From Feast to Famine and Back Again: Investing Through Credit Cycles

B Term Block Week 2019

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Communications from professor and teaching assistant about the course will take place through Canvas. Students should make sure they regularly check for announcements and messaging notifications.

COURSE DESCRIPTION

In this course, we discuss the evolution of the high yield bond and loan markets, and the behavior of market participants from peak to trough and back again through various credit cycles. Through lectures, cases and guest speakers, we discuss through-cycle changes in valuation, structure, capital raising, liquidity and other investor considerations.

To provide context, we will use the Caesars/Harrah’s 2006 leveraged buyout as a case study that illustrates the extremes of each phase of the credit cycle. Four other case studies (HCA, NXP, Tomkins and Refinitiv) will be used to highlight the four phases of the cycle: feast, famine, emergence, and exit.

Students should leave the course with an understanding of the concept of the credit cycle and the ability to identify peak/“bubble” and trough conditions and behaviors. A more detailed overview of course learnings and takeaways can be found in the study guide on Canvas.

REQUIRED COURSE MATERIALS

Your pre-readings are (1) a selection of memos from Howard Marks, (2) the Caesars/Harrahs case study (in multiple parts), and (3) several sell-side high yield strategist outlook pieces for 2019. All of these are available on Canvas, as are all of the case studies used in the course. While it is not required reading, you are strongly encouraged to buy Howard Marks’ most recent book, “Mastering the Market Cycle: Getting the Odds on Your Side,” with particular attention to the chapters entitled “The Credit Cycle” and “The Distressed Debt Cycle.”

For reference, you may want to buy "A Pragmatist’s Guide to Leveraged Finance: Credit Analysis for Bonds and Bank Debt," by Robert Kricheff (who also happens to be one of our guest speakers). This is a practitioner’s book which provides an overview of the type of credit analysis required for the nightly case studies.
REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Finance</td>
<td>1. Opportunity cost of capital</td>
</tr>
<tr>
<td></td>
<td>2. Risk</td>
</tr>
<tr>
<td></td>
<td>3. Firm valuation model</td>
</tr>
<tr>
<td>Global Economic</td>
<td>1. Causes of business cycle</td>
</tr>
<tr>
<td>Environment I</td>
<td>2. Role of financial markets in the economy</td>
</tr>
<tr>
<td>Financial Accounting</td>
<td>1. The accounting model</td>
</tr>
<tr>
<td></td>
<td>2. Revenue and expense recognition</td>
</tr>
<tr>
<td></td>
<td>3. Resources and obligations-measurement and disclosure</td>
</tr>
</tbody>
</table>

Students will be expected to have mastered these concepts and be able to apply them in the course.

COURSE ROADMAP/SCHEDULE

See the final page of the syllabus for a detailed course agenda. Note that this is subject to change based on the schedules/availability of our guest speakers.

<table>
<thead>
<tr>
<th>Session</th>
<th>Topic(s)</th>
<th>Required Pre-Readings</th>
<th>Assignments Due (Type)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Building block lectures: Credit markets, credit analysis, structural issues</td>
<td>CZR case study</td>
<td>Pre-assignments (C: Indiv)</td>
</tr>
<tr>
<td>2</td>
<td>Leveraged finance in the go-go years: Peak cycle LBOs/reach for yield</td>
<td>HCA case study</td>
<td>HCA case assignment (A: Group)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Guest lecture presentations</td>
<td>Review of Day Two lectures, submission of questions (A: Group)</td>
</tr>
<tr>
<td>3</td>
<td>Leveraged finance at the trough of the credit cycle: Distressed exchanges/loan-to-owns/defaults</td>
<td>NXP case study</td>
<td>NXP case assignment (A: Group)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Guest lecture presentations</td>
<td>Review of Day Three lectures, submission of questions (A: Group)</td>
</tr>
<tr>
<td>4</td>
<td>Leveraged finance coming out of the crisis: Trough cycle LBOs/disciplined refi</td>
<td>Tomkins case study</td>
<td>Tomkins case assignment (A: Group)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Guest lecture presentations</td>
<td>Review of Day Four lectures, submission of questions (A: Group)</td>
</tr>
<tr>
<td>5</td>
<td>Leveraged finance today: Next wave LBOs</td>
<td>Refinitiv case study</td>
<td>Refinitiv case assignment (A: Group)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Guest lecture presentations</td>
<td>Review of Day Five lectures, submission of questions (A: Group)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Final exam (C: Indiv)—On Canvas, to be taken any 3 hours between 12:30pm and midnight</td>
</tr>
</tbody>
</table>

Final Project due Friday 2/1/19 (A: Group)
TEAM FORMATION
You will need to form teams of five (minimum four) for the team assignments (four cases and the final project) and register those teams on Canvas by the end of the lunch break on the first day of class. As always, please attempt to form groups that incorporate a range of different backgrounds and skill sets. Please do not ask for exceptions to the four-person minimum rule; if you can’t find enough people for your team, please let the TA know and we will consolidate smaller groups. We have found in the past that teams of three perform less well on the assignments.

METHOD OF EVALUATION

Final grades will be based on the breakdown below.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-class assignments (LBO model completion, CZR/Marks memo analysis)</td>
<td>5%</td>
</tr>
<tr>
<td>Participation</td>
<td>15%</td>
</tr>
<tr>
<td>4 Cases</td>
<td>40%</td>
</tr>
<tr>
<td>Individual Final Exam</td>
<td>20%</td>
</tr>
<tr>
<td>Team Final Project</td>
<td>20%</td>
</tr>
</tbody>
</table>

Grading rubrics for all assignments can be found on Canvas.

ASSIGNMENTS

All of your assignment submissions are subject to the CBS Honor Code. Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assingment description types have been standardized and specified below.

<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Grade</th>
<th>Preparation of submission</th>
<th>Discussion of Submission*</th>
<th>Discussion of Concepts**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Group Work</td>
<td>Same grade for all group members</td>
<td>By the group</td>
<td>Permitted to discuss (within group)</td>
<td>Permitted</td>
</tr>
<tr>
<td>B'</td>
<td>Individual w/ Discussions of Concepts and Submission</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Permitted to discuss; sharing solutions or submission files is not allowed</td>
<td>Permitted</td>
</tr>
<tr>
<td>B'</td>
<td>Individual w/ Discussions of Concepts Only</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Permitted</td>
</tr>
<tr>
<td>C</td>
<td>Individual</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Not permitted***</td>
</tr>
</tbody>
</table>

* The designated group can be either an assigned study group or a self-selected one.

Pre-Assignments (5% of your grade—Type C/Individual)

Please note that you have two pre-class assignments which must be submitted via Canvas by 5pm on Friday, January 11th. There will be no credit given for late pre-assignments. These and all other assignments are detailed on Canvas.
Four Cases (40% of your grade—Type A/Group)
You will complete four case assignments (Monday, Tuesday, Wednesday and Thursday evening homework) in teams. In order to provide you with feedback useful for subsequent assignments, these will be graded the same day you submit them.

Review of next-day presentations (Type A/Group)
In addition to the case homework, please review the guest speaker presentations (posted on Canvas) in your teams for the following day and submit two questions for each presentation via Canvas. This will enhance your class participation grade, and is an integral part of the course learning.

Note that guest lecture presentations may NOT be distributed outside the classroom or to anyone who is not taking this class. Our guest lecturers are generous with their time and knowledge, and in many cases are sensitive to the broad distribution of their work. Any violation of this rule will be considered a CBS Honor Code violation.

Final Exam (20% of your grade—Type C/individual)
A timed, open-book/note final exam will take place immediately following the course (between 12:30pm and midnight on Friday, January 18th). This is an individual assignment. A study guide is provided on Canvas to facilitate your preparation. You will have three hours once you begin the exam to complete it.

Final Project (20% of your grade—Type A/team)
For the final project, you will act as market practitioners and evaluate the securities in the capital structures of the cases discussed in class and used in your nightly homework assignments (CZR, JCP, HCA, NXP, CHK, and Refinitiv) to construct an optimal high yield credit portfolio (Tomkins does not have any public securities outstanding at this time). You are also permitted to include cash and the high yield index as investments in your optimal portfolio. Additional detail can be found on Canvas. This assignment is due Friday, February 1st by 5pm, and is done in teams.

Participation (15% of your grade)
This is a highly interactive class and your participation is critical to your success and the success of the course. You should not take the course unless you recognize the need for participation. There will be cold calling.

To minimize ambiguity and maximize fairness, we utilize several methods of evaluating participation as inputs into your participation grade:

- **Attendance**: There is a daily participation survey to record your attendance in Canvas (“Quizzes“ tab). If you anticipate missing any sessions, please let the TA know well in advance, and we will give you a brief reading and writing assignment related to the missed lecture to make up for your absence.

- **Quality of your class participation**: When you take the participation survey, you will be asked to list any contribution to class discussion or insightful questions. To count towards your participation grade, an in-class comment should demonstrate familiarity with the subject matter or provide a different perspective on the issue being discussed. A question should reflect pre-reading of the presentation and seek deeper insight.

- **Recognition of “over-participation”**: Please be mindful of the quantity of your comments in class. Allowing ample opportunity for 50+ students to participate in five days is a difficult balancing act.
• **Submissions to Discussions tab on Canvas**: Because there are varying levels of comfort with speaking up in class, contributions to the Discussions tab will also count towards your participation grade. To count as participation, a submission needs to be relevant to the high yield market and/or one of the cases we’re working on during the class, and you need to provide a concise summary of the pertinent points of the article along with your personal view of the points (agree? Disagree? Want to find out more?) We have included some recent articles on the high yield market as a starting point.

**ATTENDANCE POLICY**

Students are required to attend each class. Students should reach out to the Office of Student Affairs (OSA) by using Core Absence Form on this course’s Canvas page regarding excused absences (for religious observances; personal, medical, and family emergencies; military service; court appearances such as jury duty). Unexcused absences will affect your course grade. **Any absence must be communicated in advance to the TA.**

Since this is a block week course, students who miss an entire day will receive a failing grade. **Please do not sign up for this class if you anticipate having to miss a day.** If you miss a lecture, you will have the opportunity to make up for your absence by summarizing the presentation from the session missed. Please contact me if you would like to do this.

There is a three-hour final exam that must be taken within a specific time window (Friday, January 18th between 12:30pm and midnight). **If you anticipate any issues taking the exam during those hours, please contact me immediately.**

**INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS**

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University’s Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University’s Office of Disability Services online at [www.health.columbia.edu/docs/services/ods/index.html](http://www.health.columbia.edu/docs/services/ods/index.html) or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see [http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students](http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students).
CLASSROOM NORMS AND EXPECTATIONS

- Be on time for every session.
- Expect attendance and participation to be tracked.
- Fill out the class participation survey each day.
- Submit assignments on time, and expect cold calling of assigned questions.
- Prepare for lectures by reviewing lecture slides and submitting questions for each guest lecture.
- Bring nameplate every day and sit in same seat every day.
- Do not use electronic devices unless explicitly called for by professor (no cell phones or laptops).
- Bring your laptops for use during in-class casework and case debriefs (several teams will be selected each day to present during the debriefs).
- Use scheduled breaks to leave the classroom – unscheduled breaks disturb your fellow classmates. There are regular and frequent scheduled breaks so that disruption is minimized.
- Treat guest speakers as your guests - they are taking time out of their schedules and in some cases coming far distances to be with us.
- Do not distribute guest lecture material outside the classroom. Any distribution of guest lecture material will be treated as a violation of the CBS Honor Code.