Morgan Stanley

MORGAN STANLEY RESEARCH

Glossary of Terms Used in Morgan Stanley Research

Glossary of Terms

COE (Cost of Equity)

- The return a firm theoretically pays to its equity investors such as shareholders to obtain their capital.

Debt-to-Income (DTI) Ratio

- A percentage of total "minimum" monthly debt divided by gross monthly income.

DCF (Discounted Cash Flow)

- DCF analysis uses future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value, which is used to evaluate the potential for investment. A valuation method used to estimate the attractiveness of an investment opportunity.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

- Net income with interest, taxes, depreciation, and amortization added back to it. Can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. An indicator of a company's financial performance.

EPS (Earnings Per Share)

- The portion of a company's profit allocated to each outstanding share of common stock. An indicator of a company's profitability.

EV (Enterprise Value)

- A measure of a company's value, often used as an alternative to straightforward market capitalization. EV is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

EV/EBITDA (Enterprise Multiple)

- A ratio used to determine the value of a company. Also known as the EBITDA Multiple.

Glossary of Terms, continued

Fair Isaac Corporation (FICO)

- A way of measuring an individual's creditworthiness. A FICO score is a quantification of a variety of factors in an individual's background, including a history of default, the current amount of debt, and the length of time that the individual has made purchases on credit. A FICO score ranges between 350 and 850. In general, a score of 650 is considered a "fair" credit score, while 750 or higher is considered "excellent." A FICO score is a convenient way to summarize an individual's credit history and is included in a credit report. The term comes from the Fair Isaac Corporation, which created the system.

Home Affordable Modification Program (HAMP)

- A federal program of the United States, set up to help eligible home owners with loan modifications on their home mortgage debt.

Home Affordable Refinance Program (HARP)

- A federal program of the United States, set up by the Federal Housing Finance Agency in March 2009 to help underwater and near-underwater homeowners refinance their mortgages.

NAV (Net Asset Value)

- An expression of the underlying value of the company. A statement of the value of the company's assets minus the value of its liabilities.

Mark to Market Loan to Value (MTMLTV) Ratio

- The loan amount as a percentage of the current value of the asset used to secure a loan.

Market Value Coverage Ratio (MVCR)

- The ratio of collateral NAV divided by the sum of tranche balances of that particular tranche.

P/E (Price-Earnings Ratio)

- A valuation ratio of a company's current share price compared to its per-share earnings.

PEG Ratio (Price/Earnings to Growth Ratio)

- A ratio used to determine a stock's value while taking into account earnings growth. A widely used indicator of a stock's potential value.

Glossary of Terms, continued

Real Estate Owned (REO)

- Property owned by a lender - usually a bank - after an unsuccessful sale at a foreclosure auction. This is common because most of the properties up for sale at these auctions are worth less than the total amount owed to the bank: the minimum bid in most foreclosure auctions equal the outstanding loan amount, the accrued interest and any fees associated with the foreclosure sale.

Residential Mortgage-Backed Securities (RMBS)

- Securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (Interests and/or principal).

SOTP (Sum-of-the-Parts)

- Valuing a company by determining what its divisions would be worth if it was broken up and spun off or acquired by another company.

United States Treasury (UST)

- UST is commonly used for references to the Treasury debt that the U.S. issues.

Voluntary Conditional Prepayment Rate (VCPR)

- A loan prepayment rate that is equal to the proportion of the principal of a pool of loans that is assumed to be paid off prematurely in each period. The calculation of this estimate is based on a number of factors such as historical prepayment rates for previous loans that are similar to ones in the pool and on future economic outlooks.

WACC (Weighted Average Cost of Capital)

- The rate that a company is expected to pay on average to all its security holders to finance its assets.

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The Americas	Europe	Japan	Asia/Pacific
1585 Broadway New York, NY 10036-8293 United States +1 212 761 4000	20 Bank Street, Canary Wharf London E14 4AD United Kingdom +44 (0)20 7425 8000	4-20-3 Ebisu, Shibuya-ku Tokyo 150-6008 Japan +81 (0) 3 5424 5000	1 Austin Road West Kowloon Hong Kong +852 2848 5200