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Transcript

Record. Alright. I think that's better. Yeah. Hi, everyone. Welcome to the 2nd chapter of Investing101. I hope everyone can see my screen. We're going to do it a little differently this time. And what I'll do is open it up for questions as we move from one spreadsheet to another so that you know, we don't have to wait till the end for questions. So please, as soon as one spreadsheet gets over, you're welcome to ask questions. The second chapter going to be on this spreadsheet itself. I don't have a prepared file, and at the end of it I will provide a transcript and the file, of course, and the recording. So Just let's look at how to analyze an income statement. And for starters, I chose Google, which is which everybody is mostly familiar with and should give us a good understanding of how to look at a leading winning company that has done extremely well. Starting with the revenues, these are 2024 numbers. Google had about 350 billion in revenues in 2024, out of which they spent 146 in cost of sales. Now, what is cost of sales? Cost of sales is a variable cost, and it is anything that is used to produce revenue. It's content acquisition. For example, you may, you need to pay for the YouTube video that you're acquiring from a creator. You need to pay for the traffic for the search. And these two will be the largest components of the cost of sales. Why is it variable? What is the variable component? So when we define a term variable, if it is not for producing a revenue or a revenue stream, it's not counted as a cost of sales. So that is one crucial importance when you categorize your expenses. It has to go into producing revenue. And the two biggest examples for Google are content acquisition and traffic acquisition cost. Now, traffic acquisition is something that you're paying your distributors, that you're paying your Google Ad Click. They have several such intermediaries who provide the ads which go into their search revenue. One of the key things you have to notice is that the gross profit, which is simply the revenue minus the cost of sales, and it's a fairly high percentage for a company like Google. It's 58% right here. And this naturally has to be high because if you're selling something, you want to make a solid profit out of it to pay for all the other operating expenses, right? In Google's case, it's 58%, and it is pretty much been the norm in the past decade or so. Let's see what else contributes to what else is there in Google's income statement. The R&D is, I call it discretionary, but it's mostly a fixed or a critical cost for a tech company. If you don't use

R&D for your product development, you're going to go obsolete in a very, very short time. And this is where you will see that most tech companies will have a significant proportion of R&D. And in Google's case, it can easily afford \$50 billion it's generated 204 billion in gross profits. And Google likes to keep it around 13, 15, 16% of revenue because they see it as a necessary component to progress and keep the competitive advantage mainly. Sales and marketing, it's a fixed amount of expense every year. Fixed in the sense it's not like you don't hire more salespeople, but it's not directly proportional to your revenue. Say you may have, since you have 28 billion and say a salesperson is being paid, say \$250,000 a year, he may get, he or she may get bonuses or commissions, but it's not directly linked to, you know, a heavy expansion of revenue. General and administration, again, it's a fixed cost. It's the variance with sales is pretty, pretty low. It's mostly headcount in the case of Google. General and administration, as the name suggests, is accounting, back office, technology, DevOps, those kind of things. These three total to a bucket of 91 billion. and reduce that from your total gross profits gives you an operating income of 112 billion, which is a pretty good number. It's it's 32%, which is your operating profit margin, which is operating profit divided by revenue. So this is a pretty good, decent percentage of 32%. So it's generating a fairly large amount of profit for a company of that size, and, you know, being around for 20 two decades or more. What else is there? There is a small component of other income, which is mostly interest from all the cash that they hold. They pay about 20 billion in taxes, which is about 17%, leaving it a net income of \$100 billion. The net profit margin or the net income margin So when I'm saying gross profit margin and gross income margin, it's pretty much the same thing. Sometimes, most of the times you'll see profit substituted for income and that's a normal way of 80% of your balance P&L statements or your income statements will have a OPM or a GPM. Let's calculate the EPS. Here is your share count, which means Google had 12.32 billion shares outstanding at the end of 2024, which gave it a basic earning per share of 100 billion divided by 12.32 billion shares, which is \$8.13. I've also provided a diluted share count, which in Google's case is not tremendously different. These are basically options and restricted stock units or RSU. Most of you in tech will be familiar with these and that's really the reason why people get into tech and get shares at a very low cost. The diluted earning per share is not tremendously different because it's, you know, Google is a fairly large and mature company. That's the price. I believe it was 320 or 330. The price earning ratio is 39.78, which gives a peg ratio of 1.02. This is the Google income statement. If you want to ask questions now, please go ahead or we could take it in with the 10 years of Google. So an income statement for a year in isolation really doesn't tell you too much about the company and it would make sense to look at it over a 10 year period. So should I go ahead with that or do you want to ask questions now?

One question.

Sure.

Now, I normally hear on the market, you know, the cash flow.

Yes.

Is that going to be, we'll be talking as we go along, or I can ask you at this time.

Oh, I put the cash flow and balance sheet for chapter three.

Okay.

Yeah, but I will refer to it because I have a ServiceNow cash flow, which I want to show you all because it makes a big difference. In Google's case, it's not tremendously different. In ServiceNow's case, you have a large stock-based compensation amount where your cash flow per share is significantly higher than the...

Yeah, like Amazon, you know?

Yes, and in several of the startups, your cash flow will be significantly higher. So that we've kept a chapter for that. And we will talk about the difference between cash flow and net income. Okay. One thing also I wanted to highlight is that the revenue is coming from two big sources, one of which is Google Advertising, which is Google Search, YouTube, and Google Network. And you'll see that the Google services total has an operating profit margin of 40%. So basically, these are the cash cows which enable Google to build up Google Cloud. Google Cloud, if you remember, was a distant third compared to AWS and Microsoft. Because of that, you know, to build it up, you didn't really make any profits. You didn't break even for a long time. And it was in 2024, I believe, that they started making a decent operating profit margin. Now, see, that's 14% right there, but it grew 33%. This is a division that is growing significantly faster than the rest of the company, which is growing around 13, 14%. Google also uses a lot of its profits for other bets. Waymo is in this bucket here. Okay, it has the money, and it uses it to keep increasing its other bets. This, you see, is losing money year after year on a 2 billion revenue. It's lost about 4 billion. So all these will go into your total OPM, which is a composition of these 3 segments. So looking at 10 years of Google, it's clear that...

Bhaveshbhai I had a question. Sure, yeah. So, all these things, where do you get all this data from? Is it available to the public or?

Yes, I can. I'll send you the. It's available on pretty much even the free ones like Yahoo Finance has it, Seeking Alpha starts charging you after eight articles or simply you can download it from sec.gov, which gives you the, I can show you the search also for that. It's just a download the 10Ks, which are the annual reports. Oh, and of course, each of these

companies has an investor relations website, which if you go to Alphabet or you go to any other company, there will be a tab for investor relations. Everything is there. From the quarterlies to the annuals, to every press release, to every conference that they've had. Investor relations will have everything and it's all free.

Okay, so it's not on that shareholder prospectus that we see.

No, the shareholder prospectus will come during the IPO, the first one. And actually, that document is so lengthy, it's like at least sometimes it's 400 pages, but the prospectus will have everything. But it won't have for like after the IPO, then you have to get the annual report. Oh, I see.

OK.

Thanks. Yeah, I guess even for the IPO, you cannot read all the pages and all just the initial summary pages and all. Yeah. That's that's where you make a decision whether you want to get into that or not.

Right. Yeah, but the IPO is very useful. I mean, sorry, the prospectus is actually very useful because it tries to give you a reason why you should even take part in the IPO, and it'll give you a lot more information which you may not even get in the annual reports much later. But it's a stretch reading the whole thing. Yeah.

Yeah, normally there's a lot of sales pitching there also.

Yes, yes. I agree. I agree. Okay, I I'm making a note that I will put these links on WhatsApp for any information. Sure. Okay, let's look at Google for about 10 years. It's it's this is very essential when I analyze a company, I hate to look at anything in one year's isolation. And you'll see that it's not always smooth, I mean, it's great that the company has grown from 46, from 75 billion to 350 billion in a short 10 years. It's amazing that's for a company of that size to grow that much, which is like a 19% revenue growth is pretty solid. And even now, last year, it grew at 14% in 24, in 25, it's probably grown at about 15 or 16%. I haven't checked the latest. But one thing I want to show you guys here is that if you see why all these costs are very, very, and how it flows to the bottom line. Let's do a little, suppose I'm Google, okay, and I'm telling my video creators, listen, I'm going to pay you just, I'm going to reduce your payment or I'm going to not pay as much as I'm earning. And if I reduce this by 90 by 3%, you see how much it is going to go straight to the bottom line. It had an 8.2 in EPS. Suddenly that shot up to 8 47. Okay, so if you and if if Google decides, okay, I'm laying off a few people. Say, I've reduced my SGNA by 3%. Now you suddenly shot up there as well. So these these small small differences make a big difference to your EPS of maybe 10 and 12% just doing that. So Cost control is hugely important. Say you could have done the

same thing, increase revenues by 2% by charging you more for cost per click or cost per advertising. One thing I've highlighted here is that the post COVID, there was a huge jump in 2021. Now that's unusual. You know, you can't get a 41% revenue growth year after year. So because of that indigestion, now see what happens. They grow only 10%. Now they grow only 9%, and now they're coming back to their longer term average. Same thing will happen is your EPS has shot up by 92%. Now that's rare. Next year, EPS is going to grow less. It's actually gone down. Net income has gone down. So when you look at a company, you need to analyze it at least. or a longer term to see that if you see that I'm going to buy Google in 2022 because last year the earnings went up by 92%, that is a rare, rare occurrence, and we should be very careful about that. The same thing about margins. It's, you know, everything. There's something called return to the mean where you get Always get back to your average. 58%, this is very consistent. That's your long-term average. GPM is about 30%. Sorry, the OPM is about 32%. The OPM has gone up, and I'll tell you why. Because once Google Cloud started making money, you'll start seeing that this is improving a little bit here in these last three years. The Google Cloud's expenses used to come in the selling general and the R&D. This is where it was. Commensurately, the net profit margins are as high as the operating margins because there's really no other expense besides the income tax. The R&D revenue is very consistent. It's about, you know, 14 to 15% as you can see here. Now, look at the SG&A. Because this is a fixed component, it used to be as high as 20% of revenue in the year 2015. Now, see, it's down to 12%. Revenues have shot up so much, but the SG&A has gone up much less. So I like to see the growth in the margins being consistent with the growth in revenues, okay? What else? This is called operating leverage. When your revenue has gone up by 19%, but your EPS is going up by 24%, operating income has grown faster. So that's a very good sign that, you know, you may make 10% or 15% higher in revenues, but your earnings are going to shoot up faster because your costs are in control and you really don't need to spend much with your increasing revenues. And then I have a few different companies which will show you like the cyclical Dell or the cyclical Micron or a service provider, SaaS provider like ServiceNow, which will show you how different they are from Google. But before moving on, are there any questions on Google?

Yeah, Bhavesh may. I have a question here. So EPS, like here, basic EPS, it shows like 8.12.

Right.

What is the unit of it? Is it cents, dollars or percentage?

It's units. It's dollars, \$8.12, which is basically your net income divided by the shares outstanding right there. You see 100 billion divided by 12 billion shares outstanding.

Okay, so sometimes we see, when the companies declare their results, like EPS isn't like in few cents and all. So it's typically a very small number, right? Sometimes less than a dollar or so.

Right. But.

Then the, but if it is positive, the stock kind of jumps, significantly like \$10, \$20 or something like that. Right. And I understand EPS is like, okay, if there is a growth of this many cents only on a given share, right? How come the stock kind of jumps to like \$10, \$20, \$50 on the day of the earnings? Yeah.

Right. So here's what happens. So a lot of people will bet on the estimated earnings per share or the estimated earnings per share growth on that particular day. So like for example, every news outlet or every financial outlet will give you an estimate. And even I will, when I report, I will say consensus EPS was 50 cents compared to the estimate of 30 cents. So people are betting just on that particular day that if it beats by a significant amount, the share will go up. On the other side, people may be betting that the EPS will be lower by a certain amount and, you know, the share will go down. Now, those are all market dynamics and you pretty much it's it's a it's a gamble the day of the earnings. You'll see the fluctuation between, say, four and five of 10%, 20%, because that is against the estimate, whether you beat it or you go below that. The other thing is the markets are such that because of the expectation, it may have already been bid up and then, oh, it only beat by 10 cents. Okay, I don't want to be in it anymore. So it's not necessary that even with a very large beat, you may see the stock falling down. So I normally avoid trading during the earnings day because the fluctuation doesn't represent the fundamentals, you know? And sometimes it's priced.

It's not really uniform or not that close. Yeah, I mean, it's just a betting means, but this is like significant difference, right? Earnings per share, okay, only 50 cents. And then jump and stock may jump like \$50 or \$20 or yeah, so there's just a betting part. I mean, this is nothing to do, right? This is like in line or in ratio with what the company has showcased their earnings.

Yes. And what will happen is because you will see the smoothening out or the, if you look at it on an annualized basis, say, and you'll have some very weird situations when, like where the beat has been significant for 1/4 and the stock has gone up 20% and it's probably stayed there up at least 15% higher till the end of the quarter. Next quarter it misses. Okay. It could come back. It could come back the same day. It could come back over a period of time. So yeah, that is mostly technical and sentiment. Yeah. Okay. Thank you. Yeah. And don't forget one thing, that's a quarterly earning. And it's not the annualized, it's not the

four quarters together. So that plays a part too. I'll give you one example. So in a case of NVIDIA in May of 2023, the secrecy was so good that they beat earnings by 40% because that's the quarter when they started selling the GPUs to the cloud, the H100s. And what was expected to be a 7 billion in revenue came out to be 11 and a half. No, and you know, analysts are supposed to be clued into what's going to happen. But this was one of those rare times when the beat was genuine. You know, there was no expectation of that beat. Yeah. But those are rare. Okay, let's let's have a look at Dell. Now, Dell is a computer hardware maker, and you'll see these red highlights where the revenue has gone down from 90 to 84, okay, because they're not selling PCs. This is of course COVID, so this was expected. But same thing happened in 24 when the market was not picking up servers, it was not picking up PCs, it was not picking up infrastructure. So a cyclical, you will see this happening and What I like to see is that at least in the 10 years, it's still gone from 51 billion to 95 billion. So I'm not too unhappy about a company like this. It's not like Intel, which went from 77 billion to 56 or 57 billion last year, I forget. So a cyclical, you'll see signs like these. And where it's going to really hurt you is the net incomes get disproportionately killed because Dell doesn't really make that much money. It makes a gross profit margin of only 23%. We saw in Google's case it was about what, 57 or 58. The net profits for Google, for Dell are just 2%. So anything here is going to be like a small change is going to make a big change in the EPS or the net net profit margin. So You have to be extremely careful about buying a cyclical like Dell or any a company which has a low operating or a low gross profit margin because the markets are not pricing these also very high because they see that the revenues fluctuate a lot in 10 years. Imagine if you were renting, you bought a property for rent and if the guy If the property itself did not give you continuous and, you know, regular rent every year, if the rent changed every year, you will not invest in that property or at least pay a very low amount based on the fluctuation or the volatility. In Dell's case, the cost of revenues is extremely high. It's the, like you see, If the gross profit margin is only 22%, it costs Dell 78% of its revenues to manufacture its computers. And that leaves very little for operating and net profits, which are only seven and five. So Dell as a result, because it's a commodity, so you see this, this is a sign that it's not spending any money making its profit different, making its sorry, it's computer different from any other. If you bought a Dell or a Thinkpad, the differences are fairly low. Same thing with the servers. Now, if you see here, the SDA and A is not very high, but it takes up a lot of the revenue base. You see that it's It's consistent because there's a lot of fixed cost here also. So what happens to an EPS for Dell? Over the 10 years, I have seen like a zero because it's, you know, it starts with a negative, negative, negative. And then when the going is good, it'll shoot up. So when you want to buy a, I've been buying Dell. Why? Because now I am seeing that there is a little reduction in the cyclicity because the AI servers are now getting to about in the low teens and they will give it like a more stable earning and they're also a lot

more profitable. So this EPS, I expected to see a little more consistency in the next five or seven years. That's the reason why, and the price is very low. I believe it has a chance of at least increasing 25% in this year. Any questions on Dell or any cyclicals?

Sorry, not cyclicals, but specific to Dell question, do you see a big upgrade cycle coming on account of AI for Dell?

Yes, they have almost like I put that number, I don't remember it now, but they have like an 18 billion obligation orders. The order book is very strong and they've seen that. They've only fulfilled, I think, maybe 1/3 of that. So I think I could see at least 18 months of AI servers being deployed. Yeah.

And would this be true for the laptops as well? I mean, is there a need for customers to upgrade their customer devices equipment?

Not significantly, but the PC cycle has bottomed out. It bottomed out last year. The PC cycle normally grows at about 2 to 3% a year, which it did last year for Dell as well. But I don't, except for Apple, nobody seems to have a significant need to upgrade. But that's a very good question. If Dell has is if it's possible for an upgrade there. Let me look this look up and see if there's something specific to Dell. I'll I'll I'll check this out. Yeah.

Thank you.

Sure.

Is there any way, I know you cannot do from the annual statements, you know, but or the, if I want to find out, you know, if Dell is projecting more sales, you know, because of the AI, who are the vendors selling parts to them? to put together the machines and they're selling with the laptop or servers or whatever. They don't manufacture them. They just assemble them and then send them.

That's a good point. It's probably going to be 60 to 80% China. And the OEMs, so if that's a play worth looking at, OEMs that supply to Dell?

Yeah, because their sales are going to go up in as well.

Yeah, absolutely.

And the vendors who are selling the parts to them, they will be doing good too. So we should be looking into that also.

Yeah, I'll take a look, see if I can dig up something. Yeah.

What was the main reason for the the sales in the in 21 when the or 20, you know, when the Cobra was there, is it because of the QE also or is it just the sales were going up, you know,

because everybody was working from home, you know, and they had to buy more equipment now.

I didn't see it for Dell, unfortunately. A lot of people did extremely well because of that. And in fact, in 2020, Dell went down. I think that was also the PC cycle. which didn't seem to benefit Dell because you're absolutely right. It probably benefited a lot of other people during 2021. So it didn't happen here because Dell has what, the PC division is less than 25%. Servers take up a bigger chunk. Yeah. It didn't happen in COVID.

Right.

After it went down, it just grew 2 billion in 21. Then it shot up. Then it shot up.

No.

And then it steadied out. And then again, there was some indigestion, which it went down. Yeah.

Yeah, but it's not also true that, you know, even though they may have good earnings, you know, or marginal earnings, you know, the stock goes up, you know, because the impact coming from the optional market also, because optional market, you know, has a great role, you know, in playing, you know, the increasing the share value or bringing down and depending on how much shorting has been done and whatnot, that has a big impact on this stock market price, you know, right.

Yep. Yep.

In fact, is a question because we were talking about if they're making only two cents per share, then how come the stock goes up \$10? So that's what I've been thinking of.

Exactly. And that is also easily like any stock before earnings, you'll see the short interest position that's available, but it's old. The short interest position is displayed after a lag of days. They don't have to report their positions. Immediately. Say, if you're a short selling firm and you want to corner, short sell something. You don't have to report it and most people won't pick it up. The number that you'll see. Is sometimes it's about a week or 2 weeks old. Yeah. But it's impossible to. I just try not to get. You know, involved on. Okay. Okay, let's look at our favorite Micron, which is done so well for everybody. Where is Micron? Yeah. Let me move this little lower. Yeah. okay. Micron. Oh, my God, look at this from 30 billion. They crashed to 15 5 billion, you know, in one year. And the there are 2 reasons for that. It's not like they sold fewer units. They did, but the unit count was about five or 7% lower. When it comes to memory, it's like Micron, SK Hynix, and Samsung. And these three guys control maybe about 65, 70% of the market. And there is a tremendous,

tremendous overcapacity in memory. So the prices crashed by close to 35 to 40% in one year. And that's not too abnormal in the case of memory. So you see this, your revenue drops by 50, your EPS drops by 168%. I mean, it's it's a loss that year. So again, here you have to be so careful when you go to buy a company like Micron, and today it's what, 360 or something. Now, the rise in Micron is also because they've moved to high bandwidth memory, which is now at least 25% of the company. And if it hadn't happened, the stock would have been what, 66 when I first bought it. I was early in that cycle. I bought it in 2023 thinking it's, you know, if you see something like this and you believe in the company, there's a good chance that you'll be, you'll likely be early, but it's still worth buying because you can get like a 666 to 350. That's like a 6X return. But you'll see it like stagnant for a year. You'll see it go to 140, then it went back to 75. It's a very volatile stock because it's a cyclical. But look at the jump now. It's gone back to 37. In August of 26, revenue is going to be closer to 55 or 60 billion. And I think the EPS will probably be closer to 17 or \$18, if not more. So you have to catch this at a very, very low price. You have to wait for it to ride. And you have to, the other thing is now people will look at an EPS of 20 bucks next year and say, oh, Micron is only 350, it's only 17 times EPS. It's worth buying. With cyclicals, sometimes it's the opposite because you are buying at the peak of the cycle. Now in Micron's case, okay, you're getting a little bit secular because of the AI component. But in cyclical, sometimes buying at the peak of the cycle is the worst thing. You're thinking, okay, the PE is low, the stock is cheap compared to an earnings growth. Many times, and I know this because I have bought at the top sometimes. So you want to buy it when the EPS is like horrible. You know, this is when everybody thinks the world is coming to an end. But Micron has been around for 30, 40 years, it's not going to, and it's the good thing about these components like memory, there are not too many people who do it. You need to be really huge. SK Hynix is huge. Samsung is huge. And Micron is the only large American company that's doing it. You see these margins, how much they fluctuate. 20, then down to three, and then back to 40, the average is 34. 13% revenue growth, 52% operating income growth, but with the movements. The cost analysis is, look at this, 97% of your revenue in '23 was in cost. What profit are you left with? Nothing. How are you going to cover all these other expenses? So you have to be very careful of these things. And simply Micron story is over capacity and wild swings in pricing and suddenly now the demand for high bandwidth memory. Any questions on Micron?

No, thank you.

Sure. Okay, let's look at ServiceNow, which is a SaaS company. So is a software as a service, which SaaS stands for software as a service. It's a superb company. Look at that from just about a billion in revenues, it went up to 11 billion in 2024. It gives you like a standard subscription per user per license. A lot of people are now moving to the

consumption model so that higher, you know, people who consume more of the platform are charged a little more. But basically it's revenue comes like per seats. And this is getting a lot of is this is this company is facing a few not ServiceNow, but CRM, Salesforce and a few other like Adobe. They are facing a lot of problems from AI because why would you pay like, you know, \$250 per license when you can try and get AI to do that work for you much cheaper. So there is there is a little bit of slowdown there, but. In the case of ServiceNow, the cost of sales is pretty low. You see this here, it's only 21% last year with an average of 24% throughout. There is no cost to sell this thing. There is no variable cost. You have a high fixed component with basically the cost of maintaining the platform. So you'll have a cost of keeping a lot of people, your help desk, your query solvings, your tickets. That's where your variable cost will come in. And it's usually very low. Most of your cost has gone into developing the product and developing the platform. So margins are going to be very high. It's going to be close to 79% or 80%. Operating income If you see because the selling in SGA and the R&D, these were a fairly large amount of the cost of revenue. So all these SaaS companies take a while to break even. They don't break even in the first 5, 7, 8 years. And once they get to a critical mass, you'll start seeing some profits coming in here. In ServiceNow's case, it started breaking even only in 2019, 42, and that's now gone up because your operating profit margins have gone up as a result. The net income, the basic EPS is only 138, but again, this will fluctuate. This will go straight to the bottom line if some of these costs come down. revenue growth was 30% and the operating income was growing at 27% if you look at it over a 10-year period. But the cash flow per share, so I'll show you this cash flow and I've highlighted it and this is the reason. So when you have an income statement as per GAAP accounting rules, you have to have to include the stock-based compensation as part of an expense. Most companies were trying to hide the fact that their expenses were low and they overstated their net income because they would not reflect their stock-based compensation in their income statement. So the SEC and GAAP standards, accounting standards made it essential. So Look at the difference in cash from operations. It's 4.2 billion, and the operating income was what? 1.397. Of course, there were a few other components, but the biggest component was this guy here. 1.8 billion in stock based compensation. So in in, if your cash flow per share is not 138, it's closer to 3 bucks. Now. Why is this important? Because a lot of people who work or who only invest in SaaS companies or software companies or tech companies will look at that number, the cash flow per share compared to the basic EPS. At, you know, what is the stock price of ServiceNow? It's about \$150. So that's how much are you paying? You're paying a lot. you know, for a company that's earning only a dollar 50, you're paying 100 times, but your cash flow per share is closer to 4 bucks or 3 and a half bucks. So of course you're paying much less. The other thing that we normally look look out for in a software company is that because the stock based compensation is so high. The number of shares outstanding

keeps increasing every year. Like you're going to see this in Corvi, you're going to see this in Nebius because they need to raise money to finance their operations. Nebius needs about 15 to \$20 billion just in 26 and 27. Sorry. So they are going to issue more shares to raise the capital to, you know, deploy more data centers. In ServiceNow's case, that has slowed down completely. So that's never going to be an issue of dilution, but the share-based compensation will remain high. And sometimes as an institutional investor, your rules may prevent you from buying companies which have a high SBC. Yeah. So in that case, you need to be aware that you may not get enough institutional support where the Sbc's on the higher side. Any questions here on on ServiceNow? Yeah, go ahead.

So you mentioned that right? So this ServiceNow lately and then CRM and Adobe. Adobe has been kind of, is going down and down for quite some time now.

Right.

And the ServiceNow and CRM, they're kind of fluctuating, but I kind of see lately they have been going down. And then as you said, like probably it is the AI impact on them. So then what is the take there? Are they going to come back? These companies have been solid for that matter, Adobe, CRM and ServiceNow have gone to that extent where it looks a lot more promising, but lately they have been, did they reach so high that now, you know, they built in so much of buffer and then they're kind of going down and they will keep going down for some more time?

My take in Adobe is that the impact is quite a lot. And I don't see it growing more than 10% a year, if at all, because there is so much being taken away. When was the last time? I've been getting all my images for free from, I think, at least four or five sources. I don't need to create an image and buy an Adobe license. CRM unfortunately also has a slightly similar problem. It's become a little bit of a legacy software. And even though they're trying very hard to get into the agentic AI bandwagon, or at least try to give that service, the growth has become very, very low. It's like maybe 7, 8, 10% a year where people have lost faith in Salesforce. I believe that for AI to work, you must have data which is within Salesforce. Now, I find it hard to believe that OpenAI or even any other large language foundational model can do what Salesforce does because it simply doesn't have that much internal data. So I'm surprised that the people have lost faith that these guys will not survive. I think they will survive. They just will not grow as much. And that's not just AI. They had reached a majority where, you know, it was normal that the growth would slow down. ServiceNow's case, I have a little more faith because they're actually trying to do what Palantir does. They're giving you a platform which helps you analyze data better. It sort of de-silos what's there in all your other software and actually tries to use AI to make it better. And you're still seeing about 20, 22% growth for an \$11 billion company. But to your point, they are never

going to have that kind of a return that they've had in the last 10 years. They've they've become mature and there is a devaluation because of the AI component. I don't think it's as severe as as it is. And you know, if you see better results in the next year or 2, which I think it they will show. So You just have to be a little more realistic about the expectations from these guys now. Yeah.

Are you saying being more patient and hold sort of situation?

I think ServiceNow is definitely worth holding and maybe even when it goes down to take another look. CRM is a hold, but I want to see a couple more quarters. I know it's a little, the visibility is too low right now. to, and we may lose a little bit of the price, but CRM is entrenched in so many companies. I don't think people are valuing that part of the CRM as much. Yeah. Okay, thank you. In the sense, I think we should probably have to wait for a couple of quarters to see, or, you know, a lot of people will say that You know, if I don't see anything and there's an existential threat, why even keep it? I don't mind. I've made money or I'm, you know, I could put the money somewhere else. Yeah.

So by the way, is it the same reason impacting Workday? And yeah, although not as much, but Workday has been kind of going down and down.

Yeah, yeah, yeah. Workday is a bit worrying because I don't, I'm surprised. But if maybe there are some people who figured that part out, that, but even the prices are low now. It's not like you're paying a premium for any of these guys. Maybe that the whole, the whole paradigm of like SaaS companies is suddenly under threat. But threat in terms of valuations, yes, I don't see threat in terms of business models. The only thing is we may not make much money out of it. That's the big thing. Yeah. Then why invest, right?

That's right. Yeah. I mean, from the stock market side, from the outside of the stock, if AI is going to be taking over and it's a shift.

It's a shift, yes. But how, you know, OpenAI can't do It doesn't have the data from, you know, all the customers that ServiceNow has or Salesforce has. So it's, let's give it a couple of quarters and we'll probably get some better answers as we find out more. Yeah.

OK, got it. Thank you.

Sorry, someone else had a question.

Yeah, it's me. Yeah, I had a question. Sometimes, when they are talking about the stock and how it's doing and all, they talk about CAGR, but they talk as if it's like one thing, but here I see like 4 line items for this. So what exactly are we looking at? Sure, they're talking about.

Yeah, so ideally I would like to see my profits grow higher than my revenue. So your revenue is for the last 10 years from 15 to 26, that's grown at 30%. My gross profit has grown as 33%, which is good. I want my profits to always grow faster than my revenues. Now, operating income has only grown at 27%, but that's because it was negative when we started in December 15. And same thing with the EPS was also negative. But in Google's case, it's positive all around. The revenue grew at 19%. The CAGR, which is a compounded annual growth rate from 2015 to 24, gross profit grew at 18%. Operating income grew at 22%, which is great. It's three points higher. And the EPS grew at 24%, which is even better. So I want to see these two grow much faster than revenues over a 10 year period. All right, thanks. I always look at all four. Yeah.

Okay. Barisara, on the theme of software, you know, getting impacted by AI, another company that not for today, but just for your consideration for review is Constellation software from Canada.

Okay.

Been a star for many years, and now suddenly this year they've been hammered so much. So your view on this?

What's the ticker?

CSU.

CSU.

TO. TO.

Nice. Let me take a look. Yeah. Sure. Any idea what they do? What's the what's so?

Yeah, they're serial acquirers and they've institutionalized you know, taking on smaller software companies in, you know, different verticals. And they've been so successful that they've had three or four spin offs of focusing only on this. But in the last year, because of this theme of AI hammering software, they've also been on the receiving end.

Right, right, right, right. Interesting. I'll take a look. Yeah, this is a trend. I'm also a little worried about it, but I have a hard time wrapping around how they're going to beat these guys. I mean, I'm sure, you know, from a stock market perspective, we don't want to pay a premium, but it's going to be very, very company specific. Yeah.

Yeah, this is a Canadian dollar 65 billion market cap.

Okay.

And its ticker is Csu. It's on the Toronto Stock Exchange.

Okay, I'll take a look.

Yeah. Can I ask you a question which is nothing to do with the annual statements?

Sure. let me see how much time we have. Yeah.

The question is, what is when they say option trading employs a double digit swing? This is in reference to that, your Mobileye.

Uh-huh.

Uh, on the, um, I guess ready know about that and on they're saying, you know, that, uh, the earning is supposed to come this week, you know, coming week. Um, but they're talking about, you know, this can have a option trading employees.

Ah, okay, okay, I know what you're saying. All right, let me look into that as a separate thing and I'll, I'll answer in the in in the group about that yeah but this is something I'll have to uh research a little bit more the last day the earnings day trading.

Yeah this is what I read in the Seeking Alpha um so they had comments on many of the stocks now this was one of them you know Specifically, they use the term, you know, option trading employees double digit swing.

Okay.

Now, to me, swing can go either way. That's true. But I didn't understand exactly what they're trying to sell me, you know?

Okay, let's take a look and I'll get back to you. Last company, sorry, you're saying?

No, that was the only question I had.

Okay, I'll get you that. I put this retail target as a company to show you something very similar to Dell. You'll see again, not wild swings, but you know, it's a retail company. So what I want to highlight is one point here that is just a 3% revenue growth for target. resulted in an EPS drop of 58%. So, you know, with retail merchandising and, you know, cyclical trends are so important that if you if you lose track of that, even a small drop can can go all the way through the bottom line. You know, it's a 3% revenue growth. Your gross profit is down by 14%, your operating profit is down by 56%. And it just At the end of the year, you're probably just getting rid of merchandise at any cost. That's what happens. The biggest component of your retail is naturally, it's a pretty straightforward analysis. It's 72% of whatever you're selling to your retail customer is the cost of sales. And then you're selling SGA selling general and administrative expenses are high 20%. What are you left with? Pretty much very little to have as in terms of profits. So with retail, you don't have

really R&D and you know that kind of expenses. You will you will be paying retailers tend to borrow money. So you will have a pretty decent amount of net interest expenses. And what people like in retail is that they return money to the shareholder. So this dividend per share is pretty high. And whatever they're earning, they're paying out 40%, 50%, 66% in one year. So if you're an income investor, the dividend will matter to you in a retail company. Sometimes in bad years, you're happy that at least you got 2, 3% or 4% in dividend yield. And the payout ratios are pretty good here. But it's a classic cyclical retail. You have to be extremely, extremely careful. You have to buy it at the right price. Even if you're buying Walmart or Target or any other retail company, merchandising is so important in retail that if you're seeing a prolonged decrease in sales, the merchandiser is not doing something right. You know, the company like Bed Bath and Beyond, which went bankrupt, Saks Avenue, Fifth Avenue has just gone declared bankruptcy. This is a declining trend, but there may be some values where you would want a stable and steady increase. Or you would even find some retail companies which had like a brilliant four or five years, like Abercrombie and Fitch, which which did like a 300% return. But those are rare. So if you're looking to buy retail, just be very, very clear that it's difficult to take out the cyclicity out of retail. And even if you're on a great wicket where you've like seen sales go up over five years, there's a good chance that it may not after that. And, you know, you can see these here. The margins are so low. Yeah. I don't think we have too many retail, too many investors buying retail stocks in the group. All right, let's open it up for questions. We still have eight minutes, so happy to answer anything.

So, it is, means, so understanding the terms, these terms, they will help us understand when a company do their quarterly earnings or annual earnings or annual reports and all.

Right.

However, I do not know if it is, how do we really interpret or, in terms of buying a stock and all. So has done, let's say in a hindsight or in the back in historically, okay, they have done good. But now these newer things that come in, let's say the AI came in or something that kind of shifted the model so much on some of the companies, some segments that started going up and it impacted the other segments. So does it mean that one has to be on a constant lookout on what action to take and come out of here and then go in there and sort of the things. And this is what we are doing here is like more of understanding the fundamentals or understanding how to read their reports, right?

Right, right. So I've kept a section, I think it's chapter four or five, where we look at valuations and price earning ratios of what to buy, what's a good price. for a retail, what's a good price for a SaaS, what's a good price for, say, a mature but still growing company like Google. So yeah, we'll discuss that in one session. And then what I've tried to do is in the

last session, there is a portfolio and risk management sort of a strategy session where, like, if I, like, for example, if I have too many companies in SaaS, And I'm like getting worried now that, look, my whole, this whole industry is going to face some sort of a problem or a obsolescence or competitive threat that, you know, what used to be like a 15, 20% grower and what used to get me 15, 20% a year is now only going to get me 8 to 10% a year. So I may reduce my exposure there. Or, and if you've seen in the, some of the WhatsApp conversations or in the webinars, I've said that, listen, I've done very well in the Credos and all the infrastructure that goes into the data centers. Like last year we did Credo, we've done some Nevius, we've done some A-Labs and companies like that. And I'm saying, look, we've made good money for three years. I want to shift a little bit to the defensives. So I'm adding more Google, I'm adding more Amazon. I'm really contemplating adding more Apple because I want a stock which will only drop 8% this year. So that one session we've kept for portfolio management and strategy and during the webinars also we, if I've sold something or bought something, I try to, you know, see it in the overall portfolio. One of the key things is not to do anything in isolation. if you want, like there was a question on Navitas, which is also going to go into the data centers, a tiny 45 billion, \$45 million company. So you don't want more than 1/4 percent of your portfolio in a Navitas. You have to see it that you have maybe 30 stocks, 40 stocks. You may have like about 10% just in the pure S&P 500 as the index, which is a great defensive to have. You know, those things don't fall as much as the smaller stocks. So keeping that in mind, there is a shift or there is at least a shuffle of where you see that, look, this industry has given me a lot and I want to de-risk a little bit. I don't think Google is going to fall more than 7, 8% this year. I'm safe or Apple, you know, so I am on, I am I have been doing that slowly.

And the other question there is like, typically that 52 week low and high. So that seems like, I think, may not play or may not give that kind of indicator. Because sometimes people tend to buy, even though it is 52 week high, hey, it still makes sense to buy more or get into that one when it is like 52 week high. And once they are, they are 52 week low and then you buy and then it goes down further. So is that like pretty independent of, you know, one should be looking more at the valuations and all. and not go by like 52 week high and low numbers.

Yes, yes, very much. It's 2 totally different things like technical investing and fundamental investing. Yeah.

Okay.

You it's like almost like an I don't know if that's a good analogy of allopath and and what is the other? What is the opposite of the Ayurveda?

Ayurveda and and homeopath.

Yeah, yeah. I I don't know if that's a good enough analogy, but you don't try to mix the two.

I see. I see. They can be looked at it side by side.

Yeah, there are useful points. I'm not saying that a technical analysis is not valuable. It is. But if it helps you in identifying some sort of valuation parameters that look beyond a certain point, I'm not paying this price for Google. I don't want to pay more than 35x earnings. I don't care if the stock is at whatever price it is. This is my rule that I will not have more than 3% of my stocks in high risk, of my portfolio in high risk stocks. That's my rule. And I'm going to stick to it no matter what happens. So like, I think there was a question about nuclear. So to me, nuclear is a great place to be, but we should have bought it two years ago. Today, if I want to buy an Oklo, I'm saying Oklo will take five years for the projects to come through. And what happens to the price then, you know? So you have to like put a limit and say, look, if somebody's making money in Oklo, fine, good for them, or quantum or something, but theoretically on the ground, uh, These are not easy projects. And if you bought it like, 90% cheaper and took a ride, great. some of we did that in some stocks as well. Navitas, I got it at about 3 bucks a share or something. But at 10 bucks, I'm like, I don't want to pay something which is not going to happen for another two years. So I guess there are some.

Exceptions like Tesla and all where the let's say the EPS or those numbers may not be.

Tesla is your You're riding on the man. This is not bad. I mean, there are people who've done very well with Tesla. It's just a different strategy, you know? Oh, OK, got it.

Thank you.

Sure, sure. Yeah. All right. It was a great. It was a great class. I really enjoyed it. And thank you guys so much for joining today. Looking forward to the next one next Saturday. And of course, the webinar is there on Thursday. So if you want to join in. Thank you.

Thank you. Thank you. It's time to shovel the snow now.

Sorry.

It's time to shovel this snow.

Yeah. Thanks.

Thank you. Bye.

Have a good weekend.

You too.

Audio file

[audio1149258735.m4a](#)

Transcript

00:00:00 Speaker 1

Record.

00:00:02 Speaker 1

Alright.

00:00:13 Speaker 1

I think that's better.

00:00:15 Speaker 1

Yeah.

00:00:16 Speaker 1

Hi, everyone.

00:00:17 Speaker 1

Welcome to the 2nd chapter of investing 101.

00:00:21 Speaker 1

I hope everyone can see my screen.

00:00:25 Speaker 1

We're gonna do it a little differently this time.

00:00:29 Speaker 1

And what I'll do is open it up for questions as we move from one spreadsheet to another so that

00:00:38 Speaker 1

you know, we don't have to wait till the end for questions.

00:00:40 Speaker 1

So please, as soon as one spreadsheet gets over, you're welcome to ask questions.

00:00:49 Speaker 1

The second chapter is is going to be on this spreadsheet itself.

00:00:55 Speaker 1

I don't have a prepared file, and at the end of it I will provide a transcript and the file, of course, and the recording.

00:01:06 Speaker 1

So

00:01:08 Speaker 1

Just let's look at how to analyze an income statement.

00:01:12 Speaker 1

And for starters, I chose Google, which is which everybody is mostly familiar with and should give us a good understanding of how to look at a leading winning company that has done extremely well.

00:01:29 Speaker 1

Starting with the revenues, these are 2024 numbers.

00:01:34 Speaker 1

Google had about 350 billion in revenues in 2024, out of which they spent 146 in cost of sales.

00:01:44 Speaker 1

Now, what is cost of sales?

00:01:46 Speaker 1

Cost of sales is a variable cost, and it is anything that is used to produce revenue.

00:01:54 Speaker 1

It's content acquisition.

00:01:56 Speaker 1

For example, you may, you need to pay for the YouTube video that you're acquiring from a creator.

00:02:03 Speaker 1

You need to pay for the traffic for the search.

00:02:06 Speaker 1

And these two will be the largest components of the cost of sales.

00:02:11 Speaker 1

Why is it variable?

00:02:13 Speaker 1

What is the variable component?

00:02:15 Speaker 1

So when we define a term variable, if it is not for producing a revenue or a revenue stream, it's not counted as a cost of sales.

00:02:27 Speaker 1

So that is one crucial importance when you categorize your expenses.

00:02:35 Speaker 1

It has to go into producing revenue.

00:02:38 Speaker 1

And the two biggest examples for Google are content acquisition and traffic acquisition cost.

00:02:45 Speaker 1

Now, traffic acquisition is something that you're paying your distributors, that you're paying your Google Ad Click.

00:02:52 Speaker 1

They have several such intermediaries

00:02:57 Speaker 1

who provide the ads which go into their search revenue.

00:03:03 Speaker 1

One of the key things you have to notice is that the gross profit, which is simply the revenue minus the cost of sales, and it's a fairly high percentage for a company like Google.

00:03:18 Speaker 1

It's 58% right here.

00:03:20 Speaker 1

And this naturally has to be high because if you're

00:03:25 Speaker 1

selling something, you want to make a solid profit out of it to pay for all the other operating expenses, right?

00:03:32 Speaker 1

In Google's case, it's 58%, and it is pretty much been the norm in the past decade or so.

00:03:42 Speaker 1

Let's see what else contributes to what else is there in Google's income statement.

00:03:49 Speaker 1

The R&D is, I call it discretionary,

00:03:53 Speaker 1

but it's mostly a fixed or a critical cost for a tech company.

00:04:00 Speaker 1

If you don't use R&D for your product development, you're going to go obsolete in a very, very short time.

00:04:08 Speaker 1

And this is where you will see that most tech companies will have a significant proportion of R&D.

00:04:16 Speaker 1

And in Google's case, it can easily afford \$50 billion it's generated

00:04:21 Speaker 1

204 billion in gross profits.

00:04:25 Speaker 1

And Google likes to keep it around 13, 15, 16% of revenue because they see it as a necessary component to progress and keep the competitive advantage mainly.

00:04:40 Speaker 1

Sales and marketing, it's a fixed amount of expense every year.

00:04:46 Speaker 1

Fixed in the sense it's not like you don't hire more salespeople, but it's not directly proportional to your revenue.

00:04:53 Speaker 1

Say you may have, since you have 28 billion and say a salesperson is being paid, say \$250,000 a year, he may get, he or she may get bonuses or commissions, but it's not directly linked to, you know, a heavy expansion of revenue.

00:05:14 Speaker 1

General and administration, again, it's a fixed cost.

00:05:17 Speaker 1

It's the variance with sales is pretty, pretty low.

00:05:23 Speaker 1

It's mostly headcount in the case of Google.

00:05:26 Speaker 1

General and administration, as the name suggests, is accounting, back office, technology, DevOps, those kind of things.

00:05:38 Speaker 1

These three total to a bucket of 91 billion.

00:05:43 Speaker 1

and reduce that from your total gross profits gives you an operating income of 112 billion, which is a pretty good number.

00:05:51 Speaker 1

It's it's 32%, which is your operating profit margin, which is operating profit divided by revenue.

00:05:59 Speaker 1

So this is a pretty good, decent percentage of 32%.

00:06:03 Speaker 1

So it's generating a fairly large amount of profit for a company of that size, and, you know, being around for 20

00:06:12 Speaker 1

two decades or more.

00:06:14 Speaker 1

What else is there?

00:06:15 Speaker 1

There is a small component of other income, which is mostly interest from all the cash that they hold.

00:06:25 Speaker 1

They pay about 20 billion in taxes, which is about 17%, leaving it a net income of \$100 billion.

00:06:35 Speaker 1

The net profit margin or the net income margin

00:06:39 Speaker 1

So when I'm saying gross profit margin and gross income margin, it's pretty much the same thing.

00:06:45 Speaker 1

Sometimes, most of the times you'll see profit substituted for income and that's a normal way of 80% of your balance P&L statements or your income statements will have a OPM or a GPM.

00:07:08 Speaker 1

Let's calculate the EPS.

00:07:12 Speaker 1

Here is your share count, which means Google had 12.32 billion shares outstanding at the end of 2024, which gave it a basic earning per share of 100 billion divided by 12.32 billion shares, which is \$8.13.

00:07:32 Speaker 1

I've also provided a diluted share count, which in Google's case is not tremendously different.

00:07:39 Speaker 1

These are basically options and

00:07:41 Speaker 1

restricted stock units or RSU.

00:07:44 Speaker 1

Most of you in tech will be familiar with these and that's really the reason why people get into tech and get shares at a very low cost.

00:07:57 Speaker 1

The diluted earning per share is not tremendously different because it's, you know, Google is a fairly large and mature company.

00:08:06 Speaker 1

That's the price.

00:08:08 Speaker 1

I believe it was 320 or 330.

00:08:11 Speaker 1

The price earning ratio is 39.78, which gives a peg ratio of 1.02.

00:08:17 Speaker 1

This is the Google income statement.

00:08:23 Speaker 1

If you want to ask questions now, please go ahead or we could take it in with the 10 years of Google.

00:08:31 Speaker 1

So an income statement for a year in isolation really doesn't tell you too much about the company and it would make sense to look at it

00:08:41 Speaker 1

over a 10 year period.

00:08:43 Speaker 1

So should I go ahead with that or do you want to ask questions now?

00:08:48 Speaker 2

One question.

00:08:49 Speaker 1

Sure.

00:08:51 Speaker 2

Now, I normally hear on the market, you know, the cash flow.

00:08:55 Speaker 1

Yes.

00:08:57 Speaker 2

Is that going to be, we'll be talking as we go along or I can ask you at this time.

00:09:02 Speaker 1

Oh, I put cash flow and balance sheet for chapter three.

00:09:10 Speaker 2

Okay.

00:09:10 Speaker 1

Yeah, but I will refer to it because I have a ServiceNow cash flow, which I want to show you all because it makes a big difference.

00:09:20 Speaker 1

In Google's case, it's not tremendously different.

00:09:24 Speaker 1

In ServiceNow's case, you have a large stock-based compensation amount where your cash flow per share is significantly higher than the...

00:09:33 Speaker 2

Yeah, like in Amazon, you know?

00:09:35 Speaker 1

Yes, and in several of the startups,

00:09:38 Speaker 1

where your cash flow will be significantly higher.

00:09:41 Speaker 1

So that we've kept a chapter for that.

00:09:43 Speaker 1

And we will talk about the difference between cash flow and net income.

00:09:49 Speaker 1

Okay.

00:09:50 Speaker 1

One thing also I wanted to highlight that the revenue is coming from two big sources, one of which is Google Advertising, which is Google Search, YouTube, and Google Network.

00:10:06 Speaker 1

And you'll see that the Google services total has an operating profit margin of 40%.

00:10:12 Speaker 1

So basically, these are the cash cows which enabled Google to build up Google Cloud.

00:10:19 Speaker 1

Google Cloud, if you remember, was a distant third compared to AWS and Microsoft.

00:10:30 Speaker 1

Because of that, you know, to build it up, you didn't really make any profits.

00:10:34 Speaker 1

You didn't break even for a long time.

00:10:37 Speaker 1

And it was in 2024, I believe, that they started making a decent operating profit margin.

00:10:44 Speaker 1

Now, see, that's 14% right there, but it grew at 33%.

00:10:49 Speaker 1

This is a division that is growing significantly faster than the rest of the company, which is growing around 13, 14%.

00:10:59 Speaker 1

Google also uses a lot of its profits for other bets.

00:11:03 Speaker 1

Waymo is in this bucket here.

00:11:05 Speaker 1

Okay, it has the money, and it uses it to keep increasing its other bets.

00:11:13 Speaker 1

This, you see, it's losing money year after year on a 2 billion revenue.

00:11:17 Speaker 1

It's lost about 4 billion.

00:11:19 Speaker 1

So all these will go into your total OPM, which is a composition of these 3 segments.

00:11:29 Speaker 1

So looking at 10 years of Google, it's clear that...

00:11:36 Speaker 3

Pavishpay had a question.

00:11:37 Speaker 3

Sure, Yeah.

00:11:39 Speaker 3

So all these things, where do you get all this data from?

00:11:42 Speaker 3

Is it available public or?

00:11:44 Speaker 1

Yes, I can.

00:11:46 Speaker 1

I'll send you the.

00:11:46 Speaker 1

It's available on pretty much even the free ones like Yahoo Finance has it, Seeking Alpha starts charging you after.

00:11:55 Speaker 1

eight articles or simply you can download it from sec.gov, which gives you the, I can show you the search also for that.

00:12:05 Speaker 1

It's just a, you download the 10Ks, which are the annual reports.

00:12:09 Speaker 1

Oh, and of course, each of these companies have an investor relations website, which if you go to Alphabet or you go to any other company, there will be a tab for investor relations.

00:12:22 Speaker 1

Everything is there.

00:12:23 Speaker 1

from the quarterlies to the annuals, to every press release, to every conference that they've had.

00:12:30 Speaker 1

Investor relations will have everything and it's all free.

00:12:33 Speaker 3

Okay, so it's not on that shareholder prospectus that we see.

00:12:37 Speaker 1

No, the shareholder prospectus will come during the IPO, the first one.

00:12:42 Speaker 1

And actually that document is so lengthy, it's like about at least sometimes it's 400 pages, but the prospectus will have everything.

00:12:52 Speaker 1

But it won't have for like after the IPO, then you have to get the annual report.

00:12:57 Speaker 1

Oh, I see.

00:12:58 Speaker 3

OK.

00:13:02 Speaker 2

Thanks.

00:13:03 Speaker 2

Yeah, I guess even for the IPO, you cannot read all the pages and all just the initial summary pages and all.

00:13:12 Speaker 2

Yeah.

00:13:12 Speaker 2

That's that's where you make a decision whether you want to get into that or not.

00:13:17 Speaker 1

Right.

00:13:20 Speaker 1

Yeah, but the IPO is very useful.

00:13:23 Speaker 1

I mean, sorry, the prospectus is actually very useful because it tries to give you a reason why you should even take part in the IPO and it'll give you a lot more information which you may not even get in the annual reports much later.

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But it's a stretch reading the whole thing.

00:13:45 Speaker 1

Yeah.

00:13:45 Speaker 2

Yeah, normally there's a lot of sales pitching there also.

00:13:48 Speaker 1

Yes, yes.

00:13:49 Speaker 1

I agree.

00:13:51 Speaker 1

I agree.

00:13:53 Speaker 1

Okay, I I'm making a note that I will put these links on the WhatsApp for any information.

00:14:07 Speaker 1

Sure.

00:14:08 Speaker 1

Okay, let's look at Google for for about 10 years.

00:14:15 Speaker 1

It's it's this is very essential when

00:14:19 Speaker 1

I analyze a company, I hate to look at anything in one year's isolation.

00:14:25 Speaker 1

And you'll see that it's not always a smooth, I mean, it's great that the company has grown from 46, from 75 billion to 350 billion in a short 10 years.

00:14:41 Speaker 1

It's amazing that's for a company of that size to grow that much, which is like a 19%

00:14:49 Speaker 1

revenue growth is pretty solid.

00:14:52 Speaker 1

And even now, in last year, it grew at 14% in 24, in 25, it's probably grown at about 15 or 16%.

00:15:02 Speaker 1

I haven't checked the latest.

00:15:04 Speaker 1

But one thing I want to show you guys here is that if you see why all these costs are very, very, and how it flows to the bottom line.

00:15:18 Speaker 1

Let's do a little, suppose I'm Google, okay, and I'm telling my video creators, listen, I'm going to pay you just, I'm going to reduce your payment or I'm going to not pay as much as I'm earning.

00:15:35 Speaker 1

And if I reduce this by 90 by 3%, you see how much it is going to go straight to the bottom line.

00:15:44 Speaker 1

It had an 8.2 in EPS.

00:15:47 Speaker 1

Suddenly that shot up to 8 47.

00:15:49 Speaker 1

Okay, so if you and if if Google decides, okay, I'm laying off a few people.

00:15:55 Speaker 1

Say, I've reduced my SGNA by 3%.

00:16:00 Speaker 1

Now you suddenly shot up there as well.

00:16:03 Speaker 1

So these these small small differences make a big difference to your EPS of maybe 10 and 12% just doing that.

00:16:16 Speaker 1

So

00:16:17 Speaker 1

Cost control is hugely important.

00:16:20 Speaker 1

Say you could have done the same thing, increase revenues by 2% by charging you more for cost per click or cost per advertising.

00:16:30 Speaker 1

One thing I've highlighted here is that the post COVID, there was a huge jump in 2021.

00:16:39 Speaker 1

Now that's unusual.

00:16:41 Speaker 1

You know, you can't get a 41% revenue growth year after year.

00:16:46 Speaker 1

So because of that indigestion, now see what happens.

00:16:50 Speaker 1

They grow only 10%.

00:16:51 Speaker 1

Now they grow only 9%, and now they're coming back to their longer term average.

00:16:58 Speaker 1

Same thing will happen is your EPS has shot up by 92%.

00:17:01 Speaker 1

Now that's rare.

00:17:04 Speaker 1

Next year, EPS is going to grow less.

00:17:06 Speaker 1

It's actually gone down.

00:17:08 Speaker 1

Net income has gone down.

00:17:10 Speaker 1

So when you look at a company, you need to analyze it at least.

00:17:16 Speaker 1

or a longer term to see that if you see that I'm going to buy Google in 2022 because last year the earnings went up by 92%, that is a rare, rare occurrence, and we should be very careful about that.

00:17:33 Speaker 1

The same thing about margins.

00:17:36 Speaker 1

It's, you know, everything.

00:17:38 Speaker 1

There's something called return to the mean where you get

00:17:44 Speaker 1

Always get back to your average.

00:17:46 Speaker 1

58%, this is very consistent.

00:17:48 Speaker 1

That's your long-term average.

00:17:51 Speaker 1

GPM is about 30%.

00:17:54 Speaker 1

Sorry, the OPM is about 32%.

00:17:59 Speaker 1

The OPM has gone up, and I'll tell you why.

00:18:02 Speaker 1

Because once Google Cloud started making money, you'll start seeing that this is improving a little bit here in these last three years.

00:18:13 Speaker 1

The Google Cloud's expenses used to come in the selling general and the R&D.

00:18:18 Speaker 1

This is where it was.

00:18:20 Speaker 1

Commensurately, the net profit margins are as high as the operating margins because there's really no other expense besides the income tax.

00:18:32 Speaker 1

The R&D revenue is very consistent.

00:18:35 Speaker 1

It's about, you know, 14 to 15% as you can see here.

00:18:41 Speaker 1

Now, look at the SG&A.

00:18:44 Speaker 1

Because this is a fixed component, it used to be as high as 20% of revenue in the year 2015.

00:18:52 Speaker 1

Now, see, it's down to 12%.

00:18:55 Speaker 1

Revenues have shot up so much, but the SG&A has gone up much less.

00:19:02 Speaker 1

So I like to see the growth in the margins being consistent with the growth in revenues, okay?

00:19:12 Speaker 1

What else?

00:19:14 Speaker 1

This is called operating leverage.

00:19:16 Speaker 1

When your revenue has gone up by 19%, but your EPS is going up by 24%, operating income has grown faster.

00:19:24 Speaker 1

So that's a very good sign that, you know, you may make 10% or 15% higher in revenues, but your earnings are going to shoot up faster because your costs are in control and you really don't need to spend much

00:19:39 Speaker 1

with your increasing revenues.

00:19:42 Speaker 1

And then I have a few different companies which will show you like the cyclical Dell or the cyclical Micron or a service provider, SaaS provider like ServiceNow, which will show you how different they are from Google.

00:19:57 Speaker 1

But before moving on, are there any questions on Google?

00:20:01 Speaker 4

Yeah, Bhavesh may.

00:20:03 Speaker 4

I have a question here.

00:20:04 Speaker 4

So EPS, like here, basic EPS, it shows like 8.12.

00:20:09 Speaker 1

Right.

00:20:10 Speaker 4

What is the unit of it?

00:20:11 Speaker 4

Is it cents, dollars or percentage?

00:20:14 Speaker 1

It's units.

00:20:15 Speaker 1

It's dollars, \$8.12, which is basically your net income divided by the shares outstanding right there.

00:20:21 Speaker 1

You see 100 billion divided by 12 billion shares outstanding.

00:20:27 Speaker 4

Okay, so sometimes we see, when the companies declare their results, like EPS isn't like in few cents and all.

00:20:36 Speaker 4

So it's typically a very small number, right?

00:20:40 Speaker 4

Sometimes less than a dollar or so.

00:20:42 Speaker 1

Right.

00:20:43 Speaker 1

But.

00:20:43 Speaker 4

Then the, but if it is positive, the stock kind of jumps, significantly like \$10, \$20 or something like that.

00:20:52 Speaker 4

Right.

00:20:52 Speaker 4

And I understand EPS is like, okay, if there is a growth of this many cents only on a given share, right?

00:20:58 Speaker 4

How come the stock kind of jumps to like \$10, \$20, \$50 on the day of the earnings?

00:21:03 Speaker 4

Yeah.

00:21:04 Speaker 1

Right.

00:21:04 Speaker 1

So here's what happens.

00:21:06 Speaker 1

So a lot of people will bet on the estimated earnings per share or the estimated

00:21:12 Speaker 1

earnings per share growth on that particular day.

00:21:15 Speaker 1

So like for example, every news outlet or every financial outlet will give you an estimate.

00:21:21 Speaker 1

And even I will, when I report, I will say consensus EPS was 50 cents compared to the estimate of 30 cents.

00:21:30 Speaker 1

So people are betting just on that particular day that if it beats by a significant amount, the share will go up.

00:21:41 Speaker 1

On the other side, people may be betting that the EPS will be lower by a certain amount and, you know, the share will go down.

00:21:50 Speaker 1

Now, those are all market dynamics and you pretty much it's it's a it's a gamble the day of the earnings.

00:21:57 Speaker 1

You'll see the fluctuation between, say, four and five of 10%, 20%, because that is against the estimate, whether you beat it or you go below that.

00:22:10 Speaker 1

The other thing is the markets are such that because of the expectation, it may have already been bid up and then, oh, it only beat by 10 cents.

00:22:22 Speaker 1

Okay, I don't want to be in it anymore.

00:22:24 Speaker 1

So it's not necessary that even with a very large beat, you may see the stock falling down.

00:22:31 Speaker 1

So I normally avoid trading during the earnings day because the fluctuation doesn't represent the fundamentals, you know?

00:22:39 Speaker 1

And sometimes it's priced.

00:22:41 Speaker 4

It's not really uniform or not that close.

00:22:45 Speaker 4

Yeah, I mean, it's just a betting means, but this is like significant difference, right?

00:22:50 Speaker 4

Earnings per share, okay, only 50 cents.

00:22:54 Speaker 4

And then jump and stock may jump like \$50 or \$20 or yeah, so there's just a betting part.

00:23:00 Speaker 4

I mean, this is nothing to do, right?

00:23:02 Speaker 4

This is like in line or in ratio with what the company

00:23:08 Speaker 4

has showcased their earnings.

00:23:10 Speaker 1

Yes.

00:23:11 Speaker 1

And what will happen is because you will see the smoothing out or the, if you look at it on an annualized basis, say, and you'll have some very weird situations when, like where the beat has been significant for 1/4 and the stock has gone up 20% and it's probably stayed there up at least 15% higher till the end of the quarter.

00:23:34 Speaker 1

Next quarter it misses.

00:23:37 Speaker 1

Okay.

00:23:37 Speaker 1

It could come back.

00:23:38 Speaker 1

It could come back the same day.

00:23:40 Speaker 1

It could come back over a period of time.

00:23:42 Speaker 1

So yeah, that is mostly technical and sentiment.

00:23:47 Speaker 1

Yeah.

00:23:49 Speaker 1

Okay.

00:23:49 Speaker 1

Thank you.

00:23:50 Speaker 1

Yeah.

00:23:52 Speaker 1

And don't forget one thing, that's a quarterly earning.

00:23:56 Speaker 1

And it's not the annualized, it's not the four quarters together.

00:24:02 Speaker 1

So that plays a part too.

00:24:05 Speaker 1

I'll give you one example.

00:24:06 Speaker 1

So in a case of NVIDIA in May of 2023, the secrecy was so good that they beat earnings by 40% because that's the quarter when they started selling the GPUs to the cloud, the H100s.

00:24:27 Speaker 1

And what was expected to be a 7 billion in revenue came out to be 11 and a half.

00:24:35 Speaker 1

No, and you know, analysts are supposed to be clued into what's going to happen.

00:24:42 Speaker 1

But this was one of those rare times when the beat was genuine.

00:24:46 Speaker 1

You know, there was no expectation of that beat.

00:24:54 Speaker 1

Yeah.

00:24:54 Speaker 1

But those are rare.

00:24:55 Speaker 1

Okay, let's let's have a look at Dell.

00:24:58 Speaker 1

Now, Dell is a computer hardware maker, and you'll see these red

00:25:04 Speaker 1

highlights where the revenue has gone down from 90 to 84, okay, because they're not selling PCs.

00:25:13 Speaker 1

This is of course COVID, so this was expected.

00:25:16 Speaker 1

But same thing happened in 24 when the market was not picking up servers, it was not picking up PCs, it was not picking up infrastructure.

00:25:28 Speaker 1

So a cyclical, you will see this happening and

00:25:33 Speaker 1

What I like to see is that at least in the 10 years, it's still gone from 51 billion to 95 billion.

00:25:40 Speaker 1

So I'm not too unhappy about a company like this.

00:25:43 Speaker 1

It's not like Intel, which went from 77 billion to 56 or 57 billion last year, I forget.

00:25:52 Speaker 1

So a cyclical, you'll see signs like these.

00:25:54 Speaker 1

And where it's going to really hurt you is the net incomes get disproportionately

00:26:03 Speaker 1

killed because Dell doesn't really make that much money.

00:26:08 Speaker 1

It makes a gross profit margin of only 23%.

00:26:11 Speaker 1

We saw in Google's case it was about what, 57 or 58.

00:26:16 Speaker 1

The net profits for Google, for Dell are just 2%.

00:26:21 Speaker 1

So anything here is going to be like a small change is going to make a big change in the EPS or the net net profit margin.

00:26:32 Speaker 1

So

00:26:34 Speaker 1

You have to be extremely careful about buying a cyclical like Dell or any a company which has a low operating or a low gross profit margin because the markets are not pricing these also very high because they see that the revenues fluctuate a lot in 10 years.

00:26:55 Speaker 1

Imagine if you were renting, you bought a property for rent and if the guy

00:27:02 Speaker 1

If the property itself did not give you continuous and, you know, regular rent every year, if the rent changed every year, you will not invest in that property or at least pay a very low amount based on the fluctuation or the volatility.

00:27:21 Speaker 1

In Dell's case, the cost of revenues is extremely high.

00:27:27 Speaker 1

It's the, like you see,

00:27:30 Speaker 1

If the gross profit margin is only 22%, it costs Dell 78% of its revenues to manufacture its computers.

00:27:44 Speaker 1

And that leaves very little for operating and net profits, which are only seven and five.

00:27:51 Speaker 1

So Dell as a result, because it's a commodity, so you see this, this is a sign that it's not spending any money

00:27:59 Speaker 1

making its profit different, making its sorry, it's computer different from any other.

00:28:05 Speaker 1

If you bought a Dell or a Thinkpad, the differences are fairly low.

00:28:13 Speaker 1

Same thing with the servers.

00:28:15 Speaker 1

Now, if you see here, the SDA and A is not very high, but it takes up a lot of the revenue base.

00:28:26 Speaker 1

You see that it's

00:28:28 Speaker 1

It's consistent because there's a lot of fixed cost here also.

00:28:36 Speaker 1

So what happens to an EPS for Dell?

00:28:40 Speaker 1

Over the 10 years, I have seen like a zero because it's, you know, it starts with a negative, negative, negative.

00:28:46 Speaker 1

And then when the going is good, it'll shoot up.

00:28:50 Speaker 1

So when you want to buy a, I've been buying Dell.

00:28:54 Speaker 1

Why?

00:28:54 Speaker 1

Because now I am seeing that there is a little reduction in the cyclicity because the AI servers are now getting to about in the low teens and they will give it like a more stable earning and they're also a lot more profitable.

00:29:11 Speaker 1

So this EPS, I expected to see a little more consistency in the next five or seven years.

00:29:20 Speaker 1

That's the reason why, and the price is very low.

00:29:23 Speaker 1

I believe it has a chance of at least increasing 25% in this year.

00:29:30 Speaker 1

Any questions on Dell or any cyclicals?

00:29:44 Speaker 5

Sorry, not cyclical, but specific to Dell question, do you see a big upgrade cycle coming on account of AI for Dell?

00:29:55 Speaker 1

Yes, they have almost like I put that number, I don't remember it now, but they have like an 18 billion obligation orders.

00:30:05 Speaker 1

The order book is very strong and they've seen that.

00:30:10 Speaker 1

They've only fulfilled, I think, maybe 1/3 of that.

00:30:15 Speaker 1

So I think I could see at least 18 months of AI servers being deployed.

00:30:21 Speaker 1

Yeah.

00:30:23 Speaker 5

And would this be true for the laptops as well?

00:30:28 Speaker 5

I mean, is there a need for customers to upgrade their customer devices equipment?

00:30:35 Speaker 1

Not significantly, but the PC cycle has bottomed out.

00:30:42 Speaker 1

It bottomed out last year.

00:30:44 Speaker 1

The PC cycle normally grows at about 2 to 3% a year, which it did last year for Dell as well.

00:30:52 Speaker 1

But I don't, except for Apple, nobody seems to have a significant need to upgrade.

00:31:00 Speaker 1

But that's a very good question.

00:31:02 Speaker 1

If Dell has is if it's possible for an upgrade there.

00:31:11 Speaker 1

Let me look this look up and see if there's something specific to Dell.

00:31:18 Speaker 1

I'll I'll I'll check this out.

00:31:20 Speaker 1

Yeah.

00:31:25 Speaker 2

Thank you.

00:31:26 Speaker 1

Sure.

00:31:27 Speaker 2

Is there any way, I know you cannot do from the annual statements, you know, but or the, if I want to find out, you know, if Dell is projecting more sales, you know, because of the AI, who are the vendors selling parts to them?

00:31:52 Speaker 2

to put together the machines and they're selling with the laptop or servers or whatever.

00:31:58 Speaker 2

They don't manufacture them.

00:32:00 Speaker 2

They just assemble them and then send them.

00:32:02 Speaker 1

That's a good point.

00:32:03 Speaker 1

It's probably going to be 60 to 80% China.

00:32:08 Speaker 1

And the OEMs, so if that's a play worth looking at, OEMs that supply to Dell?

00:32:18 Speaker 2

Yeah, because their sales are going to go up in as well.

00:32:21 Speaker 1

Yeah, absolutely.

00:32:22 Speaker 2

And the vendors who are selling the parts to them, they will be doing good too.

00:32:27 Speaker 2

So we should be looking into that also.

00:32:31 Speaker 1

Yeah, I'll take a look, see if I can dig up something.

00:32:35 Speaker 1

Yeah.

00:32:37 Speaker 2

What was the main reason for the the sales in the

00:32:44 Speaker 2

in 21 when the or 20, you know, when the Cobra was there, is it because of the QE also or is it just the sales were going up, you know, because everybody was working from home, you know, and they had to buy more equipment now.

00:32:59 Speaker 1

I didn't see it for Dell, unfortunately.

00:33:02 Speaker 1

A lot of people did extremely well because of that.

00:33:04 Speaker 1

And in fact, in 2020, Dell went down.

00:33:08 Speaker 1

I think that was also the PC cycle.

00:33:11 Speaker 1

which didn't seem to benefit Dell because you're absolutely right.

00:33:18 Speaker 1

It probably benefited a lot of other people during 2021.

00:33:24 Speaker 1

So it didn't happen here because Dell has what, the PC division is less than 25%.

00:33:33 Speaker 1

Servers take up a bigger chunk.

00:33:36 Speaker 1

Yeah.

00:33:36 Speaker 1

It didn't happen in COVID.

00:33:40 Speaker 2

Right.

00:33:41 Speaker 1

After it went down, it just grew 2 billion in 21.

00:33:47 Speaker 1

Then it shot up.

00:33:49 Speaker 1

Then it shot up.

00:33:50 Speaker 2

No.

00:33:51 Speaker 1

And then it steadied out.

00:33:53 Speaker 1

And then again, there was some indigestion, which it went down.

00:33:56 Speaker 1

Yeah.

00:33:57 Speaker 2

Yeah, but it's not also true that, you know, even though they may have good earnings, you know, or marginal earnings, you know, the stock goes up, you know, because

00:34:08 Speaker 2

the impact coming from the optional market also, because optional market, you know, has a great role, you know, in playing, you know, the increasing the share value or bringing down and depending on how much shorting has been done and whatnot, that has a big impact on this stock market price, you know, right.

00:34:30 Speaker 1

Yep.

00:34:30 Speaker 1

Yep.

00:34:32 Speaker 2

In fact, is a question because we were talking about if they're making only two cents per share, then how come the stock goes up \$10?

00:34:41 Speaker 2

So that's what I've been thinking of.

00:34:43 Speaker 1

Exactly.

00:34:44 Speaker 1

And that is also easily like any stock before earnings, you'll see the short interest position that's available, but it's old.

00:34:55 Speaker 1

The short interest position is displayed after a lag of days.

00:35:00 Speaker 1

They don't have to report their positions.

00:35:02 Speaker 1

Immediately.

00:35:04 Speaker 1

Say, if you're a short selling firm and you want to corner, short sell something.

00:35:10 Speaker 1

You don't have to report it and most people won't pick it up.

00:35:14 Speaker 1

The number that you'll see.

00:35:16 Speaker 1

Is sometimes it's about a week or 2 weeks old.

00:35:19 Speaker 1

Yeah.

00:35:20 Speaker 1

But it's impossible to.

00:35:23 Speaker 1

I just try not to get.

00:35:26 Speaker 1

You know, involved on.

00:35:28 Speaker 1

Okay.

00:35:33 Speaker 1

Okay, let's look at our favorite Micron, which is done so well for everybody.

00:35:39 Speaker 1

Where is Micron?

00:35:43 Speaker 1

Yeah.

00:35:43 Speaker 1

Let me move this little lower.

00:35:50 Speaker 1

Yeah.

00:35:51 Speaker 1

okay.

00:35:53 Speaker 1

Micron.

00:35:54 Speaker 1

Oh, my God, look at this from 30 billion.

00:35:57 Speaker 1

They crashed to 15

00:36:00 Speaker 1

5 billion, you know, in one year.

00:36:04 Speaker 1

And the there are 2 reasons for that.

00:36:07 Speaker 1

It's not like they sold fewer units.

00:36:11 Speaker 1

They did, but the unit count was about five or 7% lower.

00:36:19 Speaker 1

When it comes to memory, it's like Micron, SK Hynix, and Samsung.

00:36:26 Speaker 1

And these three guys control maybe about 65, 70% of the market.

00:36:30 Speaker 1

And there is a tremendous, tremendous overcapacity in memory.

00:36:37 Speaker 1

So the prices crashed by close to 35 to 40% in one year.

00:36:45 Speaker 1

And that's not too abnormal in in the case of memory.

00:36:50 Speaker 1

So you see this, your revenue drops by 50, your EPS drops by 168%.

00:36:58 Speaker 1

I mean, it's it's a loss that year.

00:37:02 Speaker 1

So again, here you have to be so careful

00:37:07 Speaker 1

went to buy a company like Micron, and today it's what, 360 or something.

00:37:13 Speaker 1

Now, the rise in Micron is also because they've moved to high bandwidth memory, which is now at least 25% of the company.

00:37:24 Speaker 1

And if it hadn't happened, the stock would have was what, 66 when I first bought it.

00:37:30 Speaker 1

I was early in that cycle.

00:37:32 Speaker 1

I bought it in 2023 thinking it's, you know,

00:37:36 Speaker 1

If you see something like this and you believe in the company, there's a good chance that you'll be, you'll likely be early, but it's still worth buying because you can get like a 666 to 350.

00:37:50 Speaker 1

That's like a 6X return.

00:37:53 Speaker 1

But you'll see it like stagnant for a year.

00:37:57 Speaker 1

You'll see it go to 140, then it went back to 75.

00:38:01 Speaker 1

It's a very volatile stock because it's a cyclical.

00:38:05 Speaker 1

But look at the jump now.

00:38:06 Speaker 1

It's gone back to 37.

00:38:08 Speaker 1

In August of 26, revenue is going to be closer to 55 or 60 billion.

00:38:16 Speaker 1

And I think the EPS will probably be closer to 17 or \$18, if not more.

00:38:22 Speaker 1

So you have to catch this at a very, very low price.

00:38:30 Speaker 1

You have to wait for it to ride.

00:38:33 Speaker 1

And you have to, the other thing is now people will look at an EPS of 20 bucks next year and say, oh, Micron is only 350, it's only 17 times EPS.

00:38:46 Speaker 1

It's worth buying.

00:38:48 Speaker 1

With cyclical, sometimes it's the opposite because you are buying at the peak of the cycle.

00:38:55 Speaker 1

Now in Micron's case, okay, you're getting a little bit secularity because of the AI component.

00:39:02 Speaker 1

But in cyclical, sometimes buying at the peak of the cycle is the worst thing.

00:39:07 Speaker 1

You're thinking, okay, the PE is low, the stock is cheap compared to an earnings growth.

00:39:12 Speaker 1

Many times, and I know this because I have bought at the top sometimes.

00:39:17 Speaker 1

So you want to buy it when the EPS is like horrible.

00:39:22 Speaker 1

You know, this is when everybody thinks the world is coming to an end.

00:39:26 Speaker 1

But Micron has been around for

00:39:29 Speaker 1

30, 40 years, it's not going to, and it's the good thing about these components like memory, there are not too many people who do it.

00:39:44 Speaker 1

You need to be really huge.

00:39:46 Speaker 1

SK Hanix is huge.

00:39:48 Speaker 1

It's Samsung is huge.

00:39:50 Speaker 1

And Micron is the only large American company that's doing it.

00:39:56 Speaker 1

You see these margins, how much they fluctuate.

00:39:59 Speaker 1

20, then down to three, and then back to 40, the average is 34.

00:40:08 Speaker 1

13% revenue growth, 52% operating income growth, but with the movements.

00:40:16 Speaker 1

The cost analysis is, look at this, 97% of your revenue in

00:40:25 Speaker 1

in 23 was in cost.

00:40:28 Speaker 1

What profit are you left with?

00:40:29 Speaker 1

Nothing.

00:40:30 Speaker 1

How are you going to cover all these other expenses?

00:40:33 Speaker 1

So you have to be very careful of these things.

00:40:36 Speaker 1

And simply Micron story is over capacity and wild swings in pricing and suddenly now the demand for high bandwidth memory.

00:40:49 Speaker 1

Any questions on Micron?

00:41:01 Speaker 5

No, thank you.

00:41:02 Speaker 1

Sure.

00:41:04 Speaker 1

Okay, let's look at ServiceNow, which is a which is a SaaS company.

00:41:09 Speaker 1

So is a software as a service, which SaaS stands for software as a service.

00:41:19 Speaker 1

It's a superb company.

00:41:21 Speaker 1

Look at that from just about a billion in revenues, it went up to

00:41:25 Speaker 1

11 billion in 2024.

00:41:30 Speaker 1

It gives you like a standard subscription per user per license.

00:41:36 Speaker 1

A lot of people are now moving to the consumption model so that higher, you know, people who consume more of the platform are charged a little more.

00:41:49 Speaker 1

But basically it's revenue comes like per seats.

00:41:52 Speaker 1

And this is getting a lot of is this is this company is facing a few not ServiceNow, but CRM, Salesforce and a few other like Adobe.

00:42:03 Speaker 1

They are facing a lot of problems from AI because why would you pay like, you know, \$250 per license when you can try and get AI to do that work for you much cheaper.

00:42:16 Speaker 1

So there is there is a little bit of slowdown there, but.

00:42:21 Speaker 1

In the case of ServiceNow, the cost of sales is pretty low.

00:42:27 Speaker 1

You see this here, it's only 21% last year with an average of 24% throughout.

00:42:34 Speaker 1

There is no cost to sell this thing.

00:42:38 Speaker 1

There is no variable cost.

00:42:40 Speaker 1

You have a high fixed component with basically the cost of

00:42:47 Speaker 1

maintaining the platform.

00:42:48 Speaker 1

So you'll have a cost of keeping a lot of people, your help desk, your query solvings, your tickets.

00:42:56 Speaker 1

That's where your variable cost will come in.

00:42:59 Speaker 1

And it's usually very low.

00:43:01 Speaker 1

Most of your cost has gone into developing the product and developing the platform.

00:43:06 Speaker 1

So margins are going to be very high.

00:43:08 Speaker 1

It's going to be close to 79% or 80%.

00:43:15 Speaker 1

Operating income

00:43:17 Speaker 1

If you see because the selling in SGA and the R&D, these were a fairly large amount of the cost of revenue.

00:43:26 Speaker 1

So all these SaaS companies take a while to break even.

00:43:30 Speaker 1

They don't break even in the first 5, 7, 8 years.

00:43:35 Speaker 1

And once they get to a critical mass, you'll start seeing some profits coming in here.

00:43:41 Speaker 1

In ServiceNow's case, it started breaking even only in 2019, 42, and that's now gone up because your operating profit margins have gone up as a result.

00:43:57 Speaker 1

The net income, the basic EPS is only 138, but again, this will fluctuate.

00:44:04 Speaker 1

This will go straight to the bottom line if some of these costs come down.

00:44:12 Speaker 1

revenue growth was 30% and the operating income was growing at 27% if you look at it over a 10-year period.

00:44:22 Speaker 1

But the cash flow per share, so I'll show you this cash flow and I've highlighted it and this is the reason.

00:44:30 Speaker 1

So when you have an income statement as per GAAP accounting rules, you have to have to include the stock-based compensation

00:44:41 Speaker 1

as part of an expense.

00:44:42 Speaker 1

Most companies were trying to hide the fact that their expenses were low and they overstated their net income because they would not reflect their stock-based compensation in their income statement.

00:44:59 Speaker 1

So the SEC and GAAP standards, accounting standards made it essential.

00:45:07 Speaker 1

So

00:45:08 Speaker 1

Look at the difference in cash from operations.

00:45:10 Speaker 1

It's 4.2 billion, and the operating income was what?

00:45:17 Speaker 1

1.397.

00:45:18 Speaker 1

Of course, there were a few other components, but the biggest component was this guy here.

00:45:24 Speaker 1

1.8 billion in stock based compensation.

00:45:27 Speaker 1

So in in, if your cash flow per share is not 138, it's closer to 3 bucks.

00:45:35 Speaker 1

Now.

00:45:36 Speaker 1

Why is this important?

00:45:37 Speaker 1

Because a lot of people who work or who only invest in SaaS companies or software companies or tech companies will look at that number, the cash flow per share compared to the basic EPS.

00:45:52 Speaker 1

At, you know, what is the stock price of ServiceNow?

00:45:56 Speaker 1

It's about \$150.

00:45:58 Speaker 1

So that's how much are you paying?

00:46:00 Speaker 1

You're paying a lot.

00:46:02 Speaker 1

you know, for a company that's earning only a dollar 50, you're paying 100 times, but your cash flow per share is closer to 4 bucks or 3 and a half bucks.

00:46:11 Speaker 1

So of course you're paying much less.

00:46:16 Speaker 1

The other thing that we normally look look out for in a software company is that because the stock based compensation is so high.

00:46:25 Speaker 1

The number of shares outstanding keeps increasing every year.

00:46:29 Speaker 1

Like you're going to see this in Corvi, you're going to see this in Nebius because they need to raise money to finance their operations.

00:46:38 Speaker 1

Nebius needs about 15 to \$20 billion just in 26 and 27.

00:46:47 Speaker 1

Sorry.

00:46:47 Speaker 1

So they are going to issue more shares to raise the capital to, you know, deploy more data centers.

00:46:56 Speaker 1

In ServiceNow's case, that has slowed down completely.

00:47:01 Speaker 1

So that's never going to be an issue of dilution, but the share-based compensation will remain high.

00:47:08 Speaker 1

And sometimes as an institutional investor, your rules may prevent you from buying companies which have a high SBC.

00:47:25 Speaker 1

Yeah.

00:47:27 Speaker 1

So in that case, you need to be aware that you may not get enough institutional support where the Sbc's on the higher side.

00:47:41 Speaker 1

Any questions here on on ServiceNow?

00:47:44 Speaker 1

Yeah, go ahead.

00:47:49 Speaker 4

So you mentioned that right?

00:47:51 Speaker 4

So this

00:47:52 Speaker 4

ServiceNow lately and then CRM and Adobe.

00:47:55 Speaker 4

Adobe has been kind of, is going down and down for quite some time now.

00:48:00 Speaker 1

Right.

00:48:01 Speaker 4

And the ServiceNow and CRM, they're kind of fluctuating, but I kind of see lately they have been going down.

00:48:08 Speaker 4

And then as you said, like probably it is the AI impact on them.

00:48:13 Speaker 4

So then what is the take there?

00:48:15 Speaker 4

Are they going to come back?

00:48:17 Speaker 4

These companies have been solid for that matter, Adobe, CRM and ServiceNow have gone to that extent where it looks a lot more promising, but lately they have been, did they reach so high that now, you know, they built in so much of buffer and then they're kind of going down and they will keep going down for some more time?

00:48:36 Speaker 1

My take in Adobe is that the impact is quite a lot.

00:48:43 Speaker 1

And I don't see it growing more than 10% a year, if at all, because there is so much being taken away.

00:48:54 Speaker 1

When was the last time?

00:48:57 Speaker 1

I've been getting all my images for free from, I think, at least four or five sources.

00:49:04 Speaker 1

I don't need to create an image and buy an Adobe license.

00:49:11 Speaker 1

CRM unfortunately also has a slightly similar problem.

00:49:17 Speaker 1

It's become a little bit of a legacy software.

00:49:21 Speaker 1

And even though they're trying very hard to get into the agentic AI bandwagon, or at least try to give that service, the growth has become very, very low.

00:49:35 Speaker 1

It's like maybe 7, 8, 10% a year where

00:49:39 Speaker 1

people have lost faith in Salesforce.

00:49:43 Speaker 1

I believe that for AI to work, you must have data which is within Salesforce.

00:49:53 Speaker 1

Now, I find it hard to believe that OpenAI or even any other large language foundational model

00:50:05 Speaker 1

can do what Salesforce does because it simply doesn't have that much internal data.

00:50:11 Speaker 1

So I'm surprised that the people have lost faith that these guys will not survive.

00:50:18 Speaker 1

I think they will survive.

00:50:19 Speaker 1

They just will not grow as much.

00:50:21 Speaker 1

And that's not just AI.

00:50:23 Speaker 1

They had reached a majority where, you know, it was normal that the growth would slow down.

00:50:30 Speaker 1

ServiceNow's case, I have a little more faith because they're actually trying to do what Palantir does.

00:50:35 Speaker 1

They're giving you a platform which helps you analyze data better.

00:50:42 Speaker 1

It sort of de-silos what's there in all your other software and actually tries to use AI to make it better.

00:50:53 Speaker 1

And you're still seeing about 20, 22% growth for an \$11 billion company.

00:50:59 Speaker 1

But to your point, they are never going to have that kind of a return that they've had in the last 10 years.

00:51:06 Speaker 1

They've they've become mature and there is a devaluation because of the AI component.

00:51:13 Speaker 1

I don't think it's as severe as as it is.

00:51:15 Speaker 1

And you know, if you see better results in the next year or 2, which I think it they will show.

00:51:25 Speaker 1

So

00:51:27 Speaker 1

You just have to be a little more realistic about the expectations from these guys now.

00:51:32 Speaker 1

Yeah.

00:51:35 Speaker 4

Are you saying being more patient and hold sort of situation?

00:51:39 Speaker 1

I think ServiceNow is definitely worth holding and maybe even when it goes down to take another look.

00:51:46 Speaker 1

CRM is a hold, but I want to see a couple more quarters.

00:51:52 Speaker 1

I know it's a little, the visibility is too low right now.

00:51:58 Speaker 1

to, and we may lose a little bit of the price, but CRM is entrenched in so many companies.

00:52:04 Speaker 1

I don't think people are valuing that part of the CRM as much.

00:52:13 Speaker 1

Yeah.

00:52:14 Speaker 1

Okay, thank you.

00:52:15 Speaker 1

In the sense, I think we should probably have to wait for a couple of quarters to see, or, you know, a lot of people will say that

00:52:25 Speaker 1

You know, if I don't see anything and there's an existential threat, why even keep it?

00:52:30 Speaker 1

I don't mind.

00:52:31 Speaker 1

I've made money or I'm, you know, I could put the money somewhere else.

00:52:36 Speaker 1

Yeah.

00:52:37 Speaker 4

So by the way, is it the same reason impacting Workday?

00:52:42 Speaker 4

And yeah, although not as much, but Workday has been kind of going down and down.

00:52:48 Speaker 1

Yeah, yeah, yeah.

00:52:50 Speaker 1

Workday is a bit worrying because I don't, I'm surprised.

00:52:55 Speaker 1

But if maybe there are some people who figured that part out, that, but even the prices are low now.

00:53:06 Speaker 1

It's not like you're paying a premium for any of these guys.

00:53:09 Speaker 1

Maybe that the whole, the whole paradigm of like SaaS companies is suddenly under threat.

00:53:17 Speaker 1

But threat in terms of valuations, yes, I don't see threat in terms of business models.

00:53:25 Speaker 1

The only thing is we may not make much money out of it.

00:53:28 Speaker 1

That's the big thing.

00:53:29 Speaker 1

Yeah.

00:53:30 Speaker 1

Then why invest, right?

00:53:33 Speaker 4

That's right.

00:53:33 Speaker 4

Yeah.

00:53:34 Speaker 4

I mean, from the stock market side, from the outside of the stock, if AI is going to be taking over and it's a shift.

00:53:45 Speaker 1

It's a shift, yes.

00:53:46 Speaker 1

But how, you know, OpenAI can't do

00:53:52 Speaker 1

It doesn't have the data from, you know, all the customers that ServiceNow has or Salesforce has.

00:54:01 Speaker 1

So it's, let's give it a couple of quarters and we'll probably get some better answers as we find out more.

00:54:11 Speaker 1

Yeah.

00:54:13 Speaker 4

OK, got it.

00:54:14 Speaker 4

Thank you.

00:54:14 Speaker 1

Sorry, someone else had a question.

00:54:16 Speaker 3

Yeah, it's me.

00:54:17 Speaker 3

Yeah, I had a question.

00:54:20 Speaker 3

Sometimes, when they are talking about the stock and how it's doing and all, they talk about CAGR, but they talk as if it's like one thing, but here I see like 4 line items for this.

00:54:33 Speaker 3

So what exactly are we looking at?

00:54:35 Speaker 3

Sure, they're talking about.

00:54:36 Speaker 1

Yeah, so ideally I would like to see my profits grow higher than my revenue.

00:54:41 Speaker 1

So your revenue is for the last 10 years from 15 to 26, that's grown at 30%.

00:54:48 Speaker 1

My gross profit has grown as 33%, which is good.

00:54:52 Speaker 1

I want my profits to always grow faster than my revenues.

00:54:55 Speaker 1

Now, operating income has only grown at 27%, but that's because it was negative when we started in December 15.

00:55:08 Speaker 1

And same thing with the EPS was also negative.

00:55:11 Speaker 1

But in Google's case,

00:55:16 Speaker 1

It's positive all around.

00:55:17 Speaker 1

The revenue grew at 19%.

00:55:20 Speaker 1

The CAGR, which is a compounded annual growth rate from 2015 to 24, gross profit grew at 18%.

00:55:29 Speaker 1

Operating income grew at 22%, which is great.

00:55:32 Speaker 1

It's three points higher.

00:55:34 Speaker 1

And the EPS grew at 24%, which is even better.

00:55:37 Speaker 1

So I want to see these two grow much faster than revenues over a 10 year period.

00:55:46 Speaker 1

All right, thanks.

00:55:46 Speaker 1

I always look at all four.

00:55:48 Speaker 1

Yeah.

00:55:51 Speaker 5

Okay.

00:55:52 Speaker 5

Barisara, on the theme of software, you know, getting impacted by AI, another company that not for today, but just for your consideration for review is Constellation software from Canada.

00:56:09 Speaker 1

Okay.

00:56:12 Speaker 5

Been a star for many years, and now suddenly this year they've been hammered so much.

00:56:17 Speaker 5

So your view on this?

00:56:20 Speaker 1

What's the ticker?

00:56:22 Speaker 5

CSU.

00:56:23 Speaker 1

CSU.

00:56:24 Speaker 5

TO.

00:56:25 Speaker 5

TO.

00:56:27 Speaker 1

Nice.

00:56:28 Speaker 1

Let me take a look.

00:56:29 Speaker 1

Yeah.

00:56:30 Speaker 1

Sure.

00:56:32 Speaker 1

Any idea what they do?

00:56:33 Speaker 1

What's the what's so?

00:56:35 Speaker 5

Yeah, they're serial acquirers and they've institutionalized

00:56:42 Speaker 5

you know, taking on smaller software companies in, you know, different verticals.

00:56:48 Speaker 5

And they've been so successful that they've had three or four spin offs of focusing only on this.

00:56:55 Speaker 5

But in the last year, because of this theme of AI hammering software, they've also been on the receiving end.

00:57:05 Speaker 1

Right, right, right, right.

00:57:07 Speaker 1

Interesting.

00:57:07 Speaker 1

I'll take a look.

00:57:09 Speaker 1

Yeah, this is a trend.

00:57:13 Speaker 1

I'm also a little worried about it, but I have a hard time wrapping around how they're going to beat these guys.

00:57:20 Speaker 1

I mean, I'm sure, you know, from a stock market perspective, we don't want to pay a premium, but it's going to be very, very company specific.

00:57:31 Speaker 1

Yeah.

00:57:32 Speaker 5

Yeah, this is a Canadian dollar 65 billion market cap.

00:57:38 Speaker 1

Okay.

00:57:39 Speaker 5

And it's ticker is Csu.

00:57:43 Speaker 5

It's on the Toronto Stock Exchange.

00:57:45 Speaker 1

Okay, I'll take a look.

00:57:53 Speaker 2

Yeah.

00:57:53 Speaker 2

Can I ask you a question which is nothing to do with the annual statements?

00:57:58 Speaker 1

Sure.

00:57:59 Speaker 1

let me see how much time we have.

00:58:02 Speaker 1

Yeah.

00:58:03 Speaker 2

The question is, what is when they say option trading employs a double digit swing?

00:58:16 Speaker 2

This is in reference to that, your Mobileye.

00:58:20 Speaker 1

Uh-huh.

00:58:20 Speaker 2

Uh, on the, um, I guess ready know about that and on they're saying, you know, that, uh, the earning is supposed to come this week, you know, coming week.

00:58:30 Speaker 2

Um, but they're talking about, you know, this can have a option trading employees.

00:58:35 Speaker 1

Ah, okay, okay, I know what you're saying.

00:58:37 Speaker 1

All right, let me look into that as a separate thing and I'll, I'll

00:58:41 Speaker 1

answer in the in in the group about that yeah but this is something I'll have to uh research a little bit more the last day the earnings day trading.

00:58:52 Speaker 2

Yeah this is what I read in the Seeking Alpha um so they had comments on many of the stocks now this was one of them you know

00:59:04 Speaker 2

Specifically, they use the term, you know, option trading employees double digit swing.

00:59:09 Speaker 1

Okay.

00:59:10 Speaker 2

Now, to me, swing can go either way.

00:59:12 Speaker 2

That's true.

00:59:16 Speaker 2

But I didn't understand exactly what they're trying to sell me, you know?

00:59:22 Speaker 1

Okay, let's take a look and I'll get back to you.

00:59:26 Speaker 1

Last company, sorry, you're saying?

00:59:30 Speaker 2

No, that was the only question I had.

00:59:32 Speaker 1

Okay, I'll get you that.

00:59:35 Speaker 1

I put this retail target as a company to show you something very similar to Dell.

00:59:45 Speaker 1

You'll see again, not wild swings, but you know, it's a retail company.

00:59:52 Speaker 1

So what I want to highlight is one point here that is just a 3% revenue growth for target.

01:00:00 Speaker 1

resulted in an EPS drop of 58%.

01:00:03 Speaker 1

So, you know, with retail merchandising and, you know, cyclical trends are so important that if you if you lose track of that, even a small drop can go all the way through the bottom line.

01:00:21 Speaker 1

You know, it's a 3% revenue growth.

01:00:23 Speaker 1

Your gross profit is down by 14%, your operating profit is down by 56%.

01:00:28 Speaker 1

And it just

01:00:31 Speaker 1

At the end of the year, you're probably just getting rid of merchandise at any cost.

01:00:35 Speaker 1

That's what happens.

01:00:38 Speaker 1

The biggest component of your retail is naturally, it's a pretty straightforward analysis.

01:00:45 Speaker 1

It's 72% of whatever you're selling to your retail customer is the cost of sales.

01:00:53 Speaker 1

And then you're selling SGA

01:00:59 Speaker 1

selling general and administrative expenses are high 20%.

01:01:03 Speaker 1

What are you left with?

01:01:06 Speaker 1

Pretty much very little to have as in terms of profits.

01:01:10 Speaker 1

So with retail, you don't have really R&D and you know that kind of expenses.

01:01:18 Speaker 1

You will you will be paying retailers tend to borrow money.

01:01:21 Speaker 1

So you will have a pretty decent amount of net interest expenses.

01:01:26 Speaker 1

And what

01:01:28 Speaker 1

people like in retail is that they return money to the shareholder.

01:01:32 Speaker 1

So this dividend per share is pretty high.

01:01:35 Speaker 1

And whatever they're earning, they're paying out 40%, 50%, 66% in one year.

01:01:42 Speaker 1

So if you're an income investor, the dividend will matter to you in a retail company.

01:01:50 Speaker 1

Sometimes in bad years, you're happy that at least you got 2, 3% or 4% in dividend yield.

01:01:58 Speaker 1

And the payout ratios are pretty good here.

01:02:01 Speaker 1

But it's a classic cyclical retail.

01:02:05 Speaker 1

You have to be extremely, extremely careful.

01:02:07 Speaker 1

You have to buy it at the right price.

01:02:10 Speaker 1

Even if you're buying Walmart or Target or any other retail company, merchandising is so important in retail that if you're seeing a prolonged

01:02:25 Speaker 1

decrease in sales, the merchandiser is not doing something right.

01:02:31 Speaker 1

You know, the company like Bed Bath and Beyond, which went bankrupt, Saks Avenue, Fifth Avenue has just gone declared bankruptcy.

01:02:39 Speaker 1

This is a declining trend, but there may be some values where you would want a stable and steady increase.

01:02:51 Speaker 1

Or you would even find some retail companies

01:02:54 Speaker 1

which had like a brilliant four or five years, like Abercrombie and Fitch, which which did like a 300% return.

01:03:01 Speaker 1

But those are rare.

01:03:03 Speaker 1

So if you're looking to buy retail, just be very, very clear that it's difficult to take out the cyclicity out of retail.

01:03:11 Speaker 1

And even if you're on a great wicket where you've like seen sales go up over five years, there's a good chance that it may not after that.

01:03:24 Speaker 1

And, you know, you can see these here.

01:03:29 Speaker 1

The margins are so low.

01:03:31 Speaker 1

Yeah.

01:03:34 Speaker 1

I don't think we have too many retail, too many investors buying retail stocks in the group.

01:03:43 Speaker 1

All right, let's open it up for questions.

01:03:44 Speaker 1

We still have eight minutes, so happy to answer anything.

01:03:58 Speaker 4

So, it is, means, so understanding the terms, these terms, they will help us understand when a company do their quarterly earnings or annual earnings or annual reports and all.

01:04:12 Speaker 1

Right.

01:04:13 Speaker 4

However, I do not know if it is, how do we really interpret or,

01:04:21 Speaker 4

in terms of buying a stock and all.

01:04:23 Speaker 4

So has done, let's say in a hindsight or in the back in historically, okay, they have done good.

01:04:30 Speaker 4

But now these newer things that come in, let's say the AI came in or something that kind of shifted the model so much on some of the companies, some segments that started going up and it impacted the other segments.

01:04:44 Speaker 4

So does it mean that one has to be on a constant lookout

01:04:48 Speaker 4

on what action to take and come out of here and then go in there and sort of the things.

01:04:55 Speaker 4

And this is what we are doing here is like more of understanding the fundamentals or understanding how to read their reports, right?

01:05:03 Speaker 1

Right, right.

01:05:04 Speaker 1

So I've kept a section, I think it's chapter four or five, where we look at valuations and price earning ratios of what to buy, what's a good price.

01:05:17 Speaker 1

for a retail, what's a good price for a SaaS, what's a good price for, say, a mature but still growing company like Google.

01:05:27 Speaker 1

So yeah, we'll discuss that in one session.

01:05:30 Speaker 1

And then what I've tried to do is in the last session, there is a portfolio and risk management sort of a strategy session where, like, if I, like, for example, if I have too many companies in SaaS,

01:05:45 Speaker 1

And I'm like getting worried now that, look, my whole, this whole industry is going to face some sort of a problem or a obsolescence or competitive threat that, you know, what used to be like a 15, 20% grower and what used to get me 15, 20% a year is now only going to get me 8 to 10% a year.

01:06:05 Speaker 1

So I may reduce my exposure there.

01:06:09 Speaker 1

Or, and if you've seen in the, some of the WhatsApp conversations or in the webinars,

01:06:15 Speaker 1

I've said that, listen, I've done very well in the Credos and all the infrastructure that goes into the data centers.

01:06:25 Speaker 1

Like last year we did Credo, we've done some Nevius, we've done some A-Labs and companies like that.

01:06:32 Speaker 1

And I'm saying, look, we've made good money for three years.

01:06:35 Speaker 1

I want to shift a little bit to the defensives.

01:06:38 Speaker 1

So I'm adding more Google, I'm adding more Amazon.

01:06:41 Speaker 1

I'm really contemplating

01:06:43 Speaker 1

adding more Apple because I want a stock which will only drop 8% this year.

01:06:49 Speaker 1

So that one session we've kept for portfolio management and strategy and during the webinars also we, if I've sold something or bought something, I try to, you know, see it in the overall portfolio.

01:07:04 Speaker 1

One of the key things is not to do anything in isolation.

01:07:09 Speaker 1

if you want, like there was a question on Navitas, which is also going to go into the data centers, a tiny 45 billion, \$45 million company.

01:07:17 Speaker 1

So you don't want more than 1/4 percent of your portfolio in a Navitas.

01:07:22 Speaker 1

You have to see it that you have maybe 30 stocks, 40 stocks.

01:07:26 Speaker 1

You may have like about 10% just in the pure S&P 500 as the index, which is a great defensive to have.

01:07:34 Speaker 1

You know, those things don't

01:07:35 Speaker 1

fall as much as the smaller stocks.

01:07:39 Speaker 1

So keeping that in mind, there is a shift or there is at least a shuffle of where you see that, look, this industry has given me a lot and I want to de-risk a little bit.

01:07:55 Speaker 1

I don't think Google is going to fall more than 7, 8% this year.

01:07:59 Speaker 1

I'm safe or Apple, you know, so I am on, I am

01:08:05 Speaker 1

I have been doing that slowly.

01:08:09 Speaker 4

And the other question there is like, typically that 52 week low and high.

01:08:15 Speaker 4

So that seems like, I think, may not play or may not give that kind of indicator.

01:08:24 Speaker 4

Because sometimes people tend to buy, even though it is 52 week high, hey, it still makes sense to buy more or get into that one when it is like 52 week high.

01:08:35 Speaker 4

And once they are, they are 52 week low and then you buy and then it goes down further.

01:08:42 Speaker 4

So is that like pretty independent of, you know, one should be looking more at the valuations and all.

01:08:49 Speaker 4

and not go by like 52 week high and low numbers.

01:08:53 Speaker 1

Yes, yes, very much.

01:08:55 Speaker 1

It's 2 totally different things like technical investing and fundamental investing.

01:09:01 Speaker 1

Yeah.

01:09:02 Speaker 4

Okay.

01:09:03 Speaker 1

You it's like almost like an I don't know if that's a good analogy of allopath and and what is the other?

01:09:09 Speaker 1

What is the opposite of the Ayurveda?

01:09:11 Speaker 4

Ayurveda and and homeopath.

01:09:13 Speaker 1

Yeah, yeah.

01:09:13 Speaker 1

I I don't know if that's a good enough analogy, but you don't try to mix the two.

01:09:21 Speaker 4

I see.

01:09:21 Speaker 4

I see.

01:09:23 Speaker 4

They can be looked at it side by side.

01:09:26 Speaker 1

Yeah, there are useful points.

01:09:29 Speaker 1

I'm not saying that a technical analysis is not valuable.

01:09:33 Speaker 1

It is.

01:09:34 Speaker 1

But if it helps you in identifying some sort of valuation parameters that look beyond a certain point, I'm not paying this price for Google.

01:09:47 Speaker 1

I don't want to pay more than 35x earnings.

01:09:49 Speaker 1

I don't care if the stock is at whatever price it is.

01:09:54 Speaker 1

This is my rule that I will not have more than 3% of my stocks in high risk, of my portfolio in high risk stocks.

01:10:05 Speaker 1

That's my rule.

01:10:06 Speaker 1

And I'm going to stick to it no matter what happens.

01:10:09 Speaker 1

So like, I think there was a question about nuclear.

01:10:13 Speaker 1

So to me, nuclear is a great place to be, but we should have bought it two years ago.

01:10:19 Speaker 1

Today, if I want to buy an Oklo, I'm saying Oklo will take five years for the projects to come through.

01:10:26 Speaker 1

And what happens to the price then, you know?

01:10:29 Speaker 1

So you have to like put a limit and say, look, if somebody's making money in Oklo, fine, good for them, or quantum or something, but theoretically on the ground, uh,

01:10:42 Speaker 1

These are not easy projects.

01:10:44 Speaker 1

And if you bought it like, 90% cheaper and took a ride, great.

01:10:51 Speaker 1

some of we did that in some stocks as well.

01:10:53 Speaker 1

Navitas, I got it at about 3 bucks a share or something.

01:10:57 Speaker 1

But at 10 bucks, I'm like, I don't want to pay something which is not going to happen for another two years.

01:11:03 Speaker 1

So I guess there are some.

01:11:04 Speaker 4

Exceptions like Tesla and all where the let's say the EPS or those numbers may not be.

01:11:09 Speaker 1

Tesla is your

01:11:12 Speaker 1

You're riding on the man.

01:11:14 Speaker 1

This is not bad.

01:11:15 Speaker 1

I mean, there are people who've done very well with Tesla.

01:11:18 Speaker 1

It's just a different strategy, you know?

01:11:22 Speaker 1

Oh, OK, got it.

01:11:24 Speaker 4

Thank you.

01:11:25 Speaker 1

Sure, sure.

01:11:26 Speaker 1

Yeah.

01:11:36 Speaker 1

All right.

01:11:36 Speaker 1

It was a great.

01:11:39 Speaker 1

It was a great class.

01:11:41 Speaker 1

I really enjoyed it.

01:11:42 Speaker 1

And thank you guys so much for joining today.

01:11:46 Speaker 1

Looking forward to the next one next Saturday.

01:11:49 Speaker 1

And of course, the webinar is there on Thursday.

01:11:51 Speaker 1

So if you want to join in.

01:11:54 Speaker 1

Thank you.

01:11:55 Speaker 2

Thank you.

01:11:55 Speaker 2

Thank you.

01:11:56 Speaker 2

It's time to shovel the snow now.

01:11:59 Speaker 1

Sorry.

01:12:00 Speaker 2

It's time to shovel this snow.

01:12:04 Speaker 1

Yeah.

01:12:06 Speaker 1

Thanks.

01:12:07 Speaker 5

Thank you.

01:12:07 Speaker 5

Bye.

01:12:08 Speaker 2

Have a good weekend.

01:12:09 Speaker 1

You too.

Audio file

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Transcript

Record. Alright. I think that's better. Yeah. Hi, everyone. Welcome to the 2nd chapter of investing 101. I hope everyone can see my screen. We're gonna do it a little differently this time. And what I'll do is open it up for questions as we move from one spreadsheet to another so that you know, we don't have to wait till the end for questions. So please, as soon as one spreadsheet gets over, you're welcome to ask questions. The second chapter is going to be on this spreadsheet itself. I don't have a prepared file, and at the end of it I will provide a transcript and the file, of course, and the recording. So Just let's look at how to analyze an income statement. And for starters, I chose Google, which is which everybody is mostly familiar with and should give us a good understanding of how to look at a leading winning company that has done extremely well. Starting with the revenues, these are 2024 numbers. Google had about 350 billion in revenues in 2024, out of which they spent 146 in cost of sales. Now, what is cost of sales? Cost of sales is a variable cost, and it is anything that is used to produce revenue. It's content acquisition. For example, you may, you need to pay for the YouTube video that you're acquiring from a creator. You need to pay for the traffic for the search. And these two will be the largest components of the cost of sales. Why is it variable? What is the variable component? So when we define a term variable, if it is not for producing a revenue or a revenue stream, it's not counted as a cost of sales. So that is one crucial importance when you categorize your expenses. It has to go into producing revenue. And the two biggest examples for Google are content acquisition and traffic acquisition cost. Now, traffic acquisition is something that you're paying your distributors, that you're paying your Google Ad Click. They have several such intermediaries who provide the ads which go into their search revenue. One of the key things you have to notice is that the gross profit, which is simply the revenue minus the cost of sales, and it's a fairly high percentage for a company like Google. It's 58% right here. And this naturally has to be high because if you're selling something, you want to make a solid profit out of it to pay for all the other operating expenses, right? In Google's case, it's 58%, and it is pretty much been the norm in the past decade or so. Let's see what else contributes to what else is there in Google's income statement. The R&D is, I call it

discretionary, but it's mostly a fixed or a critical cost for a tech company. If you don't use R&D for your product development, you're going to go obsolete in a very, very short time. And this is where you will see that most tech companies will have a significant proportion of R&D. And in Google's case, it can easily afford \$50 billion it's generated 204 billion in gross profits. And Google likes to keep it around 13, 15, 16% of revenue because they see it as a necessary component to progress and keep the competitive advantage mainly. Sales and marketing, it's a fixed amount of expense every year. Fixed in the sense it's not like you don't hire more salespeople, but it's not directly proportional to your revenue. Say you may have, since you have 28 billion and say a salesperson is being paid, say \$250,000 a year, he may get, he or she may get bonuses or commissions, but it's not directly linked to, you know, a heavy expansion of revenue. General and administration, again, it's a fixed cost. It's the variance with sales is pretty, pretty low. It's mostly headcount in the case of Google. General and administration, as the name suggests, is accounting, back office, technology, DevOps, those kind of things. These three total to a bucket of 91 billion. and reduce that from your total gross profits gives you an operating income of 112 billion, which is a pretty good number. It's it's 32%, which is your operating profit margin, which is operating profit divided by revenue. So this is a pretty good, decent percentage of 32%. So it's generating a fairly large amount of profit for a company of that size, and, you know, being around for 20 two decades or more. What else is there? There is a small component of other income, which is mostly interest from all the cash that they hold. They pay about 20 billion in taxes, which is about 17%, leaving it a net income of \$100 billion. The net profit margin or the net income margin So when I'm saying gross profit margin and gross income margin, it's pretty much the same thing. Sometimes, most of the times you'll see profit substituted for income and that's a normal way of 80% of your balance P&L statements or your income statements will have a OPM or a GPM. Let's calculate the EPS. Here is your share count, which means Google had 12.32 billion shares outstanding at the end of 2024, which gave it a basic earning per share of 100 billion divided by 12.32 billion shares, which is \$8.13. I've also provided a diluted share count, which in Google's case is not tremendously different. These are basically options and restricted stock units or RSU. Most of you in tech will be familiar with these and that's really the reason why people get into tech and get shares at a very low cost. The diluted earning per share is not tremendously different because it's, you know, Google is a fairly large and mature company. That's the price. I believe it was 320 or 330. The price earning ratio is 39.78, which gives a peg ratio of 1.02. This is the Google income statement. If you want to ask questions now, please go ahead or we could take it in with the 10 years of Google. So an income statement for a year in isolation really doesn't tell you too much about the company and it would make sense to look at it over a 10 year period. So should I go ahead with that or do you want to ask questions now?

One question.

Sure.

Now, I normally hear on the market, you know, the cash flow.

Yes.

Is that going to be, we'll be talking as we go along or I can ask you at this time.

Oh, I put cash flow and balance sheet for chapter three.

Okay.

Yeah, but I will refer to it because I have a ServiceNow cash flow, which I want to show you all because it makes a big difference. In Google's case, it's not tremendously different. In ServiceNow's case, you have a large stock-based compensation amount where your cash flow per share is significantly higher than the...

Yeah, like in Amazon, you know?

Yes, and in several of the startups, where your cash flow will be significantly higher. So that we've kept a chapter for that. And we will talk about the difference between cash flow and net income. Okay. One thing also I wanted to highlight that the revenue is coming from two big sources, one of which is Google Advertising, which is Google Search, YouTube, and Google Network. And you'll see that the Google services total has an operating profit margin of 40%. So basically, these are the cash cows which enabled Google to build up Google Cloud. Google Cloud, if you remember, was a distant third compared to AWS and Microsoft. Because of that, you know, to build it up, you didn't really make any profits. You didn't break even for a long time. And it was in 2024, I believe, that they started making a decent operating profit margin. Now, see, that's 14% right there, but it grew at 33%. This is a division that is growing significantly faster than the rest of the company, which is growing around 13, 14%. Google also uses a lot of its profits for other bets. Waymo is in this bucket here. Okay, it has the money, and it uses it to keep increasing its other bets. This, you see, it's losing money year after year on a 2 billion revenue. It's lost about 4 billion. So all these will go into your total OPM, which is a composition of these 3 segments. So looking at 10 years of Google, it's clear that...

Pavishpay had a question. Sure, Yeah. So all these things, where do you get all this data from? Is it available public or?

Yes, I can. I'll send you the. It's available on pretty much even the free ones like Yahoo Finance has it, Seeking Alpha starts charging you after. eight articles or simply you can download it from sec.gov, which gives you the, I can show you the search also for that. It's

just a, you download the 10Ks, which are the annual reports. Oh, and of course, each of these companies have an investor relations website, which if you go to Alphabet or you go to any other company, there will be a tab for investor relations. Everything is there. from the quarterlies to the annuals, to every press release, to every conference that they've had. Investor relations will have everything and it's all free.

Okay, so it's not on that shareholder prospectus that we see.

No, the shareholder prospectus will come during the IPO, the first one. And actually that document is so lengthy, it's like about at least sometimes it's 400 pages, but the prospectus will have everything. But it won't have for like after the IPO, then you have to get the annual report. Oh, I see.

OK.

Thanks. Yeah, I guess even for the IPO, you cannot read all the pages and all just the initial summary pages and all. Yeah. That's that's where you make a decision whether you want to get into that or not.

Right. Yeah, but the IPO is very useful. I mean, sorry, the prospectus is actually very useful because it tries to give you a reason why you should even take part in the IPO and it'll give you a lot more information which you may not even get in the annual reports much later. But it's a stretch reading the whole thing. Yeah.

Yeah, normally there's a lot of sales pitching there also.

Yes, yes. I agree. I agree. Okay, I I'm making a note that I will put these links on the WhatsApp for any information. Sure. Okay, let's look at Google for for about 10 years. It's it's this is very essential when I analyze a company, I hate to look at anything in one year's isolation. And you'll see that it's not always a smooth, I mean, it's great that the company has grown from 46, from 75 billion to 350 billion in a short 10 years. It's amazing that's for a company of that size to grow that much, which is like a 19% revenue growth is pretty solid. And even now, in last year, it grew at 14% in 24, in 25, it's probably grown at about 15 or 16%. I haven't checked the latest. But one thing I want to show you guys here is that if you see why all these costs are very, very, and how it flows to the bottom line. Let's do a little, suppose I'm Google, okay, and I'm telling my video creators, listen, I'm going to pay you just, I'm going to reduce your payment or I'm going to not pay as much as I'm earning. And if I reduce this by 90 by 3%, you see how much it is going to go straight to the bottom line. It had an 8.2 in EPS. Suddenly that shot up to 8 47. Okay, so if you and if if Google decides, okay, I'm laying off a few people. Say, I've reduced my SGNA by 3%. Now you suddenly shot up there as well. So these these small small differences make a big difference to your EPS

of maybe 10 and 12% just doing that. So Cost control is hugely important. Say you could have done the same thing, increase revenues by 2% by charging you more for cost per click or cost per advertising. One thing I've highlighted here is that the post COVID, there was a huge jump in 2021. Now that's unusual. You know, you can't get a 41% revenue growth year after year. So because of that indigestion, now see what happens. They grow only 10%. Now they grow only 9%, and now they're coming back to their longer term average. Same thing will happen is your EPS has shot up by 92%. Now that's rare. Next year, EPS is going to grow less. It's actually gone down. Net income has gone down. So when you look at a company, you need to analyze it at least. or a longer term to see that if you see that I'm going to buy Google in 2022 because last year the earnings went up by 92%, that is a rare, rare occurrence, and we should be very careful about that. The same thing about margins. It's, you know, everything. There's something called return to the mean where you get Always get back to your average. 58%, this is very consistent. That's your long-term average. GPM is about 30%. Sorry, the OPM is about 32%. The OPM has gone up, and I'll tell you why. Because once Google Cloud started making money, you'll start seeing that this is improving a little bit here in these last three years. The Google Cloud's expenses used to come in the selling general and the R&D. This is where it was. Commensurately, the net profit margins are as high as the operating margins because there's really no other expense besides the income tax. The R&D revenue is very consistent. It's about, you know, 14 to 15% as you can see here. Now, look at the SG&A. Because this is a fixed component, it used to be as high as 20% of revenue in the year 2015. Now, see, it's down to 12%. Revenues have shot up so much, but the SG&A has gone up much less. So I like to see the growth in the margins being consistent with the growth in revenues, okay? What else? This is called operating leverage. When your revenue has gone up by 19%, but your EPS is going up by 24%, operating income has grown faster. So that's a very good sign that, you know, you may make 10% or 15% higher in revenues, but your earnings are going to shoot up faster because your costs are in control and you really don't need to spend much with your increasing revenues. And then I have a few different companies which will show you like the cyclical Dell or the cyclical Micron or a service provider, SaaS provider like ServiceNow, which will show you how different they are from Google. But before moving on, are there any questions on Google?

Yeah, Bhavesh may. I have a question here. So EPS, like here, basic EPS, it shows like 8.12.

Right.

What is the unit of it? Is it cents, dollars or percentage?

It's units. It's dollars, \$8.12, which is basically your net income divided by the shares outstanding right there. You see 100 billion divided by 12 billion shares outstanding.

Okay, so sometimes we see, when the companies declare their results, like EPS isn't like in few cents and all. So it's typically a very small number, right? Sometimes less than a dollar or so.

Right. But.

Then the, but if it is positive, the stock kind of jumps, significantly like \$10, \$20 or something like that. Right. And I understand EPS is like, okay, if there is a growth of this many cents only on a given share, right? How come the stock kind of jumps to like \$10, \$20, \$50 on the day of the earnings? Yeah.

Right. So here's what happens. So a lot of people will bet on the estimated earnings per share or the estimated earnings per share growth on that particular day. So like for example, every news outlet or every financial outlet will give you an estimate. And even I will, when I report, I will say consensus EPS was 50 cents compared to the estimate of 30 cents. So people are betting just on that particular day that if it beats by a significant amount, the share will go up. On the other side, people may be betting that the EPS will be lower by a certain amount and, you know, the share will go down. Now, those are all market dynamics and you pretty much it's it's a it's a gamble the day of the earnings. You'll see the fluctuation between, say, four and five of 10%, 20%, because that is against the estimate, whether you beat it or you go below that. The other thing is the markets are such that because of the expectation, it may have already been bid up and then, oh, it only beat by 10 cents. Okay, I don't want to be in it anymore. So it's not necessary that even with a very large beat, you may see the stock falling down. So I normally avoid trading during the earnings day because the fluctuation doesn't represent the fundamentals, you know? And sometimes it's priced.

It's not really uniform or not that close. Yeah, I mean, it's just a betting means, but this is like significant difference, right? Earnings per share, okay, only 50 cents. And then jump and stock may jump like \$50 or \$20 or yeah, so there's just a betting part. I mean, this is nothing to do, right? This is like in line or in ratio with what the company has showcased their earnings.

Yes. And what will happen is because you will see the smoothening out or the, if you look at it on an annualized basis, say, and you'll have some very weird situations when, like where the beat has been significant for 1/4 and the stock has gone up 20% and it's probably stayed there up at least 15% higher till the end of the quarter. Next quarter it misses. Okay. It could come back. It could come back the same day. It could come back over a period of time. So yeah, that is mostly technical and sentiment. Yeah. Okay. Thank you. Yeah. And don't forget one thing, that's a quarterly earning. And it's not the annualized, it's not the

four quarters together. So that plays a part too. I'll give you one example. So in a case of NVIDIA in May of 2023, the secrecy was so good that they beat earnings by 40% because that's the quarter when they started selling the GPUs to the cloud, the H100s. And what was expected to be a 7 billion in revenue came out to be 11 and a half. No, and you know, analysts are supposed to be clued into what's going to happen. But this was one of those rare times when the beat was genuine. You know, there was no expectation of that beat. Yeah. But those are rare. Okay, let's let's have a look at Dell. Now, Dell is a computer hardware maker, and you'll see these red highlights where the revenue has gone down from 90 to 84, okay, because they're not selling PCs. This is of course COVID, so this was expected. But same thing happened in 24 when the market was not picking up servers, it was not picking up PCs, it was not picking up infrastructure. So a cyclical, you will see this happening and What I like to see is that at least in the 10 years, it's still gone from 51 billion to 95 billion. So I'm not too unhappy about a company like this. It's not like Intel, which went from 77 billion to 56 or 57 billion last year, I forget. So a cyclical, you'll see signs like these. And where it's going to really hurt you is the net incomes get disproportionately killed because Dell doesn't really make that much money. It makes a gross profit margin of only 23%. We saw in Google's case it was about what, 57 or 58. The net profits for Google, for Dell are just 2%. So anything here is going to be like a small change is going to make a big change in the EPS or the net net profit margin. So You have to be extremely careful about buying a cyclical like Dell or any a company which has a low operating or a low gross profit margin because the markets are not pricing these also very high because they see that the revenues fluctuate a lot in 10 years. Imagine if you were renting, you bought a property for rent and if the guy If the property itself did not give you continuous and, you know, regular rent every year, if the rent changed every year, you will not invest in that property or at least pay a very low amount based on the fluctuation or the volatility. In Dell's case, the cost of revenues is extremely high. It's the, like you see, If the gross profit margin is only 22%, it costs Dell 78% of its revenues to manufacture its computers. And that leaves very little for operating and net profits, which are only seven and five. So Dell as a result, because it's a commodity, so you see this, this is a sign that it's not spending any money making its profit different, making its sorry, it's computer different from any other. If you bought a Dell or a Thinkpad, the differences are fairly low. Same thing with the servers. Now, if you see here, the SDA and A is not very high, but it takes up a lot of the revenue base. You see that it's It's consistent because there's a lot of fixed cost here also. So what happens to an EPS for Dell? Over the 10 years, I have seen like a zero because it's, you know, it starts with a negative, negative, negative. And then when the going is good, it'll shoot up. So when you want to buy a, I've been buying Dell. Why? Because now I am seeing that there is a little reduction in the cyclicity because the AI servers are now getting to about in the low teens and they will give it like a more stable earning and they're also a lot

more profitable. So this EPS, I expected to see a little more consistency in the next five or seven years. That's the reason why, and the price is very low. I believe it has a chance of at least increasing 25% in this year. Any questions on Dell or any cyclicals?

Sorry, not cyclicals, but specific to Dell question, do you see a big upgrade cycle coming on account of AI for Dell?

Yes, they have almost like I put that number, I don't remember it now, but they have like an 18 billion obligation orders. The order book is very strong and they've seen that. They've only fulfilled, I think, maybe 1/3 of that. So I think I could see at least 18 months of AI servers being deployed. Yeah.

And would this be true for the laptops as well? I mean, is there a need for customers to upgrade their customer devices equipment?

Not significantly, but the PC cycle has bottomed out. It bottomed out last year. The PC cycle normally grows at about 2 to 3% a year, which it did last year for Dell as well. But I don't, except for Apple, nobody seems to have a significant need to upgrade. But that's a very good question. If Dell has is if it's possible for an upgrade there. Let me look this look up and see if there's something specific to Dell. I'll I'll I'll check this out. Yeah.

Thank you.

Sure.

Is there any way, I know you cannot do from the annual statements, you know, but or the, if I want to find out, you know, if Dell is projecting more sales, you know, because of the AI, who are the vendors selling parts to them? to put together the machines and they're selling with the laptop or servers or whatever. They don't manufacture them. They just assemble them and then send them.

That's a good point. It's probably going to be 60 to 80% China. And the OEMs, so if that's a play worth looking at, OEMs that supply to Dell?

Yeah, because their sales are going to go up in as well.

Yeah, absolutely.

And the vendors who are selling the parts to them, they will be doing good too. So we should be looking into that also.

Yeah, I'll take a look, see if I can dig up something. Yeah.

What was the main reason for the the sales in the in 21 when the or 20, you know, when the Cobra was there, is it because of the QE also or is it just the sales were going up, you know,

because everybody was working from home, you know, and they had to buy more equipment now.

I didn't see it for Dell, unfortunately. A lot of people did extremely well because of that. And in fact, in 2020, Dell went down. I think that was also the PC cycle. which didn't seem to benefit Dell because you're absolutely right. It probably benefited a lot of other people during 2021. So it didn't happen here because Dell has what, the PC division is less than 25%. Servers take up a bigger chunk. Yeah. It didn't happen in COVID.

Right.

After it went down, it just grew 2 billion in 21. Then it shot up. Then it shot up.

No.

And then it steadied out. And then again, there was some indigestion, which it went down. Yeah.

Yeah, but it's not also true that, you know, even though they may have good earnings, you know, or marginal earnings, you know, the stock goes up, you know, because the impact coming from the optional market also, because optional market, you know, has a great role, you know, in playing, you know, the increasing the share value or bringing down and depending on how much shorting has been done and whatnot, that has a big impact on this stock market price, you know, right.

Yep. Yep.

In fact, is a question because we were talking about if they're making only two cents per share, then how come the stock goes up \$10? So that's what I've been thinking of.

Exactly. And that is also easily like any stock before earnings, you'll see the short interest position that's available, but it's old. The short interest position is displayed after a lag of days. They don't have to report their positions. Immediately. Say, if you're a short selling firm and you want to corner, short sell something. You don't have to report it and most people won't pick it up. The number that you'll see. Is sometimes it's about a week or 2 weeks old. Yeah. But it's impossible to. I just try not to get. You know, involved on. Okay. Okay, let's look at our favorite Micron, which is done so well for everybody. Where is Micron? Yeah. Let me move this little lower. Yeah. okay. Micron. Oh, my God, look at this from 30 billion. They crashed to 15 5 billion, you know, in one year. And the there are 2 reasons for that. It's not like they sold fewer units. They did, but the unit count was about five or 7% lower. When it comes to memory, it's like Micron, SK Hynix, and Samsung. And these three guys control maybe about 65, 70% of the market. And there is a tremendous,

tremendous overcapacity in memory. So the prices crashed by close to 35 to 40% in one year. And that's not too abnormal in the case of memory. So you see this, your revenue drops by 50, your EPS drops by 168%. I mean, it's it's a loss that year. So again, here you have to be so careful when you go to buy a company like Micron, and today it's what, 360 or something. Now, the rise in Micron is also because they've moved to high bandwidth memory, which is now at least 25% of the company. And if it hadn't happened, the stock would have been what, 66 when I first bought it. I was early in that cycle. I bought it in 2023 thinking it's, you know, if you see something like this and you believe in the company, there's a good chance that you'll be, you'll likely be early, but it's still worth buying because you can get like a 666 to 350. That's like a 6X return. But you'll see it like stagnant for a year. You'll see it go to 140, then it went back to 75. It's a very volatile stock because it's a cyclical. But look at the jump now. It's gone back to 37. In August of 26, revenue is going to be closer to 55 or 60 billion. And I think the EPS will probably be closer to 17 or \$18, if not more. So you have to catch this at a very, very low price. You have to wait for it to ride. And you have to, the other thing is now people will look at an EPS of 20 bucks next year and say, oh, Micron is only 350, it's only 17 times EPS. It's worth buying. With cyclicals, sometimes it's the opposite because you are buying at the peak of the cycle. Now in Micron's case, okay, you're getting a little bit secular because of the AI component. But in cyclical, sometimes buying at the peak of the cycle is the worst thing. You're thinking, okay, the PE is low, the stock is cheap compared to an earnings growth. Many times, and I know this because I have bought at the top sometimes. So you want to buy it when the EPS is like horrible. You know, this is when everybody thinks the world is coming to an end. But Micron has been around for 30, 40 years, it's not going to, and it's the good thing about these components like memory, there are not too many people who do it. You need to be really huge. SK Hynix is huge. Samsung is huge. And Micron is the only large American company that's doing it. You see these margins, how much they fluctuate. 20, then down to three, and then back to 40, the average is 34. 13% revenue growth, 52% operating income growth, but with the movements. The cost analysis is, look at this, 97% of your revenue in '23 was in cost. What profit are you left with? Nothing. How are you going to cover all these other expenses? So you have to be very careful of these things. And simply Micron story is over capacity and wild swings in pricing and suddenly now the demand for high bandwidth memory. Any questions on Micron?

No, thank you.

Sure. Okay, let's look at ServiceNow, which is a SaaS company. So is a software as a service, which SaaS stands for software as a service. It's a superb company. Look at that from just about a billion in revenues, it went up to 11 billion in 2024. It gives you like a standard subscription per user per license. A lot of people are now moving to the

consumption model so that higher, you know, people who consume more of the platform are charged a little more. But basically it's revenue comes like per seats. And this is getting a lot of is this is this company is facing a few not ServiceNow, but CRM, Salesforce and a few other like Adobe. They are facing a lot of problems from AI because why would you pay like, you know, \$250 per license when you can try and get AI to do that work for you much cheaper. So there is there is a little bit of slowdown there, but. In the case of ServiceNow, the cost of sales is pretty low. You see this here, it's only 21% last year with an average of 24% throughout. There is no cost to sell this thing. There is no variable cost. You have a high fixed component with basically the cost of maintaining the platform. So you'll have a cost of keeping a lot of people, your help desk, your query solvings, your tickets. That's where your variable cost will come in. And it's usually very low. Most of your cost has gone into developing the product and developing the platform. So margins are going to be very high. It's going to be close to 79% or 80%. Operating income If you see because the selling in SGA and the R&D, these were a fairly large amount of the cost of revenue. So all these SaaS companies take a while to break even. They don't break even in the first 5, 7, 8 years. And once they get to a critical mass, you'll start seeing some profits coming in here. In ServiceNow's case, it started breaking even only in 2019, 42, and that's now gone up because your operating profit margins have gone up as a result. The net income, the basic EPS is only 138, but again, this will fluctuate. This will go straight to the bottom line if some of these costs come down. revenue growth was 30% and the operating income was growing at 27% if you look at it over a 10-year period. But the cash flow per share, so I'll show you this cash flow and I've highlighted it and this is the reason. So when you have an income statement as per GAAP accounting rules, you have to have to include the stock-based compensation as part of an expense. Most companies were trying to hide the fact that their expenses were low and they overstated their net income because they would not reflect their stock-based compensation in their income statement. So the SEC and GAAP standards, accounting standards made it essential. So Look at the difference in cash from operations. It's 4.2 billion, and the operating income was what? 1.397. Of course, there were a few other components, but the biggest component was this guy here. 1.8 billion in stock based compensation. So in in, if your cash flow per share is not 138, it's closer to 3 bucks. Now. Why is this important? Because a lot of people who work or who only invest in SaaS companies or software companies or tech companies will look at that number, the cash flow per share compared to the basic EPS. At, you know, what is the stock price of ServiceNow? It's about \$150. So that's how much are you paying? You're paying a lot. you know, for a company that's earning only a dollar 50, you're paying 100 times, but your cash flow per share is closer to 4 bucks or 3 and a half bucks. So of course you're paying much less. The other thing that we normally look look out for in a software company is that because the stock based compensation is so high. The number of shares outstanding

keeps increasing every year. Like you're going to see this in Corvi, you're going to see this in Nebius because they need to raise money to finance their operations. Nebius needs about 15 to \$20 billion just in 26 and 27. Sorry. So they are going to issue more shares to raise the capital to, you know, deploy more data centers. In ServiceNow's case, that has slowed down completely. So that's never going to be an issue of dilution, but the share-based compensation will remain high. And sometimes as an institutional investor, your rules may prevent you from buying companies which have a high SBC. Yeah. So in that case, you need to be aware that you may not get enough institutional support where the Sbc's on the higher side. Any questions here on on ServiceNow? Yeah, go ahead.

So you mentioned that right? So this ServiceNow lately and then CRM and Adobe. Adobe has been kind of, is going down and down for quite some time now.

Right.

And the ServiceNow and CRM, they're kind of fluctuating, but I kind of see lately they have been going down. And then as you said, like probably it is the AI impact on them. So then what is the take there? Are they going to come back? These companies have been solid for that matter, Adobe, CRM and ServiceNow have gone to that extent where it looks a lot more promising, but lately they have been, did they reach so high that now, you know, they built in so much of buffer and then they're kind of going down and they will keep going down for some more time?

My take in Adobe is that the impact is quite a lot. And I don't see it growing more than 10% a year, if at all, because there is so much being taken away. When was the last time? I've been getting all my images for free from, I think, at least four or five sources. I don't need to create an image and buy an Adobe license. CRM unfortunately also has a slightly similar problem. It's become a little bit of a legacy software. And even though they're trying very hard to get into the agentic AI bandwagon, or at least try to give that service, the growth has become very, very low. It's like maybe 7, 8, 10% a year where people have lost faith in Salesforce. I believe that for AI to work, you must have data which is within Salesforce. Now, I find it hard to believe that OpenAI or even any other large language foundational model can do what Salesforce does because it simply doesn't have that much internal data. So I'm surprised that the people have lost faith that these guys will not survive. I think they will survive. They just will not grow as much. And that's not just AI. They had reached a majority where, you know, it was normal that the growth would slow down. ServiceNow's case, I have a little more faith because they're actually trying to do what Palantir does. They're giving you a platform which helps you analyze data better. It sort of de-silos what's there in all your other software and actually tries to use AI to make it better. And you're still seeing about 20, 22% growth for an \$11 billion company. But to your point, they are never

going to have that kind of a return that they've had in the last 10 years. They've they've become mature and there is a devaluation because of the AI component. I don't think it's as severe as as it is. And you know, if you see better results in the next year or 2, which I think it they will show. So You just have to be a little more realistic about the expectations from these guys now. Yeah.

Are you saying being more patient and hold sort of situation?

I think ServiceNow is definitely worth holding and maybe even when it goes down to take another look. CRM is a hold, but I want to see a couple more quarters. I know it's a little, the visibility is too low right now. to, and we may lose a little bit of the price, but CRM is entrenched in so many companies. I don't think people are valuing that part of the CRM as much. Yeah. Okay, thank you. In the sense, I think we should probably have to wait for a couple of quarters to see, or, you know, a lot of people will say that You know, if I don't see anything and there's an existential threat, why even keep it? I don't mind. I've made money or I'm, you know, I could put the money somewhere else. Yeah.

So by the way, is it the same reason impacting Workday? And yeah, although not as much, but Workday has been kind of going down and down.

Yeah, yeah, yeah. Workday is a bit worrying because I don't, I'm surprised. But if maybe there are some people who figured that part out, that, but even the prices are low now. It's not like you're paying a premium for any of these guys. Maybe that the whole, the whole paradigm of like SaaS companies is suddenly under threat. But threat in terms of valuations, yes, I don't see threat in terms of business models. The only thing is we may not make much money out of it. That's the big thing. Yeah. Then why invest, right?

That's right. Yeah. I mean, from the stock market side, from the outside of the stock, if AI is going to be taking over and it's a shift.

It's a shift, yes. But how, you know, OpenAI can't do It doesn't have the data from, you know, all the customers that ServiceNow has or Salesforce has. So it's, let's give it a couple of quarters and we'll probably get some better answers as we find out more. Yeah.

OK, got it. Thank you.

Sorry, someone else had a question.

Yeah, it's me. Yeah, I had a question. Sometimes, when they are talking about the stock and how it's doing and all, they talk about CAGR, but they talk as if it's like one thing, but here I see like 4 line items for this. So what exactly are we looking at? Sure, they're talking about.

Yeah, so ideally I would like to see my profits grow higher than my revenue. So your revenue is for the last 10 years from 15 to 26, that's grown at 30%. My gross profit has grown as 33%, which is good. I want my profits to always grow faster than my revenues. Now, operating income has only grown at 27%, but that's because it was negative when we started in December 15. And same thing with the EPS was also negative. But in Google's case, it's positive all around. The revenue grew at 19%. The CAGR, which is a compounded annual growth rate from 2015 to 24, gross profit grew at 18%. Operating income grew at 22%, which is great. It's three points higher. And the EPS grew at 24%, which is even better. So I want to see these two grow much faster than revenues over a 10 year period. All right, thanks. I always look at all four. Yeah.

Okay. Barisara, on the theme of software, you know, getting impacted by AI, another company that not for today, but just for your consideration for review is Constellation software from Canada.

Okay.

Been a star for many years, and now suddenly this year they've been hammered so much. So your view on this?

What's the ticker?

CSU.

CSU.

TO. TO.

Nice. Let me take a look. Yeah. Sure. Any idea what they do? What's the what's so?

Yeah, they're serial acquirers and they've institutionalized you know, taking on smaller software companies in, you know, different verticals. And they've been so successful that they've had three or four spin offs of focusing only on this. But in the last year, because of this theme of AI hammering software, they've also been on the receiving end.

Right, right, right, right. Interesting. I'll take a look. Yeah, this is a trend. I'm also a little worried about it, but I have a hard time wrapping around how they're going to beat these guys. I mean, I'm sure, you know, from a stock market perspective, we don't want to pay a premium, but it's going to be very, very company specific. Yeah.

Yeah, this is a Canadian dollar 65 billion market cap.

Okay.

And its ticker is Csu. It's on the Toronto Stock Exchange.

Okay, I'll take a look.

Yeah. Can I ask you a question which is nothing to do with the annual statements?

Sure. let me see how much time we have. Yeah.

The question is, what is when they say option trading employs a double digit swing? This is in reference to that, your Mobileye.

Uh-huh.

Uh, on the, um, I guess ready know about that and on they're saying, you know, that, uh, the earning is supposed to come this week, you know, coming week. Um, but they're talking about, you know, this can have a option trading employees.

Ah, okay, okay, I know what you're saying. All right, let me look into that as a separate thing and I'll, I'll answer in the in in the group about that yeah but this is something I'll have to uh research a little bit more the last day the earnings day trading.

Yeah this is what I read in the Seeking Alpha um so they had comments on many of the stocks now this was one of them you know Specifically, they use the term, you know, option trading employees double digit swing.

Okay.

Now, to me, swing can go either way. That's true. But I didn't understand exactly what they're trying to sell me, you know?

Okay, let's take a look and I'll get back to you. Last company, sorry, you're saying?

No, that was the only question I had.

Okay, I'll get you that. I put this retail target as a company to show you something very similar to Dell. You'll see again, not wild swings, but you know, it's a retail company. So what I want to highlight is one point here that is just a 3% revenue growth for target. resulted in an EPS drop of 58%. So, you know, with retail merchandising and, you know, cyclical trends are so important that if you if you lose track of that, even a small drop can can go all the way through the bottom line. You know, it's a 3% revenue growth. Your gross profit is down by 14%, your operating profit is down by 56%. And it just At the end of the year, you're probably just getting rid of merchandise at any cost. That's what happens. The biggest component of your retail is naturally, it's a pretty straightforward analysis. It's 72% of whatever you're selling to your retail customer is the cost of sales. And then you're selling SGA selling general and administrative expenses are high 20%. What are you left with? Pretty much very little to have as in terms of profits. So with retail, you don't have

really R&D and you know that kind of expenses. You will you will be paying retailers tend to borrow money. So you will have a pretty decent amount of net interest expenses. And what people like in retail is that they return money to the shareholder. So this dividend per share is pretty high. And whatever they're earning, they're paying out 40%, 50%, 66% in one year. So if you're an income investor, the dividend will matter to you in a retail company. Sometimes in bad years, you're happy that at least you got 2, 3% or 4% in dividend yield. And the payout ratios are pretty good here. But it's a classic cyclical retail. You have to be extremely, extremely careful. You have to buy it at the right price. Even if you're buying Walmart or Target or any other retail company, merchandising is so important in retail that if you're seeing a prolonged decrease in sales, the merchandiser is not doing something right. You know, the company like Bed Bath and Beyond, which went bankrupt, Saks Avenue, Fifth Avenue has just gone declared bankruptcy. This is a declining trend, but there may be some values where you would want a stable and steady increase. Or you would even find some retail companies which had like a brilliant four or five years, like Abercrombie and Fitch, which which did like a 300% return. But those are rare. So if you're looking to buy retail, just be very, very clear that it's difficult to take out the cyclicity out of retail. And even if you're on a great wicket where you've like seen sales go up over five years, there's a good chance that it may not after that. And, you know, you can see these here. The margins are so low. Yeah. I don't think we have too many retail, too many investors buying retail stocks in the group. All right, let's open it up for questions. We still have eight minutes, so happy to answer anything.

So, it is, means, so understanding the terms, these terms, they will help us understand when a company do their quarterly earnings or annual earnings or annual reports and all.

Right.

However, I do not know if it is, how do we really interpret or, in terms of buying a stock and all. So has done, let's say in a hindsight or in the back in historically, okay, they have done good. But now these newer things that come in, let's say the AI came in or something that kind of shifted the model so much on some of the companies, some segments that started going up and it impacted the other segments. So does it mean that one has to be on a constant lookout on what action to take and come out of here and then go in there and sort of the things. And this is what we are doing here is like more of understanding the fundamentals or understanding how to read their reports, right?

Right, right. So I've kept a section, I think it's chapter four or five, where we look at valuations and price earning ratios of what to buy, what's a good price. for a retail, what's a good price for a SaaS, what's a good price for, say, a mature but still growing company like Google. So yeah, we'll discuss that in one session. And then what I've tried to do is in the

last session, there is a portfolio and risk management sort of a strategy session where, like, if I, like, for example, if I have too many companies in SaaS, And I'm like getting worried now that, look, my whole, this whole industry is going to face some sort of a problem or a obsolescence or competitive threat that, you know, what used to be like a 15, 20% grower and what used to get me 15, 20% a year is now only going to get me 8 to 10% a year. So I may reduce my exposure there. Or, and if you've seen in the, some of the WhatsApp conversations or in the webinars, I've said that, listen, I've done very well in the Credos and all the infrastructure that goes into the data centers. Like last year we did Credo, we've done some Nevius, we've done some A-Labs and companies like that. And I'm saying, look, we've made good money for three years. I want to shift a little bit to the defensives. So I'm adding more Google, I'm adding more Amazon. I'm really contemplating adding more Apple because I want a stock which will only drop 8% this year. So that one session we've kept for portfolio management and strategy and during the webinars also we, if I've sold something or bought something, I try to, you know, see it in the overall portfolio. One of the key things is not to do anything in isolation. if you want, like there was a question on Navitas, which is also going to go into the data centers, a tiny 45 billion, \$45 million company. So you don't want more than 1/4 percent of your portfolio in a Navitas. You have to see it that you have maybe 30 stocks, 40 stocks. You may have like about 10% just in the pure S&P 500 as the index, which is a great defensive to have. You know, those things don't fall as much as the smaller stocks. So keeping that in mind, there is a shift or there is at least a shuffle of where you see that, look, this industry has given me a lot and I want to de-risk a little bit. I don't think Google is going to fall more than 7, 8% this year. I'm safe or Apple, you know, so I am on, I am I have been doing that slowly.

And the other question there is like, typically that 52 week low and high. So that seems like, I think, may not play or may not give that kind of indicator. Because sometimes people tend to buy, even though it is 52 week high, hey, it still makes sense to buy more or get into that one when it is like 52 week high. And once they are, they are 52 week low and then you buy and then it goes down further. So is that like pretty independent of, you know, one should be looking more at the valuations and all. and not go by like 52 week high and low numbers.

Yes, yes, very much. It's 2 totally different things like technical investing and fundamental investing. Yeah.

Okay.

You it's like almost like an I don't know if that's a good analogy of allopath and and what is the other? What is the opposite of the Ayurveda?

Ayurveda and and homeopath.

Yeah, yeah. I I don't know if that's a good enough analogy, but you don't try to mix the two.

I see. I see. They can be looked at it side by side.

Yeah, there are useful points. I'm not saying that a technical analysis is not valuable. It is. But if it helps you in identifying some sort of valuation parameters that look beyond a certain point, I'm not paying this price for Google. I don't want to pay more than 35x earnings. I don't care if the stock is at whatever price it is. This is my rule that I will not have more than 3% of my stocks in high risk, of my portfolio in high risk stocks. That's my rule. And I'm going to stick to it no matter what happens. So like, I think there was a question about nuclear. So to me, nuclear is a great place to be, but we should have bought it two years ago. Today, if I want to buy an Oklo, I'm saying Oklo will take five years for the projects to come through. And what happens to the price then, you know? So you have to like put a limit and say, look, if somebody's making money in Oklo, fine, good for them, or quantum or something, but theoretically on the ground, uh, These are not easy projects. And if you bought it like, 90% cheaper and took a ride, great. some of we did that in some stocks as well. Navitas, I got it at about 3 bucks a share or something. But at 10 bucks, I'm like, I don't want to pay something which is not going to happen for another two years. So I guess there are some.

Exceptions like Tesla and all where the let's say the EPS or those numbers may not be.

Tesla is your You're riding on the man. This is not bad. I mean, there are people who've done very well with Tesla. It's just a different strategy, you know? Oh, OK, got it.

Thank you.

Sure, sure. Yeah. All right. It was a great. It was a great class. I really enjoyed it. And thank you guys so much for joining today. Looking forward to the next one next Saturday. And of course, the webinar is there on Thursday. So if you want to join in. Thank you.

Thank you. Thank you. It's time to shovel the snow now.

Sorry.

It's time to shovel this snow.

Yeah. Thanks.

Thank you. Bye.

Have a good weekend.

You too.

