

FIN 286 - VALUATION

SPRING 2018



M/W 8:00AM – 10:00AM, GSB 3.130

M/W 10:00AM – 12:00PM, GSB 3.130

M/W 12:00PM – 02:00PM, GSB 3.130

Preliminary Syllabus (Subject to Changes)

Professor	Alminas Zaldokas
Office	GSB 5.165
Office Hours	Monday, 3:30-4:30
E-Mail	alminas.zaldokas@mcombs.utexas.edu
Course Web Page	via Canvas
Final Exam	Thursday, March 1 st

Course Objectives

This course covers business valuation, equity valuation, and option valuation. The goal of the course is to provide students with practical tools and methods to value a broad range of assets. While the course is designed first and foremost to be very practical, the tools and methods covered in this course are presented in the framework of generally accepted financial theory.

Prerequisites: Core MBA classes on accounting, statistics, and finance are a prerequisite. Working knowledge of Microsoft Excel is also important.

Materials

Required HBS Case material (available online):

- Boeing 777 – UV Case # 003
- Medco Energi Internasional – HBS Case #9-207-201
- Buffet's Bid for Media General – HBS Case #9-213-142

Required Case Centre material (available online):

- Prada's Hong Kong IPO – 116-0050-1
<https://www.thecasecentre.org/educators/products/view?id=135757>

Optional Textbooks

The material taught in class is a collection of concepts and examples drawn from several textbooks, research papers, and newspapers. For those students who want to have a reference book, the textbook that is the closest in spirit to the class is:

- Valuation: The Art & Science of Corporate Investment Decisions, by Sheridan Titman and John Martin, Prentice Hall, 2010 3rd Edition, ISBN-10: 0133479528

Another good textbook is:

- Corporate Finance, Jonathan Berk and Peter DeMarzo, 4th Edition, 2016, Prentice Hall, ISBN-10: 013408327X

Course Requirements and Grading

Your grade in the course will be determined as follows:

	<u>Assignment</u>	<u>Points</u>
In-Class Contribution		10
HW#1 (FCF)	Individual	-
HW #2 (Discount Rate)	Individual	-
HW #3 (DCF Valuation)	Individual	10
HW #4 (Multiples)	Individual	10
Case 1 (Boeing)	Group	5
Case 2 (Prada)	Group	5
Case 3 (Medco)	Group	5
Case 4 (Buffet)	Group	5
Final Exam	Individual	<u>50</u>
		<u>100</u>

Make-up and extra-credit assignments are generally not possible. Your grade will be determined solely by the components listed above. The homework assignments are individual. The cases are group assignments. The average turn-around time for returning the graded HWs and cases back to students is one week. The students have a week after the assignments are returned to ask questions about the grading and ask for a re-grade.

The final examination will be administered during the final exam period. The final exam is cumulative and covers all material mentioned in the course. You are allowed one letter-sized sheet of paper, where you can write, front and back, any formula or information you might need. A calculator is also allowed. No other material is allowed. The best way to prepare for the final exam is by going through examples from the lecture notes and by working through problem sets and the sample final exam.

I will not permit anyone to take the exams at another time unless you are gravely ill, face a significant emergency or have an exam conflict. If your travel plans conflict with the date of an exam, you should change your travel plans now, or drop the course. Please advise potential employers that you cannot schedule interviews that conflict with your exam schedule.

A forced curve will be used for grading purposes. The target grade distribution follows the Texas MBA program recommended distribution, with approximately:

A	(4.00)	25%
A-	(3.67)	20%
B+	(3.33)	15%
B	(3.00)	35%
B-	(2.67) or below	5%

C's, D's and F's will be awarded where deserved. Natural breaks in the distribution will be used to determine the final grade distribution. No student is allowed to take the course on a pass/fail basis.

Discussion Board

I often receive emails from students regarding material taught in class, as well as broader finance topics. I invite students to post these questions on the discussion board available on Blackboard. My TA and I will also join the forum as active participants and moderators. This discussion forum is the primary mode of communication for addressing finance topics outside the classroom. Consequently, my TA and I will only answer emails regarding questions or concerns about grades, attendance and other individual matters.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The value of the Texas MBA degree hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experiences are enhanced when:

- Students arrive on time. On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- Students display their name cards. This permits fellow students and faculty to learn names, enhancing opportunities for community building.
- Students minimize unscheduled personal breaks. The learning environment improves when disruptions are limited.
- Students are fully prepared for each class. Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- Students attend the class section to which they are registered. Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- Students respect the views and opinions of their colleagues. Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- Laptops are closed and put away. When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distractions and fellow students cannot benefit from the insights of the students who are not engaged. There are often cases where learning is enhanced by

the use of laptops in class. I will let you know when it is appropriate to use them.

- Phones and wireless devices are turned off. We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists please inform me prior to class.

Accommodations for Religious Holidays

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. The Services for Students with Disabilities (SSD) office 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 at ssd@austin.utexas.edu if you have any questions.

Academic Dishonesty and the Honor Code

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the Graduate School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

The responsibilities for both students and faculty with regard to the Honor System are described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp>. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. By taking this course, you agree to observe all of the student responsibilities of the Honor Code.

FIN 286 Valuation Class Schedule Spring 2018

Date	Class	Topic & Assignments	Material
Wed Jan 17	1	Introduction to valuation techniques. Capital budgeting. Annuities and perpetuities.	Titman & Martin, 1, 2
Mon Jan 22	2	Review of main accounting concepts. Definition of free cash flow. Identifying right cash flows.	Titman & Martin, 1, 2
Wed Jan 24	3	Calculating the discount rate. Calculating and unlevering/re-levering beta. CAPM and Fama-French 3 factor model.	Titman & Martin, 4, 5
Mon Jan 29	4	Valuing a company using DCF. No friction model without taxes and bankruptcy costs.	Titman & Martin, 6, 9
Wed Jan 31	5	Capital structure theories. WACC with taxes and bankruptcy costs.	Titman & Martin, 4
Mon Feb 5	6	Valuing a company using the WACC model. <i>Boeing Case</i>	Titman & Martin, 4, 9
Wed Feb 7	7	Sensitivity analysis (scenario analysis, break-even, and simulation).	Titman & Martin, 9
Mon Feb 12	8	Valuing a company with comparables and multiples.	Titman & Martin, 8
Wed Feb 14	9	Valuation in the IPO setting. <i>Prada Case</i>	
Mon Feb 19	10	Valuation in the private equity setting. VCs and LBOs. Adjusted present value. <i>Medco Case</i>	Titman & Martin, 10
Wed Feb 21	11	Valuation in the M&A setting. <i>Buffett Case</i>	
Mon Feb 26	12	Financial options. Descriptions and payoff diagrams. Applications and analogies to enterprise valuation	Titman & Martin, 11
Wed Feb 28	13	Valuation of financial options. Black-Scholes and binomial pricing models. Real options. Course Wrap-up	Titman & Martin, 12-13
Thu Mar 1		FINAL EXAM	