



Course Outline

RSM 429H1 F

Financial Statement Analysis and Valuation

Fall 2022

Tuesdays 1-3; 3-5 (WO 25)

Professor: [Ole-Kristian Hope](#) (PhD; MBA; CFA; CPA), Deloitte Professor of Accounting
E-Mail: okhope@rotman.utoronto.ca
Course webpage: <https://q.utoronto.ca>
Office Hours: In-person Tuesdays 11 AM - noon (RT502) plus online meetings
Teaching Assistants: Stacey Choy (CPA; stacey.choy@rotman.utoronto.ca) and Junhao Liu (junhao.liu@rotman.utoronto.ca). Stacey and Junhao are advanced-stage PhD students and are exceptionally well-qualified
TA Office Hours: Wednesdays 2-3 PM (RT519)
Faculty website: <http://www.rotman.utoronto.ca/FacultyAndResearch/Faculty/FacultyBios/Hope.aspx>

Make sure you use the above email addresses and NOT the Quercus system to contact me or the TAs. To schedule an appointment with the TAs or me, please send an e-mail in advance to let us know what you would like to discuss.

I wish you the very best of luck with this course and with your studies in general.

Course Scope and Mission

This course will help you analyze financial statements and value businesses. We will discuss how accounting standards and managerial discretion influence presented financial statements. You will understand how to interpret financial statements, analyze cash flows, make judgments about earnings quality, and uncover hidden assets and liabilities. You will get exposure to introductory data analytics for FSA and will obtain experience in employing such tools. You will also be exposed to relevant accounting research. Finally, we will use financial statement analysis prospectively to forecast and value firms using cash-flow based and accounting-based methods.

First, you will learn why the critical first step is to understand industry structure and a company's strategic choices. Second, I will provide you with a framework to understand and evaluate a firm's accounting and disclosure choices and learn how to adjust financial statements to ensure better comparability. Next, I will present a framework for ratio analysis where a firm's operations are separated from its financing to better understand the true drivers of profitability and risk. With that background, the next part will expose you to techniques of integrated forecasting. You will then use these forecasts to value firms using a variety of techniques including DCF, multiples, and abnormal earnings-based valuation methods.

Course Prerequisites

Rotman Commerce: RSM219H and RSM222H. Based on prior experience, please brush up on your basic accounting before the course commences. You need to understand basic technical accounting to get anything out of this course.

Required Technology

Materials will be posted to Quercus. For the session on “Machine Learning/AI in FSA” and its associated assignment, you will use various databases as detailed in that session and its handouts.

Recommended (but not Mandatory) Readings

Krishna G. Palepu, Paul M. Healy and Eric Peek, “Business Analysis and Valuation using Financial Statements: IFRS Edition. Newest edition.

I recommend but do not require that you acquire and read this textbook. You could manage without by carefully reading my notes and other posted materials, and by ensuring that you refresh sufficiently of basic financial accounting. An e-book is available from the publisher Cengage and presumably from Amazon, etc.. In the weekly schedule below, I use PHP to refer to the book. (Specifically, I refer to the 5th edition, so if you have another version carefully look at the chapter titles and you should easily be able to adjust.)

Importantly, I will make various notes available on the course website. These are required readings unless explicitly listed as “voluntary.”

Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well they have command of the course materials.

Work

Class Participation	7%	Ongoing
Group Analytics Assignment	15%	
Two Individual Assignments	30%	
Group Term Project	25%	Due December 2 at 3 PM
Individual Final Exam	23%	During Faculty of Arts & Science Final Examination period

COURSE FORMAT AND EXPECTATIONS

Individual Homework Assignments (total of 30%)

Instructions regarding the assignment will be announced on Quercus. You will also submit online.

Individual Assignment 1: Due October 4

Individual Assignment 2: Due November 15

TA contact: **Junhao**

Group Analytics Project (15%)

This assignment, along with Individual Assignment 1, will give you hands-on experience with basic analytics related to FSA.

Please see Q for details. Due November 1

TA contact: **Junhao**

Individual Final Examination (23%)

The final examination will be held during the formal examination period and will be comprehensive. The date and time of the final examination will be announced by the Faculty of Arts and Science. The format of the final exam will be announced online and it will cover materials from the entire course.

Group Term Project (25%)

Please form groups of around 3-5 (a minimum of 3 and a maximum of 5) and designate a group representative. You should choose a publicly traded firm that uses either IFRS (preferred) or US GAAP. You should not choose firms from the financial services and other regulated industries, or any firm with a negative book value of equity in the most recent five years. This is to avoid added complications in your analysis.

The group representative should email me *no later than 2 PM* on Monday, **October 3** with the details of the firm chosen, and the names of each group member (as appeared in ROSI). Each group will analyze a different firm; therefore, firm choice will be based on a first-come first served basis. In the email subject line, please include “RSM429 Section# - Firm Chosen,” so that I can read your email as a priority. Otherwise, your email will be addressed in the order it was received. I will confirm the firm selection with each group by email.

Upon selecting your firm, obtain the most recent financial statements. You could use the web as most firms have a lot of information usually under investor relations (IR) on their web sites. Financials are also available on the EDGAR database (www.sec.gov) or the SEDAR database (www.sedar.com) for Canadian firms. IR websites may have the statements in useful formats such as excel. Any other public information available on the firm can also be used. The reference librarians in the library may be able to direct you to sources of information on industries and particular firms. In addition, make use of the internet and Lexis/Nexis. Finally, you will also want to look at those financial statements of the firm’s major competitors. Although you can draw from other sources (clearly cited), *all work must be your own*. Any plagiarism will be forwarded to the school administration.

Needless to say, I strongly encourage that you *start the work* on the term project *early* in the course.

Group Project Main Objective

In this project, your group should take the role of investment advisor to a group of investors. Your ultimate objective is to advise whether they should buy the stock of the company. To arrive at your conclusion, you will need to address several issues, including but not limited to:

1. Introduction / Industry and Strategic Analysis
 - Describe your company.
 - Analyze the industry in which the firm operates.
 - Do a 5-forces analysis.
 - Analyze the strategy of the firm and compare it with other firms in that industry.
2. Accounting Analysis
 - Analyze the firm’s accounting choices, compare with the others in the industry, and look for possible red flags.
 - Address the issue of accounting adjustments.
3. Financial Analysis
 - Do a Risk and Profitability analysis of the firm using past data.

- Carry out time series analysis as well as cross-sectional analysis by comparing the firm to other firms in the industry.
 - Make sure to do a ROE decomposition as well as a ROA breakdown.
4. Forecasting
- Make assessments about what the future balance sheets, income statements, and cash flow statements will look like.
 - Use the condensed approach discussed in class.
5. Valuation
- Value the firm using Abnormal Earnings Based Valuation.
 - Also, value the firm using one other technique (DCF or Multiples).
 - Make sure you run sensitivity analyses based on scenarios
6. Recommendation
- Compare the valuation with actual stock price and try to provide plausible reasons for why the firm's actual stock price may be different from what you valued it at.
 - Use this to make your recommendation

You will also need to include a one-page Executive Summary that summarizes the key findings of your analysis and states your conclusion and recommendation.

The project report is due **December 2 at 2 PM**.

TA contact: **Stacey**

Class Participation (7%)

Class discussion is an essential part of learning, and it is also the most interesting way to conduct a class. Class participation will enhance your presentation and communication skills, which will help you in recruiting and in your career. Students are expected to prepare in advance for classes (including unassessed cases), attend classes, and contribute to discussions on a *constructive* and *regular* basis.

The primary goal of the individual participation portion of the grade is to reward you for your preparation and individual contribution to the learning environment. It includes, but is not limited to, asking and answering questions, in-class participation work, etc. Students are required to bring their *name cards* to every class. Professionalism is a component of class contribution. Phones should be put away and turned off during class and laptops should be used for class purposes only. This is obvious but while attendance is a requirement for class participation, mere attendance does not yield participation credit.

RSM429 FALL 2022 - Weekly Schedule

All pre-class material will be uploaded onto the course website prior to each class. In addition, all supplementary files will also be made available.

Session	Date	Topic	Reminders
1	Sep 13	Introduction Strategic Analysis	PHP chapter 1 Posted strategy note
2	Sep 20	Strategic Analysis Accounting Analysis and Earnings Management	PHP chapters 2-3. Manipulation spreadsheet and articles Posted strategy note (again); accounting analysis note.
3	Sep 27	Accounting Analysis Accounting Adjustments	PHP chapters 2-4
4	Oct 4	Accounting Analysis/Adjustments Case discussion	PHP chapters 2-4. FenceAlign case <i>Individual Homework 1 due</i> Deadline for term project company selection
5	Oct 11	Data Analytics for FSA (Junhao)	PHP chapter 9
6	Oct 18	Leases, pensions, taxes, intercorporate investments	PHP chapters 2-4; refresh material from earlier accounting courses
7	Oct 25	Financial Analysis	PHP chapter 5; notes on CF and risk & profitability
8	Nov 1	Prospective Analysis: Forecasting	PHP chapter 6; note on forecasting <i>Group Analytics Assignment Due</i>
9	Nov 15	Prospective Analysis: Valuation Theory	PHP chapters 7-8; notes on valuation <i>Individual Homework 2 due</i>
10	Nov 22	Prospective Analysis: Valuation Theory Valuation Implementation	PHP chapters 7-8; notes on valuation
11	Nov 29	Credit Analysis	PHP chapter 10; fixed income note <i>Term project due December 2 at 3 PM</i>
12	Dec 6	M&A and Spinoffs	PHP chapter 11
Final Exam	TBA by FAS		

Note: This is a **tentative** schedule and is subject to change. The fall reading week is week of November 7, no classes.

Original

Normally, students will be required to submit their course essays to the University's plagiarism detection tool for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the tool's reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of this tool are described on the Centre for Teaching Support & Innovation web site (<https://uoft.me/pdt-faq>).

For Written Assignments and Group Project Presentation

Please note that clear, concise, and correct writing will be considered in the evaluation of the individual homework assignments and group project. How well you communicate your ideas, in writing or orally, will be considered in the evaluation of the assignment. In your written assignments, you should aim for clarity, strong organization, concision, professionalism, and correct grammar. Your presentations should reflect strong planning and organization, clarity of speech, and an engaging demeanour. Sources, whether in written or presentation assignments, should always be correctly attributed.

Support is available through the RC Centre for Professional Skills (CPS) for students who would like help or feedback on their writing or speaking (presentations). CPS offers both individual and group appointments with trained writing instructors and presentation coaches who are familiar with the RC program and common types of business assignments. You can also access your college Writing Centres for help with written assignments.

You can [book an appointment with a writing or presentation coach](#) through the RC Centre for Professional Skills Writing Centre. For more information about writing centres, student supports, and study resources, see the [Writing and Presentation Coaching academic support page](#).

Group Work

The course project requires students to work in teams. Learning to work together in teams is a crucial transferrable skill you will use not only in your coursework, but also in your future careers. Support is available if you encounter common teamwork challenges such as:

- Team members feeling left out of the team.
- Team members not responding in a timely manner to communication.
- Division or quality of work among team members being unequal or unfair.

Consult the [Centre for Professional Skills Teamwork Resources page](#) for tips, strategies, and best practices. You can also [book an appointment with a teamwork mentor](#) through the RC Centre for Professional Skills Writing Centre. Teamwork mentors can help you resolve or mitigate conflict, strategize on planning, or improve team communication.

If you are a student registered with Accessibility Services, and extensions are one of your academic accommodations, consult with your Accessibility Advisor about the teamwork in this course.

Statement on Equity, Diversity, and Inclusion

The University of Toronto is committed to equity, human rights, and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect where all members of our community can express themselves, engage with each other, and respect one another's differences. U of T does not condone discrimination or harassment against any persons or communities.

POLICIES AND PROCEDURES

Missed Tests and Assignments

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may request special consideration.

In such cases, students must:

1. Notify the instructor AND the Rotman Commerce Program Office **on the date** of the missed course deliverable, e.g. missed test, final assessments, assignment or class (in the case of participation marks).
2. Complete a [Request for Special Consideration Form](#) and submit it along with your Absence Declaration on [ACORN](#) (please read the instructions on how to use the Absence Declaration in ACORN) within **2 business days** of the originally scheduled course deliverable.

Students who do not provide this information will be given a grade of 0 (zero) for the missed course deliverable.

Late Assignments

All assignments are due on the date specified in the course outline or instructions provided, unless otherwise announced on Portal. No late assignments will be accepted. If appropriate documentation is provided, the value of the missed assignment will be added to the final test. Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

Commitment to Accessibility

The University is committed to inclusivity and accessibility, and strives to provide support for, and facilitate the accommodation of, individuals with disabilities so that all may share the same level of access to opportunities and activities offered at the University.

If you require accommodations for a temporary or ongoing disability or health concern, or have any accessibility concerns about the course, the classroom or course materials, please [email Accessibility Services](#) or [visit the Accessibility Services website for more information](#) as soon as possible. Obtaining your accommodation letter may take up to several weeks, so get in touch with them as soon as possible. If you have general questions or concerns about the accessibility of this course, you are encouraged to reach out to your instructor, course coordinator, or Accessibility Services.

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly and fairly in this academic community ensures that the U of T degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

[The University of Toronto's Code of Behavior on Academic Matters](#) outlines the behaviors that constitute academic misconduct, the process for addressing academic offences and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to) medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behavior on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other U of T resources such as College Writing Centers or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all U of T students are required to have a valid UTMail+ email address. You are responsible for ensuring that your UTMail+

email address is set up and properly entered on ACORN. For more information visit help.ic.utoronto.ca/category/3/utmail.html.

Forwarding your utoronto.ca email to a Gmail or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Gmail accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Quercus and the Course Page

The online course page for this course is accessed through Quercus. To access the course page, go to q.utoronto.ca and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ACORN, wait 48 hours.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted. Students who have been previously granted permission to record lectures as an accommodation for a disability are exempted. This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc. If permission for recording is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in any way. It is forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.