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 soft-cover international version is
the same materials (different cover), and much cheaper.) 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:

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<tr>
<th>Core Course</th>
<th>Concepts</th>
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| 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 based 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 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. Additional information will be provided as the course progresses. Student should self organize in groups of three or four (and under no circumstances of more than five). The project is due on April 28, 2015, and is a Type A assignment; (ii) Exam (30%) - an in-class exam in one of the sessions during the second half of the course. 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%) – weekly deliverable. Those could be a problem set, a pre-case write up, a brief company analysis, an assignment or similar. Submitting and receiving full credit on six out of (at least) eight 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

   Pre Course:   • Review and refresh your knowledge of the core concepts mentioned above.
                  • Skim Penman Chapters 1-4.

Detailed tentative course schedule will be published by January.