Financial Statement Analysis and Valuation
B7009-001 – Fall 2018

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Course description and objectives

The purpose of this course is to learn about drivers of fundamental value and risk. This is a course in fundamental analysis – we will learn by analyzing financial statements of businesses in different industries.

Every public company provides a lot of financial information in its filings. How can this information be used to understand a company’s operations, and evaluate its prospects and its risks? The course is organized around the twin themes of taking the financial information reported by firms, and coupling it with sound analytical methodology. To this end, we will review techniques for valuation and risk analysis used by banks and asset management firms. We will learn to build simple models, perform risk analysis and fine tune value drivers used in valuations and risk analysis. Much of the data for the analysis comes from the financial statements – but it requires a careful study of arcane footnotes to unearth the information provided by the companies. This is an advanced course that goes into the details of footnote analysis, accounting rules, and financial presentations. This course builds on the material you have already learned in Financial Accounting and Corporate Finance. It is assumed that you already know what you have learned in these courses and will build significantly on that knowledge. If your basics are solid and you are interested in learning to read financial statements; if you wish to learn to apply forensic analysis on them; this course is for you. We will use excel to build some of the models – but this is not a course in excel. But, it is highly recommended that you have a good working knowledge of how to build formulas in excel before you come to this class.

By the end of the course, the student should be able to perform a thorough, credible investment or credit analysis that meets a high standard. Students should have the ability to estimate fundamental values, and pull apart the information in the financial statements to get relevant information. This course should be of interest to those contemplating careers in investment banking, security analysis, private equity, hedge funds, and corporate finance.

Course materials

I will be teaching this course entirely from my own notes that draw heavily from my personal experiences in financial markets. There is no required text book. Since there is no recommended book, if you miss my class, you will not be able to make up by reading the book. It is highly advised that you do not miss any of the classes. If it is unavoidable, you should watch the video of the class you miss to

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make up. All the teaching will be from my notes and your assignment questions, cases and projects will be based on what I teach in class.

Course notes for each session will be available in advance (on Canvas). A tentative course schedule will be provided. I will assume that when you show up for class, you have already skimmed through the assigned material and worked on the assignment for the day, if any.

Sharing of course material with someone who is not enrolled in the course or someone who is not in your section is not allowed (both receiving and giving). It would be considered a violation of the honor code (and potentially of copyrights).

**Pedagogy**

A significant portion of the work will be done in the form of in-class exercises or cases. Some cases will require advance preparation while most will require work in groups in class.

The purpose of this course is to teach you to make judgments about value and risks associated with investments (in firms and industries) through an analysis of their financial statements. You will therefore be required to work on two projects during the course. One of the projects is an individual project while the other is a group project. For the individual project, you will be asked to choose a firm in the first week of the course. This should be a firm that you are curious about. By the end of the course, you will have prepared and submitted three reports on the firm you studied. With each report it is expected that you will apply what you learn in this course to arrive at your conclusion. The individual project will be done in three stages. You will prepare your first report just prior to Session 4, your second report prior to Session 10, and your final report before Session 12. For the group project, you will be assigned to a team. For this purpose, the entire class will be divided into teams of four. Each team will study one industry. We will study at least three (maximum four) industries during the course. More than one team may be assigned to the same industry. For the group project, you will do two assignments on your assigned industry. The first assignment is due before Session 3. Note that I will be distributing your reports from this assignment to the entire class and use it as discussion material during Session 3. The second assignment requires you to do credit analysis on firms in your industry and is due before Session 8. Finally, each team will make a presentation during Session 12 of the course. In this presentation, you will summarize your findings from the two assignments. The due dates for the submissions will be given in the schedule shown at the end of the syllabus. All submission become due at 11:59 p.m. on the date shown in the schedule.

We may also have guest speakers coming to speak to the class during the course. Since it is difficult to get a time commitment from some of the speakers in advance, I will announce their visits as and when the information becomes available. I will require all of you to be present in class and on time whenever we have a guest speaker presentation.

**Grading**

Your grade will be decided based on a combination of the following:

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Individual Project

There is one three-part individual project to be submitted during the course. On the first day of class, each of you will select a company. Just prior to your Session 4 you will submit your first report. For this report you will perform a detailed fundamental analysis of the company and present a report on your findings. Just prior to Session 10 you will file your second report. For this report, you will model the firm’s operating income. Modeling the operating income requires analysis of revenues and operating costs. The primary focus of this report is to reinforce your understanding of the firm’s revenue model and operating costs. Just prior to Session 12 you will submit your final report. In this report you will present a one-year ahead three statement financial model of the firm stating clearly all the assumptions. You will also present your estimate of firm value using your forecast estimate of the firms’ earnings per share.

This is a Type C assignment.

Team Projects

For the team project, you will present two reports. For your first project each group will perform a common size financial statement analysis of companies in an assigned industry. You should submit your report just prior to Session 3. Your reports will be distributed to the class in Session 3. It will be used for a discussion of industry variations in fundamentals. For your second project (which will be due just prior to Session 8) each team will do a credit analysis of firms in your assigned industry. Each group will summarize its finds (combining the two reports) for its assigned industry and present its analysis to the whole class during Session 12.

This is a Type A assignment.

Since I require you to make presentations of your team projects, I will require you to set up a call with me before the presentation where I will review your presentation and approve it. I have found this to be very helpful to the teams and to the class.

Class Participation

The class participation grade will depend on class attendance, on-time arrival and professional behavior during class including but not limited to, not leaving while the class is in session, no private conversations, no use of unauthorized electronics like computers, tablets and phones, preparedness, responses to questions asked during class (cold calls or voluntary), questions, comments, and sharing your professional experience and similar demonstrations of positive engagement. If you cannot attend a class or need to come in late or leave early, I will expect you to inform me in advance and take my permission as a common courtesy.

There is no midterm or final exam for this course.

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