

B8009 – Financial Statement Analysis and Valuation

MBA Elective – Spring 2023

Professor: Valentin Dimitrov (Val)
Classes: Location TBD, Mondays 2:00pm-5:15pm
Office Hours: Mondays 12:45 pm to 1:45 & By appointment on Zoom
Teaching Assistant: Sonashi Agrawal (SAgrawal27@gsb.columbia.edu)

Note: Communications from professor and the teaching assistant about the course will take place through Canvas. Students should make sure they regularly check for announcements and messaging notifications.

COURSE DESCRIPTION

This course will provide students with the theoretical concepts and practical tools needed to perform meaningful financial statement analysis. Specifically, we will learn to perform financial statement analysis with the goal of estimating the company's fundamental value. Students apply what they are learning by analyzing business cases and analyzing the financial statements of publicly traded companies. The course uses a combination of lectures and cases to highlight the most relevant challenges facing users of financial statements.

STUDENT LEARNING OUTCOMES

By the end of the course, students will be able to use firms' financial statements (along with other information) to assess firm performance and make reasonable valuation estimates. Specifically, students will learn:

- *How to use financial ratios to judge company performance*
- *How to evaluate the accounting quality of the company's financial reports*
- *How to identify value relevant information in financial statements*
- *How to develop proper forecasts of the company's financial statements*
- *How to estimate the company's fundamental value using peer multiples, the free cash flow model, and the residual income valuation model*

COURSE MATERIALS

Required textbook:

Wahlen, J., S. Baginski, and M. Bradshaw (WBB), *Financial Reporting, Financial Statement Analysis, and Valuation*, 10th Edition, Cengage, 2023, eBook ISBN: 9780357722190.

I will post other course materials on Canvas. These will include cases, homework assignments, handouts, and lecture notes. I will also use Canvas to post class announcements.

COURSE CONTENT AND ORGANIZATION

We will develop and learn to use 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.

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Firm valuation models • Risk and cost of capital (WACC, CAPM) • Time value of money • Excel modeling
Strategy Formulation	<ul style="list-style-type: none"> • Sources of economic value

I expect students 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.

CLASSROOM NORMS AND EXPECTATIONS

I expect students to adhere to CBS Core Culture in this class by being Present, Prepared, and Participating. To gain the most from this course, come to each class fully prepared: finish the assigned readings and homework, review any notes, bring questions, and get ready for in-class discussion.

Please arrive on time, and refrain from using your cell phone(s) during class. You are welcome to use your laptop to access class materials, but refrain from using laptops for additional entertainment (e.g., watching YouTube, shopping, news scrolling, stock/crypto/currency/futures trading, job hunting, day dreaming, texting, etc.).

ATTENDANCE POLICY

I expect students to attend each class. Students should reach out to the instructor or TA regarding excused absences (for religious observances; personal, medical, and family emergencies; military service; court appearances such as jury duty). Unexcused absences will affect your participation grade (see below).

METHOD OF EVALUATION

Your grade will be determined by the following items:

Five case assignments	25%
Five homework assignments	25%
Class participation	20%
Final project	30%

Case Assignments:

There will be **nine case assignments** and related discussions during the semester. You only need to complete **five out of the nine**. You may work on these assignments alone, or in a team of two. These are **Type A** or **Type B** assignments. You (or your team) must submit a single page write-up to each case assignment electronically on Canvas by the beginning of class on the due date. Details on expectations for the case assignments and related discussions will be outlined in class.

Homework Assignments:

There will also be **five homework assignments** and related discussions during the semester. You may work on these assignments alone, or in a team of two. These are **Type A** or **Type B** assignments. You (or your team) must submit their solution to each homework assignment electronically on Canvas by the beginning of class on the due date. Details on expectations for the homework assignments and related discussions will be outlined in class.

Class Participation:

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, and level of participation. Everyone should come to class having read the materials assigned and prepared the cases. I will cold call in class at the beginning of the case discussion.

Final Project:

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. I will give you additional information on this project partway through the course. It is a **Type A** or **Type B** assignment.

Grade Appeal Policy:

In accordance with Columbia Business School's policy, all grade appeals should be made in writing. If you believe an error has been made in grading, you may request a re-grade by doing the following: write a brief note explaining why you think there is an error and submit both the note and the graded material to which it pertains. All re-grade requests must occur within three (3) calendar days of the day graded material is returned to the class. Please note that I reserve the right to re-grade the entire contents of any material submitted for re-grading.

CLASS COMMUNICATION

Instead of e-mail, we will use the DISCUSSION BOARD feature of Canvas that can be accessed on the left panel of the Course Canvas page (i.e., the "Discussions" tab). Please post all your questions concerning the course material (e.g., lectures, homework, quizzes, case questions you find difficult) or issues of general interest on the Discussion Board on Blackboard, where everyone can contribute and benefit. E-mail is only for private communication between you and me or TA. Please preface the subject line for your email with "B8009 Request".

ADDITIONAL USEFUL INFORMATION

ASSIGNMENT TYPES

All of your assignment submissions are subject to the [CBS Honor Code](#). Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assignment description types have been standardized and specified below.

<u>Type</u>	<u>Designation</u>	<u>Grade</u>	<u>Preparation of submission</u>	<u>Discussion of Submission*</u>	<u>Discussion of Concepts**</u>
A	Group Work	Same grade for all group members	By the group	Permitted to discuss (within group)	Permitted
B ¹	Individual w/ Discussions of Concepts and Submission	Individual grade	Individual preparation	Permitted to discuss; sharing solutions or submission files is not allowed	Permitted
B ²	Individual w/ Discussions of Concepts Only	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Permitted
C	Individual	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Not permitted***

The designated group can be either an assigned study group or a self-selected one.

* Submission means any work and/or output pertaining to the specific assignment. If an assignment submission contains a calculation or decision related to a specific set of data and setting, discussing the details how to make this calculation or decision with regard the data/setting is to discuss the submission. Providing another student with a draft of the calculation or decision is sharing the submission.

** Concepts mean any ideas, examples, readings, or other related materials from the class/course. Conceptual discussion should not be based on a specific set of data or setting related to a calculation or decision required in the assignment, but could be based on other related examples, preferably those from class/course materials.

*** As no conceptual discussion is permitted, Type C is akin to a take-home exam.

INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University's Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University's Office of Disability Services online at www.health.columbia.edu/docs/services/ods/index.html or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. "Gender-based misconduct" includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see <http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students>.

TENTATIVE COURSE ROADMAP/SCHEDULE

Session	Date	Topic	Readings	Deliverables
1	Monday, Jan 23	Introduction	WBB Chapter 1	Bring questions from prior classes.
2	Monday, Jan 23	Financial accounting concepts	WBB Chapters 2&3	
3	Monday, Jan 30	Profitability analysis	WBB Chapter 4	HMWK #1 due
4	Monday, Jan 30	Risk analysis	WBB Chapter 5	
5	Monday, Feb 6	Accounting quality	WBB Chapter 6	HMWK #2 due Case #1 write-up*
6	Monday, Feb 6		Case #1	
7	Monday, Feb 13	Financing activities	WBB Chapter 7	HMWK #3 due Case #2 write up*
8	Monday, Feb 13		Case #2	
9	Monday, Feb 20	Investing activities	WBB Chapter 8	HMWK #4 due Case #3 write up*
10	Monday, Feb 20		Case #3	
11	Monday, Feb 27	Operating activities	WBB Chapter 9	HMWK #5 due Case #4 write up*
12	Monday, Feb 27		Case #4	
13	Monday, Mar 20	Forecasting Financial Statements	WBB Chapter 10	Case #5 write up*
14	Monday, Mar 20		Case #5	
15	Monday, Mar 27	Risk adjusted expected returns	WBB Chapter 11	Case #6 write up*
16	Monday, Mar 27	Dividend valuation model	Case #6	
17	Monday, Apr 3	Cash flow valuation models	WBB Chapter 12	Case #7 write up*
18	Monday, Apr 3		Case #7	
19	Monday, Apr 10	Earnings based valuation models	WBB Chapter 13	Case #8 write-up*
20	Monday, Apr 10		Case #8	
21	Monday, Apr 17	Market based valuation models	WBB Chapter 14	Case #9 write-up*
22	Monday, Apr 17		Case #9	
23	Monday, Apr 24	Valuation model presentations and discussion		Final project
24	Monday, Apr 24			

* You (your team) need(s) to complete **five out of the nine** case write-ups. You can choose which cases you want to complete. Regardless of which cases you choose, you must read each case and be prepared to participate in the class discussion.