Bird's Eye View of the Income Statement

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today, Andrew and I are going to do a bird's eye view of the income statement, we're going to look at three different companies and walk through the different aspects of income statements and kind of show you the differences as well as the similarities.

And this should be a fun conversation. So buckle in, this is going to be a stock pickers episode, just an FYI for you. So here we go. I guess let's start with the basic overview of what we're talking about. So maybe you want to talk about the income statement just as a general rule between the three income statements, and then we can kind of start to dive in.

Andrew

0:36

So it's like, why does the income statement matter? And I go back to Peter Lynch, because I feel like he summarized it so well. He said, if you look at the long term chart of a stock chart, and you compare it to a company's earnings per share, which is the most important metric, arguably of the income statement, he said, with almost every company, you can see how the price of the stock follows the price of the earnings per share. And so if there's, if this is your first time looking at the income statement, if there's one thing you can get out of it, its earnings per share is important.

And it's important to know where that moves over the long term because it does drive stock prices.

Dave

1:20

It totally does. And I guess let's back up for just a second. So if people are tuning in for the first time, and they're hearing this conversation about financial statements, what are the three biggies, if you will,

Andrew

1:33

so we have the income statement, which, again, arguably, could be the most important one when it comes to driving the stock price. But then you have two others, which are also important in helping you understand the business itself. So you have the balance sheet, which tells you what the company's financial situation is, in any given point in time, what do they own? And what do they owe? And then you have the cash flow statement, which is telling you exactly how is cash moving through the business. And that's important, because the income statement is telling you what's the profit and losses. So obviously, you want a company who's getting more profitable every year, but I could borrow $3 million, and turn a profit, and then borrow $3 million dollars and turn another profit. But that's not sustainable also, right.

And so the cash flow statement can help you see things like that, like how much cash is a company using to invest to grow those earnings. And so the Cash Flow Statement works really well with the income statement, and telling you how efficient a company is growing. And really, that derives how shareholders the owners of a business, how they will see good results, you hear them on Shark Tank, Mr. Wonderful says, I want to tell me about the cash flow, cash flow. And a lot of real estate investors say that too, because it's important, because yeah, you have the stock price. But if you don't have any cash flow, then you might kind of be gambling, you know?

Dave

3:13

Yep, totally. That's very important. And I think understanding those differences between the statements. And we're going to cover the other two in some other bird's eye views here over the next few weeks, so that you can use these as resources to help you learn how these statements work, how they flow together, and how you can learn to read through them and understand some of the jargon that's in the statements.

So I guess starting with that viewpoint, let's talk about one of the biggest confusing factors for me when I started. And I know Andrew was saying the same thing is when you look at some of these statements, they all are income statements, but they don't always label them as such. And they also always don't label them exactly the same across the board. For example, we're going to talk about three companies. Today, we're going to talk about Apple, we're going to talk about Starbucks, and we're going to talk about Netflix, and we're going to overall compare their income statements. But even just looking at that little detail, if you look at the top of each of their income statements in the financial reports, two of the companies labeled them same, the third does not. So Apple labels theirs as consolidated statements of operations.

And Netflix does the same thing. However, Starbucks wants to be a little different. So they call theirs consolidated statements of earnings. Now, keep in mind, these are all exactly the same thing. They're all the income statement, but each company has the ability to change that naming and it can be a little confusing for beginners, because you're looking for something called the income statement and you don't see it. And so that's something that you will encounter and so hopefully by talking through some of these, this will help you I guess with the veil on some of that mystery, and I can't find the income statement, did they not make one?

They all do. They all have to, but it's part of the financial accounting that they're required to do. But it can be a little bit confusing. So I guess with that maybe we could kind of start to dive into what is an income statement? And how are they structured? I guess?

Andrew

5:21

Yeah. And how do you find them? Right? So when we say that this information is publicly available, these are all required things for companies to companies publicly traded in the US to share with the people. So they do that through their annual report. Another word for that is the 10k. That's the official filing, you can go that sec.gov, to find that, you can also go to bam, sec, BM s e c.gov. And they also have 10 ks that you can look up. So that's where we're, when we're talking about the income statement and how we're looking at it. That's where we are, we're at the source.

There's a lot of great websites like stratosphere.io, quick fs.net, which is the website I cut my teeth on, that will aggregate some of this for you. And they'll organize it for you. So you don't have to necessarily understand some of the confusing parts where you know, one company will call this one thing, and another company calls it another thing. If it was me, like having to start over, I would for sure look at the source, like look at these annual reports, these 10 Ks, I would for sure, look at that. But I will also probably try to supplement that by using a site that organizes it nicely.

Because they're like Dave was saying there is a certain structure to these income statements. And by learning that structure, you can decipher between how companies fit that mold in their own way. And that helps you understand the business very, very well. And so hopefully, by using three different examples of three really differently run businesses, you'll get a better sense and learn something too. So for me when I started, this was just kind of by dumb luck in a way but also just piggybacking off James O'Shaughnessy, his work, I looked at earnings per share, and I looked at revenue. And to me, that was a good first baby step in seeing a wall of information and getting something that I can tangibly understand easily. So maybe we could start there. And then talk through those and maybe use these examples.

Dave

7:35

Yeah, exactly. That's great. So why don't we start with looking at the revenue of the three companies and maybe talk about how they label them? And what different things you might notice as you're looking through that. So why don't you talk through the revenues for the three companies?

Andrew

7:57

Okay, let's start with Apple, Apple. Hopefully, we, a lot of us can understand what that business does their primary business is they sell iPhones. So Apple sells an iPhone to somebody whether through their store or through a place like 18 T or Verizon, whatever the customer paid, that's gonna go to the revenue. So we're not going to look at what did they cost to build the iPhone? How much do they cost to have employees work on selling the iPhone, just what did the customer pay for the iPhone?

That's revenue. And so for in Apple's case, we know that they sell iPhones, but they also make a decent amount of money on the services for the iPhone. So an example of that might be, if I'm an app developer, and I want to get my app on the iPhone, I have to pay Apple a split of what I make for them to allow people to download my app through the App Store. Because Apple's making sure that these apps are safe, that they're not fraudulent. All of these security things that Apple does cost money.

So Apple charges for that security and for that availability for developers, and so they pay Apple A cut of to be on the App Store. So that would be services. So Apple breaks down their revenue into two categories, products and services. And they lay out each of those categories in their income statement. And then they add those two together to get a total net sales. And so that would be their revenue there breaking it down in the two lines, and then adding it and then having the total net sales, and that's the revenue. So if I'm looking at a company, and if I were to look at Apple and I saw, let's say five years in a row of declining net sales, that would be concerning for me because the business as a whole is shrinking.

They're selling less as iPhones, they're getting less revenue from the App Store. And that would be concerning to me. So that's how to do it for Apple. Do you want to take a stab at one of the other companies?

Dave

10:11

Sure, I'll take a look at Starbucks. So one thing that I want people to notice as they're following along in their workbooks that the terminology and change across companies, like we mentioned before, with, what are the income statements will how they name them, for example, Apple calls their revenues, net sales.

And Starbucks refers to theirs as net revenues. And then Netflix, which I'll have Andrew talk about, because that's one of his favorite companies is to talk about they label theirs as revenues. So we have three companies that all label sales or revenues as three different things. So hopefully just understanding that can help you differentiate and not differentiate, but understand it's all the same thing.

But it can be a little confusing. If you look at the terminology. For the first time goal, what is the sales versus revenues thing, like? Why is one labeling it one is the other, it's the way that they'll do it internally, to help the business understand that. So when we look at revenues, net revenues for Starbucks, they break it down as well. But they break it down instead of parts, or what they sell, they sell it, they break it down between company operated stores, and licensed stores, and other. So they have three categories that they break those into.

And then at the bottom of that is a total net revenues. So like Andrew was saying, you want to look and see how the company is growing as far as the revenues go. And the way that Starbucks breaks it down for us is they break it down between the two different stores and an other. And so you can see across the board that the company is growing its revenues or sales. Over the three years that they mentioned, I also want to mention, income statements will list three years of sales or three years of sales and earnings.

That's kind of the standard that they have to do, some will do more, but most will just do three. So it's just kind of an FYI for you. But this is an easy way for you to see how the company thinks about their revenues and how they're generating them. They're not necessarily going by what coffee drink all of us drink. I'm not a coffee drinker. I know shock. But that's how Starbucks chooses to organize their revenues

Andrew

12:24

perfect and are just for clarification in case somebody is not aware of the whole licensing thing. So what are they describing just in a nutshell? What do they mean company operated versus license,

Dave

12:35

basically, they're differentiating between stores that the company owns, and stores that franchisees are owned. So they you know, somebody can pay a franchise license to buy the rights to open their own store. And then they operate it on their own. But it's under Starbucks, not management, but under Starbucks rules of engagement.

So they have to have the same products naming operate, same functions and everything, but the profits will go to the owner of the business as opposed to Starbucks, they would pay Starbucks a licensing fee. Generally, it's an annual fee, or it's a monthly fee that they'll pay for the rights to own their own stores. That's the kind of differentiation between the stores

Andrew

13:15

perfect. So you know, you worked in the restaurant business. So it's very intuitive for you. But if somebody was digging into this, and they're like, Okay, I'm or the loss, I don't know what this means, how would somebody get more information to inform them on what this stuff means when they look at the income statement,

Dave

13:32

the easiest way to do it is to read through the financial statement, they will list out all the different terms and they will help define the terms, some companies to be blunt, some companies are going to be more forthcoming and far more clear about how they differentiate things, others may not be as clear the way that I have done it is the our good friend Ctrl F.

And just type in company owned stores versus you know, other stores or the different terminology. And then that will help bind, you know, the needle in the haystack, if you will, of the 122 pages or whatever the Starbucks annual report is and then you can find the information from there. If that doesn't any results, then you could also check out the investing for beginners.com. There's a good chance we have information there about some of these things as well. But those are I mean, the first place I would go would be the company source. That's always where I look.

Andrew

14:27

And one last kind of resource or around that if you're like oh man, this annual report sounds really overwhelming. And you're you're struggling with that. We did an episode A couple years ago and we might have done several but this is one that popped up on the search bar. So if you go the IFP 172 We tried to break down how you can read an annual report and yeah, Ctrl F is your friend. It's your friend. It's your friend.

Dave

14:52

Yeah, it's your friend.

Andrew

14:54

So, luckily, I'm gonna move on to Netflix. Luckily, this one's a lot simpler. They just have one line, it's revenues. And you know, a lot of us have Netflix subscriptions. So it's pretty simple. That's the money that we're paying Netflix for the subscription. And then everything else follows from there.

Dave

15:12

So we started off talking about revenues. In the intro, you talked about kind of the first two things that you were able to focus on. So the net revenue and or the revenues, and then the earnings, so can we, let's just jump to the earnings. And then we can kind of fill in the stuff in between.

Andrew

15:26

So when you talk about earnings, or profits, there's going to be a few ways, again, that companies can categorize it, I would say most companies also do this, Apple calls it net income. And so what they're doing is they're taking that revenue number that we just talked about, and then they're taking all of their expenses. So you don't have to remember all of this, because I'm gonna say, as an example, for Apple, what does it cost them to make the iPhone to design it to manufacture it?

And then what does it take to pay the engineers who are thinking of what's the next iPhone gonna be research and development? What are they paying salespeople? What are they paying commercial costs, those are all costs to sell the iPhone, and then the regular expenses that every business has to pay, we have to pay some of these two taxes, interest on your debt. So those things come out. And then you could have a few special items here or there. The bottom line, the end of the day, you take out all the expenses, you subtract that from your revenue, that's going to be your earnings or your profit. Or, as law companies call it net income.

And then from there, we can get a basically a net income per share. But forever reason everybody calls it earnings per share. Again, those are the same. And what that's telling you is when you buy a share of stock, that's how much earnings or profit, you're basically getting from the company, when you buy the stock. That's earnings per share. And that's really, the metric again, that over the long term, can really determine why the stocks performance is

Dave

17:06

exactly one of the things that again, to go back to the three different statements. Again, Apple and Netflix refer to them as net income. Starbucks has to be different, of course. So they call it net earnings. So again, it's all the same thing. But they just choose to label it differently. And you're going to find that across the board that there are going to be times where you'll see those things kind of differentiated by different terminology.

But it's it's all the same thing. Net income and net earnings are the exact same thing, I guess, can we toggle you mentioned to like earnings per share? Can we talk a little bit about maybe there aren't. So the three companies that we have, are kind enough to actually break it out for us. Unfortunately, you will find some that won't. And so they won't tell you what the earnings per share are. And so can we maybe give people how would somebody find? How would they figure this out? And be How would they find the information.

Andrew

18:01

So if there was a metric that I'm used to seen, and they're not putting it on the income statement, I would again, use our friend Ctrl F. And then when it comes to earnings per share, you just take the net income or net earnings number, and you divide it by the shares outstanding, which is basically saying,

How many pieces of the pie have we split this into? Have we split this company into? And that's gonna give you the earnings per share?

Dave

18:27

Yeah, perfect. One thing I wanted to note. So when you look through all three of these statements, they all have already big numbers.

But something that's important to understand when you're trying to compare the businesses is what kind of denomination they put the statements in. So for example, Apple under their idling of the consolidated statement of operations they have in smaller print in millions. And if you notice that you look at Starbucks, it says the exact same thing in millions, except for share data. Same with Netflix, however, Netflix says in 1000s.

So the reason I mentioned this is because if you look at the numbers, just the raw numbers that are on Netflix, and you see 31,615,000 or 31,615,550,000, you think Holy crap, that's like five times the sales of Apple without understanding the context of it, because Netflix puts it in a different denomination, it makes it look like a bigger number. If you put all of them in millions, for example, then you see that Apple is 10 times bigger in sales than both Starbucks and Netflix.

But if you look at us in more granularly, you'll see that Starbucks and Netflix roughly produce around the same amount of revenue on an annual basis. And so you can kind of get us an idea of the size of the businesses and it also cannot be put in bursts. fact of how massive Apple is compared to other businesses. And so it can help you. It's just another little tool, little trick you can use to help compare companies kind of across the board. All right, so maybe now that we kind of understand revenues and net income, can we talk about all the stuff in between? Like, how do we get from here to there, and maybe we can start with the revenues, and maybe what we look for with that, and then kind of go from there. Sure,

Andrew

20:28

that's perfect. So again, this is where I think stratosphere.io or quick Fs dot that really helps with this, because they basically strip the income statement into the, for lack of a better word, the line items, or the profit items that help you compare things apples to apples, and help you understand how do we get from the top to the bottom. So I'm gonna list them, you don't have to remember it, we could break it down a little deeper, but you're gonna have a gross profit, so you're gonna have revenue at the top, you're gonna have a gross profit or gross margin, and then you're gonna have an operating profit or an operating margin, and then you're gonna have the net income. Let me start with the gross profit for Apple.

When you have a company like Apple, who is selling a physical product, like the iPhone, they have costs to manufacture. That's what the first gross profit or gross margin is trying to tell you. What did it take to make this product, not what it took to sell the product? What does it take to make it and so those expenses are going to be called cost of goods. That's where you'll see it in the accounting textbooks, they'll say cost of goods in the real world, it's also called cost of sales or cost of revenue. So for Apple, they do a cost of sales.

And they do it for the products and for the services. So think about what do they mean the cost to make an iPhone? Well, it can be anything from the components to build the iPhone, it can be the LCDs display that they're purchasing to slap it on there, the costs to hire the engineers to design the insides of the iPhone. what it costs to ship components, from one factory to the other, anybody who's on those teams, what those people costs, and then for the services with the App Store, what does it cost to hire the engineers keep the App Store running?

Anything related to those costs? So it's all kind of on the manufacturing? How do you make the product that gets you the gross profit? So Apple reports it as gross margin? And that's how they get to that number. How does Starbucks do it? And how would you describe it?

Dave

22:44

Starbucks, again, to be different, they do not list out a gross profit or a gross margin, they lump all of their costs in together and skip the whole gross part and go right to the operating expenses and operating income. So they can make it a little more difficult for especially for newer investors to understand what so I understand that they generate revenues, what are the costs associated with those.

And I think if you step back for a minute, and maybe remove yourself from just looking at the page, you can kind of think through what those could be. So they make coffee, and they have machines that make coffee, and then they have employees that work in the stores, that makes the coffee for us. So those would be three of the main costs that you could think of would be the product, the machinery to make the product and the people to make it the labor, and they don't break it down.

So nice and neat and clean. But they do give you a product and distribution costs and a store operating costs. And so those two items would probably be higher on the hierarchy, if you will have a gross profit. Unfortunately, some of those will bleed into other parts of the income statement. And so it's not quite so neat and clean as apples is for example. And here it again wise in the strength of what Andrew was discussing earlier with these aggregators, a website like stratosphere.io will break that out for you so that if you want to compare the operating, or the gross profit margin of Starbucks to Apple, that's an easier way to do it. Starbucks would be a harder one to calculate on your own, because you'd have to really dig into those, those two specific line items, and really see if the company breaks it out.

And they may not. And sometimes they may not break it out enough for you to be able to determine it. And so then you have to kind of rely a little bit on the aggregator to give you a rough estimate, if you will, of that now let's segue to Netflix and see how they do it. Just to kind of compare the the first two.

Andrew

24:56

So Netflix has a cost of revenues, line items And then they have a few more line items, which would go to the operating income instead of the gross margin. Again, like with Starbucks, Netflix does not say, gross profit or gross margin, they just give you the revenues and then the costs or revenues.

That actually doesn't really, it's not really intuitive to me, like I don't know how they would classify what it costs to make their product. So I'm just going to use Ctrl F right now. expenses associated with acquisition, licensing and production of content. And then there's a few other things, but that that really makes sense, right? What does it cost them to make a show, or to license a show from somebody else who's created the show or movie, and that's going to be our costs or revenues?

That's a good way to check it, too. You can control F or you can also use an aggregator as well. So hopefully that helps. And we can get to the next section. Yeah.

Dave

25:57

Yeah. Which is operating income slash expenses. So let's talk about those. You want to want to go back to our friend at Apple and see how they break it down for us. Yeah,

Andrew

26:07

love it. So remember, the first one we looked at was gross profit. What does it costs to make the product now we're going to talk about what does it cost to kind of market the product research and development is something that's also a part of this. And I guess it doesn't make it like super clean and clear, because it's not really like helping you sell a product. So we can't just say, okay, operating profit is, what it costs to sell and what it costs to make, you also have basically investments that company is making for future products, for whatever the reason is that somebody decided that that's where these items should go, that's just what we have to work with.

So in Apple's case, you have, again, we have the gross margin, and then a couple more line items that are subtracted research and development and selling general and administrative. And those are operating expenses, and then we get to the operating income. I know this is starting to become a lot but we're almost done. Promise. Yep. So selling general administrative, you know, administrative, that's anything from the lawyers that are working for the company, the secretaries working for the company, any sort of support, maybe the janitors that clean, the stores that could all be in there selling would be advertising costs to advertise the iPhone, they have a cool commercial now showing that a new air pods, that would definitely qualify, and then research and development, how are we making the iPhone better?

How are we just pushing things along, a lot of tech companies will create a lot of bets, for lack of a better word, but different projects where they're trying to build a new product, the next best thing, and a lot of companies do this. And so that falls into research and development. It's a cost, but it's not necessarily dealt with their primary moneymaker at the time. But they are still spending the money. So that's where it comes out. So you take the gross margin, you subtract these two operating expenses, you get to operating income. And operating income is really one of those I probably should have said this at the beginning.

But it's another focus for some of the more advanced people on Wall Street, because it doesn't, it's a more pure profit number for the business itself. So you're not taking all the crap like taxes and interest and all this other boring stuff and the cost to run a big company. We're simply looking at the meat and potatoes of how Apple really makes its money. And all the other stuff is kind of extra. It's important, but it's also kind of extra. So I like to look at operating income, I like to see how that's moving for a business, and if it's getting better or worse. And so that's why it's important to calculate.

Dave

28:49

Yep, I totally agree. Operating income for me is probably arguably the most important thing that I will look at on the income statement, because like Andrew said, is the pure number of what it takes to operate the business. So you have the revenues it generates, it has the costs to generate those revenues, and then the cost to operate the business to generate those revenues.

And everything else below that doesn't really it doesn't really impact the operations of the business or how the revenues are generated. It's other items that are important to consider. But to me, the operating income is really the meat and potatoes of the business. And that's really what I spend a lot of time looking at. It also leads to more advanced ideas like free cash flow and also returns on equity returns on invested capital, things of those nature that really has a bigger impact on how you measure how a business reinvest. So kind of moving past that. If you look at Starbucks operating income, so we mentioned in the gross part, they don't really break out the cost of revenues here they kind of lump everything in together and you see some different line items here that you will See in Apple or Netflix, for example, they break out depreciation, amortization expenses.

And again, when you step back, and you think about that for just a second, those terminologies really relate to an accounting term that businesses use to account for money that they spend on items that they can pay off, in theory over a longer period of time. And so for example, when you think about a company like Starbucks, it's far more capital intensive than something like Apple is in the respect that to sell their products, they have to have stores, and they have to have some big expensive machines in the stores to sell them. So those machines that brew out all those delicious coffees that everybody loves, those are not cheap, and the stores to build those stores is not cheap. And so that's a very important expense.

For a company like Starbucks, it's less important for Apple. And it's less important for Netflix. But it's very important for a company like Starbucks. And that's something you have to take into account when you're thinking about the operations of the business. Because to open a new store, you got to spend money to upgrade your coffee machines, or to build a coffee machine or to get a new one, repair it all those things, kind of lumped in with all that they still have the same general and administrative expenses that you would see with every other company.

That's the support staff that really drive businesses and so that when you see a Starbucks operating income, it strips out all those costs from the revenues to arrive at that, that number. So it's still kind of the same, even though they structure it differently and have some different terminology, it still operates the same as you would with Apple, or with Netflix, it's gives you the same kind of clean number that you're really looking for what it takes to generate money from the copy, they sell.

Andrew

31:50

Yeah, Depreciation Amortization, that sounds really intimidating. But you can think about like buying a home, or buying a car and how how that kind of works when people think of their personal finances. Right, right. You depreciate the car, I think there's a similar mindset. Yeah, I think it's a good analogy, okay, for Netflix, they actually put that amortization, in the cost of revenues, just to make everything confusing, in case they didn't feel overwhelmed enough already.

And that's because some of these shows, again, can take a long time can be very expensive to make. But they also expect a long term benefit from these. So you can look at the some of the longer lasting shows, like, I know, Game of Thrones is a Netflix show. But right, that's driven revenues for HBO for a long time. So depreciation, amortization, marketing, selling all of these things, they come out and you get the operating income. I think EBIT DA is another metric that's mentioned, you know, the CFA is would yell at us if we don't throw that in there. But that's just taking operating income, and now the depreciation and amortization. So that's something that I don't see it broken out a lot.

So if you're trying to figure out what that is, I would not worry if you don't see it broken out on an income statement. It's something that you kind of have to calculate on your own. Yeah. And for what it's worth off the top of my head, I don't know how many companies put depreciation in their costs or revenues, like Netflix is just understand Netflix is a wild card. When we talk about the cash flow statement, you can really see it's it's one of those that's like, breaking the barrier of what we're used to with business's bottom line, I would try not to get too bogged down in that stuff. I would just try to think of like you were saying operating income is giving us the meat and potatoes of the business really in its pure form, how are they generating profit.

And then everything else kind of gets bolted on after talk about the bolt on for Starbucks. And I feel like it's going to this last part is going to be pretty much the same. As far as getting from operating income to that last net income. Yeah, it basically

Dave

34:05

consists of three different items that you want to think about. One is going to be taxes. So just like us, every business has to pay taxes. And that's something that they will list as a separate line item. And it's an expense. And that's something that you can calculate the tax rate. And you can see all the nitty gritty, again, looking at Ctrl F, if you really want to dive into income taxes, the company will list quite a bit of information regarding taxes and all that stuff.

So if that's something that really turns your boat, you can really dig into it. Otherwise, you can just take the interest expense as a face value of the line item and kind of move from there. The other two items are interest expense and interest income. And the easiest way to think of those is interest expense generally is the debt is the expense that they pay on debt that they owe. So it when a company borrows money, or when they lend out money in a bond form for investors to invest in the business and that form, they have to pay dividends to those bond investors. And they have debt that they have to pay interest on as well.

And that all gets lumped into interest expense. So that's money that they pay out, depending on what their debt situation is. And it can be a very important item to consider when a company carries a lot of debt. And something that you really want to focus on if the company carries a lot of debt and look at it in relation to their ability to pay that. And that's one item. And then the other item is the income expense. And so that's the money that they can make from investment, or I'm sorry, interest income, that's the money that they make from investments that they make. So a company sometimes when they have a lot of cash, they may put it in short term bonds, or they may put it in equities, depending on the business and the money that they make from those investments, the dividends that they make, that will get lumped into interest expense, and that's a line item that you'll see on there.

Now these can be very lumpy. And they can be depending on the stock market, depending on their debt load and everything, it can be kind of all over the board with those two line items. And so it's something that you have to take into account, but I I don't, depending on the business, I don't put a lot of effort into understanding those, except for the interest expense, depending on the load. If you look at banks, if you look at financials, and that's another conversation for another day, that becomes a very important line item. But it for a company like Starbucks, and Netflix and Apple not as much. So it just kind of depends. So I guess what are your thoughts on those? On the messy middle? If you will,

Andrew

36:45

I have nothing else to add. I mean, there's a few companies that kind of break the mold when it comes to this stuff. And it's not a lot. It's just really like financials like banks, or insurance companies, real estate investment trusts REITs, which buy a lot of real estate, everything else will fall under these buckets.

And so by learning companies like this, you can really learn the vast majority of stocks. That's what I would say, it's a lot, it's definitely a lot to process. So if it was you kind of going through maybe you've listened to this point, how would you apply this, as a beginner,

Dave

37:25

I think I guess there's probably some different ways to look at it, I guess the first thing I would want to look at is kind of going back to what you said at the beginning, is looking at two of the more important parts to really understand. And that would be the revenues and the net income, or the earnings per share.

And looking at those and looking at those over a longer period of time. And this is where the aggregators can really, really be beneficial. Because you can look at with stratosphere dial, for example, you can look at 20 to 30 years of those, that information all in one place. So you can see how Apple has done over the last 30 years and see how they've grown revenues, for example, or you can you can shorten a look at 10 years. And that's, that's plenty grade two, and you can just look at that and look at the net income and see how those have grown over time.

And if they are growing, and if or if they're lumpy, you know, if the VC kind of the roller coaster thing all over the place. Those are all things to consider when you're looking at that. And I guess the way that I would do it would be I would look at Apple's and then I would look at some of their competitors, and just see how they're doing versus are their competitors. And that's I guess how I would start what about you? That's perfect. Okay. All right. Is there anything else that you would look at in regards to the income statement as far as like, maybe the structure of it or any, any other little takeaways you might have?

Andrew

38:47

I look at it like those two are very important. Like you said, another easy way to remember is top line bottom line. Everybody talks about what's the top line, what's the bottom line, that's the revenues, that's the net income, those are what we refer to as jargon for the top line bottom line outside of that, it does become a lot. And intuitively some of these different segments might make more sense than others, they are important to eventually understand. I just don't know if there's a straight line to get from the two basic concepts to mastering everything we've talked about between broke gross margin, operating income, all of those things.

So I would go back to what we say about eating the pizza. Look at a lot of companies run through a lot of them, try to figure out how the calculate different parts of it. And the way my mind works is follow whatever's interesting. And like to your point about operating income, maybe that's something I'm trying to understand. For a business as I'm trying to build mastery of understanding these. Maybe it's having a real product focus, where you're really just trying to focus on the growth smart When I would just try to take little bites of time and understand the more you do it, the better you'll start to understand these things, but might feel like a fire hose all at the beginning. And you just got us do the best you can and understand you're gonna get better and better over time. And that's how I would try to look at it. All right, well, I

Dave

40:18

think that's a perfect way to wrap it up. I hope you guys enjoyed our conversation on the bird's eye view of the income statements of apple and Netflix and Starbucks, I think it was interesting conversation, and it helps kind of outline some of the differences. unpack some of the jargon, so it's not quite so confusing. And remember, Ctrl F is your friend, that is a simple, easy way to search through any of these documents, and it can make your life a heck of a lot easier. We are running a survey through our podcast platform, airwave media.

This is to help us learn more about what you guys want, what people are looking for, from our show what you enjoy, what you don't enjoy, and how we can get better. And if you're interested in filling out the survey, there will be a link in the show notes takes about two or three minutes, it's super easy. And you get entered into a giveaway for a $500 amazon gift card as well. So there is a perk for you there in that respect.

So please consider if you love the show, please consider filling that out for us. It gives us a better understanding of what's going on with the show and what our viewers want. So without any further ado, I will go ahead and sign us off you guys go out there and invest in with a margin of safety. Emphasis on the safety. Have a great week and we'll talk to you next week.

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