Managing Financial Resources

Market view

Company performance (23)

Patrick Galig / HB41 / Henley Business School

Market view of company performance

Study guide section 10

Strategic value

future cash flows discounted - debts + other values outside the NPV. Then divide this by number of shares

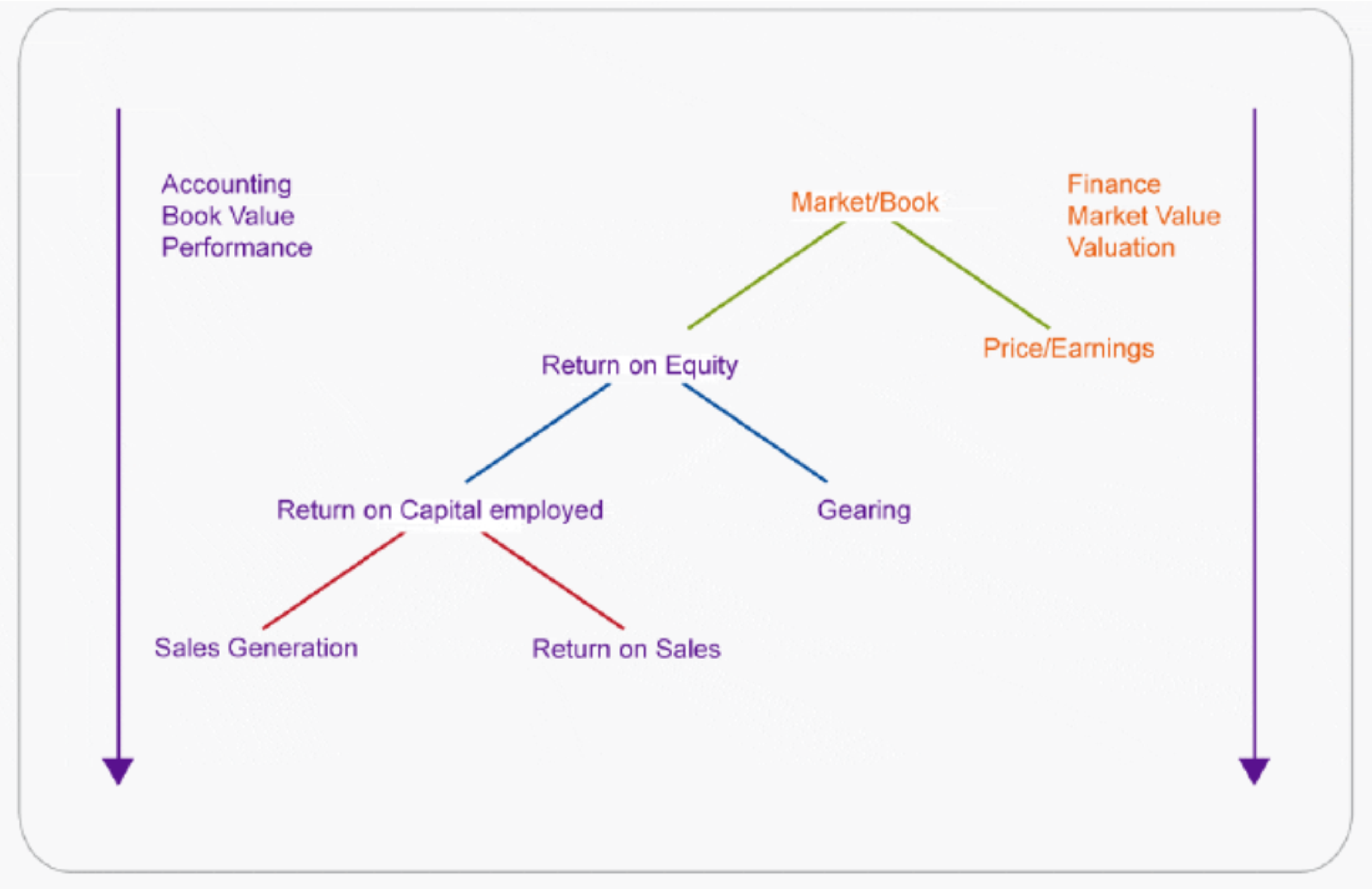
Value

- Book value
  - capital and reserves in the balance sheet
- Market value
  - Shares on the market x Share price

Market to book ratio

Börsenkurs zu Bilanzkurs

- Compares the value in the stock market with the investment by the shareholders in the company
- Can be related to ROE and PE Ratio
  - DuPont chain
    - Return On Sales x Asset Turnover x Leverage = Return on Equity
  - Corporate level ratios
    - PE = Market value of equity / Profit attributable to shareholders
    - ROE = Profit attributable to shareholders / Book value equity
    - or
    - ROE = EPS / Market price of share



Cash flow drivers

- Depreciation
  - Must be added back to profit as depreciation is in profits but is not a "flow"

Shareholder value analysis or strategic value framework

1. growth in sales
2. profit margin on sales
3. taxation
4. fixed capital investment
   - Replace fixed capital investement RFCI
   - Incremental Fixed capital investment IFCI
5. working capital investment
   - Incremental workiing capital investment IWCI
6. Planning period
7. Cost of captial

		Year 1 £m	Year 2 £m	Year 3 £m	Year 4 £m
	Sales	115.0	132.3	152.1	174.9
	Profit before tax	13.8	15.9	18.3	21.0
(-)	Tax at 30%	4.1	4.8	5.5	6.3
	Profit after tax	**9.7**	**11.1**	**12.8**	**14.7**
(+)	Depreciation	2.1	2.1	2.1	2.1
	Operating cash flow	**11.8**	**13.2**	**14.9**	**16.8**
(-)	RFCI	2.1	2.1	2.1	2.1
(-)	IFCI	1.5	1.7	2.0	2.3
(-)	IWCI	1.5	1.7	2.0	2.3
	Free cash flow	**6.7**	**7.7**	**8.8**	**10.1**