**DARDEN CAPITAL MANAGEMENT INVESTMENT FRAMEWORK**

**Overview:** A good stock pitch addresses *the* question: *Why should I invest in the stock?* Good companies don’t necessarily make good stocks if they are overvalued. Similarly, cheap stocks aren’t necessarily good investments if the company deserves a low valuation. The questions below are designed to help you identify attractive investments and rely on many of the concepts taught in the First Year Program.

**Business Description**: How does the business make money? What is the company’s strategy? Use your own words, keep it simple.

**Industry Study**

* Is this a good business? What are the key success factors to superior performance in this industry?
* How do competitive products address this opportunity? What are the barriers to entry (“moats”)?
* What is the relative power of customers, suppliers, competitors, and regulators?
* Who controls industry pricing? Does the company/sector have any pricing power?

**Management**

* What is their background, and what do their former colleagues, classmates, say about them?
* How are they compensated? Are their interests aligned? Are they buying or selling stock?

**Company/Cultural Issues**

* Can you imagine holding stock in this company for twenty years?
* If you had access to unlimited capital, could you compete against this company?
* Compare to a weak competitor in the same industry. What is the difference and why?

**Financial Measures**

*Balance Sheet*

* What is the company’s capital structure, and how does it compare to its peers?
* What are the trends in inventory turns, days payable/receivable, and working capital?
* What are its coverage ratios on interest payments?

*Cash Flow*

* What are the company’s capital requirements and cash flow characteristics?
* How is the company choosing to invest its capital? CapEx? Buybacks? Acquisitions?
* Does the company need to access the capital markets? How soon/often?

*Earnings/Profitability*

* How visible and sustainable are sales and earnings quarter-to-quarter, and year-to-year?
* Is this a fixed or variable cost business? How much cost leverage?
* Do earnings grow as a function of unit sales growth, price increases, or margin improvement?
* Is management using capital effectively? (ROE, ROA versus peers)

**Valuation**

* Looking forward *and* backward what is the company’s valuation in terms of:
  + P/E, EV/EBITDA, P/FCF, P/B, P/S
* What is the company’s growth rate in terms of earnings, EBITDA, and FCF?
* What are the consensus earnings estimates, and can those be reasonably justified? What is the PEG ratio?
* How does the company compare with its peers along these valuation metrics?
* Are their accounting policies conservative and in-line with their peers?
* *What is the company really worth? How much return will be generated with this investment?*
* What are the catalysts (triggers) for the company’s proper valuation to be realized?

**Risks**

* What are the big unknowns? How much can the company control/influence these risks?
* What could cause this investment to be a total disaster? How bad could it be?
* What good news, and what bad news, will affect the company in the coming year?