DESAUTELS Capital Management Gestion de capitaux

DCM Stock Pitch: Guideline and Checklist

Instructions:

General: This document serves as a guide to stock pitch best practices. It is intended for full length stock pitches (~30 min + Q&A). Abbreviated pitches should include the same Executive Summary. Other sections should be shortened/omitted. In all cases, the focus should be on the investment theses and valuation (absolute and comps).

Checklist: Prior to a pitch, teams are required to submit this document with all items checked off to ensure there are no missing elements. If an item is not checked, an explanation should be provided (ex: “data not available”, “not relevant for our company”, or “only in appendix as not crucial for investment theses”).

Note: Pitches have to satisfy maximum time requirements, so some/many slides may need to be moved to the Appendix.

Analyst confirmation:

We confirm that all items in this guide have either been included in the stock pitch and checked accordingly in this document, or if an item is not checked, an explanation has been provided. Next to your signature, indicate the sections (by number corresponding to the guidelines) that you were responsible for. You may list multiple sections as appropriate.

Stock Name: ____

Sector Name: ____

Fund Name: ____

Presentation Date: ____

Analyst 1 Name:____________________ Signature:_____________ Sections: ______________

Analyst 2 Name:____________________ Signature:_____________ Sections: ______________

Analyst 3 Name:____________________ Signature:_____________ Sections: ______________

Analyst 4 Name:____________________ Signature:_____________ Sections: ______________

Analyst 5 Name:____________________ Signature:_____________ Sections: ______________

Analyst 6 Name:____________________ Signature:_____________ Sections: ______________

CONTENT

1) Slide 1: Cover slide

a. Includes sector name, stock name, date, and group member names [ ]

2) Slide 2: Executive Summary

a. Note: the DCM disclaimer is at the very end of the presentation, not the start [ ]
b. Note: The Executive Summary slide is before the Agenda/Outline [ ]
c. The title of the slide is Executive Summary [ ]
d. Includes a clear and brief introduction to the company [ ]
e. Lists Market Cap or EV and (orally) puts this in the context of the sector (ex: “second biggest transportation company”) [ ]
f. Lists current stock price and briefly mentions (orally) past YTD or one year performance and puts this into context of the subsector (ex: “…is up 24% YTD on strong revenue growth, representing an 8% outperformance of the Hardware subsector”) [ ]
g. Specifies one valuation metric (EV/EBITDA, EV/EBIT, etc...) and explains briefly (orally) where this positions the company compared to peers (ex: “trades at a slight/significant premium/discount to peers”) and how you think it should be trading instead [ ]
h. Lists the reasons why the stock is mispriced, and why (investment theses) using appropriate language (orally) that makes it clear that those views/insights are not already priced in the market [ ]
i. Specifies a target price and upside % from current price (with time frame mentioned orally) [ ]
j. Highlights one key risk factor [ ]
k. States your recommendation “Buy” or “Sell” [ ]
l. If pitching a Buy, the upside should be at least 20% [ ]

Note: All of the above information is on one slide and the slide cannot be too crowded. As usual it should be in point form, and you expand orally. After hearing your executive summary, the audience should have an excellent idea of what your stock pitch is all about. The Executive Summary can also be thought of as an “Elevator Pitch”: You meet a company CIO in the elevator and they ask you for a stock pitch. You mention all the above points in 1-2 mins and get offered the job on the spot.

3) Agenda:

The agenda is clear, without too much text, presented briefly, and is not skipped over (don't just say "this is the agenda" and skip to the next slide) [ ]

4) (Sub)Sector Overview:

Note: this section is optional. If the subsector is complicated, a brief 1-slide reminder may be useful.

5) Macro Overview:

Note: this section is optional. If the subsector is particularly affected by Macro factors, it may be worthwhile commenting on in an explicit section. In any case, the impact of macro factors should also be addressed in the valuation section.

6) Company Overview and ESG/SRI:

a. Clear company overview, including:
   i. Company history (if relevant) [ ]
   ii. Recent M&A activity (if important and relevant). If so, know the details, like valuation, cash or share exchange, how successful it was, etc… [ ]
   iii. Various divisions with revenue/earnings breakdown [ ]

   For each important division:

   iv. What the company/division does, clearly explained [ ]
   v. Who are the clients (concentration?) [ ]
   vi. What do the clients do with the products/services they receive [ ]
   vii. What are the main costs [ ]
   viii. Who are the suppliers (concentration?) [ ]
   ix. Geographic breakdown of revenue/suppliers [ ]
   x. Who are the competitors [ ]
   xi. Regulatory environment (if relevant) [ ]
   xii. Insightful discussion on Management (only focus on items of interest) [ ]
   xiii. If possible, is management conservative or overly optimistic in their guidance (here you could look at historical guidance and see how it compared to actual results) [ ]
   xiv. When going through the above points, also think in terms of the Porter 5 Forces where relevant, but without explicitly stating that you are doing a Porter 5 Forces analysis as that does not sound professional. [ ]
   xv. Explanation of company strategy/guidance going forward [ ]
   xvi. What were analysts asking about in recent earnings calls? [ ]
   xvii. One or two slides on ESG/SRI (including outlook / valuation impact) [ ]

Note: For each of the above, the focus should be on why it matters for valuation and/or your investment theses. For example: geographic/sector breakdown could be relevant if your company's geographic/sector breakdown differs from competitors and you expect different growth rates in different countries/sectors. For each item, you want to know how it compares to competitors. For example, if you tell us about management experience, tell us how this compares to peers and why it matters. If talking about the competitive landscape, link it to, for example, profit margins, or future profit margins and the impact on valuation.

Some of the above will be revisited in your investment theses, and you can mention this. For example, one of your investment theses could be related to the fact that the market is not appreciating the differences in geographic breakdown. Or one of your investment theses could be related to how successful the company's new strategy is.

b. For the above, students found the right balance between too little and too much information [ ]
c. Information was presented in a useful way (example: in comparison to peers) [ ]
d. Students were able to emphasize those points that were most relevant to valuation and the investment theses (as opposed to just listing information superficially with no connection to valuation or the investment theses) [ ]

7) Company Historical Performance and Financials:

a. Annotated price chart with (sub)sector performance for comparison (recall that both lines should be normalized to start at 100 or 0 [ ]
b. In the above, an attempt was made to make past information relevant to the future outlook (ex: "Earnings disappointed due to higher costs, but that's something we think the company now has under control as we'll elaborate on in our first investment thesis", or "…fell 6% due to concerns of a lawsuit, but we think this was an overreaction as we'll expand on in our investment thesis") [ ]
c. Stock Beta is and how this compares to peers, and why, if possible [ ]
d. Relevant historical financial analysis (overall, and per division if important), for about 5-15 years of historical data
    i. Historical revenue and revenue growth [ ]
    ii. Historical margins [ ]
    iii. Historical earnings and earnings growth [ ]
    iv. Other metrics relevant for your sector [ ]
    v. How the above compare to peers [ ]

    vi. For each of the above, clear explanation of why (and why in comparison to peer performance, in particular for outliers) [ ]

e. Stock and financial performance during 2008 financial crisis [ ]
f. Students were able to emphasize those points that were most relevant to valuation and the investment theses. [ ]
g. Current balance sheet information (leverage and liquidity ratios, price-to-book ratios and how they compare to peers, and whether and why this is important or not) [ ]
h. DuPont analysis (optional, and only if relevant and linked explicitly to valuation. otherwise, leave in the appendix) [ ]
i. ROE, ROA, ROIC (this only matters if it is linked to things like price-to-book)[ ]
j. In the above, an attempt was made to make past/current information relevant to the future outlook/investment thesis/valuation [ ]

8) Investment Theses:

Note: this, together with valuation/comps are the most important part of a pitch. This is where you highlight what you think the market is not pricing in accurately. It is better to have fewer (say 2) well thought-out theses, supported by logical reasoning and quantitative analysis, than more theses that are not as convincing.

a. Clearly formulated and insightful investment theses that demonstrate an expertise in the sector/company [ ]
b. The investment theses were points related to valuation and potential mispricing (rather than just points related to how good the company is) [ ]
c. The insights in the investment thesis were **quantified*** based on reasonable assumptions, and their numerical impact on EPS and stock price were emphasized [ ]
d. Clearly explained where views might differ from those of the market's and what the market might be missing [ ]

Note: it may not be possible to know exactly what the market is or is not pricing-in. The idea is to come up with plausible theories. If you have a very clever investment thesis that is not obvious, it may well be that the market is not pricing it in. You may also want to look at what other analysts and/or management are saying. Finally, you want to look at valuation multiples. If your company is trading at a discount, that could be because the market is concerned about risk factor X, or the market might be pricing in lower growth expectations.

*Quantifying some of the impacts of your investment theses may be deferred to the Valuation section. For example, one of your theses could be that the market is underestimating the number of store openings. You can discuss some qualitative points in this section and mention that your modelling assumptions are described in detail in the Valuation section. Or you can include the full modelling assumptions in this section, and refer back to it in the Valuation section.

9) DCF Valuation:

a. A clear DCF analysis was performed (and/or NAV and/or other model, where appropriate) [ ]
b. Driving factors in the model were highlighted. This is where you explain the key factors that will affect future company cash flows (ex: macro factors, price of copper, % of clients who switch over to subscription model, market share, new stores, same-stores growth, size of market…) [ ]
c. Assumptions underlying the model were clearly summarized on one or two slides, and clearly explained, including:
    i. Assumptions behind driving factors [ ]
    ii. revenue projection [ ]
    iii. costs and/or margins [ ]
    iv. depreciation [ ]
    v. working capital [ ]
    vi. capex [ ]
    vii. exit multiple [ ]
    viii. terminal growth rate [ ]
    ix. tax rate [ ]
    x. WACC and details on how it was calculated (make sure you know: how you got your beta, is it adjusted or raw beta, the beta is with respect to which market, what market risk premium you used (you can use 5%, which is fairly standard, or you can use a model-derived number, in which case you should be familiar with the model; do not use the return of the market over the past year, which is a mistake I have seen come up; did you make adjustments for country risk, size)
    xi. A sensitivity analysis was included in the Appendix [ ]

    It is common to include a scenario analysis, with 3 columns: Bull case, Base case, Bear case, where outcomes for various scenarios are considered. For example, Bull case could be that 4 of 5 new drugs will be approved, and drug pricing will increase by 10%. Bear case could be 2/5 drugs get approval and prices are cut by 30%. Base case could be 3/5 new Drugs and no change in pricing. In some cases, if appropriate, the Base case can be a weighted average of the Bull and Bear cases. Note the difference between a scenario analysis and a sensitivity analysis. Scenario analysis is linked to a tangible scenario or outcome, whereas a sensitivity analysis tweaks parameters up and down slightly.

d. For each of the above, the assumptions were clearly explained, and compared to historical values and management projections and street forecasts where available. (Note: it is not necessary to formulate a deep view on every single parameter. For example, if your main focus is on revenue projection, and you have no reason to believe margins will change, you can assume that margins going forward will be equal to historical average margins, assuming this is a reasonable assumption) [ ]
e. If some of the modelling relied on external estimates (example, using industry forecasts of market growth), an attempt was made to explain where those industry forecasts came from) [ ]
f. Discussion and emphasis on where parameter assumptions might differ from those of the market were also addressed [ ]
g. For at least some of your above assumptions, you need to fully quantify and model it out based on interesting and reasonable analysis (usually revenue projection, but could also be linked to costs, or other). This might be the most important part of the whole pitch [ ]
h. A table that includes historical financials and your pro-forma financials was included and was visible. Any jumps in data from one year to the next was understood in case there are any questions on it [ ]
i. The model is consistent, and everything links properly (ex: capex linked to revenue growth, linked to depreciation expense) [ ]
j. The model is "dynamic", for example, if a commodity price or exchange rate is important, your model should update these numbers as they change [ ]
k. The "Bridge to Equity" was clearly explained, including things like "cash", "deferred tax liabilities", and other non-operating assets and liabilities like pension underfunding, provisions for lawsuits, as well as minority interest adjustments [ ]
l. If material, the impact of stock/option compensation was addressed [ ]
m. Students were familiar with and explained important implications of their model (ex: what is the implied market share in 5 years)? [ ] (As mentioned in class, in some cases you start your modelling by thinking about where you see this company in 5 years, and then reverse engineer the growth per year)

10) Comparables Valuation:

a. A comparables analysis was clearly presented [ ]
b. Students demonstrated an expertise in the peer companies and were able to discuss why some companies might trade at higher/lower multiples (differences in growth rate, beta, treatment of depreciation, capital intensity, etc…) [ ]
c. If there are differences in rankings for things like EV/EBIT and EV/EBITDA, a very clear explanation was provided [ ]
d. If applicable, clear explanation and analysis of sector specific multiples [ ]
e. Some quantitative analysis was performed to support point b above: example: Regression of EV/EBITDA on past or future EBITDA growth, or regression EV/Sales on margins or on percent of revenue coming from division X (even if you don't get any interesting results, it's still important to do the analysis. In this case, you may consider simply stating that you didn't find any interesting relationships between the above variables, and leave the charts/analysis in the appendix [ ]
f. A discussion on earnings quality was presented [ ]

11) Takeover target (if relevant):

a. Discussion of likelihood the company could be taken over, and by whom, and why (Note: you may need to refer to the literature to look at some factors that increase/decrease the likelihood a company is acquired) [ ]
b. Detailed knowledge of prior deals, how they worked out in the long run, and the multiples those deals were closed at [ ]

12) Other Risk Factors and Catalysts:

a. Students were able to identify and assess risk factors facing the company and their investment theses. The likelihood and impact of risk factors were quantified [ ]

Note: In some cases a risk factor may qualify as entire investment thesis. It could be that you think the market is overestimating the likelihood/impact of the risk factor. You may address risk factors to your theses in the investment theses section, and reiterate them briefly here.

b. There was discussion of timing of potential catalysts that could unlock value [ ]
The timing of catalyst may have also been discussed in the investment thesis section, in which case it may not be necessary to repeat it.

13) Other

a. Are company insiders buying or selling their company's stock, and is this unusual activity that might be relevant? [ ]
b. Does this stock have a high amount of short interest? If high, is that something to be concerned about? [ ]
c. What does the institutional ownership look like? [ ] It is unclear how important this is, but it is good information to know in case you are asked about it.
d. How are other analysts rating the stock? You should not make this a big part of your presentation. You are the analysts that matter, not the other analysts. Still it is information to be aware of.

14) Disclaimer slide

a. The disclaimer is the last slide of the entire presentation [ ]

15) Additional checklist

a. There was an attempt to quantify interesting insights and state the impact on EPS and stock valuation [ ]
b. It is a good idea to cite academic research at least once to support some of your claims, to add some gravitas to your presentation [ ]

PRESENTATION

16) Slides:

a. All text, including in charts, graphs, axes, labels, comps tables, etc… was clearly visible from the back of the class [ ]
b. Text was in point form, and there was not too much text per slide [ ]
c. Graphs/charts/illustrations were clear and conveyed a clear message [ ]
d. The number of charts/tables per page was appropriate and pages did not seem "too busy" [ ]
e. Colour scheme followed the appropriate DCM colour scheme [ ]
f. Each line graph plotted at least two lines so that the information could be understood in a relevant context [ ]
g. No unnecessary decimal points were included in text/charts/tables [ ]
h. Chart axes were scaled properly so that there was not too much white space in charts [ ]
i. Chart legends were very clear, and unclear Bloomberg codes were not used [ ]
j. Sources were adequately cited throughout the presentation [ ]

17) Oral Presentation:

a. Students were appropriately dressed (business casual) [ ]
b. Students presented with passion and energy [ ]
c. Students presented in a professional manner (stayed serious throughout the whole presentation) [ ]
d. Students did not have hands in pockets [ ]
e. Students made eye contact with audience [ ]
f. Students did not answer a question that was already answered by a teammate (once a question is answered, resist the temptation to elaborate, unless you think it's critical, which it usually isn't) [ ]
g. Students did not read word-for-word the text on the slides (use slightly different language) [ ]
h. Students did not read from a prepared essay [ ]
i. Students engaged with their own presentation so that it was clear what part of the slides, or which chart/table should be focused on while the presenter is speaking (feel free to point at the chart you are talking about) [ ]
j. Students clearly conveyed what the key takeaway for each slide was [ ]
k. Students were not a distraction while their teammates were presenting [ ]

Note: For section 17, your checking of the boxes indicates that you are aware of the items, and are committed to make an effort to follow them in your presentation.