Beyond the First Cut

Enhancing Your Stock Study with a First Cut

Marcia Couey

Frank Paiano

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Empowering Investors Since 1951

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Today's Agenda

Enhance your own stock studies using four tools:

- A First Cut stock study
- Comparison Chart Checklist
- SSG^{PLUS}
- Big Charts from the Research Tab

What is a First Cut?

- It is a preliminary look at a stock using a specific format
- It is **not** a complete stock study.
- It is a recommendation by a member(s) of the BI community to consider investing some of your *time* in further study.
- It should **not** replace your own analysis and opinion of a stock

A First Cut includes:

- A completed SSG
- Answers to 5 or 6 SSG projection questions and information about:
  - How the company makes money
  - Why the company is a quality growth company
  - Whether to Buy/Hold/Sell or keep in the Stock Watch List
  - A explanation for the final recommendation

Why Go Beyond a First Cut?

- It's your money/your club's money. You want the most complete analysis to make your decision
- It increases your self-confidence in your judgments and expectations.
- Practice making judgments and documenting your judgment choices results in making better future judgments

Other Reasons to Do Your Own Study

So that in *1, 2, 3+ quarters from now* you can

- Understand the root causes for all variances from your projections
- Compare actual results with your expectations.
- Take appropriate corrective action in a timely fashion.
- Make better future decisions.

Find First Cut Stock Studies

On the BI home page (scroll down...)

From **BetterInvesting Weekly** (Thursdays)

I start with the SSG in the FC

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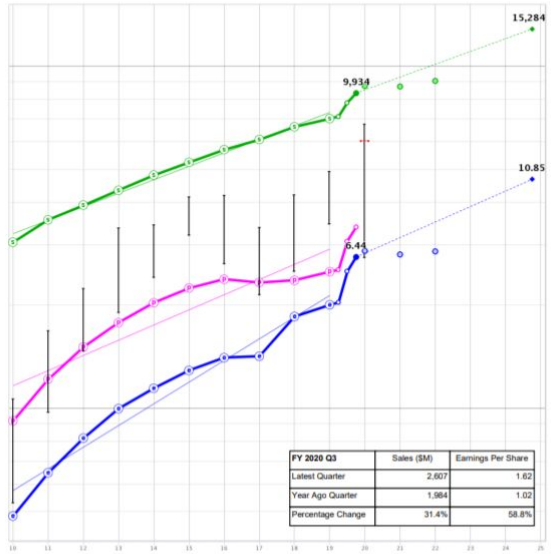
Stock Selection Guide

Company	Tractor Supply			Date	12/31/20
Prepared by	ULMER			Data taken from	BI Stock Data
Where traded	NAS	Industry	Specialty Retail		
Capitalization — Outstanding Amounts			Reference		
Preferred ($M)			0.0	% Insiders	% Institution
Common (M Shares)			117.7	4.2	64.4
Debt ($M)		3,413.2	% to Tot Cap	64.5	% Pot Dil 1.2

Symbol: TSCO

1 VISUAL ANALYSIS of Sales, Earnings, and Price



FY 2020 Q3	Sales ($M)	Earnings Per Share
Latest Quarter	2,607	1.62
Year Ago Quarter	1,984	1.02
Percentage Change	31.4%	58.8%

(1) Historical Sales Growth	9.5%	(3) Historical Earnings Per Share Growth	15.7%
(2) Estimated Future Sales Growth	9.0%	(4) Estimated Future Earnings Per Share Growth	11.0%

2 EVALUATING Management — Tractor Supply

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Last 5 Year Avg.
Pre-tax Profit on Sales	7.3%	8.3%	9.3%	10.0%	10.3%	10.4%	10.2%	9.3%	8.6%	8.7%	9.4%
% Earned on Equity	17.6%	22.9%	25.8%	27.4%	29.5%	30.1%	29.2%	30.2%	35.1%	36.9%	32.3%
% Debt To Capital	0.2%	0.1%	0.1%	0.1%	0.4%	10.8%	17.2%	24.6%	22.0%	63.4%	27.6%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.
CLOSING PRICE 140.58 (12/31/20) **HIGH THIS YEAR** 157.07 **LOW THIS YEAR** 63.89

	A	F	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
2015	96.3		74.5	3.00			0.76	25.3	1.0
2016	97.3		61.5	3.27	29.7	18.8	0.92	28.1	1.5
2017	78.3		49.9	3.30	23.7	15.1	1.05	31.8	2.1
2018	97.7		58.3	4.31	22.7	13.5	1.20	27.8	2.1
2019	114.3		80.3	4.66	24.5	17.2	1.36	29.2	1.7
AVERAGE			64.9		25.2	16.2		28.5	
CURRENT/TTM				6.44			1.60	24.8	

AVERAGE PRICE EARNINGS RATIO: 20.7 — CURRENT PRICE EARNINGS RATIO: 21.8

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS
Avg. High P/E 25.0 X Estimate High Earnings/Share 10.85 = Forecasted High Price $ 271.3

B LOW PRICE - NEXT 5 YEARS
(a) Avg. Low P/E 16.0 X Estimate Low Earnings/Share 6.44 = Forecasted Low Price $ 103.0
(b) Avg. Low Price of Last 5 Years 64.9
(c) Recent Market Low Price 58.3
(d) Price Dividend Will Support Indicated Dividend / High Yield = 1.60 / 2.11% = 76.0
Selected Forecasted Low Price $ 103.0

C ZONING using 25%-50%-25%
Forecasted High Price 271.3 Minus Forecasted Low Price 103.0 = 168.3 Range. 25% of Range 42.1

Buy Zone	103.0	to	145.1
Hold Zone	145.1	to	229.2
Sell Zone	229.2	to	271.3

Present Market Price of 140.58 is in the **BUY** Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)
High Price 271.3 Minus Present Price 140.58 = 130.71
Present Price 140.58 Minus Low Price 103.0 = 37.58 = 3.5 To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
High Price 271.3 / Closing Price 140.58 = 1.9298 X 100 = 192.98 - 100 = 93.0 % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A Indicated Annual Dividend / Closing Price 1.36 / 140.58 = 0.0114 = 1.1 % Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E
Avg. % Payout 23.3 % / Forecast High P/E 25.00 = 0.9 %

AVERAGE YIELD - USING FORECAST AVERAGE P/E
Avg. % Payout 23.3 % / Forecast Average P/E 20.50 = 1.1 %

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation	14.1 %
Average Yield	0.9 %
Annualized Rate of Return	15.0 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation	9.6 %
Average Yield	1.1 %
Annualized Rate of Return	10.8 %

To start your own stock study

1. Open a new online SSG for TSCO. It will have updated: prices; PEs; Current/TTM EPS
2. Obtain *current* resources used in the First Cut.
3. Read and compare the current resources to the First Cut content
4. Add additional resources and record your findings & your own judgments.

Enhance Your Stock Study Using a First Cut

created by Bob Houle 10/7/2020 / with Marcia Couey edits 6/1/2021

First Cut answers to these questions are...	Level 1	Level 2	Level 3
1. Why is this a quality company? (Comment on historical data, sales, earnings, etc.)	General description of the company from Wikipedia or popular financial websites. Description of sales and earnings 10-year trends.	Business description from 10K MD&A, highlighting the company's track record and growth strategy. Comment on PTP%, ROE, and debt. Discuss 10- and 5-year trends and any anomalies.	Explains if the company has a Durable Competitive Advantage (DCA). Compares company to Peers, Industry, and general market (S&P 500).
2. Describe how the company makes money.	Lists products or services provided by the company.	Discusses and compares different sources of revenue (geographies, divisions, product lines, etc.) and how they contribute to overall sales.	Discusses growth prospects, expansion plans, operational advantages, customer retention strategies, new products or services that will protect DCA.
3. The projected annual growth rate for sales for the next 5-years.	Uses "best guess" Analyst Consensus Estimates on SSG or average of Member Sentiment.	Assess Value Line, Morning Star, and Analyst Price Estimates to formulate a conservative sales growth projection.	Develops sales growth rate based on company growth strategy, trends in the industry, markets, and general economy. Explain starting point for projections (Annual, Quarterly, Trend)
4. The projected annual growth rate for earnings for the next 5-years.	Uses "best guess" Analyst Consensus Estimates on SSG or average of Member Sentiment.	Uses Preferred Procedure calculation with defaults.	Listens to Earnings Call or reads transcripts and uses Preferred Procedure but applies judgments to one or more of the various defaults, based on research and historical data.
5. Projected - High PE, Low PE, and Low Price	Uses the Projected High PE /Low PE from the SSG without any adjustments. Projected low price recent market low without any other explanation.	Considers outliers in data (lowering PE) and including an earnings adjustment for future accretive additions (new products or acquisitions). Considers low price with other downside information in selecting.	Everything in "Level 2" AND discusses which EPS (TTM, Last Year, etc...) will be projected adding in other judgments on earnings. Uses -- or considers using -- variable earnings rates within the 5 years of projections.

6. Final Recommendation (Buy, Sell, Hold) or Add to Watch List explain:

Legend: MD&A = Management Discussion and Analysis as found in the Annual Report = 10K

1 Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

Pet ownership has increased during this last year due to COVID 19. I began looking for a company that could benefit from pet ownership. TSCO revenues have grown 9.5% over the last 10 years and 31.4% in the 3rd quarter. Earnings per share have grown a ten year average of 15.7% and 58.6% in the recent quarter. Profit margins average 9.4% and ROE average is 32.3%. Debt to Capital is 69%. In the last year the debt to capital has risen due to a recent SEC rule that lease payments must appear on the balance sheet.

First Cut answers to these questions are...	Level 1	Level 2	Level 3
1. Why is this a quality company? **(Comment on historical data, sales, earnings, etc.)**	General description of the company from Wikipedia or popular financial websites. Description of sales and earnings 10-year trends.	Business description from 10K MD&A, highlighting the company's track record and growth strategy. Comment on PTP%, ROE, and debt. Discuss 10- and 5-year trends and any anomalies.	Explains if the company has a Durable Competitive Advantage (DCA). Compares company to Peers, Industry, and general market (S&P 500).

2 Briefly describe how the company makes money:

Tractor Supply is a specialty retailer selling products to recreational farmers. 47% of sales is livestock/pet products. 21% is tools, hardware, truck, and towing. 20% of sales is seasonal items such as mowers and snowblowers and gifts. 8% of sales is footware and clothing. In addition to the large stores, TSCO owns PetSense,180 smaller stores that offer vet and grooming services for pets, as well as toys and food supplies.

First Cut answers to these questions are...	Level 1	Level 2	Level 3
2. Describe how the company makes money.	Lists products or services provided by the company.	Discusses and compares different sources of revenue (geographies, divisions, product lines, etc.) and how they contribute to overall sales.	Discusses growth prospects, expansion plans, operational advantages, customer retention strategies, new products or services that will protect DCA.

3 **Projected growth rate for sales**: 9.0%

Why did you select this rate? Discuss from where future growth will come.

The Value Line analyst estimate is 8% and Morningstar is 11%. There are plans for additional stores.

First Cut answers to these questions are...	Level 1	Level 2	Level 3
3. The projected annual growth rate for sales for the next 5-years.	Uses "best guess" Analyst Consensus Estimates on SSG or average of Member Sentiment.	Assess Value Line, Morning Star, and Analyst Price Estimates to formulate a conservative sales growth projection.	Develops sales growth rate based on company growth strategy, trends in the industry, markets, and general economy. Explain starting point for projections (Annual, Quarterly, Trend)

4 Projected growth rate for earnings per share: 11%

Why did you select this rate?

Analyst estimates range from 10% at Value Line to 16% at Yahoo. I chose a conservative numer in between those estimates. Pet ownership has grown and pets are cared for as members of the family.

First Cut answers to these questions are...	Level 1	Level 2	Level 3
4. The projected annual growth rate for earnings for the next 5-years.	Uses "best guess" Analyst Consensus Estimates on SSG or average of Member Sentiment.	Uses Preferred Procedure calculation with defaults.	Listens to Earnings Call or reads transcripts and uses Preferred Procedure but applies judgments to one or more of the various defaults, based on research and historical data.

5

Projected High P/E: 25
Why did you select this value?
I used the average high PE after eliminating the 2015 high PE

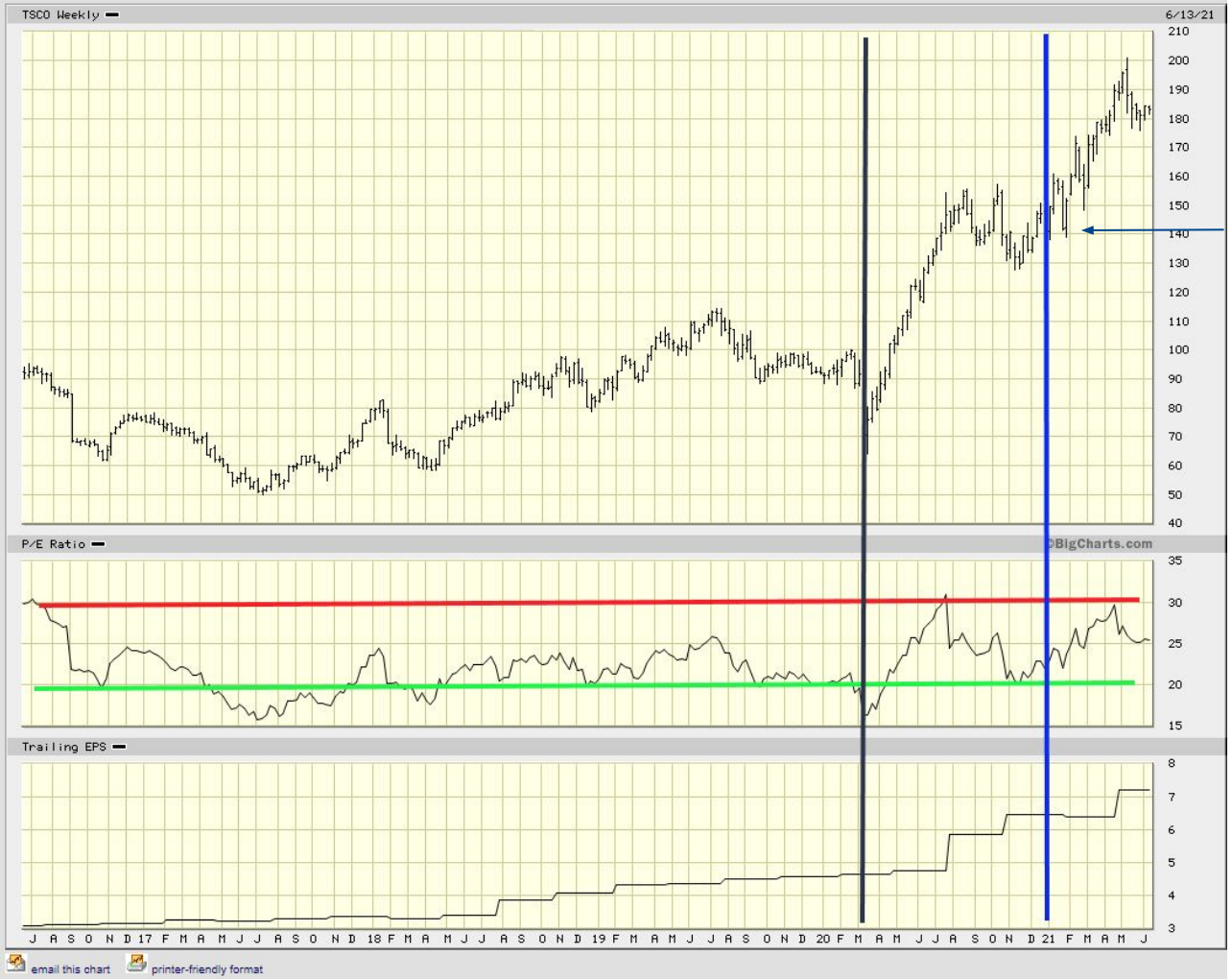
Projected Low P/E: 16
Why did you select this value?
I used the average low PE after elimination of the 2015 PE

Projected Low Price: $103
Why did you select this value?
I used the low PE multiplied by the estimated low earnings /share

First Cut answers to these questions are...	Level 1	Level 2	Level 3
5. Projected - High PE, Low PE, and Low Price	Uses the Projected High PE /Low PE from the SSG without any adjustments. Projected low price recent market low without any other explanation.	Considers outliers in data (lowering PE) and including an earnings adjustment for future accretive additions (new products or acquisitions). Considers low price with other downside information in selecting.	Everything in "Level 2" AND discusses which EPS (TTM, Last Year, etc…) will be projected adding in other judgments on earnings. Uses -- or considers using -- variable earnings rates within the 5 years of projections.

Big Charts TSCO

as of 6/14/2021



6. Final Recommendation (explain)

At the current price, the stock is a (check one):

☒ **Buy** or ☐ **Hold** or ☐ **Sell**

At the current price, the upside-downside ratio is: 3.5 **to 1**

Compound Annual Return – Using Forecast High P/E: 15%

Your final recommendation (check one):

☒ **Buy** or ☐ **Hold** or ☐ **Sell**

Explain:

Tractor Supply is in the Retail Building Supply Industry, which for the last 5 months has been the number one industry in Value Line. I think pet ownership will be here to stay with pet ownership increasing in the Millennial Generation, especially with the work at home trend due to COVID19. Tractor supply also sells items for the home and yard, another trend that is growing.

Enhancements to Our Stock Study

Customers (MD&A)

Detailed Business Description & Segments

4% Agriculture

Business Locations (#s)

New stores & plans

Competition Analysis

Detailed debt discussion

New acquisition (2/21)

6. Total Return Decision

Price Appreciation

Dividend Growth Discussion

Q1 Performance

What additional analysis do you take in your studies? Please send in the Question Box.

SSG^{PLUS} Tools You Can Use

Enhance your Stock Study with:

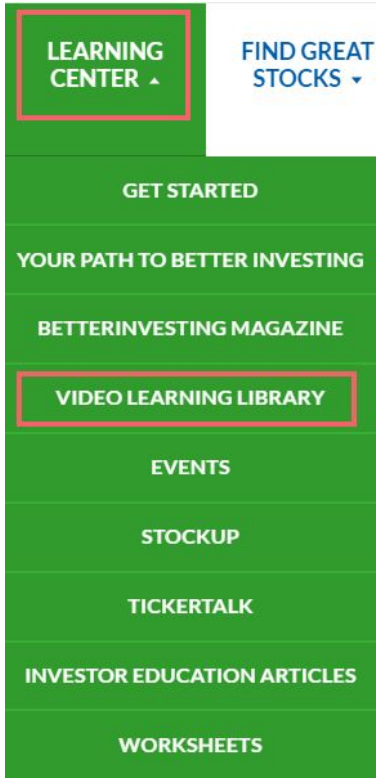
- Preferred Procedure
- Data Tab>*Detailed Estimates*
- Quarterly Data Tab>
  Quarterly Growth Trend Graph & Data Table
- (Valuation) Ratios Tab

Research Tab (same for ^{CORE}SSG)

- Analyst Estimates (3 + 1 or more Premium)
- Big Charts

Video Resources

On the BI website:



TickerTalk

TickerTalk July 2020

Class Title:	TickerTalk July 2020
Program Title:	TickerTalk
Release Date	7/16/2020
Length:	1:05:02

Introducing Detailed Estimates in SSGPlus; Add Analyst Estimates to Your SSGs; Five in Five! (stock ideas)

StockUp

Analyst Consensus Estimates Made Easy

Class Title:	Analyst Consensus Estimates Made Easy
Program Title:	StockUp
Release Date	6/18/2021
Length:	1:10:11

StockUp

Estimate EPS Using the Preferred Procedure

Class Title:	Estimate EPS Using the Preferred Procedure
Program Title:	StockUp
Release Date	2/10/2021
Length:	1:21:44

StockUp

Research and Your Stock Selection Guide

Class Title:	Research and Your Stock Selection Guide
Program Title:	StockUp
Release Date	9/10/2020
Length:	1:11:37

Other Favorite Resources

- First Cut Archive at BetterInvesting.org
- **The Stock Selection Guide (SSG) and Portfolio Management Magic, 2nd Ed**. *by Mike Torbenson*. Chapter 7. Hi and Low PEs
- **The Five Rules for Successful Stock Investing**, *by Pat Dorsey.* Chapter 3. Economic Moats. (Look Inside)
- Accessing the Business Description and MD&A

Enhance Your Learning Muscles

Create your own Reference Chart!

—Add a **row** of total return criteria for the Final Recommendation

—Add a **column** of financial metrics that are important to you

Use a Partner

—Use “free” Zoom and/or share your SSG study and pdf

—Got Gmail?

—Download the First Cut Form to conduct your own stock studies

Read the Annual Report MD&A

Clubs: Consider a BIGW Director Club Support visit

Summary

Today, we showed how to enhance your stock study with (at least) four tools:

- A First Cut stock study
- Comparison Chart Checklist
- SSG^{PLUS}
- Big Charts from the Research Tab

Questions or Comments?

Contact info:

Marcia Couey, GoldenWest Chapter Director
marciathewriter@gmail.com

Frank Paiano, GoldenWest Assoc. Chapter Director
wonderprofessor@gmail.com

with thanks to Bob Houle & Judy Ulmer

Research Tab Menus (as of 6/17/21)

Company Summaries

- Google Finance Summary
- Morningstar Summary
- Motley Fool Summary
- MSN Money Summary
- Yahoo Summary

Filings and Transcripts

- Seeking Alpha Call Transcripts
- SEC EDGAR Filings - 10-K
- SEC EDGAR Filings - 10-Q
- SEC EDGAR Filings - ALL

Financial Statements

- Morningstar Financials
- Reuters Financial Statements

Key Statistics

- Finviz
- Morningstar Key Ratios
- Yahoo Key Statistics

Price Charts

- Big Charts 5 Year Chart
- StockCharts Weekly Chart

BetterInvesting (resources)

- Company Research
- BI Magazine
- Member Sentiment
- Search BI Website for Ticker

Company Website

- Company Website

Analyst Estimates*

- CNN Money Analyst Estimates
- MarketWatch Analyst Estimates
- Morningstar Analyst Estimates
- NASDAQ Analyst Summary
- Seeking Alpha Estimates new
- Yahoo Analyst Estimates
- Zacks Detailed Estimates

*** free resources.**

Consider using BetterInvesting Member Sentiment (see Averages at the end of the table" as an "analyst estimate."

[Sample pages of Analyst Estimates pages as of 6/17/2021]

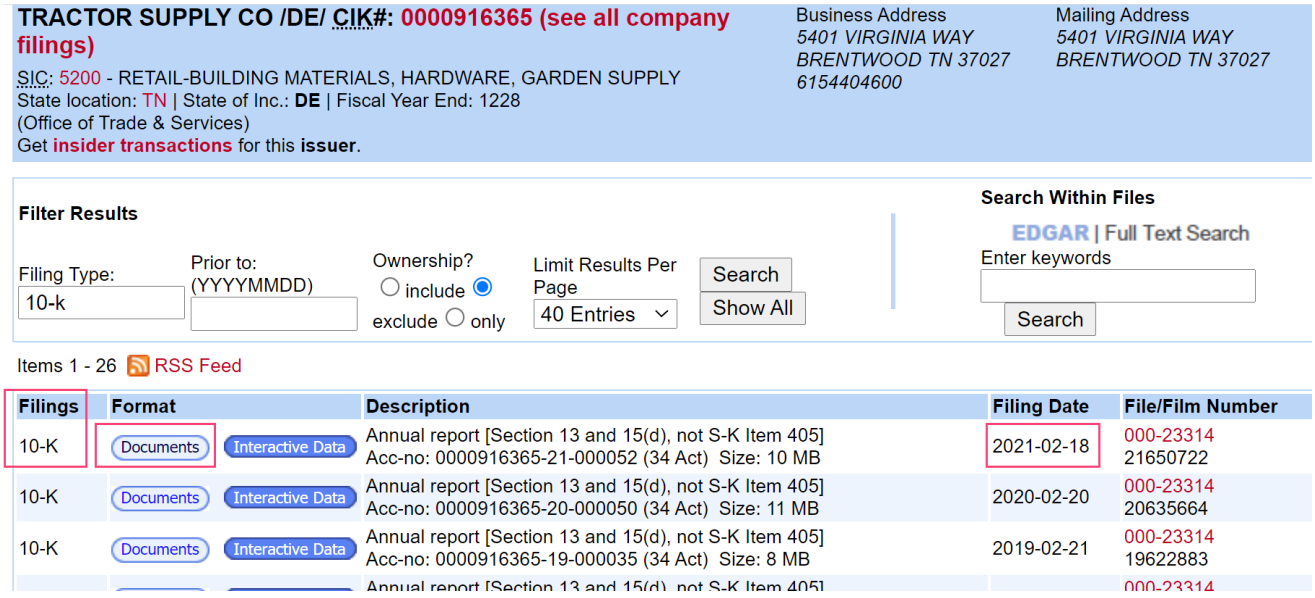
Access the Business Description and MD&A from the Online SSG

Note: we used Tractor Supply Company for all our sample screens.

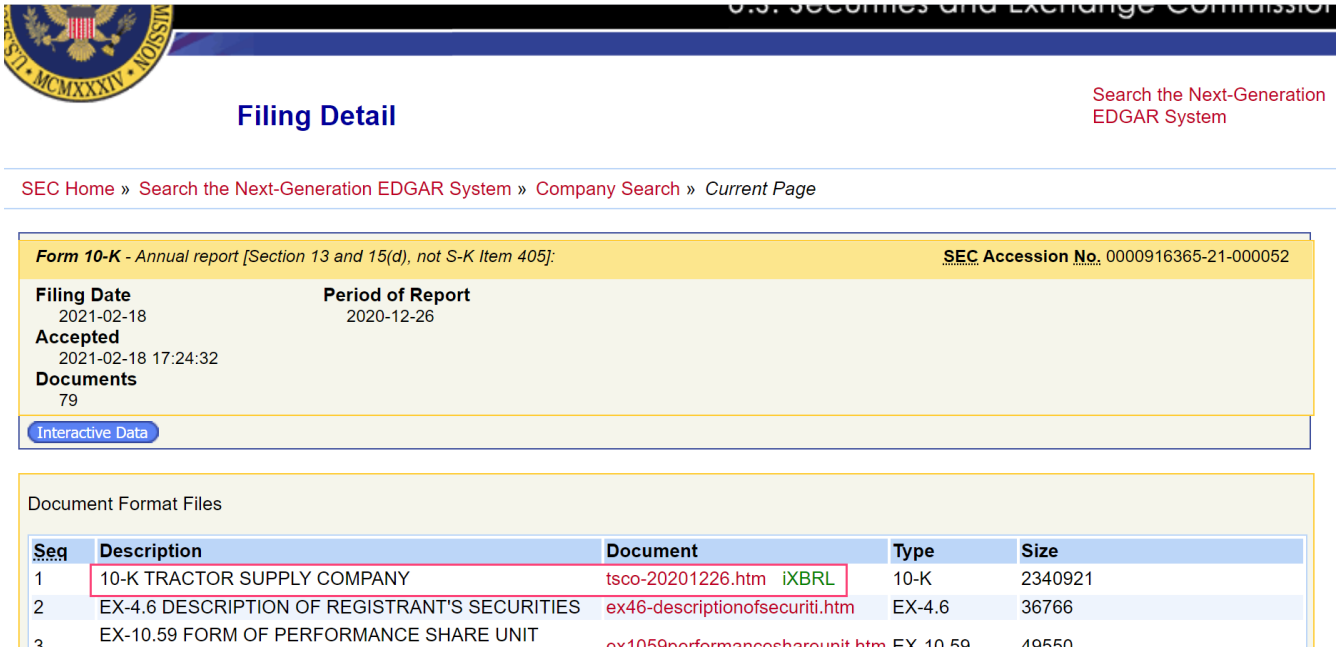
Step 1. Open the stock you want to study in the online tools and go to:
Research Tab > Filings and Transcripts > SEC EDGAR Filings-10K.

The following screen appears.

Step 2. Select the **Documents** button for the most current 10-K.



The **Filing Detail** screen appears with a list of documents in the filing, similar to the following screen.
Step 3. Select the **red "10-k" document link**.



U.S. Securities and Exchange Commission

Filing Detail

Search the Next-Generation EDGAR System

SEC Home » Search the Next-Generation EDGAR System » Company Search » *Current Page*

Form 10-K *- Annual report [Section 13 and 15(d), not S-K Item 405]:* **SEC Accession No.** 0000916365-21-000052

Filing Date
2021-02-18
Accepted
2021-02-18 17:24:32
Documents
79

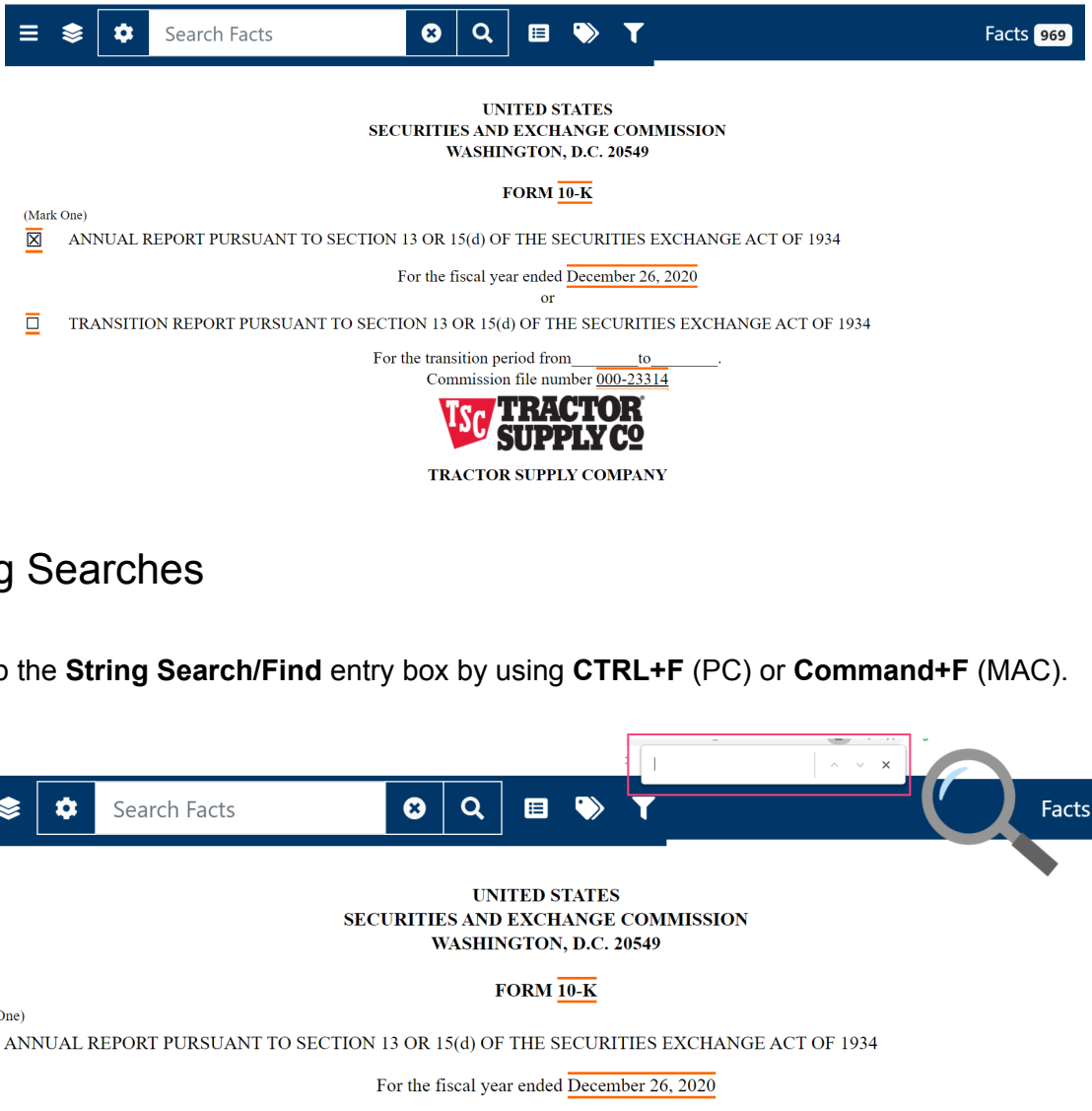
Period of Report
2020-12-26

Interactive Data

Document Format Files

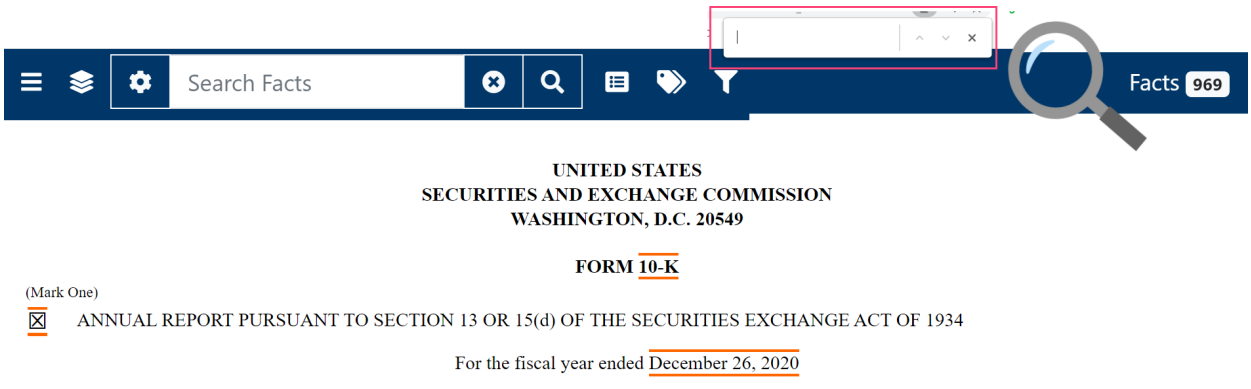
Seq	Description	Document	Type	Size
1	10-K TRACTOR SUPPLY COMPANY	tsco-20201226.htm iXBRL	10-K	2340921
2	EX-4.6 DESCRIPTION OF REGISTRANT'S SECURITIES	ex46-descriptionofsecuriti.htm	EX-4.6	36766
3	EX-10.59 FORM OF PERFORMANCE SHARE UNIT	ex1059performancesharеunit.htm	EX-10.59	49650

The 10-K appears similar to the following.



Text String Searches

Step 1. Call up the **String Search/Find** entry box by using **CTRL+F** (PC) or **Command+F** (MAC).



Step 2. Begin to do *simple text string searches* using one keyword-at-a-time Search for:

- customers,
- competitors,
- locations,
- segment, etc.

Step 3. Press the **down arrow** to find the next entry.

Use the Index to Access the Business Description or the Management Discussion & Analysis (MD&A)

Use the hyperlinks to move to the different sections and to return to the **Index.**

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Enhance Your Stock Study Using a First Cut

created by Bob Houle 10/7/2020 / with Marcia Couey edits 6/1/2021

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6. Final Recommendation (Buy, Sell, Hold) or Add to Watch List explain:

Legend: MD&A = Management Discussion and Analysis as found in the Annual Report = 10K