

Task 3: Comparing Companies in the Same Industry

Time: 120-180 Minutes

Think like a sports analyst before a championship game. You wouldn't say, "I like their jersey color, so they'll win." You'd dive into the stats: comparing their performance against their biggest rival to see who has a competitive advantage. A smart investor will also analyze a company's financial 'stats' against competitors in the same industry. This apples-to-apples comparison will sharpen your analytical skills so you learn to make decisions based on data, not just popularity or word-of-mouth.

Instructions

Step 1: Select the Companies & Analyze the Industry

In this first step, you will select your companies and then perform a brief analysis of the industry they operate in.

A. Select Your Companies

- Go to the [Research Tools](#) on PersonalFinanceLab.
- **Choose an industry** that interests you. It's best to pick an industry where you already own a stock or are considering one.
- **Select 2-3 companies** within that same industry to compare. One of them can be the stock you already own.
 - *Example: If you own Nike (NKE), you might compare it to Adidas (ADDYY) and Lululemon (LULU).*

B. Industry Snapshot

- Is this industry in a **growth phase** (like electric vehicles), is it **mature and stable** (like grocery stores), or is it **shrinking** (like traditional media companies)? Briefly explain why.
- Who are the dominant, established companies? Are there any new, innovative companies that are changing the game?
- What major trends or outside forces are affecting all companies in this industry?
 - Are there new technologies, changing consumer habits, or economic conditions that are helping the industry grow?
 - Are there new regulations, rising costs, or economic shifts that are creating challenges for the industry?

Step 2: Analyze Financial Statements

For each company, you can use the [Research and Compare Stocks](#) activity to learn how to read and interpret each company's financial statements. Your goal is to answer the questions below.

A. Income Statement

This statement shows a company's *revenues* and *expenses* over a period of time. The final number, *net income*, shows whether the company made a profit or suffered a loss during that period.

- Which company makes more money? Is its revenue growing, shrinking, or staying flat over the last 2-3 years?
- After all expenses are paid, which company is more profitable? Is its profitability consistent?

B. Balance Sheet

This is a snapshot in time of a company's financial health, showing its assets (*what it owns*) and liabilities (*what it owes*).

- For each company, do its assets outweigh its liabilities? A healthy company should have more assets.
- How much total debt (liabilities) does each company have? How does this compare to its competitors? High debt can be a sign of risk.

C. Cash Flow Statement

This statement tracks the cash moving in and out of a company's bank accounts over a period of time. It's divided into three categories: *operating activities* (day-to-day business), *investing activities* (selling/purchasing assets like equipment), and *financing activities* (cash from taking on debt or from investors). The final number, *net change in cash*, shows whether the company's cash balance grew or shrank.

- Look at 'Net cash from operating activities.' Is this number positive and consistent? A healthy company generates cash from its actual business, not just from taking out loans.
- Is the company's cash on hand generally increasing or decreasing over time? (Look at several periods to confirm the trend).

Step 3: Beyond the Numbers

Financials tell part of the story, but not all of it. Now, look for context using the Research Tools on PersonalFinanceLab or other financial sites.

Read Recent News

- Does any recent news help explain the financial data you just saw?
- Are there any major product launches, scandals, lawsuits, strategic partnerships or positive reviews?
- Is there any news about the company's leadership (CEO, etc.)?

Analyst Ratings

- What do professional analysts think? Is the general market sentiment a "Buy," "Hold," or "Sell"?
- Can you find a summary of why analysts have this rating? Are they optimistic about a new product line? Are they worried about rising competition?
- Is there strong agreement among analysts, or are opinions mixed? If some analysts rate it a "Buy" while others rate it a "Sell," it could signal that the company's future is highly uncertain or controversial.

Step 4: Investment Analysis Report

Now it's time to synthesize your findings into a one-page report that is structured like this:

Introduction: The State of the Industry

Describe the industry your companies operate in. Use your findings from the [Industry Snapshot](#) to discuss whether the industry is growing or shrinking, what major trends are affecting all players, and explain how well-positioned your chosen companies are to navigate these challenges and opportunities.

Body Paragraph 1: Analysis of Company A

Summarize your key findings (both positive and negative) for the first company, using specific data points from the financial statements and recent news. Does this company's performance reflect the overall industry trend you identified, or is it an outlier?

Body Paragraph 2: Analysis of Company B

Do the same for the second company. Make direct comparisons to Company A wherever possible.

Conclusion

State clearly which company you believe is the better investment based on your investing strategy. Justify your choice with the strongest 2-3 pieces of evidence from your analysis, linking your decision back to both the company's financial health and its position within the broader industry.

Submission Checklist

Before you submit your Investment Analysis Report, make sure you have completed all of the following:

- I have selected 2-3 competing companies from the same industry.
- I have analyzed the Income Statement, Balance Sheet, and Cash Flow Statement for each.
- I have looked at recent news, changes in the industry, and analyst ratings for context.
- I have written a well-structured, one-page analysis.
- My final stock recommendation aligns with my investing strategy and is supported by the data I researched and analyzed.