All I Want To Know Is Where I'm Going To Die So I'll Never Go There.
- Charlie Munger

The following research is based on a simple assumption - the price of any stock is determined based on the prospects of a company, rather than any other information available. There are EBITDA, multiples and other financial expressions that are ignored by this analysis all together. For a simple reason nonetheless - if PnL is an accrual recognition of achievements of a company, does this analysis incorporate actual value generation by management of the company?

Simplified answer - no. Unfortunately, EBITDA and PnL in general <u>are designed</u> for the reports to tax office. Simple proof of that - understsanding how DA is calculated.

In essence, DA are accounting tricks that help smooth out the impact of actual huge expenses (Capital Expenditure). In reality, if you will look at dollar-in / dollar-out, the picture is way more vague in comparison to simple PnL.

Looking at dollar-in / dollar-out means to calculate FCF of a company. Where Operating Cash Flow is a good guidance of how well does the business actually gets cash, and Investment Cash Flow indicates how the company reinvests it cash.

Unsurprisingly, even this analysis is not yielding particular results, but it is already way better than simple PnL. As a matter of fact, FCF is widely used to calculate "intrinsic value" of any company if you get to know the details of CAPM.

Without getting into shortcommings of CAPM, we will instead find out the shortcoming of FCF. In reality, good company is giving you positive FCF, ie it generates cash. Well, how to distinguish good from excellent then? Or random good from actual good?

The answer to that lies in an expression called Owners Earnings. OwnEa is a rough method that is used to calculate how well was Capex utilized - ie did it generate future sales after initial investment, or was Capex spent only to keep up the business as before?

Owners Earnings = Free Cash Flow with adjustment to how well Capex was spent (did it generate money or was it just to maintain business at the same level)

This research is calculating this value in a particular way and discounts it (instead of CAPM method) by 10% in perpetuity. Rationale is very simple - if I know that the company will leave long enough (lets say 30 years) and generate me 10% p.a. (better than any bond), what will the discounted value be in comparison to current price (margin of safety).

In materials you will see ticker, margin of safety in %, business description, basics of balance sheet, and cash flows related items. All of them indicate management decisions in utilizing capital, given that there is potentially an undervaluation of the company based on Owners Earnings. But these calculations are a rough guidance only. In other words, beginning of the research.

PnL - Profit and Loss account.
EBITDA - Earnings before Interest (on debt financing), Tax, Depreciation and Amortization.
Capital Expenditure (Capex for short), can be part or whole of Investment Cash Flow in cash flows statements.
DA (Depreciation and Amortization) are Capex divided by X year and used in PnL to reduce the tax burden from profits.
FCF - Free cash flow, or Operating Cash Flow + Investment Cash Flow.
CAPM - capital asset pricing model. Modern marble of finance, designed to price all assets based on historical performance of the market.