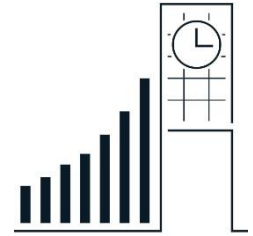


# REVENUE BUILD

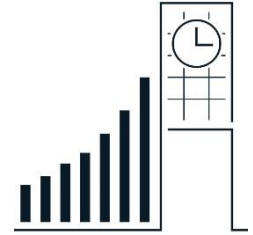
SPRING 2024

# AGENDA



- ▶ Importance
- ▶ Methods
- ▶ Top Down
- ▶ Bottoms Up
- ▶ Sanity Checking
  - Management Guidance
  - Analyst Estimates
- ▶ Deliverable

# IMPORTANCE



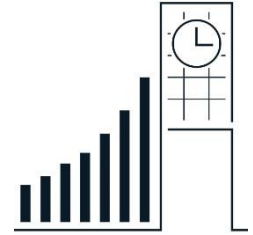
- ▶ Investors pay heightened attention to how fast a firm's revenue is growing
- ▶ Revenue and revenue growth are indicators of a firm's ability to win customers in its industry
  - Ex. Uber vs. Lyft, Chegg vs. CourseHero
- ▶ Indicates breadth of customer relationships and product acceptance
- ▶ Growth is a major factor in selection of multiples
  - EV/Revenue, EV/EBIT, EV/EBITDA
- ▶ Other assumptions are tied to revenue

BUSINESS  
**Apple's Stock Drops on Revenue Warning**  
Shares of suppliers including Micron Technology, Cirrus Logic and Lumentum also took hits



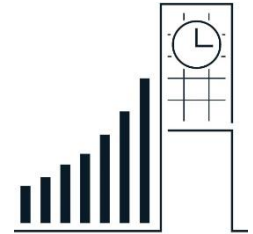
Customers visit an Apple store in Beijing Thursday. Lower than anticipated iPhone revenue, primarily in Greater China, accounts for all of our revenue shortfall. Apple CEO Tim Cook said on Wednesday. PHOTO: NG HAN GUAN/ASSOCIATED PRESS

# METHODS



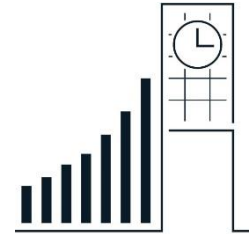
- ▶ Generic Growth Percentage
  - Slowly walk down growth over time to a sustainable number
  - Ex. Revenue will grow at 5.0% for the next five years
- ▶ Historical Growth
  - Keep consistent with last few years
- ▶ Top Down
- ▶ Bottoms Up
- ▶ Other
  - Backlog, long-term contracts, revenue by segment

# TOP DOWN



- ▶ Forecasts based off size of the total market, market growth, and market share
  - Effective for generic industries (ex. commodities, generic drugs)
- ▶ Understanding of key inputs into total market size and market growth
  - Supply and Demand
  - Price expansion or compression
  - Disruption, customer preferences
- ▶ Understanding of key inputs into market share
  - Historical market share
  - Key differentiators for a company's products

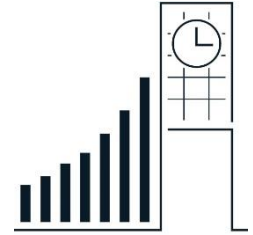
# TOP DOWN



- ▶ Example of Company A in the uranium industry
  - Estimate demand based on global nuclear power plants
  - Estimate supply based on global uranium mines
  - Use surplus/(deficit) to inform estimate for uranium price
  - No significant differentiator → keep market share consistent with prior years

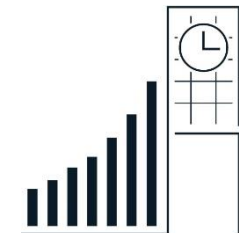
(In lb. of Uranium)	2016	2017	2018	2019E	2020E
Demand	145,595,000	158,007,000	146,927,000	164,843,847	155,549,000
Total Supply	218,062,057	200,950,131	204,778,205	207,939,392	196,316,000
Surplus/(Deficit)	72,467,057	42,943,131	57,851,205	43,095,545	40,767,000
Average Selling Price	\$48.35	\$47.53	\$45.19	\$46.00	\$46.00
<i>Company A Market Share</i>	22.5%	21.5%	22.1%	22.0%	22.0%
Company A Sales Volume	\$1,585,880,000	\$1,611,267,000	\$1,464,156,000	\$1,669,098,300	\$1,574,984,913

# BOTTOMS UP



- ▶ Estimating a company's future performance from the growth of individual products or services sold
- ▶ Steps of bottoms up analysis include
  1. Projecting the number of orders or purchases (sales volumes)
  2. Estimate product/service prices
  3. Calculate the company's estimated revenue by multiplying sales volume by price
- ▶ Look at historical growth, management guidance and what the industry growth drivers of demand for their products/services are
  - Store count, personal income growth, expansion into emerging markets, etc.

# BOTTOMS UP

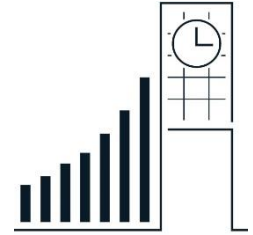


## ► Example of Restaurant Co. and Technology Co.

Restaurant Co.					
	2017	2018	2019E	2020E	2021E
Existing restaraunts	100	120	138	154	168
New restaraunts	20	18	16	14	12
Total restaurants	120	138	154	168	180
Revenue per restaurant	\$ 100.0	\$ 105.0	\$ 109.2	\$ 112.5	\$ 114.7
Revenue growth per restaurant		5.0%	4.0%	3.0%	2.0%
Total revenue	\$ 12,000.0	\$ 14,490.0	\$ 16,816.8	\$ 18,900.0	\$ 20,646.0
Revenue growth		20.8%	16.1%	12.4%	9.2%
Technology Co.					
	2017	2018	2019E	2020E	2021E
iPhone unit price	\$ 100.0	\$ 102.0	\$ 104.0	\$ 106.0	\$ 107.0
iPhones sold	100	110	120	130	140
iPhone revenue	\$ 10,000.0	\$ 11,220.0	\$ 12,480.0	\$ 13,780.0	\$ 14,980.0
iPad unit price	\$ 500.0	\$ 525.0	\$ 550.0	\$ 575.0	\$ 600.0
iPads sold	20	22	24	26	28
iPad revenue	\$ 10,000.0	\$ 11,550.0	\$ 13,200.0	\$ 14,950.0	\$ 16,800.0
Apple Watch unit price	\$ 300.0	\$ 310.0	\$ 320.0	\$ 330.0	\$ 340.0
Apple Watches sold	10	12	14	16	18
Apple Watch revenue	\$ 3,000.0	\$ 3,720.0	\$ 4,480.0	\$ 5,280.0	\$ 6,120.0
Total revenue	\$ 23,000.0	\$ 26,490.0	\$ 30,160.0	\$ 34,010.0	\$ 37,900.0
Revenue growth		15.2%	13.9%	12.8%	11.4%

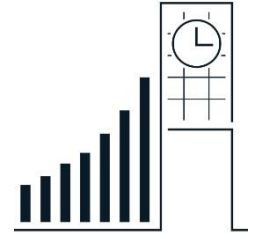


# SANITY CHECKING



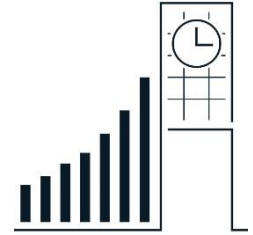
- ▶ Compare against management team guidance
  - Can be found in earnings calls, company's investor relations
- ▶ Compare against analyst estimates
  - Can be found on Bloomberg, WSJ, Yahoo Finance
- ▶ Compare against competitors
  - Example: Canadian Pacific (a leading railroad provider) vs. Canadian National, Norfolk Southern, CSX, etc.
- ▶ Look at CAGR over the projection period
- ▶ Compare against historical growth
  - Teams should be able to point to a significant catalyst if there are drastic changes in projected growth compared to the norm

# DELIVERABLE 1



- ▶ 1-2 Paragraphs summarizing an overview of your investment idea in Microsoft Word
  - Let us know how you're thinking about approaching your stock pitch (i.e. what makes this an attractive investment opportunity)
- ▶ Put Financial Statements into Excel (IS, BS, CFS)
  - We will be covering how to do this next meeting
- ▶ Due on Monday, March 11<sup>th</sup> at 11:59 PM
  - This deliverable is **mandatory**
- ▶ Email it to [bingfinancesociety@gmail.com](mailto:bingfinancesociety@gmail.com)
  - Subject line must be: Team [number] – Deliverable 1

# QUESTIONS?



- ▶ Check out our website: [bingfinance.org](http://bingfinance.org)
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