A QUICK GUIDE TO REPORT CORPORATE FINANCIAL PERFORMANCE

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This Quick Guide presents the fundamental steps for collecting and treat data and information in order to analyze real cases of companies and prepare a report on assessing the financial performance of a company. It is to be used by students in masters of finance and post-graduation courses that require development of financial skills such the MBA.

Before you start the project or the case, you must consider the following basic principles:

- There are many ways of assessing the performance of a company. The present Guide is an auxiliary and is not intended to be exhaustive. There are situations in which it will be necessary to deepen the meaning of numbers. The financial analyst should be prepared to understand what he (or she) needs more to emit his/her independent opinion.
- It is not possible to analyze the ratios in a vacuum. Financial rations serve to generate questions about the situation of the company that often require qualitative answers.
- It is necessary that the financial data to be framed by the business and the strategies of the company and the environment (world economy, nationals economy where the company operates and the industry). The financial analyst must understand the dynamics of the industry, as well as the strategy of the major players in the industry, new entrants, evolution and impact of technologies, the political environment, the regulatory risk, and how the company positions itself in this dynamic.
- Financial ratios vary from sector to sector, and from company to company. They only can be interpreted if compared with other companies in the sector.
- Although the fundamentals of financial analysis rely on financial theory, conducting a financial analysis in practice requires experience, so it is also an art.
- What investors want to know is the extent to which it is worth considering investing in this company. The managers of the company are usually looking for recommendations from the financial analyst to improve the performance of the company and create value to shareholders and stakeholders.

1. Obtain the financial statements

Get the company's financial statements for several years. At least 3 years. 5 Years is the period conventionally recommended. In addition to the financial statements, the management report and the notes to the accounts are recommended to understand the accounting policies adopted, the contents of the accounts and changes over the years.

2. Helicopter view

Observe the financial statements and see if something catches your eye. For example very significant changes in some headings or some ratios. See what trends exist in total assets, fixed assets, level of debt, operating earnings and net earnings and whether sales follow this trend or otherwise. Does the average collection period, payment period and days outstanding in

inventory seem normal or not? There are significant oscillations. If you find something that seems strange, you must investigate why. Sometimes there are very simple explanations, other times can even be a problem.

3. Read the Report and Accounts carefully

It is not enough to apply a battery of ratios and analyze their evolution. You have to understand what lies behind these ratios.

Read the management report to understand what has happened in each year and the prospects that management has for the future.

Read the accounting policies and whether there has been stable or have been changed and the reasons for these changes.

See the detail of each account in the "Explanatory Notes" to help to adjust accounting financial statements into managerial financial statements (managerial balance sheet and managerial income statement at variable costing or at least with separation of recurring items from nonrecurring items).

Read what is behind the legal certification of accounts, the opinion of the executive board and the supervisory board or the audit committee. See if legal certification is simple, direct and clear. See if there are any emphases, whether there are reservations or whether any limitations of scope.

4. Review balance sheets

See if there are significant changes in the various components of assets, liabilities or equity. For example, if fixed assets grew rapidly, in one or two years. Was that due to acquisitions or new facilities? On the other hand, if they diminished was a result of selling of assets? Why?

Has debt been held steady, has it risen or fallen? How is this reflected in the company's financing strategy and in the company's own strategy? Is there anything that catches your eye and needs further investigation?

5. Analyze the income statements

Analyze the trends over time in the main headings:

- Sales of goods
- Product sales
- Provision of services
- Cost of materials
- External supplies and services (if you have detail in the explanatory notes analyze the detail)
- Personnel expenses
- Depreciation for the yea
- Provision for the year
- Impairments
- Direct and indirect taxes
- Other operating costs

- Financial expenses

Are these items evolving smoothly and consistently, or on the contrary, irregularly up and down? Note that investors prefer stability and predictability rather than erratic movements with large swings.

For each of the main components of costs, the percentage in relation to Sales Revenues.

If you find some variation that does not make sense, try to investigate what happened that explains the situation.