

P/Es and Small Companies

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**JOAN LOKEN
PRESIDENT
ROCKY MOUNTAIN CHAPTER**

Disclaimer:

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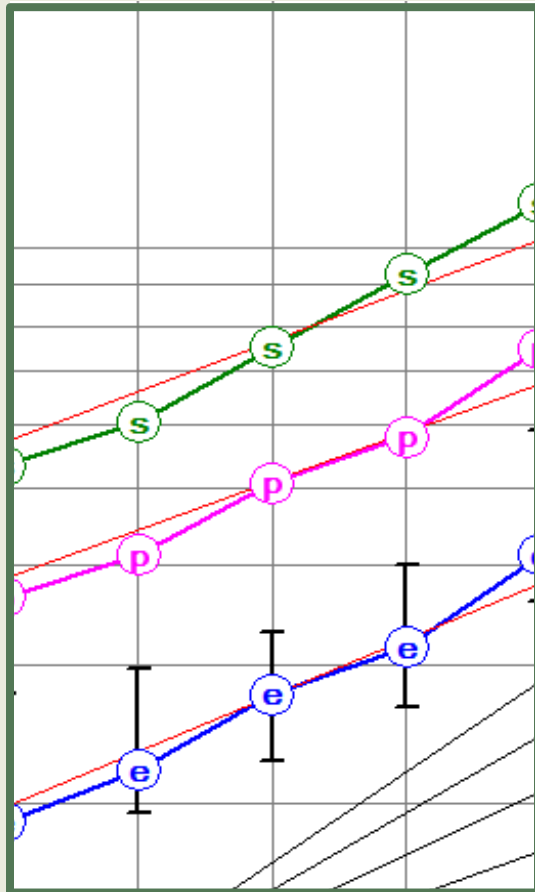
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You Can Succeed

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Up, Straight & Parallel

2008	2009	2010	2011	2012	5 YEAR AVG.	TREND UP / DOWN
32.8	34.1	34.7	32.9	34.1	33.7	EVEN
29.7	30.6	29.2	33.1	36.0	31.7	UP
0.0	0.0	0.0	0.0	0.0	0.0	EVEN

Good PTP, ROE and Low Debt

EPS	High P/E	Low P/E
2.50	29.6	17.2
2.97	21.9	10.5
3.13	25.2	17.4
3.61	31.1	21.1
4.12	26.5	19.6
	26.9	17.2

Growing EPS – Pay Attention to PEs

SBUX – Club Lesson in P/E Ratio

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In 2008, the High PE peaked at 62.6

At time of Club meeting PE was over 60, Club voted not to sell

Price and PE started dropping the very same week, Never to Recover

Lesson Learned: Pay attention to High PEs and Overvaluation – it can cost your portfolio real returns

Clear Outliers	High PE	Low PE
2003	46.2	29.3
2004	50.9	30.6
2005	52.7	37.3
2006	56.2	35.0
2007	46.0	29.0
2008	62.6	31.0
2009	40.3	13.6
2010	23.0	15.1
2011	25.9	15.7
2012	34.6	19.6
Average:	43.8	25.6

SWI – Recent Club Holding

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 56.41 (56.4)		52-WEEK HIGH (P/E) 60.95 (61.0)		52-WEEK LOW (P/E) 27.25 (27.3)			
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield	
1 2007	0.0	0.0	0.24	0.0	0.0	0.000	0.0	0.0	
2 2008	0.0	0.0	0.37	0.0	0.0	0.000	0.0	0.0	
3 2009	24.3	12.7	0.52	46.7	24.4	0.000	0.0	0.0	
4 2010	25.0	12.1	0.61	41.0	19.8	0.000	0.0	0.0	
5 2011	33.7	18.3	0.84	40.1	21.8	0.000	0.0	0.0	
6 AVERAGE		14.4		42.6	22.0		0.0		
AVERAGE P/E RATIO		32.3	PROJECTED P/E RATIO		47.0	TTM EPS		1.00	
CURRENT P/E RATIO		56.4	PEG RATIO		2.4	FTM EPS		1.20	
RELATIVE VALUE		174.6	PROJ. RELATIVE VALUE		145.5	AVG TTM + FTM EPS		1.10	

Purchases 6/2011 at \$24.24 (purchased near Low PE)

Sold 4/2012 at \$58.64 (PE 58) High PE for year was 61)

Sold for 71% profit in 10 months

Put back on watch list to repurchase between Projected Average PE of 26 & Low PE of 22

Since sales & earnings are growing at 30%+ now this can take awhile

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 17.19 (14.1)		52-WEEK HIGH (P/E) 45.00 (36.9)		52-WEEK LOW (P/E) 15.04 (12.3)				
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield		
1 2007	22.7	13.0	0.72	31.5	18.1	0.500	69.4	3.8		
2 2008	24.2	12.9	0.81	29.9	15.9	0.575	71.0	4.5		
3 2009	34.3	22.3	0.84	40.8	26.5	0.600	71.4	2.7		
4 2010	41.8	26.5	1.06	39.4	25.0	0.625	59.0	2.4		
5 2011	50.7	33.1	1.28	39.6	25.9	0.700	54.7	2.1		
6 AVERAGE		21.6		36.2	22.3		65.1			
AVERAGE P/E RATIO		29.3		PROJECTED P/E RATIO		0.0		TTM EPS		1.22
CURRENT P/E RATIO		14.1		PEG RATIO		0.0		FTM EPS		0.00
RELATIVE VALUE		48.1		PROJ. RELATIVE VALUE		0.0		AVG TTM + FTM EPS		0.61

Purchases in January 2007 @ \$18.50, Bounced up and down
Annual Report stated Stimulus money for healthcare software to peak in 2013
Planned to sell around 2012
October 2011 stock price reached \$100 dollars, High PE just under 40
Sold at \$88.98 as price & PE started dropping. Profit 136% in under 4 years

PETS

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 11.14 (14.3)		52-WEEK HIGH (P/E) 14.03 (18.0)		52-WEEK LOW (P/E) 9.15 (11.7)				
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield		
1 2007	16.0	10.6	0.82	19.5	12.9	0.000	0.0	0.0		
2 2008	19.0	10.9	0.98	19.4	11.1	0.000	0.0	0.0		
3 2009	23.5	14.1	1.14	20.6	12.4	0.300	26.3	2.1		
4 2010	24.6	14.1	0.92	26.7	15.3	0.475	51.6	3.4		
5 2011	15.9	8.5	0.80	19.9	10.6	0.525	65.6	6.2		
6 AVERAGE		11.6		21.2	12.5		47.8			
AVERAGE P/E RATIO		16.9		PROJECTED P/E RATIO		0.0		TTM EPS		0.78
CURRENT P/E RATIO		14.3		PEG RATIO		0.0		FTM EPS		0.00
RELATIVE VALUE		84.5		PROJ. RELATIVE VALUE		0.0		AVG TTM + FTM EPS		0.39

Sold the stock when PETS could no longer get great deals on TV Advertising as they did during the recession.

TV Advertising was the strongest source of revenues.

Revenues began to fall, then the stock price fell.

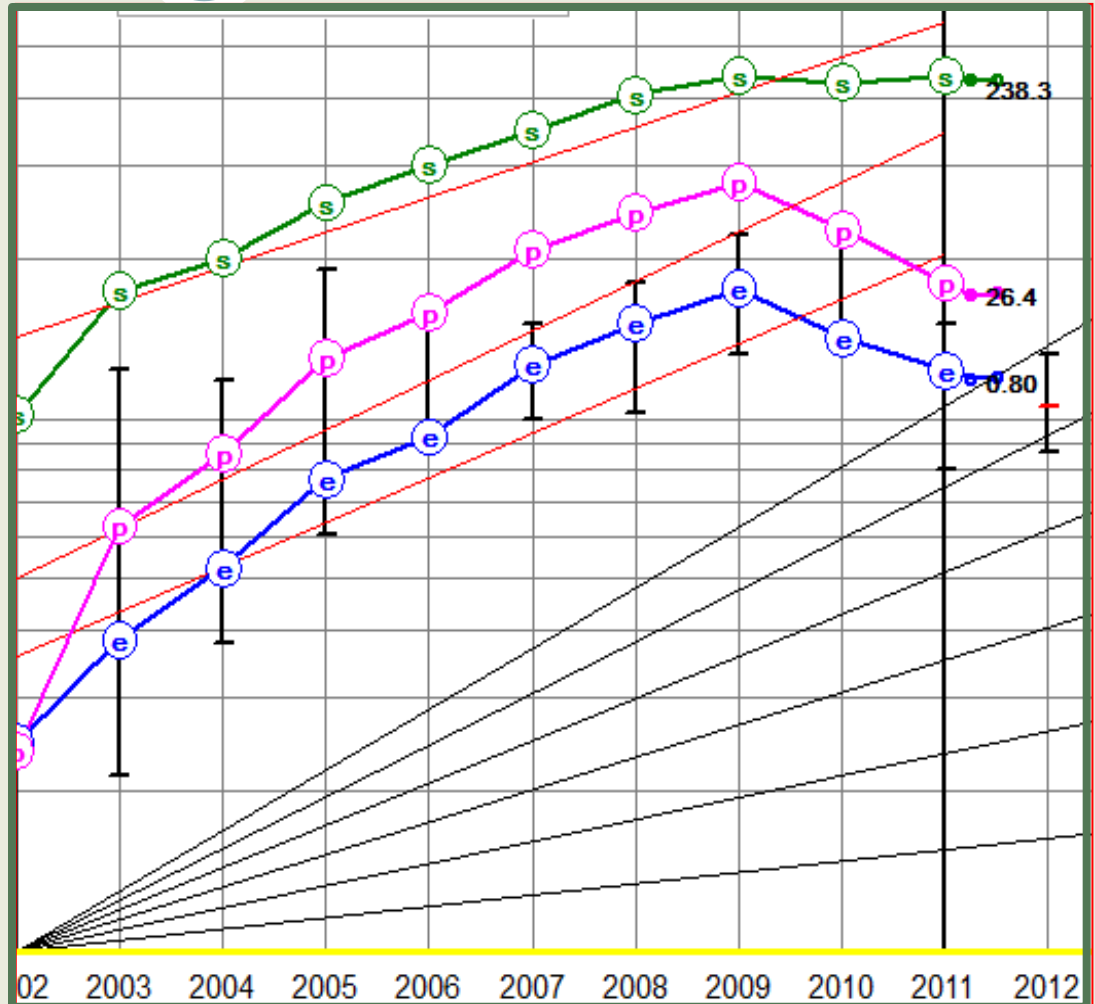
Time to SELL.

PETS

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**After 2009 Sales
flatten**

**EPS and PTP
decline**



GMCR

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 40.60 (17.8)		52-WEEK HIGH (P/E) 71.15 (31.2)		52-WEEK LOW (P/E) 17.11 (7.5)			
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield	
1	2008	9.9	0.19	51.3	29.0	0.000	0.0	0.0	
2	2009	25.3	0.46	54.6	11.0	0.000	0.0	0.0	
3	2010	38.0	0.58	65.5	34.3	0.000	0.0	0.0	
4	2011	116.0	1.31	88.5	19.9	0.000	0.0	0.0	
5	2012	96.8	2.28	42.5	7.5	0.000	0.0	0.0	
6	AVERAGE		14.8	60.5	12.8		0.0		
AVERAGE P/E RATIO		40.4 36.7	PROJECTED P/E RATIO		15.5	TTM EPS		2.28	
CURRENT P/E RATIO		17.8	PEG RATIO		1.0	FTM EPS		2.62	
RELATIVE VALUE		44.1% 48.5%	PROJ. RELATIVE VALUE		38.3% 42.2%	AVG TTM + FTM EPS		2.45	

Has rising PEs

Most recent 52 week High PE is almost 1/3 of 2011 High PE of 2011

The PE has dropped like a rock on some bad news.

How would I evaluate a Rational Average PE - I don't want to overpay

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 40.60 (17.8)		52-WEEK HIGH (P/E) 71.15 (31.2)		52-WEEK LOW (P/E) 17.11 (7.5)			
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield	
1 2008	9.9	5.6	0.19	51.3	29.0	0.000	0.0	0.0	
2 2009	25.3	5.1	0.46	54.6	11.0	0.000	0.0	0.0	
3 2010	38.0	19.9	0.58	65.5	34.3	0.000	0.0	0.0	
4 2011	116.0	26.1	1.31	88.5	19.9	0.000	0.0	0.0	
5 2012	96.8	17.1	2.28	42.5	7.5	0.000	0.0	0.0	
6 AVERAGE		14.8		60.5	12.8		0.0		
AVERAGE P/E RATIO		40.4 36.7	21.5	PROJECTED P/E RATIO 15.5		TTM EPS		2.28	
CURRENT P/E RATIO		17.8		PEG RATIO 1.0		FTM EPS		2.62	
RELATIVE VALUE		44.1% 48.5%	PROJ. RELATIVE VALUE		38.3% 42.2%	AVG TTM + FTM EPS		2.45	

To calculate a Rational Avg. PE , I would use 30 as a High PE and 18 as Low PE
For small companies I do not use a PE higher than 30
Then I would have a Projected Rational Average PE of 21.5 (average of 30 & 13)
At a current PE of 17.8, it could be a potential buy
They have some patents that are expiring – Can Earnings Continue to Grow?
Do your study and see what you think?

MLAB – A small company

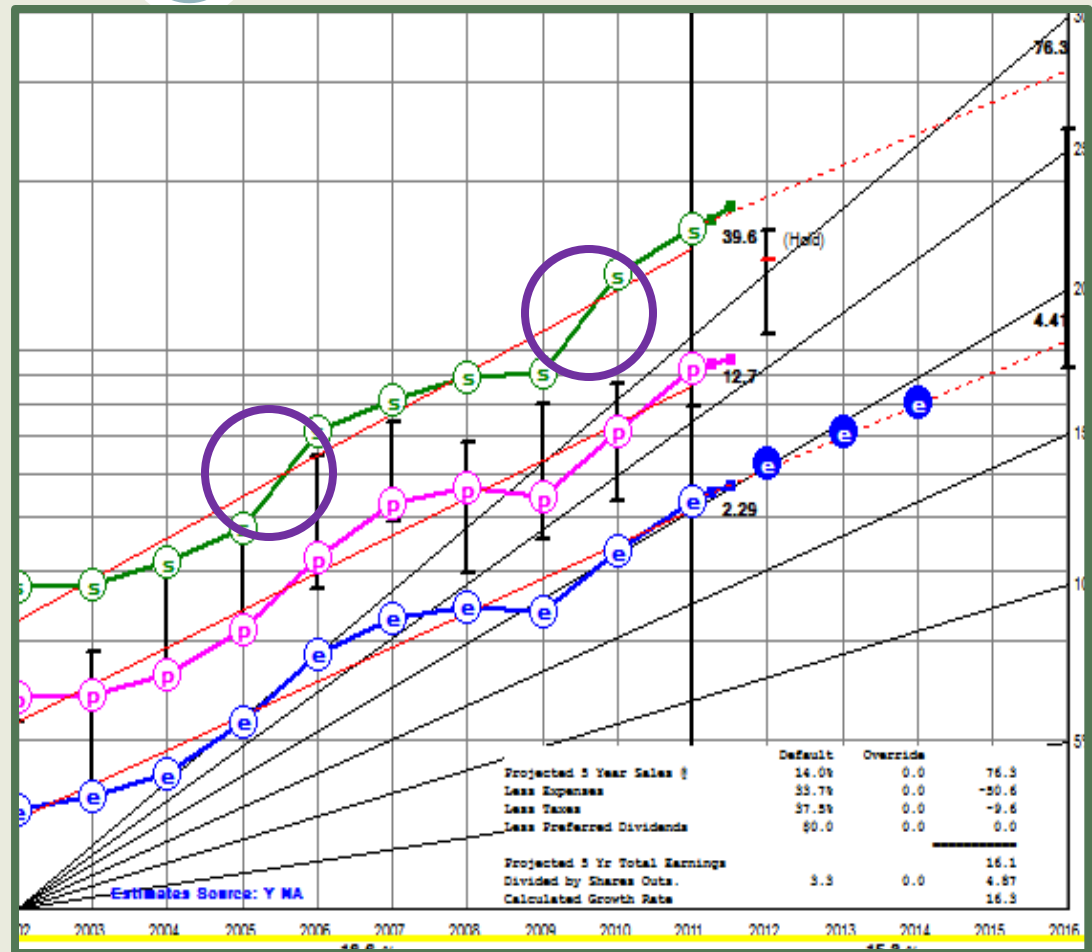
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This is a Colorado company located in Lakewood

Notice the bump up on the sales line – these indicate acquisitions

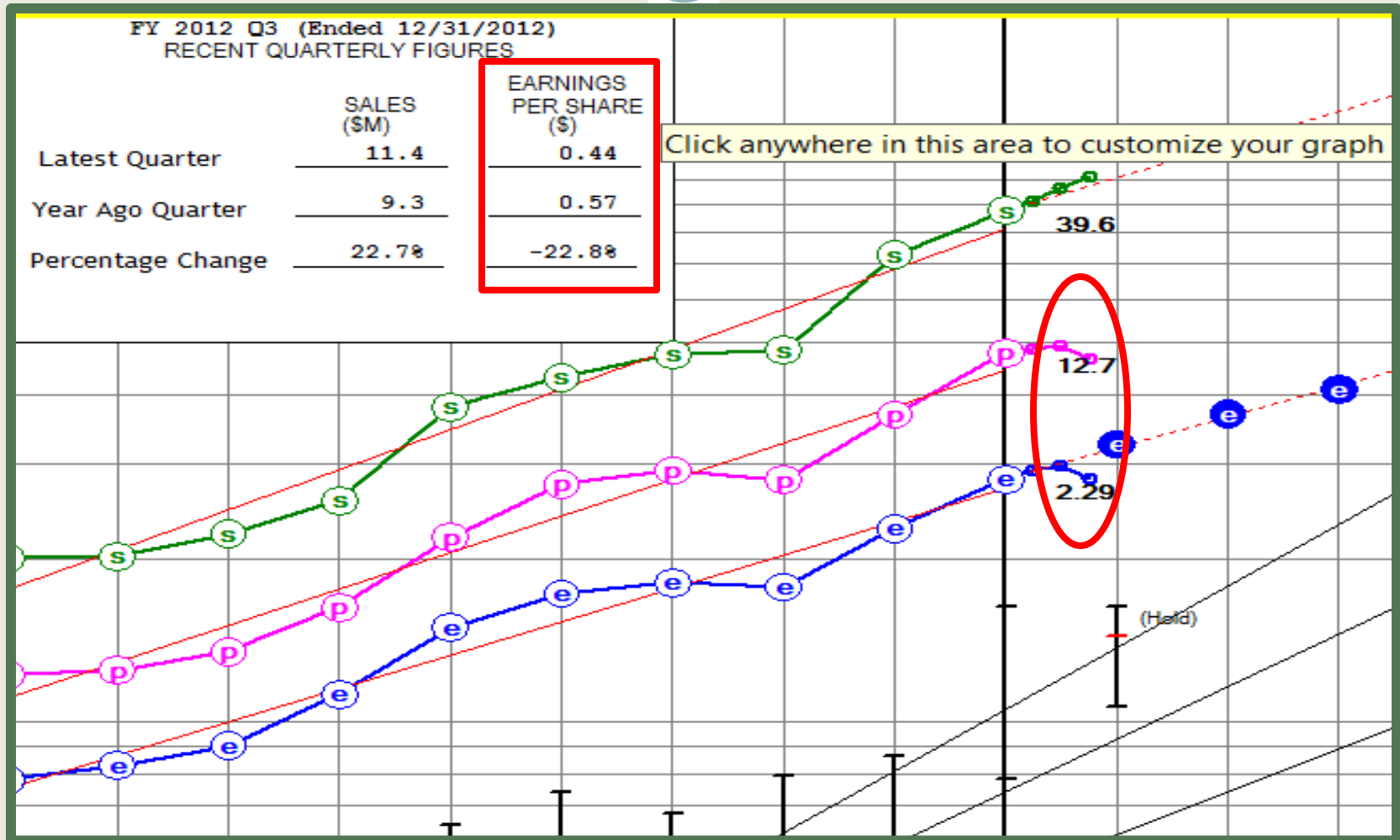
Need to consider organic growth in the sales growth projections.

Are they considering additional acquisitions – how does that affect your projections?



MLAB - Keep an Eye on Quarterly Results

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RMD – A mid-sized stock

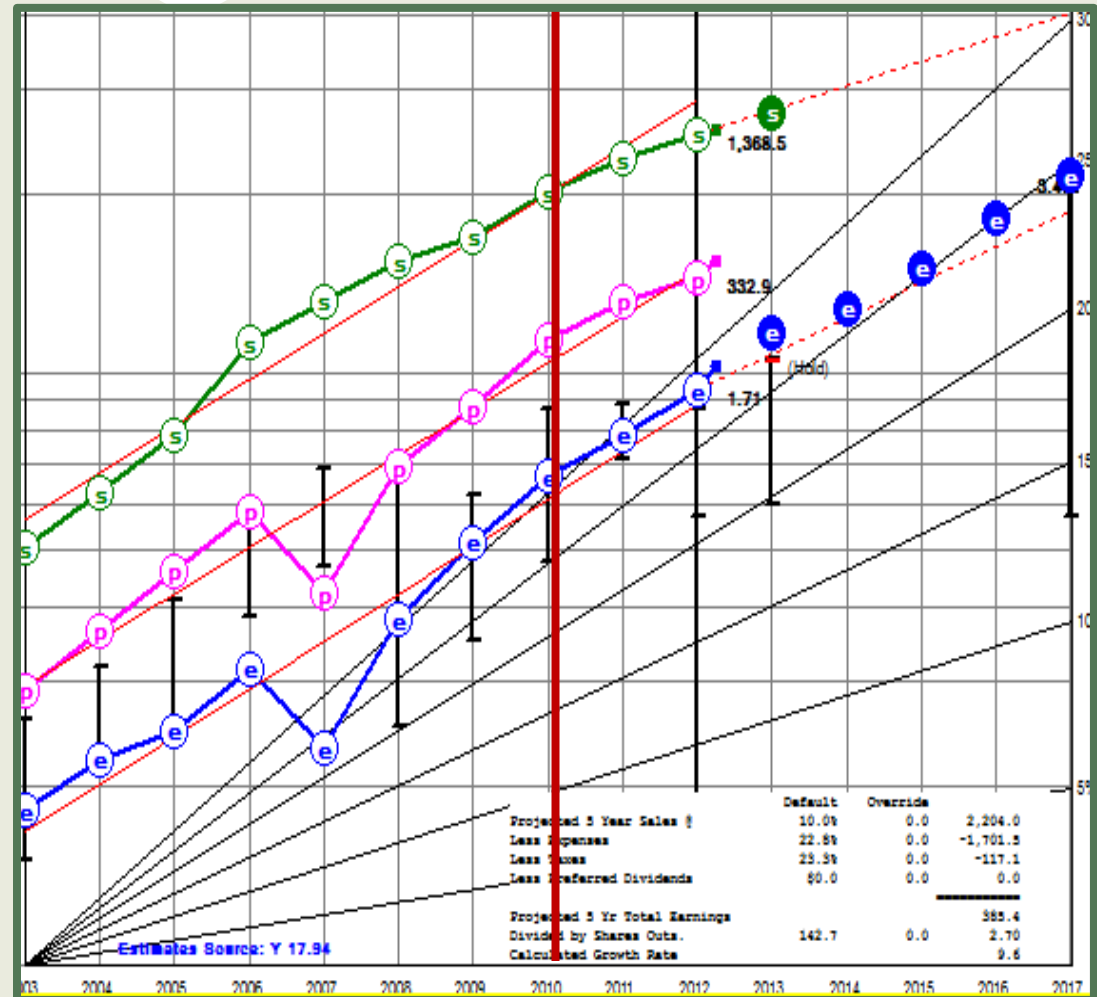
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Presented RMD in Stock Talk in 2010

Price at the time was around \$30-32, too high to consider a purchase at the time.

There was some negative news about slowing sales and negative currency transactions on International sales – from research I remained positive about RMD

Purchased near Low PE at price around \$25. Today price is around \$42 near High PE



RMD – Determine Rational Avg. PE

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 44.89 (23.9)		52-WEEK HIGH (P/E) 44.75 (23.8)		52-WEEK LOW (P/E) 26.38 (14.0)				
Fiscal Year	High Price	Low Price	EPS	High PE	Low PE	Dividend	% Payout	% High Yield		
1 2008	27.3	10.3	0.70	39.0	14.7	0.000	0.0	0.0		
2 2009	25.3	14.5	0.95	26.6	15.3	0.000	0.0	0.0		
3 2010	35.3	19.5	1.23	28.8	15.9	0.000	0.0	0.0		
4 2011	35.9	29.2	1.44	24.9	20.3	0.000	0.0	0.0		
5 2012	35.3	23.4	1.71	20.6	13.7	0.000	0.0	0.0		
6 AVERAGE		19.4		22.8	14.9		0.0			
AVERAGE P/E RATIO		22.0 18.8		PROJECTED P/E RATIO		20.8		TTM EPS		1.88
CURRENT P/E RATIO		23.9		PEG RATIO		1.4		FTM EPS		2.16
RELATIVE VALUE		108.6% 127.1%		PROJ. RELATIVE VALUE		94.4% 110.4%		AVG TTM + FTM EPS		2.02

Bought near Low PE and today is near High PE
It continues to generate strong growing EPS
So the High PE remains Rational to me, For now I continue to Hold
If I buy near the Low PE then I am less concerned about price fluctuations
An idea for a stock to study – Do your own research

RMD – Determining a Rational Price

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ResMed (From the Stock Library) 1

Select View ... 90% Data Price Data Price Data Adjust Graph Notes Export Audit Stock Split Help

BASIC DATA | **ANNUAL DATA** | **QUARTERLY DATA**

Company: ResMed 2 Price: 32.000 Date: 01/22/2013

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 32.00 (17.0)		52-WEEK HIGH (P/E) 44.75 (23.8)		52-WEEK LOW (P/E) 26.38 (14.0)		
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2008	27.3	10.3	0.70	39.0	14.7	0.000	0.0	0.0
2 2009	25.3	14.5	0.95	26.6	15.3	0.000	0.0	0.0
3 2010	35.3	19.5	1.23	28.8	15.9	0.000	0.0	0.0
4 2011	35.9	29.2	1.44	24.9	20.3	0.000	0.0	0.0
5 2012	35.3	23.4	1.71	20.6	13.7	0.000	0.0	0.0
6 AVERAGE		19.4		22.8	14.9		0.0	
3 AVERAGE P/E RATIO	22.0 18.8		PROJECTED P/E RATIO	14.8		TTM EPS 1.88		
CURRENT P/E RATIO	17.0		PEG RATIO	1.0		FTM EPS 2.16		
RELATIVE VALUE	77.3% 90.4%		PROJ. RELATIVE VALUE	67.3% 78.7%		AVG TTM + FTM EPS 2.02		

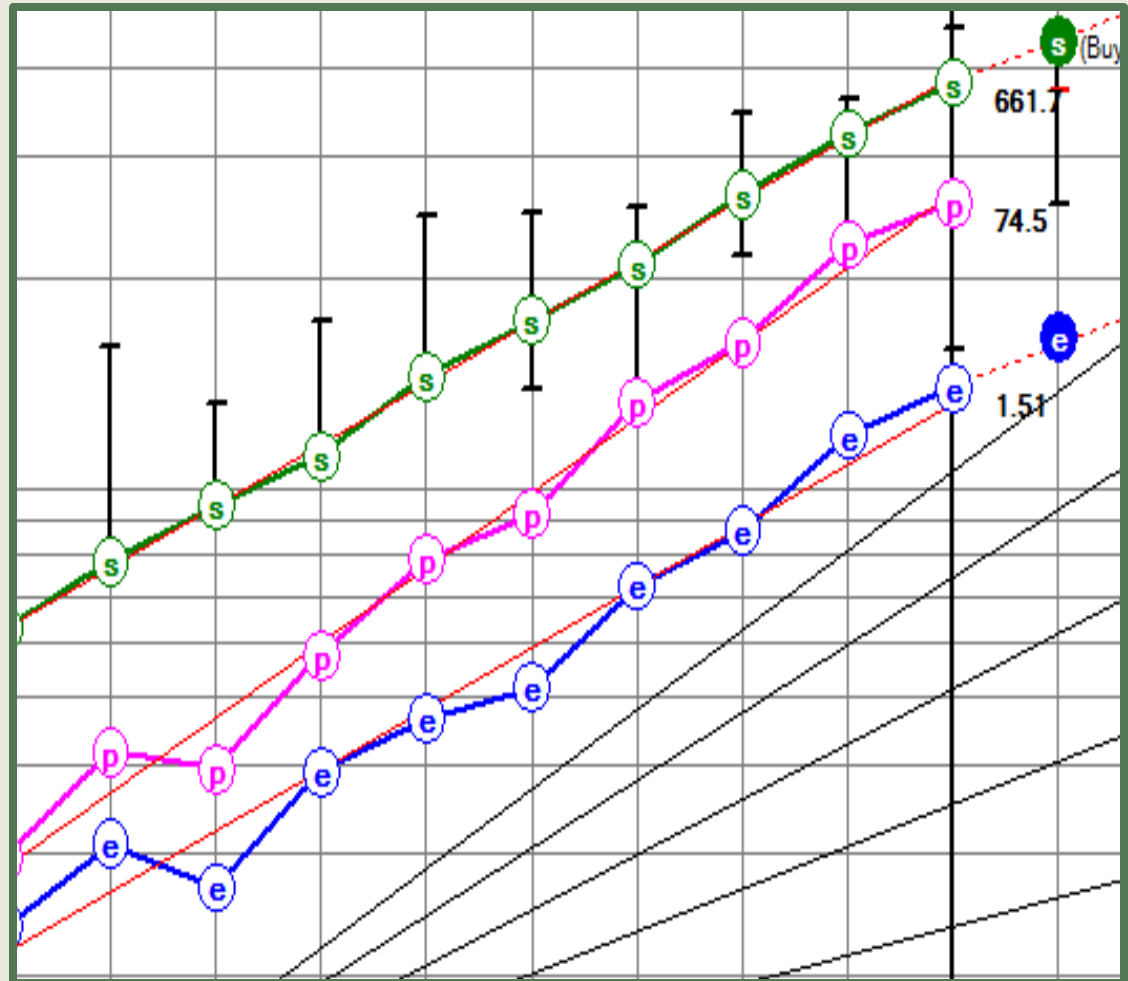
BRLI – Small > Mid-sized

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Company Moving into mid-sized at 750 million in sales

Expect Sales & EPS to start to slow down a bit from a 20% growth rate to the mid teens in the near future

Company has up, straight and parallel trend lines



BRLI – Small > Mid-sized

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 26.71 (17.8)		52-WEEK HIGH (P/E) 32.86 (21.9)		52-WEEK LOW (P/E) 18.29 (12.2)				
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield		
1 2008	17.9	10.0	0.56	32.0	17.9	0.000	0.0	0.0		
2 2009	18.1	9.2	0.79	23.1	11.7	0.000	0.0	0.0		
3 2010	24.7	15.4	0.94	26.3	16.4	0.000	0.0	0.0		
4 2011	26.0	16.7	1.29	20.2	12.9	0.000	0.0	0.0		
5 2012	32.9	11.4	1.51	21.8	7.5	0.000	0.0	0.0		
6 AVERAGE		12.5		21.7	10.7		0.0			
AVERAGE P/E RATIO		19.0 16.2		PROJECTED P/E RATIO		15.5		TTM EPS		1.50
CURRENT P/E RATIO		17.8		PEG RATIO		1.0		FTM EPS		1.73
RELATIVE VALUE		93.7% 109.9%		PROJ. RELATIVE VALUE		81.5% 95.6%		AVG TTM + FTM EPS		1.61

Company moving off of recent High PE to a more rational PE.

Do a study and put on a watch list if interested.

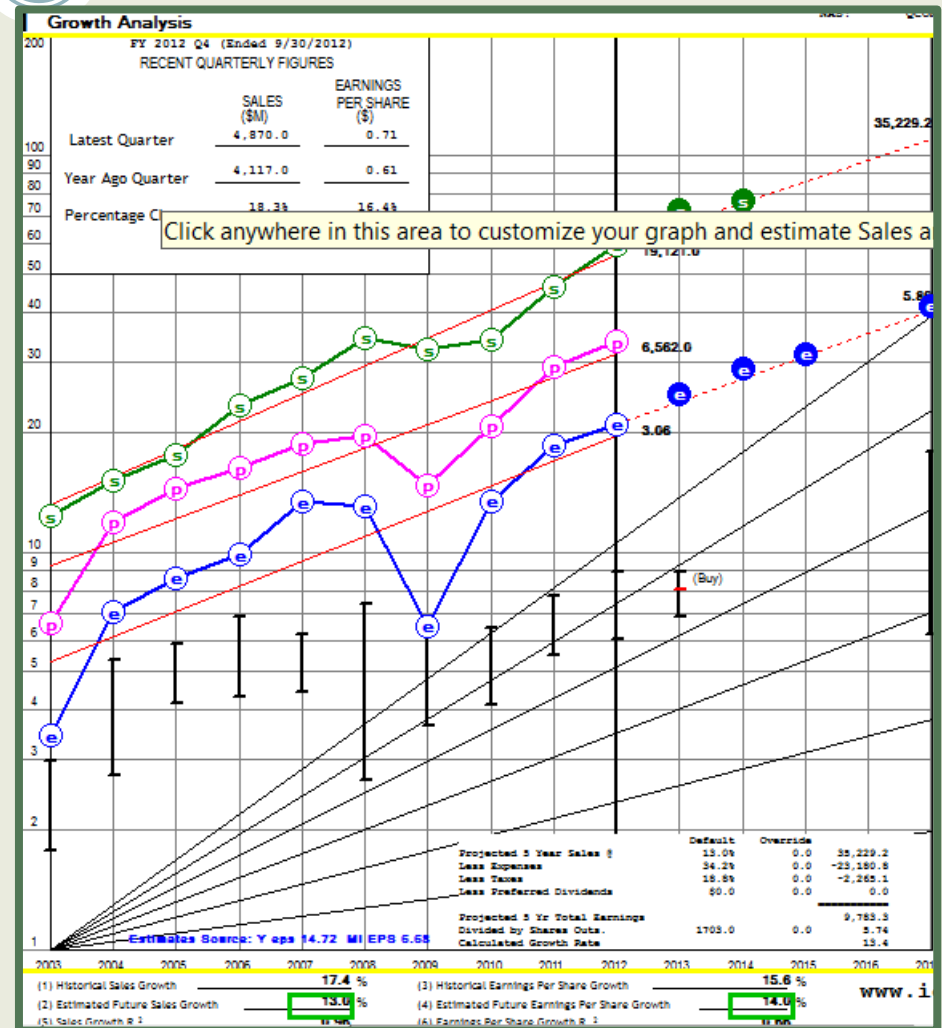
QCOM – Large Co. acting like a Small

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Not every fast growing company has to be a small company

QCOM & AAPL are large companies growing like smaller companies

They are currently growing over 12%



QCOM - Rational Avg. PE

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3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (P/E) 62.27 (20.4)		52-WEEK HIGH (P/E) 68.87 (22.6)		52-WEEK LOW (P/E) 53.09 (17.4)				
Fiscal Year		High Price	Low Price	EPS	High PE	Low PE	Dividend	% Payout	% High Yield	
1	2008	56.9	20.6	1.90	29.9	10.8	0.600	31.6	2.9	
2	2009	48.7	28.2	0.95	51.3	29.7	0.660	69.5	2.3	
3	2010	49.8	31.7	1.96	25.4	16.2	0.720	36.7	2.3	
4	2011	59.8	42.5	2.70	22.1	15.7	0.810	30.0	1.9	
5	2012	68.9	46.4	3.06	22.5	15.2	1.145	37.4	2.5	
6	AVERAGE		33.9		23.3	15.7		41.0		
AVERAGE P/E RATIO		23.9 19.5		PROJECTED P/E RATIO		17.9		TTM EPS		3.05
CURRENT P/E RATIO		20.4		PEG RATIO		1.3		FTM EPS		3.48
RELATIVE VALUE		85.4% 104.6%		PROJ. RELATIVE VALUE		74.9% 91.8%		AVG TTM + FTM EPS		3.26

I own QCOM, my husband wants it in his portfolio

So I placed a limit order somewhere between the Low PE and the Average PE

When will the order go through – I have no idea

APPL and other phone makers are experiencing a slow down on phones, how will that affect chip sales?

Another idea for study – Do your own research

Summary

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- **Require Up, Straight & Parallel**
- **Buy when Current PE is less than Average PE**
- **When PEs are Declining or have been Elevated, use Outliers to Determine a Rational Projected Average PE**
- **Use a High PE no greater than 30**
- **Sell when PEs get uncomfortably High – Lock in Profits**
- **You can Always Buy again when near Low PE & the Company Continues to grow Earnings**
- **Place Limit Orders for Stocks you want to Buy – (not all will go through)**
- **Be Conservative & Be Patient**
- **Pay attention to the news**

Next Month

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- **Profit Margin Analysis is the Key to Identify Smaller Quality Companies**
- **Contact me at:**
- **j.loken@rmchapter.org**

