

15.535 – Business Analysis Using Financial Statements (BAUFS)
Fall 2019

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MW 1:00-2:30 E51 – 335 (A)

MW 2:30-4:00 E51 – 335 (B)

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:

Textbook: Wahlen, J., S. Baginski, and M. Bradshaw, Financial Reporting, Financial Statement Analysis, and Valuation: A Strategic Perspective, 9th Edition, Cengage, 2018, ISBN: 9781337614689. Two copies of the textbook are on reserve in Dewey library.

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/781>. 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:

Matthew Doherty (email: mdohts@mit.edu)

Daniel Shaffer (email: dshaffer@mit.edu)

Office Hours:

By appointment at your convenience.

Grading:

Activity	Percent
1. Class Assignments	25
2. Class Participation	20
3. Quizzes	25
4. Team Project	30

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, December 12. 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, September 26.

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:

Session	Date	Topic	Readings & Assignments
1	Wed. Sep. 5	Course Overview & Strategy Analysis	WBB Ch. 1; How to Read 10-K article
2	Mon. Sep. 10	Performance Diagnostic Models	WBB Ch. 4, Ch. 5 pp. 293-304 & 309-16; Z-Score article; FScore article
3	Wed. Sep. 12	Special Items & Non-GAAP Reporting	HW 1 – Cosi WBB Ch. 6 pp. 370-4, Ch. 8 pp. 510-8
4	Mon. Sep. 17	Accruals	WBB Ch. 3 pp. 134-49, Ch. 6 377-86, Ch. 8 pp. 498-510, Ch. 9 pp. 577-609; Accruals article; 10-K Checklist article
5	Wed. Sep. 19	Case 1 – Nuware	Questions on Canvas
	Fri. Sep. 21	<i>Optional Recitation</i>	
6	Mon. Sep. 24	Fraud Detection Models	WBB Ch. 6 pp. 386-92; MScore paper appendix; F-Score paper pp. 34-40
7	Wed. Sep. 26	FX Accounting	HW 2 – Valeant WBB Ch. 7 pp. 442-6, Ch. 8 pp. 549-54
	Fri. Sep. 28	<i>Optional Recitation</i>	
8	Mon. Oct. 1	Financial Instruments	WBB Ch. 7 468-73, Ch. 8 pp. 519-26
9	Wed. Oct. 3	Active Investments	HW 3 – Southwest Airlines WBB Ch. 8 pp. 526-49
	Wed. Oct. 3 – Wed. Oct. 10	Take-Home Quiz 1	
	Fri. Oct. 5	<i>Optional Recitation</i>	
10	Wed. Oct. 10	Multiples Valuation	WBB Ch. 14 pp. 881-93; Earnings Estimates article
11	Mon. Oct. 15	Case 2 – Bloomin’ Brands	Questions on Canvas
12	Wed. Oct. 17	Revenue Forecasts	WBB Ch. 10 pp. 635-53
	Sun. Oct. 21	<i>Optional Project Deliverable</i>	
13	Mon. Oct. 29	Expense Forecasts	WBB Ch. 10 pp. 654-62
14	Wed. Oct 31	Case 3 – Krispy Kreme Doughnuts	Questions on Canvas
	Fri. Nov. 2	<i>Optional Recitation</i>	
15	Mon. Nov. 5	Balance Sheet & Cash Flow Statement Forecasts	WBB Ch. 3 pp. 149-59, Ch. 10 pp. 662-700
16	Wed. Nov. 7	Case 4 – Five Below	Questions on Canvas
	Fri. Nov. 9	<i>Optional Recitation</i>	
17	Wed. Nov. 14	Forecasting Refinements	HW 4 – Monster Beverage WBB Ch. 7 pp. 435-42
	Wed. Nov. 14 – Wed. Nov. 21	Take-Home Quiz 2	
	Fri. Nov. 16	<i>Optional Recitation</i>	
18	Mon. Nov. 19	DCF Valuation	WBB Ch. 12
	Wed. Nov. 21	CLASS CANCELLED	
19	Mon. Nov. 26	Earnings-Based Valuation	WBB Ch. 13
20	Wed. Nov. 28	Robustness Checks & Sensitivity Analyses	HW 5 – SNS
	Fri. Nov. 30	<i>Optional Project Deliverable</i>	
21	Mon. Dec. 3	Case 5 – Schneider and Square D	Questions on Canvas
22	Wed. Dec. 5	Guest Lecture	
23	Mon. Dec. 10	Guest Lecture	
24	Wed. Dec. 12	Project Presentations	