

A PLAIN-ENGLISH CHECKLIST

The 7 Numbers to Check Before You Buy Any Stock

A good story is easy to find. These seven numbers show if the business behind the story is really growing, really making cash, and how much the market already expects from it.

1 Sales growth	2 Profit margin trend	3 Free cash flow margin	4 Growth plus margin	5 Price to earnings (P/E)	6 Price vs. growth (PEG)	7 Fair price vs. today's price
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What it is

One or two lines on what the number means. No jargon.

Where to find it

The exact spot on a Stetz Research stock page or its Projections tab.

Good vs. watch out

A rough guide, plus a worked example with a made-up company.

Example company

Harbor Pantry Co. is a made-up snack maker. It is not a real stock. We use it in every example so you can see how the seven numbers fit together. Its shares cost **\$60** today.

1 Sales growth

Stock page → **Key numbers** →
“Sales growth, 3-yr avg”

How fast the money coming in grows each year. Sales are the top line of the business. If they stop growing, profit and cash have a much harder time growing too.

GOOD

About 10% a year or more, and fairly steady. That is well ahead of normal price rises (inflation).

WATCH OUT

Under about 3% a year, or shrinking. Once you take out inflation, the business may be standing still.

Harbor Pantry: sales went from \$1.50 billion to \$2.00 billion in 3 years. That works out to about **10% a year**.

2 Profit margin trend

Stock page → **How the business has done** →
“Profit margins” chart

How many cents of each sales dollar turn into profit, and which way that line moves over the years. Watch the operating line most of all.

GOOD

Sales go up *and* the margin line goes up too. Costs are growing slower than sales.

WATCH OUT

Sales go up while the margin line keeps sliding down. The company may be paying too much for its growth.

Harbor Pantry: the operating margin went from 14% to 16% to **18%** while sales grew. Both lines point up.

3 Free cash flow margin

Stock page → **Key numbers** →
“Free cash flow margin”

Free cash flow is the cash left after the company pays to run the business and buy equipment. The margin is that cash for every \$1 of sales. Reported profit can be shaped by accounting choices. Cash is harder to dress up.

GOOD

Positive and growing. About 15% or more is strong for most companies.

WATCH OUT

Below zero, or shrinking while reported profit grows. Ask where the cash went.

Harbor Pantry: \$300 million of free cash flow ÷ \$2.00 billion of sales = **15%**. It keeps 15 cents of every sales dollar as cash.

4 Growth plus margin

Stock page → **What our two models say** →
“Overall, from four checks”

Add number 1 (sales growth %) to number 3 (free cash flow margin %). It shows the balance between growing fast and making cash. A young company can grow fast with thin margins. An older one can grow slowly with fat margins. Both can score well.

GOOD

40 or more. This check matters most for software and tech companies.

WATCH OUT

Under 25. Slow growth *and* thin cash. Neither side is carrying the business.

Harbor Pantry: 10 + 15 = **25**. That is in the middle. Fine for a snack maker, but weak for a software company.

5 Price to earnings (P/E)

Stock page → **Key numbers** →
“Price to earnings (P/E)”

Share price ÷ yearly profit per share. It is how many dollars you pay for \$1 of yearly profit. A P/E of 20 means you pay \$20 for each \$1 the company earns in a year.

GOOD

In line with, or below, similar companies in the same industry. A P/E only means something next to its neighbors.

WATCH OUT

Far above similar companies while growth is not any faster. No P/E at all means there is no profit yet.

Harbor Pantry: \$60 price ÷ \$3.00 profit per share = **20×**.

6 Price vs. growth (PEG)

Stock page → **What our two models say** →
“Price vs. growth (PEG)”

The P/E ÷ how fast profit per share grows each year (in %). It asks: am I paying a fair price *for this much growth*? A high P/E can make sense if growth is high too.

GOOD

Under 1. You pay less than one P/E point for each point of growth.

WATCH OUT

Over 1.5. Around 2 or more means you pay about double for the growth.

Harbor Pantry: profit per share grows 15% a year. $20 \div 15 = 1.33$. Fair, not a bargain.

7 Fair price vs. today's price

Stock page → **Where today's price sits**
and the **Projections** tab

Stetz Research turns guesses about future sales and cash into a fair price, then puts today's price next to it. The gap is your cushion in case your guesses were a little too hopeful.

GOOD

The fair price is clearly above today's price, even after you cut your growth guess in half.

WATCH OUT

Today's price is above the fair price. The market expects more growth than you do.

Harbor Pantry: with 10% sales growth, a 15% cash margin, a 10% discount rate, an exit multiple of 15 and 5 years, the cash-flow model gives **\$60**. That is today's price, so there is no cushion. Cut growth to 5% and it falls to about **\$49**.

What Harbor Pantry teaches

Six of the seven numbers look healthy: steady sales, rising margins, real cash. Number 7 says today's price already counts on all of it. A good company and a good price are two separate questions. Check both, every time.

[[STETZ: approve these 7 numbers and the good / watch-out lines]]

This guide shows how to read numbers. It does not tell you to buy or sell anything, and past results do not promise future ones. Harbor Pantry Co. is made up.

Education only. Not investment advice.