Basic valuation and accounting guide
### Five Forces and SWOT

**INDUSTRY**

<table>
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<tr>
<th><strong>Power of suppliers</strong></th>
<th><strong>New entrants</strong></th>
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<tr>
<td>A concentration of suppliers will mean less chance to negotiate better pricing. A single strategic supplier can put pressure on industry margins. If switching costs are high, suppliers can put pressure on the industry. Downstream integration: the industry can be disintermediated.</td>
<td>Barriers to entry will be high if economies of scale are important, access to distribution channels is restricted, there is a steep ‘experience’ curve, existing players are likely to squeeze out new entrants, legislation or government action prevents entry, branding or differentiation is high.</td>
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</tbody>
</table>

**Rivalry**

High rivalry will result from the extent to which players are in balance, growth is slowing, customers are global, fixed costs are high, capacity increases require major incremental steps, switching costs are low, there is a liquid market for corporate control and exit barriers are high.

**Substitute products**

Alternative means of fulfilling customer needs through alternative industries will put pressure on demand and margins. Product for product (email for fax), substitution of need (precision casting makes cutting tools redundant), generic substitution (furniture manufacturers vs holiday companies), avoidance (tobacco).

**Power of customers**

Buyer power will be high if buyers are concentrated with a small number of operators where there are alternative types of supply, where material costs are a high component of price (ie low value added), where switching is easy and low cost and the threat of upstream integration is high.

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**COMPANY**

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<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
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<tbody>
<tr>
<td>Patents</td>
<td>Undifferentiated products and services, in relation to the market</td>
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<tr>
<td>Strong brand and/or reputation</td>
<td>Poor quality goods or services</td>
</tr>
<tr>
<td>Location of the business</td>
<td>Damaged reputation</td>
</tr>
<tr>
<td>The products, are they new and innovative?</td>
<td>Competitors have superior access to distribution channels</td>
</tr>
<tr>
<td>Quality process and procedures</td>
<td>Location of the business</td>
</tr>
<tr>
<td>Specialist marketing expertise</td>
<td>Lack of marketing expertise</td>
</tr>
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<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
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<tbody>
<tr>
<td>Developing market eg Internet, Brazil</td>
<td>New competitor</td>
</tr>
<tr>
<td>Mergers, strategic alliances</td>
<td>Price war</td>
</tr>
<tr>
<td>Loosening of regulations</td>
<td>Competitor has a new, innovative substitute product or service</td>
</tr>
<tr>
<td>Removal of international trade barriers</td>
<td>Rivals have superior access to channels of supply and distribution</td>
</tr>
<tr>
<td>Moving into a new market, through new products or new market place</td>
<td>Increased trade barrier</td>
</tr>
<tr>
<td>Market lead by an ineffective competitor</td>
<td>Taxation and/or new regulations on a product or service</td>
</tr>
</tbody>
</table>

*Source: HSBC  Note: The upper score represents an assessment of the balance of strengths and weaknesses. Similarly the bottom number scores the balance of opportunities and risks.*
The figure above combines a diagram of a Five Forces model used to analyse an industry, with an outline of a SWOT analysis for evaluating a company.

Porter’s Five Forces is an analytical approach that assesses industries or a company by five strategic forces; it helps to indicate the relationship between the different competitive forces within the industry. Five Forces can be used by a business manager trying to develop an edge over a rival firm or by analysts trying to evaluate a business idea.

Porter’s Five Forces has a scoring system in which positive, negative or neutral results are combined to give a final score for each force. The higher the score, the more sound the industry, or business is.

SWOT analysis is routinely used to help the strategic planning of a firm in the business world. Strengths and weakness (SW) apply to any internal factors within the firm, while the opportunities and threats (OT) are the many external factors that a firm must account for.

**Valuation**

The following sections give a brief introduction to the main accounting issues and valuations techniques, their definitions and ratio analysis. It is structured by addressing what is valued, how it is valued, and the inputs of the valuation. This accounting guide can be used to gain a better understanding of a company’s financial statements. We include a brief introduction to balance sheet items. The valuation measures and methods described below apply only to listed companies.

**Valuing what?**

**Enterprise value (EV)**

An enterprise is a company and therefore the enterprise value is a measure of the whole company’s value. It is believed by many to have more uses than market capitalisation, because it takes into account the value of debt for a company (and also adjusts for minorities and associates) to make it suitable for ratios above the P&L interest line such as EV/sales, EV/EBITDA and EV/EBIT.

*Calculate by:* market capitalisation (all share classes) + net debt (and other liabilities, such as pension deficits) + minority interests – associates (both fair value).

There are three types of enterprise value: total, core and operating.

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**Enterprise value**

**Total Enterprise Value**

The value of all business activities

**Core Enterprise Value**

Total EV less non-core assets, this makes Core EV more subjective but can be used for ratios such as Core EV/core business sales.

**Operating Enterprise Value**

Total EV less non-operating assets at market value

Source: HSBC
Market capitalisation (market cap)
The value of all the shares of a corporation; it is useful as part of EV and for ratios such as PE (price/earnings = market cap/net income) or DY (dividend yield = dividends/market cap).
*Calculate by:* multiplying a company’s shares outstanding (ie, excluding treasury shares owned by itself) by the current market price of one share.

Net debt
This is the total amount of debt and liabilities a company has after subtracting the value of its cash and cash equivalents. A company with more cash than debt would be said to have Net Cash.

Minority interest – three main definitions:
- Where an investor or company owns less than 50% of another company’s voting shares, eg ‘owning a minority interest’
- A non-current liability on a balance sheet representing the portions of its subsidiaries owned by minority shareholders. Consolidated accounts show 100% of sales, EBITDA, EBIT (in the P&L); 100% of the assets and liabilities (in the balance sheet) and 100% of the cash flows of a subsidiary, but also deduct the minorities’ shares of profits in a separate minorities P&L line, their share of net assets in a minorities balance sheet line and any dividends paid to them in the cash flow. For example, if Company A owns 80% of Company B, where Company B is a GBP100m company. Company A will have a GBP20m liability, on its balance sheets, to represent the 20% of Company B that it does not own, this being the minority interest.
- As an adjustment in an EV, DCF valuation, etc, at fair value (rather than the book value used in the balance sheet). For example, if fair value was GBP30m, this would be added to EV and deducted as part of the DCF.

Pension obligations
This is a projected sum of total benefits that an employer has agreed to pay to retirees and current employees entitled to benefits. There are two main types of pension scheme:
- Defined Benefit, where payment is linked to employees’ salary level and years of service. The benefits are fixed but, as the actuarial assessment of the liability depends on changing factors (such as life expectancy and discount rates), the company’s liabilities (and contributions) are variable. The company has an obligation to pay out the determined benefit and, if there is a shortfall in the fund, must draw on the company’s profits to subsidise the discrepancy.
- Defined Contribution, where the employers’ contributions are fixed but the benefits are variable. The pension in retirement depends on the cumulative contributions to the fund, returns from its investments and annuity rates at retirement.
Common terms used to discuss pensions

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<th>Term</th>
<th>Description</th>
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<tr>
<td>Accumulated Benefit Obligation (ABO)</td>
<td>An estimate of liability if the pension plan assumes immediate discontinuation; it does not take into account any future salary increases.</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>The rate used to establish the present value of future cash flows.</td>
</tr>
<tr>
<td>Prior Service Costs</td>
<td>Retrospective benefit costs for services prior to pension plan commencement or after plan amendments.</td>
</tr>
<tr>
<td>Projected Benefit Obligations (PBO)</td>
<td>This assumes the pension plan is ongoing, as the employee continues to work, and therefore it projects future salary increases.</td>
</tr>
<tr>
<td>Service Cost</td>
<td>The present value of benefits earned during the current period.</td>
</tr>
<tr>
<td>Vested Benefit Obligations (VBO)</td>
<td>Most plans require a certain number of years service before benefits can be collected, and this is 'Vested'. The VBO represents the actuarial present value of vested benefits.</td>
</tr>
</tbody>
</table>

Valuing how?

Cash flow
This indicates the amount of cash generated and used by a company over a given period. There are several different measures, used for different purposes, plus a cash flow statement in the reports and accounts.

Free cash flow (FCF)
The cash flow after everything except dividends, so attributable to shareholders, used in performance measures (eg FCF Yield = FCF/market cap). Generally, the higher the FCF the better, at least in the short term, though too much cost cutting or underinvestment can be risks.

Calculate by: EBITDA – capex – working capital change – net interest – tax

Free cash flows to the firm (FCFF)
The cash flow after everything except interest (net of tax) and dividends, used in DCF calculations (see below).

Calculate by: EBITDA – capex – working capital change – tax

Discounted cash flow (DCF)
The present value of an investment, ie adjusted for the time value of money. It is the sum of the value of each period’s FCFF, discounted back to the present day.

For a project lasting n years calculate by:

$$ DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n} $$

$CF = $Cash Flow

$r = $discount rate (WACC)$
For a business lasting beyond the n years for which you have estimated cash flow, add a ‘terminal value’, being the value at year n discounted to the present day. The value at year n+1, if thought to be a perpetuity growing at rate g per annum, would have a value in year n of \( CF_n (1+g)/(r-g) \) and a present value of \( CF_n (1+g)/(r-g)/(1+r)^n \).

**Market assessed cost of capital (MACC)**

MACC turns conventional valuation methodology around; instead of comparing returns on capital and cost of capital to arrive at an estimate of fair value, it compares market return on capital with market value to derive an estimate for market assessed cost of capital (MACC). This MACC value can be used for comparisons against historical observations for the same stock, or for use against peers.

### Multiples

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<th>Calculation</th>
<th>Definition/Interpretation</th>
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<td>PE ratio</td>
<td>Price of a stock / Earnings per share</td>
<td>Helps to give investors an overview of how much they are paying for a stock; the ratio states how many years it would take for the investors to recoup their investment, with the company keeping profits steady (if fully distributed as dividends). Generally companies with high PE (over 20) are faster growing, while a low PE may be an indication that the companies are low-growth or mature industries.</td>
</tr>
<tr>
<td>PEG ratios</td>
<td>Price/Earnings Ratio / Annual EPS Growth</td>
<td>This ratio is used to determine a stock’s value taking into account earnings growth, especially if growth is very high. A low PEG company may reflect high risk.</td>
</tr>
<tr>
<td>Price to Book ratio</td>
<td>Market capitalisation / (Total assets - Intangible assets - Liabilities / (equal to price / book value per share))</td>
<td>This ratio compares stock market value with book value; it can be compared throughout the same industry sector. It can be based on net assets or after deducting intangibles.</td>
</tr>
<tr>
<td>EV/Sales</td>
<td>EV (see above to calculate) / Annual Sales</td>
<td>As sales are above the interest, associates and minorities lines in the P&amp;L, it is more consistent and popular to compare EV (including net debt and adjusted for minorities and associates) with sales than, say, price/sales.</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>EV (see above to calculate) / Annual EBITDA</td>
<td>EBITDA (earnings before interest, tax, depreciation and amortisation) is also above the interest, associates and minorities lines, so comparing with EV is consistent and popular.</td>
</tr>
</tbody>
</table>

**Source:** HSBC

### Economic value added (EVA), Residual Income

This is a measure of a company’s profits, after deducting capital costs (being the capital employed x cost of capital). It is usually calculated on an enterprise basis: with EBIT, taxes based on EBIT, capital employed including financed by debt and weighted average cost of capital (WACC – see below).

**Calculate by:**

\[
\text{Net Sales} - \text{Operating Expenses} = \text{Operating Profit (EBIT)}
\]

\[
\text{EBIT} - \text{taxes} = \text{Net Operating Profit after Tax (NOPLAT)}
\]

\[
\text{NOPLAT} - \text{Capital Costs} = \text{Economic Value Added (EVA)}
\]
Components and inputs of valuation

DCF inputs

**Weighted average cost of capital (WACC)**
This calculates the firm’s cost of capital, with each category of capital proportionally weighted. It is used with pre-interest cash flows (eg DCF) or profits (eg Economic Profit).

*Calculate by:*

\[
WACC = \frac{E \cdot Re + D \cdot Rd \cdot (1-Tc)}{E+D}
\]

- **Re** = cost of equity
- **Rd** = cost of debt
- **E** = market value of the firm’s equity
- **D** = market value of the firm’s debt
- **Tc** = Corporate tax rate

**Cost of debt**
This is the effective rate that a corporation pays on its current debt; it can be measured either pre- or post-tax. It is usually higher than the risk-free rate (eg 10-year government bond yields) because of the spread over such bonds that corporate bond holders tend to demand.

**Cost of equity**
This is in theory the return a stockholder requires for holding shares in a company; representing the compensation that the market demands in exchange for owning the asset and bearing the risk of ownership.

*Calculate by:* Risk-free rate + equity beta x equity risk premium

**Equity beta**
The correlation between a share and the general stock market. It is useful to estimate the cost of equity for a stock as an investor can, in principle, diversify away uncorrelated risks, but not correlated sensitivity to the market.

**Equity risk premium**
This is the premium investors would expect for investing in equities because of the higher risk. It is a measure for the general stock market rather than individual stocks.

MACC inputs

**Invested capital (IC)**
This is capital that the company can invest within itself or has already invested internally.

*Calculate by:* Long-term debt + stock + retained earnings
Cash return on capital invested (CROIC)
This evaluates a company’s cash return to its equity: it measures the cash profits of a company and compares this with the proportion of the funding required to generate it.

$\text{Calculate by:} \quad \frac{\text{Gross Cash Flow}}{\text{Average Gross Cash invested (GCI)}}$

Where,

- Gross cash flow is operating cash flow plus post-tax gross interest expense
- GCI: Gross fixed assets plus gross intangible assets plus net working capital plus cash

Multiple inputs

Earnings per share
Net profit per share, which may be headline or adjusted (for example, to exclude the impact of non-recurring items). Shares are normally those in issue (excluding treasury shares owned by the company).

$\text{Calculate by:} \quad \frac{\text{Net profit for the year}}{\text{Number of shares}}$

Book value
The value at which an asset is carried on the balance sheet, taking into account depreciation that may have occurred each year after the asset was brought. Each asset, from the smallest piece of equipment to the whole business, has a book value. The fair value of an asset may be higher than its book value, and often is. However, if the fair value is lower than the book value, it should be written down to fair value.

Sales
Total amount of goods sold over a given period, usually reported net of any sales taxes (eg value added tax).

Dividend
This is the distribution of earnings to shareholders. It can be paid in money, stock or, very rarely, company property. The occurrence of the dividend payment depends on the company; it can either be paid quarterly, half yearly or once a year, and may be ordinary (usually expected to recur) or special/extraordinary (often non-recurring).

EVA inputs

Net Sales
This is the sales figure with deductions for any discounts, returns, and damaged or missing goods or sales taxes (eg value added tax).

Operating expenses (OPEX)
Any expenses brought about by the operations of the company, eg cost of goods sold, SG&A (selling, general and administrative expenses). It does not include non-operating costs (such as interest or tax).

Net operating profit less adjusted taxes (NOPLAT)
This is operating profit (net sales less opex) minus the tax that would be paid if there were no other factors (such as tax-deductible interest).
Key accounting ratios

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<th>Calculation</th>
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</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>Current assets (_) Current liabilities</td>
<td>This indicates the ability of a company to pay its debts in the short term. A higher ratio is preferable.</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>Current assets - Inventories (_) Current Liabilities</td>
<td>Also measures the ability of a company to pay its short-term debt but with its most liquid assets. A higher ratio is preferred.</td>
</tr>
<tr>
<td>Debt/equity ratio</td>
<td>Financial liabilities (_) Shareholder funds</td>
<td>This measures the company’s financial leverage, by indicating the ratio of debt to equity.</td>
</tr>
<tr>
<td>Net profit margin ratio</td>
<td>Profit after tax (_) Sales (\times 100)</td>
<td>Used when comparing companies in similar industries; it is a rate of profitability. Its weakness is that it depends not only on operations but interest, etc.</td>
</tr>
<tr>
<td>Interest coverage ratio</td>
<td>EBIT (_) Interest</td>
<td>This indicates the debt servicing capacity of the company; the greater the buffer, the safer the debt holders.</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>Net Income (_) Shareholder Equity (\times 100)</td>
<td>Measures a corporation’s profitability from a shareholder’s point of view. It depends on operating success and leverage.</td>
</tr>
<tr>
<td>Return on invested capital (ROIC)</td>
<td>NOPLAT (_) Total Capital</td>
<td>Measures profitability from an operating point of view, for both shareholders and bond holders. It does not depend on leverage so is more comparable across a sector.</td>
</tr>
<tr>
<td>Asset turnover ratio</td>
<td>Sales (_) Assets</td>
<td>The amount of sales generated by each dollar (or whatever unit sales are measured in) worth of assets.</td>
</tr>
<tr>
<td>Inventory turnover ratio</td>
<td>Sales (_) Inventory</td>
<td>This ratio shows how many times a company’s inventory is sold and then replaced over a year.</td>
</tr>
<tr>
<td>Debtors turnover ratio</td>
<td>Sales (_) Average Debtors</td>
<td>This implies the number of times a debtor is turned over every year. A high ratio is good for low working capital requirement.</td>
</tr>
<tr>
<td>Creditors turnover ratio</td>
<td>Credit purchase (_) Average creditors</td>
<td>This indicates the credit period that firms benefit from before they pay off their creditors. A high ratio indicates that the creditors are being paid promptly, while a low ratio is good for working capital.</td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td>Yearly dividend per share (_) Earnings per share</td>
<td>This is the percentage of earnings paid to shareholders in dividends. Investors often prefer a high ratio, but a low ratio retains more earnings for use in the business.</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>Annual dividends per share (_) Price per share</td>
<td>Indicates how much a company pays out in dividends relative to its share price. It may be useful when estimating a floor value of a stock (if the dividend is sustainable). Some funds target high-yielding stocks (called 'Yield Funds').</td>
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Income statement line items

Sales or revenues
The total amount of money in a given period that a company obtains after deductions for discounts and returned merchandise and usually after deducting any sales taxes (eg value added tax).

Cost of goods sold (COGS)
The cost of buying or making the goods sold in the period.

Gross margin
Gross Profit (sales less COGS) as a percentage of sales.
Selling, general & administrative expenses (SG&A)
This is operating costs other than COGS, between gross profit and EBITDA in the P&L.

Earnings before interest, tax, depreciation and amortisation (EBITDA)
It can be used for comparing profitability and efficiency ratios for a firm. It is one of the most common ways of comparing the performances of differing companies.

Depreciation
The reduction in value of an asset through time, use, etc. EBITDA less depreciation and amortisation is EBIT. It is non-cash (the cash already having been paid to acquire the asset) but a part of the P&L and an annual reduction in balance sheet asset value. If an asset is depreciated over its useful life, it may well need replacing when fully depreciated at end-of-life.

Amortisation
This is a reduction in the cost of an intangible asset through changes in income. If Company A buys a piece of equipment with a patent for GBP25m and the patent lasts for 10 years, GBP2.5m each year would be recorded as amortisation. (Depreciation, by contrast, is for tangible assets such as land, building, plant and equipment.)

Operating profit or EBIT
Earnings Before Interest and Taxes; it is after D&A but before interest and other financial charges and taxes.

Calculate by: Revenue – Operating Expenses

Interest
Financial income (on cash, etc) less expense (on bonds, bank debt, etc). Some companies include their share of profits from associates, dividends from investments and various other factors (eg FX gains and losses) in a Financial Items line along with interest.

Pre-tax profit (PTP or PBT)
Profit after interest but before tax has been taken away from it.

Tax
Taxes on company profit, as opposed to sales taxes (usually deducted directly from sales) or operating taxes (usually added to staff costs, property costs, etc, in opex).

Net profit, net income or earnings
Profit after everything (except dividends which are a distribution of earnings, after dividends would be called retained profits), ie after interest, tax and minority charges (the share of any profits attributable to minority shareholders of subsidiaries of the company).

Note: The above items should appear in most P&L accounts (financial companies often being a notable exception), while the items below are rarer.
Provision
Costs are provided for if they are expected but have not yet been paid. For example, banks unlikely to collect all the money lent provide for the proportion they expect not to collect, damages for a law suit expected to be lost, etc. Provisions are often included within COGS or SG&A.

Clean profit
Restructuring and other non-recurring costs (or income) are often separately identified by companies to help understand and predict future profits and often adjusted for in ‘clean’ profit measures, eg clean EBIT.

Continuing operations
These are the segments within a business expected to continue functioning for the foreseeable future. For investors it indicates what the business could rationally be expected to replicate in future.

Discontinued operations
These are any segments of a business that have been sold, disposed of or abandoned. This is reported separately in the accounts to continuing operations.

Balance sheet line items

Assets
Anything owned by a business that has commercial value.

Non-current assets
Assets not easily convertible to cash, or not expected to become cash within the next year. Also known as long-life assets.

Fixed assets
Assets that a company uses over a long period of time; they are not expected to be sold on.

Intangible assets
An asset that is not physical in nature, such as corporate intellectual property rights, goodwill, brand recognition.

Investment assets
An asset not used within the company’s operations.

Deferred tax assets
The present value of tax credits (eg from past losses) are expected to reduce future tax payments that would otherwise be incurred.

Receivables
All accounts receivable and debt owed to a company, whether they are due in the short or long term.

Current assets
Assets expected to be turned into cash within the coming year, or assets that are expected to be sold.
Inventories
The value of the firm’s raw materials, work in process, supplies used in operations and finished goods.

Cash & cash equivalents (CCE)
Assets already in cash or that can be converted into cash rapidly; generally high liquidity and relatively safe; for example, a treasury bill.

Liabilities
Money, services and goods that are owed by a company.

Non-current liabilities
Liabilities not expected to be paid within a year.

Financial liabilities: debt and financial derivatives
Bonds and borrowings from banks and other lenders that must be repaid (with interest).

Provisions for liabilities and charges
Liability value is not known accurately and therefore an amount is set aside to cover it; for example, the estimated cost of restructuring or losing a legal case.

Retirement benefit obligations
The present value (usually net of tax) of the expected liabilities for payments to former and current staff for pensions, healthcare, etc. accumulated during their service.

Current liabilities
Liabilities expected to be paid throughout the coming year. They include short-term debt, payable accounts, unpaid wages, tax due, etc.

Trade and other payables
Liabilities to suppliers.

Shareholders’ equity, net assets
Total assets less total liabilities (excluding shareholders’ equity itself). By definition, this must either have been provided to the company through issuing shares or have built up through retained earnings. Therefore, net assets = total assets − total liabilities = share capital + retained earnings = shareholders’ equity.

Calculate by: Total assets less total liabilities, or by share capital + retained earnings

Share capital
The original value of the shares issued by a company; therefore, even if there is a rise in the share price, this is not taken into account. Shares may be issued at the creation of the company or later and may be at nominal value or with a share premium on top.
Retained earnings
Cumulative total earnings minus that which has been distributed to the shareholders as dividends.

*Calculate by:* Closing retained earnings = opening retained earnings plus earnings in the period less dividends declared in the period

**Cash flow statement line items**

**Net cash flow from operating activities**
Operating activities include the production, sales and delivery of the company’s product, as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising, and shipping the product.

**Revenue and expenses**
These include cash receipts from sale of goods and services and cash payments to suppliers for goods and services.

**Other income**
These include interest received on loans, dividends received on equity securities, payment to employees, etc.

**Non-cash items**
These include depreciation, amortisation, deferred taxes, etc, which are added back to/subtracted from the net income figure.

**Net cash flow from investing activities**
This reports the change in a company’s cash position resulting from losses or gains from investments that have been made in financial markets or operating subsidiaries. Changes can also result from the amounts spent on investment in capital assets.

**Capital expenditure**
Any buying or selling of fixed assets that allow the running of the company to take place.

**Expenditure on intangible assets**
Buying or selling of intangible assets that contribute to the company.

**Disposals of property, plant & equipment**
Any profits or losses occurred from discarding concrete material of the companies, such as land and machinery.

**Investment in financial assets**
This is profit gained from investing in an asset that does not have a physical worth, such as stocks, bonds, and bank deposits.

**Proceeds from sale of financial assets**
The money gained by selling the financial asset.
Net cash flow from financing activities
This reports the change in a company’s cash position resulting from raising or repayment of financial liabilities.

Issue of equity shares
Companies raise capital by issuing new shares either in the initial market (first-time equity issue) or in the secondary market (subsequent issues of equity).

Proceeds from exercise of share options
The exercise of share options is the purchasing of an issuer’s common stock at the price set by the option, regardless of the price of the stock at the time the option is exercised. Proceeds can thus be obtained if the price set by the option initially is less than the current stock price.

Purchase of own shares
This occurs when a company purchases its own shares. A number of restrictions and conditions must be met for this to occur. The company must pay for the shares out of distributable profits or out of the proceeds of a fresh share issue to finance the purchase. Following the company share repurchase, the shares are treated as cancelled.

Dividends paid to equity shareholders
The distribution of the portion of a company’s earnings to their equity shareholders.

Increase in new borrowings
An increase in the new borrowings issued by a company.

Reduction of borrowings
When a company reduces its debt by decreasing borrowings.

Cash interest payable
The cash interests, which are the amounts that accrue periodically on an account that can be paid out eventually to the account holder, payable to the company.

Further multiples

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<tbody>
<tr>
<td>EV/EBIT</td>
<td>EV/EBIT</td>
<td>Can be used to value a company, regardless of its capital structure. Takes into account D&amp;A.</td>
</tr>
<tr>
<td>EV/NOPLAT</td>
<td>EV/NOPLAT</td>
<td>This is another profit multiple, and can be used as a substitute for EV/EBIT. Takes into account tax.</td>
</tr>
<tr>
<td>EV/IC</td>
<td>EV/IC</td>
<td>This is an unlevered price-to-book ratio.</td>
</tr>
<tr>
<td>ROIC/WACC</td>
<td>ROIC/WACC</td>
<td>Dividing ROIC by WACC helps to compare returns between markets (or companies) with different WACC, and may help in judging what EV/IC is reasonable.</td>
</tr>
</tbody>
</table>

Source: HSBC

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