



YALE
UNDERGRADUATE
DIVERSIFIED
INVESTMENTS

EDUCATION MEETING # 4

SEC FILINGS AND FINANCIAL STATEMENTS

GOALS OF MEETING # 4

- 1) SEC Filings Overview
- 2) 3 Major Financial Statements
 - Balance Sheet
 - Income Statement
 - Cash Flow Statement
- 3) Common interview questions

SEC FILINGS

- **10-K: Yearly Filing**
- **10-Q: 3 Quarterly Reports**
 - **Summarize company and provide current information on financials as well as important quantitative information necessary for investing**
- **<http://www.sec.gov/edgar/searchedgar/companysearch.html>**

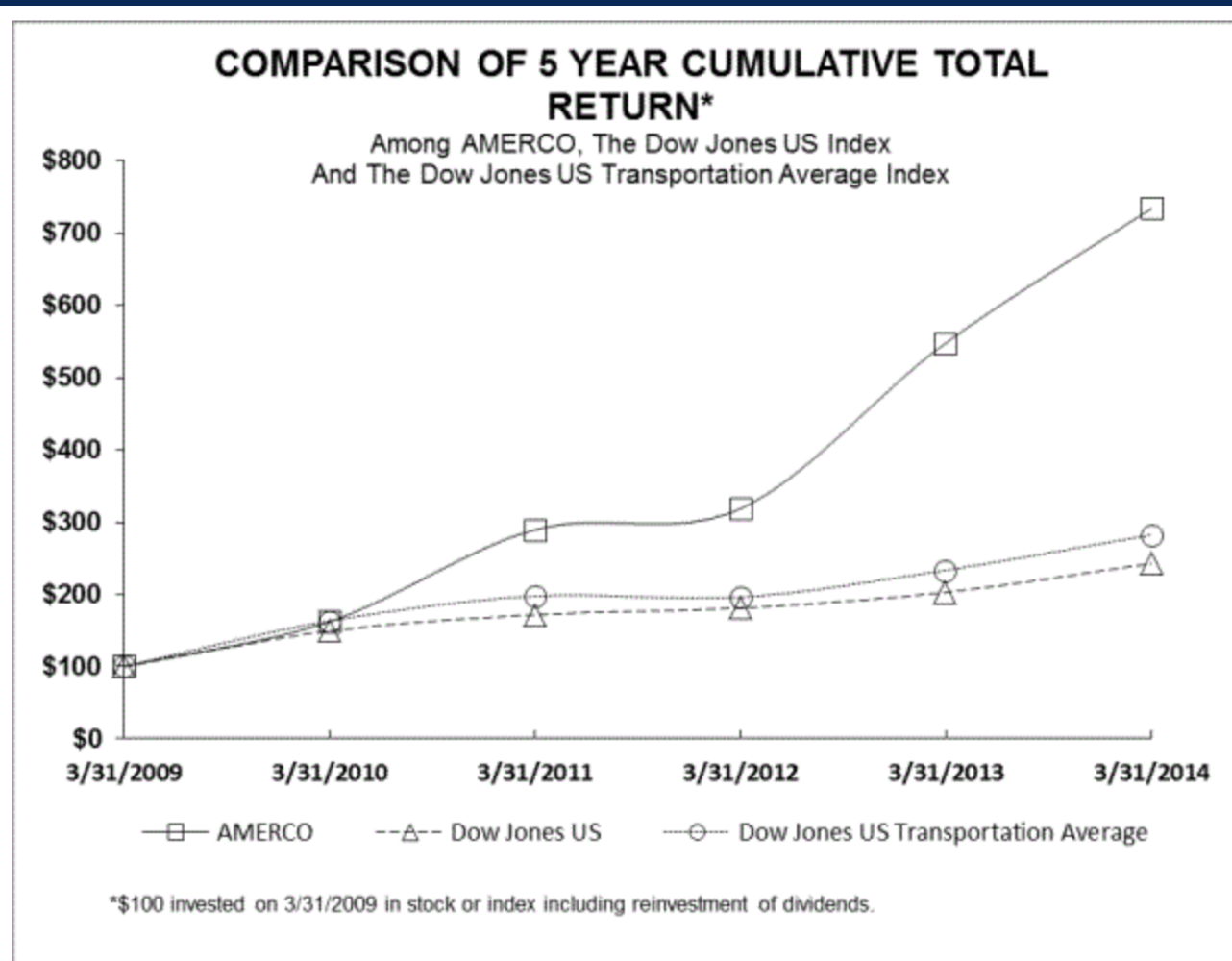
SEC PART #1 - SUMMARY AND QUALITATIVE



- **Company Overview - Company Segments**
 - *UHAL is comprised of 3 segments: Rental, Storage, and Insurance*
- **Risk Factors**
- **Products and Equipment**

SEC PART #2 - FINANCIALS AND CONDITIONS

- Dividends?
- Performance Graph?



Fiscal years ended March 31:

	2009	2010	2011	2012	2013	2014
AMERCO	\$ 100	\$ 162	\$ 289	\$ 318	\$ 547	\$ 735
Dow Jones US Total Market	100	149	172	181	203	243
Dow Jones US Transportation Average	100	163	197	196	233	282

SEC PART #2 - FINANCIALS AND CONDITIONS

Balance Sheet

	March 31,	
	2014	2013
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 321,544	\$ 327,119
Investment in subsidiaries	493,612	240,080
Related party assets	1,150,671	1,032,124
Other assets	18,712	43,841
Total assets	\$ 1,984,539	\$ 1,643,164
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other liabilities	\$ 455,952	\$ 412,199
	455,952	412,199
Stockholders' equity:		
Preferred stock	—	—
Common stock	10,497	10,497
Additional paid-in capital	444,420	438,378
Accumulated other comprehensive loss	(53,923)	(22,680)
Retained earnings:		
Beginning of period	1,482,420	1,316,854
Adjustment to initially apply ASU 2010-26	—	(1,721)
Net earnings	342,391	264,708
Dividends	(19,568)	(97,421)
End of period	1,805,243	1,482,420
Cost of common shares in treasury	(525,653)	(525,653)
Cost of preferred shares in treasury	(151,997)	(151,997)
Total stockholders' equity	1,528,587	1,230,965
Total liabilities and stockholders' equity	\$ 1,984,539	\$ 1,643,164

SEC PART #2 - FINANCIALS AND CONDITIONS

Income Statement

	Years Ended March 31,		
	2014	2013	2012
	(In thousands, except share and per share data)		
Revenues:			
Net interest income and other revenues	\$ 6,465	\$ 5,329	\$ 6,085
Expenses:			
Operating expenses	6,636	13,611	9,081
Other expenses	97	97	98
Total expenses	6,733	13,708	9,179
Equity in earnings of subsidiaries	287,803	212,164	149,160
Interest income	86,916	91,125	94,278
Pretax earnings	374,451	294,910	240,344
Income tax expense	(32,060)	(30,202)	(34,649)
Net earnings	342,391	264,708	205,695
Less: Excess of redemption value over carrying value of preferred shares redeemed	—	—	(5,908)
Less: Preferred stock dividends	—	—	(3,241)
Earnings available to common shareholders	\$ 342,391	\$ 264,708	\$ 196,546
Basic and diluted earnings per common share	\$ 17.51	\$ 13.56	\$ 10.09
Weighted average common shares outstanding: Basic and diluted	19,558,758	19,518,779	19,476,187

SEC PART #2 - FINANCIALS AND CONDITIONS

Cash Flow Statement

	March 31,	
	2014	2013
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 321,544	\$ 327,119
Investment in subsidiaries	493,612	240,080
Related party assets	1,150,671	1,032,124
Other assets	18,712	43,841
Total assets	\$ 1,984,539	\$ 1,643,164
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other liabilities	\$ 455,952	\$ 412,199
	455,952	412,199
Stockholders' equity:		
Preferred stock	—	—
Common stock	10,497	10,497
Additional paid-in capital	444,420	438,378
Accumulated other comprehensive loss	(53,923)	(22,680)
Retained earnings:		
Beginning of period	1,482,420	1,316,854
Adjustment to initially apply ASU 2010-26	—	(1,721)
Net earnings	342,391	264,708
Dividends	(19,568)	(97,421)
End of period	1,805,243	1,482,420
Cost of common shares in treasury	(525,653)	(525,653)
Cost of preferred shares in treasury	(151,997)	(151,997)
Total stockholders' equity	1,528,587	1,230,965
Total liabilities and stockholders' equity	\$ 1,984,539	\$ 1,643,164

BALANCE SHEET

- **Snapshot of Company Performance**
- **Assets:**
 - Owns what?
- **Liabilities:**
 - Owes what?
- **Shareholder's Equity:**
 - Left over - to reinvest into the company

$$\text{ASSETS} = \text{Liabilities} + \text{Shareholder's Equity}$$

ASSETS

- *Current Assets*
 - Cash / equivalents
 - A/R (Accounts Receivable)
 - Inventory
 - Other
 - **TOTAL CURRENT ASSETS**
- *Fixed Assets*
 - Tangible
 - Intangible Assets
 - **TOTAL FIXED ASSETS**
- **TOTAL ASSETS**

LIABILITIES + SHAREHOLDER EQUITY

- *Current Liabilities*
 - A/P (Accounts Payable)
 - N/P (Notes Payable)
 - Accrued expenses (an expense that has not yet been paid)
 - **TOTAL CURRENT LIABILITIES**
- *Long-term Debt*
 - **TOTAL LONG-TERM LIABILITIES**
- *Shareholder's Equity*
 - Common Stock
 - Retained Earnings
 - **TOTAL EQUITY**
- **TOTAL LIABILITIES & SE**

BALANCE SHEET - ASSETS

$$\text{ASSETS} = \text{LIABILITIES} + \text{SHAREHOLDER EQUITY}$$

- **Days of Working Capital** - at least 30 days of WC and healthy is >180 (Calculates how well a company can handle up and downs for revenues)

(Current Assets - Current Liabilities)
(Total Annual Expenses / Liabilities)

INCOME STATEMENT

- **Performance over-time**
- **Revenue - Expenses = Income (or profit)**
 - **IMPORTANT: Net Income > 0**
 - **BENEFICIAL: Strong Profit Margin (this means the company gets more for each dollar it invests in costs)**
 - **EXAMPLE: Difference between Hardware and Software**

INCOME STATEMENT

- *Total Revenues*
 - (COGS)
 - (SG&A)
 - (Depreciation)
 - **OPERATING INCOME**
 - Other Income
 - **EBIT**
 - (Interest Expense)
 - **PRETAX INCOME**
 - (Taxes)
 - **NET INCOME**

CASH FLOW

- **FCF - Free Cash Flow**
 - measures amount of cash that a company generates
 - (pay shareholders/creditors)
 - (reinvest in company)
- **Good to have strong cash flows that have been growing consistently**

CASH FLOW

- **Cash from Operations**
 - Net income
 - add back non-cash expenses like depreciation and amortization
- **Cash from Investing Activities**
 - (Capital expenditures)
 - (Development costs)
 - Gains on Investments (Losses on investments)
- **Cash from Financing Activities**
 - Cash received on loans
 - (Cash spent on equity offerings or dividends)

BLACKBERRY EXAMPLE

12 Month Period Ending: Currency is US Dollar	3/2/2013 52 Weeks	3/3/2012 53 Weeks Reclassified 3/2/2013	2/26/2011 52 Weeks	2/27/2010 52 Weeks	2/28/2009 52 Weeks
Cash From (used by) Operating Activities					
Net Income	(628)	1,171	3,411	2,457	1,893
Depreciation/Depletion	1,918	1,523	927	616	328
Changes in Working Capital	485	(210)	(496)	(161)	(769)
Total Cash from Operations	2,303	2,912	4,009	3,035	1,452
Plus: Cash From (used by) Investing Activities					
Purchase of Fixed Assets	(413)	(902)	(1,039)	(1,009)	(834)
Purchase/Acq of Intangibles	(1,005)	(2,217)	(557)	(421)	(688)
Capital Expenditures	(1,418)	(3,119)	(1,596)	(1,431)	(1,521)
Free Cash Flow →	\$885	\$-207	\$2413	\$1604	\$-69

NEGATIVE CASH FLOW?

- **BlackBerry Example**
 - Not the same for every company
- **Negative FCF**
 - Usually bad as companies need to 1) raise capital or 2) turn the trend around before they RUN OUT OF CASH in the short term
 - This becomes difficult during bad economic times.
- **Positive FCF**
 - Hedge against instability during an economic downtrend

ISSUES WITH FREE CASH FLOW

- **Capital Expenditures**
 - Fully subtracted from FCF
 - Large purchases of equipment during a single year will take a big hit to FCF (some companies postpone these CapEx investments)
- **Accounting Tricks**
 - Maintenance costs for current capital assets can be manipulated for example

WHY USE ALL 3?

Use ALL 3 because each shows you a different “perspective” of the company - only using a single can be misleading

INTERVIEW QUESTIONS

- **If a company incurs \$10 (pretax) of depreciation expense, how does that affect the three financial statements?**
- **Income Statement**
 - Depreciation is an expense so operating income (EBIT) declines by \$10 - but with tax at 40%, net income declines by \$6
- **Cash Flow Statement**
 - Net income decreases \$6 and depreciation is \$10 so it would be -\$6 from cash flow but a +\$10 depreciation so Cash Flow from Operations increase \$4
- **Balance Sheet**
 - Assets decreased \$6 (PP&E -10 and Cash +4) and shareholder's equity decreased \$6 - **BALANCES**

INTERVIEW QUESTIONS

- **If I were stranded on an island and only had only 1 statement and I wanted review the overall health of a company - which statement would I use and why?**
- Cash Flow statement because:
 - True Picture of how much CASH the company is actually generating - independent of all the non-cash expenses

INTERVIEW QUESTIONS

- **Lets say I could only look at 2 statements to assess a company's prospects - which 2 would I use?**
 - Income Statement and Balance Sheet
 - you can generate Cash Flow statement from both given you have the before and after for Balance Sheet in the same period the Income Statement is tracking

INTERVIEW QUESTIONS

- **Apple sells Apple Watch for revenue of \$20 at a \$10 cost. Walk through the 3 statements.**
- **Income Statement**
 - Revenue UP \$20
 - COGS UP \$10
 - Operating Income UP \$10
 - 40% tax - Net income increase \$6
- **Cash Flow Statement**
 - Net income up by \$6, inventory down by \$10 (used inventory to make product) - ADDS to cash flow +\$10
 - UP \$16
- **Balance Sheet**
 - Cash UP \$16 on Assets side
 - Inventory down \$10 - SO ASSETS UP \$6
 - Net Income UP \$6 so Shareholder's Equity is up \$6
 - BALANCES