


BETTER INVESTING™
Rocky Mountain Chapter

ROE: RETURN ON EQUITY

- EQUITY:** Assets minus Liabilities
 - What you put in plus what the company puts in
- RETURN:** That part of an invested dollar is returned to the investor through business activity



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October 22, 2019

Small Talk for October, 2019

ROE: Where it comes from

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            graph TD
            ROE[ROE Return/Equity] --- ROA[ROA Return/Assets]
            ROE --- LEVERAGE[LEVERAGE Assets/Equity]
            ROA --- PM[PROFIT MARGIN Return/Sales]
            ROA --- TURNOVER[TURNOVER Sales/Assets]
            ROA --- X[x]
            LEVERAGE --- X
            
```

PTPM on the SSG excludes taxes but Profit Margin includes taxes
Return = Net Profit

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Some Questions ROE Can Answer

- Can growth be funded by company resources or will it have to borrow to grow at our estimated growth rate?
- What resources are available for dividends, buy-backs and acquisitions?
- Can it pay a dividend?
 - Should it pay a dividend?
 - Is it “empire building”?
- Is management using resources wisely?
 - Up-trending ROE show wise resource usage
 - Down-trending ROE shows resource mis-use

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Company: BioSpecifics Technol (BSTC) Study Name: BSTC 10/3/18



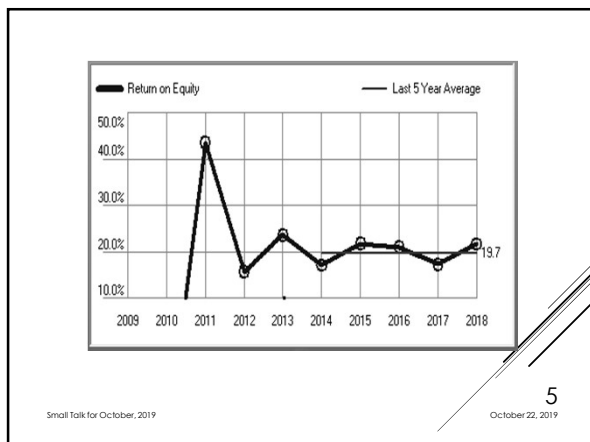
Fundamental Company Data												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Current (%)	5 yr Avg
Historical Sales (\$M)	5	6	11	11	14	14	23	26	27	33	18.4%	13.3
Historical EPS (\$)	-0.51	-0.54	0.95	0.43	0.79	0.66	1.32	1.06	1.55	2.73	21.9%	11.7
Pre-Tax Profit (\$M)	-1	-2	5	5	6	7	15	17	18	25	27.3%	6.49

Equity Management												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5 yr Avg	Trend
% Pre-Tax Profit on Sales	-47.1%	-26.6%	46.2%	46.2%	55.1%	50.0%	64.0%	66.2%	66.9%	75.2%	64.5%	UP
% Return on Equity	-33.2%	-22.5%	43.3%	19.7%	23.6%	17.1%	21.7%	21.0%	17.2%	21.6%	19.7%	UP
% Cost to Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	DOWN

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BioSpecifics Technology (BSTC)



BioSpecifics (BSTC)

- 5 year average ROE: 19.7%
- Max growth rate all earnings re-invested: 19.7%
- Estimated EPS growth: 16.7%
- 2020 EPS: \$3.50
- Portion of EPS needed for growth: (16.7/19.7) = 84.7%
- 84.7% of \$3.50 = \$2.96 needed for growth
- That leaves \$3.50 - \$2.96 = \$0.54 for dividends, buy backs, and acquisitions
- Current Dividend: \$0; Payout = 0%
- Only 15.3% of EPS or \$0.54 is for other uses
 - Stock buy-backs
 - Acquisitions
- Growth + Payout + Other = 100%
 - 84.7% + 0% + 15.3% = 100%
- Can BioSpecifics pay a dividend?
- Should they pay a dividend?

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Date: February 18, 2016
Panelists: John Rogers, Ken Kavula, Ann Cuneaz
Topics: A Closer Look at Return on Equity, Evaluating Company Debt, Quick Checks to Assess Dividend Safety, Five in Five (stock ideas)
[View Recording](#) (70 minutes)
Handout:
[Presentation Slides](#) (PDF)

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