Valuations and Presentations

A Guide for Analyzing and Presenting Exchanged-Traded Securities

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Disclaimer

- This is not the end-all-be-all to what a pitch or analyst’s report must contain

- This is meant to serve as a guide for those unsure of where to start and to provide common questions that should be answered or considered during your research
Basic Company Background

- Business description
  - Who are they?
  - What industry are they in?
  - How do they derive their revenues?
  - Where do they derive their revenues?
Basic Company Background

• Growth and Competition
  • What are their catalysts for growth?
  • What is their competitive positioning?
  • Who are their major competitors?
  • Why are they better than the competition?
    • e.g. Higher gross margins, better ability to capture market share, efficiently utilized lean manufacturing, etc.
  • SWOT or Five Forces analysis
Basic Company Background

- Recent News
  - Change in executives
  - Earnings release
  - Acquisitions/divestitures
  - Changes in industry’s regulatory environment
  - Macroeconomic news
Valuation and Analysis

- No right/wrong method – analysts around the globe use a multitude of methods – just be sure to defend yours
- Revenue growth (Y-o-Y)
- EPS growth (Y-o-Y)
- DCF model
- Multiples Analysis (P/E, EV/EBITDA)
- Other financial ratios
  - Quick ratio vs. CCC
  - Interest Coverage (Times-Interest-Earned)
  - Profitability (ROE, ROI, ROA, P/CF, P/B)
Investment Risks

- What could go wrong?
  - Are they highly dependent on certain suppliers/buyers?
  - Are their margins dependent on commodities?
  - Do they have a looming pension deficit?
  - Do they have too many debt obligations or not enough FCF to meet their current obligations?
  - Are there industry/macroeconomic events that could cause material top-line/bottom-line losses?
Proposal and Disclosure

- How many shares should we buy?
  - What will this cost us?
- Where does it fit into the portfolio?
- How will this holding benefit IPO?

- Do you have any conflicts of interest if we open this position?
  - Do you currently hold a personal position for this security?
  - Friends/Family that are executives or on the BOD?
Where do I find this information?

- **Annual or quarterly reports (10-K / 10-Q)**
- Investor Relations
  - “My name is John Doe and I’m considering opening a position with your firm, but I have a few questions…”
- Morningstar
- S&P NetAdvantage (GVSU library database)
- CNN Money
- Bloomberg
- Yahoo or Google Finance
Other Advice

- Look back to 2007-2009 10-K’s and read management’s discussions and see if there is a significant change in their strategies or if they stayed the course
  - What happened to their market share and their earnings during and after these years?
- Have a copy of, and be well-versed on, the company’s financials and recent news
- Don’t ignore anything you read that doesn’t make sense to you – research it further
Other advice

- Do not try to stretch the information in order to make your pitch look better – this will discredit you immensely
- Be honest if you are unsure of an answer
- Do not rush your research – take another week if need be
- Note cards are completely acceptable
- Have a legible PowerPoint
- Ask an e-board member if there is still something you are unsure about – they are more than happy to help you