

CHECK LIST FOR COMPANY ANALYSIS

I BACKGROUND

- A. Major changes in ownership
- B. Management continuity
- C. Changes in overall business emphasis on historical basis

II OPERATIONS

- A. Divisional breakdown of revenues and earnings
- B. Product lines

- 1. Principal products
 - a. Contribution of earnings and revenues
 - b. Reputation and acceptance
 - c. Brand franchise
 - d. Patented or know how
 - e. Market share
 - f. Relative cost of production
- 2. Distribution channels - for each line
 - a. What are they
 - b. How effective
 - c. How does competition market similar product - manufacture
- 3. Are product lines complete or is coverage only partial
- 4. Market penetration and dominance
- 5. New products
 - a. Percent of sales attributable to new products
 - b. How is decision to make new product arrived at
 - c. Any requirements of financial type on introduction decision
 - d. Market share requirements
- 6. Pricing
 - a. How easily can prices be raised
 - b. Is most competition on price or quality
- 7. What determines a product's success
- 8. Backlogs
- 9. Geographic emphasis

C. Suppliers

- 1. Who are major suppliers and what kind of relationship
- 2. Are any raw materials difficult to obtain

The following 5 pages are Slatkin's template for evaluating companies. He was a pupil in the early years of successful investor Bob Duggan and these outlines were handed to the people doing work on the companies he invested in .

- D. Seasonality or cyclicity in business
- E. Extent of integration
 - 1. Where are profits made
 - 2. Is there control of most raw materials
- F. Methods of doing business
 - 1. Long term sales/purchase agreements
 - 2. How are divisions run
 - 3. Acquisitions
- G. R. & D.
 - 1. How much is spent on R. & D. each year
 - 2. Are funds expensed, capitalized, etc.
 - 3. How are investments in R & D determined
- H. Customer policy
 - 1. Who are major clients
 - 2. How much volume
 - 3. How are they locked in
- I. Labor
 - 1. What kind of labor relations
 - 2. Wage rates compared
 - a. Industry
 - b. Geographic area
 - 3. Bargaining agreements
 - 4. Number of workers - replacement by automation
 - 5. Worker education programs
 - 6. Cost of labor as percent of sales

III CORPORATE STRATEGY

- A. Company's principal strengths/weaknesses and corporate emphasis
 - 1. Finance
 - 2. Marketing
 - 3. Research
 - 4. Production
- B. What is the real competitive advantage
- C. What are criteria for success in company's industry
- D. Strategic Planning
 - 1. Are there definite plans and budgets

- a. For how long
 - b. How complete
 - c. How important
- 2. Are there contingency plans
 - 3. Any way to reduce exposure to uncertainty
- E. What are the external factors critical to the business that are not controllable.
- F. Where is the competition in the future coming from
- G. Expansion plans

IV FINANCIAL

- A. Accounting
- 1. Depreciation policies - rates/methods
 - 2. Inventory valuation - age
 - 3. R & D treatment
 - 4. Tax rates, deferrals, subsidiaries
 - 5. Investment tax credit
- B. Assets
- 1. Carrying cost versus real value
 - 2. Age, condition, location of plant
 - 3. Distribution over revenue producing
 - 4. Criteria employed for new investment in
 - 5. Liens on assets
- C. Liabilities
- 1. Loan commitments - amortization
 - 2. Favorable interest rates
 - 3. Lease commitments
 - 4. Banking relationships
 - 5. Factoring
 - 6. Working capital restrictions
 - 7. Contracts
 - 8. Pending litigation
 - 9. Guarantees, warranties, renegotiation agreements
 - 10. Tax liabilities
 - 11. Interest costs
- D. Profit and Loss
- 1. Projections of revenue and earnings
 - 2. Impending sales of additional stock or other needed financing
 - 3. ROI and profit margin goals and criteria

4. Plant capacity - maximum revenues and earnings given current plant
5. Dividend plans
6. Growth rate desired
 - a. What is it, for how long
 - b. What must be done to achieve this
7. How are discretionary or excess funds allocated

V MANAGEMENT

- A. Top Managers
 1. Relative power - who controls
 2. Abilities, age
 3. Salary levels
 4. How compensated
 5. Stock ownership
- B. Is there middle management strength
- C. How is company organized
 1. How is performance measured
 2. Any profit centers
- D. Pension/profit-sharing plans
- E. Advancement from within or without
- F. Who are on the Board of Directors

1. Acquire lead
2. Request reports/prospectus
3. Get corporate records/valueline/tear sheets
4. Read and digest data
5. Formulate questions for company
6. Contact company
7. Contact underwriter
8. Continue / scratch
9. Locate comparables
10. Request data on company
11. Get corporate records/valueline/tear sheets
12. Read and digest data on company
13. Contact industry analysts
14. Contact competitors
15. Contact suppliers
16. Evaluate the company vs. the comparables
17. Formulate the acquisition plan
- * 18. Implement the acquisition plan
19. Watch the market
20. Maintain communication with company
21. Financial pro forma

<p>Additional comments in Reed's handwriting-this was handed to people evaluating investment opportunities</p>
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17A. Discover why stock is trading AT CURRENT LEVEL

17B. Clarify + verify what information is known THAT OTHERS DO NOT KNOW OR THAT HAS NOT BEEN EVALUATED properly.