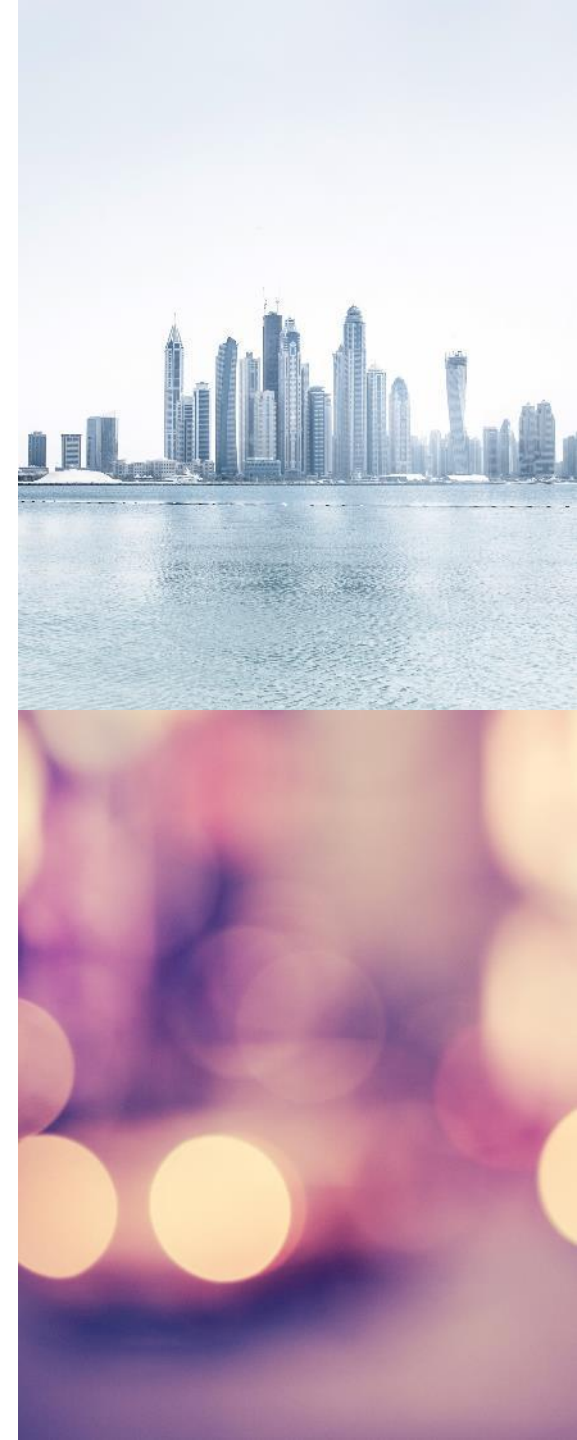




How Financial Statements Drive Investment Decisions

Contents

1. Beyond the Numbers
2. Where FS Connects to Valuation
3. AI in Financial Analysis



1. How Financial Statements Drive Investment Decisions



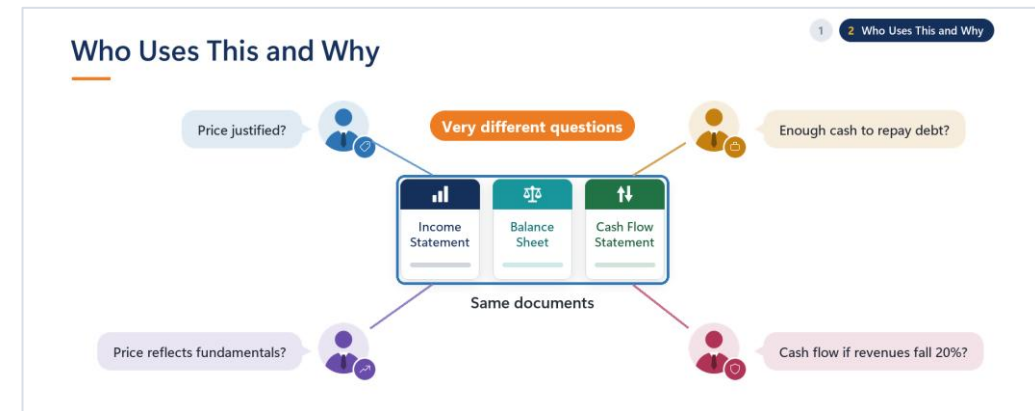
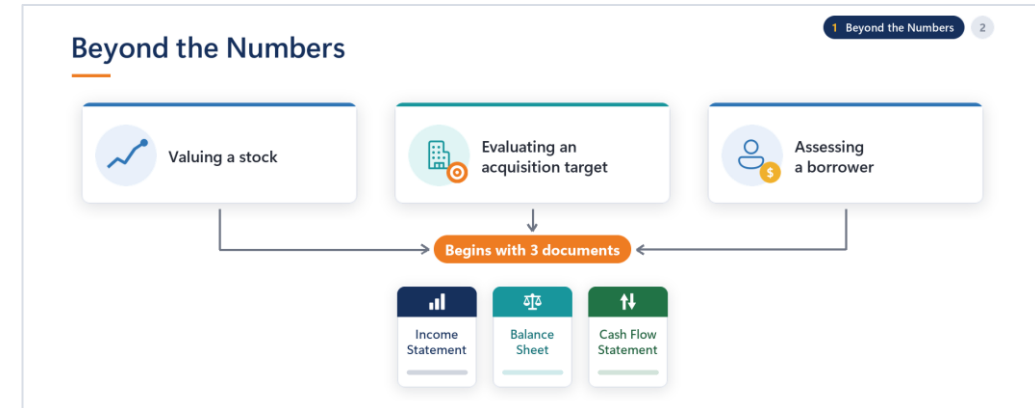
Beyond the Numbers

- Financial statements are the starting point for almost every major investment decision.
- Valuing a stock, an acquisition target or a borrower always begins with three documents.
- The three documents: the income statement, the balance sheet and the cash flow statement.
- Reading financial statements is an analytical discipline, not an accounting exercise.
- The discipline connects raw numbers to actual investment decisions.



Who Uses This and Why

- Investment bankers determine how much a company is worth in a deal.
- Equity research analysts forecast earnings to justify or challenge a stock's current price.
- Private equity investors check whether cash can repay debt and deliver returns.
- Credit analysts test whether a borrower survives a downturn and still meets obligations.
- Same documents, different questions: set your analytical objective before opening the statements.



1. How Financial Statements Drive Investment Decisions (Part 2)



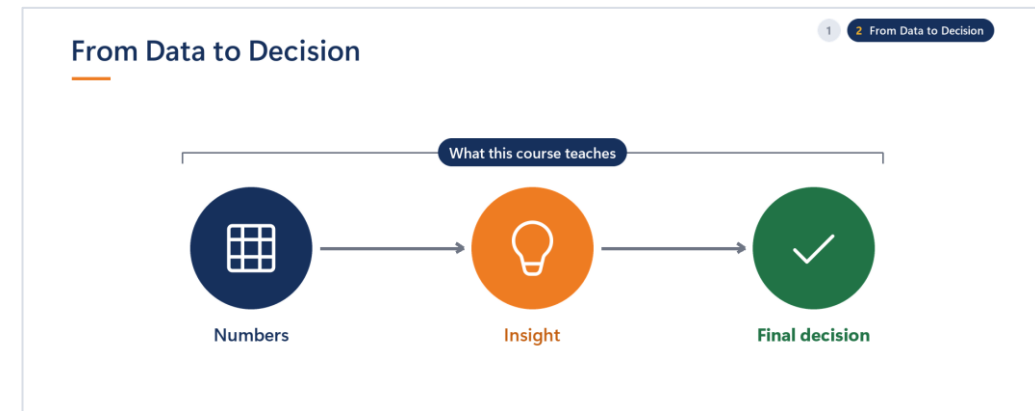
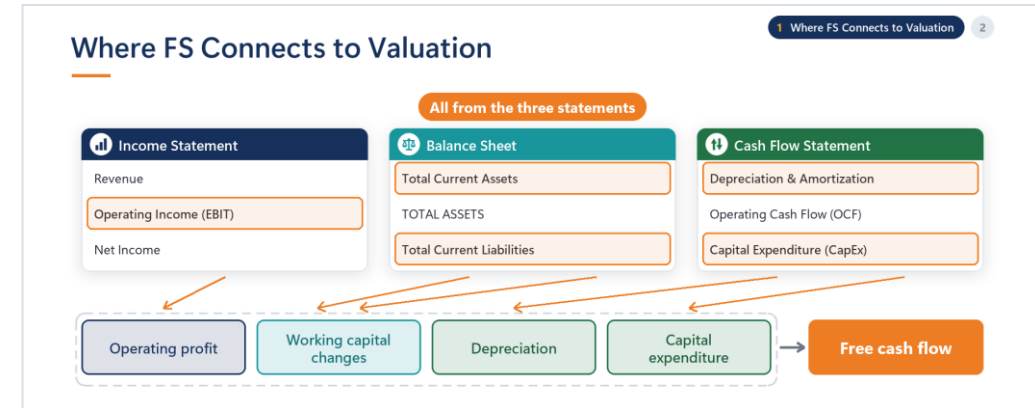
Where FS Connects to Valuation

- Financial statement analysis connects to valuation in three specific ways.
- Multiples: EV/EBITDA and P/E denominators come from the income statement after normalization.
- DCF: free cash flow is the core input, built from operating profit, depreciation, working capital changes and capex.
- Risk filter: before setting a multiple or growth assumption, check for declining margins, rising debt or weaker cash conversion.
- Statement analysis is not separate from valuation; it is the foundation that makes valuation credible.



From Data to Decision

- Statement analysis is the bridge between raw data and an investment conclusion.
- Equity analysts conclude with a buy or sell recommendation and a price target.
- M&A bankers conclude with a bid price or a negotiation position at the deal table.
- Credit officers conclude with a loan approval or a covenant tied to a financial ratio.
- Numbers do not decide on their own: analysts interpret, normalize and connect them to a question.



1. How Financial Statements Drive Investment Decisions (Part 3)



AI in Financial Analysis

- AI is changing how analysts process financial statements: hours of reading become minutes.
- Scanning a 200-page 10-K for one-time charges once took a full day; AI flags them in seconds.
- Use AI to extract key financial data from annual reports and earnings releases.
- Use AI to summarize risk disclosures in footnotes and to draft commentary you then review.
- The analyst's role shifts from data collection to data judgment: AI handles volume, the analyst interpretation.



What AI Cannot Replace

- AI retrieves and organizes large amounts of information quickly but cannot replace judgment.
- It cannot tell whether a revenue decline is a temporary setback or a structural problem.
- It cannot assess whether a management explanation in the MD&A is credible or misleading.
- It cannot link deteriorating working capital to future cash flow risk without guidance.
- Those judgments need a trained analyst who reads the numbers in context.

