



WALL STREET OASIS WEBINAR

*HEDGE FUND INTERVIEW PITCH + WALKING THROUGH INVESTMENT
SELECTION AND RESEARCH*



WHAT WE WILL COVER TODAY

- CONGRATULATIONS, YOU SCORED AN INTERVIEW AT A HF. HOW DO YOU PREPARE?
- WHAT MAKES A GOOD PITCH
- STOCK PITCH EXAMPLE
- QUESTION & ANSWERS FROM THE AUDIENCE



STEP 1

- GET INFO ON THE HF, ITS INVESTMENT PERSONNEL, BACKGROUND AND ITS STRATEGY
- WHERE - HF WEBSITE, 13G AND 13D SEC FILINGS, PUBLIC INTERVIEWS AND PRESENTATIONS, INVESTOR LETTERS
- IF U HAVE A CONNECTION AT PRIME BROKAGE OR EX-EMPLOYEES, CALL THEM UP



STEP 2

- FOCUS ON THEIR INVESTMENT PHILOSOPHY/STYLE.
- IS IT AN ACTIVIST FUND, AN EVENT DRIVEN FUND, EQUITY FOCUSED FUND OR ACROSS CAPITAL STRUCTURE FUND. VALUE, LONG ORIENTED, MID TO SMALL CAP, ETC.



STEP 3

- IMAGINE YOU ARE ALREADY WORKING FOR THEM AND COME UP WITH ONE LONG AND ONE SHORT IDEAS THAT MIGHT MAKE IT TO THE PORTFOLIO.
- BE ABLE TO EXPLAIN WHY YOU SELECTED THESE STOCKS, AND WHAT THE PROCESS WAS.
- 80% OF THE INTERVIEW AT A HEDGE FUND WOULD BE FOCUSED ON YOUR STOCK PITCH



STEP 4

WORKING ON YOUR STOCK IDEA -

- COLLECT INFO - WEBSITE, 10K, AND 10Q, THE LAST 4 CONF CALL TRANSCRIPTS
- AN BROKER INITIATION REPORT IF YOU CAN GET ONE
- DO A BASIC MODEL
- YOUR INVESTMENT THESIS
- KEY DRIVERS
- CATALYSTS
- VALUATION
- RISKS



WHAT MAKES A GOOD PITCH

- THOUGHTFUL, ORIGINAL AND FOCUSED ON 2-3 DRIVERS
- QUANTITATIVE - KNOW WHAT THEY ARE GOING TO MAKE IN EPS THIS YEAR, WHAT THEIR DEBT LEVEL, CASH FLOW GENERATION, SHARE BUYBACK
- COHERENT WITH THEIR INVESTMENT PHILOSOPHY
- BEING DIFFERENT FROM CONSENSUS
- SHORT IDEAS FOCUSED ON BALANCE SHEET AND CFS- EX NUS (NU SKIN) HAD THEIR DSIS (DAYS SALES OF INVENTORY) JUMPED IN Q1'14. COMPANY MISSED Q2 AND GUIDED DOWN THE REST OF THE YEAR. GILD WILL GENERATE CASH THAT WILL BE 25% OF ITS MARKET CAP.



WHAT MAKES A GOOD PITCH (CON.)

- SCENARIO ANALYSIS - WHAT IS THE STK WORTH IF X-HAPPENS. WHAT IS MY POTENTIAL UPSIDE/DOWNSIDE UNDER THIS SCENARIO
- WHAT MAKES A GOOD SHORT - (1) A PRICE DISLOCATION FROM REALITY, (2) IMPROVING OR DETERIORATING FUNDAMENTALS. HOW DO U GET TO THE CONCLUSION THAT THE FUNDAMENTALS ARE DETERIORATING. IT CAN BE EITHER CONCEPTUAL - APPLE WATCHES WILL TAKE MARKET SHARE AND SALES FROM WATCHES OF SIMILAR PRICE POINTS. OR U CAN DERIVE THE CONCLUSION THROUGH NUMBER CRUNCHING.



STOCK PITCH EXAMPLE

HERE IS AN EXAMPLE OF DETERIORATING FUNDAMENTALS:

- SHORT BIOGEN (BIIB) AT \$400
- CATALYST Q2 RESULTS



STOCK PITCH EXAMPLE (CON.)

- BIOGEN IS A COMMERCIAL STAGE \$70BN BIOTECH COMPANY WITH MOST OF ITS REVENUE COMING FROM THREE NEUROLOGY DRUGS (TO TREAT MULTIPLE SCLEROSIS) - AVONEX, TYSABRI AND TECFIDERA. TECFIDERA IS THE SINGLE MOST IMPORTANT GROWTH DRIVER AT BIIB.



STOCK PITCH EXAMPLE (CON.)

- WE START FROM LOOKING AND ANALYZING Q1 DATA. Q1 SALES WERE \$825M, MISSING ESTIMATES BY \$100 SITING PRICE PRESSURE IN EU. AND BEING DOWN SEQUENTIALLY BY 10% FROM Q4. NOW WE START LOOKING AT THE EXPECTATIONS FOR Q2. TECFIDERA IS EXPECTED TO GROW BY +13% Q2/Q1. SO THAT'S A RED FLAG. HOW DO WE JUMP FROM BEING DOWN 10% SEQUENTIALLY WITH WHAT SEEMS TO BE A PERMANT PROBLEM - LOWER PRICE POINTS IN EU, TO +13%. WE INVESTIGATE FURTHER. IMS PUBLISHES WEEKLY SCRIPT DATA FOR MOST OF BIOTECH DRUGS. WHILE NOT EASY TO GET, CAN LOOK THROUGH TWITTER AND FINANCIAL BLOG OF OTHER INVESTORS QUOTING SELL SIDE ANALYSTS AND NUMBERS. IMS WAS SHOWING MID-SINGLE DIGIT SEQUENTIAL GROWTH. WELL, THAT'S SHORT OF +13% EXPECTED.



STOCK PITCH EXAMPLE (CON.)

| | Q2:15 Consensus |
|---|--------------------|
| Products | |
| <u>Tecfidera</u> US | \$727 |
| <u>Tecfidera</u> Ex-US | \$210 |
| Total <u>Tecfidera</u> | \$937 |
| Total <u>Avonex</u> US (Incl <u>Plegridy</u>) | \$515 |
| <u>Avonex</u> Ex-US (Incl <u>Plegridy</u>) | \$247 |
| Total <u>Avonex</u> | \$762 |
| <u>Tysabri</u> - US | \$281 |
| <u>Tyabri</u> - Ex US | \$223 |
| <u>Tysabri</u> WW Sales | \$504 |
| <u>Alprolix</u> - WW | \$48 |
| <u>Eloctate</u> - WW | \$65 |
| Total Hemophilia | \$113 |
| <u>Rituxan</u> - Recognized by BIIB | \$315 |
| Total Revenues (First Call) | \$2,705 |

| Operating Expenses | |
|-------------------------|----------------|
| COGS | \$334 |
| Gross Margin | 88% |
| R&D | \$521 |
| % Total Rev | 19% |
| SG&A | \$571 |
| % Total Rev | 21.1% |
| Operating Income | \$1,288 |
| Pre-Tax Profit | \$1,284 |
| Taxes | \$320 |
| Non-GAAP Tax Rate | 24.9% |
| Non-GAAP Income | \$965 |
| Non-GAAP EPS | \$4.07 |
| Share count | 235 |



STOCK PITCH EXAMPLE (CON.)

- RESULT - Q2 MISSED TECFIDERA SALES BY \$50M, I.E. 6% SHORT FALL. AND CUT 2015 EPS GUIDANCE FROM \$16.5-17.0 TO \$15.5-15.95 (7% MIDPOINT) AND SALES GUIDANCE FROM 14-16% GROWTH TO 6%-8%. STOCK IS DOWN BY 25% ON THE DAY AND 30% BY NOW.

