Tips, Tricks, & Techniques

S&P Core Earnings

The S&P Core Earnings, a metric, is an attempt to counteract creative accounting. Hopefully, it could give us an early warning of an Enron or WorldCom situation.

This TT&T will define the S&P Core Earnings, show availability, and lastly demonstrate a method to plot the earnings as reported by the company against this metric. Working with the financial and investment community, S&P defined what items could and could not be included in a company's core earnings.

Inclusive Items	Exclusive Items
Employee stock option grants	Gaines related to pension activities
Pensions	Net revenue relative to the sale of assets
Restructuring of present operations or any merger and acquisition costs	Impairment of goodwill charges
R&D purchases	Prior-year charges and provision reversals
Write-down of depreciable or amortizable operating assets	Settlements related to litigation and insurance claims
Unrealized gains/losses from hedging activities	

Let us not get hung up on the definition and just use the data. Data is available for most companies beginning in fiscal year 2001 in the S&P Stock Reports.

Company Financials Fiscal Year ending December 31

Per ADR Data ($)

(Year Ended December 31)	2004	2003	2002	2001	2000	1999
Tangible Bk. Val.	3.32	4.25	2.08	1.55	1.05	0.90
Cash Flow	0.80	1.39	0.90	0.69	0.46	0.37
Earnings	0.50	1.19	0.76	0.51	0.29	0.24
S&P Core Earnings	0.43	0.99	0.76	0.46	NA	NA
Dividends	0.16	0.13	0.07	0.05	0.04	0.03
Payout Ratio	32%	11%	10%	10%	14%	11%
Prices - High	34.66	31.17	20.08	18.58	19.68	9.06
- Low	22.82	17.25	12.92	12.12	7.98	4.92
P/E Ratio - High	69	26	26	36	69	39
- Low	46	14	17	24	28	21

Notice that there is no data prior to 2001.

BetterInvesting Space Coast Chapter
www.Better-Investing.org/Chapter/Space
www.NAICspace.org

S&PCoreEarnings.doc

We will now go through the steps to plot this data to arrive at the goal of comparing the earnings as reported by the company (not normalized) against the S&P Core earnings.

Requirements (or needs):

- A PDF file of the S&P Stock Report for your company of interest.
- Adobe Acrobat Reader (or equivalent)
- MS Excel (or equivalent) spreadsheet

Steps:

1. With Adobe, display the Company Financials on page 2 of the S&P Stock Report

Company Financials Fiscal Year ending December 31

Per ADR Data ($)

| (Year Ended December 31)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Tangible Bk. Val.	3.32	4.25	2.08	1.55	1.05	0.90	0.98	1.07	0.91	0.76
Cash Flow	0.80	1.39	0.90	0.69	0.46	0.37	0.25	0.30	0.24	0.02
Earnings	0.50	1.19	0.76	0.51	0.29	0.24	0.14	0.21	0.15	0.18
S&P Core Earnings	0.43	0.99	0.76	0.46	NA	NA	NA	NA	NA	NA
Dividends	0.16	0.13	0.07	0.05	0.04	0.03	0.03	0.03	0.02	0.03
Payout Ratio	32%	11%	10%	10%	14%	11%	21%	16%	16%	14%
Prices - High	34.66	31.17	20.08	18.58	19.68	9.06	6.35	8.65	6.35	5.92
- Low	22.82	17.25	12.92	12.12	7.98	4.92	3.95	5.23	3.70	2.67
P/E Ratio - High	69	26	26	36	69	39	44	42	42	32
- Low	46	14	17	24	28	21	28	25	25	15
Income Statement Analysis (Million $)										
Revs.	4,799	3,276	2,519	2,077	1,750	1,282	1,116	1,117	954	668
Oper. Inc.	1,425	913	524	486	375	267	204	226	173	141
Depr.	220	128	96.8	109	95.0	68.4	58.7	52.0	43.7	25.4
Int. Exp.	41.7	5.00	24.6	46.9	53.0	34.6	29.9	24.6	24.5	21.9
Pretax Inc.	603	874	494	343	209	161	100	140	93.3	107
Eff. Tax Rate	44.3%	20.8%	17.2%	18.6%	28.5%	27.5%	31.0%	27.7%	22.4%	26.2%
Net Inc.	332	691	410	278	148	118	68.8	101	73.4	79.8
S&P Core Earnings	286	571	408	249	NA	NA	NA	NA	NA	NA

2. Click on the Adobe "Select Tool"
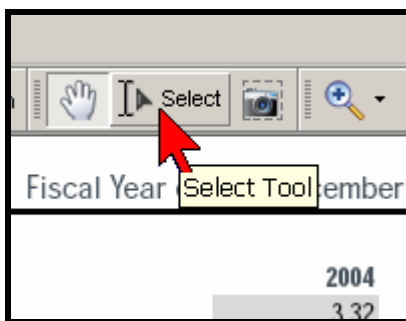
3. Stripe the data desired to capture for import into the spreadsheet

Company Financials Fiscal Year ending December 31

Per ADR Data ($)

| (Year Ended December 31)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Tangible Bk. Val.	3.32	4.25	2.08	1.55	1.05	0.90	0.98	1.07	0.91	0.76
Cash Flow	0.80	1.39	0.90	0.69	0.46	0.37	0.25	0.30	0.24	0.02
Earnings	0.50	1.19	0.76	0.51	0.29	0.24	0.14	0.21	0.15	0.18
S&P Core Earnings	0.43	0.99	0.76	0.46	NA	NA	NA	NA	NA	NA
Dividends	0.16	0.13	0.07	0.05	0.04	0.03	0.03	0.03	0.02	0.03
Payout Ratio	32%	11%	10%	10%	14%	11%	21%	16%	16%	14%
Prices - High	34.66	31.17	20.08	18.58	19.68	9.06	6.35	8.65	6.35	5.92
- Low	22.82	17.25	12.92	12.12	7.98	4.92	3.95	5.23	3.70	2.67
P/E Ratio - High	69	26	26	36	69	39	44	42	42	32
- Low	46	14	17	24	28	21	28	25	25	15

4. Right click within the highlighted area and select copy to clipboard. {Those with Adobe Acrobat 7 Professional, may click directly on "Open Table in Spreadsheet"}
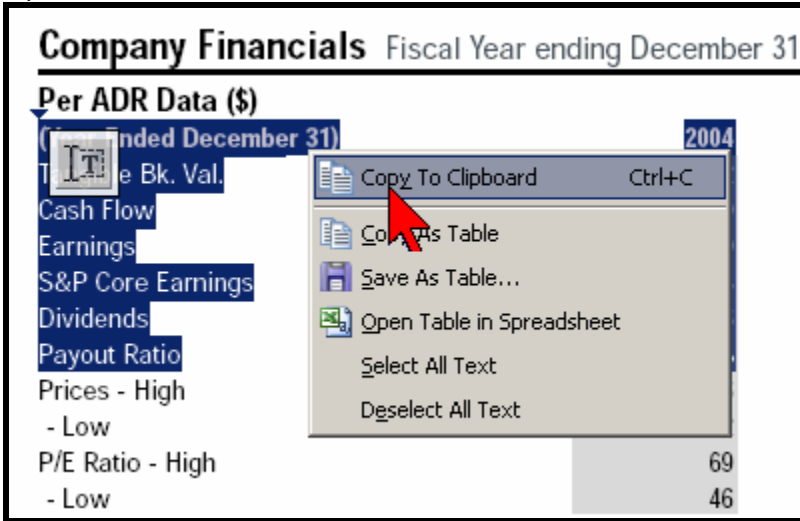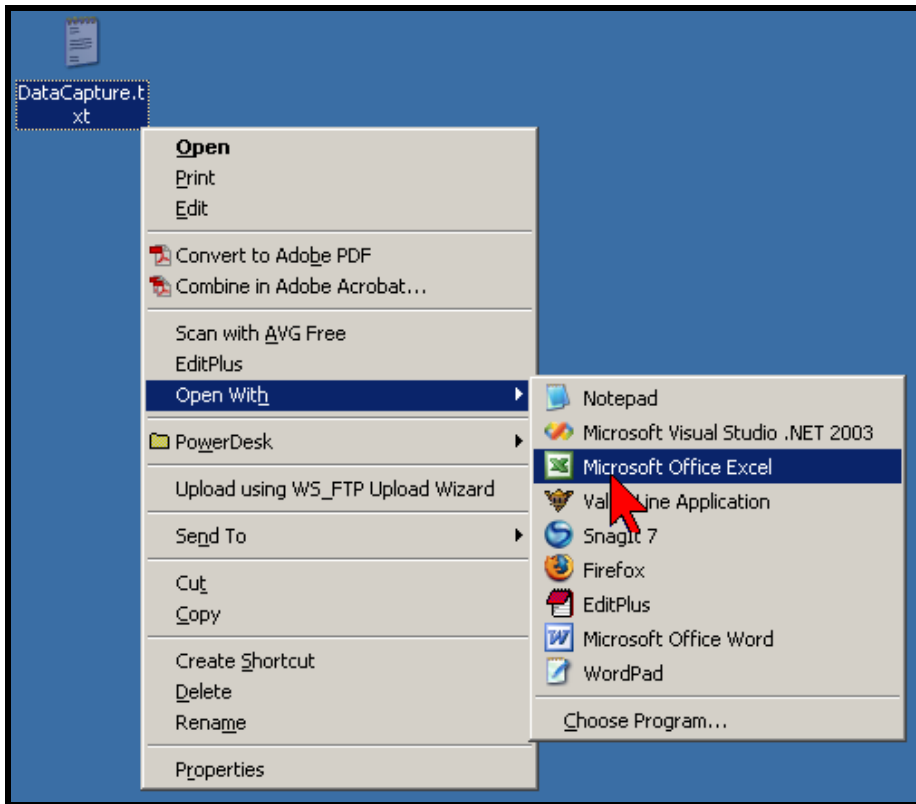

5. Paste the clipboard into a Notepad text file.
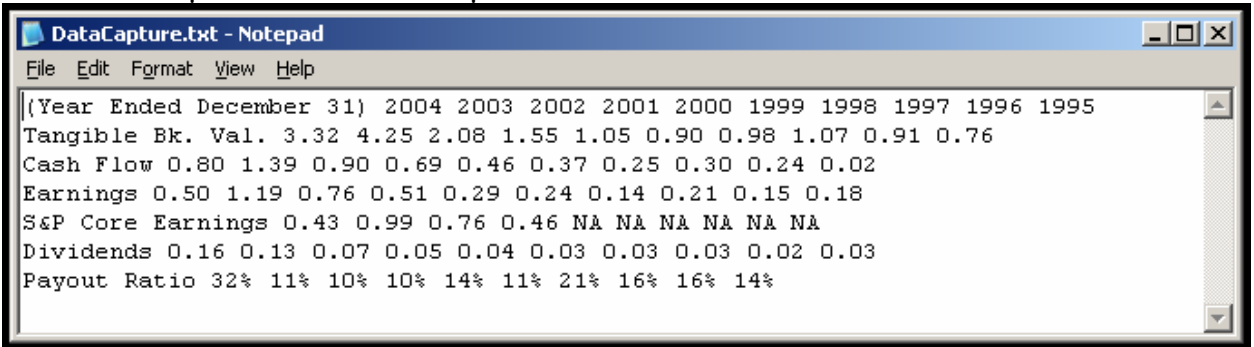
6. Remove spaces from the row titles/names. Suggest replacing (Year Ended December 31) with the ticker symbol for the stock. Save the file and close it.
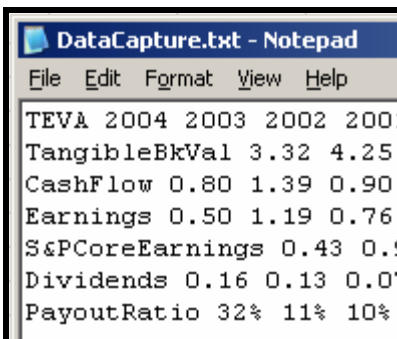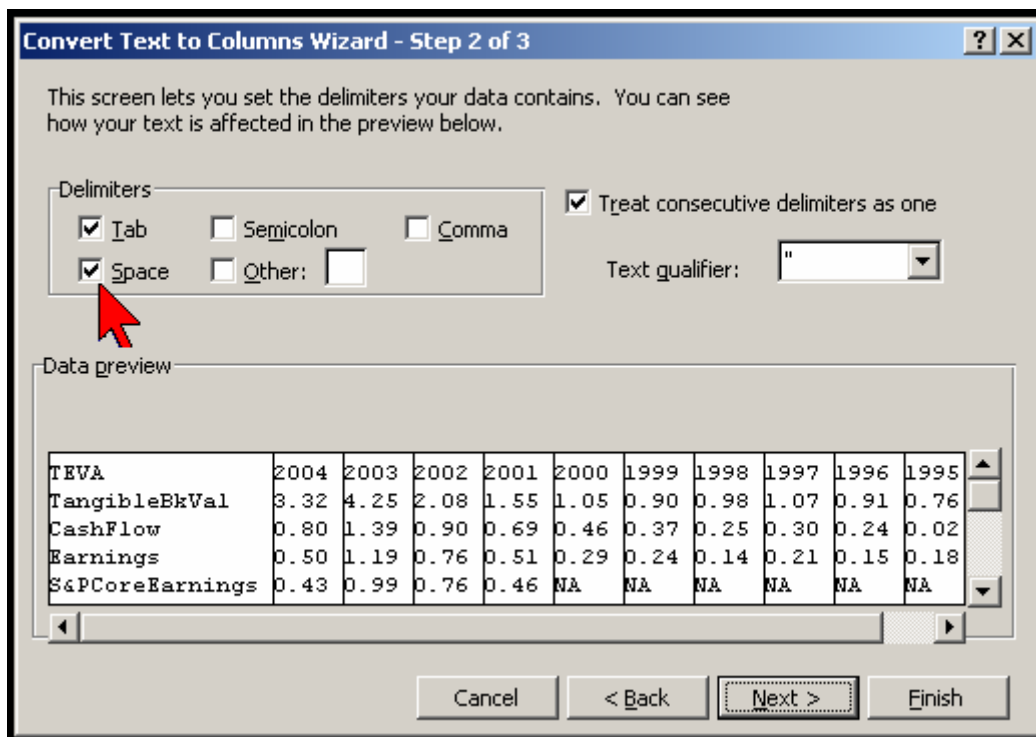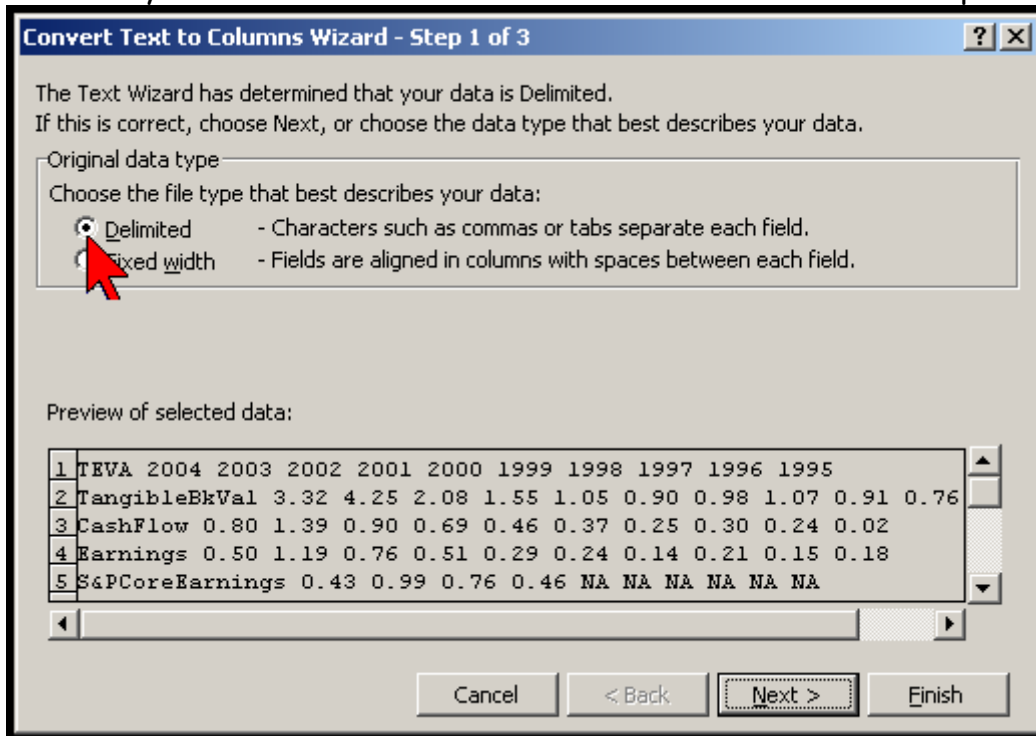
7. Right click on the file, choose Open Wit<u>h</u> , and select Microsoft Office
    Excel

8. The spreadsheet opens and all of the data is in column A. Select the entire
    column (A) or the data in cells A1 through A7 (in our example). Then menu
   item <u>D</u>ata, then T<u>e</u>xt to Columns…
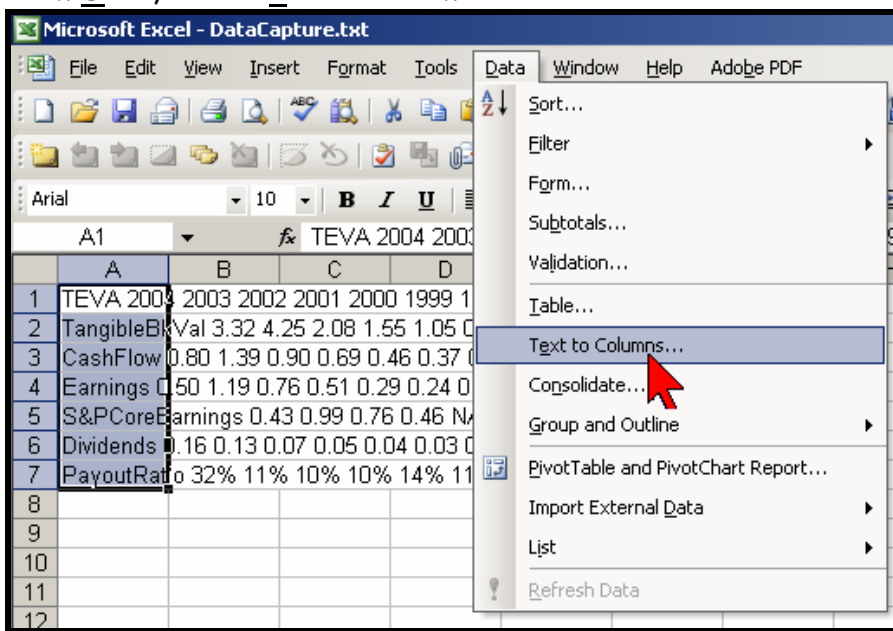
9. In the first Convert Text to Columns Wizard, select Delimited then click next to display the second step. Choose Space in the Delimiters sub-window, and finally click on Finish. There is no need to use the third step.


Convert Text to Columns Wizard - Step 1 of 3

The Text Wizard has determined that your data is Delimited.
If this is correct, choose Next, or choose the data type that best describes your data.

Original data type
Choose the file type that best describes your data:
- ⦿ Delimited — Characters such as commas or tabs separate each field.
- ○ Fixed width — Fields are aligned in columns with spaces between each field.

Preview of selected data:

```
1 TEVA 2004 2003 2002 2001 2000 1999 1998 1997 1996 1995
2 TangibleBkVal 3.32 4.25 2.08 1.55 1.05 0.90 0.98 1.07 0.91 0.76
3 CashFlow 0.80 1.39 0.90 0.69 0.46 0.37 0.25 0.30 0.24 0.02
4 Earnings 0.50 1.19 0.76 0.51 0.29 0.24 0.14 0.21 0.15 0.18
5 S&PCoreEarnings 0.43 0.99 0.76 0.46 NA NA NA NA NA NA
```

[Cancel] [< Back] [Next >] [Finish]

Convert Text to Columns Wizard - Step 2 of 3

This screen lets you set the delimiters your data contains. You can see how your text is affected in the preview below.

Delimiters
- ☑ Tab ☐ Semicolon ☐ Comma
- ☑ Space ☐ Other:

☑ Treat consecutive delimiters as one

Text qualifier: "

Data preview

TEVA	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
TangibleBkVal	3.32	4.25	2.08	1.55	1.05	0.90	0.98	1.07	0.91	0.76
CashFlow	0.80	1.39	0.90	0.69	0.46	0.37	0.25	0.30	0.24	0.02
Earnings	0.50	1.19	0.76	0.51	0.29	0.24	0.14	0.21	0.15	0.18
S&PCoreEarnings	0.43	0.99	0.76	0.46	NA	NA	NA	NA	NA	NA

[Cancel] [< Back] [Next >] [Finish]

10. Delete all the NAs in the S&PCoreEarnings row and in any others cells, if necessary

	A	B	C	D	E	F	G	H	I	J	K
1	TEVA	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
2	TangibleBkVal	3.32	4.25	2.08	1.55	1.05	0.9	0.98	1.07	0.91	0.76
3	CashFlow	0.8	1.39	0.9	0.69	0.46	0.37	0.25	0.3	0.24	0.02
4	Earnings	0.5	1.19	0.76	0.51	0.29	0.24	0.14	0.21	0.15	0.18
5	S&PCoreEarnings	0.43	0.99	0.76	0.46	NA	NA	NA	NA	NA	NA
6	Dividends	0.16	0.13	0.07	0.05	0.04	0.03	0.03	0.03	0.02	0.03
7	PayoutRatio	32%	11%	10%	10%	14%	11%	21%	16%	16%	14%
8											

11. Next we will plot the data. Select the data then click on the Chart Wizard icon
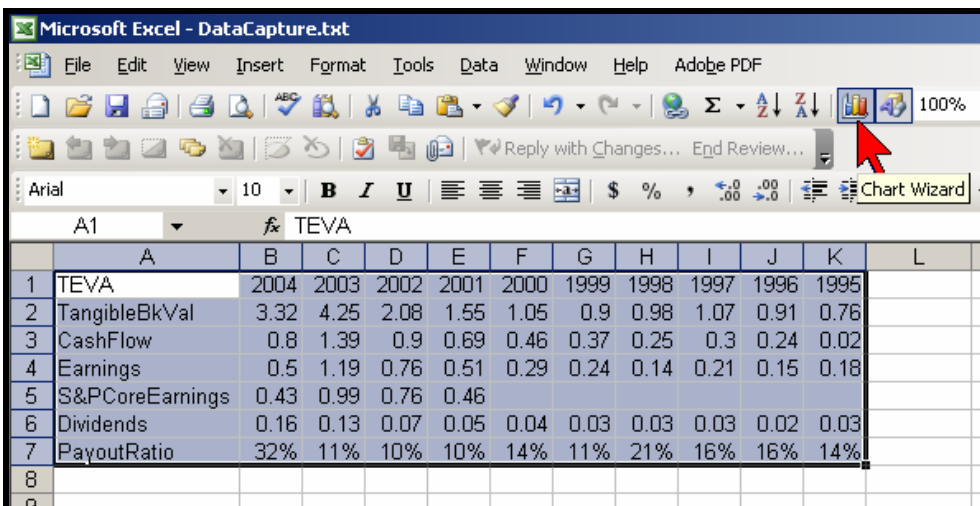
12. For step 1 of the Chart Wizard, select XY (Scatter) and the lower left type (Scatter with data points connected by lines.), then press Finish as no other wizard steps are required.
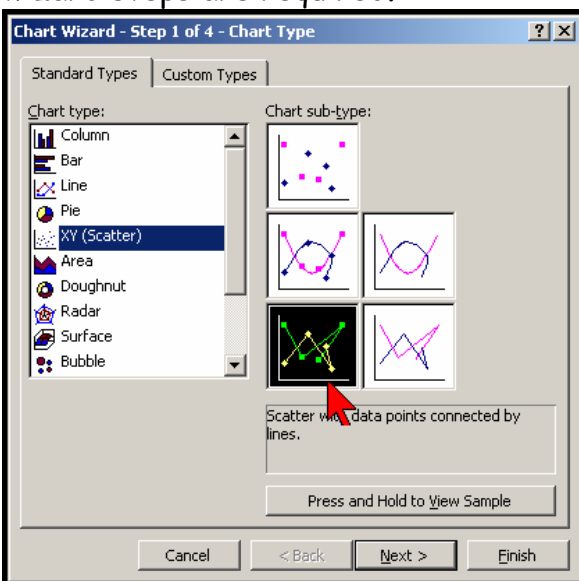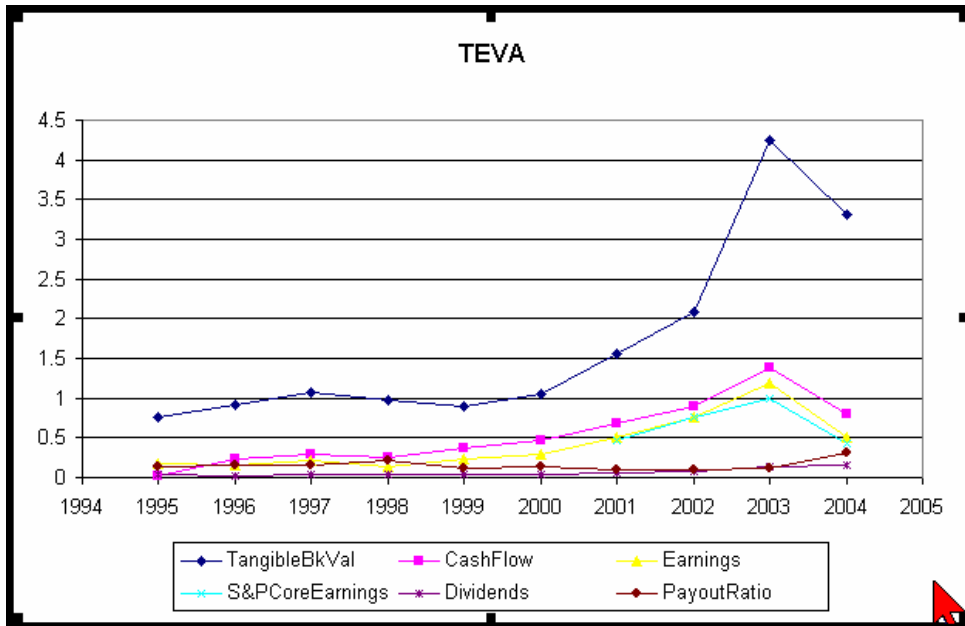
13. Right click in the gray plot area and choose Format Plot Area. Select white as the color to better see the lines.
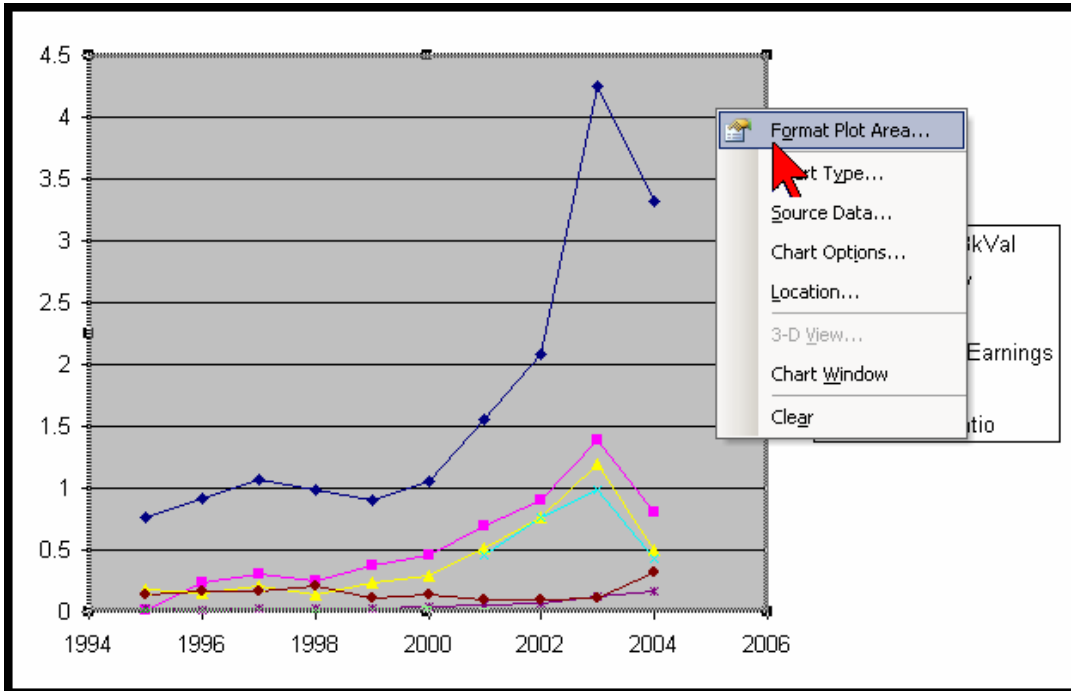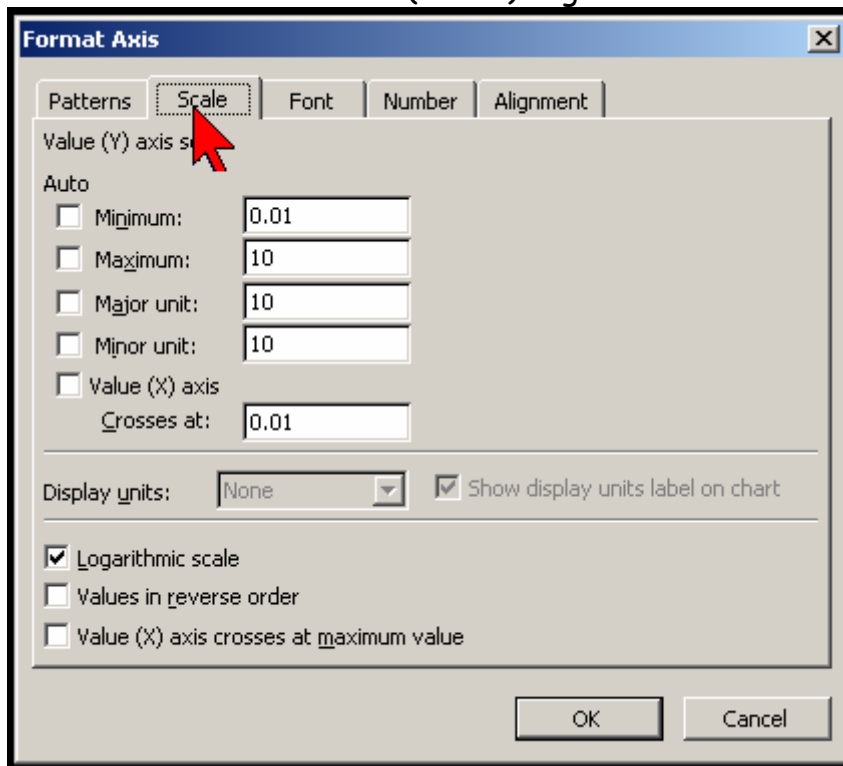

14. Next right click in the plot area and select Chart Options
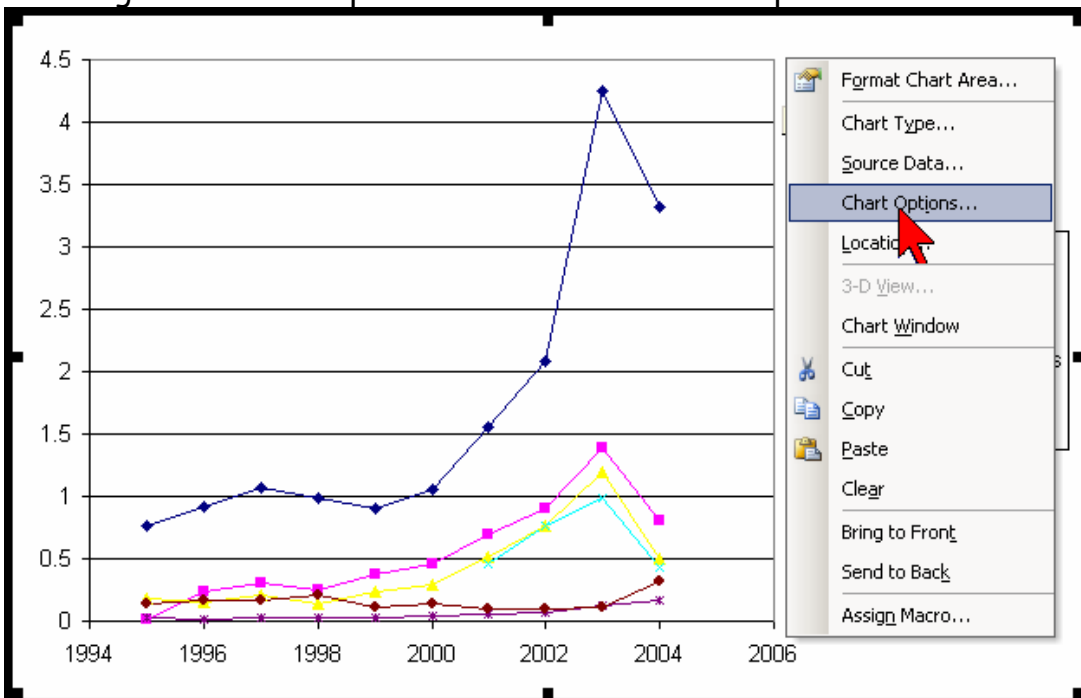
15. Move the Legend block to below the plot and use the stock symbol for the title
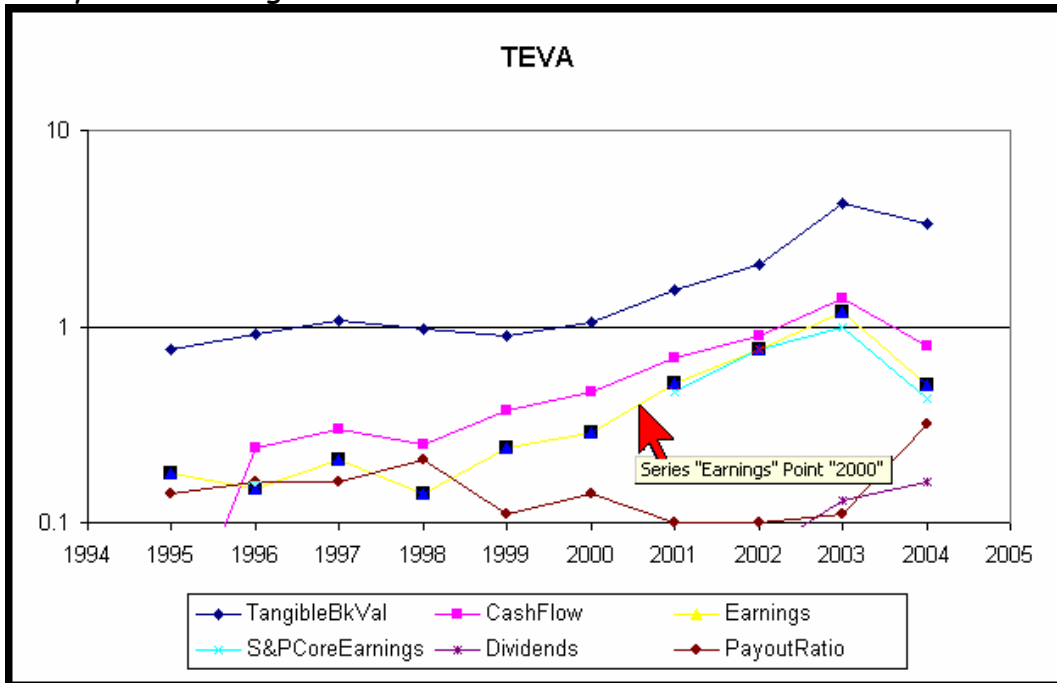

16. Next we will change the plot type to the Semi-log type that we are use to seeing. Double click on the vertical scale line. Select the Scale tab and set the values as shown. Click (Check) Logarithmic scale and OK
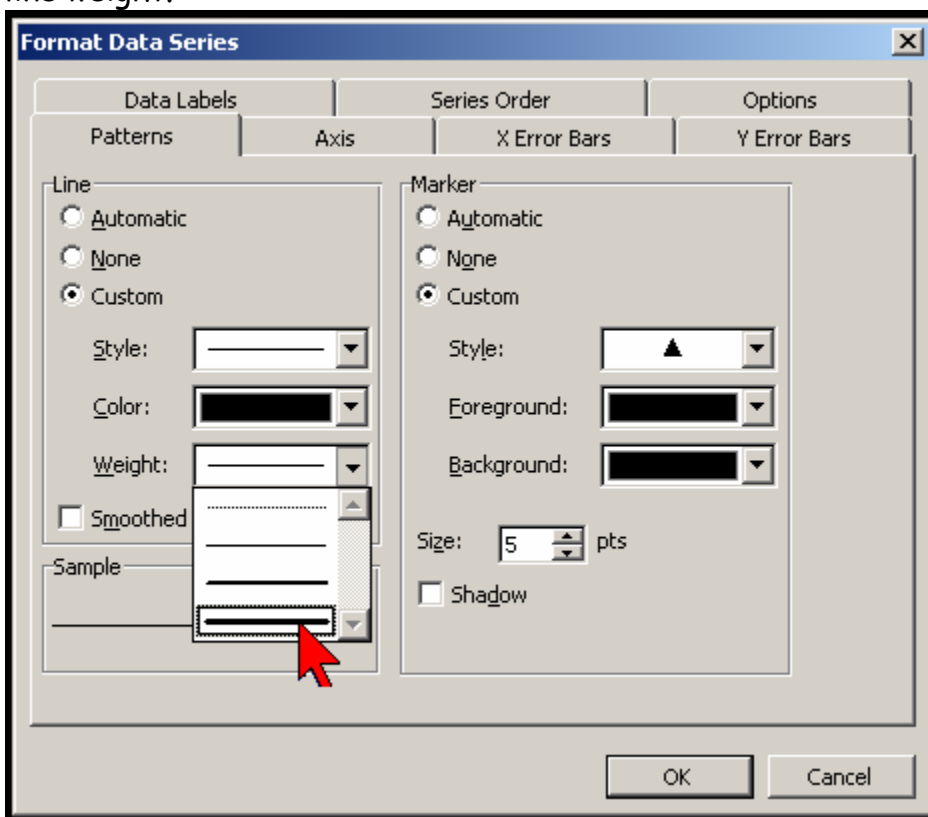
17. The yellow Earnings line is difficult to see. Click on it.

18. Then set the color to black in the line and marker blocks. Choose a heavier line weight.

19. Lastly with the Display Options show the minor y-axis lines and resize your plot to an aspect ratio pleasing to you.
20. For this example we can see that the earnings as reported by the company tracks well with the S&P Core Earnings.

TEVA
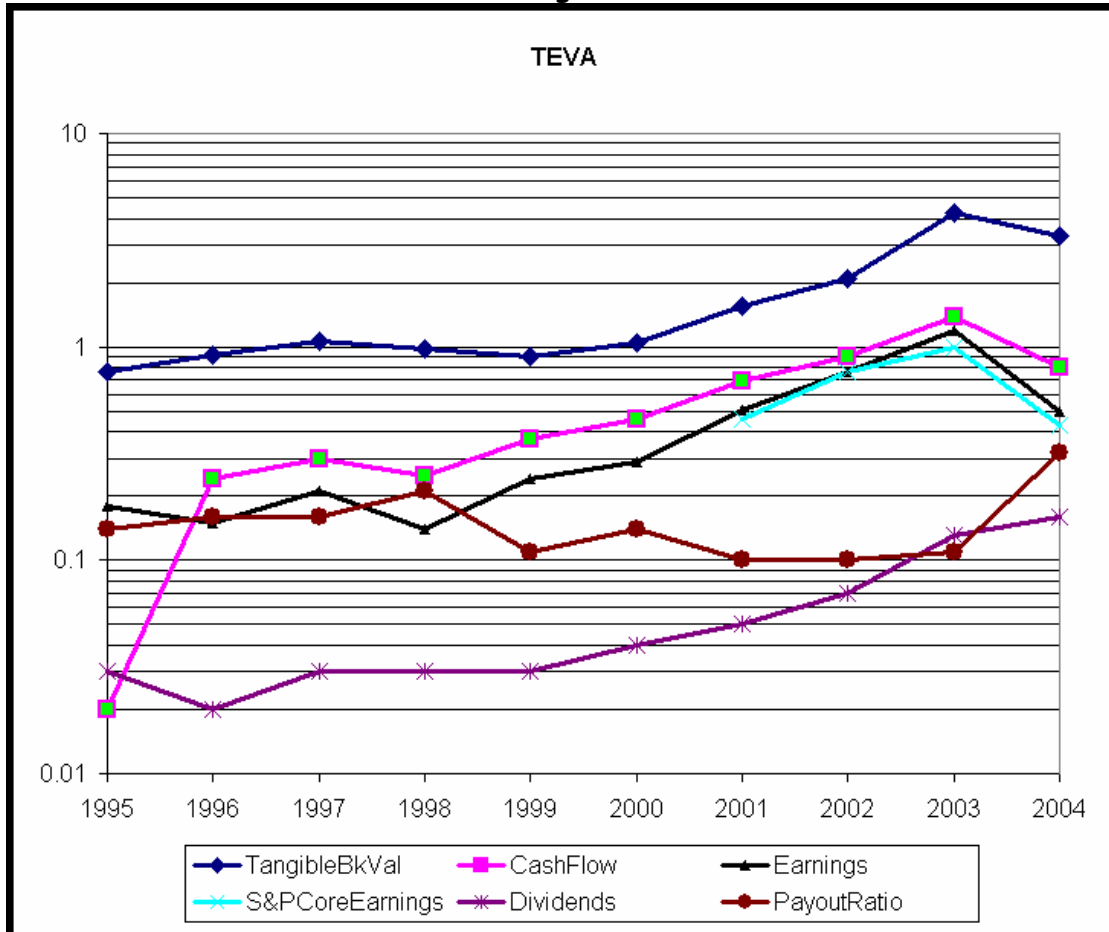
This process may seem tedious at first but with practice it will become a second nature way for you to enhance your stock studies. Next explore the differences between this not-normalized result from the normalized version with Value Line or the BI S&P Stock Data Feed.