



# Seminar on Finance – Valuation

Summer term 2016

## Organization

The seminar is aimed at master students who are interested in writing their thesis in the research area of Corporate Finance. It is particularly suited for those students who participated in the course *Advanced Corporate Finance 1 – Capital Structure* in the winter term. However, this is not a formal prerequisite.

Students have to register by sending an email with a one-page CV and current grade transcript to [finance@wiwi.uni-tuebingen.de](mailto:finance@wiwi.uni-tuebingen.de) until **April 12 (end of day)**.

The kick-off event takes place on Wednesday, **April 13 at 2.30 PM (room E 05, Wiwi Seminar Mohlstraße)**. The attendance of all participants at the kick-off event is compulsory. At the kick-off, the topics will be shortly introduced and assigned to groups of 2 or 3 students (depending on the total number of participants), who will collaborate on the respective topic.

The topics will be assigned based on the following procedure: Students indicate their preferences. We randomly select a student, who will be assigned to her or his first choice. The next student, who is again randomly selected, receives her or his highest preference only in case the respective group is not complete yet. In case the topic is not available any more, the student will be assigned to the second highest preference and so on.

The papers and abstracts have to be delivered to the offices of the Department of Finance by Thursday, **June 8 at 15 AM**. Each group should submit two stapled printouts (no hardcover or binding required) as well as an electronic copy (including the text in pdf as well as all data and computations).

The final presentations will take place well in advance of the exam period.

# Topics

The seminar deals with the valuation of firms. The objective is to become familiar with different discounted cash flow methods (APV, WACC) and to apply them on a specific firm using real-world data. Further tasks are (a) to evaluate the impact of default risk on the firm value and (b) to assess how real options, i.e. options embedded in investment projects, affect the cost of capital of a firm. Each group has to discuss the advantages and disadvantages of different valuation methods as well as assumptions that have to be made when applying the methods in practice. All results have to be interpreted economically.

Experience in the use of spreadsheet software (like Microsoft Excel) is useful. Alternatively, students may want to familiarize themselves with advanced academic software packages like LaTeX and MATLAB to prepare for their final thesis.

## Grading

The grading (9 ECTS) is based on the following three components:

- **Paper (40%):** Each group writes a joint paper. The paper is limited to a maximum of 15 pages for the main part in groups of 2 and to a maximum of 20 pages for the main part in groups of 3. The cover page, table of contents and the appendix do not count towards this limit. In addition, each group prepares a one-page abstract summarizing the main findings in bullet points. We will also provide scientific guidelines, which each paper has to satisfy.
- **Presentation (40%):** It is expected that each group member presents a share of the joint work. Each group has a net presentation time of 20 minutes (groups of 2) or 30 minutes (groups of 3). Great importance is attached to a thorough discussion in order to shed light on the topics from different perspectives and to respond to questions. Therefore, the total time available per group is about 90 minutes.
- **Participation (20%):** The critical reflection of research is an important part of academic work. Therefore, we also reward the participation in the discussion of other groups' work. The papers and abstracts will be made available to everyone in advance for preparation.

All three components must to be graded at least as sufficient (*ausreichend*) to pass.

## Further information

### Literature on valuation of real assets

- Brealey, R., Myers, S. and Allen, F., “Principles of Corporate Finance”, 10th edition, McGraw Hill, 2011.
- Grinblatt, M. and Titman, S., , “Financial Markets and Corporate Strategy”, 2nd edition, McGraw Hill, 2004.
- Koziol, C., “A simple correction of the WACC discount rate for default risk and bankruptcy costs”, *Review of Quantitative Finance and Accounting*, 42(4), 2014, 653–666.
- Kruschwitz, L. and Löffler, A., “Discounted cash flow – a theory of the valuation of firms”, Wiley, 2006.

### Literature on real options

- Amram, M. and N. Kulatilaka, “Real Options”, Harvard Business School Press, 1999.
- Copeland, T. and V. Antikarov, “Real Options: A Practitioners Guide”, Texere, 2003
- Luehrmann, T., “Strategy as a Portfolio of Real Options”, *Harvard Business Review*, September-October 1998, 89–99.
- Mason, S. P. and R. C. Merton, “The Role of Contingent Claims Analysis in Corporate Finance”, in E. Altman and M. Subrahmanyam (editors), *Recent Advances in Corporate Finance*, Richard D. Irwin, 1985.
- Triantis, A. and A. Borison, “Real Options: State of the Practice”, *Journal of Applied Corporate Finance*, 14(2), 2001, 8–24.
- Trigeorgis, L., “Real Options: Managerial Flexibility and Strategy in Ressource Allocation”, MIT Press, 1996.

### Academic software packages

- MATLAB is a programming language capable of large numerical computations.  
[http://de.mathworks.com/academia/student\\_center/tutorials/launchpad.html](http://de.mathworks.com/academia/student_center/tutorials/launchpad.html)
- LaTeX is a markup language for typesetting scientific and technical documents.  
<http://ftp.uni-erlangen.de/mirrors/CTAN/info/lshort/english/lshort.pdf>