

VIBEMOTION LABS

# Financial Statement *Analysis Guide*

Read any company's financials like a Wall Street analyst — in plain English.

## \$27

A complete plain-language guide to the income statement, balance sheet, and cash flow statement.

### THE THREE FINANCIAL STATEMENTS

STATEMENT	WHAT IT SHOWS	THE KEY QUESTION
Income Statement	Revenue, expenses, and profit over a defined period	Is the business profitable and growing?
Balance Sheet	Assets, liabilities, and equity at a single point in time	Is the business financially sound and solvent?
Cash Flow Statement	Actual cash received and spent over a defined period	Is the business generating real cash — not just accounting profit?

## PART 1 — THE INCOME STATEMENT

# The Income Statement

Also called the profit and loss statement or P&L.; Shows whether the business is earning more than it spends over a given period.

LINE ITEM	WHAT IT MEANS	WHAT TO ANALYSE
Revenue	Total money earned from products and services sold	Revenue = Units × Price. Look for consistent, ideally accelerating growth.
Cost of Goods Sold	The direct costs of producing what was sold	Lower COGS relative to revenue means higher gross margin — a competitive advantage signal.
Gross Profit	Revenue minus COGS	Gross Margin % = $\text{Gross Profit} \div \text{Revenue} \times 100$ . Compare this to industry peers.
Operating Expenses	Overhead: R&D;, Sales and Marketing, General and Administrative	Rising OpEx as a percentage of revenue signals scaling inefficiency.
Operating Income (EBIT)	Gross Profit minus Operating Expenses	Operating Margin % = $\text{EBIT} \div \text{Revenue} \times 100$ . Watch for margin expansion or compression trend.
Net Income	Bottom-line profit after all costs, interest, and taxes	Net Margin % = $\text{Net Income} \div \text{Revenue} \times 100$ . Compare consistently over multiple years.
EPS (Diluted)	Net Income divided by fully diluted share count	Always use diluted EPS — it accounts for stock options and convertible instruments.

## KEY INCOME STATEMENT RATIOS

RATIO	FORMULA	BENCHMARK
Gross Margin	$\text{Gross Profit} \div \text{Revenue}$	Above 40% = strong pricing power. SaaS companies typically achieve 70 to 80%.

Operating Margin	$\text{EBIT} \div \text{Revenue}$	Above 20% = efficient operation. Expanding trend is the most important signal.
Net Profit Margin	$\text{Net Income} \div \text{Revenue}$	Above 10% = solid. Compare to the industry average rather than absolute thresholds.
Revenue Growth (YoY)	$(\text{Current} - \text{Prior}) \div \text{Prior Revenue}$	Above 20% = high growth. Accelerating growth is a very positive signal.

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## PART 3 — THE CASH FLOW STATEMENT

# The Cash Flow Statement

The cash flow statement is the most difficult financial statement to manipulate. When the income statement and the cash flow statement tell conflicting stories, trust the cash flow statement.

## Operating Cash Flow

Cash generated by the core business operations — the single most important figure in the entire filing.

- Net income adjusted for non-cash items (depreciation, amortisation) and working capital changes
- Operating Cash Flow above Net Income indicates high-quality, conservatively reported earnings
- Operating Cash Flow below Net Income suggests earnings may be inflated — investigate immediately

## Investing Cash Flow

Cash allocated to long-term investments — almost always negative in companies that are still growing.

- Capital Expenditure (CapEx) = cash spent on property, plant, equipment, and technology
- Free Cash Flow = Operating Cash Flow minus CapEx — the most important single derived metric
- Large acquisitions appear here — they increase execution risk significantly

## Financing Cash Flow

Cash flows from debt and equity transactions with capital providers.

- Positive Financing Cash Flow = raising new capital through debt or equity issuance
- Negative Financing Cash Flow = repaying debt or buying back shares — typically shareholder-friendly
- Consistent, meaningful share buybacks signal that management believes the stock is undervalued

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### THE SINGLE MOST IMPORTANT PRINCIPLE

A company can report positive net income for years while heading toward bankruptcy. A company cannot sustain positive free cash flow through accounting manipulation alone. Before investing in any company, confirm three things: 1. Operating Cash Flow is positive and growing year over year. 2. Free Cash Flow (Operating Cash Flow minus CapEx) is positive. 3. The company is generating more cash than it consumes across full cycles. If all three are true, the financial foundation is genuinely solid.