**Slide One:** The focus with this presentation is on some of the very basic information contained in the one-sheet Value Line for companies followed by their analysts. In a short time, we can’t go into all the information. I’ll show some of the parts of Value Line that I first learned to use in filling out the SSG. Then I’ll give ideas for further study if you want to delve more deeply into the financials of companies. You are fortunate in this area to have access to Value Line through your local libraries. If you are not doing so already you should ask for a demonstration during or after a MicNOVA meeting.

I chose Cummins, not as a recommendation for purchase necessarily, but because their headquarters is located in Columbus, Indiana, and I have been fortunate to visit their corporate headquarters and learn about their history. I’m impressed with their management and with their community outreach. Management makes it a company people like to work for. Come visit and I’ll take you on a tour of Columbus.

**Slide Two:** Cummins is a leading producer of diesel and natural gas engines used to power a variety of vehicles from school buses to railroad engines. They have been recognized for their response to climate change, now providing customers with a broad portfolio of power options that includes clean diesel, natural gas, electrified power, fuel cell technology and alternative fuels.

Cummins is a cyclical stock so its price will be affected by the business cycle. That is for another class and one that MicNOVA might want to have as an education topic.

**Slide Three**: A good place to start looking on the VL is with the 3-5-year projection for price growth of the stock. This information is found in the upper left corner of the Value Line. For a large company this estimated growth is exceptional. Because this is a 3-5-year projection (going out to 2022 to 24), and we are interested in a five-year estimate of growth for the SSG, we need to take into account that this may only be a four year estimate. Thus what we put down on our SSG might be higher. While this is an estimate for growth of price, remember price eventually follows earnings and earnings eventually follows sales.

The chart on the right of this slide comes from the top of the VL page. The dotted lines to the right show the top and low projections for price giving you a graph for the figures we just looked at.

Value Line has a proprietary formula for determining this growth which is shown by the solid line that turns into a dotted line for future quarters. The bars in this graph reflect the high and low price of the company for each year. Note that the price had a slump in 2018 and hasn’t reached the level it was the end of 2017. This price chart is common with cyclical stocks and it doesn’t mean one should stay away from them: just that you need to know when to invest in them.

**Slide Four:** While we are talking about growth rates look at the box in the middle left of the VL page titled Annual Rates. Here we find VL’s 3 to 5-year growth estimates for sales and earnings. These are very helpful when working on your own judgments on the SSG. On the lower right of this slide I’ve shown the section on the SSG where you make your judgments for future Sales and Earnings growth. Remember we want 5-year estimates while VL gives you 3-5-year estimates. Judgments are figures you arrive at after reading about the company and learning about how they make their money. In the case of Cummins, I was pleased to read of their focus on climate change. As the world become more conscious of the need to reduce our carbon footprint, Cummins is thinking ahead. This may put them ahead in their industry. I can factor this into my judgment.

Remember, too, that the numbers are not absolute and experts using the SSG will often come up with different numbers. Value Line is helping you to stay within a reasonable growth estimate.

**Slide Five:** Value Line has another place you can check to see if your growth estimates are reasonable. In the middle of the page you find extensive financial information on the company. Looking at the Earnings per Share and the Sales in millions, (the numbers that the arrows are pointing to), you can compare these estimated figures with what the SSG is telling you. Compare $17.10 EPS and $27.5 billion in sales with the projected earnings and sales on the next slide.

**Slide Six:** These sections are taken from the front page of the SSG after I have entered 6.5% growth rates for both Sales and EPS. When I hover my curser over the sales and EPS lines, I see the projected sales number of $33,045 billion. This is higher than VL estimate of $27.5 billion but remember we are going out at least one year from 2024. The EPS estimate of $18.71 is also higher than the $17.10 on VL. Perhaps the estimate of 6.5% growth is too optimistic. There are certainly other factors to take into consideration. Value Line is just one, but it has long been considered a good source to check my judgments for their reasonableness.

**Slide Seven:** Value Line has good information on a company’s debt. Looking in the box labeled “Capital Structure” on the left side, we see the debt for Cummins is only 18% of capital; It is considered good to have debt less than 33% of capital. A significant figure in this box is Total Interest Coverage. Value Line tells us that the coverage on their debt is 25.8 times what is due. Anything greater than 8 is considered excellent. It’s important to be sure a company can pay its bills in case of a downturn in the economy. Value Line doesn’t always have this calculation, but Morningstar does in their section titled “Key Ratios.”

**Slide Eight:** On the lower right corner of VL there is a Financial Strength rating given for Cummins of A+ which is very good. A++ is the highest rating given. This confirms we don’t have to worry about debt. Also shown here is the last paragraph of the analyst write-up. Usually, they will give their forecast for how the company’s stock will do in the coming year. I like to see the analyst thinks the stock is ranked to outperform the year-ahead market. Of course, the rest of the analyst’s report is of value as well.

**Slide Nine:** Another judgment we need to make on the SSG is for high and low price/earnings ratios five years out. The chart on the second page of the SSG give some historical information for the past 5 years as well as the average P/Es for those years and the current P/E. I’ve circled the significant numbers. I consider 2017 an outlier since the company had to make tax adjustments for the repatriation of overseas money. This make the average high P/E 17.3 and the low 10.9. The average P/E for these years is 14.1 while the current price earnings is 11.8. When the current P/E is lower than the average, it is possibly a buying opportunity, but only with more research.

**Slide Ten:** When we look at Value Line, we see their projection out 3-5 years for the average P/E is 15, slightly higher than the average we saw on the previous side of 14.1. The analyst considers Cummins a company that could be valued a little higher than it currently is. That’s a good sign that the average P/Es will remain relatively steady.

I’ve shown just a little of the information contained on Value Line—information that is helpful in making judgments on the SSG. There is much more to delve into. For example, Return on Equity which is found on the SSG. It is one of the ratios that help with evaluating management.

**Slide Eleven:** This slide has a section from Value line on the left and a section from the SSG for Cummins on the right. VL is projecting Cummins ROE to be 23.5% in 3 to 5 years. Currently, the average ROE for Cummins on the SSG is 20.2%--circled. We want to see at least 15% and preferably 20% or above.

Sometimes the ROE can look uneven and it is good to investigate the causes rather than to just eliminate the stock from your study.

**Slide Twelve:** Recently, BI offered a great webinar on this topic. Tuning in to the monthly ***Stock Up*** sessions is well worth your time. These classes are recorded and can be looked at later if you can’t participate live. John Diercks did an excellent job of breaking down the formulas that go into Return on Equity. He stressed the importance of debt.

**Slide Thirteen:** There is much more to investigate on VL, especially the financial information. Much of the information comes from a company’s financial reports found on their quarterly and yearly reports. Here I’ve listed some books I have found valuable as I tried to increase my ability to analyze a company. The first one is especially good for explaining simply what the numbers mean. Reading a company’s financials is what made Warren Buffett so much money. I remember a class at the Better Investing conference several years ago that was titled “Looking for the Hidden Secrets in the Notes.” There were over 100 people who showed up because they knew that companies often hide information in the small print of the notes, hoping investors won’t find it. This is information required by the SEC. but they don’t have to put it in the headlines.

Well, I believe, you are now going to break into groups and do some hands-on with Value Lines. Have fun.

**Slide Five:**  I can check this on the SSG using the Pre-tax margin and comparing to peer group. While Value Line uses Net Profit Margin, we like to use the Pre-tax Margin figure since companies can’t control taxes. In this chart Cummins is above their peer group. At the end of their 2nd quarter they were at 13.3 while the peer group average is 10.1 at the end of 2018.

**Slide eight:** The Stock Selection Guide also helps with determining judgments for high and low P/Es. I crossed out what I consider to be outliers. Here an average P/E would be about 14. This makes Value Line look a little more optimistic but then their figure is 5 years out.

I hope this has helped with understanding some of the valuable information on Value Line.

top figures for the last five years that are final, I look for a relatively steady increase in sales and earning per share. The figures for 2019 and 2020 are in bold and italics since the end of the company’s fiscal year is not over. In 2016 both sales and earnings took a slight dip but the next two years the figures bounced right back. Note that the dividends paid did not suffer; the company continued to raise the dividend for shareholders. Also look at the 3-5 year projections to the right of each line. They are all showing growth.

Another line to check out is the profit margin; it is good to see that holding steady. This is a calculation that needs to be compared with the industry standard.