# B8009 – Financial Statement Analysis and Valuation
## MBA – Fall 2023

**Schedule:** Thursdays, Full Term

    Section 1: 9:00AM – 12:15PM, Geffen 440

    Section 2: 2:20PM – 5:35PM, Geffen 440

**Professor:** Kalash Jain

**Office:** Kravis 1104

**Email:** kj2625@columbia.edu

**Office Hours:** By appointment

## 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:

1. **Understand the firm's strategy.** We will assess the firm's value proposition and identify its key value drivers and risks.
2. **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.
3. **Financial Analysis.** We will evaluate current performance with accounting data and financial ratios.
4. **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.
5. **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, mergers, and equity-investment analyses.

## 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." Instead, we will focus on accounting issues to "cleanse" the financial statements before we carry out any analysis.

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

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

**Course Materials**

There is no required textbook for this course. I will post all course materials on Canvas. These will include cases, handouts, and presentation slides. I will also use Canvas to post assignments and make announcements.

If you would like a textbook to follow along with the material, I recommend *Valuation: Measuring and Managing the Value of Companies*, by Tim Koller, Marc Goedhart and David Wessels, Seventh Ed., University Edition, McKinsey and Co., 2020.

**Emphasis on cases**

We will mostly use the case method in this course. The rest of class time will consist of lectures to introduce new concepts. Outside of class, there will be assignments and a final project to practice the skills we cover.

## Classroom Norms and Expectations

Students are expected to adhere to CBS Core Culture in this class by being Present, Prepared, and Participating.

## Assignments

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.

## Grading

Your grade will consist of participation (20%), assignments (30%), and a final project (50%):

### 1. **Class Participation (20%)**:

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 attendance, quality of participation, interest, and level of participation. I will take attendance. If you miss a class, it will negatively affect your participation grade.

Everyone should come to class having read the materials assigned and prepared the cases. If discussion is lacking, I may cold call in class at the beginning of the case discussion.

### 2. **Assignments (30%):**

There will be seven case submission assignments, and six will be graded. Three will be graded in detail (8% each); all three will be required. Four will be graded on completion, and you may choose to complete three of these (2% each). The grading type is specified below. You may work on these assignments in groups of up to three. Assignments are due at the beginning of the respective class section each week. If you anticipate missing a class, you still have to turn in the assignment before your class section via Canvas. Please do not email your assignment.

### 3. Final Project (50%):

The final project requires analyzing and valuing an actual company. This project should be performed in groups of up to three. More information on the final project will be posted on Canvas during the quarter. We will have presentations and discuss the final project during the last day of class.

## Teaching Assistants

The TAs for this course are Rongchen Li ([rli25@gsb.columbia.edu](mailto:rli25@gsb.columbia.edu)) and Darshil Rambhia ([drambhia24@gsb.columbia.edu](mailto:drambhia24@gsb.columbia.edu)). You can communicate with them via email to discuss the course and assignments. Please email both TAs when you have a question.

# Course Outline (Preliminary and Subject to Change)

| Session & Date | Module | Topic | Case/Lecture | Assignment Deadline |
|---|---|---|---|---|
| 1. 09/07 | Introduction | Course Overview | Accounting Lecture | |
| 2. 09/07 | Accounting Analysis | Revenue Recognition | Bausch & Lomb, Inc. (A) | |
| 3. 09/14 | Accounting Analysis | Expensing versus Capitalizing | PolyMedica Corporation | Case – Graded in Detail |
| 4. 09/14 | Accounting Analysis | Consolidation | Boston Chicken, Inc. | |
| 5. 09/21 | Accounting Analysis | Fair Value versus Historical Cost | Land Securities Group | Case – Graded on Completion |
| 6. 09/21 | Financial Analysis | Financial Ratios | Target Corporation: Ackman versus the Board | |
| 7. 09/28 | Financial Analysis | Debt Covenants | Home Depot, Inc. | Case – Graded on Completion |
| 8. 09/28 | Financial Analysis | Credit Rating | Lecture | |
| 9. 10/05 | Prospective Analysis - Forecasting | Forecasting (Stores) | Krispy Kreme Doughnuts | Case – Graded on Completion |
| 10. 10/05 | Prospective Analysis - Forecasting | Forecasting (mean reversion) | Lecture – Dupont | |
| 11. 10/12 | Prospective Analysis - Forecasting | Forecasting (commodities) | Kevin McCarthy and Westlake Chemical Corp (A) | |
| 12. 10/12 | Prospective Analysis - Forecasting | Forecasting (capacity) | Kevin McCarthy and Westlake Chemical Corp (A) | Case – Graded in Detail |
| 13. 10/26 | Prospective Analysis - Valuation | Residual Income (RI) Model | Lecture – RI/DCF | |
| 14. 10/26 | Prospective Analysis - Valuation | Review Class and Project | Lecture - Review | |
| 15. 11/02 | Prospective Analysis - Valuation | Application of RI, PB, PE | 1.Exercises 2.Valuation Ratios - Restaurant Industry | Case – Graded on Completion |
| 16. 11/02 | Applications | Plain Vanilla Valuation | Ryanair Holdings plc | |
| 17. 11/09 | Applications | Equity Analysis | Pre-Paid Legal Service, Inc. | |
| 18. 11/09 | Applications | M&A | Schneider & Square D | |
| 19. 11/16 | Applications | LBO | Dollar General | Case – Graded in Detail |
| 20. 11/16 | Applications | Short Selling | Lecture | |
| 21. 11/30 | Applications | IPO & Tech Accounting | Accounting for Virtual Goods at Zynga | |
| 22. 11/30 | Applications | Unit Economics and Customer Lifetime Valuation | Lecture | |
| 23. 12/07 | Summary | Wrap-up | Summary/Debrief | |
| 24. 12/07 | Final Project | Company TBA | Discussion and Presentations | Final Project |

**Inclusion, Accommodation, 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.

**Generative AI Policy**

Students in this course may only use Generative AI tools, such as ChatGPT, for idea generation and must include a citation describing any usage. Using these tools to generate responses to assignments violates CBS's Honor Code, and I will report suspected instances of plagiarism. Please contact me if you have any questions about this policy.