**Introduction**

According to the business dictionary, a stock exchange is an organized financial market where financial instruments such as bonds; stocks, options, notes etc. are traded. The stock exchanges are usually regulated by the appropriate governing body depending on the country in which the stock exchange is located in. The primary functions of a stock exchange are it acts as an intermediary between savers and investors (function of primary markets) and also provides a platform in which investors can dispose-off their securities thus enabling them to reduce risk and at the same maintain liquidity(function of secondary markets). In the United States; there are several stock exchanges but the two main ones which are the largest according to their capitalization are New York Stock Exchange and NASDAQ. Below is a brief description of these two exchanges.

1. **New York Stock Exchange (NYSE)**

This is an America based auction market stock exchange that is located at 11 Wall Street, New york city. The stock exchange uses floor trades to facilitate its trading process. As mentioned earlier; NYSE is not only the largest stock Exchange in the United States but also across the world. The market capitalization of the companies listed here amounted to about US$19.3 trillion as at June last year (a third of the total exchanges in the world as at last year). Intercontinental Exchange; a company listed at the NYSE owns the stock exchange and the company was founded in the year 1792.

 **NASDAQ Stock Exchange**

 NASDAQ Stock exchange; the second largest stock in both the United States and the word was founded in the year 1971 by the National Association of securities Dealers. The companies listed in the exchange have a market capitalization of about $4687 billion as at mid last year. It is the world’s first electronic exchange .The exchange is owned by Nordic and has managed to list over 400 companies. Among the several companies listed at the exchange is The Wendy’s Company which is into the food and beverage industry.

**Similarities between NYSE and NASDAQ**

1. Both exchanges are located in the United states and larger in Europe.
2. Both exchanges deal with equity exchanges and both assist in linking suppliers of funds to those that demand it.

**Differences between NYSE and NASDAQ**

1. NYSE is a physical market place which means that the securities are traded in a physical location. However for NASDAQ, securities are traded electronically on a virtual marketplace.
2. NYSE is classified as an auction market while NASDAQ io the other hand is classified as a dealer market.
3. NYSE relies on a specialist for trading decisions while NASDAQ on the other hand relies on market maker.
4. NYSE’s trading hours are shorter (9.30 a.m. to 4.00 pm) while NASDAQ’s is between 7.00 am to 4.00 p.m.
5. NYSE is owned by Intercontinental Exchange while NASDAQ is owned by National Association of Securities Dealers.

**CAH FLOW ANALYSIS**

Free cash flows is a measure of a company’s performance that is usually arrived at by subtracting cash expenditures from the operating cash flows. The companies that I have chosen for the purpose of illustration are McDonald’s Inc. and The Wendy’s Company .Both companies are in the food beverage and hospitality industry and have outlets all over the world. Below is a calculation of their free cash flows which will enable us to determine and compare the performances of the two companies since both companies are in the same industry.

**2013 Free cash flows**



**2014 Free Cash flows**



From the two tables above we can clearly see the cash flows for both companies for the two years 2013 and 2014. From Mc Donald’s Incorporation, we can see that its free cash flows increase from $122000000 in 2013 to $292000000 in the year 2014. Companies such as Mc Donald’s that experiences an increase in free cash flows are deemed to be performing better because essentially they have funds to give investors the company is dissolved. An increase in free cash flow could have been caused by reduced dividend distribution; reduction in costs or factors such as improvement in efficiency and this could have been the case for MC Donald’s between the years 2013-2014. Free cash flows often also affect the share value of a company. Therefore for this company; the high and increased free cash flow may make the share attractive hence raising its value.

The Wendy’s which is a competitor of Mc Donald’s did not have a very high cash flow compared to McDonalds. Its free cash flows decreased from $34921000 to $-188812000 from 2013 to 2014. The negative free cash flows figures could have been caused by the company financing the purchasing of its assets using debt. This low and negative free cash flow figures have a high impact on the company’s share value. First; it indicates how the company is performing poorly and secondly it reflects the great inefficiencies that could exists in the system. One of which could be cost inefficiencies in operations. Other factors that could have led to this state is poor management. Due to this low and negative figure in the free cash flow figures; the share value of the company might go down because investors fear that they might not get a return of their investments. To get them out of this situation, Wendy’s might consider taking up debt so as to finance its operations. Low/negative cash flows also indicate that the liquidity of the company is questionable and hence the company might not sustain itself.

**RATIO ANALYSIS**

**Mc Donald’s Inc. Financial Ratios**

|  |  |  |
| --- | --- | --- |
| **RATIO** | **2013** | **2014** |
| Current Ratio |  2.28  | 2.06 |
| Quick Ratio | 1.67 | 1.96 |
| Net profit margin | 6.0% | 5.5% |
| Return on Assets | 7.8% | 13.8% |
| Inventory Turnover vs. Cost of Goods sold | 5.61 | 6.7 |
| Fixed Asset Turnover | 4.72 | 4.45 |

**The Wendy’s Company Financial ratios**

|  |  |  |
| --- | --- | --- |
| **RATIO** | **2013** | **2014** |
| Current Ratio | 2.64 | 1.65 |
| Quick Ratio | 2.61 | 1.63 |
| Net profit margin | 0.02 | 0.07 |
| Return on Assets | 0.01 | 0.03 |
| Inventory Turnover vs. Cost of Goods sold | 17.6 | 15.9 |
| Fixed Asset Turnover | 1.86 | 1.31 |

Note:

The data used for the financial ratio calculations was obtained from the 10k reports for the companies for the years 2013 and 2014.

Financial ratios are tools used by analysts to analyze the performance of a company. From financial ratios; investors can read a lot into thee profitability, liquidity and asset management of a company. Shareholders can use the ratios to determine whether their funds have being utilized well in the company is they are being misused just by looking at the financial ratios alone. Below is an analysis of the challenges; strengths and weaknesses that can be inferred by stakeholders for each of the two companies.

**Mc Donald’s**

From the financial ratios above; it can be inferred that the company is definitely doing better than its counterpart Wendy’s. A look at the net profit margin for instance shows us that Mc Donald’s has a ratio of more than two while its counterpart has a very low net profit margin of less than one. The reason for this could be an operational efficiency experienced by Mc Donald’s which its counterpart does not seem to enjoy. Mc Donald’s also has more branches than Wendy’s hence higher revenue which could translate to a high net profit too.

On the side of liquidity; the company that scores highly is the Wendy’s. Its current ratio and quick acid test ratio is higher than that of Wendy’s. This clearly indicates that the company has more assets that it can convert into cash than its counterpart Mc Donald’s. They are faced with a higher ability to pay off its debts than Mc Donald’s.

A look at the weaknesses of the companies points us to Wendy’s whose fixed asset turnover ratio is very low(less than 2 for the two years). This means that each dollar of assets produces only 1.87 dollars of sales. This is a very low amount and the company needs to use its assets efficiently and exhaustively to produces sales and consequently income.

In conclusion; it can be inferred that Mc. Donald’s incorporation perform well than the Wendy’s company considering its higher profitability and asset management ratios. The Wendy’s can do a bench mark on Mc Donald’s to be able to determine what they are doing better than them If its cost efficiencies, then they should emulate that too,. Opening of more branches and marketing of the outlets would be helping improve the profits.