

COURSE INFORMATION

Course title:	Financial Statement Analysis	Credits:	1.5
Course code:	BAAC 501	Class location:	online
Session, term, period:	2020W Period 6	Class times:	Tuesday/Thursday 2:00-4:00 pm.
Section(s):	001		EXAM TBA. Project Due TBA
Course duration:	September 8-October 8, 2020	Pre-requisites:	BAAC 550, BAAC 551
Division:	Accounting and Info Systems	Co-requisites:	
Program:	FTMBA Class of 2021		

INSTRUCTOR INFORMATION

Instructor:	Russell Lundholm, Deloitte Professor of Accounting		
Office Phone:	Not accessible	Office location:	online
Email:	Russell.lundholm@sauder.ubc.ca	Office hours:	TBA

Course website: <https://canvas.ubc.ca/courses/50611>

Course Zoom URL: <https://ubc.zoom.us/j/68053120535>

COURSE DESCRIPTION

This course provides you with a systematic framework for using financial statements in business analyses. The class presents a comprehensive set of tools to analyze the information contained in financial statements, and demonstrate how to use the information to evaluate financial performance. The course addresses questions like 1) how do operating and financial decisions contribute to a firm's return? 2) why does firm performance differ between competitors? 3) has the firm distorted their accounting numbers and how will this influence their reported performance? 4) how should one go about forecasting future firm performance, and 5) what are the valuation implications of those forecasts? The focus of the class is on integrating key concepts from accounting and finance and applying them to real world problems. As such, the course is case-oriented and places a heavy emphasis on illustrating the latest techniques and information sources used in practice. The class also has a financial modeling component, so that as the class progresses, students will build the pieces of a comprehensive financial statement analysis and forecasting tool. The class should be of great interest for anyone expecting to analyze and evaluate financial statements and related financial disclosures. In particular, we highly recommend this course for students pursuing a career in equity research, asset management, general management, or consulting.

COURSE FORMAT

We will use "Zoom" to have our classes during the scheduled class times. Classes will be a mix of lecture, discussion, group work, and independent study.

LEARNING OBJECTIVES

By the end of this course, students will be able to:

1. Assess a firm's strategy and how it should reveal itself in the financial statements
2. Analyse a firm's accounting policies and estimates, and be able to recognize earnings management
3. Develop a comprehensive financial analysis of a firm's performance
4. Forecast a firm's future in a coherent and structured way
5. Estimate the value of the firm, based on financial statement forecasts

ASSESSMENTS

Summary

<u>Component</u>	<u>Weight</u>
Individual Assignment (Pass/Fail)	10%
Group Presentations (Pass/Fail)	10%
Group Project – DUE TBA	40%
Final exam	40%
Total	<u>100%</u>

Details of Assessments

The test will be timed, open book and notes.

The group presentations are preliminary results from the group project. As a group, go to the sheet on Canvas and sign up to present on one of the available days). Have a slide deck prepared and be ready to present for approximately 10-15 minutes.

The individual assignment is written responses to the questions in the case. Go to the sheet on Canvas and sign up to complete ONE of the four cases: Royal Caribbean part A, Royal Caribbean part B, Hogs and Chestnuts part 1, or Hogs and Chestnuts part 2. The written homework must be uploaded into Canvas before we cover the case in class (see schedule at end of syllabus). This assignment is graded pass/fail based only on whether or not you made an honest attempt.

The final group project is a comprehensive analysis and valuation of a company of your choosing (described in detail below).

----- **Group Project Objective:**

The group project requires you to conduct a complete analysis and financial forecast of a business, and to compute the implied equity value. A key feature of the project is that it requires you to identify and obtain the relevant information. Thus, in addition to being evaluated on your ability to apply the tools of analysis described in the course, you will also be evaluated on your ability to identify and obtain the relevant information. Your analysis should provide solid support for the assumptions and forecasts that drive your valuation. (Your valuation should use only publicly available information. Do not use inside information obtained from personal company contacts etc.)

Steps in the Process

Your analysis should follow the steps described in the course.

Business Strategy: Briefly describe the company's industry and specific lines of business, discuss its strategy for success and, most importantly, the sustainability of profits generated by the strategy. Please do not simply repeat the company overview from the 10K. (3 points)

Accounting: Assess the degree to which the firm's accounting reflects the underlying business reality. Identify accounting distortions and their impact on the sustainability of profits. For instance, R&D is expensed when incurred, but probably creates an economic asset. How will this play out in your forecasts? You may also want to restate or rearrange the existing financial statements to make them easier to forecast. (3 points)

Financial Analysis: Use ratio analysis and/or cash flow analysis to evaluate the current and past performance of the business and assess its sustainability. You should definitely compare your company to some peers in the same industry. Draw some conclusions from this analysis that will help you with your forecasts (6 points).

Forecasting: Forecast the firm's future income statements and balance sheets in detail for the next three years. This is the heart of the project so provide specific justification for each major component of your forecasts. Is the forecast based on past trends, comparisons with other firms in the industry, an industry report, or your gut feel? Finding relevant data from outside the firm's own financial statements to guide your forecasts is particularly valuable here. After three years, trend your forecasts to what you believe a steady-state environment will look like (10 points).

Valuation: Please report the implied value of your forecasts and valuation assumptions. Then simply compare the implied value with the firm's current price in your report. You may also want to show some sensitivity analysis around your most important forecast assumptions (3 points).

Project Length:

I would like the project write-up to be a readily comprehensible and condensed report of your work (i.e., not a detailed compilation of all the information you collected and all the various valuation scenarios you considered). Accordingly, your write-up is limited to 6 pages of text. You may include tables and appendices, but your main analysis should be included in the 6 pages. Please site any sources for data used

LEARNING MATERIALS

Reading Materials: Lundholm and Sloan, *Equity Valuation and Analysis* 5th edition. ISBN: 978-1079983357. Available on [Amazon.com](https://www.amazon.com) or on [Amazon.ca](https://www.amazon.ca) but NOT the bookstore. \$US75.

The book is also available electronically at Redshelf:

<https://www.redshelf.com/book/1248711/equity-valuation-and-analysis-5th-edition-1248711-9781733498005-russell-lundholm-and-richard-sloan>

eVal is a financial spreadsheet. Available at www.lundholmandsloan.com.

Course website: <https://canvas.ubc.ca/courses/50611>

I will post the all materials here. You may want to download all the material on the website, even the material that requires no prior preparation, ahead of class.

Laptops: Besides needing a computer to connect to class, the course requires the manipulation of spreadsheets and the collection of information from the internet. Obviously the "lids down" policy is waived.

COURSE SCHEDULE

Along with reading the assigned chapters from the textbook, you may also want to watch the summary videos for each chapter, found at the textbook website: <https://www.lundholmandsloan.com/videos> .

Preparation Before First Week of Classes

Read chapters 1 through 4 (skimming chapters 2 and 3), and chapter 6. In addition, familiarize yourself with the case materials for Prepaid Legal and Overstock.Com. Other case material will be provided in class.

Preparation Before Second Week of Classes

Read chapter 5 (its long!). Also, download eVal from www.lundholmandsloan.com and play with it a bit.

Preparation Before Third Week of Classes

Read chapters 7 and 8. In addition, familiarize yourself with Royal Caribbean parts A and B. Other case materials will be provided in class.

Preparation Before Fourth Week of Classes

Read chapters 9, 10 and 11. In addition, familiarize yourself with Hogs and Chestnuts part 1. Other case materials will be provided in class.

Preparation Before Fifth Week of Classes

No Reading! Familiarize yourself with Hogs and Chestnuts part 2. Other case material will be provided in class.

Detailed Outline of Classes

Introduction

Plan for the class

Process of Financial Statement Analysis

Strategy Analysis

e.g., Canada Goose

Forbes Article and Video

Accounting Analysis

Accounting isn't perfect

Prepaid Legal Case

Prepaid Legal in class exercise

Capitalize versus Expense in class exercise

Overstock.Com Case

Overstock in class exercise

e.g., Canada Goose

Housekeeping – form groups, pick a company

Accruals for Lemonade in class exercise

Modeling expected accruals

Cash Flows – how to manipulate them

The Statement of Cash Flows

Building a SCF – in class exercise

---- estimated end of week 1 ----

Financial Ratio Analysis

ROE is the thing

Simple Dupont decomposition

Link from strategy to margins and turnovers

Overstock in class exercise

Margins versus Turnover in class exercise

Using eVal

Cleaning up standardized financial statements

Student presentations (introduce company)

----- estimated end of week 2 -----

The Advanced Dupont decomposition

Canada Goose op or fin? in class exercise

Royal Caribbean (RCL) in class exercise

Project company ratios – in class exercise

Economies of Scale

Student presentations (accounting and ratios)

Forecasting

Revenue forecasting

Cruise industry data

RCL revenue forecasts – in class exercise

RCL expense forecasts – in class exercise

RCL balance sheet forecasts – in class exercise

Project company forecasts workshop

----- estimated end of week 3 -----

Hogs and Chestnuts forecasting case – intro

Hogs NOI forecasts – in class exercise

Hogs NOA forecasts – in class exercise

Valuation

The algebra of valuation models

Aligning the math with eVal

Group Valuation of HOGS – in class exercise

Project company valuation – preliminary results

Discount rates and growth rates

Student presentations (forecasts and valuation)

Valuation Ratios

Valuation ratio formulas

Valuation Ratios guessing game

----- estimated end of week 4 -----

Chestnuts reverse engineering – introduction

Chestnuts reverse engineering – in class exercise

Quantitative Investing

Project company workshop

----- estimated end of week 5 -----

COURSE-SPECIFIC POLICIES AND RESOURCES

Missed or late assignments, and regrading of assessments

Late submissions will not be accepted and will receive a grade of zero.

Academic Concessions

If extenuating circumstances arise, please contact the RHL Graduate School program office as early as reasonably possible, and submit an [Academic Concession Request & Declaration Form](https://webforms.sauder.ubc.ca/academic-concession-rhlee) <https://webforms.sauder.ubc.ca/academic-concession-rhlee>. If an academic concession is granted during the course, the student will be provided options by RHL, or by the instructor in consultation with RHL, per [UBC's policy on Academic Concession](#).

POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL

Attendance

Excepting extenuating circumstances, students are expected to attend 100% of their scheduled class hours. Absent students limit their own academic potential, and that of their classmates, and cause unnecessary disruption to the learning environment. Students missing more than 20% of the total scheduled class hours for a course (including classes held during the add/drop period) without having received an academic concession will be withdrawn from that course. Withdrawals, depending on timing, could result in a "W" or an "F" standing on the transcript.

Punctuality

Students are expected to arrive for classes and activities on time and fully prepared to engage. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving later than halfway through a scheduled class will be treated as absent for that class.

Electronic Devices

During online lectures, students are not permitted to use any electronic devices other than the primary one used for attending the online lecture (e.g. laptop or desktop). Only Zoom should be open during the online lecture unless an instructor advises the use of another program/website for an in-class activity. Feedback from students indicates that personal devices are the number one distraction from effective learning and participation in the online learning environment.

Citation Style

Please use the American Psychological Association (APA) reference style to cite your sources.

Details of the above policies and other RHL Policies are available at:

<http://www.calendar.ubc.ca/vancouver/index.cfm?tree=12,199,506,1625>

UNIVERSITY POLICIES AND RESOURCES

UBC provides resources to support student learning and to maintain healthy lifestyles but recognizes that sometimes crises arise and so there are additional resources to access including those for survivors of sexual violence. UBC values respect for the person and ideas of all members of the academic community. Harassment and discrimination are not tolerated nor is suppression of academic freedom. UBC provides appropriate accommodation for students with disabilities and for religious observances. UBC values academic honesty and students are expected to acknowledge the ideas generated by others

and to uphold the highest academic standards in all of their actions. Details of the policies and how to access support are available on the UBC Senate website at <https://senate.ubc.ca/policies-resources-support-student-success>.

Respect for Equity, Diversity, and Inclusion

The UBC Sauder School of Business strives to promote an intellectual community that is enhanced by diversity along various dimensions including status as a First Nation, Metis, Inuit, or Indigenous person, race, ethnicity, gender identity, sexual orientation, religion, political beliefs, social class, and/or disability. It is critical that students from diverse backgrounds and perspectives be valued in and well-served by their courses. Furthermore, the diversity that students bring to the classroom should be viewed as a resource, benefit, and source of strength for your learning experience. It is expected that all students and members of our community conduct themselves with empathy and respect for others.

Academic Integrity

The academic enterprise is founded on honesty, civility, and integrity. As members of this enterprise, all students are expected to know, understand, and follow the codes of conduct regarding academic integrity. At the most basic level, this means submitting only original work done by you and acknowledging all sources of information or ideas and attributing them to others as required. This also means you should not cheat, copy, or mislead others about what is your work. Violations of academic integrity (i.e., misconduct) lead to the breakdown of the academic enterprise, and therefore serious consequences arise and harsh sanctions are imposed. For example, incidences of plagiarism or cheating may result in a mark of zero on the assignment or exam and more serious consequences may apply if the matter is referred to the President's Advisory Committee on Student Discipline. Careful records are kept in order to monitor and prevent recurrences.

COPYRIGHT

All materials of this course (course handouts, lecture slides, assessments, course readings, etc.) are the intellectual property of the instructor or licensed to be used in this course by the copyright owner. Redistribution of these materials by any means without permission of the copyright holder(s) constitutes a breach of copyright and may lead to academic discipline and could be subject to legal action. Any lecture recordings are for the sole use of the instructor and students enrolled in the class. **In no case may the lecture recording or part of the recording be used by students for any other purpose, either personal or commercial.** Further, audio or video recording of classes are not permitted without the prior consent of the instructor. Students may not share class Zoom links or invite others who are not registered to view sessions.

ACKNOWLEDGEMENT

UBC's Point Grey Campus is located on the traditional, ancestral, and unceded territory of the xwməθkwəy̓əm (Musqueam) people, who for millennia have passed on their culture, history, and traditions from one generation to the next on this site.