
P R E F A C E

This volume is an adaptation for the professional market of the most recent 10th (“millennium”) edition of Dr. Helfert’s best-selling *Techniques of Financial Analysis*, which, with more than half a million copies in print over the past 38 years, has given the student, analyst, and business executive a concise, practical, usable, and up-to-date overview of key financial/economic analysis tools. The presentation format has always been carefully designed to help the reader understand the linkage between management decisions and their impact on the financial performance and the economic value of a business. This book helps the reader to interpret financial reports, develop basic financial projections, evaluate business investment decisions, assess the implications of financing choices, derive the value of a business or a security, and understand the role of analysis in achieving the goal of shareholder value creation. Every technique and measure is described and demonstrated in the context of important underlying financial and economic concepts, but without delving into theoretical abstraction.

A Unique Systems Approach to Financial Management

The concept that any business is essentially an integrated system of cash flows driven by management decisions provides the book’s foundation. All analytical tools and related financial/economic concepts are discussed within this systems context, which reflects the three basic types of decisions made continuously by the management of any ongoing business: investment, operating, and financing. The materials are also structured around the viewpoints of the major parties interested in the analysis and performance of a business: managers, owners, and creditors. The book begins by providing a perspective on the recent speculative excesses in the new economy’s “dotcom” revolution, with the argument that basic economics and financial analysis have never changed, but only were ignored at times. Next, the key concept of the business system and all of its relationships to financial analysis and statements is presented in detail, from which the discussion proceeds to explain the various techniques and concepts in a logical flow. Closure is provided by returning to the systems concept in the final chapters on valuation and managing for shareholder value. Within this structure, however, practicality always remains paramount. Any issues and concepts going beyond what is essential are left to the more specialized textbooks and articles identified in the references. The systems approach is also reflected in the commercially available *Financial Genome* business analysis and planning software and its accompanying interactive templates.

The Audience

Ever since the first edition appeared in 1963, the book has consistently maintained a unique appeal both for students (graduate and undergraduate) and practitioners because of its clarity and commonsense presentation. Straddling the educational and professional markets, the book requires little if any background in finance and accounting and provides an accessible, self-contained overview of the essential financial management concepts and tools. Countless students have found the book an understandable and useful guide for their studies and kept the book for ready reference in their careers, while large numbers of professionals—whether financial practitioners or nonfinancial managers—recognized the practicality and applicability of the book’s approach to their needs and decision-making.

Originally an outgrowth of the compact technical briefing materials used in the MBA program at the Harvard Business School, which supplement practical case study discussion with essential background, the book has been regularly updated and modified approximately every four years. The tenth “millennium” edition reflects not only the latest practice in the use of the various financial techniques, but also the experience gained over nine editions from the widespread use the book has enjoyed in university finance courses, both graduate and undergraduate, and from hundreds of executive development seminars and in-company programs in the United States, Canada, Latin America, and overseas, including those conducted by the author in numerous Fortune 100 client companies. Frequently translated into nine foreign languages over the years, the book has transcended the confines of American business practice on which it is built, because the way in which the analytical methods are described makes them almost universally applicable.

What’s New in this Book

The 10th edition of *Techniques of Financial Analysis*, on which this volume is based, has been refined and updated while preserving the logical, integrated flow of the materials. After setting the stage in Chapter 1, the coverage begins with an overview of the “business system” and the key financial analysis tools, all the way to the development of business valuation and the newly developed materials on managing for shareholder value. The discussion of the analysis of business investments and business valuation have been expanded into two chapters each, to provide additional insights, practical examples, and greater linkage to shareholder value creation. The various graphics supporting the text, several of them new additions, were tested for their effectiveness in numerous executive development programs over the past 12 years. Also, where appropriate, specific references to spreadsheet analysis have been included and examples are presented in this readily accessible format to ease the mechanical aspects of analysis.

An entirely new feature is the optional availability of the advanced, knowledge-based financial analysis software package, *Financial Genome*, created by

Modernsoft, Inc. This professional application enables the user to develop financial statements, the whole range of key financial measures, and integrated financial projections and plans, as well as ad hoc financial analyses. The patented knowledge-based technology enables the user to readily perform these tasks from spreadsheet data or data bases with assured internal consistency, without having to worry about cell locations and formulas. Knowledge of financial terms, relationships, and statement structures is built in, but can be accessed and displayed at will for enhanced understanding. The software is also accompanied by a series of interactive templates and displays relating to many of the key exhibits of this book, especially the core diagram of the business system. The templates are designed to enhance the learning experience by graphically illustrating the impact of changes in assumptions and conditions. Many templates are also designed for general use, such as break-even and present value analysis. *Financial Genome* is described in detail in Appendix I. Interested readers can download the software for trial, as well as the “TFA Templates,” from Modernsoft, Inc’s web site: www.modernsoft.com.

As before, chapters 2 through 6 of the book form an integrated set, built around the conceptual overview of the business system, its decisional context, and its relationship to financial statements and analytical tools as presented in Chapter 2. The coverage of analytical methods begins in Chapter 3 with funds flow analysis, moves on to financial performance analysis, covers financial projections, and culminates in a discussion of the financial dynamics useful in modeling financial conditions and growth capabilities.

Chapters 7 through 11 deal with more specialized topics such as business investment analysis, the cost of capital, financing choices, and valuation of securities and businesses, while the final Chapter 12 returns to the systems context in an expanded discussion of the conceptual and analytical aspects of managing for shareholder value. The informational Appendix III was updated to include key online references.

The process of revision and current adaptation has not, however, affected the book’s primary focus on the doable and practical—in effect an “executive briefing” concept—and on building the reader’s basic ability to grasp financial relationships and issues. As before, the book presupposes only that the user has some familiarity with basic accounting concepts.

Acknowledgments

I would again like to express my appreciation to my former colleagues at the Harvard Business School for the opportunity to develop the original concept of the book. My thanks also go to my business associates and to my colleagues at universities and in executive development programs here and abroad, too numerous to mention individually, for their continued extensive use of the book and for the many expressions of interest and constructive suggestions that have supported the book’s evolution.

My special thanks go to my colleagues at Modernsoft, Inc., Edgar P. Canty, Dr. William J. Clancey, John W. Wu, and Lee Hecht for their enthusiasm and expertise in adapting the major concepts of the book and its approach in our development of the *Financial Genome* software and its accompanying educational templates. Their insights and suggestions were most valuable during the recent revision of this book, and their unwavering dedication to creating this unique professional financial analysis and planning software has been exemplary.

I would also like to state my sincere appreciation to the McGraw-Hill publishing team who made this edition a reality; Jeffrey Krames, Publisher, and Stephen Isaacs, sponsoring editor, have both consistently and generously guided the book through its various stages.

Finally, I continue to be most gratified by the positive responses from so many individual users, past and current, who have found the book helpful in their studies and an ongoing supportive resource in their professions.

Erich A. Helfert