

**COLUMBIA UNIVERSITY
GRADUATE BUSINESS SCHOOL
EXECUTIVE MBA; GLOBAL ASIA**

BUSINESS FINANCE
B5300-400; EMBA Global Asia
Fall 2017
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OFFICE HOURS: ON CLASS DAYS BEFORE
AND AFTER CLASS; AND BY APPOINTMENT

COURSE OBJECTIVE:

The aim of this introductory course in Business Finance is to acquaint students with basic areas of finance which are important to all decision makers, irrespective of whether or not they specialize in finance. The main areas of concern we cover are: Pro-forma projections; Underlying assumptions; Ratio analysis; Sustainable growth and its financing; Valuation of investment opportunities; The use of the discounted cash-flow methods; Selection and implementation of an optimal level of debt; The sources and costs of different financing alternatives; Identification of the relevant cost of capital; Determination of a sustainable level of debt; Corporate valuations; and others.

The course is a mixture of conceptual structures, analytic models, case analyses and discussions, and institutional frameworks. The learning mode is a combination of lectures, Socratic discussions, cases and case presentation, and reasoned in-class arguments. Emphasis is put upon a working understanding of the structures and models discussed in class and the cases as assigned. Advance preparation of the assigned class material is imperative for a thorough understanding of the topics. Advance reading of the material also makes the class discussions more interesting and fruitful.

Every student is expected to be able to contribute to the class discussions and case analyses as outlined below. Note that on some occasions, our meetings are back-to-back or on the next morning after a PM class. On these occasions, you must do your best to prep in time for these meetings.

It is crucial that students develop a good degree of dexterity in dealing with the concepts, methodologies, modes of analysis, and calculations. To enable the students to acquire these skills, every student is expected to be able to use a spreadsheet program. Any one of the software packages available in the market can do what we need, but I will be using Excel, and demonstrate the issues on Excel. **Please bring your laptops to class with you at each and every meeting.** (If you feel challenged in Excel, please talk to me as soon as possible)

FOR YOUR CONSIDERATION:

You have my permission to audio-tape the class if it helps you studying and reviewing the material. However, I expect you to tell me explicitly if you intend to avail yourself of this option. Taping is particularly recommended if you have to miss a class, if the material is not that familiar to you, or if you sense some problem with your proficiency in English. When and if taping my class, you agree and consent that the recording may only be used by you. It may not be shared, and it may not be posted, disseminated, publicized, duplicated, reproduced, or used outside of class and/or commercially. This applies to whole lectures as well as any parts. Breach of these "terms of use" will be treated as a violation.

The school does not video-tape classes. Some exceptions may be possible if it is a religious holiday, or if there are really compelling personal reasons, and if the request is submitted well in advance. Please adjust your schedules accordingly.

I will distribute materials to you via any of the following channels. My use of any of these channels depends on what material it is. The use of any one of these distribution channels does not connote varying importance. You are responsible for accessing all materials.

- Electronically to your email address shown on the registrar's list, via SSOL, or CANVAS.
- By posting it to the class website
- By handing out paper copies

CONTACT INFORMATION FOR ME AND MY TA:

I will be traveling during the term as much as you all. And we also have time zones and geography to contend with. Therefore, I listed my contact info in the office and at home on the masthead on the first page, so that you may have them, but I *grayed* them as well. If you need to reach me, please use my email address. We can then arrange for phone conversations or meetings if needed. The same applies to my TA.

My TA's is: **Mohammadreza BOLANDNAZAR;**
 His email is MBolandnazar20@gsb.columbia.edu
 Phone: 646.468.3339

REVIEW SESSIONS:

I will hold review sessions, and they are listed in the following outline and on the class schedule. The dates have been set by the office to minimize conflicts. The content of the sessions I show below is tentative, and it may be adjusted, as necessary, after consultations with the class and as the class progresses.

DELIVERABLES: All deliverables except the final exam are group projects, unless otherwise stated and announced. We shall use the existing groups, unless some changes seem called for or indicated. Details about the cases and the other assignments (content, mechanics, and presentations.) will be discussed in class – but see also the later pages of this outline.

The exam is open-books, open-notes. You will need a laptop/notebook. You will need it to upload the exam, work on it in Excel/Word, and submit for printing the exam results that you submit. Additional details about the assignments (content, mechanics, and presentations) will be discussed in class.

COURSE MATERIALS:

The required texts are:

1. Higgins, Robert: *Analysis for Financial Management*; 11th edition; Irwin 2016. [H]
2. *Case Packet* as prepared and distributed. It contains 9 cases and 3 teaching notes. [CP]
3. Additional Electronic Notes will be distributed electronically via the ANGEL class management system or by direct email, as and when needed. [EN]

Items 1 and 2 should be in your hands by now. Item 3 will be sent as needed and called for.

The book by Higgins is a comfortable introduction into the main issues. Working with it will be very helpful, especially if you have never done such work before, but it is by itself not quite sufficient.

Diligent class and case work is imperative.

My handouts and class notes, as distributed, are no substitute for class attendance and participation. They are meant to be used as a learning aid, and to help you jog your memories.

COURSE GRADE: The course grade will be determined as follows:

Three Case Reports	30% (Presentation + 2 (best) of remainder)
One problem set (?)	10%
Final Exam:	<u>60%</u>
Total:	100%

Please keep in mind that, this being a core course, **I am bound by the school rules about the course grade distribution.**

The case reports and problem set are group projects. The final exam is an individual project, and no help is allowed, expected, or should be proffered. It is an open-book exam consisting of a case analysis which covers roughly all the aspects of finance discussed in class.

COURSE CONDUCT & ISSUES:

- I expect to start every class on time and end it on time. Please help me by being punctual. Tardiness is disruptive, and it affects us all adversely.
- If, for unavoidable reasons, you are late, please just come in and sit as fast and unobtrusively as possible in the proximity of the door. Do not compound the problem of missed material by waiting outside for a “good moment” or a “break” to join the class. Also, do not interrupt the flow of the class by asking your neighbor what we did so far, or about the state of the world and its news, or “What’s up.” You will need to find time for it later.
- If you know that you will be absent, or late, or believe that you will have to leave early, please make sure to inform me **in advance** by e-mail. Excessive absence may be deemed detrimental to your grade, and this will happen at my sole discretion. I decide what is deemed excessive and what is detrimental.
- Please bring and display your name-plaque with you to each and every class.
- Talking to your neighbor is disruptive. If you have any questions, I rather you address them to me, even if they seem simple, or repetitive, or not in synch with the current class discussion. This is more likely to help you, and less likely to be disruptive.
- Checking your email, surfing the web, messaging, using the cell phone, checking who called by responding to a vibrating signal, and all other such activities are rude, inconsiderate, and unacceptable. Please do not even be tempted to engage in them.
- Please recall that you are bound by the rules and your pledge about academic conduct and the Honor Code with respect to all work submitted and your behavior in class.
- If you miss a class, or arrive late, it is your responsibility to find out if anything was announced, distributed or handed out. It is best if you do it with your colleagues or group members. But please do it after class.
- Please note that class-notes from a colleague may not suffice to bring you up-to-date about what was done in a class that you missed. Reason: we rely extensively on open-ended discussions, in class questions, cold-calling, and Socratic arguments.
- If your work seems to have endowed you with profound knowledge about the material we are covering in class, talk to me. We can find better ways to use your time, knowledge, and skills. Please do not simply skip class, or sit there bored. We can work around that. We can find very useful ways to enhance your skills while using your current knowledge productively.

SUGGESTION: The readings are potentially confusing to people who are new to this material, and the cases are initially confounding. Not all parts are easy. However, I rather you try to do as much as possible when preparing for class, even if some details remain opaque, and seem to escape you at first blush. Learning how to decipher the text, and learning the mode of thinking and methodology

can be best acquired by trying, even if not always successfully. I will certainly answer any questions you may have, and I will also pick and discuss urgent and central issues in our classes.

NOTES: If there are any problems with the course, the material, your performance, your attendance your assignments, or any other issue, please speak to me as soon as possible. Early intervention and help are much more efficacious. We have very little time.

ABOUT THE PROJECTS, AND OTHER DELIVERABLES:

- The deliverables are group projects unless otherwise stated and announced.
- Each group should consist of about 4-5 students. Exceptions must be cleared with me.
- Each group needs submit only one report per case or assignment. All members must be listed on the cover page in alphabetical order of the last name, and the last name must be in bold letters.
- If a student has a foreign first name as well as a name by which said student prefers to be addressed, both names must be shown next to each other.
- The cover page must show the date, the course name and number, as well as the current term. It also must show the case or assignment name.
- All write-ups must be submitted in paper form.
- The write-up needs no special paper, or binding. Stapling in one corner is sufficient, and as a matter of fact, preferred.
- The report must be paginated.
- Even if you are asked to present your work in class, a copy of the presentation for me is necessary, and handouts for the class will be greatly appreciated.
- All write-ups are due on the date announced in class and in writing.
- Make extensive use of appendices and attachments. It makes it easier to work as a group, easier to read, and it allows for easy corrections if called for.
- There is no max or min number of pages. Don't rehash the questions or case, but don't stint on explanations and analyses.
- After a possible presentation, and allowing for possible rewrites, the cases may be posted by the group or by me on the course's ANGEL site, in the folder provided for.

Each group must submit the following 6 deliverables:

- *Mr. Picky or The Blood Bank*
- *Clarkson Lumber*
- *Either Superproject or Southern Company*
- *Either HCA or AHP*
- *Interco*
- One valuations case – to be determined.

CAVEAT:

I reserve the right to alter the sequence of topics, the assignments, the requirements, the cases, the course coverage, the deadlines and the grading system if I deem it necessary and/or appropriate. Should such changes be made, I will announce them in class as needed, and in advance.

COURSE OUTLINE

BLOCK 1

DATE	TOPICS	ASSIGNMENTS; DELIVERABLES
Pre-Term Session 0	Prep and review material as listed to the right. The material from the chapters should be known to you. Please list any questions for class discussion. I rather you ask more questions. No question is out of bound, and none too simple.	Review H Chs: 1 & 2 Prepare answer to <i>Mr. Picky</i> [EN] Prep <i>Clarkson Lumber</i> [CP]. <i>NOTE: ALL CASES (EXCEPT FINAL EXAM) ARE GROUP PROJECTS</i>
13-Sept-2017HK - HKU 13:00 - 16:00 Session 1	Introduction; Course mechanics. Financial Statements: Structure, logic, omissions. What can we learn from recent scandals? Steps needed to generate CF projections. Use of ratios to assess the firm's performance.	Review H Appendix to Ch 2; Review: <i>Assessing a Firm's Future Financial Health</i> [CP] Look at <i>The Blood Bank</i> [EN]
14-Sept-2017 HK - HKU 08:00 - 09:00 Session R1	Review session	Session on financial statements and CF determination. Also on Clarkson
14-Sept-2017 HK - HKU 13:00 - 16:00 Session 2	Debrief Mr. Picky. Distinction between profitability and liquidity. The use of ratios in creating pro-formas. Accruals and their reversals. Assessing the quality of the numbers: Sales, A/R, Inventories, Growth etc.	Hand in <i>Mr. Picky</i> at beginning of class. Review H ch 3. Review: <i>Note on Value Drivers</i> [CP].
15-Oct-2017 HK - HKU 08:00 - 09:00 Session R2	Review Session	Sessions to focus on Excel and the determination of flows and calculations. Also on the time value of money
15-Sept-2017 HK - HKU 09:00 - 12:00 Session 3	Debrief Clarkson Lumber. Stand ready to discuss the following: Is the firm profitable? Is the growth adding value? How much cash does he need over what horizon? What should the bank insist on? What is the quality of his assets? Insights into Toy World.	Hand in <i>Clarkson Lumber</i> [CP] at beginning of class. Review H Ch. 4 and skim Ch 5. Before the next block, look at <i>Toy World</i> . I will not discuss it in class unless you have questions.

BLOCK 2		
DATE	TOPICS	ASSIGNMENTS; DELIVERABLES
11-Oct-2017 LON - LBS 08:30 - 11:30 Session 4	The basics of project valuation: The time value of money. The interest rate. Compounding and discounting. Inflation. What CFs are relevant? Using Spreadsheets	Review H Ch. 7 (w/o Appendix) Review: <i>Pitfalls in Evaluating Risky Projects [CP]</i> .
12-Oct-2017 LON - LBS 08:30 - 11:30 Session 5	Debrief the Superproject Finite and infinite horizon. The DDM. Sustainable growth, reasonable estimates, steady state. Defining the CapEx. Balance CapEx, depreciation, and sustainability. Projects of unequal lives	Hand in <i>The Superproject [CP]</i> at beginning of class. Review H Ch 7 - The Appendix. Ch. 8 up to p. 326.
13-Oct-2017 LON - LBS 07:30 - 08:30 Session R3	Review session	Sessions to focus on Excel and the determination of flows and calculations. The mechanics of discounting and NPV, IRR
13-Oct-2017 LON - LBS 16:30 - 19:30 Session 6	Debrief Acid Rain. Estimating the WACC for given costs of E and D. The historic record. How to estimate D and E? Yield spreads. Risk and returns. Book value v. market value.	Hand in <i>Acid Rain; The Southern Company [CP]</i> at beginning of class. Review H Ch 8: pp 326 - end
14-Oct-2017 LON - LBS 08:30 - 11:30 Session 7	The essence of MPT. Who is beta and why is he doing this to us? Estimating and using beta. How are the levered and unlevered beta related to each other? He essence of a valuation	Possibly, hand in exercises as requested. Group work
14-Oct-2017 LON - LBS 16:30 - 18:00 Session R4	Review session	If and as needed. Based on all issues discussed so far, and enhanced by some problems to be assigned.

BLOCK 3		
DATE	TOPICS	ASSIGNMENTS; DELIVERABLES
16-Nov-2017 HK - HKU 08:00 - 09:00 Session R5	Review session	If and as needed. Summary of project valuation
16-Nov-2017 HK - HKU 09:00-12:00 Session 8	Debrief AHP. The firm's capital structure. Reasons for having more than one type of securities. What types are there besides plain vanilla debt and simple equity. Why hybrid securities. M&M's irrelevance of capital structure. Given the irrelevance, why indeed so many securities? The effects of leverage.	Hand in <i>American Home Products</i> [CP] at the beginning of class. Review H ch. 6
17-Nov-2017 HK - HKU 08:00 - 09:00 Session R6	Review session	Prep for valuation case Before the next upcoming block, you may want to look at the case <i>Interco</i>
18-Nov-2017 HK - HKU 09:00-12:00 Session 9	Debrief HCA. The effect of taxes. Efficient markets, mutual funds, value investing, and the historic record. Why worry about the worst case scenario? How to define the worst case scenario? Enterprise value v. equity value - are they the same? Pre-cash and after-cash value? Financial structure and incentives.	Hand in <i>Hospital Corporation of America</i> [CP] at the beginning of class. Review H Ch. 9 incl. Appendix Hand in valuation case (as yet to be determined) at the end of class.
18-Nov-2017 HK - HKU 16:30 - 18:30 Session -----	Review session with individuals as possible Debrief Valuation Agency conflict and its impact on valuation	How to assess a business plan? What do we know and what do we understand poorly?

BLOCK 4		
13/14/15-Dec-2017 HK - HKU As is possible	Review opportunity with student groups and or individual students	As needed and arranged
13-Dec-2017 HK - HKU 16:30 - 19:30 Session 10	Debrief Interco and valuation case. Summary, review of the course, review of all elements of the valuation process for firms and projects	Hand-in Valuation Case again if and as needed
15-Dec-2017 HK - HKU 16:30 - 18:00 Session R6	Review session	As arranged
16-Dec-2017 HK - HKU 08:00-09:00 Session R7	Available for last-minute questions and clarifications	As needed
16-Dec-2017 HK - HKU 09:00-14:00	Final Exam: Open books open notes. Laptop required. Individual project. A case requiring a corporate valuation with several additional questions	GOOD LUCK!