

FIN 374C Valuation

(MW 11:00-12:00, Classroom UTC 4.122, Unique #03025)

Instructor: Dr. Warren J. (Joe) Hahn

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Office Location & Hours: CBA 6.228, TTH 2:00 - 3:30 PM and by appointment

Description: This course is primarily focused on the evaluation and financing of major investments with a focus on applications such as those in 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 to be addressed include:

- What are the relevant cash flows of an investment?
- What risks are involved with an investment, and how might a firm mitigate these risks?
- How can an investment be financed, and how 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?
- 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?

Prerequisite

- FIN 357 or FIN 357H

Materials

- Valuation: The Art and Science of Corporate Investment Decisions, Titman and Martin **3rd edition** (ISBN-10: 0133479528).
- @Risk (simulation add-in for Excel). Available in labs and for download (<http://www.mcombs.utexas.edu/Tech/Computer-Services/COE.aspx>)

Course Requirements and Grading

- Homework: 30%
- Midterm Exam: 30%
- Final Exam: 40%
- I expect to be compliant with the Department guideline for class GPA for elective courses (approximately 3.4 GPA as a long-run average).

Homework is a key determinant of success in this course. Instructions for submitting homework are as follows:

- Written analyses are to be prepared in self-selected teams of two students. Teams should remain constant for all of the assignments, barring extraordinary circumstances.
- All work will be submitted electronically in the form of a Microsoft Excel worksheet via Canvas and is due by 9:30AM on the day given on the assignment. Each team will hand in only one assignment report.
- Although homework is to be prepared in teams/pairs, both students are expected to be sufficiently involved in the analysis and work submitted to learn the concepts and methods from the homework exercise.
- Teams of students may work together with other teams on analyses of homework problems but interpretation and discussion or explanation of results should be done independently by each team.

Solutions to the homework will be reviewed in class on the day the assignment is due. Homework grades will be communicated via Canvas and the grading rubrics that are applied will also be posted in Canvas. If you wish to appeal your grade on any assignment, you have 10 days from the time it was reviewed in class. All homework appeals must be e-mailed and addressed to me at joe.hahn@mcombs.utexas.edu. Include the unique number of your section in your e-mail subject line to ensure consideration.

The midterm exam will roughly cover Chapters 1-6 of the textbook. It will be administered as a common exam with my other section of this course in an evening session (typically 7-10PM) on March 7th. The final exam will focus on chapters 8-12 of the textbook. The final will also be administered as a common exam during the finals period.

I do not grade class participation or attendance, but you are responsible for everything covered or assigned in class. Lectures may encompass additional material that is beyond what is covered in the textbook or in the course assignments; therefore it is important that you review your class notes as you prepare for the exams. Laptops are permitted in class, and you are encouraged to work along with examples that are presented in class. However, you should not be using your laptop to surf the web, check e-mail, etc. during class. **Active involvement in class is also typically a key determinant of success in this course.**

Other Relevant Class Policies

- Since I review homework solutions in class on the day they are due, I cannot accept late homework submissions.
- I do not post homework solution files, since we review them in class.
- Missing homework assignments will receive a grade of zero, and make-up work is generally not possible.
- Because I want to encourage students to complete all assignments, I do not drop any homework grades.
- Before exams I will overview the material to be covered and discuss how to prepare, but I do not provide practice exams.

- I do not post exam solutions. We will review the midterm exam solution in class.
- Exams are to be taken at the scheduled time. There are two possible exceptions:
 - Conflict between our common exam time and an exam in another course. In such cases, students will be permitted to take a makeup exam upon providing evidence of the conflict.
 - Emergency. If you are unable to attend the midterm or final exam due to an emergency, your absence must be cleared through Student Emergency Services at <http://deanofstudents.utexas.edu/emergency/>.
 - Aside from these two exceptions, a missed exam will receive a grade of zero.
- In no circumstance will I give an early exam.
- I keep all graded exams in my office but you can visit anytime to view your exam.
- You are welcome to discuss your final grade with me - after the semester break.

Academic Dishonesty

I have a zero tolerance policy for acts of academic dishonesty. Such acts damage the reputation of our school and your 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. Homework and case assignments should be done in your groups, and I encourage you to work together in answering the questions.

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 or via e-mail if you have any questions. **If you will be utilizing an opportunity for extra time for an exam, you must notify the instructor at least 14 days prior to the exam so that appropriate accommodations can be scheduled.**

Privacy in Canvas

Information in Canvas is protected by your UTEID login. Please be aware that I will use a merged Canvas site for all sections of the course that I am teaching this semester. This will allow students in other sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.

Religious Holidays

By University 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 miss the due date for an assignment due to your observance of a holy day you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Tentative Schedule (all dates but Midterm are subject to change)

Class	Date	Topic	Readings	HW due (estimated)
1	Jan 17	Course Introduction, Valuation Process	Chap 1	
2	Jan 22	Valuation Methodologies	Chap 2	HW#0 – File Upload
3	Jan 24	Cash Flows / Simulation and Scenarios	Chap 2-3	
4	Jan 29	Simulation and Scenario Analysis	Chap 3	
5	Jan 31	Simulation and Scenario Analysis	Chap 3	HW#1 – Chap 2
6	Feb 5	Simulation and Scenario Analysis	Chap 3	
7	Feb 7	Cost of Capital	Chap 4	HW#2 – Chap 3
8	Feb 12	Cost of Capital	Chap 4	
9	Feb 14	Cost of Capital	Chap 4	HW#3 – Chap 3
10	Feb 19	Estimating Required Rates of Return	Chap 5	
11	Feb 21	Estimating Required Rates of Return	Chap 5	HW#4 – Chap 4
12	Feb 26	Forecasting Financial Performance	Chap 6	
13	Feb 28	Forecasting Financial Performance	Chap 6	
14	Mar 5	REVIEW Chap 1- 6		HW#5 – Chap 5
15	Mar 7	Midterm (time and location tbd)		
	Mar 12	<i>Spring Break – no class</i>		
	Mar 14	<i>Spring Break – no class</i>		
16	Mar 19	Valuation with Comparables	Chap 8	
17	Mar 21	Valuation with Comparables	Chap 8	
18	Mar 26	Enterprise Valuation	Chap 9	
19	Mar 28	Enterprise Valuation	Chap 9	HW#6 – Chap 8
20	Apr 2	Private Equity	Chap 10	
21	Apr 4	Private Equity	Chap 10	HW#7 – Chap 9
22	Apr 9	Valuation Using Market Information	Chap 11	
23	Apr 11	Valuation Using Market Information	Chap 11	HW#8 – Chap 10
24	Apr 16	Valuation Using Market Information	Chap 11	
25	Apr 18	Real Options	Chap 12	
26	Apr 23	Real Options	Chap 12	HW#9 – Chap 11
27	Apr 25	Real Options	Chap 12	
28	Apr 30	Real Options	Chap 12	
29	May 2	REVIEW Chap 8-12		HW#10 – Chap 12

Cumulative Final Exam during Exam Week