LECTURE 9

Chapter 14

Financial Analysis – example (Celerity Technology)

– PRINT SPREADSHEET ON FINANCIAL ANALYSIS FOR CELERITY TECHNOLOGY

Perfect World – all cash – Lemonade stand

I/S and CF – Differences (Taxes – Depreciation, Amortization of Fees (Capitalized)
- Capex (Non deductible)
- Working Capital (Timing Differences) – Changes in Balance Sheet
- Financing Activities (New/repayment of debt)

Income Statement
- Unlike the Balance Sheet that is a snap-shot at a particular time, the Income Statements show the flow over time (one year / one quarter/ one month)
- Measures profitability for that period
- EBITDA

Cash Flow Statement
- Working Capital
- Capex (Maintenance / Growth Capex)
- Acquisitions
- Selling Assets/property – Disposition of Assets
- Principal Payments
- Raising New Financing/IPO Equity
- Beginning/Ending Cash

Professor Chris Droussiotis

Financial Ratios

	Definition
Trend Analysis Ratios	
Revenue Growth	
Stock one-year Return	
Liquidity Ratios	
Current Ratio	CA/CL
Quick ratio	(Cash + A/R) / CL
Accounts Receivable Turnover (ART)	Revenue/Avg AR
Accounts Receivable Days	365 / ART
Solvency Ratios	
Debt/Equity Ratio	LTD / Equity
LTD / Total Capitalization	LTD / (LTD + Equity)
EBITDA / Interest (Coverage Ratio)	EBITDA / Interest
EBIT / Interest	EBIT / Interest
Fixed Charge Coverage Ratio	(EBITDA-Capex)/(Int+ST+ LT Pmts)
Cash Avail.for Debt Service / Debt Service	(CABFA + int.) / (Int. + ST+LT Pmts)
LTD / EBITDA (Leverage Ratio)	LTD / EBITDA
Activity Ratios / Operating Ratios	
Inventory Ratio (IR)	Cost of Revenues/Avg Inventory
Inventory Ratio - Days	365 / IR
Fixed Asset Turnover Ratio	Rev / Avg of FA
Asset Turnover Ratio	Rev / Avg of Total Assets
Profitability Ratios	
Gross Margin	Gross Margin / Revenues
EBITDA Margin	EBITDA / Revenue
EBIT Margin	EBIT / Revenue
Return on Assets (ROA)	NI / Avg Assets
Gross Return on Assets	EBIT / Avg Assets
Return on Equity (ROE)	NI / Avg Equity
Market Ratios	
Stock Price	
Total Shares Outstanding	
Market Value of Equity	
Market-to-Book	
Earnings Per Share (EPS)	NI / Avg Shares Outstanding
Price Earnings Ratio (PE)	Market Price / EPS
EV / EBITDA	(MVE + LTD + STD - Cash) / EBITDA

Other Ratios

Altma's Z-score

Z Formula

Z = 1.2x (WC/TA) + 1.4x(RE/TA)+3.3x(EBIT/TA)+0.6x(MVE/Liabilities) + 0.99x(Sales/TA)

WC = Working Capital
TA=Total Assets
RE=Retained Earnings
MVE=Market Value of Equity

Z-Score	Bankruptcy
1.8x or less	Likely
Between 1.8 - 3.0	Uncertain
3.0 or above	Not likely

Three questions:
1. How does it compare versus last year
2. How does it compare versus their peers / Competition
3. How does it compare versus expectations