First and foremost, thank you for attending our presentation, and / or listening to the recording. I will address several questions that either were not answered in the presentation or by the webinar staff, or that I feel may need a fuller answer.

Once again, I want the thank the team from the chapter for making these sessions possible. It is amazing how dedicated and hardworking our chapter volunteers are. If you see one or talk to one, remember to thank them for the hard work they put in to help with BetterInvesting's mission of educating investors. None of it would happen without them.

EXPENSES

Question: Is there a guideline / warning for Expenses relative to **Sales**?

Answer: There really is no universal warning (although you do want a business to make a profit, so you certainly do not want Expenses to exceed Income).

We always encourage people not to study a company in isolation. It is important to look at competitors to find out what is "normal" for the industry.

For example, for a grocery store a 4% **Pre-Tax Profit** margin is great [by the way, I am using very rough numbers without having researched them recently, but they will illustrate the point]. Only spending 96% of **Sales** on Expenses is better than a lot of the competitors in the grocery industry, so being left with 4% before Taxes is good. If the company is a pharmaceutical company, 4% **Pre-Tax Profit** poor. Most pharmaceuticals have a **Pre-Tax Profit** margin that is significantly higher than 4%.

The amount of Expenses, which we think of in terms of what is left after Expenses, or **Pre-Tax Profit**, is industry dependent.

As a side point, BetterInvesting's SSG Plus has a "Compare Peers" button, which allows you to see competitors graphed on the same screen as the company. For my money, it is probably my favorite SSG Plus feature.

Question: Would you comment on impairment charge for "Goodwill" as an Expense?

Answer: Goodwill is an Intangible Asset. When one company buys another, it pays a certain amount for the company. That amount essentially covers the value of the "things" that were bought, equipment, furniture, buildings, inventory, etc.

However, a company's name has some value. For example, if I were to buy Coca Cola, I would buy their buildings, equipment, etc., but I would pay additional for the company because people know the name Coca Cola and the brand name as some value. The value of the brand is an example of Goodwill.

So, if I buy a company, I pay for building, equipment, etc., and that all gets reflected as assets of the acquiring company. But how do you account for the amount paid for the value of the brand? It is not attached to a tangible asset (something you can touch). There is a category on the Balance Sheet of a company called Intangible Assets (assets that have value, but that you cannot touch). This category includes Goodwill which is put on the books at the excess paid to acquire the company over what can be attached to Tangible Assets. That is our starting point.

The value of the Goodwill can change (the perfect example of paying way too much was the AOL Time Warner merger where far more was paid for the company than it turned out the Goodwill was worth).

Under accounting rules, Goodwill must be evaluated, and a value placed on it. If the value has decreased, the acquiring company reduces the value of the Goodwill on the Balance Sheet by taking a charge (or write-off) against the income. Basically, it is goodwill impairment expense.

In context of the session, if there has been a goodwill impairment (of significance) in the past, it has increased Expenses, making the space between **Sales** and **Pre-Tax Profit** larger and pushing down on the **Pre-Tax Profit** line and all the lines below it, including **Earnings Per Share**. Pushing down on the **Earnings Per Share** line slows the growth of **Earnings Per Share**. Assuming we determine that Goodwill pushed down our **Earnings Per Share** growth in the past, what will happen if Goodwill is now properly valued and there aren't any impairment charges in the future? Can **Earnings Per Share** grow faster in the future than it has in the past when it had a big Goodwill impairment charge?

TAXES

Question: I have used the far right data column in Value Line for the estimated Taxes and estimated Common Shares Outstanding. What resource do you use for these numbers?

Answer: I work a little differently with Taxes than I do with Shares Outstanding. My philosophy is even though I am a CPA, most of the companies that we look at are multi-national companies having to deal with Taxes and tax rates in many countries. Even if not, many are dealing with tax rates in difference states and localities. This is far out of my expertise and comfort zone. So…I tend to find a source that projects tax rates and use it unless it looks so different from the current rate. In that case, I at least want to figure out why it is being projected so differently (and to be honest, I don't need to completely understand the explanation, but I want to know that the source explained why they did it and that there is a reason).

With Shares Outstanding I work a little differently. I do my homework first. I think it is important to read company information. Are there indications that they have approved buy backs (reducing future shares)? Is there indication that they are looking for acquisitions that might be made using stock (increasing future shares)? Once I get a sense of direction, only then do I look for a source of a projection. It is difficult for us to estimate on our own, but at least with shares we should be able to figure out if there is the likelihood of a significant increase or decrease before we consider someone else's estimate.

<u>SHARES OUTSTANDING</u>

<u>Question</u>: How did you get the Shares Outstanding number?

<u>Answer</u>: In the example used in the session, if I am remembering correctly, studying the company seemed to indicate that the company was reducing Shares Outstanding. At the time of the study the most current data was 2235.0 (M) Shares Outstanding. I believe that knowing that the company was buying back shares, I went to Value Line to get a rough number of shares 5-years in the future.

In the SSG Plus, in the "Analyze Growth and Quality" tab, if you click in the Forecast% box on the line for Historical EPS (at the bottom), it will open up the "Determine EPS 5 Year Forecast" dialogue. The bottom section shows "Preferred Procedure Calculation" and in the lower right there are several tabs. The history of Shares Outstanding can be found by clicking on "Diluted Shares Outs".

From there, you can go in several directions. I find Shares outstanding a little difficult to project, so I will look at a source such as Value Line and see what they project. One caveat, I always think through whether it makes sense to me. If Value Line projects less shares, I will read up on the company and see if perhaps they have authorized a share buy back plan. I do not blindly trust any source; it must make sense to me given what else I know about the company. You could also read the company's annual report and see if there is a buy back plan and how many shares, they indicate they are trying to buy back.

Also, refer to the question under taxes (above)

<u>OTHER</u>

<u>Question</u>: How important is it to have blue **Earnings Per Share** line over annual share price bars?

<u>Answer</u>: While this is not part of the topic we covered, it is related to the idea that you can analyze a company visually, and to me it is too important to not respond to this question.

Let us stop and think about our P/E Ratio, which is Price divided by **Earnings Per Share**, *or Price* *over* ***Earnings Per Share***.

Now let us think about the visual analysis on the Stock Selection Guide. We can see Price (the annual price bars) and we can see **Earnings Per Share**. How do we use those to determine P/E visually?

I always move my Price bars right above the **Earnings Per Share** line so that my SSG reflects *Price over* ***Earnings Per Share***. The distance between the Price bar and the **Earnings Per Share** line represents the P/E Ratio. The closer the Price bar, the lower the P/E, the further away, the higher the P/E. You can do this using high P/E based on the top of the annual Price bars, the low P/E based on the bottom of the annual Price bars, or you can eyeball average P/E using the middle of each year's Price bar. Looking at the 10-year history you can get a sense of what is normal for the company in terms of P/E ratio, and you can look at the most recent year to see where the current Price falls. Is the current Price closer to the **Earnings Per Share** line than the normal middle of the Price bars is? If it is, then you have a below average P/E ratio at the moment, and it may represent a buying opportunity.

Question: What if we use the projected **Earnings Per Share** from the Value Line?

Answer: I really have two answer to that question. The first is do we really want to make judgment based on what one so-called "expert" thinks will happen? The goal is to do a sensible evaluation of the forces at work within the company's Income Statement and learn to piece together what we expect will happen. Are we going to get it right every time? No! But that leads me to my second answer which is if you have the time, go back, and look at how many times Value Line got it wrong. What makes you think their analysis is better than ours can be with a little effort and a little practice? I do not want to give up my judgment to anyone, unless it is something that I cannot possibly make a good judgment on at all, such as future tax rates for a company. I will trust where I have to, but I am going to think about everything else and make my own evaluation based on what I can learn about the company and based on what my SSG tells me has happened in the past.

RECORDINGS

Question: I did not see the June presentation. Is it possible to get a link to the recorded session?

Answer: If you missed it and would like to see the recording, here is the link to the presentation: https://register.gotowebinar.com/recording/692665245638299399