

MarketGrader Ratings

Designed to Identify Growth Compounders at a Reasonable Price



MarketGrader's Ratings are designed to identify the best compounders of growth among the universe of public companies globally. And while growth companies are the primary drivers of long-term shareholder returns, the price you pay for such companies matters. We believe therefore that any successful long-term capital appreciation approach should focus on finding high quality companies that are proven compounders of value. MarketGrader's GARP formula doesn't look for cheap companies; it looks for sustainable growth at a reasonable valuation.

Our Ratings are Based on Three Core Premises

- Growth compounders are the bedrock of a portfolio's long-term performance.
- In order to identify long-term growth compounders, single metrics don't tell the whole story behind a company's ability to sustain growth.
- There is a significant difference between buying cheap stocks, with limited upside, and buying long-term growth compounders at a reasonable valuation.

Our Process

Our process starts with the collection and screening of the financial statements of all publicly traded global companies with reliable and consistent reports. MarketGrader screens through millions of data records to identify reporting anomalies and inconsistencies and filters out those it deems unreliable. Once all companies are filtered, the data in their financial statements, along with historical stock prices, form the foundation of our analysis and our company ratings.

Next, we calculate a series of metrics across companies of all sizes and in all sectors that we believe are critical to identify sustainable growth compounders. These are classified within a few broad categories that seek to identify the following company characteristics:

- Consistent top to bottom line growth—not just explosive short-term growth—with sustainable margins and high cash flow generation.

- Sound capital structure that doesn't impair operating growth, combined with high returns on invested capital and low capital intensity.
- Reasonable valuations relative to sustainable growth rates.

Next, we aggregate all these data points into 24 individually graded indicators, which we classify into four categories of our analysis: Growth, Value, Profitability and Cash Flow. Since business models vary greatly across industries and sectors and between companies of very different scale, our indicators also vary to account for such differences. However, while company-specific indicators may vary based on industry, sector or size, the overall focus on identifying long-term compounders of value does not. Thus, all 24 indicators for any company are always graded within our four core categories of Growth, Value, Profitability and Cash Flow.

MarketGrader's Fundamental Indicators

Example showing indicator differences for two companies in different industries

Growth

Internet Retail	Bank
Business Growth LT	Business Growth LT
Business Growth ST	Business Growth ST
EPS Weighted Growth	EPS Weighted Growth
Growth Potential	Dividend Growth
Earnings Impact	Earnings Impact
Earnings Surprise	Earnings Surprise

Value

Internet Retail	Bank
Capital Structure	Dividend Yield
P/E Analysis	P/E Analysis
Price To Book Ratio	Price To Book Ratio
Price To C. Flow Ratio	Price To C. Flow Ratio
Price To Sales Ratio	Price To Sales Ratio
Market Value	Market Value

Profitability

Internet Retail	Bank
Asset Utilization	Net Interest Margin
Capital Utilization	Return On Assets
Operating Margins	Operating Margins
Relative Margins	Relative Margins
Return On Equity	Return On Equity
Gross Profitability	Interest Ratio

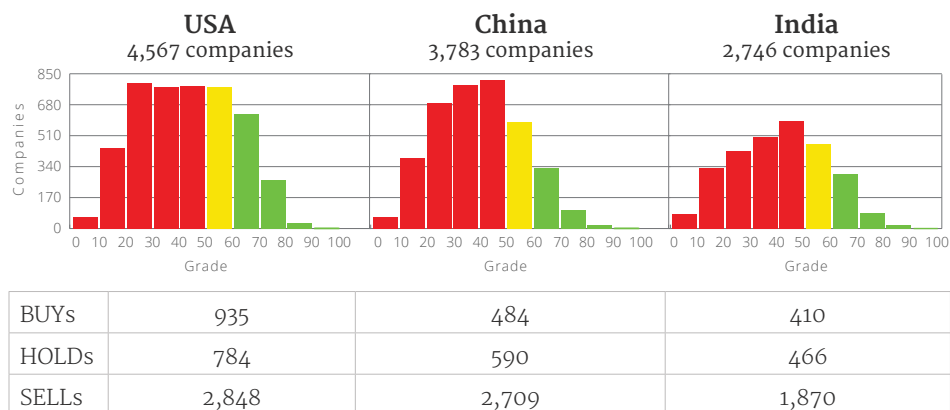
Cash Flow

Internet Retail	Bank
Cash Flow Growth	Cash Flow Growth
EBITDA Margin	Tangible Equity Ratio
Debt To C. Flow Ratio	Loss Reserve Ratio
Interest Cov. Ratio	Yield Analysis
Economic Value Added	Solvency Ratio
Working Capital Ratio	Capital Ratio

Lastly, we aggregate all 24 indicators into a final MarketGrader Score and Rating. This allows us to apply a standardized global rating methodology to companies in diverse industries and of different sizes. These indicators are not equally weighted; their importance varies according to MarketGrader's research on the key factors we believe helps us identify growth compounders at a reasonable valuation.

The MarketGrader Ratings allow us to select the best companies—or best compounders of value—in any particular country, region or on a global basis. The rigorous analysis we apply to every single company means that, historically, only the very best receive the highest ratings and, consequently, get selected to the MarketGrader Indexes.

Breakdown of MarketGrader Ratings for Companies Under Coverage in the U.S., China and India - April 2020



MarketGrader's Rating Process

Financial Statements



Data Screening



Core Metrics



Fundamental Indicators



Grades and Ratings

BUY ○ 60 to 100

HOLD ○ 50 to 60

SELL ○ 0 to 50