Corporate Investing Model Terminology

Corporate Finance: A specialized area of finance that deals with the financial decisions made by corporations and their methods of funding and capital structuring. It encompasses a wide range of activities aimed at maximizing shareholder value through effective management of financial resources.

Operating Financials

Revenue: The total amount of money generated by a business from its normal business activities, typically from sales of goods or services.

Cost of Goods Sold (COGS): The direct costs attributable to the production of the goods sold by a company. It includes material costs, direct labor costs, and manufacturing overhead.

Gross Profit: The difference between revenue and the cost of goods sold. It represents the profit earned from a company's core business activities before deducting operating expenses.

SG&A Expenses (Selling, General, and Administrative Expenses): The expenses incurred by a company that are not directly tied to the production of goods or services, including sales commissions, advertising, salaries of administrative staff, and utilities.

Rental/Lease Expenses: The costs incurred by a business for renting or leasing assets such as office space, equipment, machinery, vehicles, or other resources needed for its operations.

Operating Profit (EBIT - Earnings Before Interest and Taxes): The profit earned by a company from its normal operating activities, calculated by subtracting COGS and operating expenses from revenue.

Capital Expenditures (CapEx): Funds used by a company to acquire, upgrade, or maintain physical assets such as property, buildings, equipment, or technology.

Free Cash Flow (FCF): The amount of cash generated by a company's operations after accounting for capital expenditures and changes in working capital. It represents the cash available for distribution to investors or for reinvestment in the business.

Cash Flow Metrics

Unlevered Cash Flows: Cash flows generated by a business before accounting for the effects of debt financing or interest expenses.

Levered Cash Flows: Cash flows available to equity investors after accounting for debt financing costs, including interest payments and principal repayments.

Initial Investment

Net Initial Investment: The initial investment amount adjusted for any financing or tax effects.

Investment Date: The date on which an investment is made.

Required Return on Equity: The minimum rate of return that investors expect to earn on an investment, considering the risk associated with the investment.

Loan Characteristics

Loan Amount: The principal amount of money borrowed by the borrower from the lender.

Loan Fees (% of Loan Amount): The fees charged by the lender as a percentage of the total loan amount.

Interest Rate: The percentage of the loan amount charged by the lender as interest, typically expressed annually.

Term: The period over which the loan is scheduled to be repaid.

Capital Structure and Cost of Capital:

Capital Structure: The mix of debt and equity financing used by a company to fund its operations and investments.

Debt (% of Total Capital): Money borrowed by a company from external sources, typically with the obligation to repay the principal amount plus interest.

Equity (% of Total Capital): The ownership interest in a company, representing shareholders' stake in the company's assets and earnings.

Cost of Debt: The effective interest rate paid by a company on its debt, taking into account fees and other expenses.

Cost of Equity: The rate of return required by equity investors to compensate them for the risk associated with investing in a company's stock.

Weighted Average Cost of Capital (WACC): The average cost of financing for a company, calculated as the weighted average of the cost of debt and the cost of equity.

Exit Valuation Metrics

Valuation Method: The approach used to determine the value of an asset, business, or investment opportunity.

Exit Multiple Method: A valuation method that estimates the value of an investment by applying a multiple to a financial metric such as earnings or revenue.

Perpetuity Method: A valuation approach used to estimate the present value of cash flows that continue indefinitely into the future.

Investment Return Metrics

Unlevered IRR (Internal Rate of Return): The rate of return earned on an investment without considering the effects of leverage.

Unlevered MOIC (Multiple on Invested Capital): The ratio of the terminal value of an investment to its initial cost, excluding the effects of leverage.

Levered IRR (Equity Return): The rate of return earned by equity investors, taking into account the effects of leverage.

Levered MOIC (Equity Multiple): The ratio of the terminal value of an investment to its initial cost, taking into account the effects of leverage.

Equity Value Created: The difference between the present value of cash inflows and outflows associated with an investment, considering the time value of money.

Breakeven Investment Value: The maximum net initial investment value that will achieve the required return on equity.

Cash Flow Yield Returns: The annualized return generated by an investment, expressed as a percentage of the initial investment or capital deployed.