Let's Talk About Stocks: Earnings & Guidance

A FinLit Lesson

By KARA

A Company's Value

Earnings refer to the income that a company gains during a certain period. They are used to measure the profitability of the company.

Guidance is a company's public estimates of its current-quarter and future earnings outlook.
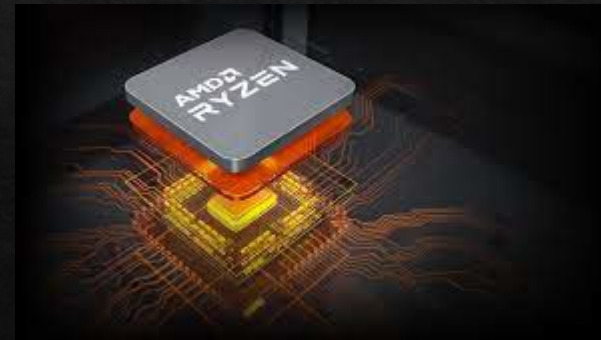
Value vs. Growth

Citibank

◈ Market Cap 87.34B USD

◈ P/E Ratio 6.32

◈ Dividend Yield: 4.54%
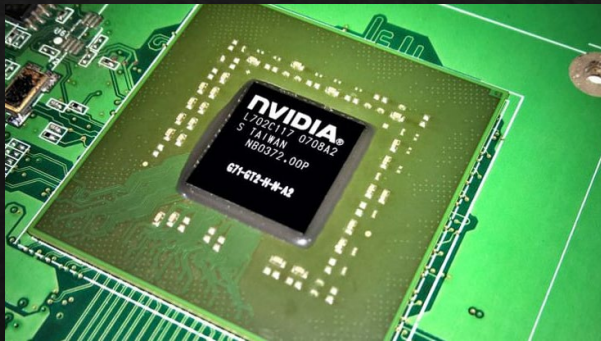

AMD

◈ Market Cap 153.90B USD

◈ P/E Ratio 113.8

◈ No Dividend

Comparison with Peer

Citibank

◈ Market Cap 613.35B USD

◈ P/E Ratio 142

◈ Dividend Yield: .06%

AMD

◈ Market Cap 153.90B USD

◈ P/E Ratio 113.8
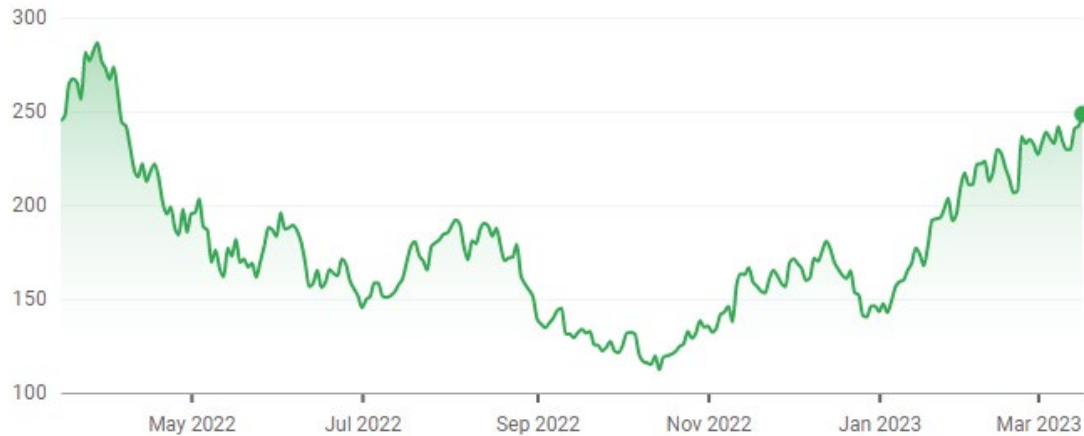
◈ No Dividend

Let's Compare (1 year)

NVIDIA Corporation

$248.42 ↑1.41% +3.46 1Y
Mar 16, 11:35:14 AM UTC-4 · USD · NASDAQ · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX   Key events
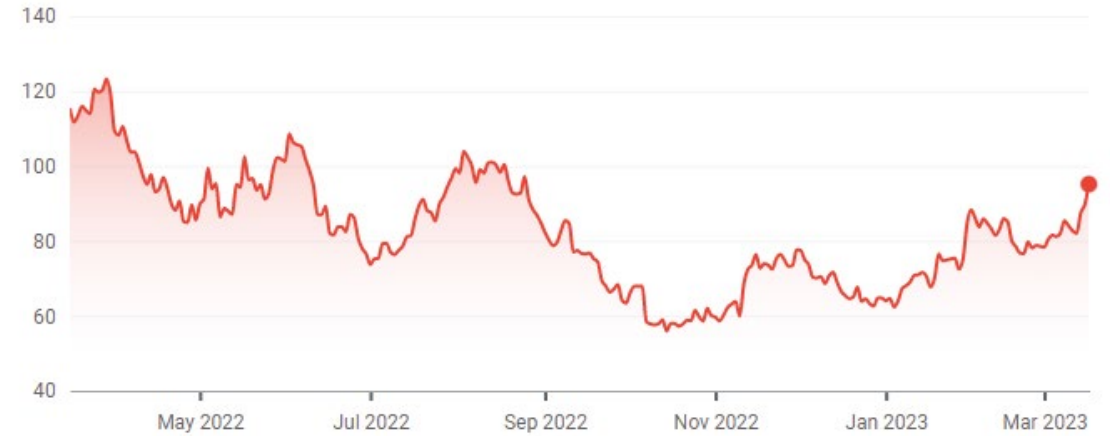
Advanced Micro Devices, Inc.

$95.13 ↓17.54% -20.24 1Y
Mar 16, 11:36:25 AM UTC-4 · USD · NASDAQ · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX   Key events

Trading   Markets   Account

AMD | Quote | Chart | Options | TradeLab | StrategySEEK | Trade

Views ▾   Display ▾   Studies ▾   Events ▾   Show Depth

Market

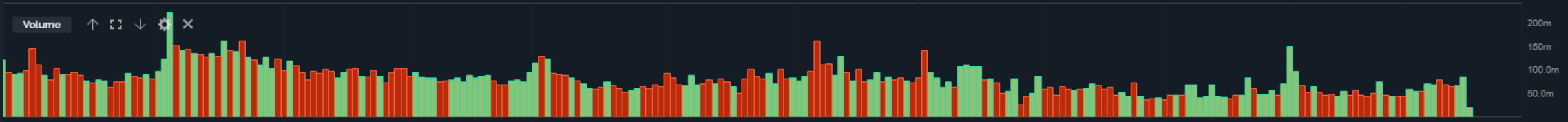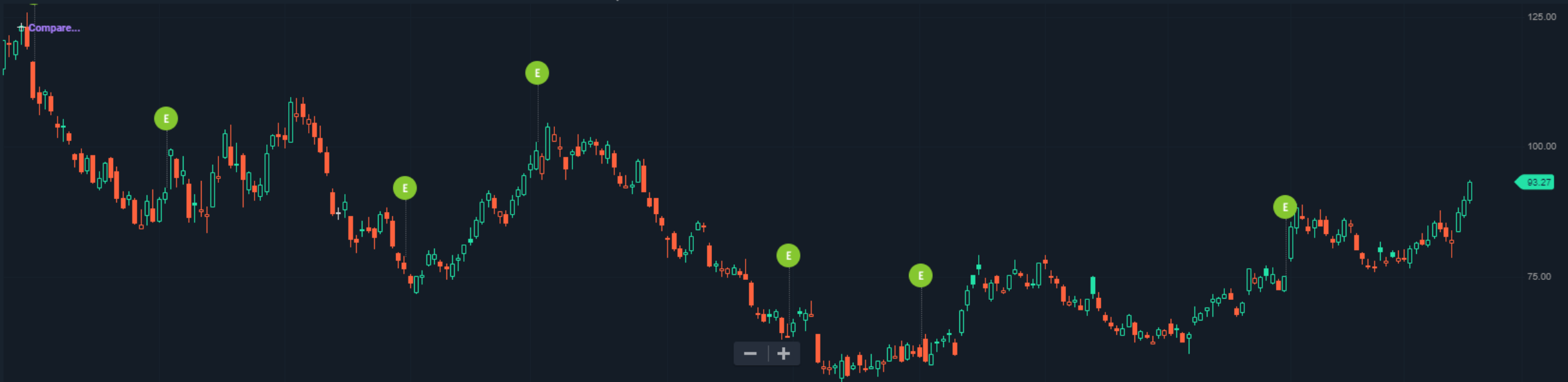Market Vi

ADVANCED MICRO DEVICES INC COM 🔔 ☰+   Bid   Ask   Size   Volume   Symbol

▾ ▮ 93.223 +3.543 +3.95%   93.22 93.25 13x3   22.71M   🟥 DJX
                                                                                          🟩 NDX
Open   High   Low   Close 52 Week Price   IV Rank Current IV IV Change 52 Week IV   52 Week HV   🟥 RUT
89.72 93.50 89.02 89.68 54.57 - 125.67   41%   51.65%   -93.69%   43.92% - 62.73% 38.68% - 84.42% 🟥 SPX
                                                                                          🟩 VIX

Today 3D 5D 10D 1M 3M 6M YTD 1Y 2Y 5Y 10Y All   Frequency: Daily ▾

125.00

Compare...

E

E

E

100.00

E

E   93.27

E

75.00

− | +

Volume ↑ ⤢ ↓ ⚙ ✕   Watch

Investme

200m   Symbol

150m   🟥 BFLY
                                                                                          🟥 ARRY
100.0m   🟥 MVST
                                                                                          ▮ QS
50.0m   🟩 ACRHF
                                                                                          🟥 SPCE
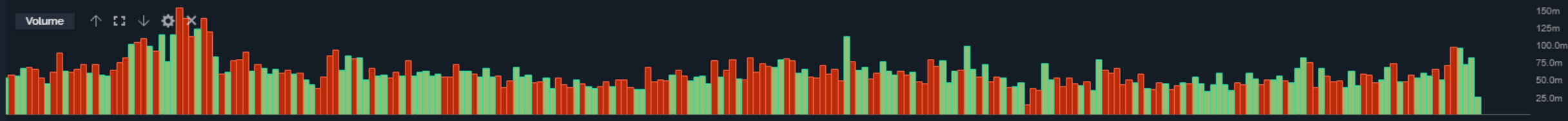   🟥 PAVE
Relative Strength Index (RSI) (14) ↑ ⤢ ⚙ ✕   🟥 GE
                                                              71.01   🟥 TGT
                                                                                          ▮ GNRS
30   🟥 BAC
ar   May   Jun   Jul   Aug   Sep   Oct   Nov   Dec   2023 Feb   Mar   🟩 TMPO
                                                                                          🟩 PDD

Quick

Headli

Trading **Markets** **Account**

| QQQ 🔍 | △ Quote | 📊 Chart | ⨂ Options | ⚗ TradeLab | StrategySEEK | ⇄ Trade |

Views ⌄ Display ⌄ Studies ⌄ Events ⌄ Show Depth ⧉

Mark

Market

Invesco QQQ Trust 🔔 ≡+ Bid Ask Size Volume Symbol

⌄ ▌ 304.14 +5.21 +1.74% 304.10 304.11 1x2 34.54M ▮ DJX

| Open | High | Low | Close | 52 Week Price | | | IV Rank | Current IV | IV Change | 52 Week IV | 52 Week HV | NDX |
| 298.00 | 304.26 | 297.19 | 298.93 | 254.26 - 371.83 | | | 24% | 25.69% | -4.29% | 22.55% - 35.43% | 19.39% - 45.46% | RUT |

SPX

VIX

Today 3D 5D 10D 1M 3M 6M YTD 1Y 2Y 5Y 10Y All Frequency: Daily ⌄

Compare...

Wat

Invest

Symbol

BFLY
ARRY
MVST
QS
ACRH
SPCE
PAVE
GE
TGT
GNRS
BAC
TMPO
PDD

350.00

325.00

304.18
300.00

275.00

— | +

Volume ↑ ⤢ ↓ ⚙ ✕ 150m
125m
100.0m
75.0m
50.0m
25.0m

Relative Strength Index (RSI) (14) ↑ ⤢ ⚙ ✕ 70
59.03
30

Mar May Jun Jul Aug Sep Oct Nov Dec 2023 Feb Mar

Why Are Earnings Important?

- Earnings are significant measures that reflect a company's financial performance and is commonly used in company valuations. In relative valuation, the earnings of a company are often compared with its market values to identify whether the firm is fairly valued relative to its peers. The price-to-earnings (P/E) ratio and the EV/EBITDA ratio are some of the most commonly used ones.

- The P/E ratio divides the market price of a stock by the most recent 12-month EPS of the company. The ratio tells how much investors are willing to pay for every dollar the company earns.

A Company's Value

◈ Top-line and bottom-line figures are useful in determining the financial strength of a company; they are not interchangeable. While the bottom line describes how efficient a company is with its spending and operating costs, the top line does not take into consideration operating efficiencies and only indicates how effective a company is at generating sales.

◈ Companies can increase their top line through engaging in aggressive advertising to gain new customers, adding new product lines, or increasing prices.

◈ Conversely, they can increase their bottom line through cost reduction – lowering the cost of materials, operating out of less expensive facilities, utilizing tax benefits, limiting the cost of capital, etc.

Earnings

◈ Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). EBITDA strips out the obscure expenses and can thus reflect a company's operational performance more clearly. It is also more difficult for companies to manipulate their EBITDA.

◈ Earnings Per Share (EPS). EPS is calculated by dividing the net earnings of a company by the number of common shares outstanding. It measures the money that the company earns for each share of its stocks. There are two types of EPS:

◈ Basic EPS does not consider the dilutive effects that can be caused by stock options, warrants, convertible bonds, and other items

◈ Diluted EPS assumes that all the potential shares outstanding have been issued. Diluted EPS is generally lower than basic EPS.

Net Income (or Bottom Line) = Gross Sales (or Top Line) – Total Expenses

◈ TOP LINE: A company's gross sales or total revenue.

◈ BOTTOM LINE: A company's net income generated by the company after deducting the cost of goods sold (including direct labor and materials), general and administrative costs, depreciation and amortization charges, interests, and taxes.

AMD Key Points

◈ AMD is a well-managed company with a solid history of success under current CEO Lisa Su.

◈ The company is investing heavily in research and development to maintain its competitive edge.

◈ Revenue and earnings should grow in 2023 because of strong demand for its products -- but management can't promise much beyond the first quarter in this unpredictable economy.

AMD Earnings Overview: Q4, 2022

⬦ The top-line total landed at $5.6 billion.

⬦ 16% revenue increase from the year-ago report.

⬦ Net income for the quarter was $21 million [$974 million in the previous year]. The lower net income resulted primarily from the amortization of intangible assets. This was a side effect of AMD's $50 billion buyout of embedded chip maker Xilinx.

AMD Earnings by Segment: Q4, 2022

◈ Data center division with sales of $1.7 billion, up 42% year over year.

◈ The Embedded segment had revenue of $1.4 billion. That's 1,868% year-over-year increase partially due to to the inclusion of Xilinx embedded revenue.

◈ The Client division had revenue of $903 million, down 51% year over year because of reduced processor shipments resulting from a weak PC market [result of COVID lockdown].

◈ Gaming sales were $1.6 billion, down 7% year over year due to lower demand for gaming-specific graphics cards.

Guidance

◈ Guidance is a company's public estimates of its current-quarter and future earnings outlook.

◈ Earnings guidance is used by investors and analysts to adjust their expectations for a company's share price.

◈ To protect themselves from lawsuits, companies pair their guidance reports with disclosure statements maintaining that their projections are by no means guaranteed.

AMD Guidance: Q1, 2023

◇ AMD's management expects first-quarter sales of approximately $5.3 billion, roughly 10% below the same period of 2022.

◇ The Client and Gaming segments are expected to decline.

◇ Embedded and Data Center divisions are expected to grow.

◇ Specific targets were limited because of global economic stability.

REVIEW & QUESTIONS

Earnings

Guidance