

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 2022

Phone: (213) 740-9585

Units: 3.0

Office Hours: Before/after class

Class: Thursday: 6:30-9:30 pm

Or by Appointment

Classroom: Popovich Hall: JKP 102

My Office: ACC 117

Section 14300D: MAcc Students

Email: patricia.dechow@marshall.usc.edu

Section 14303R: MBA and Master Students

Teaching Assistant: Taylor James

Course duration: *Thursday August 25 to Thursday December 1st*

Project Presentation Date: *Thursday, November 17, 2022*

Final Exam Date: *Thursday, December 8, 2022*

Prerequisites

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

- 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. .
- 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.
- Know the impact of accounting errors (either intentional manipulation by management or unintentional mistakes) on income and the book value of equity.
- Understand the difference between 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

BOOK: Lundholm and Sloan, *Equity Valuation and Analysis*, 5th edition.

This book is available at the USC bookstore or online at: amazon.com or createspace.com.



Note: The 5th Edition is the version I will refer to in class and in the syllabus.

The authors have a website:

<https://www.lundholmandsloan.com/home>

Software (excel): eVal: <https://www.lundholmandsloan.com/software>

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

Useful Summary for each chapter: <https://www.lundholmandsloan.com/videos>

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

OFFICE HOURS

I will be available to discuss the course with you before class, during the break in the middle of class, or after class. 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.

TEACHING & LEARNING ACTIVITIES

Reading and understanding financial statements is contextual. 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, 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 “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.

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.

ASSESSMENT

<i>Class Participation and Attendance</i>	12%
<i>Individual Homework</i>	8%
<i>Group Cases</i>	25%
<i>Project (Thursday, November 17)</i>	20%
<i>Final Exam (Thursday, December 8)</i>	35%

CLASS PARTICIPATION

Each class, we will have a simple review sheet that will be used to check attendance and check your knowledge on the prior class. You can miss one class with no penalty to your score.

Class participation also requires you to answer questions during class and participate in case discussion. Have 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).

HOMEWORKS

There are a few exercises that I would like everyone to try. You can work with others on the homework. These will be handed in on blackboard individually. You will get a score of 1 for completing each homework and 0 for not completing the homework.

It is best if you do the homework before class but you will have the opportunity to submit them after class. You can miss one homework with no penalty to your grade.

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 second class.

Cases are not graded on accuracy alone. An honest and thoughtful effort will get most of the credit. The case answers should not be more than three pages with four supporting pages of tables or calculations.

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. I do not want to have to read your excel spreadsheets. You should be ready to answer questions and get involved in class.

All Groups must hand in the Apple EPS forecasting case. Cases that have a * are cases that your team must hand in.

Your group's lowest scoring case will be dropped from your case score.

I will also ask you for feedback on your group members. An example of the feedback form is provided at the end of this document.

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. Attendance for the class session on project presentations is mandatory.

FINAL EXAM

For the Final Exam, you will receive a 10K and supporting material for a firm a week prior to the test date. The test will involve answering questions about the firm based on information in the 10K. I will provide more information on the exam later in the semester. Attending the Final Exam is mandatory.

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. **Use laptops** only for in-class activities.
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).

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.

CLASS SCHEDULE

PART I: INTRODUCTION AND BUSINESS STRATEGY ANALYSIS**CLASS 1****Thursday, August 25**

Chapter 1 (Introduction) and Chapter 2 (Information collection)

a. Course Introduction and Overview**b. Information Collection: Reading Apple Corporation's – 10-K**

Overview of Apple's 10K

PART II: ACCOUNTING ANALYSIS**CLASS 2****Thursday, September 1**

Chapter 3 (Understanding the Business) and Chapter 4 (Accounting Analysis)

a. Understanding the Business**b. Link between the income statement and balance sheet**Analyzing Apple: Questions 1-6 (HW)**CLASS 3: Thursday, September 8**

Chapter 4 (Accounting Analysis)

a. Standardized financial statements**b. Understanding how different accounting unravels over time**Analyzing Apple: Accounting Analysis 2: Question 7 (HW)EnCom Corporation: Stage 1 and 2 (HW)**PART III: FINANCIAL ANALYSIS****CLASS 4: Thursday, September 15**

Chapter 4 (Accounting Analysis) and Chapter 5 (Ratio Analysis)

a. Application of Accounting Analysis: Zynga**b. Ratio Analysis: Introduction**Zynga – The Business Analysis and Accounting Analysis Questions (Case)*

CLASS 5: Thursday, September 22

Chapter 5 (Ratio Analysis) and Chapter 6 (Cash Flow Analysis)

a. Ratio Analysis: Advanced Dupont Analysis

b. Ratio Analysis: Margins and Turnover Analysis

Zynga Case – Financial Analysis Questions (Case)

CLASS 6: Thursday, September 29

a. Ratio Analysis: Case - Comparison of Apple and Microsoft - case

b. Ratio Analysis: Cash Flow Analysis and Bankruptcy Risk

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

PART IV: FORECASTING

CLASS 7: Thursday, October 6

RELEVANT CHAPTERS FOR CLASS

Chapter 7 (Forecasting) Chapter 8 (Forecasting Details)

a. Forecasting

b. Workshop on forecasting and discussion of Apple

Fall Recess Thursday: October 13 – No Class

CLASS 8: Thursday, October 20

a. Forecasting Application: Apple's Q4 EPS

b. Introduction to using eVal (excel valuation template available on L&S website)

Case: Analyzing Apple: Forecasting EPS (Case)*

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

PART V: VALUATION**CLASS 9: Thursday, October 27**

Chapter 9 (Cost of Capital) Chapter 10 (Valuation Models)

a. Valuation: Application of Discounted Cash Flows and Residual Income Models

Analyzing Apple: Creating a spreadsheet for valuation: Template (Case)*

Encom Corporation Stage 3: Different approaches to valuation (HW)

CLASS 10: Thursday, November 3

Chapter 10 (Valuation Models)

a. Earnings Announcements and Valuation**b. Project Workshop**

Evaluating Intel's Earnings Torpedo (Case)*

Analyzing Apple: Credit Analysis (HW)

PART VI: SYNTHESIS, REVIEW AND APPLICATIONS**CLASS 11: Thursday, November 10**

Chapter 11 (Valuation Ratios)

a. Understanding drivers of Valuation Ratios

Valuations in Mergers and Acquisitions: AOL Time Warner (Case)*

CLASS 12: Thursday, November 17

Project Presentations

Thanksgiving – Thursday, November 24, No Class

CLASS 13: Thursday, December 1

Catch up Class and Review for Final Exam

Thursday, December 8, 2022

Scheduled time: 7:00pm – 9:00pm

FINAL EXAM

OPEN EXPRESSION AND RESPECT FOR ALL

An important goal of the educational experience at USC Marshall is to be exposed to and discuss diverse, thought-provoking, and sometimes controversial ideas that challenge one's beliefs. In this course we will support the values articulated in the USC Marshall "[Open Expression Statement](#)."

STATEMENT ON ACADEMIC CONDUCT AND SUPPORT SYSTEMS**Academic Conduct:**

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, "Behavior Violating University Standards" policy.usc.edu/scampus-part-b. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on [Research and Scholarship Misconduct](#).

Students and Disability Accommodations:

USC welcomes students with disabilities into all of the University's educational programs. The Office of Student Accessibility Services (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at osas.usc.edu. You may contact OSAS at (213) 740-0776 or via email at osasfrontdesk@usc.edu.

Support Systems:

Counseling and Mental Health - (213) 740-9355 – 24/7 on call
studenthealth.usc.edu/counseling

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

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call
suicidepreventionlifeline.org

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-9355(WELL), press "0" after hours – 24/7 on call

studenthealth.usc.edu/sexual-assault

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office for Equity, Equal Opportunity, and Title IX (EEO-TIX) - (213) 740-5086

eeotix.usc.edu

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298

usc-advocate.symplicity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office for Equity, Equal Opportunity, and Title for appropriate investigation, supportive measures, and response.

The Office of Student Accessibility Services (OSAS) - (213) 740-0776

osas.usc.edu

OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.

USC Campus Support and Intervention - (213) 821-4710

campussupport.usc.edu

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

Diversity, Equity and Inclusion - (213) 740-2101

diversity.usc.edu

Information on events, programs and training, the Provost's Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call

dps.usc.edu, emergency.usc.edu

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call

dps.usc.edu

Non-emergency assistance or information.

Office of the Ombuds - (213) 821-9556 (UPC) / (323-442-0382 (HSC)

ombuds.usc.edu

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

Occupational Therapy Faculty Practice - (323) 442-3340 or otfp@med.usc.edu

chan.usc.edu/otfp

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.

ACCT 581: PEER EVALUATION FORM

This form seeks feedback on team members' contributions to the comprehensive group case. Please rate each team member (including yourself) as to whether you assess their overall contribution to group work to be **Way Below Average (1)**, **Below Average (2)**, **Average (3)**, **Above Average (4)** or **Well Above Average (5)**.

Name of Group _____

	<u>Name</u>	<u>Rating from 1 to 5</u>
Yourself	_____	_____
Other Member 1	_____	_____
Other Member 2	_____	_____
Other Member 3	_____	_____
Other Member 4	_____	_____

Comments and Explanations