

BRIEF CONTENTS

PART

1

FRAME WORK

- 1 A FRAMEWORK FOR BUSINESS ANALYSIS AND VALUATION USING FINANCIAL STATEMENTS

1

3

PART

2

BUSINESS ANALYSIS AND VALUATION TOOLS

- 2 STRATEGY ANALYSIS
- 3 ACCOUNTING ANALYSIS: THE BASICS
- 4 ACCOUNTING ANALYSIS: ACCOUNTING ADJUSTMENTS
- 5 FINANCIAL ANALYSIS
- 6 PROSPECTIVE ANALYSIS: FORECASTING
- 7 PROSPECTIVE ANALYSIS: VALUATION THEORY AND CONCEPTS
- 8 PROSPECTIVE ANALYSIS: VALUATION IMPLEMENTATION

45

47

88

136

181

239

278

330

PART

3

BUSINESS ANALYSIS AND VALUATION APPLICATIONS

- 9 EQUITY SECURITY ANALYSIS
- 10 CREDIT ANALYSIS AND DISTRESS PREDICTION
- 11 MERGERS AND ACQUISITIONS

379

381

410

440

PART

4

ADDITIONAL CASES

491

CONTENTS

<i>Preface</i>	xi
<i>Acknowledgements</i>	xv
<i>Authors</i>	xvi
<i>Walk Through Tour</i>	xvii
<i>Digital Support Resources</i>	xix

PART

1

FRAME WORK

1	A FRAMEWORK FOR BUSINESS ANALYSIS AND VALUATION USING FINANCIAL STATEMENTS	1
		3
	The Role of Financial Reporting in Capital Markets	4
	From Business Activities to Financial Statements	5
	Influences of the Accounting System on Information Quality	6
	Alternative forms of Communication with Investors	11
	From Financial Statements to Business Analysis	13
	Public versus Private Corporations	15
	Summary	16
	Core Concepts	16
	Questions, Exercises and Problems	17
	Notes	20
	Appendix: Defining Europe	22
	CASE The role of capital market intermediaries in the dot-com crash of 2000	23

PART

2

BUSINESS ANALYSIS AND VALUATION TOOLS

2	STRATEGY ANALYSIS	45
		47
	Industry Analysis	47
	Applying Industry Analysis: The European Airline Industry	51
	Competitive Strategy Analysis	53
	Corporate Strategy Analysis	57
	Summary	59
	Core Concepts	60
	Questions, Exercises and Problems	61
	Notes	63
	CASE VIZIO, Inc.	65

3	ACCOUNTING ANALYSIS: THE BASICS	88
	Factors Influencing Accounting Quality	88
	Steps in Accounting Analysis	90
	Recasting Financial Statements	95
	Accounting Analysis Pitfalls	104
	Value of Accounting Data and Accounting Analysis	105
	Summary	106
	Core Concepts	106
	Questions, Exercises and Problems	107
	Notes	110
	Appendix A: First-Time Adoption of IFRS	112
	Appendix B: Recasting Financial Statements into Standardized Templates	113
	CASE Fiat Group's first-time adoption of IFRS	118
4	ACCOUNTING ANALYSIS: ACCOUNTING ADJUSTMENTS	136
	Recognition of Assets	136
	Asset Distortions	140
	Recognition of Liabilities	154
	Liability Distortions	155
	Equity Distortions	161
	Summary	163
	Core Concepts	163
	Questions, Exercises and Problems	164
	Notes	172
	CASE Marks and Spencer's accounting choices	173
5	FINANCIAL ANALYSIS	181
	Ratio Analysis	181
	Cash Flow Analysis	202
	Summary	206
	Core Concepts	207
	Questions, Exercises and Problems	208
	Notes	215
	Appendix: Hennes & Mauritz AB Financial Statements	216
	CASE Carrefour S.A.	223
6	PROSPECTIVE ANALYSIS: FORECASTING	239
	The Overall Structure of the Forecast	239
	Performance Behavior: A Starting Point	242
	Forecasting Assumptions	245
	From Assumptions to Forecasts	252

Sensitivity Analysis	255
Summary	256
Core Concepts	257
Questions, Exercises and Problems	257
Notes	261
Appendix: The Behavior of Components of ROE	261
CASE Forecasting earnings and earnings growth in the European oil and gas industry	264
7 PROSPECTIVE ANALYSIS: VALUATION THEORY AND CONCEPTS	278
Defining Value for Shareholders	279
The Discounted Cash Flow Model	280
The Discounted Abnormal Earnings Model	281
The Discounted Abnormal Earnings Growth Model	283
Valuation Using Price Multiples	287
Shortcut Forms of Earnings-Based Valuation	291
Comparing Valuation Methods	293
Summary	295
Core Concepts	296
Summary of Notation Used in this Chapter	297
Questions, Exercises and Problems	297
Notes	301
Appendix A: Asset Valuation Methodologies	302
Appendix B: Reconciling the Discounted Dividends, Discounted Abnormal Earnings, and Discounted Abnormal Earnings Growth Models	303
CASE TomTom's initial public offering: dud or nugget?	305
8 PROSPECTIVE ANALYSIS: VALUATION IMPLEMENTATION	330
Computing a Discount Rate	330
Detailed Forecasts of Performance	339
Terminal Values	341
Computing Estimated Values	346
Some Practical Issues in Valuation	351
Summary	352
Core Concepts	352
Questions, Exercises and Problems	353
Notes	355
CASE Ryanair Holdings plc	357

BUSINESS ANALYSIS AND VALUATION APPLICATIONS	379
9 EQUITY SECURITY ANALYSIS	381
Investor Objectives and Investment Vehicles	381
Equity Security Analysis and Market Efficiency	383
Approaches to Fund Management and Securities Analysis	384
The Process of a Comprehensive Security Analysis	385
Performance of Security Analysts and Fund Managers	389
Summary	391
Core Concepts	392
Questions	392
Notes	393
CASE Valuation at Novartis	395
10 CREDIT ANALYSIS AND DISTRESS PREDICTION	410
Why Do Firms Use Debt Financing?	411
The Market for Credit	413
Country Differences in Debt Financing	414
The Credit Analysis Process in Private Debt Markets	416
Financial Statement Analysis and Public Debt	421
Prediction of Distress and Turnaround	425
Credit Ratings, Default Probabilities and Debt Valuation	427
Summary	430
Core Concepts	431
Questions	432
Notes	433
CASE Getronics' debt ratings	434
11 MERGERS AND ACQUISITIONS	440
Motivation for Merger or Acquisition	440
Acquisition Pricing	443
Acquisition Financing and Form of Payment	447
Acquisition Outcome	449
Reporting on Mergers and Acquisitions: Purchase Price Allocations	452
Summary	462
Core Concepts	463
Questions	463
Notes	464
CASE PPR – PUMA: A successful acquisition?	466

PART

4

ADDITIONAL CASES

	491
1 Enforcing Financial Reporting Standards: The Case of White Pharmaceuticals AG	493
2 KarstadtQuelle AG	501
3 Oddo Securities – ESG Integration	512
4 Accounting for the iPhone at Apple Inc.	531
5 Air Berlin’s IPO	548
6 The Air France–KLM merger	569
7 Measuring impairment at Dofasco	591
8 The initial public offering of PartyGaming Plc	611
9 Two European hotel groups (A): Equity analysis	621
10 Two European hotel groups (B): Debt analysis	634
11 Valuation ratios in the airline industry	638
<i>Index</i>	647