Stock Investing Made Easy

Diff'rent Strokes for Diff'rent Folks

Installed Building Products (IBP)

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Mary Enright

Mike Torbenson

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Stock Investing Made Easy

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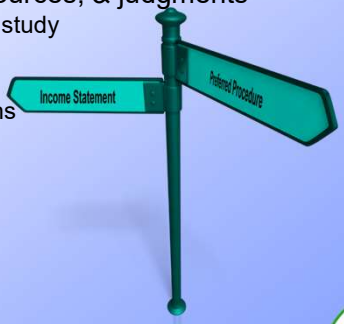
Objectives

- Compare and contrast 3 experienced investors' stock study methods, resources, & judgments
  - Resources to find stocks to study
  - Evaluation of Quality
  - Valuation Analysis
  - Buy/Hold/Wait/Sell Decisions



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Agenda

- Kim Butcher
- Mary Enright
- Mike Torbenson
- SSG Results for All
- Summary
- Q & A

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KIM BUTCHER

- BI member since 2002
- Co-Founder of BIONIC investment club
- BIVAB member for 10 years
- Presenter at BINC and Education Fairs
- Presenter at ManifestInvesting.com

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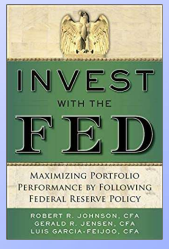
Finding Quality Stocks

My Resources
- Friends
- On trips…BEAT
- Online resources
- Library
- Reading, reading and more reading



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Evaluate Quality

- Online SSG - up, straight and parallel
- Manifest Investing
  - Quality metrics
- Morningstar
  - I look at Net Income, Profit Margins and ROIC on the Key Ratios page

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Valuation Criteria

- How is management getting paid
  - By what criteria???
  - Review of the 14A filing
- Do I understand the catalyst that will bring growth?

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Valuation Analysis

- Resources:
  - K's; Q's;
  - transcript reports found at Fool.com;
  - secfilings.com;
  - analysts reports

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Valuation Analysis (continued)

- Seeking: acceptable risk and reward
- Criteria: prefer a P/E <10;
  rising profit margins, ROIC >10

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Buy/Sell/Hold/Wait

- Resources: SSG, The Numbers
- Seeking: Profit!
- Criteria: Improving Diversity
  and Quality

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MARY ENRIGHT

- BI Member since 1996
- NIA Board Member (precursor to BIVAB) 2001-2012
- National Volunteer 2012-Present
- Heartland Chapter President
- Member of 3 Investment Clubs

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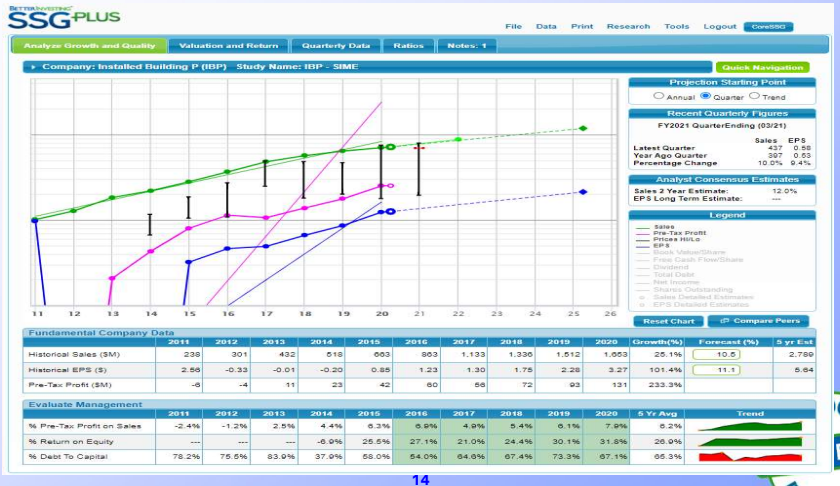
Installed Building Products (IBP)



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IBP – Initial Impressions

- No price bars in the early years

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IBP – Initial Impressions

Fundamental Company Data

	2011	2012	2013	2014	2015	20
Historical Sales ($M)	238	301	432	518	663	
Historical EPS ($)	2.56	-0.33	-0.01	-0.20	0.85	
Pre-Tax Profit ($M)	-6	-4	11	23	42	

- Negative Earnings Per Share
- Negative Pre-Tax Profit

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IBP – Initial Impressions

Evaluate Management	2011	2012	2013	2014	2015
% Pre-Tax Profit on Sales	-2.4%	-1.2%	2.5%	4.4%	6.3%
% Return on Equity	---	---	---	-6.9%	25.5%
% Debt To Capital	78.2%	75.5%	83.9%	37.9%	58.0%

- No or negative Return on Equity
- Large amount of ongoing Debt to Capital

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IBP – Research

- 2014 - IPO
- Acquisitions account for approximately 1/4 to 1/3 of sales each year, part of growth strategy; slowing
- Debt is term loans and revolving lines used to finance acquisitions and stock repurchases

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IBP – Acquisitions

Year	# Acquired	TTM Sales
2014	3	?
2015	10	$84
2016	7	$97
2017	11	$172
2018	12	$83
2019	8	$61
2020	9	$107
2021-Q1	1	?
	61	$604

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IBP – Judgments

- Sales slowing
- EPS growing due to acquisitions

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IBP – Judgments

- Eliminate oldest 5 years of data
- Forecast sales – 10.5% due to slowing acquisitions, supply chain issues, weather
- Forecast EPS – 11.1% using Preferred Procedure

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IBP – Judgments

Preferred Procedure Calculation

Restore Defaults

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (*Your Forecast*):	10.5%	10.5	2,724
Less Expenses (*5 Year Avg. % Pre-Tax Profit Margin*):	6.2%	8	-2,506
Less Taxes (*Last Year Tax Rate*):	25.9%	28	-61
Less Preferred Dividends (*Current Preferred Dividend*):	0.0	0.0	0
equals Projected 5 Year Total Earnings of:			157
÷ Shares Outstanding (*Current Diluted Shares in Mil.*):	29.6	28.3	5.54
5 Year Compound Annual EPS Growth Rate:			11.1%

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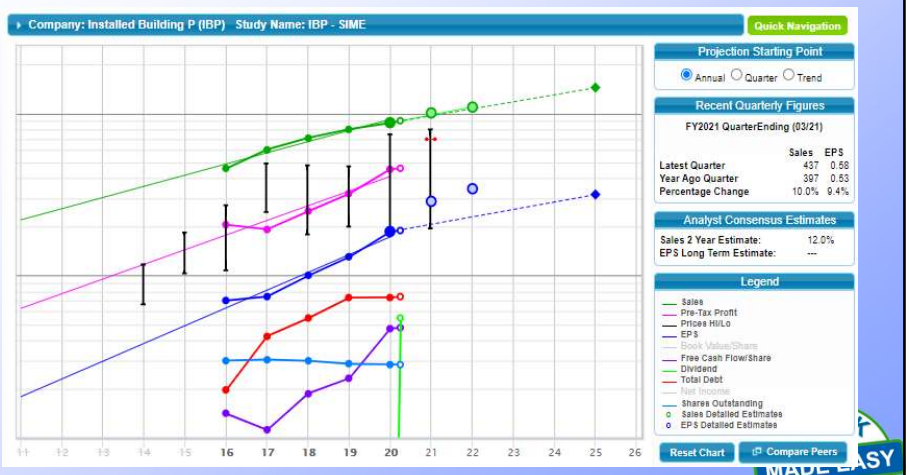
IBP – Judgments



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IBP – Judgments

3. PRICE EARNINGS HISTORY as an indicator of the future

CLOSING PRICE (03/26/21): 113.26 HIGH THIS YEAR: 129.00 LOW THIS YEAR: 31.51

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2016	44.3	17.6	1.23	36.1	14.4	0.00	0.0%	0.0%
2017	79.4	40.0	1.30	61.1	30.8	0.00	0.0%	0.0%
2018	78.2	29.2	1.75	44.7	16.7	0.00	0.0%	0.0%
2019	76.5	32.8	2.28	33.5	14.4	0.00	0.0%	0.0%
2020	121.7	29.0	3.27	37.2	8.9	0.00	0.0%	0.0%
AVERAGE		29.7		37.9	15.1		0.0%	
CURRENT/TTM			3.33			1.20	36.0%	
AVERAGE PRICE EARNINGS RATIO: 26.5					CURRENT PRICE EARNINGS RATIO:			

Show / Hide Price/Earnings Chart Compare Peers

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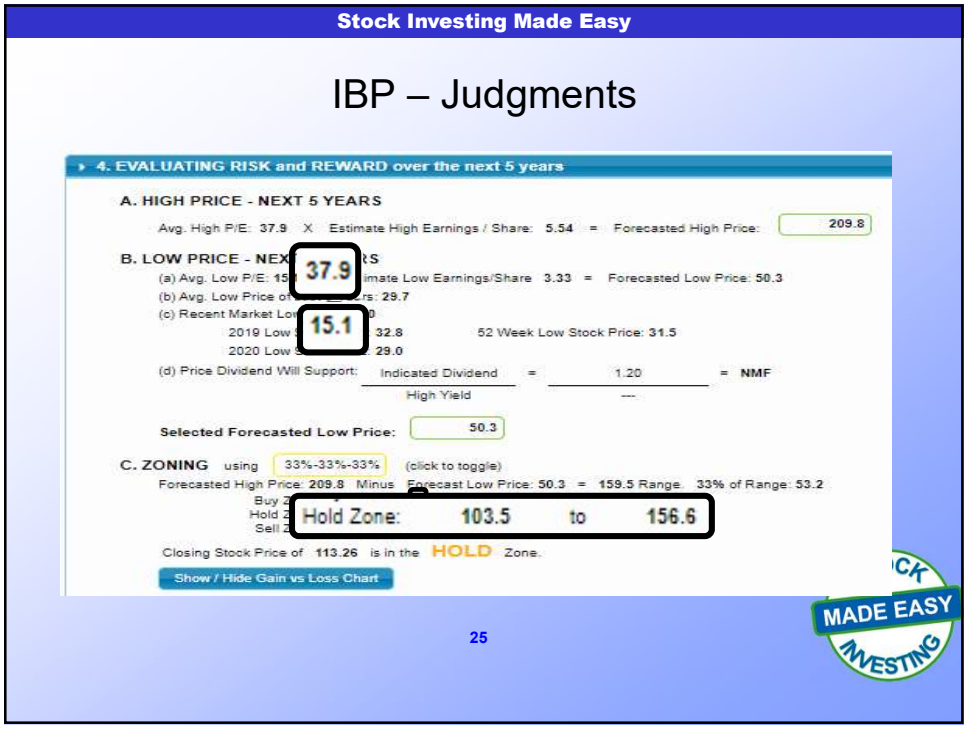
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IBP – Judgments
4. EVALUATING RISK and REWARD over the next 5 years
A. HIGH PRICE - NEXT 5 YEARS
Avg. High P/E: 37.9 X Estimate High Earnings / Share: 5.54 = Forecasted High Price: 209.8
B. LOW PRICE - NEXT 5 YEARS
37.9
15.1
(a) Avg. Low P/E: 15
Estimate Low Earnings/Share 3.33 = Forecasted Low Price: 50.3
(b) Avg. Low Price of Last 5 Years: 29.7
(c) Recent Market Low
2019 Low 32.8
2020 Low 29.0
52 Week Low Stock Price: 31.5
(d) Price Dividend Will Support: Indicated Dividend / High Yield = 1.20 / --- = NMF
Selected Forecasted Low Price: 50.3
C. ZONING using 33%-33%-33% (click to toggle)
Forecasted High Price: 209.8 Minus Forecast Low Price: 50.3 = 159.5 Range. 33% of Range: 53.2
Buy
Hold
Sell
Hold Zone: 103.5 to 156.6
Closing Stock Price of 113.26 is in the HOLD Zone.
Show / Hide Gain vs Loss Chart
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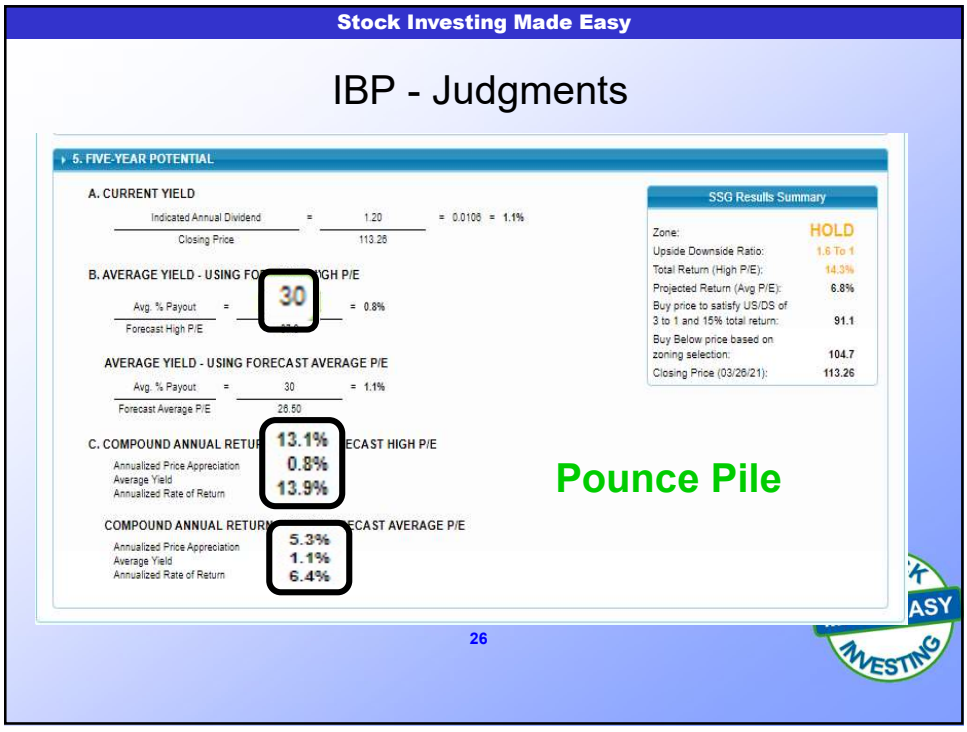
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IBP - Judgments
5. FIVE-YEAR POTENTIAL
A. CURRENT YIELD
Indicated Annual Dividend / Closing Price = 1.20 / 113.26 = 0.0106 = 1.1%
B. AVERAGE YIELD - USING FORECAST HIGH P/E
Avg. % Payout / Forecast High P/E = 30 = 0.8%
AVERAGE YIELD - USING FORECAST AVERAGE P/E
Avg. % Payout / Forecast Average P/E = 30 / 26.50 = 1.1%
C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E
Annualized Price Appreciation 13.1%
Average Yield 0.8%
Annualized Rate of Return 13.9%
COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E
Annualized Price Appreciation 5.3%
Average Yield 1.1%
Annualized Rate of Return 6.4%
SSG Results Summary
Zone: HOLD
Upside Downside Ratio: 1.6 To 1
Total Return (High P/E): 14.3%
Projected Return (Avg P/E): 6.8%
Buy price to satisfy US/DS of 3 to 1 and 15% total return: 91.1
Buy Below price based on zoning selection: 104.7
Closing Price (03/26/21): 113.26
Pounce Pile
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INVESTING

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MIKE TORBENSON

- BI Member since 1987
- Member 3 investment clubs
- Puget Sound Volunteer Teacher since 2004
- BINC Education Program Manager 2010-2014
- Author: *SSG & Portfolio Management Magic*

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Stock Investing Made Easy

Find Quality Stocks

- Resources
  - Like-minded investors
- Seeking
  - Up, Straight, & Parallel
- Criteria
  - Consistent & Predictable

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Evaluate Quality

- Resources
  - SSG/Section 1 & 2/Quarterly Data
  - Annual Report/10K Item 7- MD&A
- Seeking
  - Consistent, Predictable, Understandable
- Criteria
  - Understandable Strategic Growth Plan

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Valuation Analysis

- Resources
  - SSG 3/4/5 on PERT
- Seeking
  - Acceptable risk
  - Acceptable reward
- Criteria …

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Risk & Reward

	Metric	Consider Buying when	Consider Selling when
Reward	Total Return (TR)	≥ 15%	< 10%
	Projected PE	Near Lo PE	Near Hi PE
Risk	Upside/Downside (U/D)	≥ 3	< 3
	P/E to Growth (PEG)	≤ 1.5	> 1.5
	Relative Value (RV)	< 100	> 100

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Buy/Sell/Hold/Wait

- Resources
  - PERT
- Seeking
  - Portfolio Improvement
- Criteria
  - Improves Portfolio Diversity, Quality, and Value

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SSG Judgments

	% Sales	% EPS	Hi PE	Lo PE	Lo Price	% TR
Kim	9%	15%	29	23	$75	12.7%
Mary	10.5%	11.1%	37.9	15.1	$50.3	13.9%
Mike	13%	15%	40	30	$98	18.4%

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Summary

In this session we've touched on how we:

- Find Quality Stocks
- Evaluate Quality Stocks
- Valuation Analysis
- Make a Buy/Sell/Hold Decisions

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Questions?

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