



Wealthy Education

VALUE INVESTING

THE ADVANCED VALUE INVESTING COURSE: A PROVEN APPROACH

MODULE 2: THE COMPLETE VALUE INVESTING PROCESS

LECTURE 6: STOCK VALUATION – PREPARATION

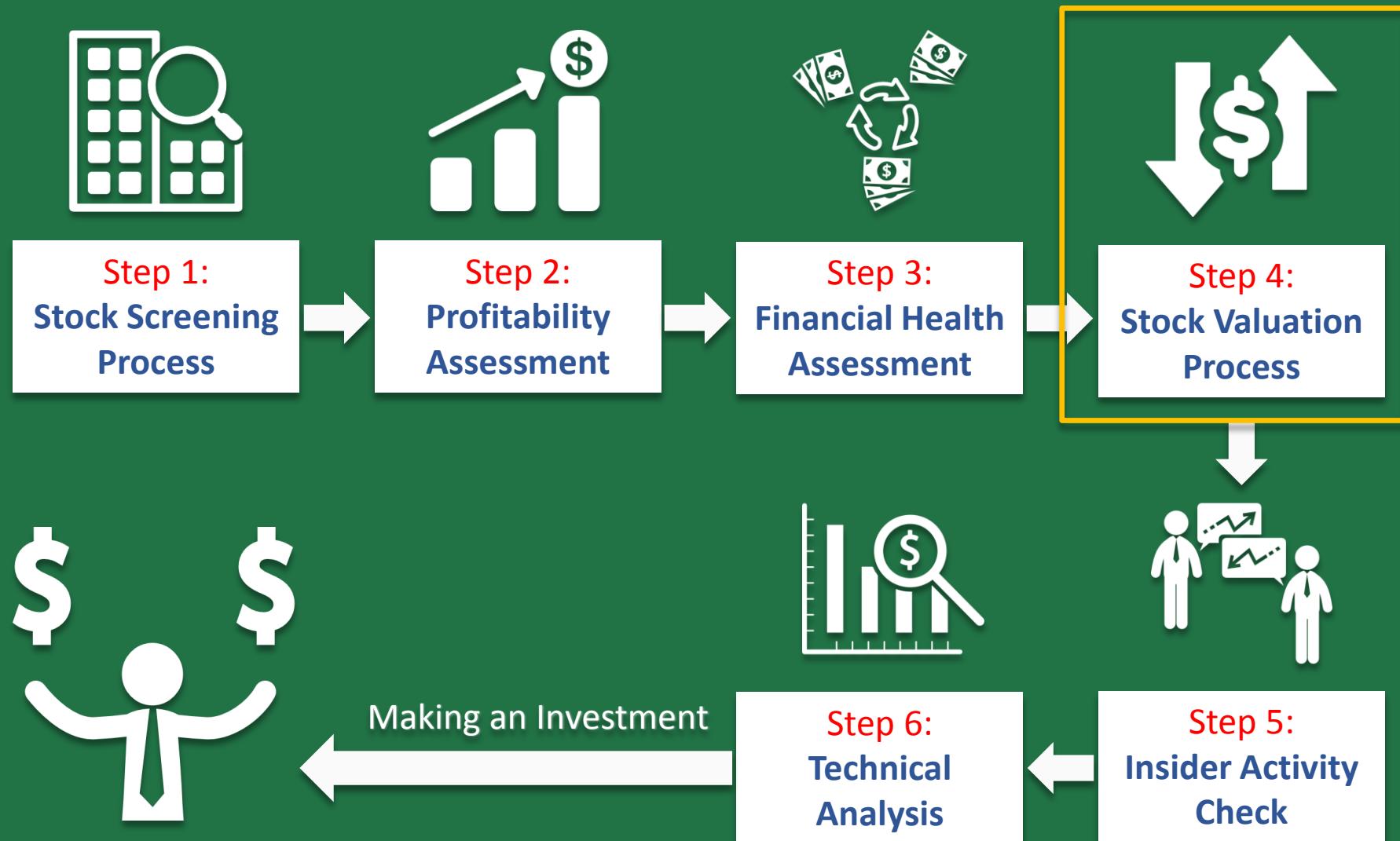


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Value Investing Process





STEP 1: FIND NEEDED FINANCIAL FIGURES

- There are **14 figures** that we'll need to find:
 1. Free Cash Flow
 2. Number of Shares Outstanding
 3. Long-term Growth Rate
 4. Current Share Price
 5. Stock Beta
 6. Risk Free Rate
 7. Market Risk Premium
 8. Business Tax Rate
 9. Estimated Interest Rate
 10. Market Value of Equity
 11. Market Value of Debt
 12. Total Liabilities
 13. Cash & Cash Equivalents
 14. GDP Growth Rate





1 – Free Cash Flow (FCF)

- We'll use a **TTM Free Cash Flow** figure
- Trailing Twelve Months (TTM) is the timeframe of the past twelve months
- The TTM Free Cash Flow is simply the Free Cash Flow that the business generated in the past 12 months

→ A reason for using the TTM Free Cash Flow figure is because it's **more timely** than the previous year's Free Cash Flow figure





1 – Free Cash Flow (cont.)

❖ Using Financial Data from **Morningstar.com**

- Find the Cash Flow Statement
- Use the **TTM Free Cash Flow** Figure
- You should avoid investing in businesses that have a negative

Free Cash Flow



Texas Roadhouse Inc TXRH

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Quote Chart Stock Analysis Performance Key Ratios **Financials** Valuation Insiders Ownership Filings Bonds

Income Statement Balance Sheet **Cash Flow**

Trailing Twelve Months (TTM)

Statement Type Data Type Period Show Report Dates Data Scroll Rounding Export
 Quarterly As of Reported 5 Quarters Ascending .0 ▲ .0

Fiscal year ends in December

USD in Million except per share data

		2014-09	2014-12	2015-03	2015-06	2015-09	TTM
► Cash Flows From Operat...		36	75	58	37	37	206
► Cash Flows From Invest...		(36)	(36)	(33)	(37)	(54)	(161)
► Cash Flows From Financ...		(18)	(13)	(12)	(27)	19	(32)
Net change in cash		(18)	27	12	(28)	2	13
Cash at beginning of p...		77	59	86	99	71	59
Cash at end of period		59	86	99	71	73	73

Free Cash Flow

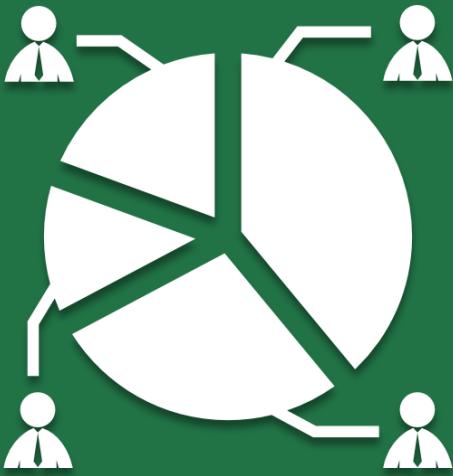
TTM Free Cash Flow = 45

Operating cash flow		36	75	58	37	37	206
Capital expenditure		(36)	(36)	(33)	(37)	(54)	(161)
Free cash flow		(0)	40	24	(0)	(17)	45



2 – Total Number of Shares Outstanding

- Using Financial Data from **Morningstar.com**



i.e. TXRH currently has **70.14 million shares outstanding**



Texas Roadhouse Inc TXRH

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Last Price **\$ 36.45** Day Change **↑0.62 | 1.73%**

Fair Value Estimate	Open Price	Day Range	52-Week Range	Yield	Market Cap
Premium	\$ 35.86	35.86-36.64	31.55-40.82	1.87%	2.6 bil

Volume	Avg Vol.	Forward P/E	Price/Book	Price/Sales	Price/Cash Flow
496,104	642,362	19.8	3.9	1.5	12.5

70.14 Million Shares Outstanding

Company Profile TXRH

More...

What Does This Company Do?

Texas Roadhouse Inc is a full-service, casual dining restaurant company. It offers steaks, ribs, fish, seafood, chicken, pork chops, pulled pork and vegetable plates, and an assortment of hamburgers, salads and sandwiches.

[Visit Company Website](#)

Sector

Consumer Cyclical

Industry

Restaurants

Stock Type

Cyclical

Employees

43,300

Fiscal Year Ends

2015-12-31

Stock Style

Small Growth

Short Interest TXRH

Shares Outstanding

70.14 Mil

Float

55.29 Mil

Shares Short (as of 01/29/2016)

6.23 Mil

Short % of Float

11.26%

Short Ratio

8.49

Shares Short Chg. (from 01/15/2016)

9.41%

Filings TXRH

More ...

Financials

Announcements

Ownership

Proxy

Registration

Insider Activities



3 – Long-term Growth Rate

- ❖ Using Financial Data from **Yahoo Finance**
 - Consider the Estimated Growth Rate (next 5 years)
 - To be conservative, compare the company's projected growth rate with its industry figure
 - **Use the LOWEST Growth Rate**



More On TXRH

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[Profile](#)[Key Statistics](#)[SEC Filings](#)[Competitors](#)[Industry](#)[Components](#)

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[Major Holders](#)[Insider Transactions](#)[Insider Roster](#)

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[Income Statement](#)[Balance Sheet](#)[Cash Flow](#)

Texas Roadhouse, Inc. (TXRH) - NasdaqGS ★ Watchlist

36.45 +0.62 (1.73%)

Analyst Estimates

Get Analyst Estimates for:

GO

EPS Trends	Current Qtr. Dec 15	Next Qtr. Mar 16	Current Year Dec 15	Next Year Dec 16
Current Estimate	0.30	0.52	1.35	1.68
7 Days Ago	0.30	0.52	1.35	1.68
30 Days Ago	0.30	0.52	1.35	1.68
60 Days Ago	0.31	0.52	1.35	1.68
90 Days Ago	0.31	0.51	1.35	1.68

EPS Revisions	Current Qtr. Dec 15	Next Qtr. Mar 16	Current Year Dec 15	Next Year Dec 16
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	0	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	TXRH	Industry	Sector	S&P 500
Current Qtr.	15.40%	60.60%	39.90%	2.40%
Next Qtr.	13.00%	445.70%	2.60%	12.80%
This Year	9.80%	18.30%	12.60%	3.00%
Next Year	24.40%	24.60%	7.90%	9.10%
Past 5 Years (per annum)	11.48%	N/A	N/A	N/A
Next 5 Years (per annum)	13.98%	17.65%	14.72%	4.88%
Price/Earnings (avg. for comparison categories)	26.54	19.75	9.09	23.02
PEG Ratio (avg. for comparison categories)	1.90	1.62	-0.55	1.37

Use the Lowest Growth Rate
13.98%

To be more conservative
→ 12% ←



4 – Current Share Price



i.e. TXRH is **currently selling at \$36.45**



More On TXRH

Texas Roadhouse, Inc. (TXRH) - NasdaqGS ★ Watchlist

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[Order Book](#)
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[Historical Prices](#)[CHARTS](#)
[Interactive](#)
[NEWS & INFO](#)
[Headlines](#)
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[Company Events](#)
[Message Boards](#)
[Market Pulse](#)[COMPANY](#)
[Profile](#)
[Key Statistics](#)
[SEC Filings](#)
[Competitors](#)
[Industry](#)
[Components](#)[ANALYST COVERAGE](#)[Analyst Opinion](#)
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[Major Holders](#)
[Insider Transactions](#)
[Insider Roster](#)[FINANCIALS](#)
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[Balance Sheet](#)
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PEG Ratio (avg. for comparison categories)	1.90	1.62	-0.55	1.37



5 – Stock Beta

- ❖ Using Financial Data from **Yahoo Finance**
 - Under “Key Statistics”
 - Find the **Beta** figure on the right column
 - i.e. TXRH **currently has a stock beta of 0.57**



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QUOTES
Summary
Order Book
Options
Historical Prices

CHARTS
Interactive

NEWS & INFO
Headlines
Press Releases
Company Events
Message Boards
Market Pulse

COMPANY

Profile
► Key Statistics
SEC Filings
Competitors
Industry
Components

ANALYST COVERAGE
Analyst Opinion
Analyst Estimates

OWNERSHIP
Major Holders
Insider Transactions
Insider Roster

FINANCIALS
Income Statement
Balance Sheet
Cash Flow

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36.45 +0.62 (1.73%)

Key Statistics

Get Key Statistics for:

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Data provided by Capital IQ, except where noted.

Valuation Measures

Market Cap (intraday) ⁵ :	2.56B
Enterprise Value (Feb 13, 2016) ³ :	2.51B
Trailing P/E (ttm, intraday):	27.82
Forward P/E (fy'e Dec 30, 2016) ¹ :	21.70
PEG Ratio (5 yr expected) ¹ :	1.90
Price/Sales (ttm):	1.43
Price/Book (mrq):	3.82
Enterprise Value/Revenue (ttm) ³ :	1.43
Enterprise Value/EBITDA (ttm) ⁶ :	12.25

Financial Highlights

Fiscal Year

Fiscal Year Ends:	Dec 30
Most Recent Quarter (mrq):	Sep 29, 2015

Profitability

Profit Margin (ttm):	5.26%
Operating Margin (ttm):	7.88%

Management Effectiveness

Return on Assets (ttm):	9.27%
Return on Equity (ttm):	15.27%

Income Statement

Revenue (ttm):	1.76B
Revenue Per Share (ttm):	25.15

Trading Information

Stock Price History

Beta:	0.57
52-Week Change ³ :	4.83%
S&P500 52-Week Change ³ :	-11.22%
52-Week High (Aug 3, 2015) ³ :	40.82
52-Week Low (Aug 24, 2015) ³ :	31.55
50-Day Moving Average ³ :	35.85
200-Day Moving Average ³ :	36.28

Share Statistics

Avg Vol (3 month) ³ :	641,824
Avg Vol (10 day) ³ :	846,200
Shares Outstanding ⁵ :	70.14M
Float:	63.28M
% Held by Insiders ¹ :	9.80%
% Held by Institutions ¹ :	87.60%
Shares Short (as of Jan 29, 2016) ³ :	6.23M
Short Ratio (as of Jan 29, 2016) ³ :	8.49
Short % of Float (as of Jan 29, 2016) ³ :	11.26%
Shares Short (prior month) ³ :	5.69M

Stock Beta of 0.57



6 – Risk Free Rate

- The Risk Free Rate is the minimum rate of return that investors expect to earn from an investment without any risks
- We'll use a return of the 10-Year Government's Bond as a Risk Free Rate
- The Risk Free Rate varies among different countries, and you can easily find your country's Long-term Government's Bond Rate of Return on the Internet.

→ Visit: <http://www.investing.com/rates-bonds/>



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Select Your Country!

Country of Listing:

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5 year

to: 30 year



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United States »

Yield Curve

Investing.com

Name	Yield	Prev.	High	Low	Chg.	Chg. %	Time
🇺🇸 US 5Y Yield	1.206	1.108	1.219	1.120	+0.098	+8.81%	12/02
🇺🇸 US 7Y Yield	1.500	1.392	1.514	1.400	+0.108	+7.72%	12/02
🇺🇸 US 10Y Yield	1.746	1.644	1.758	1.647	+0.102	+6.23%	12/02
🇺🇸 US 30Y Yield	2.603	2.520	2.616	2.505	+0.082	+3.27%	12/02



7 – Market Risk Premium

- The Market Risk Premium is the rate of return over the Risk Free Rate required by the investors
- Similar to the Risk Free Rate, the Market Risk Premium varies among different countries
- **Estimated** figure – It's challenging to find the exact number!
→ Free Download: www.WealthyEducation.com





7 – Market Risk Premium (cont.)

122	Taiwan	6.48%
123	Tanzania	11.06%
124	Thailand	7.94%
125	Togo	13.65%
126	Trinidad & Tobago	7.94%
127	Tunisia	10.87%
128	Turkey	8.82%
129	Uganda	12.19%
130	Ukraine	20.23%
131	United Arab Emirates	6.34%
132	United Kingdom	6.19%
133	United States	5.61%
134	Uruguay	8.38%
135	Venezuela	16.57%
136	Vietnam	12.19%
137	Yemen	14.62%
138	Zambia	12.19%
139	Zimbabwe	17.30%

Market Risk Premium Data

Download FREE at

WealthyEducation.com





8 – Business Tax Rate

- You can easily find the **Business Tax Rate** from **Morningstar.com** or on the company's annual reports (financial statements)



Texas Roadhouse Inc TXRH

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Quote Chart Stock Analysis Performance **Key Ratios** Financials Valuation Insiders Ownership Filings Bonds

Key Ratios

Profitability	Growth	Cash Flow	Financial Health	Efficiency Ratios										
Margins % of Sales				2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	TTM
Revenue	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
COGS	79.25	79.44	81.84	83.45	81.54	80.75	81.21	80.86	81.37	81.65	82.17			
Gross Margin	20.75	20.56	18.16	16.55	18.46	19.25	18.79	19.14	18.63	18.35	17.83			
SG&A	7.27	7.88	5.19	4.98	5.65	5.92	6.24	6.57	6.69	6.33	6.16			
R&D	—	—	—	—	—	—	—	—	—	—	—			
Other	3.18	3.58	4.38	4.53	4.76	4.31	3.96	3.83	3.53	3.78	3.82			
Operating Margin	10.31	9.11	8.60	7.04	8.05	9.02	8.59	8.74	8.42	8.25	7.85			
Net Int Inc & Other	-0.15	-0.16	-0.37	-0.51	-0.32	-0.22	-0.18	-0.15	-0.10	-0.03	—			
EBT Margin	10.16	8.94	8.23	6.54	7.73	8.79	8.40	8.59	8.31	8.21	7.84			

Profitability	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	TTM
Tax Rate %	34.95	36.30	35.00	33.69	32.26	31.33	28.72	32.01	28.88	30.00	29.71
Net Margin %	6.61	5.70	5.35	4.34	5.04	5.80	5.77	5.63	5.65	5.50	5.26
Asset Turnover (Average)	1.56	1.56	1.47	1.51	1.47	1.47	1.54	1.65	1.70	1.74	1.88
Return on Assets %	10.29	8.89	7.88	6.53	7.39	8.54	8.86	9.29	9.64	9.56	9.90
Financial Leverage (Average)	1.35	1.42	1.49	1.73	1.58	1.42	1.51	1.51	1.49	1.55	1.51
Return on Equity %	14.98	12.35	11.46	10.49	12.17	12.71	12.94	14.00	14.45	14.56	14.75
Return on Invested Capital %	14.30	11.59	10.34	8.79	9.80	11.23	11.91	12.87	13.23	13.41	13.45
Interest Coverage	—	—	—	—	23.25	34.06	39.62	47.25	—	—	—



9 – Estimated Long-term Interest Rate

- You can find the Interest Rate on the company's Annual Report
- Go to the company's website and find the previous year's Annual Report
- Skim the Annual Report and search for the Interest Rate
- **Using the highest Long-term Interest Rate** (be conservative) if you don't know how to calculate the Weighted Average Interest Rate
- **Interest Rate: 3.96%**





10 – Market Value of Equity

- ❖ Market Value of Equity is known as Market Capitalization
- ❖ Using Financial Data from **Yahoo Finance**
 - Under “Key Statistics”
 - Find the **Market Cap** figure on the right column
 - i.e. GPRO **currently has a Market Cap of \$2.56 Billion**



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QUOTES
Summary
Order Book
Options
Historical Prices

CHARTS
Interactive

NEWS & INFO
Headlines
Press Releases
Company Events
Message Boards
Market Pulse

COMPANY

Profile
► Key Statistics

SEC Filings
Competitors
Industry
Components

ANALYST COVERAGE
Analyst Opinion
Analyst Estimates

OWNERSHIP
Major Holders
Insider Transactions
Insider Roster

FINANCIALS
Income Statement
Balance Sheet
Cash Flow

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11 – Market Value of Debt

- Because the business often has a lot of liabilities with different Interest Rates, it's typically challenging to calculate the Market Value of Debt
- In this case, we'll use the Book Value of Debt on the company's Balance Sheet as an Estimated Market Value (MV) of Debt
- **Estimated MV of Debt** = (Short-term Debt + Long-term Debt) **x 1.20**
- Assume that the Market Value will be **20%** greater than the Book Value



Texas Roadhouse Inc TXRH

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Most Recent Quarter

Quote	Chart	Stock Analysis	Performance	Key Ratios	Financials	Valuation	Insiders	Ownership	Filings	Bonds
Income Statement	Balance Sheet	Cash Flow								
<input type="button" value="Statement Type"/> <input checked="" type="button" value="Quarterly"/>	<input type="button" value="Data Type"/> <input type="button" value="As of Reported"/>	<input type="button" value="Period"/> <input type="button" value="5 Quarters"/>	<input type="button" value="Show Report Dates"/> <input type="button" value="Ascending"/>	<input type="button" value="Data Scroll"/>	<input type="button" value="View"/> <input type="button" value="\$ % 1.0"/>	<input type="button" value="Rounding"/> <input type="button" value="‐.0 +.0"/>	<input type="button" value="Export"/>			
Fiscal year ends in December										
USD in Million except per share data										
► Assets			2014-09	2014-12	2015-03	2015-06				2015-09
▼ Liabilities and stockh...										
▼ Liabilities										
▼ Current liabilities										
Short-term debt			0	0	0	0				20
Accounts payable			38	44	46	47				42
Taxes payable			22	19	29	23				27
Accrued liabilities			62	63	69	73				72
Deferred revenues			33	79	52	47				42
Other current liabilit...			10	10	12	12				12
Total current liabilit...			165	216	208	202				215
▼ Non-current liabilities										
Long-term debt			51	51	51	51				51
Deferred taxes liability			3	6	5	2				—
Minority interest			7	7	7	7				7
Other long-term liabilities			55	56	57	60				61
Total non-current liabilities			115	119	119	119				119
Total liabilities			280	335	328	321				334
► Stockholders' equity			596	608	633	645				658
Total liabilities and ...			876	943	960	966				992

MV of Debt = (Short-term Debt + Long-term Debt) x 1.2 = \$85.2 Million



12 – Total Liabilities

- ❖ Using Financial Data from **Morningstar.com**
 - Find the company's **Balance Sheet**
 - Using **Quarterly** Financial Data
 - Using the **Total Liabilities** figure reported in the most recent quarter
- ➔ This figure will be used to calculate Intrinsic Value per share





13 – Total Cash & Cash Equivalents

❖ Using Financial Data from **Morningstar.com**

- Find the company's **Balance Sheet**
 - Using **Quarterly** Financial Data
 - Using the **Cash & Cash Equivalents** reported in the most recent quarter
- ➔ This figure will be used to calculate Intrinsic Value per share



Texas Roadhouse Inc TXRH

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Quote	Chart	Stock Analysis	Performance	Key Ratios	Financials	Valuation	Insiders	Ownership	Filings	Bonds	
Income Statement		Balance Sheet		Cash Flow							
Statement Type <input type="button" value="Quarterly"/> Data Type <input type="button" value="As of Reported"/> Period <input type="button" value="5 Quarters"/> Show Report Dates <input type="button" value="Ascending"/> Data Scroll <input type="button" value="View"/> <input type="button" value="\$"/> <input type="button" value="%"/> <input type="button" value="1.0"/> Rounding <input type="button" value="-.0"/> <input type="button" value=".0"/> Export											
Fiscal year ends in December	USD in Million except per share data		2014-09	2014-12	2015-03	2015-06	2015-09				
▼ Assets											
▼ Current assets											
▼ Cash											
Cash and cash equivale...											
Total cash											
Receivables			59	86	99	71	73				
Inventories			16	34	21	20	23				
Deferred income taxes			12	14	13	14	14				
Prepaid expenses			4	3	2	3	4				
Total current assets			99	148	146	129	122				
► Non-current assets											
Total assets			777	795	815	837	871				
▼ Liabilities and stock...											
▼ Liabilities											
► Current liabilities											
► Non-current liabilitie...											
Total liabilities											
► Stockholders' equity											
Total liabilities and ...			280	335	328	321	334				
Total assets and ...											
Total liabilities and ...			876	943	960	966	992				



14 – GDP Growth Rate

- ❖ Using Financial Data from **WorldBank.org**
 - Under “Data” / Economy & Growth / GDP Growth
 - Using **your country's GDP Growth Rate**
 - Using the most recent data
- ➔ This figure will be used to calculate the Terminal Value of the business



Data

[By Country](#) [By Topic](#) [Indicators](#) [Data Catalog](#) [Microdata](#) [Initiatives](#) [What's New](#) [Support](#) [Products](#)This page in [English](#) | [Español](#) | [Français](#) | [العربية](#) | [中文](#)

GDP growth (annual %)

TABLE

MAP

GRAPH

METADATA

Search all indicators

Go

Featured indicators

Economy & Growth

Agriculture, value added (% of GDP)

Cash surplus/deficit (% of GDP)

Central government debt, total (% of GDP)

Charges for the use of intellectual property, payments (BoP, current US\$)

Charges for the use of intellectual property, receipts (BoP, current US\$)

Current account balance (BoP, current US\$)

1981-1985 1986-1990 1991-1995 1996-2000 2001-2005 2006-2010 2011-2015

Country name 2011 2012 2013 2014

United Arab Emirates 4.9 4.7 5.2 3.6 ↘ ↘ ↘ ↘

United Kingdom 1.6 0.7 1.7 2.6 ↗ ↗ ↗ ↗

United States 1.6 2.3 2.2 2.4 ↗ ↗ ↗ ↗

Uruguay 5.2 3.3 5.1 3.5 ↗ ↗ ↗ ↗

Uzbekistan

Vanuatu

Venezuela, RB

Vietnam 6.2 5.2 5.4 6.0 ↘ ↘ ↘ ↘

Virgin Islands (U.S.)

West Bank and Gaza 7.9 14.5 -4.3 -1.5 ↗ ↗ ↗ ↗

Yemen, Rep. -15.1 2.5 4.2 ↗ ↗ ↗ ↗

Zambia 6.3 6.7 6.7 6.0 ↗ ↗ ↗ ↗

Zimbabwe 11.9 10.6 4.5 3.2 ↗ ↗ ↗ ↗

Calculate an Average Number
 $(1.6 + 2.3 + 2.2 + 2.4) / 4$

→ Perpetuity Growth Rate = 2.13%

THANK YOU SO MUCH!