

Ticker:	<b>XOXO</b>					 <b>L I G H T H A V E N</b> CAPITAL MANAGEMENT
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**General**

Date:	8/23/2013	Company Type:[1]	Slow Grower	In portfolio?[2]	No
Company Name:[3]	XO Group Inc.	Current Price:[4]	13.38	Market Cap:[4]	359.13M
Company Description:[5]	<p>XO Group Inc. (XO Group), formerly The Knot, Inc., is a media and technology company. The Company is engaged in the business of weddings, pregnancy and everything in between, providing young women with the information, products and advice to guide them through the transformative events of their lives. Its family of brands began with the wedding brand, The Knot, and it also includes WeddingChannel.com, The Nest, The Bump and Ijie.com. The Company has its presence in all media from the Web to social media and mobile, magazines and books, and video - and social platforms. The Company has businesses in online sponsorship and advertising, registry services, ecommerce and publishing. The Company has a network of Websites under several different brands. These sites offer content and services tailored to the engaged, newly married, and pregnant audiences.</p>				

**Conclusions[6]**

Commentary:[7]	<p>XO Group Inc., which encompasses The Knot, WeddingChannel.com, The Nest, and The Bump, is a leading company in the wedding, newlywed, and pregnancy online and print industries. Even as a market leader, the Company seeks to expand internationally and update its features and products to accommodate changes in consumer preference and technology. Overall, the largest concern regarding the Company is the quality of management and employee loyalty to the organization, which currently seems to be poor.</p>				
Reasonable Growth Rate (%):[8]	23%	<p>Due to the natural increase in domestic target market, investment into R&amp;D, constant improvements to product lines, and plans for international expansion, \$XOXO could reasonably increase its sales by 23% in the future.</p>			
Fundamental Strength:[9]	Strong	<p>XO Group is a strong company because it is a well-established brand that presents itself through a wide variety of media. The Company constantly seeks to improve its products and expand. The Company considers future opportunities and anticipates problems. It also has a competitive edge through converting its customers' wedding accounts into its newlywed and pregnancy media after the wedding. However, its management-employee relationship is weak and raises some questions regarding the company's values.[10]</p>			
Valuation (PEG):	1.32	<p>A Price to Earnings ratio of 1.32 indicates that the company has the potential to increase its value.[11]</p>			
Proposed Action:[12]		[13]			

## I. QUANTITATIVE - ANALYSIS

Author: **Jenny Hsieh**      Readability:      Detail:      Analysis:

### Revenue Analysis

Revenues[14]		Millions									
Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain	Full Year	% Gain	
2013	30.27	1.66%	36.99	4.38%							
2012	29.78	8.29%	35.44	2.12%	31.73	2.19%	32.18	3.99%	129.13	3.97%	
2011	27.50	3.77%	34.70	13.40%	31.05	13.73%	30.95	12.53%	124.19	10.99%	
2010	26.50	11.81%	30.60	3.73%	27.30	-3.19%	27.50	9.56%	111.90	5.07%	
2009	23.70	-0.42%	29.50	2.79%	28.20	4.44%	25.10	2.87%	106.50	2.50%	
2008	23.80		28.70		27.00		24.40		103.90		
Average Growth		5.02%		5.28%		4.29%		7.24%		5.63%	

**Revenue Notes[15]**      Quarterly revenue growth has been positive, but The XO Group is not a fast grower, and the %Gain has been very small in the last few years (1-8%). % Gain decreased from Y2011 to Y2012. However, the current industry average revenue growth is close to 0%. Comparatively, XO is doing well.

### Profitability Analysis

EPS[16]		Dollars									
Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain	Full Year	% Gain	
2013	\$0.07	250.00%	\$0.16	23.08%							
2012	\$0.02		\$0.13	30.00%	\$0.08	100.00%	\$0.13	44.44%	\$0.36	71.43%	
2011	-\$0.02		\$0.10	233.33%	\$0.04	33.33%	\$0.09	125.00%	\$0.21	110.00%	
2010	\$0.00	-100.00%	\$0.03	-40.00%	\$0.03	50.00%	\$0.04	-121.05%	\$0.10	-162.50%	
2009	-\$0.04	-300.00%	\$0.05	-28.57%	\$0.02	-71.43%	-\$0.19	533.33%	-\$0.16	-223.08%	
2008	\$0.02		\$0.07		\$0.07		-\$0.03		\$0.13		
Average Growth		-50.00%		43.57%		27.98%		145.43%		-51.04%	

**Earnings Notes[17]**      EPS growth from Y2010 to Y2013 is impressive. % Gain increased from -162.5% to 110% to 71.4%, which is a good sign. The higher increase in % Gain in Q2 and Q4 suggest that \$XOXO is a seasonal company. Overall, % Gain is considerably higher for earnings than for revenue, which should be investigated to determine whether this trend is sustainable long-term. Upon looking into the most recent earnings calls, XO Group provides plenty of information regarding the sources of increased revenue. In terms of revenue-earnings relationship, Y2013 Q2 earnings call states, " For the quarter ended June 30, 2013, the company's operating profit was \$6.4 million compared to \$5.2 million in the prior-year quarter. The \$1.2 million increase in operating profit was primarily due to increased revenue in our online sponsorship and advertising business, partially offset by lower gross margins in merchandise, publishing and other, and slightly higher operating expenses."

Trailing EPS =

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0.50

<b>Trailing EPS Notes[18]</b>	EPS is continually growing in a stair-step pattern, which is not bad. However, the growth seems to be rather slow.									

Owner Earnings Analysis						
Year	Net Income[19]	Depreciation[20]	Amortization[21]	Capital Expenditures[22]	Owner Earnings Analysis	Growth%
2012	\$8.71	\$3.85		\$3.03	\$9.54	
2011	\$6.04	\$4.70		\$11.64	-\$0.90	-115.13%
2010	\$3.65	\$5.21		\$2.92	\$5.947	129.44%
2009	-\$4.87	\$9.85		\$2.38	\$2.592	
Average Growth						
<b>Owner Earnings Notes[23]</b>	Owner Earnings decreased significantly from Y2010 to Y2011 because Net Income increased by 3 million while Depreciation decreased by .5 million, while Capital Expenditures increased a whopping 8.7 million.					

Pre-Tax Margin Analysis										
Pre-Tax Profit[24]	Millions									
Year	Q1	% Margin	Q2	% Margin	Q3	% Margin	Q4	% Margin	Full Year	% Margin
2013	\$2.81	9.27%	\$6.32	17.08%						
2012	\$0.59	1.97%	\$5.20	14.67%	\$3.33	10.49%	\$5.20	16.14%	\$14.31	11.08%
2011		0.00%		0.00%	\$2.27	7.31%	\$3.98	12.87%	\$6.26	5.04%
<b>Margin Notes[25]</b>	Pre-Tax Margin has increased quarterly as well as annually. Although the growth rate of quarterly Pre-Tax Margin is very inconsistent, the annual % Margin has increased YOY, which is a good sign.									

Balance Sheet Analysis										
Cash & ST Securities[26]	Millions									
Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain		
2013	75.00	8.70%	83.00	18.57%		-100.00%		-100.00%		
2012	69.00		70.00		73.00	-13.10%	77.00	0.00%		
2011					84.00		77.00			
LT Debt[27]	Millions									

Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain
2013	0.00		0.00					
2012	0.00		0.00		0.00		0.00	
2011	0.00		0.00		0.00		0.00	
<b>B/S Notes[28]</b>	No long term debt and substantial cash and short term securities. This is a good sign and indicates the Company has a solid balance sheet.							
<b>Diluted shares[29]</b>	Millions							
Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain
2013	25.25	-3.21%	25.59	2.06%				
2012	26.09		25.08		24.82	-13.89%	24.89	-8.58%
2011					28.82		27.23	
<b>Diluted Shares Notes [30]</b>	Diluted shares have overall decreased from Y2011 to Y2013 (by 8.6%), which suggests company repurchasing of stock, which is a good sign.							
<b>Inventory[31]</b>	Millions							
Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain
2013	3.00	0.00%	3.00	0.00%				
2012	3.00		3.00		2.00	-50.00%	2.00	-50.00%
2011					4.00		4.00	
<b>Inventory Notes[32]</b>	Inventory % Gain does not correspond to that of earnings nor of revenue, which is not particularly concerning because \$XOXO does not manufacture products. We should delve deeper into what comprises XO's inventory.							

### Free Cash Flow Analysis

Year	Cash From Ops[33]	Capital Expenditures[34]	Free Cash Flow	Free Cash Flow Per Share	EPS	FCF Multiple
2012	\$25.57	\$3.03	\$22.542	\$0.88	\$0.36	7.45
2011	\$24.05	\$11.64	\$12.409	\$0.48	\$0.21	1.07
2010	\$11.06	\$2.92	\$8.144	\$0.32	\$0.1	2.79
2009	\$12.33	\$2.38	\$9.948	\$0.39	-\$0.16	4.18
<b>Cash Flow Notes[35]</b>	The FCF Multiple does not have a significant pattern. However, it increased from 1.07 in Y2011 to 7.45 in Y2012, which is a good sign. This increase is due to a spike in Capital Expenditures from 2.92 million to 11.64 million to 3.03 million in Y2010 to Y2012, which leads to the question of whether XO is seeking to invest capital for expansion and revenue growth.					

### Institutional Ownership

Year	Q1	% Gain	Q2	% Gain	Q3	% Gain	Q4	% Gain
2014								
2013			77.3					

### Historical P/E Analysis

P/E Ratio —

<b>Historical P/E Notes</b> [37]	P/E has stayed quite consistent from Y2011 to Y2013.									
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Growth and Valuation Analysis											
Reuters LT Growth Rate:[38]	N/A	Rolling 4Qs EPS:[39]	\$0.44[40]	P/E Ratio[41]	30.41	Cash/Share [42]	3.243				
Reasonable Growth Rate (%):[43]	23.00%	Projected Growth (Low):[44]	10.00%	Current Price:	\$13.38	Cash Flow / Share[45]	8.205				
Reasonable Price:	\$10.12	Bargain Price:	\$4.40								
<b>Valuation Notes</b>	Reasonable Growth Rate is based on the most recent earnings growth of 23%. Projected Low Growth rate is a percentage substantiall lower than the annual growth rate of earnings from Y2012 to Y2013, which is 10%. The Reasonable Price is 10.12, while the current price is 13.38.										

II(a). QUALITATIVE - ANALYSIS											
<b>Author:</b>	Jenny Hsieh				Readability: G	Detail: G	Analysis: OK				
Detailed description of product/service:[46]								Scuttlebutt?			

XO Group offers multiplatform media services to wedding, newlywed couples, and first-time pregnancy markets in order to guide these individuals through these three milestones in their lives.

XO Group's wedding planning websites provide future brides and grooms with searchable databases that draw on articles about weddings, including planning advice, etiquette, Q&As, real wedding stories, tips on getting engaged, fashion, beauty, grooms, the wedding party, and honeymoons. TheNest.com offers information and resources on everything from merging bank accounts to making dinner, with searchable databases for recipes, home décor, and real estate. For couples who are getting ready for a baby, TheBump.com provides baby naming tools, nursery décor ideas, and a host of health and development-related information. Each of the content areas offers articles, ideas, hundreds of photo slideshows, and videos, all covering a wide range of styles, perspectives, budgets, traditions, lifestyles and ethnicities. TheKnot.com offers personalized interactive wedding planning tools, including checklists, budgeters, guest list managers, calendars, and reminder services. An online scrapbook gives users the ability to save favorite dresses, articles, photos, vendors, honeymoons, wedding supplies, and other planning information. After a couple's wedding day, these personalized tools are automatically converted to the newlywed website, TheNest.com, to help them organize their new life as a married couple. The guest list manager is used to track thank-you notes, and couples receive an entirely new checklist and budgeter to help them organize their newlywed to-dos and finances. In addition to a wedding invitation, couples increasingly use personal wedding websites to convey the details of their wedding celebration. Guests use this site to RSVP, research lodging information, and learn where the couple has registered for wedding gifts.

The local resource areas on XO Group websites provide access to the local wedding market through online regional guides that currently host over 22,000 local vendors who display over 29,000 profiles, highlighting offerings for reception halls, bands, florists, caterers and other wedding-related products and services across over 80 local markets in North America. Each local city guide provides a listing of the area's marriage license offices, upcoming bridal events, photo albums of recent weddings in the area and a local message board where to-be-weds can discuss getting married in their market.

Knot TV is a continuous video stream that includes a wide range of wedding content, including shows about choosing the most creative cake, hiring the best videographer, planning dream honeymoons and learning about real weddings across the country. XO Group produces video on demand content for The Knot, The Nest, and The Bump brands, covering everything from wedding fashion to home tours to mommy advice. The Knot TV On Demand provides video content from dozens of bridal fashion runway shows for brides to watch when they want, including programs on the latest trends in dresses, silhouettes, necklines, and accessories. Our video content is also distributed to AOL.com video, MSN.com video, YouTube, and Sling Media. The Knot TV also features live programming with limited runs of The Knot LIVE, a weekly magazine format show.

XO Group also owns and operates a network of highly targeted websites that offer unique services of interest to engaged couples. These include niche weddings sites such as ChineseWeddingsbyTheKnot.com, BeachWeddingsbyTheKnot.com, GayWeddingsbyTheKnot.com and over 300 other sites tailored to the most searched-for wedding destinations and themes. The sites feature local listings, forums, real wedding photos and local planning advice. In 2010, Ijje by The Knot was launched. It is a multiplatform resource providing Western inspiration and local advice for weddings, relationships and pregnancy for the Chinese consumer.

XO Group sells both the national and local editions of The Knot Weddings magazines through newsstands, bookstores, and online, and the Company distributes local editions of The Bump pregnancy guide to doctors' offices across the country. The Knot Weddings magazine is a comprehensive, searchable shopping guide providing directories of wedding gowns, fine jewelry, china, home products, invitations, wedding supplies, honeymoon packages and local wedding vendors. The Knot Weddings national magazine is available in digital format as well. The Company publishes regional wedding magazines semi-annually in 17 markets in the United States.

The Bump magazine features local resources and modern advice from our editors and nationally-recognized experts. Distributed at no charge through OB/GYN offices in 20 markets nationwide, The Bump magazine is specifically designed to connect first-time parents with the information and resources they need to prepare for a baby. XO Group offers a library of up-to-date wedding books authored by Chief Content Officer Carley Roney. These books feature extensive information on everything a bride and groom need to know when planning their wedding and includes worksheets, checklists, etiquette, and answers to frequently asked questions. XO Group produces a series of books for The Nest brand. The Baby Bump is a comprehensive, modern guide to pregnancy and has subsequently released versions of this book in multiple languages, including Spanish, French and Dutch.

What's our edge?[48]

Scuttlebutt?

Several individuals at Lighthouse have had weddings and can understand the wedding, marriage, and child-rearing industry from a consumer perspective.

How good is the product/service?[49]

Scuttlebutt? customers

A majority of the books and magazines produced by XO Group have strong ratings (4/5 stars), attributed to production quality, feasibility of these products as gifts, and comprehensiveness of material. The Company's websites, however, have a decent but weaker rating (3-3.5/5 stars). Many user complaints concern having to register before viewing content; incompleteness of content; product ratings submitted by employees/paid ratings; and unreliability of product shipment. Observably, XO publications are a stronger product than its websites. nevertheless, many consumers admit in their website reviews that The Knot/The Bump/The Nest is a good starting point for beginners in the marriage/newlywed endeavor.

Google Trends (Search term: the knot wedding):[50]

Scuttlebutt?



Search rate for Y2008-Y2013 has been notably higher than that of Y2005-Y2008 (increase from a 30 rate to a 50 rate), which is a good sign. One may observe from Google Trends that XO Group is somewhat cyclical, but not in a severely regular pattern.

Product/Service Trending?[51]

Scuttlebutt?

XO Group Inc. conducted a study that concluded the expenditures during the wedding, newlywed, and first-time parent lifestages, including weddings, honeymoons, registries, setting up a first home, and adding a baby to a household, amount to nearly \$180 billion every year in the U.S.

Each year, approximately 2.1 million marriage licenses are issued in the United States as reported by the National Center for Health Statistics ("NCHS") National Vital Statistics Reports. Consumers consider their weddings to be once-in-a-lifetime milestone occasions and allocate significant budgets to the wedding and related purchases. According to The Knot Market Intelligence's Annual Real Weddings Survey of nearly 18,000 recent brides, the average amount spent on a wedding in the United States in 2012 was just over \$28,000, including the cost of the engagement ring but excluding the cost of the honeymoon and gifts.

The increasing popularity of online social-networking and user-generated content has changed consumer behavior. In addition to ideas and advice from experts, to-be-weds seek a place to connect with other engaged couples and to share their personal stories.

The wedding market also represents significant opportunities for the retail industry. The average U.S. wedding has approximately 140 guests. According to The Knot Market Intelligence's 2012 Registry Study, these guests spend between \$50 and \$100 for a gift, on average, depending on their relationship to the couple. Because items are selected by the engaged couple but purchased by their guests, couples can have low price sensitivity, and retailers discount traditional registry products less often than other merchandise. Registering for products in all categories has grown to include less traditional registry items such as power tools, electronics, and honeymoons, which has prompted many national retailers, previously without registries, to enter the gift registry market. Management estimates that the total bridal registry and gifting market is approximately \$10 billion annually, which includes completion of registry purchases by the couple that occur after the wedding, as well as cash gifts. Weddings also generate substantial revenue for travel services companies. We estimate that honeymoon travel by U.S. couples generates approximately \$6 billion annually, based upon The Knot Market Intelligence's 2011 Honeymoon Study.

Besides moving in together and getting married, the other major milestone couples face is the birth of their first child. According to the NCHS National Vital Health Statistics Reports, of the more than 4.0 million U.S. births every year, 1.6 million are first-borns. Like planning a wedding or shopping for insurance, first-time pregnancy creates a tremendous deadline driven need for information and products. Based on data from the United States Department of Agriculture Expenditures on Children by Families 2011 report, first-time mothers in the U.S. are estimated to spend nearly \$20 billion on their babies (newborn and toddler).

The combination of increasing spending on weddings and newborns and increasing utilization of online resources pertaining to these events will result in the increasing trend of XO Group's products.

What company needs to do to thrive:[52]

Scuttlebutt? company

The Company's strategy to maintain its leading position as a leading lifestage media and technology company for its target market and expand domestic as well as international markets can be achieved through brand leverage, membership base, and connecting with advertisers. Maintaining brand recognition in the consumer marketplace is critical to attracting an audience that refreshes 100% every year. XO Group's brands are currently located on bookshelves, newsstands, online, on mobile devices, and on television. However, the Company also distributes its content and licenses its brands through partnerships on a variety of media platforms and in international markets. Aggressive public relations outreach is another key tool the Company uses to promote its brands and acquire customers while limiting costs. In the last twelve months, company personnel representing The Knot, The Nest and The Bump have appeared regularly on national and local television programs promoting these brands. Together, these efforts create strong word of mouth. XO Group's relationship with its audience also includes services that are provided directly, including the recently upgraded e-commerce shops for wedding and baby gift items, the WeddingChannel registry platform, and other books, products, and services. The Company is focused on connecting directly with the audience, presenting hard-to-find items, tools specific to the lifestages it serves, as well as transactional opportunities. For local wedding service providers, the Company simplifies the marketing process by providing targeted exposure across multiple websites with easy to use account management tools. With a large number of weddings and an affinity for Western styles, the Company believes there is a substantial opportunity to serve Chinese couples with information and services about Western-style weddings, through the launch of websites such as ljie.com. The Company has established an exclusive licensing arrangement for a major Australian media company to operate TheKnot.com.au and publish The Knot Weddings Magazine Australia. XO Group needs to continuously look for these international opportunities.

What is the company's stated plan for increasing earnings?[53]

Scuttlebutt? company

Recently, consumers have rapidly adopted smartphones, tablet computers and other mobile technology and have been using these devices as their primary access point to digital services. XO Group continuously builds tools and creates services for its audiences in order to meet their needs for information and services across multiple media streams. The Company has built several mobile apps, including popular apps such as The Knot Wedding Planner, The Wedding Dress Look Book, and My Pregnancy Calendar by The Bump. Tools such as the newly designed global wedding planner presents the lifestage content in innovative ways. On Valentine's Day 2013, XO Group streamed its first ever live wedding, the culmination of the Knot Dream Wedding Contest in which the audience voted on the couple and elements of the wedding. The Company continues to seek innovative ways to execute public relations events. XO Group constantly seeks to partner with national advertisers to design highly targeted, integrated campaigns. Recent campaigns have featured events organized by The Knot, The Knot Live TV, sponsorships of mobile apps, and other lifestage brands and platforms. XO Group continues to garner attention for its brands via editorial appearances on national television, presence on newsstands, and content syndication partnerships. The Company's editors appear frequently on national and local television and radio programs, as well as attend industry trade shows around the country. Its content syndication and content distribution partnerships include AOL, MSN, Sling Media, Sugar Inc., McClatchy Tribune, YouTube, Yahoo! and The Huffington Post, among others, and XO Group continues to release new products. The Company is focused on identifying international opportunities to drive further growth. In 2009, XO Group established a software development center in Guangzhou, China for the purpose of increasing technology development productivity without materially growing technology costs. The software development center also is serving as a development resource for expanding our business in China. Besides ljie.com, XO Group has launched partnerships with two of the largest portals in China, SINA and cn.msn.com, for which it provides wedding and lifestyle content on cobranded "Wedding" channels. In addition, the Company established an exclusive licensing arrangement for a major Australian media company to represent its brands in Australia.

Competition:[54]

Scuttlebutt? company/cu

XOXO's biggest competitors are Advance Magazine Publishers Inc (a private company), iVillage Inc (a private company), and Martha Stewart Living Omnimedia (\$MSO). Advance Magazine Publishers Inc. Advance Magazine Publishers Inc., doing business as Conde Nast Publications, Inc., publishes consumer magazines, business-to-business magazines, Websites, and applications for mobile and tablet devices. The company also offers Condé Nast Style Society, an online social hub for style-focused women that provides brand insights, product testing, and co-creation opportunities; media sales and marketing services; and database and preferred subscriber network applications, including analytics and modeling, targeted communications, brand profiling, and custom research. In addition, it provides a multimedia creative studio that offers strategic solutions across Web, mobile, tablet, video, social, and emerging platforms; news and analysis for the global fashion community; and branded licensed products, including bedding and room décor, wedding invitations, a cookware collection, training aids, and gift products. iVillage, LLC operates as a content-driven community for women online. Its categories include beauty and style, entertainment, food, forums and message boards, health, home and garden, relationships, newsletters, and parenting and pregnancy. The company was incorporated in 1995 and is based in New York, New York. As of May 15, 2006, iVillage, LLC operates as a subsidiary of NBCUniversal Media, LLC. Martha Stewart Living Omnimedia, Inc., an integrated media and merchandising company, provides lifestyle content and products for its consumers worldwide. Its media and merchandise focus on areas, such as cooking and entertainment, holidays and celebrations, crafts, home, weddings, organizing office products and accessories, gardening and outdoor living, and pets. The company operates through three segments: Publishing, Merchandising, and Broadcasting. The Publishing segment engages in magazine and book publishing, and digital distribution principally through its Website, marthastewart.com. This segment offers Martha Stewart Living, a magazine that offers lifestyle ideas and how-to information for the college-educated woman between the ages of 25 and 54; Martha Stewart Weddings, a quarterly publication distributed primarily through newsstands that targets brides and serves as a vehicle for introducing young women to brands; and special interest publications. The Merchandising segment consists of operations related to the design of merchandise and related packaging; collateral and advertising materials; and the licensing of proprietary trademarks in connection with retail programs conducted through various retailers and manufacturers. The Broadcasting segment engages in the production of television programming; the domestic and international distribution of library of programming in existing and repurposed formats, as well as operates a satellite radio channel and provides talent services. \$MSO's market cap is 193.96M with a -0.81 EPS and undisclosed P/E ratio. Comparatively, \$XOXO's market cap is 295.02M with 0.44 EPS. \$MSO has negative growth rate for revenue as well as earnings in recent years. Additionally, the overall industry to which XO Group belongs has nearly 0% growth in revenue and earnings. Comparatively, XO Group is a strong company with fast growth.

Competitive Edge (strong, medium, weak) and why?[55] **Scuttlebutt?** company/co

XO Group's competitive edge is medium. Many independent websites and online forums are dedicated to the same material and audiences as that of the Company. However, most of these other websites are not as comprehensive as those of XO Group. In addition, XO Group serves audiences in chronological milestones - marriage, newlywed, and pregnancy - while being able to link accounts from one website to another, leading members to patronize XO Group in one way or another over several years. XO Group partners with well-known brands that appeal to the target audience and those with brand loyalty. Additionally, XO Group's books are often written in series and editions, which prompts customers to buy several books instead of just one.

What (if anything) is the company doing to further improve its competitive edge?[56] **Scuttlebutt?** company

Besides global expansion into Asia and Australia, as mentioned in how the company seeks to expand, XO Group is on the whole looking to maintain its position as the leader in its niche rather than improving its competitive edge.

How strong is the company's brand?[57] **Scuttlebutt?** customers

The Company's brand is strong. According to many customer reviews, websites by the XO Group are a starting point for the target market undergoing the pertinent life stages since they are the most well known.

Can the company raise its prices?[58] **Scuttlebutt?** company

Yes XO Group can raise the prices it charges companies to run advertisements on its websites and in its publications, as well as raise the prices of its print products and Kindle products. Since the Company's products are rather inexpensive and widely affordable, raising the prices on these items is feasible.

Potential 10 Bagger?[59]

With its acclaimed domestic success and a plan to expand internationally, XO Group has the possibility of becoming a 10bagger in the future.

Would we be comfortable holding the company for 5+ years?[60]

Since the wedding and childrearing industry is not bleeding edge and will continue to exist for countless years in the future, we should feel comfortable holding the company for 5+ years. Although weddings can be considered a luxury product, XO Group focuses much efforts on online products and stocks little inventory, making it more stable than, say, a wedding dress shop.

## II(b). QUALITATIVE - ANALYSIS

<b>Author:</b>		<b>Jenny Hsieh</b>			<b>Readability:</b>	<b>OK</b>	<b>Detail:</b>	<b>G</b>	<b>Analysis:</b>	<b>NW</b>

Will its current product-lines continue to generate big sales increases for years:[61] **Scuttlebutt?** company

The growth in size of XO group's domestic target market combined with its international expansion, products tailored to customers' price ranges, and continual increase in customer reliance upon technology make some of the Company's current product lines a trending commodity that will generate big sales, while those that do not generate big sales are in fact negligible. Q2 Y2013 earnings call indicated that its recently refined registry platform was the main driver behind increased sales while e-commerce business declined 8% due to a misstep in Search Engine Optimization techniques. Conversion rates for the Knot Shop decreased because prospects increasingly rely upon mobile media, and the Knot Shop's features have been designed for desktop. National advertising revenue increased 9.6%, while publishing revenue decreased by 1%. For the most part, product lines that generated sales did so significantly, while product lines without growth decreased by a small amount. In the future, the concept of acting as a medium of advertisement for wedding-related businesses will not become obsolete. Websites regarding wedding advice, newlywed/pregnancy forums, and wedding preparation tools will not become obsolete within the next decade.

How strong are the company's marketing efforts?[62] **Scuttlebutt?** company/cu

XO Group's multi-platform media strategy lets consumers find the brand on bookshelves, newsstands, online, on mobile devices, and on television, indicating that the Company markets through expanding brand awareness and partnering with other well-known brands. As a leader in its industry, XO Group is able to market through reminder advertising; while many companies use the same marketing tactics as XO Group, these companies do not cover every marketing medium. Therefore, XO Group exposes its brand to the customer at a higher frequency than other companies in the industry, resulting in comparatively high brand recognition. The Company distributes its content and licenses its brands through partnerships on a variety of media platforms and in international markets. Aggressive public relations outreach is another key tool used to promote the Company's brands and acquire customers while limiting costs. In the last twelve months, company personnel representing The Knot, The Nest and The Bump have appeared regularly on national and local television programs promoting these brands. Together, these efforts create strong word of mouth and as a result, a significant portion of visitors to TheKnot.com reach the site through direct navigation. Xo Group continues to garner attention for its brands via editorial appearances on national television, presence on newsstands, and content syndication partnerships, and award-winning technology products. The Company's editors appear frequently on national and local television and radio programs and attend industry trade shows around the country. In 2010, the Company increased the publication frequency of The Knot Weddings national magazine from semi-annually to quarterly and increased the publication frequency of The Bump local market guides from annually to semi-annually. XO Group's content syndication and content distribution partnerships include AOL, MSN, Sling Media, Sugar Inc., McClatchy Tribune, YouTube, Yahoo! and The Huffington Post, among others. XO Group is also focused on identifying opportunities in large international markets where it can use brand recognition and editorial authority on the key lifestages of engagement, newlywed and first-time pregnancy to drive further growth. Additionally, XO Group uses a customer relationship management platform to directly contact customers through email marketing. Through this wide array of print and digital marketing as well as collaborating with other strong companies, XO Group markets itself more extensively than other companies in the industry, indicating strong marketing efforts.

Management have experience or plans to develop next-generation products?[63]

Scuttlebutt? company

The Company expects to increase operating expenses in order to launch new technology and features in the near future that it believes will enable customers to find the exact wedding services, products and information that they want more easily, and will let customers and vendors conduct business with each other much more efficiently. Additionally, the Company has focused on creating mobile apps which, rather than simply convert web material into mobile form, organize gift registry on-the-go and allow users to scan in-store products to upload into the registry. XO Group aims to create a new way for women to navigate their three lifestages and allow brides to orchestrate each aspect of their wedding planning process, from discovery to purchase, with the Company's online digital services. The Company has had experience in developing next-generation products in the sense that XO Group moved from providing solely wedding resources to pregnancy resources as well.

Effectiveness of R&D efforts:[64]

Scuttlebutt? company

XO Group continuously builds tools and creates services to meet its audience's needs for information and services across multiple media streams. The Company has built several mobile apps, including popular apps such as The Knot Wedding Planner, The Wedding Dress Look Book, and My Pregnancy Calendar by The Bump. Tools such as the recently designed global wedding planner presents lifestage content in innovative ways. On Valentine's Day 2013, XO Group streamed its first ever live wedding, the culmination of our Knot Dream Wedding Contest in which the audience voted on the couple and elements of the wedding. The Company continues to look for ways to increase its connection with its audience in innovative ways.

XO Group is aware that recently, consumers have rapidly adopted smartphones, tablet computers and other mobile technology and have been using these devices as their primary access point to digital services. The Company believes that this trend creates opportunity to tap into a greater portion of the \$70 billion wedding industry than its current business does today. Due to XO Group's investment in R&D, the Company will be prepared to adjust to technological advances and changes in consumer preference.

Are insiders buying the stock?[65]

Scuttlebutt? company

According to the \$XOXO Fidelity profile, Insider Ownership constitutes 7.8% of all company ownership. Insider Sentiment within the past 8 weeks has been Negative with a Sell/Buy Ratio of 0. Insider Sentiment within the past week has been neutral, with a Sell/Buy Ratio of 0. Over the last 2 years, Average Insider Activity reveals that 83,830 shares have been sold on average each year. This may indicate a lack of employee faith in the company's growth.

Do employees want to work there and respect the management?[66]

Scuttlebutt? employees

According to Glassdoor.com, the 35 employees who have reviewed rate The Knot (XO Group) as 2.7/5 stars, or "OK." Ratings for the categories Compensation & Benefits, Senior Management, Career Opportunities, Culture & Values, and Work/Life Balance are all between 2 and 3 stars, out of 5 possible. 29% of the 35 employees on Glassdoor would recommend this company to a friend. According to employees, the Company exhibits a range of problems from out-of date technology, inadequate resources such as sponsorship to complete the job, poor work/life balance, "ugly politics," toxic work environment, and lack of communication between management and employees. These problems have reportedly led to high turnover rate. Although 35 reviews is a relatively small size compared to the Company's 677 current employees, there seems to be a consensus that XO Group is an average or below-average company to work for.

Is the company focusing on long term relationships and business success or short term stock price? [67]

Scuttlebutt? company

XO Group's capital investment into international expansion, developing new products that take advantage of technological trends, and emphasizing the importance of vendor relationships indicates that the Company focuses on long term success instead of short term stock price.

Management talk about bad news?[68]

Scuttlebutt?

In listening to the Q2 Y2013 earnings call, management acknowledges the existence of both good news and bad news but elaborates more upon the good news while glancing over the bad news. Management seems to utilize good news to cushion the fall of bad news. When mentioning declines in revenue or growth, management often uses the word "just" or "slightly." Although management implements rhetoric into communication of bad news, it nevertheless mentions the bad news instead of hiding it, which is good.

Management integrity (check Glassdoor.com):[69]

Scuttlebutt? company

According to employee reviews, management offers little training for employees, communicates ineffectively with lower-tiers, and expects employees to work overtime. The majority of employees who have reviewed the Company believe that management places little value on the "family" aspect of the company and seems to barely care about employees. Additionally, there seems to be little room for career development.

How good is the CEO?[70]

Scuttlebutt? company

XO Group Chairman and CEO David Liu has a 58% approval rating from 26 employees on Glassdoor.com, which is rather low compared to the 70-100% approval rating of other companies that Lighthaven has previously researched.

How good is the supporting team e.g. the VPs?[71]

Scuttlebutt? company

The supporting team comes from a variety of educational and industry backgrounds, which is a good sign. However, most have not seemed to work for leading companies in their industry, neither domestically nor internationally (examples of a leading company in its industry would be Tommy Hilfiger in clothing or William-Sonoma in home and lifestyle). Additionally, the fact the David Liu, Chairman and CEO, is married to Carley Roney, Co-Founder and Chief Content Officer, could possibly be concerning.

How much does the CEO make in relation to the other executives?[72]

Scuttlebutt?

**Key Executive Compensation** XOXO See Salary, Bonus, and Pay details for Jobs at XOXO [↗](#)

Name/Title <sup>(B)</sup>	2008	2009	2010	2011	2012
▶ Key Executive Compensation	3,462,473	3,763,288	2,524,833	5,075,050	2,231,766
▶ David Liu/Chief Executive Officer	383,710	801,026	568,479	993,539	516,857
▶ John Mueller/Chief Financial Officer	657,988	696,522	447,397	1,016,176	434,784
▶ Nic Di Jorio/Chief Technology Officer	852,363	754,932	520,532	1,191,156	433,560
▶ Carol Koh Evans/Chief Operating Officer	907,365	750,727	512,529	1,017,654	427,654
▶ Carley Roney/Chief Content Officer	661,047	760,081	475,896	856,525	418,911

The CEO makes roughly the same amount as other executives, which is a good sign.

Any accounting irregularities?[73]	Scuttlebutt?
XO Group has not experienced any accounting irregularities known to the public.	
Are there other aspects of the business, peculiar to the industry, which we should think about?[74]	Scuttlebutt?
What shifts in technology could make XO Group's products irrelevant to its target market? Are there more efficient ways to display the information and services for XO Group that will intensify competition in this industry? Will decline in demand for print and publications continue to be gradual, or is it possible that demand will drop suddenly and significantly in one quarter? Will attitudes regarding family, childrearing, and marriage and social customs related to these subjects change within the next decade, and if so, how would the change affect relevance and demand for XO Group's product lines?	
What are the big question marks / bear case for this company?[75]	Scuttlebutt?
How will XO Group grasp the cultural awareness necessary to successfully expand in the international market? What does the company have to say regarding poor employee reviews of the company and management? How does the allegedly poor human resources in XO Group affect the company's future and earnings?	

### III. SCUTTLEBUTT

Author:				Readability:		Detail:		Analysis:	
Numb.	Area of Inquiry			Company	Suppliers	Competitors	Customers	Industry Specialists	Other People
				-middle management -employees -former employees	-service products	-main competitor -up and coming entrant	-user / individual -corporate buyer	-trade associations -hedge fund managers -bloggers	-somebody who would indirectly know the company

#### Scuttlebutt Notes

	Name of Individual		Date		Phone#	
	Company Name				Interviewer:	
	Summary					
	Questions & Answers					
Q:						

A:  
 Q:  
 A:  
 Q:  
 A:

	Name of Individual				Date		Phone#	
	Company Name						Interviewer:	
	Summary							
	Questions & Answers							
	Q:							
	A:							
	Q:							
	A:							
	Q:							
	A:							

	Name of Individual				Date		Phone#	
	Company Name						Interviewer:	
	Summary							
	Questions & Answers							
	Q:							
	A:							
	Q:							
	A:							
	Q:							
	A:							

	Name of Individual				Date		Phone#	
	Company Name						Interviewer:	
	Summary							
	Questions & Answers							
	Q:							

A:  
 Q:  
 A:  
 Q:  
 A:

	Name of Individual		Date		Phone#	
	Company Name				Interviewer:	
	Summary					
	Questions & Answers					
	Q:					
	A:					
	Q:					
	A:					
	Q:					
	A:					

	Name of Individual		Date		Phone#	
	Company Name				Interviewer:	
	Summary					
	Questions & Answers					
	Q:					
	A:					
	Q:					
	A:					
	Q:					
	A:					

**IV. SELF - CHECK (BUY)**

Author:					Readability:		Detail:		Analysis:	
			Pass (Y/N)				Notes			



## VI. SELL - CHECKLIST

Author:

Readability:

Detail:

Analysis:

Is a reason that we bought the stock no longer true?[76]

Divorsification.[77]

Significant Lawsuits.[78]

Significant Debt.[79]

Management changing the story or varying the stated goals.[80]

Key officers leaving.[81]

GC or auditor quits because of a disagreement.[82]

Management Dishonesty[83]

Significant Competitor Enters the Space.[84]



14) Deprival-Superreaction		Is the loss of money influencing our decision? Is missing out on gains influencing our decision? Are we putting more value in a loss of money (or loss of making money) than the facts. Missing out on a company and buying the next ----- ( company that is copying the first company)
15) Social-Proof		Are we following the herd? Are our conclusions and thoughts about a company influenced by the actions and/or recommendations of others? Are we buying because others are buying or selling because others are selling? This most occurs when stress and puzzlement are present. Are we following others because we are unsure of our own opinion? We must ignore the example of others when they are wrong.
16) Contrast-Misreaction		Are we thinking about how good the company is in absolute terms? Are we simply picking the "least-bad" company? i.e. we made favorable recommendation to one company only because it seems better than recent companies we researched
17) Stress-Influence		Could outside stress be causing irrational decisions or incorrect analysis of the stock? Could outside stress explain a sudden drastic change of opinion regarding a stock? Could outside stress explain a significant difference between how we view or decide on a stock versus what analysis suggests?
18) Availability-Misweighing		Did we base our decision on overvaluing information that was easy to obtain? Did we ignore or pay less attention to important information because it was not easy to get? The availability of the investment idea. Are choosing a investment idea that is more easily available?
19) Use-It-or-Lose-It		Are we succumbing to the "man with a hammer tendency?" Are we not using skills because they are out of practice?
20) Drug-Misinfluence		Is our decision being influenced by using drugs?
21) Senescence-Misinfluence		Has our ability to analyze information regarding the company changed solely due to aging?
22) Authority-Misinfluence		Is our recommendation influenced by and Authority figure? Do we truly believe in this decision or are we following the leader/herd?
23) Twaddle		Are we listening to and believing nonsense? Are we looking past all of the nonsense and information that doesn't matter and delving into the most important facts of the company?
24) Reason-Respecting		Is our recommendation made based on some reasons which are meaningless, useless, or wrong?
25) Lollapalooza		Are we possibly saying "no" to all of the above checkpoints due to a melange of several of them acting in concert? Would we say "yes" to a company due to Lighthaven being influenced by several misjudgements?

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1. Insert the Peter Lynch classification. Choices are:

- 1) Slower grower
- 2) Stalwart
- 3) Fast Grower
- 4) Asset Play
- 5) Turnaround
- 6) Cyclical

2. Answer "Yes" if we currently own this stock. In most cases the answer will be "No".

3. Full legal name of company

4. Find this at Google Finance

5. Find, copy and paste this from the Google Finance description of the company

6. Complete this

7. Draft a 2 minute elevator pitch that summarizes everything an investor should know about the company. It should be well-written and may be uploaded to the company's blog.

8. This is our best guess of the high end of the growth potential of the company's EPS. This number should be initially entered by the junior analyst based on the historical earnings and then modified by the senior analyst who has reviewed this and also done the qualitative analysis.

9. Answers are: Strong, Moderate, Weak. This should be completed by the Senior Analyst who assesses the overall fundamentals of the company after considering all the information in the report.

10. Summarize the fundamentals of the company and explain why we think the company is strong, moderate or weak.

11. Discuss the valuation of the company. Is it overvalued, undervalued, and why? Refer to the valuation section of the report.

12. Possible answers are:

- 1) Buy
- 2) Short/Sell
- 3) Hold if you own it
- 4) Doesn't Meet our Criteria but Others May Want to Buy

13. Explain reasoning

14. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Price & Earnings History -> Revenue History. Cross reference with Google Finance -> (Company) -> Financials -> Income Statement -> Quarterly -> Revenue

15. Explain whether there is seasonality in the business and growth trends on a quarterly and annual basis. Flag abnormalities for investigation. For example, one year where there is a big spike in revenues or something that indicates that growth is by acquisition rather than organic.

16. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Earnings History -> Reported EPS. Cross reference with Google Finance -> (Company) -> Financials -> Income Statement -> Quarterly -> Diluted Normalized EPS. Put the estimated EPS for the current quarters/year in italics (estimates found in the company earnings releases, if available).

17. Explain whether there is seasonality in the business and growth trends on a quarterly and annual basis. Flag abnormalities for investigation. For example, one year where there is a big spike in earnings or something that indicates that growth is by acquisition rather than organic.

18. Evaluate the consistency of earnings growth. Stair-steps earnings are a big plus.

19. Find at Google Finance -> (Company) -> Financials -> Income Statement -> Annual -> Net Income Before Extra. Items

20. Find at Google Finance -> (Company) -> Financials -> Cash Flow -> Annual -> Depreciation/Depletion

21. Find at Google Finance -> (Company) -> Financials -> Cash Flow -> Annual -> Amortization

22. Find at Google Finance -> (Company) -> Financials -> Cash Flow -> Annual -> Capital Expenditures

23. Evaluate how consistently the company is growing owner earnings.

24. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Quarterly Income Statement -> Pretax Income. Cross reference with Google Finance -> (Company) -> Financials -> Income Statement -> Quarterly -> Income Before Tax

25. Evaluate the pre-tax margins compared to other businesses that you may be familiar with or better yet, competitors.

If the company has a low margin then look at Why? If it is because they are spending money on activities needed to accelerate growth rate? (R&D, Sales

Promotion) then it still maybe a good investment.

26. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Quarterly Balance Sheet -> Cash and Short-Term Investments. Cross reference with Google Finance -> (Company) -> Financials -> Balance Sheet -> Quarterly -> Cash and Short Term Investments

27. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Quarterly Balance Sheet -> Long Term Debt - Total. Cross reference with Google Finance -> (Company) -> Financials -> Balance Sheet -> Quarterly -> Total Long Term Debt

28. Analyze whether the company have more cash and short term securities than long term debt. If not, this is a potential red flag.

29. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Quarterly Income Statement -> EPS - Diluted Including Extraordinary Items. Cross reference with Google Finance -> (Company) -> Financials -> Income Statement -> Quarterly -> Diluted Normalized EPS

30. Is the amount of shares stable or is it increasing, decreasing? A slight increase may be OK as it may be due to additional stock options granted to employees. A dramatic increase could be a warning sign.

31. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Quarterly Balance Sheet -> Inventories - Total. Cross reference with Google Finance -> (Company) -> Financials -> Balance Sheet -> Quarterly -> Total Inventory

32. Does the company grow revenues at the same rate as its inventory? Inventory growing faster than revenues is a red flag. Inventory growing slower could mean that the company doesn't have enough product to meet demand. This can be both good and bad.

Also, consider the quality of the inventory and whether it can be resold. The buildup of last year's apparel fashions is bad. The inventory probably isn't worth much. A buildup in cars or raw materials that can be resold may not be as bad.

33. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Annual Cash Flow -> Operating Activities - Net Cash Flow. Cross reference with Google Finance -> (Company) -> Financials -> Cash Flow -> Annual -> Cash from Operating Activities

34. Find this at Fidelity -> (Company) -> Research Reports -> S&P Compustat Company Report -> Annual Cash Flow -> Capital Expenditures. Cross reference with Google Finance -> (Company) -> Financials -> Cash Flow -> Annual -> Capital Expenditures

35. Comment on whether free cash flow is growing and how it looks compared to capital expenditures.

36. Find this at Fidelity -> (Company) -> Research Reports -> Ownership & Insiders -> Institutional Ownership Details -> Institutional Stock & Mutual Fund Ownership.

No notes are necessary but it is positive if institutional ownership is low. e.g. under 50%. Low institutional ownership gives us the opportunity to buy a company before many institutions have caught onto the story.

37. Evaluate how the current P/E is relative to recent P/E and P/E trends. Observe the recent highs and lows.

38. Find at [www.reuters.com](http://www.reuters.com) -> (Company) -> Financials -> Consensus Estimates Analysis -> LT Growth Rate (%)

39. Add up the EPS from the last 4 quarters

40. Manually add up the cells for the last four quarters. Remember to adjust for future quarters.

41. We never exclude a company simply because of a high P/E. We always look at it relative to our assessment of their future growth prospects. That said, it is hard to image any company that is capable of growing at greater than 50% for a long period of time. Even 30-49% is very challenging. We are very comfortable investing in companies that are in the 20-30 P/E range. Companies under 20 can be bargains and are relatively low risk.

42. Divide latest quarter's cash but latest diluted share count.

43. This is our best guess of the high end of the growth potential of the company's EPS with 50%+ confidence. This number should be initially entered by the junior analyst based on the historical earnings and then modified by the senior analyst who has reviewed this and also done the qualitative analysis. The senior should also consider the company's own forecast although he/she should not feel bound by this.

44. Estimate of the growth rate of the company's EPS on the low end. We should have 90% confidence that the company can hit this growth number.

45. Take most recent annual cash flow and divide this by most recent diluted share count.

46. Summarize the company's lines of business and specific products in your own words. Do not copy from the 10-K. The goal is to describe with specificity what the company is selling. For example, if describing McDonalds, we wouldn't say "Food" and "Beverages". We would say that the company sells approximately 10 different types of burgers including the "Big Mac", "Cheese Burger", "Filet-o-Fish" and "McChicken". The company also serves coffee including drip coffee, mocha and ice coffees. Etc...

47. Note who we should scuttlebutt with using these abbreviations:

Company (CO): Middle management and low level employees

Former Employees (FE): People who recently worked at the company

Competitors (COMP): Main competitor as well as up and coming companies in the same industry

Customers (CUST): Self-explanatory

Industry Specialists (IND): Trade Associations, hedge fund managers, bloggers, anybody else who may know about the company

48. Do we know about the company by being in the same industry (i.e. a professional's edge) or are we familiar with the company or its products (e.g. a consumer's edge). Another possibility is that we have no edge and are just getting up to speed on the company now through research and talking to others.

49. Indicate our personal experience with the product/service or the opinions of others. Also, reference reviews and other literature about the product/service. Compare how good it is versus competitors products and services.

50. Insert a screenshot of the Google Trends chart for internet search terms that would tell us whether the company's products/services are popular. First, fill in the blank for the actual term used and then insert the screen shot to the right. Think carefully about what internet search terms a customer would search for. Also, search for other terms that might generally indicate the popularity of the type of service or product that the company sells.

For example, for Apple, we might search "Apple", "iPad", and "Tablet".

Insert as many charts as may be helpful.

51. State whether the company's products or services are trending, meaning that they are becoming increasingly popular. Look at the Google Trends, but also think about other sources that would give us some clues about this such as our personal knowledge, news, the company's reports, etc. Also think about cultural and business trends that may help the company.

52. State what the company needs to do in the long-term to become very successful. The company's 10-K may provide the company's view but don't simply rely on that. Use judgment to determine what the company should focus on become successful. Take the time to think about the big picture.

53. This question is similar to the previous one, but specifically focused on what the company says they will do to improve the profitability of the company. This why the question is "STATED plan for increasing earnings." Look at the company's 10-K for information about this.

54. This is a very important section. List out all the competitors, including companies that sell similar goods and services as well as alternatives and substitutes. For instance, Netflix competes with Hulu and NBC, but also with video games and customers going to the movies.

For each company and alternatives, describe the competitor, and indicate how big they are and how they compare to the company we are researching.

The company's 10-K will provide this information.

55. Knowing who the competitors is important but this question focuses on what advantage the company has over competitors.

First, state whether the advantage or "edge" is strong, medium or weak and then explain why.

56. Explain what the company is doing to continue to improve its advantage over competitors. Discuss specific initiatives and efforts by the company. We should discuss our opinion regarding how effective these efforts will be to improve the company's competitive edge.

57. State how strong the company's branding is compared to competitors and explain why.

Is the company's product or service original and first or are they copying others?

Coke has a very strong brand but RC Cola does not. Think about how much the company spends on marketing, how good the marketing is, what the customers' perception of the brand is and how much of a premium the company can charge for its product.

Does the brand stand for something (e.g. quality, prestige, value, etc...)

58. Discuss whether the company sells a commodity product or service and whether the company has the ability to increase prices in the future. For example, companies with strong brands can raise prices such as BMW and Mercedes. A maker of a commodity product probably cannot such as the maker of nails or paper.

In determining this, think about the uses of the product and service. In some cases, the usage is so important that something that seems to be a commodity might be the type of product that some customers might pay extra for. For example, motor oil. Racers and automobile enthusiasts may pay for for a better oil because they think it will provide better performance or because the company has successfully marketed the product as higher-end.

59. The question is whether it is POSSIBLE for the company to become a 10-bagger, rather than whether we are SURE that it will become a 10-bagger. In thinking about this, use the reasonable price that we would pay for the stock rather than the company's current trading price. We do this because the reasonable price is the one we are more likely to pay. If we use the current price, we may pass on the company when it is expensive, and not monitor the company when its price drops to our reasonable price.

Market cap is a guide, but we shouldn't simply use this to see if a Company can grow 10 fold.

60. Here we are not looking at the potential of the company, but at the consistency of the company's story and how quickly the story has changed or may change. For example, a utility that has a monopoly is a company that is easy to be comfortable with holding for 5 years, since in 5 years the company's story will be as good as it is today. The company has zero competition, its business is well established, so is the industry that it is in. The company is profitable and we understand what the risks are. On the opposite end of the spectrum, a new company, in a bleeding edge industry, with one product that is a fad product is not a company that is easy to be sure about in five years. Their story may change continuously as they adapt.

61. Discuss whether the company's CURRENT products will continue to generate big revenue increases in the company's future.

62. State how the company finds customers. Describe all the efforts and most importantly how effect the efforts have been. For instance, internet marketing, social media, conventions and trade associations, advertising, sponsorships of teams and athletes, etc.

63. Does management recognize that in time the potential of its present market will be exhausted and that to continue to grow it must develop new product lines? The focus of this question is not on improvements of existing products, but brand new product lines. For example, the iPad was a new product line. But the iPad 2, 3, and 4 were merely enhancements of an existing product.

Looking at the company's history of developing new product lines is helpful, but what we really want is to understand the company's MOTIVATION and PLANS to develop future next-generation products and product lines.

64. Looking at the amount of money that the company spends on R&D compared to revenues is useful, but should not be relied upon. We need to do scuttlebutt to understand how good the R&D team is.

Discuss the R&D team's past successes, whether the R&D team works with the marketing team to come up with products and services that customers want, and whether the company's R&D efforts are consistent (or the CEO starts and stops them).

65. Don't include employment-based stock compensation or exercise of stock options. Focus on employees and directors spending money to purchase stock.

66. Scuttlebutt with former and current employees and also check glassdoor.com.

67. The best way to analyze this is to talk to customers and vendors to see if the company is focused on long-term relationships.

Does the company act in a way to preserve long-term customer and vendor relationships or are they just worried about this quarter and this year?

What is the company's view of customers? Are they valued assets?

It is helpful to discuss what the company says their long-term plans are, but this is not the primary focus. All companies say they have long-term plans. What we want to know is whether the company acts in such a way that shows that they are long-term thinkers.

68. Some management teams spin everything into good news. Some companies are very honest and straightforward when things don't go well.

It's good to give examples of when the company gives bad news, but what is more important is whether we feel that the company is doing it willingly and transparently. A company that misses earnings will of course deliver bad news, but do they try to make excuses and explain it away or do they take responsibility

and talk about what they will do to improve in the future?

It is not enough that management simply deliver bad news. Listen and analyze what they say afterwards, then put them in one of the following 4 categories:

1) Will never talk about bad news.

2) Will try to spin bad news (make excuses).

3) Matter-of-fact (tell bad news without spinning).

4) Tell bad news and elaborate about how the company will address news and improve.

69. Can the management be trusted to tell the truth and act does the CEO view himself as a steward of the shareholders? Is management looking out for themselves or for all the stakeholders (employees, customers, shareholders)

70. Does the CEO view himself as a steward of the shareholders and are his personal interests aligned with the company? How entrepreneurial is he/she?

71. Are they competent?

Does the CEO delegate to them?

Are they a good team or are there power struggles?

72. Check the latest proxy statement. If the CEO makes a lot more, it could indicate that the CEO is not a team player.

73. Read the financial statements, including the notes and think about whether anything jumps out as out-of-the-ordinary. For instance, if the company uses a small accounting firm as an auditor, the company has a lot of tax income or tax liabilities, or there are extraordinary income or costs. If in doubt, ask Eric or John.

74. This is a catch-all that requires some high level thinking. Think and brainstorm about the business and industry, and specifically what things the company would need to do really well in this specific industry to beat competitors. For example, the company may be in an industry where it is important to have patents. If so, discuss the company's relevant patents (number, actual effectiveness, expiration). If the company is a retailer, perhaps they spend a lot of money on real estate, so we should look at how good the company is at lease negotiations, leasing costs per dollar of sales, etc.. For other companies, the key to success may be how good the company is at providing excellent customer service.

Think about these other factors so that we don't fall into a habit of looking at the exact same factors for every single company.

75. State the reasons we should not invest in the company. Go beyond summarizing the risk factors. Provide a thoughtful argument from the bear perspective. Weight the likelihood of each thing going wrong. What is the most important long range problem facing the company?

76. Any material mismatch between what's happening and what we wrote in our report should be considered a warning sign that the company is not as favorable as what we originally believed.

77. Any acquisition or merger can cause cultural clashes. We will be wary of mergers of equals or mergers and acquisitions that are not obviously synergistic. Also, the merging of major competitors may create a big threat to the company.

78. In perfect world, we don't invest in companies that get sued. But the reality is that every company can be sued in the ordinary course of business. Therefore, we need to identify whether a lawsuit is extraordinary, how badly the company will be injured if it loses the lawsuit, and whether the suit is simply a nuisance suit.

79. Has the company suddenly taken on more LT debt?

80. We always track management's honesty and assess their credibility. One way to assess their integrity is to link their actions back to their stated intentions and goals. If the management deviates from their plan or does not accomplish their goals, it may be time to sell.

81. Key officers, like the CEO, COO and CFO, are essential to companies. Their departure can cause massive disruption. This is a red flag.

82. It is rare for such individuals to leave unless they have serious reservations about the integrity or honesty of management. When they leave in an abrupt manner, it is like a canary in the coal mine dying.

83. We don't work with dishonest people. Management may lie for various reasons, but no matter what reasons they have, we have zero tolerance for this type of behavior.

84. This can cast doubt on our original assessment of the company's competitive edge.

85. This is a big red flag.