

NATURE-SPECIFIC SHORT-SIDE RESEARCH PROCESS

We have created a unique framework for identifying short candidates.

We require every short to fall into at least one of the following four exhaustive categories.

	Drivers	Evidence
1. Thematics/ Structural Declines	<ul style="list-style-type: none">• Structural overcapacity/ demand destruction• Technological obsolescence• Major deleveragings	<ul style="list-style-type: none">• Industry supply growth vs demand growth• Technological disruptions• Major shifts in market share• Credit-growth vs debt-service growth
2. Divergent Expectations	<ul style="list-style-type: none">• Broken business model• Fads/ broken brand• Cyclical downturn• Ex-growth	<ul style="list-style-type: none">• Material reductions in top-line growth• Consensus expectations and market valuations slow to react to new-normal• Turning point in industry cycle
3. Asymmetries	<ul style="list-style-type: none">• Balance sheet risk• Regulatory risk• Transactional risk	<ul style="list-style-type: none">• Excessive financial leverage; off-balance-sheet guarantees• Punitive changes in regulation• Deals at risk of failure
4. Misperceptions	<ul style="list-style-type: none">• Aggressive accounting/ poor earnings quality• Fraud	<ul style="list-style-type: none">• Accounting red flags: accruals, misclassifications, one-time items, aggressive acquisition accounting• Inconsistencies between management statements and reality