

Director Tips, Tricks, & Techniques

Comparing Your Sales Growth Estimate with Value Line

It is always prudent to compare your estimate of future sales growth for the next five years with another source such as Value Line.

Experience has shown that most services are less conservative than wisdom suggests. Value Line tends to be less conservative. You might want to reconsider should your estimate be greater than that of Value Line.

Value Lines projection's are for 3 to 5 years out. The mid-point is 4 years. We can use the Investor's Toolkit Financial Calculator to convert the Value Line estimate to a 5 year projection.

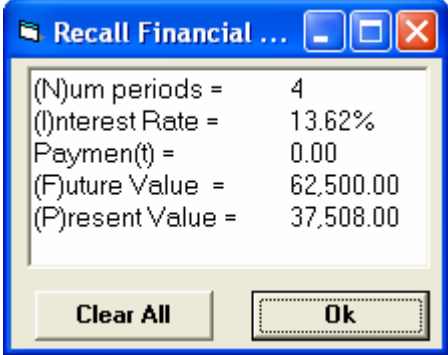
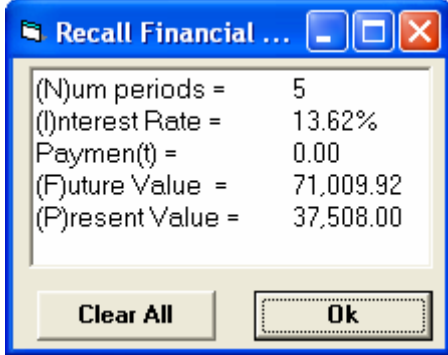
Example:

Walgreen (WAG) shows sales for 2004 of \$37,508 and the estimate 4 years out in 2008 of \$62,500. Our Estimated Future Sales Growth projects sales to be \$66,101.90 in 2009. Using the *Investor's Toolkit Financial Calculator*, we extrapolate Value Line out to 2009 and determine their 5 year estimate to be \$71,009.92. Our projection is less by about 7%, thus we might take some comfort with our projection.

The calculation procedure is shown below with the pertinent data from WAG's Value Line sheet. The recall <RCL> key in the calculator shows the values in the calculator registers required for financial calculations.

PV = 37508 FV = 62500 N = 4 Solve for %I %I = 13.625	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">2003</th> <th style="text-align: center;">2004</th> <th style="text-align: center;">2005</th> <th style="text-align: center;">© VALUE LINE PUB., INC</th> <th style="text-align: center;">07-09</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">31.72</td> <td style="text-align: center;">36.65</td> <td style="text-align: center;">41.65</td> <td>Sales per sh ^A</td> <td style="text-align: center;">61.15</td> </tr> <tr> <td style="text-align: center;">1.47</td> <td style="text-align: center;">1.72</td> <td style="text-align: center;">1.95</td> <td>"Cash Flow" per sh</td> <td style="text-align: center;">2.90</td> </tr> <tr> <td style="text-align: center;">1.12</td> <td style="text-align: center;">1.31</td> <td style="text-align: center;">1.50</td> <td>Earnings per sh ^{AB}</td> <td style="text-align: center;">2.50</td> </tr> <tr> <td style="text-align: center;">.16</td> <td style="text-align: center;">.18</td> <td style="text-align: center;">.21</td> <td>Div'ds Decl'd per sh ^C</td> <td style="text-align: center;">.30</td> </tr> <tr> <td style="text-align: center;">7.02</td> <td style="text-align: center;">8.04</td> <td style="text-align: center;">9.40</td> <td>Book Value per sh</td> <td style="text-align: center;">14.70</td> </tr> <tr> <td style="text-align: center;">1024.9</td> <td style="text-align: center;">1023.3</td> <td style="text-align: center;">1020.0</td> <td>Common Shs Outst'g ^D</td> <td style="text-align: center;">1000.0</td> </tr> <tr> <td style="text-align: center;">27.7</td> <td style="text-align: center;">26.3</td> <td></td> <td>Avg Ann'l P/E Ratio</td> <td style="text-align: center;">26.5</td> </tr> <tr> <td style="text-align: center;">1.58</td> <td style="text-align: center;">1.38</td> <td></td> <td>Relative P/E Ratio</td> <td style="text-align: center;">1.75</td> </tr> <tr> <td style="text-align: center;">.5%</td> <td style="text-align: center;">.5%</td> <td></td> <td>Avg Ann'l Div'd Yield</td> <td style="text-align: center;">.5%</td> </tr> <tr> <td style="text-align: center;">32505</td> <td style="text-align: center;">37508</td> <td style="text-align: center;">42500</td> <td>Sales (\$mill) ^A</td> <td style="text-align: center;">62500</td> </tr> </tbody> </table>	2003	2004	2005	© VALUE LINE PUB., INC	07-09	31.72	36.65	41.65	Sales per sh ^A	61.15	1.47	1.72	1.95	"Cash Flow" per sh	2.90	1.12	1.31	1.50	Earnings per sh ^{AB}	2.50	.16	.18	.21	Div'ds Decl'd per sh ^C	.30	7.02	8.04	9.40	Book Value per sh	14.70	1024.9	1023.3	1020.0	Common Shs Outst'g ^D	1000.0	27.7	26.3		Avg Ann'l P/E Ratio	26.5	1.58	1.38		Relative P/E Ratio	1.75	.5%	.5%		Avg Ann'l Div'd Yield	.5%	32505	37508	42500	Sales (\$mill) ^A	62500	Change N = 5 Solve for FV FV = 71009.92
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Comparing Your Sales Growth Estimate with Value Line (continued)

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<p>Intermediate results for 4 years</p>	<p>Projected 5 year sales for WAG.</p>

You may also choose to apply this methodology to compare your estimate of future Earnings per Share with that of Value Line.

The *Investor's Toolkit Financial Calculator* is readily available from within Toolkit. Click Options, then Financial Calculator from the drop down list.

