Deep Dive Process

1. **Understand the basics of a company (4-6 hours)**
   - Browse company website
   - Read the 10-K cover to cover
   - Read 2-3 sell-side initiation reports

2. **Build simple annual operating model (4-6 hours)**
   - Look at organic volume & pricing trends going back 10+ years
   - Assess historical margin trends & incremental margins
   - Note major capital allocation decisions
   - Get a sense of base-rate algorithm for revenue, EBITDA & EPS

3. **Identify & understand the top 3 fundamental drivers (2-4 hours)**
   - Analyze key business segments as a % of revenue & EBIT
   - Understand what line items in model are the key profit drivers
   - Read the last 6 months of sell-side notes & identify bull vs. bear debate

4. **Build 30-year operational DCF (2-4 hours)**
   - Understand what the stock price is telling you about expectations
   - Develop bull, base, bear scenarios on key drivers & compare to stock

5. **Understand valuation & market embedded expectations (2-4 hours)**
   - Use DCF to understand the expectations that are baked into the price

6. **Wrap your arms around current stock narrative (10-12 hours)**
   - Spend the time to understand management message to the Street
   - Listen to past investor day's, last 8 earnings calls, last 4 conf webcasts

7. **Build full quarterly model (if we don't have one) (10-12 hours)**
   - Focus on detailed revenue build, granular cost structure build
   - Tie 3 statements together & focus on cash cycle through the business

8. **Comparative Competitive analysis (4-6 hours)**
   - Compare company to key competitors – organic growth, margins
   - How does company compare to peers on key efficiency metrics
   - Is company out/underperforming? Is there opportunity or threat?

9. **Identify past case studies that inform (4-6 hours)**
   - Is this an HMO with depressed margins? How have the past handful of HMO margin expansion stories developed for the business & stock?

10. **Schedule call with company IR or CFO (1 hour)**
    - Walk through list of questions with management
    - Compare your assessment with management's view
    - Assess management's likelihood of creating value for stock

11. **Identify competitors & channel contacts & schedule calls (10-14 hours)**
    - Focus on uncovering direct evidence relevant to the 3 key drivers
    - Attend key industry (non-sellside) conferences ex. Becker's Hospital
    - Develop a reputation as an authority on the industry, create a network of industry contacts

12. **Identify upcoming catalysts & develop a view on them (8-10 hours)**
    - Understand market embedded views for upcoming catalysts
    - Assess which catalysts we have a divergent view based on PSUC framework *(1 minus (win % / (win % plus absolute value of loss %))*

13. **Develop 1) bull 2) base & 3) bear case based on research (2-4 hours)**
    - Develop bull, base & bear stock values
    - Put probabilities on those cases & develop probability tree value, compare that price to stock price – is there a disconnect?
    - Compare reward price to risk price, is there asymmetry here?

14. **Develop continuing diligence plan (1 hour)**
    - Plan to regularly check in with industry contacts, competitors & company representative
    - Plan to monitor company press releases, conference presentations & other catalysts

Total Process: (60-90 hours, or 4-6 days of work)
Granular training modules on each