

Everything you need to know about your company's numbers

A finance manual by Javier Aguirreamalloa and Pedro Larios serves to clarify and develop financial concepts for general use.

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There are many finance manuals out there and some of them are very good. But most approach corporate finance from a shareholder or investor's point of view. And when the companies themselves are included, there's only cursory attention paid to the people who work for them and their circumstances.

The company is envisioned as a mere investment tool, with the goal of maximizing shareholder profits. This is a limiting and reductionist approach and should be shunned, explain IESE's [Javier Aguirreamalloa](#) and Pedro Larios in their 2014 book.

The result is a [finance manual](#) whose breadth, scope and conceptual clarity make it a must-read for executives, financially focused or not, who seek a clear and thorough understanding of their company's numbers.

Content is divided into four sections:

1. Operational finance

The first chapters focus on analysis, diagnosis and forecasting of operational finance -- that is to say, the financial considerations stemming from the day-to-day running of the company.

The reader is introduced to key concepts for properly preparing and interpreting an income statement and balance sheet, as well as to the main operational and financial ratios used to analyze a company's performance and profitability.

Next, the book addresses two concepts that are fundamental to anticipating and diagnosing liquidity problems: *working capital requirements* (WCR) -- i.e., the financing an organization needs for its day-to-day operations -- and *working capital*, which, in the novel approach of these authors, is considered a liability.

The relationship between the two variables is crucial because it determines whether or not a company will encounter liquidity problems.

2. Long-term finance

Once operational issues have been addressed, it's time to introduce a more strategic and long-term vision of corporate finance, one that involves looking years into the future for decision-making. Decisions such as whether or not to build a new factory or acquire a competitor are two examples.

These long-range decisions require the application of qualitative and quantitative criteria, such as *net present value* (NPV) or *internal rate of return* (IRR). What's more, the criteria are selected by people -- the company's executives -- and, therefore, are not "automatic."

Examples and practical exercises help explain decision-making criteria and the variables that influence them (e.g., cash flow, free cash flow and the cost of capital) in a reader-friendly way.

3. Company valuations

Two chapters are dedicated to explaining the various methods to value or price a company. The first, more general, chapter discusses valuation by *discounted cash flows*, by the *multiples approach* (calculated via sales, EBITDA, net profit and more) and by *balance-sheet-based methods*.

The second chapter analyzes more specific cases and the valuation methods that suit them -- such as the assessment of companies in the context of mergers and acquisitions, of start-ups, of listed vs. non-listed companies and when companies go bankrupt.

4. Financing decisions

The final chapters of the book focus on analyzing the various sources of financing available to companies, and the operational and strategic implications of turning to outside money as opposed to financing with resources generated by the company itself.

The book assesses the pros and cons of various dividend policies, as well as leverage and capital structure policies. It also looks at the benefits of going public and remaining private. In addition, the authors present a detailed analysis of the products and tools offered by banks and the financial markets to help companies maximize their return on capital or provide them with the resources needed to boost growth.

The net result is a complete manual on finance that unites the practical reality of a company's financial life with the rigor of financial concepts -- concepts which are often confusing but here are presented in a straightforward manner, to be easily understood and applied.

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