

Introduction to Stock Pitching

September 2022

Table of contents

- I. Background context
- II. Picking a stock
- III. Writing the pitch
- IV. 2-minute pitch
- V. Resources

Table of contents

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- II. Picking a stock
- III. Writing the pitch
- IV. 2-minute pitch
- V. Resources

I. Background context

- **Why do I care about stock pitching? When will I use it?**
 - Bread-and-butter in the investment management (“IM”) industry
 - Often paid on how well invested ideas perform
 - Get other investors to invest with you
 - Helps organize and refine your thinking
 - IM interviews
 - IM curriculum at CBS
 - Applications for the Value Investing Program, and some IM courses (Advanced Investment Research, Mental Models, Compounders, etc.); within select courses (Applied Security Analysis, Applied Value Investing, etc.); select CSIMA AVP interviews, etc.
 - Networking with investors, alumni
 - Conversation topic
 - Add value to others, if the idea’s good

Table of contents

- I. Background context
- **II. Picking a stock**
- III. Writing the pitch
- IV. 2-minute pitch
- V. Resources

II. Picking a stock (1/5)

- How do I come up with a stock idea? From Prof. Tano's slides:

Normal times

*Newspapers, periodicals,
industry magazines,
academic research, ...*

13Fs, other investors' ideas,
industry contacts, ...

Screens, local search

Special situations

*Financial crises,
sovereign debt crises,
political crises
pandemics ...*

*Spin-offs, distress, mergers,
manager turnover, regulatory
changes, industry overcapacity
...*

Less to more
structure

II. Picking a stock (2/5)

■ How do I come up with a stock idea? Tips:

- Companies / industries you already know
 - Best way to demonstrate credibility behind variant view
 - Easier / faster: leverage previously completed research
 - Thematic: beneficiary / loser as a result of trend
 - e.g., COVID, inflation, electric vehicles
 - Review professional investors' portfolios
 - Longs: Which investors do you admire? Check their investor letters, 13Fs (Whale Wisdom). What do they own and why? What positions are they initiating / adding to? Are there other public companies with similar qualities?
 - Shorts: Same as above. Some EU exchanges report short sellers, some publish on own websites. Best to use only as reference as most investors will know about public shorts.
 - Stock pitch forums
 - Value Investors Club ("VIC" (<https://www.valueinvestorsclub.com/>)), Sumzero, Seeking Alpha (lower quality), Google (pitches online); **don't steal work, use as reference only**
- **Think about timing / shelf life of the pitch by considering catalysts**

II. Picking a stock (3/5)

■ **How do you screen?**

- Consider purpose of pitch when constructing screen
 - What type of competition or fund are you pitching it to (e.g., ESG / tech PM / distressed)
 - Make sure company size and trading volume work for audience
- Filter by geography, sector, financial metrics
- What metrics? Depends on type of company desired
 - Long-term compounder (e.g., high historic & projected growth)
 - Traditional value stock (e.g., valuation metrics, ROIC / ROE)
 - Short-term mispricing / potential shorts (valuation metrics, recent meaningful movements in share price, management changes, etc.)
- Screening tools: Capital IQ, Bloomberg, <https://finviz.com/>, etc.

■ **Use screens to narrow your universe of stocks before you dive deeper**

II. Picking a stock (4/5)

■ What qualities to look for in stocks?

➤ Industry level analysis:

- Barriers to entry: e.g., scale, customer captivity, network effects, regulation, access to unique resources, etc. Read: Competition Demystified, Curse of the Mogul
- Addressable market and growth: volume / value; key growth drivers, trends vs history
- Competitive dynamics: how concentrated? Modes of differentiation among players? Disruptive forces?

➤ Company level analysis:

- Business model and value chain
 - Financial metrics
 - Growth, margins, returns
 - Cash generation, use of cash
 - Leverage
 - Management, shareholder structure
- How “researchable” is the idea? How much of the story is micro vs macro driven?
- Is the idea too complicated for the audience to understand?

II. Picking a stock (5/5)

■ What qualities to look for in stocks?

➤ Valuation

- Absolute: DCF, multiples (shorthand DCFs; most common), LBO-type IRR calcs
- Relative: Comparable company analysis (use relevant metric: EV/FCF, P/E, EV/Sales, EV/NOPAT, etc.), precedent transactions
- Bear / bull case scenarios are helpful

➤ Other considerations

- Geography: in which countries does the Company operate? Country-specific issues to be mindful of (FX? Government intervention?)
- Cyclicality and commodity dependence
- Catalyst: future hard (fraud) or soft catalysts (loss of share)?
- Short Ideas: cost of borrowing? Liquidity of the stock? Meme-stock risk?

There are many considerations; do what makes sense to you

Table of contents

- I. Background context
- II. Picking a stock
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III. Writing the pitch (1/5)

■ What is a good pitch?

- “Tells a story” of investment opportunity, long (buy) or short (sell)
- Concise and clear that is supported with quantitative information, when possible

■ What is the typical structure of a stock pitch memo?

- Depends – ranges from 1-pagers to 50+ slide decks for competitions
- We will focus on pitch format that can be used in interview or Investment Ideas Club (“IIC”)

■ What is IIC?

- IIC is a monthly pitch night hosted by CSIMA designed to develop student’s pitching skills
 - Take it seriously – a way to practice presenting as if you’re in an interview
 - Get feedback from practicing investors, alumni; good way to polish pitches before recruiting
 - Relatively judgement-free
 - Encouraged to participate: pitches don’t have to be perfect (don’t let good be the enemy of great)
 - Helps with your Value Investing Program application (if you want to apply)
 - First sessions will be on September 27-28

III. Writing the pitch (2/5)

- **Formats vary, one potential structure is below** (*try not to vary too far from it*)

1 Tables

- Stock summary
 - Current share price
 - 52-week high / low range
 - Target price & % upside / (downside)
 - Market cap, net debt, EV
 - Short interest
- Summary financial forecasts
- Stock price chart with annotations

2 Introduction

- **Brief** statement of recommended action (long / short, not hold)
- Price target and implied potential upside
- Key thesis points, so audience knows where you're going
- Quick line simply explaining high-level what the company does
 - If confusing company, may want to provide additional context

III. Writing the pitch (3/5)

3 Investment Thesis

- **Top 3-5 qualities** telling story why the audience will make money executing on your recommendation
 - *If you can't state your idea in 3 points, it's not that interesting or you don't know it well enough* – Ole Andreas Halvorsen
 - Variant view: *buying / selling a stock is an arrogant decision* – Seth Klarman; what is the market missing? Why?
 - What **upcoming catalysts** will show the market it's wrong and re-rate / change its mind?
 - Include quantitative support throughout
 - Make sure three points flow well

III. Writing the pitch (4/5)

4 Financials / Valuation

- What are you projecting? How are you different from consensus? Why (*make sure this fits your story*)?
- How you arrived at your price target
 - Can support with **absolute** valuation method and **relative** valuation
- Breakdown the value drivers
 - How much is coming from (1) topline growth, (2) margin expansion, (3) multiple increase / decrease, etc.?

5 Risks & Mitigants

- Identify key risks that would disprove your investment thesis
 - All investments have risks
 - Briefly mention key risks and why
 - **Most commonly asked in Q&A**
- Be able to explain why the risk is mitigated
 - If have space can included in the document. If not, have answers ready for Q&A
- Be **honest**
 - Risks help in Q&A by showing judges you thought the idea through downside

III. Writing the pitch (5/5)

■ Where should I gather information?

- 1) 10-Ks, 10-Qs, press releases: special attention to business description / risk factors / MD&A; any key recent events
- 2) Investor presentations: good resource when starting work on a company; check for any Analyst Days held in past 5 years
- 3) Conference call transcripts: recent (last 3-4) calls; read Q&A to see what analysts are focused on
- 4) Sell-side reports: check reputable initiation reports for context on company, industry, competitive landscape, etc. and a few recent reports; don't base your story on these alone
- 5) CD&A section of proxy: management's incentives (what metrics do they care about? Revenue / EBITDA / ROIC / stock price? Any recent changes to comp structure?)
- 6) Tegus: transcripts from expert calls
- 7) Google: recent news, management's background, etc.

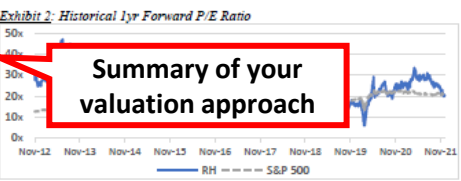
*Primary research often sets you apart: can try interviewing industry veterans, customers / clients, competitors, **former (12 months+)** employs, etc.*

Obviously, do not include inside information

In all circumstances, the work you present should be your own

Exhibit 1: P/E Multiple Valuation

	Base	Bear
P/E multiple	25.0x	15.0x
Adj. Net Income (2025E)	\$ 1,197	\$ 897
Equity Value (\$ mn)	\$ 29,917	\$ 13,462
FDSO	29	29
Value per Share (\$)	\$ 1,039.64	\$ 467.84
Implied upside/downside	94%	-13%
IRR (to 31-Dec-2024)	24.7%	-4.4%



Summary of your valuation approach

Exhibit 3: Peer Comparable Multiples (1Y = 1yr forward)

Name	Ticker	MCap US\$bn	P/E		EV/EBITDA		EV/Sales		EPS Growth		Sales Growth		EBITDA Margin		FCF Yield		
			1Y	2Y	1Y	2Y	1Y	2Y	1Y	2Y	1Y	2Y	1Y	2Y	1Y	2Y	
RH			11.5	20.3x	18.8x	10.8x	9.7x	3.1x	2.9x	18%	8%	13%	8%	29%	30%	7%	8%
US Home Furnishing Retailers & Manufacturers																	
Williams-Sonoma Inc	WSM	12.3	12.0x	11.8x	8.2x	8.2x	1.5x	1.5x	na	1%	0%	3%	19%	18%	8%	9%	
Wayfair Inc	W	19.9	102.1x	41.5x	36.2x	21.3x	1.1x	1.1x	110%	146%	9%	18%	4%	6%	2%	4%	
Ethan Allen Interiors Inc	ETD									5%	na	4%	na	16%	na	na	
MillerKnoll Inc	MLKN									34%	36%	56%	9%	10%	12%	6%	11%
La-Z-Boy Inc	LZB									30%	5%	12%	0%	12%	na	4%	6%
Bed Bath & Beyond Inc	BBBY									54%	47%	-12%	2%	6%	7%	6%	6%
Home Depot Inc/The	HD	4								8%	7%	4%	3%	17%	17%	4%	4%
Lowe's Cos Inc	LOW	1								12%	10%	2%	3%	14%	15%	5%	5%
MEDIAN										21%	10%	5%	3%	13%	13%	5%	5%
Global Home Furnishing Retailers																	
Roche Bobois SAS	RBO FP	0.4	18.5x	na	7.3x	na	1.4x	na	-1%	na	0%	na	19%	na	13%	na	
Global Luxury Goods & Retailers																	
LVMH Moët Hennessy Louis V	MC FP	417.8	31.0x	27.9x	17.5x	15.8x	5.7x	5.3x	25%	11%	26%	8%	33%	34%	3%	na	
Kering SA	KER FP	100.4	23.9x	21.3x	13.8x	12.4x	5.0x	4.6x	11%	12%	19%	9%	36%	37%	4%	5%	
Hermès International	RMS FP	184.6	62.7x	56.0x	36.6x	32.7x	15.6x	14.2x	15%	12%	24%	11%	43%	43%	1%	na	
PRADA SpA	PRP GF	15.8	38.0x	29.4x	14.2x	12.2x	4.4x	3.9x	na	29%	24%	11%	31%	32%	4%	na	
Moncler SpA	MDNC IM	19.9	35.7x	31.0x	19.1x	16.9x	7.7x	6.9x	17%	15%	42%	12%	40%	41%	3%	3%	
Salvatore Ferragamo SpA	SFER IM	4.3	47.0x	37.6x	13.0x	11.7x	3.3x	3.0x	9%	28%	16%	0%	25%	26%	3%	4%	
Tapestry Inc	TPR	11.2	10.9x	9.8x	8.3x	7.8x	1.9x	1.8x	16%	11%	11%	4%	23%	24%	8%	8%	
MEDIAN			35.7x	29.4x	14.2x	12.4x	5.0x	4.6x	16%	12%	24%	9%	33%	34%	3%	4%	

Peer and historical comps can be useful

Exhibit 4: RH Member Growth and Spend per Member Estimates

	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
# of RH Members									
% growth									
% of total RH sales from members									
Net Sales from Members (\$ mn)									
% growth									
Membership Fee (\$)									
Annual Spend per Member (\$)									
% growth									

Can add detailed financial projections here if you want.
Many judges appreciate an IRR bridge.
Remember to include forecasts vs consensus somewhere in your memo.

Exhibit 6: Unit Economics: Legacy vs New Galleries

	Legacy Gallery	Large Format Gallery
12,500	\$31,050	
7,500	4,500	
0	10,500	
7,000	5,600	
	\$1,300	\$1,575
	10.5%	6.4%
	\$174.40	\$56
	2,542	\$8,700
	23.5%	28.0%
	50%	50%
	16.0%	15.0%
		\$18,500
		(\$15,000)
		\$1,000
		\$5,500
		0.6

Source: Company reports and IFRS based on the fiscal scenarios shared during the Career Gallery opening in 2018

Exhibit 7: RH has Better Sales and EBIT / Sq.Ft. vs Furniture and Luxury Retail Peers

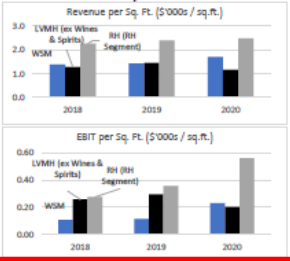


Exhibit 8: European High-End Furniture Peers from Roche Bobois's IPO Prospectus (2018) - Shows No Single Player has Scale

	Legacy					High-end		
	Palermo Fine (including Cavena)	Minotti	Milano&C	B&B (including Maxalto)	Gruppo Rocca	Knoll	Design Within Reach (Roche Bobois, Inc)	Restoration Hardware, Inc
Overview	rochebobois.com	Cavena.com	Minotti.com	Milano&C.com	B&B.com	GruppoRocca.com	knoll.com	rochebobois.com
Revenue year	2017	2016	2016	2016	2015*	2016	2016	2016
Revenue	€212m	€275m	€185m	€136m	€155m	€1,146m	\$2,276m	\$2.13bn
Distribution network	Direct / Franchise / Direct / Retailer	Franchise / Retailer / Direct / Retailer	Direct / Retailer	Direct / Retailer	Direct / Retailer	Direct / Retailer	Direct / Retailer	Direct / Retailer
Online sales	From 2019	No	No	No	No	Yes	Yes	Yes
Geographic presence	Europe, USA, RoW	Europe, USA, RoW	Europe, USA, RoW	Europe, USA, RoW	Europe, USA, RoW	USA, Canada, Europe	USA, Canada, Mexico	USA

Exhibits to support your theses / help explain business model

Table of contents

- I. Background context
- II. Picking a stock
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- V. Resources

IV. 2-minute pitch (1/4)

■ **What should I expect at IICs?**

- 2 minutes to present and judges ask questions for ~5-8 minutes
- Judges typically have reviewed write-ups before the event (why they're due in advance)
- Re-starting in-person IICs from this semester; in-line with interview format
- IIC VPs / AVPs will keep time, moderate the sessions

■ **What should I say in the 2-minute pitch?**

- Follow structure of pitch
- Introduction: recommended action, price target, upside, one line on company, if possible
- Step through 3 thesis points
- If have time, quickly mention projections
- If have time, mention headline risks
- Close with a summary sentence highlighting the returns / favorable risk-reward / why you are excited about this investment opportunity

IV. 2-minute pitch (2/4)

■ **How to prepare?**

- Practice, practice, practice
 - Time yourself in advance (you will be cutoff if you go over)
 - 2-minutes goes by fast; you do not have time to go into detail, so save information for Q&A
 - Use a friend to practice together (if you are comfortable)
- Pre-empt potential questions and construct your responses
 - Have data/figures to reference in appendix

IV. 2-minute pitch (3/4)

■ What are best practices for Q&A?

- Digest the questions first, then get to the point
 - Step back and think about what the judges are asking, then answer. **Be specific**
 - Back up your views with evidence
- If you don't know the answer, it is okay to say so
 - Let them know what diligence you plan to do to uncover it
 - Follow up with judges once you have a better idea
- Relax!!
 - IIC is a low-risk environment and judges know this (most have been CBS students)
 - The point is to work out the kinks and improve
 - Control the pace of your pitch and don't speak too quickly

IV. 2-minute pitch (4/4)

- **What should I not do during the pitch? IIC VPs can share anecdotes...**
 - Ramble
 - Be concise with your statements and answers
 - You have 2 minutes to pitch and 5 minutes to answer questions
 - Avoid reading a script word by word
 - Get aggressive in defense
 - Sometimes judges will not share your view and will press you
 - You can defend your work, but also want to show your teachable / don't have commitment bias
 - Lean on support and facts for your responses
 - Steal others' work
 - Damage your reputation, lose potential friends, reduce value proposition of CSIMA for yourself and others, potentially hurt your chances of getting an internship / job, etc.

Table of contents

- I. Background context
- II. Picking a stock
- III. Writing the pitch
- IV. 2-minute pitch
- **V. Resources**

V. Resources (1/2)

- **If this is interesting to you, join CSIMA!**
- **Resources by CBS, CSIMA**
 - Library databases (IBISWorld, Euromonitor)
 - Bloomberg terminals on 6th floors of Kravis and Geffen
 - Capital IQ – works remotely
 - Investext/Mergent and Refinitiv for sell-side equity research
 - Tegos, Canalyst subscriptions
 - Network of peers, alumni
- **Recommended classes (for 1st years)?**
 - Security Analysis – Chris Begg
 - Earnings Quality
 - Spring semester
 - Applied Security Analysis
 - Advanced Investment Research

V. Resources (2/2)

- **Prioritize pitching rather than reading at this time, but some well regarded books are below:**

Recommended Reading

- Analyst's Cookbook
- Graham & Doddsville
- Investor Letters
- Value Investors Club
- Industry news: Wall Street Journal, Barrons, etc.
- Calculating Return on Invested Capital (Michael Mauboussin)

Recommended Books

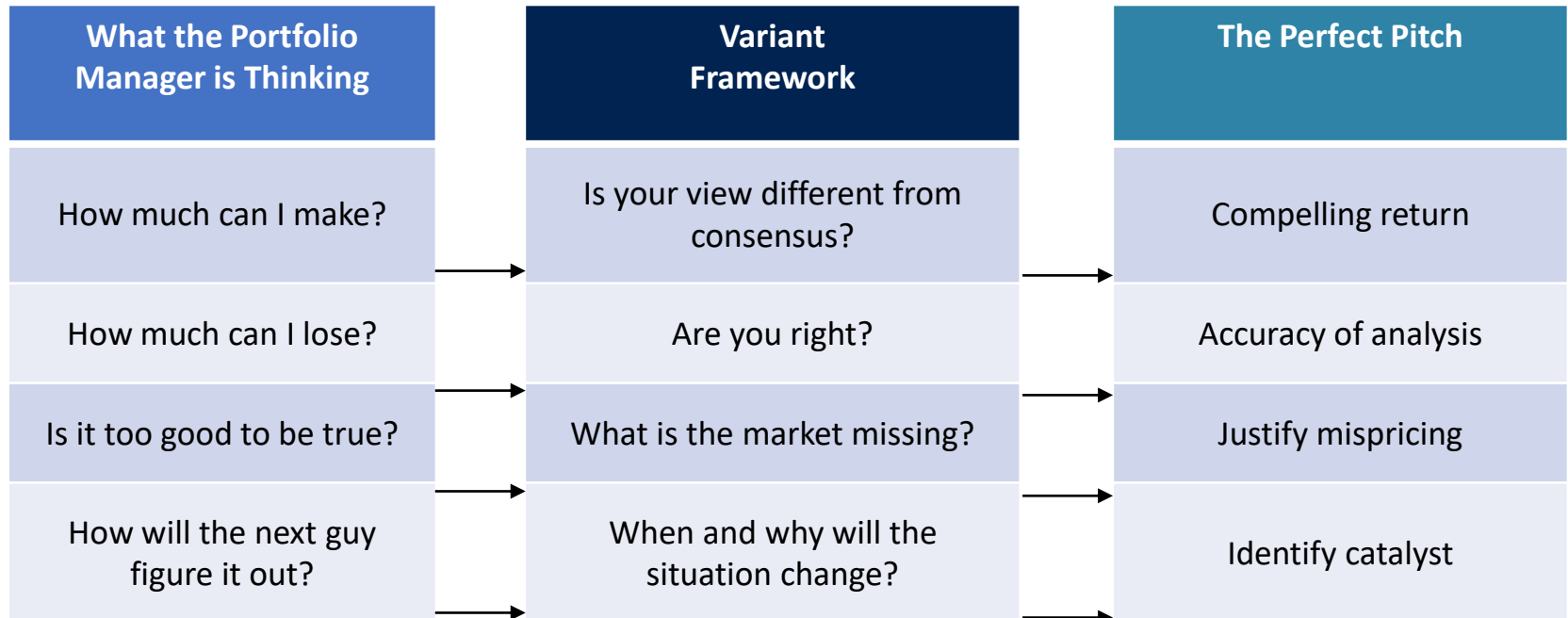
- The Essays of Warren Buffett (Buffett/Cunningham)
- Common Stocks & Uncommon Profits (Phil Fisher)
- Competition Demystified (Greenwald)
- Value Investing (Greenwald)
- The Intelligent Investor (Graham)
- Margin of Safety (Seth Klarman)
- Pitch the Perfect Investment (Sonkin/Johnson)
- You Can Be a Stock Market Genius (Greenblatt)
- The Little Book That Beats the Market (Greenblatt)
- Five Rules for Successful Stock Investing (Pat Dorsey)

AVP applications

- Taking 3 in fall term
- Responsibilities
 - Facilitating IIC events, interacting with judges
- Value add
 - Learn more about pitching and develop your skills – it’s a gating item in the interview process
 - Meet more people in the class
 - Get access to all pitches
 - Meet judges
- If want to apply, please submit the below to Joy (SHe23), Zhaohan (ZZhang23), Bryden (RNugent23) and Jason (JLai23) with the subject line “AVP IIC Application”
 - Resume
 - Statement of interest (200 words max)
 - A written stock pitch (same format per above)

Appendix

- Try to answer the four key issues



Questions?