

What Goes Into Funding Decisions?

This case is designed to explore financial reporting inputs to funding decisions by both lenders (debt) and investors (equity) from the perspective of the capital providers (lenders and investors). We will consider financial statements as well as some common ratios based on values from the financial statements for three companies.

The financial statements and select ratios for each of the three companies can be found in the accompanying files (available both in excel and as a pdf). Each of the files has four tabs/pages:

- Balance Sheet (which has also been “common-sized” by dividing all balance sheet line-items by total assets). Common-sizing financial statements facilitates comparisons across time and companies.
- Income Statement (which has also been “common-sized” by dividing all income-statement line-items by net sales).
- Cash Flow Statement, with cash flows identified as operating, investing, or financing.
- Select ratios to assess profitability, efficiency, and risk.

Before we meet, please spend a few minutes considering the following questions using the financial information provided for each company.

1. Rank order the three companies by your view of the “youngest” (i.e., start-up) to “oldest” (i.e., strong and mature) based only on the provided financial information. Do not consider the number of years of data in your assessment.

Highlight two or three pieces of information that were the most influential in your determination.

2. Rank order the three companies in terms of which you believe a lender would be most willing to offer debt financing.

Highlight two or three pieces of information that were the most influential in your determination.

3. Would your rank ordering from #2 change if you were instead assessing the attractiveness of the companies as an equity investment?

If so, highlight two or three pieces of information that are more relevant for investors but less relevant for lenders or vice versa.