STIG BRODERSEN'S

STOCK PITCH JOB INTERVIEW

TABLE OF CONTENTS

WHAT IS A STOCK PITCH JOB INTERVIEW?

It might seem superfluous to start off the guide by simply defining what a stock pitch job interview is, but there is a very good reason for it: You might soon be undergoing what you think is a "regular interview" in the asset management industry, but it's actually a "stock pitch job interview." Okay, please allow me to elaborate.

Some financial companies are really good at explaining what is going to happen at each round of their interviews while others are not. For the latter, not to be rude, but it's to check how well you can think on your feet and how passionate you are about the job.

Forming the competence to pick the right stocks is not something that can be acquired right away. It takes many years to perfect, and even so, the best investors in the world will consistently tell you how much they are continuously learning. Your employer knows that, too. While you can expect some form of training, you really have to do your homework prior to the interview. Your future employer is not just looking for someone who can pick stocks. Your future employer is also looking for someone who is so passionate about stock picking that he's always just waiting to get feedback on his picks from likeminded people.

But even if you know beforehand that you'll be asked to pitch stocks, or in the event that you don't, what can you expect? At some point during the interview, you'll be asked to pitch a stock directly or indirectly through questions like "Which stocks are you personally looking at?" or "Which stock is your latest buy?"

A stock pitch typically lasts 15-20 minutes per stock and you will usually be asked to pitch two. Every interviewer has his own process, but you'll often be expected to carry the conversation. In other words, the interviewer might be asking you about key ratios of the stock, but a good pitcher will address issues like the business model and valuation without being asked. As the interviewee, you should be ready to answer a question like "How would your stock do through a recession?" You should also be able to transition into a variety of factors like business models, past history, or debt structure. If the transition is natural, you will be able to see that the interviewer is following your analysis. In that sense, a stock pitch should be seen more as a presentation of your analysis rather than an actual interview where there is a correct answer to each point on the interviewer's checklist.

WHICH TYPE OF STOCK SHOULD I PITCH?

In some cases, you'll be asked to pitch a specific stock. However, you'll usually be asked to pitch your own stock picks. With so many stocks out there, pitching a specific stock typically means that you are an expert on that stock. This is immensely important because the interviewers expect that you've had an abundant amount of time to optimally prepare yourself for the pitch.

I recommend that you are well prepared with at least 3 stocks. Most interviewers will only ask you to pitch 2 stocks, but it varies. In some places, especially in more traditional investment banking environments, you might be asked to do several rounds of interviews on the same day and pitch a new stock at each round. However, if you know that you'll only have one interview that day, you'll most likely be asked to pitch two stocks during that interview.

As with all interviews, you should do your due diligence on your potential future employer. Always make sure to know the type of fund and investment strategy in detail. You might consider preparing a short pitch if it's a hedge fund. For macro funds, you should have been reading up on interest rates and inflation in major markets prior to the interview. If you are not completely sure what to expect, just prepare to pitch a long position in an individual stock. This is especially common for entry-level positions.

Depending on the strategy, I would also recommend that you consider both a growth pick and a value pick. Clearly, if you applied for a fund that solely concentrates on value picks, it might seem irrelevant to have a growth stock prepared – and many times, it is. However, many funds have various products to offer, and the interviewer might test your ability to pitch more than one approach in case you're ever transferred. Furthermore, knowing the nuts and bolts of various stock picks and strategies can make your pitch more convincing. For instance, if you have been pitched a value stock and argue that it only requires 3% in earnings to justify the current market price, you can then cross reference that to a growth stock that might require 20% growth in the next 10 years to justify the current price. By doing so, you can suddenly spark a much higher level of discussion on growth rates.

HOW DO I FIND THE BEST STOCKS TO PITCH?

First of all, I would choose a solid stock in an industry that I really know well. It might seem obvious, but there is more to it than meets the eye. Asset management is, at its core, a marketing company – the more money they manage, the more they make. These companies are also compensated by performance. However, the majority of revenue actually comes from the former and not the latter. The reason I bring this up is to underline the importance of having conviction. In other words, the interviewer is not only looking at how good your analyses are, but also at how confidently you deliver them. At the end of the day, you ultimately need to convince clients that their money is best managed by you. Everything else is equal. It's a lot easier to deliver a stock pitch on an industry you're passionate about than something you just cooked up the last few weeks.

Another thing I would highlight is picking a stock with a solid record. Some funds specialize in special situations and short positions, but those cases are the exceptions. For most entry-level analysts, however, that is not where you start anyway. Not only is a solid company easier to pitch, it's also typically more in line with the investment strategy of the fund as they are, by definition, more risk averse.

HOW DO I PREPARE FOR THE STOCK PITCH JOB INTERVIEW?

So you now have found a stock you want to pitch. Let’s say, for the sake of argument, you want to pitch Coca-Cola Company. Clearly, that pick might be either super expensive or super cheap when you are reading this so while the numbers are taken from the financial statement, you should focus on more on the process rather than the actual numbers. As you’ll quickly learn the quantitative part is quite mechanical, so you should pick a company in your pitch that is generally relatable for a qualitative discussion.

I’ve broken down your preparation process for you.

VALUATION

You might have a specific stock in mind, but if it’s not cheap, I would recommend you to simply go on and find a new one. One reason it’s important to find a stock with a decent upside is the importance of visualization. It’s easier for the interviewer to visualize you working there when you pitch a stock that is undervalued since you won’t ever pitch a stock that is overvalued in a long fund. Clearly, the opposite applies if you are pitching a short position.

The valuation is always a bit tricky because there is really no right answer. Another thing is that the asset manager typically has strong opinions on his favorite valuation method, so I’d always be careful and prepare two methods. Typically, you will do just fine with a P/E and/or a DCF approach. As rule of thumb, I would look for companies with a single digit normalized P/E, or if you are using a DCF approach, north of 12-15% annual return.

RESOURCES

The best place to collect information about your stock pick is the official reporting for the company, also known as the “10Ks and 10Qs.” All listed companies have a section on their website that is typically called “Investor Relations” or “For Investors.” If you haven’t been reading them before, I think you’ll be amazed at the amount of useful information they contain. I would recommend that you, as the minimum, go through the reports for the past two years.

Another good resource is the earnings transcript of the company for the last few quarters. Here, you can read the management’s comments on the previous quarter and perhaps analysts’ critical questions about the stock, which is even more important. The latter is typically more detailed than what you can expect to be asked during a job interview, but it shows you the depth of stock analysis that you should know to fully understand the stock. It also reveals some of the key metrics you can impress the interviewer with during your discussion for that specific pick.

BUSINESS MODELS AND SEGMENTS

This is a good way to start your research and your pitch. When most people think about the concept of Coca-Cola's stock, they typically think, "Should I buy, sell, or hold?" While that is the end of it, the process is even more important. Think of it like this: the interviewer might hear 20 pitches that day, and all his interviewees would probably say that stock is a buy. The core is simply "Why?"

When presenting the business model of Coca-Cola, I would divide it into at least two parts. The first part is the product. After a little research, you will quickly realize that soft drinks, by nature, are a high margin product. The main ingredients for Coke, for instance, are water and sweetener – both extremely cheap ingredients sold at high prices. The more quantifiable data you can purposely throw into your stock pitch, the better it usually is. For example, you might start your pitch out by saying: The Coca-Cola Company is the world's largest beverage company with operations in more than 200 markets. It markets more than 500 non-alcoholic beverage brands. The business model is simple. The company refines cheap, raw material – primarily sugar and sweetener – into high priced soft drinks. Coca-Cola has created this unique position by continuously investing in advertising. It is currently the 3rd most valuable in the world.

At this point, you might want to go in and outline the cost structure, the size of the margins, and the amount of money that has been put into advertising and R&D over the past few years.

Once you progress, you should remember to speak about the development of the major business segments. In other words, Coca-Cola Company should not be seen as just one company because it can easily be broken down into geographical areas and product categories. As you read the reports from the company, you'll quickly learn that various business segments grow (or even decline) at different paces. You should be able to participate in a discussion about that.

KEY RATIOS

As mentioned before, your stock pitch should always be data-driven. A natural way to continue your pitch after outlining the valuation and discussing the business model is to transition into relevant key ratios. "Which key ratios are relevant?" you might ask. Well, it depends on the company, but the intention is always to show what is significant. Sometimes, what is significant is not a historic high growth or an unusually high debt burden; it could simply be that a very stable company with a predictable future is trading at a severe discount.

Here are some of the key ratios I would present for Coca-Cola Company:

	2011	2012	2013	2014	2015	2016	2017
Revenue	$ 46.5B	$ 48.0B	$46.9B	$46.0B	$44.3B	$41.9B	$35.4B
Earnings Per Share	$ 1.85	$ 1.97	$1.90	$1.60	$1.67	$1.49	$0.29
Net Margin	18.40%	18.80%	18.30%	15.40%	16.60%	15.59%	3.52%
Number of Shares	4.65 B	4.58B	4.51B	4.45B	4.41B	4.37B	4.32B
Dividend Per Share	$ 0.94	$ 1.02	$1.12	$1.22	$1.32	$1.40	$1.48

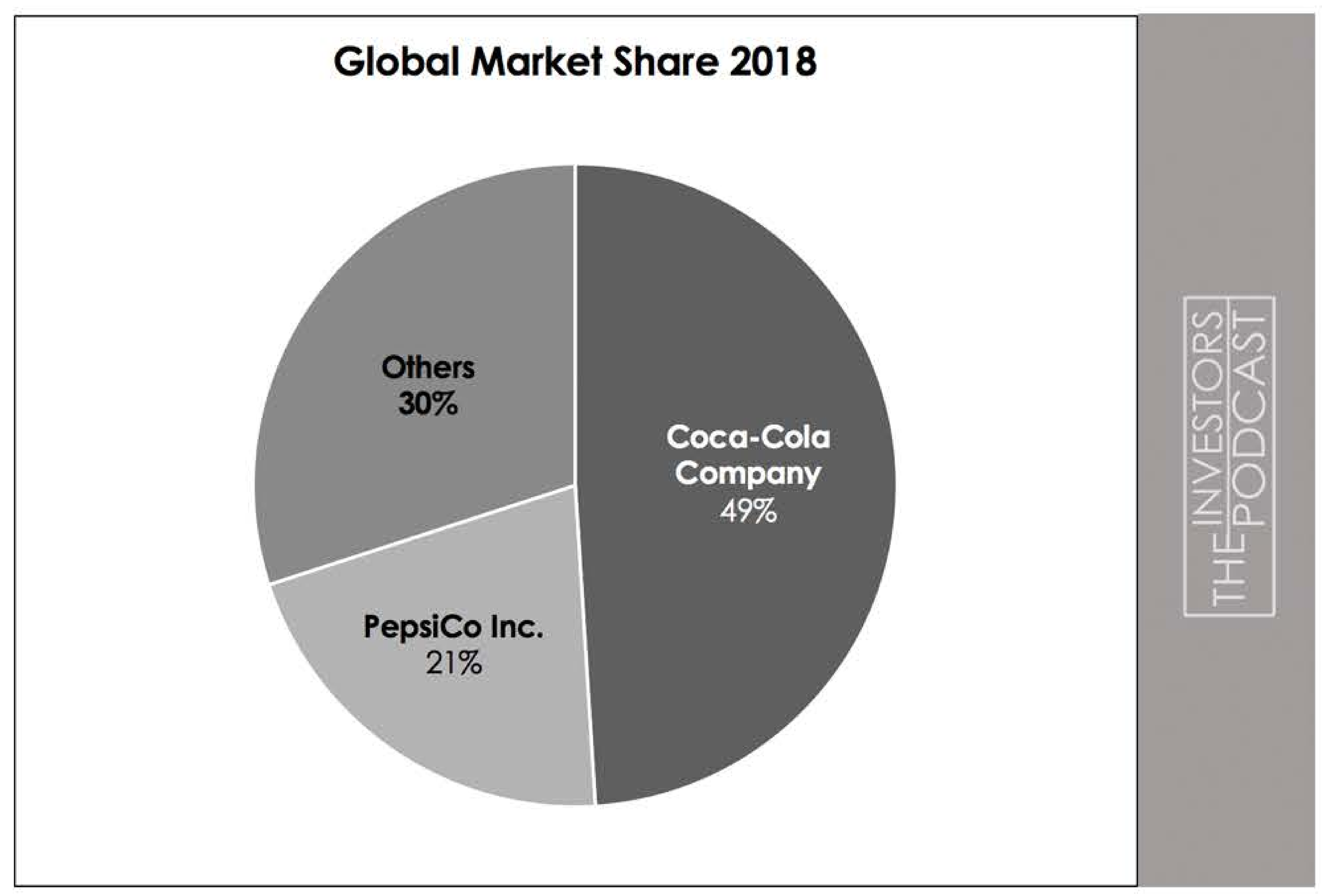
You won't always have the chance to bring a table with you, so I would recommend you to generally memorize the most significant data. It's important that you don't overdo this part of the interview. You could bring up 50+ key ratios that tell important information, but you should focus more on getting one or two highlights across before you transition into the next section of the interview.

For Coca-Cola Company, your pitch might sound something like: The reason I'm pitching this stock is because it's very stable. At first glance, Coca-Cola might seem like a company that has stagnated. While there is some truth to that, it doesn't tell the entire story. Coca-Cola has long grown through acquisitions and organic growth that has mainly been international. This has been expensive but is required to maintain the global market share in an increasingly competitive marketplace. Now, the company's strategy is to consolidate, and focus on margins and in turn cash flows. We're already seeing gross, operating, and net margin stabilizing recently, and I expect this to continue in the future. Historically, we've seen a very shareholder-friendly policy with close to 10 billion dollars paid out annually to investors in share buyback and dividends, and that is the future strategy as well. With the current valuation and situation, which I just outlined, the stable numbers underline the high upside and the presence of a large "margin of safety."

COMPETITION

After speaking about the company itself, it's time to talk about the competitive situation. You can decide to take a traditional approach and talk about market share in terms of revenue, or you could show other relevant data. For instance, you could show the growth in the number of stores selling that specific product or a cross-comparison of various financial key ratios. Again, it's a question about finding what is relevant for your pitch and highlighting one or two points.

If you presented the following chart, your pitch could start with something like: "Coca-Cola Company is not only the market leader in the U.S., they are even more dominating internationally. Generally, most major markets are characterized by a few major players – in this case, Coca-Cola and PepsiCo – and one or two local competitors. As a result of the very concentrated competition with only a few players, it is evident that the companies do not wish to compete on price but rather on other factors typically reflected in the branding of the product. This leaves room for sustainable high net income margins, as shown before 15%+ every year. At the same time, it raises the barrier of entry for new competitors."



Again, make sure to back up your pitch with as many relevant data as possible. This is especially important since you have already been pitching for quite some time at this point, and the interviewer has likely already stopped you with a few questions.

It would also be relevant to know the historical net margins and market share for PepsiCo Inc. Why I wouldn't lead with this is due to the structure of the pitch – it would be a logical comparison for you to make or for the interviewer to ask you about. A data driven response, where you include not only the stock in question but also the competition, will surely impress the interviewer.

CATALYSTS

Let's face it. Asset management is a business with very little patience. Even funds that brand themselves as long term wants to see results and they want them right now! Therefore, you'll hardly go through a stock pitch job interview, where you claim that the stock is undervalued, without being asked, "So which catalyst can ensure that the stock reaches its intrinsic value?"

Value in itself is actually a catalyst and many value investors like that response. However, most interviewers in asset management are more impatient than that, so I would always recommend that you prepare to present a catalyst or two. If possible, I would choose an approach that continues to build on your key ratio analysis. It might sound something like this: We're already seeing earnings stabilize at despite the decline in 2017 caused by accounting rather than the business itself, and I'm very positive about the future of the stock. Not only will the stock price be supported by consistent share buyback while we're collecting a rising dividend, I also expect that our growing international market share will start to pay off. Moreover, I expect price hikes for Coca-Cola Company's products to be reflected directly on the bottom line and net margin to increase by 1-1.5% within a year. This would be reflected into a 6-10% increase in normalized earnings alone, and I don't see this reflected in the market price nor covered extensively in analyst reports. I strongly believe that the earnings report over the next 1-2 quarters will serve as a catalyst to realize the intrinsic value.

RISK

All businesses have a lot of risks, and if you don't bring the topic up, you can almost be certain that the interviewer will. This area of your stock pitch is very important because you have the chance to show how balanced and credible your stock pick is. If the interviewer doesn't get to it first, I would also bring up a risk factor or two at this stage of your job interview. These don't have to be consistent with your catalyst. In other words, you don't have to come up with reasons Coca-Cola might not see a rebound in the net margin unless it's relevant to your pitch. The relevant things are the factors most likely to affect the performance of the company significantly.

At the beginning of the company's 10K, you can find the risk factors of the business. One thing to keep in mind is that the risk factors are written to comply with the SEC rules and, to a lesser extent, the current situation for the company. For instance, for Coca-Cola, you'll find that "not understanding consumer preference" and "increasing competition" are listed as risks. However, these are problems that all companies on the planet are facing. What I would recommend you to do is to use the list of risk factors as a starting point for your research. Based on the very generic risk factors, you might find that consumers in the U.S. or in a major international market are gradually shifting away from the company's products. As for the catalyst discussion, your pitch would carry a lot more weight if you can back it up with relevant financial data, especially if you can estimate the effect on earnings per share.

It can be tempting to discuss a risk factor that is currently in the news. For instance, an article might have been written about management compensation being higher for comparable companies. In general, I don't recommend discussing recent news (unless the interviewer goes in that direction) partly because it signals that you don't fundamentally know the company. Another reason is that it's more likely that the interviewer has a strong opinion on current events, especially if they are controversial. It can quickly turn into a debate rather than a job interview, which might not work out well for you.

VALUATION & RECOMMENDATION

Now we are back where we started: The valuation of the stock. This is the final point and where you need to round off your entire analysis. As mentioned before, you might choose a P/E normalized approach or a DCF approach. Here's an example of the latter: I've estimated the normalized free cash flow for the company to be $8B, as I expect the current capital expenditures to decline. Given the consolidation and the positive outlook in international markets, I estimate an improvement in the net margins of 1-1.5%. For the same reasons, I've used an 8% growth rate over the next 5% and a 3% perpetuity. This leaves us with a fair value estimate of just above $33. With a current market price of $20, we can expect around 14% annual return. I, therefore, recommend Coca-Cola as a strong buy.

As shown above, it's important that you draw on your previous analysis to validate your valuation.

HOW DO I PITCH A STOCK?

While there is no one correct way of doing it, there is a wrong approach: Having no structure. You can use my structure outlined above or come up with your own. As long as you know where you want to go and have the data to fully back it up, you are well on your way.

The next challenge is how to present it. Presentations come easy for some and really hard for others. One thing I would recommend for everyone is to present your analysis as a true "pitch." In other words, you should not read your analysis out loud. You should also ensure that your pitch is interesting by using body language and visuals.

While you can't know for sure which questions you'll be asked, you are fully in control when it comes to having a strong analysis and knowing the ins and outs of a stock. Unless you already know how much time you have, I would recommend you to have a 10-minute pitch (with no interruptions) prepared. Also, expect the interviewer to ask you to elaborate your pitch further either during or at the end of the interview.

If possible, I strongly recommend that you practice with a partner. Even if that person is not proficient to ask you questions, you'll still learn a lot simply from pitching out loud with someone looking at you.

WHAT QUESTIONS CAN I EXPECT TO BE ASKED?

Clearly, there is no finite answer to this question. Nonetheless, let me provide some general feedback and a few examples.

The interviewer might disagree with your recommendation, but it doesn't have to be a problem. The key is really in the assumptions you are stating. For instance, if you pitch the Coco-Cola Company, you'll need to estimate a given growth gate to estimate the intrinsic value. Few interviewers would agree with the spectacular growth rate for the Coca-Cola Company you stated in your analysis, and just as few would be impressed if you didn't talk about the importance of the brand. The rule is: As long as you have reliable data to back up your conclusion, then you can argue almost everything.

Another thing the interviewer is looking for is how well you know the financial terminology and how natural you are at using it. For instance, you might say: The net profit margin of Coco-Cola has been growing in the financial year of 2015, primarily driven by extraordinary sales of operational assets in the Finish Products business segment. Growing earnings doesn't appear to be sustainable, as the impact of higher cost of raw materials is already reflected in the gross margin and can be expected to materialize even more in the next quarter. There is really no shortcut to learning the terminology, as it has to come out naturally. The interviewer can spot in seconds if you don't know what you're talking about.

One thing to keep in mind is that the interviewer often doesn't know the company as well as you. This is especially true if you don't pick one of the major Fortune 500 companies. Typically, this is an advantage for you, partly because picking a smaller company shows you are a little more original. It is also an advantage for you because his questions would often be more general, and when you can make your response relevant for that specific company, you can be more impressive.

Clearly, you can be asked all types of questions, but here are a few examples:

- How much is the industry and your specific stock pick expected to grow in the next 5 years?
- You told me that the net profit margin has declined recently. What have been the primary factors behind this?
- It looks like the company is raising capital from debt and stock issues. Could you elaborate on the current and future cash flow situation?

As you can see, many of the questions relate to the discussion above on how to prepare for a stock pitch interview. So you might already be thinking whether or not you should just roll out your entire pitch all at once, and thereby omit having to respond to questions. It all comes down to you finding a balance with the interviewer. I personally like to ask candidates a lot of questions to fully grasp how well they understand all the aspects of the stock picks. However, other interviewers prefer to let you do your pitch first and then ask questions at the end. You can normally sense which approach is correct as you go along.

It is important to find a good dynamic with the interviewer. For instance, if the interviewer stops your train of thought about the valuation and asks you about the moat of the company, you can simply take it in stride and say something like: I'm so happy you said that, because as a natural transition from the valuation, I've been reading into the distribution costs. When we compare this to their main competitors, the Coca-Cola Company is saving 1.5% on average, which is directly reflected into the higher operating margin.

Interviewers are people like everyone else and so they like to feel smart. While the corporation has hired them to find the best stock pickers, they also have their own opinion, so there is no need for you to be irritated at being interrupted or to feel like everything is not going according to plan. This might sound obvious, but you'll be surprised how many candidates fail that test in the heat of the moment. Now you know how to avoid that pitfall.

CONCLUDING THOUGHTS

There you have it! You now know how to pitch a stock and how you should prepare. You even know some of the questions that can be asked during the interview. If you want my help to validate and guide you through your stock pitch job interview, feel free to contact me.

In any case, I wish you the best of luck!

GLOBAL AUTHORITIES THAT TRUST STIG

YAHOO! FINANCE CFA Institute CNBC Seeking Alpha BUSINESS INSIDER

ABOUT STIG

Stig Brodersen is the host and co-founder of The Investors Podcast – the highest ranked stock investing podcast in the world across iTunes, Google, and CNBC with more than 25 million downloads.

He has studied business analysis and valuation at Harvard University, and has written the international stock investing bestseller Warren Buffett Accounting Book.

REQUEST TO PITCH YOUR STOCK TO STIG

Name

Email

Subject

Message

SEND