Session 2
Crafting your Thesis

Prepared by: Tan Ki Siong

Lesson Outline

1. **Investment Theses**
   1. General Principles
   2. Structure of Great Theses

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Creating a Storyline

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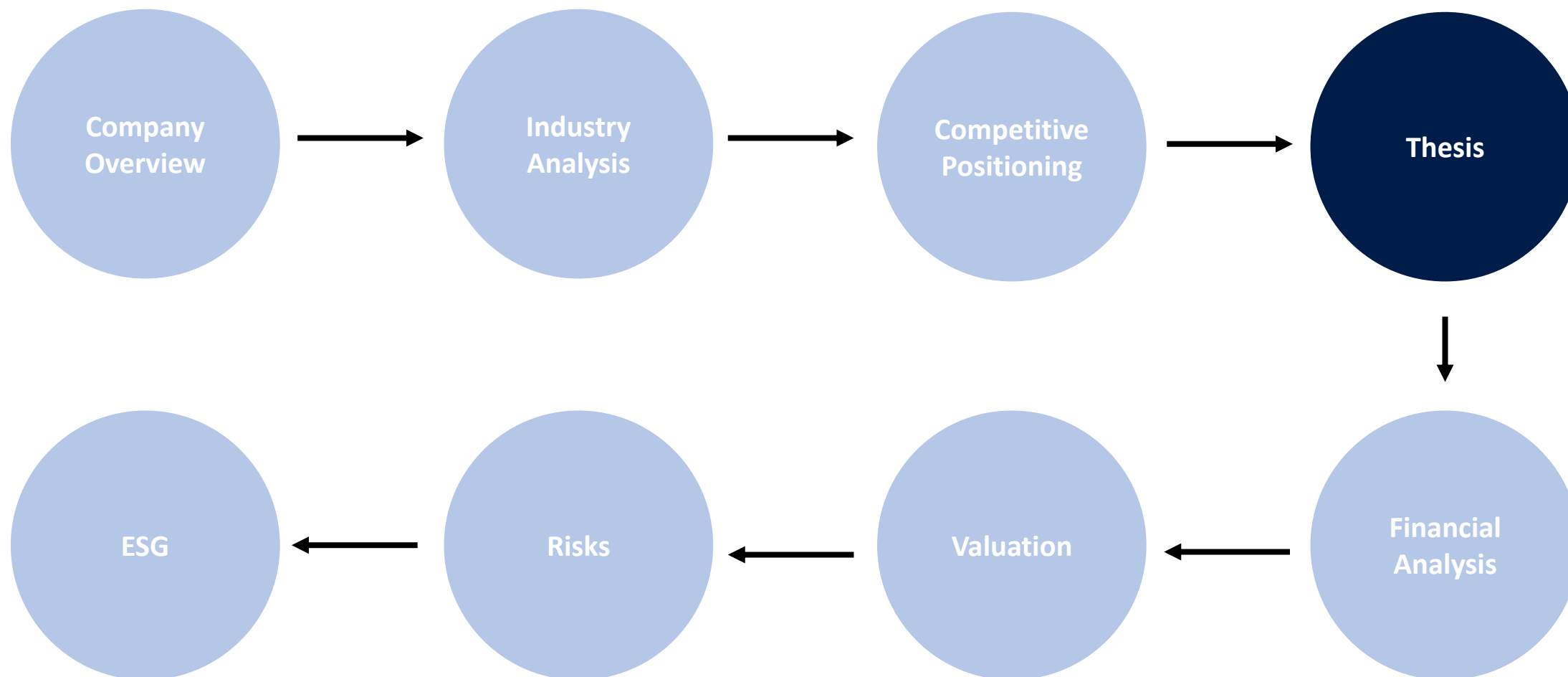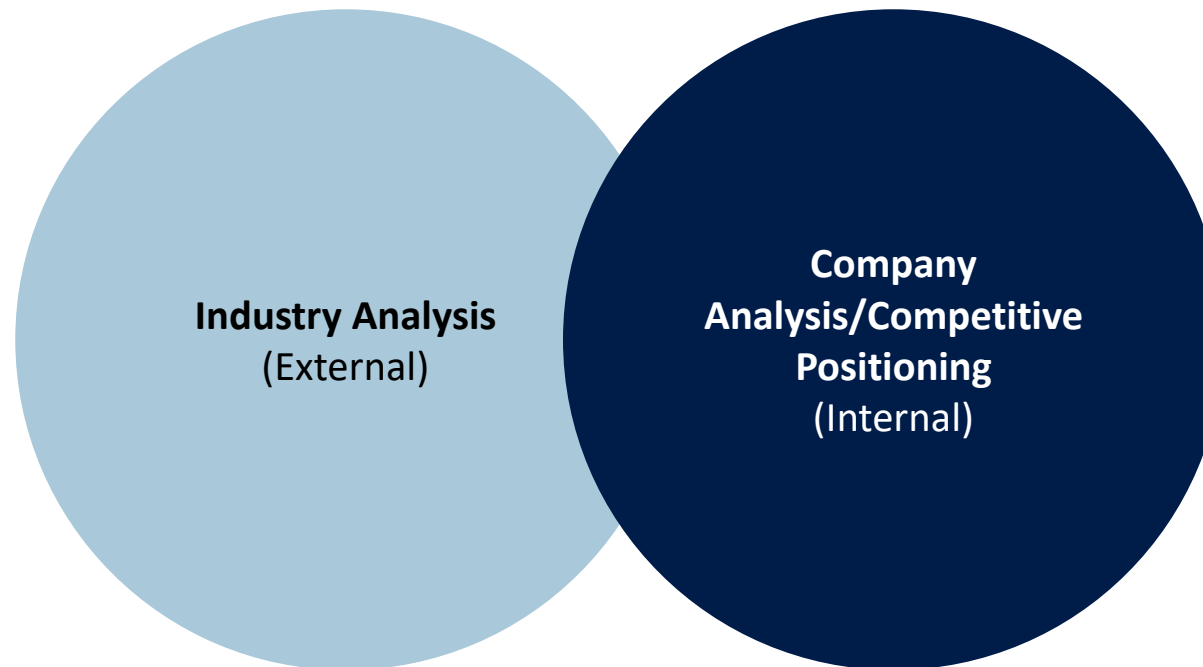
Investment Thesis: Introduction

An investment thesis is **a reasoned argument for a particular investment strategy, backed up by research and analysis**. In the financial world, an analyst may prepare a formal document outlining an investment thesis for presentation to potential investors or an investment committee.

(1) an observation of macroeconomic & industry trends and your company's positions within these trends,

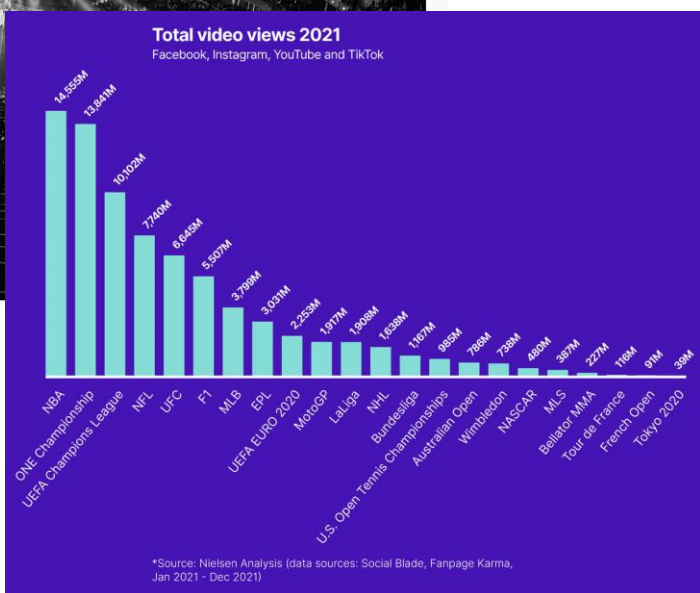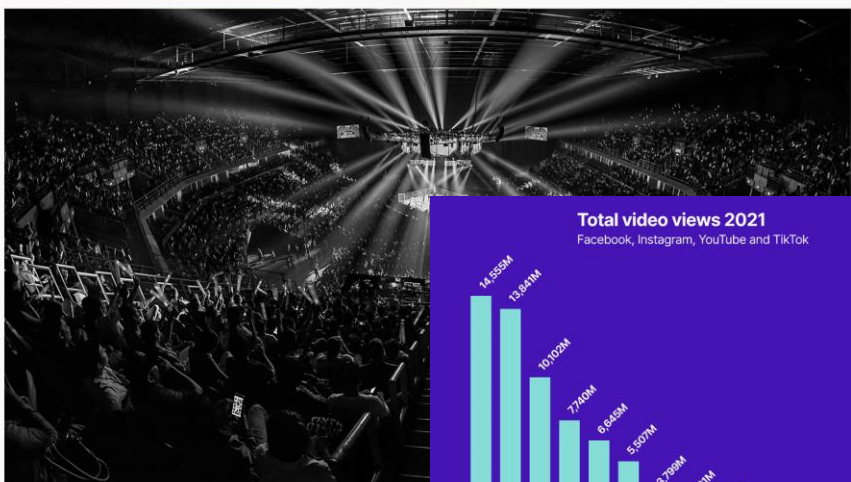**(2) a review of your company's ability to support growth (or sustain current performance)**

(3) a summary where you give your conviction on the company.

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Point 1: Investment Theses should include external-internal positioning

Industry Analysis (External)

Company Analysis/Competitive Positioning (Internal)

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How ONE Championship Raised US$250 Million

Total video views 2021
Facebook, Instagram, YouTube and TikTok

*Source: Nielsen Analysis (data sources: Social Blade, Fanpage Karma, Jan 2021 - Dec 2021)
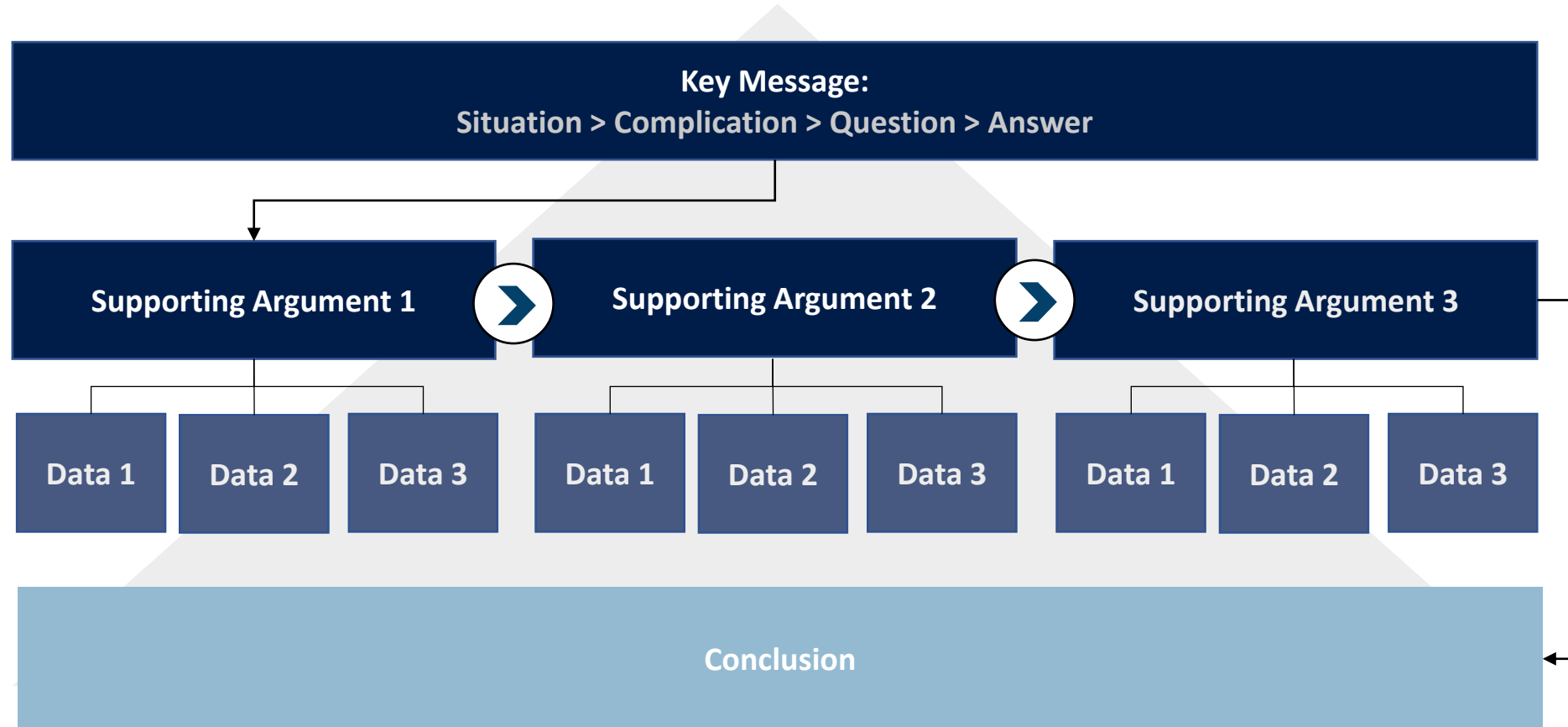
8) Good Business Model And Large Economic Moat: Luckily, I spent almost a decade on Wall Street as a global hedge fund manager, buying, selling, and shorting companies all over the world. As a result, I knew what a good business model was, and what a bad business model was even before I started ONE Championship. At scale, global sports media properties rank among the best business models on the planet. They are super asset-light, IP-heavy businesses with huge scaleability, huge margins, huge returns on invested capital, and huge cashflows. The biggest global sports media properties also have massive economic moats; they have huge, sustainable competitive advantages because they are platform businesses. For example, even if someone gave me US$1 billion to create another basketball league to try to dethrone NBA, it would be virtually impossible. NBA is too entrenched in society, business, and culture in the US (and many other countries); it has a huge complex ecosystem where it is the center of the universe. The same goes for ONE Championship.

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Point 3: A summary where you give your conviction on the company.

Everything that matters is in the introduction

Answer is supported by logic combination of MECE arguments

Each argument is backed by supporting data; serially/separately supporting reasons

Key Message:
Situation > Complication > Question > Answer

Supporting Argument 1	Supporting Argument 2	Supporting Argument 3
Data 1	Data 2	Data 3	Data 1	Data 2	Data 3	Data 1	Data 2	Data 3

Conclusion

Source: BCG, Minto Principle

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Theses: Some example pre-mixes

Hedge Fund / Sell-side Mix

Building a Successful Thesis
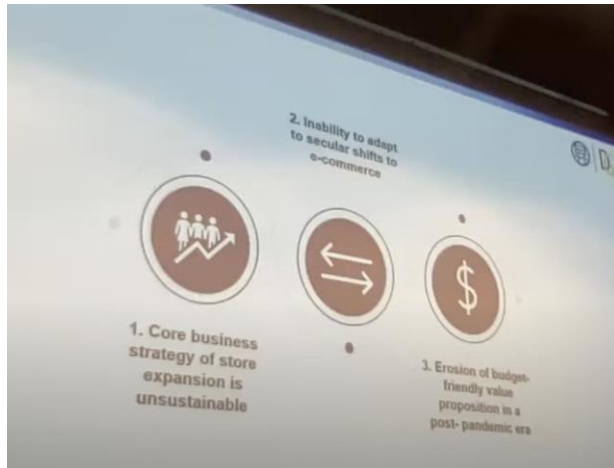
Micro	Macro	Setup

The current setup, or "state of play," is often the *most overlooked part of a stock pitch.*

1. **How has the stock performed heading into the catalyst**
2. **How crowded is the trade?**
3. **Is the general public bullish or bearish?**

Theses: Some example pre-mixes

Beyond just the past-present-future format, what are things that winners pick out? **What sets them apart?**

NUS-SGX 2021 Champion

1. Sales
2. R&D
3. Macro positioning

Global CFA Champion 2021

1. Sales
2. R&D
3. Macro positioning

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Formulate Investment Thesis (15 minutes) in 3 main key pointers. Present!

Catalysts

What is Catalyst?

"In the financial media, a catalyst is anything that precipitates a drastic change in a stock's current trend. It can be negative news that rattles investors and breaks upward momentum or good news that pushes the stock out of the doldrums." (Investopedia)

Examples

- Earnings Report
- Regulatory Changes
- Introduction of new product
- Changes in business model/ Divestiture
- Lawsuit
- Others

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Test Your Knowledge

1. McDonald's is poised to benefit from the rise in popularity of fast-food.
OR
McDonald's is poised to benefit from its new McFish burger.

2. With the FIFA World Cup being the largest sporting event, McDonald's is well positioned to take advantage of its sponsorship.
OR
McDonald's is well positioned to benefit from its sponsorship of the FIFA World Cup.

3. McDonald's will benefit from their new McVegan burger as it will open new markets.
OR
McDonald's will increase its TAM by US$10bn from the launch of the new McVegan burger.

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What makes a "*good*" target company:

1. Easily understood business model.
2. Maximum of 2 core business verticals (i.e., pure-play business)
3. Clear revenue and cost drivers.
4. Business that is fundamentals driven; not market hype driven "*meme stocks*" e.g., GME, TSLA
5. Clear long / short positioning
6. Sectors to avoid:
   - Banks, oil & gas (different valuation standards)
   - Biotech pharma (volatile – highly dependent on successful rollout of drug)
   - Startups (volatile – hard to gauge success)
7. Small/midcap companies
   - Avoid ultra-large companies / market leaders – hard to find comparables

To-do for next week:

1. Shortlist Target Company(ies)
2. Prelim Research & Viability Assessment

- Understand the business model
- Key revenue and cost drivers
- Industry analysis & trends
- Key competitors and competitive positioning
- Outline of thesis & risks
- Indicative valuation – quick comps
- Street (analyst) consensus – long / short
- **Your view & analysis!!!**

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Thank You
&
See You Next Week!

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