

# Course Glossary

**10-K:** Annual Earnings Report Filing Form (Lecture 23: SEC.gov is Another Great Model Resource)

**10-Q:** Quarterly Earnings Report Filing Form (Lecture 23: SEC.gov is Another Great Model Resource)

**8-K:** Important Press Releases (Lecture 23: SEC.gov is Another Great Model Resource)

**Amortization:** Gradually writing off the initial cost of the intangible asset such as goodwill (Lecture 5: Income Statement Example and Analysis)

**Balance Sheet:** A Balance Sheet shows the Assets, Liabilities and Shareholders' Equity. A Balance Sheet can help evaluate the capital structure of the company. (Lecture 3: Why is the Income Statement Important & How Can It Help You Achieve Your Goals)

**Bearish:** Market sentiment characterized with falling share prices (Lecture 46: Price to Revenue Example)

**Beta:** A measure of volatility and systematic risk of a stock compared to the market as a whole (Lecture 40 Calculating the Weighted Average Cost of Capital (WACC))

**Bottom Line:** Net Income is known as bottom line (Lecture 4: Income Statement Explanation)

**Bullish:** Market sentiment characterized with rising share prices (Lecture 46: Price to Revenue Example)

**CAPEX:** It refers to the capital expenditure undertaken by a company. Examples are spending on property, plant, and equipment (Lecture 38: What is DCF, Why is it Important and How Does it Work?)

**Cash Flow Statement:** The Cash Flow Statement helps us understand how the cash balance changes for a particular company. The Cash Flow Statement explains why the Net Income and the cash balance differ from each other. (Lecture 3: Why is the Income Statement Important & How Can It Help You Achieve Your Goals)

**DCF:** Discounted Cash Flow valuation method (Lecture 36: More Detail on Growth Versus Value and P/E + P/R + DCF Overview)

**Debt to Assets:** Total Debt divided by Total Assets (Lecture 57: Amazing Formulas to Assess Financials)

**Debt to Equity:** Total Debt divided by Total Equity (Lecture 57: Amazing Formulas to Assess Financials)

**Depreciation:** It is the decrease in value of the asset that you can deduct from your taxable income. It is used for tangible assets. (Lecture 4: Income Statement Explanation)

**Diluted EPS:** It is similar to EPS, but instead of the number of shares, we take the diluted amount which considers securities that may convert into shares in the future. Hence, the term diluted, which considers the future increase in shares. (Lecture 5: Income Statement Example and Analysis)

**Discounting:** Valuing future cash flow in present dollar terms (Lecture 38: What is DCF, why is it Important and How Does it Work?)

**EBITDA:** EBITDA or the Earnings Before Interest, Tax, Depreciation and Amortization is a line item in the Income Statement. It helps evaluate a company's financial performance. (Lecture 53: Additional Valuation Methodologies)

**EPS:** Earnings per share can be calculated by dividing the net income with the total outstanding shares. (Lecture 5: Income Statement Example and Analysis)

**EV/EBITDA:** EV (meaning Enterprise Value) can be calculated by the formula  $\text{Market Cap} + \text{Debt} - \text{Cash}$  and then divide the number by EBITDA (Lecture 53: Additional Valuation Methodologies)

**EV/Sales:** EV can be calculated by the formula  $\text{Market Cap} + \text{Debt} - \text{Cash}$  and then divide by Sales (Lecture 53: Additional Valuation Methodologies)

**Free Cash flow:** The cash a company generates after deducting cash outflows for operations and maintenance of the capital assets (Lecture 38: What is DCF, Why is it Important and How Does it Work?)

**GAAP:** Generally Accepted Accounting Principles contains all of the cash and non-cash items (Lecture 22: Introduction to Investor Relations (A Great Model Data Source))

**GARP:** Growth at a Reasonable Price is the middle ground between value investing and growth investing (Lecture 36: More Detail on Growth Versus Value and P/E + P/R + DCF Overview)

**Gross Margin:** (also called Gross Profit Margin) shows how profitable a company is for every dollar they sell of inventory before expenses. Formula:  $1 - (\text{Revenue} - \text{Cost of Goods Sold}) / \text{Revenue}$  (Lecture 57: Amazing Formulas to Assess Financials)

**Gross Profit:** Revenue minus the Cost of Goods Sold (Lecture 5: Income Statement Example and Analysis)

**Growth Investors:** Investors that see the long-term growth potential of the company and, as a result, are often comfortable investing in a company that is currently expensive. (Lecture 36: More Detail on Growth Versus Value and P/E + P/R + DCF Overview)

**Income Statement:** A statement that helps you understand how much income a company makes (Revenue minus Expenses). (Lecture 3: Why is the Income Statement Important & How Can It Help You Achieve Your Goals)

**Interest Coverage Ratio:** EBITDA divided by the interest expense the company owes on its debt obligations (Lecture 57: Amazing Formulas to Assess Financials)

**Inventory Days on Hand (DOH):** Shows how long it takes a company to turn stuff they sell into revenue. Formula:  $(\text{Average Inventory} / \text{Cost of Goods Sold}) * 365$  (Lecture 57: Amazing Formulas to Assess Financials)

**Just Right Case:** Scenario where the share price is trading at or around the intrinsic value (Lecture 46: Price to Revenue Example)

**Long-Term Investments:** Investments with a greater than one year time horizon (Lecture 10: Balance Sheet Example and Analysis)

**Net Income:** Revenue minus Expenses is known as Net Income (Lecture 4: Income Statement Explanation)

**Net Profit Margin:** Shows how much Net Income (or Net Profit) a company generates for every dollar of Revenue generated. Formula:  $\text{Net Income} / \text{Revenue}$  (Lecture 57: Amazing Formulas to Assess Financials)

**Non-GAAP:** Non-GAAP earnings are Pro Forma figures, which exclude "one-time" and non-cash transactions. (Lecture 22: Introduction to Investor Relations (A Great Model Data Source))

**NPV:** Net Present Value is the net of present value of cash inflows and the present value of cash outflows (Lecture 38: What is DCF, Why is it Important and How Does it Work?)

**Operating Margin:** Shows how much Operating Profit (often called EBITDA) a company generates for every dollar of Revenue generated. Formula:  $\text{EBITDA} / \text{Revenue}$  (Lecture 57: Amazing Formulas to Assess Financials)

**Operating Profit:** Gross Profit minus the Operating Expenses. (Lecture 5: Income Statement Example and Analysis)

**P/E Ratio:** Price to Earnings Ratio can be calculated by dividing the price of the Stock by the Earnings Per Share number (Lecture 36: More Detail on Growth Versus Value and P/E + P/R + DCF Overview)

**P/R Ratio:** Price to Revenue (or Price to Sales) Ratio can be calculated by dividing the Price of the Stock with the Revenue Per Share number (Lecture 36: More Detail on Growth Versus Value and P/E + P/R + DCF Overview)

**PEG Ratio:** Price/Earnings to Growth ratio is the Price to Earnings Ratio divided by the Earnings Growth Rate multiplied by 100 (Lecture 46: Price to Revenue Example)

**Price/Book:** Price/Book helps us understand what the value of the company is if liquidated today. If the Price to Book Ratio is less than one, it could make sense to invest in the company or dismantle the company, as it could be worth more if all items that the company owns less what the company owes are liquidated. (Lecture 53: Additional Valuation Methodologies)

**Price/Free Cash flow:** Price/Free Cash Flow Ratio is what the Price is valued at per share for every 1\$ of Free Cash Flow that the company generates (Lecture 53: Additional Valuation Methodologies)

**Pro-Sumer Market:** The term Pro-sumer refers to the customer who produces and consumes the product. LinkedIn has become an online platform like Facebook, where its users create content like posts, advertisements and other users view them or the same person who produced the content views content. (Lecture 28: What is the Total Addressable Market for LinkedIn and Why is this Important?)

**Retained Earnings:** Part of the Net Income that companies retain after paying out any Dividends (Lecture 10: Balance Sheet Example and Analysis)

**Return on Assets:** Shows how profitable a company is for every dollar they have of Assets. Formula:  $\text{Net Income} / \text{Assets}$  (Lecture 57: Amazing Formulas to Assess Financials)

**Return on Equity:** Shows how profitable a company is for every dollar they have of Equity.  
Formula:  $\text{Net Income} / \text{Equity}$  (Lecture 57: Amazing Formulas to Assess Financials)

**Risk Free Rate:** It is the theoretical rate of return with zero risk. Practically, there isn't a security with zero risk, but US Treasuries are considered a relatively risk-free investment (Lecture 40 Calculating the Weighted Average Cost of Capital (WACC))

**S-1:** A form for companies filing to go public (Lecture 23: SEC.gov is Another Great Model Resource)

**SEC:** Securities and Exchange Commission is the US regulatory body that governs the financial markets (Lecture 20: Financial Modeling Best Practices)

**Short-Term Investments:** Investments with a time frame of less than a year (Lecture 10: Balance Sheet Example and Analysis)

**T.A.M.:** Total Addressable Market is the size of the market that you can sell to. However, no company can capture 100% of the T.A.M. due to geographic, logistic or various other factors. The bigger the pie, the more room for growth. (Lecture 20: Financial Modeling Best Practices)

**Terminal Value:** It is the value of all the cash flows beyond the forecasted period discounted to the last forecasted year (Lecture 39: Calculating the Terminal Value)

**Top Line:** Revenue (or Sales) is known as the top line (Lecture 4: Income Statement Explanation)

**Value Investors:** Investors that buy securities that are underpriced through some form of fundamental analysis, including a low Price to Book ratio and a low Price to Earnings ratio (Lecture 36: More Detail on Growth Versus Value and P/E + P/R + DCF Overview)

**WACC:** Weighted Average Cost of Capital is the calculation of a firm's cost of capital (meaning cost of debt and equity) (Lecture 39: Calculating the Terminal Value)

**Working Capital:** It is the capital required to run the day-to-day business activities. The formula for Working Capital is  $\text{Current Assets} - \text{Current Liabilities}$  (Lecture 17: Cash Flow Statement Analysis Exercise Answer Explanations)