

Jargon Buster

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**TERRINGTON
TRADERS**

National Investment Club Conference 2009

A Racehorse



- Find some friends
 - Fred £25k
 - Tom £10k
 - Pete £5k
 - Bill £5k
 - You £5k
- Raise £50k
- £1m
- No sale !!
- “What can we buy for £50k?”

Another Racehorse



- £50k
- BUY BUY BUY
- Shared Ownership
 - You £5k 1 share
 - Bill £5k 1 share
 - Pete £5k 1 share
 - Tom £10k 2 shares
 - Fred £25k 5 shares
- £5k share price
- 10 shares “in issue”

Same principles apply to companies

A Company

Name : NORTHERN STUFF

Sector: General Retailers

Shares In Issue : 10 million

Share Price : £1 per share

Market Capitalisation : £10m (10 million x £1)

What do you get for £10m?

Outright Ownership

Gives you:

- Assets
- Entitlement to future income & money owed
- Responsibility for any liabilities

Let's look at some example numbers

CONSOLIDATED BALANCE SHEET

	<i>2009</i>
	<i>£000</i>
FIXED ASSETS	
Intangible Assets	500
Tangible Assets	5000
	5500

This is just basically stuff the company doesn't sell

Nebulous stuff you can't touch (brand names, copyright, etc.)

Stuff you can touch but the company doesn't sell (shops, factories, fixtures & fittings, etc.)

CONSOLIDATED BALANCE SHEET

	2009
	£000
FIXED ASSETS	
Intangible Assets	500
Tangible Assets	5000
	5500
CURRENT ASSETS	
Stocks	8500
Debtors	1000
Cash In Hand	2000
	11500

Stuff turned into cash in the normal course of business

Raw materials, work in progress, goods not yet sold, etc.

Money owed to you (eg. customers that haven't paid yet)

Requires no further explanation !!

Requires no further explanation !!

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CREDITORS	
Amounts falling due within 1 year	7000
Amounts falling due after more than 1 year	3000

People who have lent you money

Short term borrowings
(eg. suppliers not yet paid)

Longer term borrowings
(eg. Bank loans)

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Tangible Assets	5000
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CURRENT ASSETS	
Stocks	8500
Debtors	1000
Cash In Hand	2000
	11500
CREDITORS	
Amounts falling due within 1 year	7000
NET CURRENT ASSETS	4500
TOTAL ASSETS LESS CURRENT LIABILITIES	10000
CREDITORS	
Amounts falling due after more than 1 year	3000

Current assets – current liabilities
= 11500 - 7000

Fixed + Current assets – current liabilities
= (5500 + 11500) - 7000

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CREDITORS	
Amounts falling due after more than 1 year	3000
NET ASSETS EMPLOYED	7000

Total assets – Total liabilities
= (5500 + 11500) – (7000 + 3000)

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NET ASSETS EMPLOYED	7000

Gearing is an indication of debt.
 Different definitions and calculations.
 One is total debt / market capitalisation:
 $= (7000+3000)/10000 = 1 = 100\%$

Net Asset Value (NAV)
 Sometimes called "Book Value"

NAV per share = $7000 / 10000 = 70p$
 Price to Book = $10000 / 7000 = 1.428$

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		2009 £000
Turnover	Sometimes called a Cash Flow Statement	6000
Cost of sales		3000
Gross Profit	Turnover = Revenue = Sales "The top line"	3000
	(self explanatory?)	
	A simple sum : Revenues - Costs "The bottom line" ??	

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>2009</i>
	<i>£000</i>
Turnover	6000
Cost of sales	3000
Gross Profit	3000
Selling and distribution costs	1200
Administrative expenses	750
	1950
Operating Profit	1050

Additional costs

A simple sum : Revenues - Costs
"The bottom line" ??

Earnings before interest & tax (EBIT)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2009 £000
Turnover	6000
Cost of sales	3000
Gross Profit	3000
Selling and distribution costs	1200
Administrative expenses	750
Operating Profit	1950
Interest Received	1050
	-
Interest Payable	1050
	50
Taxation	1000
	330
Profit for the financial year	670

From cash held in the bank

On loans, overdrafts, etc.

Mainly 'Corporation Tax'

"Earnings"

All Revenues & Incomes – All Costs
"The bottom line"

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Administrative expenses	750
	1950
Operating Profit	1050
Interest Received	-
	1050
Interest Payable	50
	1000
Taxation	330
Profit for the financial year	670
Dividends paid and proposed	210
Amounts transferred to reserves	460
Earnings per ordinary share	6.7p

Total dividend payments to shareholders in the year

“Retained earnings”
(Profit – Dividends)

EPS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		2009 £000
Turnover	With sales at £6m and 10m shares Turnover per share = 60p	6000
Cost of sales		3000
Gross Profit		3000
Selling and distribution costs	Price to Sales ratio (PSR) : = Share price / Turnover per share (=100/60) = Market Cap / Turnover = (10,000 / 6,000) = 1.667	1200
Administrative expenses		750
Operating Profit		1950
Interest Received		1050
Interest Payable	Div. Cover = Profits for the year / Div. = 670 / 210 = 3.19 = EPS / Div. per share	-
Taxation		1050
Profit for the financial year	Div. per share = 210 / 10,000 = 2.1p Div. Yield = Dividend as % of Share Price = 2.1/100 = 2.1%	50
Dividends paid and proposed		1000
Amounts transferred to reserves	Price to Earnings ratio = PE = Share price / EPS = 100 / 6.7 = 14.92 = Market Cap / Profit for financial year	330
Earnings per ordinary share		670
		210
		460
		6.7p

Some other terms

BROKER FORECASTS

	Actual	Forecast
	<i>2009</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>
Turnover	6000	6600
Earnings	670	900
EPS	6.7p	9.0p
P/E	14.92	11.11
Dividend per share	2.1p	2.5p
Yield	2.1%	2.5%

Historic PE
(Share price / EPS)

Forecast PE
(sometimes called Forward PE)
(Share price / Forecast EPS)

Some other terms

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Historic Yield
(Dividend / Share Price)

Forecast Yield
(Forecast Dividend / Share Price)

Some other terms

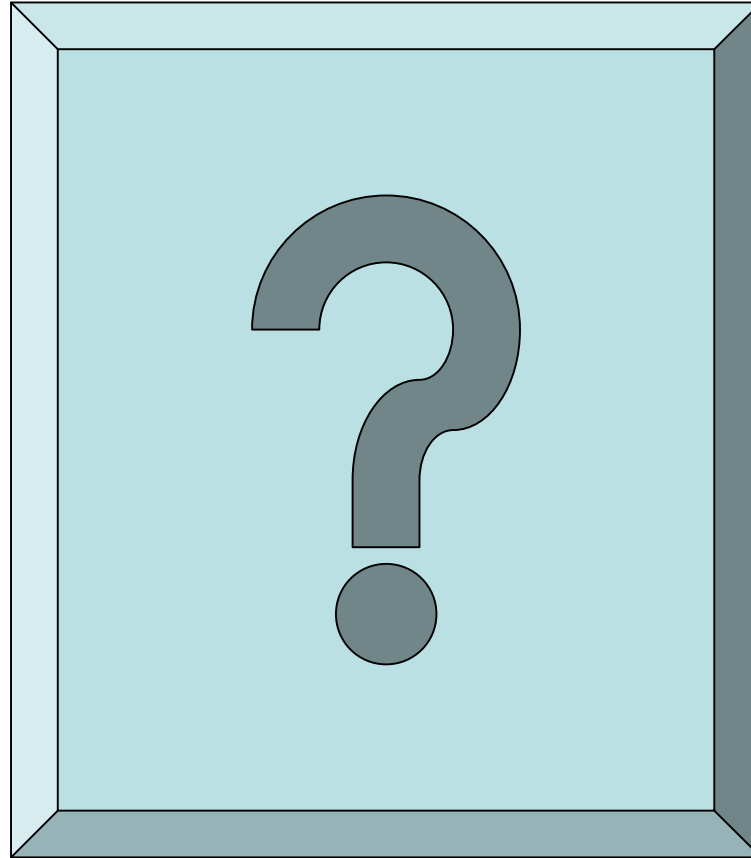
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Forecast EPS Growth
 $= (9.0 - 6.7) / 6.7$
 $= 34.3\%$

PEG = PE to Growth ratio
 $= PE / \text{EPS Growth (expressed as \%)}$
 $= 14.92 / 34.3 = 0.434$

Has it busted any jargon??



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