

# Principles of Investment Analysis



# x Importance of financial statements analysis



- Financial statements are essential tools for investors to assess the financial health and performance of a company. When investing looking at these things can be a good indicator on how this company will do and how it will affect you.
- By being able to analyze financial statements investors can evaluate the companies profitability, liquidity, solvency, and overall financial performance
- Financial statement analysis also provides insight into a company's revenue growth, profit margins, debt levels, cash flow generation and return on investment.



## x Key terms:

Liquidity: How quick a company can convert an asset into cash

Solvency: Companies ability to pay debts and cover expenses over time

Profit Margins: Measure of how much profit a company makes per dollar of revenue



# Income Statement

- Income statement shows a company's revenues, expenses, and net income over a specific period of time (usually quarterly or annually)
- Income statements have a lot of information that can look frightening at first but the main things to look at should be the revenue, expenses for the cost of goods sold (COGS), net income, earning per share (EPS), and then comparative analysis is very important.

(Dollar amounts in thousands, except per share amounts)	
<b>Income Statement for Year</b>	
Sales revenue	\$457,000
Cost of goods sold expense	<u>298,750</u>
Gross margin	\$158,250
Sales, administration, and general expenses	<u>102,680</u>
Earnings before interest and income tax	\$55,570
Interest expense	<u>6,250</u>
Earnings before income tax	\$49,320
Income tax expense	<u>16,850</u>
Net income	<u><u>\$32,470</u></u>
Basic earnings per share	\$3.82
Diluted earnings per share	\$3.61

# Balance Sheet

- A balance sheet is a snapshot of a company's financial position at a specific point in time.
- The key components of a balance sheet is the **assets including current and non current, liabilities including current and non current and shareholders equity.**



Apple Inc.  
 CONSOLIDATED BALANCE SHEETS  
 (In millions, except number of shares which are reflected in thousands and par value)

	September 26, 2020	September 28, 2019
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 38,016	\$ 48,844
Marketable securities	52,927	51,713
Accounts receivable, net	16,120	22,926
Inventories	4,061	4,106
Vendor non-trade receivables	21,325	22,878
Other current assets	11,264	12,352
Total current assets	143,713	162,819
<b>Non-current assets:</b>		
Marketable securities	100,887	105,341
Property, plant and equipment, net	36,766	37,378
Other non-current assets	42,522	32,978
Total non-current assets	180,175	175,697
Total assets	\$ 323,888	\$ 338,516
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 42,296	\$ 46,236
Other current liabilities	42,684	37,720
Deferred revenue	6,643	5,522
Commercial paper	4,996	5,980
Term debt	8,773	10,260
Total current liabilities	105,392	105,718
<b>Non-current liabilities:</b>		
Term debt	98,667	91,807
Other non-current liabilities	54,490	50,503
Total non-current liabilities	153,157	142,310
Total liabilities	258,549	248,028
<b>Commitments and contingencies</b>		
<b>Shareholders' equity:</b>		
Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,976,763 and 17,772,945 shares issued and outstanding, respectively	50,779	45,174
Retained earnings	14,966	45,898
Accumulated other comprehensive income/(loss)	(406)	(584)
Total shareholders' equity	65,339	90,488
Total liabilities and shareholders' equity	\$ 323,888	\$ 338,516

See accompanying Notes to Consolidated Financial Statements.  
 Apple Inc. | 2020 Form 10-K

# Cash flow Statement

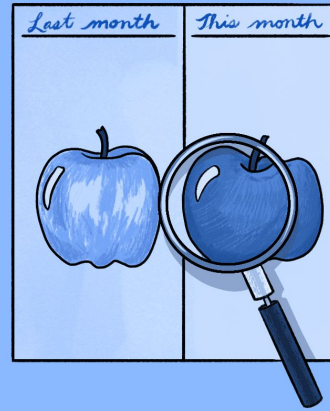
- Cash flow statement shows how cash and cash equivalents flow in and out of a company during a specific period.
- The three main sections are operating activities, investing activities, and financial activities



Cash Flow Statement Company XYZ FY Ended 31 Dec 2017 All Figures in USD		
<b>Cash Flow From Operations</b>		
Net Earnings		2,000,000
<i>Additions to Cash</i>		
Depreciations		10,000
Decrease in Accounts Receivable		15,000
Increase in Accounts Payable		15,000
Increase in Taxes Payable		2,000
<i>Subtractions From Cash</i>		
Increase in Inventory		(30,000)
<u>Net Cash From Operations</u>		<u>2,012,000</u>
<b>Cash Flow From Investing</b>		
Equipment		(500,000)
<b>Cash Flow From Financing</b>		
Notes Payable		10,000
<u>Cash Flow for FY Ended 21 Dec 2017</u>		<u>1,522,000</u>

# Comparative Analysis

- Comparative analysis is a way to figure out if investing in a certain company is a good idea.
- Assess trends, identify changes, and evaluate performance over time.
- Benchmarking against industry peers
- Examining revenue, expenses, and profitability metrics side by side to another company can help gain insight into a company's financial health, growth trajectory and efficiency in generating profits.



## Comparative Statement

*[kəm-'per-ə-tiv 'stāt-mənt]*

A document where previous financials are presented alongside the latest figures in side-by-side columns, enabling investors to easily track a company's progress and compare it with peers.

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