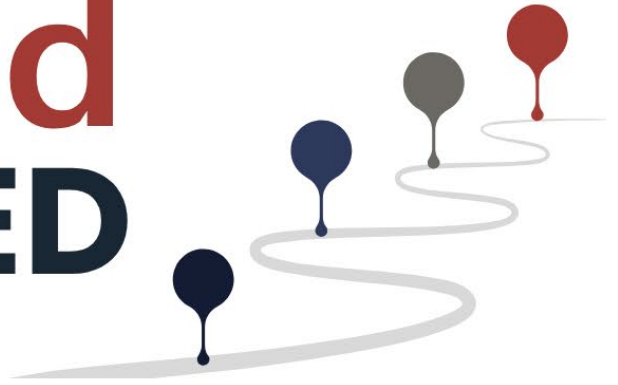


Dividend SIMPLIFIED

Quarterly Earnings



How to review your holdings

PROVIDED TO YOU BY



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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 dividendindustries@gmail.com.



HOW TO REVIEW YOUR HOLDINGS' QUARTERLY RESULTS

Buying great companies isn't enough.

When I add a stock to my portfolio, I hope to hold it “forever”. However, nothing is really forever, right?

The economy evolves, customers' tastes shift, new competitors arrive, etc.

The only way you can make sure your portfolio remains strong is to monitor your holdings quarterly. Quarterly reviews will help you avoid nasty surprises (falling knives, dividend cuts, management destroying value, etc).

Quarterly earnings reviews can seem daunting and complex. Flipping through dozens of pages, reading charts, and understanding financial jargon may be overwhelming. But it doesn't have to be this way.

This guide addresses how to go about this task so that it is not overly complicated. Making this an easier process might also make it less boring. Buckle up!

Where to find the information?

A lot of the information you need will be in the financial results press release issued by companies. DSR Pro members have access to a personalized quarterly report for the holdings in their portfolio. The report includes links to each company's press release. Often, the press release is enough, but not always. Other sources of information include:

- Presentation of the quarterly results shown during the conference call the companies hold with analysts and investors each quarter
- The transcript or recording of the quarterly conference call held with analysts
- The company's management discussion and analysis (MD&A)
- The detailed financial statements if they're not provided in the press release

You can find all these sources of information on each company's website. Most of it, if not all, will be in the **Investor Relations** section of the website.

Company websites also give you access to results for previous quarters and years. When a company's results are atypical without being explained, looking at earlier quarters might shed some light on what happened in the most recent one.



Below is part of Kohl's investor relations section of its website.

Under Investors > Financials & Filings

Access to:
Press release
Recording of investor call
Quarterly result presentation...

...and archived results of previous years

WHAT YOU'LL FIND IN THE PRESS RELEASE

Near the top of each press release, you'll frequently see quarterly highlights followed by comments from the Chief Executive Officer (CEO) and often from the Chief Financial Officer (CFO).

The quarterly highlights often omit bad metrics to focus on the positive stuff. CEO and CFO comments can provide short explanations of the results. They often comment on their confidence for the future, which is fine except that it doesn't describe or explain what happened in the last three months. Whatever they say, it's never exhaustive enough. You must read further. As you can see in the example below, the details you need usually start after the highlights and comments.



Kohl's Reports Fourth Quarter and Full Year Fiscal 2023 Financial Results

MENOMONEE FALLS, Wis.--(BUSINESS WIRE)—March 12, 2024—Kohl's Corporation (NYSE:KSS) today reported results for the quarter and year ended February 3, 2024.

Quarter highlights

- Fourth quarter net sales decreased 1.1% and comparable sales decreased 4.3%; fiscal year 2023 net sales decreased 3.4% and comparable sales decreased 4.7%
- Fourth quarter diluted earnings per share ("EPS") of \$1.67 and fiscal year 2023 diluted EPS of \$2.85
- Operating cash flow of \$789 million in fourth quarter and \$1.2 billion for fiscal year 2023
- Committed to further strengthening balance sheet and returning capital to shareholders through the dividend
- Introduces fiscal year 2024 financial outlook

CEO comment

Tom Kingsbury, Kohl's chief executive officer, said "2023 represented an important year for Kohl's. We enhanced our store experience, expanded our partnership with Sephora, and invested in underpenetrated categories. We also simplified our value strategies and implemented new inventory management processes. The early success of our strategies is evident. Our store business had its best comparable sales performance since 2010, Sephora at Kohl's continued to drive meaningful beauty sales growth, and we managed inventory down 10% at year end. I want to thank the broader Kohl's team for driving significant change to reposition the company for future growth."

"Looking ahead, we are incredibly focused on delivering comparable sales growth in 2024. Our strategic initiatives are positioned to build momentum and contribute more meaningfully, and we will partner with Babies "R" Us to meaningfully expand our presence in the baby gear category which represents a compelling white space opportunity for Kohl's. Through our collective efforts Kohl's is becoming more relevant to customers, which strengthens our conviction in our longer-term opportunity," Kingsbury continued.

You 'll see more details starting here

Fourth Quarter 2023 Results

Comparisons refer to the 14-week period ended February 3, 2024 versus the 13-week period ended January 28, 2023 unless noted otherwise

- Net sales decreased 1.1% year-over-year, to \$5.7 billion. The fourth quarter included net sales of approximately \$164 million from the 14th week.
- Comparable sales, which compare the 13-week period ending January 27, 2024 versus the 13-week period ended January 28, 2023, decreased 4.3%.
- Gross margin as a percentage of net sales was 32.4%, an increase of 937 basis points.
- Selling, general & administrative (SG&A) expenses decreased 4.0% year-over-year, to \$1.6 billion. As a percentage of total revenue, SG&A expenses were 27.0%, a decrease of 83 basis points year-over-year.

Depending on the company, the details in the press release can include financial highlights, business highlights, financial statements, and other information relevant to the type of business the company is in.

Financial highlights

Financial highlights contain a lot of numbers, including sales, comparable sales, gross margin, net income, earnings per share (EPS), etc. Usually, all these numbers are compared to what they were in the same quarter in the previous year. When looking at Q1 results, they're compared to those in Q1 of the previous fiscal year. Some press releases briefly explain why some numbers changed year-over-year (YOY).

Companies present consolidated financial highlights, which means the total of all company divisions (often called segments) or brands. Often, they'll also present the financial highlights per segment or brand, which lets you see which parts of the business are thriving, doing okay, or struggling.

Terminology Corner

Prior-year-period - Prior-year-quarter - Comparable period

They all mean the same thing, the same period last year. If in Q4 2023, "X decreased 10% over the prior-year-period", it means that X fell 10% compared to Q4 2022.



How companies organize their segments varies a lot. Segments might be geographical: North America, Latin America, EMEA (Europe, Middle East, & Africa), and APAC (Asia Pacific). They can also be based on product categories, for example, motorized recreational vehicles (RVs), towable RVs, and accessories; by client type, like retail, wholesale, or original equipment manufacturer (OEMs); or by activity, such as extraction, processing, and transport.

Business highlights

Companies often mention other business developments that occurred during the quarter. This includes opportunities for growth of revenue and profit in the future like new business agreements or contracts, expansion projects in new markets, regions, etc., and mergers with or acquisitions (M&A) of other companies. When things aren't going too well, as we've seen over the last year, they'll often mention new cost reduction or efficiency programs with fancy names all meant to improve their margins and their bottom line. You will also be able to read about investments in logistics like warehousing technology, eCommerce platform, etc.

Financial statements

Press releases usually include partial financial statements. When companies don't put them in the press release, you will find them on their website. Don't worry, you don't need an accounting degree to find what you need in financial statements; keep reading, we'll help you get there.

First, let's learn what the main financial statements are and what they show at a high level.

Statement of operations

The statement of operations shows how much money the company made in the quarter—from selling its products and services and from other sources—how much it spent doing business (cost of sales, operating expenses, interest expenses, income tax), and how much profit or loss it made. Details in this statement include:

- Sales and the costs directly associated with these sales (raw materials, production facility, labor costs for employees involved in production, freight & shipping, etc.)
- Operating expenses, which are not directly related to the sales, like Selling, General & Administrative expenses (SG&A), depreciation, restructuring costs, impairments
- Other income, i.e., not from selling products or services; this could be the company's investments elsewhere that generate income
- Interest expense from debt, and income tax paid
- Net income: profit or loss

Terminology Corner

The Statement of Operations is also known as the Income Statement or the Profit and Loss Statement.



Balance sheet

The balance sheet offers a snapshot of the company's financial position at the end of the quarter or year. It shows the company's assets, liabilities, and shareholders' equity. The fundamental equation is:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

- **Assets** are what the company owns or controls: cash, inventory, property, plant, and equipment, patents, and trademarks.
- **Liabilities** are the company's obligations or debts: accounts payable, loans, bonds, and accrued expenses.
- **Shareholders' equity** is the amount of the company's assets that belong to the owners, shareholders, or investors after subtracting liabilities. It includes common stock, retained earnings, etc.

Analysts and investors use the balance sheet to assess a company's liquidity, solvency, and overall financial stability.

Statement of cash flow

Companies might sell merchandise to a distributor or parts to an OEM on credit, meaning that they'll get paid later, often 30 days but that varies. Similarly, companies buy goods they need to run their business on credit. The statement of operations includes all revenue and expenses incurred during the quarter or year, regardless of whether the actual cash has been received or paid out. It's like me looking at the expenses I put on my credit card for the month, even though I'll only pay them next month.

To know the movement of cash in and out of a company during a period, look at the statement of cash flow. It outlines the cash flow that:

- is generated by the core operations, including cash receipts from sales minus cash payments for salaries, utilities, suppliers, etc.
- is coming in from investments, including the sale of assets such as property or equipment and the sale of stocks or bonds, etc.
- goes in and out from financing activities, such as cash coming in from new debt or new shares issued minus debt repayment, dividend payments, etc.

The statement of cash flow complements the statement of operations and balance sheet by providing stakeholders with crucial insights into the company's liquidity and cash management.



Adjusted results

Companies follow some accounting standards, or rules if you prefer, to produce their financial statements. Some of the rules relate to how value is assigned to inventory a company has on hand, how and when revenue is recognized, how to account for leases, etc.

U.S. companies follow the Generally Accepted Accounting Principles (GAAP), while Canadian and European companies use the International Financial Reporting Standards (IFRS).

Aided by these standards, companies must report expenses in the quarter that they occur. Companies often have expenses that are rare, exceptional, or that have nothing to do with the company's operational performance, but that affect their results for the period when they occur. Examples include:

- Costs to restructure part or all of a company, such as employee severance, and facility closure costs
- Expenses related to mergers, acquisitions, and integration efforts, like transaction and legal fees
- Asset impairments which are reductions in the value of assets the company owns like property, equipment, or even a brand
- Gains or losses on sales of assets, investments, or businesses
- Legal costs and settlements

If such expenses become habitual—a company is paying employee severances and legal settlements every quarter, while its brands and assets are always losing value—run for the hills!

Imagine a company whose sales have grown 10%, but it had to pay a large legal settlement in the same quarter, and it reports a loss and a loss per share. While the loss is accurate, it isn't due to poor operational performance in the quarter. Including this one-time charge when calculating results makes it difficult to compare the quarter's results with the year-ago period (the same quarter last year).



To reflect results that reflect companies' operational performance and show results that are comparable with the year-ago period, companies include adjusted results, also called non-GAAP or non-IFRS results. Adjusted results exclude these exceptional, one-time, or non-cash expenses that were reported in the formal GAAP or IFRS-compliant results.

In the press release, you could see things like "earning per share (EPS) were \$1.50 on a reported basis, and \$1.76 on an adjusted basis". You might see an "Adjustment to Net Income" table that shows the charges added back to the GAAP net income to produce the adjusted net income. Others will label this "Reconciliation from IFSR to non-IFSR".

Terminology Corner

Adjusted = non-GAAP = non-IFRS

Values (earning, income, margins, etc.) that are adjusted by excluding rare, one-time, or non-cash charges. Adjusted results are comparable to year-ago results and show a more accurate picture of operational performance.

Other information

Many companies provide other information and data in their press release, for example:

- Explanations about why sales were up or down, or why the profit margin was better or worse, etc.
- The regional breakdown of sales, profits, margins, and expenses.
- Tables listing data specific to their type of business. For example:
 - Homebuilders might show the number of lots bought and sold during the quarter
 - Restaurant chains list the number of restaurants opened and closed per region during the quarter
 - Banks might show the number of branches and ATMs
- The amount of the most recent dividend payment announced
- Whether the company bought back shares during the quarter and how much it cost.
- The company's outlook for the full year for sales, income, etc. Each quarter, it might reaffirm the outlook when things are going as expected, or lower or increase the outlook when it detects that the situation will yield lower or higher results than originally thought.

Terminology Corner

Full-year outlook = Full-year guidance

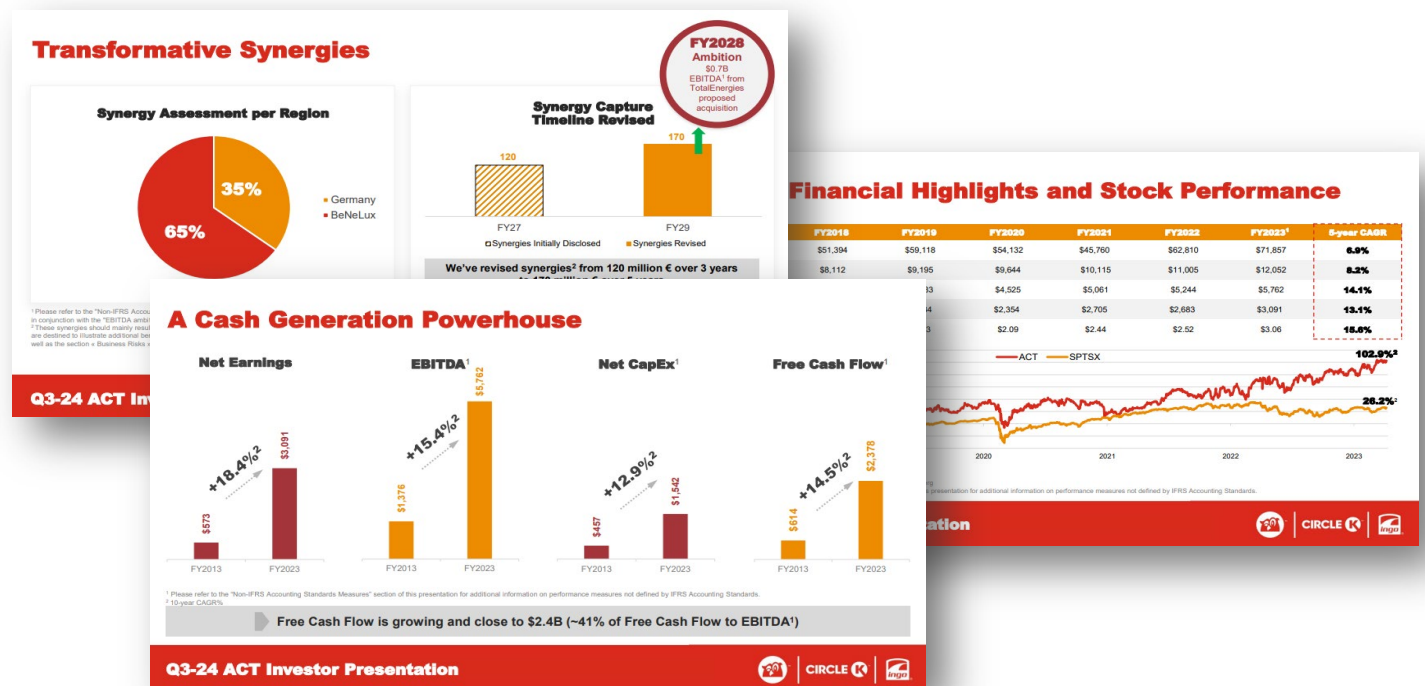
The company's prediction for its full fiscal year, revenue, margin, operating profit, net income, earnings per share, etc.



WHEN THE PRESS RELEASE ISN'T ENOUGH

If you don't find the information you need in the press release, or feel that some of it is poorly explained, you can look to other sources on the company website.

The investor presentation that was used in the quarterly results conference call can be very helpful. It often includes many graphs that make it easier to grasp some of the information.



Source: Alimentation Couche-Tard Q3'24 [presentation](#)

The management discussion and analysis (MD&A) of the results provides a wealth of information. Usually lengthy, this goes into a lot of detail about the business, competitive environment, risks and uncertainties, and the quarterly results. Often, the MD&A is accessible as a PDF on the website or in the quarterly report. It's also part of the 10-Q form U.S. companies must file with the Securities Exchange Commission (SEC) every quarter and in the 10-K form filed for the full-year results.

Finally there are the quarterly and annual reports, which include the whole shebang! Financial statements, details, comparison with comparable period, MD&A, etc.



WHAT TO LOOK FOR?

OK. You opened DSR in one browser tab, the press release in another, and perhaps even the company's investor relations website in a third tab. You're ready for your quarterly review of this company. What do you look for? What it boils down to is finding the answers to these three questions:

1. Is the company growing its revenue, profits, and dividends?
2. Is the dividend safe?
3. What's in store for the future of the company?

1 – REVENUE, PROFITS, AND DIVIDEND GROWTH?

The press release always mentions the latest revenue and profit figures, and usually the quarterly dividend paid or the one approved for the next payment. To know whether the company's revenue and profit are growing, compare them with the values in the prior-year period, e.g., Q1'24 vs, Q1'23. This is necessary because many companies see a lot of variation in their sales:

- between seasons: no one goes skiing in summer, and golf courses are pretty quiet in winter.
- due to events: some industries see their sales soar in the back-to-school period, others before the Holiday Season, while gyms sell more memberships in January 🧘.
- between their product categories: Canadian Tire and Home Depot sell more garden center inventory starting in spring, but snowblowers, seat warmers, and shovels in late fall. Depending on which products have higher margins, profit also varies seasonally.

It's sometimes useful to compare some metrics in sequential periods, meaning from Q1 to Q2, rather than Q2 to Q2. For example, some companies that did very well during the pandemic, RV manufacturers for example, might have lower revenue in Q2'23 compared to Q2'22 because Q2'22 was exceptionally good due to that rare event. They might add to the press release that their revenue did increase sequentially, from Q1'23 to Q2'23, to indicate a growth momentum.

Compare revenue results

Is it revenue or sales? Aren't they the same? They often are. Sales is the money a company makes by selling its products and services to customers before subtracting any of its expenses. Revenue includes sales and any money coming from sources other than selling products and services. This can include interest earned on investments, the proceeds of selling assets such as equipment or property, royalty or franchise fees paid to the company, etc. So, if a company's revenue comes exclusively from selling goods or services, the revenue and the sales are the same number.

Terminology Corner

Revenue = Sales + Other revenue
not from sales (if any)

In press releases, you'll notice some companies refer to their revenue, others to their sales, presumably because their revenue comes exclusively from sales.

Comparing revenue with the prior-year period shows if the company managed to grow its sales. What is a good growth percentage? It depends on the industry and the company.

- First, let's say that double-digit growth is always strong growth that should please you as an investor. However, for a company that grew its sales by nearly 20% for a while, because it keeps buying other companies, 12% growth might feel disappointing.
- Single-digit growth is progress and might be satisfactory in some industries, for example, grocery stores. Their sales don't grow by leaps and bounds unless they buy another company, open a bunch of stores, or a pandemic leads to lockdowns. Single-digit growth might be disappointing for companies or industries where we see higher numbers, for example, Microsoft (MSFT), Nvidia (NVDA), or Constellation Software (CSU.TO).
- Declining revenue is not good, but it doesn't mean the company's going bankrupt and that you should sell. It could be a blip on the radar.

From reading the press release, or your DSR Pro quarterly report, you know how the revenue grew, or shrunk, compared to the prior-year period. Great, but not enough. It's time to look at the progression of revenue sequentially over the last three to five years. The trend is your friend. It helps you put the recent result in a bit of context.

You'll see whether the last result, good or bad, is unusual, a blip, or well within the trend of the last few years (business as usual). There could be a valid and understandable reason for a blip. A sharp upward trend could signal a growing company with momentum; a steady upward trend can point to a stable company that's executing well; a downward trend over a year or more could be worrisome (or alarming).



Some terminology around revenue

We've already mentioned that financial press releases and reports present what is called consolidated revenue (or sales) and often revenue by segment.

Looking at revenue by segment—and other metrics by segment such as margins, earnings, etc.—reveals which regions, products, or brands are growing and doing well and which are struggling more.

Other terms you will come across often are organic sales, comparable sales, and same-store-sales (SSS). All three provide insight into the company's ability to grow its revenue from existing operations but with slightly different perspectives.

Organic sales are the revenues generated from a company's core business activities. They exclude revenue from companies acquired or divested, and from other external factors. It represents the growth or decline in sales that occurs naturally through a company's existing operations.

Comparable sales and same-store-sales are often used interchangeably, but there is a subtle difference between them:

- **Comparable Sales:** the revenue generated by a company's established locations or units over a specific period, usually compared to the prior-year period. It excludes revenue from newly opened or closed locations and provides insight into the performance of existing operations. It's different from organic sales as it compares the performance of existing locations or units over time, excluding the impact of new or closed locations. It might include revenue from acquisitions if the acquired locations were already in operation in the previous year, but not revenue from changes in store locations.
- **Same-Store-Sales (SSS):** the revenue growth or decline for individual existing store locations that have been open for a certain period, usually a year or more. It's a more granular view of how well individual locations are performing over time. It excludes revenue from newly opened or closed stores to isolate the performance of established locations.

Terminology Corner

Consolidated revenue = total revenue for the company, including revenue from divisions

Revenue by segment = revenue for each of the company's divisions. Divisions might be set up geographically, by product categories, by market, by brand, etc.



Compare Profit Results

The guidelines already mentioned for comparing revenue also apply to comparing profits:

- Compare profits with those of the prior-year period
- Look at the profit trend over 3 to 5 years of sequential quarters to see the story told by the most recent results. Anomaly? Blip? Business as usual?

Generally, the word *profit* refers to the bottom line, or the money left over after paying all expenses. Companies that have a lot of profit are well-positioned to reinvest money in the business to expand operations, acquire competitors or complementary businesses, and give shareholders generous dividend growth!

Terminology around profit

Here again, terminology can be very confusing: do you look for “profit”, or earnings, earnings per share (EPS), adjusted EPS, operating income, net income, EBIT, EBITDA—aaargh, right? Let’s sort this out.

Earnings

First, the word “earnings”, used alone, is a broad term that refers to the profits a company makes and it can encompass different measures of profitability such as net income, operating income, or EBITDA. Some people use it interchangeably with net income but remember that it’s not always the case.

Net Income and Operating Income

Net income, however, is more precise. It’s the company’s bottom line, the money left over after covering all its expenses:

$$\text{Net Income} = \text{Total Revenue} - \text{Total Expenses}$$



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Operating income is the profit generated from the company's core operations: it's the company revenue minus the cost of goods or services sold and operating expenses.

Cost of goods sold (COGS) includes all costs directly related to the production of the goods and services sold such as raw materials, production facilities, freight, compensation of employees directly involved in production, etc.

Operating expenses are all costs associated with running the day-to-day operations. They include Selling, General & Administrative (SG&A) expenses—sales commissions, advertising & marketing, distribution, and shipping expenses—plus general operating and management costs not tied directly to production or sales activities, e.g., salaries for administrative staff, office rent, utilities, legal fees, accounting fees, etc. Also included are depreciation and amortization, maintenance, repairs, and more. Operating expenses do not include interest expenses, taxes, or other non-operating expenses.

Gross Profit, Operating Income, and Net income calculations

Total Revenue

Minus: Cost of goods sold

= Gross profit

Minus: Operating expenses

= Operating income

*Minus: Non-operating expenses
(interest, taxes, etc.)*

= Net income

Earnings per share (EPS): Basic, Diluted, & Adjusted

One of the most used metrics to track profitability is earnings per share (EPS). That's the one you see in the dividend triangle at DSR. Press releases usually provide this metric and compare it to the prior-year period. In the DSR stock cards, in the dividend triangle, you see the EPS for the trailing twelve months, which is the sum of the EPS reported over the last twelve months. Since most companies report results quarterly, the numbers in the dividend triangle are the sum of the EPS for the four most recent quarters.

Basic EPS is the portion of the company's profit allocated to each outstanding share of its common stock. It is calculated by dividing the company's net income (after deducting preferred dividends, if any) by the weighted average number of outstanding shares during a specific period.

$$\text{Basic EPS} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average Number of Outstanding Common Shares}}$$

What's this weighted average number of shares business? Simply that during a 3-month or year-long earnings period, the number of common shares of a company might change. The company could buy back shares or issue new shares to raise capital. To calculate EPS, a weighted average number of shares is used.

Diluted EPS is calculated using a **Weighted Average Number of Outstanding Common Shares** that is adjusted to include convertible bonds, convertible preferred stock, and stock options, which are securities that could be converted into common stock in the future. Diluted EPS is more precise than the basic EPS.

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Adjusted EPS, as explained [earlier in this newsletter](#), is a non-GAAP metric that excludes one-time or exceptional expenses and gains. Adjusted EPS makes it easier to compare the EPS with the prior-year period EPS, by excluding these unusual expenses that muddy the waters. It is the most accurate measure of a company's real financial health and performance. Adjusted EPS is sometimes called normalized or non-GAAP EPS.

EBIT and EBITDA

No need to concern yourself too much with this alphabet soup. If you compare and look at the trend for net income over time, (diluted) EPS, and adjusted EPS, you're good, with a few exceptions we'll mention in a bit. However, if you've seen these acronyms and wondered what they are, here's your answer.

Both are financial metrics for assessing a company's profitability, but they differ in the expenses they include and exclude:

- EBIT is Earnings Before Interest and Taxes. Mathematically, it's the same as the operating income we saw earlier.
- EBITDA is Earnings Before Interest, Taxes, Depreciation, and Amortization. It's calculated by adding interest, tax, depreciation, and amortization expenses to net income. It's a non-GAAP metric that is often reported in quarterly results.

Terminology Corner

Earnings per Share (EPS)

Diluted EPS = considers securities that could be converted into common shares

Adjusted EPS / Normalized EPS / non-GAAP EPS = excludes one-time exceptional expenses and gains that affect comparability of results



When EPS is misleading

For some industries, EPS, while accurate, can also mislead investors. For companies that require large amounts of capital to build, maintain, and expand their infrastructure. Examples include pipelines, utilities, and telecommunications companies. They invest a lot of money in infrastructure. These capital expenditures are called CAPEX for short. We refer to industries like energy and telcos as “capital-intensive” industries.

Why does that matter and what does it have to do with EPS?

While these businesses do spend a lot of money in CAPEX, and often borrow to do so, CAPEX are investments they expect will pay off. They invest in new projects and asset maintenance to generate more revenue and profit in the future. If it's money borrowed at 6% but from which a 12% return is expected, it's something worthwhile for investors down the line. Now, the assets on which CAPEX is spent depreciate bit by bit over their useful life. That depreciation (or amortization) is a non-cash expense that reduces net income and therefore reduces EPS. Interest paid on borrowings for CAPEX investments are also expenses that affect EPS.

In the figures below, found in Enbridge's [consolidated statements of cash flows for the fiscal year 2023](#), we've highlighted the non-cash depreciation, amortization, and impairment charges that are subtracted from revenue to calculate EPS. Also shown is where you find the CAPEX and new debt for the year.

Terminology Corner

CAPEX = Capital Expenditures

Money invested to build, maintain, and expand the infrastructure through which a company sells its products or services, e.g. cell towers, pipelines, electricity distribution, etc.



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Year ended December 31, (millions of Canadian dollars)	2023	2022	2021
Operating activities			
Earnings	6,058	2,938	6,314
Adjustments to reconcile earnings to net cash provided by operating activities:			
Depreciation and amortization	4,613	4,317	3,852
Deferred income tax expense (Note 24)	1,420	957	1,091
Unrealized derivative fair value (gain)/loss, net (Note 23)	(1,180)	1,280	(173)
Income from equity investments (Note 13)	(1,816)	(2,056)	(1,600)
Distributions from equity investments	1,998	1,827	1,630
Impairment of long-lived assets	419	541	—
Impairment of goodwill (Note 15)	—	2,465	—
Gain on joint venture merger transaction (Note 13)	—	(1,076)	—
(Gain)/loss on dispositions (Note 13)	—	—	—
Other	—	—	—
Changes in operating assets and liabilities	—	—	—
Net cash provided by operating activities	—	—	—
Investing activities			
Capital expenditures	(4,654)	(4,647)	(7,818)
Long-term, restricted and other investments	(1,276)	(1,041)	(640)
Distributions from equity investments in excess of cumulative earnings	1,151	763	533
Additions to intangible assets	(222)	(174)	(275)
Acquisitions	(954)	(828)	(3,785)
Proceeds from joint venture merger transaction (Note 13)	—	522	—
Proceeds from dispositions	—	—	1,263
Net change in affiliate loans	(27)	135	65
Other	(61)	—	—
Net cash used in investing activities	(6,043)	(5,270)	(10,657)
Financing activities			
Net change in short-term borrowings	(1,596)	481	394
Net change in commercial paper and credit facility draws	(8,157)	(1,333)	2,960
Debt and term note issues, net of issue costs	15,377	7,547	8,032
Debt and term note repayments	(4,819)	(4,198)	(2,264)
Sale of noncontrolling interest in subsidiary (Note 8)	—	1,092	—
Contributions from noncontrolling interests	11	13	15
Distributions to noncontrolling interests	(363)	(259)	(271)
Common shares issued, net of issue costs	4,450	3	5
Common shares repurchased	(125)	(151)	—
Preference share dividends	(352)	(338)	(367)
Common share dividends	(7,276)	(6,968)	(6,766)
Redemption of preference shares	—	(1,003)	—
Redemption of preferred shares held by subsidiary	—	—	(415)
Net change in affiliate loan	71	—	—
Other	(85)	(314)	(87)
Net cash provided by/(used in) financing activities	(2,864)	(5,428)	1,236

Such companies' earnings are often weakened by their capital-intensive business model. Since their heavy non-cash items like depreciation don't affect the amount of cash available, they often provide another non-GAAP metric in their results, alongside EPS, which is one of the following:

- Distributable Cash Flow (DCF) and DCF per share.
- Funds from Operations (FFO) per share and adjusted Funds from Operations (AFFO) per share.

Companies that use DCF per share or FFO/AFFO per share will explain that somewhere in their results, and explain the calculation, i.e. the adjustments made to EPS to come up with the alternative metric.



DCF per share

Take Enbridge for example. Its EPS is often distorted due to its heavy non-cash items and CAPEX. Its [quarterly presentation](#) provides the adjustments made to come up with the distributable cash flow (DCF) and DCF per share. Notice the difference in value between adjusted EPS and DCF per share.

2023 Financial Results

	Q4		YTD	
(\$ Millions, except per share amounts)	2023	2022	2023	2022
Liquids Pipelines	2,393	2,327	9,543	8,908
Gas Transmission & Midstream	1,084	1,117	4,398	4,417
Gas Distribution & Storage	519	467	1,873	1,856
Renewable Power Generation	141	122	531	522
Energy Services	(27)	(62)	(101)	(364)
Eliminations and Other	(3)	(60)	210	192
Adjusted EBITDA¹	4,107	3,911	16,454	15,531
Cash distributions in excess of equity earnings	149	254	464	407
Maintenance capital	(270)	(354)	(918)	(820)
Financing costs ²	(1,061)	(969)	(4,080)	(3,580)
Current income tax	(166)	(204)	(561)	(595)
Distributions to Noncontrolling Interests	(81)	(75)	(363)	(259)
Other	54	100	271	299
Distributable cash flow¹	2,732	2,663	11,267	10,983
DCF per share¹	1.28	1.31	5.48	5.42
Adjusted earnings per share¹	0.64	0.63	2.79	2.81

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FFO and AFFO per share

Other companies present Funds from operations (FFO) per share and Adjusted funds from operations (AFFO) per share in addition to EPS. This is the case with most Real Estate Income Trusts (REITs).

FFO adds depreciation and amortization (non-cash charges) back to net income, and subtracts gains from property sales.

$$\text{FFO} = \text{Net Income} + \text{Depreciation (Amortization)} - \text{Proceeds from Property Sales}$$

REITs often invest in property maintenance, improvements, and acquisitions to maintain and grow their portfolios. This means substantial CAPEX isn't adequately captured in the FFO. That's when the Adjusted Funds from Operations (AFFO) metric can help. It's the FFO minus the CAPEX.

$$\text{AFFO} = \text{Net Income} + \text{Depreciation (Amortization)} - \text{Proceeds from Property Sales} - \text{CAPEX}$$

FFO and AFFO per share aren't only used by REITs. Below is a table from [Capital Power's Q4'23 report](#). It shows both Basic and adjusted EPS, both the same value, that are calculated using net income. Also shown in the AFFO per share which is different due to the adjustments made.

Operational and Financial Highlights¹

(unaudited, \$ millions, except per share amounts)	Three months ended December 31		Year ended December 31	
	2023	2022	2023	2022
Electricity generation (Gigawatt hours)	8,692	8,049	32,487	28,573
Generation facility availability	93%	90%	95%	93%
Revenues and other income	984	929	4,282	2,929
Adjusted EBITDA ²	313	303	1,455	1,353
Net income (loss) ³	95	(99)	737	128
Net income (loss) attributable to shareholders of the Company	97	(98)	744	138
Basic earnings (loss) per share (\$)	0.74	(0.91)	6.07	0.85
Diluted earnings (loss) per share (\$)	0.74	(0.91)	6.04	0.84
Net cash flows (used in) from operating activities	(18)	42	822	935
Adjusted funds from operations ²	162	140	819	848
Adjusted funds from operations per share (\$) ²	1.38	1.20	6.99	7.28
Purchase of property, plant and equipment and other assets, net	244	179	723	682
Dividends per common share, declared (\$)	0.6150	0.5800	2.3900	2.2550

It's advisable to review FFO/AFFO per share, rather than the total amount of FFO or AFFO. Since REITs tend to issue new units, or shares, more often than other industries to finance their expansion, you could see robust growth in the overall FFO or AFFO that might not be as great on a per-share basis if more and more units are in the hands of shareholders.

What about margins?

Margins are the difference between revenue and expenses expressed as a percentage of revenue. Good metrics to look at when reviewing company results, or when investigating what caused their results, are gross margin and operating margin.

Gross margin is what is left of the revenue after paying the costs of goods sold (COGS). In other words, the gross margin is:

$$\text{Gross Profit} / \text{Revenue} * 100$$

Growing gross margins could indicate that a company is getting more efficient at producing or selling goods. Perhaps it found cheaper suppliers, negotiated better prices, or cut waste and inefficiencies. Perhaps costs went down because of lower energy prices. It could also simply be that they increased their prices to consumers or a bit of both.

Operating margin measures the profitability of a company's core business operations. It's what is left of the revenue after deducting operating expenses. In other words, the operating margin is:

$$\text{Operating Income} / \text{Revenue} * 100$$

A deteriorating gross margin will affect the operating margin, as will increasing selling, general, and administrative expenses (SG&A).

Compare dividend payments

Compare the quarterly dividend most recently paid with the one paid in the previous sequential quarter, i.e., compare the Q4 dividend to Q3, Q3 to Q2, Q2 to Q1. If the next dividend to be paid is announced in the quarterly press release, compare that one. Did it increase or not? If not, did it increase in the last year? Did the increase at least match inflation? You can google "inflation rate Canada / U.S." to get the latest data. A yearly dividend increase that at least covers inflation is a must for a dividend growth investor.

Look at the dividend growth over the last five years in the dividend triangle on the DSR stock cards. Is the dividend growth steady, accelerating, or slowing down?

Gross Profit, Operating Income, and Net income calculations

Total Revenue

Minus: Cost of goods sold

= Gross profit

Minus: Operating expenses

= Operating income

*Minus: Non-operating expenses
(interest, taxes, etc.)*

= Net income



2 – IS THE DIVIDEND SAFE?

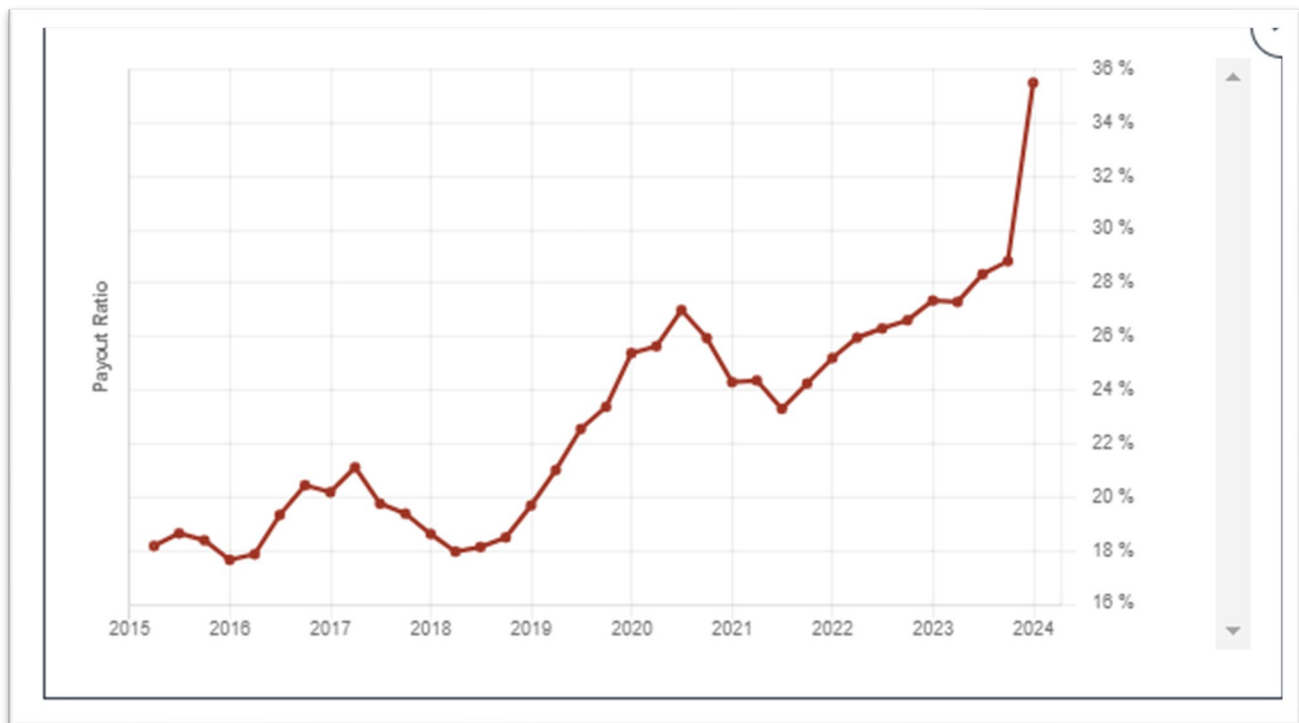
Now that you know whether a company's revenue, profit, and dividend are growing and what the trends are for the three metrics, time to look at whether the dividend payment is safe.

State of the dividend growth

After looking at the dividend growth over five years in the dividend triangle you know whether the dividend growth is steady, accelerating, or slowing down. A trend of slowing dividend growth is the first sign of a dividend cut in the future. But you should always investigate a bit more.

Payout ratio

Next, look at the payout ratio. The payout ratio is the dividend paid per share divided by EPS, multiplied by 100. It tells you how much of the profits the company pays out in dividends. If the ratio is above 100, it's paying out more in dividends than it makes in profits. This could be explained by one or a few unusually poor quarter(s), due to an economic slowdown, or one-time charges that are not likely to happen again. Then again, it could be that the company is not doing great; if it doesn't turn things around, it won't be able to sustain its dividend let alone dividend growth!



Different industries have different levels of usual payout ratios. Many companies' payout ratios are very low because they pay a low yield. They prefer to keep their profits to fund expansion and acquisitions. The trend is your friend, remember? Look at the payout ratio over several years to see if it's within the usual range for the company, or on an upward or downward path. You'll find the ten-year graph of a company's payout ratio in the DSR stock card, in the **Dividend Growth Perspective** section.



We've explained earlier that for some industries, EPS can be misleading, notably in capital-intensive industries. The classic payout ratio is calculated using EPS, therefore isn't a good metric to consider for these industries. This is also the case for REITs because they are obligated to distribute 90% of their profit in distributions to shareholders. That means REITs' payout ratios are often near or exceed 100%.

Instead of using the classic payout ratio to see if the company can afford to keep paying and increasing its dividend, use the correct payout ratio. There are several ratios for different industries and situations:

- **Cash Payout Ratio** is based on cash flow and removes CAPEX from the calculation.
- **Distributable Cash Payout Ratio** is based on the distributable cash flow (DCF) per share, [described earlier](#).
- **Funds from Operations or Adjusted Funds from Operations (FFO/AFFO) Payout Ratio** are based on the FFO per share and AFFO per share [explained here](#).

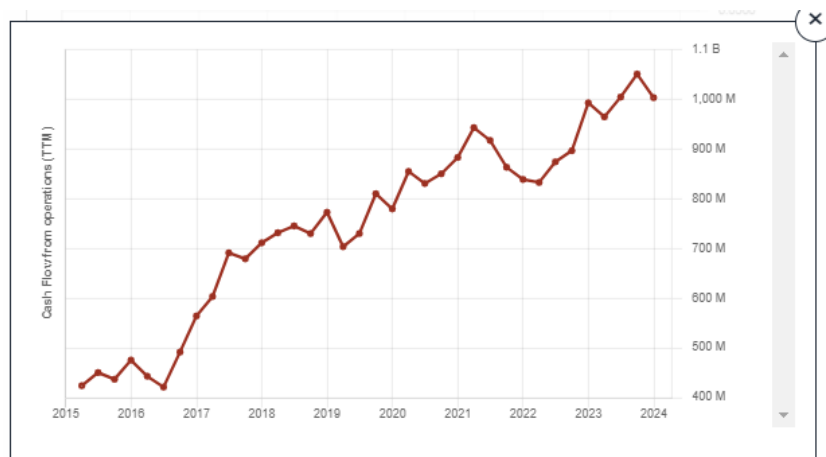
Payout ratios are explained in greater detail in our [Read All Payout Ratios Like a Pro!](#) Guide.

Cash from operations

Cash from operations, also called operating cash flow, is how much cash the company generates from its normal operations. It gives a cold, hard picture of what's going on in the company's operations and it's difficult for management to manipulate compared to net income. Companies that generate increasing amounts of cash from operations are in a good position to keep paying and increasing their dividends.

You can see the ten-year graph of cash from operations in the DSR stock cards in the **Dividend Triangle** section.

So, you don't have to calculate the value, but in case you're curious, here's the formula for calculating cash from operations.



$$\text{Cash from operations} = \text{Net Income} + \text{Non-Cash Charges} + \text{Changes in Working Capital}$$

Terminology Corner

Payout Ratio

Percentage of profits the company uses to pay dividend.

$$\text{Dividend Paid} / \text{EPS} * 100$$

For some industries, use payout ratios that calculated using DCF, FFO/AFFO per share rather than EPS.



Where:

- **Net Income** is the accounting profit, from which non-cash items were subtracted.
- **Non-cash charges** include capital appreciation or depreciation, amortization, investment gains or losses, and other charges that don't involve a cash payment. Such charges reduce the company's net income and EPS, but not the cash in its bank account.
- **Changes in working capital** refers to the change in the difference between current assets and current liabilities.

For an in-depth look at cash flow, see [It's All About Cash Flow – Master This Concept and Avoid Bad Surprises](#).

3 – WHAT'S IN STORE FOR THE COMPANY'S FUTURE?

You've reviewed the company's financial results, compared them with the appropriate period, and looked at the trends over five years. You know how the company performed recently and whether that was business as usual, really good, or bad. You also have a good idea about the dividend's safety. What you don't know, is what the future holds for the company. Can it keep growing as it has? Can it turn around a bad situation?

It's time to read the company's story. Read the press release, investors' presentation, quarterly or annual report, or MD&A (you won't necessarily have to read all of these, but maybe peruse more than one). Look for announcements or information about the following:

- Mergers and acquisitions: buying or merging with other companies brings challenges but also growth opportunities.
- Divestitures: companies getting rid of non-productive assets can improve their future results.
- Is the company launching new products or product categories?
- Is the company expanding geographically or into related businesses?
- CAPEX amounts: is the company investing a lot in its infrastructure? Will it likely bring revenue growth?
- How much new debt is the company assuming? Is it repaying some of its debt?
- Is the company buying back shares or renewing their share repurchase authorization? When companies buy back shares, it reduces the number of outstanding shares in the hands of shareholders. This can increase earnings per share. Conversely, companies issuing more shares to get capital are diluting the EPS with more outstanding shares.
- What is the company's outlook for the full year, or the new year? Is it anticipating growth? Has it revised its earlier outlook for better or worse? A company increasing its outlook for revenue or profit is confident about the near future whereas one revising its outlook downwards might be facing challenges.
- Is it implementing cost-cutting or efficiency programs to improve profitability?

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WHAT YOU'LL SEE IN COMPANY RESULTS

In a perfect world, your quarterly review of a company would reveal revenue and profits that are growing from the year-ago period with a steady or exponential upward trend. It would also show steady yearly dividend increases and dividend increases that are themselves growing.

If you see such results and trends, it's still a good idea to read a bit more to see if this ideal situation is sustainable. For example, revenue might be going up for a REIT because they sold properties. In the long run, however, this could reduce their revenue potential unless they are selling poor assets and replacing them with higher-quality assets. A growing dividend is a piece of good news for you, although less so if the payout ratio is on the rise, the cash from operations is on a downtrend, and opportunities for growth in the future are slim.

Often, one metric or trend is better than the others, or one is worse than the others. For example, sales are falling or stagnating but EPS is going up, or the opposite. Or sales and EPS aren't doing great, but the dividend increases. Again, investigating by reading more about the results and the longer-term landscape is how you'll make sense of this.

One or a few quarters of unusual results, e.g. sales rising or falling dramatically, EPS surging or plummeting, or a huge dividend increase, isn't a trend, yet. Find the cause(s) of the anomaly as this lets you assess whether it's a one-time thing, not likely to reoccur, an operational or strategic problem the company is addressing, a normal industry-wide situation, or a source of concern. Knowing this, you can wait for and monitor the next results to see the trend developing. Then you'll be able to make the right decision. Perhaps the company will turn things around and thrive again or the industry will recover, or not.

Factors affecting results

Below are some of the factors you might read about in quarterly or annual results that influence company results.

Impairment charges

Impairment charges occur when an asset's value has decreased, either due to external factors or changes in the company's circumstances, and the decrease is recognized as an expense on the statement of operations.

Impairment charges are common for long-lived assets (e.g., property, plant, and equipment), intangible assets (e.g., patents, trademarks), goodwill (the premium paid for acquiring another company above its net asset value), and investments in equity securities.

Impairment charges can be one-time charges or recur over several periods, for example, when they are due to ongoing factors such as changes in market conditions or technological obsolescence.

compared to \$10.19 in fiscal 2022. Fiscal 2023 results include noncash impairment charges totaling \$114 million, or \$5.32 per share, which are primarily associated with the Johnny Was reporting unit. On an adjusted



Acquisitions and divestitures

Companies spend money to acquire other companies. They might have to take on more debt to do so which will affect results. However, an acquired company can add a significant amount of revenue and hopefully profit very quickly. The example below shows a 36% increase in sales (whoa!) fueled by an acquisition; excluding that acquisition, sales grew only 6%.

Net sales increased \$455.6 million to \$1,732.1 million, up 36 percent versus the prior year quarter, with the current year quarter including \$375.8 million of incremental sales attributable to the consolidation of the financial results of Lamb-Weston/Meijer v.o.f., the Company's former joint venture in Europe ("LW EMEA"), following the completion of the Company's acquisition in February 2023 of the remaining interest in LW EMEA (the "LW EMEA Acquisition").

Net sales, excluding the incremental sales attributable to the LW EMEA Acquisition, grew 6 percent versus the prior year quarter.

Divestitures occur when companies sell or dispose of assets, subsidiaries, divisions, or businesses. It's a strategic decision to streamline operations, focus on core businesses, reduce debt, raise capital, or respond to changes in the market or regulatory environment. It could mean some lost revenue in the short term. Often, companies get rid of some brands or locations that weren't doing all that well, so it might help the results in the longer term.

Net sales for the third quarter of 2023 decreased \$25.7 million, or 4.9%, to \$502.7 million from \$528.4 million for the third quarter of 2022. The decrease was primarily attributable to a decrease in unit volume and the Back to Nature divestiture. Net sales of Back to Nature, which the Company divested on January 3, 2023, and therefore not part of the Company's fiscal 2023 results, were \$10.2 million during the third quarter of 2022².

One-time events

One-time events are unusual and not likely to recur over and over. Examples include the payment of a legal settlement, temporary interruption or reduction in production due to unforeseen events such as storm damage or forest fires, or a product recall. Restructuring charges incurred to reorganize a company, including severance packages for laying off employees, costs for early termination of leases, etc. All of these examples can make revenue and profits decline.

Other one-time events can inject additional revenue, for example, selling assets like property.

quarter 2023 results include approximately \$6.2 million of costs, including insurance deductibles relating to approximately 750 hail-damaged vehicles, or \$27 million in inventory value, and property, and business disruption which occurred from the severe storms that impacted our operations. The Company's results for the third quarter of 2023



Disruptive events and situations

Many events are disruptive to individual companies or entire industries and play a role in sales, profits, and possibly dividend growth. Examples include:

- Recessions or economic slowdowns affect all sectors, some more than others. Demand for discretionary goods shrinks, banks increase their provisions for credit losses (PCLs), and consumers go for lower-cost alternatives for many purchases, which are often lower-margin items for companies selling them.
- Labor shortages or labor disputes reduce a company's production, which ripples to revenue and profits.
- Supply chain disruptions: just think about the pandemic, the Suez Canal being blocked by a stuck ship, and shortages of materials or components.

Cost increases and decreases

Costs that are increasing or decreasing greatly affect profit. Even if the quantity of units sold is maintained or increases, more expensive input costs, salaries, fuel, freight, etc., can reduce margins and chip away at the profits. Financial press releases usually mention which costs increased or decreased, to explain changes in margins.

Inflation affects all costs of doing business, from input materials to labor, advertising, administrative costs, shipping, and more. In the last few quarters, we've seen many companies report the impact of inflation on their costs; many implement what they call "pricing actions", which sounds nicer than it is—they've increased the prices they charge customers—to limit the impact of inflation.

Sometimes the increase or decrease is limited to the cost of goods sold (COGS) which includes input materials, labor directly associated with producing the goods sold, manufacturing overhead, inventory costs, cost of goods purchased for resale, production supplies, shipping, and freight. When oil prices go down, shipping, freight, and many other costs go down. When harvests of specific grain or produce are plentiful, input costs drop for some food transformation and processing companies.

As a company gets more assets, its depreciation & amortization charges rise. If they sell non-productive assets, these charges decline. While they are non-cash charges, they do affect EPS. Companies might increase their spending on advertising and promotional activities to drum up more sales or push new products. Advertising and promotions are part of the selling, general & administrative expenses (SG&A) you'll come across in press releases and financial reports.

Other SG&A expenses that can fluctuate are the general expenses to keep the company running such as rent, utilities, insurance, legal fees, general management, R&D, training expenses, and professional services of consultants and advisors.



Deleveraging of fixed costs

Many costs are fixed, meaning that they are paid regardless of how many cars, canned goods, or smartphones the company produces, or how much merchandise a railway or trucking company transports, or how many loans a bank completes. They are also costs that remain pretty constant regardless of production or sales going up or down. Examples include legal services, administrative staff compensation, insurance, and rent and utilities for administrative and management services.

When a company produces or sells less of whatever it is it sells, these fixed costs per unit increase because they are spread over fewer units. The company experiences deleveraging of its fixed costs. The reverse is true; when quantities sold increase, fixed costs per unit fall. You might see press releases explaining that some of the profit decline is due to “fixed cost deleveraging on lower sales volume”.

Consumer demand

Consumer demand fluctuates due to many factors: the general state of the economy, interest rates, inflation, unemployment rates, and consumer confidence, to name only a few. A bad quarter or two for a company might just be due to one of these causes. For example, with the effect of higher interest rates making their way through mortgages as they are up for renewal, and indications we’re headed for a soft landing or a recession, you can expect consumer discretionary companies to report poorer results for a while. When people feel the pinch, they’ll stop buying their \$6 coffee at Starbucks and buy less non-essential goods at Home Depot or Canadian Tire.

Sometimes demand fluctuates wildly due to one-time major events. For example, the pandemic saw record sales for recreational vehicle manufacturers, but demand has fallen dramatically since then. Most folks who want an RV have one, and those who don’t can buy them slightly used from people who bought them to travel when hotels were closed and don’t want them anymore.

Changing tastes or societal changes also affect demand and can kill entire industries: eCommerce disrupted brick-and-mortar retail, streaming services killed video stores, work-from-home hurt office REITs, and climate change concerns are bringing electric vehicles (EVs) and clean renewable energy to the forefront.

Debt burden

A company's debt burden affects its profitability and its ability to keep increasing or simply paying a dividend. Companies have short-term debt, which is due within one year or less, and long-term debt, which is due over a period longer than a year. The table below summarizes the differences between these.

	SHORT-TERM DEBT	LONG-TERM DEBT
PURPOSE	Finance immediate operational needs, e.g., inventory purchases, payroll, or covering short-term cash flow gaps.	Finance major investments or CAPEX, e.g., purchasing equipment, acquiring other companies, or financing long-term projects
TYPES	Can include bank loans, lines of credit, commercial paper, trade payables, and short-term notes payable. You'll also see the term <i>revolving credit</i> , which is like a credit card for a company.	Can include bank loans, corporate bonds, mortgages, and long-term notes payable. Other types of long-term debt: debentures, convertible debt, secured debt
RISKS & ADVANTAGES	Usually at lower interest rates than long-term debt. Can pose a higher liquidity risk since it must be repaid relatively quickly.	Usually at higher interest rates than short-term debt due to the longer repayment period. Offer stability and lower liquidity risk because the maturity period of several years to decades grants companies extended repayment periods and predictable cash flow obligations.

The balance sheet shows you both the short-term and long-term debt. You'll find more in-depth information about the long-term debt, including interest rates and terms, in the company's quarterly/annual report or MD&A.

Liabilities		
Current liabilities	<i>Short-term debt is under "Current Liabilities"</i>	
Accounts payable and accrued liabilities	5,287.9	4,499.4
Short-term provisions	145.0	147.9
Other short-term financial liabilities (Notes 3 and 11)	100.2	0.8
Income taxes payable	7.1	79.6
Short-term debt and current portion of long-term debt (Note 6)	2,162.9	0.7
Current portion of lease liabilities	503.2	438.1
	8,206.3	5,166.5
Long-term debt (Note 6)	8,376.0	5,888.3
Lease liabilities	3,648.5	3,146.5
Long-term provisions	685.8	647.7
Pension benefit liability	90.0	85.1
Other long-term financial liabilities (Notes 3 and 11)	299.8	93.8
Deferred credits and other liabilities	209.7	182.1
Deferred income taxes	1,378.3	1,283.9
	22,894.4	16,493.9

Long-term debt is separate from short-term

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It's good to investigate companies' long-term debt: are they adding a lot to it and if so, why? Are they paying down their debt? Taking on debt to finance projects or expansion that will grow revenue and profit is often worthwhile. When interest rates rise, however, it gets more expensive for companies to add new debt, which chips away at the return on such investments.

DSR stock cards provide a graph showing the evolution of companies' long-term debt; go to the **Potential Risks** section.

Investigate the causes of results

This table presents a few scenarios you will come across as you review the financial results of your holdings. For each scenario, we offer some possible causes or factors to look into. Neither the list of scenarios nor the possible causes are exhaustive, but they might help you to look at the right place for answers and to develop your results analysis muscles.

SCENARIO	POSSIBLE CAUSES
Sales are down or stagnating, but EPS is rising	<ul style="list-style-type: none"> Company improved its margins: lower cost for goods sold, SG&A, and other expenses. Company increased its prices. Company bought back shares, causing EPS to go up as net income is divided by a lower number of shares.
Sales are growing but EPS is shrinking	<ul style="list-style-type: none"> Margins are thinning due to higher costs somewhere. One-time charges; unusual or exceptional impairment or depreciation / amortization. Recent acquisitions are contributing to revenue, but cost integration of acquisition is affecting margins. Is EPS the best metric to look at? For CAPEX-intensive companies and REITs, other metrics are more revealing (DCF/share, FFO/share, AFFO/share).
Sales and EPS are down yet the dividend is growing	<ul style="list-style-type: none"> Setbacks in recent periods are temporary, perhaps due to one-time or rare events. Company anticipating a turnaround; read more about the story to see if improvements are likely (new product launches, divestiture of poor-performing assets, etc.). Is EPS the best metric to look at? For CAPEX-intensive companies and REITs, other metrics are more revealing (DCF/share, FFO/share, AFFO/share). Perhaps cash on hand is sufficient to justify a dividend increase.



SCENARIO	POSSIBLE CAUSES
Sales and EPS are down, dividend increase is slowing down or absent for a year or more	<ul style="list-style-type: none">• Dividend growth slowing down or absence of dividend growth, combined with falling sales and EPS, is a sign of trouble ahead. A dividend cut might be coming, which is usually accompanied by a drop in stock price.• Investigate causes of declining sales and EPS. See what the company is doing about it.
Sales and EPS are growing at very different rates	<ul style="list-style-type: none">• If margins are decreasing, due to inflationary pressure, for example, EPS won't grow as fast as sales. If margins are increasing, EPS growth can outpace sales growth.• More sales from low-margin products or more from high-margin products.• Company implemented cost-cutting measures and efficiency initiatives that are paying off.

FINAL THOUGHT

This was a complete guide to reviewing your holdings. Do you need to go “all-in” on each stock, each quarter? We don't think so. However, you can certainly keep this guide handy when there is something that doesn't add-up in the earnings you review.

When business is “as usual” or when numbers are growing at a similar pace than before, chances are you don't have to spend much time on that company. After all, Coca-cola sold soft drinks 10 years ago, last quarter, and will likely sell soft drink next quarter.

However, when a stock is down, or when there is a number that is off (big jump or big drop) or simply when you feel something is off, doing a deep dive is essential.

Did you know Dividend Stocks Rock can monitor earnings for you?

We have a team reviewing quarterly earnings for our PRO members! DSR PRO analysts review over 1,100 dividend-paying companies quarterly. We notify you weekly of which companies in your portfolio have been reviewed with the latest news.

You can access your PRO report with a single click, including a summary of your holding's latest earnings. Our analysts do the hard work for you and highlight where you should put your attention.

No more noise, no more confusion, we tell you which company should be reviewed.

There is a special offer at the end of this guide.

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The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



ACRONYMS LIST

Below are the acronyms used throughout this newsletter, and a few extras you might see in quarter results press releases, and their long form.

AFFO	Adjusted funds from operation
CAPEX	Capital expenditures
COGS	Cost of goods sold
DCF	Distributable cash flow
DTC	Direct-to-consumer
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EPS	Earnings per share
EV	Electric vehicle
FFO	Funds from operations
GAAP	Generally Accepted Accounting Principles
IFSR	International Financial Reporting Standards
M&A	Mergers & Acquisitions
MD&A	Management Discussion & Analysis
OEM	Original equipment manufacturer
PCLs	Provisions for Credit Losses
POS	Point-of-sale
R&D	Research & development
REIT	Real estate income trust
SG&A	Selling, general, & administrative expenses
SSS	Same-store-sales



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.

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"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

I'm looking forward to connecting with you!

Cheers,

Mike Heroux

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