

Tips for Reading Annual Reports for Investors

What's Critically Relevant for Investors?

How you read an annual report depends upon your purpose. As an Investor, your purpose may be to assess: profitability, survivability, growth, stability, dividends (if any), learn of problems, risks and other factors which may affect your investment in that company. Reviewing a company yearly is the minimum diligence required. The Annual Report provides a convenient way to do this - if you own shares you should receive a copy in the mail.

Annual Reports are a corporate "work of art" and are not read like a normal book. There is no single authorship. No plot. No requirement to read cover to cover. No beginning, no end. Putting annuals together year to year creates a kind of "never ending story" as the entity progresses along, merges, closes or is acquired.

There are nine identifiable sections in most Annual Reports. Not all reports will have all the sections or the same type and level of information. Here are the sections and what to look for in each:

1. **Chairman of the Board Letter** - Should cover changing conditions, goals to achieve or achieved or missed, actions taken or not to be taken. Is it well written? Reading between the lines - what is being apologized for?
2. **Sales and Marketing** - Should cover what the company sells, how, where and when. Is it clear where it make most of it's money presently? Is it understandable? Is it clear the scope of lines, divisions and operations?
3. **10 Year Summary of Financial Figures** - Is this included? What's the growth of profits and operating income?
4. **Management Discussion and Analysis** - Is it a clear discussion of significant financial trends over past two years? How candid and accurate is it?
5. **CPA Opinion Letter** - Written by the CPA firm as an opinion on the company's financials. The important thing to look for here is what the qualifications are.
6. **Financial Statements** - Check sales, profits, R&D spending, inventory and debt levels over time. Read the footnotes to ferret out other information.
7. **Subsidiaries, Brands and Addresses** - Where is the headquarters? Is it clear what lines, brandnames the company has and what their overseas distribution network is?
8. **List of Directors and Officers** - How many outside vs. inside directors? Are the directors well known and respected? Are there less than 5 or more than 12 directors?
9. **Stock Price History** - General trend of price over time: up or down? Which exchange is company traded/listed? Stock symbol? Bonus/dividend history?

Some things to consider about the report in general...

1. Well written, clear, concise and succinct?

2. Are photos modeled or live? How well do they relate well to the text of the report?
3. How much discussion is ther of competition? How clear are product plans?
4. Could the report be made more interesting, understandable or eye-appealing?
5. How does it compare with others in same industry?

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