Course Description

Over the next ten weeks we will discuss financial reporting from a user’s perspective, use a variety of tools to break apart financial reports into meaningful units for analysis, forecast financial statements, and value a firm. We will also cover the context of financial reporting to understand how GAAP rules and managerial incentives affect the quality and interpretation of financial statements.

The course is divided into 5 sections: (1) Information collection, (2) Processing Information (the role of incentives), (3) Processing Information (accounting analysis), (4) Improving Forecasting, and (5) Valuation and Decision Making. These sections will provide us the structure we need to help us become more informed users of financial information.

Course Objective

The broad objective of this course is to provide you with the knowledge and skills necessary to analyze, interpret, understand, and use publicly available financial information to make informed decisions. Specifically, this course examines the role of corporate financial reporting in financial analysis. The focus is on the analysis of public companies performed by external parties, with a particular focus on equity valuation. Tools learned will also be useful for credit analysis, predicting financial distress, and evaluating managerial performance. The course is designed to achieve the following objectives:
• To develop skills in analyzing financial information found in annual (10-K) and quarterly (10-Q) SEC filings.
• To develop an appreciation for the usefulness and limitations of this financial information;
• To develop an understanding of, and appreciation for, fundamental financial statement analysis;
• To use the above knowledge to forecast a firm’s financials and generate an estimated value of the firm.

Course Materials
Required
Available at EZ Copy N Print: 4336 University Way NE, 206 632 2523.

Any cases or exercises not included in the course pack will be available in class or on our Canvas course web site.

⇒ If you wish to explore a topic more deeply please see me for additional information.

Communication
I will use canvas and UW e-mail to communicate. Please be sure you have access to Canvas (email me if not), and be sure to check your UW e-mail regularly.

Point Distribution

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* I consider all written work as professional writing assignments. Please proof your work.

Analyst Report: The purpose of the analyst report is to have you apply the various tools and techniques we cover to a publicly-traded firm of your choosing. Please fill out the “Firm Sheet” on Canvas by the end of the day April 8. I suggest that you avoid banks, firms that have recently been involved in large mergers, and firms with negative equity (these will be more challenging to forecast and value).

The analyst report consists of four deliverables.

  o UNDERSTANDING YOUR FIRM: Overview of what your firm does, and the biggest challenges it faces; a discussion of vertical and horizontal statements.
  o Due on April 14 (Tuesday) by midnight.
FINANCIAL STATEMENT ANALYSIS: Calculate the core ratios for your firm and compare to industry peers, acknowledge and adjust for at least one GAAP-driven accounting distortion, analyze the quality of earnings.
  - Due on **April 28 (Tuesday) by midnight.**

FINANCIAL STATEMENT FORECASTS: Forecast financial statements for your firm.
  - Due on **May 21 (Thursday) by midnight.**

FIRM VALUATION: Use the financial statement forecasts to form a valuation.
  - Due on **June 4 (Thursday) by midnight.**

A checklist for each deliverable is available on Canvas. Please note the page limits!

- **Exam I:**
  - You will complete Exam I in class on **May 4 (Monday).** Exam I will consist of several questions designed to assess your comprehension of the material we will cover in the first half of the quarter. You may bring one page of notes (front and back) to the in-class exam.

- **Exam II:**
  - You will complete Exam II as a take-home exam; it will be available at the end of our final day of class on **June 3 (Wednesday).** Exam II will consist of questions designed to assess your comprehension of the material we will cover this quarter. You can use anything you want to complete the exam (other than other people), but you must show your work…so any work done on your computer must be provided (including any formulas).

- **Professionalism and participation:** I expect you to treat this class as you would treat any professional responsibility. For example, I expect you to be on time and prepared to discuss all materials relevant to the topic of the day. Learning is an active process. Hence, your *high-quality* participation will be evaluated on a daily basis.
COURSE OUTLINE

Section 1: Collecting and Processing Information

1
March 30
Class 1: Introduction and framework for the course.
Reading: “Information Collection” (Coursepack -- Read after class)

April 1
Class 2: Earnings announcements.
Case: “Q&A with Amazon’s Executives” – Canvas.

2
April 6
Class 3: Industry and strategy analysis.
Reading: “Understanding the Business” (Coursepack)
Case: “Are Diamonds Forever?” (Canvas)

April 8
Class 4: Using ratio analysis to understand the business (a review)
Case: “Starbucks vs. McDonalds” (Canvas)
Firm Sheet due on Canvas by midnight April 8

3
April 13
Class 5: Understanding accounting disclosure versus recognition
Case: “To Buy or Lease?” (Canvas)
First deliverable of analyst report due on Canvas by midnight April 14

April 15
Class 6: Understanding accounting disclosure versus recognition
Case: “Assessing Apple’s Revenue” (Canvas)

4
April 20
Class 7: Understanding incentives—compensation disclosures
Reading: “Freakonomics - School Teachers” (Coursepack)
Case: “Al Dunlap at Sunbeam” (Coursepack)

April 22
Class 8: Understanding earnings management and overview of accounting for pensions and investments in other companies
Reading: Financial Shenanigans (Coursepack)

5
April 27
Class 9: Understanding accounting disclosures (non-GAAP earnings)
Case: “Compuware”
Second deliverable of analyst report due on Canvas by midnight April 28

April 29
Class 10: Bringing it all together; a review

6
May 4
Class 11: Exam I will assess your understanding of Section 1 (classes 1-10).
Exam I
COURSE OUTLINE

Section 2: Forecasting and Valuation

6 (Continued)
May 6
Class 12: Overview of forecasting and accounting-based valuation
“Forecasting Financial Statements” (Coursepack; this is a long chapter, and can be done either before or after class)

7
May 11
Class 13: Fine-tuning our forecast; incorporating management guidance

May 13
Class 14: Implementation of a detailed forecast
Case: “Netflix: A Forecasting Case using Voluntary Disclosures” (Canvas)

8
May 18
Class 15: More accounting: Deferred taxes and derivatives

May 20
Class 16: Using forecasts to construct valuation estimates
Third deliverable of analyst report due on Canvas by midnight May 21

9
May 25
Class 17: Memorial Day Holiday (No class)

May 27
Class 18: Differences of opinion and short-sellers
Case: “Herbalife: Battle of the Billionaires” (Canvas)

10
June 1
Class 19: Valuing high growth companies.
Case: “Valuing Tesla: I’ll take mine in Electric Blue” (Canvas)

June 3
Class 20: Bringing it all together
Fourth deliverable of analyst report due on Canvas by midnight June 4

June 8 (Monday)
Exam II will assess your learning of Section 2 (classes 12-20).
Exam II: Take-home exam is due on Canvas by midnight.