Course Description

This is a rigorous financial statement analysis course that develops and integrates an understanding of accounting and finance. We will learn how to gather and interpret information contained in financial statements, and use that information to forecast performance and estimate value. It is a practical course in which existing theory from multiple disciplines is applied to demonstrate use of financial reporting information to prepare an analyst report and, ultimately, value a business. Class assignments and your in-depth analyst report will be based on the financial statements of Alaska Air Group, Inc. In class, we will also illustrate financial statement analysis using the financial reports of Starbucks, Inc.

We will discuss the context of financial reporting to understand how generally-accepted accounting principles and managerial incentives affect the quality and interpretation of financial statements.

The following diagram is used as a framework for this course.

![Diagram]

Objectives

Principal Objectives

To provide you with:

- Financial statement analysis tools and techniques for reading, understanding, and deriving inferences from financial statements and related disclosures;
- Appreciation for the usefulness and limitations of financial reporting information;
- An understanding of accounting’s role in practical application of finance theory in general, and valuation theory in particular;
- A greater understanding of how incentives facing the producers and users of financial statement disclosures affect the content of these disclosures and the inferences they convey; and
- An understanding of the roles of valuation theory and market efficiency in motivating and guiding financial statement analysis.

Ancillary Objectives

Students completing this course will also:

- Learn to apply financial statement analysis tools in the contexts of credit analysis, predicting financial distress, and evaluating managerial performance;
- Refine report-writing abilities; and
- Enhance financial modelling skills.
Teaching Faculty

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Assessment

Your final grade is based 100% on course work completed during the quarter, as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Assignments (8% each)</td>
<td>40%</td>
</tr>
<tr>
<td>Professional Participation</td>
<td>20%</td>
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<tr>
<td>Analyst Report</td>
<td>40%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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Assignments

All assignments this quarter relate to a single company – Alaska Air Group, Inc. (ALK). There are six assignments, of which the best five grades (8% each) will determine the assignment score out of 40%. The objective of these assignments is to develop skills required to interpret financial statement information in a valuation context. In fact, the six assignments lead a student through completing components of the final in-depth analyst report (see below). The assignments are set throughout the quarter to guide completion of the analyst report in a timely and consistent manner, hopefully alleviating pressure associated with preparing your analyst report by the end of the course.

All assignment requirements will be distributed in class on the days indicated on the class schedule below. Assignment requirements will also be available on Canvas. The completed assignments will be collected in class. I will present material in class regarding the assignments, and will clarify requirements as needed at that time.

Late assignments will not be accepted. This policy has two motivations. First, it mimics a work environment that rewards results rather than excuses. Second, the logistics of dealing with late assignments are simply too complex. Taking the best five assignment grades is a policy designed to handle difficult personal circumstances, since a person can miss one assignment without penalty.

I recognize that evening MBA students are likely to have travel commitments as part of their employment obligations. Please discuss these commitments with me ahead of your travel so we can determine the best way to handle any conflicting work and educational commitments.

Professional Participation

This is a practical course, where essentially all grades relate to aspects of building an insightful analyst report. Experience indicates that a student who elects to participate in this type of course does not need to have quizzes or exams to keep them engaged with the course material. However, I use the participation component to the extent needed to incentivize active class participation. Professionals working in this course, including Alaska Air Group Executives, will be visiting our class. Part of professional participation is engaging confidently and intelligently with these executives.

Ahead of discussing some topics in class, I will distribute simple worksheets to be completed ahead of time so that I know you are prepared for that particular class exercise.
Analyst Report

A significant part of this course is the preparation of an in-depth professional analyst report. In this class we will attempt to replicate the information environment of a financial analyst faced with the task of valuing Alaska Airlines, Inc. This material will be provided to you in printed form, as well as in the form of web addresses where operational information relating to the airline industry can be obtained. Alaska Air Group, Inc.’s investor relations website address is: http://investor.alaskaair.com

Examples of professional analyst reports will be provided to you, which you may wish to use to model your report. The objective of the analyst report requirement is to provide you with a practical opportunity to illustrate financial statement analysis and its integration with prior accounting and finance learning. Further details will be provided during lectures.

You are welcome to collaborate, as long as you are individually building your own forecast model and analyst report document. Work product should look and feel like it is the result of individual effort (non-identical text and tables), even if you have collaborated with others on aspects of your underlying analysis.

Operational Aspects of The Course

Lectures

This course has one 3.5-hour session each week, held Wednesday at 6:00pm in Room 112, Dempsey Hall. Attendance at all lectures is voluntary, although attendance may affect the professional participation grade component. Out of respect for our learning environment, please refrain from placing or receiving telephone calls while in the lecture theatre.

Resources

In class, I will provide information relating to the airline industry, and to Alaska Airlines in particular. I will also provide copies of analyst reports that will be useful in illustrating what an in-depth analyst report looks like.

Teaching notes and lecture slides will be provided on Canvas.

If you wish to explore a topic in this course more deeply, I can direct you to material in these (or other) textbooks. There is no need to purchase a financial statement analysis textbook unless you wish to keep it as a professional reference.


Other valuable sources of relevant information are provided through the Foster Business Library's research guides. http://guides.lib.uw.edu/research/business

The following guides are particularly relevant:
http://guides.lib.uw.edu/research/business/data
http://guides.lib.uw.edu/research/business/news

The ability to write a good report is an extremely important business tool. The expectation is that all assignments and the final analyst report will be prepared to a professional standard. A useful resource when preparing any business work product is the Securities & Exchange Commission’s writing guide, A Plain English Handbook: How to create clear SEC disclosure documents.

Course Schedule

April 3 – Intro / Understanding the Business
   MBA Pizza Dinner, 5 to 6pm, Douglas Forum 410B Seminar Room
   Introduction to Financial Statement Analysis
      Reading: Understanding the Business, Lundholm & Sloan
   Industry Analysis / Business Analysis
      Reading: Item 1 – Our Business, pp 4-19, Alaska Air Group Inc 2018 10-K
   Economics of the Airline Industry
   Alaska Airlines Assignments and Analyst Report Discussion
   Assignment 1 – Industry Analysis
      Due April 10

April 10 – FSA and the Role of Analysts
   Market Efficiency and the Role of Financial Statement Analysis
      Reading: Cecil Rhodes and the Shark
      Reading: Information Collection, Lundholm & Sloan
   Investor Relations: Accounting and Financial Communication
   Earnings Announcements
      Reading: Alaska Air Group Inc. Q4 2018 Earnings Call Transcript, Jan 24, 2019
   Assignment 2 – Alaska Airlines Earnings Call
      Due April 17

April 17 – Cash / Ratios / Analytical Tools
   Basic Accounting Concepts in FSA
   The Economic Income Statement and Balance Sheet
   Calculating Cash Flows from the Income Statement and Balance Sheet
   Assignment 3 – Historical Free Cash Flow Derivation
      Due May 1
April 24 – Guest Lecture, Accounting-driven Investing

Guest: Jurgen (Jay) Huck, Partner, Egerton Capital (US), LP

Cash Flow Calculations, Continued

FSA Tools for Analyzing Risk and Return

Adjusting Ratios for Accounting Distortion - Leases

May 1 – Forecasting Financial Statements

Guests: Matt Grady, Director, Investor Relations, Alaska Air Group
       Chris Berry, Controller, Alaska Air Group

MBA Coffee Break, 7:35 to 7:55pm, Anthony’s Forum

Restating Financial Data Through Time

Forecasted Financial Statements

Reading: Forecasting Financial Statements, Wahlen, Baginski & Bradshaw

Non-financial Information

Assignment 4 – Forecast Financial Statements

Due May 15

May 8 – Forecasting Financial Statements, Continued

Forecasted Financial Statements, Continued

Fine-tuning Our Forecast; Incorporating Management Guidance

Intro to Accounting-based Valuation

Reading: Teaching note

May 15 – Valuation

Practical Accounting-based Valuation

Reading: Analyst Reports

Cost of Capital

Assignment 5 – Accounting-based Valuation

Due May 22
May 22 – Confirming Your Valuation Opinion
   
   Sensitivity Analysis
   
   Note that we will be meeting in a computer lab -- TBD

   Net Asset Valuation

   Assignment 6 – Sensitivity Analysis
   
   Due May 29

May 27 – Memorial Day – Monday, does not affect lecture schedule

May 29 – Accounting Adjustments / Analyst Report Workshop
   
   Accounting Adjustments and Value Estimates

   Issues relating to Completion of Alaska Air Analyst Report
   
   We will work together in a workshop to resolve issues arising in the process of completing your analyst report.

June 5 – Alaska Airlines Analyst Report Due