

# Business and Finance Intro

**GWU Strategic Public Relations**

Karen Vahouny

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# Three Things That Shaped My Career

1. An MBA
2. The opportunity to learn and lead investor relations
3. An enlightened CEO who gave me P&L responsibilities

# Steve Cody

- CEO and co-founder of Peppercomm
- Finalist for EY's Entrepreneur of the Year Award
- One of 50 Game-Changers of PR (*PRNews*)



# Question for Steve

Why is it important for a person in PR/communications to have a business/finance understanding?



# Steve's Answer

“Because you will fail without knowing how to read an annual report, 10-K or other basic accounting documents.

““If you're financially ignorant, you will be considered an afterthought on the corporate side and a less strategic fast tracker with agencies.”

# Communicators of the Future

“...will need a working knowledge of ‘business 101’ and demonstrated business acumen.”



# Top 3 Business 101 Needs

1. Financial statement basics
2. Financial terminology primer
3. Communication's contribution to company strategy

*--From survey of Arthur W. Page Society members*

# This Morning's Topics

- The trifecta of financial reporting
- The language of business: key terms you should understand
- Annual reports: how to read them, why they're important
- Business leader "superheroes"
- How to build your business/finance IQ



# The Trifecta

1. Income statement
2. Balance sheet
3. Statement of cash flow

# 1. Income Statement

- Shows what an organization earned from its operations
- Tracks performance and is useful for budgeting and future planning
- Measures results over a period of time
  - Typically a quarter or a year

# Income Statement - Example

Sales	\$500,000	
Cost of goods sold	\$380,000	<i>(this could be cost of services)</i>
Gross profit	\$120,000	
Operating expenses:		
Sales and marketing	\$25,000	
General and admin.	\$55,000	
Total op. expenses	\$80,000	
Operating income	\$40,000	
Income tax expense	\$8,000	
Net income	\$32,000	

# Useful Analysis

	Q1 2018 Actual	Q1 2019 Actual
Sales	\$450,000	\$500,000

# Additional Analysis

	Q1 2018 Actual	Q1 2019 Actual	Q1 2019 Budget
Sales	\$450,000	<b>\$500,000</b>	<b>\$575,000</b>

## 2. Balance Sheet

- Shows the financial condition of an organization at a specific point in time
  - Typically the last day of a quarter or a year
- Displays three key categories:
  - Assets – what you **own**
  - Liabilities – what you **owe**
  - Equity – what you're **worth**

# Balance Sheet – Example

(in thousands)

## Assets

### Current assets

Cash \$250

Accounts receivable \$150

### Fixed assets

Land and buildings \$600

Equipment \$100

Other: 1-term investments \$100

Total assets \$1,200

## Liabilities

### Current liabilities

Accounts payable \$150

Income taxes payable \$ 20

### Long-term liabilities

Long-term debt \$230

Total liabilities \$400

Shareholders' equity \$800

# Statement of Cash Flow

- Analyzes all the reasons net income didn't produce the same increase in cash in the bank
  - Income statement is focused on operating performance
  - Income statement does not represent the immediate impact of buying equipment or borrowing money
  - Income statement does not factor in the **timing** of accounts receivable or payables



# Cash Flow Example (in thousands)

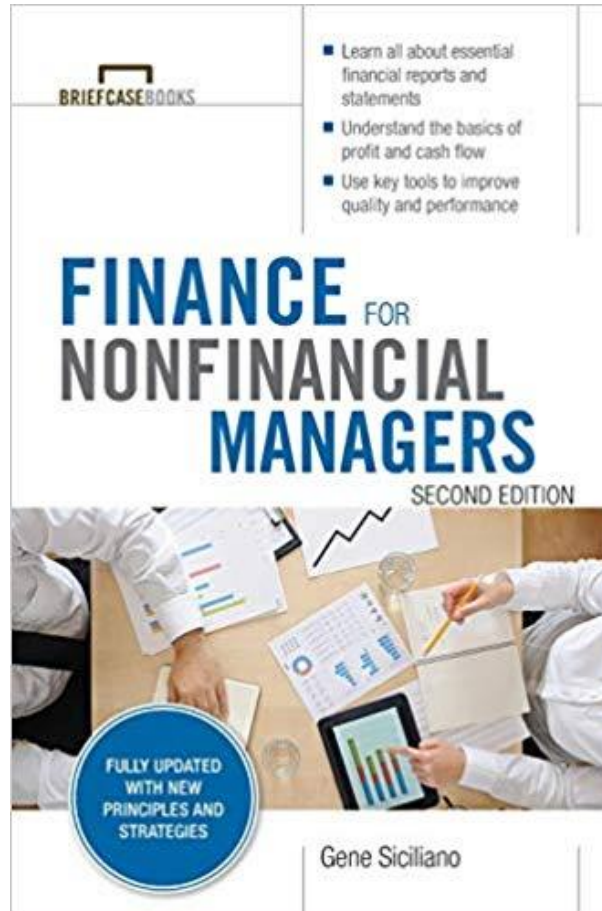
**It begins with the net income line from the income statement**

Net income	\$32
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# Cash Flow Example (in thousands)

Net income	\$32
<u>Adjustments to operating activities</u>	
Increase in accounts receivable	\$(25)
<i>More sold than collected</i>	
<u>Adjustments from investing activities</u>	
Cash invested in new equipment	\$(18)
Net cash flow (drain)	\$(43)
<u>Balance of cash – end of period</u>	\$(11)

# An Excellent Resource



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# Test Yourself

*Do you know what these terms mean?*

- P/E ratio
- Margin
- Valuation
- Variance
- EPS
- P&L
- Liquidity
- KPI
- Market cap
- Return on investment

# A Basic ROI/Return Example

# Beyond Meat

- L.A.-based producer of plant-based meat substitutes
- May 2, 2019: IPO
- 2009: Founded by DC native Ethan Brown
- 2016: Released first plant-based burger sold in meat section of grocery stores
- Competitors include Impossible Foods (Whopper)



# Revenues and Profit

- 2018 revenues: \$88 million
- 2018 income: (\$32.6 million)
  - *Parenthesis means a loss*



# Market Value

- IPO value: \$1.5 billion
- Now: Nearly \$5 billion
- That means the current market value is more than 50x revenues

# Beyond Meat ROI Question

Beyond Meat's IPO stock price: \$25

Recent price: \$80

If you bought a share of stock at \$25, what's your return on investment?

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$$\$80 - \$25 = \$55$$

\$55 is the gain

$$\$55 \text{ divided by } \$25 = 2.2 \text{ or } 220\%$$

# Another Stock ROI

Jan. 2, 2019: About \$27

Recent: \$44

ROI:

$$44 - \$27 = \$17$$

\$17 is the gain

$$\$17 \text{ divided by } \$27 = 63\%$$



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# What's a Form 10-K?

- An annual filing by public companies with the SEC
- It includes detailed company information:
  - Business and risk factors
  - Selected financial data: five years
  - MD&A (Management's Discussion and Analysis)
  - Financial statements for the year

# Form 10-K versus “Annual Report”

- Companies are not required to produce an “annual report” but most do
- Most recent NIRI survey indicated:
  - 88 percent of companies produced an annual report
  - 67% of the companies surveyed produced both an online and a print version

# Annual Reports: What to Look For

1. Overall summary or chairman's letter
  - What happened during the year?

**BERKSHIRE HATHAWAY INC.**



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5. Focused on the future
  - What happened during the year that demonstrates progress toward goals

# IR Magazine Award Winners

## Some Best in Sector Selections



# Annual Reports for Nonprofits

A “by the numbers” section and a year-in-review video



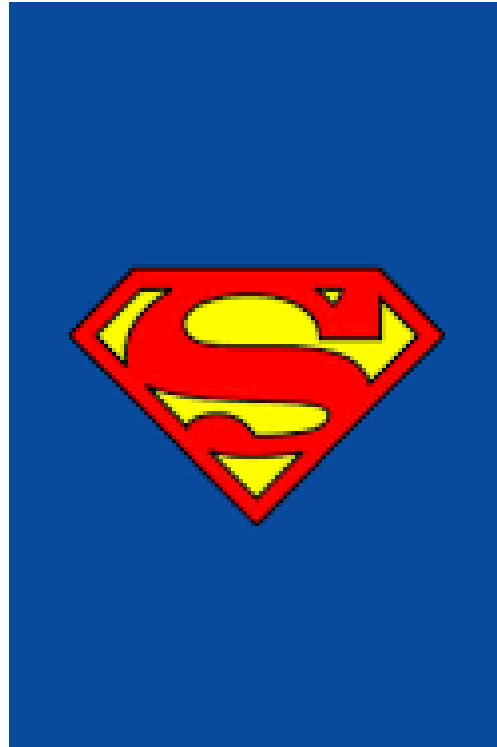
Our Mission:

Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, community and hope.

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# My Superhero Awards





# Alan Mulally



# Mary Barra



# Paul Polman



**IMAGINE**

# Helena Foulkes



# Doug Conant



# My Newest “Inductee”

Eric Yuan, Zoom



*Making his people happy translates into making his customers happy*

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# Some Ideas

- Subscribe to the (**free**) NYT DealBook Briefing with Andrew Ross Sorkin
- Pick (at least) one business periodical and read it regularly
- Read local business news
- Watch business television
- Read Money magazine
- Write down/look up terms you don't understand
- Take a class in business, economics, finance or accounting
- Sign up for a seminar/workshop on personal finance and financial planning



# In Conclusion ...

## **Why Learn about Business and Finance?**

1. Get smarter
2. Make yourself more valuable
  - To management
  - For yourself/your career opportunities
3. Contribute to your organization's strategic plan
  - And create more strategic communication plans
4. Measure results

Questions or Comments?