**Briefing Note 11 : A Suggested Format for Company Analysis**

1. **Introduction**

The Introduction should cover most of the following questions:

* Who is asking for the analysis?
* What is the purpose of the analysis? Is it primarily from the point of view of investors, for general commentary, for financing purposes, for a supplier or customer a potential acquirer or a competitor?
* Which competitors will you chosen for comparative analysis and why?
* What main sources you can use?
* Any limitations which impact upon your analysis, such as a lack of specific information (such as financial statements from more than two years previously)?
* Any key issues which need resolving, such as any currency conversion or jurisdictional issues when reviewing competitors?
1. **Background**

Start with some history of the industry and the company being analysed. This provides a good backdrop and perspective to the detailed analysis which follows.

Industry backdrop might include;

* Overview of how the industry got to its current state,
* Overview of its marketplace and product base,
* Overview of its supply chain,
* Overview of the structure of the industry in terms of the major companies and their share of the market,
* Any technical explanation of processes which is necessary to an understanding of the industry and component firms.

Company backdrop might include;

* Date of incorporation of the company,
* It’s ownership pattern and changes to this over time,
* Key events during its history,
* Its structure, i.e. divisions / major component companies if it is a group,
* Does it trade domestically, or internationally?
* Does it have operations overseas?
* From where is the company controlled?
* How diversified is its income stream?
* Where is the company investing and divesting of business? Where is it expanding and where is it closing down operations?
1. **Critical Success Factors**

This is an important section, because it will provide a framework for the financial and comparative analyses which will come later.

In painting a picture of what is likely to make a company successful in this industry, and to what extent the company being analysed complies with these success factors, the following prompt questions might be useful;

* How easy is it for new entrants to develop in the industry?
* How powerful are suppliers?
* How diversified is the customer base?
* Can companies differentiate their products? (Does the company being examined achieve differentiation? On what basis?)
* How influenced by economic downturn? Upturn?
* Is infrastructure important? Is it costly?
* Is the infrastructure highly specialised?
* Is there a high R&D spend?
* Do companies have a high working capital requirement?
* Are there economies of scale?
* Is the product life cycle long or short? (How does the company’s product portfolio look in terms of product life cycle?)
* How long is the product conversion time?
* Are there any regulation impacts, eg on price?
* Are companies able to exploit vertical integration advantages within their group?
* Are costs primarily fixed or variable?
* Are there costs subject to significant change?
* How seasonal is the business?
* What is the ownership pattern of the company?
* Is the company able to exploit cost advantages?
* Is the company able to differentiate its product positively?
* Are there any other key factors for success in the industry?
1. **The Financial Statements**

Review the financial statements. Are there any unusual items, any notable statements by company executives?

1. **Financial Analysis**

In this section, review financial measures of performance.

Comparisons with another or other companies can be made in this section, but shouldn’t detract from your main analysis of the company under review. Concentrate on points of real difference and try to identify why companies might be performing differently.

Alternatively, the comparisons with other company(s) could be made in a separate section.

* 1. **Total Income and Profitability**
* How total revenue has changed over the last few years. Check whether there are any underlying reasons such as acquisition or sale of subsidiary businesses or divisions, and check for varied sales performance by different operating divisions.
* How profitability has changed over the last few years.
* Net and Gross profit margins and EBITDA margin if your comparison company(s) is based in a different country.

**5.2 Returns to Investment**

* What has the company’s dividend policy been?
* How does the company perform in terms of key ratios such as ROCE and ROE?
* How does this compare with competitors?

**5.3 Asset Management**

* Does the company have high non-current assets? There will probably be some explanation in the Notes to the Accounts as to what these are.
* What investments is the company making in capital items (remember to check the cash flow statement in the company’s report to identify the extent of capital expenditure, and these may be more fully explained in the Notes to the Accounts
* What is the PPE turn (Non-current asset turn)? Has this changed over time?
* What is the level of working capital (working capital vs sales)? Has this changed over time?
* What is the working capital requirement?
* What are inventory days?
* What are trade payables days?
* What are creditor days?
* How do these compare with competitors?

**5.4. Solvency**

* How does the current ratio look?
* Acid test?
* Month’s cover?
* Comparisons with competitors?

**5.5. Debt**

* Have there been movements in levels of debt in the examined year and in recent years? Remember this will be summarised in the company’s cash flow statement and in the Notes to the Accounts. What is the debt being used for?
* What does gearing look like, using an appropriate gearing measure?
* How does it compare with competitors?
* Is interest cover sufficient?
* Look at the detailed note to the accounts which summarises the long term debts which the company has (if it has a lot of debt). Does it face a big cash outflow in a future year? Is debt secured against asseys?
* Does it have the capacity to take on more debt?
* The Cash Flow statement will confirm outflows from debt repayment and cash inflows from taking on debt.

 **5.6. Cash Flow**

* What is the free cash flow to equity?
* What is the balance of cash flow for the year after dividend payment?
* Are there any notable items within the operating, investment and financing cash flows within the cash flow statement?
1. **Consideration**

In this section, try to bring together your analysis and give a summary view of the

* how the company is performing overall,
* what it’s core strategies seem to be,
* how it is performing in comparison with it’s competitors,
* any key issues which should keep it’s directors ‘awake at night’,
* What are the key strengths and ‘core competences’ of the company?
* What are its areas of potential weakness that could impact on its capacity to grow in the future?
1. **Conclusion**

Make some final statements to leave the reader with a final understanding of the prospects for the company, and it’s place within its industry.

**Appendices**

These should include the most recent financial statements, and detailed working which you have carried out, such as the role analyser, cash flow analyser and valuation workings; plus any other material which you consider relevant.