Instructions:

Choose one company to buy and the other to short. You must choose and return five years later to receive your winnings or pay your losses.

Company A (actual company)

This firm was founded in 1908. Today it has a leading market share in its industry. Its sales activity is high, totaling nearly $187 billion in 2002, or 0.9% of revenues. Gross profit margins were at 17.9% of revenues.

The company has about 341,000 employees. Sales per employee are about $547,000 in 2002. Gross margin profits per employee were at $98,000. At the end of 2002, the company had invested $72.7 billion in fixed assets. Total capital invested was $346.5 billion. Return on average fixed assets in 2002 was 2.5%; return on average total capital invested was 0.7%. For 2002, the company had negative free cash flow ($19.7). Company A is in a mature industry. Total revenue growth from 1997 to 2002 was 5% per year. Its workforce is also mature; the company has large, unfunded retirement and other post-retirement obligations. According to its **2002 10K report**, the company was underfunded by $76.8 billion with regard to its employee retirement obligations. The company's balance sheet at the end of 2002 had $201.9 billion of debt and $6.8 billion of equity.

Company B (actual company)

Company B was founded in 1995 and today it is ridiculed by some market observers as a "flash in the pan." The firm has a leading market share in its industry. The industry is young; revenues for the company in 2002 totaled $953 million. The company earned $107 million in 2002, 11.2%. Gross profit margins were 82.9% of revenues.

The company has 3,600 employees. Revenues per employee were about $265,000 in 2002. Gross margin profits per employee were about $220,000 in 2002. The business requires little capital. At the end of 2002, the company had invested $371 million in fixed assets. Total capital invested was $2.2 billion. Return on average fixed assets in 2002 was 42.5%; return on total capital was 5.15%. For all of 2002 the company had free cash flow of $251 million.

Revenues grew at 70% per year from 1997 to 2002. Company B's workforce is also new. The company has no retirement obligations. The company's balance sheet is overcapitalized. At the end of 2002, the company had cash and marketable securities totaling $1.5 billion and no debt. The company had total equity of $2.2 billion and tangible equity of $1.75 billion.

Company A vs. Company B		
Select Financial Data For the Year Ended Dec. 2002 (These are actual, well-known companies)		
	Company A	**Company B**
Market Value (9/8/03)	$23.8 billion	$21.7 billion
Growth Rates:		
Ann. Rev. growth 1997 to 2002	5%	70%
Projected long-term growth rate	0%	15%
Select Inc. Stmt and Cash Flow Data:		
Revenues (bil.)	$186.8	$1.0
Net Income (bil.)	$1.7	$0.1
Gross Margin	17.9%	82%
Net Margin	0.9%	11.2%
Free Cash Flow (bil.)	($18.90)	$0.25
Productivity and Returns:		
Employees	341,000	3,600
Revs. Per Employee	$547,692	$264,750
GM$ per employee	$98,003	$219,500
Return on Fixed Assets (avg.)	2.5%	42.5%
Return on capital (avg.)	0.7%	5.1%
Select Sheet Data:		
Cash and marketable securities (bil.)	$38.3	$1.5
Investment in fixed assets (bil.)	$72.8	$0.4
Debt (bil.)	$201.9	$0.0
Pension and post-retirement obligations (bil.)	$60.9	$0.0
Stockholders’ equity (bil.)	$6.8	$2.3
Tangible equity (bil.)	($10.8)	1.8

The choices may not be easy but you must make one. Your plane to meet the other members of the team leaves in 20 minutes.

Explain briefly your choice.