



distill

ANALYTICS

Distill Analytics White Paper

Identify management teams that can
deliver growth; avoid those that won't.

An Invitation To *Distill Analytics*' Alpha Launch

Strategic Partnership

Distill Analytics is looking for strategic partners in our *Alpha* product launch. Partners in this phase will receive early access to analysis that both *McKinsey* and *Boston Consulting Group* have described as globally unique.

For your portfolio of companies we will provide detailed historical and ongoing tracking of the executive teams. This forms the basis of the *Distill Management Fundamentals Index*.

The *Distill Management Fundamentals Index* tracks executives and alerts Asset Managers to changes in the C-suite's potential to deliver positive business outcomes and maintain a highly functional, stable, and performance driven executive management team. It also uncovers political instability, infighting, and strategic blindness. The *Index* reveals how individual company executives and teams as a whole navigate business cycle transitions and systemic volatility.

We value your experience, and look forward to working with industry partners to further refine the *Index* to create maximum value and precision for our clients. Your expertise will help us evolve the offering towards a beta-launch.

Case Study

The following case study illustrates the differential view the *Distill Management Fundamentals Index* reveals of two Canadian auto-parts manufacturers. Walking you through the market context and our unique analysis, we demonstrate the additive value the *Index* provides for those who need a critical edge to understanding how a company will perform.

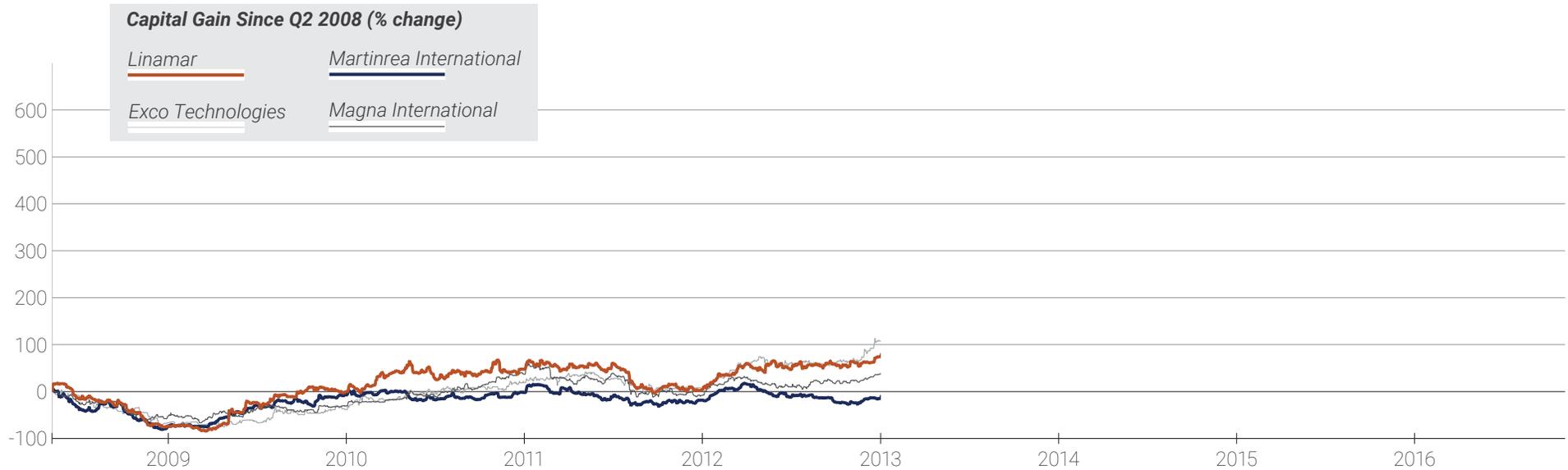
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Measuring the Difference a Management Team Makes



In late January 2013, a headline in the *Globe and Mail* announced “Canadian Car Parts Suppliers Poised for Growth.”¹ The article predicted “strong growth for the country’s biggest suppliers,” *Magna International*, *Linamar*, *Martinrea International*, and the smaller *Exco Technologies*. In the article, a sector analyst from *BMO Capital Markets* went on record arguing that these “stocks are going to go up.” This appeared to be a well justified call based on the fundamental data analysts had available.

What happened since that prediction? What information was available then that could have changed the prediction?

At the request of an Asset Manager who had invested heavily in two of these firms, *Distill Analytics* investigated the executive teams of both *Linamar Corp.* (TSX:LNR) and *Martinrea International Inc.* (TSX:MRE).

We based our analysis on the quarterly earnings call transcripts from 2008 to 2016. The transcripts are public documents, made widely available so investors and others not on the call can hear from management the results of the previous quarter and forecast for the future.

Distill created the **Management Fundamentals Index**, the only index in the world that rates public company executives and management teams on their internal political stability and external strategic ability. *Distill* builds Management Fundamentals using advanced, empirically validated text analytics.

This data requires only the transcripts of public communications, such as quarterly earnings calls and reveals management’s alignment to positive business outcomes.

Identify Teams That Can Deliver Growth; Avoid Those That Won't



Distill analyzes how executives talk about their results, goals, and plans by assessing factors that underlie an individual's management ability and style. The text of the quarterly earnings call transcripts provide the material for our metrics to measure the performance characteristics present (or lacking) in executives of public firms.

Distill created company profiles for *Linamar* and *Martinrea*. The *Distill Management Fundamentals Index* shows a change in the profiles of both companies executive team's through 2010 and into 2011 (see graphic on next page).

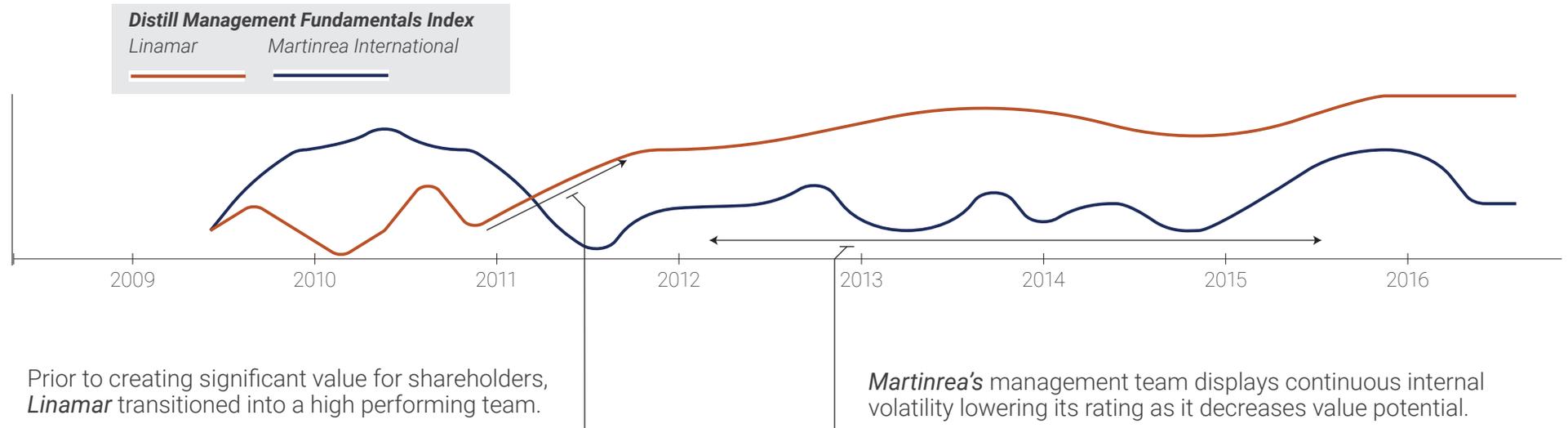
The executive team at *Linamar* switched to become a high performing organization; the executive team at *Martinrea* did exactly the opposite.

The results of our analytics were reflected in the market performance of these two companies: the rising tide of the Canadian auto-parts sector floated three of the four stocks "Poised for Growth." However, *Martinrea* was unable to generate value in favourable market conditions.

In 2017 another headline in the *Globe and Mail* announced: "It's well worth kicking the tires of [*Martinrea's*] stock" arguing that based on traditional fundamental data the firm is undervalued and represents an opportunity.²

What does the *Distill Management Fundamentals Index* reveal?

The *Distill* Management Fundamentals Index



Using our analytics, *Distill* assessed each member of *Linamar* and *Martinrea's* executive teams present on quarterly earning calls since 2008. These results provide a dataset of Management Fundamentals, revealing each team's alignment to business value creation, its internal political stability, and its strategic ability.

Distill compiled this data into a single *Index* measure to provide a snapshot of each team over time. *Index* scores are updated every quarter, creating the rolling five quarter average as seen here. Our research indicates that two aspects of the *Index* are indicative of high performing teams: *Index* score and volatility of scores over time. Teams with high *Index* scores and low volatility demonstrate the greatest value creation potential.

Between 2011 and 2012 *Linamar* began displaying a high performance profile, which it has maintained through the most recent quarter.

In the same time period *Martinrea's* score decreased. *Martinrea* has not recovered its *Index* score and has shown consistent volatility.

With the additional perspective that Management Fundamentals provide, it becomes less likely that Canadian auto-parts makers – including *Martinrea* – were all “Poised for Growth” even as the traditional fundamental data told a different story.

Traditional company fundamental data has been unable to include metrics to track the performance of executive teams in a systematic and reliable manner.

Distill's methods, developed for use in political and military settings, provide a means to follow the ability and style of executives in a systematic and reliable manner. Including *Distill's Management Fundamentals Index* gives Asset Managers a clear, data driven, and comprehensive understanding of management's ability to deliver results.

Differentiate Value Creators from Underperformers

Breaking down the constituents of the *Distill Management Fundamentals Index* reveals profiles for each of the executive team members who participate on an earnings call. Individual executives are scored on each of the discrete attributes of the *Index*. Each of these attributes have been rigorously studied over the last half-century within research psychology. The attribute scores in a profile reveal the differences between individual executives. Our data is beginning to identify profiles that characterize success in a particular executive management position. Three of the attributes are broken out here.

From the *Linamar* and *Martinrea* executive team we have selected four separate executives who display either a prototypical 'C-Suite Value Creator' Profile or the more ambiguous 'C-Suite Outliers' Profile. The "I" line on the chart to the right indicates the 'normal' range for the metric in question.

Within the C-Suite Value Creator Profile we see two prototypical examples. Both Hassenfratz and Orlando have demonstrated above normal ranges on the Performance Driver; a positive indicator. Hassenfratz hits the normal/expected range for both Dominance and Community. Within the context of *Martinrea*, in general, the data for Dominance and Community by Orlando is low, though slightly over the prototypical mean.

For the C-Suite Outliers, the complete lack of the Performance metric for Mahood is striking. This isn't to say that he isn't someone who works to a high standard of excellence, but rather, compared to all other C-Suite Executives in *Distill's* data, he stands out. Wildeboer's score is remarkably high on both Dominance and Community, even when compared to the rest of the executives from *Martinrea*.

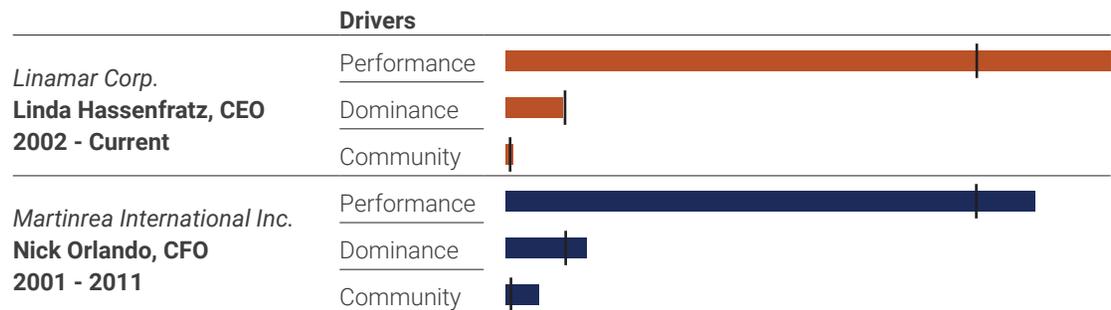
Performance has been repeatedly and consistently related to business success.

Dominance is related to value destruction in business settings (though it indicates likely success in politics and war).

Community is rarely seen in business settings, though when it does appear, it signals turbulence.

We expect a **C-Suite Value Creator Profile** to be high on Performance, low on Dominance, and to display little, if any, score on the Community metric.

C-Suite Value Creator Profile



C-Suite Outliers



Details of Data Driven Assessments of Management Teams

The way in which scores on each of our metrics changes, evolves over time, and interacts with the others, influences a company's value on the *Distill Management Fundamentals Index*.

Distill's Management Fundamentals reveal if management has alignment to positive business outcomes, if there is internal political stability, and strategic potential.

Deriving Management Fundamentals Data and creating the *Distill Management Fundamentals Index* involves measuring the people on the executive team. To do this, *Distill* uses only publicly available quarterly earnings call transcripts as input into our analytical engines. We parse the material from these calls. Applying some of the latest analytical techniques from applied psychology, we tag relevant indicators within the text to generate metrics for two categories:

- Cognition
- Motivational Drivers

These two categories of data are not random. Rather, they have been used by academics to create empirical assessment methods able to understand and anticipate actions of astronauts, politicians, and terrorists from afar.

The common characteristic of these kinds of individuals, which also applies to the management teams of public companies, is they are broadly inaccessible. We can't just ask them to fill in questionnaires or surveys. And they certainly won't come into a research lab for assessment. This is one of the major reasons the techniques *Distill* employs have been used to help the Pentagon profile and forecast the next moves of foreign military leaders.

	Description	Measurement Outcome
Cognition	The breadth of strategies, information, and perspectives used to make decisions.	Indicates commitment to forward strategy or decisive action, relative to their normal operations.
Drivers	Motivations or reasons for the decisions made.	The three attributes of this measure (listed below) provide nuanced assessments of what inspires action.
Performance	Focus on generating outcomes with high standards of success.	Higher values reveal executive teams focused on innovation and successful execution.
Dominance	Control or influence exerted on others.	High values indicate forceful leadership, more concerned with image and political clout than results.
Community	Prominence of interpersonal connection.	Unusual in an earnings call, these values characterize turbulence within the executive team.

Footnotes

1. Taylor, Susan. "Canadian car parts suppliers poised for growth," *The Globe and Mail*, 27 January 2013
<http://www.theglobeandmail.com/report-on-business/economy/canadian-car-parts-suppliers-poised-for-growth/article7896417/>
2. Berman, David. "It's well worth kicking the tires of this auto-parts maker's stock," *The Globe and Mail* 23 March 2017.
<http://www.theglobeandmail.com/globe-investor/inside-the-market/its-well-worth-kicking-the-tires-of-this-auto-parts-makers-stock/article34410822/>

Distill In Brief

What *Distill Analytics* Does

We enable Asset Managers to discover undervalued teams or weed out power-hungry executives. Mining quarterly earnings calls using advanced, rigorously validated metrics from research psychology, *Distill* creates a data driven assessments of management teams: The *Distill Management Fundamentals Index*.

Management Fundamentals reveal executive's alignment to creating positive business outcomes; considering both internal political stability and external strategic ability.

Requiring as input only the transcripts of public communications such as quarterly earnings calls, we quantify and model the idiosyncratic risk specific to the executives of public companies.

What *Distill Analytics* Measures

For each member of the executive team present on a quarterly earnings call, we measure and score:

Cognition: The breadth of strategies and perspectives used to make decisions.

Drivers: What the underlying motivations for action are: Performance, Dominance, or Community.

Longitudinal trends in scores and volatility between and among the metrics show how each individual, and, it follows, the team as a whole, performs and functions. Tracking these metrics allows us to identify leadership potential over time and when key changes occur.

What *Distill's Analytics* Do For You

Knowing how management is performing, without requiring direct access or an inside connection, allows you to make better, more informed investment decisions.

Long term value investors seek transparent insights into the managers running the companies they hold. They seek stability, drive, and engagement in management performance.

Portfolio managers and quantitative traders may use our metrics and data as a 'canary in the coal mine,' signalling possible pivot points from management confidence to management insecurity, or from a focus on ongoing operations to navigating upcoming strategic options.

What's Next

Distill seeks early strategic partnerships with:

- Innovative Portfolio and Asset Managers looking to test and evaluate competitive intelligence tools to track management's performance objectively and without bias.
- Pioneering Quantitative Traders seeking unique data to capture management's impact on performance.

Founding Team

Ryan Cross, MBA

Chief Executive Officer

10 years experience profiling adversaries for defense agencies

Lesley Duncan, PhD

Chief Scientific Officer

15 years in social science & applied market research

Caleb Buxton

Chief Technology Officer

12 year veteran of startups with a successful acquisition

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