

Course Description

The objective of this class is to provide you with a framework for analyzing a firm's past performance, estimating its future performance, and valuing its equity. The course integrates key concepts from accounting, finance, economics, and business strategy and applies them to financial decision-making. The course focuses on teaching you to interpret numbers in the financial statements. You should leave the course with the ability to generate reasonably accurate (or at least logically consistent) forecasts of a firm's future financial performance, including revenues, earnings, asset balances and free cash flows.

The class is case-oriented. You are responsible for preparing cases in advance of the class session, including familiarizing yourself with the relevant accounting issue. The course illustrates contemporary forecasting and valuation techniques used by practitioners as well as evidence from academic research on the effectiveness of these techniques. Students planning a career in accounting, the financial industry, consulting, or general management, will find the knowledge acquired in this course relevant.

COURSE INFORMATION

Instructor: Patricia M. Dechow

Term/period: Fall 2018

Phone: (213) 740-9585

Units: 3.0

Office Hours: Before class, during the break, after class, or by appointment

Class times: Wednesday: 6:30-9:30 pm

Classroom: Popovich Hall: JKP 202

Location of My Office: ACC 117

Section 14279: Graduate Accounting Students

Email: patricia.dechow@marshall.usc.edu

Section 14269: MBA and Master Students

Teaching Assistant: Ventsi Stamenov: Ventsislav.Stamenov.2020@marshall.usc.edu

Course duration: *Wednesday August 22 to Wednesday December 5th*

Final Exam Date: *December 5th 2018*

Prerequisites

You should have taken an introductory financial accounting and introductory finance class. Upper level financial accounting classes and corporate finance are also helpful. The stated prerequisite is GSBA510.

Course website: blackboard

WHAT YOU WILL HAVE LEARNED BY THE END OF THE COURSE

By the end of the class you will:

- Have a framework for analyzing a business. We will incorporate key elements that you have learned in your other classes and apply this knowledge systematically to value a business.
- Become familiar with the organization and disclosure of information reported in 10-K filings and the notes to the financial statements. You will have a detailed understanding of assets and liabilities reported on the balance sheet. You will also understand what assets and liabilities are NOT reported under accounting rules and determine the importance of these off-balance sheet items for understanding the value of a business.
- Be proficient at calculating and interpreting financial ratios. You will understand how to use ratios to compare a firm to its competitors and to evaluate changes in ratios over time. You will also know how to use these ratios to help forecast the future.
- You will understand how accounting errors (either intentional manipulation by management or unintentional mistakes) impact reported income and the book value of equity.
- Learn about earnings announcements and the reporting of GAAP and non-GAAP earnings numbers.
- Have a framework for forecasting future earnings and predicting the stock market's response to quarterly earnings announcements.
- Be able to read and critically evaluate financial analyst reports on publicly listed companies.
- Understand major valuation models. You will learn a unified framework for valuation and so be comfortable moving between discounted cash flow models, residual income models, and models based on market multiples such as the price-earnings ratio and the market-to-book ratio.
- Be proficient at inputting financial data into the eVal valuation excel spreadsheets and using eVal to forecast and value companies.

COURSE MATERIALS & REQUIREMENTS

Lundholm and Sloan, *Equity Valuation and Analysis*, 4th edition. This book is available at the USC bookstore or online at: amazon.com or createspace.com.



Online Cases: Available on Blackboard or

<http://www.lundholmandsloan.com/index.html>

Online Software: eVal: <http://www.lundholmandsloan.com/software.html>

FactSet: You will receive an account so that you can access FactSet during the semester

OFFICE HOURS

Because this is an evening class, it may be easiest for you to schedule an appointment to meet me at a time that best suits you. I will be available to discuss the course with you before class, during the break in the middle of class, or after class. I also check my email regularly so if you have a question you can email me.

TEACHING & LEARNING ACTIVITIES

Reading and understanding financial statements is very contextual. There is only so far theory (e.g., knowing accounting rules) can take us. It is a bit like learning how to drive a car, where you can learn the road rules but the only way you become a good driver is by driving a lot, encountering different road conditions, making mistakes, and learning from your mistakes. Financial Statement Analysis is similar, the best way to learn is by actually engaging in the task. This means the class is very “hands on” – and involves the use of cases that require you to read financial statements and answer questions. This is hard because sometimes you do not know where to start. **Please try all cases before class.** The more financial statements you read, the easier it gets to understand what to look for even though the issues or concerns change from one firm to another. You need to dive into the details to learn how to analyze financial statements.

The Lundholm and Sloan website has **Webcasts** that many students find helpful for reviewing concepts discussed in class. Often hearing the same information more than once can help consolidate your understanding. Therefore, if you feel that you did not quite understand something I discussed in class, please check the webcasts.

Periodically we will work on in-class exercises. For these classes, you will want to bring your laptop. In addition, financial statement materials can be very long and you will often want to read them from your computer rather than print them all out.

ASSESSMENT

<i>Class Review/Quiz Questions</i>	8%
<i>Participating in Class</i>	8%
<i>Individual Homeworks</i>	4%
<i>(Due August 29, September 5, make up homework October 24)</i>	
<i>Group Cases</i>	20%
<i>Midterm (Wednesday October 17)</i>	20%
<i>Project (Wednesday November 28)</i>	20%
<i>Final Exam (Wednesday December 5)</i>	20%

CLASS REVIEW/QUIZ QUESTIONS

At the start of class, you will have a one page review of material from the previous class. You will hand these end at the end of class or during class. These will be graded either 0, 0.5, or 1, and

your grade will be based primarily on effort. You can miss two classes (i.e., not hand in two) with no penalty to your grade.

INDIVIDUAL HOMEWORKS

There are a few shorter exercises that I would like everyone to try. These will be handed in individually.

GROUP CASES

The Group Cases are handed in as one per group, with groups ranging from 3-5 students. We will organize team membership and case selection in the third class.

You must hand in a case from each of the major parts of the course (Accounting Analysis, Financial Analysis, Forecasting, Valuation, and Synthesis and Review). The case is not graded on accuracy alone. An honest and thoughtful effort will get most of the credit. The homework should not be more than three pages with four supporting pages of tables or calculations.

Each group member may have a different set of skills but it is important to work together and all participate. Later in the course I will ask group members to let me know how the group worked out, so please try and make a positive contribution to your group and if you have problems let members know in advance. Remember you have to feel like you are doing more than your fair share of the work for other group members to actually think that you have done your fair share of the work.

Cases are due at the start of class. You can use Blackboard to submit cases. Please submit all cases as PDFs regular letter size paper. On days when your team hands in a case you should be ready to answer questions and get involved in class.

MIDTERM AND FINAL EXAM

For the Midterm and Final Exam, you will receive a 10K and supporting material for a firm at least two days in advance of the test date. The test will involve answering questions about the firm based on information in the 10K. Attending the Midterm and Final Exam is mandatory.

GROUP PROJECT

Each team will apply the framework covered in the class to provide a valuation of a company. I will provide more details on the project later in the course.

CLASS PARTICIPATION

Class participation portion of your grade is based on:

- Class attendance and positive and quality contributions shared in class, made with thought and preparation prior to the class meetings.
- Class attendance and discussion of other team's projects during the project presentation phase of the class.

- A positive attitude that enriches the learning experience of the class (e.g., helping another student struggling to answer a question, looking on the bright side of things if a case is tough, etc.).

CLASS ETIQUETTE

1. **Arrive at class on time** and avoid leaving early.
2. **Bring a name tent** to class and sit in the same location.
3. **Turn off cellphones** and other audible electronics.
4. **Do not use laptops** unless required for an in-class exercise.
5. If you feel another member of the class is distracting you, let me know, and where appropriate, I will anonymously communicate your feedback to them.
6. **Sit in the same spot** for all classes (we will establish a seating chart in the third class).

CELL PHONE AND LAPTOP POLICY



Research has shown that the human brain is not good at multi-tasking. The human brain functions sequentially which means it takes a fraction of a second for your brain to switch from viewing material on your laptop, checking messages on your phone, or listening to the class. Even when you view what is on someone else's laptop your brain has to switch from listening to the class to focusing on the laptop. Thus, every time you switch activities your brain has to go back and remember "where it was" on the other activity. Therefore, **laptops and cell phones are not to be used during class unless I specifically request** you to open up your laptops and do some activity.

GRADING POLICY

There is no mandated curve or hard target for classes at Marshall. Historically, graduate electives at the Marshall School have had an average GPA of around 3.5.

Support Systems

Student Counseling Services (SCS) - (213) 740-7711 – 24/7 on call

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

<https://engemannshc.usc.edu/counseling/>

National Suicide Prevention Lifeline - 1-800-273-8255

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week. <http://www.suicidepreventionlifeline.org>

Relationship & Sexual Violence Prevention Services (RSVP) - (213) 740-4900 - 24/7 on call

Free and confidential therapy services, workshops, and training for situations related to gender-based harm. <https://engemannshc.usc.edu/rsvp/>

Sexual Assault Resource Center

For more information about how to get help or help a survivor, rights, reporting options, and additional resources, visit the website: <http://sarc.usc.edu/>

Office of Equity and Diversity (OED)/Title IX compliance – (213) 740-5086

Works with faculty, staff, visitors, applicants, and students around issues of protected class. <https://equity.usc.edu/>

Bias Assessment Response and Support

Incidents of bias, hate crimes and microaggressions need to be reported allowing for appropriate investigation and response. <https://studentaffairs.usc.edu/bias-assessment-response-support/>

Student Support & Advocacy – (213) 821-4710

Assists students and families in resolving complex issues adversely affecting their success as a student EX: personal, financial, and academic.

<https://studentaffairs.usc.edu/ssa/>

Diversity at USC – <https://diversity.usc.edu/>

Tab for Events, Programs and Training, Task Force (including representatives for each school), Chronology, Participate, Resources for Students

CLASS SCHEDULE (as of August 2018)

PART I: INTRODUCTION AND BUSINESS STRATEGY ANALYSIS

WEEK 1

Wednesday, August 22

Course Introduction and Overview

Reading: Textbook Chapter 1: Introduction

Handout: Analyzing Apple Case and an overview of a 10K

PART III: ACCOUNTING ANALYSIS

WEEK 2

Wednesday, August 29

Understanding the Business and Accounting Analysis

Reading: Information Collection Textbook Chapter 2 (skim only)

Reading: Understanding the Business Textbook Chapter 3

Reading: Accounting Analysis -Textbook Chapter 4

Analyzing Apple: Questions 1 – 7 (HW 1)

WEEK 3

Wednesday, September 5

Understanding the Impact of Different Accounting Rules:

EnCom Corporation: Stage 1 and 2 (HW 2)

(http://www.lundholmandsloan.com/case_materials.html)

[Organize Groups for Cases]

PART IV: FINANCIAL ANALYSIS

WEEK 4

Wednesday, September 12

Accounting Analysis: Revenue Recognition

Case: Apple and the iPad in textbook: Questions 1, 2, 4, 5, and 6 (Case)

Ratio Analysis: Introduction

Reading: Textbook Chapter 5 and 6

WEEK 5

Wednesday, September 19

Accounting Analysis: Analyzing the Balance Sheet

Case: Boston Chicken in textbook (Case)

Ratio Analysis: Margins and Turnovers and the Advanced Dupont Analysis

Reading: Textbook Chapter 5 and 6

WEEK 6

Wednesday, September 26

Ratio Analysis: Continued

Case: Analyzing Apple: Ratio Analysis Questions 8-12 (Case)

Factset Tip Sheets (Company Tab, Comps, Equity Screening)

PART V: FORECASTING

WEEK 7

Session: Wednesday, October 3

Ratio Analysis: Continued

Case: Using Factset - Identifying Accounting Distortions (Case)

Textbook Chapters 7 and 8: Forecasting Details

Workshop on forecasting and discussion of Apple

WEEK 8

Session: Wednesday, October 10

Forecasting Application:

Case: Forecasting EPS: Analyzing Apple: Question 13 (Case)

Groups will present their Q4 EPS Forecasts for Apple - please have presentation on a USB drive

Midterm Review

WEEK 9

Wednesday, October 17

MIDTERM TEST

PART VI: VALUATION

WEEK 10

Wednesday, October 24

Valuation: Application of Discounted Cash Flows and Residual Income Models

Reading: Textbook Chapter 9: Understanding the Cost of Capital

Textbook Chapter 10: Valuation models

Case: Different approaches to valuation: Encom Corporation Stage 3 (HW3)

WEEK 11

Wednesday, October 31

Valuation Application:

Case: Creating a spreadsheet for valuation: Analyzing Apple: Question 14 – 16 (Case)

Case: Using eVal and valuation around earnings announcements: Evaluating Intel's Earnings Torpedo (Case)

PART VII: SYNTHESIS, REVIEW AND APPLICATIONS

WEEK 12

Wednesday, November 7

Valuation Application: Understanding drivers of Valuation Ratios

Reading: Textbook Chapter 11

Case: Restaurant Industry in 2003 in textbook – (in class exercise)

Project Overview

WEEK 13

Wednesday, November 14

Case: Using eVal and valuations in M&A: AOL Time Warner (Case)

Project Workshop

WEEK 14

Session: Wednesday, November 21

<p>Thanksgiving – NO CLASS</p>

WEEK 15

Wednesday, November 28

Project Presentations

<p>PROJECTS Due and Presentations</p>
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<p>Wednesday, November 28</p>

WEEK 16

Wednesday, December 5, 2018

Scheduled time: 7:00pm – 9:00pm

FINAL EXAM