Quick Reference Card (QRC)

Best Practices for Building a Comp Table

Comparison "comp" tables are a critical tool for analyzing existing and potential stock recommendations. They can be built and stored within a number of market data providers' applications, but these often offer less flexibility for data availability and manipulation than creating a table in Excel, where data can be pulled from multiple sources. In addition, online applications can be more difficult to integrate into presentations. For this reason, the following best practice assumes the table is being created in Excel, but other reasonable options are available.

1. **Automate as much of the data collection as possible** by setting up formulas that will pull in information from third-party vendors (such as the stock price) and your individual models (such as earnings and free cash flow per share) because you will use this table hundreds, if not thousands of times during your career.
2. In most instances, it will be helpful to display valuation multiples using your expectations as well as those of consensus. Exceptions include some valuation methods where there may not be a consensus, or situations where you do not have your own estimates
3. It's important to create valuation multiple columns based on this year's forecast as well as next year's forecast (possibly the year after if critical to understanding the stocks)
4. At a minimum, the following sections should be included in the comp table for each company in the universe:
   a. Financial forecast data used for valuation such as EPS, FCF, or book value. Include and clearly identify the analyst's *and* consensus' forecasts.
   b. The difference between the analyst's forecast and consensus'
   c. Forward valuation multiples as computed using the analyst's and consensus' expectations.
   d. Historical forward-looking average multiples, adjusted for anomalies (high, low and average are ideal).
   e. Other financial metrics that influence valuation for the sector
   f. Rating or view
   g. Price target or range of targets (expressed as percent upside or downside from current levels).
   h. Market capitalization.
5. Include the following information, possibly in hidden columns if not for use by others:
   a. The analyst's conviction level
   b. Exit thresholds
6. Set up formulas to automatically roll over to the next forward period as time progresses
   a. For example, if the P/E ratio is based on the next four quarters of earnings, it should be relatively easy to move to the next period after the current quarter's results are reported
   b. Avoid creating a system that makes an arbitrary cutover, such as moving from this year's numbers to next year's numbers midyear, because it causes an abrupt change to valuation levels
   c. Ideally use the next four quarters, because it will have no past results to contaminate earnings expectations.
7. The "other financial metrics that influence valuation" section should update automatically, and include factors such as ROIC, the past five-year EPS growth rate, and consensus' forward two-year growth rate. Many analysts don't develop thoughtful earnings forecasts beyond two years, which is why any analysis based on "consensus" over a longer time horizon should be scrutinized.)
8. In selecting a list of comparable companies, group companies that:
   a. Are in the same or similar sector or sub-sector
   b. Have growth and risk characteristics similar to the company being valued
9. For each group of companies, it may be helpful to create a mean and median for each metric on an equally weighted basis. If necessary, also create a mean and median for large-cap stocks separate from small-cap stocks
10. Use Excel's conditional formatting to highlight:
    a. Stocks with the most upside and downside, adjusted for risk
    b. When the analyst's financial forecast differs from consensus by a predefined threshold (e.g., 5 percent).
    c. When the current valuation multiple for a company differs from its historical levels by a predefined threshold (e.g., 5 percent).
    d. When the median average valuation multiple for a group of companies differs from the mean by a predefined threshold (e.g., 5 percent). Investigate anomalies, because there may be a reason to use one average over the other.
11. Ensure that each group of comparable companies can be sorted by the amount of upside or downside to the price target, adjusted for risk

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Explore these concepts in our workshop: *Master the Stock Call Techniques of Highly Experienced Analysts*