# DUE DATES

1. June 5:
   * Each please submit (i) the names of your chosen TWO companies and (ii) the URLs to their 10-Ks
     + In this project, you will need TWO 10-K reports for EACH company.
     + In total, you will need to submit four URLs to me; two URLs for each company.
2. June 25:
   * Each please submit the following documents via emails:
3. word/pdf file of your report (10-13 pages before reference and exhibits are considered),
4. the excel spreadsheets of financial ratios,
5. 10-Ks of your two companies (with TWO years of annual reports for EACH company). Please send me the **whole** 10-Ks files or the URLs to their 10-Ks, not just the financial statements.
6. Powerpoint slides (15-25 slides) which summarize the key points of your written report.

* Selection of companies:
  + The two companies should be in the same industry. While the two companies do not need to be head-to-head competitors, their main lines of business should broadly overlap.
  + When you are searching for companies, please make sure that (1) your companies are traded in the stock market (in other words, you can find their stock price on websites such as [https://www.marketwatch.com](https://www.marketwatch.com/) or <http://finance.yahoo.com/>), AND (2) you can find their recent 10-K reports either on the company’s website or on [www.sec.gov](http://www.sec.gov/).

# Avoid companies whose financial statement are overly complicated:

* + - Probably **avoid the automotive, utilities, banking, insurance, and financial services industries**. Some automotive companies have reported large losses, which complicates the analysis. Operations in the banking, insurance, and financial service industries are very different from the usual industrial companies common in practice. While these companies can be analyzed, they present challenges for the beginning analyst.
    - **Avoid (1) loss firms, (2) firms with deficit or negative retained earnings, and (3) firms with negative stockholders’ equity** because it is tricky to analyze their financial performance. If you see a company that has negative net income on the income statement, or a deficit (i.e. negative retained earnings) on the Balance Sheet, or a negative balance on the total stockholders’ equity, please avoid it.
    - **Avoid foreign companies** because their financial statements may be prepared based on a foreign currency and a non-GAAP standard, which make it more difficult when you compare the financial performance.
* Sources of financial statements: You can find a company’s financial statements (1) from the company’s website on the investor relations page, or (2) from the U.S. Securities and Exchange Commission website at [www.sec.gov.](http://www.sec.gov/)
* You can download an excel file of a company’s financial statements from [www.sec.gov.](http://www.sec.gov/) This will save you time to prepare common-size income statement and balance sheet and to calculate financial ratios, compared to a traditional way which manually transports data from an html or text 10-K file to an excel file.
* In addition to financial statements, you will need **the whole 10-Ks** to search for the company’s background, strategy, overview of their performance, and footnotes for the financial statements.
* *Please refer to my powerpoint “Access to 10-K from sec.gov” on the Blackboard for details.*

# Which fiscal years of financial statements should you look at?

Not every company has a fiscal year ending on Dec 31. Some companies have fiscal year end in January 31, Feb 28, March 31, or later. *In general, we use May 31 as a cutoff time.* For companies with fiscal year ends before May 31, we define its fiscal year as the previous year, because the majority of their twelve-months period falls in the previous year. For example, Walmart’s latest fiscal year ends on Jan 31, 2023. **Walmart’s financial statements in fiscal year 2022 (not 2023) report its performance in the period Feb 1, 2022 to Jan 31, 2023.** It makes sense to choose the two-year periods in which your two companies are close to each other. For example, if you are comparing Amazon vs. Walmart, I suggest you comparing the following two periods:

|  |  |
| --- | --- |
| For fiscal year 2022 | Amazon (Jan 1, 2022- Dec 31, 2022) vs.  Walmart (Feb 1, 2022- Jan 31, 2023) |
| For fiscal year 2021 | Amazon (Jan 1, 2021- Dec 31, 2021) vs.  Walmart (Feb 1, 2021- Jan 31, 2022) |

If you are not sure which two years to look at, drop me an email and I will be happy to assist you.

# YOUR REPORT SHOULD INCLUDE THE FOLLOWING PARTS:

1. **Company overview:**
   * This part discusses industry background, companies’ business models, strategies, key success factors and risks, and other qualitative issues that may provide readers with the background and context for subsequent analyses.
   * The sections of the 10-K that may be relevant are: Business (Item 1), Selected Financial Data (Item 6), Management’s Discussion and Analysis (Item 7), and Financial Statements and Supplementary Data (Item 8). You can also obtain interesting press release and explain why it may be important for assessing the value and performance of the company.

# Ratio Analysis:

* + This part analyzes the two companies’ performance based on the financial ratios discussed in class. For each company-year, please include **at least ten ratios** chosen from the ratios in my excel spreadsheet. As a general rule, you want to select ratios that “tell a story”: they are keys to the business and reveal significant differences between the two companies or between the companies and the industry.
  + You need to calculate ratios for two years per company: the most recent fiscal year and the year before. *You can start with the excel file that I provided on Blackboard* and update the spreadsheets with data you obtain.
  + My excel file has the following spreadsheets:

|  |  |
| --- | --- |
| Spreadsheet # | Analysis |
| 1 | Instructions of the spreadsheet |
| 2 | Common-Size Income Statement |
| 3 | Common-Size Balance Sheet |
| 4 | Profitability Ratios |
| 5 | Liquidity Ratios |
| 6 | Solvency Ratios |
| 7 | Dupont Analysis |

* + My excel file is just a general template to help you calculate financial ratios and conduct Dupont Analysis. **Feel free to tailor the excel file to facilitate your analysis.**
  + The analysis should include, but is not limited to, comparison over time, comparison between the two companies, and comparison with the industry average (if data is available). You may also examine growth rates (not counted toward the minimum number of ratios).
  + Your analysis should not merely describe ratios by words. Rather, you are expected to interpret the ratios and connect the changes of ratios with company or economic events. You are encouraged to refer to, and/or quote from, companies’ annual reports. All references and quotations must be properly indicated.
  + Please use Excel spreadsheets to show your financial ratio calculations (not just a word file).

# Suggestion:

* + Based on your analyses in (A) and (B), provide a stock recommendation to a potential investor.
  + *This part plays a key role in determining your project score.* Please provide reasoning to support your stock recommendation.

# SUGGESTED TIMELINE OF THIS PROJECT:

|  |  |
| --- | --- |
| **Dates** | **Requirement** |
| May 30-June 5 | Submit the names of your chosen companies by June 5. |
| June 10-25 | Conduct research and analysis for parts (A) and (B) of this project |
| * Discuss your findings of parts (A) and (B) with your team members * Discuss Part (C) of this project (stock recommendation) and reach a consensus with your team members |
| * Finish a first draft of your report and discuss how to improve the report * Prepare a slide show of your project |
| - Polish your report |
| * Submit your project, including word, excel, powerpoint, and other files that support your project. |

**ADDITIONAL NOTES:**

* + Below are several items to check up when you are wrapping up the project. Among the points below, #3 & #4 are optional (only consider these items if you have extra time).

1. **Financial ratios:** You can compare your calculated ratios with the ratios on [https://www.marketwatch.com](https://www.marketwatch.com/) or <http://finance.yahoo.com/>. The ratios on these websites may not be exactly the same as your ratios, because their ratios are based on the most recent results (ttm, trailing twelve months). However, their ratios can give you some ideas about whether your calculations are correct or wrong. If your calculated ratios are very different from those on the websites, something could go wrong in your calculations.
2. **Illustrations of financial ratios**: How did you demonstrate the financial ratios? In tables? In charts? Or other ways? I find it very helpful to show the financial ratios of two companies in a chart because it allows readers to easily see the time-series changes and difference between two companies. You can easily use “Excel” to make charts.
3. **DuPont Analysis**: Do you use DuPont Analysis in your project? How does it tell you the differences in strategies between two companies?
4. **Stock price**: Do you think the historical stock prices (short-term or long-term) tell you anything about the performance of the two companies?

# FORMAT OF YOUR REPORT

* The cover page should include the name of the companies, the names of all members, and the tasks allocated to each team member.
* The main report (which excludes the spreadsheet analysis and exhibits) should have 10-13 pages, double-spaced, 12-point font with 1-inch margin on all sides. All pages, including appendices and bibliography/reference, should be numbered.
* The report should be written in a professional way. The report should start with a paragraph of a brief summary of your report. The report should end with a reference page, which lists all the references you have used in the report. All the references should be cited in your report. Do NOT Copy sentences or paragraphs of other people’s work without properly citing the source. Use quotation marks whenever quoting an exact phrase, sentence or short paragraph. Avoid quotations that are too detailed and only provide common knowledge without adding insights to your project.
* All spreadsheet analysis, figures, tables or charts should be put after the text but before the reference. Note that any of the figures, tables or charts MUST be referred to and explained in the text of the report.

# Please email me the files of your project, including word, excel, powerpoint, and other files that support your project.