

# Contents

<b>Acknowledgements</b>	<b>xi</b>
<b>Preface</b>	<b>xiii</b>
<b>1 Introduction</b>	<b>1</b>
1.1 Importance and development of business accountancy	1
1.1.1 Limited significance of financial statements	5
1.1.2 Special features of the financial sector	7
1.2 Composition and structure of financial statements	7
1.2.1 Income statement	7
1.2.2 Balance sheet	21
1.2.3 Cash flow statement	24
1.2.4 Statement of changes in equity	37
1.2.5 Notes	38
<b>2 Key Ratios for Return and Profitability</b>	<b>41</b>
2.1 Return on equity	42
2.2 Net profit margin	45
2.3 EBIT/EBITDA margin	48
2.4 Asset turnover	50
2.5 Return on assets	52
2.6 Return on capital employed	54
2.7 Operating cash flow margin	56
<b>3 Ratios for Financial Stability</b>	<b>59</b>
3.1 Equity ratio	59
3.2 Gearing	63
3.3 Dynamic gearing ratio	66
3.4 Net debt/EBITDA	70
3.5 Capex ratio	72

---

3.6	Asset depreciation ratio	75
3.7	Productive asset investment ratio	78
3.8	Cash burn rate	79
3.9	Current and non-current assets to total assets ratio	80
3.10	Equity to fixed assets ratio and equity and long-term liabilities to fixed assets ratio	82
3.11	Goodwill ratio	84
<b>4</b>	<b>Ratios for Working Capital Management</b>	<b>85</b>
4.1	Days sales outstanding and days payables outstanding	86
4.2	Cash ratio	89
4.3	Quick ratio	90
4.4	Current ratio/working capital ratio	91
4.5	Inventory intensity	94
4.6	Inventory turnover	95
4.7	Cash conversion cycle	96
4.8	Ratios for order backlog and order intake	98
<b>5</b>	<b>Business Model Analysis</b>	<b>101</b>
5.1	Circle of competence	102
5.2	Characteristics	103
5.3	Framework conditions	105
5.4	Information procurement	106
5.5	Industry and business analysis	107
5.6	SWOT analysis	108
5.7	Boston Consulting Group (BCG) analysis	109
5.8	Competitive strategy	115
5.9	Management	116
<b>6</b>	<b>Profit Distribution Policy</b>	<b>117</b>
6.1	Dividend	117
6.2	Share buyback	119
6.3	Conclusion	123
<b>7</b>	<b>Valuation Ratios</b>	<b>125</b>
7.1	Price-to-earnings ratio	126
7.2	Price-to-book ratio	131
7.3	Price-to-cash flow ratio	137
7.4	Price-to-sales ratio	140
7.5	Enterprise value approach	143
7.6	EV/EBITDA	148
7.7	EV/EBIT	151
7.8	EV/FCF	154
7.9	EV/sales	156

---

<b>8</b>	<b>Company Valuation</b>	<b>159</b>
8.1	Discounted cash flow model	161
8.1.1	Equity approach	162
8.1.2	Entity approach	170
8.1.3	Adjusted-present-value (APV) approach	174
8.1.4	Operating and financial leverage	177
8.1.5	Alternative use of DCF models	180
8.1.6	DCF case studies	181
8.2	Valuation using multiples	188
8.2.1	Fair price-to-earnings ratio	190
8.2.2	Fair price-to-book ratio	200
8.2.3	Fair price-to-sales ratio	213
8.2.4	Fair enterprise value-to-EBIT ratio	216
8.2.5	Fair EV/sales	218
8.2.6	Multiple valuation: mathematical background	222
8.2.7	Liquidation approach/net-asset-value approach	223
8.3	Financial statement adjustments	225
8.3.1	Pro-forma statements and one-off effects	227
8.4	Overview of the valuation methods	228
<b>9</b>	<b>Value Investing</b>	<b>231</b>
9.1	Margin of safety approach	233
9.2	Value investing strategies	233
9.2.1	Quality investments	233
9.2.2	Cigarbutt investments	234
9.2.3	Net-nets/arbitrage	234
9.3	The identification of investment opportunities	235
9.4	Portfolio management	237
9.4.1	Diversification	237
9.4.2	Risk	238
9.4.3	Cash	239
9.5	Buying and selling: investment horizon	239
9.5.1	Buying	237
9.5.2	Selling	238
9.6	Conclusion	241
	<b>Table and Figure Credits</b>	<b>243</b>
	<b>Index</b>	<b>245</b>