Skaffold®
INVESTMENT. SIMPLIFIED.

Top Stocks: How to find them

When it comes to companies, whether they're listed on the stock market or privately owned, the very best ones have a few things in common. Once you know how to spot top stocks, and avoid their lesser quality counterparts, stock market investing becomes a breeze.

10 qualities of top stocks

1. Rising earnings

If you owned a business and you didn't see your earnings rising each year, you'd be concerned. It's the same with stocks. Rising earnings ultimately lead to rising share prices. A word of caution though: don't look at earnings in isolation. Check out a company's balance sheet and cash flow statement to see where the money is really coming from, and how its being spent.

2. Dividends do not exceed profits

Whilst we all love dividends, its critical to know where your half-yearly income comes from. Imagine you have $10,000 cash in the bank. Your monthly salary is $5,000 and monthly expenses are $6,000. If you're spending $1,000 more every month that what you earn, that $10,000 surplus isn't going to last very long. Stocks that pay handsome dividends are no different. That's why it's critical to know how your dividends are funded.

3. Capital raisings are not in the company's vocabulary

Companies raise capital to expand, pay down debt and sometimes even pay your dividend. They can be bad for two reasons: dilution of your share holding and/or irresponsible economic management. As an existing shareholder, capital raisings are not in your best interests. When capital is raised, new shares are issued. This means that the percentage of the company that you own is diluted.

Top stocks don't need to raise capital because they produce plenty of cash and are able to expand using the cash in their bank accounts. The exception to this rule is a very select group of companies that use new capital to add significant value to their business, and ultimately shareholders pockets. Domino's Pizza is one such example.

4. Debt is minimal

When mismanaged, debt can lead to disaster. Australia's banks don't like lending home owners more than 80 per cent of the value of a property. When it comes to listed companies, it seems the same rules don't apply. Fortescue Metals is geared at

98 per cent, Ramsay Healthcare at 165% and Aveo Group and Aristocrat at more than 185 per cent. Debt is the same as capital raisings. Top stocks don't need either because they consistently produce strong earnings, rising profits and have plenty of cash in the bank.

5. There is plenty of cash to cover the interest bill

If a company does use debt, you want to make sure there is plenty of cash to cover its interest bill a few times over. Companies with plenty of cash in the bank will be insulated if times get a bit tough.

Skaffold's 2015 top stocks don't have this problem. Flight Centre can repay its interest bill 19 times over, Breville Group 31 times, Nick Scali 64 times and REA Group a staggering 795 times over. By comparison, Ramsay Health Care only has enough cash to repay its interest bill four times over.

6. Profits are rising

Rising earnings are great, but if profits aren't also rising then there is something wrong. Profits represent the amount left over once a company has paid all its obligations – debtors, salaries, tax, interest, etc. At Skaffold we also remove one-off windfalls, such as the sale of an asset, to get a realistic view of how the company is tracking.

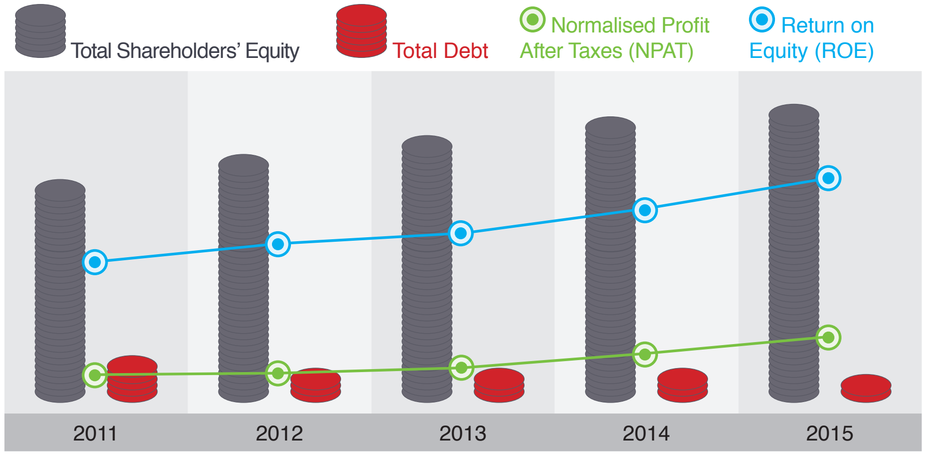
The higher a company's profits, the more profitable it is. And higher profitability typically leads to rising share prices.

7. Profitability, as measured by Return on Equity, is strong and rising

If you're going to take the risk of investing in the stock market, then you want to be rewarded for your efforts. That's why it's so important to examine a company's return on equity.

Return on Equity reveals how much profit a company makes on the money (known as equity) invested in its business. When it comes to business, whether listed or privately owned, profitability is key. Really, what is the point of running a business, with all the stress and anguish that comes with that, if you're only producing a

Top stocks produce rising profits, strong return on equity and have minimal debt



return of 3 per cent or 5 per cent? Is the effort really worth it? Top stocks generate returns on their equity in excess of 15 per cent.

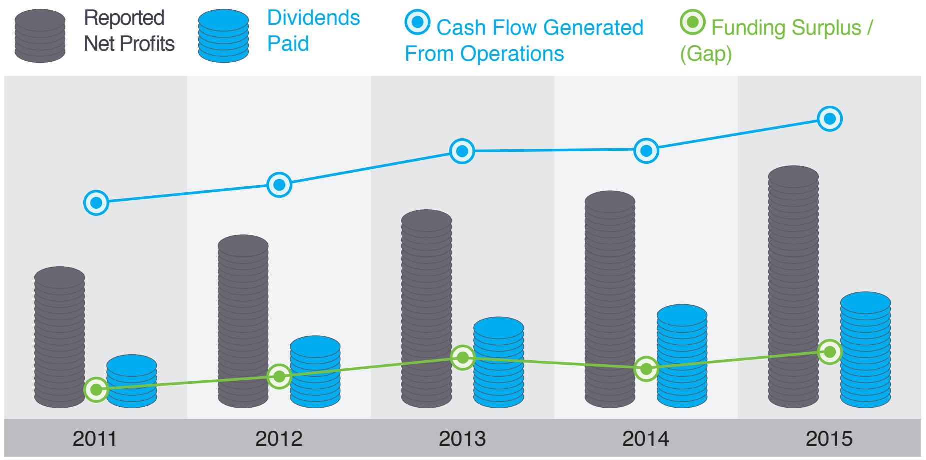
8. Strong cash flow that is higher than reported profits

In business, cash is king. The more cash a business generates the better. Top stocks generate cash flow form their operations that are higher than reported profits.

With ample cash on hand companies can pay dividends, make acquisitions and expand into international markets, for example. They have choice, and are not limited to the daily grind with no hope of more fruitful times in sight.

Look for those companies that have something left over for you as a shareholder after they have paid all their bills. They are the ones that will produce lasting and growing value in your portfolio.

Top stocks produce cash flow that is higher than reported profits, and never pay dividends that exceed their profits



9. Value has been rising

Top stocks produce stellar economics. Outstanding economics translate into strong and rising intrinsic values. And rising intrinsic values typically produce rising share prices.

Intrinsic value represents the sum total of a business's worth based on its earnings, dividends, equity, debt and cash flow. How the business performs is, after all, how you as a shareholder make money.

Top stocks, in addition to reporting rising earnings and profit, coupled with strong return on equity and cash flows, produce rising intrinsic values, year after year.

Failing a significant disruption to the company's business, companies that have a track record of positive growth are typically well positioned to continue delivering growth into the future.

10. Value is forecast to continue rising

You know the saying… past performance is not an indication of likely future performance. Whilst looking in the rear view mirror is helpful, it won't give you the gold nuggets you need to assess what could happen in the future. When hunting for top stocks well positioned to continue delivering future growth, you need to consider:

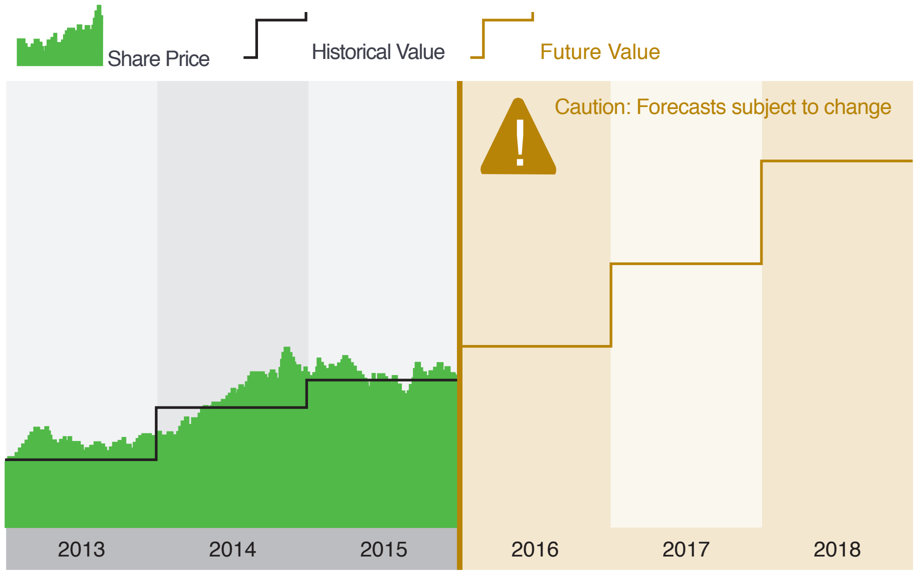
• Is the company in a period of growth, or is growth beginning to stagnate?

• Is the business of the company unique, or can others easily copy it and take market share?

• Have the company's profits risen in all market conditions, or are they susceptible to fluctuating economic cycles?

• Will the company benefit from, or be hindered by, government regulation?

A top-notch company with strong future growth



Top stocks filter - build it now in Skaffold to uncover top stocks to buy

Filter criteria	What it is	Setting	Why we use it
Forecast Earnings (EPS) Growth	Percentage change from the company's last reported earnings to the current forecast year earnings per share.	**More than 5%**	To find companies whose earnings are rising over the coming 12 months.
Net Debt / Equity	Tells you how highly the company is geared. The ratio captures the size of a company's debt compared with its total shareholder equity, accounting for any cash in the bank.	**Less than 40%**	Debt is bad. When things turn south, and a company is loaded with debt, it's never a good outcome. At Skaffold, we think that less debt is best.
Cash Interest Cover	Represents the amount of times a company's interest bill is covered by its cash flow.	**More than 4 times**	To find companies with money for a rainy day. If a company generates enough operating cash to repay its interest bill at least four times, that provides a buffer should things temporarily turn bad.
Return on Equity	Determines the level of profitability of a company relative to the equity capital it has raised and retained. It's a measure of how well a company manages its equity, debt and profits.	**More than 15%**	To find profitable businesses. Businesses that generate high returns on their equity are the best ones to own. Strong and rising profitability is generally rewarded with a rising share price.
Forecast Return on Equity	An estimate of what return on equity the company will generate in the current financial year.	**More than 15%**	Profitable stocks, looking into the future.
Historical Change in Value	The per annum increase or decrease in value over the historical period, up to 10 years.	**More than 15%**	Failing a significant disruption to the company's business, companies that have a track record of positive growth are typically well positioned to continue delivering growth into the future.
Forecast Change in Value	The per annum growth Skaffold forecasts for the company over the next two years.	**More than 15%**	Growth is good. No one wants to own a stock whose sales are depleting and earnings are contracting.

Help is always available

For tips on how to build filters in Skaffold go to http://www.skaffold.com/help/filtering/how-to-build-a-filter. Or get in touch with us.

Visit
skaffold.com/help

1300 SKAFFOLD
02 9660 3336

Email
team@skaffold.com

Live chat at
skaffold.com

Skaffold®
INVESTMENT.SIMPLIFIED.

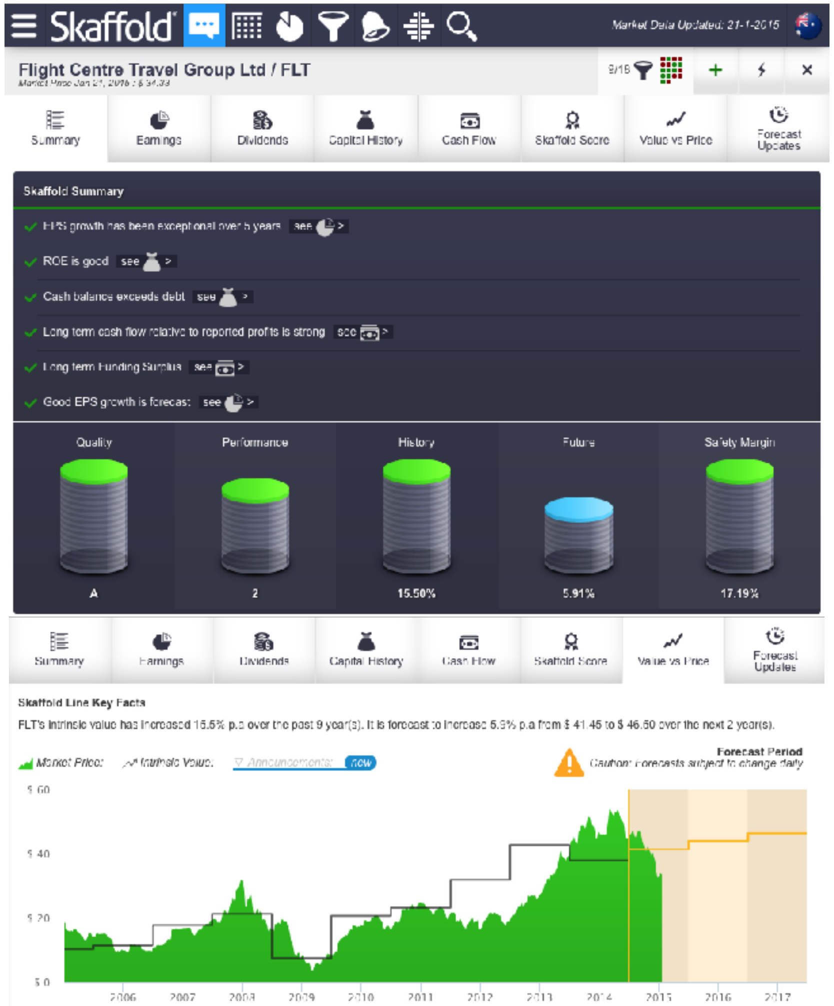
Stock Research. Simplified.

Skaffold is the Google for shares

- ✔ **It's independent:** Unbiased factual research that makes investing in shares simple.
- ✔ **It's easy to use:** Simple, intuitive and clear visual representation of company financials.
- ✔ **It's the one that highlights opportunities**: Proactively highlights investment opportunities for all investor types - growth, income, speculative.
- ✔ **It's cloud based:** Available across all computing devices.

Skaffold's leading edge features

- ✔ 10 years of fundamental information presented in world-first visuals
- ✔ Future growth estimates
- ✔ Every ASX plus thousands of global stocks
- ✔ Stock alerts
- ✔ Available everywhere, 24/7
- ✔ Powerful stock screening tools and filters
- ✔ Stock ratings
- ✔ Skaffold summary
- ✔ 100% automated



www.skaffold.com 1300 SKAFFOLD team@skaffold.com

Data accurate as at 7 September 2015 close of trade.

Important Information: Nothing in this report constitutes advice. The content of this publication contains general financial information that has been prepared without taking into account your personal financial circumstances. Before acting upon any of the information provided in this publication, you should always consider its appropriateness in light of your objectives, financial situation and needs and seek professional financial advice. Skaffold Pty Limited (Skaffold) is a Corporate Authorised Representative (Authorised Representative No: 440886) of Montgomery Investment Management Pty Limited ABN 73 139 171 701 (AFS Licence No: 354564). Skaffold is a registered trademark of Skaffold Pty Limited. Patents Pending. Copyright © Skaffold Pty Limited ABN 43 142 851 116.