

Quick Reference Card (QRC)

Utilize ADViCE™ Framework to Maximize Message Delivery Impact

| Element | Put Into Action | Examples |
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| <p>Aware: Make others aware of alternative scenarios and views, as well as adjustments to your thesis</p> | <p>This is about exposing elements that might not be easy or comfortable:</p> <ul style="list-style-type: none"> • Provide alternative scenarios in the form of base-case, upside- and down-side scenarios to show where you could be wrong • Demonstrate you're not oblivious to the other side of your recommendation by addressing why there are alternative views • Disclose when you make adjustments to your thesis • Convey your conviction level, even if it's not high | <p>My downside scenario results in a stock price of \$18 (10% below yesterday's close), which is based on...[explain], which my upside scenario is \$22 (10% above yesterday's close), which is based on...[explain]</p> <p>I have a high degree of confidence in my call because I have spoken to 3 industry sources independent of the company, who all confirm this trend.</p> |
| <p>Differentiated: Explain how you differ from the consensus thinking about the stock and its catalyst(s)</p> | <ul style="list-style-type: none"> • Minimize communicating when the message is not differentiated from consensus • Using the FaVeS™* framework, quantify how you materially differ from the consensus thinking. To have a valid stock call, you must have a superior and materially-different view to the market in one of these areas: <ul style="list-style-type: none"> ○ Financial forecast ○ Valuation method/multiple ○ Short-term sentiment of the market • Explain how your view of the catalyst(s) that will drive your thesis differs from the consensus thinking | <p>My one-year price target of \$45 is derived from a valuation multiple of 15x forward earnings (which is 10% above the company's forward multiple over the past 3 years) applied to my EPS forecast of \$3.00 (10% above consensus). As the company takes further market share in the premium segment of the market, we expect consensus expectations to rise to our estimate and the company to be rewarded a higher valuation multiple because this segment has double the ROIC of the company's existing business.</p> |
| <p>Validated: Support key points with independent research</p> | <ul style="list-style-type: none"> • Without divulging proprietary sources, provide information/data from at least one informed, independent, and reliable source (preferably two or more if it's critical to your call) to validate your out-of-consensus thesis • Quantify as much as possible, including the materiality of your out-of-consensus view • Rely sparingly on company management for insights | <p>Our view is supported by our quarterly survey of 300 large industry customers, where the average price increase for new contracts is up only 1%, compared to consensus expectations for a 4% increase. We believe this difference will cause the company's EPS to be revised down 10% next year.</p> |
| <p>Conclusion-oriented: Be conclusive about stocks and their catalysts</p> | <ul style="list-style-type: none"> • Start your stock communications with conclusions about: <ul style="list-style-type: none"> ○ At least one stock (are you upgrading, downgrading, or just becoming more/less positive) ○ The catalyst(s) likely to move consensus to your way of thinking • A stock should be mentioned no later than the second sentence of your communication • Mention a stock and its rating in the headline for reports and subject lines for emails • Provide a price target and upside/downside vs. the prior day's close | <p>Start with conclusions such as:</p> <ul style="list-style-type: none"> • We recommend [purchasing/selling] the stock because [discuss your unique view of the critical factor]... • This event, which is a key catalyst to our thesis, is [positive/negative] (quantify earnings per share and cash flow impact if possible) because... <p>What <i>not</i> to say:</p> <ul style="list-style-type: none"> • We recently attended an industry trade show where we saw a number of products that were interesting, but not likely to have any impact on the companies we follow... |

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| <p>Easy to Consume: Make it easy for others to consume</p> | <ul style="list-style-type: none"> • Quickly convey the key elements above (Aware, Differentiated, Validated and Conclusion-oriented) • Quantify insights whenever possible to avoid making the consumers of your message find or compute the information on their own • Include supportive anecdotes and stories to draw in your reader, assuming they are representative of the research you are conveying • Be concise: <ul style="list-style-type: none"> ○ Revise first drafts of reports and presentations to make them shorter ○ Avoid redundancy by creating an outline for reports and presentations ○ Don't explain everything you've researched or include immaterial/extraneous material ○ Don't overwhelm with too much raw data • Avoid too much jargon and acronyms by communicating in a manner that a generalist PM will understand | <p>Checklist to Ensure You Are Concise:</p> <ul style="list-style-type: none"> • If I had to send this as a short text message, what could be cut and still convey my message? • Is a topic covered more than once? • Are there non-critical portions that can be specifically referenced in prior or other research available elsewhere? |
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* See Chapter 20 of *Best Practices for Equity Research Analysts* for an explanation of the FaVeS™ framework

Stylistic Considerations for Communications

| Recommendation | Examples | Why |
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| Speak in the active voice rather than passive, and be specific when possible | Passive: "Expectations are not likely to be met this quarter." Active: "We don't expect the company to meet our \$0.40 EPS for the quarter." | It strengthens your message, and shows you've done the work |
| Don't pretend to have a level of precision that doesn't exist | "We expect XYZ to earn \$7.03 in 2013 by achieving operating margins of 8.37%" | It conveys the image you rely too much on your financial model output, without thinking through the big picture |
| Avoid media-based words or phrases that appear sensationalistic | "The stock is poised for a break-out due to a revolutionary new product" or "This never-before- seen turnaround by management makes this stock a screaming buy" | It will send a signal to the consumer of your message that you're inexperienced, which may cause them to question your judgment or the quality of your work |
| If you're referencing management's view, always include yours first | "We expect the company's margins to reach 10% next year, which compares to management's guidance of 9.5%" | It shows you're a thought leader by highlighting how management's views compare with yours |
| When referring to your view, try to use words that convey research has been done, rather than just conjecture: <ul style="list-style-type: none"> • Best: "We forecast..." • Acceptable: "We expect..." or "We believe..." • Poor: "We think...." | "We forecast the company's earnings to grow 10% next year" | "Think" is used for informal situations more than the others. You might say, "I think I'll go out with friends tonight." But you wouldn't say, "I forecast I'll go out with friends tonight." |
| Unless it runs counter to your firm's style, refer to yourself in your work as "we" and "our" rather than "I" or "my" | "We believe the stock is overvalued, because our work suggests consensus EPS is 10% too high next year" | It sounds more humble. You likely haven't arrived at the conclusion solely on your own. At a minimum, you've had training from others to understand how to conduct your job. |
| Refer to companies and management as "it", rather than "they". | "Management held its quarterly call where it debuted its new outlook" | This is an industry standard |

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