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# What you need to know before investing in a new share offer

**It's important that you understand the company's finances before you invest in a new share offer. This guide will help you do that.**

If you're considering investing in a company that is about to list on the sharemarket, you'll receive what is known as a product disclosure statement (PDS). A PDS explains how the investment works and gives an overview of the company.

It's important to read the entire PDS and get professional advice where you need it.

To help you understand the company's finances, and what kind of return you may get, look for the table headed: **'Selected financial information'**

The table below explains why this is useful.

| Term | What it means | Why it matters |
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| Revenue | Income the company earned from its business operations, such as the sale of goods and services to customers. This includes the value of work billed but not yet paid for. | Comparing revenue (money in) from one year to the next can be a good indicator of how well a company is growing its core business. At the same time, you also need to consider its expenses (money out). |
| Net profit after tax (also known as NPAT) | Also known as the 'bottom line', this tells you how much profit the company made after it paid all its expenses, and tax. All companies aim to make a profit, in either the short or long term, so they can continue to pay you dividends, and grow. | All companies aim to make a profit, in either the short or long term, so they can continue to pay you dividends, and grow. |

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| EBITDA (earnings before interest, tax, depreciation, and amortisation) | The profit the company made before expenses such as interest payments and tax. It also excludes depreciation and amortisation, which are accounting charges used to reflect the falling value of fixed assets as they age. | Companies have different levels of assets and debt. EBITDA enables you to compare the earnings of different companies regardless of their assets and debt. However, it should be considered alongside other factors. |
| Net cashflow from operating activities | This tells you how much money the company generated from its core business. It doesn't include money from other activities such as buying equipment or raising money from investors. | Companies need good operating cashflow so they can buy new assets, pay dividends and meet their debts. Otherwise they will need to borrow more money or issue new shares to fund their business. |
| Dividends on all shares | The amount the company has paid in the past, and may pay in the future, to its shareholders. This is taken out of its profits. | You should focus more on what may be paid, rather than what has been paid in the past.<br>This is the amount you may receive as a return on your investment until you sell your shares. |
| Total assets | Assets are anything the business owns. They can be tangible (such as machinery or buildings), or intangible (such as brands or logos). | This shows what the company owns that is of value. The company's aim is to make a good return from these assets. |
| Total debt | Any debt a company has to pay interest on, such as loans. | Most companies have some debt, because loans can help them grow, but too much debt might make it difficult to keep up with interest payments. |

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| Total liabilities the sharemarket, because it may use some of the money it gets from investors to reduce its debt | Total debt (see above), plus any other financial obligations it has in the future (for example, bills it needs to pay). | For a company to stay in business, its assets must be bigger than its liabilities. A company with a high level of debt needs strong and steady cashflow. You should also consider the reason the company is listing on the sharemarket, because it may use some of the money it gets from investors to reduce its debt. |

### What is 'prospective' information?

A PDS uses both historic and prospective financial information. Think of it as the past versus the future. Predicting the future is difficult, so keep this in mind when considering the company's assumptions about the future. These assumptions may not happen.

### What is 'pro forma' information?

This is financial information (historic or prospective) that is adjusted for significant transactions or unusual items. Pro forma information may be used, for example, if the company has acquired a new business, or was affected by a natural disaster. Companies use pro forma information to make their finances easier to compare from year to year, or to reflect their future structure. A company must briefly describe how and why the pro forma information has been prepared. It's important you understand the reasons for this, as figures can be very different to the figures in the full financial statements.

### Where to get more information

If you'd like more detail about the company you're investing in, go to the Disclose Register at www.business.govt.nz/disclose . This has full financial statements for the past three years.