

A Longtime Favorite

Using Value Line

Edited by Judith Russ Leon

This article was adapted from class material prepared by Sandy Barlow, a director of the Computer Group Advisory Board, one of BetterInvesting's two national volunteer boards. Much of the narrative came from information at Value Line's website (www.valueline.com).

Value Line is a useful source of supplemental data and opinions for the long-term investors who use BetterInvesting's Standard & Poor's Stock Data Service. We'll highlight areas of Value Line that can help us learn as much as we can about the stocks we study and make sound investment decisions.

Value Line is an independent company with three quarters of a century of experience tracking, analyzing and ranking investments. It's available in print and online versions by subscription or in the reference section of many public libraries.

Value Line's analysts write reports based on a variety of sources, including annual reports, documents filed with the Securities and Exchange Commission, prospectuses, business publications and trade journals. They speak to management of the companies, attend analysts' meetings and consult with the companies' competitors.

In the company reports, the estimates of future sales, earnings, net profit margins, income tax rates and other information are derived from spreadsheets maintained on every company and printed in bold italics. Value Line analysts regularly review their projections with company management and make whatever adjustments they believe are warranted.

The Ratings & Reports section of the Standard Edition has the familiar one-page reports on about 1,700 companies

and more than 90 industries. (Value Line also publishes an edition covering only small- and mid-cap companies, but there are no analyst comments and relatively few forecasts in these reports.) Each stock report is updated quarterly. The stocks are classified into industries, and at the beginning of each industry group is a one- or two-page discussion of the industry describing its current condition, competitive situation and future prospects.

In the industry report is a table of composite statistics for the industry (see Figure A). This makes it convenient to compare a stock under study with its peers. We'll use Fiserv, Inc., a stock in the computer software and services industry, to highlight areas of Value Line useful to those employing BetterInvesting methodology.

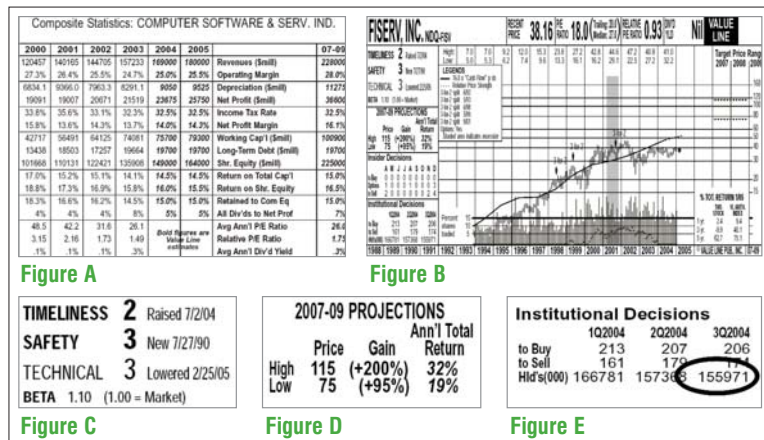
Look for recent trends and the expected future performance of an industry, then compare the company's performance with that of the industry. Key comparison data could include the price-earnings ratio, return on equity and profit margins.

The company report includes a 10-year statistical history of 23 financial ratios and other indicators of corporate performance, financial and stock price forecasts for the coming three to five years and an analyst's commentary. The analyst's commentary in the middle of the page is especially useful when the sales or earnings numbers don't tell the full story. The analyst can explain the factors important to the forecast and provide relevant additional information.

P/E Ratios

Along the top of the page are the company's name, the stock's ticker symbol and exchange, price as of the report's date, and four P/E ratios (see B). All P/E ratios are calculated by dividing the price of a stock (usually the current price) by 12 months of earnings per share, but which 12 months of earnings differs. The historical as well as three- to five-year estimated average annual P/E and average annual relative P/E are in the large statistical array in the center of each report.

The P/E ratio that appears at the top of the Value Line page is computed using the recent price divided by an earnings figure that includes six months of past performance and six months of the analyst's estimated earnings.



The trailing P/E, the number usually reported in the financial press, is the current price divided by the earnings per share for the past 12 months, or four quarters. This ratio can be misleading if you're considering buying a stock because it does not indicate future expectations.

Value Line provides the 10-year median P/E, which puts the recent P/E in historical perspective because it shows what investors have been willing to pay for a stock in the past. If the current P/E is higher than the median, it suggests investors are optimistic that the company's earnings will grow.

The relative P/E ratio compares the P/E of a company with the median P/E of all the stocks in the Value Line universe. If the relative P/E ratio of a stock is more than 1, that stock's P/E is higher than that of the Value Line universe; if it's less than 1, the stock's P/E is less than that of the Value Line universe. If a stock's P/E is much higher or lower than the average, you should try to find out why.

The dividend yield is the estimated cash dividends declared in the next 12 months divided by the recent price. Fiserv doesn't pay a dividend. Value Line reports normalized earn-

ings; they exclude large unusual, one-time gains or losses. Value Line believes normalized earnings provide investors with the best representation of the company's actual ongoing profit picture.

Rankings and Projections

Value Line provides Timeliness, Safety and Technical ranks (see C). Of the 1,700 stocks in the Standard Edition, the service gives 100 stocks the top ranking of 1; 300 are ranked 2; about 900 are ranked 3; 300 are ranked 4; and 100 are ranked 5. (In other words, it's a bell curve.)

The Timeliness rank is Value Line's measure of a stock's expected price performance for the coming six to 12 months. While the rank is a technical rather than fundamental approach to investing, it can be helpful when deciding on a current stock purchase.

The Safety rank is a measure of a stock's total risk compared with the other 1,700 stocks. Stocks with high Safety ranks tend to go down less than average in declining stock markets, Value Line says.

The Technical rank is primarily a predictor of a stock's short-term (three to six months) relative price change. Most fundamental investors don't pay attention to it.

the total compound annual rates of return (including dividends) if the forecast prices are attained.

Sometimes the Timeliness rank is high but the projected price appreciation is low. Remember that the Timeliness rank refers to appreciation projected in the coming six to 12 months, while price projections refer to the next three to five years.

Institutional Decisions

Institutions are defined as large shareholders, often professional investment managers such as those who manage pension funds or mutual funds. Value Line shows the number of institutions buying or selling a stock during each of the three most recent quarters, as well as the total number of shares of the stock owned by all institutions at the end of each quarter (see E). The data can be used to calculate the percentage owned by institutions for the Stock Selection Guide, the primary stock-study tool of the BetterInvesting community. Take the holdings for the latest period and divide it by the total number of common shares outstanding. We'll show you where to find this later.

The significance of the number of institutional and insider buy and sell decisions is debatable. Reasons for the decisions vary, and the data can be old. Mutual funds, for example, are required to report all holdings only twice a year. Insiders are defined as the top-ranked officers and all directors of a public company.

The Value Line Chart and Statistical Array

In the upper right-hand section of each report is a target price range for each stock (see F). This is the range in which the price is likely to fall during the three to five years ahead and serves as a reality check for BetterInvesting members.

The stock's yearly high and low prices are reported for the calendar year on the top of the chart. The box shows the most likely high and low price of a stock in the time period specified, the percentage gain (or loss) if the high or low prices are reached and

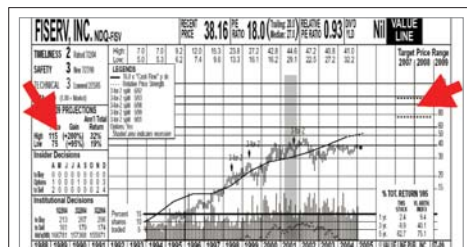


Figure F ▲

Figure G ▼

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1-VALUE LINE P/B: 17.40	17.40		
1.31	1.71	1.58	1.45	1.29	1.47	4.25	4.49	5.22	5.35	6.88	7.68	8.18	9.59	10.91	12.12	13.21	13.88	14.17	Revenue per sh	2.0	
19	23	25	26	34	46	59	71	84	95	109	140	170	188	212	231	259	270	289	"Cash Flow" per sh	2.0	
11	12	14	17	20	24	28	33	40	48	55	65	75	87	100	115	130	145	160	1.07	1.38	
30	35	40	45	51	57	64	72	81	91	102	114	127	141	156	172	189	207	225	Cash Flow per sh	2.0	
75	83	91	100	110	120	130	140	150	160	170	180	190	200	210	220	230	240	250	Book Value per sh	2.0	
80.12	80.12	80.12	80.12	80.88	81.05	81.22	81.39	81.56	81.73	81.90	82.07	82.24	82.41	82.58	82.75	82.92	83.09	83.26	Common Dividend	2.0	
0.74	0.71	0.63	0.55	0.47	0.39	0.31	0.23	0.15	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Avg Ann P/E Ratio	2.0	
1.44	1.32	1.19	1.07	0.94	0.81	0.68	0.55	0.42	0.29	0.16	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1997	2.0	
...	2.0
CAPITAL STRUCTURE as of 12/31/04																				2.0	
17.8%	24.3%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	23.9%	Debt to Equity	2.0	
30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	Debt to Total Cap	2.0	
27.7	40.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7	Debt to Total Cap	2.0	
40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	Debt to Total Cap	2.0	
0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	Debt to Total Cap	2.0	
16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	Debt to Total Cap	2.0	
105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	105.9	Debt to Total Cap	2.0	
30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	Debt to Total Cap	2.0	
4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	Debt to Total Cap	2.0	
16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	Debt to Total Cap	2.0	
...	2.0
MARKET CAP: \$17.40 (Large Cap)																				2.0	
FINANCIAL RATIO: 1997 1998 1999																				2.0	

CAPITAL STRUCTURE as of 12/31/04

Total Debt \$605.3 mill. Due in 5 Yrs \$605.3 mill.
LT Debt \$505.3 mill. LT Interest \$15.5 mill.
(16% of Cap'l)

Leases, Uncapitalized Annual rentals \$87.0 mill.
No Defined Benefit Pension Plan
Pfd Stock None

Common Stock 194,248,860 shs.

MARKET CAP: \$7.4 billion (Large Cap)

Figure H

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '07-'09
Revenues	15.0%	16.0%	13.0%
"Cash Flow"	20.5%	19.0%	14.0%
Earnings	21.0%	22.0%	17.0%
Dividends	--	--	Nil
Book Value	18.0%	19.0%	16.0%

Figure I

Company's Financial Strength	B++
Stock's Price Stability	60
Price Growth Persistence	90
Earnings Predictability	100

Figure K

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	453.9	472.7	467.2	496.7	1890.5
2002	559.8	563.0	563.7	591.1	2277.6
2003	604.3	643.9	701.9	749.5	2699.6
2004	811.6	829.8	843.1	866.1	3350.6
2005	890	915	935	960	3700

Cal-endar	EARNINGS PER SHARE				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.26	.27	.27	.27	1.07
2002	.33	.34	.34	.35	1.36
2003	.38	.40	.41	.42	1.61
2004	.49	.49	.53	.50	2.00
2005	.54	.55	.56	.60	2.25

Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001					
2002					
2003					
2004					
2005					

Figure J

also known as the Value Line, often runs through or along the monthly price data. This line is designed to show the "normal" value of a stock. There's evidence that some stocks tend to trade at a price close to the cash flow line, Value Line says. If a stock price is trading above the line, it will often move back down toward the line, and vice versa. Bart Womack wrote about cash flow in the July issue of the magazine.

We previously mentioned that Value Line normalizes earnings in an effort to fairly represent the earnings picture and provide a base for investors to forecast a company's future earnings (see G). In addition, all stock splits are reflected in the data. Investors find different data items most useful, but it's probably most helpful to identify trends and whether they're improving, steady or falling.

For example, look at sales per share to see whether they have been rising for an extended period. Look at operating margins and net profit margins to see whether they have been expanding, narrowing or staying flat. Also check the percentages near the bottom to see whether the return on total capital or the return on shareholders' equity has been rising, falling or remaining about the same. For sales and earnings, have they both been rising? Have sales been rising as much as profits?

Look at the operating margin, net profit margin, return on total capital and return on shareholders' equity. Ideally they should each be rising over time, but relatively steady performance is fine. Be wary if some of the numbers are falling.

The middle of the Value Line page describes the company's business, significant shareholders and percentage of insider ownership. Footnotes to the report are at the bottom of the page.

Capital Structure

Data of particular interest in this section (see H) are long-term debt as a percentage of total capital, preferred stock, common stock and market capitalization.

Total debt includes all long-term and short-term debt as well as capitalized lease obligations. Capitalized leases are long-term leases of fixed assets, such as trucks or airplanes. They're included as a liability on a company's balance sheet.

Long-term debt shows the amount of debt and capitalized leases due to be repaid in more than one year. Long-term interest is the annual interest on the long-term debt.

Percentage of capital next to long-term debt, preferred stock or common stock indicates the percentage each item is of total capital. Value Line defines total capital as the sum of long-term debt, preferred shareholders' equity and common shareholders' equity.

Preferred stock (if any) shows the dollar total of preferred equity outstanding on a company's balance sheet. Common stock shows the number of common shares outstanding as of the date at the top of the box, unless there's a note otherwise. The market capitalization is the total dollar value of a company's common shares in the stock market.

Market capitalization differs from total capitalization, which BetterInvesting defines as total debt plus equity. Total capitalization (particularly its breakdown between debt and equity) is helpful in understanding the financial condition of a company's balance sheet.

Annual Rates of Change and Quarterly Sales and EPS

Many people look here first (see I) because it's the easiest place to see the trend of the business and what Value Line thinks will happen in the future. A quick look at the historical five- and 10-year growth rates along with the five-year rates projected by the Value Line analyst shows whether company growth has been rising, remaining steady or falling.

Compare the 10-year record with the five-year record. Which is better or worse? Compare the expected performance in the next three to five years with historical growth. In most cases rising, or at least steady, trends are desirable.

The table of quarterly data (see J) is the best place to see short-term trends and compare the latest quarter's sales and earnings with the year-ago data. You'll also see quarterly projections in bold.

Company Ratings

In the lower right-hand portion of the page are four Value Line ratings (see K). The Company's Financial Strength is a judgment based on several variables, such as the company's debt-to-equity ratio, level of earnings, historical growth record and size. A++ is the highest rating, B+ is average and C is the lowest rating.