



## 2 EVALUATING Management

Baidu

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Last 5 Year Avg.
Pre-tax Profit on Sales	-21.9%	36.9%	35.3%	36.9%	36.4%	51.3%	53.9%	53.6%	38.1%	29.5%	45.3%
% Earned on Equity	-2.9%	23.0%	29.4%	9.5%	22.1%	41.0%	49.4%	39.6%	29.5%	27.3%	37.4%
% Debt To Capital	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	14.0%	31.4%	31.5%	33.4%	22.3%

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

**CLOSING PRICE** 191.92 (12/18/15)

**HIGH THIS YEAR** 237.43

**LOW THIS YEAR** 100.00

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2010	115.0	38.5	1.49	77.2	25.8	0.00	0.0	0.0
2011	166.0	97.6	2.94	56.5	33.2	0.00	0.0	0.0
2012	154.2	86.0	4.73	32.6	18.2	0.00	0.0	0.0
2013	181.3	83.0	4.88	37.1	17.0	0.00	0.0	0.0
2014	252.0	140.7	6.08	41.5	23.1	0.00	0.0	0.0
AVERAGE		89.1		49.0	23.5			
CURRENT/TTM			5.57					
AVERAGE PRICE EARNINGS RATIO 36.2				CURRENT PRICE EARNINGS RATIO 34.5				

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 49.0 X Estimate High Earnings/Share 12.23 = Forecasted High Price \$ 599.1

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 23.5 X Estimate Low Earnings/Share 6.08 = Forecasted Low Price \$ 142.9

(b) Avg. Low Price of Last 5 Years 89.1

(c) Recent Market Low Price 83.0

(d) Price Dividend Will Support  $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{0.00}{0.00\%} = 0.0$

Selected Forecasted Low Price \$ 83.0

### C ZONING using 25%-50%-25%

Forecasted High Price 599.1 Minus Forecasted Low Price 83.0 = 516.1 Range. 25% of Range 129.0

Buy Zone 83.0 to 212.0

Hold Zone 212.0 to 470.1

Sell Zone 470.1 to 599.1

Present Market Price of 191.92 is in the **BUY** Zone

### D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{599.1 - 191.92}{191.92 - 83.0} = \frac{407.20}{108.94} = 3.7$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{599.1 - 191.92}{191.92} = 3.1217$  X 100 = 312.17 - 100 = 212.2 % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**  $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{0.00}{191.92} = 0.0000 = 0.0\%$  Current Yield

### B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{0.0\%}{49.00} = 0.0\%$

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{0.0\%}{36.25} = 0.0\%$

### C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 25.6 %  
Average Yield 0.0 %  
Annualized Rate of Return 25.6 %

### COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 18.2 %  
Average Yield 0.0 %  
Annualized Rate of Return 18.2 %