Evaluating a company the Club Biomed Way-
Instructions for using the evaluation sheet-first draft

Part 1. Provide some fundamental information about the company.

- Classify the company into a category so that we know who its peer competitors are.
- PEG refers to the ration of P/E to expected growth rate, and it is obviously subject to error.
- Include the date the evaluation form was submitted and the person (s) responsible for the work.

Part 2. Provide a ranking of the company in each of the following 6 criteria using the following scale:

Scale:

- 1 Outstanding quality in the category
- 2 Significantly stronger than average
- 3 Average for the category
- 4 Below average & a significant concern
- 5 A serious weakness that may preclude purchase

1. Financial status: This category should include analysis of the company's current and future financial position. The analysis should include the classic methods of evaluating a company's health including statements of profits and loss, cash flow, balance sheet (debt).

- For emerging companies, promised profits from bringing new products is an important consideration.
- For more established companies, consideration of the chance of bringing approved products on line or improving sale of existing products is essential. This, of course, is linked to the company's expertise in clinical pharmacology and the quality of their products (criteria 5).
- Consideration of potential liability problems is always important.
- For emerging companies, a careful consideration of the companies financial stability and 'burn rate' may be one of the most important considerations as promise may be lost due to financial considerations.

2. Existing products. It is important to evaluate not only the current profitability of products, but also the ability of the company to extend product line (to new markets or uses) and increase profits from them. How large is the market? Potential market? This requires consideration of patent positions and competition from related products. For some categories (start-up biotechs, for example) this criteria may not have as great an impact as for an established pharmaceutical company.

3. Potential products. Given the importance of patent protection and the development of products for un-served or under-served markets, a careful evaluation of products in the pipeline, the development of new products may be the most important criteria for evaluating a company. This requires analysis of:

- the fundamental quality of the product
- the size of the market that the product may serve
- the probability that the product will be approved (FDA and other regulatory agencies)
- the ability of the company to successfully product to market (perhaps through an alliance)
- competition and potential competition in the marketplace
- Obviously, potential products depend heavily on criteria 4, 5, & 6 (below).

4. Quality people in the company and the company's corporate culture. The quality of leadership in each of these may be viewed as the most important way to evaluate a company. Making the right decisions in each area will, in the long term, lead to success. Confidence in the information provided by the company is an important criterion. The decisions made by a new or emerging company may be critical to creating success while poor decisions by an established company can lead to its demise and a track record in each area should increase confidence in each area. Separate attention should be directed towards:

- evaluation of the administrative leadership of the company (CEO, CFO, etc)
- the quality of the board (business, scientific, medical, and pharmaceutical quality of advice)
- scientific leadership (discovery research, directed research to solve product problems)
- clinical and pharmaceutical leadership (producing a useful product, overseeing clinical trials, FDA approval. etc)
- marketing leadership

Expertise and creativity in each of these areas will obviously influence the ability of the company to:

- innovate,
- adapt,

- apply and develop new technology
- balance the efforts of the company within the company's ability and resources
- focus resources where they are needed
- provide honest information to investors

So the track record in these areas may be very informative. If they have done it before…

5. Scientific and clinical pharmaceutical quality. Rather than focusing on people in the company, this criterion should focus on the ongoing 'discover research' and 'clinical testing.'

- What are the discovery methods that are in place?
- What discoveries have been made?
- Are they being successfully exploited?
- Are products being tested for clinical effectiveness?
- Is there expertise in clinical pharmacology as well as discovery science (perhaps through an alliance)?
- Are there clinical trials? Are those trials well designed?
- Is there an effective relationship between discovery and clinical research?

6. Ability to market products: Producing a product and getting it approved is of little value unless it can be successfully brought to the market place and sold for a profit. This may be done by the company itself or via an alliance with another company. What is the quality of the marketing force? What competition, if any, will they face? How effectively are competing products marketed? How does this effect potential products? Lastly will the company be able to produce the product in the quantity needed and in the quality expected by the FDA? These may be major considerations for a smaller company and overcoming them may be dependent on the quality of the company's leadership (criteria 4).

7. Overall ranking: This criterion is not a simple arithmetic mean of the previous six criteria. The importance of each criterion will be different for every company. It will depend on the type of company that is being evaluated as well as other ineffable criterion that may be important to the evaluator. For example, an inability to design and execute effective clinical trials, to produce the product, to market a product, or to have adequate financial resources may be an over-riding consideration.

8. Price to Quality ratio. Now, is the company worth the price we would have to pay to buy the stock? On the basis of current products and profits? or potential products and profits? (We are working with a time horizon of around three years.) Overpaying for a quality company is not a way to strengthen our portfolio. Sometimes a company with clear weaknesses may be worth the price, but it is not likely that we want to consider an average below average company, even if the price is right.

Part 3. Make a recommendation:

9. Should we buy the company? What is your recommendation to the group? If you have specific reservations or if there are contingencies that could change your opinion they should be noted in the space provided (optional, but potentially valuable ideas may be noted here). Should the stock be included in our virtual portfolio? Should we continue to follow the stock or would it be more profitable to study other companies?

Part 4. Abstract of your evaluation

There are three purposes to this abstract:

- First, it is the narrative part of the evaluation that will be distributed to the club before presentations to inform club members before listening to a presentation.
- Second, it will provide a record of you opinion that will be useful to club members who may wish to re-evaluate this stock in the future or who may be evaluating a competing company.
- Third, if the club purchases the stock, it will provide a guide to the person who follows it as part of our portfolio.

Thus, please provide a concise description of the company emphasizing the facts that were used arrive at the ratings summarized above. Please limit the discussion to one page, although a half page is preferred. Obviously less detail is preferred for stocks with serious problems.

Finally, although the evaluation should be thoughtful and we want the evaluators to be comfortable with the conclusions they make, we know that partners will not be able to look into every aspect of a company. These presentations are designed to facilitate our education and give us reasonable guidelines in investing, not to provide definitive conclusions (indeed, even professional analysts rarely (never?) succeed in achieving that goal.