

COMPANY REPORT PROJECT

PURPOSE

In this project, we will apply what we learn about financial statement analysis, time value of money, financial management, and valuation to assess the operations and quality of a publicly traded company.

DUE DATES

Item	Date
Select company, upload 10-K and DEF 14A	Friday, January 13 @ 3pm
Early Deadline (+7 bonus points on project)	Saturday, April 22 @ 3pm
Deadline (after final exams)	Friday, April 28 @ 3pm

INSTRUCTIONS

A sample completed report is posted to the course website. I strongly encourage you use that report as your template. I also posted the relevant financial statements for you to see where I obtained various figures used throughout the report. Your final submission should look very similar to that posted document.

Step 1: Select a company you are interested in by writing your name on the list at the link below. Each student must choose a different company.

<https://tinyurl.com/FIN360CompanyList2023>

I am more than happy to consider other companies that are not on this list! Schedule an office hour appointment with me to discuss. The company must be publicly traded and pay dividends.

Step 2: Visit <https://www.sec.gov/edgar/searchedgar/companysearch> to search for and obtain the company's **most recent 10-K** (see the figure below). You may also do a web search to find this file on the company's "investor relations" home page. Upload this file **as a PDF**, naming the file:

LastnameFirstnameCompanyname10K

For example:

FarizoJosephTheWaltDisneyCo10K

The upload link for all assignments in this class is: <https://josephfarizo.com/assignments.html>.

Step 3: Visit <https://www.sec.gov/edgar/searchedgar/companysearch> to obtain the company's most recent DEF14A "Definitive Proxy Statement" (see the figure below). You may also do a web search to find this file on the company's "investor relations" home page. Upload this file **as a PDF**, naming the file:

LastnameFirstnameCompanynameDEF14A

For example:

FarizoJosephTheWaltDisneyCoDEF14A

The screenshot shows the top of the SEC EDGAR website. The header includes the SEC logo and the text "U.S. SECURITIES AND EXCHANGE COMMISSION". A search bar is located in the top right corner with the text "Search SEC.gov". Below the header is a navigation menu with links for ABOUT, DIVISIONS & OFFICES, ENFORCEMENT, REGULATION, EDUCATION, FILINGS, and NEWS. The main content area is titled "EDGAR | Company Filings". On the left, there is a sidebar with links for "EDGAR - Search and Access", "Latest Filings", "Company Filings", and "Mutual Funds". The main search area is titled "Company and Person Lookup" and contains a search input field with the text "Harley-Davidson, Inc. (HOG)" and a "Search" button. A red arrow points to the "Search" button. To the right of the search area is a box titled "How to Use this Search?" with instructions: "Enter name, ticker or CIK into the single search field." and "Suggestions as you type link directly to filings."

The screenshot shows the "EDGAR | Company Search Results" page for Harley-Davidson, Inc. (HOG). The page header includes the SEC logo and the text "EDGAR | Company Search Results". Below the header is a navigation menu with links for FAQ, EDGAR search tools, and Feedback. The main content area is titled "HARLEY-DAVIDSON, INC. HOG on NYSE" and contains a "Company Information" section. Below this is a "Latest Filings" section with a list of filings. A red arrow points to the "DEF 14A: Other definitive proxy statements" entry. To the right of the "Latest Filings" section is a "Selected Filings" section with a list of filings. A red arrow points to the "DEF 14A: Other definitive proxy statements" entry. Below the "Selected Filings" section is a "Proxy (annual meeting) and information statements" section with a list of filings. A red arrow points to the "DEF 14A: Other definitive proxy statements" entry.

Step 4: Write your report by addressing all of the following questions.

1. Summarize Item 1 (Business) and Item 1A (Risk Factors) of your firm's 10K to describe your firm and its risks.
2. Provide the names of the people on the board of directors, other jobs/roles for each member of the board, and identify who serves as the Chairperson of the Board or Lead Director.
3. Provide your opinion on the diversity of the board of directors. How does the firm comment on board diversity in their own 10-K and on the DEF14A?
4. List how many of the board members are "independent" (or do not work for the company). Is the CEO also the Chairperson of the Board? Explain how board independence relates to the agency problem, commenting specifically on the concerns about the agency problem at this firm.
5. List the items up for election, or the "Proposals" on the DEF14A. List if each is submitted by the firm or by the firm's shareholders (Sponsor), as well as the directors' recommendation (Recommendation) on how shareholders should cast their votes. In a few sentences, describe the items.
6. Provide your firm's total assets, total liabilities, and total equity from your firm's *consolidated balance sheet* over the last two fiscal years, verifying that $A = L + E$. Present common size numbers for each item as a percentage of that year's assets. Interpret.
7. Calculate your firm's change in net working capital from the previous year to this year. Show your calculations. Comment on what this change in net working capital means in terms of cash flow.
8. Calculate your firm's current ratio, debt-to-equity ratio and cash coverage ratio. Interpret each.
9. From your firm's *consolidated statement of cash flow*, summarize your firm's total cash flow, and cash flows from operating, investing, and financing activities from both this year and the previous year. Comment on the "health" of the cash flows by discussing each component.
10. Conduct a Dupont analysis of your firm. Discussing each of the components.
11. Define and calculate your firm's internal growth rate. What is this growth rate used for?
12. Define and calculate your firm's sustainable growth rate. What is this growth rate used for?
13. Reference the MD&A, Notes to the Statement of Cash Flows, and 10-K overall. Discuss the firm's investments, investment activities, projects, acquisitions, and divestitures. Discuss specifically NPV and IRR and how they might be used in the context of investing in projects.
14. Assume your company issued 30-year bonds with a face value of \$1,000 and 3.5% coupons (paid semiannually) 5 years ago at par. Given current interest rates, what is the value of these bonds in markets today? Explain why the value has changed given the coupons remain the same.
15. Value your company's stock using the dividend discount model. Use a three-period model.

For each question, cite the financial statement and page number(s) where you found answers.

Step 5: Upload your report **as a PDF** prior to the deadline:

LastnameFirstnameCompanynameReport

For example:

FarizoJosephTheWaltDisneyCoReport

GRADING

7 bonus points are awarded for uploading your completed project on or before **Saturday, April 22 @ 3pm**. The final deadline is **Friday, April 28 @ 3pm**. Any documents submitted following this deadline will not be accepted.

Item(s)	Points
Naming uploaded documents correctly	5
Grammar, spelling, proofing, formatting	5
Question 1 - 15	6 points each

See the sample report posted to the course website as an example. Failure to cite page numbers and references in footnotes will result in lost points. References vastly improve my ability to grade these assignments efficiently!

APPENDIX

The Securities and Exchange Commission (SEC) gives advice on how to read a 10K, available at <https://www.investor.gov/introduction-investing/getting-started/researching-investments/how-read-10-k>. I include this article below and recommend you reference it as you prepare your report.

HOW TO READ A 10-K/10-Q

Jan. 25, 2021

If you want to follow or invest in a U.S. public company, you can find a wealth of information in the company's annual reports on [Form 10-K](#) and quarterly reports on [Form 10-Q](#). Among other things, the 10-K and 10-Q offer a detailed picture of a company's business, the risks it faces, and the operating and financial results for

the fiscal year or quarter, as applicable. Company management also discusses its perspective on the business results and what is driving them.

Most U.S. public companies are required to file a 10-K each year with the U.S. Securities and Exchange Commission (SEC). (Non-U.S. public companies usually file their annual reports with the SEC on different forms.) SEC rules require that 10-Ks follow a set order of topics. The Form 10-Q is required to be filed after the first, second and third fiscal quarter.

SEC rules also require companies to send an [annual report](#) to their shareholders when they are holding annual meetings to elect members of their boards of directors. There is a lot of overlap in the requirements for the 10-K and the annual report to shareholders, but there are also important differences. The 10-K typically includes more detailed information than the annual report to shareholders. The annual report to shareholders, unlike the 10-K, sometimes appears as a colorful, glossy publication. A number of companies, however, simply take their 10-K and send it as their annual report to shareholders. In those cases, the 10-K filed with the SEC and the annual report to shareholders are the same document.

The Roles of Companies and the SEC

The company prepares the 10-K and 10-Q and files it with the SEC. Laws and regulations prohibit companies from making materially false or misleading statements. Likewise, companies are prohibited from omitting material information that is needed to make the disclosure not misleading. In addition, a company's CFO and CEO must certify to the accuracy of the 10-K and 10-Q.

The SEC does not vouch for the accuracy of a 10-K or 10-Q. The SEC sets the disclosure requirements – the topics that all companies must cover in their 10-Ks or 10-Qs, and how the information should be presented.

The SEC staff reviews 10-Ks and 10-Qs to monitor and enhance companies' compliance with the requirements. Both the SEC and the staff also provide interpretive advice about the disclosure requirements. The SEC staff reviews 10-Ks and may provide comments to a company where disclosures appear to be inconsistent with the disclosure requirements or deficient in explanation or clarity. The Sarbanes Oxley Act requires the SEC to review every public company's financial statements at least once every three years. The SEC staff may review the 10-Ks and 10-Qs of certain companies more frequently.

All 10-Ks and 10-Qs filed with the SEC are available to the public on the SEC's EDGAR website. Most companies also post their 10-Ks and 10-Qs on their own websites.

Items in the Annual Report on Form 10-K

Part I

Item 1 "Business" requires a description of the company's business, including its main products and services, what subsidiaries it owns, and what markets it operates in. This section may also include information about recent events, competition the company faces, regulations that apply to it, labor issues, special operating costs, or seasonal factors. This is a good place to start to understand how the company operates.

Item 1A "Risk Factors" includes information about the most significant risks that apply to the company or to its securities. Companies generally list the risk factors in order of their importance. In practice, this section focuses on the risks themselves, not how the company addresses those risks. Some risks may be true for the entire economy, some may apply only to the company's industry sector or geographic region, and some may be unique to the company.

Item 1B "Unresolved Staff Comments" requires the company to explain certain comments it has received from the SEC staff on previously filed reports that have not been resolved after an extended period of time. Check here to see whether the SEC has raised any questions about the company's statements that have not been resolved.

Item 2 "Properties" includes information about the company's significant physical properties, such as principal plants, mines and other materially important physical properties.

Item 3 "Legal Proceedings" requires the company to include information about significant pending lawsuits or other legal proceedings, other than ordinary litigation.

Item 4 "Mine Safety Disclosures" requires disclosure, if applicable, of. Information concerning mine safety violations, among other things.

Part II

Item 5 "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" requires information about the company's

equity securities, including market information, the number of holders of the shares, dividends, stock repurchases by the company, and similar information.

Item 6 This item has no required information, but is reserved by the SEC for future rulemaking. Prior to February 2021, however, this item was titled “Selected Financial Data” and required summarized financial data about the company for the last five years.

Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” gives the company’s perspective on the business results of the past financial year. This section, known as the MD&A for short, allows company management to tell its story in its own words. The MD&A presents:

- The company’s operations and financial results, including information about the company’s liquidity and capital resources and any known trends or uncertainties that could materially affect the company’s results. This section may also discuss management’s views of key business risks and what it is doing to address them.
- Material changes in the company’s results compared to a prior period.
- Critical accounting judgments, such as estimates and assumptions. These accounting judgments – and any changes from previous years – can have a significant impact on the numbers in the financial statements, such as assets, costs, and net income.

Discussion of Risk in the MD&A

Here are examples of how an MD&A may discuss risks that the company faces.

- A consumer company might discuss ways in which it seeks to meet changing tastes.
- A manufacturing company that relies on natural resources may discuss how it assesses commodity risks and conducts resource management programs.
- A financial institution may discuss ways that management monitors liquidity and assures adequate capital under various scenarios, such as a rise in interest rates or a ratings downgrade.
- A global company may discuss how it handles exchange rate risks.
- Companies may discuss how they handle competition, build their brands, or manage in an economic downturn.
- Companies also may discuss how they ensure compliance with laws and regulations, or how they are addressing the impact of new or anticipated laws and regulations.

Item 7A “Quantitative and Qualitative Disclosures about Market Risk” requires information about the company’s exposure to market risk, such as interest rate risk, foreign currency exchange risk, commodity price risk or equity price risk. The company may discuss how it manages its market risk exposures.

Item 8 “Financial Statements and Supplementary Data” requires the company’s audited financial statements. This includes the company’s income statement (which is sometimes called the statement of earnings or the statement of operations), balance sheets, statement of cash flows and statement of stockholders’ equity. The financial statements are accompanied by notes that explain the information presented in the financial statements.

U.S. companies are required to present their financial statements according to a set of accounting standards, conventions and rules known as Generally Accepted Accounting Principles, or GAAP. An independent accountant audits the company’s financial statements. For large companies, the independent accountant also reports on a company’s internal controls over financial reporting.

The auditor’s report is a key part of the 10-K. Most audit reports express an “unqualified opinion” that the financial statements fairly present the company’s financial position in conformity with GAAP. If, however, an auditor expresses a “qualified opinion” or a “disclaimer of opinion,” investors should look carefully at what kept the auditor from expressing an unqualified opinion. Likewise, investors should carefully evaluate material weaknesses disclosed on internal controls over financial reporting.

In addition, a company’s CEO and CFO must certify that the 10-K is both accurate and complete. These are called Sections 302 and 906 certifications, and you can usually find them in Exhibits 31 and 32.

You may also find “non-GAAP financial measures” in the 10-K. That means that the numbers do NOT conform to GAAP. While companies are permitted to present non-GAAP measures, they must also show how they differ from the most comparable corresponding GAAP financial measure. As an investor, it is up to you to decide how much weight to give to non-GAAP measures.

Item 9 “Changes in and Disagreements with Accountants on Accounting and Financial Disclosure” requires a company, if there has been a change in its accountants, to discuss any disagreements it had with those accountants. Many investors view this disclosure as a red flag.

Item 9A “Controls and Procedures” includes information about the company’s disclosure controls and procedures and its internal control over financial reporting.

Item 9B “Other Information” includes any information that was required to be reported on a [Form 8-K](#) during the fourth quarter of the year covered by the 10-K, but was not yet reported.

Part III

These items cover the following topics:

Item 10 “Directors, Executive Officers and Corporate Governance” requires information about the background and experience of the company’s directors and executive officers, the company’s code of ethics, and certain qualifications for directors and committees of the board of directors.

Item 11 “Executive Compensation” includes detailed disclosure about the company’s compensation policies and programs and how much compensation was paid to the top executive officers of the company in the past year.

Item 12 “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” requires information about the shares owned by the company’s directors, officers and certain large shareholders, and about shares covered by equity compensation plans.

Item 13 “Certain Relationships and Related Transactions, and Director Independence” includes information about relationships and transactions between the company and its directors, officers and their family members. It also includes information about whether each director of the company is independent.

Item 14 “Principal Accountant Fees and Services” requires companies to disclose the fees they paid to their accounting firm for various types of services during the year. Although these disclosures are required by the 10-K, most companies meet this requirement by providing the information in a separate document called the proxy statement, which companies provide to their shareholders in connection with annual meetings. If the information is provided through the proxy statement, the 10-K would include a statement from the company that it is incorporating the information from the proxy statement by reference – in effect directing readers to go to the proxy statement document to find this information. Keep in mind that the proxy statement is typically filed a month or two after the 10-K.

Part IV

Item 15 “Exhibits, Financial Statement Schedules” requires a list of the financial statements and exhibits included as part of the Form 10-K. Many exhibits are required, including documents such as the company’s bylaws, copies of its material contracts, and a list of the company’s subsidiaries.

Items in the Quarterly Report on Form 10-Q

The Form 10-Q provides similar but more abbreviated disclosure than the Form 10-K and as it relates to the applicable fiscal quarter. There are fewer item disclosures than in the Form 10-K.

The Form 10-Q includes items relating to “Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk,” “Controls and Procedures,” “Legal Proceedings” and “Risk Factors.” See the above discussion for a summary of the information disclosed in these items.

Additional Resources

Visit “[Using EDGAR to Research Investments](#)” to learn how to use our EDGAR system including to find a company’s Form 10-K.

For additional educational information for investors, see the SEC Office of Investor Education and Advocacy’s website for investors, Investor.gov.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.