COLUMBIA UNIVERSITY
GRADUATE BUSINESS SCHOOL
EXECUTIVE MBA PROGRAM

FIN 7307-001
ADVANCED CORP. FINANCE
Spring 2021
Class times: Saturdays, Varying hours, see below
Rooms: Varying, see below

The EMBA office sets the Times and Rooms. They may also change them.

Prof. Roger Mesznik: Uris; Room 311
Off. Phone 212.854.5308
E-mail: rm21@gsb.columbia.edu
OH: Sa: Hours as announced
Other days/times by appointment, via phone, email, and Zoom

ADVANCED CORPORATE FINANCE

COURSE OBJECTIVE:
We base our analysis on the proposition that whatever the firm is doing, and whatever future is now predictably foreseeable, are fully reflected in its current valuation.

This assumed PERFECT MARKET for the valuation of a corporation, its assets, its equity, and its debt, forces us to conclude that A CHANGE IN VALUE can be had only by ALTERING THE HERETOFORE SEEMINGLY PREDICTABLE AND FORESEEABLE FUTURE.

Such a change in expectations may be created either by a willed act of the corporation, or by an unexpected change in the states of the world.

Such a change may impact the quality, quantity or pricing of the output, the basket of outputs, the costs of producing the output, the rate of growth, the firm’s riskiness, its discount rate, its resilience to unexpected calamities and changes, its financial leverage, its operating leverage, its flexibility in responding to such calamities or opportunities, its ability to impose its will on others, its ability to fend off others’ impositions, its investment in R&D, the success of its R&D, its willingness to face or its ability to withstand failure or bankruptcy, its regulatory environment, its market power, and sometimes, sheer good (or bad) luck.

Corporate actions to enhance value derive from changes in leverage, financial and operational, changes in pricing, embedded or altered flexibility, changes in product mix, mergers, acquisitions, joint ventures, breakups, new products, restructuring and shedding of business lines, and many others.

Empirical studies indicate that many such corporate actions which are meant to enhance the value fail. SOME FAIL GLORIOUSLY. They destroy value rather than raise it.

This course focuses on understanding why and when such acts succeed or fail, whether the failure was likely, and at times foreseeable, and WHAT COULD HAVE BEEN DONE TO HARVEST SUCCESS RATHER THAN EXPERIENCE FAILURE.
COURSE FORMAT:
The course is designed as a combination of lectures, case presentations, and class discussions. The discussions involve all the following: Readings from the assigned text; the assigned cases; the additional readings, the assumed advance knowledge brought in from other finance and related courses; current and recent events from the business world; the students' own professional experience and interests; additional readings as distributed from time to time; and current news items from the press.

The discussions help us flesh out correct and incorrect analyses, and the reasons for their success or failure. For the topics outlined below, we will find and analyze correct and incorrect applications.

Advance preparation of the assigned class material is imperative for a thorough understanding of the topics and for a fruitful participation in the discussions. Every student is expected to be able to contribute to the class discussions as outlined here. Every student is also expected to work diligently and fairly with her/his group members, because many of the class assignments are designed as group assignments. It is crucial that students develop a reasonable degree of dexterity in dealing with the underlying concepts. Continuing, thoughtful, and thorough participation in all aspects of the class is imperative for a successful performance. This is particularly applicable given the FLEX format which will likely be imposed on the course.

To enhance these desirable outcomes, I will engage in cold calling during class. If you lack experience with such cold calling, please talk to me. It is not an impediment to success, or good grades. All students find it to be eventually helpful, important, and useful. The format of the course and the qualifications and experience of the class members are especially conducive to a fruitful interplay between the theories we advance, the solutions we seek, the cases we are working with, and the students’ own work experience.

REVIEW SESSIONS:
My assistant and I will hold review sessions if and as needed. The sessions will be set after consultations with the class, consultations with the EMBA office, and as needed.

NOTE:
If you sense any problems with the course, the material, your performance, your work in the course, your attendance, or your work on the assignments, please speak to me or to my assistant as soon as possible. Early intervention and help are much more efficacious.

COURSE MECHANICS:
The required text is:
[The first two authors have another book called *Fundamentals of Corp Fin*. This would be the WRONG book]
A packet of *Cases and Notes (CNP)* will be distributed to the students. The CNP contains the Cases and Notes listed in the outline below.

**THE COURSE GRADE:**

The grade will be determined as follows:

- Two submitted case reports: (12% + 8%) 20%
- Midterm Exam (Or Paper?) 20%
- Final Exam (Or Paper?) 45%
- Class participation 15%
- Total: 100%

The two case reports are group projects. The group membership will depend in part on the FLEX arrangements. Each group must present one of its two case write-ups in class; and each case will be presented by one group. Details about the cases and the other assignments (content, mechanics, and presentations) will be finalized after the roster stabilizes.

The exam(s) is (are) open-books, open-notes, in-class exam(s). You need a laptop/notebook for the exam(s).

If appropriate, and with my explicit cooperation and prior agreement and acquiescence, students may submit research papers in lieu of one or both exams.

**FOR YOUR CONSIDERATION:**

- You have my permission to audio-tape the class if it helps you studying and reviewing the material. However, you need to tell me explicitly if you intend to use this option.
- Taping is particularly recommended if you must miss a class, if the material is not at all familiar to you, or if you sense some problem with your proficiency in English.
- When and if taping my class, you agree explicitly and irrevocably that the recording may only be used by you. It may not be shared, and it may not be posted, disseminated, publicized, duplicated, reproduced, in whole or in part, or used commercially. Breach of these “terms of use” is a serious violation, and it will be treated as such.
- The school’s ability to video-tape classes is subject to policy restrictions. Some exceptions may be possible if it is a religious holiday, or some such, and the request is submitted well in advance. Please adjust your schedules accordingly. For more information, and when in doubt, please check with the EMBA office.
- It is your responsibility to ascertain that you are compliant with the course prerequisites as determined by your school and your program, and as listed in the university’s *Directory of Classes*.
- I will distribute materials to you via any or several of the following channels:
  - Electronically to your email address shown on the registrar’s list.
  - By posting it on CANVAS.
  - By handing out paper copies

My use of any of these channels depends on what material it is. The use of any one of these channels does not connote varying importance or primacy. You are responsible
for accessing and using all materials as they become available.

**DELIVERABLES:**
- The cases are group-projects. The exams are individual projects.
- I expect you to contact me and to work with me as you work on your cases. It is most likely that you will not be able to do them on your own, and without my input.
- You may not seek help or provide outside help for graded work – except for your group members. You agree to abide by this requirement regardless of whether the help is provided for pay, or as a courtesy, or as an exchange/barter, or as a barter of the kind “you do this for us both, and I will do the next for both of us.”
- If it is a group project, you must all contribute fairly, and all group members listed on the cover sheet will receive the same grade.
- In any case, you can always seek my help or the TAs’ help. We will help you as much as is possible, fair, and justifiable.
- The group composition will be impacted by the FLEX arrangement. The ideal group size is three members.
- Details about the cases and the other assignments (content, mechanics, and presentations.) will be discussed in class.
- Details about the exam(s) will be discussed as we approach the exam dates.

**COURSE CONDUCT, COMPORTMENT, and 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 or join as fast and unobtrusively as possible. 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, you must inform me in advance by e-mail. Excessive absence or tardiness may be deemed detrimental to your grade, and this will happen at my sole discretion. I decide what is deemed excessive and I decide how detrimental. I may decide that your absences, or late arrivals, or early departures are excessive even if you tell me of them in advance, but certainly if you do not.
- Please bring 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, in class if at all possible, even if they seem simple, or repetitive, or not in synch with the current flow of the class discussion or topic. This is more likely to help you, and less likely to be disruptive to you, to your neighbors, to the rest of the class, and to me.
- When in class, checking your email, surfing the web, messaging, using the cell phone, checking who called by responding to a vibrating signal, and any other such activities are all rude, inconsiderate, and unacceptable. Please do not even be tempted to engage in them. I do not use my cellphone when you talk to me, and you should not do
it when I talk to you. Keep in mind that this kind of abuse is a potential reason for expulsion from the course.

- 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 behavior in class. This includes, but is not limited to, the distinction between individual work and group work, plagiarism, unattributed use of the work of others, copying from others, incorrect or misleading references, unreported use of on-line materials, resubmission of previously used work, and other such issues. It is as much a transgression to enable someone to copy from you as it is for you to copy from others.

- Academic integrity and ethical conduct are paramount requirements that cannot and shall not be compromised. Violations may lead to academic complaints and disciplinary hearings that may lead to penalties and/or expulsions.

- If you miss a class, or arrive late, it is your responsibility to find out if anything was announced, agreed to, distributed, or handed out. It is best if you do it with your colleagues or group members, but do not do it during 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, and Socratic arguments.

- If your work or prior classes seem to have endowed you with profound knowledge about the material we are covering in class, and you find some of the work redundant, talk to me immediately. We can find better ways to use your time, knowledge, and skills. Do not simply skip class or sit bored in class. We can work around the issue by utilizing your skills and advantage to your benefit.

ABOUT THE CASES:

- The cases are group projects.

- Each group needs submit only one joint report per case. 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 same applies if the student prefers to use a name which is at odds with the official name recorded on the transcript. I must be able to match your name to the transcript. If this requirement may cause you any discomfort, please alert me to the situation ASAP.

- The cover page must show the course name and number as well as the current term. It also must show the case name and the relevant date.

- One case must be presented. A case write-up is also required for the presented case.

- All case write-ups must be submitted in paper form.

- The write-up needs no special paper, or binding. Printing in b/w on regular paper is satisfactory. Stapling in the upper-left corner is sufficient.

- The report must be paginated.

- If you are presenting, 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 on which the case is presented in class.
The write-up should have the form of a business report: Executive summary; definition of the issue; Evidence for the problem; Suggested solutions; Weighing viable alternative solutions; recommendations and justification.

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 by you if called for.

There is no max or min number of pages. Don’t rehash the case, but don’t stint on explanations and analyses.

I expect to talk to all groups about all cases in advance of the report and as preparations progress. It is your responsibility to contact me. You may try to reach me at any time.

It is unlikely that you will be able to respond to all the case questions without my help. I am here, please avail yourselves of the resource, and schedule yourselves well in advance of the needed deadline.

MY TA FOR THE COURSE:

Ms. Ran LIU
RLiu21@gsb.columbia.edu

I reserve the right to alter the sequence of topics, the assignments, the cases, the course coverage, the deadlines, and the grading system if I deem it necessary and/or appropriate.

Should such changes be made, they will be announced in class as needed, and in advance, and/or posted on CANVAS.

Once announced and posted, they become binding on you and me, and they replace all earlier arrangements.
## SCHEDULE, OUTLINE AND ASSIGNMENTS

<table>
<thead>
<tr>
<th>Dates</th>
<th>Topics</th>
<th>Key Concepts; Key Questions</th>
<th>Assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-term</td>
<td>Course prep</td>
<td>If you doubt your recall of accounting concepts such as the basics of balance sheets and income statements, some idea of cash v. non-cash items, and also the development of cash statement, please use the book(s) you know already from previous courses to review these concepts. Contact me if you need help in choosing materials.</td>
<td>BMA: Chs: 1, 2, 3</td>
</tr>
<tr>
<td>Week 1</td>
<td>Mtg 1</td>
<td>Introduction</td>
<td>BMA: Chs. 5, 6</td>
</tr>
<tr>
<td>Jan 9, 2021</td>
<td>TIME</td>
<td>The investment decision.</td>
<td></td>
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<tr>
<td>ROOM TBD</td>
<td></td>
<td>Course structure and modalities. The firm and its decisions. How to value a project? What is the source of the positive NPV? How are cashflows defined? What cashflows should be included? CFs in finance vs in accounting. Where is the risk? How is risk treated? How to treat depreciation? Amortization? What defines the project life?</td>
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<tr>
<td>Week 2</td>
<td>Mtg 2</td>
<td>Methods of project valuation and contrast to accounting calculations. This includes but is not limited to DCF calculations.</td>
<td>BMA: Chs. 9, 10.</td>
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<tr>
<td>ROOM TBD</td>
<td></td>
<td></td>
<td>Case: #1 on Investment and market structure</td>
</tr>
<tr>
<td>Week 3</td>
<td>Mtg 3</td>
<td>Pitfalls, inconsistencies, and problems in the use of DCF models and errors in valuations. Impact of market structure.</td>
<td>BMA Chs. 11, 12.</td>
</tr>
<tr>
<td>Jan 30, 2021</td>
<td>TIME</td>
<td>Should the discount rate be varied to reflect time dependency? Risk resolution patterns over time? What are certainty equivalents? How and why perform a sensitivity analysis? When and how to use equivalent annual costs (EAC a.k.a. CAE)? Strategic investments, defensive investments, me-too investments. Examples from recent transactions – errors and successes. Is NPV always applicable? Are the NPV and IRR methods comparable? Do their conclusions agree? If not, why not? When not?</td>
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<tr>
<td>ROOM TBD</td>
<td></td>
<td></td>
<td>Cases: #2 on Investment with complex CFs and tricky forecasts</td>
</tr>
<tr>
<td>Week 4</td>
<td>Mtg 4</td>
<td>Applicability, issues, and problems with averages, inflation, and</td>
<td>BMA Chs. 7, 8.</td>
</tr>
<tr>
<td>Feb 6, 2010</td>
<td>TIME</td>
<td>How to treat inflation? What happens under capital rationing? How to calculate the corporate WACC? When can the corporate WACC be used? Arithmetic averages, geometric averages,</td>
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<tr>
<td>ROOM TBD</td>
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<td></td>
<td>Case: #3 COC domestic and/or</td>
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</tbody>
</table>

*Times and rooms listed below may change*

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Prof Roger Mesznik  Page 7 of 9  B7307-001  Spring 2021
<table>
<thead>
<tr>
<th>TIME AND ROOM TBD</th>
<th>capital rationing when using WACC and its components.</th>
<th>regression-based averages, CAGR. Sample size for history-based estimates. How to account for the issuance costs of external funds? Using yield spreads? Should S/T debt be included in the leverage calculation?</th>
<th>international. Divisional? Deadline to finalize paper-topics if applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 6 Mg 6 Feb 20, 2021</td>
<td>Corporate restructuring, LBOs, MBOs, buyouts and privatization. Do they add value?</td>
<td>Identifying sources of value in LBOs and other restructurings. Misalignment of incentives and valuations among varied stakeholders. Risk shifting, risk hedging, and risk diversification. Operating leverage as risk, and a substitute for financial leverage. Wealth transfer among stakeholders. Insights from Behavioral Finance.</td>
<td>BMA Chs. 15, 17. Cases: #5 Complex restructuring</td>
</tr>
<tr>
<td>Week 7 Mg 7 Feb 27, 2021</td>
<td>The APV - adjusted present value - method. Matching the FCFs to the discount rate in an NPV calculation</td>
<td>Is there risk additivity or complementarity? What is the impact of financial leverage? What are the implications of the M&amp;M theorems? Is there an optimal debt level? What are the role and the implications of efficient financial markets? What is the impact of operating leverage? Risk and reasons of performance assessments. The uses and failings of accounting numbers.</td>
<td>BMA: Chs 18, 19 Case: #6 Complex Interplay of investing and financing</td>
</tr>
<tr>
<td>Week 8 Mg 8 Mar 6, 2021</td>
<td>Financial options, how to identify them, value them, and when are they useful?</td>
<td>The midterm exam will be in class, for a part of the class time. (Date may be advanced or delayed) What are the parametric structures of options? How to value a financial option? Using the binomial model? Using the B/S model? Why is the option value of an investment sometimes different from the NPV of the same investment? Recent examples of investments decisions as options</td>
<td>BMA Chs. 20, 21, 22 Case: None if there is an exam</td>
</tr>
</tbody>
</table>
| Week 9  
| Mtg 9  
| Mar 13, 2021  
| TIME AND ROOM TBD  | Real options: Structure, composition, parameters, and valuation.  | Estimating the necessary parameters of real options. Are real options similar to financial options? Project abandonment; project postponement. The value of flexibility and the value of waiting. How precise is the result of the B/S equation? Hybrid securities as embodiment of options. Stakeholders’ conflicts and interest alignments  | BMA: Chs 24, 25, 34  
Cases: # 7 Real options |
| Week 10  
| Mtg 10  
| Mar 27, 2021  
Case: # 8 Complex restructuring, stakeholder conflicts |
| Week 11  
| Mtg 11  
| Apr 3, 2021  
| TIME AND ROOM TBD  | Measurement tools and metrics. Agency relations and impact on financial decisions  | Use of comparables for evaluations? The basics of EVA and VAR. What inputs are needed, what are the weaknesses? What is measured, what is omitted? What are Agency problems? Effects of asymmetric information? The conflicts of interest within a corporate structure and among stakeholders? Revisit insights from Behavioral Finance. Challenges to the “rational model” of economic actors  | Last date for handing in papers. Possible presentations of some student papers  
BMA Chs. 28, 33, 34.  
Cases: # 9 as needed |
| Week 12  
| Mtg 12  
| Apr 10, 2021  
| TIME AND ROOM TBD  | The world of the small and large enterprise Conclusions  | Hybrid securities as answer to agency conflicts? Mitigating the agency issues. Public policies, wealth, and income distribution. Investing in political influence. Summary and wrap up. Pulling it all together. What do we NOT know? What is the impact of the recent financial crisis? Filling in the open topics and issues. How to prep for the finals.  | Case: # 10 Complex case with ambiguity and |
| Apr 17, 2021  
| TIME AND ROOM TBD  |  |  | **FINAL EXAM. It is open books, open-notes. You must have a laptop**  | **IT IS OPEN BOOKS, OPEN-NOTES. YOU MUST HAVE A LAPTOP**  |