4MFCEZ05 - Financial Analysis

Professor: Tamara NEFEDOVA  
Contact information:  
tamara.nefedova@dauphine.psl.eu  
Department: MSO  
Semester: 1  

Course level: Graduate (M1)  
Domain: Economics  
Teaching language: English  
Number of in-class hours: 24 hours  
Number of course sessions: 15h of lectures and 9h of tutorials + Exam  
ECTS: 3  

Course description and objectives  
The course presents a range of targeted tools and techniques for analysis of a business. Financial analysis is used to decide whether a company is solvent, liquid, and profitable enough to be invested in. The course teaches students to think critically when analyzing financial data and to make different decisions based on user-group objectives.

You will learn how to:
- perform a financial analysis of a firm to assess a firm’s performance and value  
- learn and apply basic valuation techniques  
- conduct a credit analysis based on the fundamental analysis approach  

Teaching methods include lectures, exercises and case studies. You will be working individually and in groups  

Prerequisites  
To be successful in accomplishing the requirements of the course, we expect you to have knowledge of (introductory) financial accounting. If you feel you do not have a sufficient background to follow this course, but you are strongly motivated to do so, you can use one or several resources from the list below to catch up:

Quick review of Financial Accounting:
- A quick overview of financial statements by Asquith Damodaran:  
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/AccPrimer/accstate.htm  
- Introductory Financial Accounting and Reporting, by Barry Smith, 2010

Assignments and grading  
- Final written examination: 70%  
- Group work: 30%

The numerical grade distribution will dictate the final grade. The passing grade for a course is 10/20.

Class participation: Active class participation – this is what makes classes lively and instructive. Come on time and prepared. Class participation is based on quality of comments, not quantity.  
Exam policy: In the exam, students will not be allowed to bring any document (except if allowed by the lecturer). Unexcused absences from exams or failure to submit cases will result in zero grades in the calculation of numerical averages. Exams are collected at the end of examination periods.
Course Outline

(Subject to adjustments)

1. Financial Analysis and Financial Statements (review)
   - Preparing Cash Flow Statement
     a. Indicate the usefulness of the statement of cash flows
     b. Distinguish among operating, investing, and financing activities
     c. Prepare a statement of cash flows using the indirect method
     d. Analyze the statement of cash flows

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   - Distinguish among operating, investing, and financing activities
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3. Working Capital: concept, estimation and sources
   - Company cycles: investment – financing – operational
   - Working Capital concept and Working Capital ratios
   - Estimating the need in WC
   - Sources of Financing of the WC
   - Working Capital and Firm Value

4. Ratio Analysis
   - Operating Performance
   - Analyzing company's investment policy
   - Economic and Financial Profitability

5. Valuation
   - Multiple approach or peer-group comparison
   - Dividend Discount model
   - Discounted cash flow (DCF)

6. Debt Financing and Risk Analysis
   - Types of risks
   - Measuring Financial Flexibility
   - Measuring Short-term Liquidity
   - Analyzing Credit and Bankruptcy risks
   - Credit Ratings

Bibliography

- [Vernimmen] Corporate finance, Theory and Practice, by Pierre Vernimmen, Pascal Quiry, Maurizio Dallocchio, Yann Le Fur and Antonio Salvi, John Wiley & Sons, 3rd edition, any recent edition (select chapters)
- Vernimmen English website : www.vernimmen.com
- [BrealyMyers] Corporate finance, Richard Brealey, Stewart Myers and Franklin Allen, McGraw-Hill Irwin, recent edition (select chapters)
• **Other sources:**
  - Companies’ websites
  - Databases (COMPUSTAT)

**For pre-course study:**
- Quick review of Financial Accounting:
  - [http://pages.stern.nyu.edu/~adamodar/New_Home_Page/AccPrimer/accstate.htm](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/AccPrimer/accstate.htm)
    (A quick overview of financial statements by A. Damodaran)
- Introductory Financial Accounting and Reporting, by Barry Smith, 2010

**Detailed Financial Accounting Textbook:**

**Academic integrity**
Be aware of the rules in Université Paris Dauphine about plagiarism and cheating during exams. All work turned in for this course must be your own work, or that of your own group. Working as part of a group implies that you are an active participant and fully contributed to the output produced by that group.
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Review w.  Exams  Holidays