**Financial Reporting** 



# Business model reporting – Lab report summary

### Importance of the business model

- Investors are unanimous that business model information is fundamental to their analysis and understanding of a company and its performance, position, and prospects. The information is potentially even more important for less well-known companies, with more limited analyst coverage.
- Investors use business model disclosure to:
  - develop their valuation model and investment case;
  - compare business models between companies and form views on sustainability;
  - confirm the company is applying the business model they think are;
  - identify changes to the business model; and
  - refer to before meeting companies.

### Hierarchy of business model attributes

Most Investors want the company to include:

- What it does and where it sits in the value chain
  Key divisions and their contribution, and legal structure
  - Key markets and market segments
    - Its competitive advantage
- Key inputs (assets and liabilities, relationships and resources) and how they are maintained / enhanced
  - Key revenue and profit drivers
- Value created for other stakeholders that supports
   economic value generation
  - Statistics to indicate relative importance of elements

### Many Investors also want:

Direct threats 
 Market share

#### Some Investors also want:

Culture and values
 SWOT analysis
 Purpose
 Investment plans
 How the business model is likely to evolve
 Cash flow
 Capital and Assets allocated to business
 ROE, ROCE, Or ROA

## More than one business model

Where a company has more than one business line, each with a distinct business model, each significant business line's business model should be disclosed. In addition, investors would like the rationale for having the different businesses together.

# Linkage

Investors believe that a natural linkage can be achieved within the strategic report if the key drivers of the business are clearly articulated in the business model disclosure.

### Linkage – business model at the heart of the annual report



## Presentation of business model disclosure

- Position towards the front of the strategic report as it provides context to the other information.
- Use clear & concise and factual language. Current disclosure contains unhelpful promotional statements.
- Communicate through a combination of detailed narrative, infographic, tables and charts. However, consider whether an infographic achieves greater impact and understanding than narrative alone, and is easily interpreted by those external to the company.
- Develop one high quality disclosure and use it across the reporting mediums.
- Change the disclosure when the business model changes, or impending changes are known. Highlight the changes and explain their rationale.