

UNIVERSITY OF PENNSYLVANIA
The Wharton School

The Finance of Buyouts and Acquisitions: FNCE 251/751
Professor Doron Levit
Spring 2014

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 buyout 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

Office: SHDH 2457

Email: dlevit@wharton.upenn.edu

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

Teaching Assistants:

- TBA
- TBA
- TBA

Location and Time:

251 001 - Monday, Wednesday, 1:30-3:00, SHDH 211

751 001 - Monday, Wednesday, 3:00-4:30, SHDH 211

251 002 - Monday, Wednesday, 4:30-6:00, SHDH 211

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 **15%** of the course grade)
Students will organize themselves into groups of five members 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 team. 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 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. Deal Proposal: (Approximately **20%** 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 24. The final version is due on April 23. Each group is required to give 10-15 minutes presentation in front of the class. Presentations will take place on April 23 and April 28. The detailed information about this requirement will be provided at the course webpage during the semester.
3. Exams: (approximately **50%** 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. There are two exams during the semester. The exams are equal weighted. There is no final exam.
4. 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 dates will be posted at the course webpage.
- All assignments should be submitted online by noon of the due date.
- 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.

Regrade 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 24 – DROP deadline for undergraduate students
- February 10 - Group formation deadline
- February 19 - Submit group assignment #1: Dow
- March 3 – Exam I
- March 24 - Deal proposal identification deadline
- April 2 - Submit group assignment #2: HCA
- April 9 – Exam II
- April 23,28 - Students presentations

The Finance Waitlist for undergraduate students will be open from January 10th through January 22nd, 2014 at 5:00 PM.

The Finance Department's Drop Deadlines are different than the University's

Finance [DROP Deadline is Friday, January 24th, 2014](#)

*Should you decide to drop a Finance course, you must do so through Penn In Touch prior to the Finance Department's drop deadline. **If you drop a Finance course that is full after the department deadline you will receive a "W" on your transcript.***

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.

Session 1: January 15 (Wed)

Introduction and organization

Session 2: January 22 (Wed)

Basic valuation concepts #1

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

Session 3: January 27 (Mon)

Basic valuation concepts #2

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

Session 4: January 28 (Tue)

Optional session on valuations concepts (6:00-7:20pm, Location TBA)

Session 5: January 29 (Wed)

CASE 1: Paradyne

Session 6: February 3 (Mon)

Overview of Mergers and Acquisitions

Reading: (B) Chapters 3, 4

Session 7: February 5 (Wed)

Transaction Design and Tax issues

Reading: (B) Chapter 19

Session 8: February 10 (Mon)

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

Reading: (B) Chapters 26, 32, 33

Session 9: February 12 (Wed)

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

Reading: (B) Chapter 27

Session 10: February 17 (Mon)

Valuation of Synergies

Reading: (B) Chapters 11,15

Session 11: February 19 (Wed)

CASE 2: Dow's Bid for Rohm and Haas

Session 12: February 24 (Mon)

Forms of Payments

Reading: (B) Chapters 20, 23

Session 13: February 26 (Wed)

CASE 3: Vodafone

Session 14: March 2 (Sun)

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

Session 15: March 3 (Mon)

Exam I (6:00-8:00, location TBA)

Session 16: March 5 (Wed)

PE Overview and the LBO model

SPRING BREAK: March 10,12

Session 17: March 17 (Mon)

Guest Speaker - Intro to PE

Session 18: March 19 (Wed)

CASE 4: Sungard

Session 19: March 24 (Mon)

Private Equity Fund Structure

Reading: (M&M): Chapters 2 and 3

Reading: "Note on Private Equity Partnership Agreements" by Josh Lerner;

Session 20: March 26 (Wed)

Debt Financing for Private Equity Transactions

Session 21: March 31 (Mon)

CASE 5: Green Food

Session 22: April 2 (Wed)

CASE 6: HCA

Session 23: April 7 (Mon)

Deal structure under adverse selection

Reading: (B) Chapter 22

Session 24: April 8 (Tue)

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

Session 25: April 9 (Wed)

Exam II

Session 26: April 14 (Mon)

Passover – No class

Session 27: April 16 (Wed)

Guest Speaker - Value Creation

Session 28: April 21 (Mon)

TBA

Session 29: April 23 (Wed)

Students Presentations #1

Session 30: April 28 (Mon)

Students Presentations #2

Session 31: April 30 (Wed)

Wrap-up