

Valuation and Financial Statement Analysis, B9010 (PhD), Fall 2023**Course Syllabus**
This Draft: July 10, 2023**I. CONTACT DETAILS**

Prof. Doron Nissim

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Office hours (1112 Kravis): By appointment – please send me an email to request an in-person or a Zoom meeting. In your email, please provide info re your availability.

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II. COURSE ADMINISTRATION***Course material***

The course material consists of detailed presentations, a comprehensive monograph—*Earnings Quality, Fundamental Analysis and Valuation* (available at <https://ssrn.com/abstract=3794378>), and many academic studies. All items are available either via hyperlinks to webpages (below) or on Canvas (in subdirectories of the “Files” webpage). The following book is highly recommended as additional reading: *Valuation: Measuring and Managing the Value of Companies*, Wiley Finance, 7th Edition.

Class schedule

First class on September 8 (Friday), 2:20-5:35pm in Geffen 390. All other classes will be held on Mondays, 2:20-5:35pm in Geffen 390. Last class on December 4. Per the school’s schedule, no class on October 16 and November 6 (still, a total of 12 three-hours class meetings, as required). The format of the classes will be lecture (about 80% of class time) and student presentations (20%, last two class meetings).

Student presentations

Students will be divided into ten groups, and each group will be assigned a paper to present (please see the file “Presentation assignment” posted to the “Files” webpage). Each presentation should last about 30 minutes. In the presentation, you are expected to

- (1) Clearly state the research questions, explain why they are important, and describe the potential contribution given prior work;
- (2) Describe the methodology used to address the research questions and discuss potential issues and limitations;

- (3) Identify the data sources;
- (4) Present the key results and inferences and evaluate their appropriateness; and
- (5) Be ready to answer any question related to the paper from the professor or students.

Grade and project

The grade for the course will be based on the quality of the presentation, class participation, and—primarily—a detailed, individual research proposal. The research proposal is due on December 14 (to be posted to Canvas by noon). It should be in the area of earnings quality, financial statement analysis or valuation, and it should address new research questions or objectives. Specifically, the proposal should:

1. Clearly state the research questions/objectives, explain their relevance, and describe potential contribution given prior work. This part should include a comprehensive literature review and place the proposed study within the literature. It should discuss the relevance of the study not just in the context of academic research but also in terms of how it would potentially inform practice.
 2. Describe the methodology you would use to address the research questions and discuss potential issues and limitations.
 3. Identify data sources and procedures to collect, match, and “clean” the data. Be as specific as possible.
 4. To the extent possible, describe the sample and discuss variable measurement and other implementation issues that may come up.
 5. Discuss potential findings, related inference, and follow up analysis contingent on findings.
- The proposal should be about 3 single-space pages.

Objectives

While we will cover many academic studies, this course focuses on practical implications. Its primary objective is to provide you with deep knowledge and understanding of financial analysis and valuation techniques. Another important objective is to improve your ability to understand and evaluate academic research that provides insight on financial analysis and valuation. These objectives will be achieved through the class lectures, your work on the class presentation and research proposal, and by listening to your peers’ presentations. A final objective is to have you gain some experience in presenting and discussing research.

III. DETAILED COURSE OUTLINE

Topic: 1. Financial Reporting

This material was covered in the MSAFA precourse. We will not discuss it in class. Please review the presentations and readings (listed below and available on Canvas), especially if you did not attend the precourse.

Presentations:

RFA.1 Foundations of Financial Accounting

RFA.2 Review of Financial Reporting

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Read Appendix A, and skim through Sections 5.1 through 5.7 (excluding the earnings quality issues and analysis tables).

Topic: 2. Earnings Quality

Presentation:

FSA.1 Earnings Quality and Non-GAAP Reporting

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Chapter 1 and Sections 2.1-2.5. (You may want to also skim through other sections of the monograph.)

Nissim, D. 2019. The Valuation Implications of Overproduction. Columbia Business School Research Paper No. 17-102. Available at <https://ssrn.com/abstract=3054282>.

Student presentation:

Holzman, E.R., Marshall, N.T. and Schmidt, B.A., 2023. When are firms on the hot seat? An analysis of SEC investigation preferences. *Journal of Accounting and Economics*, p.101610.

Time: About one and a half class meetings (4.5 hours)

Topic: 3. Non-GAAP Reporting

Presentation:

FSA.1 Earnings Quality and Non-GAAP Reporting

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Section 4.5.5.

Student presentation:

Bhattacharya, N., Christensen, T.E., Liao, Q. and Ouyang, B., 2022. Can short sellers constrain aggressive non-GAAP reporting? *Review of Accounting Studies*, pp.1-50.

Time: About half class meeting (1.5 hours)

Topic: 4. Reformulated Financial Statements and Profitability Analysis

Presentation:

FSA.2 Reformulated Financial Statements and Profitability Analysis

Readings:

- Graham, J., 2022. Presidential Address: Corporate Finance and Reality. *Journal of Finance* 77(4), 1975-2049.
- Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Section 2.8.
- Nissim, D. 2022. Profitability analysis. Columbia Business School. Available at <https://ssrn.com/abstract=4064824>.
- Nissim, D. 2022. Reformulated financial statements. Columbia Business School. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4064722.

Student presentation:

- Binz, Oliver and Schipper, Katherine and Standridge, Kevin, What Can Analysts Learn from Artificial Intelligence about Fundamental Analysis? 2023. Available at SSRN: <https://ssrn.com/abstract=3745078>.

Time: About one class meetings (3 hours)

Topic: 5. Fundamental Risk Analysis

Presentation:

FSA.3 Fundamental Risk Analysis

Readings:

- Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Sections 2.9 and 2.10.
- Nissim, D. 2023. Synthetic Credit Ratings and the Inefficiency of Agency Ratings. Columbia Business School Research Paper No. 17-81. Available at <https://ssrn.com/abstract=3012723>.

Student presentation:

- deHaan, E., Li, J. and Watts, E.M., 2023. Retail bond investors and credit ratings. *Journal of Accounting and Economics*, p.101587.

Time: About one class meeting (3 hours)

Topic: 6. Financial Analysts and Management Guidance

Presentation:

F&V.1A Financial Analysts and Management Guidance

Readings:

- Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Sections 2.11.9, 4.6.2, and 4.7.10.

Student presentation:

Lang, M., Pinto, J. and Sul, E., 2023. MiFID II unbundling and sell-side analyst research. *Journal of Accounting and Economics*, p.101617.

Time: About half class meeting (1.5 hours)

Topic: 7. Capital Budgeting

Presentation:

FP&A.2A Time Value of Money

FP&A.2 Capital Budgeting

FP&A.3 Management Planning in Practice

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Sections 3.4.2 and 7.4.1.

Graham, J., 2022. Presidential Address: Corporate Finance and Reality. *Journal of Finance* 77(4), 1975-2049.

Student presentation:

Chen, C.W., Correia, M. and Urcan, O., 2023. Accounting for Leases and Corporate Investment. *Accounting Review*, 98(3).

Time: About half class meeting (1.5 hours)

Topic: 8. Forecasting Financial Statements

Presentation:

F&V.1 Forecasting Financial Statements

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Sections 2.11, 3.1.4, 4.10, and 7.2.3.

Chan, L., J. Karceski and J. Lakonishok. 2003. The Level and Persistence of Growth Rates. *Journal of Finance* 58(2): 644-684.

Nissim, D. 2022. Special items: Implications for forecasting. Columbia Business School. Available at https://ssrn.com/abstract_id=4076136.

Student presentation:

Anderson, M., Hyun, S., Muslu, V. and Yu, D., 2023. Earnings prediction with DuPont components and calibration by life cycle. *Review of Accounting Studies*, pp.1-35.

Time: About one class meeting (3 hours)

Topic: 9. Fundamental Valuation

Presentations:

F&V.2 Valuation and F/S-based Investment Strategies

F&V.2A Cost of Capital

F&V.2B Valuation Models

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Chapter 7.

Nissim, D. 2019. Terminal value. Columbia Business School Research Paper No. 18-12. Available at <https://ssrn.com/abstract=3095564>.

Nissim, D. 2021. Steady-state growth. Columbia Business School. Available at <https://ssrn.com/abstract=3898767>.

Nissim, D. 2021. Valuing minority interests. Columbia Business School. Available at <https://ssrn.com/abstract=3472592>.

Nissim, D. 2022. Equity risk premium. Columbia Business School. Available at <http://www.columbia.edu/~dn75/>.

Nissim, D. 2022. Steady-state profitability. Columbia Business School. Available at <http://www.columbia.edu/~dn75/>.

Student presentation:

Trigeorgis, L., Baldi, F. and Katsikeas, C.S., 2021. Valuation of brand equity and retailer growth strategies using real options. *Journal of Retailing*, 97(4), pp.523-544.

Time: About two class meeting (6 hours)

Topic: 10. Relative Valuation

Presentation:

F&V.2 Valuation and F/S-based Investment Strategies

Readings:

Liu, J., Nissim, D. and Thomas, J., 2007. Is cash flow king in valuations? *Financial Analysts Journal*, 63(2), pp.56-68.

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Sections 2.12, and 7.1.

Nissim, D. 2019. EBITDA, EBITA, or EBIT? Columbia Business School Research Paper No. 17-71. Available at <https://ssrn.com/abstract=2999675>

Student presentation:

Shaffer, M., 2023. Which multiples matter in M&A? An overview. *Review of Accounting Studies*, pp.1-29.

Time: About one class meeting (3 hours)

Topic: 11. Stock Return Predictability

Presentation:

F&V.2C Stock Return Predictability

Readings:

Nissim, D. 2023. *Earnings Quality, Fundamental Analysis and Valuation*. Available at <https://ssrn.com/abstract=3794378>. Chapter 8.

Student presentation:

Wang, F., Yan, X.S. and Zheng, L., 2023. Do sophisticated investors follow fundamental analysis strategies? Evidence from hedge funds and mutual funds. *Review of Accounting Studies*, pp.1-50.

Time: About one class meeting (3 hours)

Student Presentations

Time: Two class meetings (6 hours)