The Language and Tools of Financial Analysis

Introduction: An Intuitive Understanding of Financial Analysis (Let's get crunching!)

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BNY MELLON

Financial analysis

An analyst studies and analyses companies in order to determine a company's overall financial worth and performance.

Analysts arrive at the complete financial value of a company by scrutinizing financial statements

…and conducting interviews with management (including off-balance sheet transactions).

Analyst presentation

Comparing performance over time

Trend analysis (aka horizontal analysis)

- 'Absolute' performance evaluation

- Track record of management decisions

- Reflects on the lifecycle of the firm, and the stage of the business cycle

- Historical performance is a good (*best?*) guide for future performance

Comparing performance over time

Return on Equity - ROE
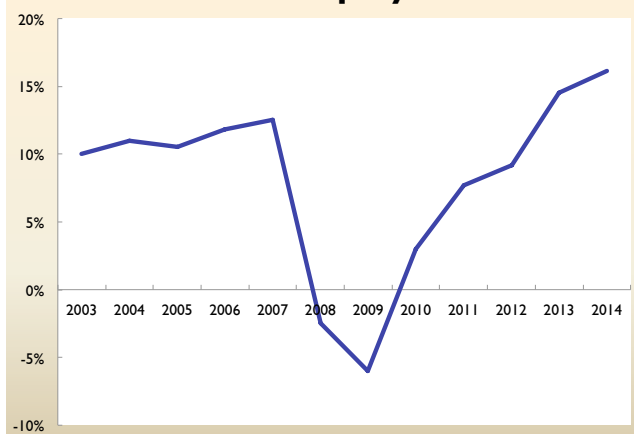
Comparing performance over time

2014 Balance sheet ($USD millions)

Assets	15,153	Liabilities	12,302
		Equity	2,851
	15,153		15,153

2013 Balance sheet ($USD millions)

Assets	15,474	Liabilities	11,867
		Equity	3,607
	15,474		15,474

Comparing financial ratios across 'like' firms

Proportional analysis (aka vertical analysis)

- Relative performance measures, rather than absolute

- Ratios adjust for size differences

- Neutralizes the impact of the business cycle (completely?)

- Relative current performance is a good (best?) guide for future (relative) performance

What are good comparators?

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