

# MOTLEY FOOL MASTERS

## Tom Gardner's Great Business Checklist

Flaps: *Check.*

Fluids: *Check.*

Instruments: *Check.*

Good airplane pilots don't take to the skies without consulting their trusty checklist first. We feel the same about investing, so we've created a stock checklist to help you get your portfolio off the ground.

Fools should keep this checklist in hand during the research process to ensure that no big stones are left uncovered.

This particular checklist won't help you decide how much to pay for a stock, but it will take you a long way in understanding whether or not you have a good business on your hands.

There's no score to beat here, just use your best judgment. If you find a company that merits a yes to all the questions below, chances are you might just be looking at the NEXT Great Business.

Company Name: \_\_\_\_\_

CEO Name: \_\_\_\_\_

# People

	Yes	No	Unsure
<b>Would I want to report to this CEO?</b>			
<ul style="list-style-type: none"><li>• Is this CEO likeable?</li><li>• Is this CEO admired by employees and customers?</li></ul>			
<b>Would I want this CEO babysitting my kids?</b>			
<ul style="list-style-type: none"><li>• Is this CEO responsible?</li><li>• Is this CEO trustworthy?</li></ul>			
<b>Does this CEO demonstrate passion?</b>			
<ul style="list-style-type: none"><li>• Has this CEO pursued mastery in the field over the long term (10 years +)?</li><li>• Is this CEO invested in the company's future, both financially and emotionally?</li></ul>			
<b>Does this CEO have a long term vision?</b>			
<ul style="list-style-type: none"><li>• Is this leader on board for the long haul?</li><li>• Does this CEO measure success with longer-term metrics?</li></ul>			
<b>Does this CEO strive to understand the customers and the market?</b>			
<ul style="list-style-type: none"><li>• Is this CEO eager to learn?</li></ul>			
<b>Is this CEO an effective motivator?</b>			
<b>Would I want the executive team at this company managing my money?</b>			
<ul style="list-style-type: none"><li>• Are they honest?</li><li>• Are they competent?</li></ul>			
<b>Does management disclose significant matters in clear, unambiguous language?</b>			
<ul style="list-style-type: none"><li>• Could my mother understand this company's public filings?</li></ul>			
<b>Is management upfront about mistakes?</b>			
<b>Is tenure within the company important?</b>			
<ul style="list-style-type: none"><li>• Is upper management promoted from within?</li><li>• Are employees and management sticking around for the long term?</li></ul>			

# Profit

	Yes	No	Unsure
<b>Is this business solid?</b>			
• Does the business have access to a significant amount of cash relative to its size?			
• Does the business carry more cash than debt?			
• If the business carries more debt than cash, are payments on that debt sustainable over the long term?			
• If the business carries more debt than cash, has the management team demonstrated an ability to manage debt properly over the long term?			
• Is the business built to survive prolonged periods of difficulty?			
• Can this company pursue its goals without additional debt or equity financing?			
<b>Is this business growing?</b>			
• Is this business operating in a growth industry?			
• Are consumers moving toward this company and its products?			
• Is the company able to consistently grow revenues?			
• Does this company benefit from organic growth and/or same-store growth?			
• Is the company becoming increasingly more profitable?			
• Are margins expanding (gross, operating, net)?			
• Is the rate of growth accelerating (both in sales and profitability)?			
<b>Is this company effectively investing in itself?</b>			
• Does the company generate returns on equity in excess of 10%?			
• Does the company generate returns on assets in excess of 7%?			
• Does management have realistic expectations for the return on investment from future endeavors?			
<b>Is this company real?</b>			
• Does this company recognize revenue in an ethically responsible manner?			
• Does this company generate positive cash flow?			
• Does this company regularly generate cash flow at, near, or in excess of stated profit?			
• Does this company collect cash before it delivers its services?			
• If not, is the company a competent collector of its credit sales?			
• Does the company effectively manage inventory?			

# Potential

	Yes	No	Unsure
<b>Is there ample opportunity for this company to grow from here?</b>			
<ul style="list-style-type: none"><li>• Does this company have plenty of room to expand in its core business areas?</li></ul>			
<b>Is the company at an early-ish stage in its maturity cycle?</b>			
<b>Are the company's products at an early-ish stage in their maturity cycle?</b>			
<b>If the company's products are at a late stage in their maturity cycle, are they the best offerings available?</b>			
<b>Is the industry growing?</b>			
<b>Is the growth rate of this company accelerating?</b>			
<b>Is this company growing its share of the market?</b>			
<b>Is the competition fragmented and disorganized?</b>			
<b>Does this business have alternative business avenues to pursue?</b>			
<ul style="list-style-type: none"><li>• Are these different avenues attractive and open for competition?</li><li>• Can you envision multiple futures for this company?</li></ul>			
<b>Can this business model scale up without expensive reinvestment?</b>			
<ul style="list-style-type: none"><li>• Does this company benefit from economies of scale?</li></ul>			
<b>Have I spent considerable time examining the growth opportunities that this company has in front of it?</b>			

# Position

	Yes	No	Unsure
<b>Does this company have an ability to protect its present and future cash flows?</b>			
<b>Are the company's products cheaper?</b>			
<ul style="list-style-type: none"><li>• Does this company have a cost advantage that cannot be replicated?</li></ul>			
<b>Are the company's products better?</b>			
<ul style="list-style-type: none"><li>• Does the company offer a superior feature set?</li><li>• Are customers willing to pay up for the company's products?</li><li>• Is there social status assigned to this company's products?</li><li>• Do customers have an emotional connection to the company's products?</li></ul>			
<b>Are the company's products more convenient?</b>			
<ul style="list-style-type: none"><li>• Are the company's products easier to access than its competitors'?</li><li>• Does this company act as the default choice for consumers?</li><li>• Are there switching costs associated with leaving the company's products for an alternative?</li></ul>			
<b>Is the company able to maintain prices or increase the prices of its products over time?</b>			
<ul style="list-style-type: none"><li>• Does the company benefit from falling supply costs?</li></ul>			
<b>Do customers regularly return to purchase this company's products?</b>			
<b>Is the business model so strong that it can be explained to the competition without suffering damage?</b>			
<ul style="list-style-type: none"><li>• Are the company's advantages so great that the competition is powerless to compete with them?</li></ul>			

# Purpose

	Yes	No	Unsure
<b>Is there enthusiasm surrounding this organization?</b>			
• Are customers thrilled?			
• Are employees hooked into the larger mission?			
• Are shareholders devoted to the company?			
<b>Does this company create evangelists?</b>			
• Do employees, customers, and shareholders advocate on behalf of the organization?			
<b>Does this company fulfill a real customer need?</b>			
• Is there long term demand for this company's products?			
<b>Are customers delighted with this company's products?</b>			
• Do customers consciously choose this company's products over alternatives?			
• Do customers ask for this company's products by name?			
<b>Are customers' lives improved for having purchased this company's products?</b>			
• Does this company have positive effects on the people that do business with it?			
<b>Is the world better off for having this company in operation?</b>			
• Does this company manage its business in such a way that is beneficial for the greater world?			
• Are non-business constituents pleased to have this business in operation?			
<b>If this company discontinued operations tomorrow, would anyone notice/be bothered?</b>			
• What about one month from now?			