The Business of Music and Film
B40.3343.10 Fall 2002
Wednesdays 6:00 – 8:50
Tisch UC65

Daniel Bigel, Adjunct Associate Professor of Finance, Chairman & CEO, Bigel/Mailer Films,
dbigel@bigelmailer.com

David Ellner, Adjunct Associate Professor of Finance, SVP Operations/CFO, Universal Records,
david.ellner@umusic.com

Jarl Kallberg, Associate Professor of Finance, 9-96 MEC, 212-998-0339,
jkallber@stern.nyu.edu

Course Overview
The focus of this course is on the business side of the music and film industries. We emphasize the characteristics of deals, cash flows and valuation within this highly dynamic and uncertain environment. While the core of the material is corporate finance, the issues encompass accounting, marketing, economics and strategy.

The course has three major components:
- David Ellner will offer his insider’s view into the music industry.
- Danny Bigel will give his insights into the business of independent film financing.
- Jarl Kallberg will analyze aspects of corporate finance (raising capital and firm valuation) and how they are applied in these industries.

A series of cases and the final project will apply the course components. The prerequisites are the MBA core courses in accounting, finance and microeconomics. Corporate finance is a useful, but not required, prerequisite.

Course Requirements
Final grades will be based on four aspects of student participation:
- **Class Participation**: Since we would like to make the class as interactive as possible, a high level of class participation will be expected. By the second class date, each student is required to submit a sheet (attached) describing his or her work experience and specific interests relevant to this course. In addition, a small photo must be attached so that we can match names to faces as soon as possible. Finally, students are expected to bring their name plates (or reasonable facsimile) to each class meeting.

- **Cases and Assignment**: In lieu of class on September 11, and in order to ensure that students have exposure to the central topics of the course, an assignment based on the readings from the Vogel text is due on September 18, the second class date. There will also be three cases analyzed. Students are allowed to work in groups of up to three members for the cases and project. The first case involves an analysis of the current competitive forces in the music industry and requires the reading of two of the cases in the case packet: *RCA Records the Digital Revolution* and *Napster*.
The second case, *ALWAYSi*, deals with independent filmmaking and Internet distribution. The final case (distributed later in the course) deals with the valuation of media firms.

- **Project:** A large portion of the course grade will be allocated to the two segments of the project. Based on real data, each group will determine a strategy for negotiating a record deal. The project is due on the last class date: Dec. 11.

- **Examination:** On October 30, there will be a closed book midterm examination for the second half of the class. On December 18, there will be a closed book final examination.

The final grade will be allocated according to the following formula:

- Class participation  15%
- Cases & assignment  20%
- Midterm  20%
- Final exam  25%
- Project  20%

The expected grade distribution will correspond with finance department guidelines for advanced electives, viz.:

- As  10 - 25%
- Bs  35 - 60%
- Cs (or worse)  5 - 25%

**Course Materials**

# Course Outline

The following table gives the class schedule. Please note that all due dates are nonnegotiable. Some minor changes are possible due to scheduling of guest speakers.

<table>
<thead>
<tr>
<th>Session</th>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1. Sept. 3 | Introduction and overview | Course structure and requirements  
Overview of the entertainment industry  
Student Information Sheet Due |
| Sept. 11 | No class | Assigned readings from Chapters 2, 3 and 5 from the Vogel text |
| 2. Sept. 18 | Economics of the music and film industry | Sources of profitability  
Per unit and aggregate P&L  
Assignment due |
| 3. Sept. 25 | Firm valuation | Valuation techniques  
Examples of valuation of entertainment firms |
| 4. Oct. 2 | Structure of the film industry | Macroeconomic trends in motion picture industry  
Independent producer versus the studio system  
Accounting procedures  
Risk analysis  
Review Chapter 2 of Vogel |
| 5. Oct. 9 | Economics of contracting and deal structure | Royalty deals, profit participation and joint ventures  
Introduction to class project  
Valuation case due |
| 6. Oct. 16 | Financing and risk management in the film industry | Raising capital through equity and debt  
The art and business of low-budget films  
Film budgeting and risk evaluation  
Selling a feature film  
Review Chapter 3 of Vogel |
| 7. Oct. 23 | Piracy and the digital future | Impact of technology (MP3, Napster) in the music industry and in the movie industry (Internet distribution and other delivery vehicles)  
Review Chapter 5 of Vogel  
Technology case due |
| 8. Oct. 30 | Midterm exam | |
| 9. Nov. 6 | Sources of capital | Specialized financing tools for entertainment firms |
| 10. Nov. 13 | Growth and integration | Configuration shifts  
Loss of distribution stronghold |
| 11. Nov. 20 | Renegotiation and buyout | Review of a royalty deal  
Acquisition of a film or record catalog  
ALWAYSi case due |
| 12. Dec. 4 | Film Finance | Comparative analysis of indie vs. studio financing  
Methods of financing and financing vehicles  
Audit and balance sheet analysis  
Asset Valuation |
| 13. Dec. 11 | CFOs and corporate organization | Role of the corporate and divisional CFO  
Project due and discussed |
| Dec. 18 | Final examination | |
Student Information Sheet

Please return this sheet after the break

Name _____________________________________________

Email address _______________________________________

Current job description _____________________________________________

________________________________________________________________

Relevant work experience _____________________________________________

________________________________________________________________

Reasons for taking this course ________________________________________

_________________________________________________________________

__________________________________________________________________

Please insert below a copy of your likeness (or police sketch artist’s rendering). If it is convenient, make a copy of your photo.

Please insert below a copy of your likeness (or police sketch artist’s rendering). If it is convenient, make a copy of your driver’s license or NYU ID photo.