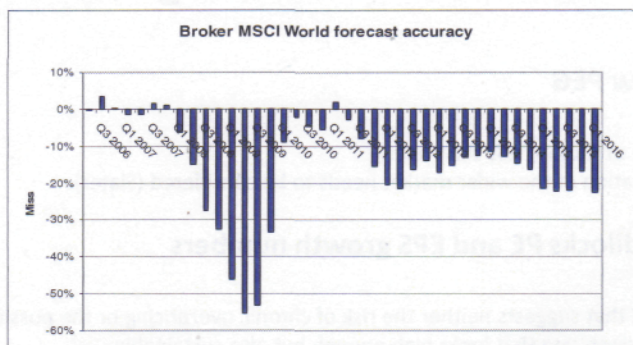


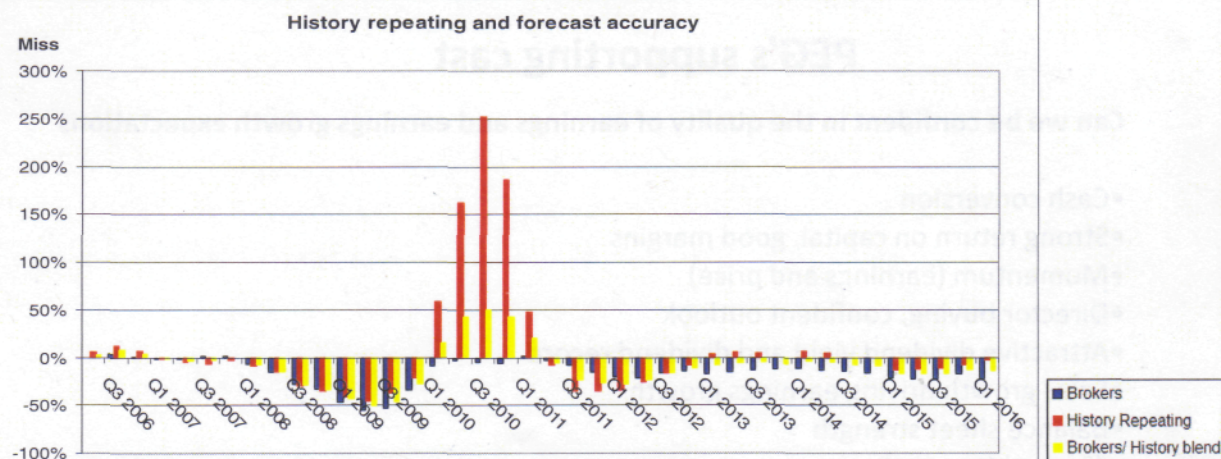


How to best guess EPS growth

	Brokers miss	History repeating miss	Brokers/ History blend miss
Median	-14.3%	-6.1%	-7.8%
Top Dec.	0.4%	48.4%	16.1%
Top Q.	-4.1%	4.6%	-2.6%
Bottom Q.	-21.4%	-17.3%	-18.9%
Bottom Dec.	-32.8%	-35.0%	-29.2%



source: Thomson Datastream



source: Thomson Datastream



What are we looking for from a PEG?

A low PEG

- Rule of thumb, less than one.
- Valuation of the wider market needs to be considered (Slater).

Goldilocks PE and EPS growth numbers

- A PE that suggests neither the risk of chronic overpricing or the possibility of a value trap.
- A growth rate that looks high enough but also sustainable.



PEG's supporting cast

Can we be confident in the quality of earnings and earnings growth expectations

- Cash conversion
- Strong return on capital, good margins
- Momentum (earnings and price)
- Director buying, confident outlook
- Attractive dividend yield and dividend record
- Sales growth driving earnings growth
- Balance sheet strength
- "Something new"



A PEG Screen

Three key PEG tests

- Low PEG

PEG less than median average

$PEG = PE / DY + \text{Average of 5yr CAGR and next two financial year EPS growth consensus forecasts}$

- Reasonable PE

PE outside the top or bottom fifth of stocks screened

- Good Growth

Growth rate for next two financial years higher than median average but below top tenth of stocks screened. EPS growth forecast in each of the next two financial years.

Five supporting cast tests

- Net debt less than 2.5 times cash profit
- 3 month momentum better than median
- EPS growth in four of the last five years
- 3 consecutive years of positive free cash flow
- Revenue 5-year compound annual growth rate (CAGR) greater than 5 per cent



PEG Screen Stocks

Name	Constituents ID	Mkt Cap	P	PEG	Fwd NTM PE	DY	P/BV	FY EPS gr+1	FY EPS gr+2	3-mth Mom	Net Cash/Debt (-)	Supporting test failed
Babcock International	BAB	£5,518m	1,092p	1.40	14	2.4%	2.35	9.6%	8.1%	7.1%	£1,350m	none
Ashtead	AHT	£5,973m	1,198p	0.25	12	1.9%	3.52	16.1%	9.8%	15.2%	£2,348m	none
WPP	WPP	£23,118m	1,832p	1.74	16	2.4%	2.76	17.5%	9.3%	15.1%	£4,249m	none
Moneysupermarket.com	MONY	£1,693m	309p	1.10	20	3.0%	10.19	5.9%	7.0%	3.9%	£11m	none
Berendsen	BRSN	£2,184m	1,278p	1.08	18	2.5%	4.15	9.4%	7.2%	3.5%	£456m	5yr Rev CAGR
Vp	VP	£285m	730p	0.85	12	2.6%	2.35	6.8%	7.9%	-1.4%	£87m	FCF and Momentum
Henry Boot	BHY	£264m	200p	0.59	10	3.1%	1.18	22.0%	1.1%	-3.7%	£56m	FCF and Momentum
MJ Gleeson	GLE	£319m	592p	0.47	14	1.7%	2.25	22.1%	4.7%	-0.4%	£10m	FCF and Momentum

FTSE 100, FTSE 250 and FTSE Small Cap screened separately. All stocks have passed all three key PEG tests and have been allowed to fail one supporting tests or two in the case of small caps due to paucity of the small cap screen's results

source: S&P CapitalIQ