Information Primer

An Introduction to Investing at UF

DISS Capital

Diverse Invested Student Securities

UF | THE FOUNDERS FUND

Memo: The Authors

The Founders Fund: The Founders Fund is a student-run investment fund at UF that runs a $300k long-only virtual equity portfolio to provide hands-on finance experience as members research equities and construct stock pitches for presentation to the rest of the fund

Diverse Invested Student Securities (DISS Capital): DISS Capital is a non-profit, long-only equity investment fund at the University of Florida that hopes to provide access to opportunities, education and resources in finance for students from under-represented backgrounds

About This Document: Given the general lack of tangible finance experience and knowledge of incoming finance students (as we experienced this ourselves), we, in collaboration, hope to enumerate and explain the elementary concepts of finance to equip you with foundational knowledge to catalyze your entry into more sophisticated topics. Eventually, we hope you will be able to apply this towards your academic and extracurricular involvements

Section I. What is Finance?

What is Finance? A verb: "*To Finance*"

What is the Economy? A broad connection of related markets

What are the Markets? Logical relationships between supply & demand

Who are the key players? Economic actors that tie everything together

Section II. What is Investing?

What is value investing? Investing in strong companies at fair prices

What are some ways I can find & research companies? Top-Down & Bottom-Up Analysis

What are some ways to find companies and gain information on them? Free Resources!

Section III. What is Accounting?

Why is it the "Language of Business"? It helps standardize company financials

What is the Fundamental Accounting Equation? A = L + SE

What are the 3 financial statements? An interconnected financial picture

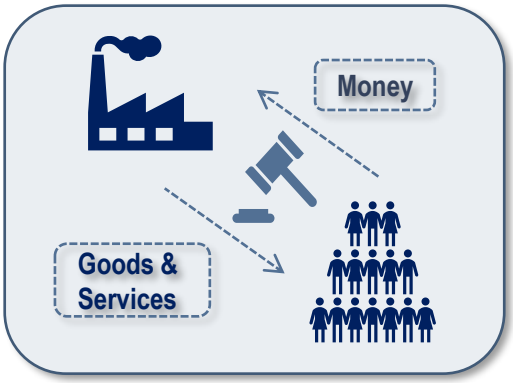
Section I. What is Finance?

Traditionally, when we think of finance, it's easy to try to define it as subject matter pertaining to investments, returns, and the related movement of money. While this is not necessarily incorrect, it's simpler to think of finance as a verb: "to finance". When we *finance* things, we usually mean that we are procuring the funds to pay for something. For instance, think of financing a car: you would go to the bank, ask for a reasonable loan, and use some of your own checking account as a down payment to ensure the car is paid for and ownership is transferred from the dealership to you (and partially the bank). In corporate and investment finance, this is how we usually think of finance to paint a simple and logical picture of how companies are funded to grow & maintain themselves. This is so they can ultimately create something valuable and productive of cash for the people that own them. Companies, in this usual preference, have two primary sources of financing:

1. **Debt:** Think of this as a simple loan or credit, where the company will borrow money for a certain number of years, pay interest, and return the same amount borrowed at the very end without relinquishing ownership or control
2. **Equity:** Companies sell ownership shares to investors in order to raise funds. These investors become partial owners and can benefit as the company grows in value

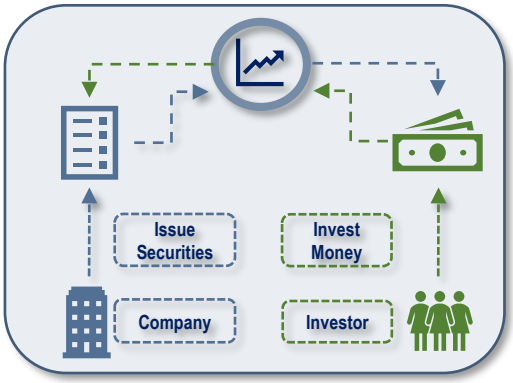
What is the economy?

Now that we've established a framework, we need to move from the abstract to the practical. In reality, there is a constant backdrop of interconnected markets with participants including consumers, governments, and companies always trying to find an equilibrium point. In a real economy, this is a point where incentives are aligned to produce, distribute, and consume goods & services as efficiently as possible



How do the markets work?

Markets are platforms where buyers & sellers interact, enabling businesses to raise money and investors to allocate their funds. In the context of finance, markets facilitate the exchange of stocks, bonds, currencies, and commodities– all ostensibly tied to the output of companies. The performance of these markets reflects broader economic conditions and influences financial decisions, making them integral to the functioning of the financial system



Who are the key players?

Companies — *Building blocks of the macro-economy*

Investment Banks — *Facilitate markets for companies and investors*

The Public — *General participants protected by SEC*

Institutional Investors — *Invest in markets for others seeking a return*

Section II. What is Investing?

For the purposes of this primer, we will be discussing investing under the lens of equity investments. Typically, when you think of stock investments, it involves purchasing a strong, reputable business (i.e., Apple, Google, etc.) with the intention to sell the shares at a higher price in the future. But what does it mean to own a stock? By owning a stock, you are purchasing an ownership interest in an entity that hopefully produces cash now, and presumably will for many years to come. Since we want to discover a business that performs well, we certainly care for cash, but more importantly how efficiently this business is producing it, and how the amount of cash produced will grow over time. Certainly, with an investment into Apple, we'll be owning a business that produces cash efficiently and consistently over time. But if we know that, we can bet that plenty of others do as well, and they will be competing in a bid to own the share you're about to happily purchase, driving up the share price per dollar of cash that the business produces. If that's the case, what are ways to still make good investments at favorable prices? One answer lies in a method called value investing:

What is value investing?

Value investing involves researching and ascertaining great companies that you believe you can purchase shares of at bargain prices. These are a few criteria that can make companies available at attractive prices:

High Quality (or Improving) Company: Efficient, innovative companies with sustainable competitive advantages

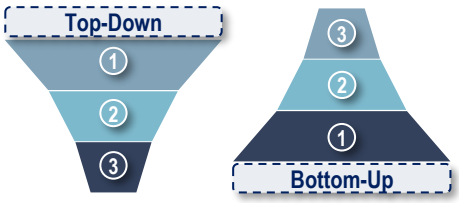
Attractive Valuation: Considering its efficiency / growth, is the company being valued fairly?

Catalyst / Non-Consensus View: Improvements or growth the market undervalued or did not expect

What are some ways I can research companies?

Given these criteria, there are two research approaches to help get you started: **Top-Down** & **Bottom-Up**

1. Identify an industry you think will outperform the broader market as a whole
2. Narrow down by screening for value, quality, growth, etc. for about 5 - 10 names
3. Examine financials, determine the company best suited to outperform expectations



1. Study an economically interesting company and its financial / operating data
2. Compare this company to its industry peers to determine its relative positioning
3. Observe broader macroeconomic trends and their potential impact on the company

What are some ways to find companies and gain information on them?

SEC Filings (i.e., 10-K, 10-Q): Annual and quarterly filings that outline a company's financial statements, business description, risks, etc.

Equity Research Reports: Reports from researchers at reputable banks who have deep expertise in the chosen company and its industry

Investor Relations Sites: Found by searching (XYZ Company Investor Relations)– showcases recent quarterly investor presentations and filings

S&P Capital IQ: Financial information and research platform that provides consolidated information syndicated from SEC filings and other public info

Bloomberg Terminal: Financial information and research software that provides comprehensive data on financial markets and its constituents

Other Finance Resources & Screeners: Finviz.com *(Screener)*, SeekingAlpha *(Screener)*, Refinitiv *(Screener)*, ExecSum by Litquitidy *(Free Newsletter)*, Wall Street Journal *(Free with UF)*, New York Times *(Free with UF)*, Morning Brew *(Free Newsletter)*, Exchanges: Goldman Sachs *(Podcast)*

Section III. What is Accounting?

Accounting, or the "language of business", is vital for corporate financial investors since it provides the foundation for interpreting financial data accurately. To an investor, there are three key primary accounting documents that are (and always should be) closely connected to one another to help paint a full picture:

1. **Income Statement:** reveals a company's profitability structure, helping investors gauge performance
2. **Balance Sheet:** highlights assets, liabilities, and equity aiding understanding of financial position
3. **Cash Flow Statement:** shows cash movement, crucial for evaluating liquidity & operating health

Income Statement

Revenue

Less: Sales Discounts & Allowances
Less: Cost of Goods Sold (COGS)

Gross Profit

Operating Expense:
Less: Selling, General, & Administrative
Less: Depreciation & Amortization

EBIT (Earnings Before Interest & Tax)

Other Losses & Expenses:
Less: Interest Expense
Other Gains & Revenues:
Add: Interest Income
Add: Rent Revenue

EBT (Earnings Before Tax)

Less: Income Tax Expense

Net Income

Cash Flow Statement

Cash Flows From Operating Activities

Net Income
Less: Increases in Current Assets
/ **Add: Decreases** in Current Assets
Less: Decreases in Current Liabilities
/ **Add: Increases** In Current Liabilities
Add: Depreciation & Amortization
Add: Loss on Sale / **Less: Gain** on Sale

Cash Flows From Investing Activities

Less: Inc. in Net PP&E / **Add:** Dec. in Net PP&E
Add: Decreases in Equity / Debt Investment
Less: Increases in Equity / Debt Investment

Cash Flows From Financing Activities

Add: Issuance of Debt / Common Stock
Less: Dividends
Less: Retirement of Debt

Net Change in Cash

Balance Sheet

Assets = **Liabilities** + **Stockholders Equity**

Current Assets (<1 year):
Cash & Cash Equivalents
Accounts Receivable
Inventory
Short-Term Investments
Non-Current Assets (>1 year)
Property, Plant, Equipment (PP&E)
Intangible Assets
Long-Term Investments
Goodwill

Current Liabilities (<1 year):
Accounts Payable
Deferred Revenue
Short-Term Debt
Current Portion of Long-Term Debt
Non-Current Liabilities (>1 year):
Long-Term Debt
Other Non-Current Liabilities

Preferred Stock*
Common Stock
Retained Earnings
(Net Income – Dividends)
Treasury Stock
Non-Controlling Interest

In short, we translate items from the income statement to the cash flow statement, providing helpful insight into the financial health of the company, and ultimately, tracking cash-based changes of most line items on the balance sheet, a consolidated financial picture between reporting periods

Conclusion

By now, you have successfully completed your introduction to finance, investing, and accounting. With this, you now have the opportunity to take these concepts and delve even deeper. Of course, we are sure that these concepts are a bit overwhelming to digest, and it will certainly take some time to fully set in. We hope that this primer has piqued your interest in finance and has given you the tools to dive even deeper. As always, we greatly encourage you to be curious and ask questions. With that, if anything ever comes to mind, we would be happy to discuss. Feel free to reach us here if you have any questions at all:

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Bonus Section: How much is my company worth?

By now, you should have the tools to research, narrow down, and evaluate strong companies on qualitative factors, but how do you use this information to cross-check whether you are buying into this company at a fair price? For the savvy investor, the answer lies in valuation. For simplicity's sake, we will be focusing on two types of valuation: comparative and intrinsic:

1. **Comparative:** Takes companies of similar characteristics based on criterion such as products / services offered, geographic reach, size, margins, growth, etc. to compare on an apples-to-apples basis. This involves taking ratios to standardize company metrics regardless of the size / scale of the chosen companies
2. **Intrinsic:** Most typically done using a Discounted Cash Flow (DCF) model. In simplistic terms, a DCF takes the sum of all future cash flows a business produces, and discounts them back using a discount rate, most commonly called the Weighted Average Cost of Capital (WACC)

Comparable Companies Analysis

Example Comparable Companies Table			
Company	**Market Cap (B)**	**Market Cap / Net Income (P/E Ratio)**	**Net Profit Margin**
Costco	$50.0	20.0x	20%
Kroger	$25.0	16.0x	18%
Target	$350.0	24.0x	22%
Median	**$50.0**	**20.0x**	**20%**
Walmart	**$60.0**	**15.0x**	**25%**

*Not actual figures

What is this table?

This is a comparable companies table. What this shows is a pool of similar companies to our chosen company, Walmart. The goal of this table is to compare how much investors are paying for each of the companies, and how profitable they are.

What do these numbers mean?

In this case, the key number here is the Price to Earnings Ratio (P/E) ratio. This shows how much *stock* investors are paying per dollar of net income, as it divides the total market capitalization by the net income of the chosen company. This means that if you divide both by the number of shares (slices of the pie) for both numbers, you can get: (price per share / the earnings per share.) This can be helpful to show how valuable they see the company, as the higher ratio between these two numbers, the more an investor must pay to gain a dollar of company profit. In this case, Walmart has a lower P/E ratio than similar companies to it despite having much better profit margins.

How can I apply this analysis?

Since we now know that Walmart is cheaper to buy per dollar of net income (lower P/E ratio), it might mean that we can buy into this company at a fair price!

Discounted Cash Flow (DCF)

What am I looking at?

Let's think of an apple tree for this example. Imagine you own an apple tree that produces ~10 apples each season. Of course, with seasons and weather changes, we are uncertain whether our tree will have enough nourishment to produce the same number of apples next year, and every year after that. The further into the future we go, the more likely that the seasons might topple our apple tree, the nutrients in the soil might dry up, or the weather could be frigidly cold.

With that, would you rather have an apple from your tree today? Or in a year from now? The answer is today, because we are guaranteed that we can take that apple and sell it, and nothing unexpected will have the chance to topple our tree.

The same principle applies to companies. Since an apple today is worth more than an apple tomorrow because of the risks mentioned, there must be a figure that we can use to ascertain the potential value of future apples. This is our discount rate, which is a figure that accounts for the riskiness of our tree toppling over, and therefore the adjusted value of our apples moving into the future