

Decoding Financial Metrics and Business Units

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**Saint Mary's
College**

NOTRE DAME, IN

Agenda

- Introduction to Saint Mary's College
- My background
- Key financial terms defined
- Segment reporting and business units
- Evaluating periodic financial reports



Saint Mary's College

- Founded in 1844 by the Sisters of the Holy Cross
- Located in Notre Dame, Indiana
- Approximately 1,600 students
- Top-100 liberal arts colleges
- One of the 10 remaining all-female colleges in the U.S.



My Background

- Currently Assistant Teaching Professor of Finance at Saint Mary's
- Previously 21 years in investor relations
- Started career on Wall Street
- CFA Charter Holder



Key Financial Terms

Income Statement (Profitability)

- Revenues (top line)
- Expenses (COGS, Opex, SG&A)
- Net Income
- EBITDA
- Margins
- Returns

Balance Sheet (Financial Health)

- Assets (all property)
- Liabilities (what you owe)
- Equity (what you own)
- Ratio Analysis
 - Current Ratio
 - Asset Turnover
 - ROA, ROE



Income Statement Analysis

- Revenues (Top Line)
 - Growth (Y/Y or sequential)
 - Drivers of growth
- Expenses
 - Cost of Goods Sold
 - Operating Expenses
 - SG&A
 - Taxes
- Margins
 - Gross Margin
 - Operating Margin
 - Pre-tax Margin
 - Net Margin



Balance Sheet Analysis

- Liquidity Ratios

- Do we have the cash to fund operations?
- Examples: Current Ratio, Quick Ratio, Time Interest Earned

- Leverage Ratios

- How much debt do we have and is it sustainable?
- Examples: Debt/Equity, Debt/Tangible Assets

- Activity Ratios

- How effectively are we using our assets?
- Examples: Inventory Turnover, Fixed Asset Turnover, Days Sales Outstanding

- Profitability Ratios

- How much profit do we generate from assets?
- Examples: Return on Assets, Return on Equity



Evaluation Over Time

- Various financial metrics can change over time, so it is important to evaluate trends:
 - Are sales growing or shrinking?
 - Are profit margins getting better or worse?
 - Are we operating more efficiently or less efficiently?
 - Are we adding jobs?
 - Are we investing in new facilities or capital improvements?



Segment Reporting

- The overall goal of segment reporting is to allow investors and other users of public company financial disclosures to assess the business in the same way senior executives view the business.
- How do CEOs, COOs and other executives evaluate business performance and make decisions?
- Segments are defined by how management views the business, subject to three “10% tests” (any entity that represents either 10% of total revenue, 10% of total profit or 10% of total assets) would be defined as a segment.
- Management has latitude in defining segments for reporting.



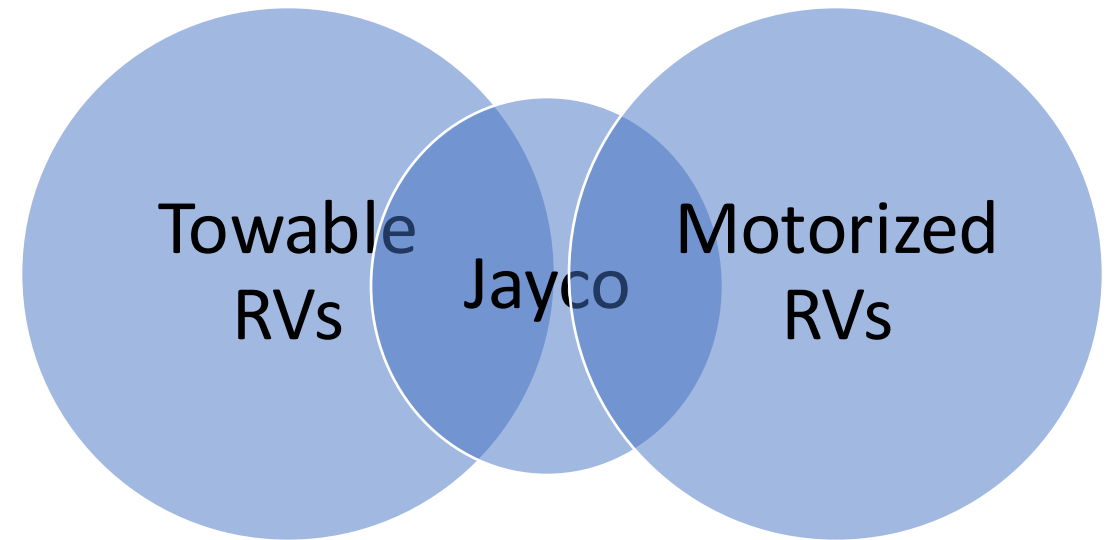
Segment Reporting (Cont'd)

- Types of Required Disclosures:
 - General description of the business (activities, locations, products, customers, etc.)
 - Operating Results: revenues, expenses, profit/loss
 - Assets and Liabilities
 - Reconciliation of segment results to consolidated financials
 - Other potential information including interest expense, depreciation and amortization
- FASB Updated Guidance in 2023 provides for additional disclosures on an interim and annual basis.



Segments vs. Businesses

- Segments aligned for reporting purposes may be different than individual business entities that make up the segment.
- Example from THOR Industries:
 - Segments were defined as Towable RVs and Motorized RVs
 - Each segment included multiple subsidiaries (Keystone, Airstream, THOR Motor Coach)
 - Some subsidiaries like Jayco were in both segments



Segments Change Over Time

- As companies evolve, their reporting segments may change:
 - Organic Growth
 - New Businesses
 - Geographic Expansion
 - Acquisitions
 - Divestitures
- THOR Evolution:
 - Originally Towable RV, Motorized RV and Bus
 - Sold Bus, left with Towable RV and Motorized RV
 - Acquired Suppliers, now added an “Other” Segment
 - Acquired Erwin Hymer Group and added European Segment



Understanding Disclosures

- When talking with media, clients, government officials, you are limited to what you can disclose.
- The SEC has many rules regarding the disclosure of material non-public information.
- Your safest approach is to become familiar with what your firm has publicly disclosed to investors to guide your actions.
- If you have questions, contact your general counsel or head of investor relations.



Public Company Disclosures

- SEC Filings:

- Annual Report on Form 10-K
- Quarterly Report on Form 10-Q
- Periodic Reports on Form 8-K
- Proxy Disclosures on Form 14A

- Other Public Statements:

- Press Releases
- Company Website
- Media Statements
- Regulatory Filings



Pitfalls on Discussing Business Segments

- Best practice to limit discussion to what has been disclosed.
- Specific subsidiary or division data may be sensitive (do you want your competitors to know that you just reassigned the president of a division? Do you want competitors to know specific product profit margins?) so only disclose broad segment data.
- If an entity is spread over multiple business segments, the opacity of information is there to defend competitive advantages.
- When in doubt, offer to get back with the questioner and confirm with your general counsel or head of investor relations.



Questions?

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