

# Pup Research Screening Model

## Overview

The Pup Research screening model screens the Pup Research universe on six factors related to the risk/reward potential of a stock.

Details on the six factor screening process are included in the **Process** tab.

Outputs from the model can be viewed in the **Screening** tab.

## Process

The screening process screens stocks for three factors that indicate potential risk and three factors that indicate potential reward (valuation).

Risk factors are (i) Balance Sheet (ii) Operational & Governance and (iii) Earnings Quality.

Reward factors are (i) Current Valuation (ii) Potential Valuation and (iii) Momentum

[More Details](#)

## Screening

Screening model can be viewed as a table or charts. Use hyperlinks to move between views.

Date screening model was last updated for prices.

No of stocks in model.

Screening Model
View Table
View Charts
Risk Reward
Value
Risk
Factor Comp.
Value Comp.
Last Update
27-Jan-15
Coverage
187

## Table View

Ticker	Price and market cap. as of close on day of Last Update.		Results of six factor screening model (see <b>Process</b> for more detail).				Assessed current value/potential value relative to current price				Last Updated	Name	Sector	Description	Opportunity					
	Price Current	Mkt Cap	B/S	Risk Measures Ops. & Gov.	EQ	Total	Val. Curr	Potential Val.	Mo	Total						Total Score	Current Value	Potential Value	Current Value	Potential Value
3PL	2.22	239	Good	Fair	-Poor	-1	-Poor	-Poor	Good	-1	-2	68%	68%	150	150	26-Aug-14	3P LEARNING LTD	Consumer, Non-cyclical	Online Education	Growth
AAC	1.64	871	Fair	Fair	-V Poor	-2	Fair	-Poor	Good	0	-2	86%	86%	140	140	23-Dec-14	AUSTRALIAN AGRIC	Consumer, Non-cyclical	Beef farming	Cyclical

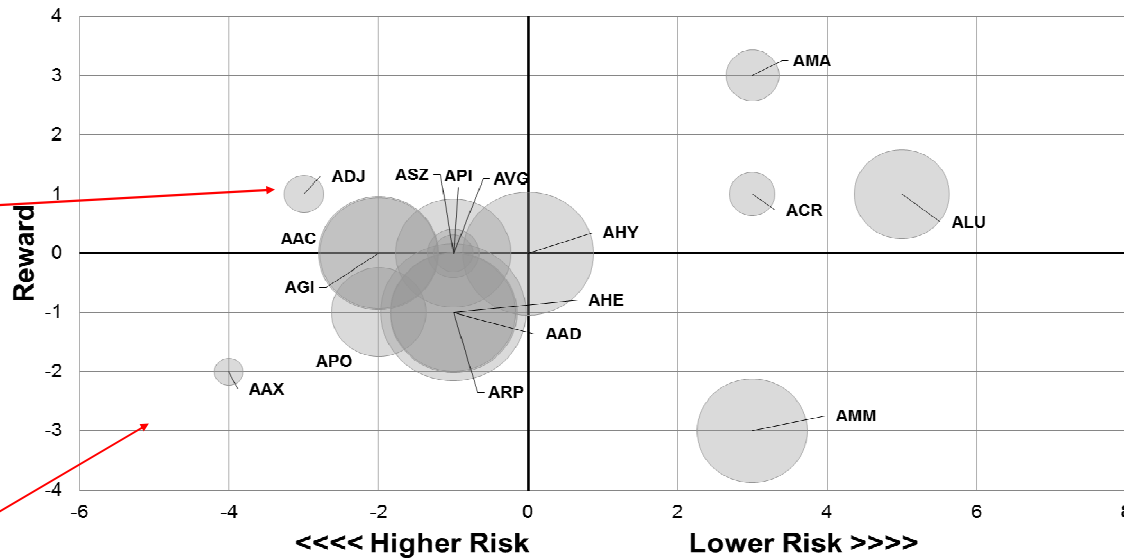
**Create your own screen for both Table and Charts using excel auto-filter on ANY factor.**

Pup Screening risk/reward and total scores.

Assessed current value/potential value in A\$.

Type of investment opportunity

### Pup Research Screening Model - Risk/Reward



Bubble Size represents market cap.

Charts filtered on stocks with ticker beginning with "A".

### Pup Research Screening Model - Valuation

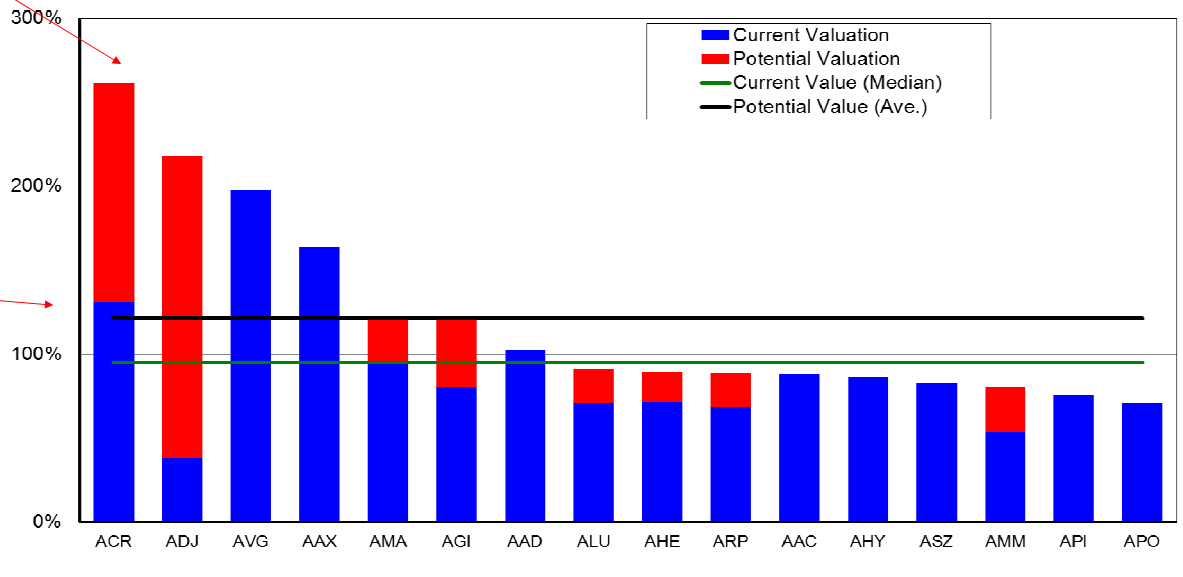


Chart sorted from Highest to Lowest Potential Valuation

# Pup Research Screening Process

## Risk Factors

Score	Balance Sheet	Operational & Governance	Earnings Quality	Total Score
Each factor is scored between 2 (V good = low risk) and -2 (V Poor = high risk)	(i) The level of debt and other on and off balance sheet liabilities (eg operating liabilities, associate leverage etc)  (ii) The nature of the companies earnings (cyclical, sustainable etc) cash generation and capital commitments.	(i) <u>Operational</u> - Riskiness of company's cash flows having regard to track record, volatility & sustainability of returns  (ii) <u>Governance</u> - whether operating performance will flow to shareholders, management or misallocated.	(i) use of discretionary accruals to manipulate short term earnings  (ii) use of non- discretionary accruals that reflect the underlying capital intensity of the business	If minimum score is <0, the lower of minimum score or sum of scores. If minimum score is 0, sum of scores.
<b>V Good</b>	Significant surplus cash or other assets.	Track record of profitability & sustainable returns. Good gov.	Excellent earnings quality. Earnings conservatively stated.	
<b>Good</b>	Undergeared, some distributable surplus.	Track record of profitability but query sustainability of rtns. Fair gov.	Good earnings quality; Earnings fairly stated.	
<b>Fair</b>	Appropriately geared for nature of business.	Profit history ok, but reasonable risk to earnings. Ave. gov.	Ave. earnings quality; consistent with peers.	
<b>-Poor</b>	Fully geared	Patchy profit history/major risk to earnings franchise. Gov. concerns.	Some concerns re earnings quality - level or trend.	
<b>-V Poor</b>	Over-leveraged - cash flow will be directed to debt holders.	Early stages of commercialisation / start up. Major gov. concerns.	Major concerns re earnings quality - level or trend.	

## Reward Factors

Score	Current Value	Potential Value	Momentum	Total Score
	Valuation of current assets and operations of the business having regard to through the cycle returns and nominal growth rates	Ability to create value through reinvestment of capital at high rates of returns or by de-risking future growth options & cash flows	Direction of earning/operating trends (rather than level). High share price to fund capital growth.	Sum of scores
<b>V Good</b>	<50% of assessed fair value.	Potential Value > Current Value &> 2x Share Price	Current operating and earnings momentum is strong.	
<b>Good</b>	50-75% of assessed fair value.	Potential Value > Current Value but < 2x Share Price	Current operating and earnings momentum is solid.	
<b>Fair</b>	75 - 125% of assessed fair value	Potential Value > Current Value but < Share Price	Business is steady	
<b>-Poor</b>	125-150% of assessed fair value	Potential Value = Current Value	Operating/Earnings momentum has peaked.	
<b>-V Poor</b>	>150% of assessed fair value	Potential Value < Current Value	Operating/Earnings momentum is poor.	

Reward Opportunity	Valuation Method	Valuation Method	Description
Deep Value	P/NTA	n/a	Buy existing capital cheaply
Cyclical	EV/Sales; P/NTA	n/a	Opportunity to improve return on existing capital
Growth - O	EV/Sales	Price scenarios	Opportunity to organically deploy capital at high rates of return.
Growth - A	EV/Sales	Price scenarios	Opportunity to acquire assets at high rates of return.



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