**Standard & Poor’s Equity Research Methodology**

**MACRO AND ECONOMIC ANALYSIS**

When compiling bottom up company analysis, analysts are expected to incorporate Macro and Economic Analysis.

- **Investment Policy Committee (IPC)**: Mentions weekly and is responsible for determining Standard & Poor’s analytical views on investment trends.
- **Missions**:
  - Ensure Standard & Poor’s views are reached through a deliberate, consistent process that involves input from a diverse group of Standard & Poor’s senior analysts.
  - Analysis includes:
    - Interest-rate forecasts
    - Market-performance forecasts
    - Economic, political, and related developments of interest to investment community.
  - Consensus concerning effect of such developments on Standard & Poor’s view of financial markets, interest rates, and percentage asset allocation among stocks, bonds, and cash.

**Sector Strategy and Coordination**

- Chief Investment Strategist provides guidance on past and current sector trends and forecasts top and bottom performing sectors.
- Group Sector Heads meet regularly with Global and Regional Research Directors to incorporate input from equity analysts on all sectors to formulate a collective bottom-up investment strategy. This bottom-up, top-down, in the context of past and current sector trends and macro-economic projections, support Standard & Poor’s holistic sector weight strategy and recommendations.

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**Ongoing Analytical Review**

1. **Repeat Stages 1, 2, 3, 4, 6, 7, 8, 9.**
2. **Continuous committee-based evaluation of StARs recommendations**.
3. **Quarterly updates published and distributed**.
4. **Material events**.
5. **Changes in recommendations**.
6. **Stock Report updates**.
7. **MarketScope/NetAdvantage updates**.
8. **First Call notes**.

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**Company Coverage Criteria**

**Core StARs Coverage Criteria**
- All S&P 100 Index
- 300 of the S&P MidCap 400 Index
- 200 of the S&P SmallCap 600 Index
- Key non-U.S. stocks

**Additional Coverage Criteria**
- S&P Composite 100 Index constituent
- Significant trading volume
- Market capitalization
- Corporate action (mergers, acquisitions, spin-offs)
- Emerging growth companies

**Deliveries to Equity Coverage**
- Mergers
- Corporate actions (bankruptcies, mergers and acquisitions)
- Dropped from S&P Composite
- Fiscal year closing
- BV/A ratio
- Lack of investor interest

**Number of Companies Covered Per Analyst**
- 23-25 companies

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**Standard & Poor’s Core Earnings Calculation**

**Included**
- Employee stock option grant expense
- Restructuring charges from ongoing operations
- Write-downs of depreciable or amortizable operating assets
- Pension costs
- Purchased research and development expenses
- Merger-related acquisition-related expenses
- Divested unit/losses from hedging activities

**Excluded**
- Goodwill impairment charges
- Excess benefits from vested values
- Pension gains
- Impairment or write-off of non-current assets and provisions
- Realization of prior-year changes and provisions

**Criteria/Definitions**

**Intrinsic Value Analysis**

- Estimate security’s intrinsic value based on discounted free cash flows (DCF) analysis. Estimates of future free cash flows are discounted back to current dollars, including variables for risk assessment and capital structure
- Present value of a share’s current share price
- 10-15-year projection
- Defined parameters around DCF to make it more reasonable (e.g. interest rate inputs)

**Relative Valuation**

- Assessing a security’s relative value by comparing appropriate valuation metrics across peer groups
- Comparison with industry group:
  - Price/Earnings (P/E)
  - Efficiency
  - Margins

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**Review**

1. **Supervisory analyst review for regulatory and compliance purposes**.
2. **Analysis recommendations (First Call, StARs) for 5% of S&P 500 Index**.
3. **Incorporate risk assessment rating into overall StARs ranking (for more details on Standard & Poor’s Risk Assessment, call 1-800-542-6344)**.

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**Company Fundamental Analysis**

1. **Review public information**:
   - 10-K’s
   - 10-Q’s
   - Annual Reports
   - Conference Calls

2. **Conversations with company management for detailed information**

3. **Prepare 3-Year Preliminary Earning Projections**

4. **Review Financial Assumptions and Guidance**

5. **Assess**
   - Management team
   - Compensation
   - Suppliers
   - Subsidiaries
   - Barriers to entry
   - Regulatory environment

6. **Finalize Earnings Projections**

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**Company Valuation Analysis**

1. **Establish Intrinsic Value**

2. **Establish risk assessment rating**

3. **Determine “fair value” of a stock by determining private market values for a firm’s individual units**

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**Products and Services**

- **Retail**
  - Advice Insight
  - Custom Newsletter
  - Equity Insights
  - Industry Surveys
  - MarketScope
  - MarketView
  - MarketBeat

- **Corporate**
  - Portfolio Analysis
  - Pocket Guides
  - Performance Advisor
  - Sector Scorecard
  - Stock Gurus
  - Stock Reports
  - The Outlook

- **Institutional**
  - Computed Data
  - Equity Insights
  - Institutional Equity Reports
  - IPC Notes
  - Identify Investment Review
  - Sector Watch
  - US Financial Reports