

# The Annual Report & Proxy Statement

Presented By  
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# The annual report:

- Tells shareholders and other interested parties how the year went.
- We are concerned only with manufacturers and retailers.
- Four parts: Letter to shareholders
  - Management discussions & analysis
  - Auditors statement
  - Financials with notes

# The “Meat”--the Financials

- Income Statement==Paycheck
- Cash Flow==Checkbook
- Balance sheet==Net Worth
  
- The Footnotes—Don't Ignore!

How to Analyze All This?

See [www.bob-adams.net](http://www.bob-adams.net)

[Click here for instructions](#)

Financial data from MSN

It takes up to 20 seconds to download the data—be patient

The cheaper the paper, the more valuable the information -- Peter Lynch

Fiscal Year End date: July-12

57 Numerical Result of this analysis

1	<b>Accounts Receivable</b>	Change: <b>3%</b>	<b>Wrong direction, but Sales is growing faster</b>
	Days waiting for payment this year= <b>64</b>	Sales and Accounts Receivable are both increasing - If about equal, that's probably ok	
	Days waiting for payment prior year= <b>66</b>	Inventories are also increasing - are the increases substantial?	
	(Below 60 is good - below 45 is superb) <b>4</b>	Days change from most recent quarter to year ago quarter. Plus 3 or higher is a warning sign	
2	<b>Inventories</b>	Change: <b>12%</b>	<b>Whoa, wrong direction (Increasing)</b>
	Inventory Turnover Days this year = <b>34</b>	<b>CAUTION -- Both Accts. Receivable &amp; Inventories are increasing</b>	
	Compare with other companies in the industry	If Inventories are rising faster than sales, competition or pricing are likely the problem	
3	<b>Sales or Revenues</b>	Change: <b>7%</b>	<b>Way to GO! (Increasing)</b>
	Sales to Accts Receivable Ratio.....	OK (Sales growing faster than Accts Receivable)	
	Sales to Inventories Ratio.....	Caution: Inventories growing faster than sales	
4	<b>Cost of Sales</b>	Up <b>7%</b>	<b>Caution - Why is it increasing?</b>
	(Cost of sales this year/Cost of sales prior year as a % change)	<b>CAUTION - Cost of Sales increasing faster than Sales</b>	
5	<b>Plant &amp; Equipment</b>	Change: <b>-13%</b>	<b>Caution - The investment in PP&amp;E is flat or decreasing</b>
	(Sales should be increasing as fast or faster)	<b>Way to GO! Sales are growing faster</b>	
6	<b>Long-term Debt</b>	Change: <b>0%</b>	<b>No substantial change</b>
		<b>Debt to Equity Ratio is High</b>	
		A small change isn't considered a serious negative.	
7	<b>LT Debt to Equity Ratio:</b>	debt to equity, <b>31.8%</b>	<b>Long-term debt may be excessive</b>
	(Long-term Debt / Total Equity)	Normal Long-term Debt -- Less than 25% of Sales <b>Is the ROE greater than interest rates? Also see Free Cash Flow</b>	
8	<b>Total Interest Coverage</b>	Pretax exceeds interest X times <b>18.0</b>	<b>Large numbers aren't as useful as small.</b>
	(Pretax Profit + Total Interest Paid / Total Interest Paid)	<b>This company appears to be in good shape financially.</b>	
		Any number below 5 is worrisome. A number below 3 is very worrisome	
9	<b>Gross Profit Margin</b>	This year= <b>61.2%</b> Prior Year= <b>61.5%</b>	<b>Caution the Gross Margin is decreasing</b>
	(Sales - Cost of Sales / Sales)	<b>Gross Profit Margin is better than the industry average</b>	
10	<b>Number of shares outstanding tre:</b>	Down <b>-2.5%</b>	<b>Right Direction (Decreasing)</b>
	(Curr. Yr. Shares/Prior Yr. Shares)	A small change of up to about 2% isn't considered too consequential	
11	<b>Operating Cash flow Change</b>	<b>88%</b>	<b>Cash flow should increase at the same rate as Sales - or greater</b>
	(Curr. Yr. PreTaz + Depreciation - Taxes / Prior Yr. PreTaz + Depreciation - Taxes)	<b>Cashflow is growing faster than Sales</b>	
12	<b>Dividend to Cash from Operations ratio (Most recent Quart)</b>	<b>7.8</b>	<b>Ratio is probably sufficient--the dividend is not likely to be cut</b>
	Indicates if there is enough cash flow to cover the dividend		
13	<b>Free Cash Flow Margin</b>	<b>19%</b>	<b>Anything over 10 is Great - Substantially over 10 is EXCELLENT</b>
	(Free Cash Flow / Sales)		
14	<b>Return on free cash flow - compare to yield on 10 year Note</b>	<b>7.8%</b>	<b>Good - Free Cashflow return is greater than the 10 year note</b>
15	<b>Earnings Yield - compare to yield on 10 year Note</b>	<b>7.3%</b>	<b>Earnings Yield is significantly greater than the 10 year note</b>

Bullish Results		SEE
1	Sales are increasing	Line 3
2	Interest Coverage is reasonable	Line 8
3	Shares outstanding are decreasing	Line 10
4	Cash flow is growing faster than Sales	Line 11
5	Free cash flow growth is excellent	Line 13
6	Return on Free Cash flow is good	Line 14
7	Return on Equity is adequate	Line 18
8	Cash Position per Share is greater than 20% of the current price	Line 21
9	The dividend payout ratio appears to be sustainable	Line 12
10	Gross Profit Margin is greater than the industry average	Line 30
11	Short interest is fairly low and decreasing	Line 31

Bearish Results		SEE
1	Accounts Receivable is increasing	Line 1
2	Inventories are increasing	Line 2
3	Inventories are growing faster than sales	Line 3
4	Cost of Sales is growing faster than Sales	Line 4
5	Gross Profit Margin is not growing	Line 9
6	Debt to Equity is high	Line 7

Millions of dollars - except today's price	
<i>(from Balance Sheet)</i>	
\$48,716	Cash & Cash Equivalents
\$8,030	Accounts Receivable this year
\$7,809	Accounts Receivable prior year
\$1,663	Inventories current year
\$1,486	Inventories prior year
\$61,933	Total Current Assets
\$3,402	This Yr. Total Property Plant & Equip.
\$3,916	Prior Yr. Total Property Plant & Equip.
\$17,731	Total Current Liabilities
\$16,297	Long-term Debt this year
\$16,234	Long-term Debt prior year
5,298.0	Common Shares Outstanding this Yr.
5,435.0	Common Shares Outstanding prior Yr.
\$51,286	Total Stockholders Equity
<i>(from Statement of Earnings)</i>	
\$46,061	Total Sales or Revenues this Year
\$43,218	Total Sales or Revenues prior Year
\$17,862	Cost of Sales this Year
\$16,619	Cost of Sales prior Year
\$10,159	Income before Taxes
\$8,041	This Yr. Net Income
\$6,490	Prior Yr. Net Income
\$596	Total Interest Paid on Debt
<i>(from Statement of Cash Flows)</i>	
\$11,491	This Yr. -Net Cash provided by Operations
\$10,079	Prior Yr. -Net Cash provided by Operations
\$1,126	Acquisition of Property Plant & Equipment
\$1,501	Total Dividends paid (if any)
\$21.56	Today's Price per Share
1.9%	10 Year Note rate

Data from MoneyCentral.MSN.com are used in this analysis

See [www.investopedia.com](http://www.investopedia.com) for item definitions

# Recommended Resources

- John Tracy: How To Read A Financial Report
- Thornton O'Glove: Quality of Earnings
- Any class by Bob Adams in person or online via BetterInvesting or InvestEd.

# Proxy Statement

- Proxy, (in business)-written power of attorney given by the shareholder authorizing a specific vote at meetings
- Proxy statement-material the company must provide with information about proposals you vote on
- How to do this?

# The proxy statement package

- 1) a ballot
- 2) proxy statement

General layout of proxy statement, usually

- Notice of annual meeting
- Listing of directors
- Committees
- Proposals by company or by shareholders

# Other Odd Bits:

- Compensation of Board and Management
- Compensation at peer companies
- Certain relationships
- Beneficial ownership
- Corporate governance
- Performance graph



## Appendix:

- Copies of documents being changed
  - Financial statements
  - Charters of committees
  - Whatever!
- 
- Everything in much detail—OR NOT!

# Somewhere there will be:

(Hint: Check the Table of Contents)

Company Proposals

Facts stated and recommendations

Shareholder proposals

Resolution with backup reasoning

Board recommends against with  
backup reasoning

- As always with BETTERINVESTING

**DO YOUR HOMEWORK  
THEN VOTE!**

# QUESTIONS?

**THANK YOU**