Valuation and Financial Statement Analysis, B9010 (PhD), Fall 2021

Course Syllabus
This Draft: September 1, 2021

I. CONTACT DETAILS

Prof. Doron Nissim
Email: dn75@columbia.edu
Office hours (604 Uris): By appointment – please send me an email to request an in-person or a Zoom meeting. In your email, please provide info re your availability.

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II. COURSE ADMINISTRATION

Course material

The course material consists of detailed presentations, a comprehensive *Earnings Quality* monograph (available at https://ssrn.com/abstract=3794378), class notes (mostly summaries/ review of research), and many academic studies. All items are available either via hyperlinks to webpages or on Canvas (in subdirectories of the "Files" webpage). The following book is highly recommended as additional reading: *Valuation: Measuring and Managing the Value of Companies*, Wiley Finance, 7th Edition.

Class schedule

Classes will be held on Wednesdays, 2:00-5:15pm in 307 Uris. First class in on September 8; last class is on December 8. The format of the classes will be lecture (about 80% of class time) and student presentations (20%, last two class meetings).

Students presentations

Students will be divided into ten groups, and each group will be assigned a paper to present (please see the file "Presentation assignment" posted to the "Files" webpage). Each presentation should last about 30 minutes. In the presentation, you are expected to

(1) Clearly state the research question/s, explain why they are important, and describe the potential contribution given prior work;
(2) Describe the methodology used to address the research question/s and discuss potential issues and limitations;
(3) Identify the data sources;
(4) Present the key results and inferences and evaluate their appropriateness; and
(5) Be ready to answer any question related to the paper from the professor or students.

Grade and project

The grade for the course will be based on the quality of the presentation, class participation, and—primarily—a detailed, individual research proposal. The research proposal is due on December 15 (to be posted to Canvas by noon). It should be in the areas of earnings quality, financial statement analysis or valuation and address new research questions or objectives. Specifically, the proposal should:

1. Clearly state the research question/s or objectives/s, explain its/their relevance, and describe potential contribution given prior work. This part should include a comprehensive literature review and place the proposed study within the literature. It should discuss the relevance of the study not just in the context of academic research but also in terms of how it would potentially inform practice.
2. Describe the methodology you would use to address the research question/s and discuss potential issues and limitations
3. Identify data sources, including procedures to collect data (if relevant). Be as specific as possible.
4. To the extent possible, describe the sample and discuss variable measurement and other implementation issues that may come up.
5. Discuss potential findings, related inference, and follow up analyses contingent on findings.

The proposal should be about 3 single-space pages.

Objectives

While we will cover many academic studies, this course focuses on practical implications. Its primary objective is to give you the knowledge and skills to be able to address issues that come up in real life financial analysis and valuation. Another important objective is to improve your ability to understand and evaluate academic research that provides insight on financial analysis and valuation. This will be achieved through the class lectures, your work on the class presentation and research proposal, and by listening to your peers' presentations. A final objective is to have you gain some experience in presenting and discussing research.

III. DETAILED COURSE OUTLINE

Topic/presentation: 1. Financial Reporting

This material was covered in the MSAFA precourse. We will not discuss this presentation in class. Please review the presentation (available on Canvas) and the readings (listed below), especially if you did not attend the precourse.

Readings:
Nissim, D. 2021. *Review of Financial Reporting*. Available at http://www.columbia.edu/~dn75/.
Nissim, D. 2021. *Earnings Quality*. Available at https://ssrn.com/abstract=3794378. Skim through Sections 5.1 through 5.7, excluding the earnings quality issues and analysis tables.

Topic/presentation: 2. Earnings Quality

Readings:
Nissim, D. 2021. *Earnings Quality*. Available at https://ssrn.com/abstract=3794378. Chapter 1 and Sections 2.1-2.5. (You may also want to skim through other sections of the monograph.)
Nissim, D. 2019. The Valuation Implications of Overproduction. Columbia Business School Research Paper No. 17-102. Available at https://ssrn.com/abstract=3054282.

Student presentation:
Li, N., Lou, Y., Otto, C.A. and Wittenberg-Moerman, R., 2021. Accounting quality and debt concentration. *The Accounting Review*, *96*(1), pp.377-400.

Time: About two class meetings (6 hours)

Topic/presentation: 3. Non-GAAP Reporting

Readings:
Nissim, D. 2021. *Research on Non-GAAP Reporting*. Available on Canvas.

Student presentation:
Chen, J.V., Gee, K.H. and Neilson, J.J., 2021. Disclosure Prominence and the Quality of Non-GAAP Earnings. *Journal of Accounting Research*, *59*(1), pp.163-213.

Time: About half class meeting (1.5 hours)

Topic/presentation: 4. Reformulated Financial Statements and Profitability Analysis

Readings:
Nissim, D. 2021. *Earnings Quality*. Available at https://ssrn.com/abstract=3794378. Section 2.8.
Nissim, D. 2021. Reformulated Financial Statements. Available at http://www.columbia.edu/~dn75/.
Nissim, D. 2021. Profitability Analysis. Available at http://www.columbia.edu/~dn75/.

Student presentation:
Cain, C.A., Kolev, K.S. and McVay, S., 2020. Detecting opportunistic special items. *Management Science*, *66*(5), pp.2099-2119.

Time: About one class meetings (3 hours)

Topic/presentation: 5. Fundamental Risk Analysis

Readings:
Nissim, D. 2021. *Earnings Quality*. Available at https://ssrn.com/abstract=3794378. Sections 2.9 and 2.10.
Nissim, D. 2018. Synthetic Credit Ratings and the Inefficiency of Agency Ratings. Columbia Business School Research Paper No. 17-81. Available at https://ssrn.com/abstract=3012723.

Student presentation:
Bochkay, K. and Joos, P.R., 2021. Macroeconomic Uncertainty and Quantitative versus Qualitative Inputs to Analyst Risk Forecasts. *The Accounting Review*, *96*(3), pp.59-90.

Time: About one class meeting (3 hours)

Topic/presentation: 6. Financial Analysts

Readings:
Nissim, D. 2021. *Earnings Quality*. Available at https://ssrn.com/abstract=3794378. "Analysts' forecasts" subsection of Sections 2.11.
Nissim, D. 2020. *Research on Financial Analysts*. Available on Canvas.

Student presentation:
Guo, L., Li, F.W. and Wei, K.J., 2020. Security analysts and capital market anomalies. *Journal of Financial Economics*, *137*(1), pp.204-230.

Time: About half class meeting (1.5 hours)

Topic: 7. Forecasting

Presentations:
7.1 Information for Forecasting
7.2 Forecasting Financial Statements

Readings:
Nissim, D. 2021. *Earnings Quality*. Available at https://ssrn.com/abstract=3794378. Sections 2.11, 3.4 and 4.8.
Nissim, D. 2021. *Research on Investment and Growth*. Available on Canvas.
Chan, L., J. Karceski and J. Lakonishok. 2003. The Level and Persistence of Growth Rates. *Journal of Finance* 58(2): 644-684.
Nissim, D. 2021. Special Items: Implications for Forecasting. Available at http://www.columbia.edu/~dn75/.

Student presentation:
Hwang, I., Jung, T., Lee, W.J. and Yang, D.G., 2020. Asymmetric Inventory Management and the Direction of Sales Changes. *Contemporary Accounting Research*.

Time: About one class meetings (3 hours)

Topic/presentation: 8. Relative Valuation

Readings:
Nissim, D. 2021. *Research on Valuation*. Available on Canvas.

Nissim, D. 2019. EBITDA, EBITA, or EBIT? Columbia Business School Research Paper No. 17-71. Available at https://ssrn.com/abstract=2999675

Student presentation:
Knudsen, J.O., Kold, S. and Plenborg, T., 2017. Stick to the fundamentals and discover your peers. *Financial Analysts Journal*, *73*(3), pp.85-105.

Time: About one class meeting (3 hours)

Topic: 9. Fundamental Valuation

Presentations:
9.1 Fundamental Valuation Models
9.2 Implementing Fundamental Valuation

Readings:
Nissim, D. 2021. *Research on Valuation*. Available on Canvas.
Nissim, D. 2021. Steady-state Growth. Available at http://www.columbia.edu/~dn75/.
Nissim, D. 2021. Steady-state Profitability. Available at http://www.columbia.edu/~dn75/.
Nissim, D. 2021. Exit Multiples. Columbia Business School Research Paper No. 18-12. Columbia Business School Research Paper No. 18-12. Available at https://ssrn.com/abstract=3095564
Nissim, D. 2021. Valuing Minority Interests. Available at https://ssrn.com/abstract=3472592.

Student presentation:
Allee, K.D., Erickson, D., Esplin, A.M. and Yohn, T.L., 2020. The Characteristics, Valuation Methods, and Information Use of Valuation Specialists. *Accounting Horizons*, 34(3), pp.23-38.

Time: About one class meeting (3 hours)

Topic/presentation: 10. Cost of Capital

Readings:
Nissim, D. 2021. *Research on Risk and Cost of Capital*. Available on Canvas.
Nissim, D. 2021. Equity Risk Premium. Available at http://www.columbia.edu/~dn75/.

Students presentation:
Balakrishnan, K., Shivakumar, L. and Taori, P., 2021. Analysts' estimates of the cost of equity capital. *Journal of Accounting and Economics*, *71*(2-3), p.101367.

Time: About one class meeting (3 hours)

Topic/presentation: 11. Stock Return Predictability

Readings:
Nissim, D. 2020. *Stock Return Predictability*. Available on Canvas.

Students presentation:
Jacobs, H. and Müller, S., 2020. Anomalies across the globe: Once public, no longer existent? *Journal of Financial Economics*, *135*(1), pp.213-230.

Time: About one class meeting (3 hours)

Student Presentations

Time: Two class meetings (6 hours)