



WiF Case Catalysts

Binghamton Women in Finance



Agenda

- Qualitative Analysis Of A Business & How To Pick A Stock
 - Why Is Qualitative Analysis Important?
 - What Makes A Company Successful?
 - Industry Environment
 - Competitive Environment
 - SWOT Analysis
 - Fundamental Analysis
 - How To Screen For An Industry
 - How To Screen For A Stock
- Accounting Part I
 - Financial Statements
 - Balance Sheets
 - Income Statements
 - Statement Of Cash Flows

Why Is Qualitative Analysis Important?

- Understanding the **business model** – how the company earns dollars and translates those dollars into profits – is extremely important to business strategy
- A company is more than just its financial statements
- What matters but cannot be measured on a financial statement?
 - Stakeholder satisfaction
 - Management leadership
- “Soft” metrics are often underestimated and are more important now than ever

What Makes A Company Successful?

- Companies built for long run success need **sustainable competitive advantages**
 - Strong research and innovation
 - Brand popularity
 - Exclusive distribution rights
 - Strategic assets
 - Barriers to entry
- “In business, I look for economic castles protected by unbreachable moats.” – Warren Buffett

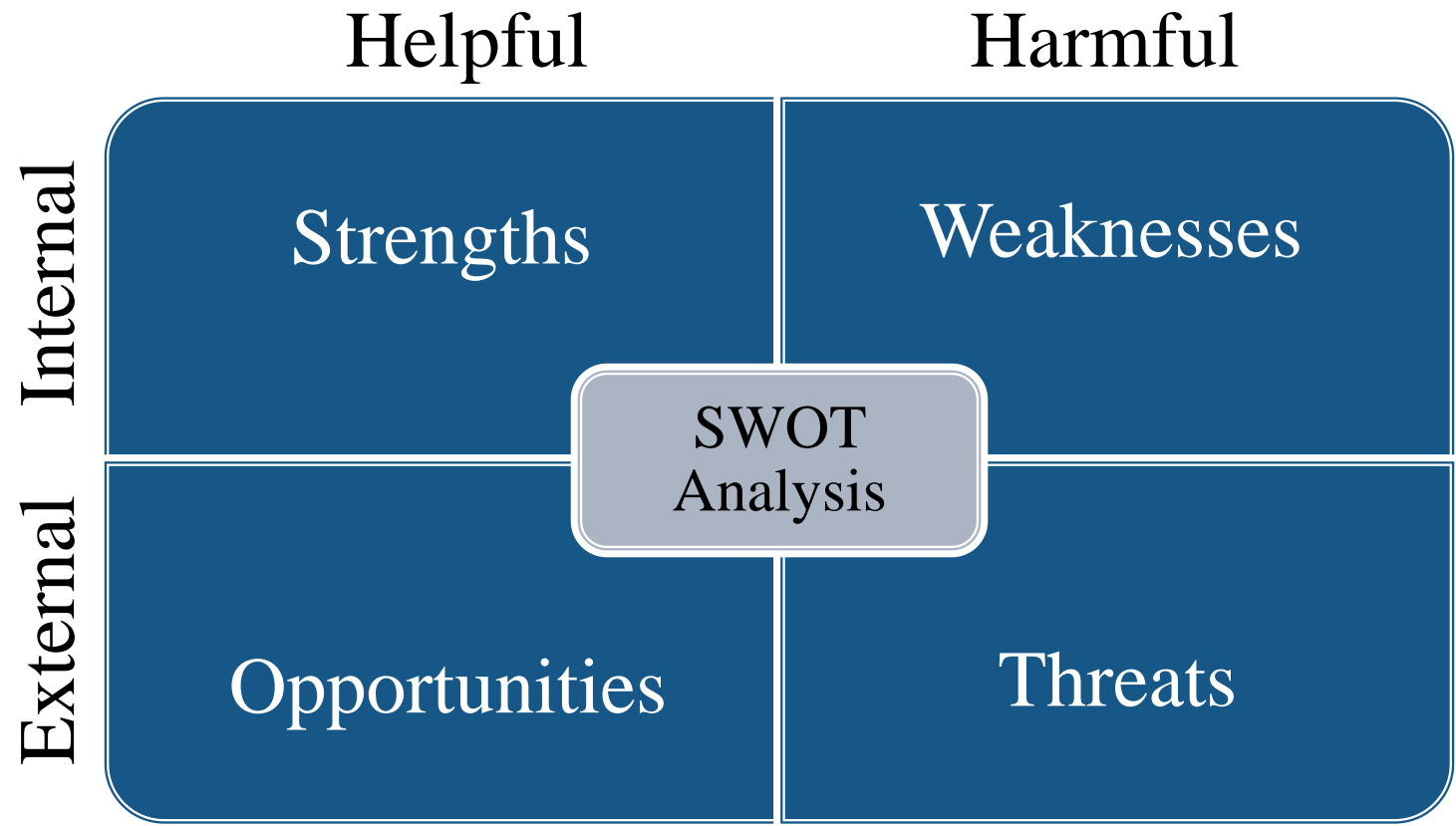
Industry Environment

- Industry fragmentation
- Where is the firm in the industry?
 - Is the firm a first/second/third mover?
 - Does the firm have a significant market share?
 - Why does the firm have a significant market share?
- Competitiveness of suppliers
 - Suppliers that provide a differentiated product will have power
 - Labor unions will drastically impede suppliers ability to cut costs
- The capacity of the industry
 - Find trends that will impact demand for an industry's products

Competitive Environment

- Product differentiation and production costs will impact a product's value to customers
- Trends in consumer demand will impact competitiveness
 - Price elasticity of demand for the product will impact this
- Are there substitute products?
- Does the firm have any competitive advantages?
- How does the company rate on:
 - Customer service
 - Quality of products and services
- Patent protection for the product

SWOT Analysis



Fundamental Analysis

- The purpose of this competition is to teach you **fundamental stock analysis**
 - Fundamental analysis – method of evaluating a security using business-specific and macroeconomic-based evidence
- It explores questions like these:
 - Is the company competitive within its industry?
 - Is that industry growing or shrinking, compared to other sectors?
 - Is the company operating efficiently compared to its peers?
- Fundamental analysis requires you answer qualitative questions first, and then use **technical finance** as the hard evidence to support your thesis

How To Screen For An Industry

- Ask yourself questions to help you **identify an industry** you'd like exposure to
- Examples:
 - The Fed says they plan to raise interest rates this year. Which industries will benefit? Which industries will be hurt?
 - OPEC says they plan to cut oil production, how will this affect American oil producers?
 - Home prices, and home construction, are both rising rapidly. Which industries will benefit if this growth is maintained? Is this growth sustainable?

How To Screen For A Stock

- Based on your opinions of an industry, you can look to identify potential **outliers** (most upside/downside) depending on whether you are pitching a long or short
- Example questions to ask:
 - Is this management team of a company experienced and ready for a radically changing environment?
 - Is this company the first choice brand for consumers in the industry? How about if prices rise/fall?
 - If a certain catalyst occurred, which company would outperform its peers the most/least?

Financial Statements

- Balance sheet
 - Snapshot of what a company owns and how they paid for it
 - Unveils liquidity, solvency, and leverage
- Income statement
 - Shows how much “profit” a company generates over time
 - Unveils how a company records revenues and demonstrates how profitable they are on paper
- 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

Balance Sheet

- The Balance Sheet shows what a company owns and how it pays for it
- The three sections of the Balance Sheet:
 - Assets — what the company owns and uses to generate revenue
 - Ex. cash, inventory, land, property, plant and equipment
 - Liabilities — what the company owes
 - Ex. long term debt, accounts payable
 - Equity — owners' stake in the business
- Businesses use Liabilities and Equity to pay for the Assets that generate revenue

Balance Sheet (Cont'd)

- This statement balances using the following equation:
 - $\text{Assets} = \text{Liabilities} + \text{Equity}$
- **Capital structure** – combination of debt and equity used to fund a firm's assets, reveals leverage
- Accounts are ordered by liquidity
 - Current assets (inventory) vs. fixed assets (factories)
 - Current liabilities (accounts payable) vs. long term liabilities (long term debt)
- Net working capital = current assets¹ - current liabilities¹
 - “Operational working capital”

Income Statement

- **Revenue recognition principle** – revenue is recorded in the same period that it is earned
 - If you pay a lump sum for Fortune Magazine, Fortune will not recognize that whole amount as revenue today
- **Matching principle** – expenses are recorded in the same period as the revenue it is used to generate
 - If Fortune Magazine bought a year's worth of paper today, they will not recognize that whole amount as an expense today

Income Statement (Cont'd)

- Depreciation and amortization
 - **Depreciation and amortization** – the reduction in the value of an asset with the passage of time
- Depreciation and amortization allow us to smooth out expenses on tangible and intangible assets
 - When Tesla builds a \$2bn factory, they don't list the whole \$2bn as an expense on their income statement
- Depreciation is a non-cash expense so we will see it again in our cash flow statement

Income Statement

Income statement (\$mm)	
Revenue	\$500
Less: Cost of goods sold (COGS)	(250)
Gross margin	\$250
Less: Selling, general and administrative expenses (SG&A)	(100)
Operating income (EBIT)	\$150
Less: Interest expense	(50)
Taxable income	\$100
Less: Taxes	(40)
Net income	\$60

Cash Flow Statement

- Three sections
 - Cash flow from operating activities (ex. selling candy bars)
 - Cash flow from investing activities (ex. buying factories)
 - Cash flow from financing activities (ex. issuing debt)
- Goal is to determine exactly how much cash is generated by the business, not just from earnings
- Most important statement for a lender to a company
 - Profit does not equal cash generation
 - A company can still go bankrupt even if it has positive net income
 - A company can still generate cash even if it has negative net income

Cash Flow Statement

Cash flow statement build	
Net income	\$60
Plus: Non-cash expenses	30
Less: Increase in current assets	(20)
Plus: Increase in current liabilities	20
Cash flows from operating activities	\$90
Capital expenditures	(50)
Cash flows from investing activities	40
Cash flows from financing activities	30
Total change in cash	\$70

Deliverable 1

- Teams must submit the company that they want to pitch as well as their three catalysts for whether the stock is a buy or a sell
- **Due Sunday, October 2nd at 11:59 PM**
- Email to bingwomeninfinance@gmail.com
 - Subject line must be: Team [number] – Deliverable 1

Thank You!

Questions?

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