Taking a Closer Look at Management

Gretchen Hurt
Director, BIVA Board

Section 2A of the Stock Selection Guide

Pre-Tax Profit

• Pre-tax profit as a percent of sales

Can the company make a profit?

Management

• Management has two jobs.
  - Make money.
  - Spend money in such a way that they will make more money in the future.

• In this seminar we will discuss their first job.

Pre-Tax Profit

• We look at pre-tax profit because
  - Net Income is affected by taxes which are not totally under the control of management.
  - Earnings per share is affected by the number of shares outstanding.

Disclaimer

• The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced. The securities of companies referenced or featured in the seminar materials are for illustrative purposes only and are not to be considered endorsed or recommended for purchase or sale by BetterInvesting™ National Association of Investors Corporation (“BI”) or the BetterInvesting Volunteer Advisory Board, its volunteer advisory board (“BIVAB”). The views expressed are those of the instructors, commentators, guests and participants, as the case may be, and do not necessarily represent those of BetterInvesting™ or BIVAB. Investors should conduct their own review and analysis of any company of interest before making an investment decision.

• Securities discussed may be held by the instructors in their own personal portfolios or in those of their clients. BI presenters and volunteers are held to a strict code of conduct that precludes benefiting financially from educational presentations or public activities via any BetterInvesting programs, events and/or educational sessions in which they participate. Any violation is strictly prohibited and should be reported to the President of BetterInvesting or the Manager of Volunteer Relations.
**Pre-Tax Profit as % of Sales**

- Do more than just look at the trend
- Take a closer look at the numbers
- Did percent of pre-tax profit really grow?

**Pre-Tax Profit as % of Sales**

- Think of it as the number of cents of pre-tax profit on each dollar of sales

**Pre-Tax Profit**

- This part of the SSG tells us two things
  - If management kept the growth of expenses in line with the growth of sales.
  - If management kept the growth of expenses competitive with other companies in the industry.

**Pre-Tax Profit**

- If management does not keep growth of expenses in line with sales growth, the percent of pre-tax profit will decline.

**Pre-Tax Profit**

- Who is doing the better job of controlling expenses and creating a profit?
BetterInvesting National Convention – Atlanta, GA

**Compare with Competition**
- Easy to do
  - with BetterInvesting S&P Data Feed
  - Online Tools
- You want to buy companies that do the best job of making money.

**Pre-Tax Profit**
- The components influencing pre-tax profit are:
  - Sales or Revenues
  - Cost of Goods Sold
  - Overhead

**Definitions**
- Cost of Goods Sold - All expenses related to the production of goods to be sold, including:
  - Production related costs
  - Labor to make the product
  - Raw materials
- Retail - cost of goods being sold

**Pre-Tax Profit**
- Increasing or decreasing any one of these will change the ratio in Section 2A.

**Pre-Tax Profit**
- You can increase pre-tax profit as % of sales by:
  - Growing the sales faster than the Cost of Goods Sold and Overhead
  - Decrease growth rate of cost of goods sold and/or decrease the growth rate of overhead in relation to growth rate of sales.
Increase Sales

- Some ways companies can increase sales:
  - Expanding territory
  - Taking market share from competitors
  - Increasing the price per unit
  - Creating new products
  - Making acquisitions

Make A Difference In Someone’s Life

If you have benefited from BETTERINVESTING, please pick up some BETTERINVESTING materials and introduce others to this opportunity.