Course objective, content and organization
The objective of the course is to provide students with hands-on experience in financial statement analysis. Students will be exposed to the theoretical concepts of fundamental analysis, general tools of financial analysis, and practical valuation issues. By the end of the course, students should be comfortable with using firms' financial statements (in conjunction with other information) to develop an understanding of their performance and to establish a basis for making reasonable valuation estimates. The course does not assume market efficiency - it develops techniques for challenging traded prices, in order to assess whether investments are appropriately priced.

We use an integrated framework that combines strategy, financial reporting, financial analysis and valuation. Early in the course we develop an accounting-based valuation framework that requires understanding, organizing and summarizing of financial data. After establishing the theoretical foundations of our model, we conduct: (i) a reporting strategy analysis: assessing a firm's value proposition and identifying key value drivers and risks; evaluating the degree to which a firm's accounting policies capture the underlying business reality; assessing a firm's earnings quality; making accounting adjustments to eliminate GAAP issues and management biases; and (ii) performance analysis and valuation: evaluating current performance and its future sustainability, making forecasts of future profitability and risk, and valuing businesses using earnings and book value data. Then, we apply the above framework to a variety of business valuation contexts, including equity-investment analysis, IPOs, and mergers.

The teaching method involves a mix of lectures, cases, discussions, exercises and project work. The required text is Financial Statement Analysis and Security Valuation, 5th edition (2013),
by Stephen H. Penman, Irwin/McGraw-Hill publishing. The book contains more materials than what we cover in class. Nonetheless, it is an excellent resource for students who are interested in a deeper analysis. Teaching notes, which will be distributed in class, contain most of the relevant course materials.

Sharing of course materials with anyone who is not currently enrolled in the course is not allowed (both giving and receiving). It would be considered a violation of the honor code (and potentially of copyright).

**Who should take this course?**
This course is aimed at all students who expect at some point in their careers to use financial statements to evaluate the performance, prospects, and value of a business. This includes equity analysts (both buy and sell side) who issue buy and sell recommendations on stocks, corporate financial analysts (e.g., calculating the value generated by strategic scenarios), private equity analysis (e.g., evaluating acquisitions and restructuring) and personal investing. Issues discussed are of interest to students contemplating careers in investment banking (particularly in equity research), security analysis, consulting, public accounting, and corporate finance.

**Connection to the core**
The learning in this course utilizes, builds on and extends concepts covered in the core:

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

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

Your grade will be assessed based on a project (40%), an exam (30%), problem sets and in-class assignments (20%) and class participation (20%). (I will reduce the weight on your lowest component by 10%). Note that a passing grade on both the project and the exam is required in order to receive a passing grade for the course. (i) Project (40%) – A group project where you apply a complete financial statement analysis of a firm using the course framework, and provide an investment recommendation. See further details in the Group Project Guidelines at the end of the syllabus. The project is due by Friday, December 16, 2016, and is a Type A assignment; (ii) Exam (30%) - an in-class exam on November 5, 2016. The purpose of the exam is to test basic understanding of the principles of fundamental analysis. It is a Type C assignment; (iii) Problem sets and in-class assignments (20%) – by session deliverable. Those could be a problem set, and/or a pre-case write up, and/or a brief company analysis, and/or an assignment or similar. Submitting and receiving full credit on seven out of nine such items is sufficient for full credit (20%). You are allowed to work on the assignments in groups; however, each individual is to submit his or her own written version of the assignment. That is, the problem sets and in-class assignments are defined as Type B assignments. Your grade on each assignment will incorporate your effort in attempting the questions. The assignments are to be submitted by beginning of class on the required date (no late submissions will be allowed); and (iv) Class participation (20%) – that includes attendance, on-time arrival and professional behavior during class (including but not limited to, not leaving while class is in session, no private conversations, no use of unauthorized electronics like computers, tablets and phones), clicker responses, preparedness, responses to questions asked during class (cold calls or voluntary), questions, comments and sharing of your professional experience and similar demonstrations of positive engagement.
Assignments (tentative and subject to change)

**Pre Course:**
- Review and refresh your knowledge of the core concepts mentioned above.
- Skim Penman Chapters 1-4.
- Read the Hurry Date case

1. Sat., Sep. 10:
   **Introduction and Overview; The Framework; An Accounting Based Model for Valuation (The Residual Earnings Model)**
   **Read:** Penman Chapter 5
   **Case:** Hurry Date

   **Assignment 1 is due on Saturday, September 24, 2016:**
   Penman E4.12 (page 136) and E5.9 (page 170)

2. Sat., Sep. 24:
   **The Residual Earnings Model and alternative Valuation Models**
   **Read:** Penman Chapter 7
   **Skim:** Penman Chapters 3 and 4

   **Assignment 2 is due on Friday, October 7, 2016:**
   Penman M5.2 (page 174) and E7.8 (page 226)

3. Fri., Oct. 7:
   **Prepare to Forecast: Reformulation of the Financial Statements**
   **Read:** Penman Chapter 8
   **Skim:** Penman Chapters 9, 10 and 11

   **Assignment 3 is due on Saturday, October 8, 2016:**
   Target Case Questions

4. Sat., Oct. 8:
   **Financial Ratios**
   **Read:** Penman Chapters 12 and 13
   **Case:** Target Corporation: Ackman versus the Board

   **Assignment 4 is due on Friday, October 21, 2016:**
   Penman E10.5 (page 326) and E13.4 (page 422); Home Depot Case Questions
Assignment 4 is due on Friday, October 21, 2016:
Penman E10.5 (page 326) and E13.4 (page 422); Home Depot Case Questions

5. Fri., Oct. 21: Accounting Analysis and Valuation
   Read: Penman Chapters 17 and 18
   Cases: Home Depot

Assignment 5 is due on Sat, Oct 22, 2016:
Ryanair Case Questions

Project Deadline 1 (October 22, 2016):
Group, Company, Industry and Strategy (bullet point level)

   Skim: Penman Chapters 14, 15 and 16
   Case: Ryanair Holdings

Assignment 6 is due on November 4, 2016:
Penman E12-3 (page 387)

7. Fri., Nov. 4: Catch Up and Exam Review
   Case: Citigroup 2007

8. Sat., Nov. 5: Exam

Assignment 7 is due on Saturday, November 19, 2016:
Krispy Kreme Case Questions

Project Deadline 2 (November 19, 2016):
Data, Ratios, preliminary Forecast and Valuation

9. Sat., Nov. 19: Forecasting I, Accounting Analysis I
   Cases: Krispy Kreme Doughnuts; Boston Chicken

Assignment 8 is due on Friday, December 2, 2016:
UPS Case Questions
Assignment 8 is due on Friday, December 2, 2016:
UPS Case Questions

10. Fri., Dec. 2: Applications: IPO; Accounting Analysis II
   Cases: UPS IPO’s; Bausch & Lomb

Fri., Dec. 9: Free time for teams to meet and work on Group Project

Assignment 9 is due on Saturday, December 10, 2016:
Correction Corporation of America Case Questions

11. Sat., Dec. 10: Forecasting II and M&A
   Cases: Correction Corporation of America; Schneider and Square D

Group Project is due, Friday, December 16, 2016

12. Sat., Dec. 17: Projects Presentations; Summery Catch-up and Review
GROUP PROJECT GUIDELINES

The most significant component in the course learnings is a group project. The project is due by December 16, 2016, and has a weight of 40% of the final grade. Below are the project’s guidelines.

Objective. You are to build your own long-term investment thesis: Invest or do not invest in a publicly traded company - based on financial analysis (and using tools developed in the course).

Process. Students should self-organize in groups of three or four (and under no circumstances of more than five) and select a public company to analyze. The project must contain only original work, and is a Type A assignment.

The Final Product. Your submission should contain three major parts: (i) Executive Summary; (ii) Industry Analysis; and (iii) Company Analysis. 

(i) Your Executive Summary (no more than one page) must contain a comparison of the current price per share with its intrinsic value (what you estimate a share to be worth), and your investment decision. You should also provide the main insights behind your intrinsic value estimation and the primary reasons (positive and negative) for your investment recommendation. 

(ii) The Industry Analysis (about 1-2 pages plus exhibits) should identify the industry structure and major players, key trends in the industry, primary performance metrics and key success and risk factors. Pay special attention to the analysis of sustainable competitive advantage (e.g., barriers to entry). Include exhibits, if useful.

Finally, the main part of the project is (iii) the Company Analysis (about 6-8 pages plus exhibits). Your report should follow the course framework: Strategy analysis (know the business), financial analysis (accounting and key policies, trust the numbers, do they reflect success and risk factors, management motives, key drivers of performance, how well the firm is performing), forecast (with justified assumptions, performance sustainability assessment, and support for choice of horizon) and valuation (using the residual earnings model and including justified assumptions, sensitivity analysis, terminal value assessment and justification, and
reconciliation with existing analysts forecasts). If you made any accounting adjustments to the published reports, highlight, motivate and explain. Exhibits must include the four main financial statements (from the 10-K or the Annual Report), and the following worksheets from the FSA Excel model: Ratio Analysis, Key assumptions (with support) and Pro Forma & Valuation. In addition, both the 10-K (or the Annual Report) and the complete FSA Excel file should be submitted electronically.

Any properly cited public source is a fair game for your analysis. As the scope of the project is large, I suggest you focus on first order items. Also, consistent with the emphasize during the course, focus more on operating assumption and much less on cost of capital and capital structure (unless you predict major changes). In reviewing the project, I will pay special attention to the soundness of insights offered and the support for your forecasts. While there is no pre-set limit on the project’s length, my expectations are in the neighborhood of 15 pages plus figures, tables, spreadsheets and appendices.

**Deadlines.** (i) October 22, 2016 – submit the names of the group members and the company you elected to analyze. Also, provide, at a bullet point level, the industry and the firm strategy analysis; (ii) November 19, 2016 – submit your excel with the historical financial statements (3-5 years), ratio analysis and preliminary forecast and valuation; (iii) December 16, 2016 – final project submission; and (iv) December 17, 2016 – project presentation.