Finance session

Understanding key financial terms and concepts

February 2026

What are we covering?

Financial Metrics	
OCF	Profit Metric (Old)
EBIT	Profit Metric (New)
‘FCF’ & ‘FCF Conversion’	Liquidity Metric
ROIC	Return on Investment Metric
WACC	Return on Investment Metric

Main financial indicators

Profit based metrics

	Traditional metrics	New focus
KPI	**OCF *(£m)***	**EBIT *(£m)***
Full name	*(Operating Cash Flow)*	*(Earnings Before Interests and Taxes)*
Definition	Measures the operative margin	Measures the operative margin including the depreciation of its assets
Formula	= Sales - Costs	= OCF – Depreciation

What is ‘the P&L, P/L, Profit and Loss account, income statement’?

I. This is where all of the incomes and costs of the business get recorded. It is from this that we get metrics you may know such as OCF, EBIT.

A basic structure of one would be:

	Revenue
Less	(Cost of Sales) = i.e. the fixed and variable costs of producing our inventory
Subtotal	**Gross profit**
Less	(Operating expenses)
Subtotal	**Operating profit**
Less	(Finance costs)
Subtotal	**Profit before tax**
Less	(Tax expense)
Total	**Profit after tax**

P&L

CEMEX UK OPERATIONS LIMITED

Profit and loss account for the year ended 31 December 2024

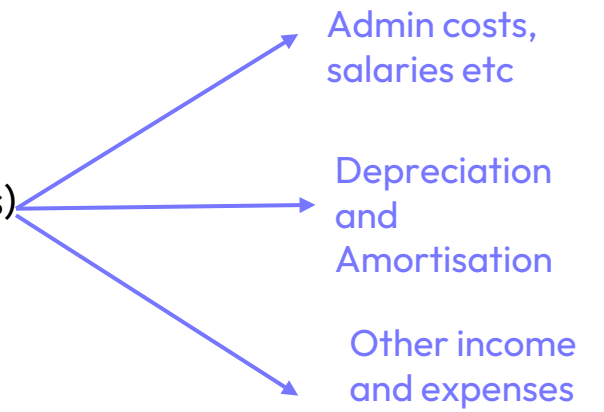
	Note	2024 Total £000	2023 Total £000
Turnover	2	**731,421**	772,445
Cost of sales		**(511,183)**	(527,420)
Gross profit		**220,238**	245,025
Distribution costs		**(111,820)**	(114,813)
Administrative expenses		**(38,660)**	(62,622)
Other operating income	3	**8,965**	7,898
Operating profit		**78,723**	75,488
Profit on disposal of land/operations	11	**3,129**	887
Profit on sale of operations	12	**49,166**	-
Income from shares in group undertakings and participating interests		**1,364**	2,102
Amounts written back to/(off) investments	12, 13	**518**	(4,033)
Interest receivable and similar income	6	**142,146**	130,297
Interest payable and similar charges	7	**(34,933)**	(36,861)
Profit before taxation		**240,113**	167,880
Tax on profit	9	**(15,298)**	(12,762)
Profit for the financial year		**224,815**	155,118

OCF & EBIT

I. To get OCF & EBIT from the profit and loss account, we need to split the operating expenses line into a couple of difference sections.

See below:

	Revenue
Less	(Cost of Sales)
Subtotal	**Gross profit**
Less	(Operating expenses)
Subtotal	**Operating profit**
Less	(Finance costs)
Subtotal	**Profit before tax**
Less	(Tax expense)
Total	**Profit after tax**



OCF & EBIT

I. This is where all of the incomes and costs of the business get recorded. It is from this that we get metrics you may know such as OCF, EBIT.

	Revenue
Less	(Cost of Sales)
Subtotal	**Gross profit**
Less	(Admin costs, salaries etc)
Subtotal	**OCF / EBITDA**
Less	(Depreciation and Amortisation)
Subtotal	**EBIT (Operating Profit)**
Less	(Other income and expenses)
Less	(Finance costs)
Subtotal	**Profit before tax**
Less	(Tax expense)
Total	**Profit after tax**

OCF & EBIT

I. This is where all of the incomes and costs of the business get recorded. It is from this that we get metrics you may know such as OCF, EBIT.

	Revenue	
Less	(Cost of Sales)	
Subtotal	**Gross profit**	
Less	(Admin costs, salaries etc)	
Subtotal	**OCF / EBITDA**	**---> This is the profit metric we have used for the last 10+ years**
Less	(Depreciation and Amortisation)	
Subtotal	**EBIT (Operating Profit)**	**---> This is new profit metric we will be using going forwards**
Less	(Other income and expenses)	
Less	(Finance costs)	
Subtotal	**Profit before tax**	
Less	(Tax expense)	
Total	**Profit after tax**	

Depreciation and Amortisation

I. **Depreciation** is how the cost of a physical asset hits our profit and loss account.

Amortisation is the exact same but for an intangible asset, i.e. a piece of software, a license etc.

When we buy an asset, the accounting entry is:

Debit Balance Sheet (Fixed Assets)

Credit Cash

Normally when we spend money in the business, as it's typically for an expense (i.e the electric bill, salaries etc), we would do:

Debit Profit and Loss (Expenses)

Credit Cash

The difference?

When you buy an asset, the cost of this asset doesn't hit the profit and loss account all in one hit. The cost is spread out over the life of the asset – this process is called Depreciation (for fixed assets) and Amortisation (for intangible assets).

Depreciation and Amortisation

Each year, we would reduce the value of the asset in the balance sheet and put that reduction as a cost in the Profit and Loss account.

Debit	Profit and loss account (Expenses)
Credit	Balance Sheet (Fixed Assets)

Example

Cemex buys an asset for £1m, which has an expected useful life of 10 years.

When we buy the asset		**By the end of the first year**		**By the end of the second year**	
Dr Balance Sheet (Fixed Assets)	£1,000,000	Dr P/L (Expenses)	£100,000	Dr P/L (Expenses)	£100,000
Cr Cash	£1,000,000	Cr Balance Sheet (Fixed Assets)	£100,000	Cr Balance Sheet (Fixed Assets)	£100,000
Fixed Asset Value	£1,000,000	Fixed Asset Value	£900,000	Fixed Asset Value	£800,000

This annual £100,000 expense is not included within the OCF metric, but it is included within EBIT – **this is the difference between OCF and EBIT.** So effectively, EBIT also takes into account the cost of the assets used in the business.

OCF & EBIT

I. This is where all of the incomes and costs of the business get recorded. It is from this that we get metrics you may know such as OCF, EBIT.

	Revenue	
Less	(Cost of Sales)	
Subtotal	**Gross profit**	
Less	(Admin costs, salaries etc)	
Subtotal	**OCF / EBITDA**	**---> This is the profit metric we have used for the last 10+ years**
Less	(Depreciation and Amortisation)	
Subtotal	**EBIT (Operating Profit)**	**---> This is new profit metric we will be using going forwards**
Less	(Other income and expenses)	
Less	(Finance costs)	
Subtotal	**Profit before tax**	
Less	(Tax expense)	
Total	**Profit after tax**	

Fully loaded EBIT?

This involves allocating the costs of central functions such as HR, Accounting, Legal, IT etc out to the businesses to get a true representation of the total costs of the business.

For example, the accounting team currently don't have their costs assigned to any of the businesses (Cement, Aggregates, Ready-Mix etc), but these businesses use the services of the accounting team in order to operate. The 'fully loaded' EBIT metric will bring these 'central' costs into the businesses.

How to improve EBIT?

EBIT *(£m)*

(Earnings Before Interests and Taxes)

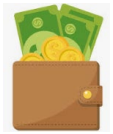
Measures the operative margin including the depreciation of its assets

= Income – Operating costs – Depreciation

Simply put, to improve EBIT you can:

- Increase your Income -> I.e. Sell a higher volume, sell at a higher price
- Reduce your costs -> I.e. Tendering for cheaper suppliers, reduce waste, reduce inefficiencies
- Reduce your depreciation -> I.e. Dispose of assets with a book value the business isn't using
  -> I.e. Making current assets and equipment last longer
- Stopping loss making activities (where we spend more than we actually get back!)

Main financial indicators

	Liquidity metric	Return on investment metric
KPI	**FCF *(£m)*** 	**ROIC *(%)*** 
Full name	*(Free Cash Flow)*	*(Return On Invested Capital)*
Definition	Measures the actual change in cash position	Measures the profitability of a company showng the efficiency of its use of capital
Formula	= OCF +/– Working Capital variation – Capex + Fixed assets sales +/- Other income and expenses	= EBIT / Asset base

FCF *Conversion (%)*

FCF conversion is your FCF divided by your EBIT. I.e how much of our accounting profit do we have in cash at the end of that month, once all other expenditure/incomes have been taken into account.

FCF – Free Cash Flow

I. **OCF and EBIT are metrics based on accounting principles.** They do not necessarily tell us how much cash is coming in and out of the business. Therefore, the business uses FCF as a liquidity metric to run alongside our profit metrics.

II. **Cash (liquidity) is very important - without Cash we can't pay staff, suppliers etc**.

So how can we have profit, yet not have cash?

Example

In one month, a plant makes sales worth £1,000,000 and has costs (salaries, materials etc) of £600,000.

Profit = £400,000 → (£1,000,000 sales - £600,000 costs = £400,000 profit).

However, in this example, our customers have 60 day credit terms and haven't paid us yet…

FCF = -£600,000 → (£0 cash coming in - £600,000 cash going out = -£600,000 FCF)

So, whilst the business has made a profit, it currently has £600k less cash in the business until it collects the £1m it is owed from customers.

If the plant started out with say £600k in its bank account, it would have no money to cover any more expenses until it collected that £1m.

FCF

I. You calculate your FCF by starting with your profit metric (i.e. OCF as we currently do), and then you take into account all of the non-cash transactions that sit in the profit metric, and any cash transactions which fall outside of the OCF metric.

Adjust OCF for these items

For example:

- Add in proceeds from sales of fixed assets
- Take in account revenue which is included in the OCF figure, but the cash hasn't been received yet

OCF

Maintenance Capex

Working Capital Variation

Fixed Assets Sales

Operative Deferred Charges

Other income and expenses not included in OCF

FCF From Operations

Growth Capex

FCF

How to improve FCF?

Liquidity metric

FCF *(£m)*

(Free Cash Flow)

Measures the actual change in cash position

= OCF +/– Working Capital variation – Capex + Fixed assets sales +/- Other income and expenses

Simply put, to improve FCF you can:

- Increase your profit -> I.e. Increase your sales, reduce your costs, stop loss making activities
- Restrict your CAPEX -> I.e. Make current assets and equipment last longer, not buying new assets
- Sell idle assets -> I.e. Dispose of assets with a book value the business isn't using
- Improve working capital -> I.e. Collect money sooner, delay spending later

ROIC

I. ROIC = Return on Invested Capital

I.e. How much income are we making, relative to the amount money we spent on the assets used to generate this income?

To calculate ROIC, you take your 12 month profit metric (EBIT) and divide it by the total assets (and working capital, i.e. accounts payable is included)

Return on investment metric

ROIC *(%)*

(Return On Invested Capital)

Measures the profitability of a company showng the efficiency of its use of capital

= EBIT / Asset base

ROIC

Example

We set up a plant, and this plant has an asset base of £1,000,000.

This plant made £80,000 of profit (EBIT) in it's first year.

The ROIC of this plant would be = £80,000 / £1,000,000 = 8%

For every £1 we put into the plant, over a 12-month period were are getting 8p back as profit.

ROIC is important as it helps decide whether a project is a good place to put money into. For example, if we had two projects, both of which were profitable (at this point they both seem good) and both made an equal amount of EBIT each year (both still seem good) but one used half of the assets as the other. This distinguishes the two projects. Project 2 would give us the same profit, whilst also freeing up money to put into another profit-making investment.

Project 1	
EBIT	£50,000
Assets	£1,000,000
ROIC	5%

Project 2	
EBIT	£50,000
Assets	£500,000
ROIC	10%

How to improve ROIC?

Return on investment metric

ROIC *(%)*

(Return On Invested Capital)

Measures the profitability of a company showng the efficiency of its use of capital

= EBIT / Asset base

Simply put, to improve ROIC you can:

- Increase your profit -> I.e. Increase your sales, reduce your costs, stop loss making activities
- Reduce your asset base -> I.e. Dispose of assets with a book value the business isn't using

WACC

What is WACC?

WACC = Weighted Average Cost of Capital

What does this mean?

For a business to invest in a project (i.e. buying a new plant), it needs money.

A business can generate money, generally, in one of 3 ways:

1. Generating positive FCF over a period of time	**No direct cost to the business**
2. Taking out a loan (Debt)	**Interest is charged**
3. Issuing and selling shares to shareholders/investors (Equity)	**Dividends are expected**

Option 1 = No additional cost to the business, but requires the business to have large cash reserves built up

Options 2 and 3 = Come at a cost to the business, but it injects cash into the business to allow the business to invest

WACC

Example

The business wants to buy a new plant for £1m. What would this cost look like for the 3 methods discussed?

Source of funds	Expected cost	Cost on a £1m loan
Business' own savings	No costs incurred	£0
Bank Loan	5% interest	£50,000 a year
Company Shares	8% dividends	£80,000 a year

WACC

Source of funds	Expected cost	£'000 on a £1m loan
Business' own savings	No costs incurred	£0
Bank Loan	5% interest	£50,000 a year
Company Shares	8% dividends	£80,000 a year

WACC is calculated as the 'weighted-average' cost of capital.

- *i.e. "what is the average cost of our sources of finance"*

Example

The business needs £2m to buy a new plant. This £2m is going to come from a £1m loan + selling £1m of shares to shareholders.

Costs

Loan = 5% interest = £50,000 a year

Shares = 8% dividends = £80,000 a year

Weighted-average cost of capital

We have £2m of cash injected, 50% (£1m) from a loan and 50% (£1m) from shares.

WACC = [50% * 5% interest] + [50% * 8% dividends] = 6.5%

Or another way of looking at it, we have £130k costs a year on a £2m pot of money. £130k / £2m = 6.5%

Why is the WACC important?

Example

The business is paying £130k a year to finance the £2m of cash it used to buy the plant…

If the plant doesn't make profits of at least £130k a year, then the plant isn't even covering it's cost of financing the plant.

EBIT	£130,000	Cost of finance	£130,000
Assets	£2,000,000	Money used	£2,000,000
ROIC	6.5%	WACC	6.5%

For the business to have any money left over to pay its staff and suppliers, as well as paying off the £1m loan balance, it needs to generate a ROIC > WACC.

This is why WACC is important, it helps to dictate the ROIC values to be targeted. For example, the business might target the ROIC on an investment to be WACC + 3.5%. So, in this case that'd be a 10% ROIC, which would be an EBIT of £200,000 a year.

What did we cover?

Financial Metrics	
OCF	Profit Metric (Old)
EBIT	Profit Metric (New)
‘FCF’ & ‘FCF Conversion’	Liquidity Metric
ROIC	Return on Investment Metric
WACC	Return on Investment Metric

- A variety of metrics are used, as there isn’t one single metric which paints the perfect picture on it’s own.
  - You could be profit making, but not have cash coming in.
  - You could be profit making, but used a lot of capital to generate the profit.
  - You could have a high ROIC %, but not have cash coming in.
  - You could have high FCF, but it could be propped up by some one off transactions sitting outside of the profit metric which won’t repeat.

All of the metrics together help to paint the picture of how the business is performing.

Any questions?