

Victoria Management School

MMBA556 Financial Statement Analysis

Summer Trimester 2006

COURSE OUTLINE

- Start Date:** 16 November 2006
- Format:** One 3 hour session each week for eight weeks until 1 February 2007. No classes in Weeks 6 and 7.
- Lecture Times:** Thursdays, 5:40 to 8:30pm
- Location:** GBLT3
- Teaching Staff:** Mr Martin Turner MBA, BCom (Hons1), LLB.
- Office: Rutherford House 712
Email: martin.turner@vuw.ac.nz
(preferred method of contact is by email)
Mobile: 021 476 200
Telephone: 463 6591
- Textbook:** Penman, Stephen H. Financial Statement Analysis and Security Valuation 3rd ed. New York: McGraw-Hill/Irwin, 2006.

Course Objectives

The Master of Business Administration Programme serves to produce professional managers capable of fulfilling strategic roles within corporate and government enterprises. Integral to this capability is an understanding of the relations between strategy, financial accounts and value. ‘Adding value’ is a key aspect of being a successful manager. But how do you know if a proposal or idea is ‘adding value’?

This course aims to facilitate understanding of the use of financial statement information for making investment decisions and for strategy analysis.

Broadly, the course will cover:

- Deriving information about a company's financial health and performance – and the performance of its management – from financial statements (and other annual report information);
- Valuation of companies based on accounting information.

There will be an emphasis on the practical use of accounting knowledge in analysing financial statements and company valuation. The course will focus on the analysis of listed New Zealand companies.

Reading Before Commencement of Course

It is a requirement that, as a minimum, the Essential Pre-Reading from Penman (2006) is completed. Further, it is **strongly advised** that students complete as much as possible of the Recommended Reading from Penman (2006).

This reading is substantial and students are **strongly advised** to complete the Essential Pre-Reading (and to consider its contents carefully) **BEFORE** the course starts on Thursday 16 November. The material in each week of the course builds strongly on previous weeks. Completing the Essential Pre-Reading **BEFORE** the course starts will give you a context of where the course is heading as a whole as we examine the concepts in the early weeks. This will greatly enhance your understanding of the material.

Also, the Group Assignment is a substantial piece of work. Groups will be expected to commence work on the Group Assignment immediately after the first class. Completing the Essential Pre-Reading **BEFORE** the course starts will help students to be in a position to commence the Group Assignment immediately after the first class.

Essential Pre-Reading

Penman (2006): pp. 14-20 (Chap 1); pp. 238-254 (Chap 7); pp. 300-323 (Chap 9); pp. 370-391 (Chap 11 – whole chapter); pp. 408-430 (Chap 12); pp. 562-569 (Chap 15).

You should allow at least 8 hours to complete this reading. You should complete this Essential Pre-Reading **BEFORE** the first class on Thursday 16 November.

Recommended Reading

Those aspects of Chapters 1, 5, 6, 7, 9, 12, 13 and 15 of Penman (2006) not already covered in the Essential Pre-Reading. This reading could be usefully completed over the first five weeks of the course. You should allow at least 8 hours to complete the Recommended Reading.

It is recommended that you also use the textbook's web resources: www.mhhe.com/penman3e. In particular, it is recommended you print the Course Notes for each of Chapters 1, 5, 6, 7, 9, 11, 12, 13 and 15 from the website and use these notes as summaries for each chapter. You can add your own notes to them as you read through each chapter.

A list of other references is provided at the end of this Course Outline.

Group Assignment

Students will need to commit a significant amount of time to completing the Group Assignment. **The Group Assignment should be commenced in Week 1 of the course and be worked on consistently throughout the course, including those weeks where there will be no classes in Weeks 6 & 7 of the Trimester.** It is the key vehicle for students to practically apply the analytical framework presented in this course.

Format of Classes

Each class will be 3 hours. The first four (4) weeks will be spent focusing on relevant concepts underlying the analytical framework being used; the next two (2) weeks will focus on forecasting and valuation. The final two (2) weeks will be focused around presentation and discussion of the Group Assignment and the End of Course Test.

An interactive, discussion format will be used throughout the course.

The course involves 24 hours of class time over 8 weeks (i.e. 3 hours/week) and will require a concentrated focus by students.

Key aspects of the analytical framework outlined in Penman (2006) will be presented in class, with a focus on the concepts involved. Knowledge of the various accounting relations and formulae is best gained by carefully completing the Essential Pre-Reading and Recommended Reading before class.

For students to fully participate in the class discussions and to gain the most from this course, it will be **essential to complete the relevant reading thoroughly before class.**

Classes will focus on assisting students to grapple with and understand the key concepts presented in the course, enabling students to develop their own views on an appropriate analytical framework which they can take with them as their personal tool in financial statement analysis, valuation and business strategy analysis.

A key objective of this course is to demonstrate the benefits of adopting a rigorous, comprehensive and efficient method of financial statement analysis that is accounting-based and clearly distinguishes between what is known and what is speculation.

Lecture Schedule - MMBA 556 – Summer Trimester 2006

Week	Date	Topic	Reading*
			Penman (2006)
1	Thurs 16 Nov	Analytical Tools (1): Valuation Technologies Forecasting Template Fundamental Analysis Know the Business	Chap 1, 15 pp. 14-20; pp. 562-569
2	Thurs 23 Nov	Analytical Tools (2): Operating and Financing Activities Reformulating Financial Statements	Chap 9 Chap 7, 13 pp. 238-254 pp. 300-323
3	Thurs 30 Nov	Analytical Tools (3): Residual Earnings and Abnormal Earnings Growth	Chap 5, 6, 7, 13 pp. 238-254
4	Thurs 7 Dec	Analytical Tools (4): Analysis of Profitability & Growth	Chap 11, 12 pp. 370-391 pp. 408-430
5	Thurs 14 Dec	Forecasting/Valuation	Chap 15 pp. 562-569
6	Thurs 18 Jan 2007	Forecasting/Valuation	Chap 15 pp. 562-569
7	Thurs 25 Jan 2007	Group Assignment Presentations	
8	Thurs 1 Feb 2007	End of Course Test (6-8pm)	

* Essential Reading is in bold type. Although this reading relates to material in the course covered in Weeks 1 - 6, it should be thoroughly read **BEFORE** classes start on Thursday 16 November. This will give you a context for the material we cover each week and also assist you as you commence the Group Assignment in Week 1.

Course Assessment

Assignments (5)	30%	Due: 5.00pm each Tuesday in Weeks 2-6
Group Assignment	40%	Class Presentation on Thurs 25 Jan 2007
End of Course Test	30%	Thurs 1 Feb 2007: 6.00-8.00pm

Assignments (30%)

There will be five (5) Assignments, due as follows:

5.00pm Tues 21 Nov

5.00pm Tues 28 Nov

5.00pm Tues 5 Dec

5.00pm Tues 12 Dec

5.00pm Tues 19 Dec

The Assignments are designed to help students consolidate their understanding of the concepts and material presented in class and from the readings. They also provide students with the opportunity to gain regular feedback during the course on their progress in understanding the course material.

Assignments can be submitted by emailing them to: martin.turner@vuw.ac.nz. You will receive an email acknowledgement of your assignment. If you do not receive an email acknowledging receipt of your assignment by 5.15pm on Tuesday, please urgently contact Martin Turner on 021 476 200.

Each Assignment is worth 6%.

Marked assignments will be returned to students in the following class. Submission of Assignments well before 5.00pm Tuesday will assist the lecturer in completing marking of each Assignment prior to the class that week.

Group Assignment (40%)

Each group will be allocated a New Zealand listed company and asked to evaluate its performance and future prospects based on its financial statements, annual report and on each group's industry and/or economic research. Each group will be asked to make a presentation to the class and to hand in a copy of its slides, valuation model and accompanying narrative for assessment.

Groups will be formed for the Group Assignment in class in Week 1 on Thursday 16 November. Students will be expected to immediately commence work on the Group Assignment. During the course, there will be opportunities in class for the Groups to discuss aspects of their analysis.

It is currently envisaged there will be two groups for the Group Assignment. Provenco Group Limited and Pumpkin Patch Limited will each be allocated to a group. Depending on numbers in the course, there may be more than two groups, in which case additional New Zealand listed company(ies) will be allocated to groups.

End of Course Test (30%)

Two hour closed-book test. A copy of the formulae in the Appendix to Penman (2006) will be provided with the exam paper.

Penalties

Late submission of assignments: a deduction of 1% will be made for each day (or part thereof) after the due time. In the event of unusual, unforeseen circumstances (e.g. serious illness, family bereavement), students should discuss waiver of the penalty with the course controller prior to the deadline date.

Mandatory Course Requirements

To meet mandatory course requirements, students are required to attend classes, complete the five (5) Assignments and fully participate in the Group Assignment.

Passing the Course

In order to pass this course, students are required to obtain at least forty (40) percent of the End of Course Test marks available, and obtain at least fifty (50) percent of the overall course marks available.

Victoria MBA Grading Standards

- Victoria MBA - **Excellent** Category
A (80 – 85%) to A+ (above 85%): The quality is performed to a very high level of proficiency, i.e. it is at a standard that makes it exceptional at Master's level.
- Victoria MBA - **Very Good** Category
B+ (70 – 74%) to A- (75 – 79%): The quality is performed at a high standard. Students have reached a level which clearly exceeds "competency".
- Victoria MBA - **Good** Category
B- (60 – 64%) to B (65 – 69%): The quality is clearly demonstrated without being exceptional in any way. Students can be thought of as competent in respect of this quality.
- Victoria MBA - **Satisfactory** Category
C (50 – 54%) to C+ (55 – 59%): The quality is demonstrated to a minimally acceptable level. There may be flaws but these are not serious enough to "fail" the student on this quality.
- Victoria MBA - **Unsatisfactory** Category
E (0 – 39%) to D (40 – 49%): The quality is absent or performed to a very low level, or the performance is seriously flawed in this respect.

GROUP ASSIGNMENT 1

PROVENCO GROUP

Evaluate the performance and future prospects of Provenco Group Limited. Refer to the company's website www.provenco.co.nz/investor/Reports.aspx. This site contains information on Provenco Group, including the company's Annual Reports. Besides an analysis of this information, your group can also draw on its own industry and/or economic research.

You are to critically apply the analytical framework studied in this course.

Provenco Group was trading at \$0.89 on 9 October 2006.

Your group currently holds 200,000 shares in Provenco Group, which represents a significant proportion of your group's total net worth. What should you do with these shares? Should you SELL these shares; BUY more shares in Provenco Group and add to your holding; or should you simply HOLD the shares you currently have?

Each group is to give a presentation to the class and to hand in a copy of its slides, valuation model and accompanying narrative for assessment.

Presentations should be no longer than 45 minutes. This should include some time set aside to interact with, and answer questions, from the audience.

There is to be **NO** discussion outside of class on the Group Assignment with members of other groups. Confidentiality **MUST** be strictly maintained within each group. However, discussion in class on the Group Assignments should be robust and open.

Various judgements and speculation about the future will be needed. Thus there is not necessarily any one correct answer – simply answers that may be more convincing (i.e. better researched and analysed) than others.

This Group Assignment will comprise 40% of the total assessment for MMBA 556 Financial Statement Analysis.

Martin Turner

GROUP ASSIGNMENT 2

PUMPKIN PATCH

Evaluate the performance and future prospects of Pumpkin Patch Limited. Refer to the company's website www.pumpkinpatch.biz/InvRel_publications.cfm. This site contains information on Pumpkin Patch, including the company's Annual Reports. Besides an analysis of this information, your group can also draw on its own industry and/or economic research.

You are to critically apply the analytical framework studied in this course.

Pumpkin Patch was trading at \$4.05 on 9 October 2006.

Your group currently holds 50,000 shares in Pumpkin Patch, which represents a significant proportion of your group's total net worth. What should you do with these shares? Should you SELL these shares; BUY more shares in Pumpkin Patch and add to your holding; or should you simply HOLD the shares you currently have?

Each group is to give a presentation to the class and to hand in a copy of its slides, valuation model and accompanying narrative for assessment.

Presentations should be no longer than 45 minutes. This should include some time set aside to interact with, and answer questions, from the audience.

There is to be **NO** discussion outside of class on the Group Assignment with members of other groups. Confidentiality **MUST** be strictly maintained within each group. However, discussion in class on the Group Assignments should be robust and open.

Various judgements and speculation about the future will be needed. Thus there is not necessarily any one correct answer – simply answers that may be more convincing (i.e. better researched and analysed) than others.

This Group Assignment will comprise 40% of the total assessment for MMBA 556 Financial Statement Analysis.

Martin Turner

GROUP ASSIGNMENT 3

MAINFREIGHT

Evaluate the performance and future prospects of Mainfreight Limited. Refer to the company's website <http://www.mainfreight.com/news.htm>. This site contains information on Mainfreight, including the company's Annual Reports. Besides an analysis of this information, your group can also draw on its own industry and/or economic research.

You are to critically apply the analytical framework studied in this course.

Mainfreight was trading at \$6.45 on 9 October 2006.

Your group currently holds 50,000 shares in Mainfreight, which represents a significant proportion of your group's total net worth. What should you do with these shares? Should you SELL these shares; BUY more shares in Mainfreight and add to your holding; or should you simply HOLD the shares you currently have?

Each group is to give a presentation to the class and to hand in a copy of its slides, valuation model and accompanying narrative for assessment.

Presentations should be no longer than 45 minutes. This should include some time set aside to interact with, and answer questions, from the audience.

There is to be **NO** discussion outside of class on the Group Assignment with members of other groups. Confidentiality **MUST** be strictly maintained within each group. However, discussion in class on the Group Assignments should be robust and open.

Various judgements and speculation about the future will be needed. Thus there is not necessarily any one correct answer – simply answers that may be more convincing (i.e. better researched and analysed) than others.

This Group Assignment will comprise 40% of the total assessment for MMBA 556 Financial Statement Analysis.

Martin Turner

GROUP ASSIGNMENT 4

RAKON

Evaluate the performance and future prospects of Rakon Limited.

Refer to the company's website:

<http://www.irg.co.nz/corporate/RAK/reports.php?menu=RAK&sid=5&PHPSESSID=a0e9c85f30d57f7e8f60d500d3bc5868>.

This site contains information on Rakon, including the company's Annual Reports. Besides an analysis of this information, your group can also draw on its own industry and/or economic research.

You are to critically apply the analytical framework studied in this course.

Rakon was trading at \$3.39 on 9 October 2006.

Your group currently holds 50,000 shares in Rakon, which represents a significant proportion of your group's total net worth. What should you do with these shares? Should you SELL these shares; BUY more shares in Rakon and add to your holding; or should you simply HOLD the shares you currently have?

Each group is to give a presentation to the class and to hand in a copy of its slides, valuation model and accompanying narrative for assessment.

Presentations should be no longer than 45 minutes. This should include some time set aside to interact with, and answer questions, from the audience.

There is to be **NO** discussion outside of class on the Group Assignment with members of other groups. Confidentiality **MUST** be strictly maintained within each group. However, discussion in class on the Group Assignments should be robust and open.

Various judgements and speculation about the future will be needed. Thus there is not necessarily any one correct answer – simply answers that may be more convincing (i.e. better researched and analysed) than others.

This Group Assignment will comprise 40% of the total assessment for MMBA 556 Financial Statement Analysis.

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GROUP ASSIGNMENTS: SUGGESTED WORK PLAN

Week	Task
1	Establish Group Download Model: (BYOAP Download) Input Financial Statements
2	Reformulate Financial Statements
3	Reformulate Financial Statements Financial Statement Analysis: Ratios, Common-Size, Trend
4	Analysis of Profitability & Growth
5	Forecasting & Valuation Prepare Presentation
6	Forecasting & Valuation Sensitivity Analysis Finalise Preparation of Presentation
7	Presentation

Martin Turner will be available to each group to discuss progress of your model from 16 November to 21 December 2006 and from 18 January 2007 until Wednesday 24 January 2007. He will **not** be available from 22 December 2006 to 17 January 2007 – he will be in Australia for most of this period. Your group should plan to send regular drafts of your model to Martin and he will provide feedback by email and/or during class. You can ask Martin specific questions concerning issues you face in reformulating the financial statements, other technical issues as well as the various judgements you will need to make in your analysis.

Also, each group is expected to discuss the progress of their group assignment in class. All students are expected to engage in critical discussion of each other's group assignment in class. However, outside of class there is to be strictly no discussion of the group assignment between groups.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at www.vuw.ac.nz.

Student and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at www.vuw.ac.nz/policy/studentconduct. The Policy on Staff Conduct can be found on the VUW website at www.vuw.ac.nz/policy/staffconduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website at www.vuw.ac.nz/policy/academicgrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means no cheating. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website at www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

VUWSA employs Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and Faculty delegates. The Education Office (tel. 04 463 6983 or 04 463 6984, email education@vuwsa.org.nz) is located on the ground floor, Student Union Building.

Manaaki Pihipihinga - Maori and Pacific Mentoring Programme (Faculty of Commerce and Administration)

This is a mentoring service for Maori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta
Manaaki Pihipihinga Coordinator
Room 210, Level 2
Railway West Wing
Tel. (04) 463 8997
Email: Puawai.Wereta@vuw.ac.nz

Fa'afai Seiuli
Pacific Support Coordinator
Room 109 B
14 Kelburn Parade
Tel. (04) 463 5842
Email: Faafoi.Seiuli@vuw.ac.nz

The Pacific Support Coordinator is also available on the Pipitea Campus, Room 212, Level 2, Railway West Wing, every Thursday, 1-4pm. No appointment is necessary. You can either come in, email or phone with any issue that you need help with. Fa'afai links Pacific students to the services and support they need while studying at Victoria.

REFERENCES

- **Introductory on Financial Statement Analysis:**
 - ✓ Copeland, Koller, Murrin, “Valuation: Measuring and Managing the Value of Companies”, Wiley, 2000, 3rd Edition.

- **Other Books on Financial Statement Analysis:**
 - ✓ Palepu, Bernard & Healy, “Business Analysis and Valuation: Using Financial Statements: Text and Cases”, I T P (International Thompson Publications), 3rd Edition, 2004.
 - ✓ Stickney, Brown and Walhen, “Financial Reporting and Statement Analysis: A Strategic Perspective”, Dryden Press, 5th Edition, 2003.
 - ✓ White, Sondhi & Fried, “The Analysis and Use of Financial Statements”, Wiley, 3rd Edition, 2002.

- **Corporate Finance:**
 - ✓ Brealey, “Principles of Corporate Finance”, McGraw-Hill, 6th Edition, 1999.