**Task 4 Reading Guide**

**Common-Size Analysis – Introduction**

* Part (i) of this task involves conducting a common-size balance sheet analysis
  + It is a quantitative tool used by investment managers to analyse a company’s balance sheet
* It evaluates the balance sheet by expressing each item as a % of a base amount
  + For example, each asset (line item) is expressed as a % of total assets (base amount)
  + This helps quantify the impact of each line item in the balance sheet and its contribution to total figures
* An investment manager can then compare the build-up of a company’s balance sheet vs. that of other companies on a like-for-like % basis, to compare efficiencies and how resources are being allocated

**Common-Size Analysis – Sector Characteristics**

* Electric Car Companies
  + Fixed Assets: Moderate (due to machinery and factories)
  + Total Debt: Moderate (due to ability to secure debt against fixed assets)
  + Return on Assets: Low (due to low initial profit margins as scale is yet to fully pick up given nascency of technology, and moderate-to-high capital intensity)
* Gaming Companies
  + Cash: High (due to high profit margins resulting in strong cash generation)
  + Intangibles: High (due to value of intellectual property and gaming titles)
  + Shareholder’s Funds (equity funding): High (given low reliance on debt financing)
* Pharmaceutical Companies
  + Intangibles: High (due to value of intellectual property and drug patents)
  + Total Debt: Moderate (due to ability to secure debt against intangibles and some fixed assets)
  + Return on Equity: High (as profits can grow without large amounts of additional equity investment)
* Resort Companies
  + Fixed Assets: High (due to value of property and resorts)
  + Total Debt: High (due to ability to secure debt against high fixed assets)
  + Asset Turnover: High (due to high utilisation to generate profits from its asset base)
* Technology Companies
  + Cash: High (due to high profit margins resulting in strong cash generation)
  + Shareholder’s Funds (equity funding): High (given low reliance on debt financing)
  + Return on Equity: High (as profits can grow without large amounts of additional equity investment)
* Waterworks / Utilities Companies
  + Fixed Assets: High (due to value of utility networks and infrastructure)
  + Total Debt: High (due to ability to secure debt against high fixed assets)
  + Asset Turnover: Low (due to low utilisation to generate profits from its asset base)

*\*\*For clarification on any of the metrics mentioned, please refer to the Glossary tab in the Task 4 Excel File.*