



Financial Statements,
Projections, Beta, WACC

Binghamton Women in Finance
Stock Pitch Competition Fall 2023



Information for Analysis

- Main Statements for Analysis:
 - Income Statement
 - Balance Sheet
 - Statement of Cash Flows
- Other Sources of Helpful Information:
 - Statement of Retained Earnings
 - Notes to the Financial Statements
 - Company Publications
 - Earnings Reports - 10Ks, 10Qs
 - Company Description, Notes, Management Discussion, Etc.
 - Investors' Relations
 - Other Events
 - Conference Presentations/Transcripts
 - News Articles

Balance Sheet

- The balance sheet shows what a company owns and how it pays for it, “Snapshot” financial statement
- Three sections of the balance sheet:
 - **Assets** – what the company owns and uses to generate revenue
 - Ie. Cash, inventory, land, and property, plant, and equipment
 - Ordered by liquidity
 - **Liabilities** – what the company owes to
 - Ie. Lng-term debt, accounts payable
 - **Equity** – owners’ stake in the business
- Businesses use liabilities and equity to pay for the assets that generate revenue
- **Assets = Liabilities + Equity**
- Capital Structure – combination of debt and equity used to fund the firm’s assets, a measure of leverage
- **Leverage** – using borrowing capital to invest or finance operations
- Net working capital = current assets – current liabilities
 - “Operational working capital”

Income Statement

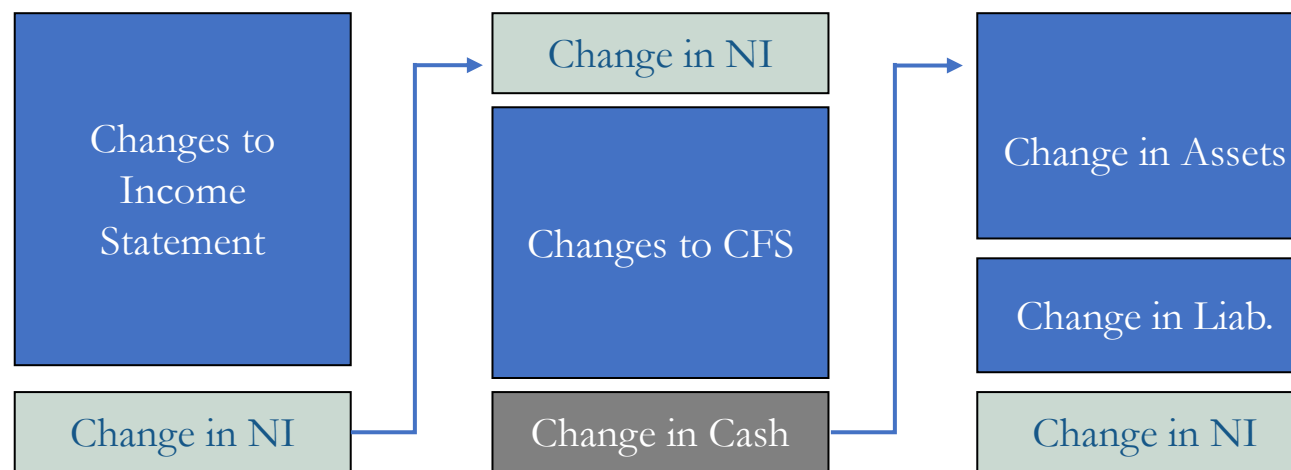
- Overview of company operations, periodic financial statement
- Shows how much profit a company generates over time and how company records revenues and expenses
- **Revenue Recognition Principle** – revenue is recorded in the same period that it is earned
 - Lump sums are kept in deferred revenue until earned
- **Matching Principle** – expenses are recorded in the same period as the revenue corresponding to these expenses
 - Lump sums are kept in prepaid expenses until used
- Depreciation and amortization – the reduction in the value of an asset with the passage of time
 - A non-cash expense so will appear also on the cash flow statement

Cash Flow Statement

- Demonstrates how changes in accounts affect the company's cash balance
- Cash generation does not equal profitability, this statement reconciles the differences
- **Cash Flows from Operating Activities** – measures the amount of cash inflows and outflows produced by the firm's core operations
 - Adjustments are made to net income
- **Cash Flows from Investing Activities** – measures the amount of cash inflows and outflows related to fixed assets and investments (PP&A, LT marketable securities)
- **Cash Flows from Financing Activities** – measures cash inflow (raising capital) and outflows (returning capital) related to debt and equity
 - When capital is raised, the firm receives cash
 - When capital is returned to investors, the firm uses cash

Tying Financial Statements

- **Format all statements to include formulas rather than hardcoded numbers – historicals and projections**
- The financial statements are tied to each other in different ways
- Ie. Net income, D&A, changes in debt



Revenue Build

- Purpose to carefully model out how revenue will increase/decrease each year
- Historical performance can *help* for projections – utilize research to make assumptions about how revenue growth will change in the future
- Top Down: model historical market share of the overall industry/market that each operating segment is in
 - How will this change or continue in the future?
- Bottoms Up: model how a certain figure within the company that is related to revenue generation will continue
 - Ie. Store count & average revenue per store

Income Statement Projections

- Link Revenue Build projections to revenue in Income Statement
- Model out COGS and operating expenses using research and making assumptions on how historical margins will change
- Taxes: Look at historical tax rates or make an assumption to use corporate tax rate or look to 10K or other financial reports for information on future taxes

Balance Sheet Projections

- Model out current assets and current liabilities
- Net working Capital = current assets – current liabilities
- Model out current assets and current liabilities using underlying equations or as a % of sales or a % of COGS
- NWC affects the cash flow of the company
- We project these items using turnover measurements
- Asset side:
 - $\frac{AR}{Sales} = \frac{AR\ Days}{365}$; $AR\ Days = \frac{AR}{Sales} * 365$
 - $\frac{Inv}{COGS} = \frac{Inv\ Days}{365}$; $Inv\ Days = \frac{Inv}{COGS} * 365$
 - Prepaid expenses can be projected as a % of SG&A
- Liabilities side:
 - $\frac{AP}{COGS} = \frac{AP\ Days}{365}$; $AP\ Days = \frac{AP}{COGS} * 365$
 - Accrued liabilities can be projected as a % of SG&A

Cash Flow Statement Projections

- Model out Capex as a % of Sales
- Model out D&A as a % of Capex
 - D&A should equal 98-100% of Capex

Beta

- Beta is used as a measure of volatility compared to a benchmark – Use SPY as the benchmark for the stock against the market
- Download the historical prices going back ~5 years
- Use Covariance / Variance

WACC

- Weighted Average Cost of Capital is the required rate of return
- Weight the average cost of borrowing debt and issuing stock
- The discount rate that will be used to discount cash flows back to the present
- $WACC = K_e * \frac{E}{D+E} + K_d * \frac{D}{D+E} * (1-T)$
 - K_e : cost of equity
 - E : market value of equity
 - K_d : cost of debt
 - Find using the debt rating of the company
 - D : market value of debt
 - T : tax rate

Cost of Equity – Capital Asset Pricing Model

- $K_e = R_f + \beta * (R_m - R_f)$
 - B: Beta
 - R_f : Risk-free rate
 - Yield of the 10-Year Treasury Bill
 - R_m : return on the market
 - Return on the S&P 500

Next Steps

- Submit Word Document with the company you are pitching, along with your thesis (long or short). Include 3 catalysts and explanations
- Email to bingwomeninfinance.org with the email submit “Deliverable 1 – team #” by Sunday, October 8th at 11:59 PM
- Look for examples on bingfinance.org > Investment Fund > Recent Pitches
- Next meeting will be on October 10th to discuss valuation

Thank You!

Questions?

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