ANNUAL REPORT ANALYSIS PROJECT

The goal with this project is to not only give you a chance to calculate the ratios that accountants and analysts frequently use when evaluating a company, but to also make you *look for reasons*, (i.e. “drivers”), for those changes and to think of your own reasons if none are given. If you only do the calculations but do not discuss why certain changes took place, then you haven’t achieved the goal of the assigned project.

Instructions:

1. Use a publicly traded company. Find that company’s most recent Annual Report on the Internet or the company’s website. IF YOUR COMPANY DOES NOT PRESENT COMPARATIVE FINANCIAL STATEMENTS, (i.e. two or more years shown in columns), PLEASE CONTACT ME!

2. Perform a horizontal and vertical analysis of the company in an excel file, showing the changing amounts and percentages.

3. Calculate the ratios listed at the end of this document from the financial statements of your company for both <u>the most recent year</u> and <u>the year before</u>. Please use formulas to calculate each financial ratio that is required.

4. Provide a comparative analysis of Earnings per share and Price-earnings ratio of company to competitors and industry.

5. Once you have made these calculations, read the <u>MD&A</u> (Management Discussion and Analysis) located in the annual report, as well as the <u>footnotes</u> to the various financial statements. These are the pieces of information that management wants you to know, (or is required to tell you!), in addition to “the numbers.”

6. Write a 4-5 page summary, (double spaced), of the most interesting and relevant changes from one year to the next from the calculations you made in step 2-4. After reading the MD&A and footnotes, you should have a good idea of why certain ratios and figures changed from one year to the next. If certain changes are not explained, try to think of reasons why the figures *might* have changed. For example, did one part of an equation change in greater proportion than another part? (i.e. did a numerator grow much faster than a denominator?) Why might that have occurred?

In the end, you will hand in: (1) your page with introduction of the company, shareholders, and its main competitors, (2) your pages of copied financial statements, (3) a sheet of your calculations of step 2-4, labeled so that I know which calculation is which, and (4) your 4-5 page report explain, comment and summarize on those calculations.

Required ratio calculations, (in their simplest form), are listed below:

A. Profitability Ratios:

1. **Return on Assets** (net income/total assets)
2. **Asset Turnover** (sales/total assets)
3. **Return on Sales, (aka profit margin percent)** (net income/sales)
4. **Assets-to-Equity** (total assets/stockholder's equity)
5. **Return on Equity** (net income/stockholder's equity)

B. Efficiency Ratios:

1. **A/R Turnover Rate** (sales/accounts receivable)
2. **Inventory Turnover Rate** (COGS/average inventory)
3. **Fixed Asset Turnover** (sales/average fixed assets)

C. Leverage Ratios:

1. **Debt Ratio** (total liabilities/total assets)
2. **Debt-to-Equity Ratio** (total liabilities/stockholder's equity)
3. **Times Interest Earned** (earnings before interest and taxes/interest expense)

D. Liquidity Ratios:

1. **Current Ratio** (current assets/current liabilities)
2. **Working Capital** (current assets – current liabilities)