



# Bender Trust Research Project

Overview  
Greg Francfort

September 2017

# The Bender Trust

- Started by alumni David Bender
- \$120,000 principal in 1980
- Scholarships funded to date \$1,000,000
- Currently over \$3,000,000
- Used to fund scholarships
- LIBOR is my research department

# Greg Francfort

- Rutgers engineer
- Wharton MBA
- LIBOR co-founder with students in 1994
- First Boston Corp (Credit Suisse)
  - Sell-side analyst, Assoc. Research Director
- Neuberger Berman
  - Portfolio Manager, Research Director
- Securities Analysis at Columbia University

# Why start LIBOR?

- Jobs, jobs, jobs
- Wall Street to Old Queens 38 miles
- Where are the Rutgers Alum?



# Why do Bender Research Project?

- Learn about yourself; Lockheed at \$2; 10-Ks at mid-night
- Build your resume; Prep for Interviews
- Prep for SMF
- Prep for Retirement
- Winning presentation and runner-up have dinner with a Wall Street big shot



# Part I: Fundamentals



# Investing in a Business

- Opportunity for RU students invest in restaurant start-up
- Raising \$1,000 from each of 25 students
- Will fully distribute annual profits
- Should you invest?



# Investing in a Business

- Is this an attractive opportunity?
  - Forecast annual earnings
  - Value those earnings



# Balance Sheet

- Assets = \$100,000
  - Food prep equipment
  - Inventory and receivables
- Liabilities = \$50,000 in debt
- Equity = \$50,000
  - \$25,000 from GF
  - \$25,000 from 25 students

# Projected earnings

- Profit = Revenue - Expenses
- Revenue = f (?)
- Expenses = f (?)



# Revenue forecast

- ?

# Revenue forecast

- Open 24 weeks/yr; 8 hours/day
- Serve 8 meals/hour = 10,800/year
- Average ticket \$7.00
- Revenue = \$75,000

# Expenses forecast

- ?
- What expenses will we incur?

# Expenses forecast

- Labor:  $24\text{wks} \times 7\text{d} \times 8\text{hrs} \times \$12 \times 1.5$
- $= \$24,000$
- Food = 40% of revenue = \$30,000
- Rent and Utilities = \$10,000
- Interest =  $\$50,000 \times 6\% = \$3,000$
- Total Expense = \$67,000

# Net Profit

- Revenue = \$75,000
- Expenses = \$67,000
- Profit = \$ 8,000
- Taxes = 40%
- Net Profit = \$ 4,800

# Valuation

- Equity raised = \$50,000
- Net profit = \$4,800
- P/E = 10.4X
- Earnings yield = 9.6%



# Summary

People buy “stories” without calculating valuation.  
They chase performance.

“There is no such thing as present tense in performance measurement.”

1980-2005

S&P 500 12.5%

Average mutual fund 10%

Mutual fund investor 7.3%



# Bender Trust Research Report

- Data box w/ EPS estimates and P/E ratios
- Company Description
- Competitive Analysis
- Forecast 2017 EPS
- Value the stock

# Domino's Pizza (DPZ) \$196.56

- 52 week range: \$149.67 – 221.58
- S&P 500: 2,505

	2016A	2017E	2018E
EPS	\$4.30	\$5.70	\$6.75
P/E	45.7	34.5	29.1
S&P EPS	\$118	\$131	\$143
S&P P/E	21.2	19.1	17.5
Relative P/E	216%	181%	166%

# Whirlpool (WHR)      \$170.58

- 52 week range: \$202.99 – 145.91
- S&P 500: **2,505**

	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>
EPS	\$14.06	\$14.63	\$17.13
P/E	12.3	11.7	10.0
S&P EPS	<b>\$118</b>	<b>\$131</b>	<b>\$143</b>
S&P P/E	<b>21.2</b>	<b>19.1</b>	<b>17.5</b>
Relative P/E	58%	61%	57%



# Company Description

- One paragraph
  - What does the company do to make money?
  - What products / services do they sell?
  - What are the costs of production?

# Competitive Analysis

- One page: Porters Five Forces
  - Identify customers / suppliers
  - What are the competitive advantages / disadvantages? Size, market share?
  - Is the business getting more or less competitive?
  - Is there a moat around the company?
  - Be succinct!



# Part II: Forecast and Valuation



# Premminence of future EPS

A robust forecast of EPS is the essence of  
Security Analysis





# Earnings Outlook

- What are the prospects the company can grow it's business?
- Growth from price or volume increases?
- What is the danger of cost increases?
- Likelihood of positive or negative earnings surprise compared to consensus estimate of EPS for 2017?

# Earnings Outlook

- Build a Model?
  - Revenue minus expenses = profits
  - Profits / shares outstanding = EPS



# Forecast Revenue

- Use 2016 as a base to forecast 2017 revenue
- Project 2017 growth for the industry
- What factors will drive growth?
- Try to use units or volume
- How might your company's market share change?
- Price change in 2017 vs. 2016?

# Forecast 2017 Revenue

- Use 2016 as a base
- Use 2016 growth as the starting point for the 2017 growth rate
- Eg. HD 2016 \$94,595 vs 88,519 mm in '15
  - $G = 6.9\%$  (was 6.4% in 2015; 5.5% in 2014)
  - 2017 Rev forecast at 6.9% is \$101.1 billion
  - Consensus is at \$99.8 billion, up 5.5%



# 2017 Revenue

- Identify factors driving revenue acceleration or slowdown
- Understand drivers to 2017 growth
- Use “Unit Economics” if possible
- Start with Industry if possible

# Industry Growth for HD

- ?????
- Use your creative intellect



# Industry growth for HD

- Housing construction/storm activity
- Remodel trigger: sales of existing houses
- Building products inflation
- Product cycles: Nest, marble, appliances
- U.S. GDP and Consumer spending
- Consumer spending on residential investment



# 2017 Market share

- Number of stores
- Traffic
- Sales per store
- Price
- New product categories
- Advertising/promotion



# Market share

- Competitor actions (Sears) to expand or cede share
- Lowes' actions
- New entrants- Best Buy and JCP in appliances
- Acquisitions/divestitures
- New geographies (Mexico)

# Unit Economics

- Sales per store X store count
- Sales per square foot X sq ft
- Number of customer transactions
- Average ticket

# Other factors

- 53 weeks in a year?  $52 \times 7 = 364$
- Calendar shift shortens holiday season
- The internet



# Case Study: BUD

# U.S. Beer Industry Unit Demand

- Population
- Beer consumer specific population
- Weather
- Income
- Gasoline prices, employment rate
- Consumer taste
- Health issues
- Mad cow for beer?
- Low carb/healthier diets
- Social trends
- Price of beer
- Price of substitutes
- Advertising by suppliers of beer
- Advertising by suppliers of substitutes
- Legal issues
  - Stricter penalties for DWI
  - Changes in legal drinking age
- New Products or Market segments

# Profit = revenue - expenses

- HD COGS = 65.9% of Revenue
- S,G&A = 20.9%
- Operating profit = 14.2%
- Interest Expense

# Expenses

- COGS
- Variable costs:
- Fixed costs: depreciation
- S,G&A
- Own or lease stores?
- Interest expense
- Income taxes

# EPS

- Net Income/ fully diluted shares outstanding
- HD consensus is \$7.32 per share
- Are you above or below?



# Valuing the Earnings

- Calculate P/E on your 2017 EPS forecast
- Relative P/E to:
  - S&P500 at 2505; S&P500 EPS 2017 est \$131
  - S&P500 P/E on 2017 = 19.1x
  - Does our Company deserve a premium or a discount?
    - Depends on growth and on risk

# Other Valuation Tools

- DCF
- P/Book Value per Share
- P/Asset value
- EV/EBITDA

# Recommendation

- Convincing case of earnings surprise (positive or negative)
- Persuasively assert the stock deserves a larger / smaller relative P/E multiple on 2017 EPS than present level
- Possible takeover potential or some other corporate event that unlocks or reduces value

# Summary

- Maximum three pages
- Five minute presentation
  - Only the important information
- More effort = more knowledge
- “If I had more time I could have written a shorter report”



# Resources

- Yahoo! Finance
- EDGAR
  - 10-K, 10-Q, etc.
- Company websites
- Customers, employees, competitors, suppliers
- Creative intellect!

# Possible Stock List

<b>Marlin Business Svcs. Corp.</b>	MRLN	<b>Amazon AMZN</b>	
<b>Avis Budget Group</b>	CAR	<b>Fedex</b>	FDX
<b>Apple</b>	AAPL	<b>Dominos Pizza</b>	DPZ
<b>Wal-Mart Stores Inc.</b>	WMT	<b>Blackstone Mortgage Trust</b>	BXMT
<b>Lowe's Companies Inc.</b>	LOW	<b>Viacom, Inc.</b>	VIA-B
<b>The Home Depot, Inc</b>	HD	<b>Valero Energy Corp.</b>	VLO
<b>Comcast Corp.</b>	CMCSA	<b>Boeing Co.</b>	BA
<b>CarMax Inc.</b>	KMX	<b>Western Digital</b>	WDC
<b>Cabot Oil &amp; Gas</b>	COG	<b>Intel</b>	INTC
<b>Packaging Corp. of America</b>	PKG	<b>Whirlpool</b>	WHR
<b>AT&amp;T</b>	T	<b>Cedar Fair</b>	FUN
<b>Lennar</b>	LEN	<b>ASML</b>	ASML
<b>Microsoft</b>	MSFT	<b>Mediaset Espana</b>	TL5



# Timeline

- Form groups: NOW
- Chose stock to analyze: VERY SOON
- Meet with e-Board advisor: SOON
- Report and Presentation: October 2017?
  - In time for internship interviews

# Questions?

- [gfrancfort@nb.com](mailto:gfrancfort@nb.com)
- [rulibor@gmail.com](mailto:rulibor@gmail.com)