

Preferred Procedure Explained

by Lamaint Wallin

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Disclaimer

- All stock references are meant to be used for educational purposes only.
- No recommendations for purchase or sale is intended or implied.
- Please perform your own due diligence and analysis.

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Preferred Procedure

- It allows the user to be the analyst
- Keeps EPS to a reasonable growth rate
- Connects Future Sales to Future Earnings
- Creates an income statement 5 years into the future
- A beginner's approach to using the Preferred Procedure
- Learning how to enter data into the calculations
- Lots of visuals for understanding the process

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Understanding the Income Statement

- Sales – Expenses = Net Profit
- Sales- how a company makes money
- Expenses- the cost of doing business
- Net Profit
 - Rewards shareholder
 - Rewards customers
 - Allows for expansion
 - Provides opportunities for Research & Development
 - EPS (Earning Per Share)

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Using Preferred Procedure to Calculate EPS

Company: Sprouts Farmers Mark (SPM) Study Name: SPM 3/19/21

Projection Starting Point: Annual

Recent Quarterly Figures: FY2020 Quarterly Ending (YTD)

Latest Quarter	1,802	0.58
Year Ago Quarter	1,306	0.27
Percentage Change	17.4%	114.8%

Analysis/Consensus Estimates

Sales 5 Year Estimate:	2.8%
EPS Long Term Estimate:	9.8%

Fundamental Company Data

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Forecast (%)	5 Yr Est
Historical Sales (\$M)	-105	-175	-235	-267	-3,093	4,046	4,665	5,207	5,635	6,469	11.2%	10,999
Historical EPS (\$)	-0.20	-0.14	0.37	0.70	0.83	0.83	1.15	1.22	1.25	2.43	21.9%	2.70
Pre-Tax Profit (\$M)	-45	33	84	174	206	199	206	196	196	377	6.7%	2.70

Click Box: 5

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Determine EPS 5 Year Forecast

Select 5 Year Forecast EPS Growth Rate

Projection Starting Point: QUARTER (EPS = 2.43, Sales = 6,469)

Year EPS Growth Rate Forecast: 2.0% 5 Year Estimate: 2.70

Analyst Estimate: 18.5% 5 Year Estimate: 2.7

Preferred Procedure Calculation: 2.5%

Sections:

1. EPS Estimates
2. Preferred Procedure Calculation
3. Historical Data
4. Data Points

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1. Preferred Calculation

2. Historical Data (Legend)

Preferred Procedure Growth Calculation: 2.4% 5 Year Estimate: 2.74

Historical Data Legend:

- Pre-Tax Profit Margin
- Taxes
- Diluted Shares Outs
- Sales Growth Trend
- EPS Growth Trend

Preferred Procedure Calculation Table:

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	11.5%	11.5	11,148
Less Expenses (5 Year Avg. % Pre-Tax Profit Margin):	4.5%	3.8	-10,724
Less Taxes (Last Year Tax Rate):	23.7%	23.7	-100
Less Preferred Dividends (Current Preferred Dividend):	0.0	0.0	0
equals Projected 5 Year Total Earnings of:			323
+ Shares Outstanding (Current Diluted Shares in Mil.):	118.4	118.4	2.73
5 Year Compound Annual EPS Growth Rate:			2.4%

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Enter "Sales Growth Trend" into "Projected 5 Year Sales Growth"

Preferred Procedure Calculation Table:

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	11.5%	11.2	10,999
Less Expenses (5 Year Avg. % Pre-Tax Profit Margin):	4.5%	3.8	-10,724
Less Taxes (Last Year Tax Rate):	23.7%	23.7	-100
Less Preferred Dividends (Current Preferred Dividend):	0.0	0.0	0
equals Projected 5 Year Total Earnings of:			319
+ Shares Outstanding (Current Diluted Shares in Mil.):	118.4	118.4	2.7
5 Year Compound Annual EPS Growth Rate:			2.1%

Sales Growth Trend Table:

Range (yrs)	Growth
2011-20 (9)	12.2%
2012-20 (8)	12.2%
2013-20 (7)	12.2%
2014-20 (6)	12.2%
2015-20 (5)	12.2%
2016-20 (4)	13.9%
2017-20 (3)	11.2%
2018-20 (2)	11.6%
2019-20 (1)	14.8%

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Enter "Pre-Tax Profit Margin" into "Less Expenses (Pre-Tax Profit Margin)"

Year	Pre-Tax Profit Margin
2011	-4.1%
2012	1.9%
2013	3.4%
2014	5.9%
2015	5.7%
2016	4.9%
2017	4.4%
2018	3.6%
2019	3.5%
2020	5.8%

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Enter "Taxes" into "Less Taxes"

Year	Less Taxes
2011	39.3%
2012	43.9%
2013	39.0%
2014	38.1%
2015	37.4%
2016	37.4%
2017	22.9%
2018	19.0%
2019	23.7%
2020	23.7%

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Preferred Dividends can be found in the SSG by going to Morningstar Financials (Income Statement)

Company	Preferred Dividends
Sprouts	0.0
Bank of America	0.0

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No Preferred Dividends to enter for this Company

Year	Pre-Tax Profit Margin
2011	39.3%
2012	43.9%
2013	39.0%
2014	38.1%
2015	37.4%
2016	37.4%
2017	22.9%
2018	19.0%
2019	23.7%
2020	23.7%

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Enter "Diluted Shares Outs" into "Shares Outstanding"

Year	Value
2011	143.9
2012	136.6
2013	139.8
2014	154.3
2015	156.9
2016	148.7
2017	137.9
2018	129.8
2019	119.7
2020	118.2

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5 Year Forecasted Income Statement.
5 Year EPS Annual Growth Rate of 2.1%

Category	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	11.2%	11.2	10,999
Less Expenses (5 Year Avg. % Pre-Tax Profit Margin):	4.5%	3.8	-10,581
Less Taxes (Last Year Tax Rate):	23.7%	23.7	-99
Less Preferred Dividends (Current Preferred Dividend):	0.0	0.0	0
equals Projected 5 Year Total Earnings of:			319
Shares Outstanding (Current Diluted Shares in Mil.):	118.4	118.2	2.7
5 Year Compound Annual EPS Growth Rate:			2.1%

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Conclusion

- A starting point to begin using the SSG Preferred Procedure
- More information can be found on the BI website
- Build your knowledge to get more accurate data estimates
 - By understanding the company
 - By understanding the industry
 - By understanding the current market

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References

From the BI site:

- [StockUp: Estimate EPS Using the Preferred Procedure](#)

The Preferred Procedure is broken down into easy-to-understand concepts and guidelines are provided to help you make better earnings per share (EPS) growth forecasts.

- <https://www.betterinvesting.org/members/learning-center/video-learning-library/stockup/estimate-eps-using-preferred-procedure/estimate-eps-using-preferred-procedure>

- [Estimating EPS Using the Preferred Procedure](#)

In this video the Preferred Procedure is broken down into easy-to-understand concepts and guidelines are provided to help you make better EPS growth forecasts.

- <https://www.betterinvesting.org/members/learning-center/video-learning-library/special-programs/estimating-eps-using-the-preferred-procedure/estimating-eps-using-the-preferred-procedure>

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