CIBC GLOBAL
ASSET MANAGEMENT

Seven step investment process

CIBC Core Growth Investment Team

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Summary:

The seven-step fundamental investment process is applied to every stock evaluated by the Boston-based CIBC Core Growth Investment Team. Sandy Sanders, CFA, team lead, has employed this investment framework for over 20 years. The process takes approximately four weeks per stock and culminates in an analyst stock pitch presented to the entire investment team for feedback and question.

The process is structured around two key meetings: The Moat WIP meeting (Step 1), and the Full WIP Meeting. WIP stands for "work in progress" – a reflection of our commitment to continuous analysis, as our work is never done! After any required follow-up analysis, the analyst makes a formal recommendation, and the stock is added to the team's active inventory. Each day, the team can view all covered stocks ranked by cents on the dollar.

The cornerstone of the process is Step 6: Range of Values Analysis, in which four discounted cash flow (DCF) scenarios are constructed – Best, Base, Bear, and Worst. These values are updated quarterly to ensure the active inventory remains current and actionable. Each analyst covers approximately 30-40 stocks and serves as a sector expert within their areas of coverage.

This detailed, bottom-up fundamental research process allows the team to better understand a company's true operating picture and its current margin of safety. The team typically seeks to buy stocks from the active inventory trading at less than 70 cents on the dollar and targets a sale when a stock reaches fair value, or 100 cents on the dollar.

Seven-step investment process

Step 1:	Step 2:	Step 3:	Step 4:	Step 5:	Step 6:	Step 7:
Sustainable competitive advantages	Industry analysis	Growth drivers analysis	Financial statement analysis	Management team assessment	Range of Values Analysis	Risks, sensitivities, and ESG considerations

Step 1: Sustainable competitive advantages

The research cycle begins with a deep dive into the structural durability of the business model and its competitive ecosystem. Rather than viewing the company in a vacuum, we apply the **Porter's Five Forces** framework to map out how value is captured and retained within the industry – directly validating the existence of an economic moat.

- **Threat of new entrants:** We assess the ease with which new competitors can enter the market and erode profitability, looking for high capital requirements, strict regulatory hurdles, deep intellectual property, or significant economies of scale that protect the incumbent.
- **Bargaining power of suppliers:** We evaluate the company's reliance on its supply chain, determining whether supplier concentration, unique raw materials, or switching costs give suppliers the leverage to compress operating margins.
- **Bargaining power of buyers:** We analyze customer concentration and price sensitivity, pressure-testing whether buyers can demand lower prices or whether the company holds structural pricing power driven by high switching costs and brand equity.
- **Threat of substitutes:** We assess the risk of technological disruption or alternative solutions outside the direct peer group that could render the company's offering obsolete or cap its pricing upside.
- **Intensity of competitive rivalry:** We map the industry structure from highly disciplined duopolies to fragmented, price-war-prone markets, examining industry growth rates, exit barriers, and fixed-cost structures that dictate how aggressively competitors fight for market share.
- **Moat trend analysis:** We synthesize these forces to determine the trajectory of the company's return on invested capital (ROIC), assessing whether the competitive advantage is widening, stable, or structurally deteriorating.

Step 2: Industry analysis

Step 2 zooms out to quantify the total addressable market opportunity and rigorously track the historical shift of market power among major industry participants.

- **Total Addressable Market (TAM) dissection:** We calculate the estimated economic boundaries of the opportunity by mapping TAM and analyzing the structural drivers of expansion (e.g., secular tailwinds, regional growth, and pricing layers) versus cyclical or temporary demand spikes.
- **Historical market share trajectories:** We build a rolling market share matrix of key competitors across a full economic cycle (typically 5–10 years). This analysis uncovers structural share gainers, incumbents in secular decline, and shifts in industry concentration, ensuring we distinguish between a company benefitting from a rising tide versus one actively taking share.
- **Industry ROIC benchmarking:** We map historical and current Return on Invested Capital across all major industry participants, typically using HOLT cash flow return on investment (CFROI) analysis. This allows us to assess whether the sector is structurally profitable, identify where profit pools are concentrated, and verify whether our target company is improving capital efficiency relative to its direct peers.

Step 3: Growth drivers analysis

In Step 3, the team isolates the primary structural growth drivers unique to the company that can sustain a revenue growth rate over a **minimum horizon of five years or more**. To avoid over-reliance on near-term management projections, we utilize creative, non-consensus research methods to stress-test the long-term growth opportunity.

- **Identifying high-conviction 5-year+ secular growth drivers:** We strip out transient, cyclical tailwinds to isolate the structural drivers that will fuel long-term expansion, categorized across three distinct operational vectors:
  - *Unit-economic compounding:* Sustained regional rollouts, capacity additions, or recurring customer cohort expansions.
  - *Product tiering & monetization:* Multi-product land-and-expand strategies, a shift in product mix toward premium offerings, or demonstrated pricing power realized over time.
  - *Adjacency expansion:* Low-risk migration into adjacent geographic or product verticals where existing infrastructure or distribution channels can provide a competitive advantage.

Step 4: Financial statement analysis

Step 4 marks the transition into quantitative, forensic-level accounting. We conduct a comprehensive evaluation of all three interconnected financial statements to test earnings quality, map balance sheet risk, and analyze working capital efficiency. This step is anchored by three primary analytical pillars:

- **Balance sheet leverage & solvency analysis:** We dissect the capital structure to evaluate structural risk under stress. The investment team calculates the trends for net debt to EBITDA, interest coverage metrics, and the debt-to-equity ratio. Crucially, we inspect the debt maturity schedule, fixed-versus-floating interest exposures, and debt covenants to uncover any hidden liquidity risks. We also evaluate off-balance sheet liabilities and capitalize operating leases to understand true economic leverage.
- **Return on Invested Capital (ROIC) decomposition:** We calculate a granular, multi-year historical and forward-looking ROIC to measure the business's structural profitability and wealth-creation capabilities. The investment team analyzes the HOLT CFROI history to understand if the company has consistently earned above its cost of capital.
- **Cash Conversion Cycle (CCC) analysis:** We evaluate operational efficiency and short-term liquidity by measuring the velocity of working capital moving through the balance sheet. We monitor historical CCC trends to assess customer collection efficiencies, inventory build-up risks, and supplier payment leverage. A compressing or negative CCC signals strong supply chain power and high cash generation, while a bloating (expanding) cycle warns of inventory obsolescence or aggressive revenue recognition.

Step 5: Management team assessment

The CIBC Core Growth Investment Team looks beyond polished investor relations presentations to evaluate the true corporate operators. We analyze executive leadership through a multi-year audit of actual capital deployment, ownership stakes, and explicit performance incentives, focusing on three critical vectors:

- **Historical capital allocation track record:** We mathematically evaluate the return profiles of management's choices across the five capital options: organic reinvestment, strategic merger and acquisition execution, opportunistic share repurchases, dividend trends, and debt management. Typically, the HOLT CFROI track record serves as a key barometer for overall capital allocation quality. For new management teams, we assess track records by looking at previous roles.
- **Executive stock ownership:** We examine current proxy statements to map the exact equity alignment of the top executive team (CEO, CFO, COO, and others), looking for meaningful direct share ownership relative to base salary and auditing historical insider transaction trends.
- **Executive compensation Key Performance Indicators (KPI):** We analyze proxy compensation tables to identify the core metrics driving short-term incentives (STIs) and long-term incentives (LTIs). We heavily favor structures anchored to capital efficiency metrics, such as ROIC, economic value added, free cash flow (FCF) / share growth, rather than raw revenue or adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) targets.

Step 6: Range of Values Analysis

In Step 6, the team performs a Range of Values Analysis to better understand margin of safety and risk/reward. Our framework mandates four distinct DCF scenarios: Best, Base, Bear, and Worst. A uniform 10% discount rate and 3% terminal growth rate are applied across all scenarios to ensure consistency and comparability across the Active Inventory. The 10% discount rate is simply our minimum return hurdle—approximately the long-term total return of the S&P 500 over the past 100 years. The 3% terminal growth rate accounts for long-term inflation.

The Base case is our estimate of intrinsic value, or 100 cents on the dollar. We do not blend scenarios, as doing so would dilute our true estimate of what the company is worth. Intrinsic value is the team's independent assessment of what the company is currently worth based, on detailed forecasts of its future underlying fundamentals – entirely independent of market price.

1. **Best case:** Captures maximum operational efficiency—high-end revenue compounding, greater-than-expected market share gains, potential structural margin expansion from operating leverage, optimized working capital, and minimum capital expenditure (CapEx) intensity. This scenario reflects a much better fundamental operating picture than our base expectation.
2. **Base case (intrinsic value / 100 cents):** Our core underwriting thesis and most realistic view of the company's fundamental trajectory over a minimum five-year forecast horizon. We are not going to be conservative in this case, just to be conservative. Based on one month of rigorous analysis using the Seven Step Investment Process, we lay out what we believe is going to happen for future fundamental development.
3. **Bear case:** Models competitive friction—growth deceleration below industry rate, pricing power erosion, gross margin compression, and working capital inefficiencies. This case is often approximately halfway between the Base and the Worst cases.
4. **Worst case:** This is our downside tail risk nuclear scenario where everything seems to go wrong for the company –sales decline, market share is lost, earnings are depressed, and/or potential elevated structural capital requirements may be needed to ensure survival.

Historical valuation band stack charts: To cross-examine our DCF intrinsic value boundaries, we construct 10-year+ historical valuation stack charts mapping absolute, non-relative multiples. Valuation methods may vary by industry.

Step 7: Risks, sensitivities, and ESG considerations

The final step focuses on capital preservation by identifying what could break the investment thesis.

- **Risks and sensitivities:** We identify the key risks that could impair the Base case value and quantify them mathematically, estimating the impact that specific changes to our assumptions (such as growth driver inputs or margin changes) would have on our Base case value, all else equal.
- **ESG considerations:** The team evaluates material Environmental, Social, and Governance (ESG) risks (e.g., regulatory shifts, supply chain vulnerabilities, data security, corporate governance) that could impair long-term terminal value. This analysis incorporates third-party ESG reviews and is supplemented by collaboration with internal ESG experts.

To learn more about the CIBC Core Growth Investment Team contact your CIBC Global Asset Management representative.

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