B8009 – Financial Statement Analysis and Valuation
MBA - Fall 2019

Professor:

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Course objective

This course will provide students with hands-on experience analyzing financial statements. Students will learn about the general tools, theoretical concepts, and practical valuation issues of financial analysis. By the end of the course, students should be comfortable using firms' financial statements (along with other information) to assess firm performance and make reasonable valuation estimates.

Course content and organization

In the first half of the course, we will develop a valuation framework that integrates a firm's strategy, its financial performance, and the credibility of its accounting. The framework consists of the following steps:

(i) **Understand the firm's strategy.** We will assess the firm's value proposition, and identify its key value drivers and risks.

(ii) **Accounting Analysis.** We will assess earnings quality, and evaluate whether the firm's accounting policies capture the underlying business reality. If not, we will adjust the accounting to eliminate GAAP issues and management biases.

(iii) **Financial Analysis.** We will evaluate current performance with accounting data and financial ratios.

(iv) **Prospective Analysis: Forecasting.** We will assess whether current firm performance is sustainable, and we will forecast future performance. In our forecasts, we will consider growth, profitability, and future competitive advantage.

(v) **Prospective Analysis: Valuation.** We will convert our forecasts of future earnings and book values into an estimate of the firm's current value.

In the second half of the course, we will apply the above framework to a variety of business valuation contexts, including IPOs, mergers, and equity-investment analyses.

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Connection to the core

The learning in this course will utilize, build on, and extend concepts covered in the following core courses:

Core Course	Concepts
Financial Accounting	• The accounting equation (A = L + OE), and the different financial statements (BS, IS, OE and CF) • Accrual accounting concepts (e.g., realization, matching, conservatism) and cash versus accrual accounting • Revenue recognition – rules and judgment • Individual line items (e.g., AR, PPE, Investments, Bonds, Leases, Tax) • Basic financial statement analysis (e.g., ratios)
Corporate Finance	• Firm valuation models • Risk and cost of capital (WACC, CAPM) • Time value of money • Excel modeling
Strategy Formulation	• Sources of economic value

Students are expected to have mastered these concepts and to be able to apply them in different settings.

Who should take this course?

Students should take this course if they expect to use financial statements to evaluate a business's performance, prospects, and value. This is relevant for students who want to pursue careers in investment banking (particularly in equity research), security analysis, private equity analysis, or corporate finance.

Please note that this is not a course on "forensic accounting." We will focus on accounting issues so that we can "cleanse" the financial statements before we carry out any analysis. Please look through the session-by-session outline to get a better feel for what this course entails.

Emphasis on cases

We will mostly use the case method in this course. We will do at least sixteen cases that run for an entire class-session each. The rest of class time will consist of lectures to introduce new concepts. Outside of class, there will be exercises and a project to practice the skills we cover.

Course Materials

There is no required textbook for this course. I will post all course materials on Canvas. These will include cases, handouts, and presentation slides. I will also use Canvas to post assignments and make announcements.

Evaluation Method

Your grade will consist of a final project (50%), class participation (40%), and three assignments (10%). The three assignments consist of three case submission assignments.

Here is a description of each graded category:

(i) Final project (50%) – In the final project, you will conduct a complete financial statement analysis of a firm using the course framework and provide an investment recommendation. You may work on this project alone, or in a team of two. The project is due on the last day of class: **December 4, 2019**. I will give you additional information on this project partway through the course. It is a Type **A** or Type **B** assignment.

(i) Class participation (40%) – Class participation is essential for a course such as Financial Statement Analysis and Valuation to ensure that one learns from the experiences of others and meaningfully contributes to the overall discussion. Grading for class participation will be based on factors such as quality of participation, interest, level of participation, and attendance. Everyone should come to class having read the materials assigned and prepared the cases. I may cold call in class, both at the beginning of the case discussion and during the class.

Students can score additional participation points by doing a five-minute presentation at the beginning/end of a class regarding a topic covered in previous sessions that attracted recent coverage in the media (individually or in a team of two). To do so, students should email me at least 24 hours before the class and get the topic of their presentation vetted by myself. I can only allow a maximum of two presentations per class, and presentations will be allocated on a first-come first-serve basis.

(ii) Assignments (10%) – There will be six case submission assignments in the first half of the course. You only need to complete three assignments in total out of the six case submission assignments. You may work on these assignments alone, or in a team of two. The case submission and valuation assignments are Type **A** or Type **B** assignments.

In accordance with Columbia Business School's policy, all grade appeals should be made in writing.

Course Outline (Indicative – Refer to Canvas for details)

Session	Module	Topic	Case/Lecture	Assignment Deadline
1.	Introduction	Course Overview	HurryDate	
2.	Accounting Analysis	Revenue Recognition	Bausch & Lomb, Inc. (A)	
3.	Accounting Analysis	Expensing versus Capitalizing	PolyMedica Corporation	Case Submission*
4.	Accounting Analysis	Consolidation	Boston Chicken, Inc.	
5.	Accounting Analysis	Fair Value versus Historical Cost	Land Securities Group	Case Submission*
6.	Financial Analysis	Financial Ratios	Target Corporation: Ackman versus the Board	
7.	Financial Analysis	Debt Covenants	Home Depot, Inc.	Case Submission*
8.	Financial Analysis	Credit Rating	Lecture	
9.	Prospective Analysis - Forecasting	Forecasting (stores)	Krispy Kreme Doughnuts	Case Submission*
10.	Prospective Analysis - Forecasting	Forecasting (mean reversion)	Lecture - Dupont	
11.	Prospective Analysis - Forecasting	Forecasting (commodities)	Kevin McCarthy and Westlake Chemical Corp (A)	
12.	Prospective Analysis - Forecasting	Forecasting (capacity)	Kevin McCarthy and Westlake Chemical Corp (A)	Case Submission*
13.	Prospective Analysis – Valuation	Residual Income (RI) Model	Lecture – RI/DCF	
14.	Understanding the Firm's Strategy	Guest Speaker	Equity Research Analyst	
15.	Prospective Analysis – Valuation	Review Class and Project	Lecture – Review	
16.	Prospective Analysis – Valuation	Applications of RI, PB, PE	1. Exercises 2. Valuation Ratios in the Restaurants Industry	Case Submission*
17.	Applications	Plain Vanilla Valuation	Ryanair Holdings plc	
18.	No class	No class	No class	
19.	Applications	Equity Analysis	Pre-Paid Legal Services, Inc.	
20.	Applications	Guest Speaker	Private Equity Practitioner	
21.	Applications	M&A	Schneider and Square D	
22.	Applications	IPO	Accounting for Virtual Goods at Zynga	
23.	Applications	Guest Speaker	Financial Journalist	
24.	Applications &Summary	LBO & Class wrap-up	Dollar General Going Private	Final Project†

*Case Submission: Individuals or teams of two will need to submit 3 out of 6 case submission assignments.
†Final Project: Individuals or teams of two will need to submit a final project.