

Valuation Requires Human Insights

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Our investment process utilizes several proprietary quantitative systems and custom software programs for risk management, global factor rankings, and economic modelling. Computers are perfectly suited for such as these tasks require very large data sets, real time statistical analysis, and thousands of calculations. Computers will continue to displace activities that were once the exclusive domain of humans.

Business valuation, perhaps our most critical task, requires human insights. While we do utilize internal valuation algorithms and use several third party systematic valuation tools, something is always missing—a critical connection, a key variable, or qualitative factor. Despite even the

latest advances in technology (e.g., machine learning, neural networks, and AI) our experience is that nothing—so far—has come close to approximating the parallel and lateral thinking that the human mind does so effortlessly. It is just this kind of thinking that is critical for valuation work.

On the surface, valuation appears to be a straightforward task with only three variables: free cash flow, a discount rate, and a growth rate. But behind each number are many assumptions. Free cash flow is dependent on organic growth, growth from acquisitions, cap ex, the durability of the company's moat, industry dynamics, technological change, demographics, to name just a

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few. Even the discount rate requires a deep understanding of where interest rates have been, where they are, and where they are likely to go.

Furthermore, there are potential legal liabilities, pension issues, political forces, and laws and regulations that could have a material impact on a company's valuation.

Valuation is much more than its basic formula. It is an unstructured problem that requires reconciling the future with the past and present. At the end of the problem there is a conclusion but no correct answer. Arriving at the conclusion may require totally new

approaches or ones that have been used since Ancient Mesopotamia.

Technology helps us aggregate, manage, and analyze critical variables from numerous sources. But only the human mind can create a mosaic from these interconnected and fluid variables. We believe combining computer power with human insights creates a compelling combination of systematic rigour and analytical thinking.

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