

Your financial statement analysis project should follow the steps described in the course:

1. **Business Strategy:** Briefly describe the company's industry and specific lines of business, discuss its strategy for success, risks it may face and, importantly, the sustainability of profits generated by the strategy. **(4 points)**
2. **Accounting:** Assess the degree to which the firm's accounting reflects the underlying business reality. Identify accounting distortions (if any) and their impact on the sustainability of profits. For instance, R&D is expensed when incurred, but probably creates an economic asset, or allowances for inventory obsolescence. How will this play out in your forecasts? You may also want to restate or rearrange the existing financial statements to make them easier to forecast. **(4 points)**
3. **Financial Analysis:** Use time-series and cross-sectional ratio analysis and/or cash flow analysis to evaluate the *current* and *past* performance of the business and assess its sustainability. You should compare your company to some peers in the same industry. **(8 points)**
4. **Forecasting:** Forecast the firm's future income statements and balance sheets. This is the heart of the project so provide specific justification for each major component of your forecasts. Is the forecast based on past trends, comparisons with other firms in the industry, an industry report, or fundamental drivers of sales? How does your forecast for the next few years compare with analyst forecasts? Finding relevant data from outside the firm's own financial statements to guide your forecasts is particularly valuable here, but please only access publicly-available data; **(13 points)**
5. **Valuation:** Use either the discounted cash flow or residual income model to produce an estimate of firm value. Focus on the value of a share of common stock in that company and compare your valuation to the market valuation, providing possible explanations for any differences. You may also want to conduct a sensitivity analysis by varying your discount rate and other crucial assumptions. **(4 points)**