Qualitative information about past performance
Use qualitative information about business activities that already affect the financial statements to assess the extent to which the ratios and related trends are likely to persist in the future.

Qualitative information about expected future changes
Use qualitative information about changes in plans or circumstances or other factors that have not yet affected the financial statements to assess the extent to which the ratios and related trends will likely change.

Forecasted ROEs

Forecasted risks

Asset risk
Consequences of financial leverage on riskiness of owners' claims, which depends on financial leverage and asset risk.

Liquidity risk

Forecasted growth

Income statements

Balance sheets

Profit margins

Asset turnover

Financial leverage

Tax factor

Common size IS

Balance sheets

Financial leverage

Balance sheets

Asset risk other than liquidity risk

Common size BS

Balance sheets

Cash flow statements

Working capital

Current ratio

Free cash flow

Revenue growth

Cash from operations

Debt financing

Equity financing

Inventories

Financing
growth

Distributions
to owners

Cash flow statements

Equity financing
Integration of Quantitative Information of Present Position and Past Performance with Qualitative Information About Underlying Economic Activity and Future Plans

**STEP-1 Quantitative Analysis**

- **ROEs**
  - Identify ROE patterns and outliers over time for each company.
  - Analyze differences in ROEs in terms of DuPont Model measures.
  - Analyze differences in profit margins in terms of common size income statements.
  - Investigate significant differences discovered above with disclosures on companies’ balance sheets and income statements.

- **Risks**
  - Identify financial leverage patterns and outliers over time (based on book and estimated market values).
  - Analyze common-size balance sheets to identify significant assets and liabilities.
  - Analyze related asset and liquidity risks, including broader macroeconomic risks and risks specific to the company.
  - Investigate significant differences discovered above with disclosures on companies’ balance sheets.

- **Growth**
  - Identify revenue growth patterns and outliers over time for each company.
  - Analyze differences in growth in terms of revenue components (e.g., geographic regions, business segments, products versus services).
  - Analyze investment patterns over time and effects on growth.
  - Analyze distributions to owners over time and effects on growth.

**STEP-2 Integration with Qualitative Analysis**

- Identify qualitative evidence that would affect the persistence of future ROEs, risks, and growth for each company.
- Evaluate each companies’ future prospects by combining Step-1 historical information with qualitative information.
- Create six arguments (2 companies x 3 factors: ROE, risks, growth).
- Select the company with the best overall future prospects, taking into account the relative strengths of the arguments:
  - Superior expected future ROEs
  - Lower expected future risks
  - Superior expected future growth
- Create a well-organized report that concisely and persuasively presents your qualified claim for the best overall company, opening remarks, arguments, and counterarguments (arguments for the company not selected) substantiated with evidence, facts and/or logic.

For simplicity, the above quantitative analysis only considers balance sheets and income statements. Include cash flow statements and other information as available for your analysis.