
Business Valuation and Analysis Using Financial Statements (15.535)

Who?

- Professor Peter Wysocki – “Peter”
- Office Hours:
 - Anytime ... Make appointment by e-mail.

When?

- Section “A”
- Section “B”
- Attending Other Sections:
 - Check with me first Usually “No Problem”

What?

- Primary Objectives
 - Provide knowledge to help you get a great job.
 - Provide information for job interview questions.
 - Promote you as MIT students – website.
 - Learn how to use financial information to *Value* and *Analyze* firms.
 - Apply your economics/accounting/finance skills to issues in today's news to help understand:
 - *What* is contained in financial reports
 - *Why* firms report certain information
 - *How* to be a sophisticated user of this information.

What ... My objectives

- My objective is not to make your life miserable.
- My objective is not to overload you with irrelevant assignments or make-work tasks.
- My objective is to make this class relevant, useful, stimulating, fun and enjoyable.
 - You have many commitments ... But, the lowest-cost, lowest effort approach to benefit from and “cruise” through this class is to attend class.
 - Basically, I am serving it to you on “silver platter.”

Why?

- Provide up-to-date **applied** knowledge of:
 - Fundamental valuation techniques
 - Pitfalls of accounting reports
 - “Reading between-the-lines” of financial reports.
- Very useful for your career as:
 - Financial analyst, I-banker, consultant, etc.
- Discuss up-to-date and “hot” topics that companies face today.
 - This information will be extremely useful for your job interviews and your job.

How?

- Coursepack
 - There is no required coursepack! I will provide handouts and lecture notes during each class.
- Lecture Notes & Class Handouts
 - Also accessible through the class server prior to each class. If you are missing material for a particular class, please obtain them from the Web to make sure you do not fall behind.

How ... Prep for Class

- Short reading assignments from the text and handouts will be provided at the end of each class.
- The textbook chapters to be covered in the next class will be listed in the class handouts.
- We will not cover every part of each chapter in the text! Concentrate your efforts on the short assigned readings.

How ... Grading

- 6 "e-assignments" (count best 5) 50 pts
- 2 Quizzes (in class) 200 pts
- Analyst Reports/Presentation (Team) 150 pts
- Class Contribution (Particip/other) 100 pts
- **Total** 500 pts

How ... Assignments

- These short applied assignments will be assigned about 1 week before each due date.
- You may work alone or in a team of up to 4 students.
- Be prepared to discuss and defend your (or your team's) analysis during the class discussion on the due date!

How ... Analyst Reports

- Student teams (up to 4 students) will be responsible for creating and presenting an analyst report on a company of their choice.
- This comprehensive analysis is similar to the reports generated by Wall Street analysts.

How ... Classroom Approach

- The classes will be casual, fun and informal.
- I think the best way to learn is through numerous examples. Therefore, we will examine many interesting “cases” from the today’s financial press on topics of current importance.
- To keep things lively, I will ask questions and get your input during class. My questions are not intended to put you on the spot ... I am a very easygoing and forgiving person 😊!

Financial Statement Information

- Used extensively by internal users
 - Management at various levels
 - Performance evaluation
 - Competitive analysis
 - Investment decisions
 - Valuation of targets
 - Current and future employees
 - Is this firm going to meet its payroll and will the stock options be worth anything?

Financial Statement Information

- Used primarily by external users
 - Financial intermediaries (analysts)
 - Stock recommendations
 - Lenders
 - Loan decisions
 - Monitoring
 - Investment bankers
 - Valuation for M&A and IPO
 - Top management performance evaluation

Financial Statement Analysis

- Financial statement analysis and business analysis applications
 - Focus is more than a mechanical analysis of financial statements.
 - Draw heavily on your understanding of finance, economics, marketing, and strategy.
 - Combine that understanding with financial statement information to diagnose problems and come up with solutions/recommendations

What the course is NOT about

- Extreme details of financial reporting rules and financial statement preparation.
- T-accounts and journal entries.

Market Efficiency and the Role of Financial Statement Analysis

- Implications of stock market efficiency:
 - Many profit-maximizing, actively competing traders
 - Information almost freely available to all participants
 - Competition means that the full effects of new information on intrinsic values are reflected instantaneously in prices
 - Stock prices rapidly adjust to new information such that the new price promises only a normal rate of return to an investor
- If markets are efficient, then what's the use of "Fundamental Analysis" and Valuation?

Market Efficiency and the Role of Financial Statement Analysis

- Conflicting evidence on market efficiency
 - Markets are Efficient:
 - Market's reaction to news events is instantaneous.
 - Mutual funds have on average been unable to outperform broad indexes; in fact, generally under-performed.
 - Why publish “secrets” instead of making money yourself?.
 - Markets are Inefficient:
 - Growing evidence of “easy ways” to beat market.
 - Greater acceptance of “Behavioral Explanations” for stock market fluctuations.

Market Efficiency: What is My View?

- I am not dogmatic about efficiency.
 - Let the evidence accumulate and speak for itself.
 - Then you can decide.
- On the other hand, financial (stock) markets are very competitive.
 - It is not easy to make money above the expected rate for return for a given level of (beta) risk.
 - Trading strategies are not free of risk (Long Term Capital).
- Regardless of your allegiance, knowing state-of-the-art techniques and lingo from the “The Street” (post-earnings announcement drift, PEG ratio, B/M effect) will certainly help get you a great job!

Where Next? .. Prep for next week

- 1) Make sure you register on class server!
- 2) Form teams for assignments and the Analyst Project (maximum of 4 people). Submit the names of your team members (and e-mails) to me on a piece of paper by end of Next Class.
- 3) Next Class ... Valuation Basics.
 - Preparation: Review your Finance Notes on DCF (or skim section in Brealy and Myers)