

# Fundamental Analytics Our top 10 notes of 2021

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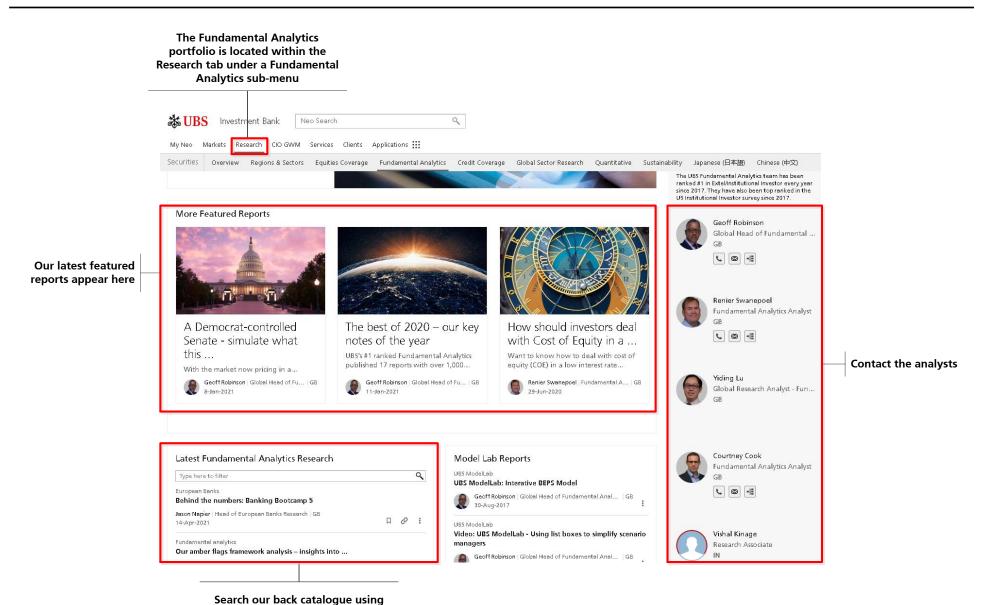
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- Eliminate the intrusiveness of a cold call
- Flexible agendas
- Discuss our live work
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## What are the risks to valuation if China changes its stance on VIEs?

- VIEs have been used by China-based companies to enable them tap into foreign markets
- Recent developments raised the question if they will remain acceptable by Chinese regulators in the future
- VIEs do not provide investors with conventional holding of actual shares, but underlying contractual agreements that mimic ownership of equity





### But it looks cheap on EV/EBITDA?

- Stocks might look expensive on P/E but cheap on EV/EBITDA
- We look at five clear, quantified explanatory factors to look at the difference between the two
- Identified outliers in these five factors by applying it to Global Beverages





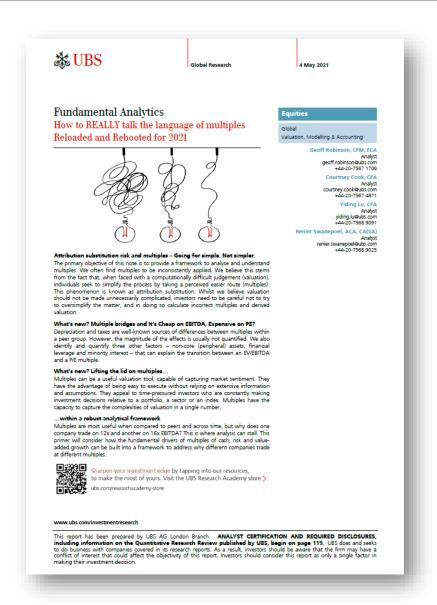
## Our amber flags series





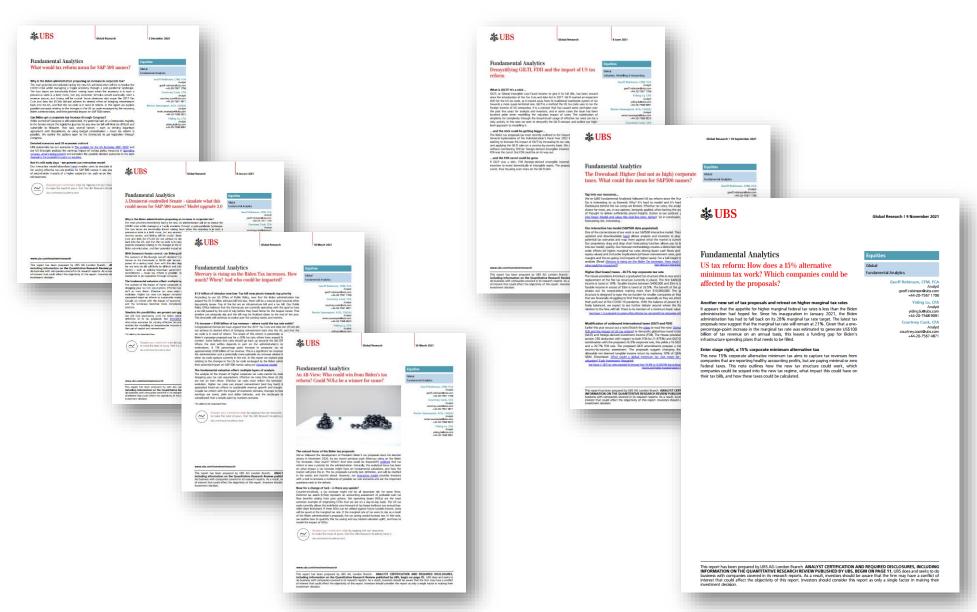
## How to REALLY talk the language of multiples

- Multiples are often inconsistently applied
  - Attribution substitution
- A robust framework for analysing multiples
  - Break down multiples into fundamental drivers of value creation
    - Cash
    - Risk
    - Value-added growth
  - Compare companies to understand why they trade at different multiples





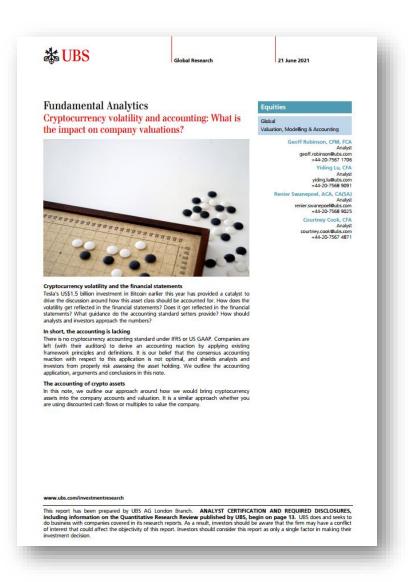
### Our notes on US tax reform





## Cryptocurrency volatility and accounting

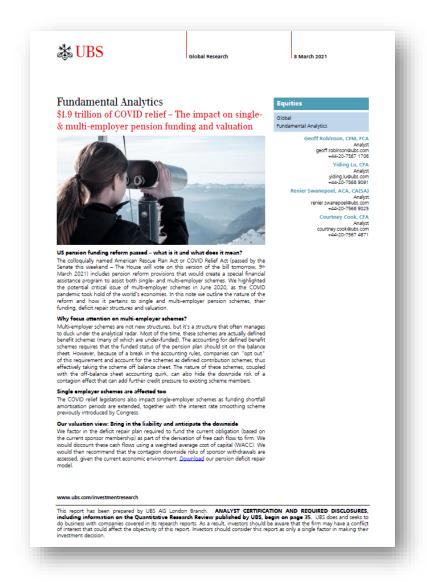
- There is no cryptocurrency accounting standard under IFRS or US GAAP
- They fall under intangible assets as they:
  - Have no physical substance
  - Are identifiable
  - And non-monetary
- We support using a fair value model with gains and losses reported in the income statement as an investment asset





## \$1.9 trillion of COVID relief - the impact on singleand multi-employer pension schemes

- The COVID Relief Act will provide special financial assistance to single- and multiemployer schemes
  - Which schemes are impacted?
- Multi-employer schemes often ducks under the analytical radar
  - Defined benefits schemes (often underfunded)
  - Companies can "opt" to account for them as defined contribution schemes





## A simple take: How can probability distributions improve investment decision making?

- Valuations are not point estimates but probability distributions of potential outcomes
- A simple starting point for valuations is to run scenario analysis
- Improve your valuation process by thinking about the shape of distributions and correlation of inputs
- Run Monte Carlo simulations to see a full spectrum of outcomes





## Enhanced incremental return on invested capital: New light through existing windows

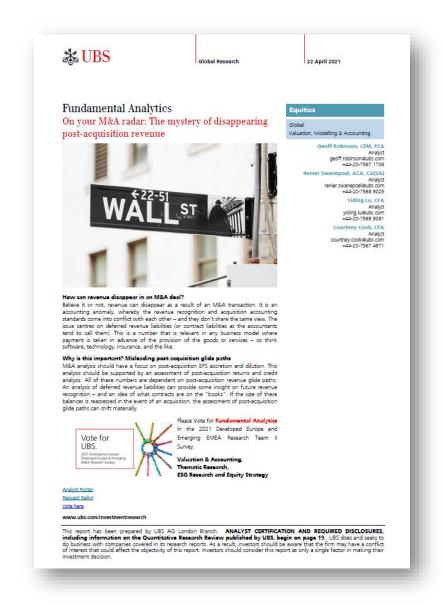
- Returns analysis is a cornerstone of fundamental valuation
  - However, most returns metrics are flawed due to accounting standards
    - R&D expenses
    - Marketing expenses
- A more pragmatic lens using iROIC
  - Capitalise R&D and marketing
- Disaggregate iROIC to analyse the drivers of returns





## On your M&A radar: The mystery of disappearing post-acquisition revenue

- Revenue can disappear due to accounting anomaly post-M&A
- Conflict between revenue recognition and acquisition accounting framework





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Neutral	FSR is between -6% and 6% of the MRA.	35%	29%
Sell	FSR is > 6% below the MRA.	10%	26%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
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