# FIN 374C Financial Planning and Policy for Large Corporations : Valuation of Energy Projects and Firms

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Office Hours: Tuesday & Thursday 2:00 - 3:30 and by appointment

Description: This course is primarily focused on the initiation, evaluation, financing and hedging of major investments with a focus on the energy industry. The theory behind these decisions will be featured but practical issues involving application of the concepts will be emphasized, including scenario analysis and simulation.

Key questions addressed include:

- What are the relevant risks of the investment and can the firm hedge these risks?
- How can the investment be financed, and how does financing contribute to its value?
- How does the investment affect the firm's financial statements?
- Will the investment improve the firm's earnings per share, or will it lead to a short-term reduction in earnings?
- Is there flexibility in the way that the project can be implemented, and how does this flexibility contribute to value?
- If we choose to delay the initiation of the investment, will the opportunity still be available in the future?
- Does it exploit the firm's existing comparative advantages, and does it create new comparative advantages that will generate valuable projects in the future?

#### **Materials**

- Valuation: The Art and Science of Corporate Investment Decisions, Titman and Martin (ISBN-10: 0-321-33610-0).
- @Risk (simulation add-in for Excel). Available in labs and for download.
- Course Packet available from www.xanedu.com (I will provide details early in the semester)

## Course Requirements and Grading

Midterm Exam: 30%

• Cumulative Final Exam: 30%

• Case Write-ups & Homework: 35%

• Class Participation: 5%

Make-up and extra-credit assignments are generally not possible. Your grade will be determined solely by the components listed above. If you fail to turn in the case assignment or the problem set when they are due you will not be able to make up the assignment or the points. Don?t miss the quizzes or the tests.

Participation is not attendance (I don't take attendance). To get any credit for the participation you should: ask questions and answer questions. In general, participating means positively contributing to your peers? classroom experience. In the past I have given about 20% of the class 0s in participation because they never participated.

If you wish to appeal your grade on any assignment or exam you have 10 days from the time it was returned to the class (not when you receive it). All appeals must be written.

# Case Write-ups and Discussions

- Written analyses are to be prepared by groups of up to two. Students are left to find their own groups, but please see me if you need help. Groups should remain constant for all of the assignments, barring extraordinary circumstances.
- Each group will be required to turn in a 3 page executive summary of their analysis along with the appropriate exhibits that provides more details about their work.

  Each student is expected to be actively involved in the analysis discussions. If for any reason you are not adequately prepared to contribute to the discussion in a class, please let me know before class and I will not call on you but this will factor in to your participation grade.
- Copies of the written reports are due at the beginning of class on the day given on the assignment. No late written reports will be accepted. Each group will hand in only one typed assignment.
- Each group's write-up should be independent work (i.e., not the work of another group).
- For the cases, students should try to put themselves in the shoes of the case participants at the time of the case. Students may do additional research (e.g., on the internet). Students may not look at or use case materials from any other source, such as slides, spreadsheets or discussions from other universities that may be available on the internet or otherwise. Other schools assign these cases, but students may not use their discussions, materials, or solutions in any way.

#### **Policies**

Though attendance will not be taken, you are responsible for everything covered or assigned in class. The lectures may depart significantly from the material assigned and it is important that you review the assigned readings prior to the class session.

In general laptops are encouraged but if I feel that the privilege is being abused I reserve the right to ban them from class. There will also be periods where I request that all laptops are closed so that we can focus on the task at hand, e.g. during case discussions.

When we have guest speakers, the appropriate dress is business casual.

# Academic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum

penalty for an act of academic dishonesty will be a zero for that assignment or exam, and I intend to turn any cases of academic dishonesty over to the disciplinary process of the school.

As specific guidance for this course, you should consider the writing of all examinations to be an individual effort. Group preparation for examinations is acceptable and encouraged. Some homework assignments may be required to be completed individually but in these cases I encourage you to work together in answering the questions. In these instances you should, however, develop your own answer and not cut and paste the work of others.

## Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at http://deanofstudents.utexas.edu/ssd/index.php. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions. If you require special accommodations for any exam or assignment I need to be notified *before* the 5th class day of the semester.

#### **Tentative Schedule**

Meeting	Date	Topic	Readings
1	Jan 19	Course Introduction & Valuation process	Chap 1
2	Jan 21	Valuation Methodologies	Chap 2
3	Jan 26	Cash Flows / Simulation and Scenarios	Chap 2-3
4	Jan 28	Simulation and Scenario analysis	Chap 3
5	Feb 02	Simulation and Scenario analysis	Chap 3
6	Feb 04	Simulation and Scenario analysis	Chap 3
7	Feb 09	Cost of Capital	Chap 4
8	Feb 11	Cost of Capital	Chap 4
9	Feb 16	Cost of Capital	Chap 4
10	Feb 18	Estimating Required Rates of Return	Chap 5
11	Feb 23	Estimating Required Rates of Return	Chap 5
12	Feb 25	Valuation with Comps	Chap 6

13	Mar 02	Valuation with Comps / EV Valuation	Chap 6-7
14	Mar 04	Review / Advanced Excel	
15	Mar 09	Mid term Chapters 1-6	
16	Mar 11	Enterprise Valuation	Chap 7
17	Mar 23	Private Equity Valuation	Chap 8
18	Mar 25	Private Equity Valuation	Chap 8
19	Mar 30	Accounting and Valuation	Chap 9
20	Apr 01	Decision Trees	
21	Apr 06	Intro to Real Options	Chap 10
22	Apr 08	Intro to Real Options	Chap 10
23	Apr 13	Real Options continued	Chap 11
24	Apr 15	Real Options continued	Chap 11
25	Apr 20	Real Options continued	Chap 11
26	Apr 22	Real Options continued	Chap 11
27	Apr 27	Strategic Options	Chap 12
28	Apr 29	Strategic Options	Chap 12
29	May 04	Strategic Options	Chap 12
30	May 06	Final Review / Advanced Excel	