

The Finance of Buyouts and Acquisitions - Syllabus

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.

Co-requisite:

Advanced Corporate Finance FNCE 203/726 or Corporate Valuations FNCE 207/728

Format:

The structure of the course includes lectures, case discussions, and guest speakers.

Contact Information:

Instructor: Doron Levit

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Office Hours: Tuesday 9:00am-10:30am

Teaching Assistants:

- TBA
- TBA
- TBA

Location and Time:

251 001 - Monday, Wednesday, 1:30-2:50, TBA

251 002 - Monday, Wednesday, 3:00-4:20, TBA

751 001 - Monday, Wednesday, 4:30-6:00, TBA

Reading Materials:

- Main text book (required reading): Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004 **(B)**
- Course Reader - cases and articles (required reading).
 - Chapters 2,10, Simon Beninga 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 (Canvas)
- Recommended (but not required) for background reading:
 - i. Berk and DeMarzo, *Corporate Finance*, Addison Wesley, 2007 **(B&D)**
 - ii. 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)**

Student Responsibilities and Assessment:

1. Group Assignments: (approximately **20%** of the course grade)
Students will organize themselves into groups to work on two 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 team. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not. The cases that require write-ups appear with asterisk * (see the tentative course outline below).
2. Deal Proposal: (Approximately **15%** of the course grade)
Each group is asked to come up with a real target firm and prepare a deal proposal for the firm as a financial buyer (LBO). You may use firm specific or market data that are publicly available for your analysis. However, you cannot use materials prepared by professionals for the potential deal, if these materials exist. Each group must identify a deal by **March 18th**. The final version is due on **April 15th**. Each group is required to give 10-15 minutes presentation in front of the class. Presentations will take place on **April 15th** and **April 17th**. The detailed information about this requirement will be provided at the course webpage during the semester.
3. Exam: (approximately **30%** 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. The midterm is scheduled on **February 27th** and it will take place in class. There is no final exam.
4. Individual Assignment: (approximately **20%** 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 case will be identified on March 27th and is **due on April 3rd**.
5. Class Participation and Attendance: (Approximately **15%** of the course grade)
Participation 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. 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.

General Guidelines for Assignments:

- Assignments and date will be posted at the course webpage.
- All assignments should be submitted online by noon of the due date. In addition, hard copies should be submitted in class.
- Solutions should include 1-2 pages of an executive summary. Supporting computations and tables can be included in an appendix. All of the assumptions and formulas used should be provided (preferably as a footnote).
- Keep your write-ups organized and concise, all assignments must be typed.
- 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 refer to the specific error that you have detected. However, I will keep the option to regrade the entire assignment/exam. As a result, the regarded score may increase, remain the same, or decrease. There are no subsequent appeals of the grading. Please hand the written appeal to the receptionist in the finance department on the second floor of SHDH, and ask them to leave it in my mailbox.

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.

Important Dates:

- January 23 - Group formation deadline
- January 30 - Submit group assignment #1: Paradyne
- February 27 - Midterm
- March 18 - Deal proposal identification deadline
- March 25 - Submit group assignment #2: HCA
- April 3 - Submit individual case write-up
- April 15,17 - Students presentations

Tentative Course Outline

1. 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 and/or Canvas.
2. Guest lectures will substitute for class on that day. They will take place either between 4:30pm and 6pm or 6pm and 7:30pm.

Session 1: January 9 (Wed)

Introduction and organization

Session 2: January 16 (Wed)

Basic valuation concepts #1

Reading: (B&D) Chapters 4, 12, 15, 18; (B&S) Chapter 2

Session 3: January 21 (Mon)

Basic valuation concepts #2

Reading: (B&D) Chapters 19; (B&S) Chapter 10

Session 4: January 21 (Mon)

Optional session on Valuations (6:00-7:20pm, location TBA)

Session 5: January 23 (Wed)

Overview of Mergers and Acquisitions

Reading: (B) Chapters 3, 4, 6

Session 6: January 28 (Mon)

Transaction design and Tax issues

Reading: (B) Chapters 11, 19

Session 7: January 30 (Wed)

*CASE 1: Paradyne

Corporate governance and M&A

Reading: (B) Chapter 26

Session 8: February 4 (Mon)

The market for corporate control and the legal framework of M&A #1

Reading: (B) Chapters 32, 33

Session 9: February 6 (Wed)

The market for corporate control and the legal framework of M&A#2

Reading: (B) Chapter 27

Session 10: February 10 (Mon)

CASE 2: Dow-Rohm

Session 11: February 13 (Wed)

Forms of Payments

Reading: (B) Chapters 20, 23

Session 12: February 18 (Mon)

CASE 3: Vodafone

Session 13: February 20 (Wed)

Overview of private equity and recent evidence on LBOs

LBO model

Reading: (B) Chapter 13

Session 14: February 25 (Mon)

Guest Speaker #1 (Introduction to PE)

Session 15: February 26 (Tue)

Optional review session (6:00-7:20pm, location TBA)

Session 16: February 27 (Wed)

Midterm (in class)

Session 17: March 11 (Mon)

Private equity fund structure

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

Session 18: March 13 (Wed)

CASE 4: Sungard

Session 19: March 18 (Mon)

Guest Speaker #2 (Value Creation)

Session 20: March 20 (Wed)

Guest Speaker #3

Session 21: March 25 (Mon)

*CASE 6: HCA

Session 22: March 27 (Wed)

Deal structure under adverse selection; Case 5: Coffee World

Reading: (B) Chapter 22

Session 23: April 1 (Mon)

Distress Investment

Session 24: April 3 (Wed)

*Case 6: Individual case write-up

Session 25: April 8 (Mon)

Guest Speaker #4

Session 26: April 10 (Wed)

TBA

Session 27: April 15 (Mon)

Students Presentations #1

Session 28: April 17 (Wed)

Students Presentations #2

Session 29: April 22 (Mon)

Wrap-up