A Second Look at Quality

When You Don’t Trust The Visual Analysis With Own Your Eyes

Or You Don’t Know The Company & The Industry

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BetterInvesting™ Empowering Investors Since 1951

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Are You Willing to Learn

“Tell me and I forget.
Teach me and I remember.
Involve me and I learn.”

-- Benjamin Franklin

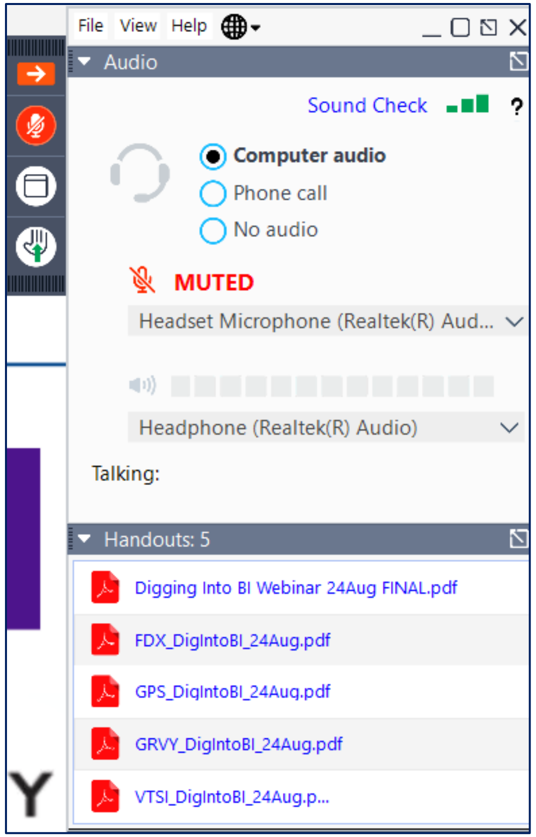
Download the handout

Grab some paper and a pen

Write notes to your future self

Preliminary

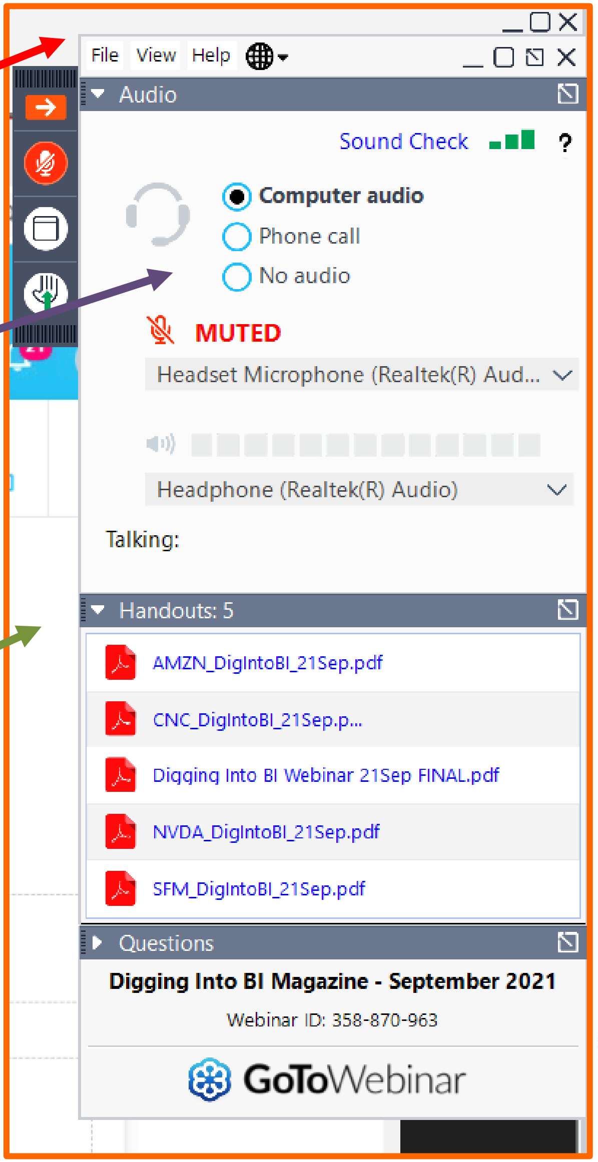
v. Navigating the Handouts and Question Panel



Using the Control Panel to Troubleshoot / Finding The Slides

- Here is a 4-minute video on getting started.
- Audio Problems?
  - Check your computer audio settings, first.
  - Look at Help
  - Look at your Audio settings
- Don't forget to download the handouts

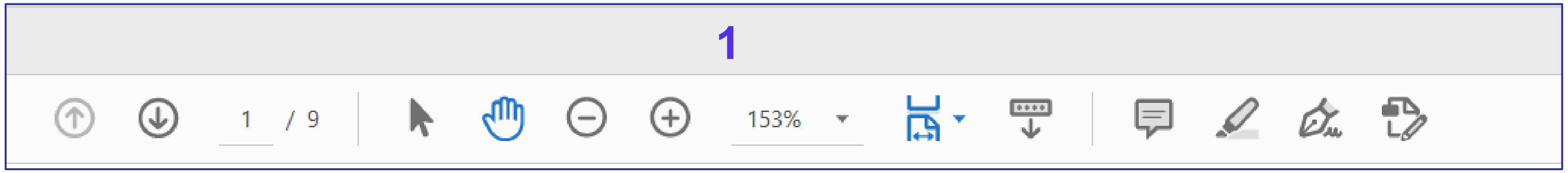
This is called your **Control Panel**

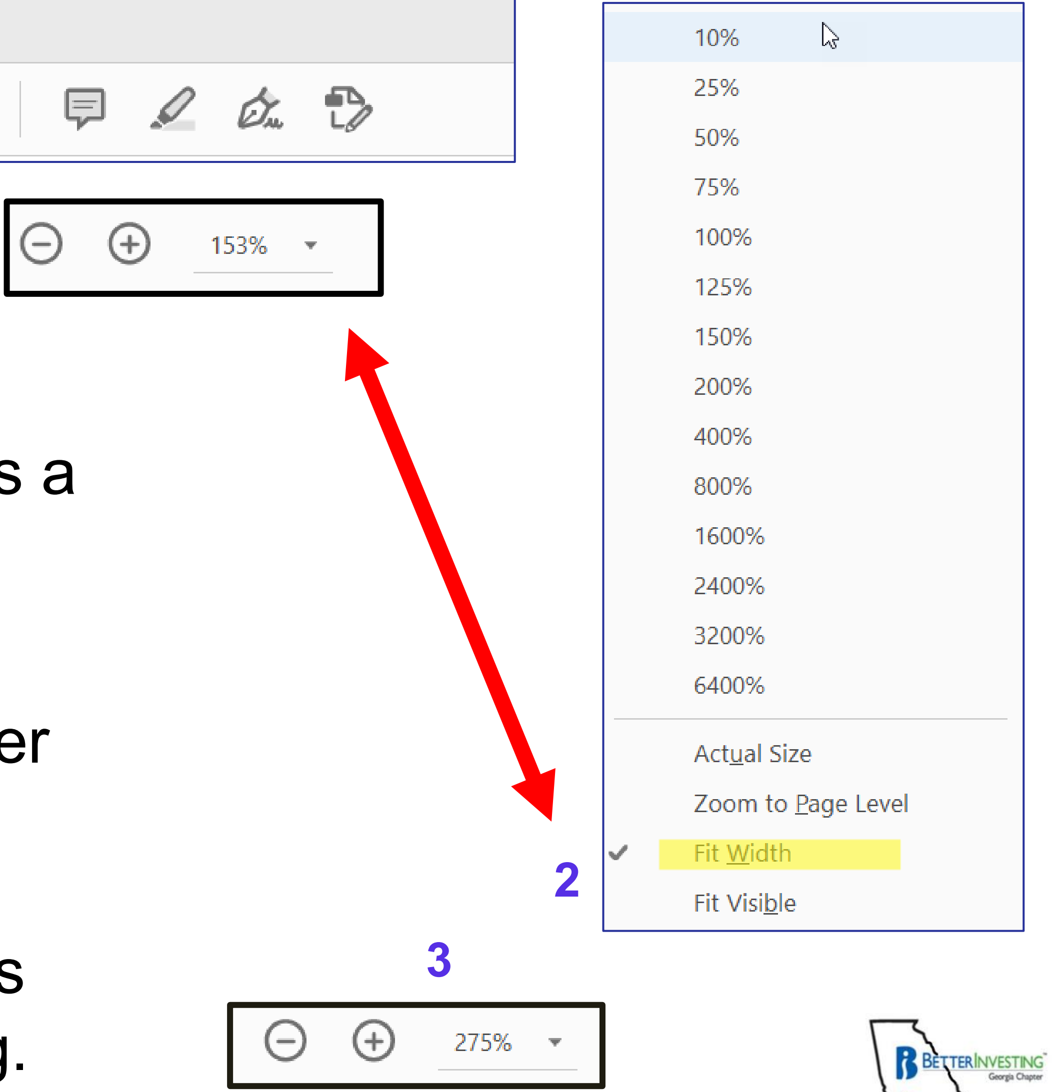


Adjusting Your Screen Size and Asking Questions

- If you are having trouble seeing things on the screen because the print size is too small to read you can adjust the size to make it larger and therefore easier to read
  - Use the “+/-” button on the control panel
- How to ask questions
  - When we respond you will see an icon in the upper right with a number inside a reddish orange circle.

When the Slides Are Too Hard To Read

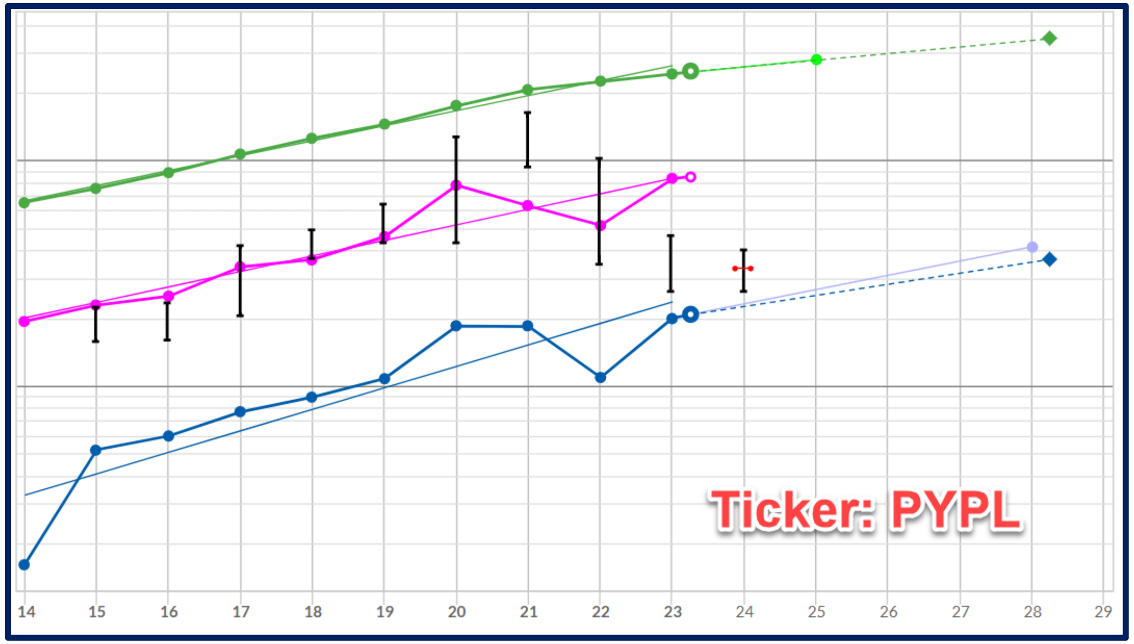




- Sometimes these slides are too hard to read.
  - I get it
- Try downloading the presentation and open it as a PDF (Portable Document Format)
- Follow these 3 steps
  - 1) Open and look at the top of the page under what is called the banner.
  - 2) Default is set to “Fit Width”
  - 3) Select a larger magnification level such as 275% or larger until you can read everything.

What We Will Cover

1. How BI Members Determine Quality
2. What Happens When The Lines Are Good But Not Great
3. When Visual Analysis Leads to a Conundrum
4. Using a Secondary Quality Metric
5. Financial Health Grade Examples
6. Tying It All Together
7. Recap
8. Appendix
   - The Semi-log Graph
   - Adjusting the Lines on the SSG
   - Brief review of the other Quality Metrics
   - Current Stocks Ideas Using Quality Metrics



1. How BI Members Determine Quality

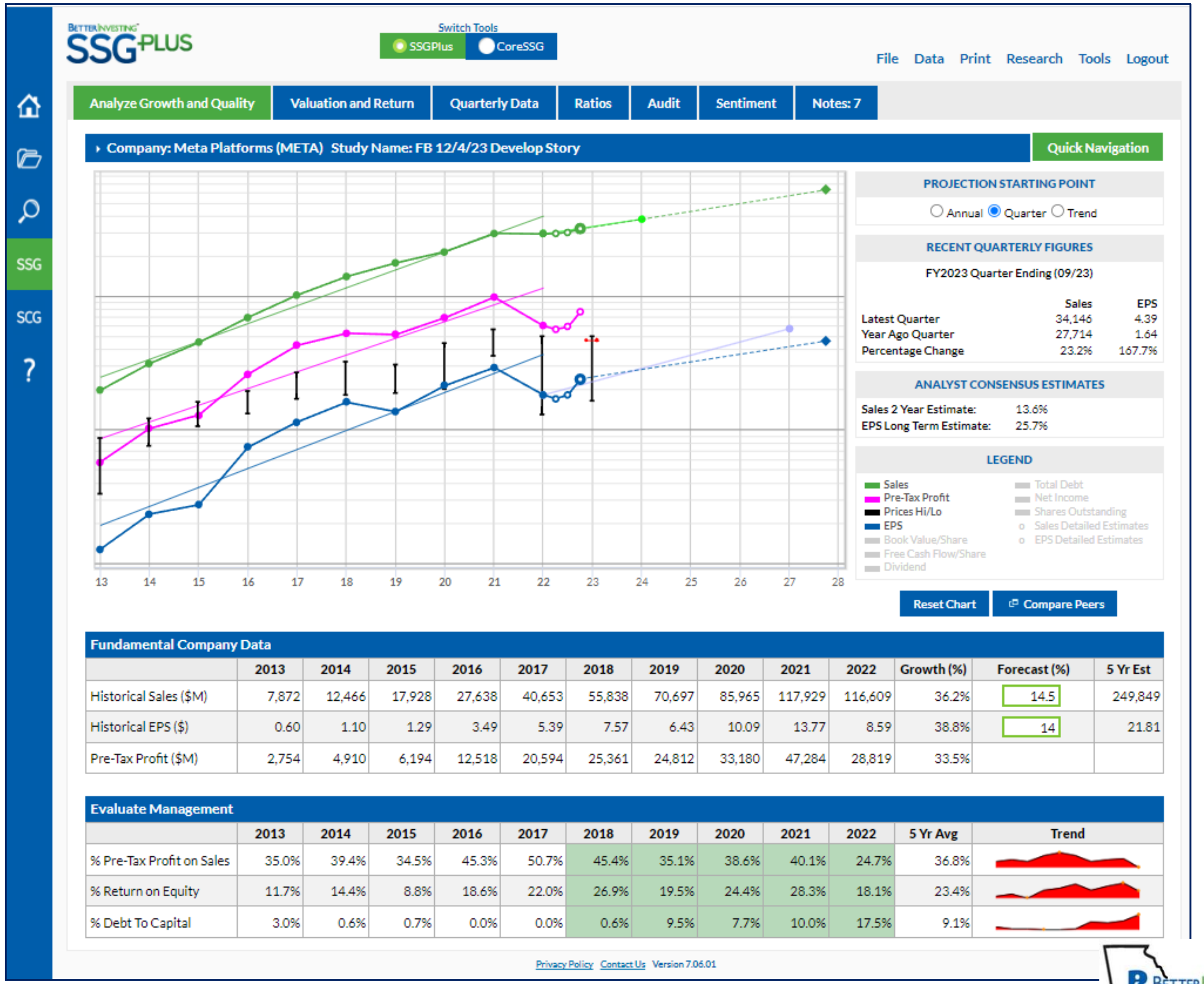
"Time is on your side when you own shares of superior companies."

-- Peter Lynch

BetterInvesting™ Stock Selection Guide®

Organizes all the research you gathered to determine the answers to two key questions:

1) Is the stock a quality growth stock?
2) Is it selling at a fair and reasonable value (price)?



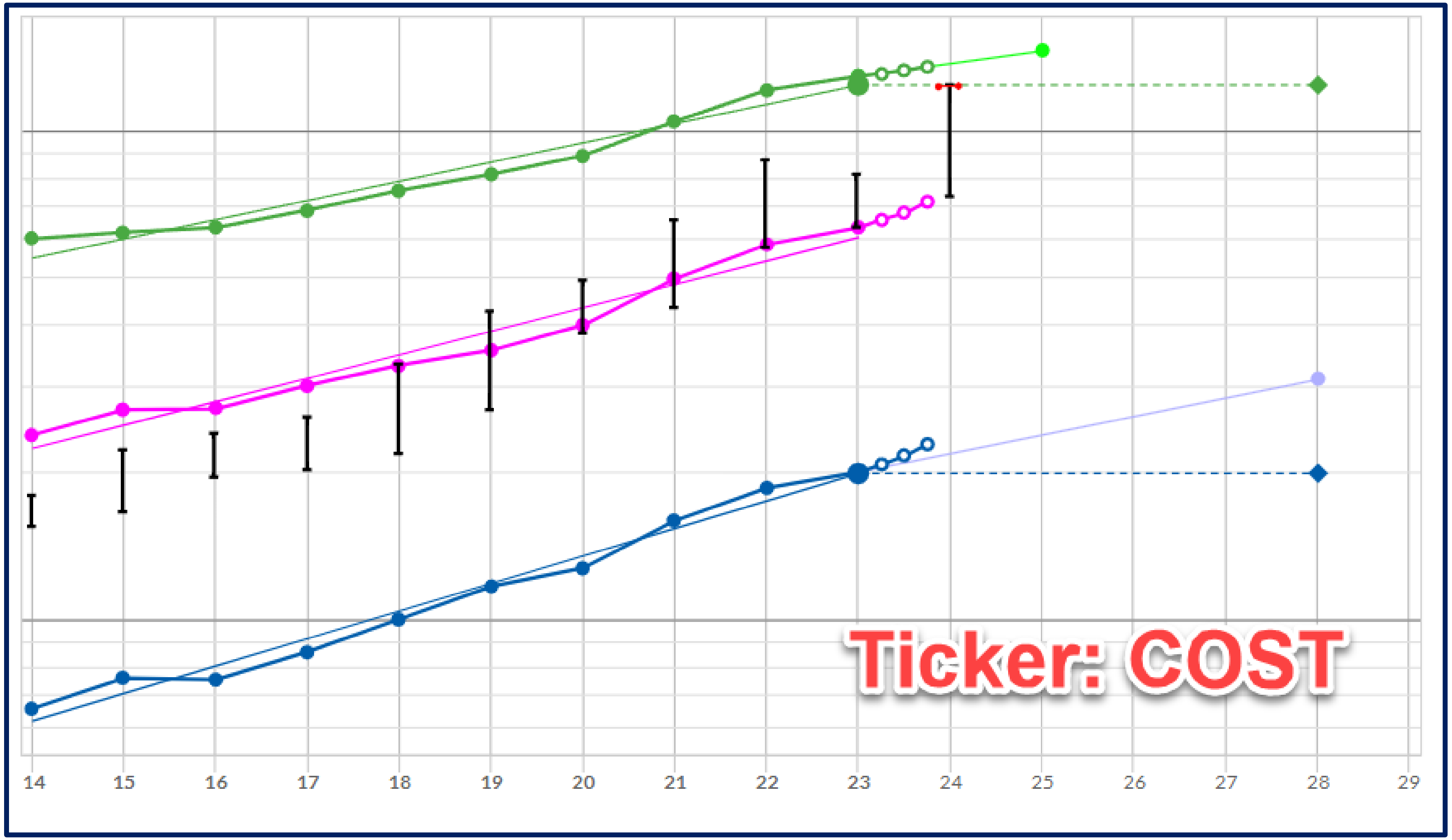
Fundamental Company Data

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Growth (%)	Forecast (%)	5 Yr Est
Historical Sales ($M)	7,872	12,466	17,928	27,638	40,653	55,838	70,697	85,965	117,929	116,609	36.2%	14.5	249,849
Historical EPS ($)	0.60	1.10	1.29	3.49	5.39	7.57	6.43	10.09	13.77	8.59	38.8%	14	21.81
Pre-Tax Profit ($M)	2,754	4,910	6,194	12,518	20,594	25,361	24,812	33,180	47,284	28,819	33.5%		

Evaluate Management

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	35.0%	39.4%	34.5%	45.3%	50.7%	45.4%	35.1%	38.6%	40.1%	24.7%	36.8%	
% Return on Equity	11.7%	14.4%	8.8%	18.6%	22.0%	26.9%	19.5%	24.4%	28.3%	18.1%	23.4%	
% Debt To Capital	3.0%	0.6%	0.7%	0.0%	0.0%	0.6%	9.5%	7.7%	10.0%	17.5%	9.1%	

Up, Straight and Parallel



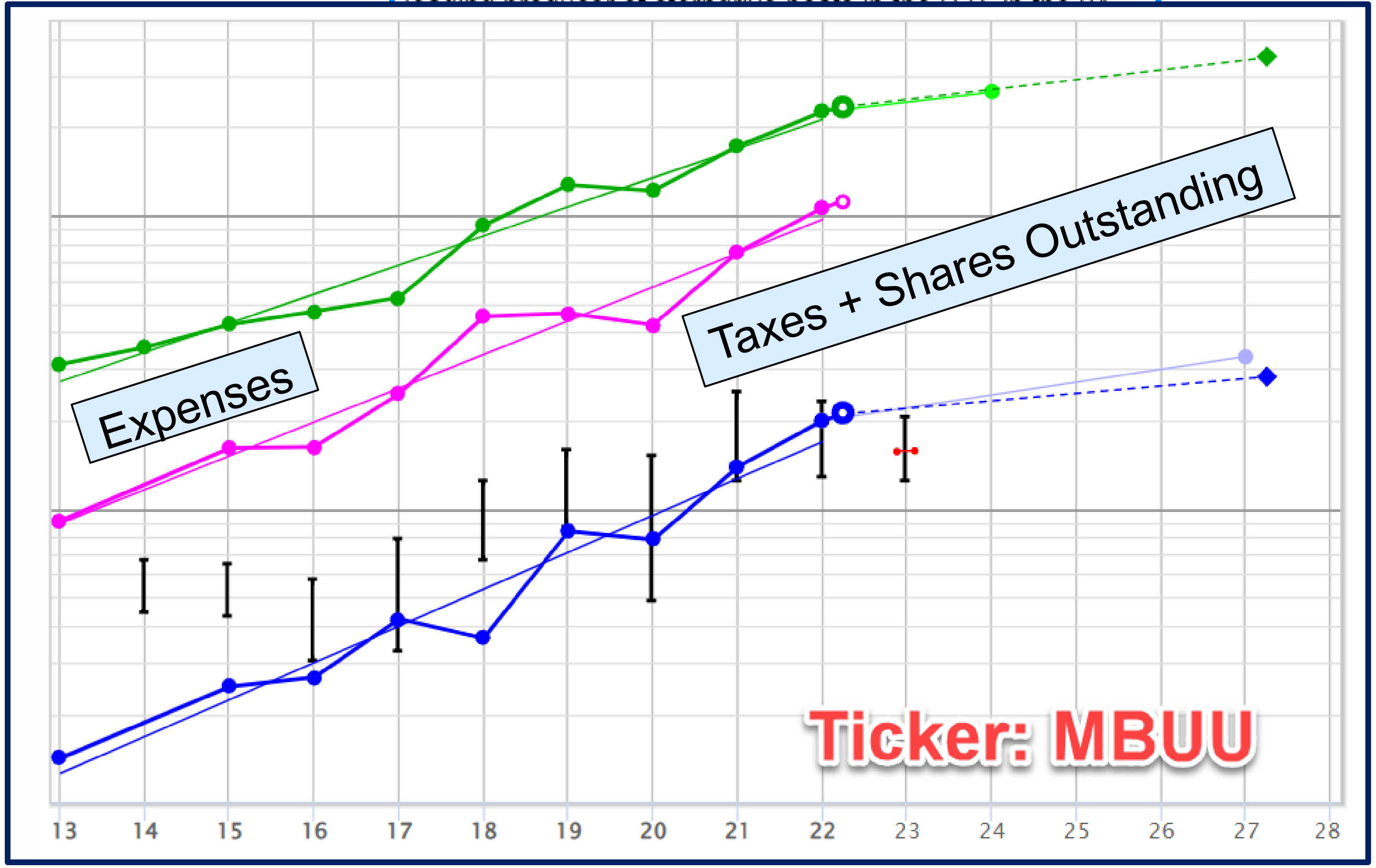
Up (growing), Straight (consistency), and Parallel (possibly well managed).

To understand why we use this form (called a semi-log graph) see Appendix i.

Visual Analysis is Graphing Ten Years of the Income Statement AND Stock Price Data

Closing Price: 59.20 (11/14/22)
Last Fiscal Year End: 6/2022
Industry: Recreational Vehicles
Sector: Consumer Cyclical
Company Size: Medium - $1B to $10B in Sales
Morningstar Financial Health Grade: B
Description: Malibu Boats is a leading designer and manufacturer of power boats in the United States. It is the market leader in performance sport boats, sold under its Malibu and Axis brands. It acquired Cobalt Boats, a

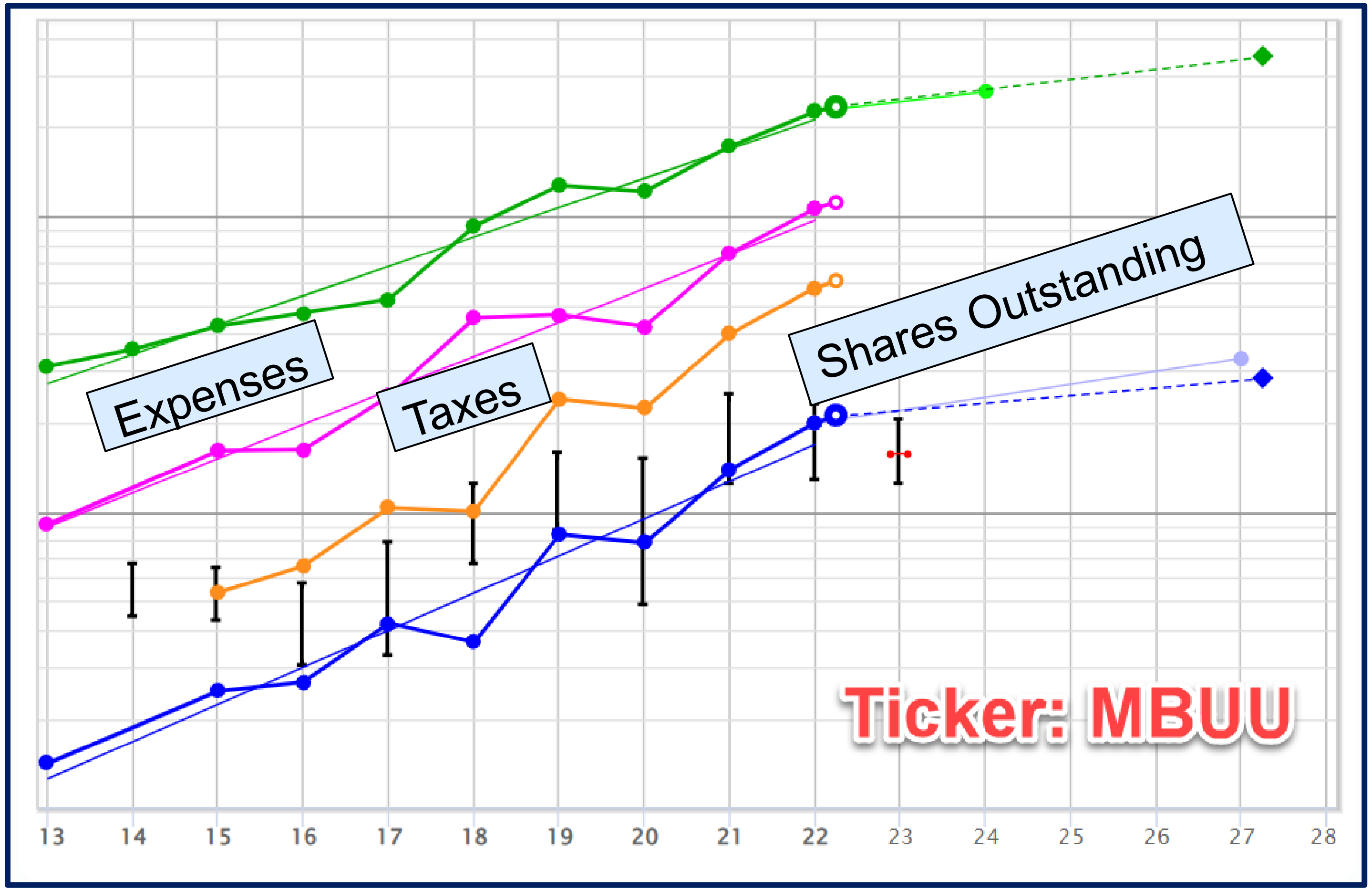
Sales **(Top Line)**
Expenses
Pre-Tax Profit
Taxes and
Shares Outstanding
Earnings Per Share
(Bottom Line)



Consider Adding the Net Income Data to Your Visual Analysis

Pro Tip: You have the option of adding the Net Income to the visual analysis. Visual Analysis looks purdy… pretty. Is this easier to read and interpret? To learn how to adjust the lines look at Appendix ii.

Sales (Top Line)
Expenses
Pre-Tax Profit
Taxes
Net Income
Shares Outstanding
Earnings Per Share
(Bottom Line)



2. What Happens When The Lines Are Good But Not Great?

Current Price: 863.31 (06/19/24)

Last Fiscal Year End: 6/2023

Industry: Semiconductor Equipment & Materials

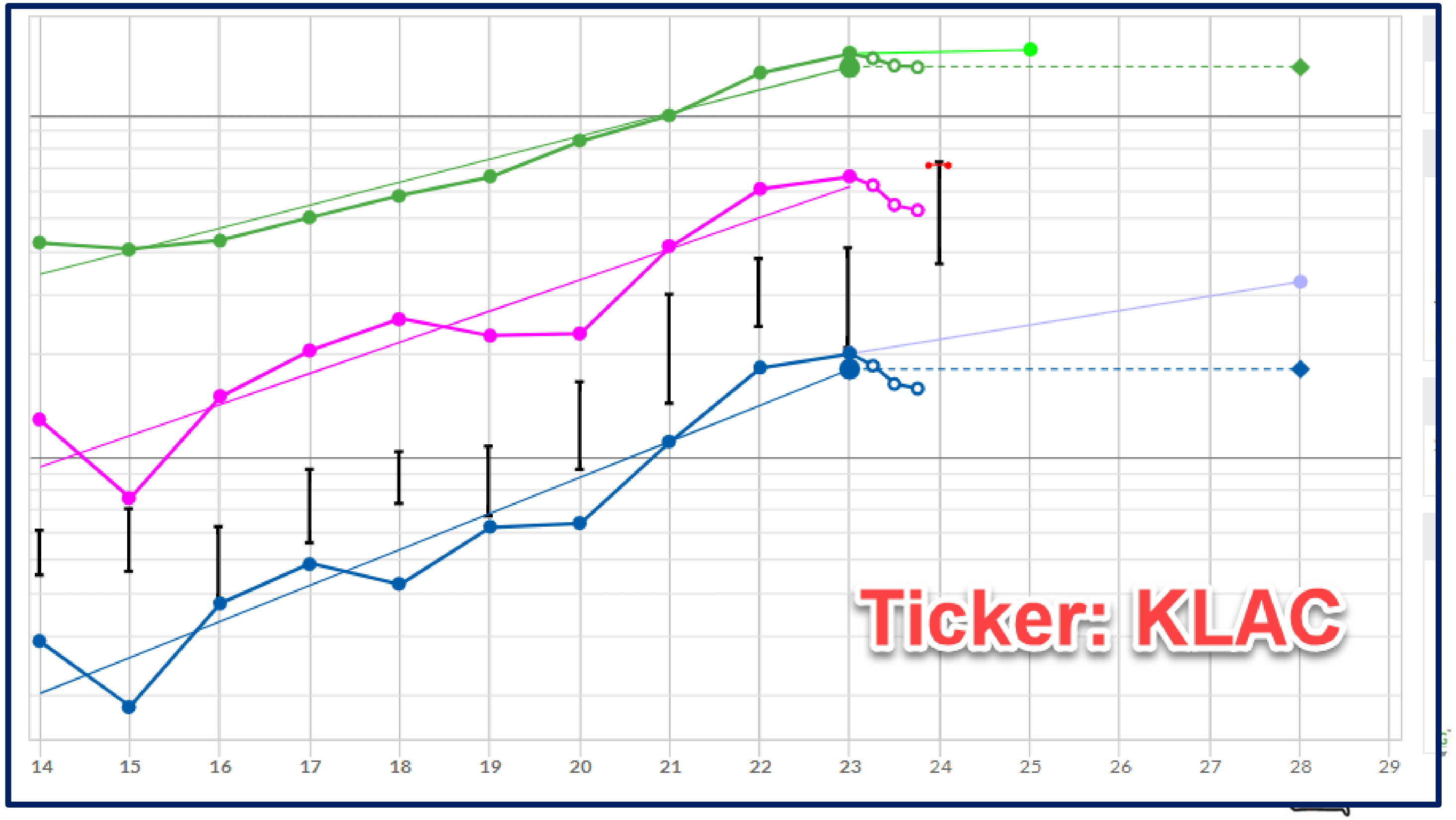
Sector: Technology

Company Size: Large - >$10B in Sales

Morningstar Financial Health Grade: A

Description: KLA is one of the largest semiconductor wafer fabrication equipment, or WFE, manufacturers in the world. It specializes in the market segment of semiconductor process control, wherein machines inspect semiconductor wafers during research and development and manufacturing for defects and verify precise measurements. In this section of the market, KLA holds a majority share. It also has a small exposure to the etch and deposition segments of the WFE market. It counts as top customers the largest chipmakers in the world, including TSMC and Samsung.

KLA Corp. had up, straight and parallel lines until this year. What happened? Is it a short-term trend or the beginning of a slow decline? Is it because KLAC is in a cyclical industry? **Investigate.**



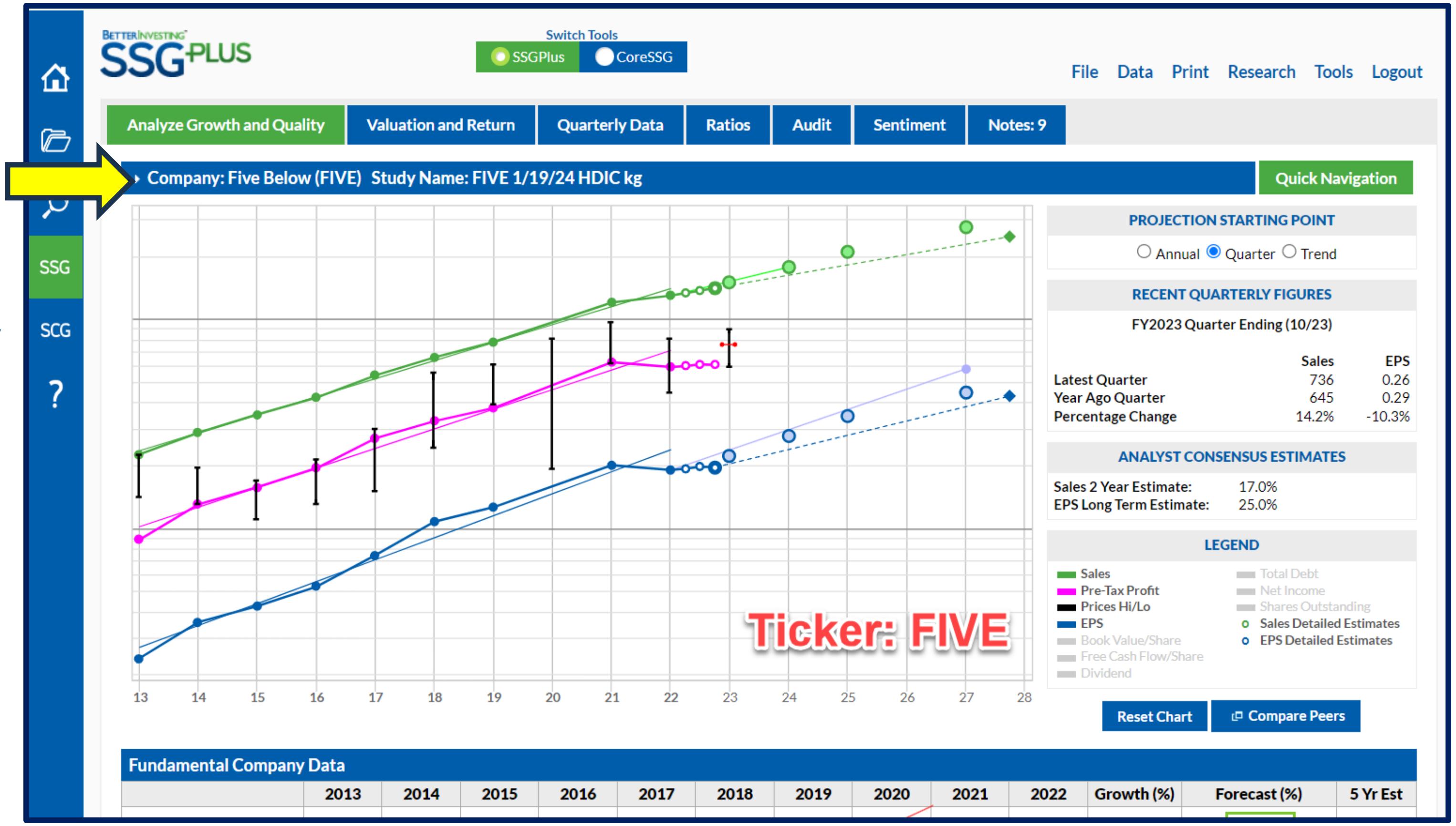
KLA is large company that improves the quality of semiconductor chips doing what is called "process control".

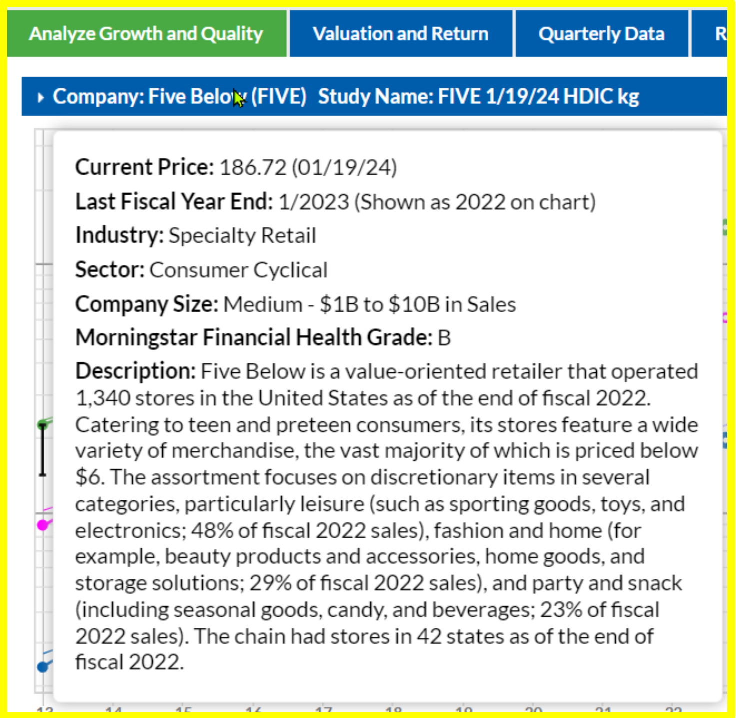
Constructing a Stock Study is a Scavenger Hunt for Adults

If you like "whodunits", puzzles, mysteries or figuring things out then you will be a success in as in investor… IF you take the time to learn.

The Reward is More Money in Your Portfolio

All Examples That Have the Visual Analysis Will Also Have the Company Description





Consider this a programming note.

Now back to the presentation.

3. When Visual Analysis Leads to a Conundrum

Say your Visual Analysis is good-to-excellent, but the stock is overvalued.

- Just like buying a home in a good neighborhood you will generally pay a premium to acquire high quality companies.

Or

Your Visual Analysis is less than ideal but the stock could be "on sale".

- A Home that has a few blemishes, but you think it is a good value. You just aren't sure.

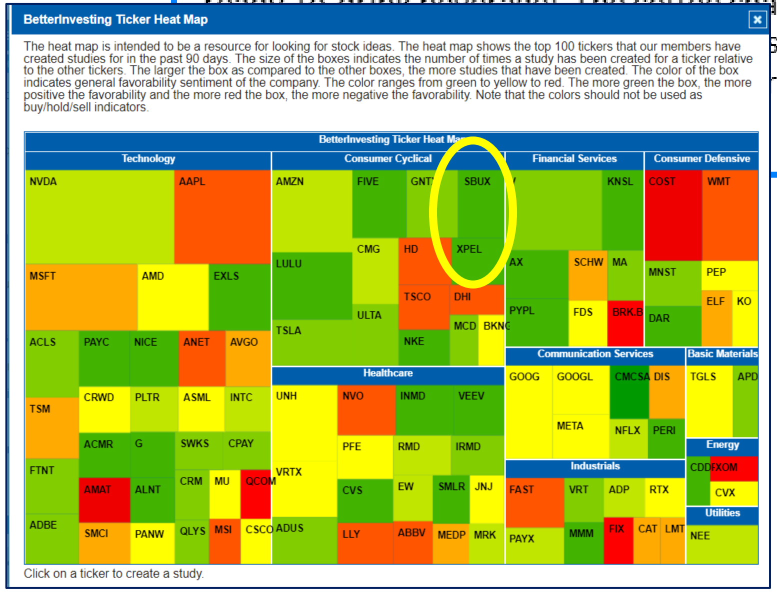
Then

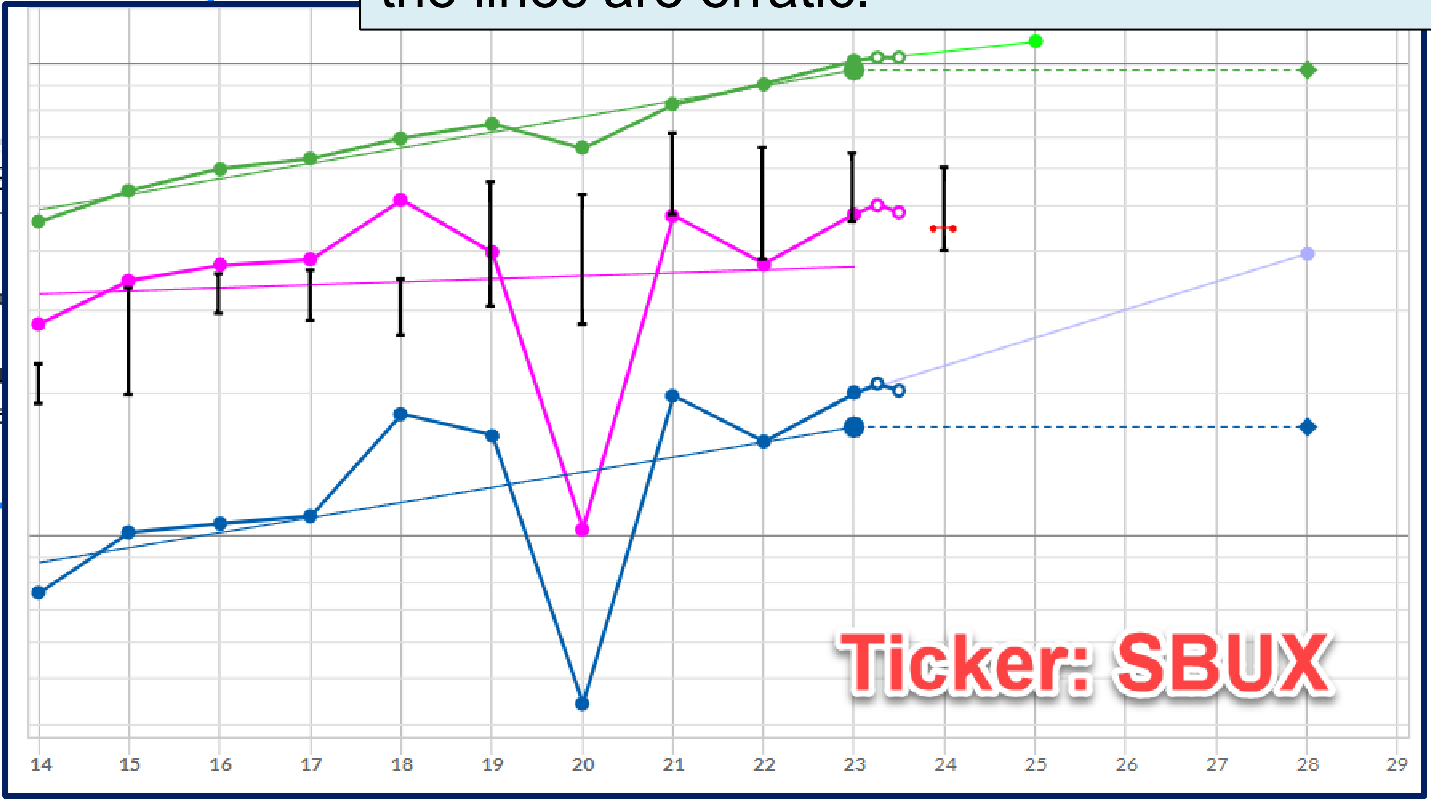
Time to hire a home inspector for stocks.

BI Ticker Heat Map

Current Price: 80.20 (06/18/24)
Last Fiscal Year End: 9/2023
Industry: Restaurants
Sector: Consumer Cyclical
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: B
Description: Starbucks is one of the most widely reco
restaurant brands in the world, operating more than 3
stores across more than 80 countries as of the end of
The firm operates in three segments: North America,
international markets, and channel development (gro
ready-to-drink beverage). The coffee chain generates
s, sales of equ
rink beverage

Popular on the Ticker Heat Map (a top 100 stock that BI members are looking at) but the lines are erratic.





BI First Cut

Three people inside the BI community thought enough of this company to complete a stock study and probably like this stock. But why?

Current Price: 65.81 (06/18/24)
Last Fiscal Year End: 12/2023
Industry: Information Technology Services
Sector: Technology
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: A
Description: Cognizant is a global IT services provider, consulting and outsourcing services to some of the wor largest enterprises spanning the financial services, med communications, healthcare, natural resources, and co products industries. Cognizant employs nearly 300,000

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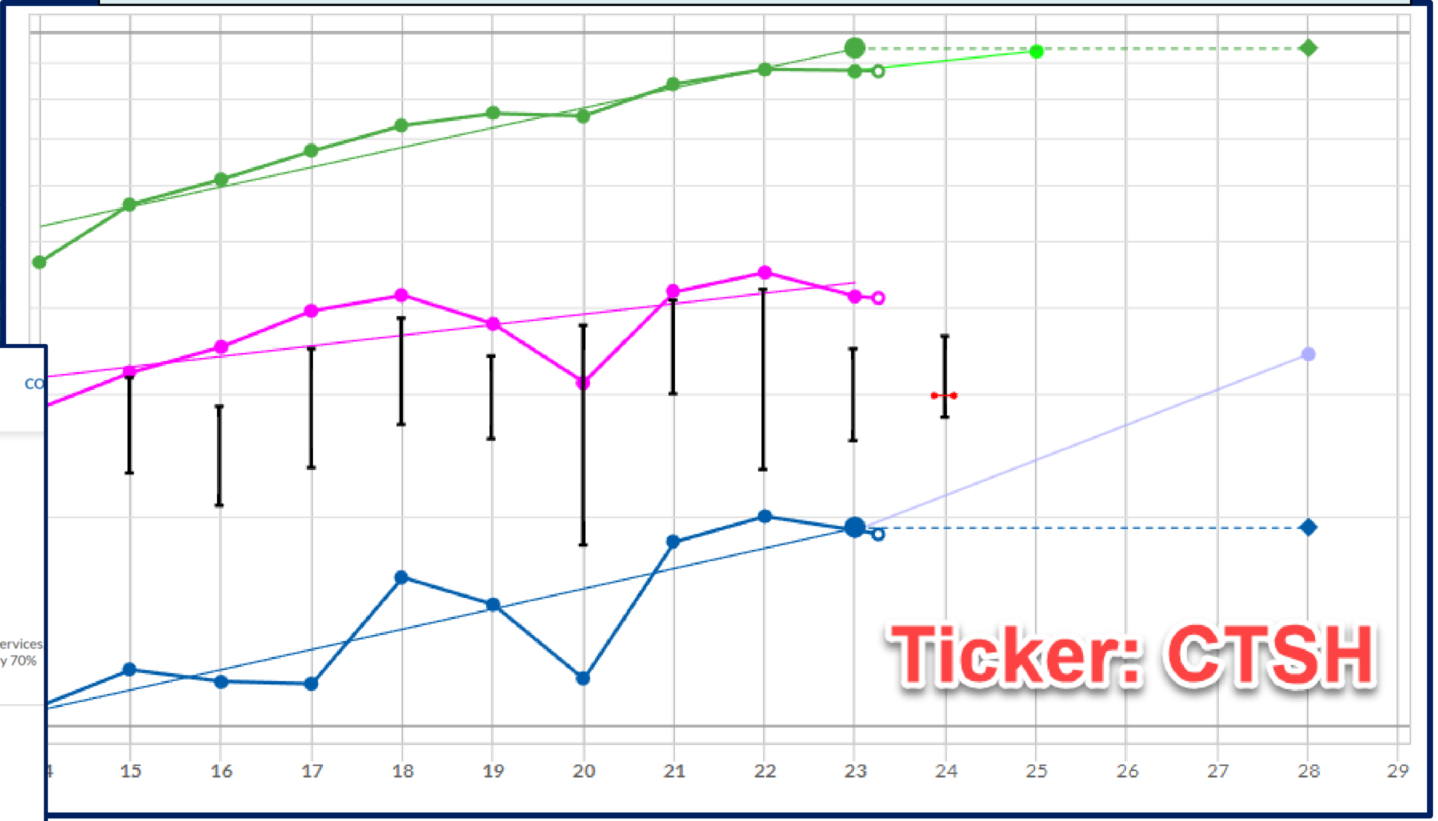
Home > Members > Find Great Stocks > First Cut Stock Reports > Cognizant Technology Solutions

Cognizant Technology Solutions

Ticker: CTSH
Company Size: Large
Sector: Technology
Industry: Information Technology Services

Cognizant is a global IT services provider, offering consulting and outsourcing services to some of the world's largest enterprises spanning the financial services, media and communications, healthcare, natural resources, and consumer products industries. Cognizant employs nearly 300,000 people globally, roughly 70% of whom are in India, although the company's headquarters are in Teaneck, New Jersey.

- Stock report by Mark Klein on 5/1/2024 (PDF)
- Stock report by Mark Klein on 1/19/2023 (PDF)
- Stock report by Kate Grenke on 9/7/2022 (PDF)
- Company Home Page



BI Stock To Study (STS)

A monthly selection from seasoned investment professionals using BI methods who think this stock could double in value in the next five years. **Featured July 2024**

Current Price: 126.34 (06/19/24)

Last Fiscal Year End: 12/2023

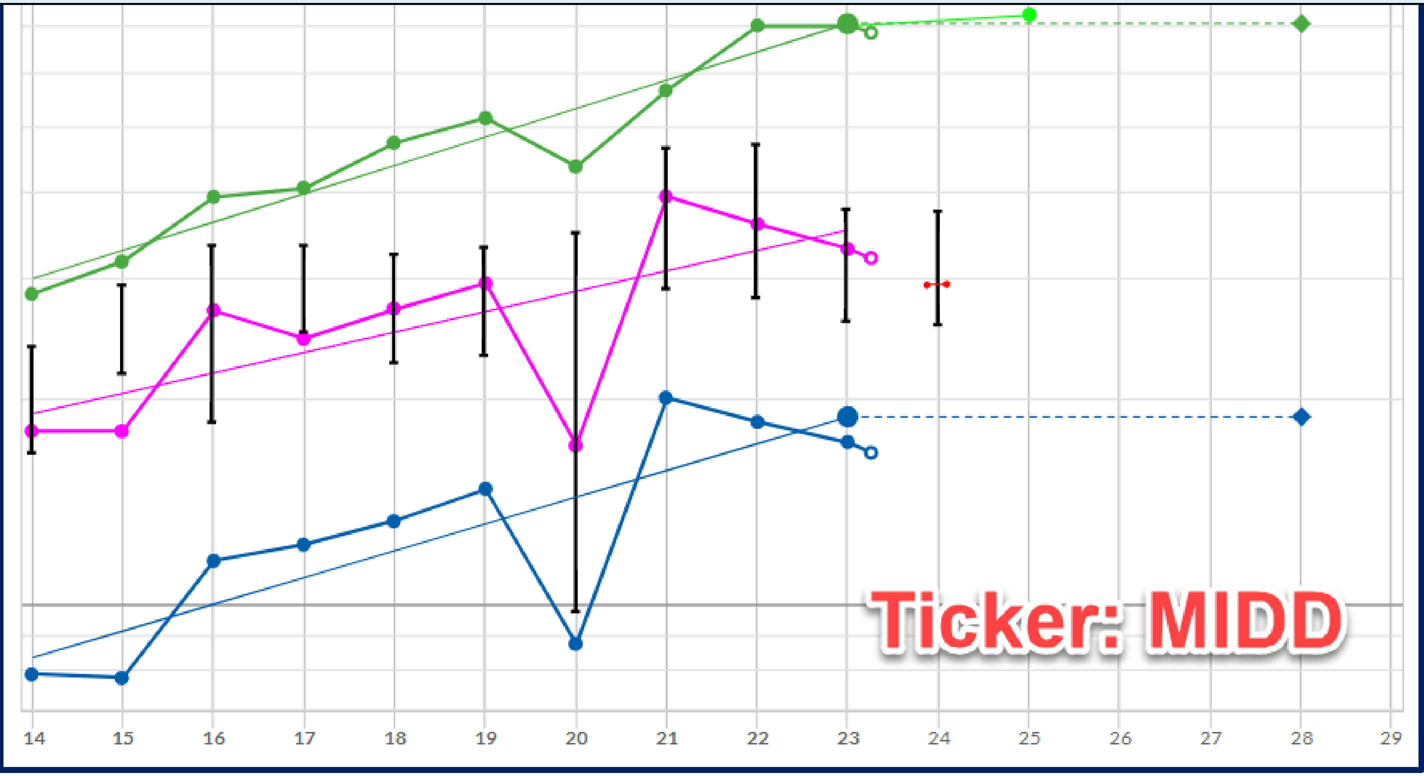
Industry: Specialty Industrial Machinery

Sector: Industrials

Company Size: Medium - $1B to $10B in Sales

Morningstar Financial Health Grade: B

Description: The Middleby Corp is engaged in designing, manufacturing, marketing, distribution and service of a br
of foodservice equipment used in all types of commercial
restaurants and institutional kitchens, food preparation, c
pment for food process
quipment including ran
hwashers and outdoor
dential market. The co
principal business seg
e Equipment Group, th
he Residential Kitchen
majority revenue from
t Group segment.



The Middleby Corporation

Kitchen equipment manufacturer may be cooking up more business.

In the Middleby Corporation. (ticker: MIDD), potential investors encounter a little-known company that manufactures and markets a slew of well-known lines of household kitchen appliances, restaurant food service equipment and food processing gear.

The mid-capitalization company recently was offering more than 120 brands. They include Viking Range residential kitchen appliances; Aga Rangemaster cast iron cooking ranges; Follett ice makers; Taylor soft serve ice cream dispensers and frozen drink machines; MagiKith'n commercial kitchen appliances; and TurboChef rapid-cooking commercial ovens.

Members of the Editorial Advisory and Securities Review Committee emphasized the company's track record of solid profitability. Members acknowledged, however, that Middleby's recent results have been lackluster and may remain anemic throughout the remainder of this year. Nevertheless, they suggested that analysts who have predicted the company will regain finan-

To date, however, uncertainties about macroeconomic conditions have made quick-serve restaurant operators cautious about placing orders.

The residential kitchen equipment segment recently has delivered Middleby's weakest results. Retailers distributing Middleby kitchen equipment and outdoor grills have largely cleared out excess inventory, but consumer demand remains sluggish.

Heightened mortgage rates have dampened home sales and home construction. Inflation and lowered disposable incomes also have discouraged the buying and furnishing of homes. These effects appear to have weakened sales of Middleby kitchen appliances — especially its high-end, pricier brands.

The company's $142.60 close April 19 was 11.4% below the 52-week high of $161.01 recorded March 28. The stock underperformed the S&P 500, which over the same time frame decreased 1.3% to 5,254.35 from a March 21 high of 5,322.75.

The stock's trailing 12-month price-earnings ratio was 19.2, versus the S&P 500 ratio of 27.0.

CSIMarket, a financial data service, reported a TTM P/E ratio average of 32.1 for the industrial machinery and components industry. Based on figures Yahoo Finance reported, the P/E average was 22.2 for Middleby and three competitors named by Morningstar.

For P/E to projected growth, or PEG, Yahoo Finance didn't report a ratio for Middleby, nor did several other financial data services. A range of no more than 1.0 to 1.5 is generally considered desirable.

CORPORATE COOKING

Middleby's commercial products are found in numerous settings, including quick-service food outlets, full-service

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BI Undervalued Feature (UVF)

A monthly selection from seasoned investment professionals using BI methods who think this stock could appreciate by 15% over the next 18 months. **Featured July 2024.**

Current Price: 481.05 (06/19/24)

Last Fiscal Year End: 12/2023

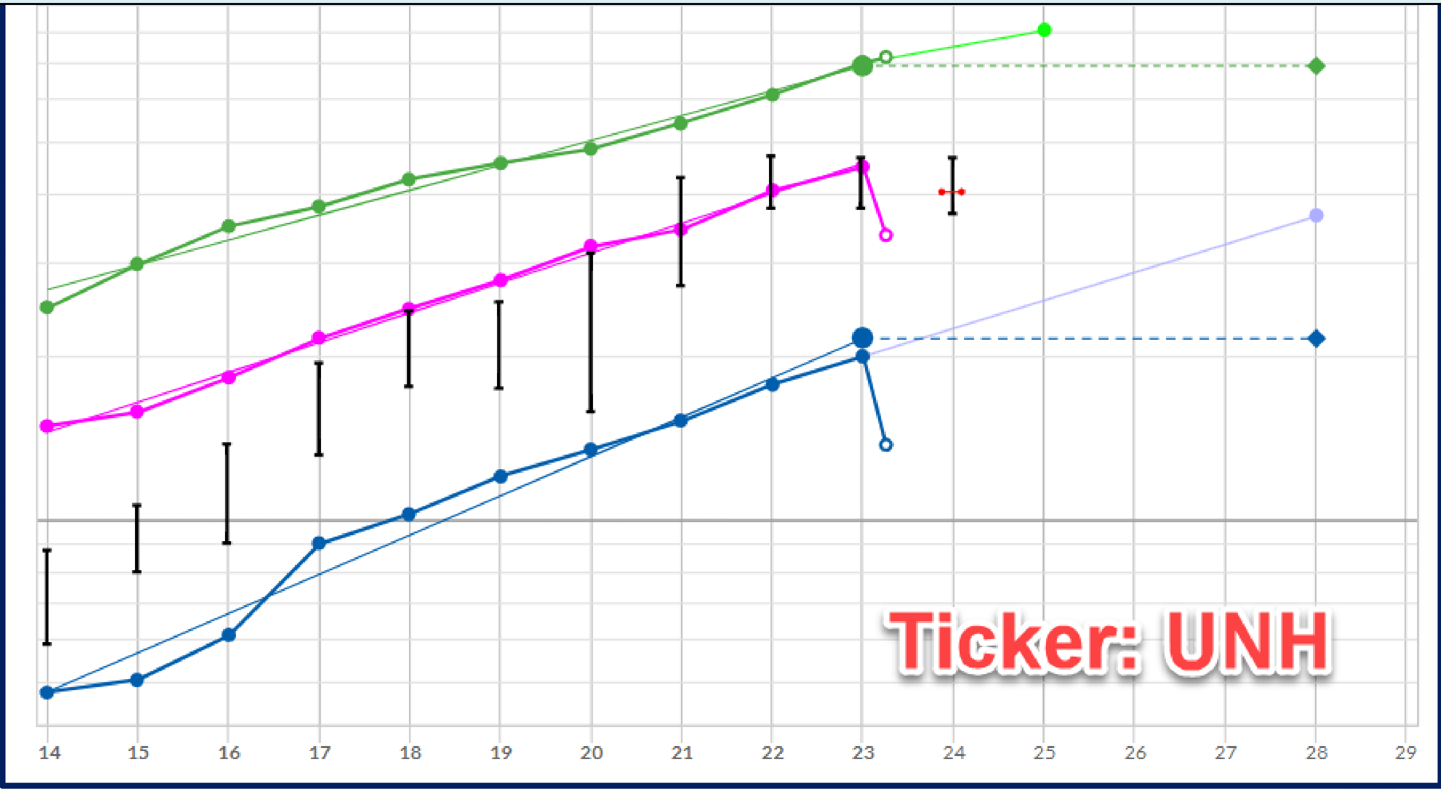
Industry: Healthcare Plans

Sector: Healthcare

Company Size: Large - >$10B in Sales

Morningstar Financial Health Grade: A

Description: UnitedHealth Group is one of the largest priv
health insurers, providing medical benefits to about 53 mil
outside the U.S. as of
red, self-directed, an
UnitedHealth has ob
with its insurance as
s in its Optum franch
lossus that spans eve
efits to providing
affiliated and third-p



UnitedHealth Group Incorporated

Back in business after massive cyberattack disruptions.

UnitedHealth Group Incorporated (ticker: UNH) received a load of unwelcome media attention this year in the wake of a devastating ransomware attack on a company database. The incursion caused a prolonged nationwide disruption of the health care industry.

Providers faced weeks of delay receiving insurance reimbursements from the managed health care corporation for previously delivered medical services. In addition, up to a third of Americans may have had their medical records accessed by the hackers, corporate management has estimated. Data for U.S. military personnel also was compromised.

Hackers used stolen login credentials to gain remote access to the network Feb. 12. The company's newly acquired Change Healthcare division was targeted in the attack. Management reportedly paid a $22 million ransom to regain control of its systems.

Part of the company's Optum Insight division, Change operates databases reportedly handling about 50% of U.S. medical claims for roughly 90,000 physicians, 33,000 pharmacies, 5,500 hospitals and 600 laboratories.

On May 1 CEO Sir Andrew P. Witty appeared before the U.S. Senate Finance Committee and House Energy and Commerce Subcommittee. The executive answered questions concerning what was known about the attack and how widespread the economic effects of the incursion might be. He acknowledged that the digital portal through which access was gained lacked basic multi-factor authentication security.

Members of the Editorial Advisory and Securities Review Committee cited reports that management has gotten some praise for adept handling of the aftermath. The company provided prompt assistance to consumers and providers inconvenienced by the event.

The company website provides links to sources of help, for example. Also, the company turned over more than $6 billion in funding advances to affected health care providers forced to wait for reimbursements.

The cyberattack didn't appear to have harmed the company's finances as much as was initially feared.

Those trends, combined with the ransomware scandal, have given Wall Street a jaundiced view of UnitedHealth — and contributed to a downtrend in the company's share price since late 2023.

At the $501.13 close reported April 19, the stock was 9.7% below the 52-week high of $554.70 recorded Dec. 1. The stock underperformed the S&P 500, which during the same time frame decreased 5.7% to 4,967.23 from a March 28 high of 5,264.85.

The stock's TTM price-earnings ratio was 30.6, versus the S&P 500 ratio of 27.0. CSIMarket, a financial data service, reported a TTM P/E ratio average of 18.7 for the accident and health insurance industry. Based on figures Yahoo Finance reported April 19, the P/E average was 18.9 for UnitedHealth and five comparable companies named by Morningstar.

MEDICARE PRESCRIPTION. UnitedHealthcare Medicare & Retirement serves nearly 13.7 million Medicare patients.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 1.4 for UnitedHealth, based on an average five-year expected earnings growth rate. A range of

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The Barb Wire Fence

- If the company is not a quality growth company, then the figures you generate for determining a fair value (price) will be faulty.

- IOW the worse the company appears in the first question the better it will appear in the second question.

Who do you call?

- The Ghostbusters
- Phone-A-Friend (A Stock Study Buddy)
- Ignore the signs and plow ahead on your own.
- Call a home inspector (as a Reliable Resource)

How About a Home Inspector?

- Where is the home inspector when you need one?
- If I am going to spend my valuable free time doing stock research, I want to make sure the foundation is solid.
- How does a regular person know all that?
- Get a second opinion.
- From someone trustworthy
- We need a stock inspector instead of a home inspector.

Refer to the Peter Lynch quote on slide #9.

4. Using a Secondary Quality Metric

"Never invest in a company without understanding its finances. The biggest losses in stocks come from companies with poor balance sheets."

Peter Lynch, Beating the Street

Proprietary Quality Metrics from Reliable Sources

- All four of them (VL, CFRA, Morningstar and Manifest) have some type of quality metric(s)
- These quality metrics are <u>non-price dependent</u> (e.g., there is no “Buy”, “Hold”, or “Sell” ratings to them).
- They <u>look backward at the fundamentals</u>, mostly the balance sheet, and determine if they are financially sound.

Value Line
Smart research. Smarter investing.™

CFRA

MORNINGSTAR

Manifest Investing

How to Use the Morningstar Financial Health Grade

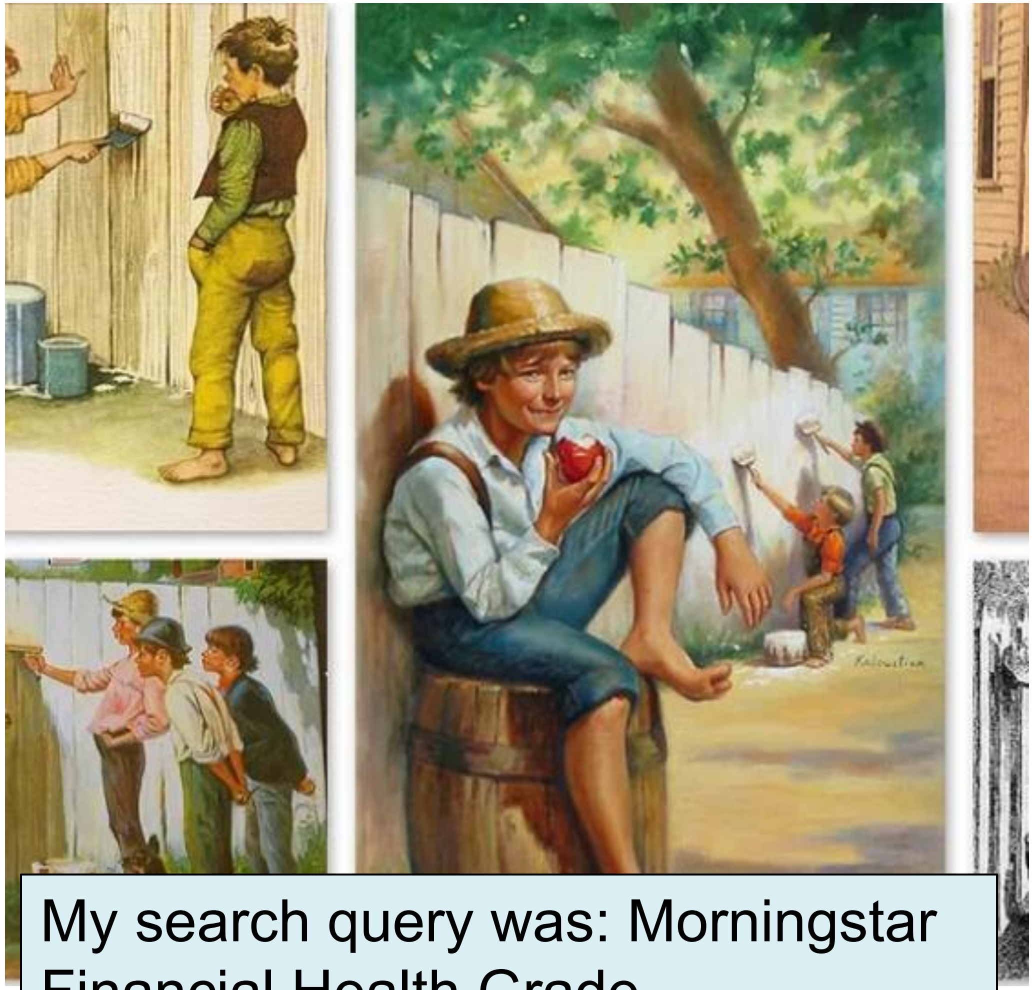
- As a double check of the visual analysis.
- This is a non price dependent (no Buy, Hold or Sell) metric.
- BI added the Financial Health Grade a few years ago.
  - Can Screen on it
- To Learn More
  - Background materials from Morningstar in 2008.

When There Is No FAQ Available How Do I Find This Information?

Financial Health Grades:

Percentile Rank – Low to High	Cumulative Percentile	Grade
10%	10%	F
20%	30%	D
40%	70%	C
20%	90%	B
10%	100%	A

Become a Modern Day Tom Sawyer
Using Other People to Do Your Work



My search query was: Morningstar Financial Health Grade

- As the CEO of your Investment Portfolio, you need a reliable Executive Assistant (EA).
- Your EA needs to help you during your investment research.
- Your EA needs to ask questions.
  - This is where doing Search Engine queries are critical.
  - Not every search result will yield results.
  - Expect to run into some dead ends along the way.
- Using the power of the search engine you can find your information quickly without having to slog through a bunch reports.

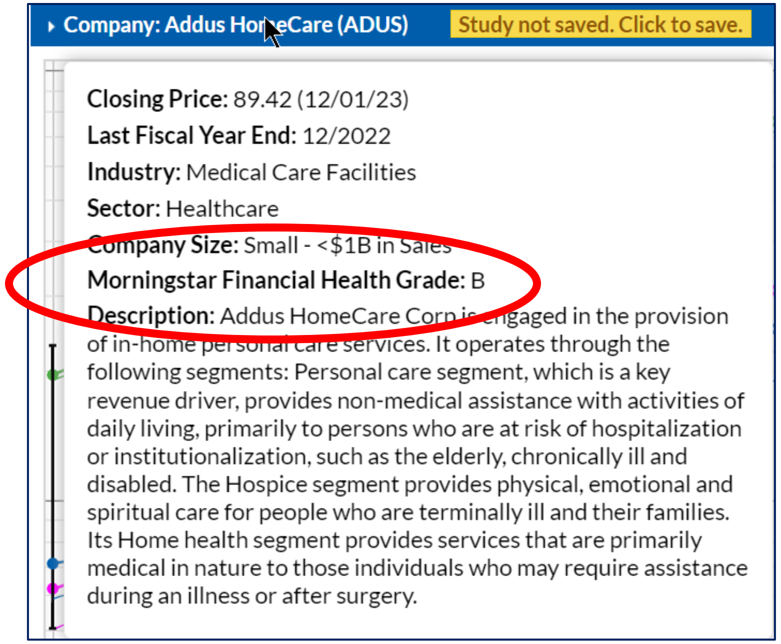
Morningstar Metrics are part of the Online Tools

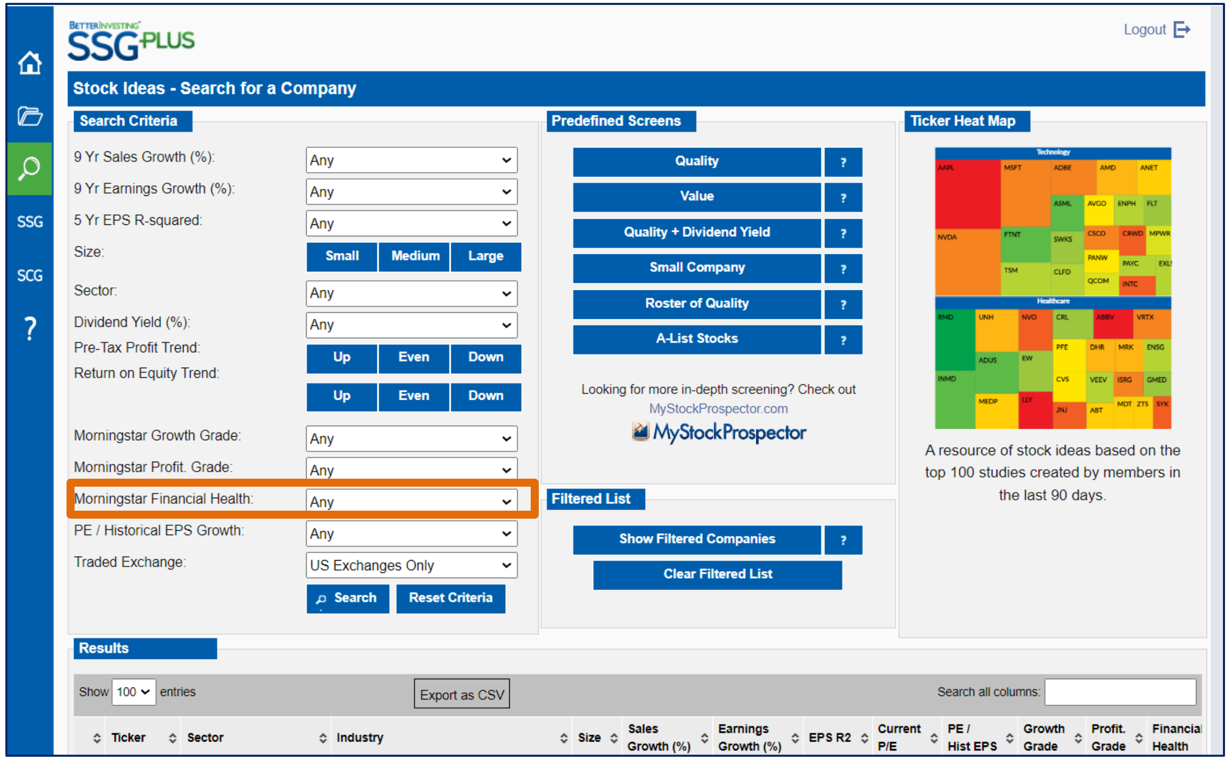
- Comes from Morningstar data, to learn more about the Financial Health Grade click here.

Morningstar Online Tools Financial Health Grade

Service	Metric	A	B	C	D	F	N	Totals
BI Online	Financial Health Grade	526	1,175	2,219	976	222	440	5,558
Tools	(US Stocks Only)	9.5%	21.1%	39.9%	17.6%	4.0%	7.9%	100.0%
	Screen as of 6-18-24							

Source: BI Online Tools Screen as of 6/18/24





Be Selective With These Secondary Quality Metrics

- Your Primary Quality Metric should be your Visual Analysis
- Pick one secondary resource to be your confirmation to what you see in the Visual Analysis
- Know what you can and can’t get from these secondary quality metrics
- The quality metric is a 2nd opinion not the “Be all and end all” of your investment study

If you want to learn a bit about other quality metrics go to Appendix iii.

5. Financial Health Grade Examples

Let’s combine the Visual Analysis with a Secondary Test of Quality (Morningstar Financial Health Grade).

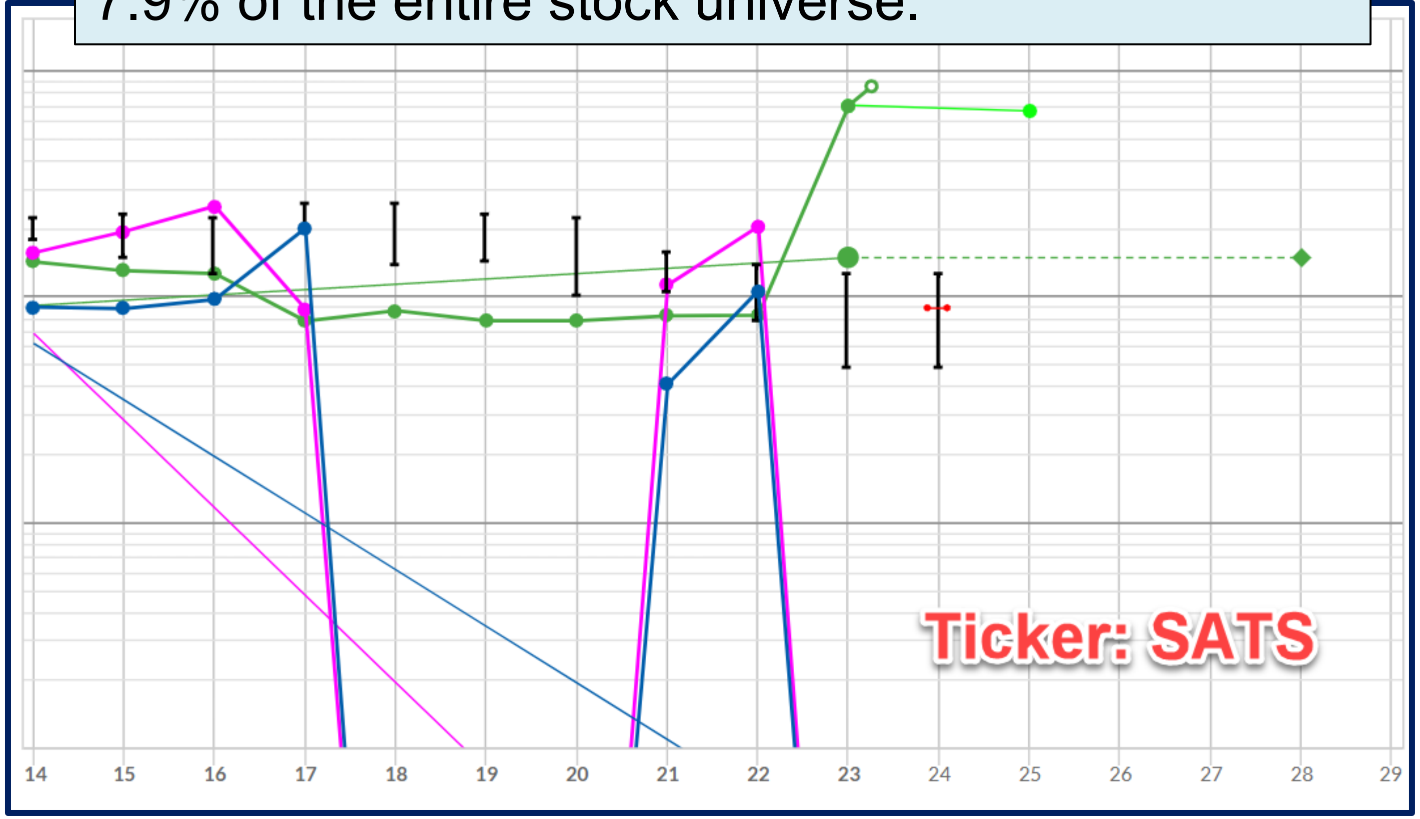
You decide which stocks you like.

Companies With An “F” Financial Health Grade

Current Price: 17.57 (06/17/24)
Last Fiscal Year End: 12/2023
Industry: Communication Equipment
Sector: Technology
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: F
Description: Following the Dish Network merger, satellite television provides the bulk of EchoStar's revenue. The firm serves about 6 million U.S. customers, about 10% of the traditional television market. It launched an internet-based television offering under the Sling brand in 2015 and serves about 2 million customers on this platform. EchoStar's future, however, hinges primarily on the wireless business. The firm has amassed an extensive portfolio of spectrum licenses over the past 15 years and is building a nationwide wireless network. It acquired Sprint's prepaid business and serves about 7 million customers, primarily under the Boost brand. EchoStar's legacy businesses provide satellite telecom services and equipment to businesses and consumers, including about 1 million internet customers.

This is an easy company to discard.

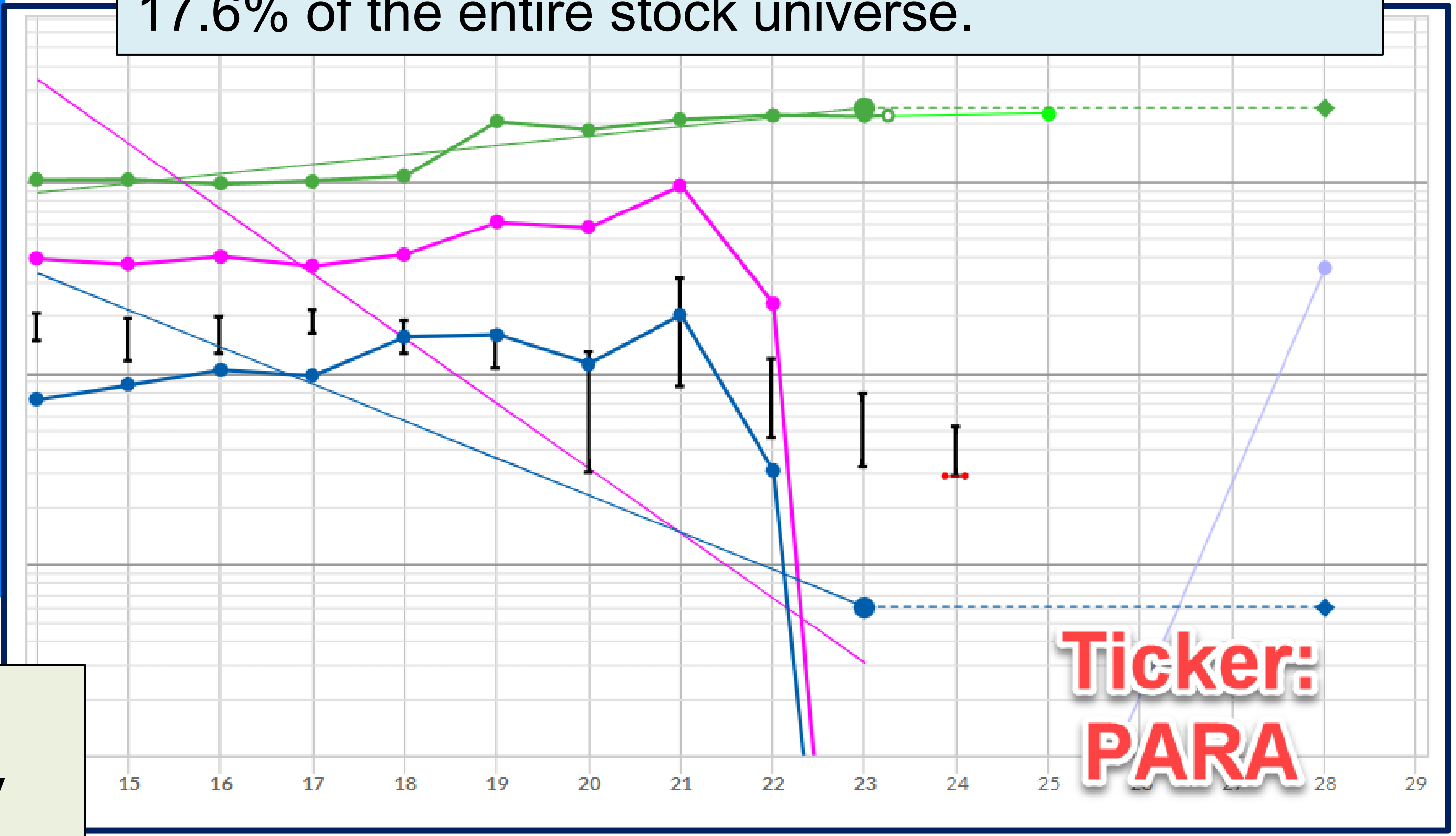
222 Companies Have a F Financial Health Grade (out of 5,548 US Stocks in the BI Database) or 7.9% of the entire stock universe.



Companies With An "D" Financial Health Grade

Current Price: 9.61 (06/18/24)
Last Fiscal Year End: 12/2023
Industry: Entertainment
Sector: Communication Services
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: D
Description: Paramount Global operates in three global business segments: TV media, filmed entertainment, and direct to consumer. The TV media business includes television production studios and various broadcast and cable networks, including CBS, 15 owned CBS affiliates, Paramount, Nickelodeon, MTV, BET, and VH1. Filmed entertainment consists multiple film studios, most importantly Paramount Pictures. The film studios produce and distribute movies that they license to movie theaters and other media outlets. Direct to consumer includes multiple streaming platforms, including Paramount+, which now includes Showtime, Pluto TV, and BET+. Much of the content on Paramount's streaming platforms is created by the production studios housed within the firm's other two business segments.

976 Companies Have a D Financial Health Grade (out of 5,548 US Stocks in the BI Database) or 17.6% of the entire stock universe.

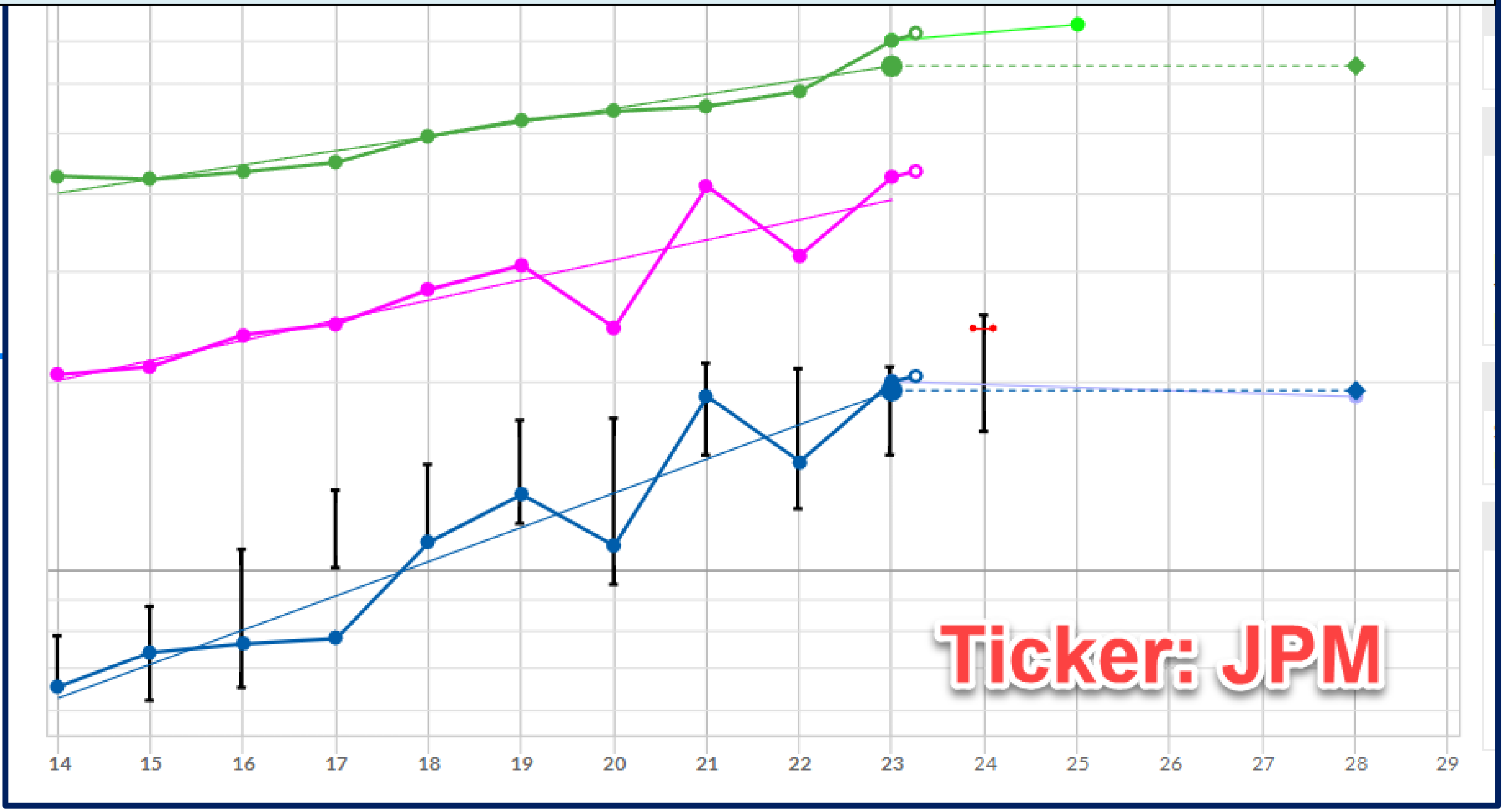


Only slightly better than F companies. Still this company is an easy company to discard.

Companies With An “C” Financial Health Grade

Current Price: 197.00 (06/18/24)
Last Fiscal Year End: 12/2023
Industry: Banks - Diversified
Sector: Financial Services
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: C
Description: JPMorgan Chase is one of the largest and most complex financial institutions in the United States, with nearly $3.9 trillion in assets. It is organized into four major segments--consumer and community banking, corporate and investment banking, commercial banking, and asset and wealth management. JPMorgan operates, and is subject to regulation, in multiple countries.

2,219 Companies Have a C Financial Health Grade (out of 5,548 US Stocks in the BI Database) or 39.9% of the entire stock universe.

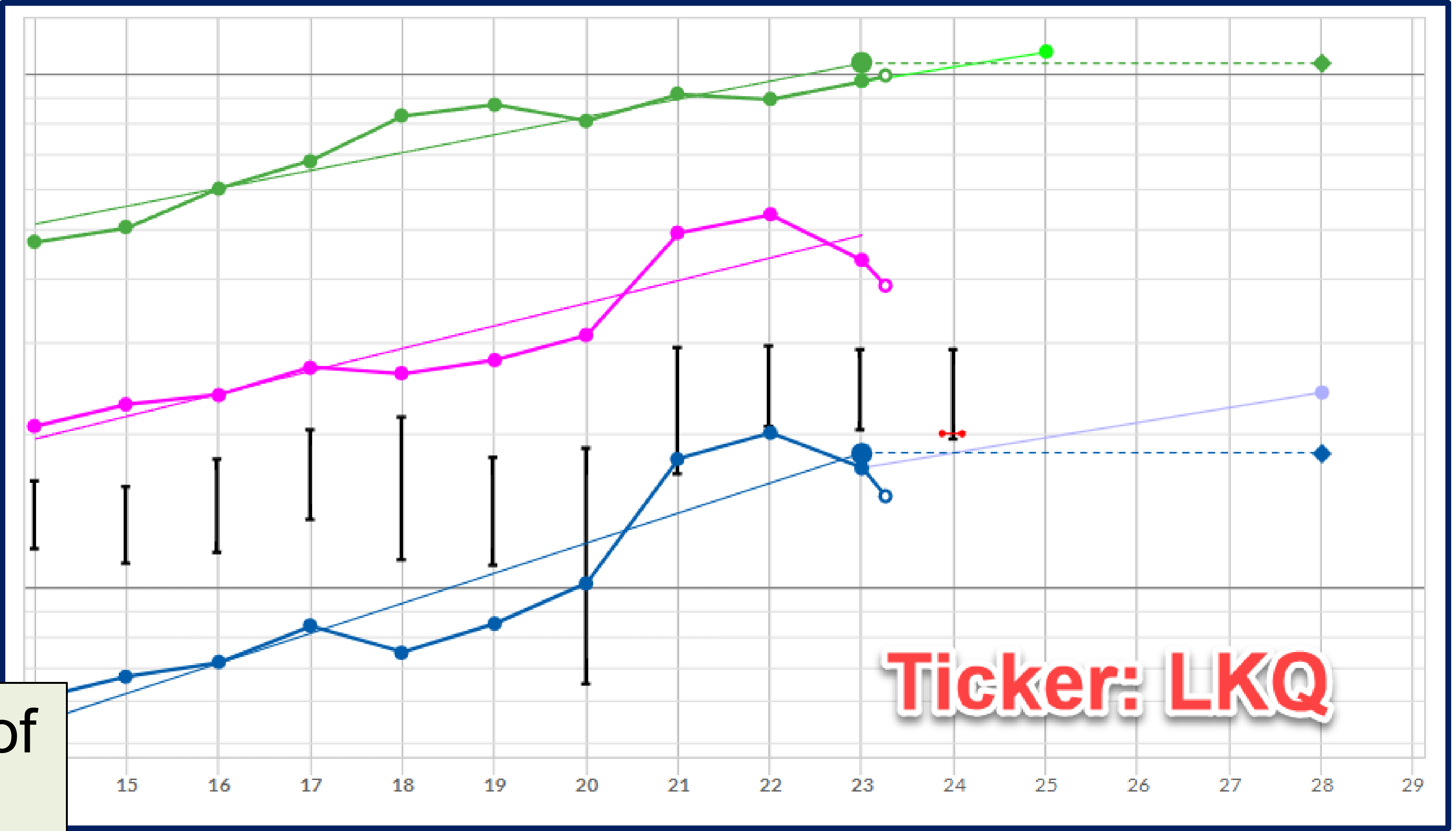


Minimum Level of Quality IMVHO.

Companies With An "B" Financial Health Grade

Current Price: 41.01 (06/18/24)
Last Fiscal Year End: 12/2023
Industry: Auto Parts
Sector: Consumer Cyclical
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: B
Description: LKQ is a Global distributor of non-OEM automotive parts. Initially formed in 1998 as a consolidator of auto salvage operations in the United States, it has since greatly expanded its scope to include distribution of new mechanical and collision parts, specialty auto equipment, and remanufactured and recycled parts in both Europe and North America. It still maintains its auto salvage business and owns over 70 LKQ pick-your-part junkyards. Separate from the self-service business, LKQ purchases over 300,000 salvage automobiles annually that are used to extract vehicle parts for resale. Globally, the company maintains approximately 1,700 facilities.

1,175 Companies Have a B Financial Health Grade (out of 5,548 US Stocks in the BI Database) or 21.1% of the entire stock universe.

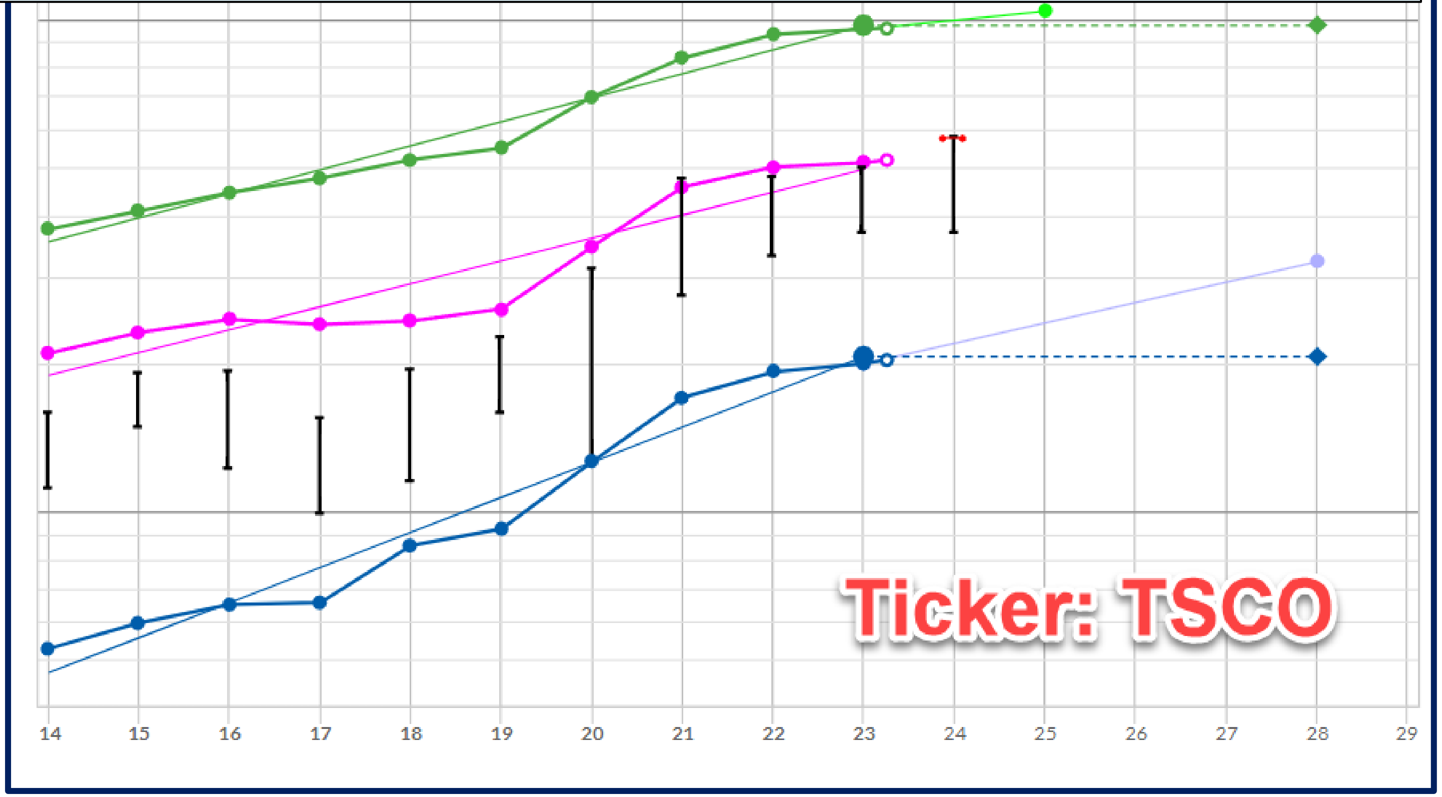


B Companies Have a History of Good Finances. Can tolerate less than ideal visual analysis.

Companies With An "A" Financial Health Grade

Current Price: 289.98 (06/18/24)
Last Fiscal Year End: 12/2023
Industry: Specialty Retail
Sector: Consumer Cyclical
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: A
Description: Tractor Supply is the largest operator of retail farm and ranch stores in the United States. The company targets recreational farmers and ranchers and has little exposure to commercial and industrial farm operations. Currently, the company operates 2,233 of its namesake banners in 49 states, including 81 Orscheln Farm and Home stores (rebranded as Tractor Supply), along with 202 Petsense by Tractor Supply stores. Stores are generally concentrated in rural communities, as opposed to urban and suburban areas. In fiscal 2023, revenue consisted primarily of livestock, equine & agriculture (27%), companion animal (25%), and seasonal & recreation (22%).

526 Companies Have an A Financial Health Grade (out of 5,548 US Stocks in the BI Database) or 9.5% of the entire stock universe.



A Companies Have a History of Very Good Finances. Can withstand less than ideal visual analysis.

Time For Some

6. Tying It All Together

"By asking some basic questions about companies, you can learn which are likely to grow and prosper, which are unlikely to grow and prosper, and which are entirely mysterious."

Peter Lynch, One Up On Wall Street, pg. 74

How The Morningstar Financial Health Grade Helps

- A cross-check after you conduct a Visual Analysis
  - Trusted and reliable
- Have a criteria for visual analysis
- Have a criteria for your secondary Quality metric
  - Maybe no less than a Financial Health Grade of C; or
  - If the Visual Analysis lines are somewhat erratic, then you might want to require a higher Financial Health Grade of B or better.

Finding Quality Companies

✓ Visual Analysis

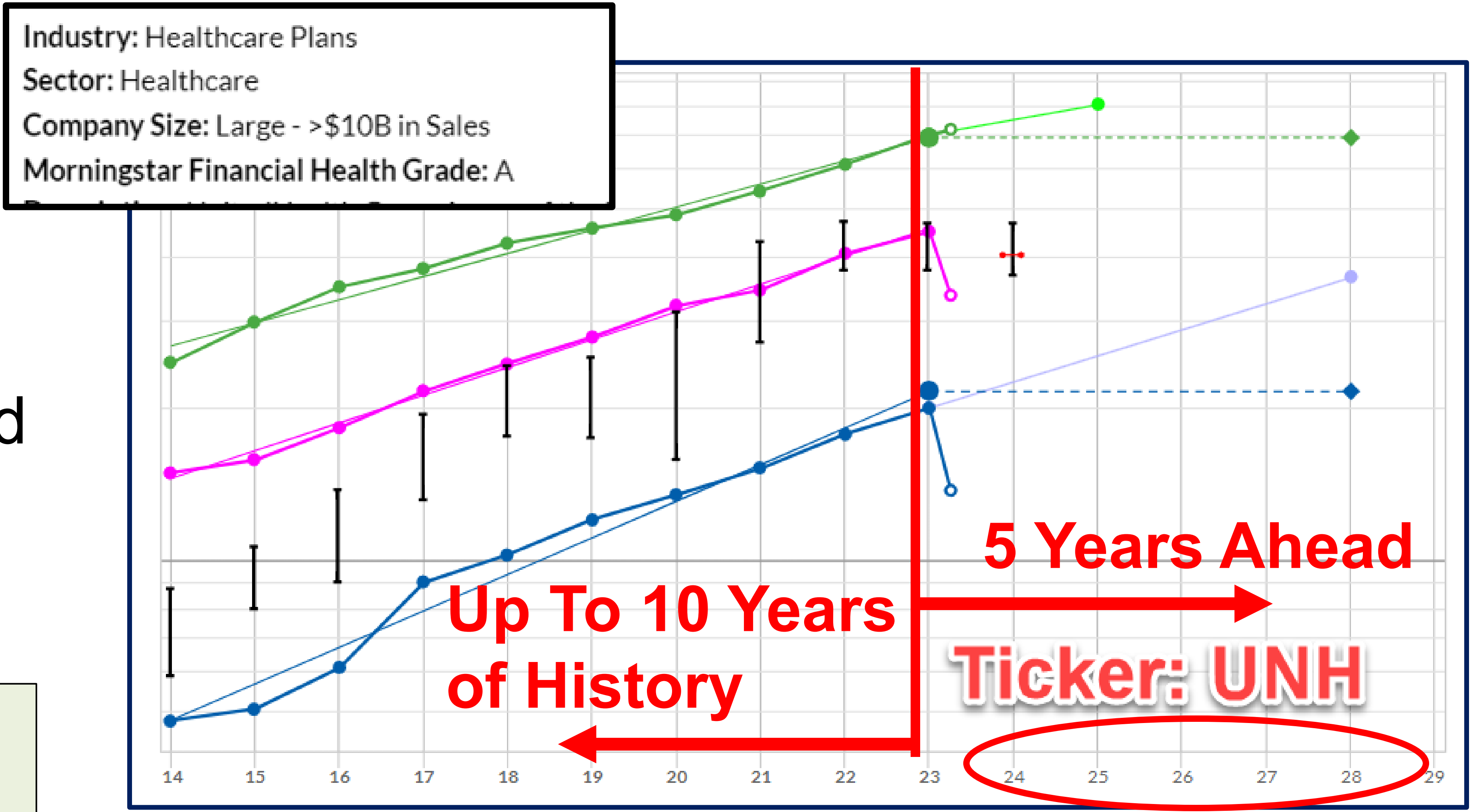
✓ Reliable Quality Metric

Morningstar Financial Health Grade is found in the BI Online Tools only. You will <u>not</u> find these quality metrics on a stock report for any company you are studying.

Financial Health Grade Helps You Think Long-Term

If you think out five years, then you avoid fixating on the most recent quarter and recent stock news.

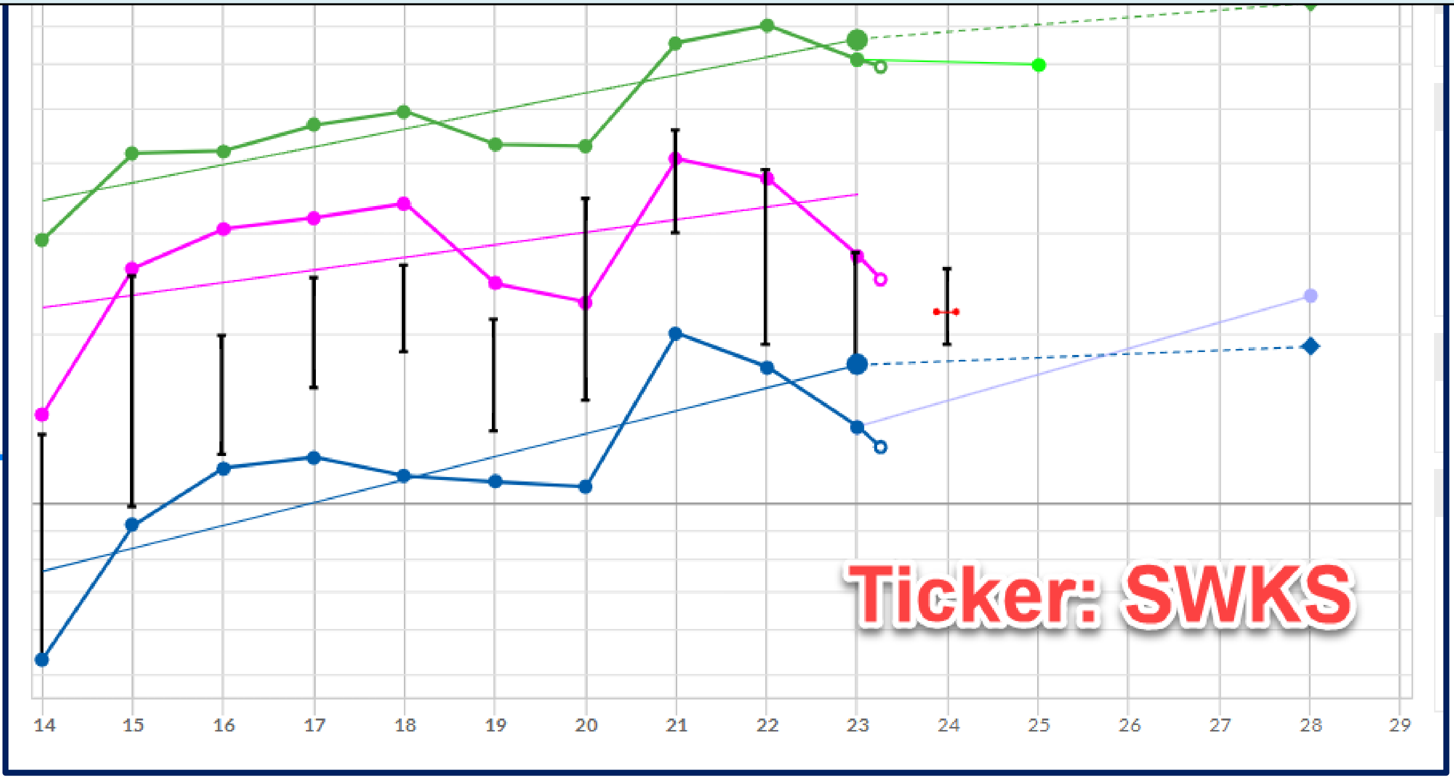
A Reliable Quality Metric is most helpful when the Visual Analysis gives you pause.



Two Other Ways to Use the Financial Health Grade

Current Price: 97.61 (04/18/24)
Last Fiscal Year End: 9/2023
Industry: Semiconductors
Sector: Technology
Company Size: Medium - $1B to $10B in Sales
Morningstar Financial Health Grade: A
Description: Skyworks Solutions produces semiconductors for wireless handsets and other devices that are used to enable wireless connectivity. Its main products include power amplifiers, filters, switches, and integrated front-end modules that support wireless transmissions. Skyworks' customers are mostly large smartphone manufacturers, but the firm also has a growing presence in nonhandset applications such as wireless routers, medical devices, and automobiles.

Wireless Handsets in the semiconductor industry is a growing field. The semi-conductor industry is highly cyclical. EPS growth is possibly low double digits, and it might be on sale.



A Reliable Quality Metric does wonders if:
1) don't really know the industry; or
2) the entire industry is beaten down.

Double Check Your Evaluate Management Assessment

Evaluate Management

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	15.0%	12.5%	30.4%	24.7%	26.5%	19.0%	-16.2%	17.5%	16.7%	18.8%	11.2%	
% Return on Equity	13.1%	10.2%	28.2%	6.7%	35.8%	25.4%	-17.7%	18.1%	18.7%	26.9%	14.3%	
% Debt To Capital	34.5%	31.9%	29.3%	40.4%	34.4%	48.0%	57.7%	55.9%	56.7%	58.5%	55.4%	

BMY

Grade: C

Evaluate Management

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	40.9%	13.7%	11.7%	16.3%	20.6%	24.5%	18.3%	28.5%	27.7%	3.1%	20.4%	
% Return on Equity	25.5%	9.5%	8.9%	6.1%	18.6%	36.0%	24.1%	34.3%	32.6%	0.9%	25.6%	
% Debt To Capital	30.6%	37.2%	38.3%	41.6%	48.5%	50.4%	55.7%	46.4%	40.0%	48.3%	48.2%	

MRK

Grade: A

Evaluate Management

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	27.8%	36.8%	39.9%	42.0%	40.2%	39.1%	32.0%	25.8%	27.9%	27.9%	30.5%	
% Return on Equity	20.1%	24.4%	24.6%	6.0%	55.4%	69.7%	65.0%	69.8%	177.0%	87.4%	93.8%	
% Debt To Capital	54.4%	52.9%	53.7%	58.3%	73.1%	75.6%	77.8%	83.3%	91.4%	91.2%	83.9%	

AMGN

Grade: B

A Reliable Quality Metric is also helpful when conducting a peer comparison. Add it when you look at PTP, ROE and Debt to Capital. Strongest company is most likely to survive.

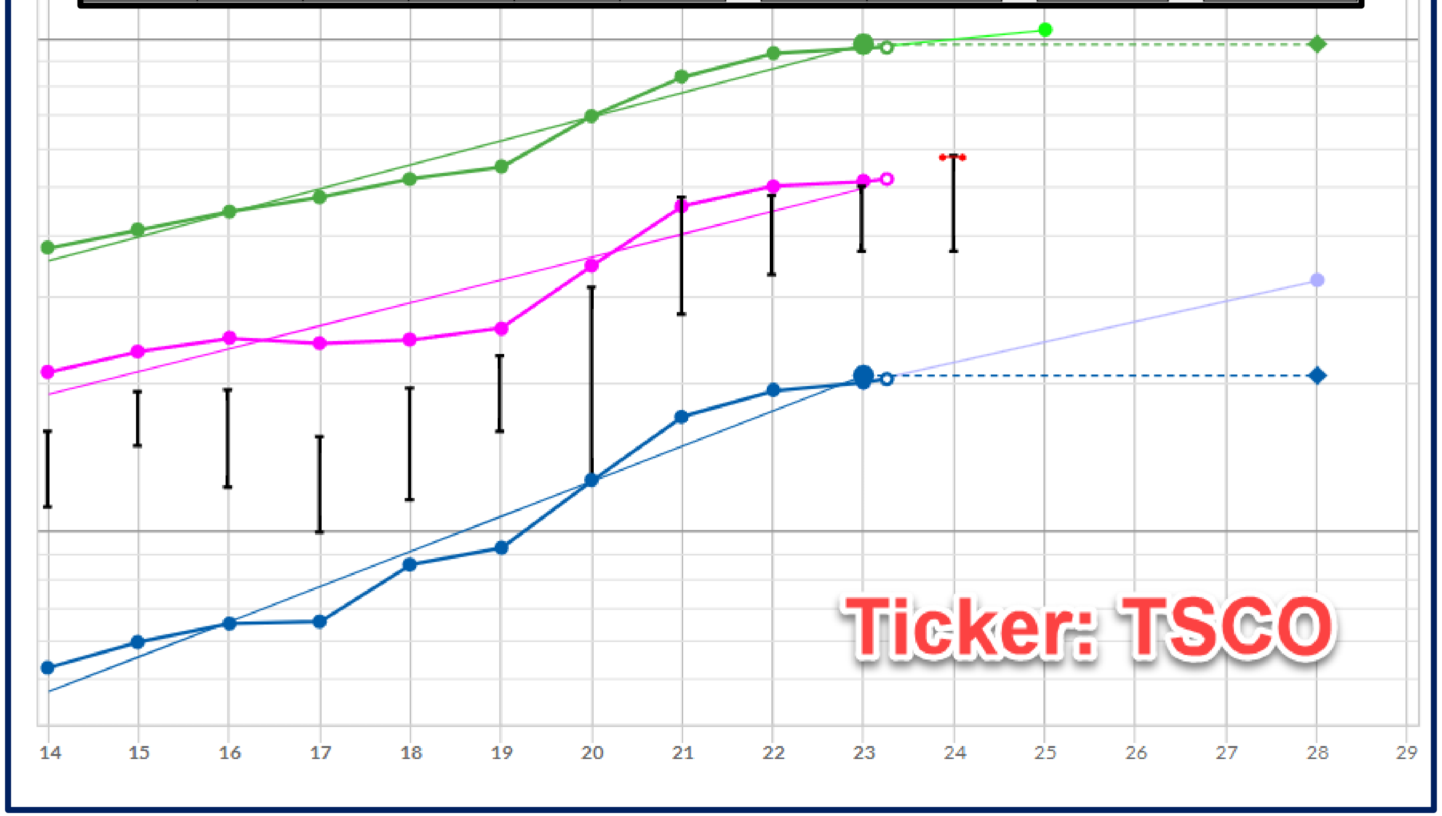
A Quality Metric Helps You Modify Your Judgments

Current Price: 289.98 (06/18/24)
Last Fiscal Year End: 12/2023
Industry: Specialty Retail
Sector: Consumer Cyclical
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: A
Description: Tractor Supply is the largest operator of retail farm and ranch stores in the United States. The company targets recreational farmers and ranchers and has little exposure to commercial and industrial farm operations. Currently, the company operates 2,233 of its namesake banners in 49 states, including 81 Orscheln Farm and Home stores (rebranded as Tractor Supply), along with 202 Petsense by Tractor Supply stores. Stores are generally concentrated in rural communities, as opposed to urban and suburban areas. In fiscal 2023, revenue consisted primarily of livestock, equine & agriculture (27%), companion animal (25%), and seasonal & recreation (22%).

This was a recent discussion in one of my clubs. Was the judgments the partner used too optimistic, just right or too cautious?

TSCO Historic & Future Judgments

Historic	10 Yr	5 yr	3 Yr	Last Yr	Last Qt	*Future*	Value Line	Partner's Judgment	Alternative Judgment
Sales	11.9%	15.0%	11.1%	2.5%	2.9%	*Sales*	11.0%	9.0%	11.0%
EPS	17.9%	21.7%	16.1%	3.9%	10.9%	*EPS*	11.5%	12.2%	15.0%



7. Recap

"**Stock picking is both an art and a science**, but too much of either is a dangerous thing. A person infatuated with measurement, who has his head stuck in the sand of balance sheets, is not likely to succeed…On the other hand, stock picking as art can be equally unrewarding. By art, I mean the realm of intuition and passion and right – brain chemistry…[believing in the] knack…[or following a] hunch. Those who hold this viewpoint tend to prove its validity by neglecting to do research and 'playing' the market, which results in more losses…**My stock picking method, which involves elements of art and science plus leg-work, hasn't changed in 20 years**." (emphasis added)

Peter Lynch, Interview in 2002

Recap

- Is your head swimming? Do you feel overwhelmed?
- **Solution:** Tackle each section individually. Practice it with each stock you do before moving to the next section. Each section is designed to incorporate what was learned in the previous sections.
- **Point One:** The key point of the Visual Analysis is being able to tell the difference between a straight line and crooked line. Then whether the line slopes up or down. The less words you need to describe the growth of the company the better.
- **Point Two:** Use a quality metric as your cross check.
- **Point Three:** The point of the SSG is to make a series of educated guesses about the company that will help us to identify well managed growth companies selling at a reasonable price.

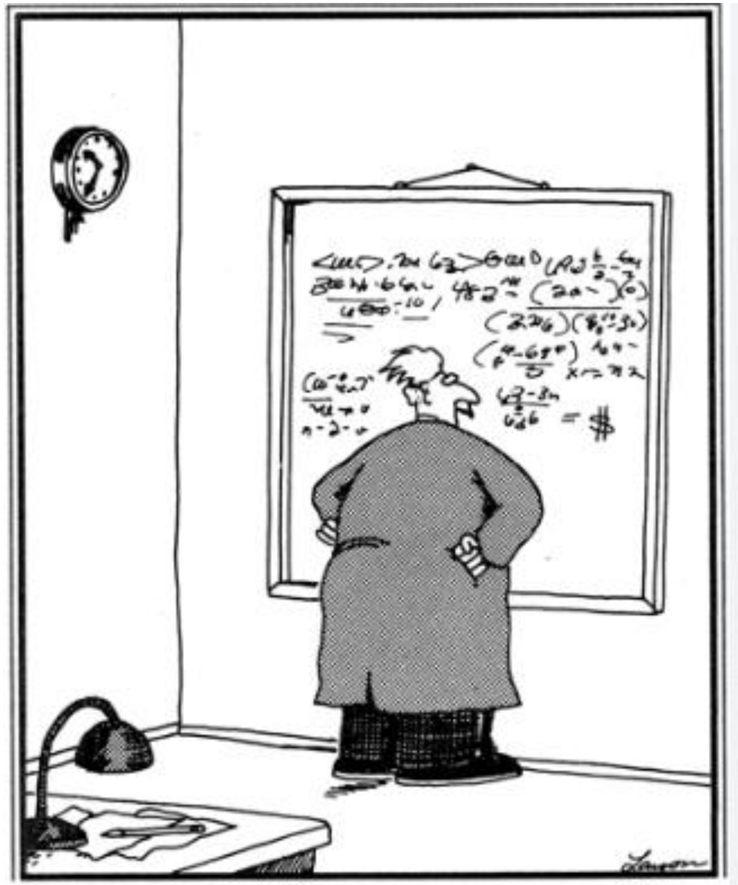
A SECOND LOOK AT QUALITY

When You Don't Trust The Visual Analysis With Own Your Eyes

Kevin Gillogly
DC Regional Chapter
Digging.Into.BI@gmail.com

8. Appendix

i. The Semi-log Graph and How to Use It



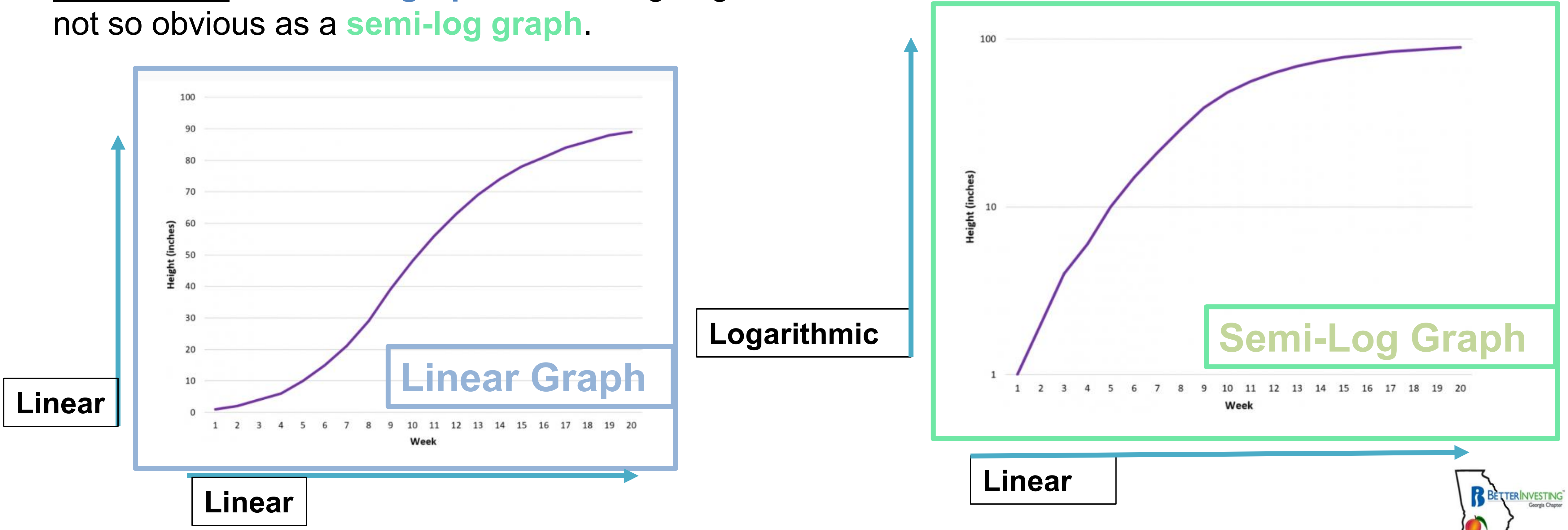
Einstein discovers that time is actually money.

Why Use the Semi-Log Graph?

A semi-log graph is best used to **visualize the percentage change** over a period of time.

<u>Same data:</u> In a **linear graph** the slowing of growth is not so obvious as a **semi-log graph**.

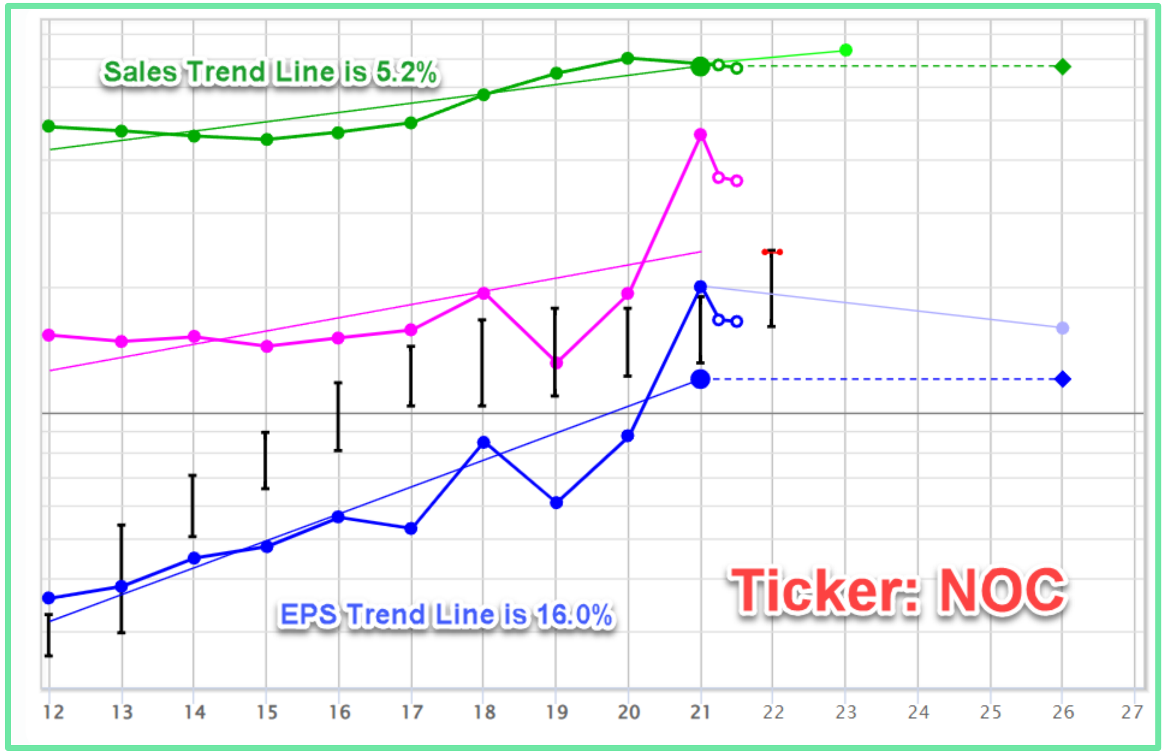
Pro Tip: <u>Per cent (or percent) is really saying per 100</u>. Latin, cent (a hundred). Percentage is a great way to compare things of differing sizes.



5 Reasons to Use a Semi-Log Graph for LT Investing

This is Northrup Grumman Corporation, a large sized company focusing on global aerospace and the defense industry.

1) A trend line moving **up** from lower left to upper right is a **growing** company;
2) A **straight** trend line depicts compounded growth at a **consistent** rate;
3) If all three trend lines (Sales, PTP and EPS) are **parallel** you might have a **well managed** company;
4) You can **fit more data** on a smaller chart; and
5) A semi-log graph, because it uses percentages, **is excellent to use when comparing competitors** and industries.

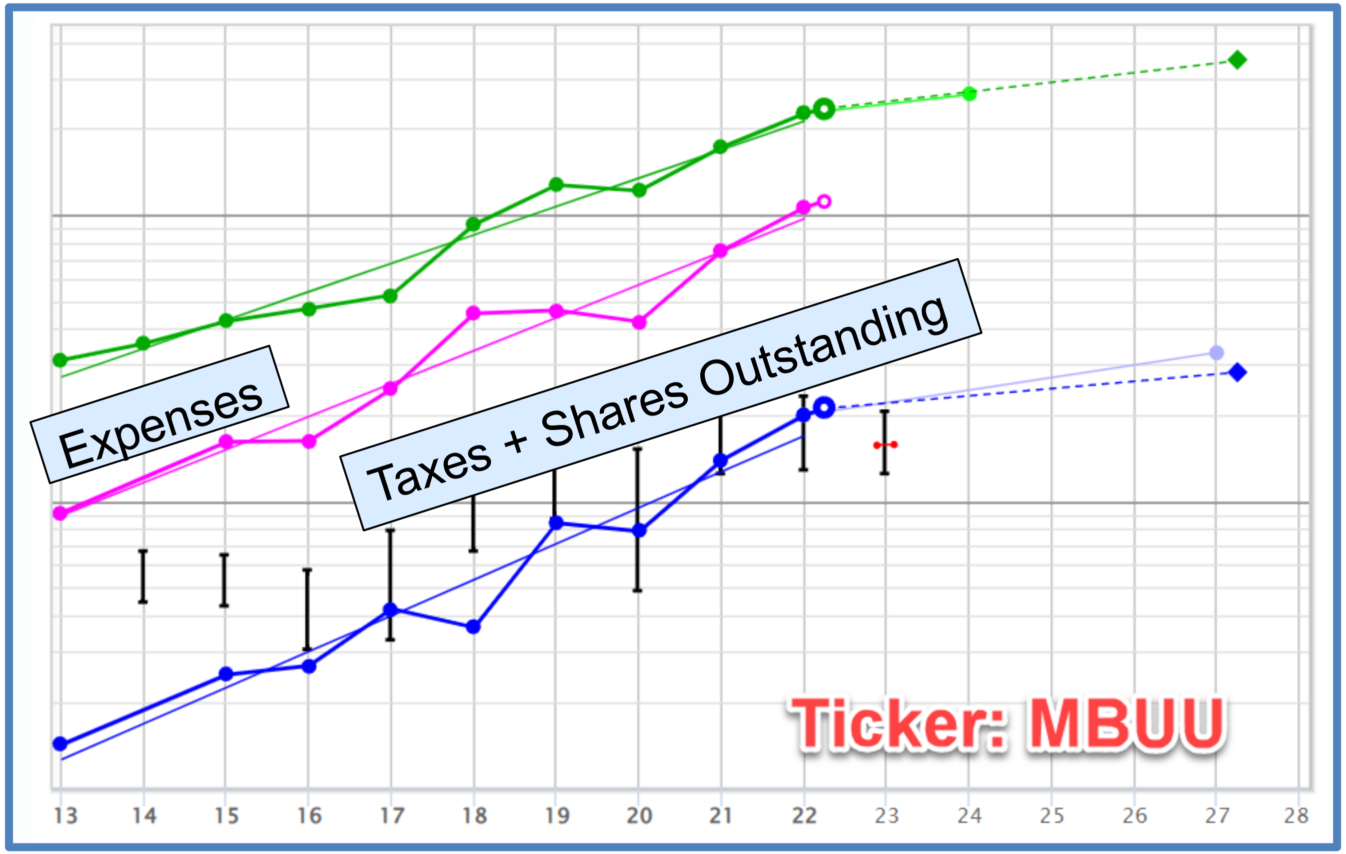


8. Appendix

ii. Making your SSG graph look clean and organized

Visual Analysis is Graphing Ten Years of the Income Statement

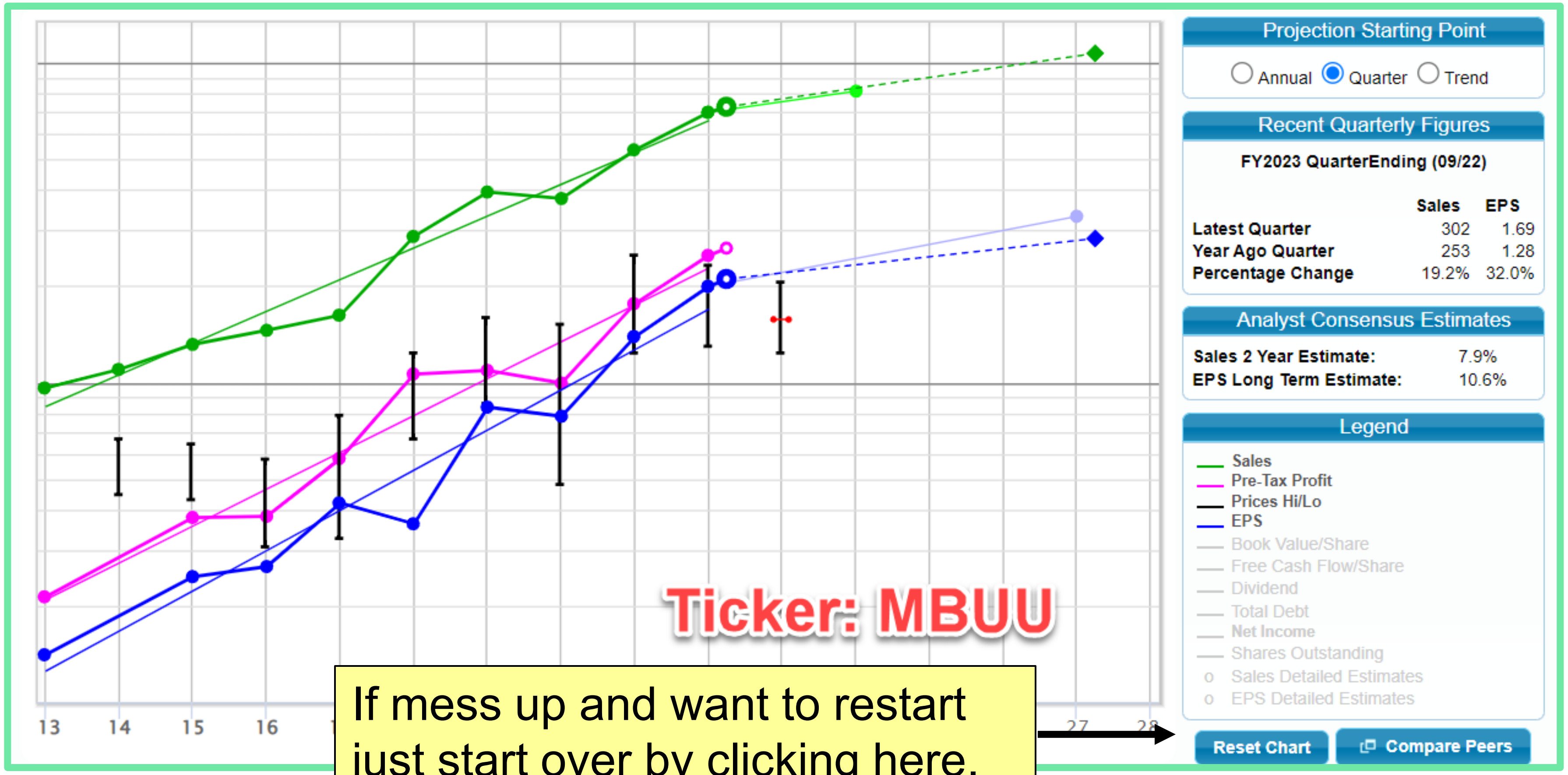
Sales (Top Line)
Expenses
Pre-Tax Profit
Taxes and
Shares Outstanding
Earnings Per Share
(Bottom Line)



Plus up to 10 years of Stock Price history

Getting the Visual Analysis Lines to Look *Purdy*

This is how your Visual Analysis will look when you first open it in SSG Plus.

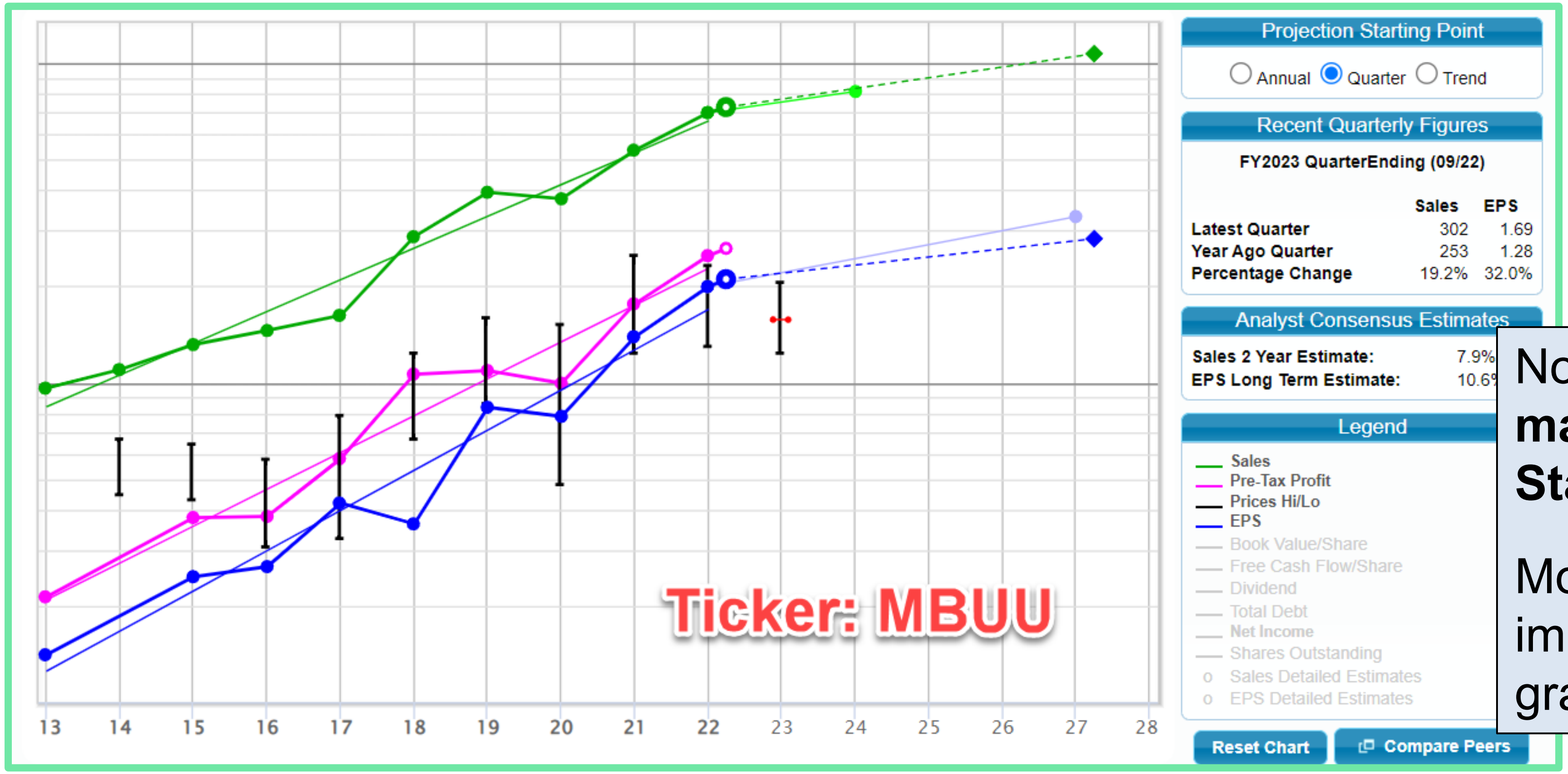


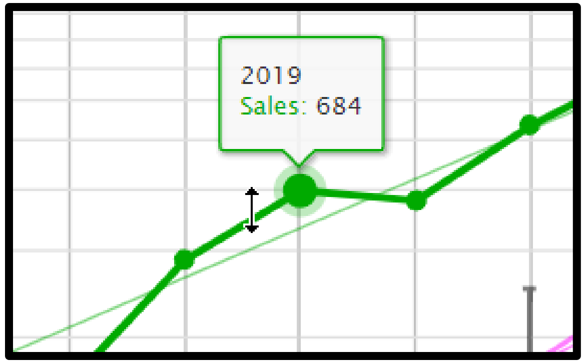
If mess up and want to restart just start over by clicking here.

Pro Tip: When you open a new stock study in SSG Plus you get (by default) the Sales, PTP, EPS and Price Bars. When the data is loaded the relationship between the 52-week price bar and the blue EPS line is set to cross whenever the P/E is 10.

Getting the Visual Analysis Lines to Look *Purdy*

Pro Tip: To move the lines up to match the Income Statement use your mouse and hover over the darker historic line. When you do the mouse will give you ↕





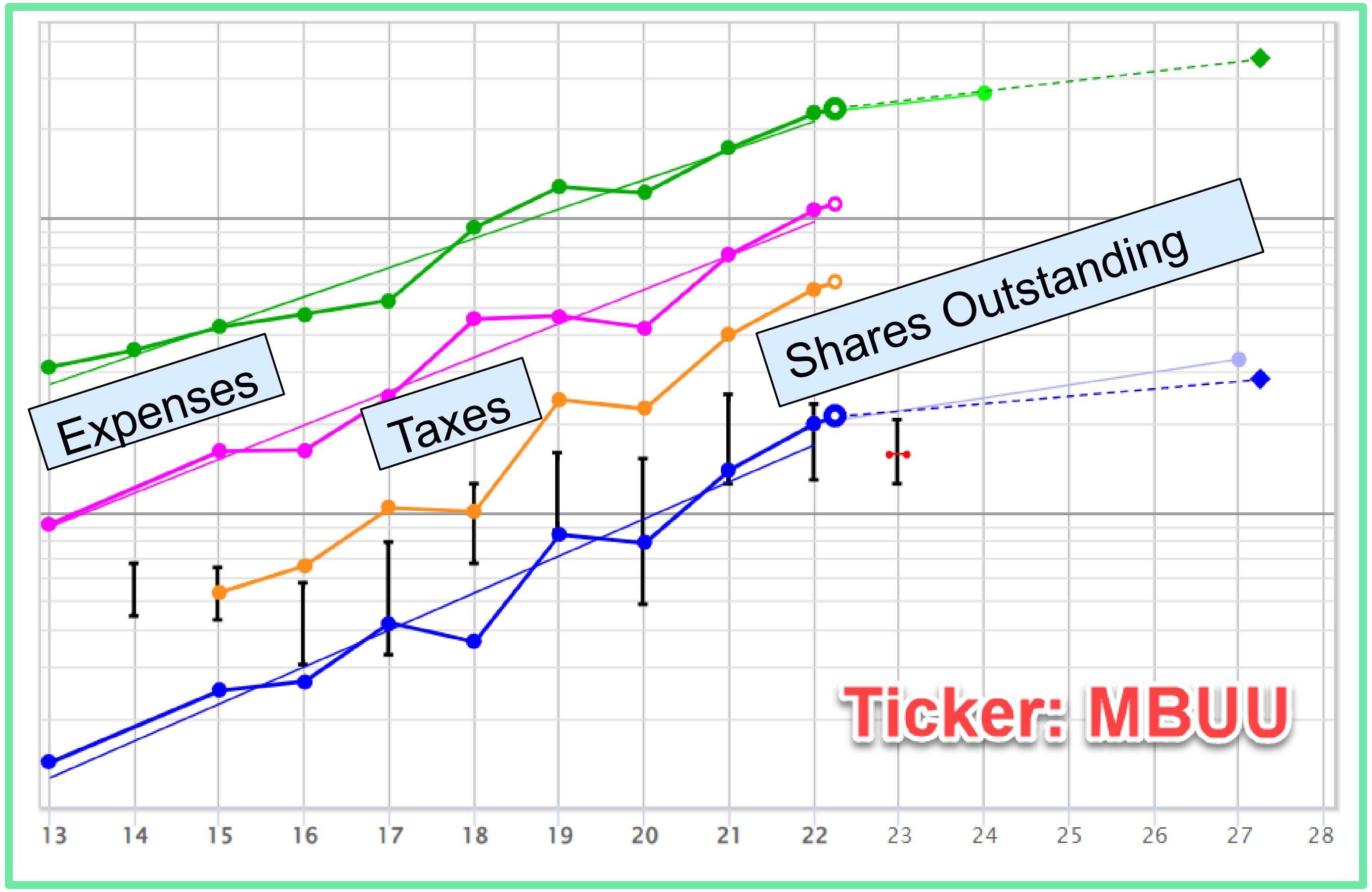
Now move the line up or down to **match the order of the Income Statement on Slide #53.**

Moving the lines will have ZERO impact on the percentages on the graph.

A Clean and Organized Visual Analysis

Pro Tip: Now you have the option of adding the Net Income to the visual analysis. Visual Analysis looks purdy… pretty. Is this easier to read and interpret? **Don't move the EPS line as it relates to the Price bar.**

Sales (Top Line)
Expenses
Pre-Tax Profit
Taxes
Net Income
Shares Outstanding
Earnings Per Share
(Bottom Line)



8. Appendix

iii. Brief review of the other Quality Metrics

MORNINGSTAR

Value Line
Smart research. Smarter investing.™

CFRA

Manifest Investing

How To Use The Value Line Quality Metrics

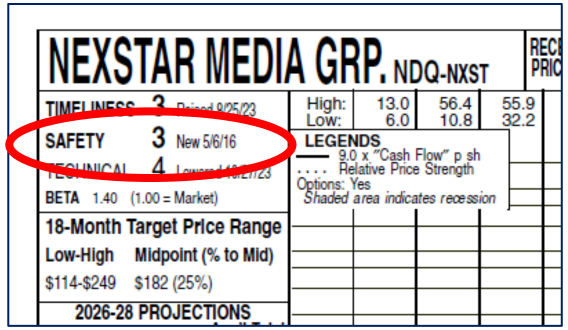
- Value Line has two metrics that are address quality
  - Financial Strength (FS) – Nine grades from A++ (highest) to C (lowest). It is a measure of their financial condition of the balance sheet
  - Safety Rank – Five grades from 1 (safest) to 5 (least safe). It is a measure of their risk.
- Value Line tends to favor FS of B++ or better and a Safety Rank of 1 or 2.

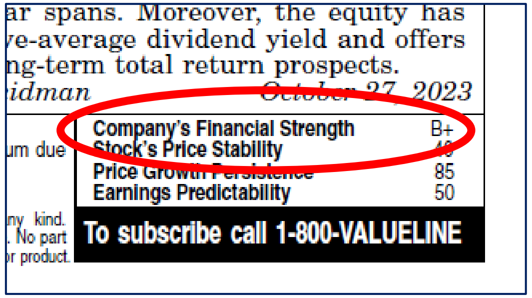
Value Line Quality Metrics

Metric	A++	A+	A	B++	B+	B	C++	C+	C	Totals
Financial Strength	50	87	229	534	881	965	765	459	301	4,271
	1.2%	2.0%	5.4%	12.5%	20.6%	22.6%	17.9%	10.7%	7.0%	100.0%

Metric	1	2	3	4	5	Totals
Safety	112	275	1,676	1,101	822	3,986
	2.8%	6.9%	42.0%	27.6%	20.6%	100.0%

Source: VL Screen as of 12/3/23





How To Use The CFRA Quality Metric

- CFRA has one quality metric
  - SPGMI Quality Grade – Nine grades from A+ (highest) to D and NR (lowest). It is a measure of their financial condition and their earnings power.

- CFRA has screens that tend to favor Companies with a B+ or better.

CFRA / SP Quality Ranking

Service	Metric	A+	A	A-	B+	B	B-	C	D	NR	Totals
CFRA	S&P Quality Ranking	159	510	847	2,467	2,891	3,017	3,395	235	2,127	15,648
		1.0%	3.3%	5.4%	15.8%	18.5%	19.3%	21.7%	1.5%	13.6%	100.0%
	Screen as of 12-3-23										

Source: Net Advantage Screen as of 12/3/23

Stock Report | **December 02, 2023** | NasdaqGS Symbol: **AMZN** | **AMZN** is in the S&P 500

CFRA

Amazon.com, Inc.

Recommendation	**Price**	**12-Mo. Target Price**	**Report Currency**	**Investment Style**
BUY ★★★★★	USD 147.03 (as of market close Dec 01, 2023)	USD 180.00	USD	Large-Cap Growth

Equity Analyst Arun Sundaram, CFA, CPA

GICS Sector Consumer Discretionary
Sub-Industry Broadline Retail

Summary Amazon.com, Inc. is a leading global e-commerce retailer, as well as a major provider of cloud computing services to companies, individuals, and governments.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**USD 149.26 - 81.43**	Oper.EPS2023E	**USD 4.62**	Market Capitalization[B]	**USD 1509.7**	Beta	**1.18**
Trailing 12-Month EPS	**USD 1.93**	Oper.EPS2024E	**USD 6.13**	Yield [%]	**N/A**	3-yr Proj. EPS CAGR[%]	**44**
Trailing 12-Month P/E	**76.18**	P/E on Oper.EPS2023E	**31.82**	Dividend Rate/Share	**N/A**	SPGMI's Quality Ranking	**B**
USD 10K Invested 5 Yrs Ago	**17,398.0**	Common Shares Outstg.[M]	**10,330.00**	Trailing 12-Month Dividend	**N/A**	Institutional Ownership [%]	**61.0**

CFRA

QUANTITATIVE STOCK REPORT | December 02, 2023 | NYSE : AL

Air Lease Corporation

Recommendation (as of November 30, 2023): HOLD

Risk Evaluation: MODERATE **Price:** 39.68 (Dec 01, 2023 close) **Trading Currency:** USD **Country:** United States

GICS Sector: Industrials **Sector Ranking:** marketweight **SPGMI's Quality Ranking:** B

GICS Industry: Trading Companies & Distributors

Business Summary: Air Lease Corporation, an aircraft leasing company, engages in the purchase and leasing of commercial jet aircraft to airlines worldwide. It also sells aircraft from its fleet to third parties, including other leasing companies, financial services companies, airlines, and other investors. In addition, the contd...

How To Use Additional Morningstar Quality Metrics

- Morningstar has two additional quality metrics
  - Economic Moat – Three levels (Wide Moat, Narrow Moat, and No Moat). It is a measure of their profit margins and financial condition.
  - Capital Allocation – Three levels (Exemplary, Standard, and Poor). It is a measure of management's ability to allocate its limited capital.
- In perfect world, look for Wide Moats with an Exemplary Capital Allocation. However, those companies are rare (156/ 1,905 = 8.2%) and not always "on sale" (approx. 4%).

Morningstar Quality Ranking

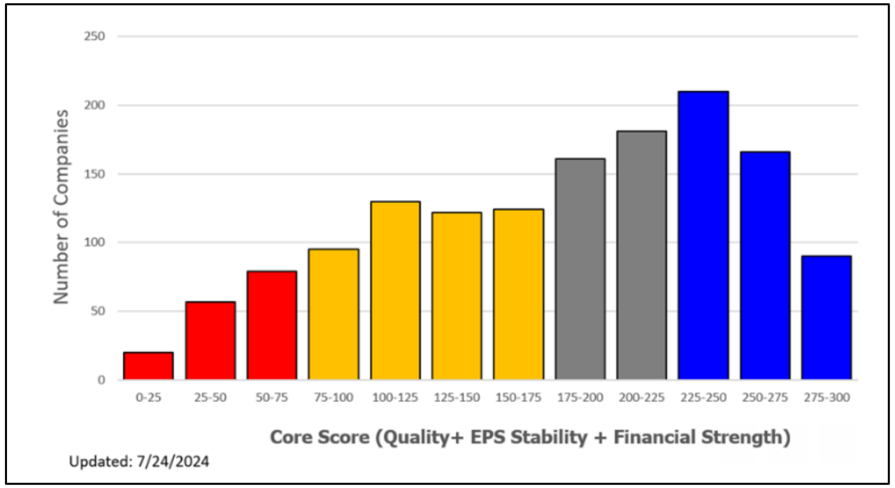
Service	Metric	Wide	Narrow	No	Totals
Morningstar	Economic Moat	315	779	811	1,905
		16.5%	40.9%	42.6%	100.0%
Service	**Metric**	**Exemplary**	**Standard**	**Poor**	**Totals**
Morningstar	Captial Allocation	395	1,411	95	1,901
		20.8%	74.2%	5.0%	100.0%
	Screen as of 12-3-23				

Source: Morningstar Screen as of 12/3/23

How To Use The Manifest Investing Quality Metric

- Manifest Investing has two ways to determine quality
  - Quality – A score from 100 (highest) to 0 (lowest). It is built on four major characteristics of a company: Financial Strength, Earnings Stability, Relative Sales Growth, & Relative Profitability.
  - Core Score – A combination of three metrics (Quality, Earnings Stability and Financial Strength). Range of scores are 300 (highest) to 0 (lowest).

- Manifest considers Quality > 80 (top quintile) or a Core Score > 225 as being among the high quality, lower risk stocks to study.



Source: Manifest Screen of Core Scores as of 07/24/24

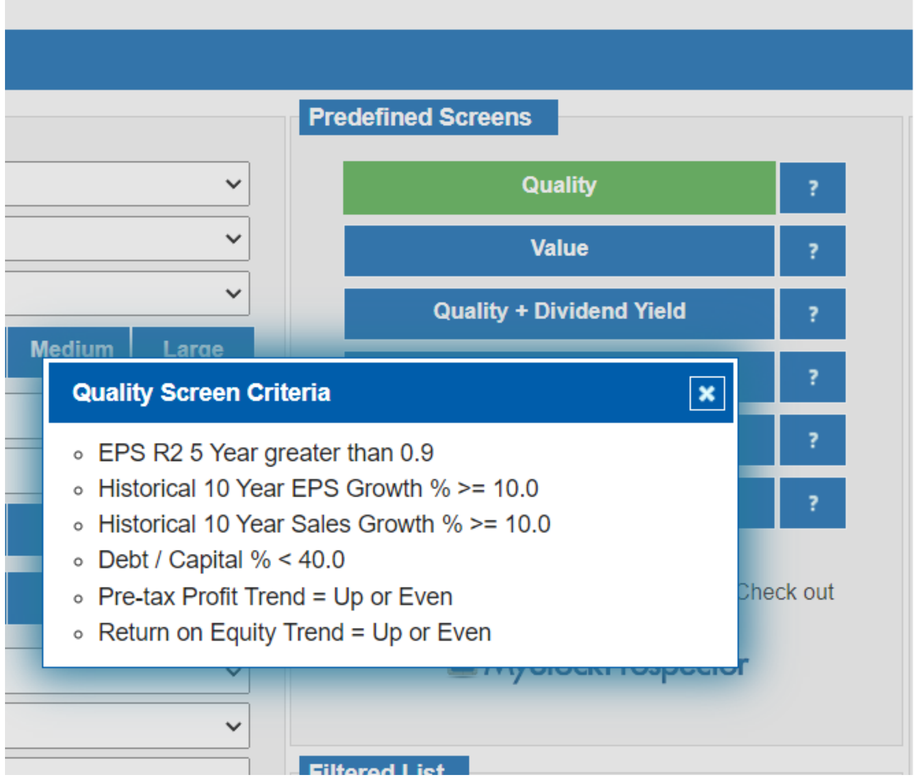
12/04/2023

Company	Symbol	Shares	Price	Value	% o	roj Yield	Fin Str	EPS Stab	Qlty	PAR
Trex	TREX	2.18	$72.07	$157.02		0.0%	78%	59	94	10.1%
Western Alliance*	WAL	2.69	$54.86	$147.79		1.5%	57%	79	88	11.6%
Williams-Sonoma	WSM	0.71	$195.85	$139.40		1.9%	94%	60	84	7.5%
ServisFirst*	SFBS	2.42	$54.49	$132.10		1.5%	99%	92	99	14.1%
Lululemon Athletica	LULU	0.27	$466.61	$128.12		0.0%	91%	97	100	9.8%

8. Appendix

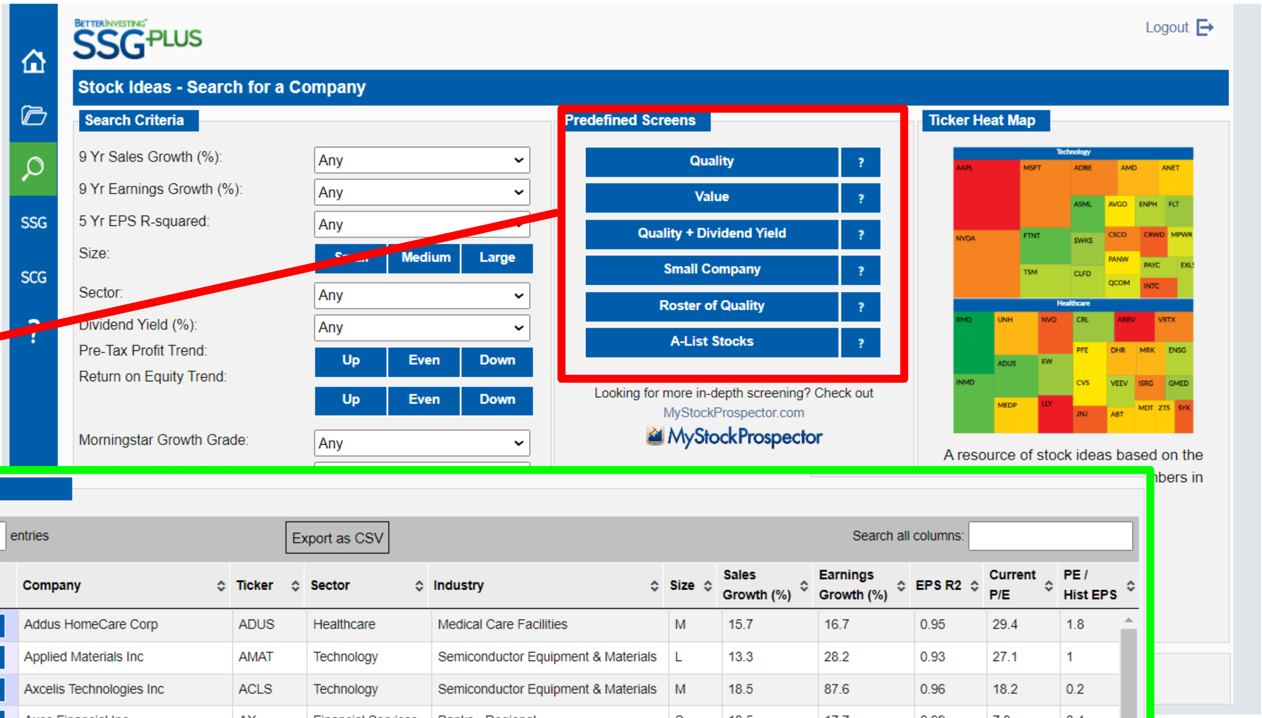
iv. Some Stock Ideas Using Quality Screen … plus a good Financial Health Grade

BI Pre-defined Screen, as of 24Jun28



Quality Screen Criteria

- EPS R2 5 Year greater than 0.9
- Historical 10 Year EPS Growth % >= 10.0
- Historical 10 Year Sales Growth % >= 10.0
- Debt / Capital % < 40.0
- Pre-tax Profit Trend = Up or Even
- Return on Equity Trend = Up or Even



Results

Show 100 entries | Export as CSV | Search all columns:

Actions	Company	Ticker	Sector	Industry	Size	Sales Growth (%)	Earnings Growth (%)	EPS R2	Current P/E	PE / Hist EPS
	Addus HomeCare Corp	ADUS	Healthcare	Medical Care Facilities	M	15.7	16.7	0.95	29.4	1.8
	Applied Materials Inc	AMAT	Technology	Semiconductor Equipment & Materials	L	13.3	28.2	0.93	27.1	1
	Axcelis Technologies Inc	ACLS	Technology	Semiconductor Equipment & Materials	M	18.5	87.6	0.96	18.2	0.2
	Axos Financial Inc	AX	Financial Services	Banks - Regional	S	18.5	17.7	0.99	7.3	0.4
	Broadcom Inc	AVGO	Technology	Semiconductors	L	23.5	72.3	0.93	71.6	1
	Brown & Brown Inc	BRO	Financial Services	Insurance Brokers	M	11.6	16.5	0.99	28.6	1.7
	Comfort Systems USA Inc	FIX	Industrials	Engineering & Construction	M	15.1	29.8	0.91	31.3	1.1
	Deckers Outdoor Corp	DECK	Consumer Cyclical	Footwear & Accessories	M	10.2	39.3	0.98	33.5	0.9
	ExlService Holdings Inc	EXLS	Technology	Information Technology Services	M	12.6	18.6	1	27.8	1.5
	Farmers & Merchants Bancorp	FMCB	Financial Services	Banks - Regional	S	10.4	16.4	0.96	8.4	0.5
	First Resource Bancorp Inc	FRSB	Financial Services	Banks - Regional	S	13.4	18.2	0.96	6.6	0.4
	Green Brick Partners Inc	GRBK	Consumer Cyclical	Residential Construction	M	27	28.2	0.93	8.6	0.3
	Greene County Bancorp Inc	GCBC	Financial Services	Banks - Regional	S	12.8	20	0.97	21.6	1.1
	Hawkins Inc	HWKN	Basic Materials	Specialty Chemicals	S	10.8	33.6	0.98	24.6	0.7
	HDFC Bank Ltd	HDB	Financial Services	Banks - Regional	L	15.1	16.7	1	3.7	0.2
	Headwater Exploration Inc	CDDRF	Energy	Oil & Gas E&P	S	47.9	141.6	0.93	7.4	0.1

Showing 1 to 40 of 40 entries

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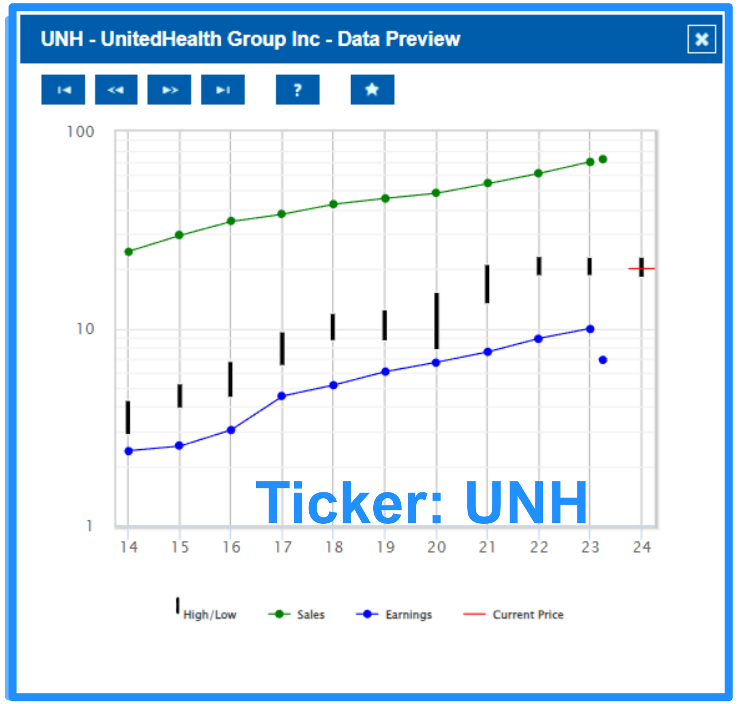
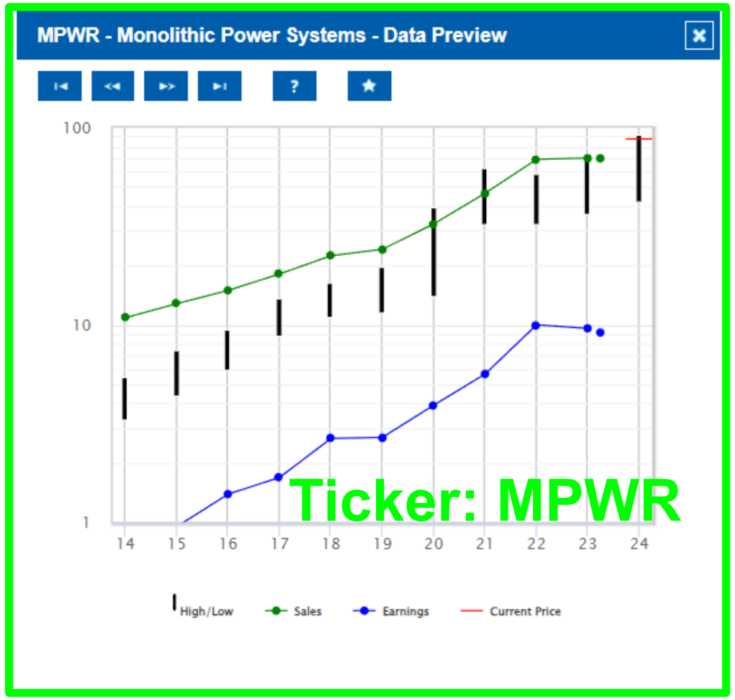
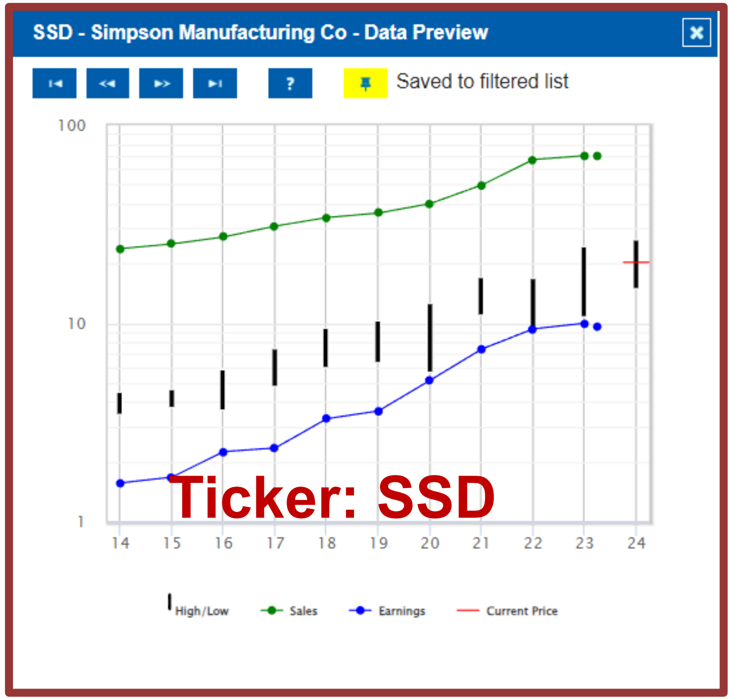
Three Stock Ideas That Pass The Pre-defined Quality Screen & an A Financial Health Grade







These are NOT Buy recommendations. Please do your own research but these stocks do cover many of the points discussed today.