Option #1: Financial Statement Analysis

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RES500: Fundamental of Quantitative Analysis

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In Option #1: Financial Statement Analysis, we are tasked with analyzing Company A (PE Ratio of 15, Inventory Turnover Rate is 15, current ratio of 2, Debt to Equity Ratio of 1) and Company B's (PE Ratio of 38, Inventory Turnover is 12, Current Ratio of 1, Debt to Equity Ratio of 2.2) financial statements to determine which company we would choose employment with. We are given financial ratios, employment offers, health benefits, and assume that the type of work is similar and of my interest at both companies to aid in our decision.

My Decision

After comparing Company A and Company B, I would choose employment with Company A. With the information that was provided and assuming that Company A and Company B are in the same industry, we can directly compare their financial ratios and see that Company A shows stronger financial health. Furthermore, Company A shows signs of greater career growth compared to Company B. Since I am using my future Masters Degree in AI at CSU Global to leverage my way into a large tech company, I would like to consider Company A and Company B technology companies while comparing their financial ratios.

My Reasoning

A price-earnings ratio that is too low may suggest that the company's future is bleak, whereas a price-earnings ratio that is too high which may suggest that the company's expectations are too high. According to World PE Ratio (2024), the S&P 500 Information Technology Sector has a average P/E ratio of 34.33. This suggests that Company A's stock price is low compared to it's earnings and is a more favorable investment due to the company being undervalued. As an employee, I would hope that Company A provides employees with stock options so that I would be able to benefit from the company's good performance through my investments.

Compared to Company B, Company A has a higher inventory turnover ratio meaning that this company is more efficient at turning over its inventory. While Company B may not show weakness with this ratio, Company A is simply shows more strength. Because of this, Company A can make better decisions through their marketing and sales teams to gain an advantage over their competitors.

Current Ratios above 1 are generally considered to be healthy and shows that the company is able to pay off short-term obligations (BDC). Company B's current ratio of 1 would be something I would want to monitor because this could drop below 1 if the company takes on a larger amount of debt during my employment. Furthermore, I would want to look into Company B's financial history and see how their current ratio has varied over the years. Company A, on the other hand, has a healthier current ratio of 2 where they can take on more debt if needed and continue to pay off their short-term obligations. This would give me more confidence that Company A will be able to recover through any financial instabilities that may arise.

Companies in the tech industry tend to have lower debt to equity ratios because they have high profit margins (Full Ratio). Again, Company A has a lower debt to equity ratio showing that they have more finical leverage and have more freedom to utilize debt rather than their own resources. With a lower debt to equity ratio, Company A will be more resilient during any economic instability and have less of a chance for bankruptcy. As an employee, this will provide me with greater job security.

In addition to the company's financial health, the salary of the job is very important. Company A stated that they are willing to offer $50,000 starting pay with a 5% pay increase each year for the first 5 years. This would give me motivation to show up to work each day knowing that I will be advancing in my career financially throughout my employment with Company A. Company B, on the other hand, would be willing to offer me a starting salary of $60,000 but with 6% increase only after my 5th year. With this offer, I would start to feel discouraged because my career may start to feel stagnant due to no pay increase until my 5th year with the company. With no pay increase, there would be less reason to strive for improvement because there would be no benefits at the end of the year. For this reason, I would not worry as much about the time value of money by taking a larger pay earlier on and focus more on personal growth and contentment. Furthermore, since Company B does not offer pay increases, my salary each year will actually decrease due to inflation. Although I may be able to invest more earlier, I would still have less spending power each year compared to the last.

Final Questions

Before finalizing my employment decision, I would want to ask a few questions to make sure that I make the correct decision.

What economic issues do you see the company facing in the next few years? I would like to know if the company expects financial hardship in the near future which could decrease job stability. If the company is expecting a year with an even or negative income, the budget will be tighter. This could affect the amount of money that is invested into company projects or the per diem during work related travels, for example.

Will you please clarify *satisfactory performance*? I would like to get clarification on this phase because this leads me to believe that I will get a 5% pay increase for completing my work and not missing deadlines. But what if my work performance goes from satisfactory to extraordinary? Will this mean that I will be considered for larger pay raises?

Does the annual pay increase include a promotion? Although I may be getting a pay raise annually, I would want to know if I would also be getting promotions and be trusted with larger projects or more tasks. As I previously stated, my priority is career growth so I will want to ensure that I will have that with Company A.

Does Company A provide stock options for their employees? By providing employees with company stock options, this essentially ties an employee’s investments into their work. I believe that this motivates employees to perform better in the work place because they will be able to see the benefits through their investment in the company.

What is the work environment like? I would like to know if employees at Company A are happy with their job and if they are excited to show up to work. Sometimes, the decision to join a company depends on variables other than finances. A job requires you to be there 8-9 hours out of the day, 5 days a week, not including commute. As you should know, this is a large time investment so I would want to make sure that I am in a sound state of mind when I clock in. This is something I can personally relate as I took a pay cut to leave my previous job to join a company that had a better work environment.

Conclusion

Although I will make more money through my salary with Company B, Company A showed stronger financial health and better career growth opportunities. With the amount of time we spend working each week, our jobs become part of our lifestyle. Salaries are the reason that people show up to work every day, but a job with less security and a lack of opportunity to advance brings unwanted stress back home.

References

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