The following is an outline/description of the nature, content, and overall approach to putting together Case #2, the Comparative Risk Assessment.

1. **Introduction** - A brief introduction of the two companies under comparison. Space-wise, more should be written for the company that was not selected for Case #1 (i.e., if Target was selected for Case #1, then more should be done in the Introduction for Costco). Both companies do need to be “introduced”. The length of the introduction of the new company should be at least 2-3 paragraphs; the other should be 1-2 paragraphs in length.
2. **Comparative Qualitative Risk Assessment** - The student will identify at least three unique risks each company faces that will have a direct impact on their financial performance (the “why”), and comment on what, if anything the company is doing to mitigate the risk (or acknowledge that the risk is inherent to the strategy employed). One of the risks identified may be sourced from the financial statements. Risks can be identified through some of the following ways: Company filings, industry publications, 3rd party analyst discussions, etc. Examples of risks could/would be leadership turnover, data security, e-commerce, revenue concentration risk, operational diversification risk (wrong places diversified), repatriation risk, geo-political risk, etc. These are given as examples to help you identify qualitative risks. **Unacceptable risks to use include inflation, war, acts of nature, or macro-economic issues**.

The risks selected do not need to be the same risks for each company. They can be, but that is not a requirement. Just because two companies are in the same industry, does not necessarily mean that they each have the same risks currently; each one has unique risks, or challenges that they are facing. Your responsibility is to select the **three risks** that, **in your opinion**, are the most important risks facing each company that must be considered when evaluating risk.

Mechanically, the student will present each risk, by company, as follows:

1. Risk identification and definition
2. Implication of the risk to the company, and
3. What, if anything, has the company done, or is doing, to mitigate the risk (pro-active or re-active).

Each item above for each identified risk should be a paragraph of at least 2-3 sentences in length. Please note that there is no overall comparative summary and/or conclusion on the risk assessment. You will incorporate this in your overall assessment at the end of the case.

1. **Comparative Beta Presentation** - The student will include a discussion/presentation of the respective betas of each company, using the ***Beta Analysis Template*** (found in Blackboard) as a guide, and should be used/inserted in this section with the specific data for both companies. The purpose of this analysis is to compare the relative risks of the two companies, as represented by their current betas, and their relative growth rates in stock price over the last twelve months. In essence, what is the relationship between risk and return of the two companies? The presentation will include a brief definition and discussion of what beta represents, and some of the individual factors that are possibly impacting each company’s beta. On average, the length of this section of the case would be 1-2 pages.
2. **Leverage Analysis** – One of the key elements in assessing risk is an analysis of the operations of an organization, to determine its dependence/reliance on fixed costs in profit generation. By definition, fixed costs remain the same, irrespective of revenues/sales. Generally speaking, when revenues/sales are increasing, fixed costs remain constant, which leads to increased profits. However, the reverse is also true – that as revenues/sales decline, fixed costs remain constant, leading to decreased profits. The utilization of fixed costs is referred to as “Leverage”. The greater the leverage, the more risk the organization takes. We can measure/quantify an organization’s reliance on fixed costs by calculating their Degree of Leverage.

Using the ***Leverage Template*** (found in Blackboard) along with each company’s Income Statement, we can calculate each company’s leverage, in total and by component, determine its trend, and compare relative absolute results and trend activity to assess relative overall leverage risk. This leverage analysis – the relative Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL), and Degree of Total Leverage (DTL) helps to identify where within the financial and operating activities of the companies the risks are inherent. The analysis should include the relative absolute DOL, DFL & DTL levels, as well as the trend of each component. On average, this section of the case, including relative data presentation, should be at least 2-3 pages.

1. **Key Account Comparative Financial Statement Ratio Analysis** – The student will select one key financial statement account for both entities and select ***two*** financial statement ratios to perform a comparative ratio analysis. Each ratio selected will be “trended” over a three-year period (the most recent three years performance will be analyzed and presented in a table format). Based upon the comparative results, the student will conclude which company has the higher (or lower) overall key account financial statement risk. If you are struggling to find appropriate ratios, then use the Market Value Ratios (Price/Earnings and Market/Book) for comparative analysis. On average, this presentation (including data presentation) should be 1-1.5 pages.
2. **Overall Conclusion/Recommendation** – The overall conclusion and recommendation will be in two parts, as outlined below:
3. **Comparative Risk**

Based solely on your analysis of the work presented in the (a) Comparative Risk Assessment, (b) Beta Analysis, (c) Leverage Analysis, and (d) Key Account Analysis, you will summarize your results and determine which of the two companies (i.) does the best job in managing its overall risk profile, and (ii.) is the sounder investment, both short and long term.

1. **Personal Risk Assessment**

In this section, I want you to take the risk assessment results you have done and personalize the analysis by stating which of the two companies you would invest in, and why. There is no “right” answer here. This is strictly a personal interpretation and assessment of your own risk tolerance relative to the two companies in question. In fact, you may conclude that while one company is more/less risky than the other, that for you, both companies are too risky for you. You cannot, say, however, that both are equally suitable for investment. You need to make a definitive choice – one or the other, or neither.

***NOTE: If this case is done by more than one student, each team member must have their own personal risk assessment included in this section of the case.***