

Stock Pitch Worksheet

Step 1: Pick a Stock

Stick with industries you understand. If you really enjoy shopping, look at retailers. If you're a Comp Sci major, pitch a software company. This will make your research a lot easier and ultimately you will deliver a better stock pitch. For example, Warren Buffett, arguably the world's best investor, does not invest in technology companies because they are outside of his sphere of competency.

Qualitative approach: Look at the overall economy and choose a sector and industry that you think has particularly positive/negative cyclical or secular themes. Then try to choose the best/worst company in that industry.

Quantitative approach: Use arbitrary parameters to filter the overall universe of stocks (e.g. below average P/E, high revenue and earnings growth, high ROE). Yahoo! Finance and MSN Money both offer free stock screeners.

Don't stress over this part of the process. For interviews, the execution is much more important than the idea. As long as you understand your company well and make a compelling argument, you will probably impress your interviewers—regardless of which stock you choose to pitch.

Step 2: Craft a Persuasive Pitch

There are three basic parts to an effective stock pitch: story, numbers, and valuation. The checklist below should serve as a rough guide as you begin to craft your own stock pitches over winter break. Try to include all of the components I have listed below, but make sure you emphasize those that support your case. And don't forget to at least briefly acknowledge risks to your thesis.

When delivering your stock pitch, note that it should act as a summary of your research/knowledge of the company. The interviewer will expect more in-depth knowledge/reasoning in the Q&A. You want to be able to have a discussion, so don't give it all upfront!

Basic Information (example: VistaPrint)

Company name: VistaPrint

Ticker: VPRT

Price: \$33

52-week range: \$17.55 – \$37.75

Note: This is important to know, but a stock's past returns shouldn't have any bearing on your decision to buy or sell over an intermediate- to long-term time horizon (i.e. > 6 months).

Market cap: \$1.4B

Recommendation: Buy

Part A: Story

Description of business model: VistaPrint uses the Internet to provide custom printing and graphic design solutions to the SOHO (small office/home office) market.

Competitive advantage(s): 1) Compelling customer value proposition due to high quality products and lower costs; 2) significant competitive barriers to entry; and 3) a highly scalable business model.

Growth opportunities: VPRT is quickly gaining market share in a highly fragmented U.S. and European small business print and graphic design market worth ~\$19B. Potential growth opportunities include: 1) new products; 2) international expansion; 3) and an extension into the consumer market.

Catalyst(s): The introduction of new products and continued strong quarterly performance will likely increase visibility into VPRT's growth story.

Note: If you are making a shorter-term investment recommendation, catalysts are especially important.

Part B: Numbers

Earnings: EPS (earnings per share) is one of the most important determinants of a company's share price. Make sure you know your company's current EPS, past EPS growth rates, and consensus estimates for future EPS growth. If you can make a case for why you believe a company will grow earnings faster/slower than consensus expectations, this might be a key component of your long/short argument. But remember, if everyone expects a company to grow earnings at a very high/low rate in the future, this is *not* a source of opportunity because it will already be priced into the company's shares.

Revenues: Like earnings, make sure you know how much revenue your company generates, at what rate revenue has grown in the past, and what expectations are for future revenue growth.

Margins: Margins are calculated by taking a given profit line on the income statement (e.g. gross income, EBITDA, net income) and dividing it by total revenue. Margins are a useful tool for comparing competitors because they measure a company's efficiency. They are also an indicator of risk: for example, an airline with good margins (relative to their competitors) will be able to more easily absorb an unexpected rise in fuel costs.

Industry-specific metrics: These are very important indicators of a company's success relative to its peers. Expectations of future industry-specific metrics are often a key component of any long/short argument. These metrics are different for each industry. For example, retail companies follow same store sales growth, square footage growth, and sales per square foot. Internet companies look at total page views, unique users, and click-through rates.

Balance sheet: If you haven't taken an accounting class, balance sheet health will be difficult to assess. But in general, you should look at your company's debt levels on both a relative and absolute basis. *Ceteris paribus*, companies with more debt will make riskier investments.

Capital structure: By what means is your firm financed: debt, preferred stock, common stock, retained earnings? If a company employs more leverage (i.e. more debt vs. equity) it will make a riskier investment. What is the company's credit rating? This will determine the cost at which a firm can raise additional capital—which may be very important for a growing company.

Cash flow: Does your company generate positive free cash flows? If not, will it begin to generate cash flows soon? The value of any financial asset is the discounted sum of future cash flows; therefore this is a very important metric. Estimates of future cash flows are a key input in DCF models—an important valuation tool commonly used by professional investors.

Part C: Valuation

P/E and peer avg. P/E: You must know the P/E ratio of both your company and its competitors. You should *always* include this in your pitch. When comparing P/E ratios, make sure you are consistent with regard to the denominator. For example don't use trailing earnings for one company and estimates for next year's earning for another company when comparing P/E ratios. Different industries will have different ranges of P/E multiples, depending on growth expectations for the industry as a whole.

EBITDA Multiple: Enterprise Value / EBITDA. This is similar to P/E, but is typically used as a measure of *operating* profit growth expectations, regardless of capital structure. If the P/E ratios are very different between the company and its peers, that may reflect very different capital structures. The EBITDA multiple is then useful as it is a measure of growth that is not affected by capital structure.

Sources of Information

General financial sites:

- Yahoo! Finance
- Bloomberg terminals
- WSJ.com

These are good basic sources of information, but once you've picked a stock to pitch, you'll need to dig much deeper.

Fuqua library resources:

- S&P Net Advantage—provides concise research reports.

-Reuters Research on Demand—a great source of analyst research reports from regional brokerage firms and a few large investment banks.

Investor Relations Web Sites:

Every publicly traded company maintains an investor relations site. Some are more detailed than others, but this is an excellent resource for learning about a company's business model and management's plans for future growth. But remember, this information will almost always be positively biased—so you should look at the investor relations site of both your company and its competitors.

Companies also post links to SEC filings on their investor relations pages. Quarterly 10-Q and annual 10-K filings provide detailed financial statements, discussions of the company's performance, and an assessment of potential risk factors. These reports are extremely detailed and serve as the best source of information about a company. You don't have to read every page, but make sure you skim them for important material.