

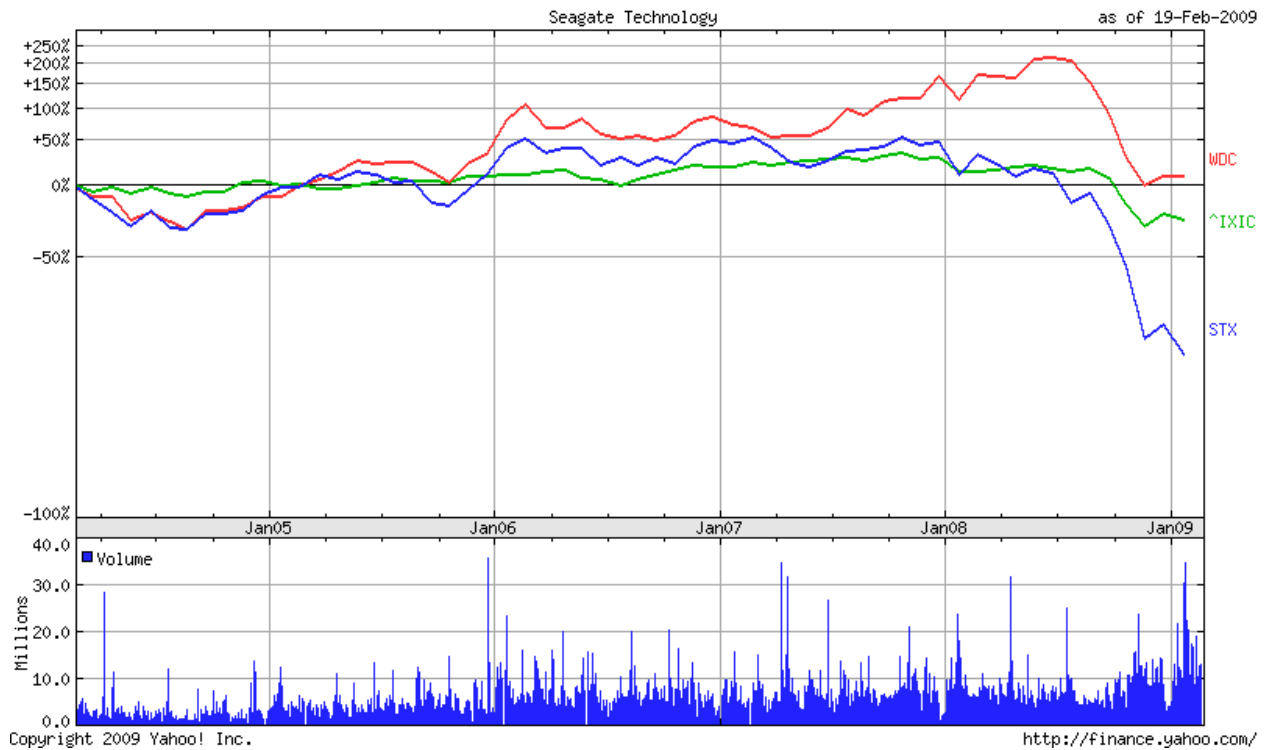
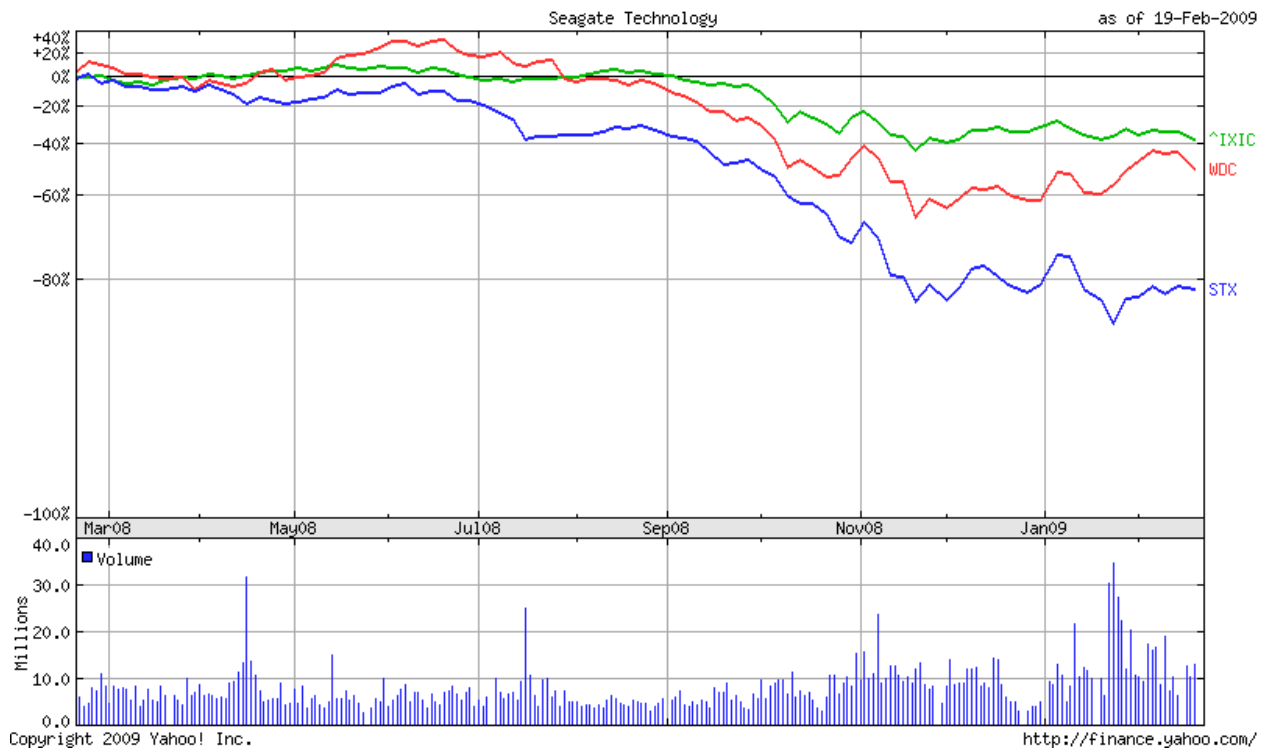
**Financial Analysis: A User Approach**  
**Chapter 6**  
**Quantitative Financial Analysis Techniques:**  
**Incorporating Market Information**

In the previous two chapters we focused on ratios and method primarily based on financial statement-based information. In this chapter we will examine ratios that incorporate market-based information.

### Stock Prices

#### Daily Stock Price Graphs

- Provides insight into how the market views the company across time
- Often useful to compare individual stocks and industry averages
- Sources
  - [Finance.yahoo.com](http://finance.yahoo.com)
  - [Finance.google.com](http://finance.google.com)
  - [WSJ.com](http://WSJ.com)
  - [Moneycentral.msn.com](http://Moneycentral.msn.com)
  - [Stockcharts.com](http://Stockcharts.com)
- Probably better as a source to raise questions than to answer them



## Earnings per Share

- Basic Earnings per Share =  $\text{Net Income} / \# \text{ Shares Outstanding}$
- Complications
  - Preferred Stock
  - Dilutive Securities including
    - Stock Options
    - Convertible Bonds
    - Convertible Preferred Stock
- TTM EPS – Trailing Twelve Month EPS – most recent 4 quarters
- Forecasted EPS – Developed by analysts
- Consensus EPS – An average of a group of analyst estimates
  - Moneycentral.msn.com
  - Zacks.com
  - WSJ.com

## EARNINGS ESTIMATES

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### Seagate Technology Inc. (STX)

Updated: Friday Feb. 20, 2009

<b>Current Estimates</b>	<b>Qtr. Ended Mar. 2009</b>	<b>Qtr. Ended Jun. 2009</b>	<b>Fiscal Year Jun. 2009</b>	<b>Fiscal Year Jun. 2010</b>
Consensus(Mean)	-0.38	-0.25	-0.58	-0.13
Highest Estimate	-0.02	-0.02	0.19	0.56
Lowest Estimate	-0.57	-0.45	-0.99	-0.91
Number of Analysts Surveyed	15	14	13	18
Year-Ago Reported Earnings	0.7	0.44	2.63	...
Median Estimate	-0.38	-0.25	-0.63	0.02
Standard Deviation	0.12	0.10	0.27	0.45
Report Date *	4/17/09	7/26/09		

Estimates for per share earnings, excluding extraordinary items when applicable, in U.S. dollars.

\* Projected report date based on timing of company's report in prior quarters

\*\* week of

<b>Estimate Trends</b>	<b>Qtr. Ended Mar. 2009</b>	<b>Qtr. Ended Jun. 2009</b>	<b>Fiscal Year Jun. 2009</b>	<b>Fiscal Year Jun. 2010</b>
Current Consensus(Mean)	-0.38	-0.25	-0.58	-0.13
Month Earlier Mean	-0.02	-0.00	0.20	0.63
3 Months Earlier Mean	0.20	0.20	0.85	1.34

Estimates for per share earnings, excluding extraordinary items when applicable, in U.S. dollars.

<b>Estimate Revisions</b>	<b>Qtr. Ended Mar. 2009</b>	<b>Qtr. Ended Jun. 2009</b>	<b>Fiscal Year Jun. 2009</b>	<b>Fiscal Year Jun. 2010</b>
Up Revisions in Last Week	0	1	0	0
Down Revisions in Last Week	14	13	1	1
Up Revisions in Last Month	0	1	0	0
Down Revisions in Last Month	15	14	17	17

Estimates for per share earnings, excluding extraordinary items when applicable, in U.S. dollars.

<b>Earnings Surprises</b>	<b>Last Qtr.</b>	<b>2 Qtrs Ago</b>	<b>3 Qtrs Ago</b>	<b>4 Qtrs Ago</b>
Estimate	0.42	0.69	0.75	0.64
Actual	0.44	0.70	0.80	0.69

Estimates for per share earnings, excluding extraordinary items when applicable, in U.S. dollars.

Name or symbol(s)   Dow **-100.28** ▼ -1.34% 7,365.67 Nasdaq **-1.59** ▼ -0.11% 1,441.23 S&P **-8.89** ▼ -1.14% 770.05 Trade now: **Scottrade** U.S. markets closed

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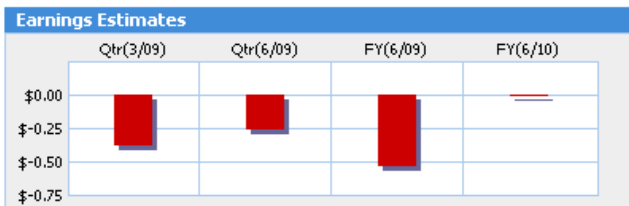
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Find earnings estimate for:

## Seagate Technology: Earnings Estimates

**Earnings Estimates** | Earnings Surprise | Consensus EPS Trend | Earnings Growth Rates



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Earnings Estimates	Qtr(3/09)	Qtr(6/09)	FY(6/09)	FY(6/10)
Average Estimate	-0.38	-0.26	-0.53	-0.01
Number of Analysts	15	14	14	15
High Estimate	-0.16	-0.15	0.92	1.24
Low Estimate	-0.57	-0.45	-0.99	-0.91
Year Ago EPS	0.69	0.44	2.55	-0.53
Growth Rate	-155.75%	-159.90%	-120.73%	+97.35%

Financial data in U.S. dollars

Zacks Industry: COMP-STORAGE DE

Zacks data updated daily.

**Data providers**

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Analyst Recommendations data provided by Zacks Investment Research.

Quotes supplied by Interactive Data.

Actual EPS						
	Current Year		Prior Year		Two Years Ago	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
STX	2.46	2.36	1.64	1.56	1.70	1.60
WDC	3.92	3.84	2.57	2.50	1.84	1.76

Forecasted EPS				
	Q3	Q4	This FY	Next FY
STX	-.38	-.26	-.53	-.01
WDC	.10	.11	1.67	1.60

## Market-Related Ratios

### Price-Earnings Ratio (PE)

- Market Price per Share/Earnings per Share
- The premium for current and future earnings growth
- High PE companies are generally high growth companies
- Lower PE companies are generally low growth companies
- When comparing PE ratios make sure you are using the same day for the stock price and use the closing price for that day
- EPS – Basic, Diluted, Current, Forecast?
- Generally the book will use Current Basic EPS in PE ratios
- PE ratio can be misleading E.g. - a high PE could be caused a company with a poor year of performance that is expected to return to good results (although in this case if you looked at forecasted EPS instead of current EPS, the PE should be more reflective of earnings growth potential)

	Stock Price	PE – CY EPS	PE – 1Y Forecast	PE – 2Y Forecast
STX	4.20	NM	NM	NM
WDC	14.24	3.6	8.5	8.9
EMC	10.99	13.7	18.0	14.9

## Dividend Yield

- Annual Dividends per share divided by market price per share
- More important for mature companies and for investors that are expecting to receive regular cash flows from their investments
- STX and its industry peers generally pay low or no dividends, so let's look at a sample of dividend paying companies

Company	Ticker	Dividend Yield
Duke Energy	DUK	6.50%
Exxon Mobil	XOM	2.25%
Proctor & Gamble	PG	3.18%
Disney	DIS	2.00%
General Electric	GE	13.22%
3M	MMM	4.52%
Coca-Cola	KO	3.55%

## Market Value and Market-to-Book

- Market Value (or Market Cap) is equal to the market price per share multiplied by the number of shares outstanding
- Market-to-Book is equal to the Market Value divided by the Book Value
  - Generally Book Value = Stockholders' Equity (or net assets)
  - Can also be calculated on a per share basis

	Market Cap	Book Value	Market to Book
STX	2.06B	4.59B	.44
WDC	3.24B	2.70B	1.20

## Debt to Market Equity

- Total Liabilities divided by Market Value
- Gives a different slant on the amount of leverage in use

	Total Liabilities	Market Cap	Debt to Market Equity
STX	5.53B	2.06B	268.4%
WDC	2.18B	3.24B	67.3%

## Sales to Net Assets and Sales to Market Value

- Sales (full year) divided by Net Assets (SHE)
- Sales divided Market Cap

	Sales	Net Assets	Sales to Net Assets
STX	12.71B	4.59B	2.77
WDC	8.07B	2.70B	2.99

	Sales	Market Cap	Sales to Market Value
STX	12.71B	2.06B	617.0%
WDC	8.07B	3.24B	249.1%

## Price Earnings Grow (PEG) Ratio

- PE divided by annual earnings growth rate
- Annual earnings growth can be historical or forecast
- PE can be historical or forecast also
- Benchmarks is 1.
  - If PEG < 1 then the stock is undervalued
  - If PEG > 1 then the stock is overvalued

Ticker	PE <sup>1</sup>	EGR <sup>2</sup>	PEG	Implication
STX	NM	8.2%	NM	-
WDC	8.5	11.0%	.77	Undervalued
EMC	18.0	12.0%	1.5	Overvalued

### Notes:

1. One year forward earnings estimates
2. Earnings growth rates are the five year growth rates taken from Moneycentral.msn.com (most one year growth rates are negative!)