



GROWBRIDGE

Business Analysis Checklist

Introduction

The basis of this checklist is that no "early warning system" or financial model will always work consistently and uniformly well. This is not necessarily a substitute for financial models, but the premise is a very thorough understanding of any company that will allow anyone with good, pragmatic business sense to identify whether and when a company is likely to run into difficulties, and whether and when, it is suitable to invest in.

The first step in understanding any business is to understand the dynamics of the current economic environment. This would then be followed by a thorough understanding of the dynamics of the sector in which the company operates. And lastly, would then be followed by an understanding of the business itself.

1 – Track Record

Areas for analysis and issues to understand

Trend and ratio analysis

Including: revenue growth, gross margins, operating margins, cashflow from operations etc.

ROCE and other core capital efficiency ratios

Normalised profits: separate out historic exceptional earnings and costs

Level of historic annual volatility in revenues, margins and ROCE

Historic growth compared with competitors

2 – Business Profile

What is major focus of the company?

What are the major sources of revenue and profit?

Financial performance of individual divisions, business units, product lines

Which are the key business functions?

Location and geographic issues

What would management change if they had a "magic wand"?

What is major focus of the company?

3 – Competitive Position

Market share: stable or changing

Value, pricing and quality proposition

Barriers to entry

Characteristics of competition: cottage industry, monopoly, dominant companies etc.

Maturity of industry

What are competitors doing?

Oversupply in the industry

Competitor vulnerabilities

Who is the most successful competitor and why?

Is the company a leader or a laggard?

Financial benchmarking compared with competitors

What are the emerging market trends?

Is the industry changing slowly or quickly?

How has the company withstood competition?

Are market trends amplifying weaknesses?

Prospects for alternative delivery mechanisms or substitute products

Threat from internet

4 – Differentiation

What makes the company stand out from competition?

What advantages does it have over other businesses?

Does it have a strong brand presence?

Intellectual property, patent protection etc.

Proprietary products

Is there a track record of innovation?

New product/ service development programs and costs

5 – Management & Staff

Subjective assessment of company's management

Management culture

Are management candid in answering all positives and negatives?

Performance of management in previous jobs

Length of management tenure and continuity

Management succession plan

Total headcount

Loss of key staff risks

Staff turnover

Does the company have a sufficient available pool of skilled employees?

Is the company able to attract talent?

Training programs

How is workforce motivated?

Financial incentive programs

Staff productivity and efficiency

Remuneration rates compared to the market

6 – Cashflow Profile

Cashflow profile: start up, cash-cow, cashflow negative with growth etc.

Seasonality

Consistency of historic cash generation

Expectation of any exceptional cash outflows or inflows

Ability to service debt repayment schedules

7 – Profitability & Margins

Breakeven point

Fixed and variable cost structure

What are the biggest areas of expenditure?

Can the company withstand price pressures?

Operation gearing: what volume efficiencies are available, economies of scale

Sensitivity to changes in debt financing and terms

Currency risks from suppliers and to sales etc.

Profitability compared with competitors

8 - Indebtedness

Financial ratio analysis

Level of fixed to variable debt

Level of secured to unsecured debt

Level of asset backing & availability for further security for lending

Contingent liabilities

Relationships with banks or other sources of finance

Other potential sources of external finance

Use of lease financing

Covenant issues

Pension funding

9 – Quality of Earnings

Level of sensitivity to external economic factors

Diversification

Recurring income

Level of repeat business versus reliance on continuous new customers

Major contracts

Reliance on key customers

Can growth be achieved by rolling out a proven, successful business model?

Fashion element to product lifecycle and market acceptance

Pricing power

Order visibility / order book lead-time

10 – Capital Expenditure Profile

Fixed capital intensive or not

Capital expenditure required to maintain current business

Capital expenditure required to expand business

Capital expenditure lead times

11 – Working Capital

Working capital positive or negative with growth

Debtor collection policies and actualities

Creditor payment terms

Efficiency of inventory turnover and management

Inventory obsolescence

12 - Customers

Vital contacts and partners

Do customers face high switching costs?

Available customer feedback

Carry out "store checks" - i.e. own surveys of trade

Customer retention rate/ loyalty schemes etc.

Number and spread of customers

Customer demographic and financial profile

13 – Sales & Marketing

What resources are devoted to marketing and sales?

How does sales and marketing process work?

Is there a marketing plan?

How well known is the company in the market place?

Are marketing / sales sufficiently effective?

14 - Suppliers

Key suppliers

Importance/ exclusivity of key supplier arrangements

Continuity of supply

Variability in cost of supplies

Contractual nature of supply arrangements

Ability to buy forward

15 - Accounts

Ensure every number in the accounts is understood

Who are auditors?

Quality of management reports

Timeliness of management accounts

Reliability of data

Historic forecasting accuracy

Examine all accounting policies

When were assets last revalued and valuation policies

16 – IT & Systems

Key processes, systems and IT

Adequate controls over subsidiary or overseas companies

Standardisation across business units

Does the company harness IT effectively?

17 – Facilities

Are facilities up-to-date and adequate?

Is there excess capacity?

Freehold ownership

Lease obligations

Planning issues

18 – Legal, Governance, Regulation & Environmental

Outstanding litigation

Any other significant contracts with external parties

Are corporate governance standards sufficiently high?

What is the regulatory environment?

Are all regulatory standards adequately met?

What potential legal and regulatory changes may affect the business?

Environmental issues

19 – Ownership Structure

Who owns the company?

Any shareholder issues

Cross shareholdings with other enterprises

Is there high managerial share ownership?

Shareholdings pledged as collateral

20 - Culture

Is there a discernible culture, philosophy and value set?

Is the morale of employees high?

Are sufficient rewards in place to encourage a culture of excellence?

Internal communication

21 - Strategy

Does the company have a strategic plan and/or mission?

Is the plan realistic and/ or innovative?

Potential acquisition opportunities

Strategic partnerships

Is there an exit strategy?

22 – Summary Output (To Be Expanded)

What are your key risks?

What are your key business drivers?

What are your KPIs?

What is your future cashflow profile?

What is your sensitivity analysis?

23 – Forecasting (To Be Expanded)

What are your Do's and Don'ts?

How will market perform in comparison to its performance over the last 5-10 years?

Will the historic trend now speed up, continue as previously, or slowdown? B97

Will a decline bottom out or will rapid growth peak and plateau?

24 – Easy Deck Research (To Be Expanded)

Report and accounts

National statistical offices, trade data

Trade associations, trade press

Business and financial press



GROWBRIDGE

About Growbridge

Growbridge provides a range of business development services to high growth potential SME's, Corporates and progressive International Development Agencies.

Growbridge currently works with clients from across the UK, North America, Europe, and Africa partnering with them, supporting their aspirations and contributing to their success.

Since our beginnings in 2008, we have developed an enviable reputation for offering results driven, practical advice, grounded in experience combined with best practice & good governance.

When you hire the Growbridge team, you will be assigned a senior expert with a track record of delivering results. They provide support and guidance, to move your business to the next level. Our team is constantly thinking outside the box whether its improving margins, managing cash flow, identifying new income streams, restructuring or providing commercial due diligence on business acquisition.

We're beside you every step of your journey to success...

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