

BrandLoyalties.com Special Commentary

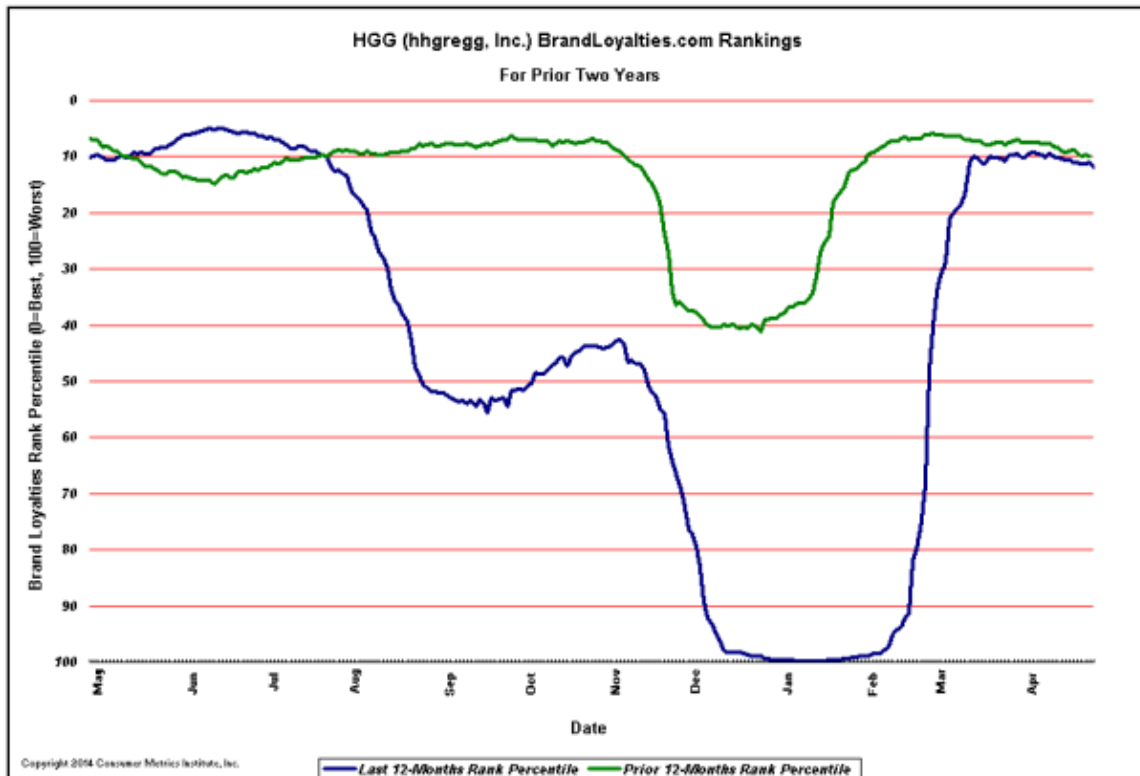
05/12/14: Taking the "Surprise" Out of Revenue Surprises

(Web page version is [here](#))

One of the key values to [BrandLoyalties.com](#)'s metrics is the ability to track consumer loyalty to brand names in "real-time" -- well before any changes in revenues are captured in corporate guidance (and in many cases even before the corporate "insiders" realize themselves what is happening at the far end of their distribution channels). When the "real-time" data is then compared to year-earlier data, institutional clients at [BrandLoyalties.com](#) have a quantitative way to anticipate upcoming revenue surprises.

Recently **HGG** has provided a fascinating and highly visual example of how changing year-over-year brand loyalty rankings at [BrandLoyalties.com](#) can anticipate revenue and earnings surprises. In the chart below HGG's ranking over the trailing 12 months (2013-2014) are shown in the blue line, while the prior 12 months (2012-2013) have been charted using a green line :

HGG (hhgregg, Inc.)



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The year-over-year negative divergence is particularly dramatic from August 2013 through February 2014 -- when a normal seasonal holiday pattern is both greatly amplified and vastly

extended. As a consequence, BrandLoyalties.com's clients were not surprised that HGG reported fiscal 3rd quarter 2014 earnings of USD 0.17 per share on 1/30/14 -- missing the consensus expectation of the 14 analysts covering the company by USD -0.11 (i.e., a nasty and unexpected 39% downside earnings slide).

HGG is just one of many examples where BrandLoyalties.com continues to provide early guidance on consumer loyalty by strictly employing quantitative web-based indicators. Among the recently anticipated upside surprises were :

Symbol	Equity Name	Signal Duration	Equity Price Appreciation
AAL	American Airlines Group Inc.	01/06/2014 to 02/14/2014	27.30%
HAR	Harman International Industries Inc.	01/09/2014 to 03/05/2014	24.58%
HAST	Hastings Entertainment, Inc.	03/06/2014 to 04/23/2014	63.54%
MCS	The Marcus Corporation	01/31/2014 to 04/21/2014	35.07%
ORLY	O Reilly Automotive, Inc.	11/20/2013 to 02/07/2014	20.05%
SSI	Stage Stores, Inc.	12/19/2013 to 03/10/2014	17.01%

And among the downside surprises recently anticipated were :

Symbol	Equity Name	Signal Duration	Equity Price Slide
BBBY	Bed Bath & Beyond, Inc.	12/11/2013 to 02/05/2014	-18.37%
BKS	Barnes & Noble, Inc.	03/31/2014 to 04/23/2014	-20.72%
GME	GameStop Corp.	01/13/2014 to 01/27/2014	-17.65%
HGG	hhgregg, Inc.	11/29/2013 to 02/20/2014	-33.15%
MAT	Mattel Inc.	11/13/2013 to 02/10/2014	-19.25%
NTAP	NetApp, Inc.	01/15/2014 to 03/31/2014	-15.19%

While these examples cover only a short investment period, a simple long-only proforma portfolio blindly composed of only the top ranked 10% of BrandLoyalties.com's tracked equities since 2006 would have returned about 37% per year v. 5.6% for the SP 500 -- providing an over 31% annualized alpha. If you are interested in learning more about BrandLoyalties.com, subscription options for our daily data, or would just like a courtesy assessment of your favorite consumer-oriented equity, please contact me.

Sincerely,

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How Does BrandLoyalties.com Track and Rank Brand Loyalties?

BrandLoyalties.com is a unique quantitative research provider to institutional investors that uses online consumer-tracking data to generate forward looking signals based on shifting consumer brand loyalty. They track over 100 million daily online consumer choices and identify which equities are likely to be impacted (positively or negatively) by changing consumer sentiment in those brands. The key criteria for coverage include a significant online presence for the brand names of those equities (called the brand name's web "luminosity") and a reasonably strong link between on-line brand name citations and consequential revenue for the corporation (referred to as the "signal relevance" for that corporation's brand names).

BrandLoyalties.com uses a proprietary algorithm to determine the velocity of change in consumer brand loyalty -- ranking the 500+ stocks on this measure from top to bottom each day. Signals derived from this analysis are generated well before earnings announcements and generally before guidance are provided. Each equity exhibits a unique lag time between when a signal is generated from the online data and subsequent price movement in the stock. The 'best fit' lag times are also provided to clients for each security in order to help optimize their buy or sell decisions.

The firm provides institutional subscribers with their unique proprietary metrics. This data helps investors easily identify those stocks exhibiting the characteristics of winners or losers. Clients may also choose to opt-in for daily email alerts which highlight the equities exhibiting the most significant trends. While investors are naturally interested in identifying equities with growing brand loyalty, users may also mitigate risk in existing portfolios by monitoring or avoiding stocks which display fading customer loyalty.

How Have BrandLoyalties.com Signals Performed?

A simple long-only "proof-of-concept" portfolio consisting solely of the top 10% of these 500+ ranked stocks would have produced an average annual ROI since January 2006 of 37.0% as compared to the S&P 500's 5.6%. (Results from roughly 1,839 one-year Monte Carlo portfolio simulations covering January 3, 2006 through April 23, 2014, each portfolio blindly chosen on only brand loyalty rankings, then equally-weighted and reallocated when composition of the top 10% changes.)

BrandLoyalties.com also notes that "unfolding PR nightmares, M&A activities, investor scrutiny or other extenuating circumstances can lead to false positives if they generate a sufficient 'buzz'

on-line." For that reason no real-world portfolio should be blindly chosen in the manner used for the proof-of-concept portfolios -- making it highly likely that actual BrandLoyalties.com clients have experienced even greater alpha when they overlaid their own internal fundamental or quantitative research on top of the simple brand loyalty metrics used in the proof-of-concept portfolios.

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