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: 24wks × 7d × 8hrs × $12 × 1.5 = $24,000
- Food = 40% of revenue = $30,000
- Rent and Utilities = $10,000
- Interest = $50,000 × 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

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<th>2016A</th>
<th>2017E</th>
<th>2018E</th>
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<tbody>
<tr>
<td>EPS</td>
<td>$4.30</td>
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<td>P/E</td>
<td>45.7</td>
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<td>S&amp;P EPS</td>
<td>$118</td>
<td>$131</td>
<td>$143</td>
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<tr>
<td>S&amp;P P/E</td>
<td>21.2</td>
<td>19.1</td>
<td>17.5</td>
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<tr>
<td>Relative P/E</td>
<td>216%</td>
<td>181%</td>
<td>166%</td>
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Whirlpool (WHR)  $170.58

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

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<th>2018E</th>
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<tr>
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<td>$118</td>
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<tr>
<td>Relative P/E</td>
<td>58%</td>
<td>61%</td>
<td>57%</td>
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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
Preeminence of future EPS

A robust forecast of EPS is the essence of Security Analysis
Earnings Outlook

- What are the prospects the company can grow its 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 X 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

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

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