SIA Investment Checklist

Management

- How many people are on the management team?
- How long has each manager been with the company?
- What are their backgrounds?
- Does there appear to be depth in the management team?
- What is each manager's total compensation?
- How much of their compensation is tied to performance?
- Has this changed with how they measured performance in the past?
- Does the CEO make a significant amount more than rest of team?
- How does management measure performance?
- Does management seem to have a short or long term point of view?
- Does management talk freely to investors when things are going well, but "clam up" when things get tough?
- Is there any management on the board?
- How much of the company does management own?
- Are their any mandatory retirement ages?
- If turnaround situation, did management have a big announcement and presentation of turnaround?
- If turnaround, did they fire people quickly and all at once, or over time?

Board of Directors

- How many members are on the board?
- What is the maximum size of the board?
- How is the board staggered?
- Are their any mandatory retirement ages?
- How many times do they meet a year?
- What are the voting requirements to change a board member?
- How long has each member been with the firm?
- What are their backgrounds?
- Does there appear to be depth on the board?

Customers

- Who are their customers?
- Are they bigger or smaller than the firm?
- Do they have any significant customers?
- How long have they been working with their customers?
- Do they have any special arrangements with any of their customers?
- Do their customers use their competitors as well?
- How much of their customers' business goes to them compared to their competitors?
- Do their customers like their relationship with the firm?
- How do their customers perceive the firm?
- How convenient is it to cancel service with the firm?
- Are their customers vertically integrating?
- Are their customers financially sound?

Suppliers

- Who are their suppliers?
- Are they bigger or smaller than the firm?
- Do they have any significant suppliers?
- Do they have any special arrangements with any of their suppliers?
- How long have they been working with their suppliers?
- Do their suppliers also supply their competitors?
- How much of their suppliers' business goes to them compared to their competitors?
- Do their suppliers like their relationship with the firm?
- How do their suppliers perceive the firm?
- Are their suppliers financially sound?
- Are their suppliers vertically integrating?

Strategic Partners

- Does the company have any strategic relationships with their customers?
- Does the company have any strategic relationships with their suppliers?
- Does the company have any strategic relationships with their competitors?
- Does the company have any strategic relationships with firms in other industries?
Does the company have any strategic relationships with foreign firms?
How dependent is the firm on these relationships?
How dependent is the counterparty on the relationship?
Does the company own a minority or majority ownership in these relationships?
Has there been any lawsuits during the relationship?
How long has the relationship been active?

Contracts
What contracts does the firm have with their customers?
What contracts does the firm have with their suppliers?
What contracts does the firm have with their creditors?
What contracts does the firm have with their strategic partners?
Does the firm have any other contracts?
What are the terms of these contracts?
When were these contracts started?
When do these contracts end?
When can they be renewed?
Have they been renewed in the past?

M & A
How many Mergers and Acquisitions has the company attempted to transact?
How many and which mergers did they actually complete?
How much have they paid per transaction, and was this considered a high/fair/low price?
Did the management say they were paying a premium for synergies or strategic value?
How long did management state each transaction would be accretive?
How long before the transaction was actually accretive?
How hard was it to integrate their past mergers?
Do they have a history of growing organically or by acquisitions?

Competitors
Who are their competitors?
Are the number of competitors growing, shrinking, non-changing, or cyclical?
Are their competitors bigger or smaller than the firm?
How do they compare to their competitors on financial and performance metrics?

Shareholders
Does the company have any significant shareholders?
Do any of these shareholders hold significant portions of other parts of the capital structure (ex. Preferred stock)?
How much is held by insiders?
How much is held by institutions?
Is the volume high or low?
What % is traded short?

Industry
What is currently happening in the industry?
Is the industry cyclical?
Has there been consolidation in the industry?
How often do market leaders change in the industry?
Is the industry facing competition from other industries?
How has the industry changed over time?

News
What was the news for the company when there was large movements in the stock price?
What has been the company’s history?
What is the current sentiment?
Read industry and national and local news, not just financial?

Other
Do operating strategies and practices vary from region to region or do they keep the same operating model?
What are their fixed costs?
What are the variable costs?
Are employee incentives in-line with business goals?

Capital Structure
Does the firm have debt?
What types of debt?
What is the debt rated?
What is the interest rate?
What are the terms of the debt?
When is it due?
Does the firm have any preferred stock which can be issued?
Is any outstanding?
What are the terms of the preferred stock?
How many shares are available of common stock?
How many shares are outstanding?
How many classes are there of stock?
What are their voting rights of each class?
What is their D/E ratio? What has it been in the past?
What is the debt ratio? What has it been in the past?
What is the interest coverage? What has it been in the past?
What is the working capital ratio? What has it been in the past?
Does it appear their capital structure has recently drastically changed?
What capital structure do their competitors have?

Earnings

What has been sales growth for last 3, 5, 10 years?
What has been COGS growth for last 3, 5, 10 years?
What has been SG&A growth for last 3, 5, 10 years?
What has been Depreciation growth for last 3, 5, 10 years?
What has been the growth in other operating costs for last 3, 5, 10 years?
What has been interest expense growth for last 3, 5, 10 years?
What has been operating profit growth for last 3, 5, 10 years?
What has been their average tax rate for the last 3, 5, 10 years?
What are current gross, operating, and net margins?
What are historical gross, operating, and net margins?
How volatile are gross, operating, and net income?
How volatile are any of the line items?
Has there been any extra items in their income statement?
How frequent are these items?
Has there been any accounting changes?

Cash Flow

What is operating cash flow? How does this compare historically?
Are there any items that have had a short term effect on operating cash flow?
What is the capital ex. going to? How does this compare historically?
How large is the difference between Capital Expenditures and Depreciation? How does this compare historically?
What items in investing cash flow are significant? How does this compare historically?
Are there any items that have had a short term effect on investing cash flow?
What is their current FCF? How does this compare historically?
How does FCF compare to earnings? How does this compare historically?
How volatile is FCF?
What is cash flow from financing activities composed of? How does this compare historically?
What items are cash flow inflowing from in financing? How does this compare historically?
What items are cash flow outgoing from in financing? How does this compare historically?

Balance Sheet

What is the trend in long term debt?
What is the trend in short term debt?
What is the trend in other financing obligations?
What % of assets are intangible? How does this compare historically?
What % of assets are short term? How does this compare historically?
What % of assets are long term? How does this compare historically?
What % of liabilities are short term? How does this compare historically?
What % of liabilities are long term? How does this compare historically?
How much cash do they have?
What are the significant items in the balance sheet?
Has there been any large changes in the balance sheet?
What are their accounting policies for A/R, bad debt, reserves? How does this compare historically?

What is their A/R turnover ratio? How does this compare historically?

What is their A/P turnover ratio? How does this compare historically?

What is their inventory turnover ratio? How does this compare historically?

Is there an increase or a decrease in raw material inventories?

Is there an increase or a decrease in finished goods inventories?

What are their off balance sheet relationships?

If a company they purchased is doing badly, have they impaired the asset yet?

How does this compare to their competitors

Liquidity

What is their times interest earned ratio? What has it been in the past?

What is their current ratio? What has it been in the past?

What is their quick ratio? What has it been in the past?

What is their cash ratio? What has it been in the past?

What is their debt ratio? What has it been in the past?

What is their interest coverage? What has it been in the past?

What is the working capital ratio? What has it been in the past?

How does this compare to their competitors

Performance Metrics

What is their ROA? What has it been in the past?

What is their ROE? What has it been in the past?

What is their ROI? What has it been in the past?

What is their cash to cash cycle? What has it been in the past?

What is their inventory turnover? What has it been in the past?

What is their receivable turnover? What has it been in the past?

What is their payable turnover? What has it been in the past?

What are their current margins? What have they been in the past?

How does this compare to their competitors

Valuation

What assumptions are you making about growth, and why?

Are you valuing the firm based on earnings, cash flow, book value, relative multiple, etc., and why?

What assumptions are you making about their business model, and why?

What assumptions are you making about margins and returns, and why?

What assumptions are you making about their capital structure, and why?

What assumptions are you making about the cyclicality of their business, and why?

What assumptions are you making about pending events (ex. Lawsuits), and why?

What assumptions are you making about their future business environment, and why?

What assumptions are you making about government regulation, and why?

What are the 3 main reasons you want to buy this company?

What are your risks?

How likely are these risks? Why?