

Face-to-face with company management?

This is what you should ask

Products and services

- ② How does the company make money?
- ② Is your business dominated by the sales of any product(s)?
- ② Do any customers account for a large proportion of your sales?
- ② Are you reliant on any key suppliers?
- ② How much do you spend on researching and developing new products?
- ② Are sales mainly one-off purchases by customers or lots of repeat business?

Markets & Competition

Here you are trying to understand the growth potential of the business and how the company might be placed to exploit it.

- ② Are the company's markets growing, shrinking or stable? Is there scope for lots of growth? Can the company expand into new markets?
- ② How competitive is the industry? How easy is it for a new company to enter?
- ② Who is your strongest competitor? What do its products and services provide to customers that yours do not?
- ② Are your markets cyclical? How resilient are the company's sales and profits in a recession?

Management & Culture

- ② How invested in the company are the directors? What percentage of annual salary do they hold in shares?
- ② How big is the free float (the percentage of the company's shares traded on the open market)?

Financial Matters

- ② How flexible is the company's cost base? What is the rough split between fixed and variable costs? (High fixed costs mean that there is more operational gearing and therefore profits are more sensitive to changes in sales.)
- ② How do changes in exchange rates affect the business?
- ② Does the company have to hold lots of stock?
- ② Do you have target profit margins or returns on capital employed (ROCE)?
- ② Will you need to ask shareholders for more money to grow?
- ② If you raise fresh equity will this be done via rights issues or placings?
- ② What is your attitude to debt? Do you have a target gearing ratio?
- ② How do you intend to use your profits – reinvest, dividends, buybacks?

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