

FIN 374C Valuation

TR 2:00 – 3:30 pm, UTC 1.130 (03030)

Dr. John C. Butler

butlerjc@mcombs.utexas.edu

CBA 6.438, 232-6821

Office Hours:

Tuesday 10:00am – 11:30 am, Thursday 10:00am – 11:30 am

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 **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

- Exams Midterm 30%, Final Exam 37.5%
- Case Write-ups & Homework : 30%
- Participation (*not attendance*) 2.5%

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. Do not miss the exams.

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 homework appeals must be e-mailed and addressed to the grader

at : fin374c@gmail.com. Use the phrase "BUTLER APPEAL" in your email subject line to ensure consideration. Exam appeals should be directed to John Butler. ALL APPEALS SHOULD EXPLAIN WHY YOU DESERVE MORE POINTS NOT SIMPLY ASK FOR A REGRADE

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

- Written analyses are to be prepared by groups of up to two. Students can form their own groups, but please see me if you need help. Groups 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 the start of class** on the day given on the assignment. Each group will hand in only one assignment report. No late work will be accepted.
- Each student is expected to be actively involved in the analysis and work submitted. Each group should work independently (i.e., none of the work submitted should be based on the analyses, results or other work done by another group).

Solutions to the homework will be reviewed in class on the day the assignment is due. Homework grades will be communicated via grading rubrics distributed in class.

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.

There are some days when I will encourage you to bring your laptops and most days there will be things that you do with a laptop to enhance your experience. **However, there will also be periods where I request that all laptops are closed so that we can focus on the task at hand.**

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. At no time should one student be in possession of a copy of all or part of work done by someone else, in the form of an e mail, an e mail attachment file, a diskette, or a hard copy.

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.

You must notify the instructor that you will be taking advantage of an opportunity for extra time at least 14 days prior to the exam so that space in the testing center can be scheduled. All extra-time exams *must* be taken in the McCombs Testing Center; no exceptions.

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.

Important Things to Know about Student Expectations and How the Class Will Operate

- Don't post solutions to homework
- No practice exams
- I keep all exams in my office but you can visit anytime; If you take an exam from the classroom or my office without permission you will receive a 0 on that exam as the *minimum punishment*
- Expect homework on time through Canvas, not email
- Participation is not attendance nor is it attending office hours
 - Participation = asking and answering questions that improve the environment for your classmates
 - Most students will get a 0 out of 2.5 points because they will not positively contribute in class at any time during the semester; however, this is easy to remedy
- I expect you to read the book
- **You must take the exams, midterm and final, with the section that you have officially registered for**
- 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
- You are welcome to discuss your final grade ... the following semester

Tentative Schedule (exam dates are fixed but content may change)

<i>Meeting</i>	<i>Date</i>	<i>Topic</i>	<i>Readings</i>
1	16-Jan	Course Introduction & Valuation process	Chap1
2	18-Jan	Valuation Methodologies	Chap 2
3	23-Jan	Cash Flows / Simulation and Scenarios	Chap 2-3
4	25-Jan	Simulation and Scenario analysis	Chap 3
5	30-Jan	Decision Trees	Chap 3
6	1-Feb	Simulation and Scenario analysis	Chap 3
7	6-Feb	Cost of Capital	Chap 4
8	8-Feb	Cost of Capital	Chap 4
9	13-Feb	Cost of Capital	Chap 4
10	15-Feb	Estimating Required Rates of Return	Chap 5
11	20-Feb	Estimating Required Rates of Return	Chap 5
12	22-Feb	Forecasting Financial Performance	Chap 6
13	27-Feb	Forecasting Financial Performance	Chap 6
14	1-Mar	Valuation with Comparables	Chap 8
15	6-Mar	Catch up & Review	
16	8-Mar	Midterm (Chapters 1-6) Spring Break	
17	20-Mar	Valuation with Comparables	Chap 8
18	22-Mar	Valuation with Comparables	Chap 8
19	27-Mar	Enterprise Valuation	Chap 9
20	29-Mar	Enterprise Valuation	Chap 9
21	3-Apr	Enterprise Valuation	Chap 9
22	5-Apr	Private Equity	Chap 10
23	10-Apr	Decision Trees	Chap 11
24	12-Apr	Intro to Real Options	Chap 11
25	17-Apr	Intro to Real Options	Chap 12
26	19-Apr	Real Options continued	Chap 12
27	24-Apr	Real Options continued	Chap 12
28	26-Apr	Real Options continued	Chap 12
29	1-May	Economic Value Added	Chap 7
30	3-May	Review and Catchup	

Cumulative Final Exam during Scheduled Exam Period

**** All students must take the exams with their scheduled section ****