

Syllabus - The Finance of Buyouts and Acquisitions

Prof. Doron Levit

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.

Contact Information:

Doron Levit

Office: SHDH 2433

Email: dlevit@wharton.upenn.edu

Office Hours:

Thursday 1:00-3:00pm

Teaching Assistants:

- Javier Paz Valbuena - javip@wharton.upenn.edu

- James Loveday Iaghi - jloved@wharton.upenn.edu

- TBA

* TAs will hold office hours, time and location TBA

Location and Time

251 - Monday, Wednesday, 1:30-3:00 - SHDH 215

751 - Monday, Wednesday, 4:30-6:00 - JMHH 245

Reading Materials:

- Course Reader (cases and articles).
 - Chapters 2,10, Simon Benington and Oded Sarig, *Corporate Finance: A Valuation Approach* McGraw-Hill/Irwin; 1 edition (August 1, 1996) **(B&S)**
- Further materials and lecture notes on course webpage:
<https://webcafe.wharton.upenn.edu/eRoom/fnce/751-sp11-1>
- Recommended (but not required) for background reading:
 - i. Berk and DeMarzo, *Corporate Finance*, Addison Wesley, 2007 **(B&D)**
 - ii. Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004 **(B)**
 - 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. **(M&M)**

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 somewhat silly notion that in the “real world” there is a single correct recipe to be followed.

Student Responsibilities and Assessment:

- Case Study Assignments:

1. Group assignments (approximately 20% of the course grade): Students will organize themselves into groups to work on case assignments. Groups must be fixed throughout the semester and have either four or five members. Diverse background within the group is beneficial. All group members must be in the same section. 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 with asterisk * (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.
2. Individual assignment (approximately 15% of the course grade): 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. The case will be identified on **March 15, 2011**.

- 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.** Students are asked to display a name card and remain in the same seat and section for the entire semester. If you must attend another section, you may do so with my permission.
- 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 March 14, 2011. The final version is due on April 13, 2011.** The detailed information about this requirement will be provided at the course webpage.
- General guidelines:
 - Style counts. Keep your write-ups organized and concise.
 - Typed. We will not accept hand-written assignments.
 - Show your work. It will help me understand what you did and give you credit accordingly.

Re-grade Policy:

You have one week from the date on which the assignment or exam is handed back to submit a written appeal. The appeal must be handed to the receptionist in the finance department on the second floor of SHDH. Please ask them to leave it in my mailbox. The TAs or I will regrade your entire assignment/exam to remedy the specific error that you have detected, as well as any other grading

errors that may have been made. As a result, the regarded score may increase, remain the same, or decrease. There are no subsequent appeals of the grading.

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.

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: January 12 (W)

Introduction and Organization

No Class: January 17 (MLK)

Session 2: January 19 (W)

LBO Model - Estimating the free cash flows

Reading: (B&S) Chapter 2, (B&D) Chapter 2, 7.1, 7.2

Session 3: January 24 (M)

Basic Valuation Concepts

Reading: (B) Chapter 9, (B&D) Chapters 4, 12

Session 4: January 26 (W)

Basic Valuation Concepts

Reading: (B) Chapter 13, (B&D) Chapters 15.2, 15.3, 18.2, 18.3

Session 5: January 31 (M)

Basic Valuation Concepts

Global.com

Session 6: February 2 (W)

Valuation by Multiples

Reading: (B&S) Chapter 10

Session 7: February 7 (M)

Basic LBO Framework

*CASE 1: Paradyne

Session 8: February 9 (W)

Synergy Valuation and Introduction to Legal Framework

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

Reading: (B): Chapters 11, 32 and 33

Session 9: February 14 (M)

Legal Framework

Guest Speaker TBD, 4:30-5:50 pm, Location TBD

Session 10: February 16 (W)

CASE 3: Vodafone

Reading: (B) Chapters 12 and 33

Session 11: February 21 (M)

Incentives and Private Equity Fund Structure

Reading: "Note on Private Equity Partnership Agreements" by Josh Lerner,
(M&M) Chapters 2 and 3

Session 12: February 22 (Tue)

Optional Review Session (6:00-7:30pm, JMHH G60)

Session 13: February 23 (W)

Midterm I (6:00-8:00pm, JMHH F95/F85)

Session 14: February 28 (M)

Overview of the PE Industry

Guest Speaker TBD, 4:30-5:50 pm, Location TBD

No Class: March 2

No Class: Spring Break

Session 15: March 14 (M)

CASE 4: Sungard

Session 16: March 16 (W)

Private Equity in emerging markets

Guest Speaker TBD, 4:30-5:50 pm, Location TBD

Session 17: March 21 (M)

*CASE 5: HCA (2006)

Session 18: March 23 (W)

Guest Speaker TBD, 4:30-5:50 pm, Location TBD

Session 19: March 28 (M)

Financial Distress and debt overhang
CASE 6: SkyMetal

Session 20: March 30 (W)

PE Contracts
Guest Speaker TBD, 4:30-5:50 pm, Location TBD

Session 21: April 4 (M)

Deal Structure under Adverse Selection and Agency
CASE 7: Coffee World
Reading: (B) Chapters 8, 18 and 22

Session 22: April 6 (W)

*CASE 8: Individual Case Write-up. The case will be identified on March 15, 2011.

Session 23: April 11 (M)

Guest Speaker TBD, 4:30-5:50 pm, Location TBD

Session 24: April 13 (W)

Deal Proposal Presentation A

No Class - April 18 (Passover)

Session 26: April 20 (W)

Deal Proposal Presentation B

Session 27: April 25 (M)

Wrap-up