
FIN 374C: VALUATION

Unique: 03490 | Fall 2018 | Professor Sury

SYLLABUS

T, Th | 3:30 – 5:00pm | GSB 2.122

Welcome to Valuation! This course is a rigorous exploration of the practice of valuation within the corporate finance discipline. It is primarily focused upon the evaluation and financing of major investments and capital expenditures that companies may face. The theory behind these decisions will be featured, but practical issues involving the application of the concepts will be emphasized, with case studies covering scenario analysis, simulation, and the appropriate use of managerial discretion. We will cover a number of current strategies, methods, and techniques used by leading corporate financiers.

This course is slanted towards those with an interest in investment banking and consulting (strategic finance). To that end, this section incorporates varied “real-world” casework that will touch upon valuation techniques for cost of capital, initial public offerings (IPO), leveraged buyouts (LBO), and merger and acquisitions (M&A) applications.

Key questions that will be addressed include:

- ❖ What are the relevant cash flows of an investment?
- ❖ What are the risks involved with an investment, and how might a firm mitigate these risks?
- ❖ How can an investment be financed, and how much does financing contribute to its value?
- ❖ How does an investment affect the firm’s financial statements?
- ❖ How will an investment impact the firm’s earnings per share (EPS)?
- ❖ Is there flexibility in the way that a project can be implemented, and if so, how does the flexibility contribute to value?
- ❖ If an investment is delayed, will the opportunity still be available in the future?
- ❖ Does an investment exploit the firm’s existing comparative advantages, and does it create new comparative advantages that will generate valuable projects in the future?

This syllabus is subject to modification.

Prerequisite: FIN 357 or FIN 357H. Students should be comfortable with financial statements, accounting identities, and statistics (including random variables and distributions). Working knowledge of Excel is assumed.

Contact Info

Professor: S. Michael Sury
Office: CBA 6.210 Phone: 512.471.4368
Office Hours: Thursdays, 2:00 to 3:15; and by appointment
Email: michael.sury@mcombs.utexas.edu
TAs: TBA

Feel free to drop in unannounced during our office hours. At other times, email is the best way to reach us. However, please note that federal student privacy policy (FERPA) prohibits us from discussing grade-related information via telephone or email.

Required Materials:

1. Titman, S., and J. Martin, *Valuation: The Art & Science of Corporate Investment Decisions*, 3rd ed., Pearson, 2016
2. Harvard Business School Case Course-Pak (Sury, FIN 374C)
3. @Risk (simulation add-in for MS Excel). Available in labs and for FREE download: <http://www.mcombs.utexas.edu/Tech/Computer-Services/COE.aspx>
4. *Wall Street Journal*

Optional Materials:

1. Burrough, B., and J. Helyar, *Barbarians at the Gate: The Fall of RJR Nabisco*, Harper & Row, 2009. (earlier editions are acceptable).
2. Clause, F., *Corporate Financial Analysis with Microsoft Excel*, McGraw Hill, 2010.

It is important to note that—unlike some introductory finance courses—the practice of valuation is both an art and a science. In fact, some may argue that it is neither: it is actually a *craft*. Initially some students experience frustration with the inability to rely solely upon memorized formulas or pre-determined steps that work in all cases. In fact, some scenarios can have more than one correct approach—and more than one potential solution. Good solutions depend upon a number of factors, including: a logical and well-reasoned approach, the correct use of techniques appropriate to the approach, the accuracy of the attendant calculations, and a narrative that ties the “story” together.

As students accumulate experience in valuation, they often find that the “art” of valuation frees them to incorporate a certain level of (appropriate) creativity and innovation in their methods. Indeed it is this creativity and innovation that can enable the best financiers to stand out.

Grading

Course performance will be evaluated according to the following schedule:

Homework, 10 x 2.5%	25%
Case Analyses (teams), 4 x 10%:	40%
Midterm/Final Exam, 1 x 35%*:	35%
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TOTAL	100%

**a Midterm Exam will be administered. If the Midterm Exam score is greater than the Final Exam score, the two will be averaged to become the new Final Exam score, otherwise, the Midterm Exam score will be dropped. The Final Exam is cumulative.*

HBS Cases: Cases are obtained by accessing the HBS Course-Pak at <http://hbsp.harvard.edu>. Cases are to be completed by working in self-selected teams of 4-5 students that will remain together for all cases during the semester.

One of the best ways to learn about valuation is by doing valuation. Cases provide you with the opportunity to exercise practical applications of the techniques and strategies that are taught in lecture and in the textbook. Navigating through cases can take some getting used to, but the pride you will get from struggling with—and ultimately tackling—these real-world situations can be extremely satisfying.

CLASS SCHEDULE:

Class	Date	Topic	Readings	HW due (estimated)
1	30-Aug	Course Introduction, Valuation Process	Chap 1	
2	4-Sep	Valuation Methodologies	Chap 2	HW#0 File Upload
3	6-Sep	Cash Flows / Simulation and Scenarios	Chap 2-3	
4	11-Sep	Simulation and Scenario Analysis	Chap 3	
5	13-Sep	Simulation and Scenario Analysis	Chap 3	HW#1, Ch.2
6	18-Sep	Simulation and Scenario Analysis	Chap 3	
7	20-Sep	Cost of Capital <i>Case: Midland Energy</i>	Chap 4	HW#2 , Ch.3
8	25-Sep	Cost of Capital	Chap 4	
9	27-Sep	Cost of Capital	Chap 4	HW#3, Ch.3
10	2-Oct	Estimating Required Rates of Return	Chap 5	
11	4-Oct	Estimating Required Rates of Return	Chap 5	HW#4, Ch.4 <i>Midland Due</i>
12	9-Oct	Forecasting Financial Performance	Chap 6	
13	11-Oct	REVIEW Chap 1- 6		HW#5, Ch.5-6
	16-Oct	Midterm (time and location tbd)		
14	18-Oct	Valuation with Comparables <i>Case: Teuer Furniture</i>	Chap 8	
15	23-Oct	Valuation with Comparables	Chap 8	
16	25-Oct	Enterprise Valuation	Chap 9	
17	30-Oct	Enterprise Valuation <i>Case: RJR Nabisco</i>	Chap 9	HW#6, Ch.8 <i>Teuer Due</i>
18	1-Nov	Private Equity	Chap 10	
19	6-Nov	Private Equity	Chap 10	HW#7, Ch.9
20	8-Nov	Decision Trees	Chap 11	
21	13-Nov	Valuation Using Market Information	Chap 11	HW#8, Ch.10
22	15-Nov	Valuation Using Market Information	Chap 11	
23	20-Nov	Real Options <i>Case: County Line Markets (CLM)</i>	Chap 12	<i>RJR Due</i>
	22-Nov	Thanksgiving Holiday – no class	Chap 12	HW#9, Ch.11
24	27-Nov	Real Options	Chap 12	
25	29-Nov	Real Options		
26	4-Dec	Real Options	Chap 12	<i>CLM Due</i>
27	6-Dec	REVIEW Chap 8-12		HW#10, Ch.12

Cumulative Final Exam during Exam Week

Important: All instructions, assignments, readings, rubrics and essential information will be on the Canvas website at <https://utexas.instructure.com>. Check this site regularly and use it to ask questions about the course schedule.

Changes to the schedule may be made at my discretion and if circumstances require. It is your responsibility to note these changes when announced (although I will do my best to ensure that you receive the changes with as much advanced notice as possible).

CLASS POLICIES

Statement on Learning Success

Your success in this class is important to me. We will all need accommodations because we all learn differently. If there are aspects of this course that prevent you from learning or exclude you, please let me know as soon as possible. Together we'll develop strategies to meet both your needs and the requirements of the course. I also encourage you to reach out to the student resources available through UT. Many are listed on this syllabus, but I am happy to connect you with a person or Center if you would like.

Grading Policies

The grade cutoffs below will be strictly adhered to. Depending upon the distribution of the raw class performance, a curve may be applied. Please do not ask me what the curve will be during the semester, as I cannot know it until all the grading elements have been submitted. If possible, I will supply some feedback about the class' general performance throughout the semester.

Grade	Cutoff
A	94%
A-	90%
B+	87%
B	84%
B-	80%
C+	77%
C	74%
C-	70%
D	65%
F	<65%

Late work

All work must be submitted no later than the start of class on the day that it is due, unless otherwise instructed. In the business world, and particularly in corporate finance and investment banking, there can be substantial penalties for late submissions. Significant business opportunities may be lost by neglecting to adhere to schedules, deadlines, and other important dates.

Absences

It is important for you to come to class every session. However, things happen. If you must be absent, please notify the TA, along with the nature of the absence (e.g., religious holiday, extenuating circumstance, emergency, etc.)

STUDENT RIGHTS AND RESPONSIBILITIES

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- You have a right to a learning environment that supports mental and physical wellness.
- You have a right to respect.
- You have a right to be assessed and graded fairly.
- You have a right to freedom of opinion and expression.
- You have a right to privacy and confidentiality.
- You have a right to meaningful and equal participation, to self-organize groups to improve your learning environment.
- You have a right to learn in an environment that is welcoming to all people. No student shall be isolated, excluded or diminished in any way.

With these rights come responsibilities:

- You are responsible for taking care of yourself, managing your time, and communicating with the teaching team and with others if things start to feel out of control or overwhelming.
- You are responsible for acting in a way that is worthy of respect and always respectful of others. Your experience with this course is directly related to the quality of the energy that you bring to it, and your energy shapes the quality of your peers' experiences.
- You are responsible for creating an inclusive environment and for speaking up when someone is excluded.
- You are responsible for holding yourself accountable to these standards, holding each other to these standards, and holding the teaching team accountable as well.

Personal Pronoun Preference

Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, culture, religion, politics, sexual orientation, gender, gender variance, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by a name different than what appears on the roster, and by the gender pronouns you use. Please advise me of this preference early in the semester so that I may make appropriate changes to my records.

UNIVERSITY POLICIES

Academic Integrity

Each student in the course is expected to abide by the University of Texas Honor Code: "**As a student of The University of Texas at Austin, I shall abide by the core values of the University and uphold academic integrity.**" **Plagiarism is taken very seriously at UT.** Therefore, if you use words or ideas that are not your own (or that you have used in previous class), you must cite your sources. Otherwise you will be guilty of plagiarism and subject to academic disciplinary action, including failure of the course. You are responsible for understanding UT's Academic Honesty and the University Honor Code which can be found at the following web address:

http://deanofstudents.utexas.edu/sjs/acint_student.php

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Q Drop Policy

If you want to drop a class after the 12th class day, you'll need to execute a Q drop before the Q-drop deadline, which typically occurs near the middle of the semester. Under Texas law, you are only allowed six Q drops while you are in college at any public Texas institution. For more information, see: <http://www.utexas.edu/ugs/csacc/academic/adddrop/qdrop>

University Resources for Students

Your success in this class is important to me. From time to time, we all need accommodations because we all learn differently. If there are aspects of this course that prevent you from learning or exclude you, please let me know as soon as possible. Together we'll develop strategies to meet both your needs and the requirements of the course. There are also a range of resources on campus:

Services for Students with Disabilities

This class respects and welcomes students of all backgrounds, identities, and abilities. If there are circumstances that make our learning environment and activities difficult, if you have medical information that you need to share with me, or if you need specific arrangements in case the building needs to be evacuated, please let me know. I am committed to creating an effective learning environment for all students, but I can only do so if you discuss your needs with me as early as possible. I promise to maintain the confidentiality of these discussions. If appropriate, also contact Services for Students with Disabilities, 512-471-6259 (voice) or 1-866-329-3986 (video phone).

<http://ddce.utexas.edu/disability/about/>

Counseling and Mental Health Center

Do your best to maintain a healthy lifestyle this semester by eating well, exercising, avoiding drugs and alcohol, getting enough sleep and taking some time to relax. This will help you achieve your goals and cope with stress.

All of us benefit from support during times of struggle. You are not alone. There are many helpful resources available on campus and an important part of the college experience is learning how to ask for help. Asking for support sooner rather than later is often helpful.

If you or anyone you know experiences any academic stress, difficult life events, or feelings like anxiety or depression, we strongly encourage you to seek support.

<http://www.cmhc.utexas.edu/individualcounseling.html>

The Sanger Learning Center

Did you know that more than one-third of UT undergraduate students use the Sanger Learning Center each year to improve their academic performance? All students are welcome to take advantage of Sanger Center's classes and workshops, private learning specialist appointments, peer academic coaching, and tutoring for more than 70 courses in 15 different subject areas. For more information, please visit: <http://www.utexas.edu/ugs/slc> or call 512-471-3614 (JES A332).

Undergraduate Writing Center. <http://uwc.utexas.edu/>

Libraries. <http://www.lib.utexas.edu/>

ITS. <http://www.utexas.edu/its/>

Student Emergency Services. <http://deanofstudents.utexas.edu/emergency/>

Important Safety Information:

If you have concerns about the safety or behavior of fellow students, TAs or Professors, call BCAL (the Behavior Concerns Advice Line): 512-232-5050. Your call can be anonymous. If something doesn't feel right – it probably isn't. Trust your instincts and share your concerns.

Title IX Reporting

Title IX is a federal law that protects against sex and gender-based discrimination, sexual harassment, sexual assault, sexual misconduct, dating/domestic violence and stalking at federally funded educational institutions. UT Austin is committed to fostering a learning and working environment free from discrimination in all its forms. When sexual misconduct occurs in our community, the university can:

1. Intervene to prevent harmful behavior from continuing or escalating.
2. Provide support and remedies to students and employees who have experienced harm or have become involved in a Title IX investigation.
3. Investigate and discipline violations of the university's [relevant policies](#).

Faculty members and certain staff members are considered “Responsible Employees” or “Mandatory Reporters,” which means that they are required to report violations of Title IX to the Title IX Coordinator. **I am a Responsible Employee and must report any Title IX related incidents** that are disclosed in writing, discussion, or one-on-one. Before talking with me, or with any faculty or staff member about a Title IX related incident, be sure to ask whether they are a responsible employee. If you want to speak with someone for support or remedies without making an official report to the university, email advocate@austin.utexas.edu For more information about reporting options and resources, visit titleix.utexas.edu or contact the Title IX Office at titleix@austin.utexas.edu.

The following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/>

Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.

- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation shall inform their instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors. Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Link to information regarding emergency evacuation routes and emergency procedures can be found at:
www.utexas.edu/emergency

HAVE A PRODUCTIVE, SAFE, AND ENJOYABLE SEMESTER!

S. Michael Sury
8/1/2018

About your Instructor**S. MICHAEL SURY**

Lecturer in Finance, **The University of Texas at Austin**

Executive Director, **Analytic Holdings, LP**

Professor Sury is the Executive Director of Analytic Holdings LP. The organization was formed after the sale of the investment firm he founded and ran from 2000-2009—a nationally top ranked, multi-billion dollar investment adviser to wealthy families and institutional investors. Analytic Holdings conducts research and due diligence in the global public and private markets. Since 2009, Professor Sury and his staff have evaluated and performed extensive due diligence on over 350 investment managers, 120 private deals, and numerous structured products and special situations.

For more than twenty years, Professor Sury has served as a close, trusted adviser to some of the nation's wealthiest family groups, sovereign and government entities, and private organizations, including nearly a dozen of the *Forbes 400*. Professor Sury's deep experience in corporate finance and investment management spans an unusually broad number of industries; serving as an expert advisor to both substantial investors and issuers.

In the 2000s, Professor Sury organized and led a nationally top-ranked, multi-billion dollar wealth management firm (ranked the #1 US based manager by *Wealth Manager Magazine* (2006 and 2007), a "Top 10 Financial Advisor" by *Financial Advisor Magazine* (2006), and #2 by *Bloomberg Wealth Manager* (2005)); and built a highly respected global institutional broker dealer organization. Over the years, his professional investment R&D teams—comprised of innovative researchers with Ph.D.'s and other advanced degrees across financial and technical disciplines—have developed critically acclaimed, state-of-the-art techniques and strategies for client-optimized portfolio management and diversification.

In the 1990s, he built and led one of the most successful and fastest growing wealth management practices as a Vice President at Goldman, Sachs & Co., where he advised a niche group of prominent, ultra-wealthy clients representing several billion dollars in investment assets spanning equities, fixed income, and alternative investments. During his tenure at Goldman Sachs, Professor Sury also taught several classes for new Financial Analysts on topics ranging from portfolio analysis to financial accounting.

Professor Sury is currently a Lecturer in the Department of Finance at the University of Texas at Austin. He previously served as a Finance Lecturer at San Diego State University, a Full-time Dean's Executive Professor of Finance at Santa Clara University, and as a Visiting Scholar and Adjunct Professor of Economics at the University of California. In these roles, he has taught at the undergraduate and MBA levels, including for such courses as *Investment Theory*, *Financial Management*, *Corporate Finance*, *Applied Portfolio Management*, *Securities Markets*, and *Endowment Management*. He is the recipient of numerous teaching and scholarly accolades, including UT-Austin's *Faculty Honor Roll* and *Texas Spirit Awards*, the DePaul University *Seiden Award*, Santa Clara University's *ACE Outstanding Faculty Award*, and the Leavey School of Business *Extraordinary Faculty Award*. In addition, he served as principal faculty advisor for Santa Clara University's delegation to the California Venture Capital Investment Competition, which won the esteemed *Entrepreneur's Choice Award* in 2011.

Professor Sury is a Founding Member and principal sponsor of SIFIRM—a private organization that has supported research initiatives bringing together some of the most innovative scholars, substantial investors, and practitioners in financial economics to consult and investigate problems in risk management, corporate finance, portfolio optimization, and behavioral finance.

Professor Sury previously served as an Executive Advisor/ Board Member for the University of California's proposed School of Management (Silicon Valley), Chicago's Arditti Center for Risk Management, the Sury Initiative for Global Finance and International Risk Management (SIGFIRM) at UC Santa Cruz, Opal Wealth

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Management Forums, and the UC Santa Cruz Center for International Economics. As an internationally recognized expert in the fields of portfolio theory and risk management, Professor Sury is a frequently invited speaker, including for agencies of the US Government, Opal Financial Forums, the CFA Institute, CIO Summits, Financial Research Associates, Wilson Family Office Summits, QuantInvest, Wealth Management Forum, Int'l Private Banking, Terrapinn, and the University of Chicago. His audiences typically include leaders of large institutions, pension and endowment funds, and sovereign wealth funds.

Professor Sury's research on the optimization of traditional and alternative investments is featured in the anthology, *"Essential Readings in Applied Financial Economics."* In the media, Professor Sury has been quoted as an expert source in *US News & World Report*, *Forbes*, *Bloomberg World Markets*, *Wealth Manager Magazine*, *Reuters*, *MarketWatch*, *Fund Strategy Magazine*, *The Dallas Morning News*, *Oil & Gas Monitor*, *Lipper*, *MindWorks*, *San Jose Business Journal*, *Crain's Chicago Business*, and *Hedgeworld*, among others. His economic views have also been featured on CNBC and Bloomberg TV; and on talk radio programs on *KPRC-AM* and *KLIF-AM*. His current research interests include alpha identification and the disintermediation of non-value added investment managers, with proprietary techniques and strategies he pioneered in the late 1990s and early 2000s.

Prior to graduate school, Professor Sury had previously served in special enforcement and intelligence advisory capacities for Federal task forces and local government agencies, including the Organized Crime Task Force (Central Texas), and the Santa Clara Co. District Attorney's Bureau of Investigation (Silicon Valley); sensitive security clearance positions. He was also employed in technical positions with International Business Machines (IBM), Lockheed Missiles & Space Co. (C3I and SSD), and the MCC R&D Consortium. For achievements in these roles, he was awarded a series of honors and media mentions, among them the prestigious IBM *Austin Excellence Award*, the US Air Force *Outstanding (Research) Project--Smartex*, Lockheed's Space Systems Division Commendation, Lockheed Missiles & Space Co. Award Letter (for efforts as part of the 1987 USAF Air Defense Initiative), and the SCC *District Attorney's Letter* (for service in helping the newly developed and influential DA's High Tech & Economic Crimes Unit in Silicon Valley—among the first of its kind in the nation). In 2003, Professor Sury was featured in *Crain's Chicago Business "40 Under 40: Chicago's Rising Stars,"* for his significant professional accomplishments.

Professor Sury earned his MBA (*High Honors*) in Finance & Statistics from the University of Chicago's Graduate School of Business. He was awarded his undergraduate degree in Economics (*High Honors*) from the University of California, where he concurrently held teaching assistantships in Macroeconomic Theory and Statistical Analysis. Based upon his academic performance, he was inducted into the *Phi Beta Kappa* and *Beta Gamma Sigma* honor societies. Professor Sury attended the San Jose Police Academy, serving as class President; and prior to graduate school, also completed reserve officer training at the South Bay/Evergreen Criminal Justice Training Academy, where he was certified by the California Commission on Peace Officer Standards & Training.

On a personal note, Professor Sury enjoys giving back to the community, through such efforts as Junior Achievement, Habitat for Humanity, Starlight Children's Foundation, the South Shore Drill Team, and the Los Angeles Police Emerald Society. He has also served on the Board of the MRIC of Children's Memorial Hospital, and the GSB CEO Roundtable. Based in part on his experience in law enforcement (criminal investigation), he currently serves on the Santa Clara Sheriff's Advisory Board and previously served on the Executive Committee of the San Jose Police Officer Association's Major Awards Committee.

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