

45-802 Financial Statements and Fundamental Analysis
Carnegie Mellon University
Graduate School of Industrial Administration

Spring 2004 Mini-semester 4
Section 45-802 A
Tue and Thu 10:30am – 12:20pm
Cooper Auditorium

Instructor: Pierre Jinghong Liang
Office: Posner 362
Telephone: 412-268-3315
<http://www.cmu.edu/blackboard/>

Course Objective

This course is designed to improve your ability to analyze financial reports and value companies. After completing this course, you will gain two valuable tools in your skill set: (1) financial statement analysis; and (2) equity valuation principles. The focus of financial statement analysis is a rigorous reformulation of published GAAP statements. The reformulation is needed to highlight the shareholder-value generation and distribution process of the firms. The focus of the equity valuation is theory-consistent valuation benchmarks. These benchmarks provide important guidance to further, more detailed firm valuation. Time permitting, we may cover special topics like accounting quality analysis, etc.

Course Material

Textbook: Penman, Stephen, *Financial Statement Analysis and Security Valuation*, second edition, New York, NY: McGraw-Hill/Irwin, 2004.

Official Textbook website

http://highered.mcgraw-hill.com/sites/007253317x/information_center_view0/

contains additional material (notes, exercises, and excel template etc.) provided by the publisher.

Course website (<http://www.cmu.edu/blackboard/>) contains comprehensive, up-to-date course information, and additional reading material.

Cisco Systems, Inc. 2003 Annual Report
(available for download from company website and blackboard)

Other suggested texts:

Palepu, K., V. Bernard, and P. Healy *Introduction to Business Analysis & Valuation*, 3rd edition, Cincinnati, OH: South-Western Publishing Co, 2003.

Stickney, C. P., and P. Brown *Financial Reporting and Statement Analysis: A Strategic Perspective* Fourth edition, Fort Worth, TX: The Dryden Press, 1998.

Office Hours

Fixed: Mondays and Wednesdays 3:00pm to 4:00pm
Variable: By appointment.

Evaluation and Grading

Two Cases Reports (team)	40%
Problem Sets	30%
Final Exam	20%
Class Participation	10%

Problem sets and Final Exam are designed to reinforce your basic understanding of the principles of fundamental analysis. Three Problems sets will be assigned at least a week before the due day and the final exam is scheduled at 9-12noon on Saturday May 1. Students taking the course Pass-Fail may opt out the final exam requirement.

Two Case Reports Each team will be assigned two cases. For each case, a written report is required. One case is on financial statement analysis and the other on equity valuation. The case reports are graded on rigor, creativity, demonstration of depth of knowledge, and clarity in communication.

Class Participation You are encouraged to participate in and contribute to our class discussions on concepts, techniques, and real-life companies used as class examples. Also good citizenship in your teamwork is a part of your class participation.

Teaching Assistant

Pratik Nanavaty

Email: pnanavat@andrew.cmu.edu

Office hours: TBA

Location: TBA

Teaching assistant is available to answer questions about the lectures and problem sets, to hold review sessions (if necessary) and to provide other assistance to individual students and/or teams.

Course Policies

University rules regarding student conduct are strictly enforced.

Late submissions of *Problem Sets* and *Case Reports* incur a penalty of one letter grade per day.

**45-802 Financial Statements and Fundamental Analysis
Spring 2004 Mini 4 Tentative Class Schedule**

Week	Dates	Topics	Readings	<i>Due</i>
Financial Statement Analysis				
1	Tue 3/16	Introduction Business Activities and Financial Statements	Ch 3, 4, & 7	
	Thu 3/18	Business Activities and Financial Statements (continued)	Ch 7	
2	Tue 3/23	Statement of Shareholders' Equity	Ch 8	
	Thu 3/25	Balance Sheet and Income Statement	Ch 9	<i>Problem Set 1</i>
3	Tue 3/30	Balance Sheet and Income Statement (continued)	Ch 9	
	Thu 4/1	Statement of Cash Flows	Ch 10	
4	Tue 4/6	Analysis of Profitability and Growth	Ch 11 & 12	
	Thu 4/8	Analysis of Profitability and Growth (continued)	Ch 11 & 12	<i>Problem Set 2</i>
Equity Valuation				
5	Tue 4/13	Introduction to Valuation	Ch 5	
	Thu 4/15	Accounting-based valuation model	Ch 6	<i>Case 1</i>
6	Tue 4/20	Analysis of Price-to-Book Ratios	Ch 13	
	Thu 4/22	Simple Forecasting and Simple Valuation	Ch 14	<i>Problem Set 3</i>
7	Tue 4/27	Analysis of Price-Earnings Ratios	Ch 16	
	Thu 4/29	Full-Information Forecasting and/or Accounting Quality Analysis	Ch 15 & 18	<i>Case 2</i>
8	<i>Sat. May 1</i>	<i>Final Exam: 9 – 12noon, Room to be assigned</i>		