

Contents

CHAPTER 1	
Installing the Software	1
Installing Crystal Ball Monte Carlo Simulation Software	1
Installing Real Options Analysis Toolkit Software	8
CHAPTER 2	
Getting Started with the Software	15
Getting Started with Crystal Ball Software	15
Getting Started with Real Options Analysis Toolkit Software	22
CHAPTER 3	
Framing Real Options	39
Step 1: Qualify List of Projects and Strategies	40
Step 2: Forecast Base-Case Variables for Each Project	41
Step 3: Create Static DCF Models for Each Case	42
Step 4: Monte Carlo Simulation—DCF Outputs Become Real Options Inputs	43
Step 5: Framing the Real Options	46
Step 6: Options Analytics, Simulation, and Optimization	54
Step 7: Reports, Presentations, and Update Analysis	55
CHAPTER 4	
The Basics of Financial Modeling	57
Financial Analysis	57
Monte Carlo Simulation	61
Volatility Estimates	64

CHAPTER 5**The Basics of Real Options****73**

Binomial Lattices 73

Granularities in Lattices 77

State-Pricing Approach to Solving a European Option 88

Trinomial Lattices and American Options 90

CHAPTER 6**Real Options Business Cases****95**

Option to Abandon 95

Option to Expand 105

Option to Contract 117

Option to Choose 126

Compound Options 136

Closed-Form Compound Options 144

Sequential Compound Option 148

Changing Costs 154

Changing Volatility 158

Option to Contract and Abandon 162

Basic Black-Scholes with Dividends 167

Barrier Options 171

Stochastic Timing Options 175

Switching Option 178

Closed-Form Equations and Binomial Convergence 183

Nonrecombining Lattices 189

CHAPTER 7**Extended Problems: Combining Forecasting, DCF Modeling,
Real Options, and Optimization****201****CHAPTER 8****Exercise Solutions****213****CHAPTER 9****Real Options Analysis Toolkit Software Function
Description for Excel****239**

CHAPTER 10	
Real Options Tables	251
Real Options Value Tables	251
Implied Volatility Tables	266
Dividend Impact Tables	272
APPENDIX	
Case Studies	281
More, Faster, Cheaper—The Siren Call of Upstream R&D	281
Real Options Analysis Applied to Valuing Start-Up Entities: The Digital News, Inc.	284
INDEX	295