

# Dividend SIMPLIFIED

*Bonus All About EPS*



*Explaining EPS in various scenarios*

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INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT



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## A LITTLE ABOUT ME



First, congratulations on taking action and taking care of your investment portfolio! I'm a passionate investor looking forward to connecting with other passionate investors.

My name is Mike Heroux and I'm the founder of Dividend Stocks Rock, a platform helping people like you invest with more conviction so they can enjoy their retirement.

You can also find my work under "[The Dividend Guy](#)" on most platforms:

- [Blog](#)
- [Podcast](#)
- [YouTube](#)
- [Blossom](#)
- [LinkedIn](#)
- [The Moose on the Loose podcast](#)

I earned my bachelor's degree with a double major in finance and marketing, I completed a CFP (Certified Financial Planner) certification along with an MBA in financial services. I worked in the financial industry for over a decade including 5 years as a financial planner and another 5 as a private banker managing accounts for high net worth (read \$1M+) clients.

In 2016, I decided to leave everything behind and go for a 1-year RV trip across North America and Central America (we made it all the way down to Costa Rica!). Upon my return in 2017, I quit my job as a private banker and invested all my energy in Dividend Stocks Rock. I wanted to pursue my dream of helping thousands of people invest with conviction. Since then, I have been a full-time online entrepreneur.

Besides being a passionate investor, I'm also happily married with three children, and I live in the beautiful province of Quebec, Canada. As a French Canadian, I have most of my writing edited in English to minimize any grammatical or spelling errors. So... pardon my French if you find any mistakes 😊.

I am an avid traveler (having visited 25 countries and counting) and use running as my number one means of physical therapy and mental rejuvenation. I love connecting with other investors, travelers or runners. Hit me up on any platform or reach out to me directly at [dividendustries@gmail.com](mailto:dividendustries@gmail.com).



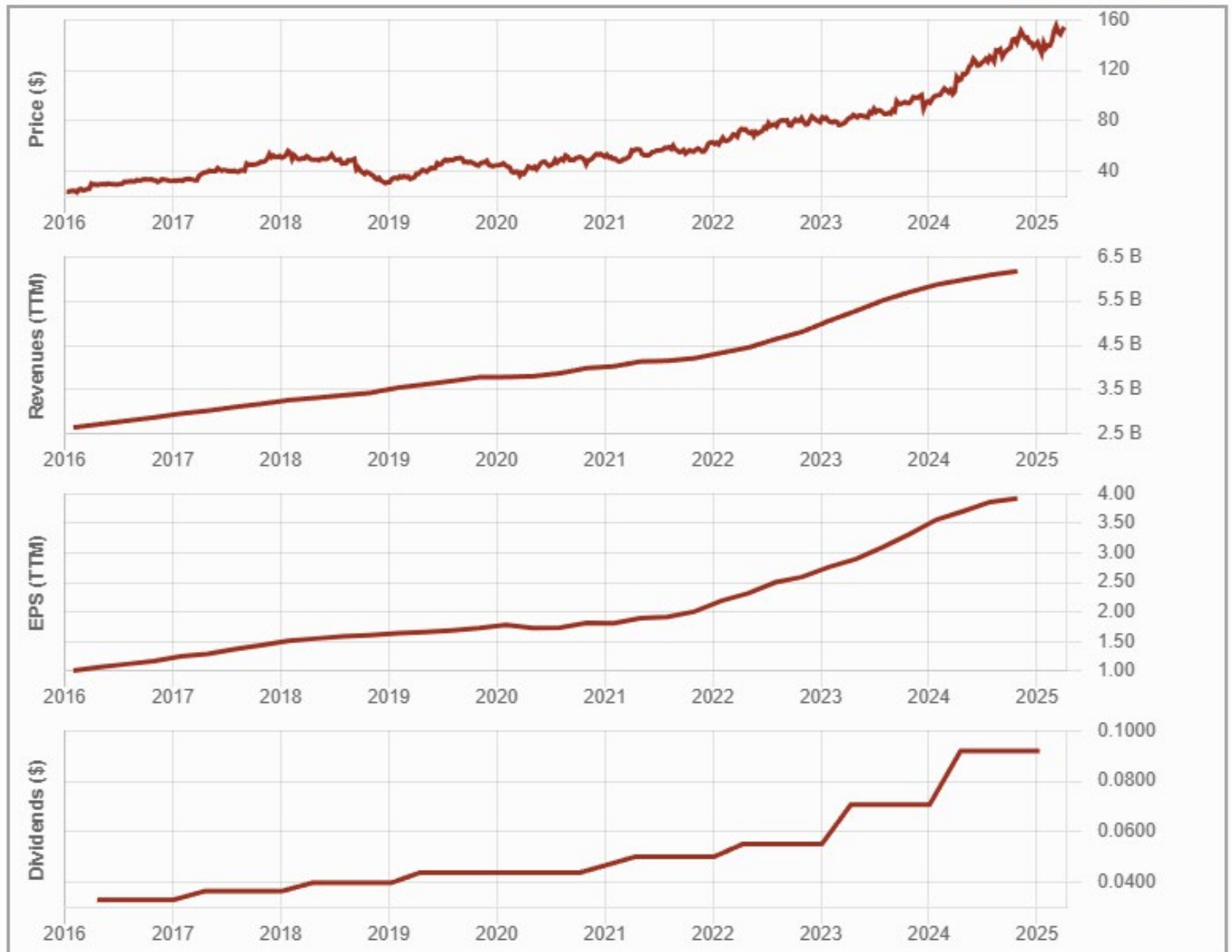


## EARNINGS = PROFIT? = CONFUSION

Running a business sounds simple. You sell something, you pay your operational costs, and you get net income or earnings. As long as you get more revenue than your operating costs, earnings should be positive.

When everything runs smoothly like this, your business dividend triangle will look like this:

## Dividend Triangle

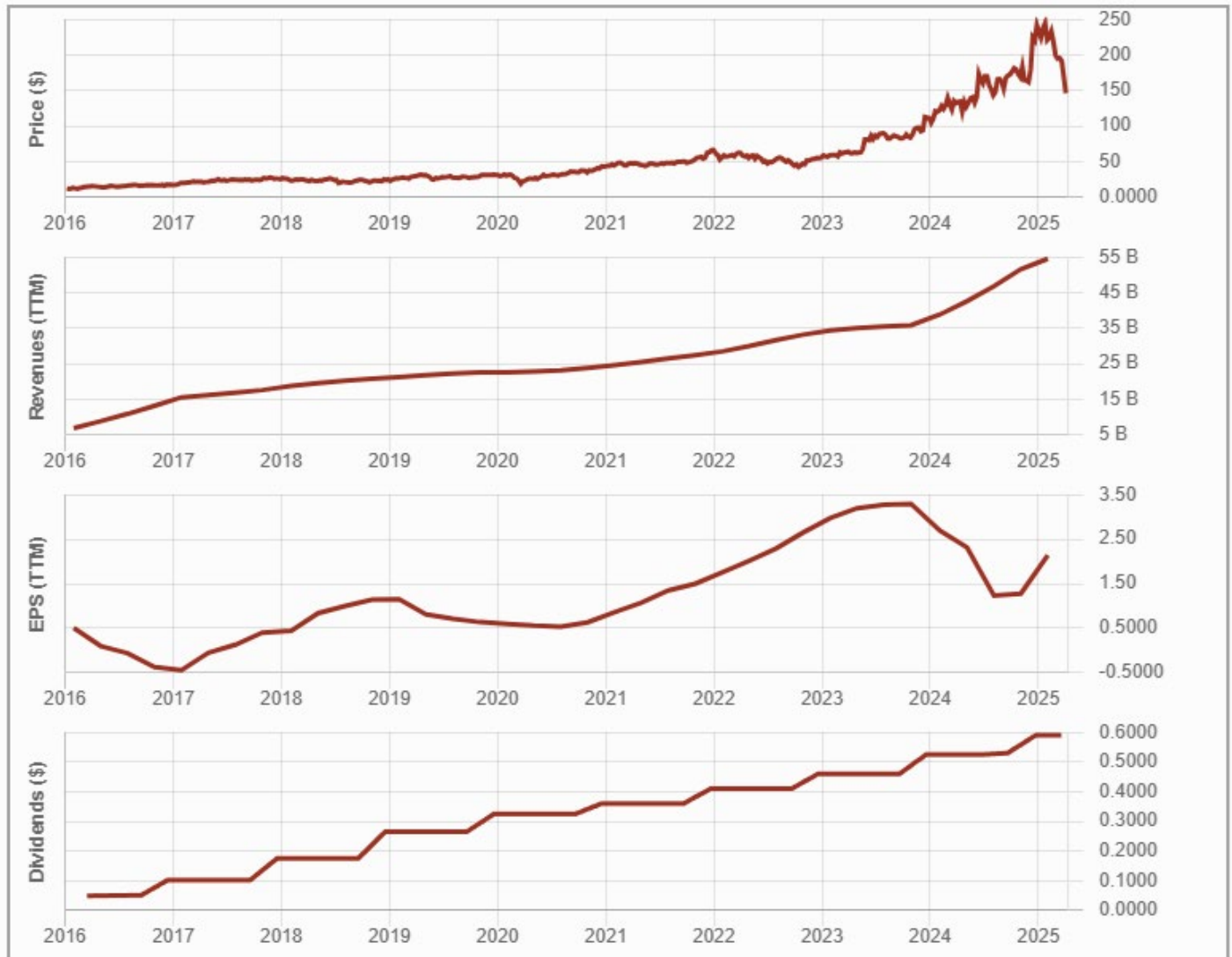


When revenue goes up, EPS goes up, and investors' smiles also increase.



Unfortunately, most positive dividend triangles are not as stable:

## Dividend Triangle



How can we explain that Broadcom continuously generated higher revenue, but EPS fell in 2017, 2020, and 2024? Is it a sign of bad management? Weak margins? What does this even mean?

Today, we are shedding some light on a key component of the dividend triangle: Earnings Per Share (EPS).



## Earnings are at the center of “everything”

Earnings are one of the most important financial metrics to understand, as a big part of your analysis depends on how they are calculated.

If you want to know if a company can afford to pay its dividends, you look at the payout ratio:

$$\text{Payout ratio: } \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

If you want to know if a company trades at a fair value, you can look at the Price to Earnings (PE) ratio:

$$\text{Price to earnings (PE): } \frac{\text{Stock price}}{\text{Earnings per share}}$$

Over the long run only companies with growing earnings will see their stock price rise constantly. This is also why a company who revises EPS guidance for the year down by 10% will likely see its stock price go down by double-digits as well.

Investors want to buy shares of companies that will grow their EPS. The valuation is based on how fast investors expect EPS to grow. For example, chances are you will pay a premium for a company that is expected to grow earnings by double digits over a stagnating business with a 1% EPS growth rate.

Unfortunately, EPS is not a clear number as it goes further than the simple “revenue – cost of goods sold”.

## WHERE ARE EARNINGS COMING FROM?

Before we start looking into specific cases, let’s go back to the basics for a second. It will help you to understand where EPS is coming from and, most importantly, where to look when the metric acts erratically. So, here’s how we calculate earnings:

### ☑ Revenues (Sales/Income)

- All money a company makes from its core business activities.
- May include product sales, service fees, interest income, royalties, etc.

### ▽ Minus: Cost of Goods Sold (COGS)

- Direct costs of producing goods or services sold (e.g. raw materials, labor).

= Gross Profit \$\$\$

Not too complicated so far? All right, follow me on to the next page...



## ▽ Minus: Operating Expenses

- These include:
  - Selling, General & Administrative expenses (SG&A)
  - Marketing and advertising
  - Research & Development (R&D)
  - Rent, utilities, and salaries not directly tied to production
  - **Amortization (a gradual write-off of intangible assets (like patents, trademarks, or goodwill))**
  - **Depreciation (a gradual write-off of tangible assets (like machinery, buildings, or vehicles))**
  - **Impairment (occurs when an asset, like goodwill or a plant, suddenly loses significant value)**

## = Operating Income (EBIT – Earnings Before Interest & Taxes)

As you can see, I put **Amortization, Depreciation, and Impairment in orange**. That's because they will reduce earnings, but they won't directly affect cash flow.

*In other words, companies will pay less tax (since they pay tax on earnings), but their ability to use cash to pay dividends isn't affected.*

Get it? All right! But we are not done yet!

## ▽ Minus: Other Expenses

- Interest on debt
- **Losses from investments**
- Foreign exchange losses

## ☑ Plus: Other Income

- **Investment income**
- **Gains on asset sales**
- Rental income, etc.

## = Pre-Tax Income

## ▽ Minus: Income Taxes

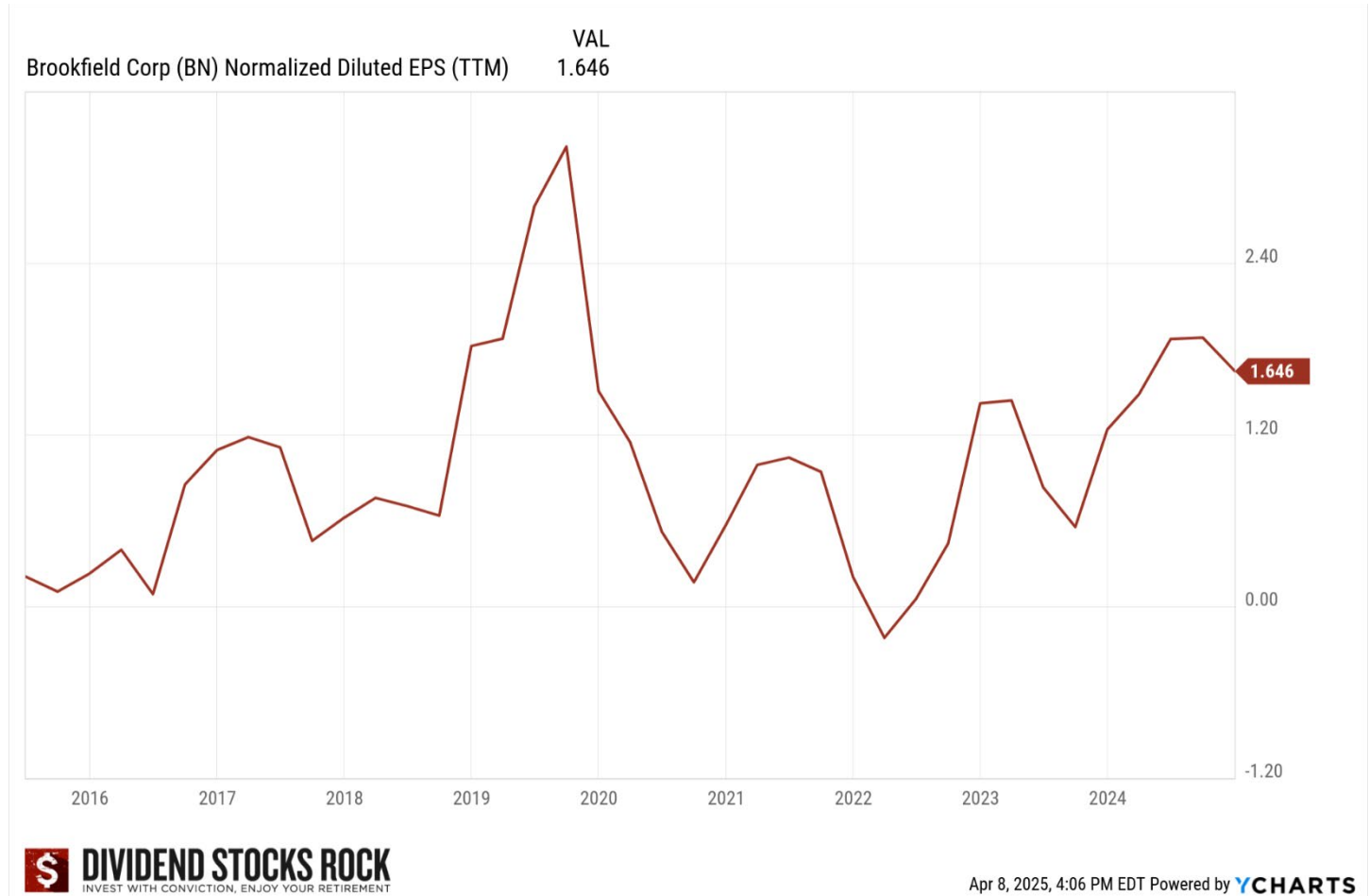
## ☑ = Net Income (Earnings)

On top of the amortization, depreciation and impairment, you can also find other items that could impact earnings but that are not directly related to the business' day-to-day such as a gain or a loss on an asset or investment. This is also a good place to start looking if the EPS goes up or down drastically. Speaking of which, the following pages will highlight the most common reasons why the EPS looks strange or unusual.



## THE WRONG NUMBER TO FOLLOW

What can you do when you look at a metric evolving like a 2-year-old drawing a straight line?



Trying to make sense of Brookfield's (BN) EPS may make you lose several hours of sleep. The company doesn't seem to generate consistent profit and investing in such a company looks a lot more like gambling than investing.

**In this case, your reflex should be to ask yourself if you are looking at the right metric.**

To answer this question, you can define in detail how a company makes money (that could lead to understanding a company with a higher level of amortization and depreciation than others, for example) or you could look into the company's quarterly earnings press release and presentations. Management will usually highlight the metrics they follow to explain whether they have done a good job or not.





Or... you can ask ChatGPT for a comprehensive explanation:

what is the best metric to assess Brookfield (bn) profitability?

Great question — and a tricky one, because **Brookfield Corporation (BN)** is a **complex, asset-heavy, diversified holding company**. It owns and operates businesses across real estate, infrastructure, private equity, insurance, and renewable energy — often through partial stakes in listed affiliates like Brookfield Asset Management (BAM), Brookfield Renewable (BEPC/BEP), and others.

So, traditional metrics like **Net Income** or **EBITDA** alone don't always tell the full story.

## **Best metrics to assess Brookfield (BN)'s profitability:**

### **1. Funds from Operations (FFO) / Distributable Earnings (DE)**

- **Why it matters:** BN operates like a hybrid of a REIT, asset manager, and private equity firm.
- **What it tells you:** A clearer picture of **recurring, cash-based profitability**, excluding non-cash items like depreciation and fair value changes.
- **Where to find it:** Brookfield usually reports "**Distributable Earnings**" in its quarterly highlights.

## **If you find that this is too complicated for your taste...**

As you can see, it's not always easy to know exactly how to analyze a company's profitability. If you are not comfortable with a specific business model (that's why I selected the highly complex Brookfield business), the best option is often to ignore this company and buy another one where your understanding of the business is clear.

**After all, the most essential part of investing is knowing what you own and why you own it.**

We are going to take a moment to look at some classic explanations. You can use this newsletter for further references.



## CAPITAL INTENSIVE COMPANIES

Capital-intensive companies are tricky, as the capital expenditure (CAPEX) will greatly influence how earnings are calculated. Here are some classic examples and what to look for instead of earnings and EPS.

### Pipelines & the whole energy sector

The classic of the classics for strange EPS is Enbridge's (ENB.TO) dividend and then its EPS. The company shows a high payout ratio that could hit 200% or 300%! Pipelines are known to invest massively in their infrastructure. It then creates massive depreciation numbers on their income statement.

Many energy companies spend money on their infrastructure and exploration of new resources.

The right metric is often to focus on funds flow per share, funds from operations, or cash flow per share.

### Big pharmaceuticals

Companies like AbbVie (ABBV) or Johnson & Johnson (JNJ) spend an incredible amount of money on Research and development (R&D) to develop new drugs that are protected by patents. These business models are also more subject to lawsuits than other models.

The R&D spending is part of their business model and reduces the company's ability to pay a dividend. However, the depreciating value of a patent will affect earnings, but not the company's ability to pay a higher dividend.

Those companies are also known for big mergers (or spin-offs like Kenvue with JNJ). Major transactions will have an impact on EPS.

You can still use the EPS, but keep an eye on lawsuits and patent expiry announcements.

### Utilities

Like pipelines, utilities typically spend lots of cash on new projects leading to heavy depreciation. Add to this mergers & acquisitions and you have a large number of adjustments to see if a company can afford to pay a dividend or not.

Often, the payout ratio won't make sense and you must combine free cash flow and new debts (that is not used to pay the dividend, but rather to pay for the CAPEX or acquisition).

Funds from operations (FFO) and FFO per share are often good metrics to follow.



## Telcos

When you look at big guys like AT&T, Verizon, BCE, Telus and Rogers, they all talk about their cash flow on top of mentioning earnings. Again, it makes sense since earnings will be greatly affected by amortization and depreciation.

Those companies will typically offer you a target payout ratio along with their own version of the ratio calculations (based more on cash flow).

The downside is that in most cases that I've listed here, you must trust management for the numbers. Earnings are part of the Generally Accepted Accounting Principles (GAAP) provided in financial statements. "Homemade calculations" by management will not be used in a dividend triangle graph.

## GROWTH BY ACQUISITION

There are a few other cases deserving your attention. When a company acquires another, the impact on financial statements will last a while.

You will find the cost of acquisitions, often financed through debt (which will increase interest charges for a while).

Then you will have a one-time acquisition cost and ongoing integration costs for a few quarters.

Those "costs" can also be seen as investments since the goal is to generate higher revenues and, hopefully, synergies. In other words, after seeing revenues being fueled by the new acquisition, the company should also be able to reduce costs of operations by combining departments. For example, there is no point of having 2 marketing teams when you can merge them and lay off duplicate jobs.

The adjustment period is hard to analyze as you get lots of hectic numbers. It gets even harder to analyze when the company is a serial acquirer such as Broadcom (AVGO) or TFI International (TFII.TO).

You must rely on cash flow metrics and management's expertise and track record during the integration phase.

## Acquisitions are not always positive

While the idea is to improve the business, it could also create the opposite effect. Growing too fast and not managing debt (hello Algonquin!) will hurt EPS over the long run instead of improving it. Paying too much or not being able to integrate the new business properly could also result in heavy charges and an impairment on the balance sheet. For example, Dollar Tree (DLTR) bought Family Dollar for \$9B in 2015 and recently sold it to a private fund for \$1B.



## A WORD ON BANKS & PROVISIONS FOR CREDIT LOSSES

As we hear the word “recession” bandied about these days, it means that banks will likely increase their provisions for credit losses (PCLs). I’ve discussed that several times, but an increase in PCLs negatively impacts EPS.

Therefore, we might expect weak EPS growth for banks in the coming quarters.

However, it’s not always negative...

### The banks’ playbook

I’ve worked in the banking world long enough to realize the ultra conservative nature of most of them. While higher PCLs mean the bank’s loan portfolio is not doing that great, it could also mean that management is under promising.

A year after the PCL is taken, the bank reassesses its loan portfolio and could bring some loans back on its balance sheet. We call this operation “PCL recovery”. While the PCL hurts EPS, the recovery boosts earnings. Therefore, it’s not rare to see a Bank showing weak EPS for a year and then it jumps on PCL recovery.

The bank was simply working the narrative the whole time.

## WHEN EPS DOESN’T FOLLOW REVENUE

As mentioned in the introduction, the perfect business model would show revenue and EPS growing at about the same pace. It means that each time the company is selling a dollar more, it also maintains the same margin and makes the same profit.

However, we often see EPS and revenue not moving at the same pace. There must be an explanation.

### EPS goes up faster than revenue

When earnings go up faster than revenue, it’s usually good news. It could mean the company reduced its operating costs through synergies or a cost cutting program and produced the same sales. It’s important to identify the reason why EPS goes up faster though.

If the company buys back its shares, the earnings may remain the same but the earnings per share (EPS) could go up faster. It’s not a bad thing, but it’s less impressive than becoming more efficient.

Most importantly, you must find out if the EPS jump is temporary (PCL recovery for example) or if it will last over time as in efficiency gains.



## EPS moves, but not revenue

Another classic case is when the revenue doesn't move much, but you see EPS growing. That is usually explained by efficiency or share buybacks as mentioned above.

However, you must take note as EPS won't be able to go up indefinitely if revenues don't go to higher levels. For example, if you sell for \$100 of revenue, the maximum theoretical profit is \$100. While you will never reach this level, you will also never be able to generate more than \$100 of profit if you can't increase your sales above \$100.

## EPS goes down faster than revenue

Many would think this is a big red flag to see earnings decline while revenue goes up. It's not as much a red flag as it is an invitation to investigate.

**You must find out why there is a discrepancy between the revenue and EPS trend.**

If the company is spending more in marketing or R&D, it could hurt EPS temporarily (read from a few quarters to a few years). This could be good news if the company is able to generate higher sales and gain market share through these investments.

However, this is only good if it's a temporary situation. Eventually, you will want to see those initiatives become profitable.

We have a good example with telcos where they told investors they would massively invest in the development of the 5G technology for about 10 years and then generate a lot more sales and cash flow. The decline of many companies in this sector is related to failing on these promises. Today, many telcos have large debts, increased interest charges, but weak sales growth and stable cash flow at best. This is not a recipe for success.

The three situations I highlighted require you to dig deeper and investigate. But where do you start that investigation?

## WHERE TO LOOK WHEN EPS DOESN'T MAKE SENSE?

Whenever you have questions about EPS, the first and only step is to head toward the company's investor website and look for management's explanation. You will find those in the quarterly earnings, earnings calls and investors presentations. Don't worry, it sounds worse than it is.

## Quarterly earnings, earnings call & investors presentations

I'd suggest you take a look back at a previous newsletter we wrote about how to analyse quarterly earnings. You can find it in the DSR fundamentals. It will give you the overview of how to efficiently read financial statements.





If you are a PRO member, chances are you will find the answer to your questions about EPS in the quarterly review done by our analysts. But you might want to read more about the topic.

There are four documents that will help you. I would search them in this order:

**1. Quarterly earnings press release:** if you do a simple “CTRL+F” and search for “earnings” you will likely find the explanation you are looking for. The press release will give you the overview of the quarter and will target the major events.

**2. Investors presentation:** you will get the sugar-coated version here as management is trying to “sell you” the idea that the company is thriving. However, it will highlight the major event in a more graphic way. Sometimes it’s easier to understand.

**3. Earnings call transcript:** The earnings call will go deeper and if the answers aren’t enough, you will see financial analysts digging deeper for you. Once again, “CTRL+F” is your best friend to find information. You can also upload the earnings transcript into an AI model such as ChatGPT and ask it to summarize it for you.

**4. Financial statements:** If you get to this step, it’s because you are a nerd like me or because there is an itch you must scratch. This research is more applicable when you have a broader question than just the EPS trend itself. Going through the numbers will tell you the story you need to hear.

## Adjusted EPS

You will often see “adjusted” or “normalized” EPS. This number is calculated by management to show you what earnings coming from regular business operations looks like. At DSR, we use the adjusted EPS as much as possible.

For example, when TD got caught in the investigation for money laundering, the bank recorded a huge charge to pay the fine. This was seen as a one-time event and therefore taken off the adjusted EPS. While the GAAP EPS was negative, the adjusted EPS looked a lot better.

Make no mistake: the charge was real and the money was lost. However, if you want to analyze the company with a long-term mindset, it makes sense to look at the adjusted EPS trend.

## Share buybacks and share dilutions

There is one last point before concluding this newsletter: companies could reduce the number of outstanding shares and increasing EPS at the same time or increasing the numbers of share (to finance an acquisition for example) and therefore reduce the EPS.

Once again, it’s important to look at earnings and earnings per share to see what really influenced the trend. Share buyback could be quite positive for dividend paying stocks since the total dividend to be paid is less while the dividend per share could increase.



## FINAL THOUGHT: WHY USE EPS AND NOT CASH FLOW PER SHARE?

After writing an entire newsletter to help you understand how earnings and earnings per share are calculated and interpreted, one might ask: *Is there an alternative that would be better than using EPS?*

Yes and no.

Yes, as the cash flow per share would give you a clearer view of the company's ability to pay dividends in the future. It will also tell you if the company is thriving or not.

However, the cash flow per share could be quite hectic. From one quarter to another, cash flow can fluctuate greatly. If the company has new projects, it may also require financing. Therefore, the cash flow per share must be adjusted with the arrival of new capital coming from share dilution or new debt.

This is quite a challenge as we enter into the world of NON-GAAP metrics and, therefore, you must calculate them yourself.

Since we use 10 years of history in our graphs, we can see how EPS can fluctuate with a wider scope. You can "play around" with accounting rules for a few quarters, but you can't do that over 5 to 10 years. That's why you get a clear view with EPS.

You don't need to become a CPA or a CFA to understand financial statements and management's explanations on earnings. With the combination of DSR graphs and analysis plus quick research through the press releases, presentations and earnings calls, you should be able to find all the information that you need to make an informed decision.



## INVEST WITH CONVICTION (4,000+ INVESTORS TRUST DSR)

There are a lot of actions happening in the stock market. Investing has become an extreme sport and the overload of information creates paralysis by analysis. You may be tempted to wait until the storm passes.

**This is a big mistake.**

What if your portfolio has weaknesses? Do you think it's a good idea to go through a storm with a leaking boat and weak sail? As you see dark clouds gathering around the market, the best time to make modifications is now more than ever.

I understand your hesitation. After all, knowing what to sell and what to buy are two of the most common investing struggles.

Twelve years ago, I founded Dividend Stocks Rock to help people like you overcome their financial struggles and invest with conviction.

**[CLICK HERE TO GET A \\$150 LIFETIME COUPON TO DSR!](#)**

*"I must thank you again for the freedom you have provided me. I just looked at my quarter end and I was up 24% between dry powder and gains in one quarter. Man do I sleep well at night!"*

*"I started in 2020 with no stocks and now my total investments are up 400% since then, I have put a lot of money in, but I put most of it in during the bear market. It was very hard to invest more as things were dropping but I stuck with your plan and now I feel like a rockstar! I have learned when I stray from the DSR ecosystem I get burned so now I know to stick within."*

Joe, DSR PRO member since March 2020.

Investing is a lonely path. While you want to manage your portfolio, you have questions and it's hard to get clear answers.

In addition to professional investment tools, I host a **monthly private webinar** at DSR where I invite members to ask their questions in advance.

You will never feel alone in this market again.

If you have any questions about DSR, send me an email at [dividendustries@gmail.com](mailto:dividendustries@gmail.com)

I'm looking forward to connecting with you!

Cheers,

Mike Heroux

Passionate investor and Founder of [Dividend Stocks Rock](#)