

F.Cap Analyst Whitepaper (v1.1)

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1. Purpose

F.Cap exists to train analysts to think like long-term owners.

It is not a course. There are no credits, no grades, and no one checking that you do the work. You either do it, or you do not.

What you gain if you do the work is something most people never learn in a business program: the ability to read a company honestly – to understand how the money actually flows, whether management acts in the owners' interests, and whether the price you pay is reasonable given what you actually know.

This requires you to be prepared to sit down with the tedious parts of annual reports. It requires you to be honest about what you do not understand. And it requires you to deliver when you say you will deliver.

There is a standard that an analysis must meet to serve as the basis for an investment decision. That standard applies regardless of how well-articulated the analysis is otherwise. A well-written analysis of a company you do not understand is still a poor basis for a decision – and it is better to say so out loud than to pretend it suffices.

We accept that we are students.
We do **not** accept sloppy thinking.

We also accept that:

- most investments should be **avoided**,
- our circle of competence is **small**,
- and that process is only valuable to the extent it improves judgment.

The goal is not to analyze as many companies as possible. The goal is to learn to recognize a few truly exceptional businesses, understand them deeply, and act as rational, long-term minority owners.

2. What You Need to Bring

Before joining F.Cap, you should be able to read a basic financial statement – profit & loss, balance sheet, and cash flow, without needing to look up every line item. You do not need to be an accountant. You do need to understand that accounting involves choices, and that those choices are shaped by management incentives.

If you have not yet taken an introductory accounting course, you should treat this as a prerequisite to complete before or during your first cycle. The whitepaper references

below include resources for this. Arriving without this foundation means your first weeks will be spent on mechanics rather than judgment, and that is a poor use of everyone's time – including your own.

What is expected of you

As an F.Cap analyst, you are expected to bring:

- **Time:** 5–10 hours per week, over a 3-week cycle. As a solo analyst responsible for all dimensions of the analysis, calibrate your scope accordingly — "Too Hard" and "Avoid" become even more important default outcomes when working alone.
- **Patience:** we care more about depth than about speed, and more about *saying "too hard"* than pretending to understand.
- **Willingness to invert and stress test** your own views: looking for what breaks your thesis, not only what confirms it.
- **Honesty about what you don't know:** you must be explicit about uncertainties and gaps – and when something is simply outside your circle of competence.
- **Curiosity and reading discipline:** annual reports, footnotes, books, and articles – not just summaries or slides.
- **Owner mindset:** you imagine your own savings at risk, not “simulated capital”.

If you are unable to deliver your week's output on time, communicate this to the group before the deadline – not after. Consistent absence without notice will result in reallocation of the case, and may affect your place in the next cycle.

3. Individual Analysis Structure

Each analysis is owned and executed by one analyst, across all dimensions.

There are no fixed roles divided between team members. You are responsible for the full analysis: business model, numbers, governance, and the devil's advocate perspective. This is intentional. Ownership means you cannot defer a dimension you find difficult or uninteresting. The weakest part of your analysis is yours.

The portfolio manager is available to discuss work in progress and challenge your reasoning. This is not a substitute for doing the work — it is a complement to it.

3.1 Scope and output

A solo analyst working 5–10 hours per week over three weeks will produce something less exhaustive than e.g. a team of four covering the same company. That is acceptable. What is not acceptable is a shallow treatment of every dimension.

If something is genuinely beyond your current circle of competence – technically, analytically, or in terms of available information – name it explicitly in section 5.10 (What I Don't Understand Yet) rather than filling the space with assertion.

3.2 Number of full analyses per year

We aim for quality over quantity:

- ~4–6 full, decision-ready analyses per year per analyst.
- Additional week-1 screenings are encouraged — most should end in "Avoid" or "Too Hard" without full analysis.

3.3 Adversarial Review

At the end of Week 2, another fund member reads your material. The assignment is narrow and explicit: identify the three weakest assumptions in your analysis and attack them. Not to improve, not to discuss – to attack. Twenty minutes, no preparation other than reading the material.

You listen and take notes. You do not have to agree. However, in your Week 3 synthesis, every attack must either be countered with a specific argument or acknowledged as an unresolved weakness under Section 5.10.

This is not a group meeting, nor is it a walkthrough. It is a structured injection of friction against your own assumptions – its sole purpose is to ensure the thesis has encountered resistance before it solidifies.

3.4 Extended Cycle

An analyst may request four or five weeks instead of three if the company's business model genuinely requires it. This requires a written sentence explaining why the material – not the difficulty – justifies the extension.

An important distinction applies here: if the case is difficult to understand after Week 1, it is likely a sign that it belongs in the "Too Hard" pile, not an argument for an extension. An extension does not resolve epistemic uncertainty – it merely prolongs it. An extension is justified when the analysis requires more time to process comprehensible but extensive material, not when foundational understanding is still lacking.

The standard is three weeks. An extension is an exception that requires a specific reason, not the norm for difficult cases.

4. Three-Week Cycle

Week 1 – Circle of Competence, Quick Value & Kill/Commit

Goal: decide **whether this company deserves a full analysis**.

We assume **Avoid** as the default. The burden of proof is on the case.

Output:

1. **Circle of Competence (CoC) Check (½ page)**
 - What does this company do, in plain language?
 - Do we genuinely understand the business model and industry structure?
 - Does at least one team member have some domain familiarity?
→ Rate CoC: **Green / Yellow / Red**.
 - Red = outside CoC → **Abort** (case to archive or “Too Hard pile”).
2. **Quick Value Screen (½ page)**
 - Very simple, back-of-the-envelope:
 - Rough normalised earnings / cash flow.
 - Implied multiple vs what would be reasonable for this type of business.
 - One short line: “*For today’s price to make sense, X must grow Y% with Z margins for N years.*”
 - If this already looks completely unrealistic → **Abort**.
3. **1-page Business Model & Unit Economics Sketch**
 - What problem is solved, for whom, and how?
 - Very simple unit example (one customer / one unit).
 - Early **moat intuition**: is there *any* sign of durable advantage?
4. **Short Governance & Incentives Snapshot**
 - Major owners.
 - CEO / founder profile.
 - Any obvious red flags (fraud cases, perverse incentives, hopeless capital allocation).
5. **Initial Moat & “Too Hard” Assessment (½ page)**
 - Does the business seem to have *any plausible moat* (brand, scale, network effects, switching costs, regulation, etc.)?
 - Is the industry structure understandable?
 - If explaining the business takes more than one page → likely “Too Hard”.
6. **Devil’s Advocate First Red-Flag Note (½ page)**
 - “Most likely ways this can be a bad investment.”
 - “Most likely ways we are fooling ourselves already.”

If CoC is **Red**, or if quick valuation and basic common sense already break the case →
We abort the analysis and write:

“Why we did not proceed with this company” (1 page) – then move on.

Week 2 – Analysis & Structure

Goal: Build a structured understanding of *how value is created and protected*, and whether this is a business we could ever own.

Focus:

- Business model & unit economics in more depth.
- **Moat analysis**: what protects the economics?
- Governance & incentives in more depth (but now as modifier, not automatic veto).

- Capital allocation track record & financial quality (including **Owner Earnings**).
- Risk and failure modes.
- Narrative vs reality (what the company says vs what the numbers say).
- Identifying areas that are still “Too Hard”.

Week 3 – Valuation, Synthesis & Decision

Goal: Translate understanding into a decision-ready analysis.

Default is still **Avoid**.

Buy/Watch must be **deserved**.

Outputs:

- Simple valuation and implied expectations (no unnecessary modelpynt).
- Clear moat verdict and durability view.
- Owner earnings view and capital allocation judgment.
- Individual Conviction Statements (A, B, C, D).
- Owner Synthesis: would we want to be long-term minority owners?
- Final recommendation for the fund: **Buy / Watch / Avoid**.
- 1-page IC summary for internal discussion.

5. Core Analysis Structure

Every full analysis must follow the F.Cap Core Template:

5.1. Investment Snapshot (½–1 page)

- One-liner business description.
- Why it might fit the F.Cap mandate (within circle of competence, understandable economics, potential moat).
- 3–5 key financial metrics (relevant for this specific business – not standard checkboxes).
- Current market expectations in one sentence:

“At today’s price, the market seems to assume that...”

5.2. Business Model & Unit Economics (≈1 page)

- What problem is solved, for whom, and how?
- Segments, geographies, revenue streams.
- A simple unit economics example (e.g. one customer over 3 years, or one typical contract/product line).
- Key drivers of revenue, margins, and reinvestment.

5.3. Moat Analysis (½–1 page) – Mandatory section

- Which moat sources, if any, apply? For example:

- Brand
- Cost advantage / scale
- Network effects
- Switching costs
- Regulatory / license barriers
- Intangible know-how
- Evidence for each claimed moat (not just assertions).
- Has the moat strengthened, weakened, or stayed flat over the last 3–5 years?
- How likely is it that competitors erode this moat? How fast?

5.4. Governance & Incentives (½–1 page)

- Ownership structure (founder-led? family? institutions? state?).
- Board composition (independence, relevant experience, skin in the game).
- Management incentives (stock, options, bonuses, KPIs).
- Track record of integrity / transparency (or lack thereof).
- Governance verdict: **Green / Yellow / Red**, with short explanation.
 - Green = governance supports long-term value creation.
 - Yellow = mixed; we need extra margin of safety.
 - Red = clear risk of value destruction (fraud patterns, repeated abuse of minority shareholders, etc.).

Governance is **not an automatic filter** by itself.

It modifies our view on economics, moat and valuation.

Only extreme red flags (fraud, chronic abuse) lead to automatic Abort.

5.5. Capital Allocation & Financial Quality (1–1.5 pages)

- Revenue and margin development over 3–5 years.
- Cash conversion and **Owner Earnings** (explicitly calculated).
- ROIC / ROE trends and what drives them.
- How capital has been allocated:
 - Reinvestment in the core business
 - M&A
 - Dividends
 - Buybacks
 - Debt issuance/repayment
- Quality of capital allocation decisions (value-creating vs value-destroying).
- If relevant: basic liquidity and refinancing risk.

Key question:

“If we owned 25% of this company, would we be happy with how capital has been allocated over the last 5–10 years?”

5.6. Risk & Failure Modes (½–1 page)

- 3–5 key risks that actually matter for **permanent capital loss** (not just earnings volatility).
- One focused paragraph:

“What would break this company’s economics or moat?”

- Optional: short PESTLE scan (only if it adds real insight, otherwise skip).

5.7. Narrative vs Reality (½ page)

- How does the company present itself (annual reports, presentations, CEO letters)?
- Where does rhetoric diverge from numbers and behaviour?
- Are they raising capital while talking about “strong growth” and “disciplined capital allocation”?
- Is there evidence of hype, storytelling, or obfuscation?
- Does the narrative withstand a simple data cross-check?

5.8. Valuation & Implied Expectations (≈1 page)

- Method used: simple multiples and/or reverse DCF.
- Focus on **what must be true** in terms of:
 - growth,
 - margins,
 - reinvestment opportunities,
 - and duration of advantage,
 for today’s price to be reasonable.
- Bull / Base / Bear scenarios with explicit, *reasonable* assumptions (not fine-grained simulations).
- Comparison with similar businesses where possible.

We do not aim to forecast precisely.

We aim to see whether today’s price implies **modest, reasonable expectations** or **heroic, fragile expectations**.

5.9. Analyst Conviction & Recommendation (½–1 page)

- If you owned 20–30% of this company, what would you focus on as an owner?
- How would you want management to behave differently, if at all?
- Short statement on durability of economics and moat.

Your Conviction Statement:

“Would I buy this with my own money at this price? Why / why not?”

State this in your own words. If you cannot state it clearly, the analysis is not yet complete.

Final recommendation to the F.Cap fund:

- **Buy** — strong business, understandable, with moat, decent governance, reasonable expectations in price, and genuine conviction.
- **Watch** — interesting, but something critical is missing: price, understanding, moat clarity, or governance clarity.
- **Avoid** — either the business is weak, economics are fragile, governance is dangerous, price is unrealistic, or simply "Too Hard."

Action if Wrong — for Buy or Watch:

- At what signals do you admit you were wrong?
- What would trigger a sell or exit?

Default is Avoid. Buy and Watch must be earned.

For input to the yearly Long View Session:

- If you had to hold this company for 10 years without being able to sell — would you still be comfortable? Why or why not?
- Which 3–5 signals would you closely watch over those 10 years?

5.10. What I Don't Understand Yet (½ page)

- 3–5 points where your understanding is still weak.
- What you would need more time or data to analyse.
- Any aspects that remain in the **"Too Hard pile"**, explicitly named.

Length guideline: **5–7 pages** main text, plus optional appendices.

6. Toolbox

These are tools, not obligations.
Use them when they clarify, not to impress.

Core tools

- **Circle of Competence** – early and honest:
 - Is this business truly understandable for us?
- **"Too Hard pile"** – a valid and often optimal outcome.
- **First principles thinking & Fermi estimates** – to sanity-check scale, margins, and growth.
- **Inversion** – "How could this investment go wrong?", "What would have to be true for this to be a disaster?" ("Tell me where I am going to die, so I never go there.")
- **Owner Earnings** – focusing on cash flows available to owners, not just accounting profits.

- **Moat analysis** – systematic thinking about durability and protection of economics.
- **Simple reverse DCF / implied expectations** – to see what the market is already pricing in.
- **Understanding IFRS/GAAP definitions that matter for your case.**
- **Primary sources** – annual reports, transcripts, reputable financial press, quality industry reports.

Optional deep-dive tools

Use only if they add real insight:

- Full DCF models (for sensitivity thinking, not pseudo-precision).
- Detailed capital cycle analysis (entry, reinvestment, competition).
- Sector-specific metrics (e.g. churn in SaaS, combined ratio in insurance, LTV/CAC, same-store sales).
- Benchmarking across similar businesses.
- Simple scenario trees for key strategic decisions.

LLMs may be used to explore concepts and sources, but **never as a substitute for reading primary material**. Always ask for citations and verify against original sources.

7. References

Suggested reading to build your latticework:

Core:

- *Poor Charlie's Almanack* – mental models and inversion
- Aswath Damodaran – *The Dark Side of Valuation, Narrative and Numbers*
- Michael Mauboussin – *More Than You Know, Expectations Investing*
- Warren Buffett – shareholder letters (owner earnings, capital allocation)

Optional / inspiration:

- Richard Bråse – narrative & expectation analysis
- McKinsey – *Valuation* (reference, not required)
- Jim Chanos, Viceroy Research – short seller reports as examples of failure analysis
- Edward Chancellor – *Capital Returns* / capital cycles and macro context

8. Quality & Decision Use

Our analysis must be:

- **Honest** – about data, uncertainty, and our own bias.

- **Structured** – so that another analyst can follow the reasoning and replicate the key steps.
- **Decision-oriented** – every analysis must end in a clear recommendation and an “action if wrong” plan.
- **Reproducible** – someone else should be able to redo key steps and arrive at similar conclusions, given the same assumptions.
- **Selective** – we prefer to say “Too Hard” or “Avoid” rather than pretend insight.

A good analysis:

- changes how we would act as owners,
- could justify doing **nothing**, if nothing is the rational choice,
- makes it easier to say “no” to bad or overhyped ideas,
- and clarifies what we should **watch and wait for**.

If an analysis does not change how we would act as owners, it is not yet good enough.