
FINANCIAL STATEMENT ANALYSIS

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PRESENTATION - PRÉSENTATION

This course provides a framework for analyzing financial statements for different analytical purposes. It presents a variety of targeted tools and techniques for analysis and interpretation of financial statements. It helps students to learn to think critically when analyzing financial data and to make different decisions based on user-group objectives (equity, credit and management analysts).

The 2008 crisis has revealed new forms of financial risk and recalled the need for decision makers to carry out a rigorous approach of financial analysis; it is the duty of all investors and managers to analyze the products they are investing in. It also pointed out the need to include extra-accounting information when analyzing company's financial health.


This course argues that (i) there is no single indicator of good health; a rigorous financial analysis requires a combination and a cross-analysis of different indicators covering several aspects to good financial health. (ii) Financial ratios are not very helpful by themselves; they need to be compared to something: an appropriate benchmark (time-trend analysis, comparison with competitors and industry peers, etc.). (iii) Focusing only on numbers is insufficient; analysts need to be aware of the organization's business strategy, understand the nature of the industry in which the organization operates, as well as the overall state of the economy that may impact the performance of the organization.

We suggest the following financial analysis guideline: (i) strategic and economic assessment, (ii) growth analysis, (iii) profitability analysis, (iv) risk analysis, and (v) conclusions and recommendations.

INTENDED LEARNING OBJECTIVES - OBJECTIFS PÉDAGOGIQUES

After this course, you should be able to:

- Know why the disclosure of financial information through financial statements is critical to investors
- Understand the construction of the main financial statements and discuss their limitations
- Use accounting information to construct financial ratios
- Distinguish between accounting analysis (accrual-based measures, book value) and financial analysis (Cash-based measures, market value) of the firm
- Evaluate the sustainability of growth (in EVA) and the quality of earnings: assess the process of value creation
- Understand the relationship between operating profitability (ROCE) and owner's profitability (ROE), as well as the impact of financial leverage on profitability.
- Assess illiquidity and insolvency risk.
- Write a Financial Analysis Report

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KEY TOPICS - THÈMES PRINCIPAUX

1. Introduction: fundamental concepts
2. Classifying Company Cash Flows: the Operating Cycle is of critical importance
3. The analytical Balance sheet: the Financial View
4. The analytical Income Statement: Assessing Earnings Quality
5. Accrual-based Versus Cash-Flow-based performance measures
6. Profitability and illiquidity Risk Analysis
7. Writing a Financial Analysis Report: Case Study

SCHEDULE - DÉROULÉ

COURSE CONTENT - CONTENU

<u>Class</u>	<u>Topic</u>	<u>Readings</u>	<u>Assignments</u>
Lecture 1	1. Introduction: fundamental concepts 2. Classifying Company Cash Flows: the Operating Cycle is of critical importance	Financial statements: A reminder (Document provided by the professor)	
Lecture 2	(cont'd) 2. Classifying Company Cash Flows: the Operating Cycle is of critical importance 3. The analytical Balance sheet: the Financial View		
Lecture 3	(cont'd) 3. The analytical Balance sheet: the Financial View 4. The analytical Income Statement: Assessing Earnings Quality		
Lecture 4	5. Accrual-based Versus Cash-Flow-based performance measures 6. Profitability and illiquidity Risk Analysis	Chapter 11 and 12 of Berk J. and DeMarzo P. (2014) (CAPM and Estimating the WACC)	
Lecture 5	Quiz (30 minutes) Closed book (cont'd) 6. Profitability and illiquidity Risk Analysis		
Lecture 6	7. Writing a Financial Analysis Report: Case Study		Individual homework: Calculation of the financial ratios of the company that will be discussed in Lecture 6. Required document: an excel file with calculations.

	PROGRAM: MSc MANAGERIAL AND FINANCIAL ECONOMICS	COURSE – FINANCIAL STATEMENT ANALYSIS FALL 2017
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TEACHING METHODS - MÉTHODES PÉDAGOGIQUES

COURSE MATERIALS - MATÉRIEL PÉDAGOGIQUE

The course integrates interactive lectures, tutorials and discussions of cases, to Financial Statement Analysis.

Required Books

Pierre Vernimmen (2013), Corporate Finance: Theory and Practice, 3rd Edition. With Pascal Quiry, Yann Le Fur, Antonio Salvi, Maurizio Dallochio. John Wiley & Sons Ltd. (Section 1 - Financial Analysis)

Additional Textbook

For a reminder of the fundamentals of corporate finance:

Berk Jonathan and DeMarzo Peter (2014), Corporate Finance, Pearson Education, 3rd Edition.

To dig deeper:

Thomas Plenborg, Christian Petersen (2012), Financial Statement Analysis: Valuation - Credit Analysis - Executive Compensation. Financial Times Press.

Required Cases, Assignments

Case study : students are expected to write a financial analysis of a company that they may choose among listed companies.

Other Materials

In addition to material related to the 7 sections (outlined above), students will be provided by:

- Appendix 1: (Required readings) Financial statement documents: a reminder
- Appendix 2: Writing a Financial Report: Some Guidelines. This document provides some guidelines and a sort of “toolkit” of the financial analyst, intended to help them to write their financial analysis for the case study.
- Appendix 3: Examples of financial statements. This document provides the financial statements of three companies that will serve as a benchmark to calculate and analyze financial ratios during the class.

Case and readings pack distributed in class / Download exercises, reading, and tutorials: www.fbenabdelkader.com / All course materials will be distributed through K-Hub

INDIVIDUAL WORK - TRAVAIL PERSONNEL

See SCHEDULE - COURSE CONTENT

GRADING - ÉVALUATION

Grades are based on an individual exam (Quiz) and a collective homework assignment:

	Assessment	% of total grade
Individual assessment	Quiz – critical thinking questions	50%
	Closed book (30 minutes)	
Collective homework assessment	Financial Analysis Report *	50%
	Homework Groups of <u>3</u>	

* Evaluation will be based on (i) the calculation of financial ratios, and (ii) the analysis of these ratios

Required documents:

1. An excel file with financial statement data and financial ratios
2. A power-point document including your presentation

BIOGRAPHY - BIOGRAPHIE / PUBLICATIONS

Fahmi Ben Abdelkader

PhD, University of Sorbonne Paris1

Researcher and scientific coordinator at LabEx ReFi (Excellence Laboratory on Financial Regulation)

Affiliate professor of Finance at ESCP EUROPE Business School

Other teaching positions: visiting lecturer at HEC Paris and ESA Beirut.

Fahmi Ben Abdelkader holds a Ph.D. in Economics and a master's degree in International Economics from Sorbonne University in Paris. In 2011, he won the International Doctoral Prize for Research Work in Economic Studies by the CEDIMES Institute, in recognizing "his expertise on the economies of the MENA region and in endorsing his analysis of institutional change and development in this region". He has co-authored a book on the role of governance institutions in the development process in the MENA region. He has served as a consultant to the World Bank where he conducted a survey on corporate governance mechanisms of State Owned Enterprises in the MENA region. He has taught a wide range of courses in Finance and Economics at several French academic institutions, namely Sorbonne University of Paris and ESCP Europe Business School, as well as ESSEC Business School and HEC Paris.

Fahmi Ben Abdelkader is currently an affiliate professor of finance at ESCP Europe Business School, and a visiting lecturer at HEC Paris and ESA business school Beirut. In October 2015, he joined Labex ReFi (Excellence Laboratory on Financial Regulation) as a scientific coordinator and a member of its Executive Committee.