



Module 4

Alternative Approaches to Valuation and Investment

Introduction
(One with all the options...)

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Key issues in valuation and investment

**Defining and
Measuring Risk**



**Linking Risk with
Expected Return**



**Using Financial
Information to Estimate
Cost of Capital**



**Real Options
Analysis**

Module summary

1. The problem with NPV



2. Examples of real options



3. Valuation using decision trees



4. Empirical evidence and final thoughts

Background knowledge

Options

- Give you the right – but not the obligation to buy/sell an asset at a future date at a predetermined price – (exercise price)
- A call option gives you the right to buy the asset
- A put option gives you the right to sell the asset
- A European-style option can be exercised at expiry date
- An American-style option can be exercised at any time up to and including the expiry date

Refresher?

- Module 4 (Risk Management) of the course *Corporate Financial Decision-Making for Value Creation*.