



Research Procedure Doc for Value Investing Journey

This Doc is the exact procedure I go through every time I start researching companies.

Before coming up with this I used to spend hours researching companies on a preliminary basis that were terrible. After coming up with this procedure I can now evaluate five to 10 companies on a preliminary basis.

Not only will this list help save you a ton of time. But it will also help you find good companies faster.

If you consider different numbers to be more or less important feel free to change the doc in any way you want.

Step 1

Go through list of companies provided one by one. Use Morningstar to do preliminary analysis.

Step 2

Go to Morningstar.com and input the stock name or stock ticker into the box that says quote at the top of the page in the middle.

The screenshot shows the Morningstar website interface. At the top, there's a navigation bar with 'Quote' and 'Search' buttons. Below that, there's a J.P. Morgan advertisement for 'J.P. MORGAN DIVERSIFIED RETURN ETFs'. A market index table is displayed with columns for EDI, Reading, S&P 500, DJIA, Gold, and Light Crude. The main section is for 'Sprott Inc SII', showing a last price of \$2.32, a day change of -\$0.08 (-3.33%), and various financial metrics like Open Price, Day Range, 52-Week Range, Yield, and Market Cap. A stock price chart is shown below the quote, and an advertisement for 'SWITCH TO AN ADVISOR' is on the right side.

Step 3

Once you input the ticker name and get to the Quote page – which looks like the page above – you can start research.

Step 4

Open a new Word doc so that you can write down all the information that will be outlined below.

Step 5

From this page note the following: Dividend yield, price to book, industry price to book, PE, industry PE, market cap, current share price, % to 52 week low, if any special dividends have been paid recently, the number of analysts covering the stock, operating income, and free cash flow.

These can all be found at the top of the page like shown above or by scrolling down the page like shown below.

Key Stats

	Stock	Ind Avg	Relative to Industry
Price/Earnings TTM	—	—	—
Price/Book	1.4	—	—
Price/Sales TTM	4.7	—	—
Rev Growth (3 Yr Avg)	-29.3	—	—
Net Income Growth (3 Yr Avg)	—	—	—
Operating Margin % TTM	-52.4	—	—
Net Margin % TTM	-58.0	—	—
ROA TTM	-14.0	—	—
RDE TTM	-15.1	—	—
Debt/Equity	—	—	—

Financials

	Annual			Quarterly	
	2013-12	2012-12	2011-12	2014-09	2013-09
Income Statement					
Revenue	114	158	161	28	40
Operating Income	-86	42	44	7	10
Net Income	-81	32	33	5	13
Earnings Per Share	-0.39	0.19	0.20	0.02	0.06
Diluted Average Shares	208	171	168	249	231
Balance Sheet					
Current Assets	204	99	133	158	133
Non-Current Assets	251	277	268	290	423
Total Assets	456	376	401	448	556
Current Liabilities	23	32	62	16	23
Total Liabilities	35	58	99	26	45
Stockholders' Equity	420	318	301	422	511
Cash Flow					
Cash From Operations	5	-3	203	-5	-7
Capital Expenditures	-1	-5	-3	1	0
Free Cash Flow	3	-8	200	-4	-7

Step 6

Next go back to the top of the page and click on the Key Ratios Tab.

Step 7

The page will look like this.

Sprott Inc

Financials

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Revenue CAD MI	—	—	—	228	166	108	323	161	158	114	121
Gross Margin %	—	—	—	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operating Income CAD MI	—	—	—	52	79	45	173	44	42	-86	-64
Operating Margin %	—	—	—	23.0	47.8	42.0	53.6	27.3	26.4	-75.2	-52.4
Net Income CAD MI	—	—	—	42	52	32	131	33	32	-81	-70
Earnings Per Share CAD	—	—	—	0.32	0.36	0.21	0.87	0.20	0.19	-0.39	-0.29
Dividends CAD	—	—	—	0.05	0.10	0.11	0.12	0.12	0.12	0.12	0.12
Payout Ratio %	—	—	—	13.9	47.6	12.0	61.1	64.1	—	—	—
Shares MI	—	—	—	132	145	152	150	168	171	206	247
Book Value Per Share CAD	—	—	—	0.53	0.51	1.43	1.78	1.88	1.71	1.72	—
Operating Cash Flow CAD MI	—	—	—	39	-5	7	61	203	-3	5	6
Cap Spending CAD MI	—	—	—	-1	-1	-1	—	-3	-5	-1	-3
Free Cash Flow CAD MI	—	—	—	38	-7	6	61	200	-8	3	3
Free Cash Flow Per Share CAD	—	—	—	-0.05	0.04	0.41	1.19	-0.05	0.02	—	—
Working Capital CAD MI	—	—	—	126	73	43	166	50	66	181	—

Key Ratios

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Margins % of Sales											
Revenue	—	—	—	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
COGS	—	—	—	—	—	—	—	—	—	—	—
Gross Margin	—	—	—	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
SG&A	—	—	—	76.26	51.87	57.08	46.15	62.74	59.37	82.54	70.48
R&D	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	0.73	0.35	0.92	0.29	9.99	14.26	92.71	81.94

Once here make note of the company's revenue over time. It's operating margin % TTM and over the last five years. The number of shares it has TTM and over time. Book value per share TTM and over last

five years. Book value per share percentage gain/loss over last 5 years. ROIC TTM and over time. ROE TTM and over time.

ROIC and ROE can be found by scrolling down the page.

The screenshot shows a financial website with a table of ratios and a 'Key Ratios' section. The table includes metrics like Dividends CAD, Payout Ratio %, Shares MII, Book Value Per Share CAD, Operating Cash Flow CAD MII, Cap Spending CAD MII, Free Cash Flow CAD MII, and Working Capital CAD MII. The 'Key Ratios' section is divided into Profitability, Growth, Cash Flow, Financial Health, and Efficiency Ratios. The 'Cash Flow' tab is highlighted.

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Dividends CAD	--	--	--	0.05	0.10	0.11	0.12	0.12	0.12	0.12	0.12
Payout Ratio %	--	--	--	13.9	47.6	12.0	61.1	64.1	--	--	--
Shares MII	--	--	132	145	152	150	168	171	206	247	--
Book Value Per Share CAD	--	--	--	0.53	0.51	1.43	1.78	1.88	1.71	1.72	--
Operating Cash Flow CAD MII	--	--	--	39	-5	7	61	203	-3	5	6
Cap Spending CAD MII	--	--	--	-1	-1	-1	--	-3	-5	-1	-3
Free Cash Flow CAD MII	--	--	--	38	-7	6	61	200	-8	3	3
Free Cash Flow Per Share CAD	--	--	--	-0.05	0.04	0.41	1.19	-0.05	0.02	--	--
Working Capital CAD MII	--	--	--	126	73	43	166	50	66	181	--

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Revenue	--	--	--	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
COGS	--	--	--	--	--	--	--	--	--	--	--
Gross Margin	--	--	--	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
SG&A	--	--	--	76.26	51.87	57.08	46.15	62.74	59.37	62.54	70.40
R&D	--	--	--	--	--	--	--	--	--	--	--
Other	--	--	--	0.73	0.35	0.92	0.29	9.99	14.26	92.71	81.94
Operating Margin	--	--	--	23.01	47.79	42.00	53.56	27.27	26.37	-75.25	-52.43
Net Int Inc & Other	--	--	--	--	--	--	--	--	--	--	--
EBT Margin	--	--	--	23.01	47.79	42.00	53.56	27.27	26.37	-75.25	-52.43

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Tax Rate %	--	--	--	19.28	34.18	29.52	24.16	24.86	23.31	--	--
Net Margin %	--	--	--	18.58	31.45	29.60	40.83	20.49	20.22	-71.05	-57.97
Asset Turnover (Average)	--	--	--	0.81	0.82	0.97	1.47	0.43	0.41	0.28	0.24
Return on Assets %	--	--	--	15.05	25.79	28.79	59.69	8.90	8.25	-19.56	-14.01
Financial Leverage (Average)	--	--	--	2.03	1.55	1.28	1.60	1.33	1.18	1.08	1.06
Return on Equity %	--	--	--	30.62	47.92	40.90	90.58	12.83	10.33	-22.02	-15.08
Return on Invested Capital %	--	--	--	31.29	47.92	40.90	90.58	12.83	10.33	-22.02	-15.08
Interest Coverage	--	--	--	--	--	--	--	--	--	--	--

Step 8

After this click on the Cash Flow tab at the bottom of the page.

The screenshot shows the same financial website as before, but with the 'Cash Flow' tab selected in the 'Key Ratios' section. The table below shows cash flow related metrics.

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Operating Cash Flow Growth % YOY	--	--	--	--	--	--	--	--	--	--	--
Free Cash Flow Growth % YOY	--	--	--	--	--	--	--	--	--	--	--
Cap Ex as a % of Sales	--	--	--	0.57	0.80	0.55	0.05	1.59	2.99	1.28	2.28
Free Cash Flow/Sales %	--	--	--	16.76	-3.95	6.04	18.86	124.04	-4.86	2.76	2.73
Free Cash Flow/Net Income	--	--	--	0.90	-0.13	0.20	0.46	6.05	-0.24	-0.04	-0.05

Once here make note of the free cash flow/Sales % TTM and over time.

Step 9

Click on the Financial Health Tab.

	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	Latest Qtr
Balance Sheet Items (in %)											
Cash & Short-Term Investments	--	--	--	75.36	83.36	50.17	23.74	29.84	20.63	25.38	19.80
Accounts Receivable	--	--	--	19.55	10.98	13.05	61.13	2.55	4.61	15.74	13.66
Inventory	--	--	--	--	--	--	--	--	--	--	--
Other Current Assets	--	--	--	0.12	0.65	2.40	0.59	0.70	1.04	3.75	1.82
Total Current Assets	--	--	--	95.03	95.00	65.62	85.46	33.08	26.28	44.87	35.28
Net PP&E	--	--	--	1.41	3.00	4.40	1.08	1.28	1.93	1.54	1.44
Intangibles	--	--	--	--	--	--	--	41.36	45.57	17.33	18.52
Other Long-Term Assets	--	--	--	3.56	1.20	29.98	13.45	24.28	26.22	36.26	44.76
Total Assets	--	--	--	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Accounts Payable	--	--	--	--	--	--	--	--	--	--	--
Short-Term Debt	--	--	--	--	--	--	--	--	--	--	--
Taxes Payable	--	--	--	3.25	13.35	7.50	14.03	11.86	2.18	--	--
Accrued Liabilities	--	--	--	--	--	--	--	--	2.73	2.19	1.33
Other Short-Term Liabilities	--	--	--	46.80	22.23	14.06	23.00	6.64	3.65	2.89	2.25
Total Current Liabilities	--	--	--	50.05	35.58	21.56	37.03	20.50	8.56	5.07	3.58
Long-Term Debt	--	--	--	--	--	--	--	--	--	--	--
Other Long-Term Liabilities	--	--	--	0.79	--	0.50	0.52	4.24	6.77	2.70	2.20
Total Liabilities	--	--	--	50.84	35.58	22.06	37.54	24.74	15.33	7.77	5.78
Total Stockholders' Equity	--	--	--	49.16	64.42	77.94	62.46	75.26	84.67	92.23	94.22
Total Liabilities & Equity	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Liquidity/Financial Health											
Current Ratio	--	--	--	1.90	2.67	3.04	2.31	1.61	3.07	8.84	9.87
Quick Ratio	--	--	--	1.80	2.68	2.93	2.29	1.58	2.95	8.10	9.36
Financial Leverage	--	--	--	2.03	1.55	1.28	1.60	1.33	1.18	1.08	1.06
Debt/Equity	--	--	--	--	--	--	--	--	--	--	--

Once here make note of the Cash and short term investments % for the latest quarter and get an average for the last 5 years. Same for accounts receivable, inventory, short term debt, and long term debt.

Make special note if something looks off here. If a company has a lot of cash, a lot of debt, rising inventory levels.

Step 10

Click on the Efficiency Ratios Tab.

Financials.morningstar.com/ratios/1.html?ts=5B®ions=can&culture=en-US

Cap Spending CAD Mil	--	--	--	-1	-1	-1	--	-3	-5	-1	-3
Free Cash Flow CAD Mil	--	--	--	38	-7	6	61	200	-8	3	3
Free Cash Flow Per Share CAD	--	--	--	-0.05	0.04	0.41	1.19	-0.05	0.02	--	--
Working Capital CAD Mil	--	--	--	126	73	43	166	50	66	161	--

Key Ratios

	Profitability	Growth	Cash Flow	Financial Health	Efficiency Ratios						
Efficiency	2004-12	2005-12	2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
Days Sales Outstanding	--	--	--	88.05	75.39	44.65	125.33	248.17	31.73	49.62	29.68
Days Inventory	--	--	--	--	--	--	--	--	--	--	--
Payables Period	--	--	--	--	--	--	--	--	--	--	--
Cash Conversion Cycle	--	--	--	--	--	--	--	--	--	--	--
Receivables Turnover	--	--	--	4.15	4.84	8.17	2.91	1.47	11.50	7.36	12.30
Inventory Turnover	--	--	--	--	--	--	--	--	--	--	--
Fixed Assets Turnover	--	--	--	57.64	36.35	23.91	60.73	36.52	25.54	16.03	17.85
Asset Turnover	--	--	--	0.81	0.82	0.97	1.47	0.43	0.41	0.28	0.24

I value your feedback. Let us know what you think.

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Once here make note of the Cash Conversion Cycle number TTM and get a 5 year average.

Step 11

Scroll back up to the top of the page and click on the financials tab. Open up a tab in your browser for each of the following: Income Statement, Balance Sheet, and Cash Flow Statement.

Income Statement for Sp... | Balance Sheet for Sp... | Cash Flow for Sp... | SII

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6011 | Nasdaq | 4735.81 28.46(0.60%) | S&P 500 | 2066.35 13.11(0.64%) | D11A | 17879.35 102.73(0.58%) | Gold | 1202.60 3.40(0.28%) | Light Crude | 67.17 0.29(0.43%)

Sprott Inc SII | With no trade minimums.

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Quote | Chart | Stock Analysis | Performance | Key Ratios | **Financials** | Valuation | Insiders | Ownership | Transcripts | Filings | Bonds

Income Statement | Balance Sheet | Cash Flow

Statement Type	Date Type	Period	Show Report Dates	Data Scroll	View	Rounding	Export
Quarterly	As of Reported	5 Quarters	Ascending		%	1.0	
Fiscal year ends in December							
CAD in millions except per share data							
Revenue		2013-09	2013-12	2014-03	2014-06	2014-09	TTM
Revenue		40	30	33	30	28	121
Operating expenses							
Compensation and benef...		20	12	11	11	10	43
Depreciation and amort...		2	2	2	2	2	6
Nonrecurring expense		--	93	--	--	--	93
Other expenses		9	13	9	10	10	42
Total operating expens...		30	120	21	23	22	185
Operating income		10	(90)	12	8	7	(64)
Income before taxes		10	(90)	12	8	7	(64)

Step 12

At this point your notes should look something like this.

General Mills Notes

- \$31.2 billion market cap.
- 3.1% dividend yield.
- TTM operating margin is 15.6%.
- 5 year average OM is 16.8%.
- 10 year average OM is 16.7%.
- They have reduced share count from 818 million in 2005 to 638 million in the TTM period. Or a reduction of 23% since then.
- They have grown book value per share from \$7.68 a share in 2005 to \$10.27 a share TTM. Or a gain of 25% since then.
- Morningstar ROIC TTM is 11.2%.
- 5 year average Morningstar ROIC is 14.1%
- 10 year average Morningstar ROIC is 13.1%.
- TTM ROE is 26.2%.
- 5 year average ROE is 28%.
- 10 year average ROE is 24.8%.
- TTM FCF/sales is 10.1%.
- 5 year average FCF/sales is 10%.
- 10 year average FCF/sales is 10.2%
- Its CCC has jumped from 28 days in 2005 to 43 days TTM. A gain of 35%.

Step 13

Calculate the companies enterprise value (EV)

You do this by taking the companies market cap from the front quote page or your notes. Going to the balance sheet page. Subtract TTM cash, cash equivalents, and short term investments. Then Add TTM Short term and long term debt.

Fiscal year ends in May USD in millions except per share data	2013-08	2013-11	2014-02	2014-05	2014-08
Assets					
Current assets					
Cash					
Cash and cash equiva...	759	774	847	867	841
Total cash	759	774	847	867	841
Receivables	1,638	1,726	1,648	1,484	1,623
Inventories	1,774	1,752	1,580	1,559	1,823
Deferred income taxes	114	111	104	74	67
Prepaid expenses	409	413	399	187	341
Other current assets	—	—	—	222	—
Total current assets	4,693	4,776	4,558	4,394	4,696
Non-current assets					
Property, plant and eq...					
Gross property, plant ...	—	—	—	9,393	—
Accumulated Depreciat...	—	—	—	(9,451)	—
Net property, plant an...	3,789	3,809	3,797	3,942	3,907
Equity and other inves...	—	—	—	508	—
Goodwill	8,615	8,647	8,649	8,651	8,608
Intangible assets	5,004	5,020	5,012	5,014	4,968
Prepaid pension benefi...	—	—	—	432	—
Other long-term assets	843	900	910	206	1,194
Total non-current asse...	18,251	18,376	18,367	18,752	18,677
Total assets	22,945	23,152	22,925	23,146	23,373
Liabilities and stockh...					
Liabilities					
Current liabilities					
Short-term debt	2,331	1,904	1,749	2,262	2,651
Accounts payable	1,426	1,424	1,260	1,511	1,571
Taxes payable	—	—	—	63	—
Accrued liabilities	—	—	—	1,330	—
Other current liabilit...	1,706	1,662	1,574	57	1,571
Total current liabilit...	5,463	4,990	4,684	5,424	5,793
Non-current liabilities...					
Long-term debt	5,914	6,741	7,180	6,424	6,669
Deferred taxes liabil...	1,410	1,450	1,474	1,666	1,669
Accrued liabilities	—	—	—	106	—
Pensions and other ben...	—	—	—	1,342	—
Minority interest	470	453	470	471	481

Sprott didn't have any debt so I substituted them for General Mills above to show where to look.

Step 14

Once you have the companies EV go to the income page and find the companies TTM operating margin. Also called EBIT below.

Step 15

Now go to the cash flow statement to and get a company's TTM Free Cash Flow. Also called FCF Below.

Step 16

Now that you have all three of those numbers you can do some relative valuation calculations.

Divide EV/EBIT and write that number down. I prefer this number to be 8 and below but below 10 will work here.

Divide EV/FCF and write that number down. Again I prefer this number to be 8 or below. 15 and below will work for this number.

Step 17

Now reverse the above two calculation to the company's earnings yield at current prices.

EBIT/EV and FCF/EV respectively.

Calculate those numbers and write them down.

The higher this number is the better but I look for 10% and above.

Step 18

You Word Doc should now look like this:

- \$31.2 billion market cap.
- 3.1% dividend yield.
- TTM operating margin is 15.6%.
- 5 year average OM is 16.8%.
- 10 year average OM is 16.7%.
- They have reduced share count from 818 million in 2005 to 638 million in the TTM period. Or a reduction of 23% since then.
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- TTM ROE is 26.2%.
- 5 year average ROE is 28%.
- 10 year average ROE is 24.8%.
- TTM FCF/sales is 10.1%.
- 5 year average FCF/sales is 10%.
- 10 year average FCF/sales is 10.2%
- Its CCC has jumped from 28 days in 2005 to 43 days TTM. A gain of 35%.
- EV/EBIT is 14.3.
- EV/FCF is 22.
- EBIT/EV (earnings yield) – XYZ%
- FCF/EV (earnings yield) – XYZ%

Step 18

Feel free to add notes of interest at to the end of this doc. Things like if the company is paying a special dividend. If it's selling at a P/B less than 1. Has an EV/EBIT or EV/FCF below 8. If the company has NOL's. The companies debt levels compared to cash and cash production. Eetc.

Of note is that some of this information you might not be able to find on Morningstar. This may happen with some foreign or smaller companies. In this case you will need to go to the company's website... Download its financial reports from there... And then go through the financial reports to find this information.

Step 19

Done.

By now you should know on a preliminary basis whether you want to continue researching the company or not based on the types of criteria that are most important to you.