

**Valuation and Financial Statement Analysis Like Warren Buffett
(02818230)****Instructor: Paul Gillis and Jeffery****Towson****Semester: Spring 2018****Time: see below****Credit Hour: 30****Credits: 2****Prerequisite: none****Location:****Contact Information:****Office: MBA office Old Guanghua Building****Email: gillis@gsm.pku.edu.cn****Course Website: www.paulgillis.org****Office Hours: Thursdays 5:00 to 7:00 or by appointment**

Program Learning Goals and Objectives

Warren Buffett has famously said “If I ran a business school there would be only 2 courses, **how to value a business and how to think about markets.**”

We have designed this course to be one of these. And our goal is simple. After taking this course, a student should be able to read a financial statement, look at a real estate project or look at a random company and then be able to figure out what it is really worth. He or she should be able to figure out its true value. Which, of course, is the key to knowing whether a company or stock is a good buy or not, relative to price.

Brief Course Description

This course will be taught in two parts. The first part, taught by Paul Gillis, will explain the tools used to analyze financial statements. While students are familiar with accounting, being able to read and understand financial statements is the critical first step to understanding a company or stock. The second part, taught by Jeffery Towson, will about how to use those tools to value companies.

Financial statement information is the basis for a wide range of business decisions. Managers use financial statements to monitor their firm's performance relative to competitors, to communicate with external investors, to help judge what financial policies they should pursue, and to evaluate potential new businesses to acquire. Securities analysts use financial statements

to rate and value companies they recommend to clients. Bankers use financial statements to decide whether to extend a loan to a client and to determine the loan's terms. Investment bankers use them to provide a basis for valuation and analysis of prospective buyouts, mergers and acquisitions, and consultants use them as a basis for competitive analysis for their clients.

Valuation is a mix of art and science. It involves building models, so it has a quantitative focus. However, it also involves understanding the dynamics of an industry, which is mostly qualitative analysis. Different investors use different approaches to valuation. Value investing guru Seth Klarman (Baupost) uses liquidation value and reversion to the mean. Real estate investors tend to focus most on exit prices. And Warren Buffett uses mostly replacement value and discounted cash flows, with a strong emphasis on longer term value and areas where accounting does not capture economic value. This course will mostly focus on Buffett's approach to valuation.

Course Objectives

The course will give students the tools to perform a fundamental analysis of a company. We will focus on developing these skills:

- Accounting Analysis • Assessing quality of financial statements • Potential accounting distortions • Recasting financial statements
- Financial Analysis • Ratio analysis including the DuPont framework • Cash flow analysis
- Prospective Analysis • Using accounting numbers in forecasting • Forecasting for valuation / credit analysis
- Investor Communication

Course Schedule

Week	Session	Date	Time	Instructor
10	1	5月3日 周四	14:00-17:00	Paul
11	2	5月10日 周四	14:00-17:00	Paul
12	3	5月17日 周四	14:00-17:00	Paul
13	4	5月24日 周四	14:00-17:00	Paul
14	5	5月31日 周四	14:00-17:00	Paul
15	6	6月5日 周二	14:00-17:00	Jeffrey
	7	6月7日 周四	14:00-17:00	Jeffrey
16	8	6月12日 周二	14:00-17:00	Jeffrey
	9	6月14日 周四	14:00-17:00	Jeffrey
17	10	6月19日 周二	14:00-17:00	Jeffrey

About the Professors

Paul Gillis, PhD CPA, professor of practice, joined the Guanghua School of Management in 2007 following a 28-year career as a partner in the international accounting firm PricewaterhouseCoopers. He has lived in China since 1997 after previous postings in the United States and Singapore. He is a certified public accountant in the United States. He regularly consults with governments, investment banks, and hedge funds on Chinese accounting and auditing issues.

Jeffery Towson, MD, is a private equity investor, Peking University professor, best-selling author and speaker. His writing and speaking are on the fight for *Chinese consumers and digital China*. His courses at PKU include Legends of Investment and Private Equity.

Materials will be provided by the instructors on the course website www.paulgillis.org.

Rules students must follow

Students must abide by the codes of conduct of Peking University and Guanghua School of Management. In addition, detailed course-specific policies regarding participation, communication, and grading will be discussed in class.

Course Assessment

<u>Component</u>	<u>Weight</u>
Quizzes on course readings	20%
Homework assignments	20%
Team project	40%
<u>Class participation</u>	<u>20%</u>
Total	100%

There will be four quizzes based on the textbook and course readings that will be taken in class in the early weeks of the course. Each quiz will count for a maximum of 5 points.

Homework assignments will be given out several times during the course.

The team project requires each team of two to conduct a valuation analysis of a publicly listed Chinese company. We will select teams and companies by the second class. The project will require you to identify and obtain relevant publicly available information on the selected company. More information will be provided in class.