**This guide walks you through all steps to follow to analyze a company. It is meant to be used to understand if there are growing opportunities in a specific company, not to calculate exact values. However, information obtained should be more than enough to find good entry/exit opportunities.**

**Before doing this extended analysis there are a couple things we have to confirm:**

* **Stock price must be at least 20-30% close to True Value (remember to use a conservative PE)** For this company we find the opposite to be true!! We want True Value to start declining like crazy before buying or True Value must be getting out from very low valuations.

10 is a very conservative PE ratio 🡪(AVG is 16 and median 14)

The pattern looks like follows: when True Value increases a lot and goes well beyond stock price, the stock starts to crash. After crashing, True Value decreases a lot and at that time is good to buy again. Usually best time to buy is before the company is growing double digits, then keep it to enjoy the double digit ride, and sell before double digits turn to single digit or negative.

1991 🡪 growth was negative and True Value was very low. However; company tripled by 1993, in which year the company had double digits growth. Basically, stock appreciated in anticipation of future.

1993-1995 basically stagnant 🡪 However, company was growing strong.

1997 🡪 company skyrocketed to 18$ while growth was deaccelerating. Soon after, in 1998-1999, growth increased a lot (just like what happened in 1991), but company crashed.

2000-2005 🡪 price skyrocketed from 8$ to 60$ and so did its growth. (20%-50% growth yoy)

2006-2008 🡪 price crashed. At the beginning of 2006, True value reading was high, then it started decreasing and got extremely low. Again, very high True value readings are warnings to get out.

End of 2009 – 2016 🡪 stock price grew like crazy again. Price skyrocketed again when True value was the lowest, and then double-digit growth appeared.

* **Either Revenue or Profit must have grown in the last 3 years.** WE WANT EXPECTATION TO GROW, WE DON’T CARE TO MUCH AT THE NEAR PAST
* **Debt must be controlled or very positive cash flow**

Debt was 30 times cash when the stock started crashing in the previous recession, they reduced it to 4-6 times cash by the end of crash. Now debt has grown again (currently 10-12 times cash. They should probably start reducing it to a more conservative value)

**If all of these are OK then continue; otherwise, company is not even worth analyzing**

* **Use LJB Score to compare the stock with its competitors. If the stock gets 5 points or more against most competitors/industry, then it might be a good opportunity; otherwise, it might be better to look into its competitors.**
* **Go to historical prices, and try to use that data to calculate a better True Value.**
* **Investigate a little about management, brand, and competitive advantage to calculate a final LJB Score**

LJB is good against all competitors but DHI

**If the stock still looks attractive it is time to take a deeper look into the company and the market it operates in**

**Market Size Analysis:**

**Steps:**

1. **First determine where the revenues of a company are coming from.**
2. **Then research those markets online to get estimates of how big they are and future expectations.**
3. **Add the results and that should give 🡪 Current and Expected total addressable market range.**
4. **Now, determine company profitability**

**DIAGRAM SHOWN BELOW**

**Total Addressable Market Size Diagram**

* **After determining current and expected market size compare those values with company’s annual revenue. There should be a lot of room to grow; otherwise, either analysis is wrong or company already dominates all the market (in which case we will only invest if the market is going to grow in the future)**
* **If the company still has room to grow, look at its main competitor’s revenues and subtract this number from Total Addressable Market. Available addressable Market should still be larger than current company’s revenues ; otherwise, do not invest on this stock**

**Profitability Analysis**

**After finding current and expected market size, it is time to analyze the company**

**Steps:**

1. **Profits are divided in Revenues and Costs.**
2. **Divide revenues in Products/Services, research these values and find growing expectations (range of current-expected revenues is desired)**
   1. **If an INTENSE analysis is being performed, then, subdivide these categories as shown below; otherwise, continue with #3.**
3. **Divide costs in Fixed and Variable and then research all costs associated with each category. Again, calculate current-expected range.**
   1. **If an INTENSE analysis is being performed, then, subdivide these categories as shown below; otherwise, continue with #4.**
4. **Subtract costs from revenues and that should give a range of current and expected profits.**

PRODUCT: Micron provides RAM and Memory storage solutions for a variety of markets.

Future Growth drivers: Self driving cars, AI, Esports, 5G, Video, Camera, 4K, Data Centers, Networks

They are currently buying back a good number of shares.

Right now they are going through a period of weaker demand due to large inventories; however, long-term demand is stronger than ever before.

Current revenue: 32B , . Semiconductor market size : 480B. current market size for memory 160B, it was 117B a year ago. Expectation to double in 4 years 🡪 320B by 2023.

SHARE PRICE EXPECTATIONS:

* Assuming Micron losses market share from 25% to 20%, their sales would be 320\*0.2= 64B 🡪 20% margin 🡪 12.8B. Shares outstanding 1.23B Therefore, 13B/1.23 = 10.56 eps\*(PE of 5-10 conservative according to LJB historical) = 50.56-105.56 $ per share in 2 to 3 years = 200% upside potential
* If sales were 64B and costs 70% 🡪 gross prof 20B – R&D(Max 3-4B) 🡪 16B/1.23B = 13 EPS \* (5-10) 🡪 65-130$ per share
* WORST CASE SCENARIO market sizes are wrong 🡪240B\*0.2 🡪 48B 🡪 (14.4B-4.4B)/1.23B 🡪 8.13\*(5-10) 🡪 40-80$ per share

WORST CASE is 50$ per share which would be a 15% growth YoY from current levels.

**Now what?**

1. **Compare current and future expectations with total addressable market. Does this result make sense? Is there room for the company to grow or is the company addressing all market already? If there is room to grow look at competitor’s market size! Otherwise, not a good investment opportunity (unless they could massively reduce costs, but that would be a specific/rare case).**
2. **Make a list of all competitors and find an estimate of how much market size they have and how fast they are growing. For a quick estimation look at 10K forms of competitors and add up their sales coming from the same market segment. Also, estimate how fast they are growing based on previous grow or future expectations.**
3. **Subtract Competitor’s Market size from Total Addressable Market (again we want a range from actual to expected), the number obtained would be the Available Market Size assuming the company does not gain share from its competitors.**
4. **Compare available market size with actual/expected revenues calculated from before. If available market < = Calculated Revenues continue; otherwise, revise calculations.**
5. **Divide future Profit/#shares = Expected Share price (expected value). Compare current price vs expected, the higher the better! If it is lower, then company is not good ☹**
6. **Compare the calculated expected price with the one we got from our initials calculations from LJB Finance. Are they the same or different? Why 🡪 This should make sense**

**Entry and Exit points**

**Congratulations! If you have come this far, this mean you have found an amazing investment opportunity. Now what??**

* **Determine entry point based on technical analysis**
  + **The closer to 200 moving avg the better**
  + **If stock is trending lower, look at previous retracement/bear markets and find correlations in time and %drop 🡪 use those as guidelines.**
  + **Look at chart to see if there is any technical signal Stochastics, BUY/Strong BUY, SMA crossover.**
* **Now that you know when to enter, add stock to watchlist and turn Notifications ON**
* **Remember to calculate selling prices (Best and Worst-case scenario) before placing the trend. Again use growth projections and historical data to calculate this prices**
* **Remember we can never have more than 25% of portfolio in just one sector!**

**For more info about what to do after placing your trade please read managingTrade**

**DO NOT FORGET TO ATTACH THIS ANALYSIS ONLINE!**

**NOT SURE ABOUT YOUR PORTFOLIO DISTRIBUTION?? Read portfolioDistribution file**