



FINANCIAL STATEMENT ANALYSIS & VALUATION (FSAV)

30130-01 in Spring Quarter 2024

Fri. 8:30-11:30 am in Harper C07

Zoom open office hour every Sunday 7-8 pm

Prof. John R. M. Hand

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Email me anytime!



COURSE GOALS

Hello! I'm delighted to teach you FSAV because I believe that strong FSAV skills will help you better understand firms' financial statements, disclosures, business strategies/decisions, and equity valuations. FSAV is especially designed for students who are seeking an internship or full-time career in finance or consulting. But I believe it's also very helpful and invaluable to anyone planning a career in business!

Using applied business cases, in-class mini-lectures, and optional pre-recorded videos and academic & real-world readings, my goals in FSAV are to do all I can to help you learn FSAV skills. We will:

- [1] **Motivate/Overview FSAV + Review Accrual/Deferral Accounting + Analyze Managed Financial Statements.** Review the key elements of accrual/deferral accounting that make financial statements different from and on a net basis more informative and useful than pure cash accounting. Motivate + overview FSAV. Appreciate why, where, and how some managers may exploit the discretion in GAAP + IFRS to 'manage' their firm's financial statements, especially earnings/net income/EPS.
- [2] **Analyze Firm Financial Performance.** Learn how to analyze a firm's financial performance in a multi-dimensional way by calculating + evaluating the SPP = size(s), source(s) and persistence(s) of conventional profitability, efficiency, liquidity, and leverage (PELL) ratios. Learn to decompose return on equity using the basic and advanced approaches and know how to measure and analyze the SSP of both normal and abnormal profitability.
- [3] **Analyze Revenues, Expenses & Assets.** Discern key connections between revenues, expenses, and assets in firms' financial statements, business decisions, and past, present & future performance.
- [4] **Analyze the Economics, Accounting & Valuation of Intangibles + M&A.** Gain insights into the unusual business characteristics, risks and returns of firms' intangible assets and M&A activities. Appreciate when, how and why financial statements capture vs. distort these big investments.
- [5] **Analyze Credit Risk & Financial Distress.** Do FSAV wearing creditor shoes. Quantitatively & qualitatively measure and analyze a firm's credit riskiness and proximity to financial distress.
- [6] **Sensibly Forecast Full Sets of Financial Statements.** Learn how to sensibly construct full sets of forecasted financial statements in order to arrive at economically well-founded quantitative answers to financing, investing or valuation questions. Know how to avoid the errors and dubious judgments Wall Street analysts often make when they forecast financial statements.
- [7] **Sensibly Value a Firm and Its Equity.** Learn how good FSAV can help you arrive at sensible DCF + multiples measures of enterprise and equity value. Recognize and avoid the errors and dubious economic judgments that managers & Wall Street analysts make when they do DCF valuations.

PREREQUISITES

To take BUSN 30130-01, you must have taken BUSN 30000 (Financial Accounting) or received a waiver from me. I strongly recommend but do not mandate that you must have taken BUSN 35200 (Corporation Finance). Also, while you don't need to have taken BUSN 35000 (Investments), it can be helpful in FSAV. You may not enroll in BUSN 30130-01 if you have previously taken BUSN 20150.

MATERIALS

- There's no textbook! Cases, case questions, lecture PDFs, Excel templates/files & always-optional supplementary + harder-core readings are on the **MODULES** sections of my Canvas 30130-01 site.

PEDAGOGY: BUSINESS CASES + MINI-LECTURES + optional VIDEOS

My pedagogy consists of required in-class business cases + topic-based mini-lectures, and optional topic-based out-of-class videos. All classes except the 1st and 6th are structured as follows:

- During the first 2 hours, we'll discuss in depth the case that you must have fully prepared since our last class. I may also spring on you entirely out of the blue new a question or two about the case!
- We'll take a 5-minute break halfway thru and at the end of our case discussion.
- During the last hour of class, I'll present a PPT-based mini-lecture on the key aspects of the next FSAV topic. After my mini-lecture, I'll post the PDFs of my mini-lecture onto Canvas for you.
- Optional materials – For some topics there on Canvas will be optional/supplementary readings and videos available for you to read/see/use. My videos are typically two or three Zoom recordings, each lasting one hour or so, in which I walk through in more detail the FSAV topic(s) at hand.

My goal in each business case that you'll tackle is GRADUATE LEVEL GUIDED LEARNING.

By this I mean that my cases are designed to have you learn-by-doing by working thru realistic business situations, together with my experience + expertise in the form of lectures, videos, time in class and "I'm-always-available-to-you-by-email" to guide and encourage you. Please be aware that the business situations in the cases will not fit exactly (nor sometimes even that closely) to the lecture that precedes it. Business is just not like that—business involves lots of messiness, incompleteness, errors, and poor judgments. It's both quantitative/analytic and qualitative/subjective. One of my goals in FSAV is to expose you to these aspects and help you feel comfortable with them in your post-Booth business careers.

In analyzing a case, you may go outside the case document only if the information you access would have been publicly available at the time of the case, or if I or the case asks you to access data after said date. **Under no circumstances whatsoever may you obtain or use answers from current or prior years' students or any other source. If you do, you WILL receive an FAIL (F) grade for 30130.**

The case questions to answer are those in the Word file on Canvas. Pull the Word file down and use it. Case write-ups should not exceed 8 single-spaced pages including figures, tables, and exhibits. Leave the case questions there in your answer PDF – that helps me in the grading. Write crisply and clearly. Please explicitly affirm the Booth Honor Code statement on the front of your case answer document.

Create a cover sheet for your case that has on it your name(s), section + group # on it, e.g., Barth and Wang, Sec. 001, Group 9. The quality should be what you'd give to a CFO or Managing Director boss.

For each case that you need to hand in, you must bring a double-sided & stapled hard copy of your case answers to hand in to me at the beginning of class. One set of answers per group, no pen or pencil markings allowed. I know this is old fashioned, but in my experience, grading your handed-in hard copy then returning it back to you well marked-up provides you with the highest quality assessment of the hard work that you will have put into the case. Thank you in advance for doing this!

GRADE COMPONENTS

There are no midterm or final exams. Instead, your FSAV course grade will be based on:

1. Weekly Cases (150 points out of 175 ≈ 86%)

- You'll hand in SIX case write-ups during the quarter = Cases #2, #3, #4, #6, #7, #8. Not #1, #5.
- Each handed in case is worth 25 points ≈ 14% of your overall course grade.
- You must do all the cases solo (viz., entirely on your own) or with one partner who you choose. I recommend working with a partner, but solo works better for some and that's completely fine.
- By Sunday March 24 @ 9 pm, you need to have [1] decided if you're working solo or with a partner, and [2] gone to the 30130-01 Canvas website, whichever you're enrolled in, and signed up on the GROUP SIGN UP HERE! tab in the PEOPLE section of the website. If you work with a partner, only one of you sign you and your partner up, please. If after the Sunday March 24 @ 9 pm deadline your partner drops the course, you may team up with another person who's in the same situation of having had his/her partner drop the course, letting me know you've done so.

2. Class Participation (25 points out of 175 ≈ 14%)

- Your active engagement in our discussions of the cases will be an important part of your learning. So please come fully prepared into each class with your answers to every part of every case.
- If you don't have my permission to miss a class, or you haven't prepared the case, or you're not open to sharing your answers, your class participation will be quite negatively affected.
- If you come to class prepared, and you participate when I call on you or when you volunteer to be called on or you ask a question, you'll do well on class participation.
- I encourage you to think creatively, critically, and independently. I welcome views that challenge mine or those of other students, especially when they're respectfully done and based on business logic and careful economic/quantitative or psychological/qualitative reasoning.

GRADING of your CASES

Students in prior years report spending an average of 7 to 8 hours preparing each week's case. When I grade your cases, I'll therefore respect the substantial amount of work that you'll need to have put into your answers. I and my graders will give partial credit wherever possible.

Each of the five cases that you'll hand in will be graded based on the:

- Correctness and insightfulness of your answers (22 points per allocations in the case Word file).
- Clarity & professionalism of your write-up (3 points). I recommend page numbers, group names & identifiers, single writing, follow a question/answer and not an essay format, and use text and figures and tables to connect me to your insights. Judicious use of color in figures can be good, as is being sensible about decimal points (e.g., ROE = 19.2%, not ROE = 19.219489%).

Your case answers will be graded hard copy and physically returned to you, so you'll be able to see grading notes and comments on your graded cases. You'll see your scores on the top right-and corner of your graded case, and your score will be in the Grades area of our 30130-01 Canvas website by Wednesday 9 pm each week following on after we discuss the case in class.

If you have a material grade concern, such as that you scored 17.5/25 but after looking at the answer key you believe you should have scored (say) 22/25, you're welcome to contact me, and I promise to take a careful look at your grading query. I do, however, reserve the right to regrade your entire case.

HONOR CODE

Students in this course are required to adhere to the standards of conduct in the Chicago Booth Honor Code and the Standards of Scholarship. **For me, it is an extremely serious violation of the honor code (and you will receive a FAILING grade for BUSN 30130-01) if you obtain case solutions or review class notes on case discussions and assignments from prior years, other sections of this course, the internet, or any other source whatsoever prior to writing up the case assignment and handing it at the class in which we'll be discussing the case.**

PHONES + LAPTOPS

To help you, your classmates and me focus on learning well, please do not use your phones during class, the best way of achieving this being please to turn your phone entirely off. I do respect the fact that you'll likely want to use and refer to your laptops during our case discussion, but please do not check or send emails during class, or surf the internet etc. Lastly, please take out any earbuds you may be wearing.

INTERNSHIPS

Because there is no final exam, there will be no conflict for those of you who have a summer internship that starts after our last class on Fri. 5/17. If, however, your internship starts before Fri. 5/17, you may without penalty not be at our last class if you [1] contact me as much ahead of time as possible to let me know, [2] email me before you leave for your internship a PDF of your internship offer letter with your start date shown, and [3] email me the PDF of your Pacific Grove Spice case write-up, properly done whether you are required to hand the case in or not, by 9 pm on Wednesday 5/15.

ADDITIONAL INFORMATION

Provisional grades: Provisional grades will be assigned to graduating students who have handed in five of their six assigned case write-ups.

Auditors: No auditors are permitted.

Pass/Fail: No pass/fail grades are permitted except to fulfil graduation administrative requirements.

Re-grade policy: If you have a grade dispute, please submit your work to me for review by emailing me a PDF your entire graded case, together with a clear written description of your grading query. I reserve the right to regrade your entire case, not just the section you have a query about.

Student accommodations: If you require any accommodations, please email me as soon as possible with a copy of your Accommodation Determination Letter (provided to you by the Student Disability Services office at 5501 S. Ellis Ave.) so that I may discuss with you how your accommodations may be implemented in the course. The University of Chicago is committed to ensuring the full participation of all students in its programs. If you have a documented disability (or think you may

have a disability) and as a result need a reasonable accommodation to participate in class, to complete course requirements, or to benefit from the University's programs or services, I encourage you to contact Student Disability Services as soon as possible. To receive reasonable accommodation, you must be appropriately registered with Student Disability Services. Please contact the office at 773-702-6000/TTY 773-795-1186 or disabilities@uchicago.edu, or visit the [website](#).

Student accommodations: The Recording and Deletion Policies for the current academic year can be found in the Student Manual under [Petitions, Audio & Video Recording on Campus](#). In this regard, do not record, share, or disseminate any course sessions, videos, transcripts, audio, or chats. Do not share links for the course to those not currently enrolled.

PERSONAL

I'm a very proud Chicago Booth grad = MBA 1983, PhD 1987. I've been at UNC Chapel Hill for 31 years, before which I was a faculty member at Chicago Booth (1988-93) and prior to that at Yale (1987-88). I'm hugely happily married to my Chicago grad wife Lynn, and we have two daughters, Sarah 30 and Rachel 26. Sarah is a kindergarten teacher, and Rachel is a content marketing specialist at Chicago unicorn ShipBob. I'm passionate about education and have been pleased to put my accounting and finance skills to use as Treasurer of Chapel Hill Bible Church (1996-2005) and Board Treasurer of Trinity School of Durham & Chapel Hill (2006-2016, 2020-present), helping to steward multi-million-dollar finances at each non-profit. I also have 20+ years of start-up financial advisory experience, and I've enjoyed teaching executives in open enrollment and custom programs for 25+ years.

SUMMARY

I know you all want to learn a lot and do well, and I want this for you. Overall, I recommend that you:

- Prepare the cases well. They're the core of your learning and they count for 86% of your grade ☺.
 - Class participation and case discussions are a critical part of FSAV. It's therefore vital that you come to class ready to provide and explain/discuss your answer to every question in every case.
 - Try to set aside anxieties you may have about in-class participation. Attend, pay attention, think, and be ready with your case answers & questions. Actively think about my lecture materials/PDFs.
 - My posture will be to balance high expectations for you with grace and respect toward you. Let's work well and honorably together in FSAV!
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The University of Chicago Booth School of Business

30130-01

SPRING QUARTER 2024

FSAV CALENDAR

Weekly online open office hour = every Sunday 7-8 pm

Zoom link will be posted [here](#) together with passcode by the time the Spring Quarter starts

1a	3/22	Mini-lecture: FSAV Motivation & Overview	
1b	3/22	In-class Pittstop exercise to review accrual/deferral accounting vs. cash accounting	
1c	3/22	Mini-lecture: Analyze Managed Financial Statements, especially net income/EPS	
2a	3/29	CASE #1: <i>Harnischfeger</i> (practice case: no-one has to hand it in)	HBS 186160
2b	3/29	Mini-lecture: Analyze Firm Financial Performance	
3a	4/5	CASE #2: <i>Ahold Delhaize vs. Tesco</i>	On Canvas
3b	4/5	Mini-lecture: Analyze Revenues	
4a	4/12	CASE #3: <i>Under Armour Settles With The SEC</i>	Ivey W27293
4b	4/12	Mini-lecture: Analyze Economics/Accounting/Valuation of Intangibles + M&A	
5a	4/19	CASE #4: <i>Facebook Buys WhatsApp</i>	UV 7211
5b	4/19	Mini-lecture: Analyze Expenses & Assets	
6a	4/26	CASE #5: <i>Pre-Paid Legal Services</i> < Chill in-class ungraded work! >	HBS 100037
6b	4/26	Mini-lecture: Analyze Credit Risk & Financial Distress	
7a	5/3	CASE #6: <i>RobTech Inc.</i>	On Canvas
7b	5/3	Mini-lecture: How to Sensibly Forecast Full Sets of Financial Statements	
8a	5/10	CASE #7: <i>Urban Water Partners (A)</i>	HBS 111016
8b	5/10	Mini-lecture: How to Sensibly Value a Business and its Equity	
9a	5/17	CASE #8: <i>Pacific Grove Spice</i>	HBS 4366
9b	5/17	Course Wrap-Up + do course evaluations + we'll finish early!	

All cases will be available in the Modules area of our 30130-01 Canvas website.

FYI Extra Recommended Materials for Folks interested in further FSAV

If you're planning on going into a career field where you'll be doing a lot of FSAV, here are some texts that you may find useful. They're not required for this course but are a great resource for your career.

Easton, P. D., M. L. McAnally, and G. A. Sommers. 2020. *Financial Statement Analysis & Valuation*. Cambridge Business Publishers.

Sommers, G.A., Easton, P.D., and Drake, P.D. 2021. *Valuation Using Financial Statements*. Cambridge Business Publishers.

Koller, T., Goedhart, M. and D. Wessels. 2020. *Valuation: Measuring and Managing the Value of Companies*. 7th edition. McKinsey & Co.

Lundholm, R. and R. Sloan. 2019. *Equity Valuation and Analysis*. 5rd edition. McGraw-Hill.

Palepu, K.G., and P.M. Healy. 2015. *Business Analysis and Valuation: Using Financial Statements*. Cengage Learning, Boston MA

Penman, S. H. 2012. *Financial Statement Analysis and Security Valuation*. 5th edition. New York, New York: McGraw-Hill/Irwin.

Wahlen, J.M., Baginski, S.P., and M. Bradshaw. 2014. *Financial Reporting, Financial Statement Analysis, and Valuation: A Strategic Perspective*. Cengage Learning, Boston MA.

The last Module on Canvas contains a variety of resources for those interested in Advanced FSAV, including my latest research.