

EVALUESERVE

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Financial **Analysis** Data to Decisions

Financial Analysis is an integral part of the deal process as it enables the stakeholders to measure and quantify the various aspects of the deal. Putting numbers to support the subjective analysis and comprehending them makes the decision-making process easier. However, contrary to the common notion, financial analysis is not limited to focusing on the profits or losses of the business. It provides a comprehensive view of a company's operations, enabling stakeholders to gauge its current status and potential prospects. This aids in developing a complete sense of the business which further enables to take informed decisions and contributes to risk mitigation and value creation.

Objectives of Financial Statements Analysis



To understand the financial health and to anticipate the future performance of the company



To conduct historical analysis and comparison with peers and benchmarks



To conduct a SWOT Analysis and consolidate on its strengths and opportunities and scrutinize its weaknesses and threats



To recommend improvements for increasing efficiency and effectiveness











To ascertain accurate and justifiable business valuation

Pillars of Financial Analysis

The three main pillars of financial analysis are the three financial statements of the organization – **Balance Sheet**, **Income Statement** and **Cash Flow Statement**. These statements play a pivotal role in financial analysis for deal execution, and when put together forms the foundation to kickstart the financial analysis of any company.

- From the Income Statement, the analyst gathers a sense of the financial and operational performance of the company. It helps to examine the company's sources of revenue and the expenses it incurs to generate those revenues, thus helping to evaluate the sustainability and quality of earnings. It also helps to determine company's profitability and its ability to efficiently use its resources to generate profits
- The Balance Sheet provides a summary view of the assets, liabilities, and shareholder's equity of the business, which enables the analyst to understand the solvency, liquidity, leverage and financial position of the firm. It is essential to assess the company's financial stability and quality of assets and liabilities
- The Cash Flow Statement helps to understand the utilization of cash proceeds of the firm and divides the cashflows from operations, investments, and financing activities into different parts. This enables the analyst to focus on judging the management of cash and cash equivalents of the firm. It helps to assess company's liquidity and evaluate its sustainability and future growth prospects.

Comprehensive analysis of these financial statements is essential for assessing the financial health, performance, and viability of a company involved in a deal. Based on these statements, our team of experts are able to build various types of analysis as per the requirements of the client. Some of the key types of financial analysis conducted during this critical step are:

<p>Ratio Analysis</p>  <p>Examine company's financial statements to assess its ability to meet short-term obligations, generate profits, and manage debt</p>	<p>Profitability Analysis</p>  <p>Assess company's ability to generate profits, including ROE and ROI, and determine how effectively it is utilizing its capital</p>	<p>Cash Flow Analysis</p>  <p>Assess company's liquidity position, its ability to meet short term obligations and its capacity to invest in growth opportunities</p>	<p>Cost Structure Analysis</p>  <p>Analyse company's fixed and variable costs to assess its operational efficiency and identify cost-saving opportunities</p>
<p>Scenario Analysis</p>  <p>Evaluate potential impact of various scenarios on company's financials, to better understand the range of potential outcomes</p>	<p>Sensitivity Analysis</p>  <p>Understand the variable that significantly influence the financials and formulate risk mitigation strategies accordingly</p>	<p>IRR Analysis</p>  <p>Assess potential returns and evaluate deal's financial viability indicating whether the return is in line with company's objective</p>	<p>Comparative Analysis</p>  <p>Benchmark company's financial performance against its industry peers, to gauge its relative strengths and weaknesses</p>

Value Addition for the Banker

- Faster execution of deals** – Our analyst team has expertise in building financial models, valuations, and financial analysis. Evalueserve analysts work as an extension of the client team and the banker can focus on other aspects of deal execution and get the quantitative models and analysis prepared simultaneously to reduce the overall deal closure time. Additionally, since the analyst team works on numerous financial analysis requests, it can leverage certain pre-built templates which will reduce the turnaround time significantly.
- Enables Flexibility** - The banker will be able to review interim models and make recommendations to tweak assumptions in order to meet the desired output / objective. This will result in reducing duplication of effort and increasing overall efficiency.
- Customization** – The financial models and analysis are worked upon after building a complete understanding of the client's agenda. Therefore, all the outputs provided are tailored for the individual clients to meet their specific requirements.
- Quality** – Our team of analysts has the required expertise and experience of working on the live deals which ensures that the banker gets the best quality work from the day 1. It also helps in improving the efficiency and effectiveness of the banker.



Conclusion

To summarize, the art of financial statement analysis is an important part of the deal execution process wherein it plays a pivotal role in making smarter, better, and informed strategic decisions based on the financial data of the company. Whether using ratio, cash flow, scenario, or any other type of financial analysis, the objective of the analyst is to explore trends, understand risk possibilities, figure out growth avenues and support the decision-making process. Our team of analysts can provide the support to the banker to conduct financial analysis of their clients. The effective execution of financial analysis enables faster drafting of a CIM, deal marketing, due diligence and deal closure. To understand and read about various steps involved in a successful deal execution process, click here: <https://www.evalueserve.com/blog/7-key-steps-in-the-deal-execution-process/>

Evalueserve has extensive experience of working with large, mid-market investment and boutique advisory firms providing deal execution support for live deal mandates across various sectors. Most mid-market and boutique advisory firms have leaner deal teams and require support for deal preparation and deal marketing phases. Our trained pool of analysts supports deal teams across the deal execution process, thus helping our clients to execute more deals. For more information, please visit: <https://www.evalueserve.com/solutions/deal-execution-support/>

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