

The Years Keep Rolling By

Questions and Answers

Q1: When you are determining the past growth rate by looking at the history, why don't you knock off (eliminate as outliers) the earliest years to see what the most current trend is (for example the most recent 5 years)?

A1: It certainly is an option, and it is a judgment call. My personal feeling is that the normal economic cycle has extended past the 5 year cycle that was the norm in the past, so I think the full 10 years does present a better picture of how a company might perform during different parts of the economic cycle.

If I am going to eliminate years, I prefer to eliminate years that I believe are outliers (or irrelevant data in terms of projecting the future). As I mentioned in the session, you also can find the most recent 5-year growth rate for both Sales and Earnings Per Share.

With BetterInvesting's SSG Plus, you simply click in the "Forecast (%)" box on the "Historical EPS (\$)" line. That will open the "Preferred Procedure Calculation" screen. In the lower right corner, you can click on either "Sales Growth Trend" or "EPS Growth Trend". When you do that it will open up the trend data, including a graph of the trend, and you can simply look at the range that shows "(5)" for "(yrs)" and get the 5 year growth rate.

Q2: When you change the estimated sales or earnings from annual to trend does that change only forward values or all values? Are there general rules for what makes one choose annual, quarterly or the trend? When doing preferred procedure, should we always change the projection starting point to the trend, instead of annual?

A2: The change only affects where the projection of the future begins from. When you make the change, it has no effect on measuring the past growth rate. It is prospective, going forward and simply changes where your projection of future growth begins from.

As a general rule, I use the past growth rates represented by the historic trend line (adjusted for any outliers) to project the future. So, (when I remember 😊) I begin my future projections from the trend line. Of course, as with most other things, there sometimes are exceptions.

Q3: How do you analyze companies that show deferred revenue like Software (SaaS) companies? Revenue shoots up much later.

A3: As I mentioned in the session, I believe that GAAP (Generally Accepted Accounting Principles) take into effect the period that revenues belong to. In essence, GAAP strives to make sure that revenues are reported when they are actually earned and that expenses are matched to the appropriate period. As a result, the profit and loss and accordingly Earnings Per Share reflect properly what the company has done each year. Deferred revenues are nice because they show income that is in place for the future (although there are cases where it doesn't come to fruition), so in essence the company already has some revenue lined up for future periods. To me, it is simply a result of the business model and not necessarily something I would consider in the overall scheme of things. I don't think I would place a higher value on a company whose model includes deferred revenues versus an equivalent company whose model doesn't include pre-contracting future income.

Q4: If the tax rate goes back up, the market will take a hit?

A4: I assume that question is related to the reduction in tax rates due to TCJA (the Tax Cuts and Jobs Act). I don't

want to globally talk about the market, but we can talk about what might happen with a specific company.

When TCJA reduced the tax rates, the company paid less taxes, resulting in a higher Net Income and as a result higher Earnings Per Share (EPS). One of the core concepts of the BetterInvesting methodology is that price follows EPS. So, if there is higher Earnings Per Share, there should be a higher share price.

The opposite theoretically is true. If tax rates go back up, it will ultimately reduce EPS growth and accordingly the price of the shares should grow more slowly.

That being said, the market is part of a bigger picture AND in the short term the stock market can behave erratically. In the short term, if the TCJA tax cuts go away, who is to say that in the short term the market won't believe that it will affect all companies and therefore prices won't be affected by the change in the short term. Again, the market in the shorter term is really based on investor sentiment. In the longer term, price follows Earnings Per Share.

Q5: Where can I see the recorded webinar? How do I access the recorded extra video for this session? I missed the previous session. Is there a way to access the previous session?

A5: Here are the links for the recordings and handouts for all the prior webinars:

1. Why the Tortoise Sometimes Wins – June 29, 2020

Recording: <https://attendee.gotowebinar.com/recording/692665245638299399>

Handouts:

Follow-up Q&A:

2. Preferred Procedure Simplified – July 20, 2020

Recording: : <https://register.gotowebinar.com/recording/1428008727154732295>
[\[register.gotowebinar.com\]](https://register.gotowebinar.com)

Handouts:

https://www.betterinvesting.org/getmedia/837ad669-b860-4066-bfd5-573b64843b81/preferred_procedure_simplified_slides.pdf [\[betterinvesting.org\]](#)

Additional Handouts:

https://www.betterinvesting.org/getmedia/065e1cb0-4468-4150-826c-4e8cc9a00287/preferred_procedure_simplified_additional_handouts.pdf [\[betterinvesting.org\]](#)

Follow-up Q&A:

<https://www.betterinvesting.org/getmedia/29c1ec77-2f04-4abe-b0cb-208653e427e6/preferred-procedure-simplified-q-a.pdf> [\[betterinvesting.org\]](#)

3. Ch-Ch-Ch Changes – October 26, 2020

Recording: <https://attendee.gotowebinar.com/recording/4238328564080578832>

Handouts:

Additional Handout 3: 2013 Annual Report from RPM's website:

<https://www.rpminc.com/media/2032/2013-annual-report.pdf>

Additional Handout 4: 2016 Annual Report from RPM's website:

<https://www.rpminc.com/media/2038/2016-annual-report.pdf>

Follow-up Q&A: *Attached*

4. The Years Keep Rolling By – November 30, 2020

Recording: <https://attendee.gotowebinar.com/recording/8865822261955471883>

Bonus [Additional Information] Recording:

<https://attendee.gotowebinar.com/recording/2711586300957211393>

Handouts: *Attached (or insert your own link)*

Additional Handout 1: 2017 Annual Report from RPM's website:

<https://www.rpminc.com/media/2040/2017-annual-report.pdf>

Additional Handout 2: 2018 Annual Report from RPM's website:

<https://www.rpminc.com/media/2042/2018-annual-report.pdf>

Follow-up Q&A: *Is at the beginning of this document*