Covanta Holding Corporation CVA [AMEX]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat	Stewardship Grade	Industry	Sector
Under Review	26.93	—	—	—	—	None	B	Waste Management	Business Services

Per share prices in USD

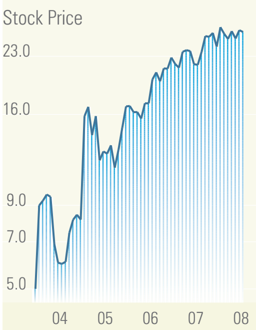
Covanta under Review

by Brian Nelson, CFA
Senior Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through September 03, 2008. Rating updated as of September 03, 2008.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Stock Price



Analyst Note Aug. 14, 2008 | Basili Alukos, CPA

We're placing Covanta Holding under review while we transfer coverage to a new analyst.

Thesis Jun. 05, 2008 | Brian Nelson, CFA

Covanta's steady operations, long-term contracts, robust cash flow, and international growth potential are impressive, but modest domestic opportunities and intense competition remain concerns.

Covanta is the nation's largest operator of waste-to-energy facilities and boasts an attractive footprint in the lucrative Northeastern United States, where landfill capacity is limited and disposal fees (tipping fees) are expensive. WTE facilities are specially designed power plants that incinerate trash and convert that energy into electricity and, in the process, substantially reduce the volume of waste. In the 1980s, the preference of some municipalities to preserve dwindling landfill capacity prompted a surge in the construction of these facilities. But by the mid-1990s, greenfield WTE sites had become rare, as stricter environmental regulations and the transportation of waste to distant, less-expensive landfills stifled demand. Covanta's 30-plus WTE facilities, nevertheless, occupy a unique niche in the waste business, providing a disposal alternative for "green" communities and dense municipalities lacking sufficient nearby landfill capacity.

Although hefty tipping fees in capacity-constrained regions like the Northeast justify building WTE facilities, this may not be the case in other areas of the country. For starters, the cost of building a new landfill in a rural area, though expensive in itself, is but a fraction of the cost of constructing a greenfield WTE facility. Most cost-conscious communities, therefore, opt to landfill their waste and forgo the environmental benefits offered by the WTE process. Given this cost spread, we think domestic growth will remain modest, limited almost entirely to the expansion of existing plants. In this sluggish U.S. market, Covanta faces some risk as contracts covering about 30% of volume will expire through 2010. Although we expect the firm to retain a majority of this business, contractual tipping fees could face pressure, given the presence of reputable rivals, such as Waste Management (Wheelabrator) and French-giant Veolia.

Despite our lukewarm take on Covanta's domestic growth opportunities, the firm's cash-flow and growth potential overseas are impressive. With operations focused on the higher-margin disposal business and relatively low capital spending required to keep plants running, Covanta has become a veritable cash cow, spitting out more than $270 million in free cash flow in 2007 (almost 20% of sales). Driven by a European Union mandate to reduce waste discarded in landfills, Covanta's pipeline of potential deals in the United Kingdom is robust. The firm's opportunity in China could prove even more attractive. In an effort to diversify the country's energy mix, the Ministry of Construction plans to increase incineration, which includes WTE, to 30% of China's total waste disposal by 2030 (it's currently 1.6%), which would amount to a market 4 times the size of the U.S. WTE sector.

Valuation

Our fair value estimate is $35 per share. We think revenue will increase 8% annually during our seven-year discrete forecast horizon, thanks to expansion of existing projects in the U.S. and significant growth opportunities in the U.K. and Ireland. We think the operating margin will average roughly 19% over the next four years, comfortably higher than 2007 levels. We model capital expenditures at an average of about 7%-8% of sales through 2011, though we include increased spending toward the latter part of our seven-year discrete forecast horizon as longer-term maintenance requirements should ramp up. We add about $9 per share to our fair value estimate to account for the firm's net operating loss carryforwards and its partial ownership of a handful of unconsolidated investments, the largest of which is Quezon Power in the Philippines.

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Covanta Holding Corporation	USD	4,155	1,560	258	170
Veolia Environnement	USD	24,609	44,650	3,417	1,717
Waste Management, Inc.	USD	17,171	13,519	2,283	1,146

Morningstar data as of September 03, 2008.

Covanta should be relatively successful in capturing a share of WTE adoption in China, and we have included our expectation for solid growth through joint-venture ownership. We employ a 9% cost of capital assumption in our discounted cash-flow model.

Risk

Renewal risk is the greatest near-term threat for Covanta, with contracts covering about 30% of waste volume expiring through 2010. Covanta's revenue is exposed to fluctuations in energy and disposal pricing, though the magnitude varies under different contracts. Technology risk is also an issue: A competitor could develop an alternate waste combustion technology at a cost below that of Covanta's mass-burn technology.

Bulls Say

- Covanta sports a rock-solid business model that throws off strong and predictable cash flow, even during tough economic times. Free cash flow was more than $270 million in 2007, almost 20% of sales.
- WTE has many advantages over the local dump, including reduced greenhouse gas emissions, energy recovery, and significant waste reduction. In densely populated areas with limited landfill capacity (such as the Northeast), WTE has become a viable option.
- Covanta's recently inked joint venture with Chongqing Sanfeng, a Chinese WTE operator, could provide a nice avenue for future growth. The Chinese Ministry of Construction plans to significantly increase incineration, which includes WTE, as a means of garbage disposal in coming decades.
- The European Union has implemented directives that require member nations to reduce waste discarded in landfills. Covanta plans to capitalize on these regulations and has outlined more than a dozen opportunities in the U.K.
- Covanta benefits from a significant tax shield because of losses at its predecessor insurance entities. At the end of 2007, Covanta had $275 million of net operating loss carryforwards that could be used to reduce future tax liabilities.

Bears Say

- WTE trends are lackluster in the U.S. (nearly 90% of Covanta's revenue). According to the Environmental Protection Agency, waste combustion with energy recovery has remained about 14% of total waste disposal since 1990. Absent significant regulatory changes or an unprecedented and sustainable spike in energy costs, domestic growth should remain limited.
- Covanta will have contracts covering about 30% of waste volume expiring through 2010. Service fee contracts at publicly owned facilities, which control about 20% of the volume expiring during this period, are particularly vulnerable, given the presence of formidable competitors such as Veolia and Waste Management.
- Unlike vertically integrated waste haulers, Covanta does not control its own waste stream (it lacks collection operations). As such, the company depends heavily on its municipal sponsors, a dynamic that could limit bargaining power during the rebidding process.
- Although Covanta expenses a large portion of its maintenance requirements, it could be deferring long-term, more expensive repairs (which are capitalized). Depreciation expense, for example, was nearly 14% of sales in 2007, while capital expenditures

were only 6%.

- A WTE plant's fundamental purpose is for waste disposal, because it costs less to generate electricity through other means (coal, for example). This characteristic lessens the attractiveness of these plants as a major source of energy.

Financial Overview

Growth: The acquisitions of Covanta Energy in March 2004 and ARC Holdings in June 2005 transformed the company into the nation's largest WTE operator. Covanta's recapitalization and strong free cash flow should allow the company to pursue international growth opportunities, though expansion in the U.S. will probably be limited.

Profitability: Covanta's operating margin is in the high teens, though the capital-intensive nature of the WTE business prevents economic profits. Free cash flow, however, is quite impressive, reaching $270 million in 2007 (about 19% of sales).

Financial Health: Covanta's recapitalization, which has reduced annual interest payments by roughly $40 million, should provide a nice boost to the firm's coverage ratios. Solid free cash-flow generation, supported by $275 million in net operating loss carryforwards, should continue to bolster the balance sheet.

Company Overview

Profile: Covanta Holding, formerly Danielson Holding Corporation, provides waste disposal, energy services, and nonstandard auto insurance through its subsidiaries. Its subsidiary Covanta Energy is a leading operator of waste-to-energy and power generation projects. Covanta Energy's waste-to-energy facilities convert everyday household solid waste into energy (electricity) for numerous communities, primarily in the Northeastern United States.

Strategy: Covanta plans to capitalize on the environmental benefits of WTE as an alternative means of waste disposal. The firm plans to increase capacity at a couple of existing WTE plants in Florida, seek expansion in international markets (U.K. and China), and acquire waste-transfer and landfill businesses in the Northeast.

Management: Covanta's senior management team boasts more than 17 years' experience in the WTE sector. President and CEO Anthony Orlando, who joined the company in 1987, replaced current chairman Samuel Zell at the helm in October 2004 and has so far steered the company with a steady hand. We think new CFO Mark Pytosh, a recruit from regional waste-hauler Waste Services, will add a new perspective to senior leadership, particularly as it relates to Covanta's acquisition strategy. Leaders at the facility level are just as seasoned as upper management, and we think this top-down operating know-how will prove vital in maintaining efficient operations. Zell, through SZ Investments, owns more than 15% of the firm.

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Analyst Notes

Aug. 14, 2008

Covanta under Review

We're placing Covanta Holding under review while we transfer coverage to a new analyst.

May 12, 2008

Our Trip to Waste Expo 2008

We recently attended this year's Waste Expo, the largest solid-waste and recycling trade show in North America. After going to a number of conference sessions and hearing from industry leaders and several of the 500 hauling, equipment, and financing firms present, we are reiterating our positive stance on the waste sector. We believe strong pricing growth will continue in the face of volume declines and think the theme of "going green" will become even more powerful in the years ahead. We also expect private-equity and infrastructure funds to continue to be active in the waste industry, though credit turmoil will probably limit deals to the small to middle market ($30 million-$300 million).

The waste business is largely a local one, where market share or vertical integration in a particular region is vital to success. Most regions comprise a number of competitive participants, ranging from public players to independent haulers with varying return criteria. Also, independents have traditionally been content with pricing business at slim margins, particularly for commodified waste collection services. However, rising diesel fuel prices, elevated capital costs for equipment, and landfill pricing discipline have collectively forced independents to raise rates in step with their public counterparts to stay above water. Although there are still pockets of pricing weakness in the country, as long as commodity prices and tipping fees continue to go higher, we think the waste industry should continue to price ahead of inflation, a view that was largely reinforced at the expo.

The theme of going green has only intensified since last year, as energy prices have moved considerably higher. Among the interesting developments is the increased use of natural-gas-powered refuse trucks, which offer a cleaner and cheaper alternative to diesel fuel, now above $4 a gallon. Though there are infrastructure constraints (limited refueling stations), we cannot deny the economic benefits. For example, the use of compressed natural gas in refuse vehicles could save $0.50-$2 a gallon versus diesel. We also expect continued emphasis on landfill gas-to-energy projects, waste-to-energy facilities (particularly in the European Union and China), and recycling operations, the last bolstered by robust commodity pricing (old newsprint and old corrugated cardboard).

Our sense from listening to a few private-equity partners (Farlie Turner, Clairvest, and DLJ) at the expo was that private-equity and infrastructure funds will continue to be active in the waste sector, given the cash-rich and steady business models of participants. The most recent $544 million buyout of Waste Industries involved Macquarie Infrastructure Partners, and we think private-equity and infrastructure fund activity will continue. However, given tightening credit, we wouldn't expect a transaction larger than the Waste Industries deal anytime soon, a situation that probably rules out the Big Three.

Covanta Holding Corporation CVA

Sales Mil	Mkt Cap Mil	Industry	Sector
$1,560	$4,155	Waste Management	Business Services

Covanta Holding, formerly Danielson Holding Corporation, provides waste disposal, energy services, and nonstandard auto insurance through its subsidiaries. Its subsidiary Covanta Energy is a leading operator of waste-to-energy and power generation projects. Covanta Energy's waste-to-energy facilities convert everyday household solid waste into energy (electricity) for numerous communities, primarily in the Northeastern United States.

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Under Review	$26.93	—	—	None	B

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD	
8.13	7.50	7.38	5.20	8.24	3.25	10.40	17.70	22.84	28.82	30.37	Annual Price High
3.00	2.88	3.56	3.25	1.26	0.64	2.87	7.95	14.36	20.60	22.89	Low
											Recent Splits

Price Volatility
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low $
30.37 - 22.17

10 Year High/Low $
30.37 - 0.64

Bear-Market Rank
5 (10=worst)

Trading Volume Million

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD	Stock Performance
-50.9	61.4	-20.6	-2.7	-68.5	107.9	190.4	78.2	46.4	25.5	-2.6	Total Return %
-77.6	41.9	-10.5	10.3	-45.1	81.5	181.4	75.2	32.8	22.0	10.6	+/- Market
-51.0	118.4	-70.3	-14.3	-47.1	77.8	188.7	69.2	22.5	20.9	-8.2	+/- Industry
—	—	—	—	—	—	—	—	—	—	—	Dividend Yield %
56	90	84	87	43	105	615	2126	3254	4257	4155	Market Cap $Mil

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	Financials
65	71	86	94	532	43	579	979	1269	1433	1560	Revenue $Mil
—	—	—	—	—	—	—	41.9	43.7	39.8	—	Gross Margin %
2	1	1	-14	2	-13	82	146	227	237	258	Oper Income $Mil
3.6	1.9	1.3	-15.2	0.4	-30.3	14.2	14.9	17.9	16.5	16.6	Operating Margin %
2	1	1	-14	-33	-69	34	59	106	131	170	Net Income $Mil
0.14	0.07	0.05	-0.74	-1.26	-2.25	0.52	0.46	0.72	0.85	1.11	Earnings Per Share $
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Dividends $
15	16	18	24	32	53	106	144	150	153	154	Shares Mil
4.06	4.89	4.40	3.82	2.51	0.77	1.85	4.24	5.01	6.67	7.05	Book Value Per Share $
-5	-6	7	-5	0	-23	88	208	309	358	373	Oper Cash Flow $Mil
0	0	0	0	-18	0	-12	-24	-54	-86	-97	Cap Spending $Mil
-5	-7	6	-5	-18	-23	76	185	255	272	276	Free Cash Flow $Mil

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	Profitability
1.3	0.7	0.5	-6.8	-5.3	-11.6	3.2	1.8	2.3	3.0	3.9	Return on Assets %
3.6	1.8	1.3	-18.4	-43.4	—	41.9	16.2	15.8	14.8	17.2	Return on Equity %
3.6	1.8	1.2	-15.2	-6.2	—	5.9	6.1	8.3	9.1	10.9	Net Margin %
0.35	0.38	0.43	0.45	0.85	0.07	0.55	0.29	0.28	0.33	0.36	Asset Turnover
2.9	2.5	2.6	2.8	13.4	5.8	14.4	7.8	6.0	4.3	4.0	Financial Leverage

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	06-08	Financial Health
—	—	—	—	-623	-24	232	233	343	303	369	Working Capital $Mil
—	—	—	—	8	0	1148	2685	2469	2097	2026	Long-Term Debt $Mil
63	76	81	74	77	28	135	599	739	1026	1088	Total Equity $Mil
—	—	—	—	0.11	—	8.51	4.48	3.34	2.04	1.86	Debt/Equity

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	Valuation
25.4	82.0	90.9	—	—	—	16.3	32.8	30.6	32.6	24.3	Price/Earnings
—	2.9	3.8	—	—	—	0.9	1.9	1.8	2.0	1.3	P/E vs. Market
0.9	1.5	1.0	0.9	0.1	2.1	1.0	1.4	2.6	3.0	2.7	Price/Sales
0.9	1.2	1.0	1.2	0.6	3.8	4.6	3.5	4.4	4.2	3.8	Price/Book
—	—	13.1	—	—	—	6.3	6.8	10.8	11.9	11.1	Price/Cash Flow

Growth Rates Compound Annual

Grade: A	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	13.0	35.3	21.9	36.1
Operating Income %	4.3	42.1	153.6	48.2
Earnings/Share %	18.1	17.8	—	11.7
Dividends %	—	—	—	—
Book Value/Share %	33.2	53.3	21.6	4.8
Stock Total Return %	19.2	29.1	78.9	21.2
+/- Industry	17.1	15.4	67.1	19.0
+/- Market	32.7	27.6	74.5	18.2

Profitability Analysis

Grade: F	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	17.2	—	15.8	21.4
Return on Assets %	3.9	-0.3	4.5	8.9
Fixed Asset Turns	0.6	0.6	1.4	7.2
Inventory Turns	—	—	112.8	12.3
Revenue/Employee $K	445.6	355.2*	246.0	955.7
Gross Margin %	—	—	36.0	29.5
Operating Margin %	16.6	6.7	16.2	16.7
Net Margin %	10.9	-26.6	7.4	9.1
Free Cash Flow/Rev %	17.7	—	8.7	0.1
R&D/Rev %	—	—	—	11.2

Financial Position

Grade: A	12-07 $Mil	06-08 $Mil
Cash	149	144
Inventories	—	—
Receivables	311	309
Current Assets	795	832
Fixed Assets	2621	2595
Intangibles	216	213
Total Assets	4369	4377
Payables	30	35
Short-Term Debt	203	199
Current Liabilities	492	463
Long-Term Debt	2097	2026
Total Liabilities	3342	3289
Total Equity	1026	1088

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	24.3	—	19.6	18.5
Forward P/E	25.0	—	—	13.8
Price/Cash Flow	11.1	—	8.6	12.2
Price/Free Cash Flow	15.0	—	16.9	22.1
Dividend Yield %	—	—	0.3	2.7
Price/Book	3.8	4.1	3.0	3.8
Price/Sales	2.7	2.0	1.5	2.4
PEG Ratio	2.0	—	—	1.3

*3Yr Avg data is displayed in place of 5Yr Avg

Quarterly Results

Revenue $Mil	Sep 07	Dec 07	Mar 08	Jun 08
Most Recent Period	352.4	395.4	388.8	423.0
Prior Year Period	311.1	317.9	330.2	355.1

Rev Growth %	Sep 07	Dec 07	Mar 08	Jun 08
Most Recent Period	13.3	24.4	17.7	19.1
Prior Year Period	3.2	4.8	8.1	6.3

Earnings Per Share $	Sep 07	Dec 07	Mar 08	Jun 08
Most Recent Period	0.25	0.47	0.10	0.29
Prior Year Period	0.21	0.08	-0.12	0.24

Industry Peers by Market Cap

	Mkt Cap $Mil	Rev $Mil	P/E	ROE%
Covanta Holding Corp	4155	1560	24.3	17.2
Veolia Environnement	24609	44650	17.0	15.5
Waste Management, In	17171	13519	15.4	19.4

Major Fund Holders

	% of shares
Third Avenue Value	5.73
Legg Mason Partners CapInc B	1.67
Baron Small Cap	1.62

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat

This is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such economic profits, but companies

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis
Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat Rating
The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation
Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate
DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment
An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★
★
★★
★★★
★★★★
★★★★★

The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

that can earn them for an extended time by creating a competitive advantage possess an economic moat. We see these companies as superior investments.

We're big fans of companies that are low-cost producers, create high switching costs for their customers, or have strong brands or long-lasting patents, because all of these characteristics allow companies to protect their competitive position. For example, Tiffany is far more profitable than a run-of-the-mill jewelry chain because it has a strong brand that creates a moat around its business, allowing it to charge more than competitors.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."