

## Research Methodology – December 2018

*This publication has been produced by Union Securities Switzerland SA, which is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). The methodology applies to global financial research.*

### Equity Research

Companies are analysed using the following Financial Ratios:

- Value Creation
  - Return On Equity
  - Sales Growth
  - Earnings Per Share Growth
  - Asset Turnover
- Valuation
  - Estimated P/E
  - Estimated EV/EBITDA
- Cash Flow generation
  - EBIT Margin
  - Net Margin
  - Free Cash Flow Margin
  - Free Cash Yield
- Financial Leverage
  - Debt/Asset Ratio

The focus on a given ratio or type of ratio is dependent on the investment profile sought (see more details in our Global Leaders and Next-Gen Leaders methodology)

Prospects for each company are analyzed and synthesized using a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats).

Primary source of information are company data, Bloomberg LP, Dow Jones & Company and Financial Times.

### Rating

The research department recommends stocks as **Buys** or **Sells** for inclusion on Investment Lists, Investment Themes and individual stocks picking ideas.

Being assigned a Buy or Sell on an Investment List is determined by a stock's total return potential relative to its coverage.

Any stock not assigned as a Buy or a Sell with an active rating is deemed **Neutral**.

### Risk Level

The risk rating (**Low/Medium/Speculative**) is a measure of a stock's expected volatility and risk of losses in the case of a negative news flow. This is a non-quantitative rating based on the research department assessment of the risk using criteria such as: financial leverage, valuation, historical volatility, options implied volatility, earnings risks, etc....

### **The Global Leaders**

The Global Leaders are quality stocks that we believe are a fit for a long-term investment. Stocks are selected based on a mix of long-term investment themes and operational criteria (value creation and cash flow generation).

We select stocks using:

- Our thematic and sector views;
- Fundamental criteria based on Return on Equity and Cash Flow Yield;
- Identification of stocks already engaged in a phase of outperformance.

We use the following ratios in our Financial Analysis

- Value Creation
  - Return On Equity
  - Sales Growth
  - Earnings Per Share Growth
  - Asset Turnover
- Valuation
  - Estimated P/E
  - Estimated EV/EBITDA
- Cash Flow generation
  - EBIT Margin
  - Net Margin
  - Free Cash Flow Margin
  - Free Cash Yield
- Financial Leverage
  - Debt/Asset Ratio

Value Creation and Cash Flow Generation (both in absolute terms and over a cycle) are the most important criteria in the selection of quality stocks. Valuation and Financial Leverage are not used for screening purposes but for sanity check.

**Global Leaders typically have a 3 to 5 years investment horizon with a medium risk profile.**

### The Next-Gen Leaders

The Next-Gen Leaders are high potential growth stocks in emerging industries. These stocks tend to exhibit a high price volatility and a speculative risk profile.

We select stocks using the following criteria:

- Companies must operate in an industry benefiting from secular drivers;
- They must have a structural advantage through product differentiation, technological advantage or high barrier to entry;
- They must have a scalable business and a large addressable market to allow for sales and earnings growth;
- Companies must generate some Free Cash Flow and have a comfortable EBIT Margin;
- Stock price should exhibit momentum and, if possible, a decreasing valuation.

Next-Gen leaders typically exhibit high sales growth but lows EPS and Free Cash Flow generation as they are in a fast expansion process.

We use the following ratios in our Financial Analysis

- Value Creation
  - Sales Growth;
  - Market share gains and TAM (Total Addressable Market)
  - Margin expansion;
- Valuation
  - Estimated P/E, 1Y Forward, 2Y Forward (as reported and GAAP adjusted)
  - Estimated EV/EBITDA
  - Estimated EV/Sales
- Financial Leverage
  - Debt/Asset Ratio
  - Cash burn

Top line growth, TAM and market share gains are the most important criteria in the selection of Next-Gen Leaders stocks. Valuation and cash burn are not used for screening purposes but for sanity check.

**Next-Gen Leaders typically have a 3 to 5 years investment horizon with a high risk profile.**

### **Fixed Income Research**

Our Bond selection lists are built for long term investments.

We typically look at the safety of repayment at maturity and not the short or medium term price movements.

We use the following criteria:

- Maturity
- Issuer Rating and modeled Credit Risk (using the Bloomberg model)
- Amount Outstanding and Liquidity (using the Bloomberg model)
- Companies seen favorably by the equity Research team.

### **Macro Research**

Our assessment of major market directions if derived from:

- Technical Analysis;
- Fund Flows and Investors Positioning;
- A fundamental top down approach using:
  - Activity Indicators,
  - Interest Rates,
  - Exchange Rates,

### **Means of communication and publications**

All our publications and investments lists are available on our website. Publications alerts are send by emails to all clients simultaneously.

Coverage of a company or an investment theme may be discontinued according to the investment potential.

## Disclaimer

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