



Financial Analysis Project

2016

ACBU 2222 Principles of Financial Accounting

Financial Analysis Project Objective

The objective of this project is to allow you to become more knowledgeable about the financial performance of your IP firm. For your company, you will be required to understand and interpret the content of its annual report, its 10-K, including all the primary financial statements and footnotes, newspaper articles, and stock price reports. During the project, you will be asked to perform a Financial Analysis to begin determining the strengths and weaknesses of the company in order to help identify your company's specific challenges. At the end of the project, you will be asked to assess your company's historical results and to predict its future financial results.

This packet contains explanations of each component of your project and information about where to obtain data. Please refer to the submission instructions section for details about formatting and deadlines.

To obtain your company's year-end financial statements (annual report) go to the company's website under their "Investors" section. The annual report should be between 30 and 100 pages. Ensure all financial statements as well as footnotes are included. You can also obtain year-end information via the 10-K filed to the SEC, you can go to www.sec.gov, then "search for company filings", then "company or fund name, ticker symbol . . .", then type in the ticker for your company (such as APPL for Apple INC), then type in "10-K" in "filing type." The following reports will also aid in your project; Proxy, Form 8-K, both also obtained via www.sec.gov. Make sure you obtain 10-K or annual report of your firm for the most recent fiscal year end (2015). Additionally, students may use finance.yahoo.com or finance.google.com to find much of the information.

Financial Analysis Project Submission

Submission Instructions:

- The Financial Analysis Project is designed to be completed by a group of students within an IP team.
- Once you have been assigned a firm you are to refer to the financial statement information for the period indicated.
- The IP Firms, along with their competitors with their most recent fiscal year end information, are listed below:

IP FIRMS	COMPETITORS
Tesla (Fiscal Year End 12/31/15)	General Motors (Fiscal Year End 12/31/15)
Whole Foods (Fiscal Year End 9/30/15)	Fresh Market (Fiscal Year End 1/31/16)
Johnson & Johnson (Fiscal Year End 12/31/15)	Proctor & Gamble (Fiscal Year End 6/30/16)
Apple (Fiscal Year End 9/30/15)	Microsoft (Fiscal Year End 6/30/16)
Facebook (Fiscal Year End 12/31/15)	Twitter (Fiscal Year End 12/31/15)
Chipotle (Fiscal Year End 12/31/15)	Yum! Brand (Fiscal Year End 12/31/15)

1. All responses must be **TYPED** using Times New Roman 12, double-spaced, and one inch margins using appropriate headings, see PART ONE of Financial Analysis Project. All questions and analyses are to be submitted in order.
2. Submit a **HARD COPY** of this report. **STAPLE** all pages together, with the **Cover Sheet on top**. Your report must be appropriately stapled or bound.
3. **SIGN** the “Statement of Honor”, and print your full names on the Cover Sheet.
4. The Horizontal Analysis, Vertical Analysis and Ratio Analysis (FINANCIAL ANALYSIS SECTION) are to be completed using EXCEL in the suggested format and inserted into the document within the appropriate sections.
5. No part of the project should be deleted, if there is a ‘not applicable’ response, simply note N/A but do not delete the question.
6. The Financial Analysis – Part Three is **due in Session #12**.
7. The Entire Project is **due the Last Day of Class**.

Financial Analysis Project Cover Sheet

ACBU 2222 ~ Fall 2016

Professor's Name

Course Section

Group members

Company Name

Ticker Symbol

Statement of Honor

We, _____ (*Hand Print Your Names*), have prepared this Financial Analysis Project independently, in good faith and to the best of our abilities.

Students' Personal Signatures

Financial Analysis Project

PART ONE – COMPANY BACKGROUND & INFORMATION

1. Company's Business

Using Item 1 of the 10-K respond to what is asked below in detail. Comments should be about **ONE to ONE & HALF** pages.

- A. Describe the industry and business your company is in.
- B. What products does it sell/services does it provide?
- C. How does it sell its products/provide its service? Via what channels?
- D. Who is its target market?
- E. What countries is it in?
- F. Who are its main competitors?

2. Company's Management

Using the 10-K or the annual report respond to what is asked below in detail. Comments should be about **ONE** page.

- A. Who are the CEO and CFO of your company? How long have she/he served as CEO/CFO?
- B. What are the biographical backgrounds of the CEO and CFO?
- C. How much did the CEO of the company make in total compensation? How was he/she paid: salary, bonus, stock, stock options? Use the proxy statement from the SEC. To obtain it, go to www.sec.gov, then “search for company filings”, then “company or fund name, ticker symbol . . .”, then type in the ticker for your company, then type in “Def 14A” in “filing type.”

3. Management Discussion and Analysis

Using Items 1& 7 of the 10-K and the annual report respond to what is asked below in detail. Comments should be about **ONE to ONE & HALF** pages.

- A. What is the tone of the letter? What is mentioned?
- B. What does management say their goals are?
- C. Does management talk about any challenges they had?
- D. Does management specifically talk about any significant changes in their financial statements?
- E. Does management specifically talk about their liquidity or debt position?
- F. Does management talk about the future? If so, what do they say?

4. FOOTNOTE REVIEW

Using the 10-K or the annual report respond to what is asked below in detail. Comments should be about **ONE** page.

- A. Have there been any changes in the use of GAAP principles (i.e. from LIFO to FIFO)?
- B. Are there any current legal proceedings? Have there been any legal proceedings in the recent past?
- C. Does the firm pay dividends? If so, how much did it pay this year?
- D. Did the firm recognize any impairments? If so, provide details.
- E. Has the firm recently financed itself? If so, through what means (i.e. bonds, shares).

5. THE AUDITOR

Using either the 10-K or annual report find the letter from the auditor and respond to what is asked below in detail. Comments should be about **ONE** page.

- A. Who audits the company?
- B. Carefully read the audit opinion, what's the auditor's responsibility?
- C. Who is actually responsible for the preparation of the financial statements? (Read the one that deals with the audit of the financial statements, not the one(s) dealing with internal control.)
- D. What type of financial statement opinion did your company receive?
- E. What type of internal control opinion did your company receive?

6. THE AUDIT COMMITTEE

Using either the 10-K or the annual report (or the proxy, DEF 14-a) respond to what is asked below in detail. Comments should be about **ONE-HALF** page.

- A. What's the responsibility of the audit committee?
- B. Who is on the committee?

7. ANALYSTS' RECOMMENDATIONS

Go to "*finance.yahoo.com*", type in your company's ticker; go to "*Analysts Opinion*". Respond to what is asked below in detail. Comments should be about **ONE-HALF** to **ONE** page.

- A. In the table labeled "recommendation trends", under the column of "current month", how many "strong buys" vs. "sell"?
- B. Provide your interpretation of analysts' opinion (do analysts believe the company's stock price will increase or drop)? What is your prediction for your company based on the number of "strong buys" vs. "sell"?

8. IN THE NEWS

Research the financial press for three recent articles about your company and summarize them. These articles should come from the *Wall Street Journal*, the *Financial Times*, or *Bloomberg*. If you cannot find recent articles you may go back even further. You cannot obtain all three articles from the same press. Each article should contain more than 500 words. Hard copies of all three articles must be attached to the Project, and full citations must be provided. Comments should be about **ONE-HALF** to **ONE** page for **each** article.

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PART TWO – EXCHANGE AND STOCK PRICE

1. Identify what stock exchange the company trades on.

STOCK EXCHANGE	
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2. Track the weekly stock price of your company and its competitor.
Document the stock prices below.

WEEKLY STOCK PRICE LOG

Date	Company Closing Stock Price	Competitor Closing Stock Price
September 16, 2016		
September 23, 2016		
September 30, 2016		
October 7, 2016		
October 14, 2016		
October 21, 2016		
October 28, 2016		
November 4, 2016		
November 11, 2016		
November 18, 2016		
November 25, 2016		

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PART THREE – FINANCIAL ANALYSIS

1. HORIZONTAL ANALYSIS (TREND)

A. BALANCE SHEET

Prepare a three-year horizontal analysis* for the balance sheet items listed below for your company and its competitor. You should calculate the percent change from one year to another.

**You may need to obtain previous years' financial statements.*

<i>Suggested Format</i>	2013	2014	2015	2013 vs. 2014	2014 vs. 2015	Average Change
Current assets						
Noncurrent assets						
Total assets						
Current liabilities						
Noncurrent liabilities						
Total liabilities						
Total stockholders' equity						

Is the company improving or worsening over time? How does it compare to its competitor? Comment on any trends you observe. The comments should be **ONE to ONE & HALF** pages.

B. INCOME STATEMENT

Prepare a three-year horizontal analysis* for the income statement items listed below for your company and its competitor. You should calculate the percent change from one year to another.

**You may need to obtain previous years' financial statements.*

<i>Suggested Format</i>	2013	2014	2015	2013 vs. 2014	2014 vs. 2015	Average Change
Net Sales / Sales Revenue						
Cost of Goods Sold						
Gross Profit						
Selling, General & Administrative						
Advertising						
Depreciation & Amortization						
Rent Expense						
Other Expenses						
Total Expenses						
Operating Income / Earnings bf Taxes						
Tax Expense						
Net Income						

Is the company improving or worsening over time? How does it compare to its competitor? Comment on any trends you observe. The comments should be **ONE-HALF** to **ONE PAGE**.

- A. Did the company report any discontinued operations on the income statement? If so, how much?
- B. Did the company report any extraordinary items on the income statement? If so, how much?

C. CASH FLOW STATEMENT

Prepare a three-year horizontal analysis* for the cash flow statements listed below for your company and its competitor. You should calculate the percent change from one year to another.

**You may need to obtain previous years' financial statements.*

<i>Suggested Format</i>	2013	2014	2015	2013 vs. 2014	2014 vs. 2015
Operating Cash Flows					
Investing Cash Flows					
Financing Cash Flows					

Is the company improving or worsening over time? How does it compare to its competitor? Comment on any trends you observe. The comments should be about **ONE** page.

A. Based on cash flow statement information, answer the following questions:

1. Does the discrepancy between net income and operating cash flows grow larger or smaller?
2. What are the three largest adjustments to net income, other than depreciation?
3. Did the company make any new investments in the past year? Describe them.
4. Did the company pay any dividends? If so, how much?
5. Did the company buy back any shares of its own? If so, how many shares? What is the total dollar value?

2. VERTICAL ANALYSIS (COMMON SIZE)

A. BALANCE SHEET

Prepare a three-year vertical analysis* for the balance sheet items listed below for your company and its competitor.

**You may need to obtain previous years' financial statements.*

<i>Suggested Format</i>	2015	2014	2013
Cash & Cash Equivalents			
Accounts Receivable			
Inventory			
Total Current Assets			
PP&E			
Intangible Assets			
Total Assets			
Accounts Payable			
Total Current Liabilities			
Total Long-term Liabilities			
Total Liabilities			
Retained Earnings			
Total Stockholders' Equity			

Is the company improving or worsening over time? How does it compare to its competitor? Comment on any trends you observe. The comments should be at least **ONE** page.

B. INCOME STATEMENT

Prepare a three-year vertical analysis* for the income statement items listed below for your company and its competitor.

**You may need to obtain previous years' financial statements.*

<i>Suggested Format</i>	2015	2014	2013
Sales (Revenues)			
Cost of Goods Sold			
Selling, General & Administrative Expenses			
Operating Income			
Net Income			
Dividends per Share			

Is the company improving or worsening over time? How does it compare to its competitor? Comment on any trends you observe. The comments should be about **ONE** page.

3. RATIO ANALYSIS

A. LIQUIDITY

Calculate the following ratios for your company and its competitor.

<i>Suggested Format</i>	2015	2014	2013
Current Ratio			
Quick Ratio			
Receivable Turnover			
Days Sales Outstanding			
Inventory Turnover			
Days Sales in Inventory			

Are ratios improving or worsening over time? How is your company doing compared to its competitor? The comments should be about **ONE** page.

B. PROFITABILITY

Calculate the following ratios for your company and their competitor.

<i>Suggested Format</i>	2015	2014	2013
Profit Margin			
Asset Turnover			
Return on Assets			
Return on Stockholders' Equity			
Earnings per Share			
Price-Earnings Ratio			
Payout Ratio			

Are ratios improving or worsening over time? How is your company doing compared to its competitor? The comments should be at least **ONE** page.

C. EFFICIENCY

Calculate the following ratios for your company and its competitor.

<i>Suggested Format</i>	2015	2014	2013
Accounts Payable Turnover			
Days Payable Outstanding			

Are ratios improving or worsening over time? How is your company doing compared to its competitor? The comments should be about **ONE-HALF** page.

D. SOLVENCY

Calculate the following ratios for your company and its competitor.

<i>Suggested Format</i>	2015	2014	2013
Debt-to-Total Assets			
Times Interest Earned			

Are ratios improving or worsening over time? How is your company doing compared to its competitor? The comments should be about **ONE-HALF** to **ONE** page.

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PART FOUR – DISCUSSION & ANALYSIS

1. THE NEAR FUTURE

Refer back to your ***STOCK PRICE LOG (page 8)***. Determine the buy-and-hold return of your company's stock, its competitor & for the Dow Jones Industrial Average* in the same period (September 16 to November 25, 2016).

**You can find Dow Jones performance on "finance.google.com" or "finance.yahoo.com"*

Calculate the return simply as follows (*ignoring any dividend payments, and present it in percentage*):

(Price on Nov 25- Price on Sept 16)/ Price on Sept 16 = Buy-and-Hold Return

COMPANY:_____ **COMPETITOR:**_____ **DOW JONES:**_____

Did the company outperform its competitor? Did it outperform the Dow Jones?

After tracking the stock price for the last 11 weeks for this Financial Analysis Project in addition to the last 60 months for the Information Systems Deliverable and using the calculations you performed above, you have an idea about the price and return of your company's stock. Using this information along with your assessment of the company's financial performance as judged by cash flow, revenues, operating income, new products and all your other information, make a short-term prediction for your company. Short-term prediction reflects your prediction of the company in one year, i.e. "We expect this company to be performing better or worse and why?" The "why" needs to be in detail and supported using the results of the Horizontal Analysis and the Ratio Analysis. The comments should be about **ONE-HALF** to **ONE** page.

****Attach a copy of the Scatter Plot (with text) you completed for Information Systems to the end of this project.**

2. LONG-TERM PREDICTIONS & FINAL OBSERVATIONS

Long-term prediction reflects your prediction of the company in 2-5 years. Your long term response ... "In 2-5 years we expect this company to be performing better or worse and why?" On the whole, how has it done and how do you think it will perform in the future, in terms of earnings, cash flows, and any other metric you deem important, such as product innovations, etc.? This

part needs to be at least three *substantive* paragraphs, and it should draw together all the analysis from the other steps. The comments should be about **TWO** pages.