?**
   - **Ratios, comparisons, DuPont Identity.**

4. **How does this help me with valuation?**
   - **Free Cash Flow ----- Valuation.**





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