

Location: Geffen 640

Professor: Susan M. Young; smy2135@columbia.edu

Office Hours: Following class and by appointment

Teaching Assistants: TBA

Course objective

This course will provide students with hands-on experience analyzing financial statements. Students will learn about the general tools, theoretical concepts, and practical valuation issues of financial analysis. By the end of the course, students should be comfortable using firms' financial statements (along with other information) to assess firm performance and make reasonable valuation estimates.

Course content and organization

In the first half of the course, we will develop 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.

In the second half of the course, we will apply the above framework to a variety of business valuation contexts, including IPOs and equity-investment analyses.

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

Students are expected 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.

Emphasis on cases

We will use the case method in this course as well as lectures to introduce new concepts. Outside of class, there will be exercises and a project to practice the skills we cover.

Course Materials

The required textbook for this course is:

Easton, P, McAnally, M, Sommers, G Financial Statement Analysis & Valuation. Sixth Ed. 2021
ISBN: 978-1-61853-360-9 Cambridge Business Publishers

I will post additional course materials on Canvas. These will include cases, handouts, and presentation slides. I will also use Canvas to post assignments and make announcements.

Evaluation Method

Your grade will consist of a final project (50%), class participation (30%), and four case assignments (20%). The assignments consist of four case submissions.

Here is a description of each graded category:

- (i) **Final project (50%)** – 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.
- (i) **Class participation (30%)** – 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, level of participation, and attendance. Everyone should come to class having read the materials assigned and prepared the cases. I may cold call in class, both at the beginning of the case discussion and during the class.
Students can score additional participation points by doing a short presentation at the beginning/end of a class regarding a topic covered in previous sessions that attracted recent coverage in the media (individually or in a team of two). To do so, students should get the topic of their presentation and outline vested at the latest on the Friday before class and share their presentation at least 48 hours before the class. I can only allow a maximum of two presentations per class, and presentations will be allocated on a first-come first-serve basis.
- (ii) **Assignments (20%)** – There will be nine case submission opportunities in the course. You only need to complete four assignments in total out of the nine case submission assignments. You may work on these assignments alone, or in a team of two. The case submissions are **Type A** or **Type B** assignments.

In accordance with Columbia Business School's policy, all grade appeals should be made in writing.

Course Outline (Tentative – Refer to Canvas for details)

Session & Date	Module	Topic	Case/Lecture	Readings/Assignment Deadline
1. 1/25/22	Introduction	Course Overview	Lecture	Modules 1 and 2
2. 1/25/22	Company Analysis	Course Overview	HurryDate	
3. 2/1/22	Accounting Analysis	Revenue Recognition	Bausch & Lomb, Inc. (A)	Module 5 and 6
4. 2/1/22	Accounting Analysis	Effects of Accounting Choice on Financial Statements	Depreciation at Delta Air Lines and Singapore Air Lines	Case Submission*
5. 2/8/22	Accounting Analysis	Fair Value versus Historical Cost	Land Securities Group	Case Submission*
6. 2/8/22	Financial Analysis	Financial Ratios	Exercises with project companies	Module 3
7. 2/15/22	Financial Analysis	Debt Covenants	Home Depot, Inc.	Module 7/Case Submission*
8. 2/15/22	Financial Analysis	Credit Rating and Bond Values	Lecture/Project Exercises	Module 4
9. 2/22/22	Prospective Analysis - Forecasting	Forecasting (stores)	Krispy Kreme Doughnuts	Module 11/Case Submission*
10. 2/22/22	Prospective Analysis - Forecasting	Forecasting & WACC	Exercises	Module 12
11. 3/1/22	Prospective Analysis - Forecasting	Forecasting (commodities)	Kevin McCarthy and Westlake Chemical Corp (A)	
12. 3/1/22	Prospective Analysis - Forecasting	Forecasting (capacity)	Kevin McCarthy and Westlake Chemical Corp (A)	Case Submission*
13. 3/22/22	Prospective Analysis – Valuation	Residual Income (RI) Model	Lecture – RI/DCF	Modules 13 and 14
14. 3/22/22	Prospective Analysis – Valuation	Forecasting	Whole Foods Market Pt. 1	
15. 3/29/22	Prospective Analysis – Valuation	DCF Forecasting	Teuer Furniture (A)	Case Submission*
16. 3/29/22	Prospective Analysis – Valuation	Use of Multiples	Teuer Furniture (B)	Module 15
17. 4/5/22	Applications	Applications of RI, PB, PE	Project Review	
18. 4/5/22	Applications	Review of Valuation Models	Whole Foods Market Pt. 2	Case Submission*
19. 4/12/22	Applications	IPO	United Parcel Service's IPO	Case Submission*
20. 4/12/22	Guest Speaker	Healthcare Industry Analysis	Lucy To, Managing Director, Wells Fargo	
21. 4/19/22	Applications	Emergence from Bankruptcy	Eddie Bauer (A) and (B)	Case Submission*
22. 4/19/22	Guest Speaker	Private Equity Valuation	Trevor Ryan, Investment Director, PAI Partners	
23. 4/26/22	Applications	Project Presentations		Final Project†
24. 4/26/22	Applications	Project Presentations		Final Project†

*Case Submission: Individuals or teams of two will need to submit 4 out of 9 case submission assignments.

†Final Project: Individuals or teams of two will need to submit a final project.

There is no midterm or final exam for this course.

Honor Code Individual and Group Work Guidelines

Type	Designation	Discussion of Concept	Preparation of Submission	Grade
A	Group/Group	Permitted with designated group	By the group	Same grade for each member of the group
B	Group/Individual	Permitted	Individually (No sharing of any portion of the submission)	Individual
C	Individual/Individual	None of any kind	Individual	Individual