Coursera - IESE Foundations of Management Specialization
Operational Finance: Building a Robust Business
Prof. Miguel Antón

Financial Terms & Definitions[1]

Balance Sheet – A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders. The balance sheet adheres to the following formula: Assets = Liabilities + Shareholders' Equity

Cash Flow- The net amount of cash and cash-equivalents moving into and out of a business. Positive cash flow indicates that a company's liquid assets are increasing, enabling it to settle debts, reinvest in its business, return money to shareholders, pay expenses and provide a buffer against future financial challenges. Negative cash flow indicates that a company's liquid assets are decreasing.

COGS-Cost of Goods Sold. These are the direct costs associated with the production of goods sold by a company.

Cyclicality (Cyclical Industry) - A cyclical industry is one that is sensitive to the business cycle meaning that revenues are generally higher in periods of economic prosperity and expansion, and lower in periods of economic downturn and contraction.

Depreciation & amortization - Both depreciation and amortization (as well as depletion) are methods used to prorate the cost of a specific type of asset to the asset's life. It is important to mention that these methods are calculated by subtracting the asset's salvage value from its original cost. Amortization is for intangible assets and depreciation for tangible assets.

DuPont Decomposition – This analysis offers insight into a three key components of a company's strategy by breaking down the ROE (Return on Equity) into the following elements:

$$ROE = \frac{Net\ Income}{Sales}\, x\, \frac{Sales}{Assets}\, x\, \frac{Assets}{Equity} = \frac{Net\ Income}{Equity}$$

[1] These definitions are based both on Prof. Anton's course and www.investopedia.com.

EBITDA- Earnings before interest, taxes and amortization. EBITDA allows for comparison between companies and industries since it eliminates the effects of financing and accounting decisions.

Gross Margin- Sales revenue minus COGS divided by sales revenue. This represents the percent of total sales revenue that a company retains after incurring the costs related to producing the product or services.

Income Statement – Also known as profit & loss statement, it is a financial report that measures a company's performance over a specific period of time. It summarizes revenues and expenses through both operating and non-operating activities.

Leverage – How much leverage a company uses indicates to what extent it is using debt to finance its activities. The leverage ratio would be the ratio of third party liabilities to equity.

Net Income – Often referred to as "the bottom line," net income is revenues minus the cost of doing business.

NFO – Need of Funds for Operations

OPEX – Operating expenses

P&L – Profit and Loss Statement, also known as income statement.

ROE- Return on Equity. The amount of net income returned as a percentage of shareholder equity.

ROS – Return on Sales. A ratio used to assess a company's operational efficiency. ROS equals Net income (before interest and taxes) divided by sales.

Turnover – The number of times an asset is replaced during an accounting period. In terms of inventory, the shorter time the inventory is sitting on the shelves, the better.

WC – Working Capital
WC = EQUITY + LONG-TERM DEBT – FIXED ASSETS
OR
WC=CURRENT ASSETS – CURRENT LIABILITIES
(Please see week 3 for further explanation of why both formulas work.)