IFB333: Free Financial Tools: Accessing Relevant Ratios and Revenue Sources Without Paid Subscriptions

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 333, big three. Three. We're going to answer three great listener questions we got. So without any further ado, let's dive on in. So we got the first one in is my name is Tyron, and I'm here from Kenya, living in Finland at the moment. He just opened a brokerage account, and he had a couple questions. So the first part of the question he's asking my, you have any metrics for evaluating stocks in the european market which might help my investing in the future? He says he really appreciates the insights we give him from the podcast, and they've made him very passionate about investing in the stock market.

Dave [00:00:36]:

That's awesome. So what are your thoughts on Tyrone's question about metrics for the european market?

Andrew [00:00:42]:

It's a great question. I would say, in general, the metrics for the european market are going to be the same as the metrics for the american market, with the exception that there's a kind of advanced concept called is it country risk premium? That professor talks about. So, without getting into nitty gritty, basically, if you are investing in a country where the political system is not as stable as something like the United States, keep in mind that investors might stay away from it, and that might make those stocks in those countries cheaper than you might find in the United States. And that's because of what they call the country risk premium. But other than that, I feel like the metrics are the same. What do you think?

Dave [00:01:26]:

Yeah, they are the same. I think there's a couple of things you probably need to kind of account for. If you're comparing a company in the United States versus a company in Europe, you're going to want to account for the currency differences. So when you read the financial statements of a company coming out of Europe, for example, let's pick Ajen company that I'm very familiar with. They report all of their earnings in their financials in the euro. And so if you look at it on a dollar amount, if you look at it on a currency amount, maybe that's a better way of putting it. If you look at it a currency amount, it's going to be different. So if you look at the revenue for ajin in euros versus dollars, depending on what the exchange rate is, it's going to be a different metric.

Dave [00:02:10]:

So if you're used to analyzing companies based on the dollar, and then you look at whatever currency you may be looking at, that's important. I remember the motor was talking about that in one of his lectures is, when you first start to read a financial report, whether it's in Europe or whether it's the United States, you always need to understand what currency they're talking about in the statement, so you don't get confused when you're trying to work the numbers, if you will. If you're trying to analyze the financial statement, metrics are going to be metrics. So a ratio is a ratio. It doesn't matter whether it's in a euro or a dollar. So 20% return on equity is the same across the board. So that's one thing I think you probably need to keep in mind. The other thing that you need to keep in mind is the accounting practices are a little different in Europe than they are in the United States.

Dave [00:02:59]:

And so sometimes the way the statements may be set up may be a little bit different than what you're used to. They may put terms in different places. I've noticed that the balance sheet, for example, sometimes they will put the long term assets above the short term assets on the asset part of the equation. And I've even seen the liabilities listed before the assets on a fuse. Two, so there can be a little bit different. And so I think that's something to probably keep in mind. But overall, a PE ratio is a PE ratio. A discounted cash flow model is a discounted cash flow model.

Dave [00:03:34]:

The debt to equity, whatever metrics that you are used to using for the United States, you would want to use the same, or Europe, or any country for that matter. If you're investing in companies in East Asia or Asia or the. Or, you know, Brazil, you're going to want to use the same Metrics. It's all the same. But just make sure. I think the biggest trip would be making sure you account for what kind of currency you're working in.

Andrew [00:03:57]:

Yeah, that's very true. And then taxes mean, if we were to compare, I don't know what the situation is for Ajin, but just to take, know, if you take operating income for Ajin and Visa, and you're only looking operating income and you're not looking at net income, which is after tax, there could be some differences. So a lot of times when I look at american companies, I'm focusing a lot on operating income and things like that. But if taxes are different countries, try to keep that in mind, too.

Dave [00:04:26]:

Yeah, that's a very good point. Excellent addition. All right, so let's move on to the next question, which. Okay, this is from majestic, California, says, hi, guys. Great podcast. What free sites are available to obtain all relevant financial ratios and revenue sources in detail. The ones I've seen all seem to require a paid subscription. This is from Sergio.

Dave [00:04:51]:

So Andrew, do you have a list of tools that you like to use that could help Sergio out?

Andrew [00:04:56]:

Yeah. Thanks for writing in, Sergio. I'll just talk about the same tools I always do. Each of these have subscription options. I happen to subscribe to a couple of them, but they don't all require it. Quickfs. Net being one, finbiz.com being another. And can you use bamsec without logging in? You just can't use the highlights feature and stuff.

Andrew [00:05:21]:

So all three of those are all great websites and they can get you probably 90% of the way there with the free features.

Dave [00:05:29]:

Right.

Andrew [00:05:30]:

Those would be my three. Which ones would you add?

Dave [00:05:33]:

I think the only one that I would add to that great list would be Finchatio IO. A lot of it is behind the paywall, but they do have a free feature that allows you to see a good portion of what you need to see to get you started for sure and can be very helpful. That's a great one. Ticker is another one that offers a free service guru focus does to a certain extent. So those are koifin. Those are probably the four. Finchat is my favorite. But the other three also offer you free services as well.

Dave [00:06:02]:

There was another one that I was going to mention too, and now I lost my train of thought. Another two that I don't use but I know are out there and I've seen people say that they really like them is Google Finance and Yahoo finance. They also offer different ability to see free stuff for a certain amount of years and different ratios and whatnot as well. I personally don't use them, but I have seen a lot of people that have liked those as well.

Andrew [00:06:28]:

I forgot to say seeking Alpha. Oh, yeah, seeking Alpha. You do have to give them your email address. So you do have to make an account, but you don't have to pay to use a lot of their features too, right?

Dave [00:06:39]:

Yeah, exactly. I mean, if you want to see 20 years of data, it's behind a paywall, but if you want to see, I think, three to five years of financial information, you can find it all right there.

Andrew [00:06:50]:

So hopefully that helps. Sir Jl.

Dave [00:06:51]:

Yeah, exactly. All right, let's move on to the next question. So this one is plugs 1 billion equity raise. Should you keep investing in a company that does this or is that a sign of big future problems? And this is from a salvatore three. So maybe before we kind of dive into answering that particular question, maybe we could talk about what is an equity raise first?

Andrew [00:07:14]:

Yeah, that's very important, I think, and I believe it needs some backdrop, too, just to really understand, because not all businesses are the same, and not all of them are in the same part of their life cycle. So for the think of how businesses in the stock market generally go. They generally go from a phase of super high, fast, explosive growth to something that's more stable and potentially long lasting to maturation and either being gobbled up by another company or fading into the abyss or perpetually always just seemingly in decline. And I don't want to throw names out there, but I've held one of them. But basically, if a company is in the high, super high growth phase and they need a lot of capital, in other words, they need a lot of cash and they need to make a lot of investments, and they need to buy a lot of inventory, all of these things that they need to do to reinvest, to grow at a super high rate, a lot of those companies will tend to be in a raising capital stage instead of a more neutral stage or returning capital stage. And so really, the question all businesses that are public in the stock market, they can all raise equity, which is another way of saying raising capital, they can all do that at any time. But if it's a company who is not in that stage where it makes sense for them to do it, that's probably a problem. But if it's a company that is very early in their lifecycle and they have good places to put that capital and it makes sense for them to be raising the capital, then that's probably a better fit.

Andrew [00:09:02]:

Is that kind of how you look at equity raises or raising capital in general, like kind of along that lifecycle, is there something I miss there?

Dave [00:09:10]:

No, I think that's pretty right on. I think if you think about early stage companies, if they're not generating enough free cash flow to self reinvest, then they either have to go to the equity markets like you're talking about, or they go to the debt markets. And it's harder, I think, for earlier stage companies to raise debt because they don't have a history for people to give them their money, in a sense, for debt, and it's easier for them to go out in the markets and sell their shares to try to raise money because that's a more familiar, I guess, place for people to think about it. And I think your point about equity raises and just if they're in a place in their development to do that. That's a good sign. So maybe we could talk a little bit about how an equity raise impacts an investor.

Andrew [00:10:02]:

Yeah. That's also very important to understand. So think of your share that you own as part ownership of a business. And if we use our metaphor, of the pie, for me, it's the pizza pie, for you, it can be something more inferior. No, it's inferior, not Inferior. Yeah. Should we do a pizza break like Elon did?

Dave [00:10:32]:

I don't think it would be as popular as he did it.

Andrew [00:10:34]:

Yeah. I'm getting hungry. So if all the owners that own plug, which is plug, power, ticker, pleg plug, everybody who owns it, we each own our little slice. And so if a company were to raise equity, they're basically going to divide that up a little bit more. And so what they're doing is they're kind of making that pie bigger. And so if your slice is staying the same now, it's actually a smaller slice, and that's basically what they're doing to raise equity. So the downside to you as a shareholder is you now own less of the company. So if that was the only change and nothing else changed, then the stock price would go down is basically what would happen, because you have the same business, but there's more owners, so there's more pieces of the pie.

Andrew [00:11:23]:

And so part of your value of your piece of the pie is less. That means the stock price is lower, because that share of stock is a piece of the pie. But what the company gets out of making that pie bigger is they're raising cash. And so in this case, a billion dollars, that's a billion dollars that the company now has that it didn't have previously. So it sounds like free money to them.

Dave [00:11:48]:

Right.

Andrew [00:11:48]:

Because they didn't. So where they have to balance is making sure that for shareholders who now have a smaller piece, is that billion dollars going to grow the business that much more, where your small piece of the pie is at least not less or maybe even goes higher, if you can generate higher growth from it. So what they do with the billion dollars is also very important piece of this, because your ownership slice is smaller, but the potential for the business to be bigger could make the after effect positive for you. We could all own a lemonade stand. Would you rather own 100% of a lemonade stand or 1% of apple?

Dave [00:12:28]:

Right.

Andrew [00:12:28]:

So same thing where by reducing your ownership, you have that higher potential of gain, because now they have more money to be able to reinvest in growth. But if they don't reinvest that growth and get that growth that they're looking for, then it can be very destructive.

Dave [00:12:44]:

Right. Okay. How does that impact an investor for plug, for example? So use a scenario real quick. Let's say that they do raise this billion dollars and two years from now they come back and need to raise a million five. How does that, as you, as an investor, how do you react to that? Is that indifferent? Good thing, bad thing, does it depend?

Andrew [00:13:09]:

Yeah, it's a great question. I do think it does depend. Again, it goes back to the question, what are they doing with the cash? What kind of results is it generating? And can they use those results again? So I like Tesla as an example because they had to do this when they were first scaling. You know, I don't own a Tesla, and I'm not really an expert, but I know enough to be dangerous. So if you think about what, is it the model three now that is the most popular? Is it the Model S?

Dave [00:13:35]:

Don't hold my feet to the fire.

Andrew [00:13:37]:

On that, whichever one it was. Right. Let's say they needed a couple of billion dollars to build the factories to be able to meet the demand they had for that car. Makes a lot of sense for them to do that. Now, if we're to fast forward to today, if the demand is not there, but then they also want to do the exact same playbook that they did, say, five, six years ago. That might not be as good for the company now as it was back then. And it all depends on is there that much more demand for the model three that this extra $2 billion today will be so much more impactful than if they just wait for the company to generate it? And so that's how I would look. I would try to use that kind of idea for plug power to say, okay, if they do raise capital again, were they successful in their last capital raise? Did they use that to fuel growth? And then is there another opportunity that they're going to put this capital into to get them to that next level of growth?

Dave [00:14:37]:

Right. That makes sense. So does this kind of, I guess, generation of cash to invest, does it make more sense for a company like plug to be doing this than, let's say, Microsoft?

Andrew [00:14:49]:

I would say in general, yes, but to take the exception to every rule. One of our heroes, Warren Buffett, he did this in 2000, 2001, when he acquired Jen re. When you acquire a company using shares, which is what they did for genre, that's the same thing as issuing equity, basically, and receiving the cash and so you could argue when he did that it was actually a very good thing because his shares were overvalued. So to me, I think it's very common for companies in that raising capital stage to do an equity raise. A company in the mature stage could do it if they think their stock is overvalued. And they also think that the opportunity is so good that they need the cash now.

Dave [00:15:37]:

Right.

Andrew [00:15:37]:

I think definitely the number of times that's a good idea is probably a fraction compared to when it is for raising capital for growth company. But again, I'm not an expert in growth companies, early stage companies, and companies in that raising capital stage. It's a very high risk area with a lot of failure rates. So I kind of stay away from those. But if it was me, I wouldn't look at it as like an obvious red flag right away.

Dave [00:16:09]:

Right.

Andrew [00:16:09]:

It's a common thing to do.

Dave [00:16:10]:

Right. So I came across this chart from Chris Mayer on Twitter a few weeks ago, and I saved it. And it's kind of an interesting chart, and I'm not going to give you all the numbers, but basically what he's saying here is that a five year market cap growth required to offset dilution. So I don't know what the market cap is for, plug, but let's say that it dilutes shareholders by 1%. So to offset that 1% dilution, the market cap needs to grow 5% over a five year period. If it dilutes it by 2%, that goes up to 10.4%. If it goes up to 10% dilution, which, God forbid, then you got to have a 61% market cap growth over five years to offset the dilution. So those numbers, the lower numbers are not as scary, but the bigger numbers are scary.

Dave [00:17:01]:

And I think to me that kind of highlights what you were saying about the danger of a company really diluting itself. What are your thoughts on that?

Andrew [00:17:10]:

Yeah, that's actually a perfect example of how, where company stock price is when they do this matters a lot because you're going to get higher dilution when your stock price isn't as high.

Dave [00:17:23]:

Right. How do you think the compensation dilution does that factor into this as well, as far as the overall dilution of.

Andrew [00:17:32]:

A company shareholders dilution is dilution, right? All dilution counts. Yeah.

Dave [00:17:38]:

Right. Do you think one is better, worse than the other? So, for example, let's say the plug is doing an equity raise, but they're not really diluting through management compensation or employee compensation. Do you think that's better or do you think what meta does where they have a lot of employee incentive dilution compared to equity raises, or does it not matter?

Andrew [00:18:04]:

It's a good question. I don't have data behind what's the hit rate of an equity raise versus share based compensation? It does feel like share based compensation is becoming more and more widely accepted with Silicon Valley and all the successes of meta and Google and all of that. And there is validity to mean. Charlie Munger says, look at the incentives, right. And if you can incentivize your very talented workforce with stock options, that can be a really great thing for the company. But I do question when you have a company that's kind of on cruise control or they're saying that our moat is so strong, if it really was that strong, why are you dishing out stock options like candy?

Dave [00:18:57]:

Right.

Andrew [00:18:57]:

So I think a healthy bit of, not to say that it's wrong or bad or bad for shareholders, but just I think a healthy dose of skepticism is helpful. What about you? I mean, you could kind of fall on either side of that, and I don't think there's a wrong answer here. So where do you stand on that?

Dave [00:19:14]:

It depends. So maybe I could try to look at it in maybe three kind of buckets. So one bucket would be they dilute shareholders by using equity raises to try to grow the business. And that in and of itself I don't think is awful, especially depending on where they are in their lifecycle. I think that that's probably the prudent way for them to try to raise money to grow. Then you have the bucket of doing equity raises and diluting employees offering share based compensation or incentives at the same time as they're doing equity raises. And there is some logic to doing that. But I think also the overcompensation of employees by giving a lot of stock options as opposed to actual cash, I think can be dangerous down the road.

Dave [00:20:01]:

And something that could be scary for shareholders, especially if you come into the company late, later, because now all of a sudden you're buying a smaller pie. And when those shares are executed, then you get an even smaller part of the pie and it takes away from the profitability of the company. So it can be kind of a dual edged sword there. And then you have the third bucket where they aren't doing equity raises, but they're giving incentives, share incentives out like candy, but then they're also buying back shares to try to neutralize that. And I'm kind of mixed on how I feel about that. And I think it really kind of depends. And you have to look at it company by company. I guess that's kind of how I try to look at this idea when I'm looking at different companies and trying to assess capital allocation skills.

Dave [00:20:52]:

I guess maybe to kind of wrap up this idea, what are some ways that investors could measure how well they allocate the capital? So in Plug's example, if they raise a billion dollars and they use it to reinvest in the business, how could Sergio and other investors, Salvatore, how could he? Or they figure out, how effective was it?

Andrew [00:21:17]:

Yeah, if Plug was profitable, it'd be a lot easier to do this, probably.

Dave [00:21:21]:

Yeah. Right.

Andrew [00:21:22]:

I think looking at something like return on invested capital is a great way to do it, and looking at that change over time. So I think it can be as simple as that, because that can tell you exactly how profitable whatever it is that they did with the money ended up being. And it can also tell you if they overpaid, whether that's like overpaying on capex or overpaying an acquisition that can show up right away. Now, if you're privy to the information, for example, when Microsoft bought Activision, you could very clearly see Activision's financials. So if it was a dip in ROIC, but you saw that longer term, it would not be a dip, then maybe take the ROIC a little bit lightly. But I think it's a great way to kind of fact check the narrative. You don't want to see ROIC falling precipitously. That doesn't always mean it's bad capital allocation, but a lot of times it probably is.

Andrew [00:22:26]:

There's more metrics. What do you think?

Dave [00:22:27]:

I think two ways that I would probably try to look at it would be, number one would be maybe return on equity. Just looking at maybe if it's not net income profitable, but let's say it's operating income profitable, then I may look at, instead of subbing out the net income part of the equation, return on equity. For those aren't familiar, it's net income over shareholders equity. And if I replace the net income with operating income and compare it to the shareholder equity of the business, then that could give me kind of maybe a gauge that I could use to compare this year, the next year, and the next year to the previous year. That would be one way. Another way you could potentially do it would be to look at, Buffett calls it the dollar earnings test, where you compare the growth of the market cap to the growth of the retained earnings, which is part of shareholders equity in the balance sheet. And you could compare those two and that would give you an idea of how well, so every dollar of retained earnings they generate, if they grow the market cap by over a dollar, then that's a great thing. And that'd be another way you could potentially do it.

Dave [00:23:36]:

But those are the only two ways that I can think of that I would try to look at it if it's not a profitable company.

Andrew [00:23:41]:

Yeah, I wonder if it doesn't need to be more complicated than that. I mean, these companies have to report profit for a reason, right? And so you should see it. You can see long term trends for sure.

Dave [00:23:54]:

Yeah, exactly. To your point, if you see a company that's maybe not profitable now, but their negative profit has gone from negative 100 million to negative 50 million to negative 15 million and negative 4 million, you could see that they're trending in the right direction towards profitability, and you can kind of project that forward to some sort of reasonable amount. And that could be a way to measure it as well.

Andrew [00:24:19]:

Yes, very well said. And I guess as it relates to plug power, that is not what we're seeing here. Seeing a loss of 500, almost 600 million and then 400 million and then 658,000,000. So when I look at numbers like that, they're almost losing as much in operating profit as they made in revenue.

Dave [00:24:41]:

Boy.

Andrew [00:24:42]:

So it's a super fast growing company from a percentage basis. But if the concept is not profitable, how viable is the concept?

Dave [00:24:52]:

Right.

Andrew [00:24:53]:

So if you're an investor here, unfortunately, you probably already lost a ton and you might be just hanging on because you're just hoping for that miracle. If that's what you want to do, more power to you. But when I look at the financial situation here, it is not like Tesla or is not like some of the other Uber or something companies that generally got more and more profitable over.

Dave [00:25:17]:

Right.

Andrew [00:25:17]:

This is an explosion. Downwards in the ship has a gaping hole in it and has for three years. And I would say be careful.

Dave [00:25:29]:

Right. Sounds like it's lighting cash on fire.

Andrew [00:25:32]:

Yeah, to say the least.

Dave [00:25:36]:

All right, so I guess maybe to wrap this up, how should people generally kind of look at this kind of dilution? And do you think you need to take it company by company to assess whether it's a positive or a negative?

Andrew [00:25:47]:

Yeah, I would say take it by company by company. Okay.

Dave [00:25:51]:

All right, folks, well, with that, we will go ahead and wrap up our conversation for today. I wanted to thank everybody for taking the time to send us such fantastic questions. We really enjoyed answering these. And hopefully you guys got some good takeaways from this. If you do have a question you dying to know the answer to, please reach out to us. You can send us questions at newsletter@einvesting.com you can also reach out to me at Dave Hearn on LinkedIn, and we're also on Twitter. You can ask questions in any of those places, and we'll answer them here on the air for you. So with that, I will go ahead and sign us off.

Dave [00:26:24]:

You guys go out there and invest with the margin of safety, emphasis on the safety. Have a great week, and we'll talk to you all next week.