

ABBA – Brick house

Market share, competitive positioning, industry dynamics, relative cost of production:

- *In this section, the purpose is not to find the ideal company but to understand:*
 - *What is the business*
 - *What are its advantages/disadvantages*
 - *What is the competitive environment*

How do they make money and what is the business model (incl discussion of 3 most important factors of business)

Who are the main competitors and what is the market share of each

What are some of the most important metrics in this industry? For this company



Industry dynamics, consider the following:

- *Low cost producer and if so, why?*
- *Access to cheap inputs?*
- *Scale advantages?*
- *Industry ease of entrance/exit*
- *Relative market share*

- *Proprietary technology or process?*
- *Dependent on govt
“protection”/handout?*

- *Product or service with long life
(serves basic need, not likely
obsolete)*
- *Product purchase cycle long or
short?*
- *Customer purchase habits?*

- *Low customer concentration?*
- *High switching costs (substitution
risks? Service/product replicated?)*

- *Low supplier concentration?(input
substitution?)*

- *Network effects?*



<p><i>Based on the above, do they have a sustainable competitive advantage (is it structural, are they competing on price, capital, product/service or are they selling a commodity)</i></p>	
<p><i>Are revenues recurring? How large a portion of the customers cost base is product/service?</i></p>	
<p><i>Where do they sit on the cost curve and who is the lowest cost competitor? Does this matter?</i></p>	



<p><i>Could new technology impact the business model?</i></p>	
<p><i>What are the largest components of the company's costs?</i></p>	
<p><i>Is their total market expanding (growing)</i></p>	
<p><i>Is production done at a single facility?</i></p>	



<p><i>Is their business a win/win with the customer?</i></p>	
<p><i>How will the company do if currency moves up or down 20%? Similarly, can foreign competition kill this business?</i></p>	
<p><i>What steps would an incumbent need to take to disrupt the business (or build a competitor in the business)</i></p>	
<p><i>Do rising interest rates impact their business?(impact demand significantly)</i></p>	



<p><i>Govt, regulatory or taxation risks?</i></p>	
<p><i>Are competitors:</i></p> <ul style="list-style-type: none">• <i>Changing price</i>• <i>Introducing significant new products/features</i>• <i>Adding capacity</i>	
<p><i>What is the operating leverage (how does a change of \$100 in sales impact margin)</i></p>	



Balance sheet strength:

- *In this section, conclude whether the financial position is a source of strength or weakness*

<p><i>Does short term debt exceed 50% of working capital?</i></p>	
<p><i>Is interest bearing debt great than 3x cashflow (defined as owner cashflow)</i></p>	
<p><i>How is debt structured</i></p> <ul style="list-style-type: none">○ <i>Debt repayments in next 3 years</i>○ <i>Excess lines from bank</i>○ <i>Any significant date of debt repayment</i>○ <i>Any pref shares</i>	



<p><i>Restrictive covenants on debt?</i></p>	
<p><i>Off balance sheet liabilities such as :</i></p> <ul style="list-style-type: none">○ <i>Leases (incl any known closures)</i>○ <i>Guarantees incl investment returns</i>○ <i>Environmental</i>○ <i>Litigation</i>○ <i>Derivatives</i>	
<p><i>Is there a large holder who would support the company</i></p>	
<p><i>Trend in days inventory, receivables, payables</i></p>	



Free cashflow generation and capital requirements:

- *In this section, conclude whether financial position is improving or worsening through operations*

<p><i>What is maintenance capex?</i></p>	
<p><i>What does mgmt target for return on expansionary capex?</i></p>	
<p><i>If sales fall, is significant cash generated from working capital</i></p>	



<p><i>Can the business use large amounts of capital at high rate of return?</i></p>	
<p><i>What will be done with any free cashflow:</i></p> <ul style="list-style-type: none">○ <i>Reinvested</i>○ <i>Acquisitions</i>○ <i>Pay down debt</i>○ <i>Repurchase shares</i>○ <i>dividend</i>	
<p><i>Owner earnings less dividend and buybacks. Sustainable?</i></p>	

