THE UNIVERSITY OF TEXAS AT AUSTIN

McCOMBS Texas MSF

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Course Web Page	via Canvas
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Course Overview

The MSF Summer Intensive combines the traditional corporate core class (financial management) and valuation. Roughly speaking, the corporate core material is covered in the first five classes, valuation is covered in the second five classes, and financial options are only introduced at the end of the course. We meet for 2 3/4 hours in the morning, take a break for lunch, and then meet after lunch for an additional 2 hours. Morning sessions will cover new topics, theory, and blackboard examples. Afternoon sessions will focus on financial modeling, and Professor Butler will help students learn to create useful, interactive excel models for the financial concepts covered in the morning. The objective of the course is that students will learn basic financial tools, understand valuation and how value is created, and learn to create useful, interactive excel models as an aid and input in evaluating financial decisions.

Course Content and Objectives

BA385T – Financial Management (Corporate Core) – The corporate core covers the structure and objective of the firm, and the methods firm managers use to evaluate and choose the best value-add projects for the firm. Through lectures, homework sets, and financial modeling assignments, students learn time value of money tools and calculations, applications of time value tools to the basic valuation of stocks and bonds, capital budgeting rules and capital budgeting practice in measuring project value (NPV and IRR), the use and practice of project simulation and sensitivity analysis, and an overview of capital markets and the price of risky capital. All of these topics are worked out in class in the morning session, and afternoon sessions in the first week focus on building interactive and informative excel models for solving involved time value problems and evaluating large-scale capital budgeting projects.

FIN 286 – Valuation – The valuation 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, and extend the tools developed in the corporate core to the practice and interpretation of business valuation.

The valuation course starts with a broad overview and discussion of valuation techniques. There are a number of different ways to try and determine the value of an asset, and it is almost always good practice to use more than one valuation method. Following the overview of valuation techniques, we start with methods for calculating the discount rate used in cash flow valuation methods. Our discount rate discussion involves determining the firm's cost of capital – both debt and equity capital – and the effect of leverage (debt) on the firm's cost of equity and the firm's overall cost of capital. Following our discount rate discussion we cover valuation effects of a firm's capital structure.

After our discount rate and capital structure classes we start coverage of cash flow valuation techniques used to value businesses and equity. We start with the discounted cash flow method (DCF), which is the most widely used cash flow valuation method. DCF valuation models are well-suited for sensitivity analysis, and we will cover methods for modeling the effects of varying material inputs of the DCF model. Cash flow valuation methods include many uncertain inputs, and sensitivity analysis help reveal the effects of varying the major inputs of the valuation. I will go through a detailed DCF example in class, and students will perform a valuation and sensitivity analysis on a company of their choosing as one of the major assignments of the course. Following the DCF work we will cover two additional cash flow valuation methods, the Adjusted Present Value method (APV) and the Capital Cash Flow method (CCF). After our coverage of cash flow valuation methods, we will cover the use of relative valuation multiples (e.g., EV/EBITDA, P/E) and work through an example on the use of valuation multiples in determining firm and equity value. We conclude the section on business and equity valuation with a discussion of control premiums and liquidity discounts, and a look at valuation in both LBO and M&A contexts. As in the first week, afternoon sessions will be focused on helping students build financial models in excel for valuing firms and projects.

Materials

Required Texts – electronic texts for this course will be purchased by the MSF Program

Valuation: The Art & Science of Corporate Investment Decisions, by Sheridan Titman and John Martin, Prentice Hall, 3rd edition, 2014.

Corporate Finance , Third Edition, by Jonathan Berk and Peter DeMarzo, Prentice Hall, Pearson, 2014.

Course Requirements and Grading

Your grade in the course will be determined as follows:

	Points	due date
In-Class Contribution and Behavior	5	every day
Retirement Problem	0	Friday, 7/24, 9:00 am
Capital Budgeting problem set	10	Monday 7/27, 9:00 am
Discount Rate problem set	10	Wednesday 7/29, 9:00 am
DCF Valuation problem set	15	Monday, 8/3, 9:00 am
Comps Valuation exercise	10	Tuesday, 8/4, 1:00 pm
Final Exam	50	Friday 8/7, 9:00–1:00
	100	

Make-up and extra-credit assignments are generally not possible. Your grade will be determined solely by the components listed above. Regarding class attendance, because there are only 13 meetings, if you miss three or more classes we reserve the right to fail you. We believe that class attendance is a very important part of your learning.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MSF experience 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 MSF classroom experience is 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 and evaluation of in-class contributions.
- **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 MSF 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 in the morning session, and used extensively in the afternoon session.** 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 distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.

- **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 (e.g., for some medical need) please inform the professor prior to class.

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.

The responsibilities for both students and faculty with regard to the Honor System are described on http://mba.mccombs.utexas.edu/students/academics/honor/index.asp. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance regarding collaboration for this course, you should consider the completion of the three individual problem sets to be an individual effort. It is OK to ask for help from others on the individual assignments if you get completely stuck or lost, however, you should develop your own answer and certainly not cut and paste the work of others. The HBS Sampa case assignment can be completed individually, or in pairs. Group *preparation* for examinations is acceptable and encouraged.

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.

MSF Summer 2015 Schedule - Core Corporate and Valuation

John Butler and Greg Hallman

Textbooks: Berk & DeMarzo for Corporate Core; Titman & Martin for Valuation

	9:00a — 11:00a	11:45 - 1:00	1:00 — 3:00	Reading
Jul-21	Map of the World of Finance / Corporate Structures, Objectives, Agency / Financial Statements and a little FSA **GH**	LUNCH	Financial Functions and/or financial databases or any other useful spreadsheet or data ideas before we get going **JB**	Berk & DeMarzo Chapters 1 & 2
Jul-22	Basic Valuation Applications of TVM (Stocks and Bonds) ; Corporate Investment Rules (NPV, IRR, MIRR, payback) **GH**		Calculating NPV, IRR, and MIRR in excel on some basic examples and problems **JB**	Berk & DeMarzo C 9.1, 9.2; C 6 (all) Berk & DeMarzo Chapters 3 and 7
Jul-23	Capital Budgeting cash flows and set-up; HomeNet - Berk&DeMarzo_C8 example problem **GH**		Capital Budgeting HW problem - spreadsheet set-up **JB**	Berk & DeMarzo Chapter 8 Titman & Martin Chapter 2
Jul-24	More Capital Budgeting / Project Selection / Project Sensitivity Analysis **JB**		Sensitivity Analysis / Monte Carlo Simulation on the capital budgeting HW problem **JB**	Titman & Martin Chapter 3
Jul-27	Capital Markets & Risk, Portfolio Theory, Efficient Frontier, CAPM **GH**		Capital budgeting HW set review **JB**	Berk & DeMarzo Chapters 10 & 11
Jul-28	Calculating Discount Rates **GH**		Beta Regression and calculating CAPM and WACC **JB**	Titman & Martin Chapters 4 and 5 Berk & DeMarzo Chapter 12
Jul-29	Capital Structure **GH**		Review Discount Rate Problem Set **JB**	Berk & DeMarzo Chapters 14, 15, & 16
Jul-30	Valuing a Company with a DCF **GH**		Start DCF spreadsheet construction **JB**	Titman & Martin Chapters 6 & 9
Jul-31	Work on DCF Valuation - Sensitivity Analysis / Monte Carlo Simulation in DCF Valuation spreadsheet **JB**		Finish DCF Valuation Assignment Office hours and classroom help **JB and GH**	Titman & Martin Chapters 6 & 9
Aug-03	Valuing a Company with Comps and Multiples **GH**		Pull data / set-up comps assignment **GH & JB** *[Class in the Trading Center]*	Titman & Martin Chapter 8
Aug-04	LBOs; valuation of private equity and venture capital; Control and liquidity issues in valuation; earnings dilution and accretion in M&A **GH**		Review Comps Assignment in class **GH and JB**	Titman & Martin Chapter 10
Aug-05	Introduction to Decision Trees and Real Options **JB**		In class assignment on Decision Trees **JB**	Titman & Martin Chapter 11
Aug-06	Course Review and ReCap; office hours **GH and JB**		Office Hours **GH and JB**	
Aug-07	**Final Exam**			