

Required

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- Compare and evaluate the strengths and weaknesses of ABC and XYZ Companies.
- Calculate the price-to-earnings (P/E) ratios for both firms. Explain what a P/E ratio tells an analyst. What could be the cause of the difference between ABC's and XYZ's P/E ratios?

6.8 ABC Company and XYZ Company are competitors in the manufacturing industry. The following ratios and financial information have been compiled for these two companies for the most recent year:

Financial ratios	ABC	XYZ
Liquidity		
Current (times)	0.92	1.51
Quick (times)	0.61	1.20
Cash flow liquidity (times)	0.35	0.85
Cash flow from operations (in millions of \$)	995	2,520
Activity		
Accounts receivable turnover (times)	5.48	6.20
Inventory turnover (times)	4.75	4.00
Payables turnover (times)	2.82	3.55
Fixed asset turnover (times)	2.49	3.62
Total asset turnover (times)	1.10	1.10
Leverage		
Debt ratio (%)	76.02	51.21
Times interest earned (times)	12.31	17.28
Cash interest coverage (times)	9.89	30.19
Cash flow adequacy (times)	0.43	1.35
Profitability		
Gross profit margin (%)	43.08	43.11
Operating profit margin (%)	16.23	8.84
Net profit margin (%)	11.26	4.80
Cash flow margin (%)	6.98	12.59
Return on assets (%)	9.77	4.63
Return on equity (%)	40.86	10.23
Cash return on assets (%)	6.87	12.54
Earnings per share	4.59	1.19
Closing stock price	\$41 per share	\$35 per share