TRANSCRIPT

Let’s talk about the fundamentals

Brett Yoder: Thank you, so much. And definitely, thank you for attending here today. An exciting hour laid out in front of us, where we’re going to do this introductory to fundamental analysis. The topic, in and of itself, has a very wide scope. So, we’re going to focus on really the primary steps, understanding what sort of information is available to you, how you would go about actually performing the idea of analysis to help you with your investment decisions. So, we’re very excited to introduce this to you. If I can take just a brief moment, myself and Jacob, we’re both members of the Trading Strategy Desk. We run coaching sessions, as well as classroom sessions, that delve from options to equity trading to technical analysis and, in this case, fundamental analysis. And you can always join our webinars. They’re much smaller in scale. Our coaching sessions are found at fidelity.com/coaching. The biggest benefit there is, because of the intimate setting, you’re actually able to ask questions real-time. And we will address them, as presenters, real-time for you. So, it creates a conduit, more so, for a great dialog, to be able to make sure that you maximize the time that you’re getting out of the webinar and during the coaching sessions. We also run those introductory courses. Those are found at fidelity.com/classroom. We have a couple of different themes. But it’s an hour-long session we do, over the course of a month. So, we do four weeks of these hour-long sessions. It's everything from understanding our Active Trader Pro product to technical analysis to just trading basics and the fundamentals that you should have with understanding the market, before you go about trying to invest.

So, we're a little bit past that now, right? Now we're talking about how we can create our overall outlook on stocks or how to find stocks or investments that make sense to us, where we can put our assets at risk and hopefully get a decent return based off of that. And this bucket of analysis is "fundamental analysis." So, we want to start out today simply by defining it. What do we mean by fundamental analysis? What is that entire scope? When we get past that, we'll realize there's so many different ways that you can go about trying to analyze a company to truly try to find that company's self-worth and projected worth. Right? We're focusing really on what available information you have here at Fidelity -- talk about the readily available information that you can get from publications and different sources to kind of understand the financial side of a company's worth. Then we'll go into a live demonstration, actually showing on the Fidelity website the tools that are available for you. So, we have a bit of explanation here at the beginning walking you through the financial statements and then, finally, the live demonstration, where you can see it in action. And I just want to reinforce this. I know the slides are available. When we built this deck, we made sure that we had some of the key slides for the screen-share as well. I want to make sure everyone knows that you can download those slides now. That should be a link here on the page that you're viewing. Make sure to grab those. Also, there's many, many videos on investing and fundamental analysis on fidelity.com, as well as an infinite number of other resources. And we certainly want to encourage you to continue the education. Where this is meant to be a one-on-one, if you will, or an introductory to fundamental analysis, obviously there's much more that you can continue to look at -- and learn and develop maybe into that, probably, financial analyst or whatever sort of level that you're looking to achieve, with the end goal of making sure you're getting the investments that you're truly targeting. So, with that and without any further ado, Jacob, let's go to you, sir. Let's talk about what is fundamental analysis.

Jacob Ellis: Yeah. That really is the question we'll look to address throughout the majority of today's session. We'll be talking about what fundamental analysis is. And in short, it is an attempt by us, as analysts, to determine the fair value of a company. This could be based on looks at the company itself, as well as things as broad-reaching as geopolitical situations the world over. As we've all experienced in recent time, health in the world is a great factor on how businesses will perform. We have a lot to consider in that realm. And there's two main directions that we can take, as we attempt to perform fundamental analysis. We can either start from the top down or work from the bottom up. A top-down approach is taking first our look at the wide world, zooming out from a look all the way out above. Perhaps imagine yourself on the space shuttle, looking down at the earth. And then we slowly zoom in. First, we look at the geopolitical situation overall. How are currency fluctuations likely to unfold? What do we expect for risks and all of that? As we continue forward, we zoom in and finally determine a specific country in which we're going to invest, a specific part of that country's economy, maybe into the technology sector of that country, and then select individual stock investments in a specific company, at the finale. That would be from a top-down approach. Bottom-up is going to then do the opposite. Starting with a specific company that we've identified as a prospect that we'd like to invest in, we will then perform the remainder of our analysis, first determining if it's appropriate to invest in that particular company and then broadening out scope and looking at all of the relevant risks, zooming out over time. We need to make sure we consider both the company itself, as well as the broad scope and backdrop against which it is placed.

As a fundamental analyst, you are likely going to need to study quality of management. That's who are the CEO team -- right? -- who are the executives? Do they have a great CFO? Who's their chief of operations? Do we have reason to trust that these individuals have the foresight and wisdom to efficiently and effectively drive the company forward and create shareholder value over time? Labor relations. Is there a union of workers? Are negotiations friendly between them? Is it a hostile environment? Are people suffering? What is the situation currently in the labor market? Is there labor available? Is the company having to lay people off? What are expenses in that labor situation? Inventory control. Can the company acquire, effectively make use of, and disperse their inventory quickly, turning over that inventory into continual profit streams? What do the P/E ratio and EPS growth rates look like. P/E is short for price-to-earnings ratio. And EPS is earnings per share. How are those changing over time? The study of fundamental analysis will bring many ratios like this into scope. And throughout today's session, you will learn several of them and where to find the relevant information to perform that type of analysis. We're also going to want to consider how well they're generating returns, based upon the equity that exists in the company. We can compare the returns to the assets. We could even compare them to the outstanding liabilities, the loan, the debts that exist in the company. What does supply and demand look like for the company's products? Are competitors right on their heels or does this particular company have a great head start? We also want to consider large-scale macroeconomic factors, that

I've mentioned a few times. As we work through each level of that fundamental analysis, we want to be aware of the fact that there is plenty of information to study. And as we make our way through it, we need to quickly and effectively ensure that we are able to access that information. And this is where Fidelity has done a phenomenal job of making resources available to you.

Brett Yoder: Yeah, I mean, it absolutely has. One thing I do want to point out, maybe some of the limitations that we have -- right -- on fundamental analysis, where we can establish the coveted, here, relative worth. Right? This company's better than this pool of companies, because of the analysis I've done. One thing that we do need to consider is the fact that the timing is not something that fundamental analysis is truly going to help us with. Timely information, as we're about to talk about, comes out quarterly, right? We're going to talk about the earnings reports, the new financial statements, right? Unless there's some sort of non-scheduled announcement from the company, which is, by default, not predictable, the only thing we can rely on is this quarterly information as it comes. So just to point out, very briefly, some of the limitations that we're going to face here, it's timing of the investment… Right? At what point do you truly draw the line in the sand and say, "Okay, well, this company no longer meets my criteria?" So, making the selling decision ends up being difficult. And if we have maybe an undefined entry and an undefined exit, based off of fundamental analysis, how we then go about quantifying the risk, being able to understand the reward, the prospect that we're setting ourselves up for, that also becomes extremely difficult, if not impossible to define. You've identified a company that should, based off the fundamental analysis that you've done, provide growth and expansion in your portfolio. But to what end, how much growth? At what point doesn't it? So just to point those out.

But, Jacob, you're absolutely right. When we talk about availability of information, does get a little difficult. I mean, how do you truly understand or go about researching labor relations between the company? Now, how do you quantify that -- okay? -- quantify? Qualitative analysis. First quantifying and using actual numbers. You want to delineate those. Where we want to get you to with this webinar is to have the idea that you need to have specific numbers, specific ratios, or some sort of financial analysis done as a key piece of your fundamental analysis. Because the qualitative thing, is it a good management team -- right? -- being able to quantify the idea of labor relations and some of these other aspects become very difficult for you to be able to, one, sit them side-by-side. It becomes very hard to build out relative value. And then, two, where do you get the information on that? It becomes very difficult. Now you're looking at their institutional-level information or you're calling investor relations and trying to get information directly from the company, etc. It becomes convoluted.

So, what we focus then on, the availability of information, how can we quantify what we're looking at? And it really points us to the financial statements. So, we're going to take the next few minutes here to walk through the different financial statements. Right? That's the balance sheet, the income statement, and the cash flow, earnings statements. From a macro perspective, the top-down approach, we can certainly research and get readily available information from economists, the current state of the economy, the current state of the business that the company's running in. Right? We can even incorporate a little bit of technical analysis here, to see relative performance. Is the current stock market outperforming or underperforming other asset classes? Maybe we start from there, from this macro look.

But in any case, let's certainly get into it. The idea of the first financial statement three come. We talked about those, balance st-- the income statement, and the cash flow statement. First is our balance sheet. This is where the company lines up everything that they have, everything that they owe, and the difference and they zero it all out. A company has a certain amount of assets. An asset -- anything to be converted into cash or used to generate cash. Right? I'm in a construction business. Okay? Well, I own vehicles to be able to do the construction. Based off of that -- that's an asset -- that helps me generate cash. The other side of the coin are the liabilities. Do I own that vehicle outright or do I have a note against it, some sort of loan? Liabilities. Those are my debts. The balancing act here is the idea of shareholder equity. Okay? Whatever your assets are, it's going to be equal to the liability and the shareholder equity. And actually, on our Financial Statements... You're seeing a snapshot of that from fidelity.com right now, on the right side there of our slide. The shareholder equity and liabilities line up down at the bottom. Because again, this relationship is what we need to understand, asset to liabilities and shareholder equity. Now, there's a couple of different things that you're going to pick up. One, we obviously give more than just the current quarter or the current year. We always want to be able to look at, historically, what is the trend in assets, what is the trend in liabilities, what is the trend in shareholder equity. So, you have other times. And we'll talk about this. You can see here yearly information. You can get significantly more information than this. In fact, everything that's been filed with the SEC, you can get on a company and run your analysis that way. You can look at quarterly, a quarter-over-quarter analysis -- year-over-year analysis. We'll refer back to this throughout the presentation. When we talk about looking at any one of these particular line items -- right? -- and we look through time, we're talking about horizontal analysis, "horizontal" referring to time. Because its partner there is vertical analysis. And this is where we get a lot of the ratios that we deal with. What are assets to liability? What is that ratio? What is assets to equity? Right? So, with that, Jacob, let's go back to you. Let's talk about what are some of these most common ratios that we run off the balance sheet?

Jacob Ellis: Yeah. And that's going to be a pattern we're going to do our best to follow. Here we've got the balance sheet. And these are some of the most common ratios that are used from the balance sheet. The quick ratio, or often called the acid test is going to look at just the most liquid of assets, cash and very short-term investment, and compare that against the current liabilities. In accounting, "current" is referring to those things coming due within the next year, in general. So, we're looking at the cash and what we're going to have to pay out in the near future. The higher this number, the more liquidity we have, the easier it will be for us to cover those liabilities, because we've already got the cash set aside for it. We'll often look at the current ratio, where we'll include all current assets and compare them to current liabilities. This will include other assets, beyond just those most liquid, anything that can be made cash within the next year. We'll also compare debt to equity. We know that assets minus liabilities will give us our equity but how does that liability and equity compare? If we divide total liability by shareholder equity, we can see what portion, what ratio we have in debt versus the remainder, which is our shareholder value as investors in the company. Of course, we would prefer there to be very high equity in our investment. But the more debt the company has, they have taken on additional leverage. That gives us cash, to perhaps meet current investment requirements -- paying paychecks. But how are we going to continue that forward? If the company performs well, that additional leverage will amplify shareholder equity growth, pushing our value much higher. But if the company does poorly, it will come to the detriment of shareholders to have high amounts of debt. Anytime we take a look at these ratios, that's the idea we're trying to take a look at. How will this affect us as shareholders, as we continue forward? A quick relative analysis like these ratios is easy for us to apply and gives us insight into that, that we can compare one company to another.

But the balance sheet and its information about what the company has and where it came from is far different from the information presented on the income statement, which instead is saying, "How much money did you make? And how much did you spend?" It's taking our full budget. The top line or revenue or growth income of the company is the very top line. These revenue figures are how many dollars were paid to the company, in any stream. But, of course, not all of that money is kept by the company. Those are not their profits. Therefore, for example, for the case of operating income, we're going to take out some of those main operating expenses, things like the cost of producing the item that we have sold, the marketing and administrative cost of having buildings, of paying for billboards, paying for ads on the various internet site and all of the like. Operating income is what we are left with. And finally, we see the bottom line. After we've subtracted out all relative information, we are looking at just the net income of the company. Now ideally, this will be a positive value, a gain, net income. But it is also quite possible that the company will have a net loss overall, on that bottom line. After all costs are considered, we need to have positive net income. That is certainly attractive to us as investors. If, for whatever reason, the company we're investing into has a net loss, we'd better have reason to think that that's going to change, because, if it continues, the company will drive itself right into the ground. For this reason, the income statement itself is invaluable, taking a look at just what is happening now. And just like the balance statement there are all sorts of ratios that can be used from the income statement as well.

Brett Yoder: Absolutely. And some of the most common ones. One, we see our first, price ratio here, price-to-earnings. Well, the income statement certainly lets us know the earnings. What is the current price, current trading price, what you actually have to buy and sell the stock for, vers' how much it's making per share or earnings per share? This is by far the most common fundamental ratio. I'm sure a lot of you in attendance today are already well aware of what the price-to-earnings is. What's interesting about it is it's absolutely relative to its peers. A price-to-earnings ratio, providing some sort of undervalue or overvalue barometer, is going to be different based off of the industry the company's in, the sector the company's in. And we're going to want to make sure that we are truly comparing to peers or comparing to industry or comparing to sector, before we make a determination of whether the P/E is high or low. Right? If it's a very high price-to-earnings, it may over value. Price is extremely high to how much the company actually makes. Same thing. If the price-to-earnings is low, maybe it is undervalued and there is an opportunity there for price to catch up to whatever the relative bar is. Price-to-earnings. Of course, we skipped earnings per share. Earnings per share is just the net income, the preferred dividends, divided by those shares outstanding. That's all it is -- how much did you make per share? That's our earnings per share. Of course, we need that for our price-to-earnings. But another, again, common one here is the idea of profit margin. Do we have a high-volume business that's running off of a small margin? Do I have a lower-volume business that runs off of a larger margin? We need to understand the idea of the business and what it's doing, what its goal is -- right? -- the consumer base for its goods or services, to understand if that profit margin is in line or not in line. Think about your, you know, mega discount retailers, the profit margin extremely small, because it's volume oriented. Opposed to some sort of consulting business. Or, you know, a business, like I said, has that lower volume but then can command a greater dollar for their service. Specialization. So, the profit margin is how that comes through and relates. But those three. The earnings per share. Right? You hear about this on the earnings call all the time. That's what pops up very first. You have the consensus estimate. Those are other analysts, looking at these statements, considering the environmental effects around the company, what should influence the earnings per share, that come up with the estimate of what the earnings per share might be. Then you have the actual company-reported earnings per share, pulled right off this income statement. And that's where we have the earnings volatility, around trading -- right? -- the consensus, the analysts doing this kind of fundamental analysis and then making a projection.

The last statement that we want to talk about is the idea of the cash flow statement. Now, you get little pieces, especially on the balance sheet, of how cash has changed. But we really want to separate three main concepts on cash flow. How has the cash changed? What was it used for? Is high cash good? Is low cash good? Well, where is the cash going? Cash flow statement is separated by three main topics. Operating activities. Okay. This is the actual business, what money was spent on goods, what money was received from sales -- right? -- the cash flow around operating the business. That's your operating activities. But then also there's two other aspects to it. Think back to the balance sheet, where you have the assets and liability, the financing activity. Specific to liability, was there a cash inflow to the company this quarter, because they took a new loan, received money via a note? Was there a cash outflow, because the company bought shares back or paid off some of those liabilities? Right? Financing activity's where we'll find specific information as to the company and how it's deciding to manage itself, more shares, less shares, more debt, less debt, all these things that, in turn, can weigh in on your opinion whether you like, in this case, the management of the finances of the company. This is where we're seeing it. Lastly, the investing activities, right there in the middle. Is the company also making investments? What are they investing in? Was an investment purchased? The cash outflow. Was an investment sold? The cash inflow. Cash flow based off of investing activities, there in the center.

That being said, a couple terms we certainly want to be aware of. Receivables. If this is the first time that you've heard this term, this is when the company has made good on, you know, providing a good or a service to a consumer and the consumer has yet to pay them, amount a company's owed but not yet paid. Payable is simply the opposite. Right? This is where the company has received good or service, etc., but has yet to pay it. Right? The obligation is not fulfilled. So, the receivables, we'll find, you know, balance sheet and the idea of assets, where I think it's bunched into that, the receivables. Payables -- then liabilities. Okay? And then we have these two at the bottom, depreciation and amortization. They're one and the same idea. One is regarding to assets, just like receivables was. One is regarding to payables, just like li-- excuse me -- liabilities, just as payables was. But depreciation... As time progresses... We'll go back to that construction example. Our equipment may deteriorate. It depreciates. Withing accounting, we can certainly account for that. And it gets talked about here, with the cash flow statement. I bought a vehicle for however many thousand. X amount of time has passed. Now it's worth less than that -- so, depreciated. We can account for that. Same thing with liability. As I pay off my debt, I owe less and less and less. Therefore, I can adjust the amount to that lower obligation. So, as you would assume, we certainly have some ratios that we want to consider here, with cash flow, as well.

Jacob Ellis: That's absolutely the case, Brett. In fact, as we think through it, the goal of those initial statements, the balance sheet and the income statement, was to tell us how the company's performing over time. Accounting measures include things like depreciation and amortization in order to smooth out large purchases. Think of buying a building. Though that is a purchase all at one time, it is something the company receives value from *over* time. Thus, the asset is purchased and then depreciated over time, to smooth out the balance sheet. Well, that presents a problem for us as investors, because, even though they've bought a building, if they can't pay to keep the lights on, there's a serious cash flow issue. The cash flow statement, therefore, is taking a look at taking that accounting wizardry back out and turning it into dollars into the banking account, dollars out of the bank account. For example, the cash flow itself, operating cash flow, minus anything spent on the capital expenditures, improving those buildings. We can look at asset efficiency, comparing sales and the total asset or, one of my favorites, current liability coverage. If the company has a certain amount of liability -- think interest to pay on loans, debts that need to be repaid at this time -- and compare that against their current operating cash flow. Do they have enough money to pay the bills, pay the paychecks, keep the lights on? And how does that relate? Do they have plenty of cash? Are they sitting on a big huge cash hoard? That current liability coverage and other varieties of it are certainly of interest to us and investors. Think of that benefit. Now we know, okay, the company is actually getting richer, it has more cash, more security, more safety. If things go bad, they've got plenty of rainy-day cash set aside -- and it turns out that cash is growing. Or on the flipside, the cash hoard is actually shrinking. They're spending through their cash, burning it over time. Hence the cash burn rate, that often issues in cash flow statements as well.

As we work through each and every one of these, and as Brett prefaced earlier, we are subject to the timely reporting of these companies. In order to protect investors, US law, set down by the Securities and Exchange Commission, requires that public companies file quarterly and annual financial reports. That means, at minimum, about every three months we're going to receive new, audited information from the company, telling us the update on them. Now, we've looked at a nice little summary in those images. And we will look closer at them, in our live demonstration. But it's worth pointing out that each of these, both the 10-Qs and 10-Ks, are typically several hundred pages in length. In addition to these summarized statements that we've looked at, there is much provided from the board of directors and executive management team, in terms of analysis of the company's risks. What do they expect to enfront in the near future? What are the details behind the assets?

If we look at a company like a airplane manufacturer, we'll find out that they are leasing many of those airplanes. What are the terms of those leases? When shall they end? Are they subject to early ending? What kind of risks exist beyond just the number themselves? Timely reporting of those statements is crucial. If we find ourselves looking at a company that has failed to provide those timely reports, we must question the validity of the information that has been most recently provided and we certainly have questions to be answered. In addition to these quarterly reports, should there be a material change in the company, the public companies are required to announce that as well and file a Form 8-K with the SEC, notifying of a material change -- changes in CEO leadership, changes in risk. Anything that expected a large, substantial material change must be reported as soon as possible.

In order to make these understandable, from one industry to another, the Generally Accepted Accounting Principles, often pronounced "gap." The GAAP accounting standards are used and applied. And these are required in those annual and quarterly reports, meaning that, if you see earnings per share of $5 per share on a company in the tech industry and another in that of the manufacturing industry, you will find out that they are apples-to-apples comparison, or at least that is their goal. The Generally Accepted Accounting Principles helps smooth out and make the information presented by companies comparable. In order to ensure that those principles are being followed and the information is being provided in an equitable and fair way to investors, all of these reports are required by law to be audited by accounting auditing firms.

Now, the company may choose, in their sole discretion, to also provide revised financial information, in addition to that GAAP information. This is called company-reported or non-GAAP accounting standards. Perhaps there is a reason that the company thinks that GAAP fails to capture the full scope of the risk or value that the company provides. Think of one-time expenses, like tax write-offs, large litigation costs that may over- or understate the company's value as a result of their one-time nature, creating a blip in earnings that otherwise fails to project into the future the value of the company. When we look at any of these different aspects, we should be aware that they are all hoping to provide us with evidence of the company's fair value.

Now, that wraps up the majority of our live presentation. And now we'll be moving into the live demonstration. This will pop up on your screen in just a moment. We will be starting from fidelity.com, where we will navigate our way through the Stock Research Center, find the fundamental information that we have been discussing and learning about so far, and then move onwards, as we discuss in great depth the same ideas that we've been going over one at a time. And I believe, Brett, you were ready to go ahead and talk us through this.

Brett Yoder: Yeah, absolutely. And as you can imagine, I mean, this being a one-on-one course, obviously there's more than just a handful of ratios that are either important... We certainly select them based off of their commonality. And typically, you'll be familiar with this. But you're right. There's so many more. And there's so many other ways that you can quantify why or -- make a justification for the investments that you're looking at. Starting at News & Research, up at the top of the screen, go down to Stocks. Goes right to the Stock Research Center, as Jake mentioned. As that loads for us on stocks... There's many, many different ways that you can find an individual name. Now, we're going to go with the idea of bottom-up. So, we're going to start with just a particular name and walk through the different tools available on that name and then just take a step back and compare peers. That's what we have planned here today.

On the Stock Research Center, there's many different, like I said, places we can look for names. We're just going to focus right here in the center, as soon as we can get that to load, with our Equity Summary Score, top-rated by sector

-- the Equity Summary Score. Like I said... Or, excuse me. As alluded to, because there is such a wealth of information, because we will be relying on other people's research as well, analysts' opinions then have a decent amount of weight in the idea of putting together that fundamental case. We had preplanned this, Jacob. So maybe if we could go to that healthcare stock that we were talking about earlier. We can just jump right into it. There. It's finally loaded for us. Healthcare, of course, on top of mind, just given our current environment, what we've all been experiencing here, in this year of 2020. So, jumping into this company, let's start to talk through the information available. From here... Hope you're familiar...

Jacob Ellis: We have a lot of information available to us. First, we're going to scroll slowly down to the bottom of the screen. And we'll find a brick, over here on the left-hand side, labeled Fundamental Analysis. Now this is provided to us by S&P Global Market Intelligence. And they've done a great job of summarizing this different information, all of the study that we've done, into four categories, valuation, quality, growth stability, and financial health. And they rate these from zero to one hundred. The higher the rating, the better for us as investors. We notice that in this case the symbol is rated all the way up here on the right-hand side, all four categories, over 80 on each of them, valuation at 96, quality at 99, growth stability 89, the low of them, and financial health at 96. If we would like some definitions for any one of these, all we need to do is click on the name, as I've done here for valuation, and we see a brief definition, telling us that this is comparing "overvalued or undervalued in relation to its peers." Now in this case, peers is referring to all other stocks in the healthcare sector. As this particular company falls in that healthcare sector, it is against that sector that this stock is compared.

Now, if we click in the little More icon, here in the top right-hand corner, we'll be able to dive in and see a little bit more, pull the curtains back, as it were, on what S&P Global Market Intelligence is considering in order to decide whether or not this is a over- or undervalued company. Take, for example, valuation, where we're looking at the adjusted free cash flow to price. Here's our cash flow, ratio determined from our cash flow statement. Book value and enterprise value. Looking at the industry group relative EBITDA to price. Boy, if that isn't a mouthful. Here, we can take a quick click and, if there's any that we have questions about, we are also give a convenient definition. "EBITDA -- is how you pronounce that -- to-price measures the company's average four-quarter earnings before interest, taxes and" depreciation and amortization "per share relative to the price that investors would like to pay" per "share." That EBITDA is coming right from our income statement. It's the earnings before you take out interest, the tax, all that depreciation and amortization business that Brett informed us about. But as we take a look across all of these different ratios used, we see them compared -- those applicable for this particular symbol -- as well as against its sector as a whole. Having positive free cash flow compared to its price as opposed to negative for the sector as a whole is certainly benefit. We would love to have positive cash flow. And that is being accomplished by this particular company. Whereas its sector as a whole is somehow actually running on negative cash flow. As we continue to scroll down, maybe we'll take a quick look at financial health, where we'd be looking at, again, our current liability as it compares to price, the adjusted interest coverage ratio, looking at how much cash do they have set aside available to cover interest and other upcoming liability debts -- positive versus negative. Again, the fact that they have cash flow coming in and available shows they're able to cover those incomes. As we work through each of these different sections, we can get definitions, remind ourselves, or learn a little bit deeper, as we compare it against its sector as a whole. If you have any trouble understanding or remembering how to use this, we've also provided this convenient link in the bottom left-hand corner into written information going over how to use this in your own research.

But where is S&P getting this information to provide to us? Well, if we head back to our overview and then scroll right on back down our page... We're going to scroll even past our fundamental information we saw, on the left-hand side, instead to this More Research area, over here on the right. As we have done so, we see several links that are going to look familiar to us, including Financial Statements. When we click on Financial Statements, we get access to those same images that we saw screenshots of during our live teaching. Here we see, for example -- on our balance sheet, with the ability to select between annual or quarterly statements. As we're on annual by default, we see the 2019 year-end information, compared against 2018, -17, -16, and -15. Always with accounting forms like this, we will see only up to the most recent closed period. In this case, 2019 is the last year that was finished. If we'd like to see what's happened since then, maybe we'll click on Quarterly. And we'll see, instead, information through the end of March. Even though June has finished, the audited report and earnings has not yet been announced. As a result, only through the end of March is available. We continue down our list, we can see the current assets, noncurrent assets the grand total of all assets.

And here, as Brett mentioned, we might want to compare quarter over quarter or year over year. As we take a look... Perhaps let's do this on an annual scale. As we take a look on our asset total, we ended up, at the end of 2019, at 1.143... Million. These are all in millions, making this 1.14 billion in assets, an increase from the 968 million that existed at the end of 2018. So, there was a growth in assets. That sounds, at face value, to be a good thing. But where did that come from? We need to scroll down on our balance sheet to find out. Did it come from raising additional debt? Was more debt sold out? Did they take bank loans? Indeed, from 378 million at the end of 2018, it rose to 417 million. A portion of that increase was due to increase in liabilities. But the remainder fell as increase to shareholder equity, from 590 million rising all the way up to 726 million. The bulk of the growth happened in the expansion of shareholder equity, a positive sign for us as investors. As we look a little deeper, we start to see that value of looking from year to year, and up and down to understand how this all relates.

We scroll back up, to see the other tabs, where we can access income statement and cash flow statement, respectively, where here we also are given the ability to select annual or quarterly. And as we scroll down the page, we'll find other interesting information, for example, the earnings per share, broken out for us in two different iterations, excluding extraordinary items and those of operations, and, specifically, against all diluted shares. As we continue down, we can see... If any dividends were paid, here they would be listed.

Also available to u-- are the cash flow statements, where here we can see, again, the same idea. And as we take a look, our operating activity, indeed, created positive cash flow, $202 million worth. Investing actually cost us money, in this case. Net cash flow was a cost of 19 million, as it came to investing activity. And as you scroll down, in financing we see that there was some amount of either preferred or common stock sale. All told, when we come down, it was a cost coming through to 109 million overall in positive cash growth. There's $109 million more in their bank account at the end of 2019 than previous. So, we can see that as a dramatic change from the small contractions happening several years previous.

Working through each one of these statements may or may not be our forte and may or may not be of interest to us. And so, Fidelity has compiled a convenient tool, known as Key Statistics. When we go back to our overview, then scroll back down to the bottom of the page, we have this Key Statistics area, that computes a number of the common ratios. For example, we can take a look at the P/E ratio, as calculated over the trailing 12 months. We can look at the growth of it. As it looks over the last five years, how has it looked? What do they expect it to grow to, looking forward five years? As well as many other valuation metrics. We notice the figures for both the stock we are looking at ourselves as well as a comparison now, instead of to the whole healthcare sector, instead to a drilled-in view of other stocks in the same industry, even more specific -- these are all healthcare stocks -- but, more specifically, those relative to the life sciences tools and services industry. And as it compares, we can see the industry percentile. In general, we mostly want these to be high, on the right-hand side. But there will be some that do not. As we take a look at each one of them, we can very quickly see that the price-to-book value is somewhere in the middle, maybe even on the low side for this company, as it relates to others in its own industry. Their P/E ratio is 38, as opposed to 49. Here we want a low P/E ratio. And so being on the lower side would be a positive sign. We need to be aware of and understand each of these ratios, if we intend to use them in our study. I'll scroll down slowly, so we can see the many different areas that these statistics are including. You see now that the few that we included in the brief demonstration we had earlier, three for each of these different statements, was certainly underselling the wide variety of comparisons available over time, growth ratios, profit margins and their many different varieties, how to calculate different returns, and how they compare against others in the industry, debts, and even, coming down here, operating metrics. How much are they making, in income as well as in revenue, per employee? And how does that compare to the industry? Overall, as we work through each one of these, now we're seeing a comparison to the industry as a whole. But there are also ways for us to compare against other stocks, specifically. Isn't that right, Brett?

Brett Yoder: Yeah, there absolutely is. Back on our overview, we have a little bricklet of information for comparison. You may have already seen this but didn't know that you can actually look at valuation as a way to compare. Here you'll see, Jacob -- is right on our Top Competitors. Right? There's the company average, as well as like or similar companies. If you click More on this, you'll be given that full comparison page. And even before you do, you can see that the price-per-earnings was on that previous page. Well, there's some fundamental analysis. This is the typical look that you'll see, if you've never adjusted the view you're looking at. These are key statistics. And as there are earnings per share and some other metrics, down here below, we can certainly click the drop-down for Key Statistics and switch very specifically to the Valuation. The valuation has its foot right in fundamental analysis. And now you can compare not only the company that you're researching, the most bottom level... But now we're taking that step up. Now we're looking at the different companies. And we're able to look -- the different P/E ratio, the different information that we have down there at the bottom.

One last thing that we want to show you is going to be the actual reports that you can find for any of these companies, that the analysts have produced, and, with that, some of the fundamental research that they've done, just another way that you can either rely on maybe an analyst or look for an analyst or go into understanding how they've done their analysis and start to incorporate that into your next steps of learning. So, with this, on the company that we're at, we'll go to analyst opinions, right here on the left side. And as that loads, you'll see our nice picture here of that Equity Summary Score. Equity Summary Score provided to us by StarMine. They themselves aren't the analyst. They're trying to rank the analysts and give us an accuracy rating, as well as what the research firm is looking at. But if we continue to scroll down, here we'll be able to see those firms that are considered in the opinion and, most importantly, their latest report. Look clear over there to the right side, that right-side column, Latest Report. And we'll just focus here on this top one, from Argus. And you'll notice they've got "Quantitative," right there in their title. We would certainly expect to see some information pop up here as far as these ratios and being able to measure out the worth, from these financial statements.

So, this will open a PDF on your screen. The PDF on your screen, if you never seen one of these reports before, this is truly what they've issued out to the

Street. This is what their opinion fully entails. And the middle of this page, if you can't tell specifically what you're looking at, it is all ratios -- Growth Analysis, Financial Condition -- all looking at the statements that we showed you and then running ratios that they feel are important based off of that. They use some other techniques, and certainly come up with current prices, target prices, etc. and some general information, there on the right side. But that middle section's what we really want to point out here, as far as here is fundamental analysis in action, here's what's being considered.

END OF AUDIO FILE
