MIT Sloan School of Management
15.535
“Business Analysis and Valuation Using Financial Statements”
Fall Semester 2004

Who?
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When?
Section A: Mon & Wed, 1:00 - 2:30 pm, E51-335
Section B: Mon & Wed, 2:30 - 4:00 pm, E51-335

What?
Primary Objective: Advance your understanding of how to use financial information to Analyze and Value firms. We will apply your economics/accounting/finance skills to problems from today’s business news to help us understand What is contained in financial reports, Why firms report certain information, and How to be a sophisticated user of this information.

Why?
Provide up-to-date applied knowledge of fundamental valuation techniques, the pitfalls of accounting reports, and how to “read between-the-lines” of financial statements. This will be very useful if you seek a career as a financial analyst, investment banker, consultant, corporate director, etc. We will discuss up-to-date and “hot” topics that companies face today.
How?

**Coursepack:** Available from MIT Copytech. Contains select chapters from a variety of new Financial Statement textbooks and up-to-date business articles and cases. Basically, we have extracted the best chapters from each textbook and created a customized text with the most up-to-date information for this course. In addition, we will provide handouts and lecture notes before each class. These notes will be accessible through Sloanspace prior to each class.

“**Recommended textbook**” : To supplement the “customized” coursepack materials, here are some recommended reference texts:

**Part 1:**

Business Analysis & Valuation: Using Financial Statements  
by Krishna G. Palepu, Paul M. Healy, and Victor L. Bernard  
Third Edition, South-Western College Publishing

The Analysis and Use of Financial Statements  
By Gerald I. White, Ashwinpaul C. Sondhi, and Dov Fried  
Third edition, Wiley

Financial Reporting and Statement Analysis: A Strategic Perspective  
By Clyde Stickney and Paul Brown  
Fifth Edition, Dryden Press

Financial Reporting and Analysis  
By Lawrence Revsine, Daniel W. Collins, and W. Bruce Johnson  
Prentice Hall

**Part 2:**

Investment Valuation: Tools & Techniques for Determining the Value of Any Asset  
By Aswath Damodaran  

Valuation: Measuring and Managing the Value of Companies  
By Tom Copeland, Tim Koller, and Jack Murrin  
**Other Resources:**
“e-Val”, by Russell J. Lundholm, Richard G. Sloan (McGraw-Hill) is a Microsoft Excel add-in that simplifies the process of valuing a company using financial statement data. You may find it useful for your company valuation/analysis project. It will be available in the MIT Coop at the beginning of October or can be purchased on-line for from various vendors including Amazon.com ($45). It is not necessary to purchase the companion text by the same authors.

**Grading:**

1 Individual Homework Assignment 5%
4 Group Homework Assignments (count best 3) 15%
2 Quizzes (in class) 30%
Analyst Reports/Presentation (Team) 40%
Class Contribution (Participation/other) 10%

**Homework Assignments:** Five short applied homework assignments will be assigned. One is an individual assignment and four assignments will be evaluated based on group performance. Each group should consist of a maximum of 5 students each. You must submit your analysis to the assignment at the start of class on the due date.

**Quizzes:** This class has no final exam. There will be two in-class quizzes during the semester. These quizzes will test your understanding of the core material. We will hold an informal and optional review shortly before each quiz (time and location will be announced).

**Valuation and Accounting Analysis Project:**

You are a sell-side analyst on Wall Street. Most of your clients are portfolio managers for either pension funds or insurance companies. For this assignment, choose a company, your Target. Prepare an analyst report (maximum 10 pages + supporting exhibits + a one-page executive summary) that summarizes the results of your financial analysis. The ultimate purpose of the report is to make an investment recommendation (sell, hold, speculative buy, long-term buy, etc.) to your clients. Therefore, value the shares of the Target using a range of valuation methods discussed throughout the course.

Student teams (max 5 students each) will complete the analyst projects. In addition, each team will be required to present their project results during a 10 minute presentation at the end of the semester.

Detailed instructions on the analyst project will be provided at the beginning of the 2nd half of the semester.
15.535: Part 1 – Fall 2004 Class Schedule

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Notes</th>
<th>Topic</th>
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<tbody>
<tr>
<td>1</td>
<td>We-Sep-8</td>
<td></td>
<td>Introduction/Framework for FSA</td>
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<tr>
<td>2</td>
<td>Mo-Sep-13</td>
<td>Assignment #1 Due: The Gap vs. The Limited</td>
<td>Ratio Analysis</td>
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<td>3</td>
<td>We-Sep-15</td>
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<td>Cash Flow Analysis</td>
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<td>4</td>
<td>Mo-Sep-20</td>
<td>Assignment #2 Due: PepsiCo</td>
<td>Economic Value Added</td>
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<td>5</td>
<td>We-Sep-22</td>
<td></td>
<td>Earnings Quality: Introduction</td>
</tr>
<tr>
<td>6</td>
<td>Mo-Sep-27</td>
<td></td>
<td>Earnings Quality: Assets/Liabilities</td>
</tr>
<tr>
<td>7</td>
<td>We-Sep-29</td>
<td>Exercise: Patten Corporation</td>
<td>Earnings Quality: Revenue Analysis</td>
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<td>8</td>
<td>Mo-Oct-4</td>
<td>Exercise: Prepaid Legal Services</td>
<td>Earnings Quality: Expense Analysis</td>
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<tr>
<td>9</td>
<td>We-Oct-6</td>
<td>Assignment #3 Due: Wellington Mart</td>
<td>Earnings Quality: Overview Case</td>
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<td></td>
<td>Mo-Oct-11</td>
<td>No Class - Columbus Day</td>
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<tr>
<td>10</td>
<td>We-Oct-13</td>
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<td>Earnings Quality: Capita Selecta</td>
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15.535: Part 2 – Fall 2004 Class Schedule

Part 2 of 15.535 begins after SIP on Monday October 25.

The quiz covering the material of Part 1 will be given on Wednesday October 27 in-class.

Part 2 focuses on valuation techniques and issues, and will include Discounted Cash Flow and Comparative Valuation techniques, the use of accounting data in valuation, and the measurement of the cost of capital.

Two days, December 1 and 6, will be devoted to in-class student presentations of the analyst’s reports. There will be a quiz on the last day of class, December 8.

There will be no class on Wednesday November 24.