GUIDE

### Financial Report Analysis for Professional Investors

Understanding the financial health of a company is crucial for professional investors before making investment decisions. Here is a comprehensive guide to analysing financial reports and making informed investment decisions.

#### 1. Understanding the Company Narrative

Begin your analysis by immersing yourself in the company narrative as presented in the CEO and Chairman's statements, followed by a thorough review of the management discussions and operational analysis. This will give you a comprehensive understanding of the company's current state and its future prospects.

When reading the introductory statements, take note of the core business, the focus of management, any risks addressed, and the consistency of the company's approach. This will help you form a preliminary impression of the company's stability and potential for growth.

# 2. Assessing the Auditor's Opinion

As a listed company, the annual report must contain an assessment conducted by an independent auditor. This is an opportunity to gain insight into the financial health of the company, so pay close attention to the auditor's statements.

Look for a clean bill of health, indicated by a statement similar to "the financial statements give a true and fair view of the consolidated financial position of [the company] and of its consolidated financial performance and its consolidated cash flows for the year."

If the auditor makes negative remarks, this is a significant red flag and merits further investigation.



## 3. Analyzing the Financial Statements

The financial statements hold key information about the company's financial performance. When reviewing the statements, consider the following metrics:

- Are net profits positive and increasing?
- Are sales increasing?
- Is the operating cash flow after working capital adjustments positive?
- Is net debt increasing?
- Are dividends increasing as a percentage of net profits?

Answering "no" to any of these questions should raise concern, but don't jump to conclusions. The company may have addressed the issue, or there may be a logical explanation.

#### 4. Seeking Clarity

If any areas of deterioration are identified in the financial statements, seek clarification from the company by reviewing the management discussion and analysis (MD&A) section. This section provides a comprehensive overview of the company's financial performance and offers insight into management's perspectives on the company's financial position and future prospects.

If there is any area of concern, the MD&A section is often where a company will provide an explanation or clarification, giving you a deeper understanding of the situation and allowing you to make informed investment decisions.

In conclusion, analysing financial reports is an important aspect of making informed investment decisions. By following these steps, you can gain a comprehensive understanding of a company's financial health and make informed investment decisions with confidence.