



Rotman Commerce UNIVERSITY OF TORONTO

Course Outline

RSM 429H1 F

Financial Statement Analysis and Valuation

Fall 2018

Course Meets: Friday, 10-12 & 12-2, Room WW 126

Instructor: Eszter Palancz, office TBA
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Webpage: <https://q.utoronto.ca>
Office Hours: Friday, 2:30-3:30PM
Teaching Assistants: TBA
TBA

** Please remember to include "RSM429" at the beginning of the email subject line.
To schedule an appointment, please send an e-mail in advance to let me know what you would like to discuss.*

Course Scope and Mission

This course will help you value businesses using financial statements. We will discuss how accounting regulations and managerial discretion influence presented financial statements. You will understand how to interpret financial statements, analyze cash flows, make judgments about earnings quality and uncover hidden assets and liabilities. You will also be exposed to research from accounting and finance that focuses on financial statement analysis and valuation methods and techniques. Finally, we will use financial statement analysis prospectively to forecast and value firms using cash flow based and accounting based methods.

The course will consist of the following five modules. In the first module (strategic and industry analysis) you will learn why the critical first step is to understand industry structure and a company's strategic choices. The second module (accounting analysis) will provide you with a framework to understand and evaluate a firm's accounting and disclosure choices and learn how to adjust financial statements to ensure better comparability. The third module (financial analysis) will present a comprehensive framework for ratio analysis where a firm's operations are separated from its financing to better understand the true drivers of profitability and risk. The fourth module (prospective analysis) will expose you to techniques of integrated forecasting; where you will apply the insights from the earlier modules and apply them to truly understand what the future holds for the firm being analyzed. You will then use these forecasts to value firms using a variety of techniques including DCF, multiples and abnormal earnings based valuation methods. In the fifth module, you will apply the business valuation techniques in a variety of settings including credit analysis and M&A.

Course Prerequisites

Rotman Commerce: RSM219H and RSM222H

Required Readings

I will make notes, slides, cases and examples available on the course website. There will be no additional course packet as all material will be made available online.

There is no required text for the course. However, the following is an **optional companion text** to the course:

Krishna G. Palepu, Paul M. Healy and Eric Peek, "Business Analysis and Valuation using Financial Statements: IFRS Edition. 4th Edition".

If you intend to purchase this textbook, please be careful to get the right edition. This optional text is available for purchase at the bookstore under ISBN: 978-1473-722651

Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

<u>Work</u>		<u>Due Date</u>
Class Participation	15%	Ongoing
Individual Homework Assignments	15%	Due in class
Group Project and Presentation	30%	As listed in weekly schedule
Final Exam	40%	During Faculty of Arts & Science Final Examination period

COURSE FORMAT AND EXPECTATIONS

Class Participation

Class discussion is an essential part of learning, and it is also the most interesting way to conduct a class. Class participation will enhance your presentation and communication skills, which will help you in recruiting and in your career. Students are expected to prepare in advance for classes (including unassessed cases), attend classes and contribute to discussions on a *constructive* and *regular* basis.

The primary goal of the individual participation portion of the grade is to reward you for your preparation and individual contribution to the learning environment. It includes, but is not limited to, asking and answering questions, in-class participation work etc. Students are required to bring their name cards to every class. Professionalism is a component of class contribution. All cell phones should be put away and turned off during class and laptops should be used for class purposes only.

Individual Homework Assignments (HW assignments A and B)

Each week we will learn new financial statement analysis skills, techniques and models. The two individual assessed written assignments (HW assignments A and B), based on a case or a problem, cover core components of the course. Therefore, they will prepare you for the final examination. Instructions regarding the length and the format of the assignments will be announced on Quercus. The homework assignments are due in class and you must submit it in the section that you are registered for.

Group Project and Milestone Presentation

Please form groups of 6 and designate a group representative. You should choose a publicly traded firm that uses either IFRS or US GAAP. You should not choose firms from the financial services and other regulated industries, or any firm with a negative book value of equity in the most recent two years. This is to avoid added complications in your analysis.

The group representative should email me on or before 6PM on Friday, 14th September with the details of the firm chosen, and the names of each group member (as appeared in ROSI). Each group will analyze a different firm, therefore firm choice will be based on a first-come first-served basis. I will confirm the firm selection with each group by email.

Upon selecting your firm, obtain the most recent financial statements. You could use the web as most firms have a lot of information usually under investor relations (IR) on their web sites, or the financials are available on the EDGAR database (www.sec.gov) or the SEDAR database (www.sedar.com). IR websites may have the statements in useful formats such as excel. Any other public information available on the firm can also be used. The reference librarians in the library may be able to direct you to sources of information on industries and particular firms. In addition, make use of the internet and Lexis/Nexis. Finally, you will also want to look at those financial statements of the firm's major competitors.

Main Objective:

In this project, your group should take the role of investment advisor to a group of investors. Your ultimate objective is to advise whether they should buy the stock of the company. Of course to arrive at your final conclusion you will need to address a number of issues, including but NOT limited to:

1. Introduction / Industry and Strategic Analysis
 - Describe your company
 - Analyze the industry in which the firm operates in. Do a 5 forces analysis for instance or use any other framework you feel comfortable with.
 - Analyze the strategy of the firm and compare it with other firms in that industry.
2. Accounting Analysis
 - Analyze the firms accounting choices, compare with the others in the industry and look for red flags.
 - Address the issue of accounting adjustments.
3. Financial Analysis
 - Do a Risk and Profitability analysis of the firm using past data.
 - Carry out time series analysis as well as cross-sectional analysis by comparing the firm to other firms in the industry.
 - Make sure to do a ROE decomposition as well as a ROA breakdown.
4. Forecasting
 - Make assessments about what the future balance sheets, income statements and cash flow statements will look like.
 - Use the condensed approach discussed in class.
5. Valuation
 - Value the firm using the Abnormal Earnings Based Valuation.
 - Also, value the firm using one other technique (DCF, Multiples – any other method you want to use).
 - Make sure you run sensitivity analysis based on scenarios
6. Recommendation
 - Compare the valuation with actual stock price and try to provide plausible reasons for why the firm's actual stock price may be different from what you valued it at.
 - Use this to make your recommendation

You will also need to include an Executive Summary (maximum 2 pages long) that summarizes the key findings of your analysis and states your conclusion and recommendation.

There will be **two deliverables** for this project with the following grade distribution:

1. An in-class group presentation during Week 8 (10%). Your group will present your slide deck for issues 1,2 and 3. All group members must participate in the presentation as a presenter and each group must bring two hard copies of the slide deck to class for the instructor.
2. A final project report due at the end of the course (20%). Submission details will be provided on the course website.

Final Examination

The final examination will be held during the formal examination period. The date and time of the final examination will be announced by the Faculty of Arts and Science. The format of the final exam will be announced online and it will cover materials from the entire course.

Turnitin.com:

Normally students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the university's use of the Turnitin.com service are described on the Turnitin.com website.

For Written Assignments:

Please note that clear, concise, and correct writing will be considered in the evaluation of the individual homework assignments and group project. That is, you may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre (<http://www.studentlife.utoronto.ca/asc>) or one of the College Writing Centres (www.writing.utoronto.ca/writing-centres). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

Group Work:

Learning to work together in teams is an important aspect of your education and preparation for your future careers. That said, project-based teamwork is often new to students; to work well in teams, it helps to follow a set of core expectations to best succeed at your team projects.

1. Read the document entitled, "Working in Teams: Guidelines for Rotman Commerce Students" which is available on the RC portal under the Academic Services tab.

2. When working in a team, Rotman Commerce students are expected to:

- Treat other members with courtesy and respect;
- Honour the ground rules established by the team;
- Contribute substantially and proportionally to the final project;
- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

3. Resolving conflicts:

Conflicts are part of the team's process of learning how to work together. When handled well, it can generate creativity and bring-multiple perspectives to the solution.

Student teams are expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). When teams are unable to arrive at a solution that works for all members, the team must meet with the Rotman Commerce Team Coach** as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

**For an appointment with a Rotman Commerce Team Coach, please contact Nouman Ashraf at nouman.ashraf@rotman.utoronto.ca Nouman is highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach's role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

RSM429 FALL 2018 - Weekly Schedule

I plan to break up each session into two parts. After the first class, any material that needs to be discussed (in lecture format) will usually be covered in the second part. The case relevant to that topic will be covered in the first session of the next class, as the outline will indicate. Questions for the case will be either on the website or at the end of the case itself.

All pre-class material will be uploaded onto the course website prior to each class. In addition, all supplementary files will also be made available (excel spreadsheets etc). Important deadlines are highlighted in bold. All other cases are not required to be handed in, but it is expected that you are prepared and ready to participate.

Session	Date	Topic	Cases to be discussed
1-A 1-B	Sep 7	Introduction Strategic Analysis	In-class: Identify the firms exercise
2-A 2-B	Sep 14	Strategic Analysis Accounting Analysis and Financial Manipulation	Chipotle Mexican Grill (CMG) strategy analysis
3-A 3-B	Sep 21	Accounting Analysis Accounting Adjustments	CMG Manipulation Analysis
4-A 4-B	Sep 28	Accounting Analysis Accounting Adjustments	BA / Lufthansa PPE
5-A 5-B	Oct 5	Financial Analysis	Sunbeam Case HW assignment A due in class
6-A 6-B	Oct 12	Financial Analysis (Cont.)	In-class: CMG vs. Dine Equity Presentation coaching
7-A 7-B	Oct 19	Prospective Analysis: Forecasting	CMG Forecasting
8-A 8-B	Oct 26	In-class presentations	Group Presentations Must bring two hard copies of the slides to class for the instructor.
9-A 9-B	Nov 2	Prospective Analysis: Valuation Theory	Indigo Forecasting with Segmental Revenue
10-A 10-B	Nov 16	Prospective Analysis: Valuation Theory Valuation Implementation	CMG Valuation HW assignment B due in class
11-A 11-B	Nov 23	Credit Analysis	CMG Credit Analysis
12-A 12-B	Nov 30	M&A Wrap up	Group Project due on Wednesday December 5, 6:00PM
Final Exam	TBA by FAS		

Note: Fall reading week from Monday November 5 – November 9, no classes.
This is a tentative schedule and is subject to change at my discretion.

POLICY AND PROCEDURE

Missed Tests and Assignments (including midterm examinations)

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **2 business days** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted.

Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a later report of illness made by the student to a physician.

Late Assignments

All assignments are due on the date specified in the course outline or instructions provided, unless otherwise announced in class and posted on Portal. No late assignments will be accepted. If appropriate documentation is provided, the value of the missed assignment will be added to the final test.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

Accessibility Needs

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: accessibility.services@utoronto.ca or <http://www.studentlife.utoronto.ca/as>.

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

The University of Toronto's Code of Behaviour on Academic Matters

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Quercus and the Course Page

The online course page for this course is accessed through Quercus. To access the course page, go to q.utoronto.ca and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.