

FINAL PROJECT

Project Summary (200pts)

Your team is to prepare a stock pitch for company of your choosing. Your audience will be other financial professionals that understand financial metrics. For example, an investment team at a mutual fund company. Do not worry about finding the best investment opportunity. Your team's execution and presentation is more important than the idea. If you understand your idea, provide accurate and appropriate financial metrics, and make a compelling argument you will score well on this project.

There are three basic parts to an effective stock pitch: story, numbers, and valuation. You should follow this general information flow. The checklist below should serve as a rough guide as you craft your stock pitch. Your pitchbook must include all the components I have listed below. However, for the presentation you should present a summary of your analysis. You only have a limited amount of time to on the presentation. The details of your analysis should be included in the appendix. Do not forget to acknowledge risks to your thesis.

You will also choose a competitor to analyze. Your focus will be on your chosen company, but you should devote one or two slides of your presentation to a competitive analysis.

This project is robust and will require participation from all team members. Equal distribution of work will make this project more manageable.

Deliverables:

1. Your group will also deliver a 10-15 minute presentation over zoom. There will be an additional 5 minutes for questions. You will provide a summary of your analysis and highlight the important information needed to make your case. **(50pts)**
2. Your group will prepare a "pitchbook" which will be submitted to D2L as a pdf. A standard pitchbook is comprised of a presentation summary (ie. the slides you used for your presentation) and an appendix detailing all the financial data used in your analysis plus and supplemental data. You can utilize any software you choose or incorporate multiple platforms if it is delivered as a pdf. (150 pts)

Checklist:

GENERAL

1. Choose a company in the S&P 500 that is of interest to your group. You may not choose a company whose primary business is Semiconductors.
2. Research and identify a competitor company to include in your analysis.
3. Obtain the most recent 10-K's for your companies from SEC website.
4. I have included two summaries of financial ratios as a reference. You do not have to calculate all of these! It is just a reference. I have specified certain requirements in the following sections.

5. Obtain industry data for your qualitative and competitive review. You must site your source of industry data. Trade organizations are a great place to find industry data. I have created a class account in WDRS for additional industry comparisons.
6. Pay attention to your visuals. Your pitchbook should be straightforward and incorporate graphs where possible.

STORY (Mostly qualitative Analysis but can include some quantitative) (50 pts)

1. Description of the business. (What drives revenue, how does the company make money – don't get too bogged down in the minutia but identify key project segments)
2. Description of the industry segment. What makes this industry appealing from an investment perspective?
3. Competitive advantage. (ie. Leadership, innovation, product, service, etc)
4. Growth opportunities. (Total addressable market, market share, etc.)
5. Catalyst for investment opportunity. (ie. Valuation, new product launch, etc.)

NUMBERS (50 pts)

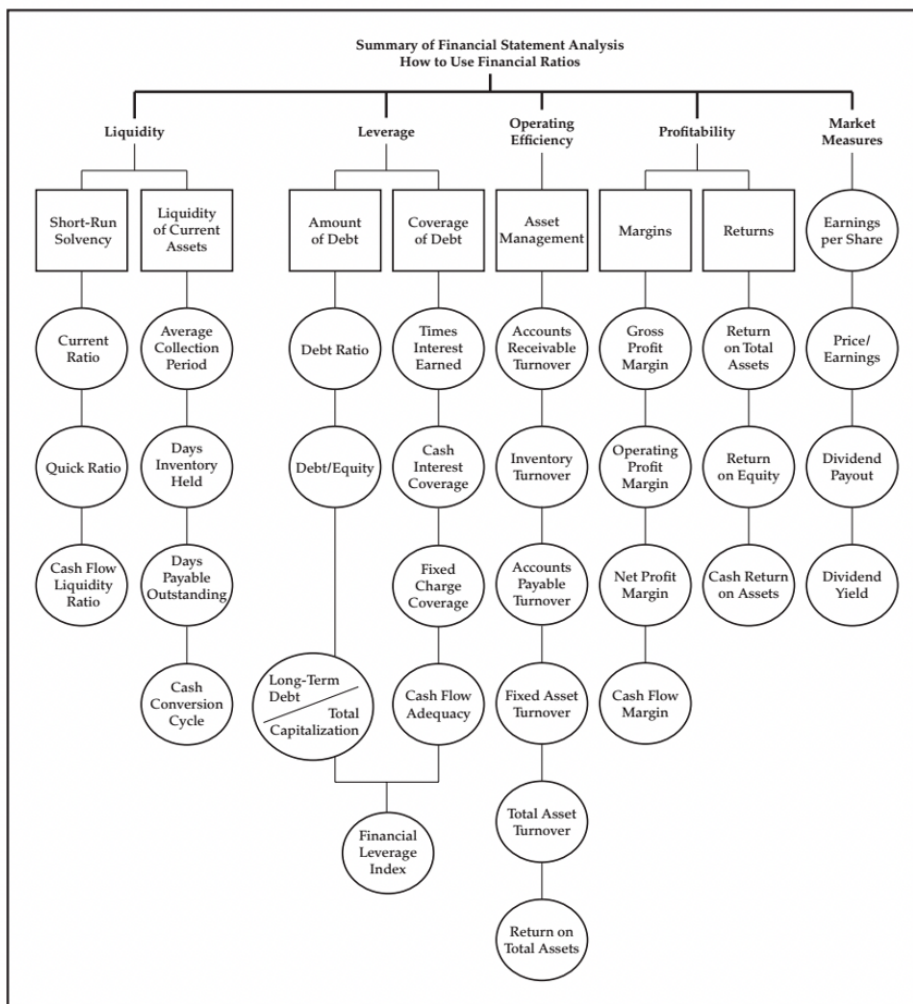
1. Analyze revenue and revenue growth for five years for your company and comparison company. Remember to identify any significant changes in revenue recognition practices that can affect your analysis. If so, make sure to note it.
2. Prepare a common-size balance sheet and income statements for your company and the comparison company for the most recent three years according to the procedure outlined in your textbook. (refer to pages 50 and 106) Analyze trends and interpret comparisons between companies.
3. Analyze your company in terms of its liquidity, leverage and profitability using key performance indicators we have discussed in class. As an option you can include efficiency metrics if they help to make your case.
4. Identify and analyze any metrics that are specific to your company's industry. For example, if you chose a payment processor such as Visa. You would need to include Global Dollar Volume (Global Dollar Volume) which measure the total dollar volume of transactions processed for the given period. Each industry has key metrics that are used to as leading indicators. Look at your company's last earnings call transcript to identify any specific metrics. If there are none then specify your due diligence in appendix.
5. Identify items NOT included in (or derived from) the financial statements that you think would be relevant to the future earnings of the company.

VALUATION (50 pts)

1. Compute and analyze your company's market valuation and those of the competitor. Your market valuation measures should include earnings per share, P/E ratio, price history, dividend yield. You can add other valuation metrics that you feel help your case.

2. The previous two sections outline the “why”, this section outlines the “when” in terms of why you would invest in this company now. I realize that some of you may get to this part and determine that the stock value is too high to invest at this moment, especially given the current level of equity prices. If this is the case, you can simply state that the company is a good investment but not at current levels. If you really want to go crazy, you can calculate a price that would make your investment a good value.

Summary of Financial Ratios



Summary of Financial Ratios

Ratio	Method of Computation	Significance
Liquidity:		
Current	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Measures short-term liquidity, the ability of a firm to meet needs for cash as they arise.
Quick or acid-test	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	Measures short-term liquidity more rigorously than the current ratio by eliminating inventory, usually the least liquid current asset.
Cash flow liquidity	$\frac{\text{Cash and cash equivalents} + \text{marketable securities} + \text{cash flow from operating activities}}{\text{Current liabilities}}$	Measures short-term liquidity by considering as cash resources (numerator) cash plus cash equivalents plus cash flow from operating activities.
Average collection period	$\frac{\text{Net accounts receivable}}{\text{Average daily sales}}$	Indicates days required to convert receivables into cash.
Days inventory held	$\frac{\text{Inventory}}{\text{Average daily cost of sales}}$	Indicates days required to sell inventory.
Days payable outstanding	$\frac{\text{Accounts payable}}{\text{Average daily cost of sales}}$	Indicates days required to pay suppliers.
Cash conversion or net trade cycle	$\text{Average collection period} + \text{days inventory held} - \text{days payable outstanding}$	Indicates the days in the normal operating cycle or cash conversion cycle of a firm.
Activity:		
Accounts receivable turnover	$\frac{\text{Net sales}}{\text{Net accounts receivable}}$	Indicates how many times receivables are collected during a year, on average.
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Inventories}}$	Measures efficiency of the firm in managing and selling inventory.
Payables turnover	$\frac{\text{Cost of goods sold}}{\text{Accounts payable}}$	Measures efficiency of the firm in paying suppliers.
Fixed asset turnover	$\frac{\text{Net sales}}{\text{Net property, plant, and equipment}}$	Measures efficiency of the firm in managing fixed assets.
Total asset turnover	$\frac{\text{Net sales}}{\text{Total assets}}$	Measures efficiency of the firm in managing all assets.

Leverage:

Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$	Shows proportion of all assets that are financed with debt.
Long-term debt to total capitalization	$\frac{\text{Long-term debt}}{\text{Long-term debt} + \text{stockholders' equity}}$	Measures the extent to which long-term debt is used for permanent financing.
Debt to equity	$\frac{\text{Total liabilities}}{\text{Stockholders' equity}}$	Measures debt relative to equity base.
Times interest earned	$\frac{\text{Operating profit}}{\text{Interest expense}}$	Measures how many times interest expense is covered by operating earnings.
Cash interest coverage	$\frac{\text{Cash flow from operating activities} + \text{interest paid} + \text{taxes paid}}{\text{Interest paid}}$	Measures how many times interest payments are covered by cash flow from operating activities.
Fixed charge coverage	$\frac{\text{Operating profit} + \text{lease payments}}{\text{Interest expense} + \text{lease payments}}$	Measures coverage capability more broadly than times interest earned by including operating lease payments as a fixed expense.
Cash flow adequacy	$\frac{\text{Cash flow from operating activities}}{\text{Capital expenditures} + \text{debt repayments} + \text{dividends paid}}$	Measures how many times capital expenditures, debt repayments, and cash dividends are covered by operating cash flow.

Profitability:

Gross profit margin	$\frac{\text{Gross profit}}{\text{Net sales}}$	Measures profit generated after consideration of cost of products sold.
Operating profit margin	$\frac{\text{Operating profit}}{\text{Net sales}}$	Measures profit generated after consideration of operating expenses.
Effective tax rate	$\frac{\text{Income taxes}}{\text{Earnings before income taxes}}$	Measures the percentage the company recognizes as tax expense relative to income before taxes.
Net profit margin	$\frac{\text{Net profit}}{\text{Net sales}}$	Measures profit generated after consideration of all expenses and revenues.
Cash flow margin	$\frac{\text{Cash flow from operating activities}}{\text{Net sales}}$	Measures the ability of the firm to generate cash from sales.
Return on total assets	$\frac{\text{Net earnings}}{\text{Total assets}}$	Measures overall efficiency of firm in managing assets and generating profits.
Return on equity	$\frac{\text{Net earnings}}{\text{Stockholders' equity}}$	Measures rate of return on stockholders' (owners') investment.
Cash return on assets	$\frac{\text{Cash flow from operating activities}}{\text{Total assets}}$	Measures the return on assets on a cash basis.

Market:

Earnings per common share	$\frac{\text{Net earnings}}{\text{Average common shares outstanding}}$	Shows return to common stock shareholders for each share owned.
Price to earnings	$\frac{\text{Market price of common stock}}{\text{Earnings per share}}$	Expresses a multiple that the stock market places on a firm's earnings.
Dividend payout	$\frac{\text{Dividends per share}}{\text{Earnings per share}}$	Shows percentage of earnings paid to shareholders.
Dividend yield	$\frac{\text{Dividends per share}}{\text{Market price of common stock}}$	Shows the rate earned by shareholders from dividends relative to current price of stock.