



ValuAnalysis research picks potential post-crisis winners

Crisis lays bare three essential factors in stock-picking

- *'Resilience, recovery potential and cash burn' at heart of research revealing oversold equities;*
- *Texas Instruments, Visa and Alphabet among positive outliers in list of 100 leading companies*

London, 28th April 2020 – Resilience, recovery potential and cash burn have been revealed as being essential in navigating the current crisis in equity markets in order to uncover stocks that have been oversold, according to new research from ValuAnalysis. Through this framework the investment team demonstrates how substantial shareholder value could be created over the long-term.

The three components are:

- **Resilience** – the estimated loss of revenues in Q2 2020, which ValuAnalysis anticipates will be the trough of the crisis;
- **Recovery potential** – a measurement over the 12-month period from Q2 2020 expressed as a percentage of revenues retained, and;
- **Cash burn** – the difference between last year's cash generation and a standardised estimate of the free cash flow for 2020.

Through this lens, the investment team analyses the 100 companies on ValuAnalysis' watch list, including those that are leaders in their respective sectors, which have already been identified as having a particularly strong economic rent (the ratio of free cash flow to economic assets) and a sustainable competitive advantage. From this, 40 stocks, many of which are in the healthcare, technology, semiconductor and payments sectors, have been identified as having been oversold by the market, which ValuAnalysis believes are well placed to survive the medium and long term.

These include **Texas Instruments**, an American semiconductor manufacturer; **Visa**, the global payments giant, and; **Alphabet**, the parent company to Google. These names have, like the market, fallen, but their respective cash burn is between only 5% and 7% of this loss of value, compared against a cash burn of 21% of the loss of value for the average stock. Other stocks that fare well in the analysis include: **Qorvo**, another American semiconductor manufacturer; **IQVIA**, a healthcare technology company; **Sonova**, a Swiss hearing care company, and; **NXP**, a Dutch semiconductor manufacturer.

The ValuAnalysis investment team, who between them have extensive equity research and portfolio management experience from Deutsche Bank, Vontobel and UBP believe that in a crisis such as this, all pre-existing valuation methods must be re-set. By doing so quickly and reviewing businesses against this new framework of **resilience, recovery potential** and **cash burn**, the team has identified where the stock market's inefficiencies have led to overselling and potential investment opportunities that can outlast a bear market.

The full Valulnsight paper can be found here: [Valulnsight - 2020-2021; or the Survival of the Fittest](#)

Pascal Costantini, Managing Partner, Head of Research and Co-Portfolio Manager said: *"In the current market environment, no conventional valuation model is able to frame stocks accurately. This is about survival, and at ValuAnalysis, we designed a crisis-specific model to focus on the essential: the resilience, recovery potential and cash burn of a company. The framework we have developed has enabled us to react quickly to the key datapoints of 2020 – Q2 top-line resilience – and identify a number of prominent outliers, including Texas Instruments, Visa, Alphabet whose valuations have all fallen like the market but whose cash burn is only small percentage of this loss of value, compared to a cash burn of 21% of the loss of value for the average stock."*



ValuAnalysis has developed a cash flow model where accounting data is transformed into relevant economic numbers by breaking down a company's market value into its three components: Replacement Value, Franchise Value and Growth Value. This process enables the investment managers to identify companies whose competitive advantage is under-appreciated by the market.

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About ValuAnalysis

Authorised and regulated by the Financial Conduct Authority, ValuAnalysis is an independent investment boutique focusing on equities and specialising in valuation. The firm has developed a proprietary research model which identifies companies whose competitive advantage is under-appreciated by market participants.

The Partners have over twenty-five years of experience using, adapting and re-engineering the 'economic value-added' models used by industry consultants into stock market valuation models. These models replicate the thought process of an entrepreneur taking real investment decisions: what capital to commit where, at which cost, and for what return. Applied to the stock market, these tools provide invaluable insight about a firm's sustainable competitive advantage and the level of its economic rent.

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