

Value Momentum Research

Unique Equity Research

INDEPENDENT
GLOBAL
THEMATIC
TAILORED
MIFID II COMPLIANT



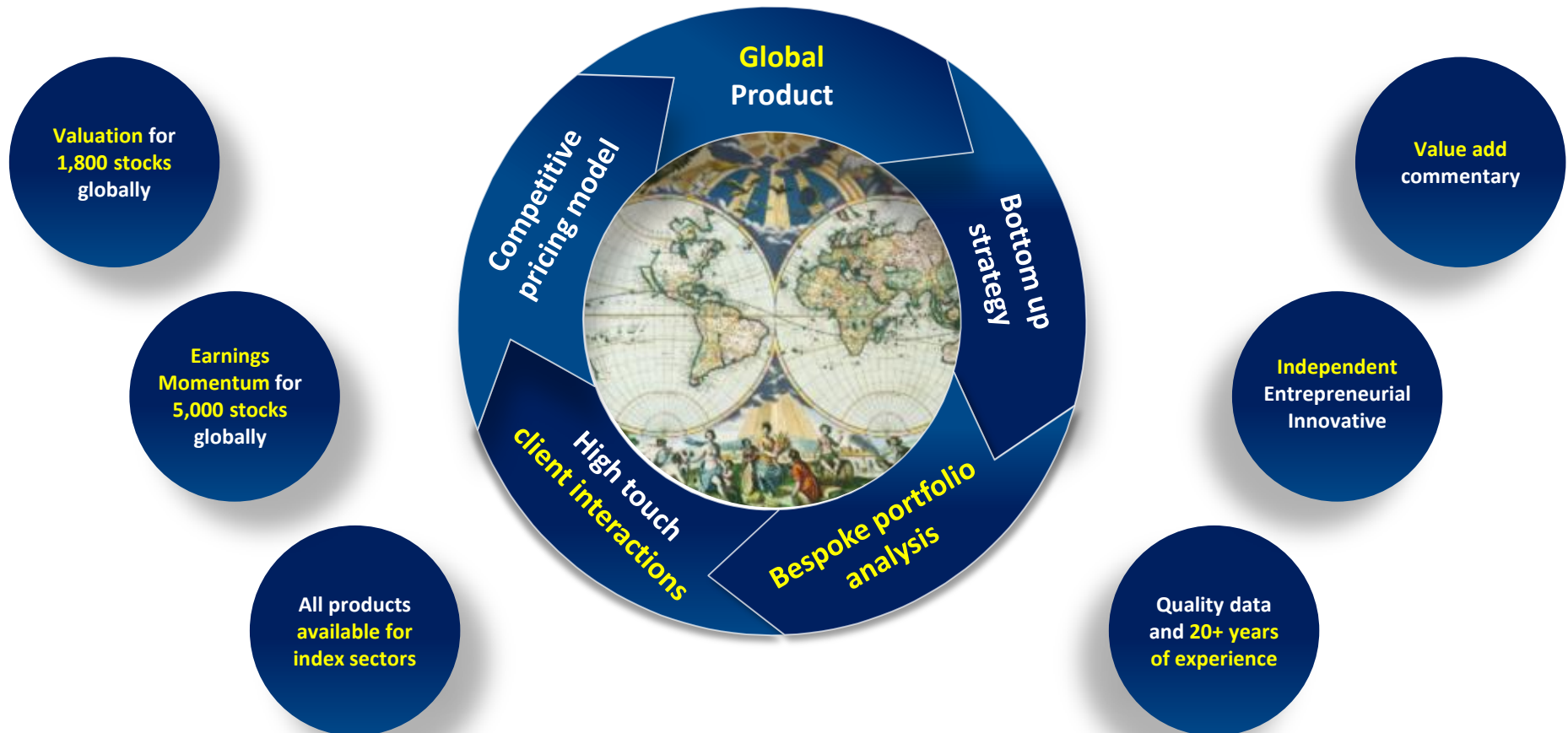
A division of



AVALON CAPITAL PARTNERS

Competitive Edge

The team provides a variety of products based on a unique **price valuation and earnings momentum model**. All products are **sector and jurisdiction agnostic** and are **tailored towards clients'** investment styles and horizons.



Metrics Overview

“For investing to be reliably successful an accurate estimate of intrinsic value is the indispensable starting point. Without it any hope for constant success as an investor is just that: hope.” Howard Marks.

Valuation on Trend P/E

We use a long-term normalised GAAP earnings valuation model to establish an EPS trend line and from that a Trend P/E valuation. This way we can see whether a stock is under or over-valued compared with its intrinsic value and with the multiple paid over stock-market cycles, looking back over the previous twenty years.

Earnings **Momentum**

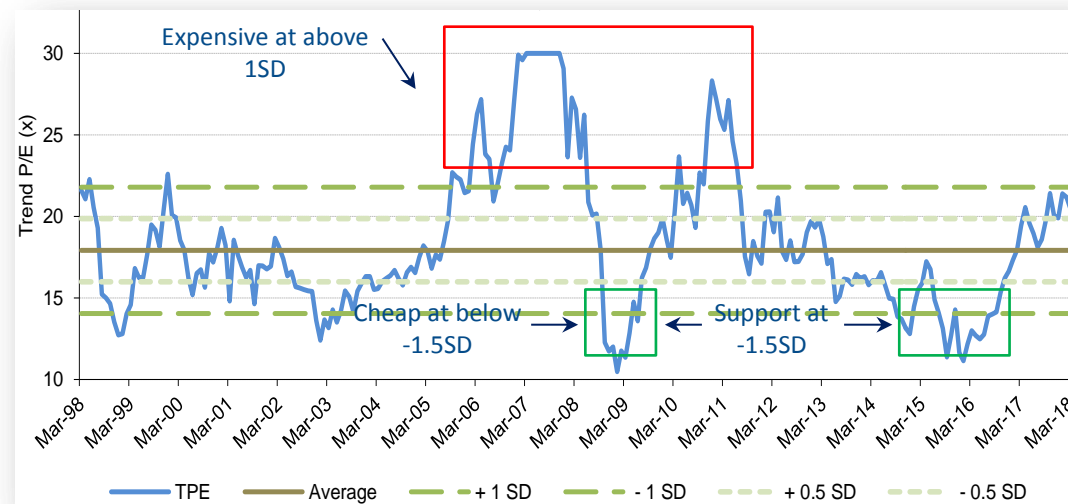
Changes in earnings expectations are the major driver of stock returns. We use earnings revisions to determine whether expectations are improving or deteriorating against previous expectations and against the market as a whole. Relative momentum revisions are also available for EBIT and Sales.

These two metrics combined give us a unique view of where the best opportunities lie and where investors should take extra care

Value: Trend P/E

- Our Trend P/E model uses 20 years of GAAP EPS to identify a normalised earnings series from which we derive the Trend P/E value.
- Using a long time-horizon allows us to look through multiple stock-market cycles to identify valuation floors and ceilings relative to a stock's history and the market.
- Figure 1 shows a 20-year Trend P/E chart for **Sandvik** with standard deviation bands. In 2007 the stock was expensive relative to its history at 3 SD above its mean, but in late 2008 the valuation sank as low as -1.5 SD before recovering to above 2SD in 2010. In the following 5 years **Sandvik** de-rated again to -1.5 SD before turning up again in early 2016 supported by momentum in relative EPS, EBIT and Sales revision (see next slide).
- Trend P/E methodology helps to identify periods of extreme over-valuation and under-valuation and is useful for long-short and long-only investors as well as those looking for M&A targets.
- Using the same methodology we can model sectors and country indices.

Fig. 1. Sandvik Trend P/E 1997-2017



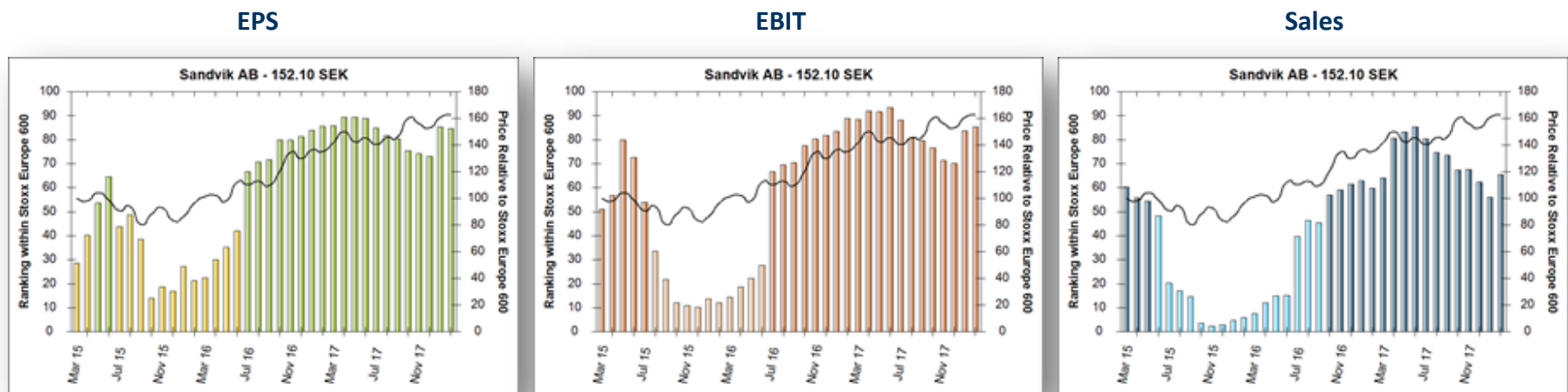
Source: Value Momentum Research, FactSet, Feb18

Trend P/E highlights valuation risks and opportunities

Momentum: Relative Revisions

- Academic and empirical evidence underscore the strong correlation between analyst estimate changes and stock price performance as well as loss of performance due to analysts and investors' behavioural bias.
- Bad news travels quickly while good news takes time to sink in. When stocks with high expectations disappoint their de-rating can be rapid while it may take a long time for stocks with low expectations to respond to improving earnings momentum.
- Absolute earnings revisions are useful, but relative revisions provide a superior edge and are a better tool for identifying inflection points in stocks and sectors in a market context.
- We collect Sales and EBIT revisions as well as EPS to provide a broader picture of momentum. Normally we expect to see consistency across all three measures as in the case of **Sandvik** where EPS, EBIT and Sales revisions were improving from February 2016 and peaked in summer of 2017. During this time the shares **outperformed the Stoxx 600 by 60%.**
- Using the same methodology we can produce revisions for sectors and industries.

Fig 1. Sandvik Relative EPS, EBIT and Sales Revisions



Source: Value Momentum Research, FactSet. Feb18

Earnings momentum is the biggest factor driving share prices

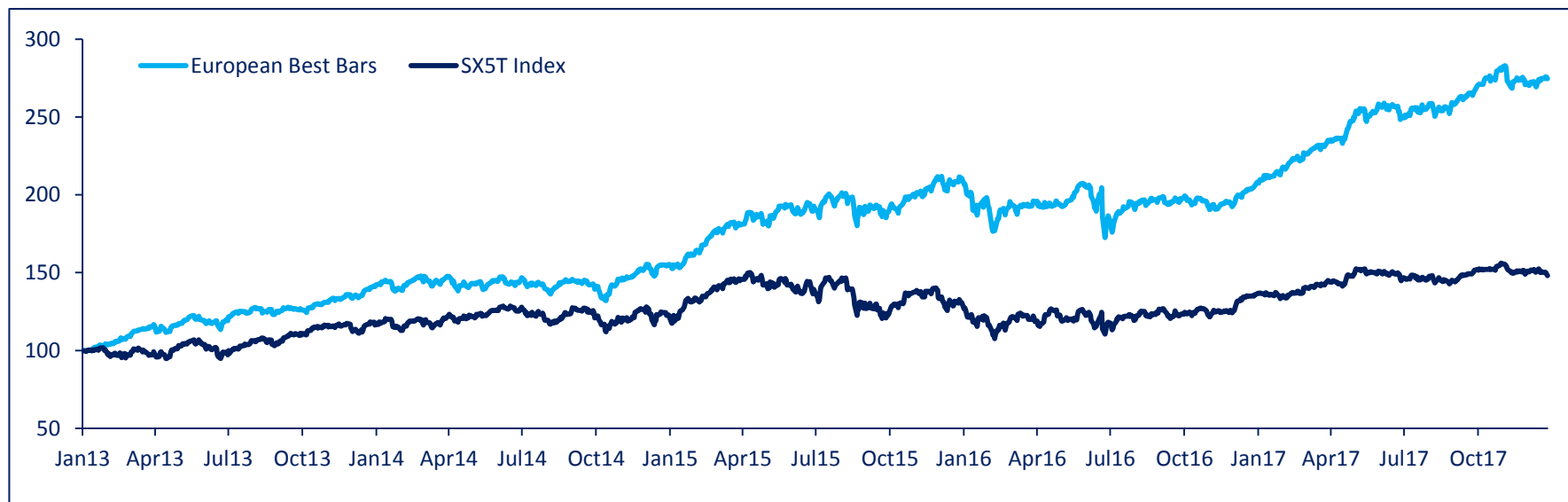
Above Average Revisions = Above Average Returns

- Fig.1 below shows the five year absolute and relative performance of the European Best Revisions Basket.
- Only stocks with above-average relative earnings revisions in each of the last 24 months qualify for inclusion.
- The basket is equally-weighted and rebalanced every calendar quarter.
- Constituents are self-selecting and once a stock ceases to show above-average relative earnings revisions it leaves the basket and may be replaced by a new candidate.

Performance Q1'13 – Q4'17

Metric	European Best Bars	Stoxx50
Absolute Return	175%	47%
Relative Return	89%	-
CAGR (1yr)	22.4%	8.17%
An. Volatility	10.49%	10.31%

Fig. 1 European Best Bars Basket Performance: Q1'13 – Q4'17



Source: Value Momentum Research, FactSet, Feb18

Solutions

The VMR standard product offering is split into **regular publications** accessible online and **bespoke portfolio work**. We work with clients individually to find the best package for them. All **packages are customisable**.

PAY AS YOU GO

- ✓ One-off payment for specific research services on a per unit basis
- ✓ Bespoke work or analysts calls can be requested
- ✓ Ideal for those on a budget or looking for one-off bespoke projects

ANNUAL SUBSCRIPTION

- ✓ Access to online portal to specific stock regions
- ✓ Tailored universe of stocks and sectors
- ✓ Bespoke portfolio analysis
- ✓ Ideal for Specialist Teams or individual portfolio managers

FULL PRODUCT ACCESS

- ✓ Unlimited access to all online publications
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Products and Bespoke Work

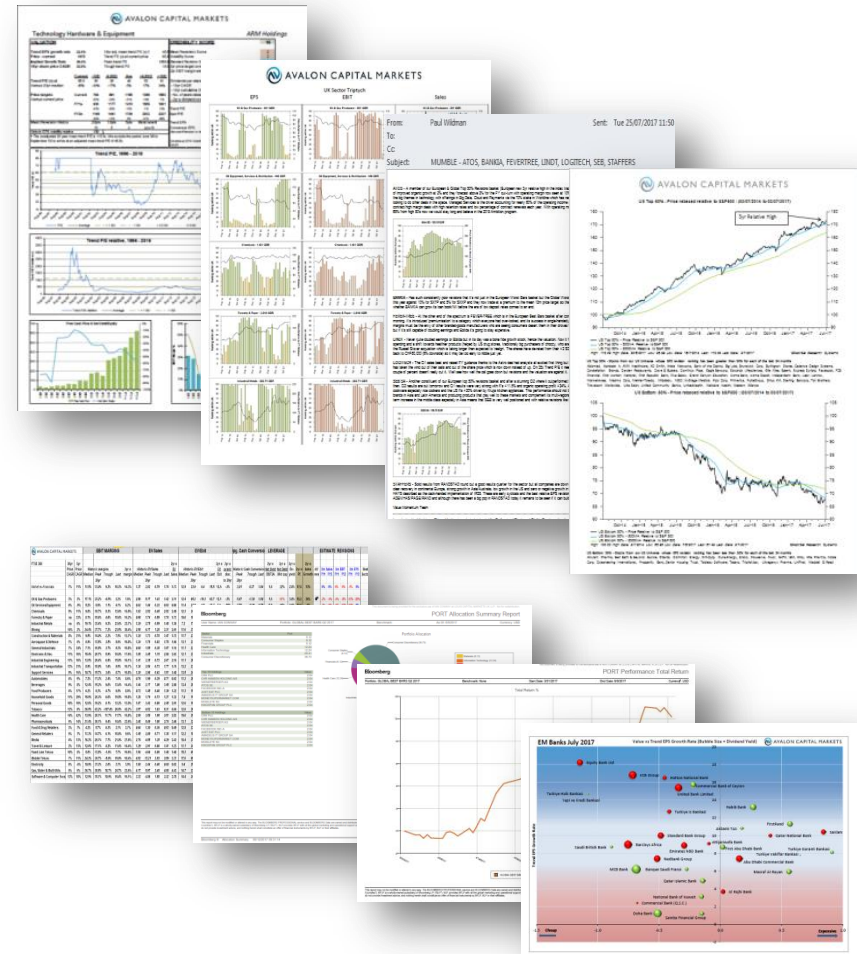
The VMR standard offering includes six products provided at various frequencies. All products can be tailored to the client's investment universe. Regular and ad-hoc bespoke screenings can be provided at an additional charge.

Bespoke Offering

- ✓ Products tailored to individual portfolio/stock universe
- ✓ Bespoke portfolio screening service
- ✓ Analyst calls
- ✓ One-on-one presentations

Products

1. **Value Momentum Worksheets (VMW)**
 - Monthly. Covers 1,800 stocks globally
 - Also available for sectors
2. **Earnings, EBIT and Sales Revisions Triptych**
 - Monthly. Covers 5,000 stocks globally
 - Also available for sectors
3. **Trends and Themes:**
 - Monthly. Covers all stocks and sectors in UK, Europe and US
 - Regional deep dives available on request
5. **Thematic Portfolio Baskets “The Index Tracker”**
 - Weekly overview and highlight of VMW bespoke baskets
 - Quarterly rebalancing reports
6. **Value Add Commentary and Reports**
 - Daily stock picking ideas newsletter “The Mumble”
 - Daily 3m & 12m relative stocks and sector highs and lows
 - Weekly industry break-through and trend shift ideas
 - Weekly earnings and key events calendar outlook
7. **Value Momentum Monitor Screens**
 - Monthly, covers 2,000 stocks globally
 - Also available for sectors



Value and Momentum Combined

Value Momentum Worksheet is a **monthly** product covering over **1800 individual stocks globally** with top and bottom picks for Europe, UK, US, APAC and Japan.

Key Metrics

1. Value: Trend P/E

Shows stock valuation with respect to 20-year history. Trend P/E relative is calculated with respect to a benchmark.

2. Momentum: Relative Revisions

Shows the stock price and the EPS, EBIT and Sales revisions. All readings are relative to the benchmark over the past 3 years. Momentum charts help identify trends and inflection points.

3. Valuation Tables

- Shows 20-year Trend EPS growth rate used to calculate Trend P/E as well as the 2-year price scenarios and targets. This section also screens stock mean reversion history and historic EPS volatility vs the market.
- Compares Trend EPS and Trend P/E with consensus forecasts to show whether growth is in-line with trend.

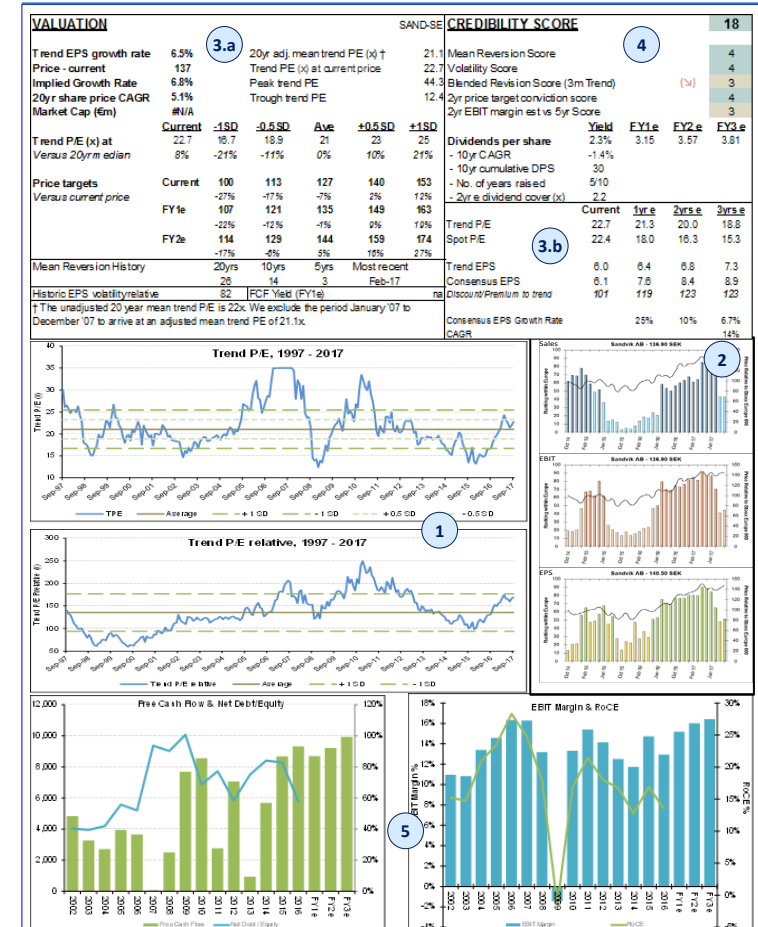
4. Credibility Score

This 5 factor score, ranging from 1 (lowest) to 5 (highest), combines stock price behaviour and fundamental metrics to provide an idea of forecast reliability. All scores are relative to the rest of the universe.

5. Cash Flow and Profitability

Charts show 15-year history and 3-year estimates for Free Cash Flow, Net Debt to Equity, EBIT Margins and Return on Capital Employed.

Sandvik



Source: Value Momentum Research, FactSet. Sep17

One page overview of key stock drivers

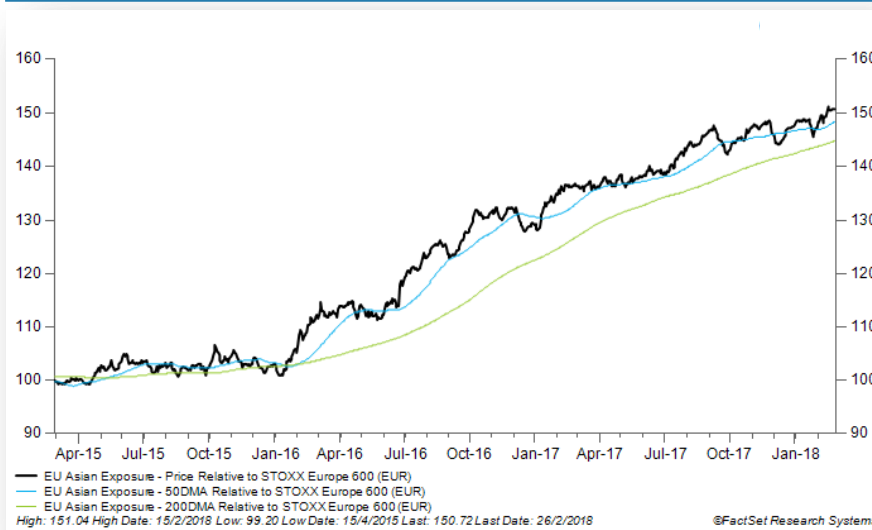
Thematic Research

The Index Tracker is a **weekly** publication which showcases the relative performance of team's **thematic baskets**, coupled with research on relative moves in sectors and indices across the globe.

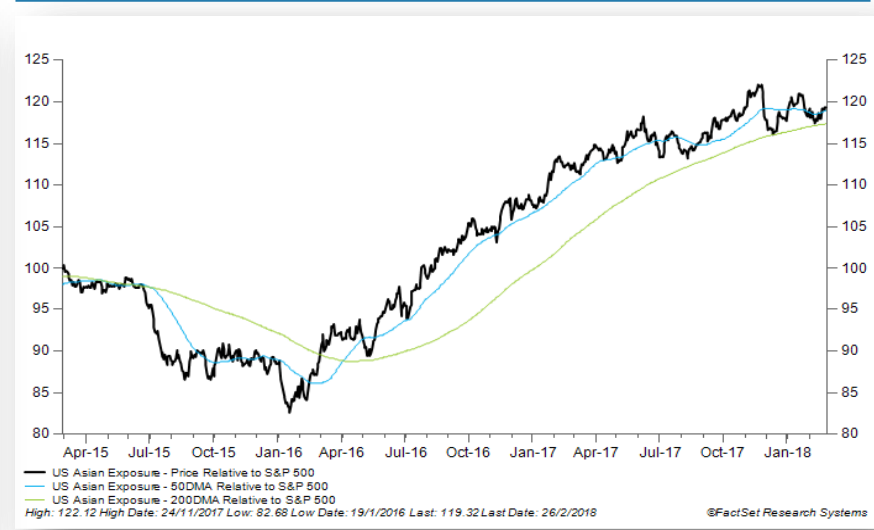
Index Tracker Overview

- **Performance commentary** highlighting moves in the thematic baskets and the drivers behind them
- Spotlight on **sectors hitting relative highs or lows in the UK, Europe and US.**
- Spotlight on **markets hitting absolute highs and lows across the globe**, including developed and emerging markets.
- **3-year performance charts for thematic baskets** including: European, US and Global Best Bars, Demographics, Dividends, Disrupters, EPS Growth, EPS Volatility, Free Cash-Flow, Good Times, Margin Recovery, Peak Stuff, Regional Exposure, Renewables, Robotics, Sales & Security.

EU Asian Exposure. Feb15 – Feb18



US Asian Exposure. Feb15 – Feb18



Source: Value Momentum Team, FactSet Feb18

Bespoke thematic baskets can be created and tracked on request

Bespoke Portfolio Screening

One-page overview of Valuation and Momentum helps to identify risks and opportunities within a portfolio or stock universe.

Fig 1 below shows European Large Cap Companies universe with:

- the X-axis representing valuation (standard deviation of Trend P/E relative to the 20 year mean); and
- the Y-axis showing a blend of the current Sales, EBIT and EPS revision bar heights.
- The size of the bubble represents the three month trend in the blended bar height: the bigger the bubble, the greater the move.
- The colour of the bubble indicates direction of the three month trend: rising (green) or falling (red).

Fig 1 European Large Cap Companies Valuation vs Relative Revisions Screen

