OAKWOOD

Fund management

Format of the Workshop

- Fast-track Technical Financial Knowledge
- Stock Pitch Proposition
- Stock Pitch

Fast Track Technical Financial Knowledge

Seven Key Areas

- •Financial Performance
- •Company’s Market Position
- •Company’s Valuation
- •Track Industry Trends
- •Regulatory Compliance
- •Chart Analysis
- •Investment Thesis

1. Financial Performance

There are three statements that you should always analyse:

1. Balance Statement (company's financial health)
2. Income Statement (company's financial position and performance over a period)
3. Cash Flow Statement (detailed insights into how a company used its cash during an accounting period)

Balance Sheet

	Short Term	Long Term
Assets	Expected to be converted to cash within a year	Expected to be converted to cash over a year
Liabilities	Expected to be due within a year	Expected to be due over a year

- **Assets:** What company uses to operate its business
- **Liabilities:** Refer to money that's borrowed from other sources and needs to be repaid by the company
- **Owner's Equity:** Financing that owner, whether private or public, put into the business

Therefore, the Accounting Equation:

Assets = Liabilities + Owners' Equity

Balance sheet example for YYZ Corp. for the year ending Dec. 31, 2022 (in millions)

Assets		Liabilities and owners' equity	
Current assets		Current liabilities	
Cash	$92	Accounts payable	$30
Accounts receivable	$50	Short-term debt	$20
Inventory	$30		
Total current assets	**$172**	**Total current liabilities**	**$50**
Long-term assets		Long-term liabilities	
Equipment	$230	Long-term debt	$200
Buildings	$90		
Total long-term assets	**$320**	**Total long-term liabilities**	**$200**
		Owners' equity	
		Stock	$2
		+Additional paid-in capital	$148
		+Retained earnings	$92
		Total shareholders' equity	**$242**
Total assets	**$492**	**Total liabilities and owners' equity**	**$492**

Income Statement

The income statement provides information on a company's financial health by helping you analyse the following:

- How much revenue is growing over certain accounting periods?
- The gross profit margin for goods sold?
- What percentage of revenue results in net profit after all expenses?
- If the business can cover its interest repayments on debt?
- How much the business repays to shareholders versus how much it reinvests?

Income statement example for YYZ Corp.* for the year ending Dec. 31, 2022 (in millions)

Revenues	**2021**	**2022**
Sales	$350	$270
Costs of goods sold	–$250	–$190
Gross profit	100	80
Depreciation expense	–$10	–$10
Taxes on income	–$15	–$20
Net income	$75	$50
Average common shares outstanding (in millions)	25	25
Earnings per share (EPS)	$3	$2
Dividends declared per common share	$0.050	$0.045

+ Disclosure

As you can see in this example, net income for YYZ Corp. declined from $75 million to $50 million.

Cash Flow Statement

The cash flow statement provides information on a company's financial health by helping you analyse the following:

- The liquidation situation of the company
- The company's sources of cash
- The free cash flow the company generates to further invest in assets or operations
- Whether overall cash has increased or decreased

Statement of cash flows example for YYZ Corp. for the year ending Dec. 31, 2022 (in millions)

From operations	
Net income	$30
Plus depreciation	$15
Plus decrease in receivables (less income)	–$20
Less increase in inventories	–$10
Plus increase in accounts payable (less decrease)	$0
Net increase (decrease) in case from operations	$15
From investing	
Less purchase of equipment	–$150
From financing	
Bonds issued	$100
Net increase (decrease) in cash	–$35
Cash at beginning of year	**$127**
Cash at end of year	**$92**

Financial Ratio Analysis (Terms)

2. Company Market Position

1. Market Share and Industry Rank

•Understanding Market Share
•Industry Rank Comparison

•2. Brand Strength and Recognition

•Evaluating Brand Equity
•Brand Recognition Assessment

•3. Product/Service Differentiation

•Unique Selling Propositions (USPs)
•Market Niche Strategy

4. Customer Base Analysis

- Diversity of Customer Base
- Customer Retention and Loyalty

5. Industry Growth and Company's Growth Alignment

- Industry Growth Rate Comparison
- Alignment with Industry Trends

Questions to Consider from Company Market Position

Questions to Consider:

- How does the company's market share compare to its competitors?
- What unique value proposition does the company offer to its customers?
- Is the company's brand well-recognised and respected within the industry?
- Does the company have a diverse range of products or services that cater to different market segments?
- How loyal are the company's customers? Are there metrics or studies that demonstrate this loyalty?
- Is the company a leader in innovation within its industry?
- How does the company's pricing strategy compare to its competitors?
- What is the company’s strategy in responding to industry trends and challenges?

Actionable Tasks

Some of the analytical approaches I like to use:

- SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)
- Competitor Analysis
- Customer Surveys and Feedback
- Market Trend Analysis

- How is this relevant to the Stock Pitch?
- Summary
- Decision on the Position of the Company
- Short Term? Long Term?

3. Company Valuation

There are two key methods that we would like you to use for company valuations:

1. Multiples Ratio

- P/E Ratio
- EV/Sales
- EV/EBITDA

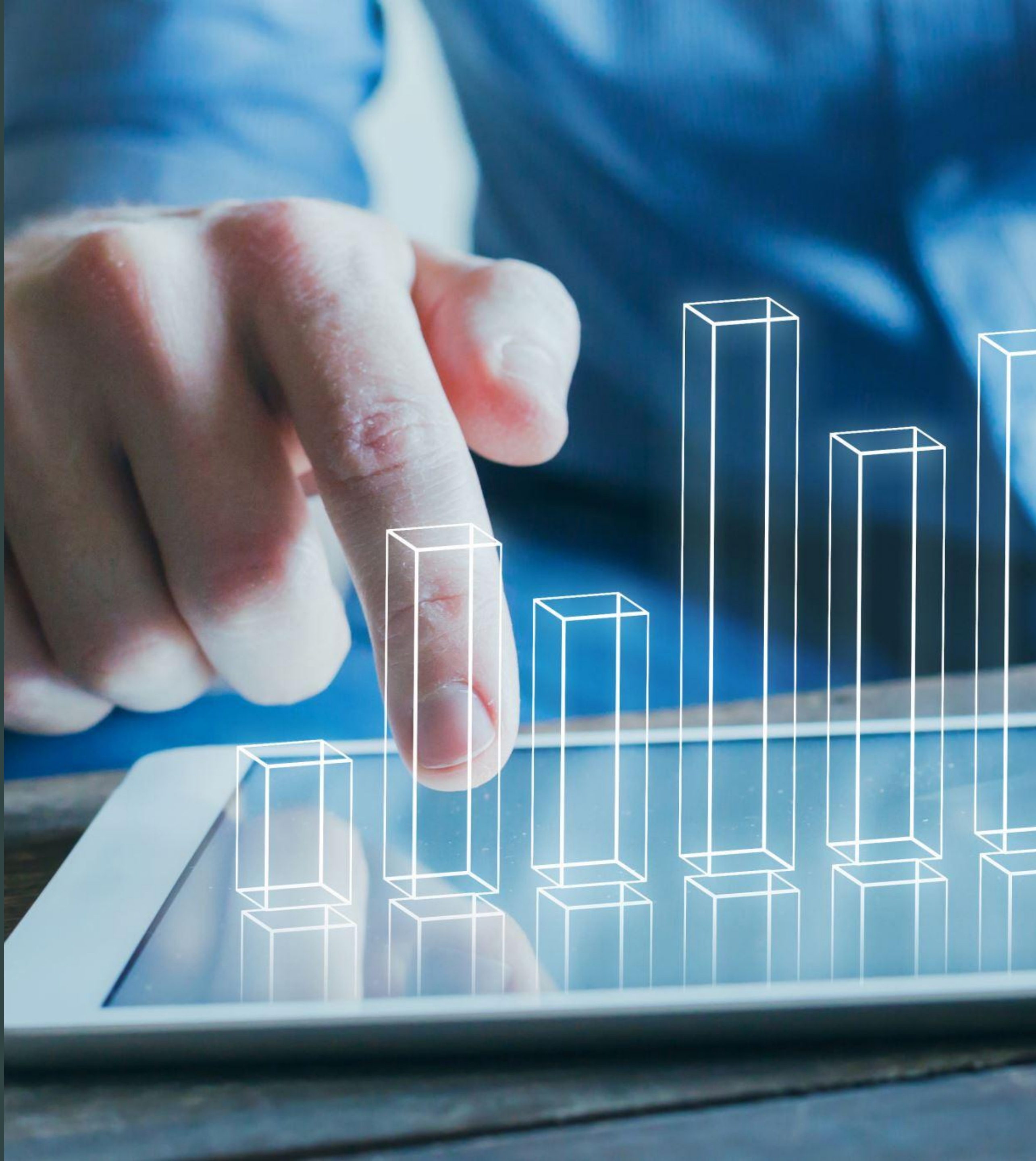
2. Discounted Cash Flow (DCF)

- Intrinsic value
- Terminal value
- Discount rate

4. Track Industry Trends

How do you track industry trends?

- Staying informed of current market dynamics
- Reading News and Reports
- Identifying Key Indicators ('Breadcrumbs')
- Utilising Multimedia Sources
- Diverse Perspectives
- Analysing Impact on Investments
- Continuous Learning and Adaptation



5. Regulatory Compliance (Risk)

RISK MITIGATION THROUGH REGULATORY COMPLIANCE

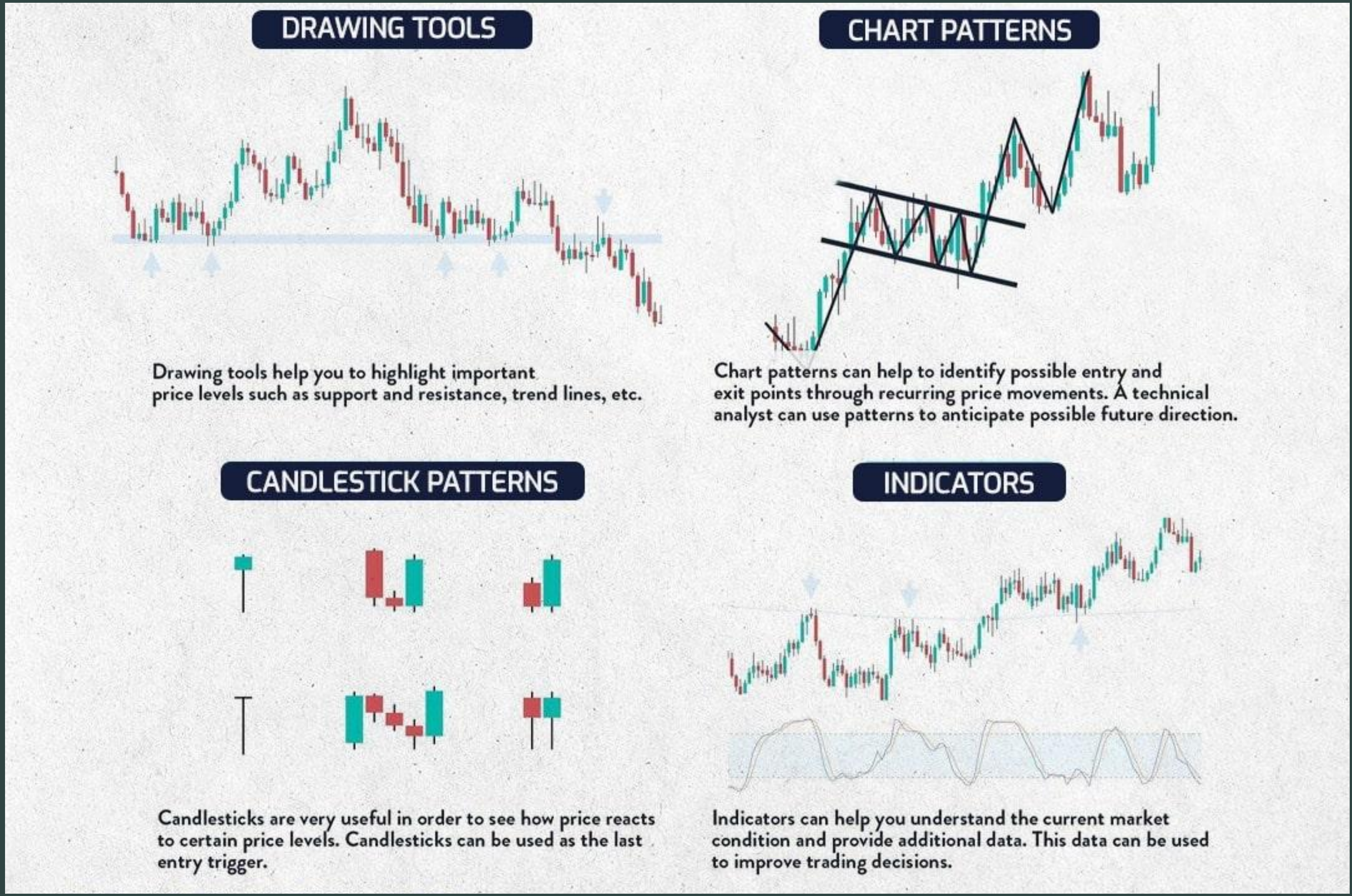
IMPACT OF GOVERNMENT REGULATIONS ON COMPANIES

MONITORING NEW REGULATIONS

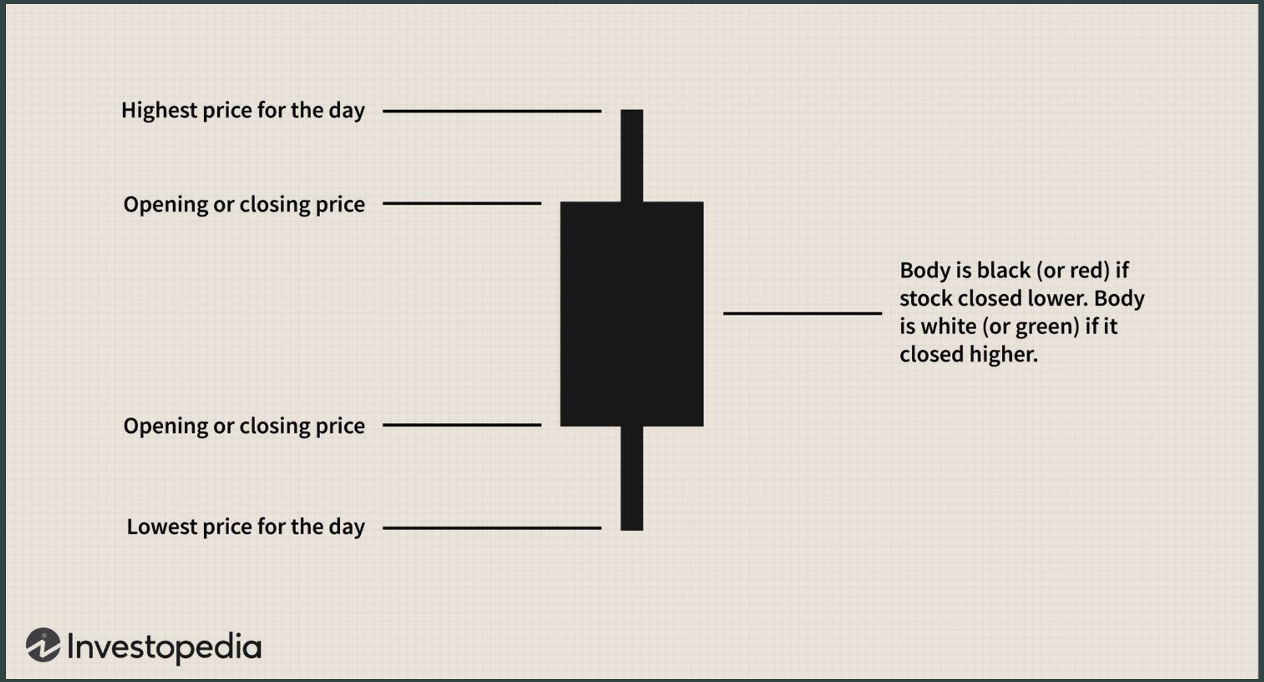
CASE EXAMPLE: CRYPTOCURRENCY REGULATION

STRATEGIC CONSIDERATIONS

6. Chart Analysis



Candlestick Basics



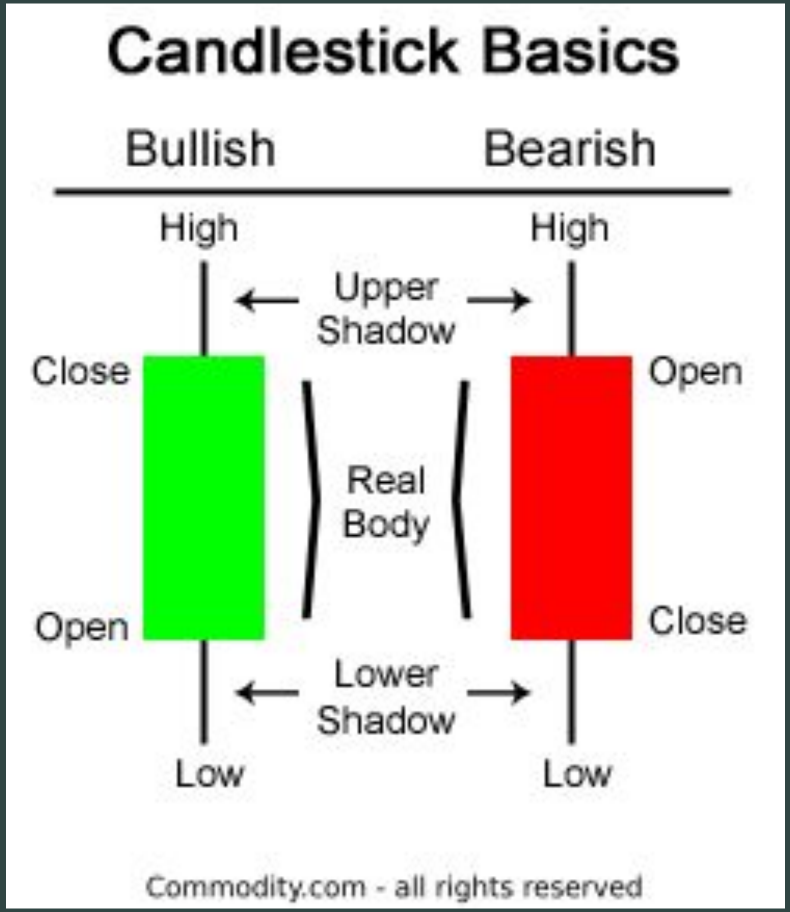


Chart Patterns Part 1

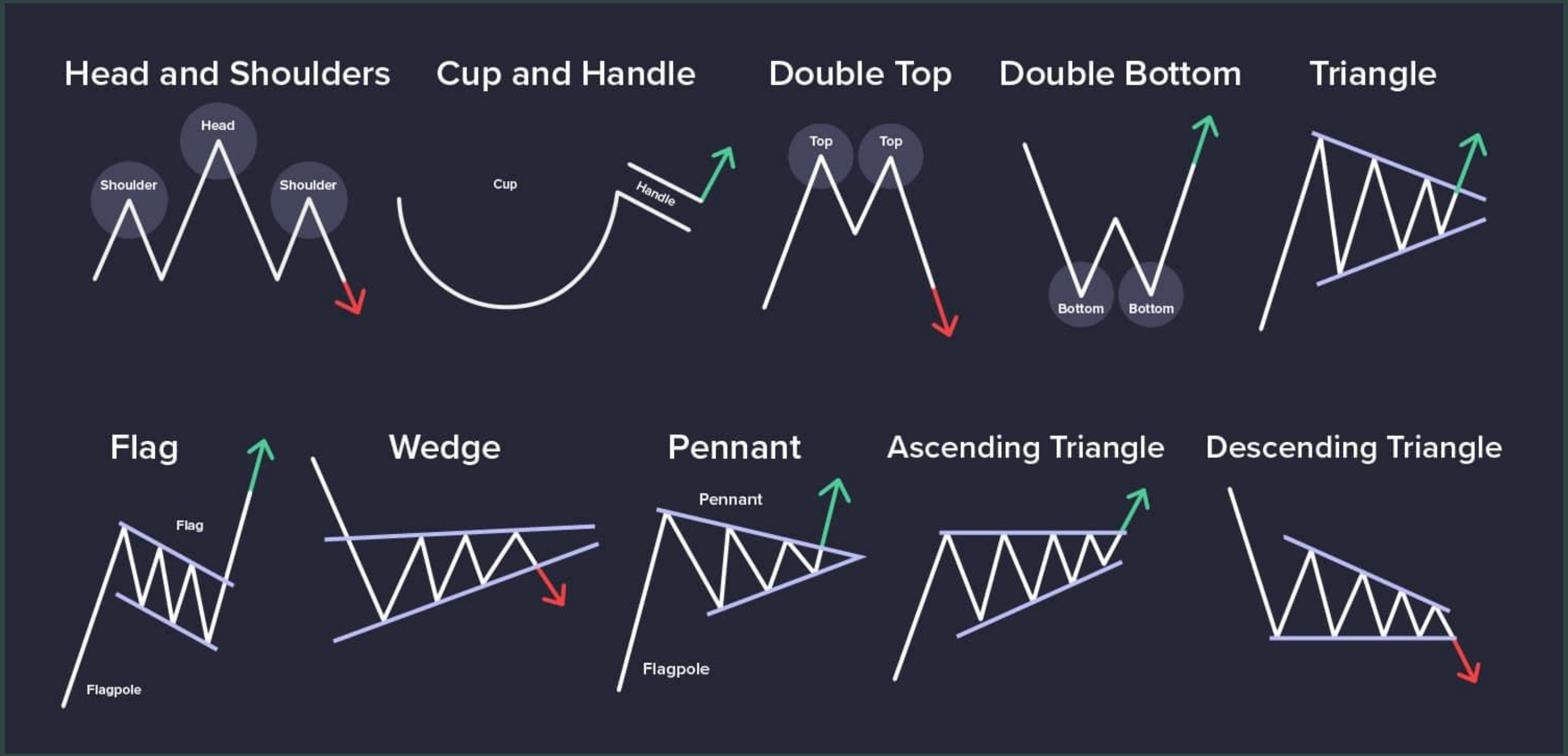


Chart Patterns Part 2

Chart Indicators

Four Different Types of Chart Indicators:

1) Trend
2) Momentum
3) Volatility
4) Volume Indicators

1) Trend Indicators

- Moving Averages: Used to identify trends and reversals, as well as to set up support and resistance levels.
- Parabolic Stop and Reverse (Parabolic SAR): Used to find potential reversals in the market price direction.
- Moving Average Convergence Divergence (MACD)

3) Volatility Indicators

- Bollinger bands: Measures the “highness” or “lowness” of price, relative to previous trades.
- Average True Range: Shows the degree of price volatility.
- Standard Deviation: Used to measure expected risk and to determine the significance of certain price movements.

2) Momentum Indicators

Stochastic Oscillator: Used to predict price turning points by comparing the closing price to its price range.

Commodity Channel Index (CCI): An oscillator that helps identify price reversals, price extremes, and trend strength.

Relative Strength Index (RSI): Measures recent trading strength, velocity of change in the trend, and magnitude of the move.

4) Volume Indicators

- Chaikin Oscillator: Monitors the flow of money in and out of the market, which can help determine tops and bottoms.
- On-Balance Volume (OBV): Attempts to measure level of accumulation or distribution, by comparing volume to price.
- Volume Rate of Change: Highlights increases in volume. These normally happen mostly at market tops, bottoms, or breakouts.

Trend Indicator - Moving Average (1)

Moving Average (2)

Moving Average Convergence/Divergence (MACD)

Momentum Indicator - Relative Strength Indicator (RSI)

Practice Examples

Technical Chart Analysis
https://www.youtube.com/watch?v=eynxyoKgpng

7. Investment Thesis + Oakwood's Investment Philosophy

- What is an Investment Thesis?

- How do you start with creating your own Investment Thesis?

- What is your Investment Thesis?

- What is Oakwood's Investment Philosophy? Why is this important?

Stock Pitch Proposition

Stock Pitch Proposition + Pitch

- Does everyone know the difference between a Stock Pitch Proposition and an actual Stock Pitch?
- The following format is what we would recommend you and your team use. Use this for both the stock pitch powerpoint presentation but also when you pitch your companies to your Senior Analysts.

Split into

- Company Background
- Investment Thesis
- Catalysts
- Valuation
- Risk Factors and How to Mitigate Them
- Recommendation

1. Recommendation

•State whether it’s a Long or Short (i.e., whether you think its stock price will increase or decrease) and what the company should be worth. Do not give a “neutral” recommendation unless the company is assigned to you by your future employers.

- **Recommendation:** We recommend LONGING AvalonBay [AVB] because:
  - It’s undervalued by 20-30% currently because the market has incorrectly penalized the company for in-line Q4 earnings (and several misses in 2017) and expectations of rising interest rates and a multifamily slowdown in the company’s key coastal markets.
  - Even if we’re wrong, and there is a recession/multifamily market downturn in the next 1-2 years, the company is only overvalued by ~10%.
  - Catalysts include the stabilization of the company’s record $1.9 billion in FY 17 deliveries, same-store rental increases above guidance, and the company’s expansion into new markets, such as Denver, South Florida, and Baltimore, to maintain its Development yields.
  - Investment risks include a recession and coastal multifamily market downturn in the next 1-2 years, development delays/cost overruns/lower-than-expected yields, and lower NOI margins due to rising concessions in certain markets. We could mitigate these risks by purchasing put options, longing multifamily REITs in different geographies or ones that focus less on development, or shorting a broader multifamily/real estate index fund or ETF.

2. Company Background

- What are the company's products/services
- What does their core three statements look like, e.g. what does their revenue/EBITDA look like
- What is its market cap
- What are its current valuation multiples?
- Bonus points for a price/volume graph

•[State the business model, multiples, financial projections, and revenue/NOI by segment.]

3. Investment Thesis

- The stock is price imperfectly because of these 2-3 key factors.
- The market has not factored them in because of reasons X and Y. The market is wrong, and there's a chance to gain significantly by longing/shorting this stock.
- Ideally, whenever you look at a new company of whether you should invests in it or not, you should already have in mind companies that are undervalued or overvalued and whose stock prices could change significantly in the next 6-12 months.

Example

- **Investment Thesis:** The stock is priced imperfectly because:
    - Rising interest rates actually help the company because they make mortgages more expensive, discouraging home ownership, and approximately 83% of AVB's Debt is fixed-rate with an average maturity of ~10 years. We assumed a Cost of Debt of close to 4% in the DCF, above the company's current rate of 3%; even with a Cost of Debt of 5%, the company would still be undervalued by ~10%.
    - While there is a substantial risk of a recession, it is more likely to affect the single-family home market because of the exorbitant cost of housing in key markets such as LA, SF, and Northern Virginia (where even software engineers might spend 30-45% of their income to own an average house). Historically, AVB's rental revenue has never declined by more than 2% over the past 20 years.
    - Consensus estimates significantly understate AVB's projected revenue and NOI – forecast growth rates are in the 3-4% range, as if the company's Development pipeline did not exist and it simply planned to maintain its existing assets. Even in the Base Case, we forecast revenue that's 10-15% higher than consensus forecasts by Year 5.

4. Catalysts

- Certain key events in the next 6-12 months will cause the market to “realise” this pricing imperfection, resulting in a price correction and the potential to make money.
- Key events might include new product launches, acquisitions, earnings announcements, divestitures, clinical trial results, and financing activities.

Example

Catalysts:

The stabilization of the company’s $1.9 billion in FY 17 deliveries at a 6.0 – 6.5% weighted average yield.

Same-store rental increases at the top end of company guidance (or above it), resulting in total same-store rental growth close to 3%.

The company’s expansion into new markets, such as Denver, South Florida, and Baltimore to maintain its yields.

5. Valuations

For a Long recommendation, you need to show that the stock is undervalued. E.g. Right now its trading at $100, but there's a reasonable chance it's wroth $35-$40; For a Short recommendation, you show why the stock is overvalued.

Example

- DCF/FCF Valuation
- Share Price/Market Cap Analysis
- PE Ratio based
- Dividend

6. Risk Factors and How to Mitigate Them

You lay out the top 2-3 market and company-specific reasons why your investment thesis might be wrong, and then explain what you can do to mitigate these risks. Even if you're wrong, could you limit your losses?

Example

Risk Factors:

- The potential recession and a coastal multifamily market slowdown in the next 1-2 years (~10% share price impact).
- Development delays, cost overruns, and lower-than-expected yields (~10% share price impact with 5-year average development time and Downside Case yields).
- Lower NOI margins due to rising concessions in certain markets, such as LA (~10% share price impact if NOI margins are 2% below forecast everywhere).
- We could mitigate these risks by purchasing put options, longing multifamily REITs in different geographies or that use different strategies, or shorting a broader multifamily/real estate index fund or ETF.
- **Worst-Case Scenario:** If we get a true "perfect storm" of all these elements together, the company's stock price could potentially fall to ~$130 within the next year (~20% loss). But we view that as highly unlikely, and we can hedge against that risk with the strategies above

Stock Pitch

(not that type.. Wake up Josh)

Stock Pitch

- Brief Recommendation
- Company Background
- Investment Thesis
- Catalysts
- Valuation
- Risk Factors and How to Mitigate Them
- Final Recommendation

1. Brief Recommendation

- Long or Short, current share price, the percentage by which it's mispriced, and the top 2-3 reasons why the stock price will change in the next 6-12 months.
- Two or three potential catalysts that will cause the stock price to change in the next 6-12 months.
- Two or three investment risks (company-specific or market-specific) and how you might mitigate those risks through other investments, call or put options, etc.

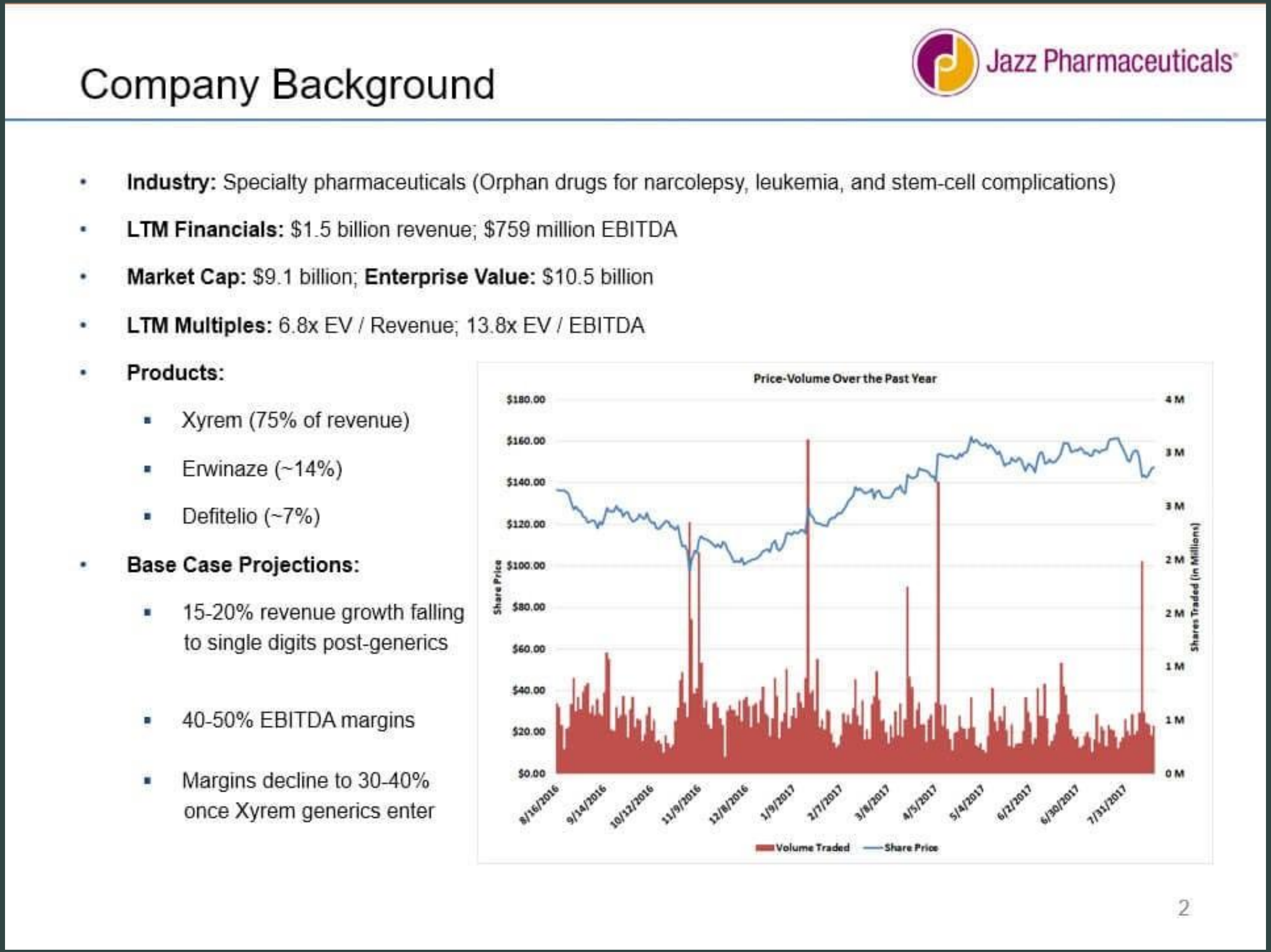
Recommendation

Jazz Pharmaceuticals

- We recommend **shorting** Jazz Pharmaceuticals [JAZZ] because it is overvalued by 50-70%, and its price could decline significantly in the next 6-12 months
- **Investment Thesis:** The market has incorrectly assumed an FY 23 entrance year for Xyrem generics vs. more reasonable estimates of FY 20-21, and it has assumed unreasonable pricing power and peak sales figures for Vyxeos and JZP-110
- **Valuation:** The company's intrinsic value is closer to $60-70 / share, and even if we're wrong about all these factors, the company is appropriately valued right now at $147 / share
- **Catalysts** in the next 6-12 months include more Xyrem generics winning FDA approval, a slowdown in price increases, and early sales results from Vyxeos
- **Risks** include a later-than-expected entrance for Xyrem generics, outperformance from Vyxeos and JZP-110, and promising clinical data and eventual sales from early-stage drugs like JZP-258 and JZP-507
- We can mitigate these risks by purchasing call options at $170 – $180 exercise prices (to limit losses to 15-20%) , shorting Xyrem generics companies, or by longing a broader biotech/pharma index fund or ETF

2. Company Background

- Company background, financial performance, and market position.
- Here you can list company's key financial stats
  - Revenue
  - EBITDA
  - Market cap
  - Ccurrent multiples
- Overview of Business Segments and Products/Services
- SWOT Analysis (Strength, Weaknesses, Opportunities and Threats)
- Stock Price with Stock Graph
- ESG Analysis



3. Investment Thesis (1/2)

In the Jazz stock pitch, we make very simple arguments: generics that threatens the company's key product are likely to arrive sooner than expected, the company's pricing power is lower than expected, and its new drugs have lower-than expected market sizes:

Investment Thesis

Jazz Pharmaceuticals

	Our View	Valuation Implications
Threat of Xyrem Generics	▪ More likely to arrive in FY 20 or FY 21 than FY 23 ▪ Due to ongoing lawsuits and generics companies seeking FDA approval	▪ Earlier entrance year would reduce company's implied share price by **~10%**
Limited Price Increases	▪ Annual price increases well under 10% vs. double-digit percentage increases in past years ▪ Due to Brent Saunders pledge and government/regulatory scrutiny	▪ Reduced rate of price increases across all drugs reduces implied share price by **20-25%**
Reduced Potential of Vyxeos and JZP-110	▪ Risk-adjusted peak sales of \$300-400M for each vs. expectations of twice those figures ▪ Due to uncertainty around market size and JZP-110 improvements over Xyrem	▪ Implied share price declines by **~20%** with more modest assumptions for these pipeline drugs

3. Investment Thesis (2/2)

This is a Long recommendation, and the company is in a sector that's highly sensitive to macroeconomic conditions, so the main idea is:

"Even if economic conditions worsen, the company won't be affected too badly, and it might even benefit in some ways; also, the company's development pipeline is stronger than expected and will deliver higher growth when the first deliveries arrive."

Other investment thesis examples include:

- Misunderstood Acquisition or Divestiture
- Misunderstand Threats
- Financial Statement Shenanigans

Investment Thesis

AvalonBay COMMUNITIES, INC.

	Our View	Valuation Implications
Rising Interest Rates	▪ Will actually help AVB by discouraging home ownership and making renting more attractive ▪ 83% of AVB's Debt is fixed-rate with an average maturity of ~10 years	▪ Even if the Cost of Debt rises from 3% to 5%, the company would still be undervalued by **~10%** (Base Case)
Risk of Recession and Decline in Coastal Multifamily Rents	▪ More likely to affect single-family owned homes than multifamily properties ▪ AVB's rental revenue has never declined by more than 2% historically; NAV uses conservative Cap Rates	▪ NAVPS is in the **$180 – $190** range; with 0.5% higher Cap Rates, NAVPS is in-line with current share price
Same-Store Rental Growth and Revenue/NOI Forecasts	▪ Development pipeline should boost 5-year revenue CAGR by ~4% ▪ Consensus forecasts assume only 3-4% annualized growth, implying almost no Development contribution	▪ Cumulative NOI from Development activity boosts share price by **~10%**

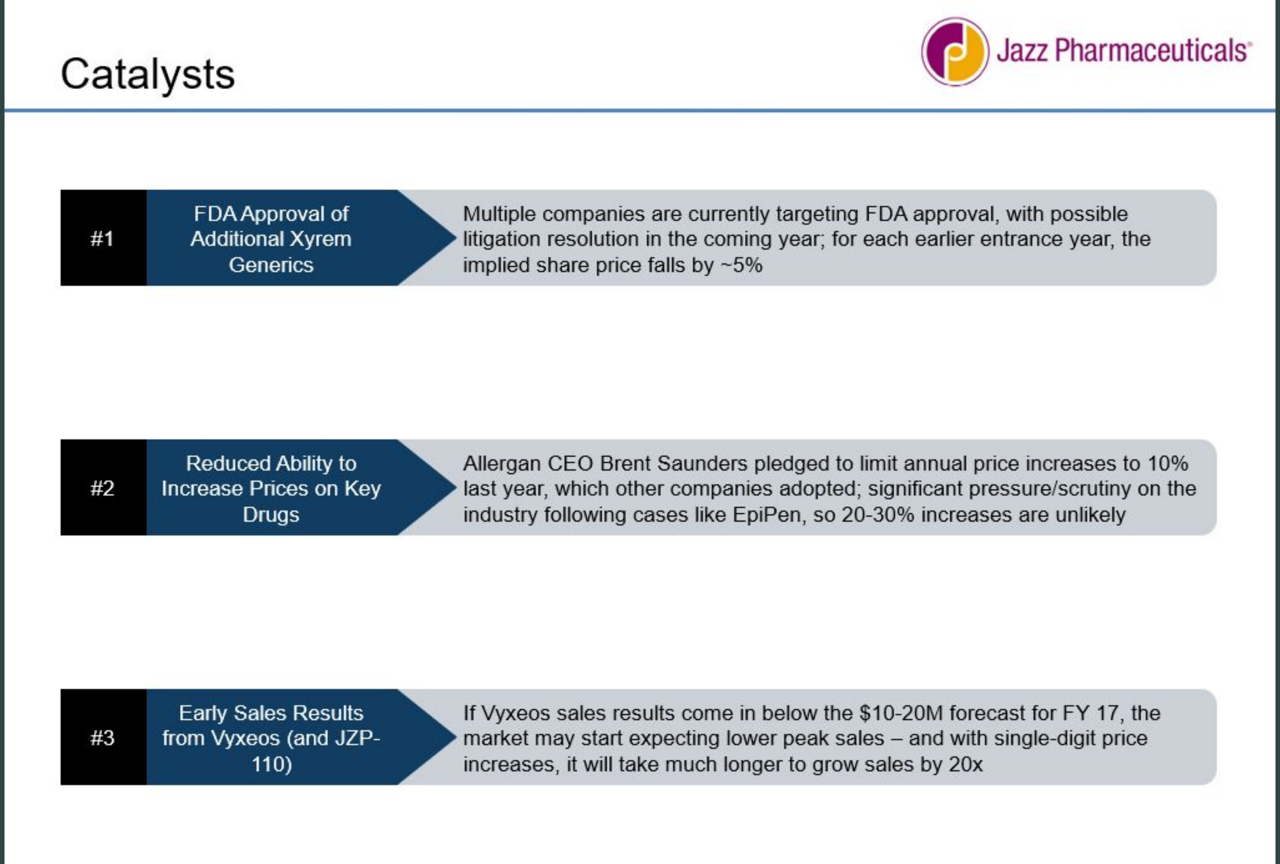
4. Catalysts (1/2)

Catalysts should be events or potential events that might occur within the next 6-12 months.

Hard Catalysts are events that are definitely going to happen and will produce a specific result: earning reports, the announced outcome of clinical trials, or the announced acquisition of a smaller company.

Soft Catalysts are potential events that may or may not happen and where the time frame is less certain, such as a planned international expansion, a change in market share, or the launch of a future competitive product with an unknown release date.

You should prioritise Hard Catalysts, but it's OK to use a mix of both.



4. Catalysts (2/2)

Catalysts are most important for Short recommendations because overvalued companies tend to stay overvalued until a specific event, such as an earnings report far below expectations, suddenly makes everyone come to their senses.

If a company is high-quality, appropriately valued or undervalued, and has solid growth potential, its share price might increase gradually over time, and specific events are not as essential to your investment thesis.

Catalysts

AvalonBay COMMUNITIES, INC.

#1	Stabilization of $1.9 Billion in FY 17 Develop. Deliveries	Assuming a one-year stabilization period and 6.0% – 6.5% average yields, this Development activity will boost AVB's share price by ~5%; 10% boost when factoring in the cumulative activity over 5 years
#2	Increase in Established Communities Rents Above Expected Range	Total same-store rental growth is likely to be ~3% for FY 18, since renting will continue to be more attractive than buying in markets where home prices have risen far more quickly than wages or rent
#3	Planned Expansion into New Markets within the Next Year	The company has announced plans to acquire and develop in Denver, South Florida, and Baltimore; these lower-cost markets should support its targeted Development Yields going forward

5. Valuations

Summarise the output, with a focus on the implied share price in different cases.

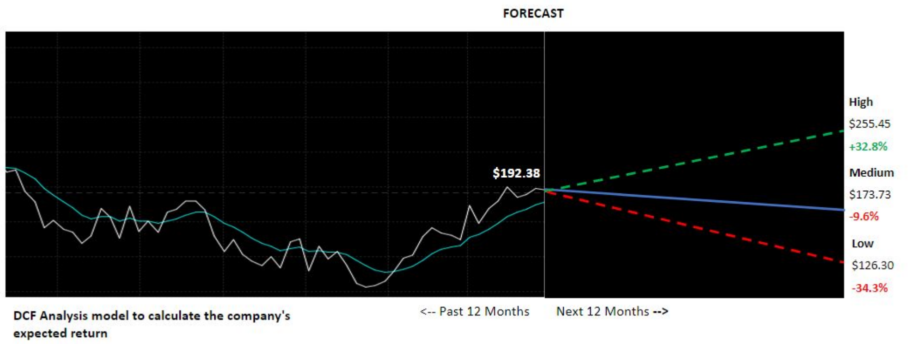
There is a lot of different ways to show the valuation as long as you can back up the numbers with your own analysis. It’s important to explain the analysis you have conducted and what exactly it means for the investors. Always ask yourself so what? What does this figure/number/graph show and as a result what does this mean for the future of the company.

Your Valuations should always be based off an aggregate of the three:

1. DCF Valuation (30% weighting)
2. Share Price Analysis (60% weighting)
3. PE Ratio Based (10% weighting)

1						
2	Adnams PLC 2018	Valuations		Weighting		
3	DCF/FCF Valuation	£73,398,550		30%	£22,019,565	
4	NAV/Book Value	£28,307,000		0%	£0	
5	Share Price/Market Cap basec	£51,492,100		60%	£30,895,260	
6	PE ratio based	£31,567,308		10%	£3,156,731	
7	Dividend	£53,083,039		0%	£0	
8	Multiple	£60,867,077		0%	£0	
9				100%	£56,071,556	
10	Simple Average	£49,785,846				
11						
12	Weighted Average	£56,071,556				
13						

Forecast

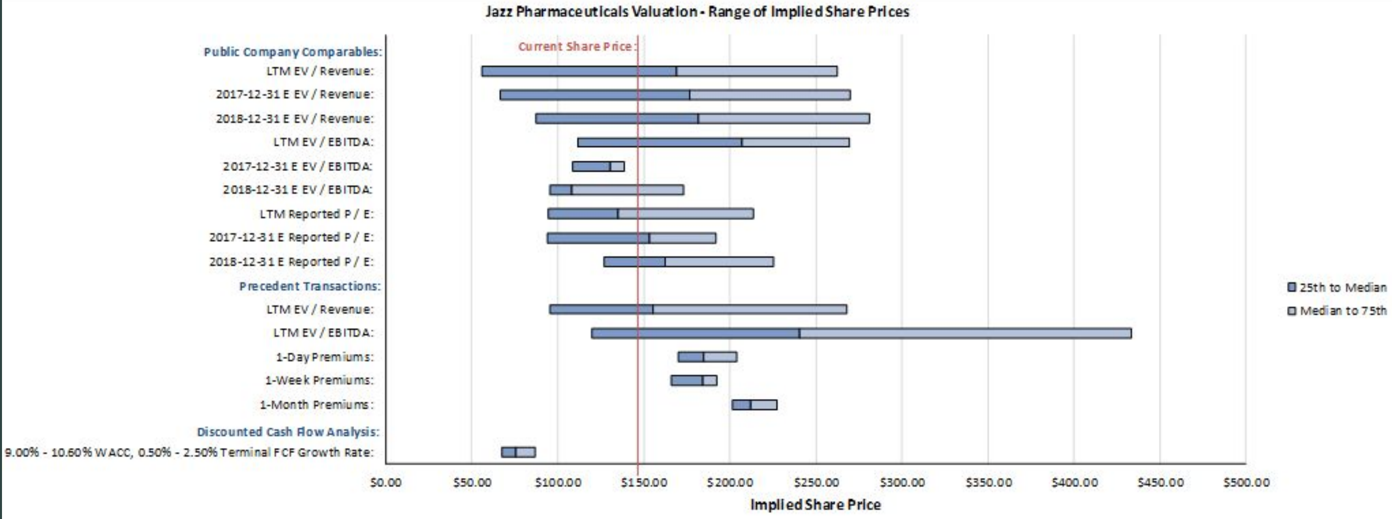


5. Valuations - Example

Valuation Summary

Jazz Pharmaceuticals®

- At first glance, JAZZ seems appropriately valued in the Base Case:



- It trades in-line with the multiples of the Public Comps, and is slightly below those of the Precedent Transactions
- But the **DCF**, with our own long-term views, tells a different story – it produces implied share prices close to those from the other methodologies only in the Upside Case
- The implied share price in the Base and Downside Cases is a **50-70% discount** to the current share price

5. Valuations - Example

Summary of DCF Assumptions

Jazz Pharmaceuticals

	Downside	Base	Upside
Xyrem Peak Sales	▪ $1.5B in FY 19	▪ $2.1B in FY 20	▪ $3.8B in FY 22
Erwinaze Peak Sales	▪ $0.2B in FY 26	▪ $0.3B in FY 26	▪ $0.3B in FY 26
Defitelio Peak Sales	▪ $0.3B in FY 26	▪ $0.4B in FY 26	▪ $0.6B in FY 26
Vyxeos and JZP-110 Sales	▪ $0.4B total in FY 26	▪ $0.8B total in FY 26	▪ $1.6B total in FY 26
Operating Margins	▪ 40% falling to 25-30%	▪ 40% falling to 25-30%	▪ 40% falling to 25-30%
WACC	▪ 10.0% falling to 7.5%	▪ 10.0% falling to 7.5%	▪ 10.0% falling to 7.5%
Terminal Value	▪ 1.5% Terminal Growth	▪ 2.0% Terminal Growth	▪ 2.5% Terminal Growth
Implied Share Price	▪ ~$48	▪ ~$77	▪ ~$157

DCF Output – Sensitivities

Jazz Pharmaceuticals

- Even in the Upside Case, it seems unlikely that the company is undervalued:

Sensitivity - Terminal FCF Growth Rate vs. Discount Rate and Implied Share Price from DCF Analysis:

The only share prices that exceed the company's current share price.

Initial Discount Rate (WACC) (Steps down by 0.25% per year over 10 years):	Terminal FCF Growth Rate: 0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%
10.00%	$ 131.76	$ 134.14	$ 136.69	$ 139.45	$ 142.44	$ 145.70	$ 149.24	$ 153.13	$ 157.40
10.20%	128.38	130.58	132.95	135.50	138.26	141.26	144.51	148.06	151.96
10.40%	125.16	127.22	129.42	131.78	134.33	137.09	140.09	143.34	146.90
10.60%	122.11	124.03	126.07	128.27	130.63	133.18	135.94	138.93	142.20
10.80%	119.21	121.00	122.91	124.95	127.14	129.50	132.05	134.81	137.80
11.00%	116.45	118.12	119.90	121.80	123.84	126.03	128.38	130.93	133.69
11.20%	113.82	115.38	117.04	118.81	120.71	122.75	124.93	127.29	129.83
11.40%	111.30	112.76	114.32	115.98	117.74	119.64	121.67	123.85	126.20
11.60%	108.90	110.27	111.73	113.27	114.93	116.69	118.58	120.61	122.79

- And in the Base Case, we need a substantially lower Discount Rate and higher Terminal Growth Rate for the company to be undervalued:

Sensitivity - Terminal FCF Growth Rate vs. Discount Rate and Implied Share Price from DCF Analysis:

Initial Discount Rate (WACC) (Steps down by 0.25% per year over 10 years):	Terminal FCF Growth Rate: 1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%
7.50%	$ 125.29	$ 132.23	$ 140.33	$ 149.90	$ 161.38	$ 175.41	$ 192.95	$ 215.66	$ 244.43
7.70%	118.67	124.75	131.78	140.01	149.75	161.49	175.89	193.98	217.48
7.90%	112.72	118.08	124.23	131.36	139.72	149.65	161.66	176.45	195.14
8.10%	107.34	112.10	117.52	123.74	130.97	139.47	149.61	161.90	177.11
8.30%	102.46	106.70	111.50	116.98	123.28	130.62	139.27	149.61	162.20
8.50%	98.01	101.81	106.08	110.92	116.46	122.84	130.29	139.10	149.67
8.70%	93.93	97.35	101.17	105.48	110.37	115.96	122.44	130.00	138.98
8.90%	90.18	93.27	96.70	100.55	104.89	109.83	115.49	122.06	129.75
9.10%	86.58	89.49	92.62	96.07	99.95	104.33	109.31	115.05	121.70

Initial Discount Rates of 7.5% - 8.0% and Terminal Growth Rates of 2.5 - 3.5% required for JAZZ to be undervalued currently.

6. Risk Factors and Mitigating Factors

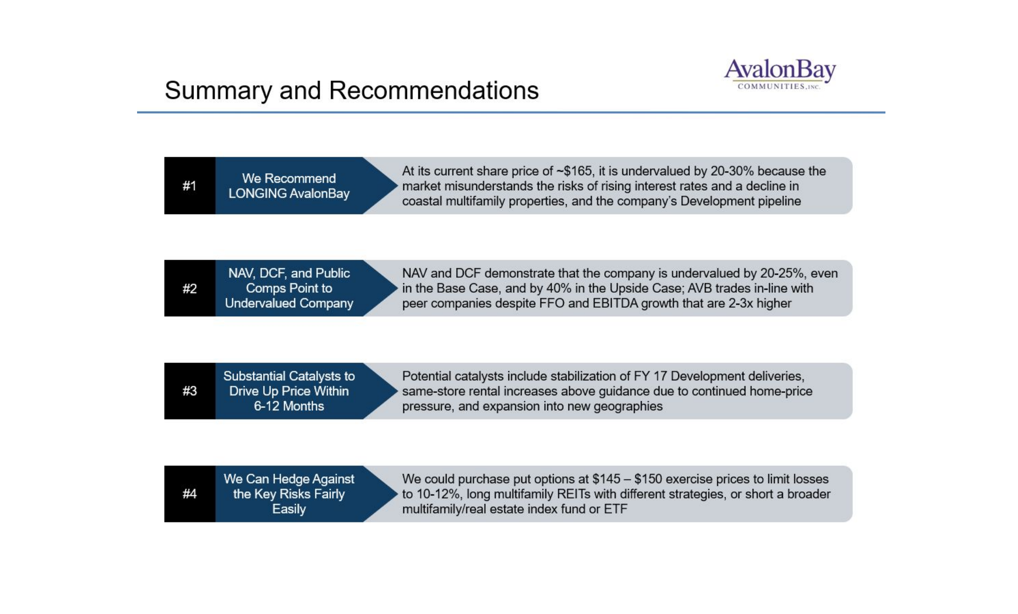
Key Risk Factors

Jazz Pharmaceuticals

- **Risk #1: Late Entrance Year for Xyrem Generics:** FY 23 rather than FY 20-21 boosts Jazz's implied share price by ~10%
- **Risk #2: Vyxeos and JZP-110 Perform Above Expectations:** Upside Case assumptions ($700-$800M in peak sales) applied to Base Case results in implied share price that's 15-20% higher
- **Risk #3: Early-Stage Drugs Gain Positive Clinical Trial Data:** If JZP-258 and JZP-507 perform at the potential of Vyxeos and JZP-110, that could add another $700M in revenue and boost the implied share price by 10-15%
- **Worst-Case Scenario:** If everything above came true and the company performed above our Upside Case, its share price might increase to ~$200
- **Recommended Hedges:** Call options at $170 – $180 exercise prices, or stop-loss or stop-limit orders at a similar range to limit potential losses to 15-20%
- **Other Options:** Could also short Hikma, Par, or other companies attempting to produce Xyrem generics, or long a broad biotech/pharma index fund or ETF to hedge against pricing and early-stage drug risk

7. Final Recommendation

- Final Recommendation – Buy? Sell?
- Summary and Recommendation
- Reasons for this Recommendation
- Current Stock Price
- Range of Predicted Stock Price (Best/Average/Worst Case Scenario) include upside percentage
- Predicted Time Frame (Investment Period, be more specific)



Extra Tips

•Depending on how long the pitch is set. The above information is usually the minimum information that should be included within your pitch. However, if you are tasked with completing a long pitch.

Here are a few things you could potentially add to your pitch deck:

- The current management team (are they new/old) and why this matters.
- The existing shareholders and how they've changed over time.
- How "crowded" the trade is, i.e.. whether or not many other funds have also invested, and the short interest.
- The stock's performance over the past few years.
- The liquidity and average daily trading volume of the stock.
- Due to time being an issue, you can hand out stock proposition pages to the Director's.

Stock Pitch Mistakes to Avoid

Avoid this:

- 1. Unnecessarily Detailed Model
- 2. Inability to Support the Main Assumptions
- 3. Poor or Non-Existent Catalysts
- 4. Poor or Non-Existent Risk Factors and Mitigants
- 5. Lack of Conviction
- 6. Body Language

Q&A + Generation Information

Pitch Duration: 10 minutes max followed by 5 minutes questions

Dress Code: Smart Casual

Stock Pitch Date: 15 March

Upcoming Events this Week

Panellist event with CISI

Joe Bartley Speaker Event

Attendance

We just want to track attendance for this so please scan and submit and we will forward all the slides and etc after this is done.