

## Financial Analysis and Firm Strategies Project

Please perform financial analysis on two public companies in the same industry and interpret the firm policies and strategies. You only need to perform the analysis on **one year** of data for ratio analysis and **two years** of data for horizontal analysis. Here is the requirement information in the final project. The most recent financial statement you look at must be issued after June 30, 2019.

Content	Description of Content	Points
<b>Part 1 Basic Information</b>		
In this part, please provide information about the firms and the source of the data. (30 points)		
Company Name	Identify the two firm names.	5
Basic Information	Including the firm industry, the firm location and other general information of the firms.	5
Source of the Financial Data	Provide the link of the source data. For example, Walmart financial data is from: <a href="https://www.sec.gov/cgi-bin/viewer?action=view&amp;cik=104169&amp;accession_number=0000104169-19-000016&amp;xbrl_type=v#">https://www.sec.gov/cgi-bin/viewer?action=view&amp;cik=104169&amp;accession_number=0000104169-19-000016&amp;xbrl_type=v#</a>	10
Extract the numbers used in the reports	Please provide a table of the raw data you used to calculate the ratios. Please also provide the time frame of the data.	10
<b>Part 2 Dupont Analysis Ratio</b>		
In this part, please calculate the DuPont analysis ratios for both of the firms for the most recent fiscal year. Please refer to the slides how to put the DuPont analysis together. (40 points)		
ROE	Return on Equity=Net Income/Avg. Total Stockholder's Equity	6
ROA	Return on Asset=Net Income/Avg. Total Asset	6
Financial Leverage	Financial Leverage=Average Asset/Avg. Stockholder's Equity	6
ROS	Return on sales =Net Income/Sales	6
Asset Turnover	Asset Turnover=Sales/ Avg. Total Asset	6
Put the ratios under Dupont Analysis Framework and make comparison of the two firms.	ROE = ROS x Asset Turnover x Financial Leverage  (You need to interpret the performance of the two firms based on the numbers.)	10
<b>Part 3 Horizontal Analysis (40 points)</b>		
In this part, please perform horizontal analysis on both of the companies.		
Income statement	Horizontal analysis on Income Statement for both of the companies on the most two recent fiscal years (e.g. 2018 & 2019) financial statement.	15

Balance Sheet	Horizontal analysis on Balance Sheet for both of the companies on the most two recent fiscal years financial statement.	15
Interpretation	Interpretation of the horizontal analysis. The interpretation includes but not limited to following questions. How the sales increased/decreased in the past year? How components of net income changes in the past year? Which company's performance is improving? Were the companies expanding in the past year?	10
<b>Part 4 Accounting Policies</b>		
Please select <b>TWO</b> accounts in the list and find the accounting policies in the financial statement notes of <b>the both firms</b> . Please copy and paste the accounting policies into the project to see if the two firms have similar policies. (20 Points)		
Account List	Revenue (Sales), Accounts Payable, Accounts Receivable, Long-term Liabilities (Bonds or Notes payable), Inventories, Properties, Plant and Equipment, Intangibles, Contingencies.	
<b>Part 5 Strategies</b>		
Do the firms disclose their strategies about the profitability, efficiency or leverage? If they do, please paste it into the project. If there is no information about the strategies, please interpret the difference of the strategies of the two firms by using the financial ratios. If you believe the two firms have very similar strategies about profitability, efficiency and leverage, please state your reasons. (10 points)		

Hints to the Project:

1. Where to find the firm financial data?

The last topic in Module 1 provides the information. To be brief, you can easily find the information either from SEC Edgar or the official website of the company.

2. There are so much information online, which information I should use for our project?

We should use the Annual Report for the firms. If you get information from SEC Edgar website, you should use 10-K information. 10-K is annual report filings.

3. How do I know the two firms are in the same industry?

Here [is the Standard Industrial Classification Codes](#) (SIC code) list for the public firms. If the two firms have the same SIC code, they are in the same industry. You only need the first three digits of the code match to be the same industry. You can find firm's SIC code by simply google "Kroger (Firm Name) SIC Code".

4. What do you mean extracting the numbers used in the reports?

Please find the data you need to use for performing the Part 2 and Part 3 analysis and put it into a table similar to the below.

<b>Financial Information from Financial Statement</b>		
<b>In Millions \$</b>	<b>AMERICAN AIRLINES</b>	<b>UNITED AIRLINES</b>
Asset (Dec. 31, 2017)	51,396	42,326
Asset (Dec. 31, 2016)	51,274	40,140
Liabilities (Dec. 31, 2017)	47,470	33,520
Liabilities (Dec. 31, 2016)	47,489	31,481
Stockholder's Equities (Dec. 31, 2017)	3,926	8,806
Stockholder's Equities (Dec. 31, 2016)	3,785	8,659
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5. A lot of ratios use average. How do I get the average?

Average is last years' data add current years' data divided by two. Here is the example:

$$\text{Average Asset of 2018} = (\text{Asset at end of 2017} + \text{Asset at end of 2018}) / 2$$

6. What do you mean accounting policies? Where do I find it?

Accounting policies are how the firms apply accounting standard and report the financial statement. We used a lot of examples during the class. You can simply find this information under “**Notes to Consolidated Financial Statements**”. You should only copy the **critical information** for each of the account. It is not necessary to paste the tables or list in the financial statement notes to the project.

For example, I found following information for Walmart inventories:

“The Company values inventories at the lower of cost or market as determined primarily by the retail inventory method of accounting, using the last-in, first-out ("LIFO") method for Walmart U.S. segment's inventories. The inventory at the Walmart International segment is valued primarily by the retail inventory method of accounting, using the first-in, first-out ("FIFO") method. The retail inventory method of accounting results in inventory being valued at the lower of cost or market, since permanent markdowns are immediately recorded as a reduction of the retail value of inventory. The inventory at the Sam's Club segment is valued using the weighted-average cost LIFO

method. At January 31, 2018 and January 31, 2017, the Company's inventories valued at LIFO approximated those inventories as if they were valued at FIFO.”

#### 7. Where do I find firm strategies?

Firms usually discuss their strategies in the first part of annual report, the general information about the business. Firms also discuss their strategies in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations” in the annual report.

For example, I found the following information in the Walmart annual report: “Our objective of prioritizing strong, efficient growth means we will focus on increasing comparable sales and eCommerce sales growth while slowing the rate of growth of new stores and clubs. At times, we make strategic investments which are focused on the long-term growth of the Company, which may not benefit comparable sales in the near term.”

You can use Ctrl + F to search “strategy” in the annual report. It is normal that the information is not about profitability, efficiency or leverage. If you cannot find any information, just write your interpretation based on the ratios.

#### 8. How long each part should be?

The total project should not be longer than five pages if the font size is 12 with single space. The part 1 should be less than two pages, part 2 and part 3 together should be less than two pages, and part 4 and part 5 together should be less than two pages. A three pages project with full information is totally fine.

#### 9. Which firm or which industry should I choose?

You can present any public firms. Not necessary the firms we mentioned in the class. You can select the firms you familiar with or the firms you interested in.