Value Line®

In-Depth Guide

Reading a Value Line Research Report

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The In-Depth Guide to Reading a Value Line Research Report

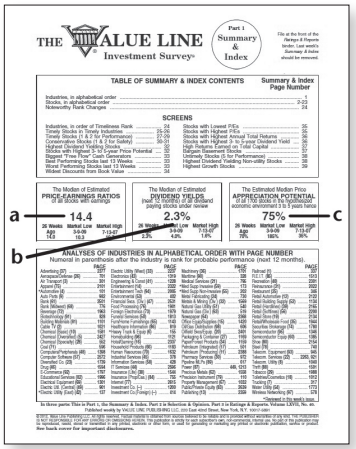
The Value Line Investment Survey® is a unique source of financial information designed to help investors make informed investment decisions that fit their individual goals and levels of risk. It is: (1) a proven forecaster of relative stock performance over the next six to 12 months; (2) a source of interpretative analysis on approximately 1,700 individual stocks and approximately 100 industries; and (3) a source of historical information to help investors spot trends.

I: GETTING STARTED

As a subscriber, you will receive three parts of *The Value Line Investment Survey* each week. Part 1 is the *Summary & Index*, Part 2 is *Selection & Opinion* and Part 3 is *Ratings & Reports*. Below we will describe each section and discuss some of the ways to use them.

Part 1—Summary & Index

Start with the *Summary & Index*. The front cover contains a Table of Contents, three important market statistics, and a list of all the industries we follow in alphabetical order with their current industry rank shown next to the name of the industry. The page number is to the right. The market statistics are found in three boxes. The first box (a) has the median of estimated price/earnings ratios of all stocks with earnings covered in *The Value Line Investment Survey* (approximately 1,700). The second box (b) shows the median of estimated dividend yields (total dividends expected to be paid in the next 12 months divided by the recent price) of all dividend-paying stocks in *The Value Line Investment Survey*. The third box (c) contains the estimated median price appreciation potential 3 to 5 years into the future for the approximately 1,700 stocks in The Value Line Investment Survey, based on *Value Line's* hypothesized economic environment 3 to 5 years hence. By studying these statistics, a fairly good picture emerges of how the universe of *Value Line* stocks—which comprises approximately 90% of the market capitalization of all stocks traded in U.S. markets and is therefore quite representative of the stock market as a whole — is currently being evaluated.



Summary & Index

Beginning on page 2, the *Summary & Index* also includes an alphabetical listing of all stocks in the publication with references to their location in Part 3, Ratings & Reports. If you are looking for a particular stock, look inside the *Summary & Index* section, which is updated each week to provide the most current data on all companies included in *The Value Line Investment Survey*.

To locate a report on an individual company, look for the page number just to the left of the company name. Then turn to that page in Part 3, *Ratings & Reports*, where the page number is shown in the right hand corner.

In the far left column of the Summary & Index is a number that refers to recent Supplementary Reports, if any, which are included on the back pages of *Ratings & Reports* If two stars (★★) appear in that column, it means that there is a Supplementary Report in the current Issue.

There are many columns in the **Summary & Index** with more information on each of the approximately 1,700 stocks we cover.

There is also a wealth of information in the stock screens toward the back of the ***Summary & Index,*** beginning on page 24.

These screens are a good place to start for anyone looking for investment ideas or help in forming a strategy. The screens are also useful for investors who want a list of stocks relevant to specific strategies they may have in mind.

Part 2—Selection & Opinion

Selection & Opinion (S&O) contains *Value Line's* latest economic and stock market commentary and investment ideas, along with one or more pages of research on interesting stocks or industries, and a variety of pertinent economic and stock market statistics. It also includes four model stock portfolios (Stocks with Above-Average Year-Ahead Price Potential, Stocks for Income and Potential Price Appreciation, Stocks with Long-Term Price- Growth Potential, and Stocks with Above-Average Dividend Yields). If you spend time with *Selection & Opinion* each week, you should be able to get some valuable investment ideas and a good understanding of *Value Line's* outlook for the economy.

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PAGES 1397-1408
File in page order in the Selection & Opinion binder.

PART 2 — Selection & Opinion

Dear Subscribers,

As part of our ongoing efforts to keep The Value Line Investment Survey® the most valuable investment resource for our subscribers, all updated Ranks are now being released on the Value Line Web Site at 8:00 A.M. Eastern Time on Mondays. You can access the Web Site at any time at www.valueline.com, by entering your user name and password. We look forward to continuing to provide you with accurate and timely investment research. Thank you.

The Value Line View

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In Three Parts: Part 1 is the Summary & Index; Part 2 is Selection & Opinion; Part 3 is Ratings & Reports. Volume LXVII, No. 2

ECONOMIC AND STOCK MARKET COMMENTARY

The economic picture is getting a little brighter. To be sure, no alarm bells are going off. However, after months in which the metrics had generally pointed to faltering growth, data on new and existing home sales, industrial output and factory usage, retail sales, and the leading indicators are all suggesting that a mild pickup in activity is under way. These recent reports strengthen the case for our nation being able to bypass the ills now engulf ing the ailing euro zone.

That said, progress is likely to be slow and uneven until the latter stages of 2013. Although this ration, as noted, is unlikely to follow Europe down the troubled road to recession, the data may still be sluggish enough, and inventory caution still formidable enough, for growth to hold within the 1.5%-2.0% range until later in 2013. Then, presumably, payroll growth and housing should perk up further, lifting consumer and business confidence sufficiently to generate the spending needed to yield a broader-based and more substantial upturn in 2014.

Meanwhile, lingering issues are still about that could derail things in the interim. Mostly, these center on the euro zone (and its worsening economic ills) and the potential for a harder landing in China. Closer to home, there is the "fiscal cliff" of automatic tax hikes and spending cuts that are set to take effect by yearend unless the sitting Congress acts to postpone these disruptions until the new Congress can take its seat and, hopefully, address these issues.

Given such unknowns, the stock market's showing in 2012 has been uplifting. In fact, as the summer ends, the averages are within striking distance of multi-year highs. Better earnings, evolving optimism on the economy, modest valuations, and the compelling allure of increasing dividends are all making equities a popular investment choice currently.

Here, as well, there are some concerns. As with the economy, the threats from Europe, China, rising oil prices, and the "fiscal cliff" could bring on some short-term profit taking in a stock market that has done rather well in a comparatively short span of time. That said, . . .

Conclusion: We remain generally positive on the market's outlook for the coming six months. Please refer to the inside back cover of *Selection & Opinion* for our statistically-based Asset Allocation Model's current reading.

CLOSING STOCK MARKET AVERAGES AS OF PRESS TIME

	8/15/2012	8/22/2012	%Change 1 week	%Change 12 months
Dow Jones Industrial Average	13944.78	13972.76	+0.1%	+15.4%
Standard & Poor's 500	1403.53	1413.49	+0.6%	+23.8%
N.Y. Stock Exchange Composite	8179.93	8074.12	+0.6%	+15.7%
NASDAQ Composite	3130.93	3073.67	+1.4%	+31.7%
Value Line (Geom.)	3.42.00	3.41.78	+0.6%	+16.7%
American Stock Exchange Index	2420.90	2431.78	+0.4%	+8.7%
Value Line (Geometric)	389.72	392.94	+0.9%	+16.3%
Value Line (Arithmetic)	511.13	514.04	+0.6%	+19.2%
London FT-SE 100	5813.06	5778.20	+1.0%	+13.1%
Tokyo (Nikkei)	8525.04	9110.74	+2.3%	+5.8%
Russell 2000	804.26	812.56	+1.0%	+24.8%

Selection & Opinion

Part 3—Ratings & Reports

Ratings & Reports is the core of *The Value Line Investment Survey* with one-page reports on approximately 1,700 companies and one-page reports on approximately 100 industries. The company reports contain *Timeliness™*, *Safety™* and *Technical* ranks, our 3- to 5-year forecasts for stock prices, income and balance sheet data, as much as 17 years of historical data, and our analysts' commentaries. They also contain stock price charts; quarterly sales, earnings, and dividend information; and a variety of other very useful data. Each page in this section is updated every 13 weeks. When important, and often unforeseen, news occurs during these 13 week intervals, a Supplementary Report (appearing in the back section of *Ratings & Reports*) is published. If there is a Supplementary Report, its location will be shown in the far left hand column of the *Summary & Index*, near the company name. (Two stars—★★—indicate that the Supplementary Report is in the current week's Issue.)

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Part 3 Ratings & Reports

ISSUE 1
Pages 100-250

Ratings & Reports

Every week subscribers receive a new Issue of *Ratings & Reports* containing approximately 130 company reports grouped by industry and a smaller number of industry reports. The industry reports precede the reports on the companies in that same industry. Over the course of three months, revised reports are issued on all approximately 1,700 companies and nearly 100 industries.

II: PLANNING AN INVESTMENT STRATEGY

When planning an investment strategy, it is important to consider a large number of factors, including such things as your age, current financial situation, and risk tolerance. Of course, there are many other factors to think about, but the point is that you should not simply sit down and start picking securities.

We have created a guide called "Planning an Investment Strategy" that you may wish to read before taking any portfolio action. As a quick summary, you should diversify your portfolio across both asset classes (i.e., stocks, bonds, and foreign securities) and within asset classes (i.e., owning a variety of stocks and bonds).

In addition, you do not have to handle every portion of your portfolio. Instead, you might hire someone else to handle the components that you do not have the desire or experience to oversee. An example of this would be to buy a diversified fixed-income mutual fund for the bond portion of your portfolio, while maintaining a collection of stocks yourself. The right mix of "outsourcing" and personal direction is an individual decision, but in the end you should create a portfolio that is hopefully both profitable and enjoyable to manage.

Again, we encourage you to take the time to read through the "Planning an Investment Strategy" guide so that you can start your portfolio on a solid foundation.

III: CREATING A LIST OF STOCKS FOR FURTHER RESEARCH

Once you have decided on a foundation portfolio, most likely consisting of a collection of asset-class baskets, you will need to find securities to fill those baskets. There are many ways to use *The Value Line Investment Survey* to find the equities that are most appropriate for your needs.

There are approximately 1,700 stocks in our coverage universe, so opening the first issue and starting to examine each stock report in search of the few you want to own would be a time consuming and, frankly, nearly impossible task. To assist our readers in creating "short lists" of stocks for further consideration, we included a number of stock screens in the back of each *Summary & Index*.

The screens are updated weekly and cover a broad range of investment options, including Timely Stocks in Timely Industries, Conservative Stocks, Highest Yielding Stocks, and Stocks with Highest 3- to 5-Year Appreciation Potential. A description of the screens is provided if the title of a screen is not self-explanatory. There are, of course, many more screens than the ones listed here, so you should take a look at the pages in the back of the Summary & Index to get a feel for which ones will best fit your specific needs. Regardless of which screens you choose to use, this approach will provide you with a short list of companies to research.

For those who want more advice than a static screen, we have also created four model portfolios: Portfolio I (Stocks with Above-Average Year-Ahead Price Potential), Portfolio II (Stocks for Income and Potential Price Appreciation), Portfolio III (Stocks with Long-Term Price Growth Potential), and Portfolio IV (Stocks with Above-Average Dividend Yields). These portfolios are overseen by senior Value Line analysts and are updated weekly in the *Selection & Opinion section*. Periodically, a more in-depth review is provided detailing the most recent performance of each portfolio. These portfolios offer another convenient starting point for selecting stocks for inclusion in your own portfolio.

On an ongoing basis, we also provide stock screens and Stock Highlights in the *Selection & Opinion* section. The screens go beyond those included on a weekly basis in the *Summary & Index* and often provide a different and unique view of an investment approach. The Stock Highlights are a more in-depth review of a company that we believe merits a second look. Although these two options may not be the best starting point for you, they can play an important role in providing new and interesting investment ideas down the road.

IV: RESEARCHING A STOCK USING THE VALUE LINE PAGE

A sample Value Line report is included at the back of this guide. The numbers below reference back to the sample page.

To start studying a stock, we suggest that you concentrate on various features found on every company page of *Ratings & Reports*. Begin by using the *Timeliness*,™ *Safety*™ and Technical ranks that appear in the upper left corner of each page (1). Next, look at the analyst's commentary in the bottom half of each report (17). Then look at our various forecasts for financial data. Estimated financial data is shown on the right side (bold italic print) of the Statistical Array (15). Growth rates are in the *Annual Rates* box (23). A stock's *Target Price Range* is on the right-hand side of the graph (11), and 3- to 5-year stock price *Projections* are in the projections box (29). Finally, go to the historical financial data appearing in the left side of the Statistical Array (26). Illustrations and more detail follow.

Value Line Ranks

(see (1) on the sample page)

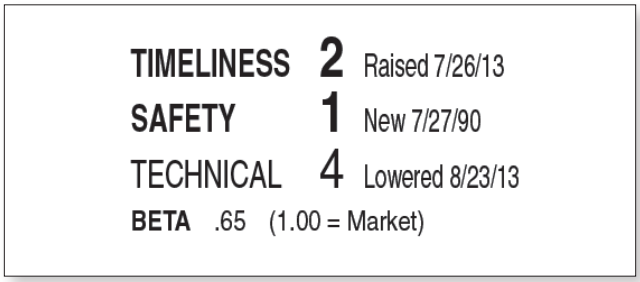
Timeliness

The *Timeliness* rank is *Value Line's* measure of the expected price performance of a stock for the coming six to 12 months relative to our approximately 1,700 stock universe. Stocks ranked 1 (*Highest*) and 2 (*Above Average*) are likely to perform best relative to the approximately 1,700 stocks we follow. Stocks ranked 3 are likely to be average performers. Stocks ranked 4 (*Below Average*) and 5 (*Lowest*) are likely to underperform stocks ranked 1 through 3 in *Value Line's* universe.

At any one time, there are 100 stocks ranked 1; 300 ranked 2; approximately 900 ranked 3; 300 ranked 4; and 100 ranked 5.

The most important factor in determining the *Timeliness* rank is earnings growth. Companies whose earnings growth over the past 10 years has been greater than their stocks' price appreciation tend to have favorable ranks. In addition, the ranks take into account a stock's recent price performance relative to all approximately 1,700 stocks in the *Value Line* universe. A company's recent quarterly earnings performance and any recent earnings surprises caused because a company reported results that were significantly better or worse than expected are also factors. These are all combined to determine the *Timeliness* rank.

Just one word of caution. Stocks ranked 1 for *Timeliness* are often more volatile than the overall market and tend to have smaller capitalizations (the total value of a company's outstanding shares, calculated by multiplying the number of shares outstanding by the stock's price per share). Conservative investors may want to select stocks that also have high *Safety* ranks because they are more stable issues.



Sample Ranks Box

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

Financial/Stock Price Data

Safety

The *Safety* rank is a measure of the total risk of one stock compared to all others in our approximately 1,700 stock universe. As with *Timeliness* rank, *Value Line* ranks each stock from 1 (Highest) to 5 (Lowest). However, unlike *Timeliness* rank, the number of stocks in each category from 1 to 5 may vary. The *Safety* rank is derived from two measurements (weighted equally) found in the lower right hand corner of each page 29: a Company's Financial Strength and a Stock's Price Stability. Financial Strength is a measure of a company's financial condition, and is reported on a scale of A++ (highest) to C (lowest). The largest companies with the strongest balance sheets get the highest scores. Price Stability is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the price of a company's own stock over the last five years, and is reported on a scale of 100 (highest) to 5 (lowest) in increments of 5. Generally speaking, stocks with *Safety* ranks of 1 and 2 are most suitable for conservative investors.

A stock's Price Growth Persistence and a company's Earnings Predictability are also included in the box above, but do not factor into the *Safety* rank. However, they are useful statistics. Price Growth Persistence is a measure of the consistency of relative stock price growth over the past 10 years. Earnings Predictability is a measure of the reliability of an earnings forecast.

Technical

The *Technical* rank is primarily a predictor of a stock's short term (three to six months) relative price change. It is based on a proprietary model which examines 10 relative price trends for a particular stock over different periods in the past year. It also takes into account the price volatility of each stock. The *Technical* ranks also range from 1 (Highest) to 5 (Lowest). At any one time, about 100 stocks are ranked 1; 300 ranked 2; 900 ranked 3; 300 ranked 4; and 100 ranked 5.

Beta

Beta is a measure of the volatility of a stock relative to the overall stock market and is calculated by *Value Line*. A *Beta* of 1.0 suggests that a stock will move up and down in roughly lock-step with the market, so that a 3% increase or fall in the broader market would likely be accompanied by a similar percentage move in the stock. A *Beta* higher than 1.0 means a stock tends to move more than the market, while a *Beta* lower than 1.0 suggest that the stock in question will move in a muted relationship to a move in the market.

Industry Timeliness

Value Line also publishes *Industry* ranks which show the *Timeliness* of each industry. The *Industry* ranks indicate how *Value Line* believes the prices of stocks within 90 or more industries will perform relative to each other. **These ranks are updated weekly and published on the front cover and on page 24 of the *Summary & Index*. They also appear at the top of each Industry Report in *Ratings & Reports*.** The *Industry* rank is calculated by averaging the *Timeliness* ranks of each of the stocks assigned a *Timeliness* rank in a particular industry.

Analyst's Commentary

(see 17 on the sample page)

Next, look at the analyst's written commentary in the lower half of the page. Many readers think this is the most important section of the page. In the commentary, the analyst discusses his/her expectations for the future.

Timely shares of Johnson & Johnson continue to move higher. Investors have been favoring this issue of late, likely thanks to its stability, predictability, and earnings growth prospects. The recent second-quarter sales and earnings beats added some fuel to fire, too. All told, JNJ stock is up more than 30% since the start of the 2013, and the uphill climb has been surprisingly steady. We continue to recommend this blue chip to momentum chasers. **The company's second-quarter performance was much better than expected.** Sales were $17.9 billion, up 9% from a year earlier, as operational growth of 10% was slightly offset by a 1% drag related to currency translation. The top-line figure was on a par with our estimate, but was roughly $175 million ahead of the consensus. J&J also shined on the bottom line, as adjusted share earnings climbed 14%, to $1.48. (GAAP share net nearly tripled, to $1.30.) Both *Value Line* and Wall Street analysts, on average, were looking for adjusted share profits of $1.39. All of J&J's divisions contributed to the positive June-quarter performance, including the embattled Consumer segment. The Pharmaceuticals and Medical Devices & Diagnostics groups both shined, posting double-digit revenue growth in the period. **We have bolstered our 2013 share-earnings target.** Management was hesitant to raise guidance by a considerable margin, even after putting together back-to-back strong performances in the March and June quarters. In fact, the company only increased 2013 share-earnings guidance from $5.35-$5.45 to $5.40-$5.47. We were already expecting share net to come in at $5.43, while most on Wall Street were looking for $5.41. As a result, we have added $0.03 to our full-year target, but we actually cut $0.06 from our second-half estimates. Our top-line call has been slightly reduced, to $71.4 billion. **This top-quality blue chip is a good option for both momentum-oriented and conservative investors, but those with a longer-term horizon should probably look elsewhere, for now.** The recent increase in share price has really discounted this issue's 3- to 5-year appeal. The dividend yield is good, however, and JNJ is as stable as they come.

Erik A. Antonson *August 23, 2013*

Sample Analyst's Commentary
(Also see item 17 on the sample page)

There are times when the raw numbers don't tell the full story. The analyst uses the commentary to explain why the forecast is what it is. The commentary is also particularly useful when a change in trend is occurring or about to occur. As an example, a stock may have a poor *Timeliness* rank but the analyst thinks earnings could turn around in the future. In this case, the analyst may use the commentary to explain why he/she thinks conditions are likely to get better, thus giving the subscriber insight into what is happening and why.

Value Line's Financial Data

(see 15 and 26 on the sample page)

In the Statistical Array in the center of the report (where most of the numbers are), Value Line provides both historical data and financial projections.

Financial Estimates

(see 15 and 22 on the sample page)

The estimates of sales, earnings, net profit margins, income tax rates, and so forth are all derived from spreadsheets maintained on every company and printed in ***bold italics***. The numbers are based on an analyst's latest thinking about where a company may be in the future. Our analysts regularly review their projections and discuss them with a company's management. Afterwards, they make whatever adjustments they believe are warranted.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
8.41	8.80	9.88	10.47	10.83	12.23	14.10	15.94	16.98	18.43	21.51	23.02	22.47	22.49	23.87	24.19	*25.95*	*27.25*	Sales per sh A	*32.45*
1.62	1.83	2.03	2.27	2.46	2.85	3.36	3.94	4.25	4.60	5.23	5.70	5.69	5.92	6.25	6.48	*7.20*	*7.60*	"Cash Flow" per sh	*9.05*
1.21	1.34	1.49	1.70	1.91	2.23	2.70	3.10	3.50	3.76	4.15	4.57	4.63	4.76	5.00	5.10	*5.46*	*5.80*	Earnings per sh B	*7.30*
.43	.49	.55	.62	.70	.80	.92	1.10	1.28	1.46	1.62	1.80	1.93	2.11	2.25	2.40	*2.59*	*2.79*	Div'ds Decl'd per sh C■	*3.45*
.52	.54	.62	.59	.57	.71	.76	.73	.88	.92	1.04	1.11	.86	.87	1.06	1.06	*1.10*	*1.10*	Cap'l Spending per sh	*1.15*
4.59	5.06	5.83	6.76	7.95	7.65	9.05	10.71	12.73	13.59	15.25	15.35	18.37	20.66	20.05	23.33	*25.75*	*28.40*	Book Value per sh D	*37.50*
2690.3	2688.1	2779.4	2781.9	3047.2	2968.3	2966.0	2971.0	2974.5	2893.2	2840.2	2769.2	2754.3	2738.1	2724.4	2716.5	*2750.0*	*2730.0*	Common Shs Outst'g E	*2680.0*
24.9	28.1	31.6	26.4	27.2	25.9	19.4	18.1	18.5	16.6	15.4	14.3	12.5	13.1	12.7	13.1	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*13.5*
1.44	1.46	1.80	1.72	1.39	1.41	1.11	.96	.99	.90	.82	.86	.83	.83	.80	.84			Relative P/E Ratio	*.90*
1.6%	1.3%	1.2%	1.4%	1.3%	1.4%	1.8%	2.0%	2.0%	2.3%	2.5%	2.8%	3.3%	3.4%	3.5%	3.6%			Avg Ann'l Div'd Yield	*3.5%*
CAPITAL STRUCTURE as of 9/30/13						41862	47348	50514	53324	61095	63747	61897	61587	65030	67224	*71400*	*74400*	Sales ($mill) A	*87000*
Total Debt $14,982 mill. **Due in 5 Yrs** *$7,400 mill.*						31.3%	31.6%	30.6%	28.7%	29.4%	29.5%	31.6%	31.4%	32.3%	35.7%	*35.8%*	*35.8%*	Operating Margin	*36.0%*
LT Debt $9,643 mill. **LT Interest** *$420 mill.* (12% of Capital)						1669.0	2124.0	2093.0	2177.0	2777.0	2832.0	2774.0	2939.0	3158.0	3666.0	*4200*	*4400*	Depreciation ($mill)	*4760*
						8096.6	9298.0	10545	11133	12085	12949	12906	13279	13867	14345	*15600*	*16400*	Net Profit ($mill)	*19600*
Leases, Uncapitalized Annual rentals $251 mill.						30.2%	27.6%	24.8%	23.3%	22.1%	23.5%	22.0%	21.1%	20.1%	23.1%	*23.0%*	*23.0%*	Income Tax Rate	*23.0%*
						19.3%	19.6%	20.9%	20.9%	19.8%	20.3%	20.9%	21.6%	21.3%	21.3%	*21.8%*	*22.0%*	Net Profit Margin	*22.5%*
Pension Assets-12/12 $17.5 bill. **Oblig.** $21.8 bill.						9547.0	13093	16759	3914.0	10108	13525	17610	24235	31505	21854	*24400*	*26900*	Working Cap'l ($mill)	*35200*
						2955.0	2566.0	2017.0	2014.0	7074.0	8122.0	8223.0	9156.0	12969	11489	*11800*	*12100*	Long-Term Debt ($mill)	*13300*
Preferred Stock None						26869	31813	37671	39516	43519	42511	50586	56579	57080	64826	*70800*	*77500*	Shr. Equity ($mill)	*105500*
Common Stock 2,818,073,863 shares						27.4%	27.3%	26.5%	27.1%	24.1%	26.0%	22.3%	20.6%	20.2%	19.1%	*19.0%*	*18.5%*	Return on Total Cap'l	*17.5%*
as of 7/26/13						30.1%	29.2%	27.8%	28.3%	27.9%	30.5%	25.5%	23.5%	24.3%	22.1%	*22.0%*	*21.0%*	Return on Shr. Equity	*19.5%*
MARKET CAP: $259 billion (Large Cap)						19.9%	19.0%	17.8%	17.5%	17.1%	18.6%	15.0%	13.2%	13.5%	11.9%	*11.5%*	*11.5%*	Retained to Com Eq	*10.5%*
						34%	35%	36%	38%	39%	39%	41%	44%	44%	46%	*47%*	*47%*	All Div'ds to Net Prof	*47%*

Sample Statistical Array

Historical Financial Data

(see 26 on the sample page)

Many investors like to use the Statistical Array to do their own analysis. They, in particular, use the historical data in the center of each report to see how a company has been

doing over a long time frame. It's worth pointing out that while all of the data are important, different readers find different data items to be most useful.

The numbers are probably most helpful in identifying trends. For example, look at sales per share to see if they have been rising for an extended period of time. Look at operating margins and net profit margins to see if they have been expanding, narrowing or staying flat. Also check the percentages near the bottom to see if the Return on Total Capital or the Return on Shareholders' Equity have been rising, falling or remaining about the same.

Annual Rates Of Change

(see 23 on the sample page)

At this point, it may be helpful to look at the Annual Rates box in the left-hand column. This box shows the compound annual growth percentages for sales, cash flow, and other items for the past 5 and 10 years and also *Value Line's* projections of growth for each item for the coming 3 to 5 years. Trends are also important here. Check whether growth has been increasing or slowing and to see if *Value Line's* analyst thinks it will pick up or fall off in the future. (Specific estimates for various data items for three to five years in the future can be found in bold italicized type in the far right hand column of the Statistical Array.)

Target Price Range and 3- to 5-year Projections

(see 11 and 29 on the sample page)

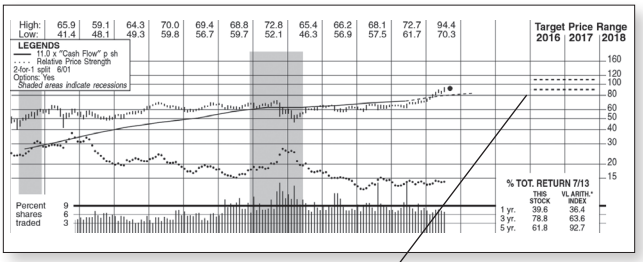
In the upper right-hand section of each report is a Target Price Range for each stock. This is the range in which the price is likely to fall during the period 3 to 5 years hence. The range is based on the analyst's projections in the period 3-5 years out for earnings per share multiplied by the estimated price/earnings ratio in the Statistical Array for the same period. The width of the high-low range depends on the stock's *Safety* rank. A stock with a high *Safety* rank has a narrower range, one with a low rank, a wider one.

In the left hand column of each report, there is also a box which contains 3- to 5-year Projections for a stock price. There you can see the potential high and low average prices we forecast, the % price changes we project, and the expected compound annual total returns (price appreciation plus dividends). To make these calculations, analysts compare the expected prices out 3 to 5 years into the future (as shown in the Target Price Range and Projections box) with the recent price shown at the top of the report.

Investors whose primary goal is long-term price appreciation should study the 3- to 5-year projections carefully and choose stocks with above-average appreciation potential. For comparative purposes, you can find the Estimated Median Price Appreciation Potential for all approximately 1,700 stocks on the front page of the *Summary & Index*.

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	7.5%	4.5%	*5.5%*
"Cash Flow"	9.5%	6.0%	*6.5%*
Earnings	10.0%	5.5%	*6.5%*
Dividends	12.5%	9.0%	*7.5%*
Book Value	11.5%	9.5%	*9.5%*

Sample Annual Rates Box



Target Price Range (3 to 5 years)

V: EXAMINING A VALUE LINE PAGE IN MORE DETAIL

In the following section, we are going to examine an actual *Value Line* page, with the objectives of interpreting the array of statistical data presented and weighing the data and the accompanying comment against your needs. We have chosen for examination a report on Johnson & Johnson, a large and well-known manufacturer of health care products.

Putting Data in Perspective

Looking at the top of the page, we can see that Johnson & Johnson's stock price in August 2013 was $92.00 a share (item 5 on the sample page). By itself, the stock price means very little. In the line below the price, annual high and low prices for each year from 2002 through mid-2013 are indicated. Below the high and low annual prices is a price chart (graph) that shows monthly price ranges for essentially the same period, along with other useful information that we will discuss below. We note here, though, that while Johnson & Johnson stock has traded in a relatively narrow range, with the exception of late 2009 to mid-2010, it has still climbed about 120% from its low of 41.40 in 2002 (adjusted for a stock split in 2001).

At the current quotation, is the stock undervalued or overvalued? The fact that the "cash flow" line is above the price of the stock indicates that it appears to be undervalued. Also, sales per share, cash flow per share, earnings per share, and book value per share are all near historical highs, as can be seen in the Statistical Array (items 15 and 26 on the sample page).

Price Earnings Ratio—This is probably the most widely used measure of stock valuation. *Value Line* shows a variety of P/E ratios on every company page, as discussed below:

The **P/E ratio** on the very top of the *Value Line* page (item 6 on the sample page). This is calculated by dividing the recent price of the stock by the total of the last six months of earnings and the next six months of estimated earnings.

The **Relative P/E ratio** (item 8). This compares the P/E of one stock with the median of estimated P/E ratios of all stocks under *Value Line* review. A relative P/E of more than 1 indicates that a stock's P/E ratio is currently higher than that of the *Value Line* universe; a P/E of less than 1 indicates that this stock's P/E is less than the *Value Line* average.

The Trailing P/E ratio (item 7). This is calculated by dividing the recent price of the stock by the past 12 months of actual (reported) earnings. This is the figure shown in most newspapers and on financial web sites.

The Median P/E ratio (item 7). This is the average annual P/E ratio of a stock over the past 10 years, with certain statistical adjustments made for unusually low or high ratios.

The Average Annual P/E ratio (items 15 and 26). This figure is calculated by dividing the average price for each year by the actual reported earnings for the same year and is shown in the Statistical Array.

The Relative (Annual) P/E ratio (items 15 and 26). This figure is calculated by dividing the *Average Annual* P/E of a stock with the *Average Annual* P/E of all stocks under *Value Line* review in the same year.

To gauge the significance of the recent price of a stock, the reader must look at the price in relation to a variety of data. As far as P/Es are concerned, the current P/E ratio and relative P/E ratio for Johnson & Johnson's stock, are below those of most stocks in the *Value Line* universe. In addition, we expect Johnson & Johnson to continue to trade at a valuation that is below the market average.

Low P/E ratios may mean that the stock is underpriced, unless there are factors indicating that there will be a significant decline in the company's fundamentals. Is this the case with Johnson & Johnson? Probably not, since management has been very vigilant in its efforts to maximize returns from its businesses, and the *Value Line* analyst is expecting continued profit growth over the three to five years subsequent to 2013. Johnson & Johnson's relative P/E ratio of 0.95 (item 8), a lower valuation than found in the average stock followed by *Value Line*, likely reflects the fact that the company's upward earnings trend over the past 15 years has recently moderated.

The Dividend Yield (item 10 in the right top corner of the sample page) shows the expected return from cash dividends on the stock over the next 12 months, as a percentage of the recent price. Johnson & Johnson's yield of 3.5% is above the median of all dividend-paying stocks in

the *Value Line* Universe. (The median is shown each week on the cover of the *Summary & Index* section.) We also see that the company has increased the dividend in every year since 1997, as shown in line four of the Statistical Array in the center of our report, and *Value Line's* analyst thinks additional increases are forthcoming. Many investors view regular increases in a dividend very positively.

The Price Chart

Next, look at Johnson & Johnson's price chart (or graph) at the top of the report. The first thing to look at is the price history, shown by the small vertical bars in the center of the graph. Those bars show the high and low monthly prices for the stock (adjusted for any subsequent stock splits or dividends). Looking at the bars, you can see that, for the most part, the stock price has marched in place from 2002 through 2012.

Now look at the "cash flow" line, the solid line running from 2001 through the middle of 2012, which is more fully described below. The dashed line from mid-2012 to mid-2014, which is an extension of the "cash flow" line, is *Value Line's* projection of the line for those years. For most of the past 12 years, Johnson & Johnson's stock has traded above the "cash flow" line. In the past four years or so, however, the stock has traded below the line.

Finally, look at the **Relative Price Strength** line, the faint small dotted line, usually toward the bottom of the chart. This shows the relative performance of Johnson & Johnson stock versus the entire universe of *Value Line* stocks; when the **Relative Price Strength** line is rising, it means a stock is acting better than the universe. When it is falling, a stock is doing worse than the *Value Line* universe.

At the very bottom of the chart, we show volume of trading each month (item 14) as a percent of total shares outstanding. The *Legends* box (item 2) in the upper left of the price chart contains, among other things, information on the "cash flow" multiple, a record of stock splits, and whether or not there are options traded.

The **Target Price Range** (item 11) in the upper right corner of the price chart indicates where *Value Line's* analyst believes the stock is most likely to be selling in the 3- to 5-year period. This box should be viewed in conjunction with the *Projections* box (item 29) near the top left-hand corner of the page, which also gives our 3- to 5-year projections. For Johnson & Johnson, we expect the average price to hover between 90 and 105, which would be between 40% and 65% above the current level.

Just above the *Projections* box is a section containing the *Value Line Timeliness, Safety,* and *Technical* ranks, plus a Beta calculation. Johnson & Johnson's Beta of .65 reveals that this stock is likely to move up and down much more slowly than the typical stock on the New York Stock Exchange. If you are looking for stability, a stock like Johnson & Johnson, with a low Beta, is a good option.

The "Cash Flow" Line

The price chart at the top of the Johnson & Johnson page contains, among other things, a monthly price history for the stock (the vertical bars) overlaid by a solid line that we call the "cash flow" line (sometimes also called the "*Value Line*"). To plot the line, we multiply cash flow per share (net income plus depreciation and amortization less preferred dividends divided by the number of shares outstanding at the end of the year) by a number (multiple) determined by our analyst. The goal is to create a "line" that most closely matches a company's stock price history and also "fits" the projected 3- to 5-year *Target Price Range*. In the case of Johnson & Johnson, the "cash flow" multiple is now 12.0. (The multiple can, and often does, change over time.)

The concept of a "cash flow" multiple is not too different from that for a Price/Earnings multiple (or ratio). The difference here is that instead of dividing the recent price of a stock by 12 months of earnings to create a P/E multiple, we divide the recent price by the total of 12 months of earnings plus 12 months of depreciation (and amortization, if there is any).

There is evidence that some stocks will generally trade at a price close to the "cash flow" line. In those cases when a stock is trading above the "cash flow" line, it will often move back down toward the "cash flow" line. When it is trading below, it will often do the opposite. In some cases, a stock may trade above or below the "cash flow" line for considerable periods of time.

Historical Results and Estimates

For each of the approximately 1,700 companies *Value Line* follows, we usually present per-share data going back up to 17 years in the Statistical Array in the center of each report. The historical data (item 26) appear on the left side and are presented in regular type. We also project statistical data (item 15) for the current fiscal year, next fiscal year, as well as three to five years into the future. ***These projections are presented in bold italics.***

Now look at a list of items in the Statistical Array (items 15 and 26).

Sales per share, in the top line, is an important series. When earnings per share are depressed because of poor net profit margins, a high level of sales per share can suggest the potential for an earnings recovery. It would be disconcerting, however, if sales per share declined in tandem with earnings per share.

"Cash flow" per share (second line), as commonly used by analysts, is the sum of reported earnings plus depreciation, less any preferred dividends, calculated on a per-share basis, also now includes stock option expense. It is an indicator of a company's internal cash-generating ability—the amount of cash it earns to expand or replace plant and equipment, to provide working capital, to pay dividends, or to repurchase stock. Johnson & Johnson's "cash flow" per share has expanded significantly since 1996.

Earnings per share (third line) are shown by *Value Line* as they were reported to stockholders, excluding nonrecurring items and adjusted for any subsequent stock splits or stock dividends. According to current accounting guidelines, companies now report earnings two ways. The first is basic earnings per share, which is the earnings available to common shareholders divided by the weighted average number of shares outstanding for the period. The second is diluted earnings per share, which reflects the potential dilution that could occur if securities or other contracts to issue common stock (like options and warrants) were exercised or converted into common stock. *Value Line* shows only one earnings figure in our statistical presentation; that figure is clearly identified in the footnotes (item 20), and it is almost always the diluted earnings figure.

For Johnson & Johnson, earnings per share have expanded consistently between 1997 and 2012. As indicated in footnote (B) (*item 20*) near the bottom edge of the report page, its earnings per share are now based on diluted shares outstanding.

Dividends Declared per share (fourth line) are usually the highest, in proportion to earnings, at older and larger companies, which tend to have slower-than-average growth. Directors of growth-oriented companies more often than not prefer to pay small or "token" dividends, or none at all, so they can reinvest earnings in the business. Johnson & Johnson has paid out between 39% and 46% of its earnings in dividends and invested the remainder in the business during the past five years and the percentage is likely to be about 47% over the next few years. A payout of 25%-30% is generally typical of larger capitalization companies followed by *Value Line*.

Capital Spending per share (fifth line) is the amount that a company spends on new plant and equipment. It doesn't include funds used for acquisitions of other companies.

Book Value per share (sixth line) is common shareholders' equity determined on a per-share basis. It includes both tangible assets, like plant and receivables and inventories, as well as intangibles, like the value of patents or brand names, known as "goodwill." Any significant intangibles will normally be indicated in a footnote. If all assets could be liquidated at the value stated on the company's books, all liabilities such as accounts payable, taxes, and long-term debt paid, and all preferred stockholders compensated, the book value is what would be left for the common stockholders.

The number of **Common Shares Outstanding** (seventh line) is also listed in the Statistical Array. Sometimes net income rises, but earnings per share do not, because the number of shares outstanding has increased. This may happen because a company is issuing stock to pay for acquisitions or to fund internal growth. As a result, sales and profits may soar, while per-share sales and earnings lag. On the other hand, when cash-rich companies buy their own shares, earnings per share can rise even if net income is stable.

The **Average Annual P/E Ratio** (eighth line) shows what multiple of earnings investors have been willing to pay for a stock in the past and the P/E ratio the analyst expects out 3 to 5 years. Johnson & Johnson's average annual P/E was at an unusually high levels between 1997 and 2002 when drug and medical stocks were in favor; it has narrowed considerably over the past ten years.

The **Relative P/E Ratio** (ninth line) shows how the stock's price-earnings ratio relates to those of all stocks in the *Value Line* universe. Johnson & Johnson's relative P/E of 0.95 in August 2013 was below that of the typical stock. The *Value Line* analyst thinks it will continue to be below average in the 2016-18 period.

The **Average Annual Dividend Yield** (10th line) is of special interest to conservative investors, many of whom are more concerned with income than with a stock's appreciation potential. Income-oriented investors should look for stocks with yields that are higher than the average shown each week in the center box of the front cover of the *Summary & Index*, but they should also look at the trend of dividends over time. Johnson & Johnson's dividend has been increased in each year shown on our page, and the analyst thinks it will continue to rise. Steady increases are very attractive for many investors. Investors should also look carefully at a company's Financial Strength to make certain that the company will be able to continue to pay the dividend. A good rule of thumb for conservative investors is to invest only in companies with Financial Strength ratings of at least B+.

Company Financial Data

The *Sales* figure (11th line) is the most common measure given when referring to a company's size. Johnson & Johnson's sales in 2012 were about 1.6 times the amount recorded in 2003, a very strong performance.

The **Operating Margin** (12th line) indicates what percentage of sales is being converted into operating income. (Operating income is total sales minus the cost of goods sold and selling, general and administrative expenses. It is also referred to as EBITDA, or earnings before interest, taxes, depreciation, and amortization.) At Johnson & Johnson, this figure peaked in 2012, and it appears poised to surpass those levels in the near future.

Depreciation (13th line) shows the amount charged against operating profits to reflect the aging of a company's plant and equipment. That number has risen quite steadily, but it declined in 2009 and it resumed the uptrend in 2010.

Net Profit (14th line) is the amount the company earned after all expenses including taxes, but excluding nonrecurring gains or losses and the results of discontinued operations. Usually, the higher the net, the higher the per-share earnings. Johnson & Johnson's net profit has grown considerably since 2003, and has risen in every year but in 2009, when it was little changed.

Johnson & Johnson's *Income Tax Rate* (15th line) averaged about 28% between 2003 and 2005, and *Value Line's* analyst thinks it will be about 22% in the foreseeable future. Income tax rates will normally remain steady unless the federal tax rate changes in the U.S. or unless a company increases or decreases the percentage of business it does overseas, where tax rates are different.

Net Profit Margin (16th line) shows net income after taxes as a percentage of sales (or revenues). Here, the trend is the most important thing, with rising margins usually being favorable. It is often worthwhile to compare the net margin with the operating margin. Usually the two series move together, though not always. Depreciation charges, interest expense, income taxes, and other costs are deducted from (and other income added to) operating income in the determination of net profit. Where there is a disparity in the trends of the net and operating margins, it may be worth taking a second look. (If depreciation, interest charges, or tax rates move sharply in any direction, there will be an impact on net profits, and it would be worthwhile to try to determine why the change occurred.)

Johnson & Johnson's *Net Profit Margin* reached a record level in 2010, and we expect that mark to be bested in the near future.

Working Capital (17th line), the company's current assets less current liabilities, indicate the liquid assets available for running the business on a day-to-day basis. The higher a company's sales, the more working capital it typically has and needs. But we caution that a number of large companies with steady revenue streams no longer believe large amounts of working capital are necessary. In those cases, a negative working capital may be perfectly

acceptable because a company can meet normal operating expenses from consistent cash receipts.

Long-term Debt (18th line) is the total debt due more than one year in the future. In the case of Johnson & Johnson, the amount is quite low relative to shareholders' equity.

Shareholders' Equity (19th line), also known as net worth, is the total stockholders' interest (preferred and common) in the company after all liabilities have been deducted from the company's total assets. All intangible assets such as goodwill, patents, and, sometimes, deferred charges are included in shareholders' equity. Johnson & Johnson's equity has grown appreciably over the years, primarily from retained earnings.

Return on Total Capital (20th line) measures the percentage a company earns on its shareholders' equity and long-term debt obligations. When a company's return on total capital goes up, there should also be an increase in the return on shareholders' equity (see below). If not, it simply means that the company is borrowing more and paying interest, but not earning more for the stockholders on their equity in the company's assets. Unless a company can earn more than the interest cost of its debt over time, the risk of borrowing is not worthwhile.

Return on Shareholders' Equity (21st line) reveals how much has been earned (in percentage terms) every year for the stockholders (common and preferred). Higher figures are usually desirable, often indicating greater productivity and efficiency. Johnson & Johnson's percent earned on net worth reached a peak in 2008, however it declined sharply since then, and it is likely to be about 22% in 2013.

Trends in both this ratio and the return on total capital—two key gauges of corporate performance—say a great deal about the skill of management.

Retained to Common Equity (22nd line) also known as the "plowback ratio," is net income less all dividends (common and preferred), divided by common shareholders' equity and is expressed as a percentage. It measures the extent to which a company has internally generated resources to invest for future growth. A high plowback ratio and rapidly growing book value are positive investment characteristics.

All Dividends to Net Profit, or "payout ratio," (23rd line) measures the proportion of a company's profits that is distributed as dividends to all shareholders—both common and preferred. Young, fast-growing firms reinvest most of their profits internally. Mature firms are better able to pay out a large share of earnings. Johnson & Johnson paid out 46% of its profits in the form of cash dividends in 2012. By way of comparison, the typical large company in the *Value Line* universe usually pays out about 25%-30% of its profits in dividends.

VI: A HANDS ON TOUR OF THE VALUE LINE RESEARCH REPORT

Now that you have had a quick overview of the most important aspects of the *Value Line* report, it is time to actually use the data. You will find both explanations and questions to help you get a "hands on" feel for using a *Value Line* report. Each "question" has a blank line for you to place your answer. You may need a calculator to find some of the answers.

The questions are based on the sample page included with your welcome package. There is an answer sheet and a scoring guide at the end of the workbook, so you can see how much you have learned and the sections to which you may need to pay more attention. This is meant to be an educational and fun experience, so don't feel bad if you get something wrong—simply take some extra time to figure out what the right answer should have been.

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1. Across the top of the page are: the **company's name**, followed by the **stock exchange** on which the stock is traded— usually the New York Stock Exchange (NYSE), American Stock Exchange (ASE), or NASDAQ (NDQ), and the **ticker symbol,** usually two to four letters used to identify a stock for trading purposes. Next comes the recent **stock price** *(item 5)***.**

   Johnson & Johnson's stock is traded on the _____(1).

   Its ticker symbol is _____(1a).

2. To the right of the recent price is the *Value Line* **price/earnings ratio** *(item 6)*, often abbreviated as the **P/E** ratio. All price/earnings ratios are calculated by dividing the recent price of a stock by 12 months of share earnings. But there are some differences.

   Value Line calculates the ratio by dividing the recent price of a stock by the sum of the past 6-month's earnings per share and *Value Line's* estimate of the next six month's estimated earnings per share. *Value Line* believes that the use of both past and future earnings provides the most realistic picture possible.

   At the time this report was written, Johnson & Johnson's earnings for the past and current quarter —the June 2013 and September 2013 quarters *(in item 22)*—would equal $2.79 a share ($1.48 + $1.31). *Value Line* was estimating that earnings in the next six months—the December 2013 and March 2014 quarters *(in item 22)* — would total $2.72 a share ($1.23 + $1.49).

   With a recent stock price of 92.00 and 12 months earnings per share of $5.51 ($2.79 + $2.72), what is the price/earnings ratio? _____(2)

3. The trailing price/earnings ratio *(item 7)* is calculated by dividing the current price of a stock by the earnings per share actually reported for the past 12 months. This is the number used in most newspapers; the newspapers use reported earnings because those are the only numbers available to them since they do not make forecasts as *Value Line* does.

   Johnson & Johnson's actual reported earnings in the past 12 months (the September 2012, December 2012, March 2013, and June 2013 quarters) were $5.36 a share ($1.25 + $1.19 + $1.44 + $1.48). What is the stock's trailing price/earnings ratios? _____(3)

4. The **median price/earnings ratio** *(item 7)* is the middle value of a company's **P/E** ratios over the past 10 years, with certain statistical adjustments. **It shows the typical historical P/E of a stock.** (An investor cannot calculate a median P/E ratio without knowing the precise statistical adjustments *Value Line* uses.)

5. The **relative P/E ratio** *(item 8)* of a stock compares the P/E of one stock with the P/E of all the stocks in the *Value Line* universe of approximately 1,700 stocks. Our calculation of the **relative P/E ratio** is made by dividing *Value Line's* P/E of this company *(item 6)* by the median P/E of all of the approximately 1,700 stocks included in *The Value Line Investment Survey*. (The median P/E of all stocks can be found each week on the front cover of the *Summary & Index* section.)

   ***Value Line's* calculated P/E for Johnson & Johnson, shown on the top of the page, is 16.7. The P/E of the *Value Line* universe of stocks at the time the Johnson & Johnson report was published was 17.6. What is Johnson & Johnson's relative P/E ratio? _____(5)**

   Whenever a stock's relative P/E is more than 1, its own P/E is greater than that of the market. If its relative P/E is less than 1, its own P/E is less than that of the market. Is Johnson & Johnson's P/E ratio greater or less than that of the market? _____(5a)

6. A **dividend** is a payment by a company to a shareholder. It is usually in cash, and the cash is usually paid quarterly.

   The **dividend yield** *(item 10)* measures the expected cash dividend to be paid in the coming 12 months as a percent of the recent price of a stock. That is, the expected dividend is divided by the recent price of a stock to arrive at a figure that is shown as a %.

   Johnson & Johnson's dividend payment in the next four quarters is expected to be $2.74 a share. What is the stock's yield? _____(6)

7. ***Timeliness*** *(in item 1)* rank is Value Line's prediction for the expected price performance of a stock over the coming 6 to 12 months **relative** to all other stocks in the *Value Line* universe of approximately 1,700 stocks. ***Timeliness*** rank go from **1 (Highest)** to **5 (Lowest)**.

   At any one time, there is a normal distribution of ranks, so that there are:

   100 stocks ranked 1 (Highest)

   300 stocks ranked 2 (Above Average)

   900 (approx.) stocks ranked 3 (Average)

   300 stocks ranked 4 (Below Average)

   100 stocks ranked 5 (Lowest)

   Stocks with ***Timeliness*** rank of 1 or 2 are likely to be above-average performers; those with ranks of 3 are likely to be average performers; those with ranks of 4 or 5 are likely to be below-average performers.

   Johnson & Johnson's Timeliness rank is _____(7). That means that the stock's performance in the coming six to 12 months should be _____(7a).

8. The ***Safety*** rank *(in item 1)* measures the financial strength of a company and the price volatility of its stock relative to other companies and stocks in the *Value Line* universe. As with ***Timeliness*** rank, ***Safety*** rank go from 1 (Highest) to 5 (Lowest). ***Safety*** rank of 1 or 2 are most suitable for conservative investors.

   Johnson & Johnson's *Safety* rank is _____(8). Is this stock a good one for someone who wants to minimize risk? _____(8a)

9. The ***Technical*** rank *(in item 1)* uses a proprietary formula to predict short-term (3-6 months) future price returns of one stock relative to all others in the *Value Line* universe. This rank also goes from 1 (Highest) to 5 (Lowest).

   What is Johnson & Johnson's *Technical* rank? _____(9) Does this mean that Johnson & Johnson's stock is most likely to be an above-average, average, or below-average performer in the coming three to six months? _____(9a)

10. ***Beta*** *(in item 1)* measures a stock's price sensitivity to fluctuations of the market as a whole, as measured by the New York Stock Exchange Index. If a stock's ***Beta*** is 1.00, the stock should move in concert with the general market. If its ***Beta*** is 1.50, its stock price is likely to be 50% more volatile than the market. In this case, if the stock market goes up 10%, the stock should go up 15% (50% more than the market). If the market goes down 10%, this stock should go down 15%.

    If a stock's Beta is .65, the stock should be less volatile than the market. When the market goes up 10%, this stock should go up only 6.5%.

    Is Johnson & Johnson's stock likely to be more volatile, less volatile, or about the same as the market? _____(10)

11. *Value Line's* 3- to 5-year Price Projections *(item 29)* are shown in the box below ***Beta.*** The projected 3- to 5-year share price range (indicated by the High and Low numbers) is also shown as the Target Price Range *(item 11)* in the upper right hand corner of the price chart, with a pair of broken lines.

    Value Line **is forecasting that the price of Johnson & Johnson's stock 3 to 5 years from now will trade in a range between _____(11) and _____(11a).**

12. Below the Price Projections box is another box titled **Insider Decisions** *(item 28)*. This box shows decisions **to buy** stock, to exercise **options**, and to **sell** stock by "insiders" in the past nine months. It shows the number of transactions in each category each month. (Insiders are defined as officers and directors of a company, and we note that each transaction is counted separately. For instance, if an officer buys or sells stock in his company 3 times a month, the transactions are listed as 3.

    Have insiders bought stock in the past nine months? _____(12)

    Have they exercised options? _____(12a)

    Have they sold stock? _____(12b)

13. The **Institutional Decisions** box *(item 27)* shows the number of times institutions with more than $100 million of assets under management bought or sold stock of this company during the past three quarters. It also shows the total number of shares of stock in this company held by these institutions at the end of each quarter.

    Did the number of shares of Johnson & Johnson owned by institutions rise or fall in the most recent quarter? _____(13)

    Now let's look at the **Stock Price Chart** toward the top of each page.

14. The **high and low calendar year prices** of a stock are shown at the top of each chart *(item 9)*. (A calendar year is January 1st through December 31st.) The years are identified at the bottom of the chart.

    What was the price range of Johnson & Johnson's stock in 2012?

    High _____(14) Low _____(14a)

15. In the chart, the **vertical bars** *(item 3)* represent the high/low monthly price ranges for a stock. Stock splits are also indicated (2-for-1, for example, in 2001).

    How many stock splits has Johnson & Johnson had since 1999? _____(15)

16. The solid dark line in the chart is a **"Cash Flow" Line** *(item 4)*, sometimes called the **"***Value Line***."** One theory is that the price of a stock will tend to gravitate to this line. When the price of a stock gets above the line, the tendency over time will be for the price to go back down toward the line; when it gets below the line, there will be a tendency for the price to rise up to the line. (There are some stocks for which this theory has worked very well and others for which it hasn't. An investor should look at the historical price pattern of each stock and make a judgment about whether or not the theory applies to a particular stock.)

    Is Johnson & Johnson's stock price now above or below the cash flow line? _____(16)

17. The dotted line toward the bottom of the chart shows the **Relative Strength** *(item 12)* of a stock. It compares the price of a stock at any one time with the price of the *Value Line Arithmetic Index* (a good broad representation of the stock market, based on the 1,700 stocks in *The Value Line Investment Survey*). If the **Relative Strength Line** is rising, the stock price is going up more than the market, if the line is falling, the stock price is going up less.

    Did Johnson & Johnson's stock go up more, about the same, or less than the market in 2012? _____(17)

18. The **Legends** box *(item 2)* contains a number of useful items. First, it explains what the solid line and the dotted line are. Then, it shows the "multiple" of cash flow per share (shown in the statistical section below) which is used to plot the **"Cash Flow" Line**. The multiple is a number determined by an analyst to develop a line that most closely matches the actual historical prices of a stock. The box also includes the dates of **stock splits**, indicates if there are **options** traded on a stock, and explains that the **shaded bar** indicates a completed recession.

    Are there options traded on Johnson & Johnson stock? _____(18)

19. The % **Total Return box** *(item 13)* shows the historical total return of a stock (appreciation or depreciation plus any cash dividends) over the past 1, 3, and 5 years and also the total return of the *Value Line Arithmetic Index* over the same periods. The figures are not averaged or compounded.

    What was the % total return of Johnson & Johnson's stock during the past year? _____(19)

    What was the % total return of the *Value Line Arithmetic Index* during the past year? _____(19a)

    Did Johnson & Johnson's stock do better or worse than the *Value Line Index* over the past year? _____(19b)

    Did it do better or worse than the index over the past five years?_____(19c)

20. The many columns of numbers in the center of the page are in what *Value Line* calls the **Statistical Array** *(item 15)*. It is worth noting here that every time there is a stock split (2-for-1, 3-for-1, etc.) or a stock dividend (10%, 20%, etc.) all historical stock prices and per share data (sales per share, earnings per share, etc.) are adjusted for the stock splits and dividends. (In a 2-for-1 split, for example, all historical figures are divided by 2.) **Split adjustments are a universal practice** and are the primary reason why many of the numbers in one *Value Line* report may look quite different than those in an earlier report.

    There are two basic sections to the **Statistical Array**. The numbers in the top portion are all **per share** data. The numbers in the lower portion are **total** (or gross) figures. Also, the numbers to the left (prior to 2010) are **historical**, the numbers to the right **(in bold)** are **projections**.

    What were Johnson & Johnson's earnings per share in 2012? _____(20)

    What does *Value Line* expect Johnson & Johnson's average earnings per share will be in 2016-18? _____(20a)

21. The **Statistical Array** contains a great many financial numbers and ratios. They are all generally commonly used items, and they are defined in the glossary on www.valueline.com.

    There is much very useful information in the **Statistical Array**. Broadly speaking, the data allow investors to examine trends in a company's business.

    Have Johnson & Johnson's sales been rising over time? _____(21)

    Have Johnson & Johnson's sales ever fallen from one year to the next during the past 10 years? _____(21a) If so, when? _____(21b)

    Did Johnson & Johnson's Net Profit Margin (net profits after all expenses, including taxes, as a % of sales) rise, fall, or stay level in 2012? _____(21c)

    Did Johnson & Johnson's Return on Shareholders' Equity rise, fall, or stay level in 2012?_____(21d)

22. Most of the total (gross) numbers in the Statistical Array are in millions of dollars ($mill). The number 47348, for example, means $47,348,000,000; 9311 means $9,311,000,000.

What were Johnson & Johnson's sales in 2012? _____(22)

What was Johnson & Johnson's net profit in 2012? _____(22a)

23. The **Capital Structure** Box *(item 25)* shows a variety of things, including the total amount of **Debt Outstanding; Long-term Debt;** the number of **common shares** outstanding; and **Market Capitalization**.

Market Capitalization is the dollar value of common stock outstanding. It is calculated by multiplying the **number of shares** outstanding by the **price of** the stock.

The two numbers multiplied to calculate the Market Capitalization of Johnson & Johnson are _____(23) and _____(23a).

By the definitions used in *The Value Line Investment Survey:*

A Large Capitalization Issue = $5 billion or more

A Mid Capitalization Issue = $1 billion to $5 billion

A Small Capitalization Issue = less than $1 billion

Is the Market Capitalization of Johnson & Johnson, Large, Mid, or Small? _____(23b)

24. Johnson & Johnson's current assets and current liabilities (items scheduled to be converted into cash or to be paid within one year) are shown in the section called the **Current Position** *(item 24)*. It shows current assets, which include cash, receivables, and inventories, and current liabilities, which include accounts payable and debt due within one year.

How much did Johnson & Johnson have invested in inventory on 6/30/13? _____(24)

What was the total of its Current Assets? _____(24a) Current Liabilities? _____(24b)

25. The **Annual Rates** box *(item 23)* shows annual compound rates of change of a company's **sales, cash flow, earnings, dividends,** and **book value** over the past **10** and **5 years** and for **5 years** into the future.

In each case, the growth rates are calculated from a base which is the average of 3 years to an ending period which is also the average of 3 years. For example, a ten-year growth rate is calculated from a base of 1998-2000 to a base of 2008-2010.

Was Johnson & Johnson's sales growth in the past 5 years, faster, slower, or the same as its sales growth over the past 10 years? _____(25)

Does the analyst think sales growth is likely to be faster or slower in the next 5 years? _____(25a)

Was Johnson & Johnson's earnings growth in the past 5 years, faster, slower, or the same as its earnings growth over the past 10 years? _____(25b)

Does the analyst think earnings growth is likely to be faster, slower, or about even in the next 5 years? _____(25c)

26. The **Business Summary** *(item 16)* includes: a condensed summary of a company's operations, showing important products, markets, etc.; any shareholders owning more than 5% of the stock, including ESOPs (Employee Stock Ownership Plans); a company's address, telephone number, and Internet address; and other relevant information.

    How many business segments does Johnson & Johnson have? _____(26)

27. The **Analyst's Commentary** *(item 17)*, the lengthy text in the lower right portion of each report, is thought by many investors to be the most important item on the page. This is where the Value Line Analyst describes the outlook he/she sees for a company in the coming years, and, provides reasons for its investment suitability.

    After reading the commentary about Johnson & Johnson, do you think the analyst is suggesting that Johnson & Johnson stock should appeal to conservative investors? _____(27)

28. **Quarterly Sales, Earnings**, and **Dividend Data** *(items 21 and 22)* are shown in the lower left portion of each report. An examination of the trends in quarterly sales and earnings can often provide insights into changing conditions. As an example, look at **sales** in the most recently reported quarter (June) when they totaled $17,877,000,000. Then look at **sales** in the June quarter a year earlier.

    What was the % increase in sales from June 2012 to June 2013? _____(28)

    Were earnings per share in the latest reported quarter (June) higher, lower, or the same as those in the similar period a year earlier (June)? _____(28a)

29. Johnson & Johnson has had what appears to be a policy of regularly increasing its dividends. It has increased the dividend at approximately the same time in each of the past five years.

    What is the quarter (March, June, September, December) when it increased the dividend? _____(29)

30. The heading over the fourth column of numbers in the **Quarterly Sales** and **Earnings Per Share** boxes shows when a company's **fiscal year ends**.

    When does Johnson & Johnson's fiscal year end? _____(30)

31. The footnotes *(item 20)* at the bottom of each page explain a lot, including: the way earnings are reported—**basic** or **diluted; unusual gains** or **losses**; the availability of **DRIPs** (Dividend Reinvestment Plans, in which companies make it easy for shareholders to reinvest their dividends in more stock); dividend payment dates; and special explanations, as necessary.

    When is Johnson & Johnson expected to pay its next dividend? _____(31)

    Does Johnson & Johnson have a DRIP? _____(31a)

32. A variety of unique ratings *(item 19)* are shown in the box in the lower right of each report. Each of these items is defined briefly below and in more detail in *How To Invest In Common Stocks*. **Financial Strength** ratings, which measure the financial condition of a company, range from a high of A++ to a low of C. A stock's **Price Stability**, **Price Growth Persistence**, and **Earnings Predictability** ratings go from a high of 100 to a low of 5. **Price Stability** measures he variability of the price of a stock over time. **Price Growth Persistence** is a measure of stock price growth over time. **Earnings Predictability** measures the expected reliability of earnings forecasts.

In which category(ies) does Johnson & Johnson score at the very top?

_____

_____

_____ **(32)**

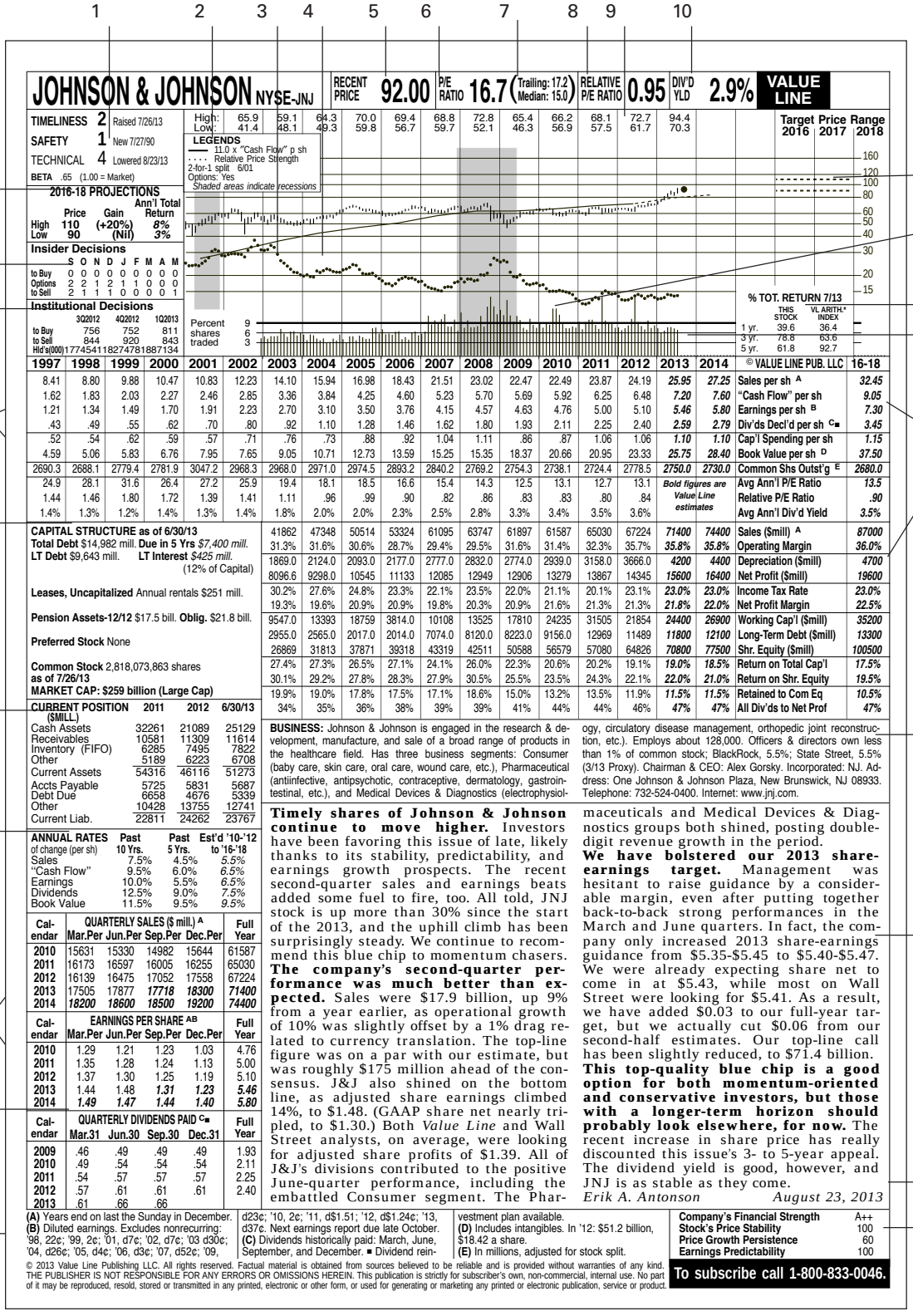
ANSWERS

1. NYSE
1a. JNJ
2. 16.7
3. 17.2
5. 0.95
5a. Less
6. 2.9%
7. 2
7a. Above Average
8. 1
8a. Yes
9. 4
9a. Below Average
10. Less Volatile
11. 110
11a. 90
12. No
12a. Yes
12b. Yes
13. Fall
14. 72.7
14a. 61.7
15. One
16. Below
17. About The Same
18. Yes
19. 39.6%
19a. 36.4%
19b. Better
19c. Worse
20. $5.10
20a. $7.30
21. Yes
21a. Yes
21b. 2009
21c. Stay Level
21d. Fall
22. $67.2 Billion
22a. $14.3 Billion
23. 2,818,073,863
23a. 92.00
23b. Large
24. $7.822 Billion
24a. $51.273 Billion
24b. $23.767 Billion
25. Slower
25a. Faster
25b. Slower
25c. Faster
26. Three
27. Yes
28. 8.5%
28a. Higher
29. June
30. December
31. December
31a. Yes
32. Financial Strength, Stock's Price Stability, Earnings Predictability

HOW DID YOU DO?

Number Wrong	Evaluation
0-3	Expert
4-6	Very Good
7-10	Passed
11 or more	You should probably restudy the workbook

VALUE LINE SAMPLE RESEARCH REPORT



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