**MARKET CAP**

According to FINRA (2022), Market capitalization, or market cap, is a measure of a company's size. It refers to the total worth of a company's outstanding stock, which includes both publicly traded and restricted shares held by company officers and insiders.

To calculate market capitalization, multiply the total number of shares outstanding by the company's current stock price. (1) Certain stock indexes or investment funds will use this metric to categorize firms based on their size. Newer investors may feel that stock price alone is a decent indicator of a company's size, but the number of outstanding shares is more essential.

To begin, market capitalization offers a broad insight into a company's stage of business development. Additionally, it can serve as a rough gauge of the company's stability.

It is necessary to remember that a company's market capitalization represents its perceived value, as investors determine its stock price.

**REVENUE**

Revenue denotes the income generated by an individual or entity through the sale of goods or services provided. When outlined on an income statement, a company's profit is computed by subtracting expenses from its revenue. Often termed the "top line," revenue is positioned at the forefront of a company's income statement, representing its gross sales. Growth in this top line signifies increased sales of a company's offerings. To optimize profitability, businesses endeavour to boost revenue while curbing expenses, reflected in the net income or "bottom line" on an income statement. A consistent decrease in revenue over successive years signals business deterioration. (2)

Generally, higher revenue equates to more funds available for covering expenses and generating profits. Revenue comprises two critical components: the selling price and the quantity of units sold.

Revenue = average price of product \* number of units sold

**GROSS PROFIT**

Gross profit, also referred to as gross income, represents the earnings a company retains after subtracting expenses related to the production of its diverse goods and services. Displayed on the income statement, a company's gross profit serves as a reliable indicator of its financial well-being. The gross profit margin serves as a profitability metric, assessing how effectively a firm generates income from its production activities. A higher gross profit showcases effective management in achieving profitability across all production costs. Evaluating what constitutes a robust gross profit is vital for understanding a company's financial standing, although this assessment is industry dependent. The most precise approach to gauging a satisfactory gross profit is to compare it with peers within the same industry. Steps to calculate a company’s gross profit are:

1. Find the company's income statement.
2. Determine the cost of goods sold and any revenue made.
3. Calculate the gross profit.

Revenue - COGS = gross profit (3)

**NET INCOME**

Net income (NI), also termed net earnings, is derived by subtracting various expenses such as cost of goods sold, selling, general and administrative costs, operating expenses, depreciation, interest, taxes, and other expenditures from total sales. This metric is crucial for investors seeking to gauge a company's ability to generate profit relative to its costs.

Referred to as the "bottom line," net income is positioned as the final figure on an income statement, reflecting revenues after deducting all expenses, interest, and taxes. Earnings per share are computed using net income. Additionally, net income is commonly dubbed the "bottom line" by analysts, given its placement at the bottom of the income statement. (4)

To calculate net income for a business, we must start with its total revenue. Deduct expenses and operational costs to derive earnings before taxes. Subsequently, subtract taxes from this figure to compute net income.

**EARNING PER SHARE**

Investors rely on earnings per share (EPS) to assess a company's worth or the value of its shares. EPS is computed by dividing the net profit of a company by the total number of common shares outstanding. (5) A higher EPS indicates a corporation's ability to earn more per share, potentially enhancing the attractiveness of its stock to investors. EPS serves as a valuable tool for monitoring changes in a company's profitability over time and comparing the profitability of multiple companies within the same industry. It's essential to calculate EPS relative to a company's stock price and utilize it alongside other financial metrics.

The formula for EPS involves dividing a company's net profit by its outstanding common shares. Net profit is determined by subtracting all cash and non-cash expenses from its revenue during a specific reporting period. Preferred dividends are also deducted to account for payments owed to preferred stockholders before any distributions to common stockholders.

**EBITDA**

EBITDA, short for 'Earnings Before Interest, Taxes, Depreciation, and Amortization,' serves as a profitability metric. Its advantage lies in its focus on a company's fundamental performance, excluding non-essential financial charges.

There are two methods to calculate EBITDA (6):

1. Net Income plus Taxes, Interest Expenses, Depreciation, and Amortization equals EBITDA.
2. Operating Income plus Depreciation and Amortization equals EBITDA.

EBITDA assesses a company's ability to manage daily operations, including crucial expenses like cost of goods sold, offering a precise snapshot of its status and potential. At times, it's comparable to gross profit or net income.

However, EBITDA's main drawback is its potential to overlook the significant impact of financial expenses on a company's financial well-being, leading to a potentially misleading portrayal.

**SHARE HOLDER EQUITY**

Shareholder equity (SE) represents a company's net worth and signifies the total amount that would be distributed to shareholders in the event of liquidation after settling all debts. (7) It's computed as the difference between a company's total assets and total liabilities. SE serves as a critical metric for stock investors and analysts in evaluating a company's overall financial strength. It offers insight into the company's financial condition and aids in making informed investment choices. Shareholder equity encompasses retained earnings and any capital infused into the company. The calculation formula for shareholder equity is:

Shareholder Equity =Total Assets -Total Liabilities.

**CASH FLOW FROM OPERATING**

Cash flow from operations represents the segment of a company's cash flow statement that illustrates the cash generated from its day-to-day operating activities over a period. These activities encompass revenue generation, expenditure payments, and the funding of working capital. (9) It's computed by adjusting the company's net income for non-cash items and considering changes in working capital.

This metric serves as a crucial indicator of a company's financial performance in its core business operations. Cash flow from operations is typically the first section displayed on a cash flow statement, alongside cash flow from investment and financing activities. Two methods can depict cash from operating activities on a cash flow statement: indirectly or directly. The indirect method commences with net income from the income statement and adjusts for non-cash items to derive a cash basis figure. Conversely, the direct method tracks all transactions during a specific period on a cash basis, reporting actual cash inflows and outflows.

While the exact formula may vary for each company, a generic formula for cash flow from operations exists, allowing for a standardized calculation:

Cash Flow from Operations = Net Income + Non-Cash Items + Changes in Working Capital (8)

**CASH FLOW FROM INVESTING**

Investing Cash Flow, a vital component of a company's cash flow statement, indicates the expenditure on business investments within a specified timeframe. It delineates the cash flows generated from a company's investments in long-term assets such as property, equipment, and other ventures. This metric is significant as it reflects the funds allocated towards enhancing operational capabilities, offering insights into future growth prospects. Additionally, it serves as a predictor of a company's ability to generate operational cash flow to support its investment initiatives.

To compute Investing Cash Flow, one subtracts cash outflows from cash inflows associated with investing activities during the given period:

Investing Cash Flow = Cash Inflow from Investing Activities - Cash Outflow from Investing Activities (10)

**CASH FLOW FROM FINANCIAL ACTIVITIES**

Cash flow from financing activities (CFF) is a segment of a company's cash flow statement that reveals the net cash flows employed to support the business. This encompasses financial dealings such as debt issuance, stock transactions, and dividend disbursements. Providing investors with insights into a company's financial robustness and the effectiveness of its capital structure management, cash flow from financing activities is a crucial metric. It encompasses both loan and equity funding, the proportions of which are contingent on factors like a company's capital structure, dividend distribution policy, and terms of debt agreements.

CFF = CED − (CD + RP)

where:

CED = Cash in flows from issuing equity or debt

CD = Cash paid as dividends

RP = Repurchase of debt and equity (11)

**CURRENT RATIO**

The current ratio serves as a liquidity gauge, reflecting a debtor's capability to settle their debts. It's a financial metric widely applicable across various industries to evaluate a company's ability to align its assets with its liabilities by the year's end, often referred to as working capital. (12)

To calculate the current ratio, follow these three steps:

1. Identify current assets.
2. Determine current liabilities.
3. Compare assets to liabilities.

The formula for the current ratio is:

Current ratio = Current assets / Current liabilities (12)

**DEBT/EQUITY RATIO**

The debt-to-equity (D/E) ratio is a vital metric for assessing a company's financial leverage, calculated by dividing total liabilities by shareholder equity. (13) This ratio holds significance in corporate finance as it reveals the extent to which a company relies on borrowing to fund its operations rather than utilizing its own resources. It falls under the category of gearing ratios, specifically comparing a company's total liabilities to its shareholder equity to gauge its debt reliance. D/E ratios vary across industries and are most effectively used for direct competitor comparisons or tracking changes in a company's debt reliance over time. A higher D/E ratio among similar companies indicates increased risk, while an exceptionally low ratio may suggest limited expansion through debt financing. To account for the differing risk levels between long-term and short-term debt, investors often adjust the D/E ratio accordingly.

The formula for calculating the debt-to-equity ratio is:

Debt/Equity = Total Liabilities / Total Shareholders’ Equity (13)

**ROE**

Return on equity (ROE) is a crucial financial performance indicator obtained by dividing net income by shareholders' equity. (14) Since shareholders' equity represents a company's assets minus its debts, ROE is often referred to as the return on net assets. It serves as a gauge of a company's profitability and efficiency in generating earnings. A higher ROE suggests more effective management in generating income and growth through equity financing. Essentially, ROE signifies a company's ability to convert equity financing into profits. To calculate ROE, divide the net income by the shareholders' equity value. The magnitude of ROE varies across businesses and sectors.

ROE is computed by assessing the relationship between net income and shareholder equity.

ROE= Net Income​​/Shareholders’ Equity (14)

**ROA**

Return on assets (ROA) is a financial ratio that demonstrates a company's profitability in relation to its total assets. This metric is utilized by corporate leaders, analysts, and investors to evaluate how effectively a company utilizes its assets to generate profit. Typically expressed as a percentage, ROA combines a company's net income with its average assets. (15) A higher ROA indicates superior efficiency and productivity in leveraging the balance sheet to generate profits, while a lower ROA suggests potential for improvement. ROA measures a company's profitability relative to its total assets, providing valuable insights into asset utilization. To compute ROA, divide a company's net income by its total assets. It's advisable to compare ROA among companies within the same industry due to similar asset bases. Notably, ROA includes a company's debt, unlike return on equity.

Return on Assets = Net Income/Total Assets (15)

**ROI**

Return on investment (ROI) serves as a performance metric utilized to evaluate the efficiency or profitability of an investment, or to compare the effectiveness of multiple investments. It aims to directly assess the return generated by a particular investment relative to its cost. The calculation involves dividing the investment's benefit or return by its cost, typically resulting in a percentage or ratio. ROI is a crucial indicator of profitability, reflecting how well an investment has performed. (16) This percentage is computed by dividing the net return (or loss) of an investment by its initial cost. It enables direct comparisons and ranking of investments across various projects or assets. However, it's important to note that ROI does not consider the duration of holding or the passage of time, potentially overlooking opportunity costs of investing elsewhere. Therefore, determining whether an investment offers a favourable ROI should involve comparison with alternative options. The return on investment (ROI) formula is as follows:

ROI = (Current Value of Investment − Cost of Investment)/Cost of Investment (16)

**NET PROFIT MARGIN**

The net profit margin, also referred to as the net margin, is a percentage of revenue used to measure net income or profit. It represents the ratio of a corporation's or business segment's net profit to its revenue. (17) While typically expressed as a percentage, it can also be presented as a decimal. This metric indicates the proportion of a company's sales that translates into profit. By calculating how much net income is generated relative to revenues received, the net profit margin assists investors in assessing whether a company's management effectively generates profits from its sales and maintains control over operational and administrative expenses. Therefore, the net profit margin serves as a crucial indicator of a company's overall financial well-being.

Net profit margin = (R−COGS−E−I−T) / R ∗100

= Net income/ R ∗100 (17)

R​=Revenue

COGS=The cost of goods sold

E=Operating and other expenses

I=Interest

T=Taxes

**FREE CASH FLOW PER SHARE**

Free cash flow per share (FCF) represents a gauge of a company's financial adaptability, derived by dividing free cash flow by the total number of outstanding shares. This metric serves as an approximation for variations in earnings per share. (18) Ideally, a company should generate more cash flow than necessary for its operations and capital expenditures. Consequently, when a company achieves this, the free cash flow per share indicator tends to increase as the numerator expands while maintaining a constant number of shares outstanding. The augmentation of free cash flow per share signifies enhanced prospects for the company, indicating greater financial and operational flexibility. This metric is alternatively referred to as free cash flow for firm (FCFF), a naming convention often influenced by personal preferences. While it's common to encounter it as FCF in newspapers and FCFF in analyst research notes, both terms signify the same value.

Free Cash Flow per Share = Free Cash Flow​/# Shares Outstanding (18)

**RETURN ON TANGIBLE EQUITY**

Return on tangible equity (ROTE) is a crucial metric for evaluating a company's performance, particularly in the analysis of financial institutions like banks and insurance companies. ROTE provides insight into how effectively equity investors earn returns on their investment, accounting for tangible equity and excluding intangible assets. This metric is valuable for assessing management's capital allocation efficiency across the organization and predicting future profitability.

To calculate return on tangible equity (ROTE), divide a company's net income by its average shareholders' equity, deducting any intangible assets such as goodwill. ROTE represents the expected return per dollar of tangible equity invested in the company, indicating the efficiency with which the firm utilizes its tangible assets to generate profits and deliver value to shareholders. A higher ROTE suggests a greater likelihood of developing a sustainable, long-term competitive advantage.

Return on Tangible Equity (ROTE) = Net Income ÷ (Average Shareholders’ Equity – Intangible Assets) (19)

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