Course Objectives:

Financial statement information is widely used to evaluate companies’ current performance and future prospects. This course will provide students with the tools and techniques to employ this information effectively. A primary learning objective of the course is the strategic, financial, and accounting analysis of a company by means of historical financial statement data. A second, related learning objective is financial statement forecasting along with a specific application of forecasting – valuation. This course nicely compliments 15.402 Corporate Finance but can also be taken stand-alone by students seeking exposure to accounting and finance topics beyond those in introductory classes.

Prerequisites:

Introductory financial accounting and finance at MIT Sloan (15.501, 15.511, 15.515, or 15.516; 15.401, 15.414, 15.415, or 15.417) or equivalent courses taught at another institution. Introductory finance can be taken concurrently.

Course Materials:


Casepack: Contains case studies. Electronic copies are available on Study.Net. Hard copies are available from Copytech.

Course Website:

Class materials will be available online at: https://mit.instructure.com/courses/133. Announcements will also be posted on the course website.
Course Administrator:

Cassie Reddick (location: E62-655; email: creddick@mit.edu; phone: 617-715-4178)

Teaching Assistants:

Logan Roberge (email: lroberge@mit.edu)
Michael Weisleder (email: mweis@mit.edu)

Office Hours:

By appointment at your convenience.

Grading:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percent</th>
</tr>
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<tbody>
<tr>
<td>1. Class Assignments</td>
<td>25</td>
</tr>
<tr>
<td>2. Class Participation</td>
<td>20</td>
</tr>
<tr>
<td>3. Quizzes</td>
<td>25</td>
</tr>
<tr>
<td>4. Team Project</td>
<td>30</td>
</tr>
</tbody>
</table>

Enrollment preference will be given to students who take the course for a letter grade. If the course is not already at capacity, P/D/F and listener grading options may be permitted but depend on specific circumstances and require my prior approval. Students who utilize the P/D/F grading option are required to complete all individual homework assignments and take both quizzes but are not required to participate in any group work.

At the end of the course, you will have the option of completing a Peer Evaluation Form to evaluate your team members’ participation in the team project and case write-ups. I will use this optional input to determine individual team members’ grades for the team project and case write-ups.

If you believe an error has been made in grading, you may request a re-grade by doing the following: write a brief note explaining why you think there is an error and submit both the note and the graded material to which it pertains. All re-grade requests must occur within three (3) calendar days of the day graded material is returned to the class. Please note that I reserve the right to re-grade the entire contents of any material submitted for re-grading.

Class Assignments:

There will be five case assignments and related discussions during the semester. The case assignments will be group work. Teams of up to 5 students must submit a single hard-copy
solution to each case assignment at the beginning of class on the due date (see schedule). Details
on expectations for the case assignments and related discussions will be outlined in class.

There will also be periodic homework assignments and related discussions during the semester.
The homework assignments are to be completely individually. Students must submit their
solution to each homework assignment by the beginning of class on the due date. Submissions
will begin in hard-copy and transition to electronic over the course of the semester. Details on
expectations for the homework assignments and related discussions will be outlined in class.

Quizzes:

This course has no final exam. There will be two take-home quizzes during the semester (see
schedule). These quizzes will not be cumulative. Details on expectations for the quizzes will be
outlined in class.

Team Project:

In keeping with the learning objectives of the course (strategic, financial, and accounting analysis
as well as forecasting and valuation), your team will be required to prepare a report containing
all of these elements for a selected public company. Each team’s report should include the
following:

1. An analysis of the competitive and economic environment of the company, and an
   analysis of the company’s strategy. You will need to learn about the economy as it affects
   the company, and to understand the company’s ability to take advantage of those
   opportunities.
2. An analysis of the company’s financial reports for profitability and risk, using techniques
   such as ratios, scores, and accruals.
3. An analysis of the company’s financial reports for special items, quality of earnings, and
   evaluation of potential red flags.
4. Forecasts of financial statements for at least the next five years.
5. An overall valuation of the company’s equity as of the selected valuation date using
   techniques such as multiples, free cash flows, and residual income.

Reports are due at the beginning of class on Wednesday, May 16. The last class session will
consist of 6-8 minute presentations by students of their work. Your team should select a public
company and inform me on or before our session 7 class on Wednesday, February 28. Acceptable
companies should meet the following criteria:

1. Financial reports based on US generally accepted accounting principles.
2. Sales in most recent year greater than $250 million and less than $250 billion.
3. Have at least three year operating history, hopefully with positive earnings in one or two
   of those years.
4. No major mergers or divestitures in the last three years that dramatically changed the size
   of the company or its strategic direction.
5. Avoid companies in banking, insurance, or financial services.
6. I strongly recommend not selecting a company where one of your team members has worked or is currently working. It is important to analyze companies in an objective, neutral, yet aggressive manner.

You should review your company’s financial statements and other disclosures to verify that it satisfies the above criteria. You can use any publicly available information for your analysis, including annual reports, news articles, and analyst reports. However, remember that your objective in this course is to learn to do financial statement analysis yourself rather than be able to cite someone else’s work.
## Course Schedule:

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topic</th>
<th>Readings &amp; Assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wed. Feb. 7</td>
<td>Course Overview &amp; Strategy Analysis</td>
<td>WBB Ch. 1, How to Read 10-K article</td>
</tr>
<tr>
<td>2</td>
<td>Mon. Feb. 12</td>
<td>Financial Ratios</td>
<td>HW 1: T-Mobile&lt;br&gt;WBB Ch. 4, 5 pp. 293-304, Ch. 8 pp. 540-4</td>
</tr>
<tr>
<td>3</td>
<td>Wed. Feb. 14</td>
<td>Performance Diagnostic Models</td>
<td>WBB Ch. 5 pp. 309-16; Z-Score article; FSscore article</td>
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<tr>
<td>4</td>
<td>Tues. Feb. 20</td>
<td>Accruals</td>
<td>HW 2: Cosi&lt;br&gt;WBB Ch. 3 pp. 134-49 &amp; 159-62, Ch. 8 pp. 498-510, Ch. 9 pp. 577-609; Accruals article; 10-K Checklist article</td>
</tr>
<tr>
<td>5</td>
<td>Wed. Feb. 21</td>
<td>Special Items &amp; Non-GAAP Reporting</td>
<td>WBB Ch. 6 pp. 370-86, Ch. 8 pp. 510-8</td>
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<tr>
<td>6</td>
<td>Mon. Feb. 26</td>
<td>Case 1 – Nuware</td>
<td>Questions on Canvas</td>
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<tr>
<td>7</td>
<td>Wed. Feb. 28</td>
<td>Fraud Detection Models</td>
<td>WBB Ch. 6 pp. 386-93; MScore paper appendix; F-Score paper pp. 34-40</td>
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<td></td>
<td>Fri. Mar. 2</td>
<td>Optional Recitation</td>
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<tr>
<td>8</td>
<td>Mon. Mar. 5</td>
<td>Accumulated Other Comprehensive Income &amp; Financial Instruments</td>
<td>HW 3: Valeant&lt;br&gt;WBB Ch. 7 pp. 442-6 &amp; 468-73, Ch. 8 pp. 519-26</td>
</tr>
<tr>
<td>9</td>
<td>Wed. Mar. 7</td>
<td>FX Accounting</td>
<td>HW 4: Southwest Airlines&lt;br&gt;WBB Ch. 8 pp. 549-55</td>
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<td></td>
<td>Fri. Mar. 9</td>
<td>Optional Recitation</td>
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<tr>
<td></td>
<td>Fri. Mar. 9 – Mon. Mar. 12</td>
<td>Take-Home Quiz 1</td>
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<tr>
<td>10</td>
<td>Mon. Mar. 12</td>
<td>Multiples Valuation</td>
<td>WBB Ch. 14 pp. 881-93</td>
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<tr>
<td>11</td>
<td>Wed. Mar. 14</td>
<td>Case 2 – Bloomin’ Brands</td>
<td>Questions on Canvas</td>
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<td></td>
<td>Fri. Mar. 23</td>
<td>Optional Project Deliverable</td>
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<tr>
<td>12</td>
<td>Mon. Apr. 2</td>
<td>Income Statement Forecasts</td>
<td>WBB Ch. 10</td>
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<tr>
<td>13</td>
<td>Wed. Apr. 4</td>
<td>Case 3 – Krispy Kreme Doughnuts</td>
<td>Questions on Canvas</td>
</tr>
<tr>
<td>14</td>
<td>Mon. Apr. 9</td>
<td>Balance Sheet &amp; Cash Flow Statement Forecasts</td>
<td>WBB Ch. 3 pp. 149-59</td>
</tr>
<tr>
<td>15</td>
<td>Wed. Apr. 11</td>
<td>Case 4 – Five Below</td>
<td>Questions on Canvas</td>
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<tr>
<td>16</td>
<td>Wed. Apr. 18</td>
<td>Forecasting Refinements &amp; Sensitivity Analyses</td>
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<td></td>
<td>Fri. Apr. 20</td>
<td>Optional Recitation</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Mon. Apr. 23</td>
<td>Employee Stock Compensation</td>
<td>HW 5: Monster Beverage&lt;br&gt;Ch. 7 pp. 435-42</td>
</tr>
<tr>
<td>18</td>
<td>Wed. Apr. 25</td>
<td>Earnings-Based Valuation</td>
<td>WBB Ch. 13</td>
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<td></td>
<td>Fri. Apr. 27</td>
<td>Optional Recitation</td>
<td></td>
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<tr>
<td></td>
<td>Fri. Apr. 27 – Mon. Apr. 30</td>
<td>Take-Home Quiz 2</td>
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<tr>
<td>19</td>
<td>Mon. Apr. 30</td>
<td>DCF Valuation</td>
<td>WBB Ch. 12</td>
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<tr>
<td>20</td>
<td>Wed. May 2</td>
<td>Valuation Refinements &amp; Sensitivity Analyses</td>
<td>HW 6: SNS</td>
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<tr>
<td></td>
<td>Fri. May 4</td>
<td>Optional Project Deliverable</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Mon. May 7</td>
<td>Case 5 – Schneider and Square D</td>
<td>Questions on Canvas</td>
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<tr>
<td>22</td>
<td>Wed. May 9</td>
<td>Guest Lecture</td>
<td></td>
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<tr>
<td>23</td>
<td>Mon. May 14</td>
<td>Guest Lecture</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Wed. May 16</td>
<td>Project Presentations</td>
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</tbody>
</table>
The image above illustrates some of the Sloan Values that support our learning environment. MIT and Sloan also have a number of policies related to classroom conduct and academic integrity outlined below.

It is your responsibility to make yourself aware of MIT’s rules of academic integrity and personal conduct and to adhere to them. When students are found to have violated academic, personal, or professional standards, they are subject to disciplinary action. Possible consequences include grade reduction, an F grade, a transcript notation, delay of graduation, or expulsion from MIT.
MIT Sloan Policy on Classroom Behavior

In order to create a productive learning environment and to ensure mutual respect it is essential that the norms and rules of classroom etiquette and behavior reflect the highest standards. It is also important that these norms be consistently enforced by the faculty across all classes. Although in the final analysis each faculty member is responsible for his or her own classroom, there are significant negative consequences for other faculty and for the School if rules are not consistent and are not enforced. Therefore it is the policy of the MIT Sloan School that

- Students are expected to arrive promptly on time and to stay for the entire class.
- Faculty are expected to begin and end class on time.
- Laptops and e-readers are not be open in the classroom except with explicit permission of the faculty (e.g., when used as part of the instructional program or when required by students because of physical or other challenges)
- Cell phones and PDAs are not to be used or permitted to ring in the classroom.
- Students are expected to attend all classes.

It is expected that faculty will articulate how these rules apply in their class as well as how the rules will be enforced.

A Note re Recruiting
Please note that in accordance with this policy, MIT Sloan requires that students schedule campus interviews outside of scheduled class times and to make every attempt to schedule second round interviews and site visits outside of class times. Classes missed for such activities are not excused absences and may count against your participation grade.

Additional Norms and Expectations
MIT Sloan has developed a number of additional norms that support a healthy learning environment. These include the following:

- Use your plastic nameplate at all times.
- Remain seated for the duration of the class unless it is absolutely essential that you leave, in which case make every effort not to disrupt the class.
- Participate actively and thoughtfully. Quality of contribution matters as much as quantity.
- Allow others to participate – be careful not to dominate conversation.
- Recognize others’ contributions in the discussion. Use language such as, “to build on what Pat has just said....”
- When disagreeing, do so respectfully. Use language such as, “I’d like to offer a different perspective....” Acknowledge the possibility that multiple perspectives on complex problems can be valid.
- Be sensitive to the potential impact of comments and behavior on all members of the community. Be open to perspectives of others who come from different personal, cultural, or professional backgrounds from your own.
- Refrain from sidebar conversations.
- If you bring food into the classroom, be sensitive to the noise you are generating. Be sure to remove all trash and dispose of it appropriately (using trash, recycling, and composting facilities).

**ACADEMIC HONESTY**

As a member of the MIT Sloan academic community, you are expected to uphold the highest standards of academic integrity. Violations of academic integrity include, but are not limited to, cheating, plagiarism, unauthorized collaboration, and facilitating academic dishonesty. These standards are also discussed below, specifically regarding plagiarism, individual work, and team work.

This discussion of academic integrity below is not exhaustive, and there may be areas that remain unclear to you. *If you are unsure whether some particular course of action is proper, it is your responsibility to consult with your professor and/or teaching assistant for clarification.*

**Plagiarism**

Plagiarism occurs when you use another's intellectual property (words or ideas) and do not acknowledge that you have done so. Plagiarism is a very serious offense. If it is found that you have plagiarized -- deliberately or inadvertently -- you will face serious consequences, as indicated above.

The best way to avoid plagiarism is to cite your sources - both within the body of your assignment and in a bibliography of sources you used at the end of your document.

Materials gathered through research via the Internet must be cited in the same manner as more traditionally published material. Lack of such citation constitutes plagiarism.

Please see the document *Academic Integrity at the Massachusetts Institute of Technology: A Handbook for Students* for further discussion of this topic.

**Individual Assignments**

Many assignments in MIT Sloan courses are expected to be done individually. The information below outlines what is meant by “individual” work. These rules should be observed unless otherwise defined by the instructor.

When you are asked to do *individual* work, you are expected to adhere to the following standards:

- Do not copy all or part of another student’s work (with or without “permission”).
- Do not allow another student to copy your work.
- Do not ask another person to write all or part of an assignment for you.
- Do not work together with another student in order to answer a question, or solve a problem, or write a computer program jointly.
- Do not consult or submit work (in whole or in part) that has been completed by other students in this or previous years for the same or substantially the same assignment.
- Do not use print or internet materials directly related to a case/problem set unless explicitly authorized by the instructor.
- Do not use print or internet materials without explicit quotation and/or citation.
- Do not submit the same, or similar, piece of work for two or more subjects without the explicit approval of the two or more instructors involved.

Please note that many classes will require a combination of team work and individual work. *Be sure that you follow all the guidelines for individual work when a faculty member identifies an assignment as an individual one.*
Team Assignments
When you are asked to work in teams, there is a broad spectrum of faculty expectations. Three general types of appropriate collaboration on team assignments are described below. The instructor will indicate in the syllabus what his/her expectations are. If there is any uncertainty, it is the student’s responsibility to clarify with the professor or TA the type of team work that is expected.

Type 1 collaboration:
The professor states that collaboration is allowed, but the final product must be individual. An example of this might be a problem set.
- You are allowed to discuss the assignment with other team members and work through the problems together.
- What you turn in, however, must be your own product, written in your own handwriting, or in a computer file of which you are the sole author.
- Copying another’s work or electronic file is not acceptable.

Type 2 collaboration:
The professor states that collaboration is encouraged but that each person's contribution to a given deliverable does not have to be substantial (allowing groups to take a "divide and conquer" approach). An example of this might be a brief progress report that is part of a more extensive collaboration (as a whole, the more extensive collaboration may be Type 3).
- Each team member is encouraged to contribute substantially to the team assignment, however, the team may choose to assign one or more team members to prepare and submit the deliverable on behalf of the team.
- Regardless of how work is shared or responsibilities are divided among individual team members, each member of the team will be held accountable for the academic integrity of the entire assignment. If, for example, one member of the team submits plagiarized work on behalf of the team, the entire team will be subject to sanctions as appropriate.
- The team may not collaborate with other students outside of the team unless the professor explicitly permits such collaboration.

Type 3 collaboration:
The professor states that collaboration is expected and that each team member must contribute substantially to the deliverable. An example of this might be the 15.311 OP project.
- Each team member must make a substantial contribution to the assignment. It is not, for example, acceptable to divide the assignments amongst the team members (e.g., part of the team completes the OP Project while the rest of the team prepares a team case for DMD), though the team may divide the work of any one assignment to complete it as they deem appropriate.
- The team may not collaborate with other students outside of the team unless the professor explicitly permits such collaboration.

If you are unsure whether some particular form of interaction is proper in individual or team work, it is your responsibility to consult the instructor and/or teaching assistant for clarification and guidance.