NATIONAL ASSOCIATION OF INVESTORS

# BETTERINVESTING™
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## *Stock Selection Guide*

| Company | LGI Homes | | Date | 11/16/21 |
|---|---|---|---|---|
| Prepared by | MURPHY | | Data taken from | BI Stock Data |
| Where traded | NAS | Industry | Residential Construction | |
| Capitalization --- Outstanding Amounts | | | Reference | |

| Preferred ($M) | | 0.0 | % Insiders | % Institution |
|---|---|---|---|---|
| Common (M Shares) | | 24.8 | 3.4 | 78.0 |
| Debt ($M) | 670.9 | % to Tot Cap | 33.4 | % Pot Dil | 1.3 |

**Symbol: LGIH**

## 1 VISUAL ANALYSIS of Sales, Earnings, and Price



7,192

2,368

25.49

12.76
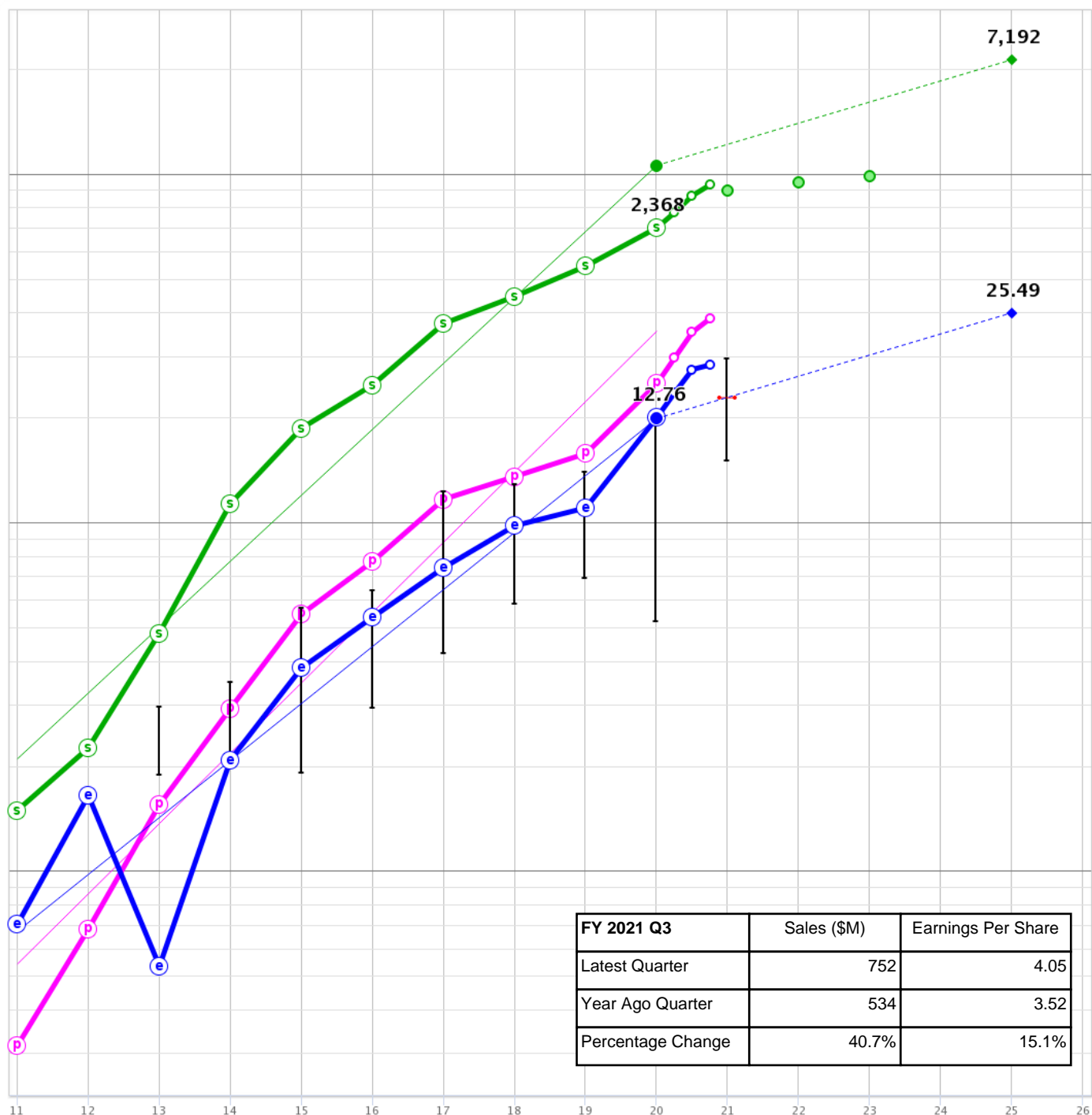
| FY 2021 Q3 | Sales ($M) | Earnings Per Share |
|---|---|---|
| Latest Quarter | 752 | 4.05 |
| Year Ago Quarter | 534 | 3.52 |
| Percentage Change | 40.7% | 15.1% |

| (1) Historical Sales Growth | 54.6% | (3) Historical Earnings Per Share Growth | 45.7% |
|---|---|---|---|
| (2) Estimated Future Sales Growth | 15.0% | (4) Estimated Future Earnings Per Share Growth | 15.0% |

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Last 5 Year Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Pre-tax Profit on Sales | 9.2% | 13.1% | 14.0% | 11.2% | 12.7% | 13.6% | 13.6% | 13.2% | 12.6% | 15.5% | 13.7% |
| % Earned on Equity | | | 18.7% | 14.2% | 22.1% | 22.0% | 23.1% | 23.1% | 22.9% | 31.5% | 24.5% |
| % Debt To Capital | 33.1% | 37.3% | 17.8% | 54.2% | 55.5% | 53.0% | 49.2% | 49.9% | 45.2% | 32.3% | 45.9% |

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

**CLOSING PRICE** 145.33 (11/16/21)      **HIGH THIS YEAR** 188.00      **LOW THIS YEAR** 95.54

| | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|
| Year | Price | | Earnings | Price Earnings Ratio | | Dividend | % Payout | % High Yield |
| | High | Low | Per Share | High A / C | Low B / C | Per Share | F / C * 100 | F / B * 100 |
| 2016 | 40.5 | 18.7 | 3.41 | 11.9 | 5.5 | 0.00 | 0.0 | 0.0 |
| 2017 | 78.0 | 26.8 | 4.73 | 16.5 | 5.7 | 0.00 | 0.0 | 0.0 |
| 2018 | 81.9 | 37.2 | 6.24 | 13.1 | 6.0 | 0.00 | 0.0 | 0.0 |
| 2019 | 89.0 | 44.2 | 7.02 | 12.7 | 6.3 | 0.00 | 0.0 | 0.0 |
| 2020 | 133.0 | 33.0 | 12.76 | 10.4 | 2.6 | 0.00 | 0.0 | 0.0 |
| AVERAGE | | 32.0 | | 12.9 | 5.2 | | 0.0 | |
| CURRENT/TTM | | | 18.05 | | | 0.00 | 0.0 | |
| AVERAGE PRICE EARNINGS RATIO: 9.1 | | | | CURRENT PRICE EARNINGS RATIO: 8.1 | | | | |

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS**

     Avg. High P/E    9.1    X Estimate High Earnings/Share    25.49    =    Forecasted High Price $    232.0

**B LOW PRICE - NEXT 5 YEARS**

     (a) Avg. Low P/E    5.2    X Estimate Low Earnings/Share    18.05    =    Forecasted Low Price $    93.9

     (b) Avg. Low Price of Last 5 Years    32.0

     (c) Recent Market Low Price    33.0

     (d) Price Dividend Will Support    $\dfrac{\text{Indicated Dividend}}{\text{High Yield}}$ = $\dfrac{0.00}{0.00\%}$ = 0.0

         Selected Forecasted Low Price $    108.0

**C ZONING**    using 25%-50%-25%

     Forecasted High Price    232.0    Minus Forecasted Low Price    108.0    =    124.0    Range.    25% of Range    31.0

         Buy Zone    108.0    to    139.0

         Hold Zone    139.0    to    201.0

         Sell Zone    201.0    to    232.0

     Present Market Price of    145.33    is in the    **HOLD**    Zone

**D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)**

     $\dfrac{\text{High Price} \quad 232.0}{\text{Present Price} \quad 145.33}$    $\dfrac{\text{Minus Present Price} \quad 145.33}{\text{Minus Low Price} \quad 108.0}$ = $\dfrac{86.66}{37.33}$ = 2.3    To 1

**E PRICE TARGET**    (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

     $\dfrac{\text{High Price} \quad 232.0}{\text{Closing Price} \quad 145.33}$ = 1.5963   X   100   =   159.63   -   100   =   59.6   % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**    $\dfrac{\text{Indicated Annual Dividend} \quad 0.00}{\text{Closing Price} \quad 145.33}$ = 0.0000 = 0.0 %    Current Yield

**B AVERAGE YIELD - USING FORECAST HIGH P/E**      **AVERAGE YIELD - USING FORECAST AVERAGE P/E**

   $\dfrac{\text{Avg. \% Payout}}{\text{Forecast High PE}}$ = $\dfrac{0.0\%}{9.10}$ = 0.0 %      $\dfrac{\text{Avg. \% Payout}}{\text{Forecast Average PE}}$ = $\dfrac{0.0\%}{7.15}$ = 0.0 %

**C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E**      **COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E**

| | | | |
|---|---|---|---|
| Annualized Appreciation | 9.8 % | Annualized Appreciation | 4.6 % |
| Average Yield | 0.0 % | Average Yield | 0.0 % |
| Annualized Rate of Return | 9.8 % | Annualized Rate of Return | 4.6 % |

## Notes: LGIH 11/9/21

| Date | Subject | Description | Type |
|---|---|---|---|
| 11/18/21 | LGIH Nov. 18, 2021 3rd Q | LGIH is hitting on all cylinders.  But their torrid growth is starting to slow..  Yahoo analysts and Manifest Investing are still predicting over 16% eps, and I am sticking with 15%, and using it for both revenue and earnings.<br>Kept the PE's of the previous studies.  Stock is in the hold range but very close to a buy. | Study |