

Investment idea validation by designing and analysing unique, non-typical KPIs

Client

A US-based, technology focused, long only hedge fund with > US\$1bn in AuM.

Opportunity

The client had invested in an e-commerce company a year back and had a profitable position. Recently, the stock price had started to show signs of weakness, especially after a barely in-line earnings report for the latest quarter. The client wanted to conduct a deep-dive fundamental analysis on the stock to reassess the attractiveness of the investment.

30+

Quarters of financial data analysed across multiple companies

>50%

Absolute return over the next 12 months on recommended investment ideas

100%

Reusability of the methodology for similar stocks across various geographies

Value Delivered

1

Designed a unique methodology with KPIs not generally used by analysts covering the stock.

2

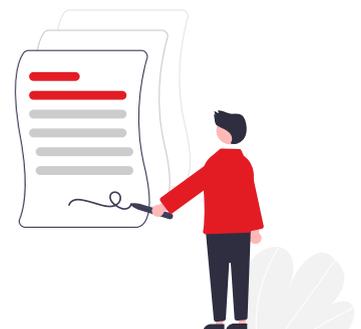
Delivered an actionable investment idea with the stock generating over 50% capital gains in the ensuing 12 months, validating our analysis.

3

Transfer of the intellectual property enabled the client to use the methodology several times on other similar companies in various geographies.

Solution

- Analysed the underlying business model of the company and studied the street view from available research to conclude that the street was focusing purely on standard KPIs of financial performance (e.g. sales/GMV, gross margin etc.) instead of assessing the underlying economic value of the business model.
- Conducted an in-depth academic, financial as well as statistical research on KPIs related to economic value in three key areas: customer lifecycle economics, effectiveness of capital spend and per order economics.
- Modified the standard metrics to reflect nature of e-commerce industry and proposed an approach ascertain the efficacy of the company's customer acquisition process via three non-typical KPIs: i) customer lifetime value (LTV), ii) return on marketing investment (ROMI) and iii) marginal profitability on incremental orders per unit.
- Analysed overall profitability and effectiveness of the incremental capital employed and the future allocation of capital using return on incremental invested capital (ROIIC) and cash return on cash invested (CROCI).
- Recommended the client to make additional investments in the stock as it was still attractive vis-à-vis its peers on a fundamental level.



To know more about our Investment Research Services write to us on investmentresearch@sganalytics.com or contact us on **+1 315 503 4760**