ASSignment - 5

1) EXPlain DuPont AnAlysis

Dupont AnAlysis

A DuPont AnAlysis is used to evaluate the component parts of a company ~~ROE~~ parts of a compet RoE (Return on Equity) This allows an investor to determine what financial activities contribute the most to the changes in ROE An Investor can use tools like this to ~~two~~ compare the operational efficiency of two similar firms

DuPont AnAlysis VS. Return on Equity

The return on equity metric is net income divided by shareholder equity. The DuPont analysis is still the ROE, just an expanded version. The ROE calculation alone reveals how well a company uses capital from shareholder

With a Dupont analysis, investors or analysts can dig into what drives changes in ROE or why an ROE is considered high or low. That is a Dupont analysis can help deduce whether its profits use of assets or debt that's driving ROE

Formula

Dupont Analysis

$$= \frac{\text{Net profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

Use and purpose of Dupont Analysis

* Dupont Analysis is a framework for analyzing fundamental performance originally popularized by the Dupont Corporation now widely used to compare the operational efficiency of two similar firms.

* Dupont Analsis is a useful technique used to decompose the different drivers of return on equity.