



smartwomansecurities

Date

Coming to an Investment Opinion

Speaker
Position
Company

Announcements

- Please enter any SWS related announcements here.



Tonight's Agenda

- Putting it All Together
- Stock Pitches
- Example Stock Pitch



This Week's Seminar

- **After this, you should be able to:**
 - Synthesize the information from previous seminars to come up with an investment idea
 - Understand what are the important parts of a an investment story
 - Take what we have learned and apply it in practice so that you can invest in stocks
 - Understand how to pitch your stock



Market Update

- Have speaker comment on what happened in the markets for past week.
- We encourage speakers to create a slide of important occurrences (see next slide for example).



Market Update Example Slide

- S&P200 gained 2.3% on the week; DJIA was up 2.1% while the NASDAQ was up 2.9% as investors seemed less concerned about risks in the credit markets
- There were mixed technology results as Apple & Microsoft posted solid positive Q3 earnings; rising concerns about semiconductor valuations
- Merrill Lynch wrote down \$7.9b in losses from subprime losses, although the stock rallied on reports that CEO Stan O'Neal would be ousted
- Bank of America announced 3,000 job cuts in the corporate & investment banking division
- Crude oil futures climbed above \$92; some analysts expect it to surpass \$100



Putting it all Together



Recap of Last 3 Weeks

- **Finding stock ideas**

- Finding stocks that seem interesting (based on trends, Lynch/Buffett's principles, your own observations)
- WSJ, Financial Times, Economist

- **Qualitative Analysis**

- Going to their websites, reading reports, etc.
- Think about what industry it belongs in, who are major competitors?
- Think about if recent success/difficulties company is facing are likely to persist
- Good framework is Porter's Five Forces



Recap of Last 3 Weeks Cont'd

- **Fundamental Analysis**

- Look at income statement, balance sheet, statement of cash flows
- Revenue growth, EPS growth, profit margins, ROE, ROA

- **Valuation Analysis**

- P/E, Discounted Cash Flow >> is all the good or bad news reflected in the stock price?

- **Coming to an Investment Opinion**



Research Analysts

- How research analysts on Wall Street view financials
 - Create EPS estimates based on their assumptions about the company and its future performance
 - Create financial models
 - Produce research reports
- SWS research methods follow similar principles



Stock Pitches



Stock pitch

- Every stock pitch needs to communicate 2 major points:

#1: IS THIS A GOOD BUSINESS?

#2: WILL THIS BE A GOOD STOCK?



Is This a Good Business?

- **Company Overview**

- What does the company do? Brief company & mgmt history.
- Characteristics of the business:
 - Large player or tiny player?
 - Is it a growth business or more stable (or declining)?

- **Industry Analysis**

- Define the industry the company competes in
- How fast is industry growing?
- Competitive landscape. What is your company's mkt share?
- Porter's Five Forces

Note: sources for this info are in the 10K & Annual reports:
MD&A, Company Description



Is This a Good Business? (cont'd)

- **Financial Statement Analysis**

- Tie #s to your statements/observations
- Revenue growth, EPS growth, profit margins
 - From income statement
- ROE, ROA
 - From balance sheet
- FCF generation
 - From statement of cash flows

- **Economic Landscape**

- What external macroeconomic factors will affect the stock?



Will this be a Good Stock?

- **Opportunities and Risks**
 - Future growth prospects & risks
- **Technical Analysis / Valuation**
 - Stock price history (if it blew up, figure out why)
 - Valuation tools:
 - P/E vs. growth rate of EPS
 - P/E across different companies
- **Investment Recommendation**
 - What type of investor should invest, time horizon, what the target price is expected to be, etc.



Making a Recommendation

- One-year time horizon
- Target price (estimated EPS x P/E)
- Buy, sell, or hold recommendation



The following stock pitch is recommended, but speaker may wish to use his/her own investment report



Example Stock Pitch

Monsanto (MON)



Company Overview

MONSANTO



- MON is \$53B market cap manufacturer of seeds with genetic traits (corn, soy, cotton, vegetable)
- Their seeds increase yields (how much is grown per acre) which increases farmer income.
- Large cap growth stock
- Founded in 1901. Went public in 2000 as a subsidiary of Pharmacia. Spun off of 2002 as an independent company.



Industry Overview

- MON competes in the global corn, soybean, cotton and vegetable genetic seed market.
- MON has on average ~50% mkt share
- Genetic seeds are taking share from conventional seeds because they produce more.
- Major competitors are Syngenta, DuPont and Dow >> core competency are chemicals, not genetic seeds



Porter's Five Forces

- Barriers to Entry: R&D investments >> very expensive & time consuming to replicate
- Substitutes: Competitive genetic seeds have much lower yields.
- Buyer Power: Farmers are relatively fragmented & MON sets pricing
- Rivalry: Syngenta, Dow, DuPont
- Supplier Power: Not Relevant



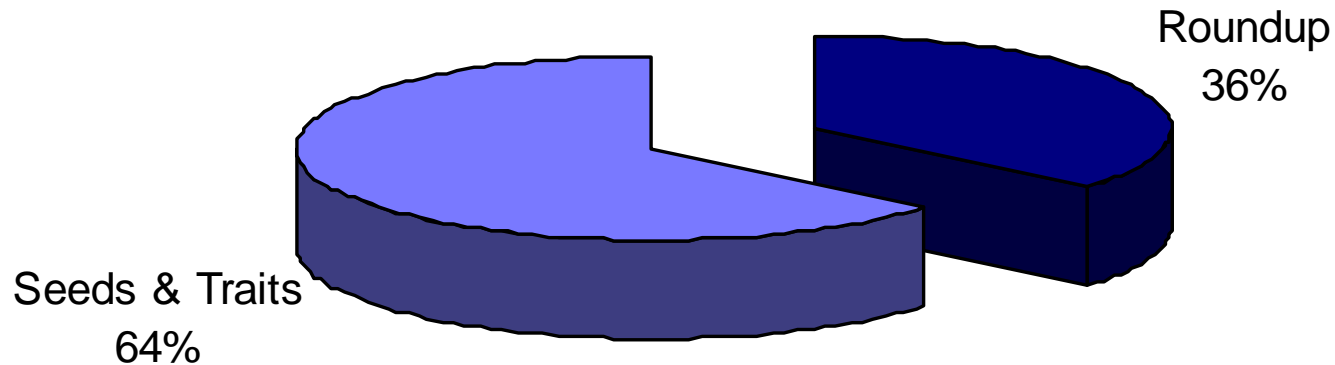
Troubled Times for MON

- When MON was spun off in 2000, 36% of revenues was from Roundup (patented chemical sprayed on crops to kill weeds).
- Roundup came off patent in 2002, at which point generic competition entered the market (low barriers to entry), and thus pricing & MON's profitability (Operating Income, EPS) declined.

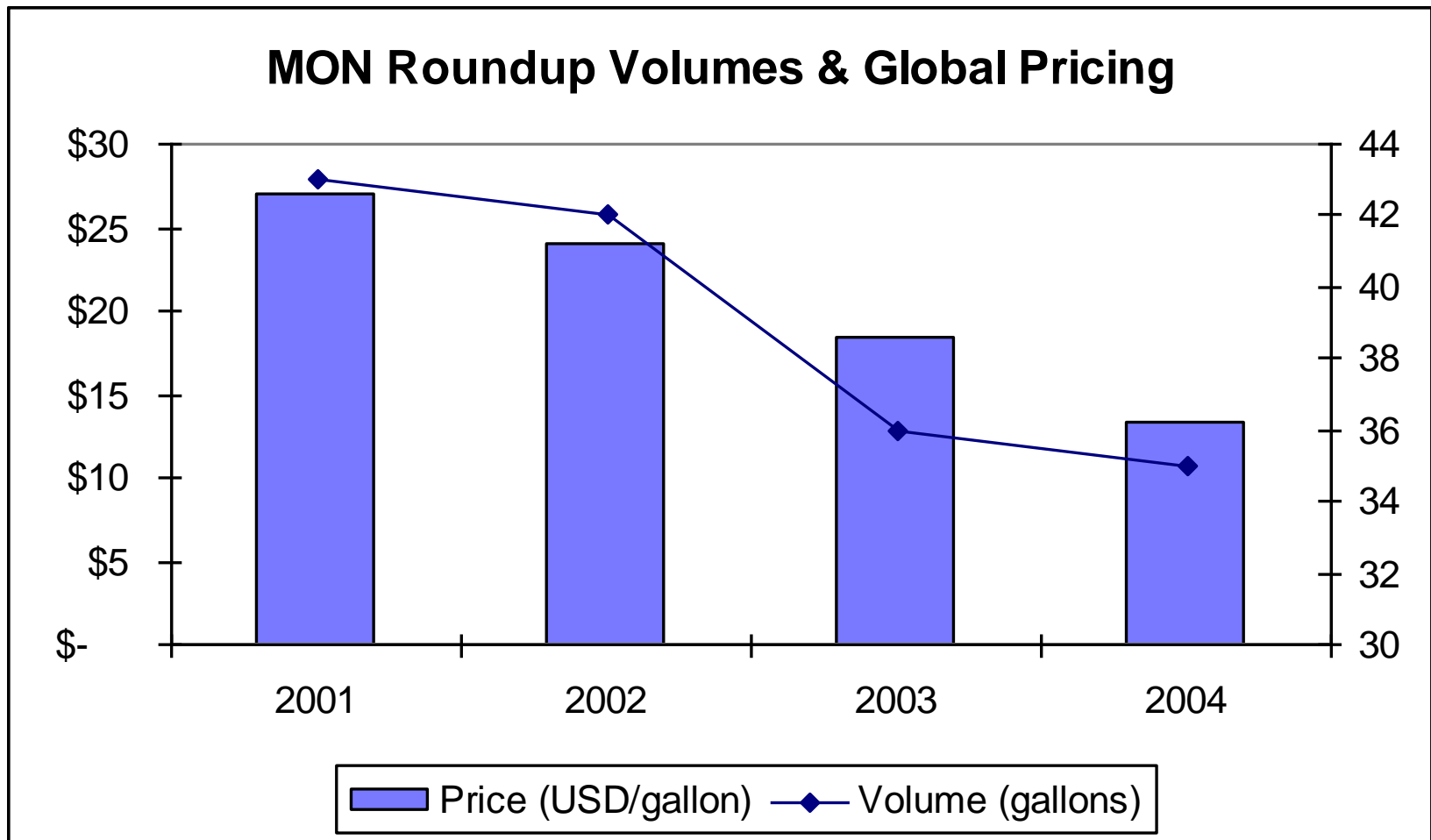


> 1 / 3 MON revs from Roundup

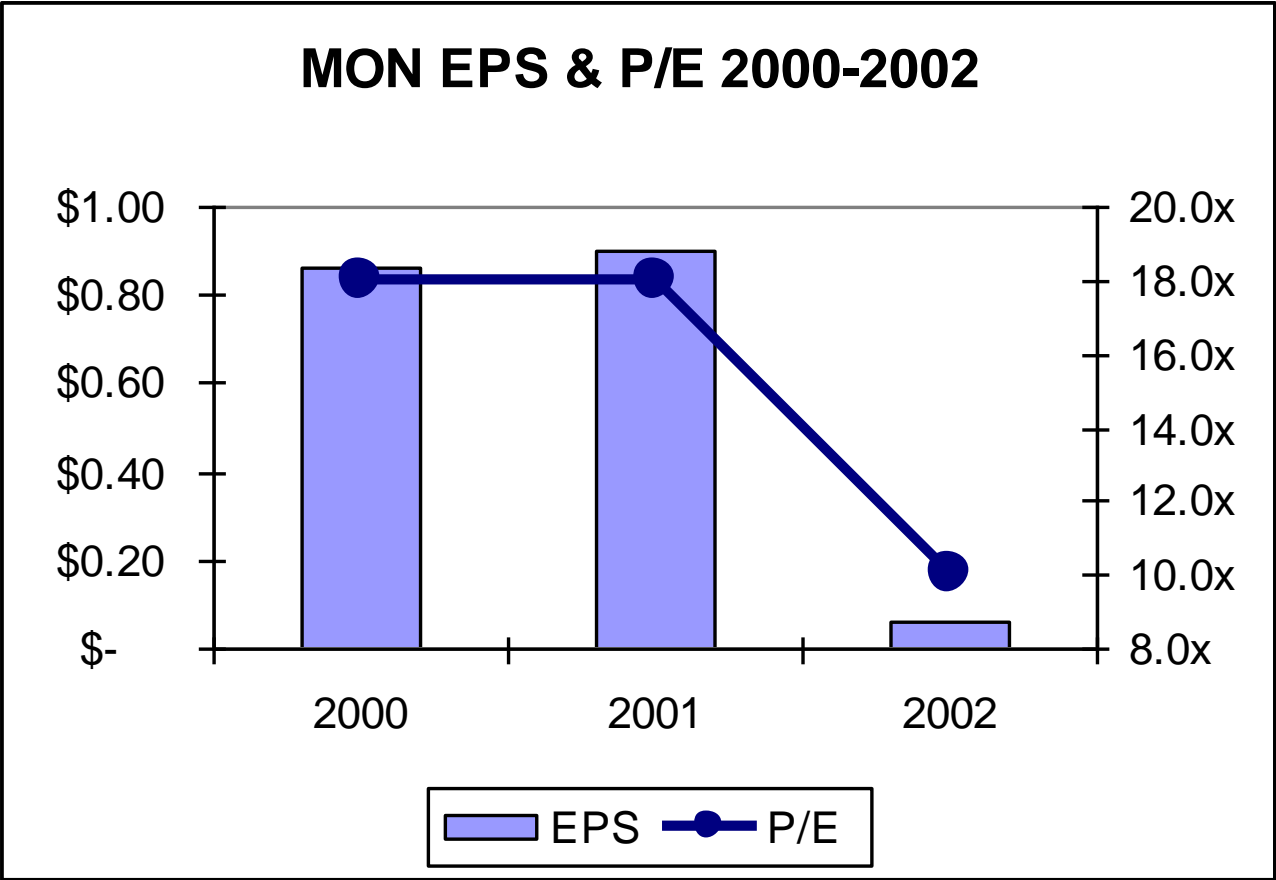
MON Revenues 2004



Roundup Pricing Declining MON losing market share



MON EPS & P/E declined...



...MON stock price crushed



New CEO Hugh Grant

- Hugh Grant joined MON in 2000, became CEO on 5/03
- Hugh saw what no one else was looking at...



Huge R&D Seed Pipeline

- Hugh saw MON's underappreciated genetic trait pipeline:

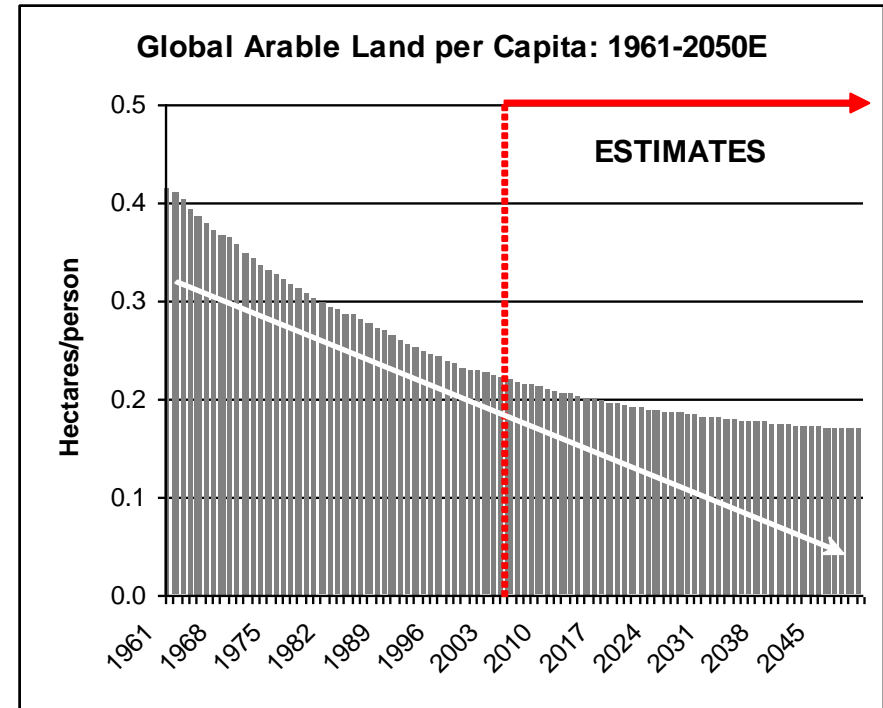
MON Pipeline Base Case Assumptions

Launch Year	Phase	Launch	Market	Total Acreage Potential	Fit within Existing Traits	Farmer Advantage	Value
2008	4	Mavera	US	10M	Stack Mavera with existing Triple Stack	Replaces portion of lysine in feed; enhances ethanol yield	\$10-\$30/acre
2009	4	YieldGard VT Pro Corn Borer	US	60M	Trade up YG Corn Borer to VT PRO	Broadens YG CB Insect control	\$10-\$30/acre
	4	Roundup Ready 2 Yield Soybeans	US	50M	Trade up RoundupReady to RR2Y	7-11% Yield Increase over RoundupReady	\$10-\$30/acre
2010	3	Omega 3 Soybeans	US	1M	Stack with existing traits	Superior nutritional and taste profile similar to fish oil	>\$30/acre
		SmartStax	US	50M	Trade up Triple Stack to SmartStax	Better yield and insect protection, value created	
2011	3	High Oil Soybeans	US	15M	Stack with existing traits	Targeted to improve crushing yield	<\$10/ acre
2012	2	Vistive III Soybeans	US	10M	Stack with existing traits	Premium pricing to conventional soybean oil	\$10-\$30/acre
	2	RR2Y with Higher Yielding Canola	US Canada	2M 12M	Stack with Roundup Ready 2 Yield Stack with Roundup Ready 2 Yield	15-20% Increase in Yield 15-20% Increase in Yield	\$10-\$30/acre \$10-\$30/acre
	4	Roundup Ready 2 Yield Soybeans	Argentina Brazil	25M 45M	Trade up RoundupReady to RR2Y Trade up RoundupReady to RR2Y	7-11% Yield Increase over RoundupReady 7-11% Yield Increase over RoundupReady	\$10-\$30/acre \$10-\$30/acre
	2	Drought Tolerant Corn	US	60M	Stack with existing traits	Increases yield for farmers in drought-prone areas; provides "insurance" for farmers in cyclical drought areas; reduces water usage and generates irrigation savings	\$10-\$30/acre
	2	Higher Yielding Soybeans	US	50M	Stack with existing traits	6.8-11.5% yield increase demonstrated in trials	\$10-\$30/acre
2013	2	Dicamba - Tolerant Soybeans	US	25M	Stack with existing traits	Offers farmers more flexibility in weed control	\$10-\$30/acre
	2	Insect Protected Soybeans	Brazil Argentina	45M 25M	Stack with RR2Y Stack with RR2Y	Displaces insecticide use and enhances yield Displaces insecticide use and enhances yield	\$10-\$30/acre \$10-\$30/acre
2014							
2016	1	Drought Tolerant Cotton	US	10M	Stack with existing traits	Irrigation savings/yield benefit	\$10-\$30/acre
	1	Nitrogen Utilization Corn	US	55M	Stack with existing traits	Boost yield in low nitrogen environment; potential to lower nitrogen costs	\$10-\$30/acre



Why are genetic seeds valuable?

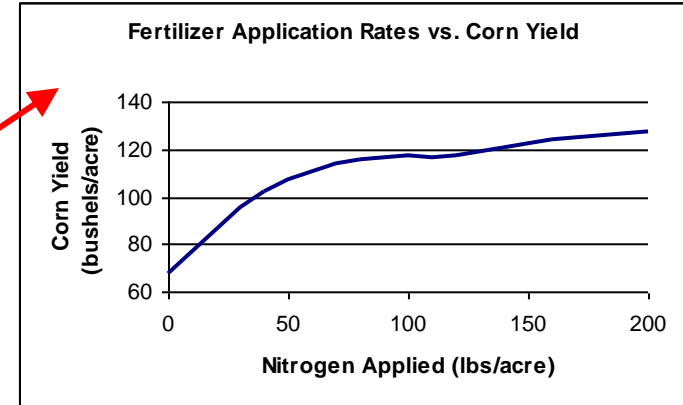
- Global arable land per capita is doing down
- Can't slow population growth or increase land "growth"
- Need to increase productivity per acre



How do you increase productivity?

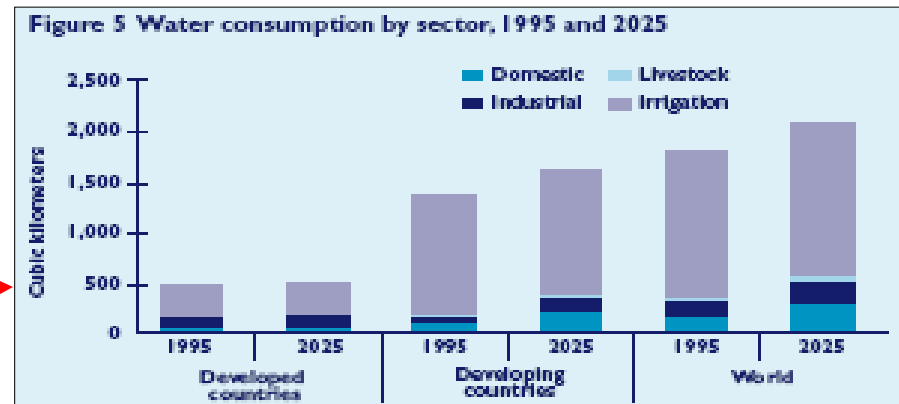
- Use more fertilizer?

- Up to a certain point, using more fertilizer doesn't lead to more corn



- Use more water?

- There are lots of competing needs for water.



MON's Solution

Genetic traits embedded inside seeds to increase productivity:

- Roundup Ready
- YieldGard Rootworm
- Drought Tolerant
- High Lysine
- Corn Borer



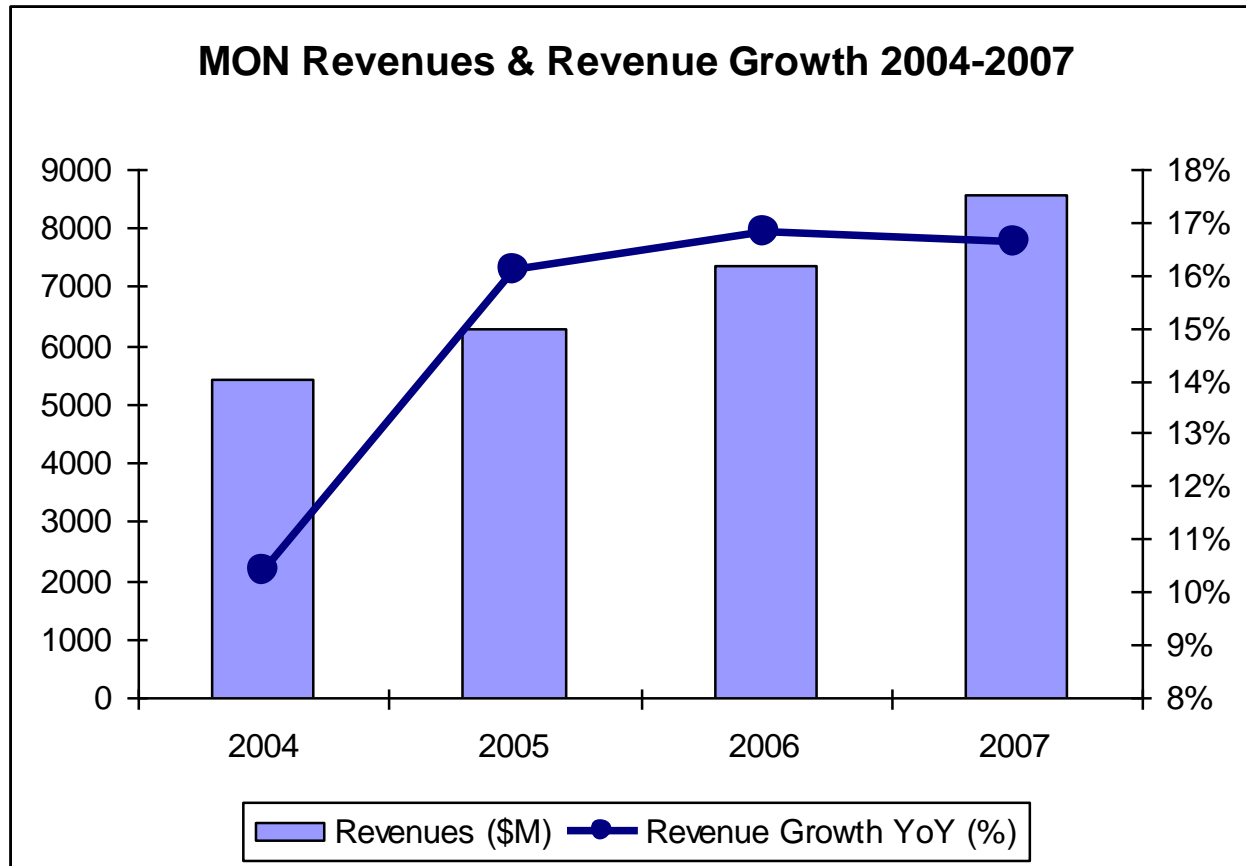
MON's Growth Strategy

- Continue to invest in R&D to stay ahead of competition & continually sell the best seed
- Clear value proposition for the farmer: their income goes up
- Increase penetration through new traits
- Pricing power: new traits have higher prices



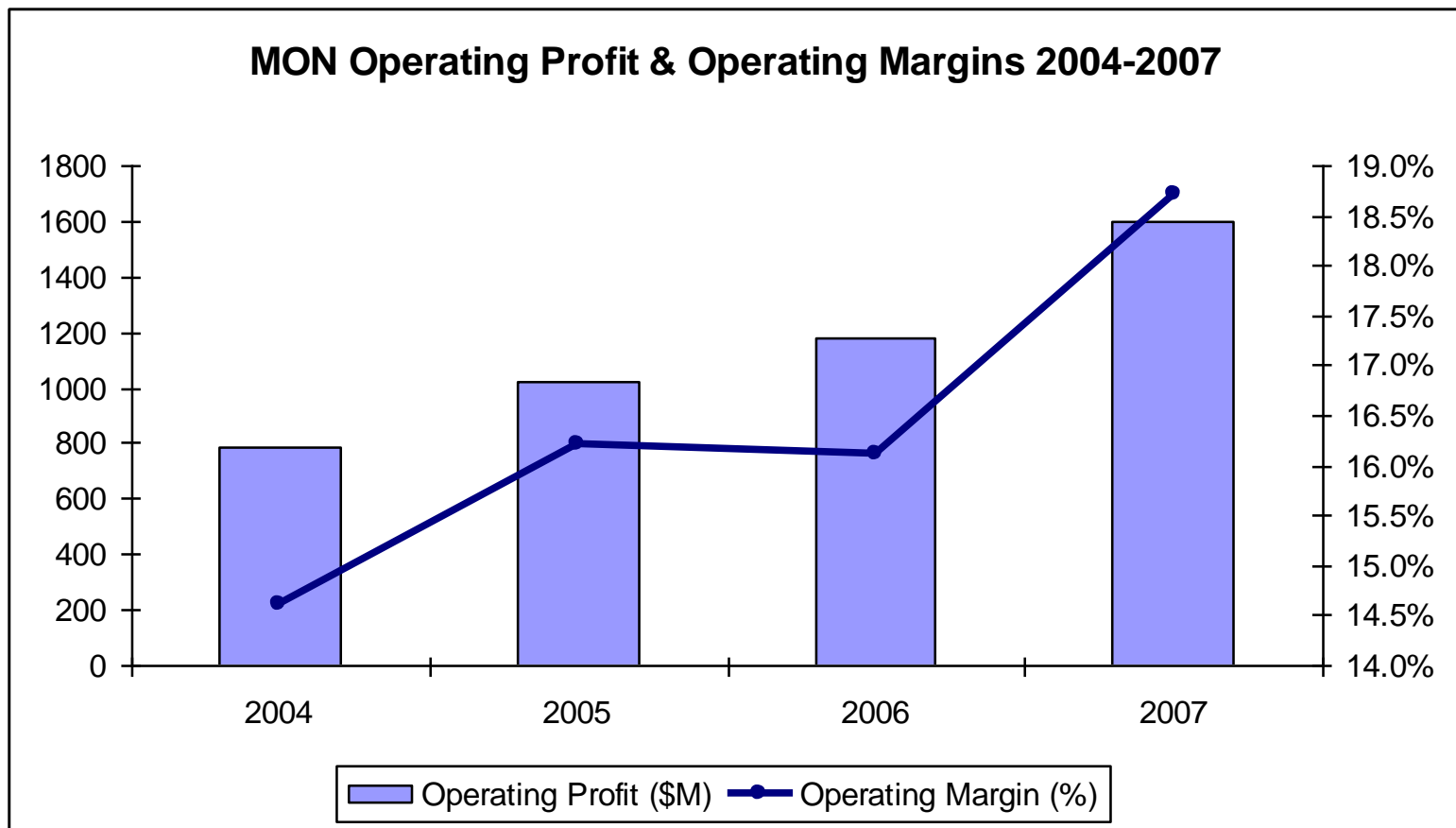
Fundamental Analysis

Excellent Revenue Growth



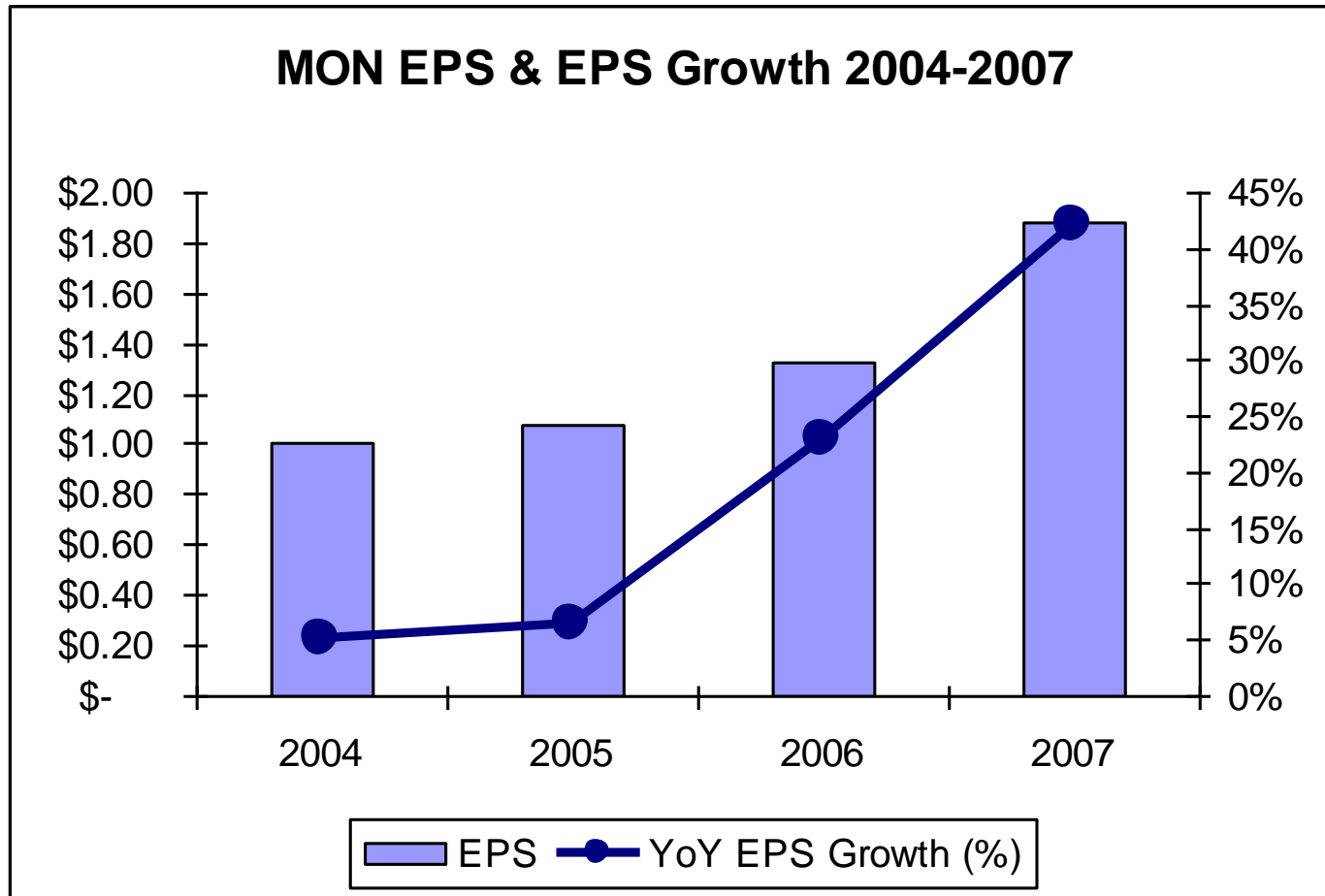
Fundamental Analysis

Excellent Operating Profit & Margin Growth



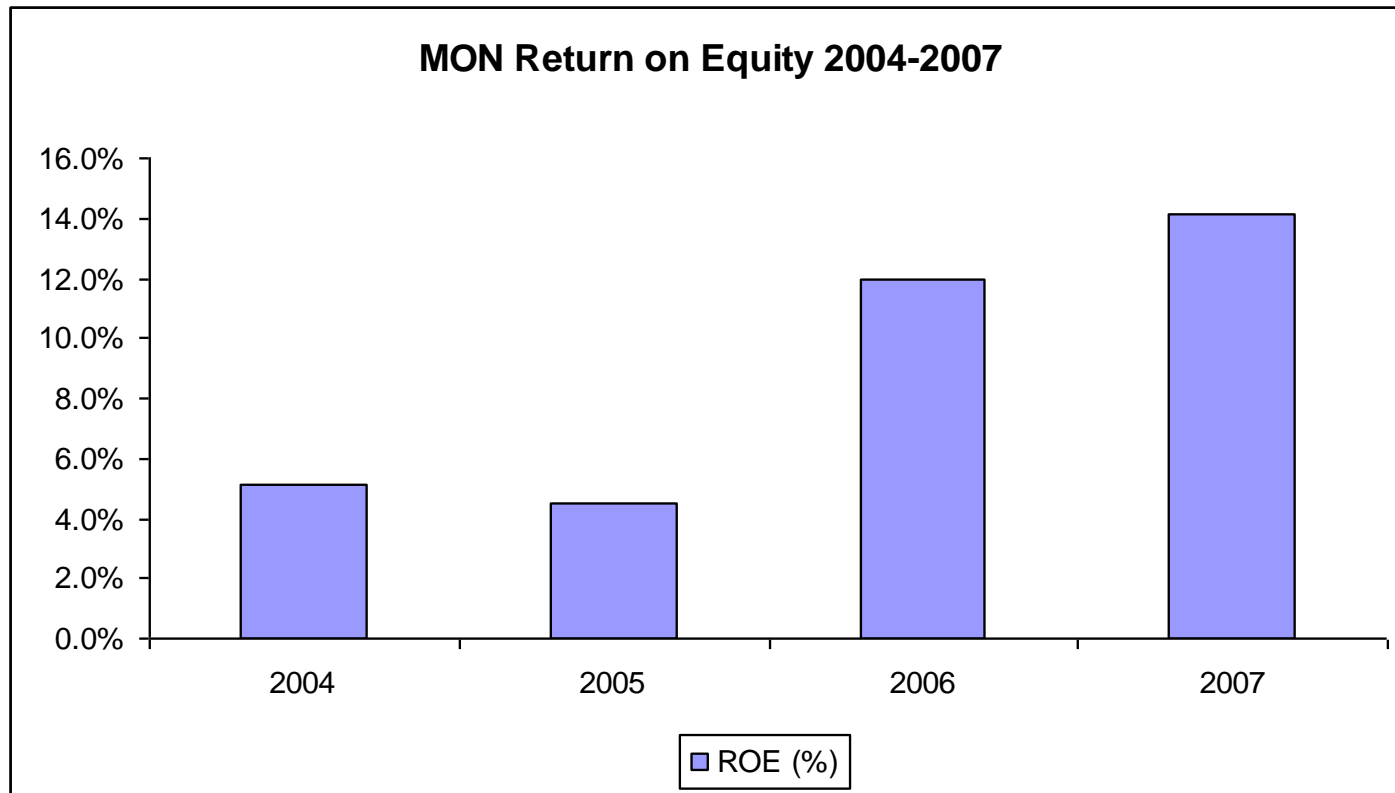
Fundamental Analysis

Excellent EPS Growth



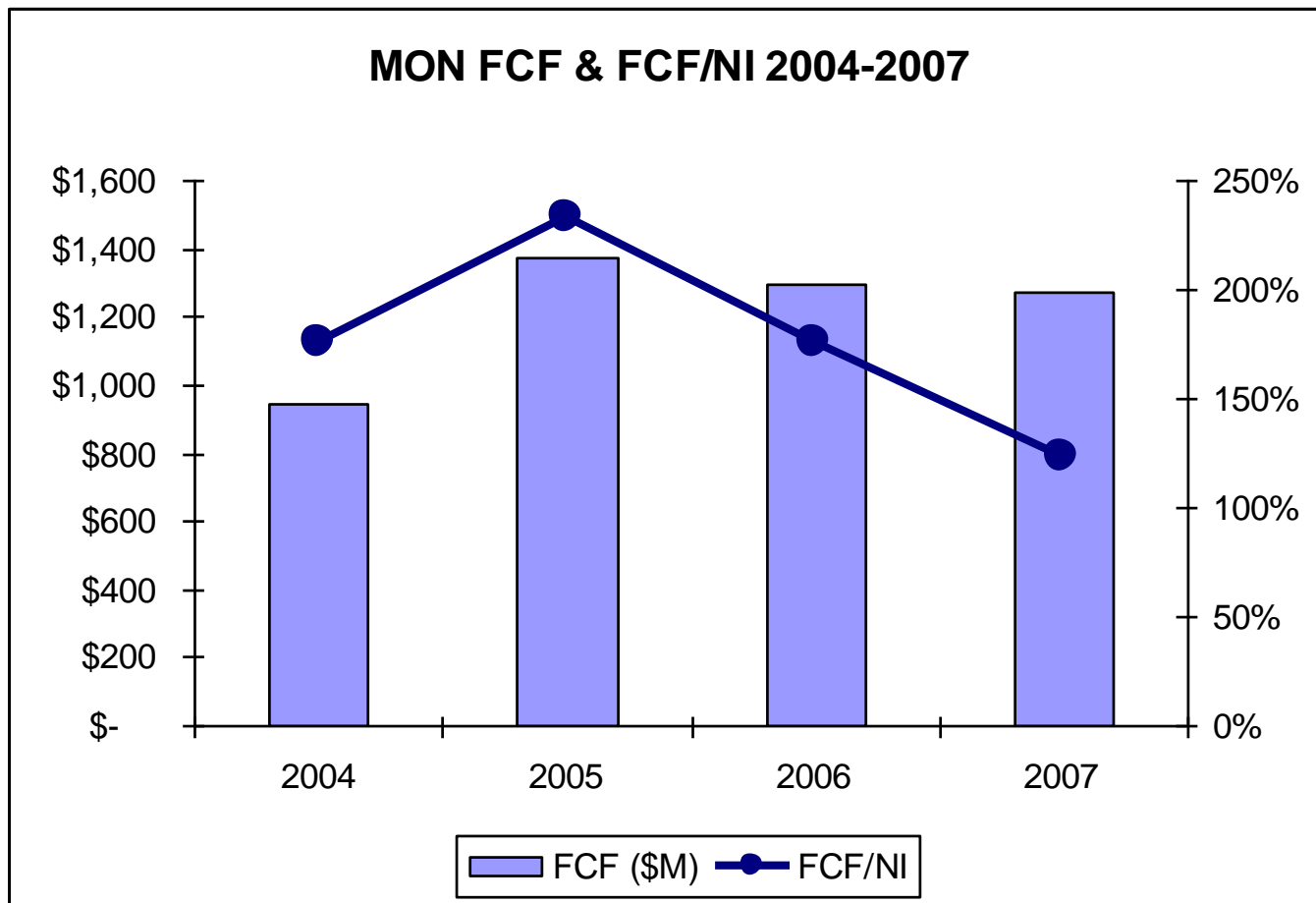
Fundamental Analysis

Return on Equity Continues to Improve



Fundamental Analysis

FCF generation remains very strong

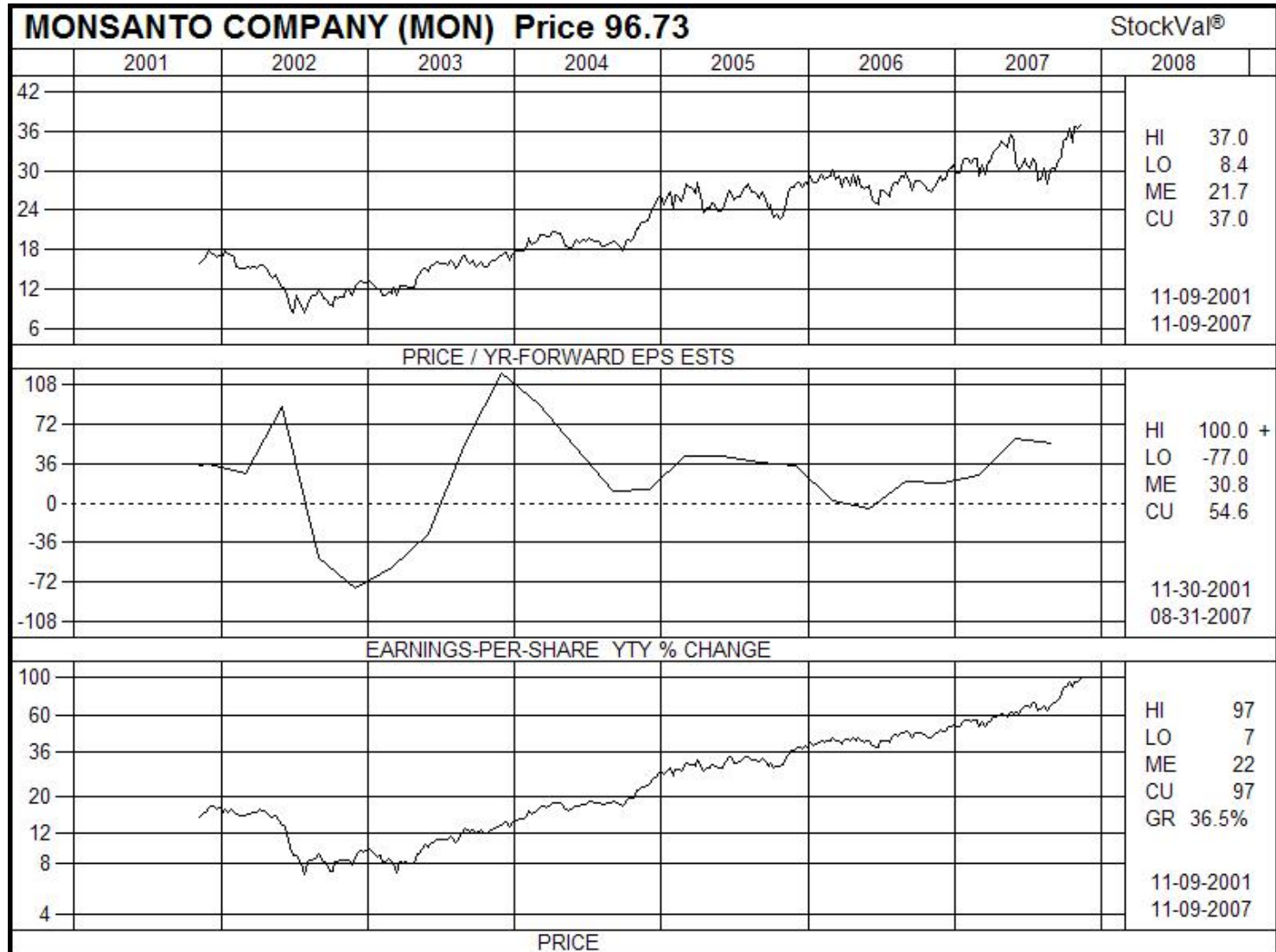


Technical Analysis (Valuation)

- MON current stock price = \$93
- Stock is up 77% year to date (YTD)
- Recently hit all time high at \$99.98 on 11/8/07
- MON is trading at 35x Street Analyst 2008 EPS estimates of \$2.60, and 30x 2009 EPS estimates of \$3.10.
- P/E multiple is at an all time high



Technical Analysis (Valuation)



Investment Opportunities

- **Clear revenue growth drivers going forward:**
 - Pricing, Volume (share gains), Mix (selling higher priced seeds)
 - New Products: drought tolerant, nitrogen corn will support future revenue growth
- **No significant major cost investments**
 - Ongoing R&D, but not a lot of capital expenditures
- **Revenues should grow faster than costs >> both profits & EPS will continue to grow**
- **Both FCF generation & ROE should continue to improve given few incremental costs & investments needed to grow**
- **Fantastic mgmt team with shareholder oriented focus (dividends, share repurchases)**



Investment Risks

- Consumer backlash to genetically modified foods
- Regulatory changes that prevent penetration
- Competitors catch up over time
- Pressure on farmer income
- Risk to P/E, this is a growth stock



Investment Recommendation

- We believe that MON will continue to hold a monopoly on the genetic seed market. MON will continue to grow earnings through both share gains, price increases and cost leverage.
- While valuation is pricey at 30x CY09 EPS, MON should continue to grow EPS >25–30% for the next few years
- We think the P/E will approach 35x for CY09 EPS implying a target price of \$110, or 20% upside over the next year



Seminar Recap

- An investment conclusion is based on many factors coming all together
 - Your assumptions, analysis, and beliefs
- Backed by sound technical and financial analysis
- Should be able to sum up your recommendation in an “elevator pitch”

