



INTRODUCTION

A security is any tradable financial asset that holds monetary value. In its most basic form, the value of a security is the discounted present value of the cash flows to its investors.

Traditionally, Security Analysis courses have focused on the various theoretical methods of assigning value to a set of assumed future cash flows, and less on how to, actually, forecast these future cash flows. In reality, the valuation method is the easy part (just apply a formula) and the complicated and more consuming part of the process is accurately forecasting the future cash flows. We will endeavor to achieve a more realistic balance during our discussions.

We will utilize the past as our starting point for forecasting the future by analyzing and understanding historical Financial Statements and exploring how these financial statements are used to evaluate a company's financial condition and its market value

To that end, students will follow a dual path by a) developing a theoretical understanding of the financial statement reports and disclosures used by financial managers to report financial performance, and b) performing a real-life historical analysis, forecasting and valuation on a real company.

While the course will be framed around the process an Equity Research Analyst may follow, the skills developed will be applicable to any investors, analysts, managers, or regulators who use that data for evaluation, decision making and oversight.

The discussion combines a theoretical foundation with real-life application and practice. By the conclusion of this course the student should be able to demonstrate an understanding the inter relationship between the financial statements, evaluate a company's financial condition, estimate future income and cash flow, and assess its creditworthiness and market value.

We will organize the analysis/investment process as follows:

Data Gathering:

- **Regulatory Filings:** Develop an understanding of how to read and interpret regulatory filings such as 10-Ks and 10-Qs, 8-Ks (press releases and presentations), etc.

Data Analysis:

- **Economic, Industry, Competitive and Operational Analysis:** As the necessary foundation of any financial analysis.
- **Historical data gathering and Model Building:** 6-year quarterly Income Statement, Balance Sheet and Cash Flow Statement.
- **Historical Earnings Quality Analysis:** Removing noise and non-recurring items from historical financial statements that do not properly reflect the actual company's financial condition.
- **Ratio Analysis:** As a quantitative method of interpreting financial statements designed to reveal insights into a company's liquidity, operational efficiency, leverage, and profitability.



Forecasting:

- 4-year forecasting period subdivided into a 2-year specific forecasting and a 2-year normalization period.

Valuation Analysis:

- 3-Step Dividend Discount Model, Residual Income, Free Cash Flow, Comparable Multiples.
- **Capital Structure:** Build an understanding of the financial instruments used by companies to fund and manage their financial risk (debt, equity, hybrid).

- **Professor:** Breogan Vazquez (breovazquez@external.unav.es). Carmen Aranda (maranda@unav.es)
- **Type:** Mandatory for Finance and Accounting students
- **ECTS:** 6
- **Year and Semester:** Third year, Second semester
- **Language:** English
- **Degree:** Degree in Management with Specialization in Finance and Accounting
- **Módulo y materia de la asignatura:** VII. Optativas. 7.2. Optativas específicas del perfil Finance and Accounting
- **Class schedule:** Tuesday 16:00-18:00. Wednesday 16-18:00.

LEARNING OUTCOMES (Competencies)

CEOP19: Gain an in-depth understanding of the techniques used to draft financial statements and interpret them

CEOP20: Understand important aspects of the regulation as it applies to accounting and finance and understand its implications

CEOP21: Master advanced concepts in auditing

CEOP22: Know about and manage advanced tools and techniques to value financial assets

CEOP23: Gain an in-depth knowledge of the workings of financial markets

PROGRAM

Topic 1: Economic, industry and Operational Analysis. Research Process.

Topic 2: Income Statement.

Topic 3: Balance Sheet

Topic 4: Ratio Analysis

Topic 5: Cash Flow Statement

Topic 6: Forecasting

Topic 7: Valuation

Topic 8: Credit Analysis



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FULL AND FAIR WARNING: Real-life Financial Statement Analysis is not Simple. You may be responsible for millions, or billions, in investments. You will be competing against the most brilliant minds in finance. This will not be an easy course and the time commitment will be significant. I will devote my full time and energy to give you the necessary tools, guidance and help for you to succeed both in this course and in real life post-graduation; but the course will demand a similar commitment from you.

EDUCATIONAL ACTIVITIES

Lectures: Class discussion. There will be 28 sessions. Part of the class will deal with the material from a theoretical point of view, and will also include relevant case studies. The rest of the class will deal with the practical aspects of equity research. We will follow AT&T Inc. (T) for our class discussions as much as possible. The class will be followed by a homework assignment that will serve the dual role of practical application of the material discussed in class and the building block for our Final Report on Verizon Communications (VZ).

Voluntary Review Sessions: There will be, at least a weekly review session (time to be determined based on student feedback) to answer questions about lectures or homework. Attendance is completely voluntary.

Homework: There will be 9 Homework assignments where we will research and build a quarterly financial model for Verizon (VZ). Details will be provided in class.

Final Project: In groups of three, students will have to prepare a final valuation report for Verizon (VZ) building on the completed Homework assignments. Guidelines on the format and content will be provided. The project will follow the same process that I used for my 20-year career in Wall Street and could also serve as a "calling card" that you can present to future prospective employers alongside your CV as proof of concept.

One-to-one Tutorials : The teacher will be available to students during office hours and outside of the class to answer questions or to provide support for course-related activities.

EVALUATION

DECEMBER ANNOUNCEMENT

- Class attendance and participation (10%): 1 point (out of 10).
- Final valuation report (40%): 4 points (out of 10).
- Intermediate assignments (40%): The 8 assignments will be worth 4 points (out of 10)
- Final exam (10%): 1 points (out of 10).

Criteria to pass the course

- Required minimum grade to pass the Final Exam: 5 out of 10. If this requirement is not met, the final grade for the course will be that of the final exam.
- Students whose final grade (weighted average) is 5 points or more will pass the course.
- Students whose final grade is below 5 points will not pass the course and will be graded as *Suspense*.



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- Students who do not take the final exam will not pass the course and will be graded as *No presentado*.

Exams review

- Students will be able to review the exams in an interview with the professor, after publication of the grades, in a day and place that will be indicated.

JUNE ANNOUNCEMENT

- Re-seat exam (90%): 9 points (out of 10).
- Class attendance and participation (10%): 1 point (out of 10).

HORARIOS DE ATENCIÓN

Breogan Vazquez (breovazquez@external.unav.es)

Carmen Aranda (maranda@unav.es)

By email appointment.

BIBLIOGRAPHY AND RESOURCES

Required Textbook:	There will not be a required textbook.
Lecture Notes:	Slides and lecture notes that cover the course content will be posted on BlackBoard ADI.
MS Office:	Slides and class notes will be published under Power Point and Word. Knowledge of Excel will be needed for assignments, tests and final project.

This course does not take place in a vacuum. I encourage students to stay in touch with the financial press and stay connecting to what is happening the marketplace. If you have questions, be sure to raise them in class.