

## Preliminary

### UNIVERSITY OF PENNSYLVANIA The Wharton School

#### The Finance of Buyouts and Acquisitions: FNCE 251/751 B. YILMAZ Fall 2010

#### Course Objective:

The aim of the course is to provide an understanding of key concepts and institutions involved in corporate buyouts and mergers and acquisitions. This course is most suitable for finance majors who are considering careers in corporate finance, investment banking and private equity funds.

#### Reading Materials:

- Course Reader (cases and articles).
- Further materials and lecture notes on course webpage:  
<https://webcafe.wharton.upenn.edu/eRoom/fnce/251-fa10-1>
- Recommended (but not required) for background reading:
  - i. Berk and DeMarzo, *Corporate Finance*, Addison Wesley, 2007 (**or any other substitute**).
  - ii. Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004
  - iii. Thomas Meyer and Pierre-Yves Mathonet, *Beyond the J Curve: Managing a Portfolio of Venture Capital and Private Equity Funds*, the Wiley Finance Series, 2009.

#### Format:

The structure of the course includes lectures, case discussions, and guest speakers. The lectures provide the relevant institutional facts, empirical evidence and analytical methods that will be needed for case discussions.

The major objective of the case method in finance is to **use the logic of financial theory to arrive at sensible conclusions** when faced with real world problems. However, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions**. While there are no “right” answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and senseless arguments. Considering my analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that in the “real world” there is a single correct recipe to be followed.

### **Student Responsibilities and Assessment:**

- Case Study Assignments: (Approximately 35% of the course grade)
  - (i) Students will organize themselves into groups to work on case assignments. Groups must be fixed throughout the semester and have at most five members. Diverse background within the group is beneficial. Since group work is a cooperative undertaking, students are urged to ensure that they form groups that are able to work effectively as a group. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous years or similar courses elsewhere for your written reports and class discussions. The cases that require write-ups appear in **bold** (see the tentative course outline below). Each group is expected to **hand in** a hard-copy of their conclusions in a one or two page executive summary **prior to any class discussion**. Supporting computations and tables can be included in an appendix. All of the assumptions and formulas used should be provided (preferably as a footnote). The questions that need to be addressed will be posted at the course webpage. The raw data for cases is also available at the course webpage in .xls format.
  - (ii) One of the required case write-ups will be done individually. For this case only, no discussions among students are allowed. The soft copy including the excel spread sheet must be loaded at the course website by noon of due date. Hard copies for individual write-ups are not necessary.
- Class Participation and Attendance: (Approximately 25% of the course grade)

A goal of this course is to provide students with the opportunity to learn how to best contribute to discussions about complex financial issues. Therefore, this class depends and thrives on class participation. It is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. **Voluntary class participation is encouraged. “Cold calls” will be made as to ensure that the class enjoys the benefit of every student’s contribution.** Inadequate class participation combined with several absences can lead to a failing grade. I will judge performance based on the quality of comments/answers. **Students are expected to prepare for each case and participate actively in class.** If you must attend another section, you may do so with my permission. I’d appreciate it if students keep the same sitting arrangement throughout the semester.

- **Examination:** (Approximately 20% of the course grade)  
You will be tested on both the concepts and the methods studied in this course. You will have access to a calculator and limited amount of information.
- **Deal Proposal:** (Approximately 20% of the course grade)  
Each group is asked to prepare a deal proposal for a real firm either as a financial or a strategic buyer. You can pick an existing deal that has already been completed/initiated or a potential deal that you have identified. The deal proposal is an active learning tool and allows you to apply many concepts that you have learned at the Wharton School. You may use firm specific or market data that are publicly available for your analysis. However, you cannot use materials prepared by professionals for a deal. Furthermore, any existing deal that is used in a teaching material, e.g., a case study, cannot be chosen as the topic of your proposal. **Each group must identify a deal by October 20, 2010. The final version is due on November 29, 2010.** The detailed information about this requirement will be provided at the course webpage.

**Code of Ethics:**

Submitted assignments for grading should be your own or your team's own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Failure to observe this rule may result in an automatic failing grade for the course.

**Office Hours:**

Tuesday 10:00am-noon.

**Contact Information:**

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**Teaching Assistants:**

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## **TENTATIVE COURSE OUTLINE**

This outline is a rough guide as to when material will be covered. It is highly likely to have a number of changes with advance notice given in class. Furthermore, **the guest lectures will be between 4.30pm and 6pm**; and will substitute for class on that day.

### **Session 1: September 8**

Introduction and Organization

### **Session 2: September 13**

Basic Valuation Concepts

Reading:

- “Chapter 2: Using Financial Reporting Information” by Simon Beninga and Oded Sarig
- Berk and DeMarzo: Chapter 18.2 and 18.4

### **Session 3: September 15**

LBO Valuation and Adjusted Present Value

Reading: Berk and DeMarzo: Chapters 15 and 18

### **Session 4: September 20**

Reduced-Form Valuation Methods

Reading: “Chapter 10: Valuation by Multiples” by Simon Beninga and Oded Sarig

### **Session 5: September 22**

Basic LBO Framework

#### **Case 1: Paradyne**

### **Session 6: September 27**

Synergy Valuation and Introduction to Legal Framework

CASE 2: The Acquisition of Consolidated Rail Corp. (A)

### **Session 7: September 29**

Legal Framework: Guest Speaker

**Session 8: October 4**

CASE 3: Vodafone

**Session 9: October 5, 6:00-7:30pm, location TBA**

Optional Review Session

**Session 10: October 6, 6:00-7:30pm, location TBA**

**EXAM I**

**October 13: NO CLASS**

**Session 11: October 18**

Incentives and Private Equity Fund Structure

Reading:

- “Note on Private Equity Partnership Agreements” by Josh Lerner
- Meyer and Mathonet: Chapters 2 and 3

**Session 12: October 20**

Overview of the PE Industry: Guest Speaker

**Session 13: October 25**

Case 4: Sungard

**Session 14: October 27**

Guest Speaker

**Session 15: November 1**

**Auction Environment: CASE 5: Hertz Corporation (A)**

**Session 16: November 3**

Guest Speaker

**Session 17: November 8**

**Management Buyout: Case 6: Kinder Morgan, Inc.**

**Sessions 18: November 10**

Guest Speaker: Private Equity in India

**Session 19: November 15**

Deal Structure under Adverse Selection and Moral Hazard:

CASE 7: Goktas

**Session 20: November 17**

Guest Speaker

**Session 21: November 22**

**CASE 8: Individual Case Write-up.**

**The case will be identified on November 15, 2010.**

**Session 22: November 24**

TBA

**Session 23: November 29**

Deal Proposal Presentation

**Session 24: December 1**

Deal Proposal Presentation

**Session 25: December 6**

TBA

**Session 26: December 8**

TBA