FTI Consulting, Inc. FCN [NYSE] | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
36.84 USD	44.00 USD	30.80 USD	61.60 USD	Medium	Narrow	C	BBB	Business Services

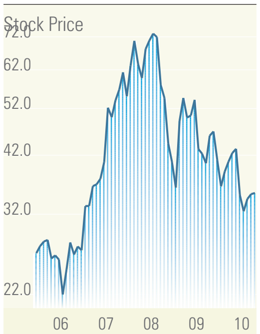
FTI Consulting Reports 3Q Results

by Swami Shanmugasundaram
Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through December 02, 2010. Rating updated as of December 02, 2010.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Stock Price



Analyst Note Nov. 08, 2010

FTI Consulting's balanced portfolio of services came to its rescue in the third quarter--a decline in revenue from its countercyclical restructuring business was offset by an uptick in demand for its cyclical businesses. Overall, the company's third-quarter revenue decreased 1% year over year, to $346 million. The availability of cheap credit coupled with lenders' willingness to extend favorable credit terms led to a slowdown in restructuring opportunities, which hit the company's corporate finance and restructuring practice. Revenue from this practice was down 14% from a year earlier. Management noted that this practice's current pipeline looks good and we expect to see some stabilization in it going forward. Except for its economic consulting practice, all of FTI's other cyclical businesses registered top-line growth during the quarter. Despite an improvement in the overall economic environment, M&A activities remained weak, which impacted most of FTI's cyclical businesses. Just as a reminder, about one sixth of FTI's businesses rely one way or the other on M&A activities. Flat revenue growth in the company's economic consulting was a direct fallout of a weak M&A market. FTI's forensic and litigation consulting had a strong quarter, with revenue increasing 12% on a year-over-year basis. With an uptick in corporate litigation activities, we expect momentum to continue in this business. Revenue from technology and strategic communications businesses increased 10% and 6%, respectively, on a year-over-year basis.

FTI's adjusted EBITDA margin contracted by 350 basis points to 18.8%. The margin compression could partly be attributed to the restructuring practice's poor top-line numbers. Restructuring practice carries higher margins and the decline in revenue from this business impacted the overall margin levels. Additionally, acquisition expenses related to FTI's acquisition of FS Asia Advisory at the beginning of the quarter also impacted the margins.

Thesis Jul. 23, 2010

FTI Consulting is known for its market-leading position in bankruptcy, restructuring, and litigation-related consulting services. Its international footprint, highly credentialed consultants, and long-standing customer relationships are its key selling points and create an economic moat around its business. We believe diversified service offerings, which include a mix of cyclical, countercyclical, and noncyclical business practices, make the firm fairly resilient across economic cycles.

Founded in 1982 with a focus on forensic consulting and litigation, FTI grew over the years, internally and through acquisitions, to become a leading provider of high-end professional services. The company has one of the most respected global practices in restructuring and bankruptcy, and offers its clients a broad and deep range of services and knowledge. It has developed many long-term relationships with its customers, which can hardly be overemphasized in the consulting industry. FTI derives more than 85% of its revenue from existing customers or referrals from existing clients. Sticky client relationships act as a significant barrier that protects FTI's territory in consulting.

Consulting companies typically take the acquisition route to expand their service offerings, as it requires quite a bit of time to build a practice from scratch. FTI's management is known for its strong record of identifying and integrating multiple acquisitions, which greatly complement the firm's internal growth profile. FTI recently announced its intent to expand beyond North America, and we believe that its recent acquisition of London-based Financial Dynamics, a public relations and financial communications consulting firm, was a first step in that direction. In addition to expanding FTI's service offerings and geographic reach, this acquisition opened up tremendous cross-selling opportunities with multinational companies. FTI plans to derive 25%-30% of revenue from international operations by 2012.

FTI operates in a knowledge-intensive industry; its primary revenue-generating assets are its people. The company relies on the expertise and reputation of its consultants to drive its business; reputation, in particular, plays a critical role when clients evaluate FTI relative to

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
FTI Consulting, Inc.	USD	1,711	1,388	201	98
Navigant Consulting	USD	430	695	57	28

Morningstar data as of December 02, 2010.

its peer group. FTI had first-hand experience in recognizing the need to retain its top talent and maintain its reputation when a group of consultants, who had joined the company through an acquisition, left in 2004, significantly affecting results. Subsequently, FTI rolled out a long-term retention plan that locks in top performers with long-term contracts that include noncompete and nonsolicitation clauses, enhancing its positioning in the market as well as its long-term viability.

FTI's business offerings include a balanced portfolio of services that we believe should help the company perform well regardless of the economic environment. In addition, FTI should be able to exploit the current industry trends in its favor; the subprime crisis, tighter credit markets, and challenging macroeconomic environment should create solid demand for its corporate finance/restructurings and litigation consulting businesses. We believe FTI is on solid footing, and its long-term prospects look good.

Valuation, Growth and Profitability

Our fair value estimate for FTI Consulting is $44 per share. We expect the company's near-term performance to remain muted, primarily driven by recent developments in the U.S. and Europe. We expect the continued high unemployment rates in the U.S. and the debt crisis in Europe to limit the growth prospects of the company's cyclical businesses. The demand for the company's restructuring business has fallen substantially in the last quarter, and we expect this trend to continue over the near term. Overall, we model compound annual revenue growth of 5.5% over the next five years. Given the inherent operating leverage in the business, we expect the company's margin to decline substantially in the near term, but gradually expand in the future, as the company realigns its resources based on the demand environment. We expect the fiscal-2010 operating margin to be in the midteens, which is a few hundred basis points lower than the 18% reported by the company in fiscal 2009. We project margins to expand to the high-teens at the end of our forecasting period (18% in 2014), in line with the historical range.

Risk

The biggest risk facing FTI is losing its senior employees to competitors. The war for talent is intense in the consulting industry, given the highly specialized nature of services and the fact that a large portion of new business is generated through the relationship channel. Further, as FTI focuses on expanding its global footprint to drive its growth, it is faced with several risks arising from international exposure such as foreign currency volatility, lack of skilled professionals in local markets, and unstable political and economic environments. Consulting is an event-driven business, and results can be lumpy.

Bulls Say

- FTI's focus on event-driven consulting assignments reduces its exposure to economic swings.
- FTI, through its restructuring operations, is well positioned to benefit in a countercyclical environment, where defaults and bankruptcies were prevalent.
- FTI has improved the retention of its senior managing directors, providing the company with a stable group of senior managers. Also client/manager revenue concentration is minimal.

Bears Say

- FTI's contract terms generally allow clients to terminate the engagement with little notice and without penalty. Unexpected changes in the demand environment could affect FTI's pipeline, leading to lumpiness in revenue streams.
- The consulting industry suffers from high employee turnover, and this poses execution challenges to FTI.
- FTI's expansion into international markets exposes the firm to considerable foreign exchange rate risk.
- Although FTI has a successful history of acquisitions, there is no guarantee that future acquisitions will be implemented successfully, and integrating new companies can be a challenge.

Financial Overview

Financial Health: FTI used financial leverage to pursue its acquisition strategy and carries more than $550 million in debt on its balance sheet. However, its debt load remains manageable; the company generates steady cash inflows and should be able to service its debt obligations.

Company Overview

Profile: Founded in 1982 and based in Baltimore, FTI Consulting is a global advisory firm with expertise in litigation consulting, financial restructuring, and forensic investigation. The company provides its services through five distinct consulting practices focused on litigation, corporate finance and restructuring, strategic communications, technology, and economic consulting. It has more than 2,600 consultants and has offices in 32 U.S. cities and 26 foreign countries.

Management: FTI's stewardship has been fair. President and CEO Jack Dunn has been with the company since 1992 and became CEO in 1995 and president in 2004. Given that operating performance of the company has been solid during his tenure, we think this continuity has been a positive. Dunn also was chairman from 1998 to 2004 but relinquished the title to Dennis Shaughnessy in 2004 to separate the chairman and CEO titles. We like that the chairman and CEO roles are held by different people. A majority of the 10-member board is composed of independent directors. Executives and directors collectively own 4% of FTI's outstanding common shares, which bodes well for shareholder value creation. Annual salary compensation for top management includes base salary, performance-based bonus, and equity awards. Although this variable compensation benefits shareholders, we would like to see a better metric used to measure performance instead of earnings per share, which can be easily manipulated. FTI could improve its stewardship grade by eliminating its staggered board structure.

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Nov. 08, 2010

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Aug. 12, 2010

FTI Consulting Reports 2Q Results

FTI Consulting reported second-quarter results that were consistent with the preliminary guidance given by management few weeks earlier. The company's top line declined by 3% on a year-over-year basis to $349 million, primarily driven by a larger than expected slowdown in demand for its corporate finance and restructuring (32% of revenue), and technology (12% of revenue) practices. Revenue from these two practices was down 17% and 28%, respectively, compared to the year-ago period. The restructuring practice suffered in part because of a strong high-yield market, which helped companies refinance their maturing debts without much difficulty. As the high-yield market conditions remain strong, we expect demand for restructuring services to remain weak in the near term.

A significant decline in M&A-related second-request business unfavorably impacted FTI's technology practice. FTI's pro-cyclical businesses, which include litigation consulting (23% of revenue and 23% growth), economic consulting (19% of revenue and 13% growth) and strategic communication (14% of revenue and 12% growth), witnessed a gradual pick-up in demand for their services, but it wasn't strong enough to offset the decline from restructuring and technology services. Given the continued uncertain macroeconomic environment, we expect this

Analyst Notes (continued)

pattern to continue in the near-term.

FTI's top-line decline adversely impacted its margin levels. Its operating margin declined 490 basis points, to 14.9% from 19.8% a year earlier. However, the company has trimmed its workforce to cope with the lower demand, and we expect margin levels to improve as growth returns.

On a related note, FTI announced the acquisition of FS Asia Advisory Limited, a leading provider of corporate finance, restructuring and turnaround, corporate advisory and corporate recovery services in Asia. FS is 130 professionals strong, and the acquisition is expected to expand FTI's presence in the Asian market. Management noted that they expect to close the acquisition in August.

Jul. 07, 2010

Placing FTI Consulting Under Review

FTI Consulting hosted a conference call today, during which management lowered its revenue growth and margin guidance for the second quarter and full year of fiscal 2010. We are placing our fair value estimate under review while we reassess our modeling assumptions in light of management's new commentary.

During the call, the company cited headwinds, including uncertain macroeconomic conditions, that are more likely to weigh on the company's growth prospects and profitability levels in the near term. We will likely lower our fair value estimate.

During the call management noted that the demand for its Corporate Finance/Restructuring consulting practice, which reported solid numbers in 2009 (38% year-over-year growth), remained materially weak during the first half of the year, and that the business conditions would likely remain muted, and even deteriorate, during the second half. While we believed that it would be difficult for this segment to repeat its 2009 performance, and therefore had tempered our growth assumptions, we never expected the segment's top line to decline in fiscal 2010.

Additionally, as the economy showed signs of a moderate recovery, we expected the company's pro-cyclical businesses to benefit from the improvement, and partially offset the decline in revenue from the company's core Corporate Finance/Restructuring practice. However, recent developments in Europe, and the subsequent impact on global macroeconomic conditions, indicate that it may be a while before we see any improvement in the demand environment. FTI derives about 20% of its revenue from its international operations, and the recent strengthening of the U.S. dollar against global currencies will likely lead to lower reported revenue in dollars.

Given the inherent operating leverage in its business, management indicated that the decline in revenue will lead to future margin compression. Though the company realigned its workforce at the beginning of this year to cope with an expected decline in demand for its restructuring practice, the magnitude of the decline was more than what was expected. We expect this to negatively impact margins more than what we had already factored into our model.

FTI Consulting, Inc. FCN

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
1,388	1,711	Business Services	Business Services

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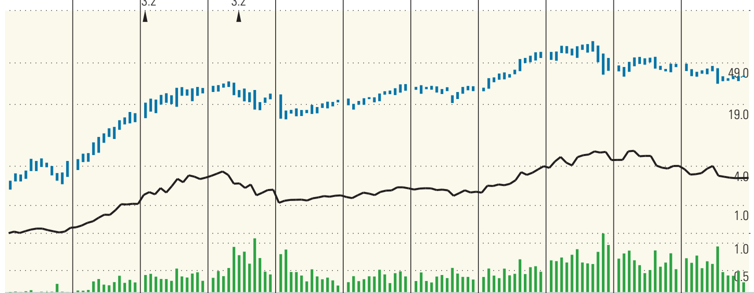
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	36.84	44.00	Medium	Narrow	C

per share prices in USD

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
Annual Price High	5.17	16.09	28.62	32.45	24.14	30.54	29.77	63.00	80.00	56.41	48.33
Low	2.11	3.78	13.93	16.79	13.55	17.01	19.82	25.95	37.80	36.14	30.78
Recent Splits			3:2	3:2							



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
48.33 - 30.78
10 Year High/Low
80.00 - 2.11
Bear-Market Rank
1 (10=worst)
Trading Volume Million

Stock Performance

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
Total Return %	105.0	220.0	83.6	-12.7	-9.8	30.2	1.6	121.0	-27.5	5.5	-21.9
+/- Market	115.1	233.0	107.0	-39.1	-18.8	27.2	-12.0	117.5	11.0	-17.9	-31.4
+/- Industry	128.7	173.7	102.3	-42.1	-18.4	25.4	-12.3	128.4	4.1	-18.2	-30.8
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.0
Market Cap USD Mil	65	423	955	980	893	1071	1160	2962	2271	2216	1711

Financials	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Revenue USD Mil	135	166	224	376	427	540	708	1001	1293	1400	1388
Gross Margin %	51.1	49.8	51.8	53.1	45.0	46.0	45.0	45.2	45.4	45.2	42.5
Oper Income USD Mil	25	32	63	114	78	114	106	187	239	264	201
Operating Margin %	18.3	19.4	28.3	30.3	18.4	21.1	15.0	18.7	18.5	18.8	14.5
Net Income USD Mil	3	16	37	59	43	56	42	92	125	143	98
Earnings Per Share USD	0.14	0.56	1.09	1.41	1.01	1.35	1.04	2.00	2.34	2.70	2.01
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	18	29	34	42	42	42	40	46	54	53	49
Book Value Per Share USD	4.78	3.62	7.51	10.85	11.70	11.64	13.59	20.23	22.12	23.50	25.16
Oper Cash Flow USD Mil	16	27	78	96	58	99	64	78	200	251	183
Cap Spending USD Mil	-7	-4	-9	-11	-12	-18	-30	-36	-36	-29	-25
Free Cash Flow USD Mil	9	23	69	86	47	82	34	42	164	222	158

Profitability	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Return on Assets %	2.2	11.0	12.7	10.9	6.3	6.8	3.6	5.7	6.4	6.9	4.2
Return on Equity %	5.2	19.0	19.9	16.4	9.0	11.9	8.3	12.0	12.0	12.8	7.9
Net Margin %	1.9	9.9	16.6	15.8	10.0	10.4	5.9	9.2	9.7	10.2	7.0
Asset Turnover	1.17	1.11	0.77	0.69	0.62	0.65	0.60	0.62	0.66	0.67	0.60
Financial Leverage	2.1	1.5	1.6	1.5	1.4	2.1	2.5	1.9	1.9	1.9	2.1

Financial Health	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	09-10
Working Capital USD Mil	20	29	14	15	60	193	116	280	129	94	373
Long-Term Debt USD Mil	56	24	78	105	84	348	563	416	—	—	—
Total Equity USD Mil	69	105	268	455	496	454	565	972	1124	1104	1168
Debt/Equity	0.82	0.23	0.29	0.23	0.19	0.77	1.00	0.43	0.37	0.38	0.55

Valuation	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Price/Earnings	32.0	26.0	26.3	15.2	20.9	20.3	26.8	30.9	19.1	17.4	18.3
P/E vs. Market	—	—	—	—	—	—	—	—	—	1.0	1.2
Price/Sales	0.5	2.6	4.1	2.6	2.1	2.1	1.6	2.8	1.9	1.8	1.3
Price/Book	0.9	4.0	3.6	2.1	1.8	2.4	2.0	3.0	2.0	2.0	1.5
Price/Cash Flow	4.5	15.7	11.8	10.3	15.3	11.7	17.6	36.4	12.0	10.0	9.8

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	8.3	25.5	26.8	32.4
Operating Income %	10.4	35.4	27.4	39.7
Earnings/Share %	15.4	37.4	21.7	26.3
Dividends %	—	—	—	—
Book Value/Share %	6.3	20.0	15.0	23.8
Stock Total Return %	-20.4	-13.5	4.8	27.6
+/- Industry	-29.8	-10.9	5.6	22.6
+/- Market	-30.5	-7.3	5.5	29.5

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	7.9	11.4	2.6	22.3
Return on Assets %	4.2	5.8	0.9	8.6
Fixed Asset Turns	18.7	18.0	7.9	7.2
Inventory Turns	—	—	31.5	13.9
Revenue/Employee USD K	395.0	392.9*	—	872.7
Gross Margin %	42.5	45.4	36.4	39.5
Operating Margin %	14.5	18.4	11.9	14.3
Net Margin %	7.0	9.1	1.2	9.6
Free Cash Flow/Rev %	11.4	10.5	10.2	0.1
R&D/Rev %	—	—	—	10.0

Financial Position

Grade: C	12-09 USD Mil	09-10 USD Mil
Cash	119	331
Inventories	—	—
Receivables	308	395
Current Assets	500	767
Fixed Assets	81	74
Intangibles	1372	1419
Total Assets	2077	2404
Payables	8	—
Short-Term Debt	—	—
Current Liabilities	406	394
Long-Term Debt	—	—
Total Liabilities	973	1235
Total Equity	1104	1168

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	18.3	22.9	13.6	15.6
Forward P/E	14.0	—	—	14.5
Price/Cash Flow	9.8	17.5	11.9	7.9
Price/Free Cash Flow	11.4	28.4	15.2	16.0
Dividend Yield %	—	—	1.4	1.8
Price/Book	1.5	2.3	3.2	2.1
Price/Sales	1.3	2.0	1.6	1.3
PEG Ratio	0.8	—	—	1.6

Quarterly Results

Revenue USD Mil	Dec 09	Mar 10	Jun 10	Sep 10
Most Recent Period	342.9	350.0	349.0	346.1
Prior Year Period	322.9	347.9	360.5	348.6

Rev Growth %	Dec 09	Mar 10	Jun 10	Sep 10
Most Recent Period	6.2	0.6	-3.2	-0.7
Prior Year Period	15.1	13.3	6.8	7.1

Earnings Per Share USD	Dec 09	Mar 10	Jun 10	Sep 10
Most Recent Period	0.71	0.29	0.52	0.47
Prior Year Period	0.58	0.60	0.69	0.70

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
FTI Consulting, Inc.	1711	1388	18.3	7.9
Navigant Consulting	430	695	15.3	6.5

Major Fund Holders

	% of shares
Fidelity Advisor Small Cap A	4.85
T. Rowe Price Small-Cap Value	2.49
Artisan Small Cap Value Investor	2.13

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat™ Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis: Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat™ Rating: The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation: Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate: DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment: An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★: ★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."