

# Financial Statement Analysis (AMIS 4210-0020)

Spring Semester 2023

## Administration

<b>Professor:</b>	Carlos Corona
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<b>Course Website:</b>	Canvas
<b>Class Times:</b>	T/Th: 9:35 am - 10:55 am
<b>Room:</b>	Gerlach Hall 265

## Course Objectives

This is a course on fundamental analysis. The primary emphasis is on equity valuation, focusing on developing and applying methods for valuing firms using financial statement analysis. The skills you will learn in this course are very practical. The fundamental analysis methods will be examined in detail and applied in cases and projects involving publicly listed companies. Topics include models of shareholder value, a comparison of accrual accounting and discounted cash flow approaches to valuation, the determination of price/earnings (P/E) and market-to-book (P/B) ratios, the reformulation of financial statements, the analysis of profitability, growth, and value generation in a firm, and diagnosing accounting quality.

The course does not "assume market efficiency." Rather, it develops the techniques for challenging traded prices to assess whether investments are appropriately priced. Most importantly, we learn how to handle accounting and financial reports in valuation. We see that valuation is really a matter of appropriately accounting for value. The course combines accounting principles and investment principles to answer the question: How do I account for value so that I can challenge stock prices with some confidence?

The course will be taught from the perspective of designing techniques to be used in an (independent) equity research department or firm. Accordingly, the material is pertinent to the security analyst – particularly the equity analyst – who must issue a buy, hold or sell recommendations on stocks. However, much of the material covered in the course is also relevant to the corporate financial analyst evaluating acquisitions, restructurings, and other investments and calculating the value generated by strategic scenarios.

After completing this course, you will gain two valuable tools in your skill set: (1) financial

statement analysis; and (2) equity valuation principles. The focus of financial statement analysis is a rigorous reformulation of published GAAP statements. The reformulation is needed to highlight the firms' shareholder-value generation and distribution process. The focus of equity valuation is on theory-consistent valuation benchmarks. These benchmarks provide important guidance to further, more detailed firm valuation methodologies.

## Course Material

### Textbook:

Stephen Penman, Financial Statement Analysis and Security Valuation, fifth edition, New York, NY: McGraw-Hill/Irwin, 2013. ISBN-13 = 978-0078025310

### Course website:

Course website (in Carmen - Canvas) contains comprehensive, up-to-date course information and additional reading material.

## Office Hours

Fixed: Wednesdays 1:30-2:30pm on Zoom

Variable: By appointment on Zoom

## Evaluation and Grading

Group Project 1	20%
Group Project 2	20%
Midterm 1	10%
Midterm 2	10%
Final Exam	20%
Homework (Assignments, Mini-cases)	20%

## Class Sessions: preparation and participation

- The initial plan is to hold two in-person classes per week. However, depending on how things go, we may reduce that. In that case, I will replace the in-person class either with a synchronous online class or with a video.
- Classes will be recorded and posted on Carmen.
- If the need arises, a Zoom link will be provided on Canvas to attend the online synchronous class sessions.
- **Homework assignments** should be submitted individually. That is because the homework helps individuals understand lectures, and the grading is effort-based.
- **Mini-cases** should also be done individually. You can work with other students on them.

However, you should write and submit your version of the solution for the case. Do not cut and paste. That will be considered cheating. You need to understand your answer and write it your own way. The mini-cases grade is also effort based.

- You are encouraged to participate in and contribute to our class discussions on concepts, techniques, and real-life companies used as class examples. Also, good citizenship in your teamwork is a part of your class participation.

## Group Projects (Reports and Presentations)

Each group is required to deliver a project each half-semester that involves financial analysis and valuation using tools developed in the course. Each group chooses one company that it wishes to cover. Each project requires a written report (project write-up) and a presentation. The project write-ups are graded on rigor, creativity, demonstration of depth of knowledge, and clarity in communication. Group presentations are graded as part of the overall grading of the project. Detailed instructions about the group projects will be distributed later. Attendance is required for each presentation. Deductions will be taken for missing presentations without prior approval.

## Exams

All exams must be individually completed. They all are open-book in-class and cumulative exams. During the Exam, you can only use internet access to take the Exam on Carmen, and you should not communicate with anyone by any means.

The exams will emphasize techniques and concepts covered in assigned chapters from the text, cases, class discussions, and notes. They may include problems and conceptual questions, but all will be multiple-choice.

Medical emergencies and family emergencies are the only valid reasons for missing the Exam. In such instances, you must provide supporting documentation (e.g., signed note from your physician). If you miss a midterm exam, your final exam grade will replace the missing midterm exam grade.

**The Final Exam** will cover all topics in the course. The final exam grade, if better, will replace a midterm exam grade in the computation of the final grade. This gives everyone a final opportunity to compensate for a "bad day" and significantly improve the overall grade. Warning: I would not rely on this policy too much. Since the final Exam is cumulative and the material in the last part of the course is difficult, it is not common for students' final exam scores to be appreciably higher than their midterm-exam grades.

## Academic Integrity and Student Conduct

- Using your phone or any computer application to chat during class is a lack of respect. If you need to say something, raise your hand and say it.
- The university policy on academic integrity is strictly followed.
- Collaboration on assignments is allowed, but you must submit your own assignment. You cannot copy any part of anyone else's assignment. You must write the answers in your own words.
- During exams, collaboration or communication with anyone is not allowed. You can only use an internet connection to access Carmen. Only the textbook and your notes from the course can be used.
- Any potential process for an integrity violation will involve notifying the student, the undergraduate business program head, and the Division of Student Affairs.
- The undergraduate business handbook sets expectations for students regarding class attendance, participation, and personal behaviors that are considered appropriate for in-class, student-student, and student-faculty interaction.

## Students with Disabilities

- Students with documented disabilities should feel free to inform me in private of their needs and make arrangements with the [Office for Disability Services](#).

## Calendar

Week	Date	Topic	Textbook Chapters	DUE (Tentative)	Recommended Exercises
Part-I: Introduction to Accounting-based Valuation					
1	1/10	Introduction and Overview	Ch 1		C1.9, E1.1-E1.3, E1.5, E1.6
	1/12	Revisiting Financial Statements	Ch 2		C2.4, E2.1, E2.2, E2.4, E2.6, E2.10
2	1/17	Valuation Methods	Ch 3, 4	<b>Homework1</b>	C3.9-C3.12, E3.1-E3.3, E3.5-E3.8
	1/19	<i>[Debriefing exercise]</i>		<b>Minicase-0 (M4.1)</b>	C4.2, E4.1-E4.4, E4.7, E4.8, E4.10, E4.12
3	1/24	Residual Income Model and P/B ratio	Ch 5, 7	<b>Homework 2</b>	C5.8, E5.1-E5.4, E5.7, E5.10
	1/26	<i>[Debriefing exercise]</i>		<b>Minicase-1</b>	
Part-II: Financial Statement Reformulation					
4	1/31	A Framework of Financial Statement Analysis	Ch 8	<b>Homework 3</b>	C8.1-C8.10, E8.1, E8.4-E8.6
	2/02	Statement of Shareholder's Equity	Ch 9		C9.1, C9.2, C9.6, E9.1-E9.3, E9.5, E9.7, E9.12
5	2/07	<b>Midterm</b>			
	2/09	<i>[Debriefing exercise]</i>		<b>Minicase-3</b>	
6	2/14	Balance Sheet and Income Statement	Ch 10		C10.1-C10.4, E10.1, E10.5, E10.6, E10.8, E10.9
	2/16	Balance Sheet and Income Statement (cont.)			
	2/17			<b>Project 1</b>	
7	2/21	<i>[Debriefing exercise]</i>		<b>Minicase-4</b>	
	2/23	<i>Cash Flow Statement and Credit Risk</i>	Ch 11, 20	<b>Minicase-5</b>	
8	2/28	<b>Second Midterm Exam</b>			

## Calendar (Tentative)

	Dates	Topics	Textbook Chapters	DUE (Tentative)	Recommended Exercises
		Part-III: Implementing Accounting-based Valuation			
9	3/02	Analysis of Profitability	Ch 12		C12.3, E12.1-E12.3, E12.69
	3/07	<i>[Debriefing exercise]</i>		<b>Minicase-6</b>	
10	3/09	Analysis of Growth	Ch 13	<b>Homework 4</b>	C13.1, C13.2, C13.6, E13.3-E13.7
	3/21	<i>[Debriefing exercise]</i>		<b>Minicase-7</b>	
11	3/23	Abnormal Earnings Growth Model and P/E ratio	Ch 6, 7		C6.1, C6.4-C6.7, C6.13, E6.1, E6.3-E6.4, E6.7-E6.10
	3/28	<i>[Debriefing exercise]</i>		<b>Minicase-8</b>	
	3/30	Valuation of Firm Operations	Ch 14		C14.1, C14.3, C14.6, E14.1-E14.8, E14.11
12	4/04	Implementing ReOI Valuation Model		<b>Homework 5</b>	
	4/06	<i>[Debriefing exercise]</i>		<b>Minicase-9</b>	
	4/11	Full Information Forecasting and Valuation	Ch, 15, 16		C15.1, C15.3, C15.4, E15.1, E15.2, E15.6, E15.9, C16.3, C16.5, C16.8, C16.9, C16.10, E16.3, E16.6, E16.10
13	4/13	<i>[Debriefing exercise]</i>		<b>Minicase-10</b>	
	4/18	Accounting Value, Economic Value and Quality of Financial Statements	Ch 17, 18		C17.3, C17.4, C17.5, C17.8, C17.14, E17.4, C18.1, C18.5, C18.6, C18.9, E18.1, E18.2, E18.12
14	4/20	<i>[Debriefing exercise]</i>		<b>Minicase-11</b>	
	4/25	Review		<b>Project-2 write-up and Group Presentations</b>	
	4/26 - 4/28	<b>Final Exam</b>			