

How to Pitch a Stock – and Find Ideas at the Last Minute

The Tools, Tactics,
and Screening
Criteria You Need

Stock Pitch Guide:
How to Pitch a Stock



This Lesson: Last-Minute Tips and Tricks

Check out the corresponding M&I blog post, guide, and stock pitch templates:

<https://www.mergersandinquisitions.com/stock-pitch-guide/>

We'll expand on that article and focus more on the “idea generation” part here.

Plan for This Tutorial

1) **Stock Pitch Structure:** Just to review what's required – and to give you a few samples/templates



2) **Idea Generation:** How do you find ideas if it's the last minute, and you only have a few days to prepare?



3) **Research/Valuation Process:** How to do it efficiently, and how to find your angle and the key inputs for your stock pitch



Stock Pitch Structure

- 1) **Recommendation:** Long or short and what the company *should* be worth according to your analysis
- 2) **Company Background:** Products/services, approximate revenue and EBITDA, market cap, and current valuation multiples
- 3) **Investment Thesis:** The stock is priced imperfectly for Reasons A-C, and the market has not factored them in because of Reasons X and Y
- 4) **Catalysts:** Key events in the next 6-12 months will cause the market to realize its mistake, resulting in a pricing correction



Stock Pitch Structure

- 5) **Valuation:** Show why the stock is undervalued or overvalued via a DCF and comparable companies (and possibly others)
- 6) **Risk Factors and Mitigants:** What are the top 2-3 reasons why you might be wrong? And how could you reduce these risks or limit your losses?



Idea Generation

- **Last-Minute Ideas:** So... what if you only have a few days, you don't follow the markets closely, and you need an idea for an upcoming interview ASAP?
- **Step 1:** Figure out what strategy the firm you're interviewing with uses, and which industries it likes and does not like
- **EX:** If you're interviewing with a value-oriented long-only fund that likes industrial companies, focus on industrials or related sectors; don't pitch a Short for an overpriced biotech startup
- **Step 2:** Pick a matching industry or one that you know about



Idea Generation

- **Example Here:** We'll pick "Industrial Goods" for the sector, and "Industrial Equipment" for the industry:

Filters: 2				Descriptive(2)		Fundamental	Technical	All(2)																			
Exchange		Any		Index		Any		Sector		Industrial Goods		Industry		Industrial Equipment		Country		Any									
Market Cap.		Any		Dividend Yield		Any		Float Short		Any		Analyst Recom.		Any		Option/Short		Any									
Earnings Date		Any		Average Volume		Any		Relative Volume		Any		Current Volume		Any		Price		Any									
Target Price		Any		IPO Date		Any												Reset (2)									
Overview		Valuation		Financial		Ownership		Performance		Technical		Custom		Charts		Tickers		Basic		TA		News		Snapshot		Stats	
Total: 12 #1																											
save as portfolio create alert																											
Auto Refresh: 3min off																											
Page 1/1																											
No.	Ticker		Company				Sector				Industry				Country				Market Cap		P/E	Price	Change	Volume			
1	PH		Parker-Hannifin Corporation				Industrial Goods				Industrial Equipment & Components				USA				24.44B		17.39	183.08	-2.34%	394,764			
2	PNR		Pentair plc				Industrial Goods				Industrial Equipment & Components				United Kingdom				6.55B		18.07	37.47	-1.52%	307,700			
3	WTS		Watts Water Technologies, Inc.				Industrial Goods				Industrial Equipment & Components				USA				2.91B		23.89	85.07	-1.52%	24,050			
4	B		Barnes Group Inc.				Industrial Goods				Industrial Equipment & Components				USA				2.79B		16.97	53.28	-1.72%	51,106			
5	MWA		Mueller Water Products, Inc.				Industrial Goods				Industrial Equipment & Components				USA				1.72B		47.80	10.73	-1.15%	307,662			
6	SNHY		Sun Hydraulics Corporation				Industrial Goods				Industrial Equipment & Components				USA				1.67B		34.79	51.76	-1.65%	22,668			
7	NPO		EnPro Industries, Inc.				Industrial Goods				Industrial Equipment & Components				USA				1.54B		59.97	73.30	-2.14%	50,714			
8	TRS		TriMas Corporation				Industrial Goods				Industrial Equipment & Components				USA				1.49B		18.17	32.16	-1.41%	19,217			
9	SXI		Standex International Corporation				Industrial Goods				Industrial Equipment & Components				USA				962.66M		16.96	74.60	-1.97%	13,911			
10	OFLX		Omega Flex, Inc.				Industrial Goods				Industrial Equipment & Components				USA				911.50M		47.47	95.00	0.26%	1,289			
11	CIR		CIRCOR International, Inc.				Industrial Goods				Industrial Equipment & Components				USA				719.42M		-	35.26	-3.41%	33,982			
12	CETX		Cemtrex, Inc.				Industrial Goods				Industrial Equipment & Components				USA				5.02M		-	0.36	8.09%	266,282			

- **Now:** How do you screen and narrow down this list?

Idea Generation

- **Step 3:** Focus on **mid-sized companies** in the industry – ideally ones in the \$1 – 10 billion market cap range for U.S.-based picks (or, by revenue, hundreds of millions to low billions)
- **And:** Look for companies where there's been a **clear divergence** from the stock-price trends over the past few months
- **EX:** Entire market has gone up, but this one company has stayed the same or even decreased... or the opposite
- **Here:** Barnes Group [B] and Standex Group [SXI] are the clear outliers, and we'll add TriMas [TRS] for good measure as well



Idea Generation

- **Steps 4-5:** Find companies with 3-4 key drivers and relatively pure-play businesses, plus clean/simple financial statements
- **Here:** The financial statements aren't that different, but Standex appears to have more segments than the others, which will make the research and valuation process take more time:



	2018	2017	2016	2015	2014
SUMMARY OF OPERATIONS (in thousands)					
Net sales					
Food Service Equipment	\$ 396,866	\$ 380,970	\$ 381,867	\$ 408,706	\$ 377,848
Engraving	136,275	105,943	124,120	110,781	109,271
Engineering Technologies	90,781	90,506	82,235	97,018	79,642
Electronics	196,291	136,689	118,319	114,196	114,881
Hydraulics	48,169	41,150	45,045	41,441	34,538
Total	\$ 868,382	\$ 755,258	\$ 751,586	\$ 772,142	\$ 716,180

- **So:** We'd probably narrow this to Barnes Group [B] and TriMas [TRS] in this quick analysis – B has 2 main segments and TRS has 3



Idea Generation

- **Step 6:** Favor companies with clear catalysts in the next 6-12 months, such as an acquisition or divestiture, major product launch, expansion, strategic change, etc.
- **Here:** At first glance, TriMas appear to have one...



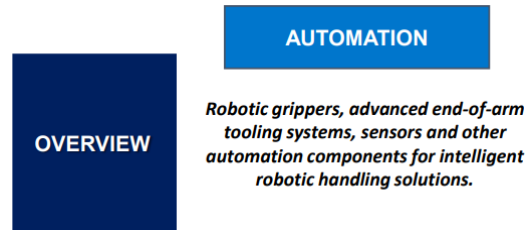
Recent Acquisition Announcement

PASTIC SRL

- Manufacturer of polymeric single-bodied and assembled closures, including child resistant closures, for home care product applications
- ... but it's quite small – only \$12 million annual revenue vs. net sales of almost \$900 million for TriMas!

Idea Generation

- **So...** we'd say Barnes Group is probably a better candidate here, since they do have some recent launches and growth areas like "Automation"



- **And:** We could also argue the company has been unfairly penalized for its exposure to Aerospace (~34%) and, therefore, Boeing... despite not focusing that much on the grounded 737 MAX:



OEM SALES PER AIRCRAFT (\$K)²

Boeing 777 (GE90)	~\$900
Boeing 787 (GEnx-1B/Trent 1000)	~\$200
Airbus A350 (XWB)	~\$500
Airbus A320neo (LEAP A)	~\$200 to ~\$250
Boeing 737 (LEAP B)	~\$50 + Opportunity

Research and Valuation Process

- 1. Research the Company and Industry:** Find annual/interim reports, latest investor presentation, plus recent press releases
- 2. Build a *Simple* DCF-Based Valuation:** Project revenue and expenses in some detail, such as Units Sold * Average Selling Price, or Market Share * Market Size... perhaps **100-300 rows in Excel**
- 3. Public Comps:** Find and use them, but use Finviz or Google Finance to save time (see our Comparable Company Analysis tutorial)
- 4. Do Real-Life Research:** Speak with people in real life for a few hours – find suppliers, customers, etc. on LinkedIn and email them



Research and Valuation Process

- **Here:** We already have the reports... and the peer companies
- **So:** First step would probably be to set up basic FCF projections in a DCF for this company, with Aerospace and Industrial revenue and operating income
- **And:** Go beyond that if possible... Units Sold? Market Share? Backlog Growth and Backlog Delivered? This sector can be tricky
- **Real-Life Research:** General Electric, Rolls-Royce, and United Tech seem quite important... so we'd probably start there and look for possible contacts on LinkedIn



Research and Valuation Process

- **Angle:** Probably something to do with the market over-penalizing it due to Boeing exposure, under-estimating its Automation segment, and possibly underestimating its margin expansion potential
- **Or:** Take the opposite view and say that it should fall *even more* than it already has... just depends on the results of the process!
- **Catalysts:** Backlog updates, Boeing announcements, earnings announcements with “Automation” results, acquisitions...
- **Valuation:** Sorry, this was a quick exercise we completed in ~30 minutes to demonstrate the process... DCF would take more



Recap and Summary

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