



The Lombard Odier Darier Hentsch buy-side research rating system

The Lombard Odier Darier Hentsch rating system is used for all stocks recommended by LODH analysts by means of bi-monthly lists ("Buy-Side Equity Recommendations," "Buy-Side Preliminary Equity Recommendations").

The Lombard Odier Darier Hentsch rating system consists of two parts:

- Rating.** This is the fundamental step in the analytical process. Ratings are based on clearly defined criteria and are used to determine the level of long-term risk (five years) associated with each individual stock within the permanent investment universe. Letters (A/B/C/D) are used to indicate the basic level of risk involved, with A signifying the lowest level of risk and D the highest. The resulting risk profile for each company is used to determine the valuation risk, i.e. the divergence between the current price and the stock's theoretical fair value in five years discounted back to its present value. The valuation risk is based on the "Dividend Discount Model (DDM)" approach combined with the basic risk as defined above and is expressed in figures (1/2/3), with 1 indicating that the discounted theoretical fair value in five years is at least 10% greater than the current price, 2 indicating a level of between -10% and +10%, and 3 indicating that the discounted theoretical fair value is over 10% less than the current price, implying increased valuation risk.
- Recommendation.** This is the final step in the analytical process. Recommendations are made within a 12-month timeframe with a view to indicating the stock's estimated performance relative to its sector or geographical benchmark, as applicable. Benchmarks are therefore included in the two bi-monthly lists. Recommendations are made on the basis of "absolute" (DCF, DDM) and "relative" valuation methods (e.g. comparison of EV/EBITDA ratios by sector). Market factors are also included, e.g. such things as technical assessments and earnings revision fluctuations. Recommendations are defined in the following terms:
 - > **Outperform:** We expect the stock to outperform its benchmark over a 12-month period with U.S. dollars as the reference currency;
 - > **Neutral:** We expect the stock's performance to track that of its benchmark over a 12-month period with U.S. dollars as the reference currency;
 - > **Underperform:** We expect the stock to underperform its benchmark over a 12-month period with U.S. dollars as the reference currency;
 - > **Not rated:** We are unable to give any opinion as to value, or, due to Lombard Odier Darier Hentsch's close links with this company, we are unable to give an independent opinion.

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