

The In-Depth Guide to Reading a Value Line Research Report

The Value Line Investment Survey® is a unique source of financial information designed to help investors make informed investment decisions that fit their individual goals and levels of risk. It is: (1) a proven forecaster of relative stock performance over the next six to 12 months; (2) a source of interpretative analysis on approximately 1,700 individual stocks and approximately 100 industries; and (3) a source of historical information to help investors spot trends.

I: Getting Started

As a subscriber, you will receive three parts of *The Investment Survey* each week. Part 1 is the *Summary & Index*, Part 2 is *Selection & Opinion* and Part 3 is *Ratings and Reports*. Below we will describe each section and discuss some of the ways to use them.

Part 1 - Summary & Index

Start with the *Summary & Index*. The front cover contains a Table of Contents, three important market statistics, and a list of all the industries we follow in alphabetical order with their current industry rank shown next to the name of the industry. The page number is to the right. The market statistics are found in three boxes. The first box (a) has the median of estimated price/earnings ratios of all stocks with earnings covered in *The Value Line Investment Survey* (approximately 1,700). The second box (b) shows the median of estimated dividend yields (total dividends expected to be paid in the next 12 months divided by the recent price) of all dividend-paying stocks in *The Survey*. The third box (c) contains the estimated median price appreciation potential 3 to 5 years into the future for the approximately 1,700 stocks in *The Survey*, based on *Value Line's* hypothesized economic environment 3 to 5 years hence. By studying these statistics, a fairly good picture emerges of how the universe of *Value Line* stocks—which comprises approximately 95% of the market capitalization of all stocks traded in U.S. markets and is therefore quite representative of the stock market as a whole—is currently being evaluated.

THE VALUE LINE
Investment Survey
Part 1
Summary & Index
December 16, 2011

TABLE OF SUMMARY & INDEX CONTENTS

Summary & Index	Page Number
Industries, in alphabetical order	1-21
SCREENS	
Industry Rank	22
Industry Rank Change	23
Industry Rank Change	24
Industry Rank Change	25
Industry Rank Change	26
Industry Rank Change	27
Industry Rank Change	28
Industry Rank Change	29
Industry Rank Change	30
Industry Rank Change	31
Industry Rank Change	32
Industry Rank Change	33
Industry Rank Change	34
Industry Rank Change	35
Industry Rank Change	36
Industry Rank Change	37
Industry Rank Change	38
Industry Rank Change	39
Industry Rank Change	40
Industry Rank Change	41
Industry Rank Change	42
Industry Rank Change	43
Industry Rank Change	44
Industry Rank Change	45
Industry Rank Change	46
Industry Rank Change	47
Industry Rank Change	48
Industry Rank Change	49
Industry Rank Change	50
Industry Rank Change	51
Industry Rank Change	52
Industry Rank Change	53
Industry Rank Change	54
Industry Rank Change	55
Industry Rank Change	56
Industry Rank Change	57
Industry Rank Change	58
Industry Rank Change	59
Industry Rank Change	60
Industry Rank Change	61
Industry Rank Change	62
Industry Rank Change	63
Industry Rank Change	64
Industry Rank Change	65
Industry Rank Change	66
Industry Rank Change	67
Industry Rank Change	68
Industry Rank Change	69
Industry Rank Change	70
Industry Rank Change	71
Industry Rank Change	72
Industry Rank Change	73
Industry Rank Change	74
Industry Rank Change	75
Industry Rank Change	76
Industry Rank Change	77
Industry Rank Change	78
Industry Rank Change	79
Industry Rank Change	80
Industry Rank Change	81
Industry Rank Change	82
Industry Rank Change	83
Industry Rank Change	84
Industry Rank Change	85
Industry Rank Change	86
Industry Rank Change	87
Industry Rank Change	88
Industry Rank Change	89
Industry Rank Change	90
Industry Rank Change	91
Industry Rank Change	92
Industry Rank Change	93
Industry Rank Change	94
Industry Rank Change	95
Industry Rank Change	96
Industry Rank Change	97
Industry Rank Change	98
Industry Rank Change	99
Industry Rank Change	100

ANALYSIS OF RESULTS IN ALPHABETICAL ORDER WITH PAGE NUMBER

Normal in parentheses after the industry is rank for probable performance over 12 months.

Industry Rank: 14.2, Dividend Yield: 2.3%, Price Appreciation Potential: 70%

Summary & Index

Beginning on page 2, the *Summary & Index* also includes an alphabetical listing of all stocks in the publication with references to their location in Part 3, *Ratings & Reports*. If you are looking for a particular stock, look inside the *Summary & Index* section, which is updated each week to provide the most current data on all companies included in *The Value Line Investment Survey*.

To locate a report on an individual company, look for the page number just to the left of the company name. Then turn to that page in Part 3, *Ratings & Reports*, where the page number is shown in the top right hand corner.

In the far left column of the *Summary & Index* is a number that refers to recent Supplementary Reports, if any, which are included on the back pages of *Ratings & Reports*. If two stars (★★) appear in that column, it means that there is a Supplementary Report in the current Issue.

There are many columns in the *Summary & Index* with more information on each of the approximately 1,700 stocks we cover.

There is also a wealth of information in the stock screens toward the back of the *Summary & Index*, beginning on page 24.

These screens are a good place to start for anyone looking for investment ideas or help in forming a strategy. The screens are also useful for investors who want a list of stocks relevant to specific strategies they may have in mind.

Part 2 - Selection & Opinion

Selection & Opinion (S&O) contains *Value Line's* latest economic and stock market commentary and investment ideas, along with one or more pages of research on interesting stocks or industries, and a variety of pertinent economic and stock market statistics. It also includes four model stock portfolios (Stocks with Above-Average Year-Ahead Price Potential, Stocks for Income and Potential Price Appreciation, Stocks with Long-Term Price-Growth Potential, and Stocks with Above-Average Dividend Yields). If you spend time with *Selection & Opinion* each week, you should be able to get some valuable investment ideas and a good understanding of *Value Line's* outlook for the economy.



Selection & Opinion

Part 3 - Ratings & Reports

Ratings & Reports is the core of *The Value Line Investment Survey* with one-page reports on approximately 1,700 companies and one-page reports on approximately 100 industries. The company reports contain *Timeliness*, *Safety* and *Technical* ranks, our 3- to 5-year forecasts for stock prices, income and balance sheet data, as much as 17 years of historical data, and our analysts' commentaries. They also contain stock price charts; quarterly sales, earnings, and dividend information; and a variety of other very useful data. Each page in this section is updated every 13 weeks. When important, and often unforeseen, news occurs during these 13 week intervals, a Supplementary Report (appearing in the back section of *Ratings and Reports*) is published. If there is a Supplementary Report, its location will be shown in the far left hand column of the *Summary & Index*, near the company name. (Two stars—★★—indicate that the Supplementary Report is in the current week's issue.)



Ratings & Reports

Every week subscribers receive a new Issue of *Ratings & Reports* containing approximately 135 company reports grouped by industry and a smaller number of industry reports. The industry reports precede the reports on the companies in that same industry. Over the course of three months, revised reports are issued on all approximately 1,700 companies and nearly 100 industries.

II: Planning an Investment Strategy

When planning an investment strategy, it is important to consider a large number of factors, including such things as your age, current financial situation, and risk tolerance. Of course, there are many other factors to think about, but the point is that you should not simply sit down and start picking securities.

We have created a workbook called “Planning an Investment Strategy” that you should read before taking any portfolio action. As a quick summary, you should diversify your portfolio across both asset classes (i.e., stocks, bonds, and foreign securities) and within asset classes (i.e., owning a variety of stocks and bonds).

In addition, you do not have to handle every portion of your portfolio. Instead, you might hire someone else to handle the components that you do not have the desire or experience to oversee. An example of this would be to buy a diversified fixed-income mutual fund for the bond portion of your portfolio, while maintaining a collection of stocks yourself. The right mix of “outsourcing” and personal direction is an individual decision, but in the end you should create a portfolio that is hopefully both profitable and enjoyable to manage.

Again, we encourage you to take the time to read through the “Planning an Investment Strategy” workbook so that you can start your portfolio on a solid foundation.

III: Creating a List of Stocks for Further Research

Once you have created a foundation portfolio, most likely consisting of a collection of asset-class baskets, you will need to find securities to fill those baskets. There are many ways to use *The Value Line Investment Survey* to find the equities that are most appropriate for you needs.

There are approximately 1,700 stocks in our coverage universe, so opening the first issue and starting to examine each stock report in search of the few you want to own would be a time consuming and, frankly, nearly impossible task. To assist our readers in creating “short lists” of stocks for further consideration, we included a number of stock screens in the back of each *Summary & Index*.

The screens are updated weekly and cover a broad range of investment options, including Timely Stocks in Timely Industries, Conservative Stocks, Highest Yielding Stocks, and Stocks with Highest 3- to 5-Year Appreciation Potential. A description of the screens is provided if the title of a screen is not self-explanatory. There are, of course, many more screens than the ones listed here, so you should take a look at the pages in the back of the *Summary & Index* to get a feel for which ones will best fit your specific needs. Regardless of which screens you choose to use, this approach will provide you with a short list of companies to research.

For those who want more advice than a static screen, we have also created four model portfolios: Portfolio I (Stocks with Above-Average Year-Ahead Price Potential), Portfolio II (Stocks for Income and Potential Price Appreciation), Portfolio III (Stocks with Long-Term Price Growth Potential), and Portfolio IV stocks with Above-Average Dividend Yields). These portfolios are overseen by *Value Line* analysts and are updated weekly in the *Selection & Opinion* section. On a quarterly basis, a more in-depth review is provided detailing the most recent performance of each portfolio. These portfolios offer another convenient starting point for selecting stocks for inclusion in your own portfolio.

On an ongoing basis, we also provide stock screens and Stock Highlights in the *Selection & Opinion* section. The screens go beyond those included on a weekly basis in the *Summary & Index* and often provide a different and unique view of an investment approach. The Stock Highlights are a more in-depth review of a company that we believe merits a second look. Although these two options may not be the best starting point for you, they can play an important role in providing new and interesting investment ideas down the road.

IV: Researching a Stock Using the *Value Line* Page

A sample *Value Line* report was included at the back of this guide. The numbers below reference back to the sample page.

To start studying a stock, we suggest that you concentrate on various features found on every company page of *Ratings & Reports*. Begin by using the *Timeliness*TM, *Safety*TM and *Technical* ranks that appear in the upper left corner of each page **1**. Next, look at the analyst's commentary in the bottom half of each report **17**. Then look at our various forecasts for financial data. Estimated financial data is shown on the right side (bold italic print) of the Statistical Array **15**. Growth rates are in the *Annual Rates* box **23**. A stock's *Target Price Range* is on the right-hand side of the graph **11**, and 3- to 5-year stock price *Projections* are in the projections box **29**. Finally, go to the historical financial data appearing in the left side of the Statistical Array **26**. Illustrations and more detail follow.

Value Line Ranks (see **1** on the sample page)

Timeliness

The *Timeliness* rank is *Value Line's* measure of the expected price performance of a stock for the coming six to 12 months relative to our approximately 1,700 stock universe. Stocks ranked 1 (*Highest*) and 2 (*Above Average*) are likely to perform best relative to the approximately 1,700 stocks we follow. Stocks ranked 3 are likely to be average performers. Stocks ranked 4 (*Below Average*) and 5 (*Lowest*) are likely to underperform stocks ranked 1 through 3 in *Value Line's* universe.

TIMELINESS	3	Raised 4/29/11
SAFETY	1	New 7/27/90
TECHNICAL	3	Raised 1/13/12
BETA	.65	(1.00 = Market)

Ranks Box

At any one time, there are 100 stocks ranked 1; 300 ranked 2; approximately 900 ranked 3; 300 ranked 4; and 100 ranked 5.

The most important factor in determining the *Timeliness* rank is earnings growth. Companies whose earnings growth over the past 10 years has been greater than their stocks' price appreciation tend to have

high scores. In addition, the ranks take into account a stock's recent price performance relative to all approximately 1,700 stocks in the *Value Line* universe. A company's recent quarterly earnings performance and any recent earnings surprises caused because a company reported results that were significantly better or worse than expected are also factors. These are all combined to determine the *Timeliness* rank.

Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	100

Financial/Stock Price Data

Just one word of caution. Stocks ranked 1 for *Timeliness* are often more volatile than the overall market and tend to have smaller capitalizations (the total value of a company's outstanding shares, calculated by multiplying the number of shares outstanding by the stock's price per share). Conservative investors may want to select stocks that also have high *Safety* ranks because they are more stable issues.

Safety

The *Safety* rank is a measure of the total risk of one stock compared to all others in our approximately 1,700 stock universe. As with *Timeliness* rank, *Value Line* ranks each stock from 1 (Highest) to 5 (Lowest). However, unlike *Timeliness* rank, the number of stocks in each category from 1 to 5 may vary. The *Safety* rank is derived from two measurements (weighted equally) found in the lower right hand corner of each page [19](#): a Company's Financial Strength and a Stock's Price Stability. Financial Strength is a measure of a company's financial condition, and is reported on a scale of A++ (highest) to C (lowest). The largest companies with the strongest balance sheets get the highest scores. Price Stability is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the price of a company's own stock over the last five years, and is reported on a scale of 100 (highest) to 5 (lowest) in increments of 5. Generally speaking, stocks with *Safety* ranks of 1 and 2 are most suitable for conservative investors.

A stock's Price Growth Persistence and a company's Earnings Predictability are also included in the box above, but do not factor into the *Safety* rank. However, they are useful statistics. Price Growth Persistence is a measure of the consistency of relative stock price growth over the past 10 years. Earnings Predictability is a measure of the reliability of an earnings forecast.

Technical

The *Technical* rank is primarily a predictor of a stock's short term (three to six months) relative price change. It is based on a proprietary model which examines 10 relative price trends for a particular stock over different periods in the past year. It also takes into account the price volatility of each stock. The *Technical* ranks also range from 1 (Highest) to 5 (Lowest). At any one time, about 100 stocks are ranked 1; 300 ranked 2; 900 ranked 3; 300 ranked 4; and 100 ranked 5.

Beta

Beta is a measure of the volatility of a stock relative to the overall stock market and is calculated by *Value Line*. A *Beta* of 1.0 suggests that a stock will move up and down in roughly lock-step with the market, so that a 3% increase or fall in the broader market would likely be accompanied by a similar percentage move in the stock. A *Beta* higher than 1.0 means a stock tends to move more than the market, while a *Beta* lower than 1.0 suggest that the stock in question will move in a muted relationship to a move in the market.

Industry Timeliness

Value Line also publishes *Industry* ranks which show the *Timeliness* of each industry. The *Industry* ranks indicate how *Value Line* believes the prices of stocks within 90 or more industries will perform relative to each other. These ranks are updated weekly and published on the front cover and on page 24 of the *Summary & Index*. They also appear at the top of each *Industry Report in Ratings & Reports*. The *Industry* rank is calculated by averaging the *Timeliness* ranks of each of the stocks assigned a *Timeliness* rank in a particular industry.

Analyst's Commentary (see 17 on the sample page)

Next, look at the analyst's written commentary in the lower half of the page. Many readers think this is the most important section of the page. In the commentary, the analyst discusses his/her expectations for the future. There are times when the raw numbers don't tell the full story. The analyst uses the commentary to explain why the forecast is what it is. The commentary is also particularly useful when a change in trend is occurring or about to occur. As an example, a stock may have a poor *Timeliness* rank but the analyst thinks earnings could turn around in the future. In this case, the analyst may use the commentary to explain why he/she thinks conditions are likely to get better, thus giving the subscriber insight into what is happening and why.

Value Line's Financial Data (see 15 and 26 on the sample page)

In the Statistical Array in the center of the report (where most of the numbers are), *Value Line* provides both historical data and financial projections.

Financial Estimates (see 15 and 22 on the sample page)

The estimates of sales, earnings, net profit margins, income tax rates, and so forth are all derived from spreadsheets maintained on every company and printed in **bold italics**. The numbers are based on an analyst's latest thinking about where a company may be in the future. Our analysts regularly review their projections and discuss them with a company's management. Afterwards, they make whatever adjustments they believe are warranted.

Historical Financial Data (see 26 on the sample page)

Many investors like to use the Statistical Array to do their own analysis. They, in particular, use the

ably to both our previous bottom-line target of \$5.25 a share and Wall Street's consensus. We also knocked off more than \$1 billion from our top-line estimate, though the increasing likelihood of unfavorable currency translation was a big reason for the revision. All told, we think investors were looking for more.

Things should pick up some in 2013. We think robust growth and handsome profits will be tough to come by in the healthcare space this year, due to the soft global economy and lower healthcare utilization. The lingering effects of recent recalls may well further weigh down J&J. But the skies should start to clear between now and next year, which ought to pave the way for decent top- and bottom-line growth here. Moreover, acquisitions and ongoing operational improvements should provide further boosts.

This steady blue chip is still an excellent buy-and-hold investment, thanks to the solid dividend and decent capital appreciation potential. Short-term investors may want to consider an options strategy to take advantage of JN's recent stability.

Erik A. Antonson February 24, 2012

Analyst's Commentary

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032	1033	1034	1035	1036	1037	1038	1039	1040	1041	1042	1043	1044	1045	1046	1047	1048	1049	1050	1051	1052	1053	1054	1055	1056	1057	1058	1059	1060	1061	1062	1063	1064	1065	1066	1067	1068	1069	1070	1071	1072	1073	1074	1075	1076	1077	1078	1079	1080	1081	1082	1083	1084	1085	1086	1087	1088	1089	1090	1091	1092	1093	1094	1095	1096	1097	1098	1099	1100	1101	1102	1103	1104	1105	1106	1107	1108	1109	1110	1111	1112	1113	1114	1115	1116	1117	1118	1119	1120	1121	1122	1123	1124	1125	1126	1127	1128	1129	1130	1131	1132	1133	1134	1135	1136	1137	1138	1139	1140	1141	1142	1143	1144	1145	1146	1147	1148	1149	1150	1151	1152	1153	1154	1155	1156	1157	1158	1159	1160	1161	1162	1163	1164	1165	1166	1167	1168	1169	1170	1171	1172	1173	1174	1175	1176	1177	1178	1179	1180	1181	1182	1183	1184	1185	1186	1187	1188	1189	1190	1191	1192	1193	1194	1195	1196	1197	1198	1199	1200	1201	1202	1203	1204	1205	1206	1207	1208	1209	1210	1211	1212	1213	1214	1215	1216	1217	1218	1219	1220	1221	1222	1223	1224	1225	1226	1227	1228	1229	1230	1231	1232	1233	1234	1235	1236	1237	1238	1239	1240	1241	1242	1243	1244	1245	1246	1247	1248	1249	1250	1251	1252	1253	1254	1255	1256	1257	1258	1259	1260	1261	1262	1263	1264	1265	1266	1267	1268	1269	1270	1271	1272	1273	1274	1275	1276	1277	1278	1279	1280	1281	1282	1283	1284	1285	1286	1287	1288	1289	1290	1291	1292	1293	1294	1295	1296	1297	1298	1299	1300	1301	1302	1303	1304	1305	1306	1307	1308	1309	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319	1320	1321	1322	1323	1324	1325	1326	1327	1328	1329	1330	1331	1332	1333	1334	1335	1336	1337	1338	1339	1340	1341	1342	1343	1344	1345	1346
------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

historical data in the center of each report to see how a company has been doing over a long time frame. It's worth pointing out that while all of the data are important, different readers find different data items to be most useful.

The numbers are probably most helpful in identifying trends. For example, look at sales per share to see if they have been rising for an extended period of time. Look at operating margins and net profit margins to see if they have been expanding, narrowing or staying flat. Also check the percentages near the bottom to see if the Return on Total Capital or the Return on Shareholders' Equity have been rising, falling or remaining about the same.

Annual Rates Of Change *(see 23 on the sample page)*

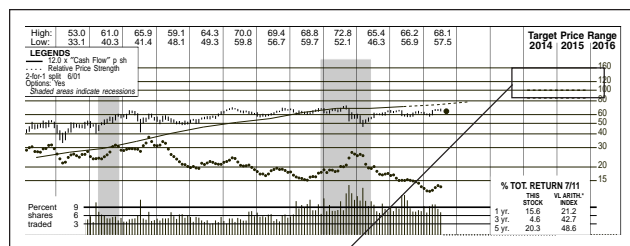
At this point, it may be helpful to look at the Annual Rates box in the left-hand column. This box shows the compound annual growth percentages for sales, cash flow, and other items for the past 5 and 10 years and also *Value Line's* projections of growth for each item for the coming 3 to 5 years. Trends are also important here. Check whether growth has been increasing or slowing and to see if *Value Line's* analyst thinks it will pick up or fall off in the future. (Specific estimates for various data items for three to five years in the future can be found in bold italicized type in the far right hand column of the Statistical Array.)

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '15-'17
Sales	9.0%	7.5%	4.5%
"Cash Flow"	11.0%	8.5%	5.0%
Earnings	12.0%	8.5%	5.0%
Dividends	13.5%	12.0%	6.5%
Book Value	12.0%	11.0%	11.0%

Annual Rates Box

Target Price Range and 3- to 5-year Projections *(see 11 and 29 on the sample page)*

In the upper right-hand section of each report is a Target Price Range for each stock. This is the range in which the price is likely to fall during the period 3 to 5 years hence. The range is based on the analyst's projections in the period 3-5 years out for earnings per share multiplied by the estimated price/earnings ratio in the Statistical Array for the same period. The width of the high-low range depends on the stock's *Safety* rank. A stock with a high *Safety* rank has a narrower range, one with a low rank, a wider one.



Target Price Range (3 to 5 years)

In the left hand column of each report, there is also a box which contains 3- to 5-year Projections for a stock price. There you can see the potential high and low average prices we forecast, the % price changes we project, and the expected compound annual total returns (price appreciation plus dividends). To make these calculations, analysts compare the expected prices out 3 to 5 years into the future (as shown in the Target Price Range and Projections box) with the recent price shown at the top of the report.

Investors whose primary goal is long-term price appreciation should study the 3- to 5-year projections carefully and choose stocks with above-average appreciation potential. For comparative purposes, you

can find the Estimated Median Price Appreciation Potential for all approximately 1,700 stocks on the front page of the *Summary & Index*.

V: Examining a *Value Line* Page in More Detail

In the following section, we are going to examine an actual *Value Line* page, with the objectives of interpreting the array of statistical data presented and weighing the data and the accompanying comment against your needs. We have chosen for examination a report on Johnson & Johnson, a large and well-known manufacturer of health care products.

Putting Data in Perspective

Looking at the top of the page, we can see that Johnson & Johnson's stock price in February 2012 was \$64.61 a share (item 5 on the sample page). By itself, the stock price means very little. In the line below the price, annual high and low prices for each year from 2001 through early 2012 are indicated. Below the high and low annual prices is a price chart (graph) that shows monthly price ranges for essentially the same period, along with other useful information that we will discuss below. We note here, though, that while Johnson & Johnson stock has traded in a relatively narrow range, with the exception of late 2009 to mid-2010, it has still climbed about 60% from its low of 40.3 in 2001 (adjusted for stock a split in 2001).

At the current quotation, is the stock undervalued or overvalued? The fact that the "cash flow" line is above the price of the stock indicates that it appears to be undervalued. Also, sales per share, cash flow per share, earnings per share, and book value per share are all near historical highs, as can be seen in the Statistical Array (items 15 and 26 on the sample page).

Price Earnings Ratio—This is probably the most widely used measure of stock valuation. *Value Line* shows a variety of P/E ratios on every company page, as discussed below:

The *P/E ratio* on the very top of the *Value Line* page (item 6 on the sample page). This is calculated by dividing the recent price of the stock by the total of the last six months of earnings and the next six months of estimated earnings.

The *Relative P/E ratio* (item 8). This compares the P/E of one stock with the median of estimated P/E ratios of all stocks under *Value Line* review. A relative P/E of more than 1 indicates that a stock's P/E ratio is currently higher than that of the *Value Line* universe; a P/E of less than 1 indicates that this stock's P/E is less than the *Value Line* average.

The *Trailing P/E ratio* (item 7). This is calculated by dividing the recent price of the stock by the past 12 months of actual (reported) earnings. This is the figure shown in most newspapers.

The *Median P/E ratio* (item 7). This is the average annual P/E ratio of a stock over the past 10 years, with certain statistical adjustments made for unusually low or high ratios.

The *Average Annual P/E ratio* (items 15 and 26). This figure is calculated by dividing the average price for each year by the actual reported earnings for the same year and is shown in the Statistical Array.

The *Relative (Annual) P/E ratio* (items 15 and 26). This figure is calculated by dividing the *Average Annual P/E* of a stock with the *Average Annual P/E* of all stocks under *Value Line* review in the same year.

To gauge the significance of the recent price of a stock, the reader must look at the price in relation to a variety of data. As far as P/Es are concerned, the current P/E ratio and relative P/E ratio for Johnson & Johnson's stock, are below those of most stocks in the *Value Line* universe. However, this is not expected to be the case during the 2015-2017 period. The current below-average valuations reflect the fact that recent quarterly earnings gains, year to year, have been lackluster.

Low P/E ratios may mean that the stock is underpriced, unless there are factors indicating that there will be a significant decline in the company's fundamentals. Is this the case with Johnson & Johnson? Probably not, since management has been very vigilant in its efforts to maximize returns from its businesses, and the *Value Line* analyst is expecting continued profit growth over the four to six years subsequent to 2011. Johnson & Johnson's relative P/E ratio of 0.85 (item 8), a lower valuation than found in the average stock followed by *Value Line*, likely reflects the fact that the company's upward earnings trend over the past 15 years has recently moderated.

The *Dividend Yield* (item 10 in the right top corner of the sample page) shows the expected return from cash dividends on the stock over the next 12 months, as a percentage of the recent price. Johnson & Johnson's yield of 3.5% is above the median of all dividend-paying stocks in the *Value Line* Universe. (The median is shown each week on the cover of the *Summary & Index* section.) We also see that the company has increased the dividend in every year since 1996, as shown in line four of the Statistical Array in the center of our report, and *Value Line's* analyst thinks additional increases are forthcoming. Many investors view regular increases in a dividend very positively.

The Price Chart

Next, look at Johnson & Johnson's price chart (or graph) at the top of the report. The first thing to look at is the price history, shown by the small vertical bars in the center of the graph. Those bars show the high and low monthly prices for the stock (adjusted for any subsequent stock splits or dividends). Looking at the bars, you can see that after falling in early 2000, the stock price then moved higher through early 2002. Since then, it has generally traded in a broad range between 46 and 73.

Now look at the "cash flow" line, the solid line running from 2000 through the middle of 2010, which is more fully described below. The dashed line from mid-2010 to mid-2013, which is an extension of the "cash flow" line, is *Value Line's* projection of the line for those years. For most of the past 12 years, Johnson & Johnson's stock has traded above the "cash flow" line. In the past three years or so, however, the stock has traded below the line.

Finally, look at the *Relative Price Strength* line, the faint small dotted line, usually toward the bottom of the chart. This shows the relative performance of Johnson & Johnson stock versus the entire universe of *Value Line* stocks; when the *Relative Price Strength* line is rising, it means a stock is acting better than the universe. When it is falling, a stock is doing worse than the *Value Line* universe.

At the very bottom of the chart, we show volume of trading each month (item 14) as a percent of total shares outstanding. The *Legends* box (item 2) in the upper left of the price chart contains, among other

things, information on the “cash flow” multiple, a record of stock splits, and whether or not there are options traded.

The *Target Price Range* (item 11) in the upper right corner of the price chart indicates where *Value Line's* analyst believes the stock is most likely to be selling in the 3- to 5-year period. This box should be viewed in conjunction with the *Projections* box (item 29) near the top left-hand corner of the page, which also gives our 3- to 5-year projections. For Johnson & Johnson, we expect the average price to hover between 90 and 105, which would be between 40% and 65% above the current level.

Just above the *Projections* box is a section containing the *Value Line Timeliness, Safety, and Technical* ranks, plus a Beta calculation. Johnson & Johnson's Beta of .65 reveals that this stock is likely to move up and down much more slowly than the typical stock on the New York Stock Exchange. If you are looking for stability, a stock like Johnson & Johnson, with a low Beta, is a good option.

The “Cash Flow” Line

The price chart at the top of the Johnson & Johnson page contains, among other things, a monthly price history for the stock (the vertical bars) overlaid by a solid line that we call the “cash flow” line (sometimes also called the “*Value Line*”). To plot the line, we multiply cash flow per share (net income plus depreciation and amortization divided by the number of shares outstanding at the end of the year) by a number (multiple) determined by our analyst. The goal is to create a “line” that most closely matches a company's stock price history and also “fits” the projected 3- to 5-year *Target Price Range*. In the case of Johnson & Johnson, the “cash flow” multiple is now 12.0. (The multiple can, and often does, change over time.)

The concept of a “cash flow” multiple is not too different from that for a Price/Earnings multiple (or ratio). The difference here is that instead of dividing the recent price of a stock by 12 months of earnings to create a P/E multiple, we divide the recent price by the total of 12 months of earnings plus 12 months of depreciation (and amortization, if there is any).

There is evidence that some stocks will generally trade at a price close to the “cash flow” line. In those cases when a stock is trading above the “cash flow” line, it will often move back down toward the “cash flow” line. When it is trading below, it will often do the opposite. In some cases, a stock may trade above or below the “cash flow” line for considerable periods of time.

Historical Results and Estimates

For each of the approximately 1,700 companies *Value Line* follows, we usually present per-share data going back 16 years in the Statistical Array in the center of each report. The historical data (item 26) appear on the left side and are presented in regular type. We also project statistical data (item 15) for the next fiscal year, as well as three to five years into the future. ***These projections are presented in bold italics.***

Now look at a list of items in the Statistical Array (items 15 and 26).

Sales per share, in the top line, is an important series. When earnings per share are depressed because of poor net profit margins, a high level of sales per share can suggest the potential for an earnings recovery. It would be disconcerting, however, if sales per share declined in tandem with earnings per share.

“Cash flow” per share (second line), as commonly used by analysts, is the sum of reported earnings plus depreciation, less any preferred dividends, calculated on a per-share basis, also now includes stock option expense. It is an indicator of a company’s internal cash-generating ability—the amount of cash it earns to expand or replace plant and equipment, to provide working capital, to pay dividends, or to repurchase stock. Johnson & Johnson’s “cash flow” per share has expanded significantly since 1996.

Earnings per share (third line) are shown by *Value Line* as they were reported to stockholders, excluding nonrecurring items and adjusted for any subsequent stock splits or stock dividends. According to current accounting guidelines, companies now report earnings two ways. The first is basic earnings per share, which is the earnings available to common shareholders divided by the weighted average number of shares outstanding for the period. The second is diluted earnings per share, which reflects the potential dilution that could occur if securities or other contracts to issue common stock (like options and warrants) were exercised or converted into common stock. *Value Line* shows only one earnings figure in our statistical presentation; that figure is clearly identified in the footnotes (item 20), and it is almost always the diluted earnings figure.

For Johnson & Johnson, earnings per share have expanded consistently between 1996 and 2011. As indicated in footnote (B) (*item 20*) near the bottom edge of the report page, its earnings per share are now based on diluted shares outstanding.

Dividends Declared per share (fourth line) are usually the highest, in proportion to earnings, at older and larger companies, which tend to have slower-than-average growth. Directors of growth-oriented companies more often than not prefer to pay small or “token” dividends, or none at all, so they can reinvest earnings in the business. Johnson & Johnson has paid out between 39% and 44% of its earnings in dividends and invested the remainder in the business during the past five years and the percentage is likely to be about 47% over the next few years. A payout of 25%-30% is generally typical of larger capitalization companies followed by *Value Line*.

Capital Spending per share (fifth line) is the amount that a company spends on new plant and equipment. It doesn't include funds used for acquisitions of other companies.

Book Value per share (sixth line) is common shareholders’ equity determined on a per-share basis. It includes both tangible assets, like plant and receivables and inventories, as well as intangibles, like the value of patents or brand names, known as “goodwill.” Any significant intangibles will normally be indicated in a footnote. If all assets could be liquidated at the value stated on the company’s books, all liabilities such as accounts payable, taxes, and long-term debt paid, and all preferred stockholders compensated, the book value is what would be left for the common stockholders.

The number of *Common Shares Outstanding* (seventh line) is also listed in the Statistical Array. Sometimes net income rises, but earnings per share do not, because the number of shares outstanding has increased. This may happen because a company is issuing stock to pay for acquisitions or to fund internal growth. As a result, sales and profits may soar, while per-share sales and earnings lag. On the other hand, when cash-rich companies buy their own shares, earnings per share can rise even if net income is stable. Johnson & Johnson’s share base has declined each year since 2005.

The *Average Annual P/E Ratio* (eighth line) shows what multiple of earnings investors have been willing to pay for a stock in the past and the P/E ratio the analyst expects out 3 to 5 years. Johnson & Johnson’s average annual P/E was at an unusually high levels between 1996 and 2002 when drug and medical stocks were in favor; it has narrowed considerably over the past nine years.

The *Relative P/E Ratio* (ninth line) shows how the stock's price-earnings ratio relates to those of all stocks in the *Value Line* universe. Johnson & Johnson's relative P/E of 0.85 in February 2012 was below that of the typical stock. However, its relative PE has often been much higher, and the *Value Line* analyst thinks it will be about average in the 2015-17 period.

The *Average Annual Dividend Yield* (10th line) is of special interest to conservative investors, many of whom are more concerned with income than with a stock's appreciation potential. Income-oriented investors should look for stocks with yields that are higher than the average shown each week in the center box of the front cover of the *Summary & Index*, but they should also look at the trend of dividends over time. Johnson & Johnson's dividend has been increased in each year shown on our page, and the analyst thinks it will continue to rise. Steady increases are very attractive for many investors. Investors should also look carefully at a company's Financial Strength to make certain that the company will be able to continue to pay the dividend. A good rule of thumb for conservative investors is to invest only in companies with Financial Strength ratings of at least B+.

Company Financial Data

The *Sales* figure (11th line) is the most common measure given when referring to a company's size. Johnson & Johnson's sales in 2011 were almost 1.8 times the amount recorded in 2002, a very strong performance.

The *Operating Margin* (12th line) indicates what percentage of sales is being converted into operating income. (Operating income is total sales minus the cost of goods sold and selling, general and administrative expenses. It is also referred to as EBITDA, or earnings before interest, taxes, depreciation, and amortization.) At Johnson & Johnson, this figure peaked in 2004 and 2009, and it appears poised to surpass those levels in 2011.

Depreciation (13th line) shows the amount charged against operating profits to reflect the aging of a company's plant and equipment. That number has risen quite steadily, but it declined in 2009 and it resumed the uptrend in 2010.

Net Profit (14th line) is the amount the company earned after all expenses including taxes, but excluding nonrecurring gains or losses and the results of discontinued operations. Usually, the higher the net, the higher the per-share earnings. Johnson & Johnson's net profit has grown considerably since 2001, and has risen in every year but in 2009, when it was little changed.

Johnson & Johnson's *Income Tax Rate* (15th line) averaged about 29% between 2002 and 2004, and *Value Line's* analyst thinks it will be about 22% in the foreseeable future. Income tax rates will normally remain steady unless the federal tax rate changes in the U.S. or unless a company increases or decreases the percentage of business it does overseas, where tax rates are different.

Net Profit Margin (16th line) shows net income after taxes as a percentage of sales (or revenues). Here, the trend is the most important thing, with rising margins usually being favorable. It is often worthwhile to compare the net margin with the operating margin. Usually the two series move together, though not always. Depreciation charges, interest expense, income taxes, and other costs are deducted from (and other income added to) operating income in the determination of net profit. Where there is a disparity in the trends of the net and operating margins, it may be worth taking a second look. (If depreciation, interest charges, or tax rates move sharply in any direction, there will be an impact on net profits, and it would be worthwhile to try to determine why the change occurred.)

Johnson & Johnson's *Net Profit Margin* reached a record level in 2010, and we expect little change over the 4 to 6 years subsequent to 2011.

Working Capital (17th line), the company's current assets less current liabilities, indicate the liquid assets available for running the business on a day-to-day basis. The higher a company's sales, the more working capital it typically has and needs. But we caution that a number of large companies with steady revenue streams no longer believe large amounts of working capital are necessary. In those cases, a negative working capital may be perfectly acceptable because a company can meet normal operating expenses from consistent cash receipts.

Long-term Debt (18th line) is the total debt due more than one year in the future. In the case of Johnson & Johnson, the amount is quite low relative to shareholders' equity.

Shareholders' Equity (19th line), also known as net worth, is the total stockholders' interest (preferred and common) in the company after all liabilities have been deducted from the company's total assets. All intangible assets such as goodwill, patents, and, sometimes, deferred charges are included in shareholders' equity. Johnson & Johnson's equity has grown appreciably over the years, primarily from retained earnings.

Return on Total Capital (20th line) measures the percentage a company earns on its shareholders' equity and long-term debt obligations. When a company's return on total capital goes up, there should also be an increase in the return on shareholders' equity (see below). If not, it simply means that the company is borrowing more and paying interest, but not earning more for the stockholders on their equity in the company's assets. Unless a company can earn more than the interest cost of its debt over time, the risk of borrowing is not worthwhile.

Return on Shareholders' Equity (21st line) reveals how much has been earned (in percentage terms) every year for the stockholders (common and preferred). Higher figures are usually desirable, often indicating greater productivity and efficiency. Johnson & Johnson's percent earned on net worth reached a peak in 2008, however it declined sharply since then, and it is likely to be about 20% in 2012.

Trends in both this ratio and the return on total capital—two key gauges of corporate performance—say a great deal about the skill of management.

Retained to Common Equity (22nd line) also known as the "plowback ratio," is net income less all dividends (common and preferred), divided by common shareholders' equity and is expressed as a percentage. It measures the extent to which a company has internally generated resources to invest for future growth. A high plowback ratio and rapidly growing book value are positive investment characteristics.

All Dividends to Net Profit, or "payout ratio," (23rd line) measures the proportion of a company's profits that is distributed as dividends to all shareholders—both common and preferred. Young, fast-growing firms reinvest most of their profits internally. Mature firms are better able to pay out a large share of earnings. Johnson & Johnson paid out 44% of its profits in the form of cash dividends in 2010. By way of comparison, the typical large company in the *Value Line* universe usually pays out about 25%-30% of its profits in dividends.

VI: A Hands on Tour of the *Value Line* Page

Now that you have had a quick overview of the most important aspects of the *Value Line* page, it is time to hunker down and actually use the data. You will find both explanations and questions to help you get a “hands on” feel for using a *Value Line* stock report. Each “question” has a blank line for you to place your answer. Note that you may need a calculator to find some of the answers.

The questions are based on the sample page included with your welcome package. There is an answer sheet and a scoring guide at the end of the workbook, so you can see how much you have learned and the sections to which you may need to pay more attention. This is meant to be an educational and fun experience, so don't feel bad if you get something wrong—simply take some extra time to figure out what the right answer should have been.

1. Across the top of the page are: the **company's name**, followed by the **stock exchange** on which the stock is traded - usually the New York Stock Exchange (NYSE), American Stock Exchange (ASE), or NASDAQ (NDQ), and the **ticker symbol**, usually two to four letters used to identify a stock for trading purposes. Next comes the recent **stock price** (*item 5*).

Johnson & Johnson's stock is traded on the _____(1).

Its ticker symbol is _____(1a).

2. To the right of the recent price is the *Value Line* **price/earnings ratio** (*item 6*), often abbreviated as the **P/E ratio**. All price/earnings ratios are calculated by dividing the recent price of a stock by 12 months of share earnings. But there are some differences.

Value Line calculates the ratio by dividing the recent price of a stock by the sum of the past 6-month's earnings per share and *Value Line's* estimate of the next six month's estimated earnings per share. *Value Line* believes that the use of both past and future earnings provides the most realistic picture possible.

At the time this report was written, Johnson & Johnson's earnings for the past and current quarter—the December 2011 and March 2012 quarters (*in item 22*)—would equal \$2.45 a share (\$1.13+ \$1.32). *Value Line* was estimating that earnings in the next six months—the June and September 2012 quarters (*in item 22*)—would total \$2.56 a share (\$1.29+ \$1.27).

With a recent stock price of 64.61 and 12 months earnings per share of \$5.01 (\$2.45 + \$2.56), what is the price/earnings ratio? _____(2)

3. The **trailing price/earnings ratio (item 7)** is calculated by dividing the current price of a stock by the earnings per share actually reported for the past 12 months. This is the number used in most newspapers; the newspapers use reported earnings because those are the only numbers available to them since they do not make forecasts as *Value Line* does.

Johnson & Johnson's actual reported earnings in the past 12 months (the March, June, September, and December quarters of 2011) were \$5.00 a share (\$1.35 + \$1.28 + \$1.24 + \$1.13). What is the stock's trailing price/earnings ratios? _____(3)

4. The **median price/earnings ratio (item 7)** is the middle value of a company's P/E ratios over the past 10 years, with certain statistical adjustments. **It shows the typical historical P/E of a stock.** (An investor cannot calculate a median P/E ratio without knowing the precise statistical adjustments *Value Line* uses.)

5. The **relative P/E ratio (item 8)** of a stock compares the P/E of one stock with the P/E of all the stocks in the *Value Line* universe of approximately 1,700 stocks. Our calculation of the **relative P/E ratio** is made by dividing *Value Line's* P/E of this company (**item 6**) by the median P/E of all of the approximately 1,700 stocks included in *The Value Line Investment Survey*. (The median P/E of all stocks can be found each week on the front cover of the *Summary & Index* section.)

Value Line's calculated P/E for Johnson & Johnson, shown on the top of the page, is 12.9. The P/E of the *Value Line* universe of stocks at the time the Johnson & Johnson report was published was 15.2. What is Johnson & Johnson's relative P/E ratio? _____(5)

Whenever a stock's relative P/E is more than 1, its own P/E is greater than that of the market. If its relative P/E is less than 1, its own P/E is less than that of the market. Is Johnson & Johnson's P/E ratio greater or less than that of the market? _____(5a)

6. A **dividend** is a payment by a company to a shareholder. It is usually in cash, and the cash is usually paid quarterly.

The **dividend yield (item 10)** measures the expected cash dividend to be paid in the coming 12 months as a percent of the recent price of a stock. That is, the expected dividend is divided by the recent price of a stock to arrive at a figure that is shown as a %.

Johnson & Johnson's dividend payment in the next four quarters is expected to be \$2.28 a share. What is the stock's yield? _____(6)

7. **Timeliness (in item 1)** rank is *Value Line's* prediction for the expected price performance of a stock over the coming 6 to 12 months **relative** to all other stocks in the *Value Line* universe of approximately 1,700 stocks. **Timeliness** ranks go from **1 (Highest) to 5 (Lowest)**.

At any one time, there is a normal distribution of ranks, so that there are:

- 100 stocks ranked 1 (Highest)
- 300 stocks ranked 2 (Above Average)
- 900 (approx.) stocks ranked 3 (Average)
- 300 stocks ranked 4 (Below Average)
- 100 stocks ranked 5 (Lowest)

Stocks with *Timeliness* ranks of 1 or 2 are likely to be above-average performers; those with ranks of 3 are likely to be average performers; those with ranks of 4 or 5 are likely to be below-average performers.

Johnson & Johnson's *Timeliness* rank is _____(7). That means that the stock's performance in the coming six to 12 months should be _____(7a).

8. The *Safety* rank (*in item 1*) measures the financial strength of a company and the price volatility of its stock relative to other companies and stocks in the *Value Line* universe. As with *Timeliness* ranks, *Safety* ranks go from 1 (Highest) to 5 (Lowest). *Safety* ranks of 1 or 2 are most suitable for conservative investors.

Johnson & Johnson's *Safety* rank is _____(8). Is this stock a good one for someone who wants to minimize risk? _____(8a)

9. The *Technical* rank (*in item 1*) uses a proprietary formula to predict short-term (3-6 months) future price returns of one stock relative to all others in the *Value Line* universe. This rank also goes from 1 (Highest) to 5 (Lowest).

What is Johnson & Johnson's *Technical* rank? _____(9) Does this mean that Johnson & Johnson's stock is most likely to be an above-average, average, or below-average performer in the coming three to six months? _____(9a)

10. *Beta* (*in item 1*) measures a stock's price sensitivity to fluctuations of the market as a whole, as measured by the New York Stock Exchange Index. If a stock's *Beta* is 1.00, the stock should move in concert with the general market. If its *Beta* is 1.50, its stock price is likely to be 50% more volatile than the market. In this case, if the stock market goes up 10%, the stock should go up 15% (50% more than the market). If the market goes down 10%, this stock should go down 15%.

If a stock's *Beta* is .65, the stock should be less volatile than the market. When the market goes up 10%, this stock should go up only 6.5%.

Is Johnson & Johnson's stock likely to be more volatile, less volatile, or about the same as the market? _____(10)

11. *Value Line's* 3- to 5-year **Price Projections** (*item 29*) are shown in the box below *Beta*. The projected 3- to 5-year share price range (indicated by the High and Low numbers) is also shown as the Target Price Range (*item 11*) in the upper right hand corner of the price chart, with a pair of broken lines.

Value Line is forecasting that the price of Johnson & Johnson's stock 3 to 5 years from now will trade in a range between _____(11) and _____(11a).

12. Below the Price Projections box is another box titled **Insider Decisions** (*item 28*). This box shows decisions to buy stock, to exercise options, and to sell stock by "insiders" in the past nine months. It shows the number of transactions in each category each month. (Insiders are defined as officers and directors of a company, and we note that each transaction is counted separately. For instance, if an officer buys or sells stock in his company 3 times a month, the transactions are listed as 3.)

Have insiders bought stock in the past nine months? _____(12)

Have they exercised options? _____(12a)
Have they sold stock? _____(12b)

13. The **Institutional Decisions** box (*item 27*) shows the number of times institutions with more than \$100 million of assets under management bought or sold stock of this company during the past three quarters. It also shows the total number of shares of stock in this company held by these institutions at the end of each quarter.

Did the number of shares of Johnson & Johnson owned by institutions rise or fall in the most recent quarter? _____(13)

Now let's look at the **Stock Price Chart** toward the top of each page.

14. The **high and low calendar year prices** of a stock are shown at the top of each chart (*item 9*). (A calendar year is January 1st through December 31st.) The years are identified at the bottom of the chart.

What was the price range of Johnson & Johnson's stock in 2011?

High _____(14) Low _____(14a)

15. In the chart, the **vertical bars** (*item 3*) represent the high/low monthly price ranges for a stock. Stock splits are also indicated (2-for-1, for example, in 2001).

How many stock splits has Johnson & Johnson had since 1999? _____(15)

16. The solid dark line in the chart is a "**Cash Flow**" Line (*item 4*), sometimes called the "*Value Line*." One theory is that the price of a stock will tend to gravitate to this line. When the price of a stock gets above the line, the tendency over time will be for the price to go back down toward the line; when it gets below the line, there will be a tendency for the price to rise up to the line. (There are some stocks for which this theory has worked very well and others for which it hasn't. An investor should look at the historical price pattern of each stock and make a judgment about whether or not the theory applies to a particular stock.)

Is Johnson & Johnson's stock price now above or below the cash flow line? _____(16)

17. The dotted line toward the bottom of the chart shows the **Relative Strength** (*item 12*) of a stock. It compares the price of a stock at any one time with the price of the *Value Line Arithmetic Index* (a good broad representation of the stock market, based on all of the nearly 1,700 stocks in *The Value Line Investment Survey*). If the **Relative Strength Line** is rising, the stock price is going up more than the market, if the line is falling, the stock price is going up less.

Did Johnson & Johnson's stock go up more, about the same, or less than the market in 2011? _____(17)

18. The **Legends** box (*item 2*) contains a number of useful items. First, it explains what the solid line and the dotted line are. Then, it shows the "multiple" of cash flow per share (shown in the statistical section below) which is used to plot the "**Cash Flow**" Line. The multiple is a number determined by an analyst to develop a line that most closely matches the actual historical prices of a stock. The box also includes the dates of **stock splits**, indicates if there are **options** traded on a stock, and explains that the **shaded bar** indicates a completed recession.

Are there options traded on Johnson & Johnson stock? _____(18)

19. The % **Total Return** box (*item 13*) shows the historical total return of a stock (appreciation or depreciation plus any cash dividends) over the past 1, 3, and 5 years and also the total return of the *Value Line Arithmetic Index* over the same periods. The figures are not averaged or compounded.

What was the % total return of Johnson & Johnson's stock during the past year? _____(19)
What was the % total return of the *Value Line Arithmetic Index* during the past year?
_____(19a)

Did Johnson & Johnson's stock do better or worse than the *Value Line Index* over the past year?
_____(19b)

Did it do better or worse than the index over the past five years? _____(19c)

20. The many columns of numbers in the center of the page are in what *Value Line* calls the **Statistical Array** (*item 15*). It is worth noting here that every time there is a stock split (2-for-1, 3-for-1, etc.) or a stock dividend (10%, 20%, etc.) all historical stock prices and per share data (sales per share, earnings per share, etc.) are adjusted for the stock splits and dividends. (In a 2-for-1 split, for example, all historical figures are divided by 2.) **Split adjustments are a universal practice** and are the primary reason why many of the numbers in one *Value Line* report may look quite different than those in an earlier report.

There are two basic sections to the **Statistical Array**. The numbers in the top portion are all **per share** data. The numbers in the lower portion are **total** (or gross) figures. Also, the numbers to the left (prior to 2010) are **historical**, the numbers to the right (in **bold**) are **projections**.

What were Johnson & Johnson's earnings per share in 2011? _____(20)

What does *Value Line* expect Johnson & Johnson's average earnings per share will be in 2015-17? _____(20a)

21. The **Statistical Array** contains a great many financial numbers and ratios. They are all generally commonly used items, and they are defined in the glossary on www.valueline.com.

There is much very useful information in the **Statistical Array**. Broadly speaking, the data allow investors to examine trends in a company's business.

Have Johnson & Johnson's sales been rising over time? _____(21)

Have Johnson & Johnson's sales ever fallen from one year to the next during the past 10 years?
_____(21a) If so, when? _____(21b)

Did Johnson & Johnson's Net Profit Margin (net profits after all expenses, including taxes, as a % of sales) rise, fall, or stay level in 2011? _____(21c)

Did Johnson & Johnson's Return on Shareholders' Equity likely rise, fall, or stay level in 2011? _____(21d)

22. Most of the total (gross) numbers in the **Statistical Array** are in millions of dollars (\$mill). The number 47348, for example, means \$47,348,000,000; 9311 means \$9,311,000,000.

What were Johnson & Johnson's sales in 2011? _____ (22)

What was Johnson & Johnson's net profit in 2011? _____(22a)

23. The **Capital Structure Box (item 25)** shows a variety of things, including the total amount of **Debt Outstanding; Long-term Debt**; the number of **common shares** outstanding; and **Market Capitalization**.

Market Capitalization is the dollar value of common stock outstanding. It is calculated by multiplying the **number of shares** outstanding by the **price of** the stock.

The two numbers multiplied to calculate the **Market Capitalization** of Johnson & Johnson are _____(23) and _____(23a).

By the definitions used in *The Value Line Investment Survey*:

A Large Capitalization Issue = \$5 billion or more

A Mid Capitalization Issue = \$1 billion to \$5 billion

A Small Capitalization Issue = less than \$1 billion

Is the **Market Capitalization** of Johnson & Johnson, Large, Mid, or Small? _____(23b)

24. Johnson & Johnson's current assets and current liabilities (items scheduled to be converted into cash or to be paid within one year) are shown in the section called the **Current Position (item 24)**. It shows current assets, which include cash, receivables, and inventories, and current liabilities, which include accounts payable and debt due within one year.

How much did Johnson & Johnson have invested in inventory on 10/2/11? _____(24)

What was the total of its Current Assets? _____(24a) Current Liabilities? _____(24b)

25. The **Annual Rates** box (*item 23*) shows annual compound rates of change of a company's **sales, cash flow, earnings, dividends, and book value** over the past **10 and 5 years** and for **5 years** into the future.

In each case, the growth rates are calculated from a base which is the average of 3 years to an ending period which is also the average of 3 years. For example, a ten-year growth rate is calculated from a base of 1998-2000 to a base of 2008-2010.

Was Johnson & Johnson's sales growth in the past 5 years, faster, slower, or the same as its sales growth over the past 10 years? _____(25)

Does the analyst think sales growth is likely to be faster or slower in the next 5 years? _____(25a)

Was Johnson & Johnson's earnings growth in the past 5 years, faster, slower, or the same as its earnings growth over the past 10 years? _____(25b)

Does the analyst think earnings growth is likely to be faster, slower, or about even in the next 5 years? _____(25c)

26. The **Business Summary** (*item 16*) includes: a condensed summary of a company's operations, showing important products, markets, etc.; any shareholders owning more than 5% of the stock, including ESOPs (Employee Stock Ownership Plans); a company's address, telephone number, and Internet address; and other relevant information.

How many business segments does Johnson & Johnson have? _____(26)

27. The **Analyst's Commentary** (*item 17*), the lengthy text in the lower right portion of each report, is thought by many investors to be the most important item on the page. This is where a Security Analyst describes the outlook he/she sees for a company in the coming years, and, provides reasons for its investment suitability.

After reading the commentary about Johnson & Johnson, do you think the analyst is suggesting that Johnson & Johnson stock should appeal to conservative investors? _____(27)

28. **Quarterly Sales, Earnings, and Dividend Data** (*items 21 and 22*) are shown in the lower left portion of each report. An examination of the trends in quarterly sales and earnings can often provide insights into changing conditions. As an example, look at **sales** in the most recently reported quarter (December) when they totaled \$16,255,000,000. Then look at **sales** in the December quarter a year earlier.

What was the % increase in **sales** from December 2010 to December 2011? _____(28)

Were **earnings per share** in the latest reported quarter (December) higher, lower, or the same as those in the similar period a year earlier (December)? _____(28a)

29. Johnson & Johnson has had what appears to be a policy of regularly increasing its dividends. It has increased the dividend at approximately the same time in each of the past five years.

What is the quarter (March, June, September, December) when it increased the dividend?
_____(29)

30. The heading over the fourth column of numbers in the **Quarterly Sales and Earnings Per Share** boxes shows when a company's **fiscal year ends**.

When does Johnson & Johnson's fiscal year end? _____(30)

31. The **footnotes** (*item 20*) at the bottom of each page explain a lot, including: the way earnings are reported—**basic or diluted**; **unusual gains or losses**; the availability of **DRIPs** (Dividend Reinvestment Plans, in which companies make it easy for shareholders to reinvest their dividends in more stock); **dividend payment dates**; and special explanations, as necessary.

When is Johnson & Johnson expected to pay its next dividend? _____(31)

Does Johnson & Johnson have a DRIP? _____(31a)

32. A variety of unique **ratings** (*item 19*) are shown in the box in the lower right of each report. Each of these items is defined briefly below and in more detail in *How To Invest In Common Stocks*. **Financial Strength** ratings, which measure the financial condition of a company, range from a high of A++ to a low of C. A stock's **Price Stability**, **Price Growth Persistence**, and **Earnings Predictability** ratings go from a high of 100 to a low of 5. **Price Stability** measures the variability of the price of a stock over time. **Price Growth Persistence** is a measure of stock price growth over time. **Earnings Predictability** measures the expected reliability of earnings forecasts.

In which category(ies) does Johnson & Johnson score at the very top?

_____ (32)

Answers

1. New York Stock Exchange
1a. JNJ
2. 12.9
3. 12.9
5. 0.85
5a. Less
6. 3.5%
7. 3
7a. Average
8. 1
8a. Yes
9. 3
9a. Average
10. Less Volatile
11. 105
11a. 90
12. Yes
12a. Yes
12b. Yes
13. Rise
14. 68.1
14a. 57.5
15. One
16. Below
17. More
18. Yes
19. 14.3%
19a. 0.0%
19b. Better
19c. Worse
20. \$5.00
20a. \$6.50
21. Yes
21a. Yes
21b. 2009
21c. Fall
21d. Fall
22. \$65,030,000,000 (or \$65.0 billion)
22a. \$13,867,000,000 (or \$13.9 billion)
23. 2,730,849,018
23a. 64.61
23b. Large
24. \$6,428,000,000
24a. \$53,443,000,000
24b. \$21,686,000,000
25. Slower
25a. Slower
25b. Slower
25c. Slower
26. Three
27. Yes
28. 3.9%
28a. Higher
29. June
30. December
31. March
31a. Yes
32. Company's Financial Strength, Stock's Price Stability, Earnings Predictability

To analyze your performance, see the facing page.

Results/Performance

While the exercise of reading through the preceding text and filling in the blanks or answering the questions was not intended to be a test, but rather a guide to reading the *Value Line* page, there are some people who are always anxious to know how they performed. We suggest the following:

How Did You Do?

NUMBER WRONG

0-3

4-6

7-10

11 or more

EVALUATION

Expert

Very Good

Passed

You should probably restudy
the workbook

