

**UNIVERSITY OF PENNSYLVANIA**  
**The Wharton School**

**The Finance of Buyouts and Acquisitions: FNCE 751**  
**Professor Bilge Yilmaz and Professor Vinay Nair**  
**Spring 2016**

**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.

**Reading Materials:**

- Course Reader (cases and articles).
- Further materials and lecture notes on course webpage (Canvas):  
<https://canvas.upenn.edu/courses/1313006>
- 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:**

1. Case Study Assignments: (Approximately 10% 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. 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.

2. Class Participation and Attendance: (Approximately 30% 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.** I would appreciate it if students keep the same sitting arrangement throughout the semester.
3. Examination: (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.
4. Deal Proposal: (Approximately 30% of the course grade)  
Each group will have a chance to identify a target firm either as a financial or a strategic buyer and prepare a deal proposal. 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. **The final version is due at 5pm on Monday, April 11, 2016.** Each group is required to give 15 minutes presentation in front of a panel.

The deal proposal has two components, a presentation and a written report. Presentation will be 15 minutes (maximum) and you should focus on the deal rationale; why do you want to own the business, what is the investment thesis? You should not get into the details of valuation models during the presentation. There will be additional instructions for the written report.

**If you complete all four tasks above, your maximum course grade would be A+. If you satisfy only tasks 1, 2 and 3, your maximum course grade would be B+. Those who take the course for P/F need to complete tasks 1, 2 and 3 for a passing grade; you are, however, more than welcome to submit a Deal Proposal.**

**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 and Contact Information:**

Bilge Yilmaz:

Office Hours: Tue 9:00-10:00am, SHDH 2333

Email: [yilmaz@wharton.upenn.edu](mailto:yilmaz@wharton.upenn.edu)

If you have questions about the material, the best place is the Canvas discussion board. We will try to answer all questions. However, considering the size of the classes we teach, we may not be able to do so especially the night before an exam.

**Lead Teaching Assistant:**

Adrian Aycan Corum: [corum@wharton.upenn.edu](mailto:corum@wharton.upenn.edu)

## **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 and/or Canvas. Some of the **guest lectures will be held outside regular class location and time**. Furthermore, **the last two weeks of classes may be rescheduled due to our guests' busy schedule**.

### **Session 1: January 14**

Introduction and Organization

### **Session 2: January 19**

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
- Bruner: Chapter 9

### **Session 3: January 21**

Adjusted Present Value, Costs and Benefits of Debt Financing

#### Reading:

- Berk and DeMarzo: Chapters 15, 18 and 19
- Bruner: Chapter 13

### **Session 4: January 26**

Reduced-Form Valuation Methods

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

### **Session 5: January 28**

Case 1: Paradyne

[This case is posted on Canvas.]

**NO CLASS on February 2<sup>nd</sup> and 4<sup>th</sup>.**

### **Session 6: February 7, 1:00-2:20pm (optional)**

Overview of Mergers & Acquisitions

Reading: Bruner: Chapters 4, 6, 11 and 15

### **Session 7: February 9**

Transaction Design and Tax Issues

Reading: Bruner: Chapters 18, 19, 20 and 26

**Session 8: February 11**

Form of Acquisition and Law and Economics of Market for Corporate Control

Reading: Bruner: Chapters 32 and 33

**Session 9: February 16**

Form of Payment

**Session 10: February 18**

**CASE 2: Dow's Bid for Rohm and Haas**

**Session 11: February 23**

**CASE 2: Dow's Bid for Rohm and Haas (2)**

**Session 12 February 24, 6:00-7:20pm, location TBA**

Optional Review Session

**Session 13: February 25, 6:00-7:30pm, location TBA**

**EXAM**

**Session 14: March 1**

CASE 3: Vodafone

Reading: Bruner: Chapters 5 and 12

**Session 15: March 3**

Overview of the PE Industry

**Session 16: March 15**

Private Equity - A Framework

**Session 17: March 17**

**CASE 4: Fojtasek**

**Session 18: March 22, location and time TBD**

Guest Speaker: Value Creation

**Session 19: March 24**

**CASE 5: Sungard – I**

**Session 20: March 29**

**CASE 5: Sungard – II & LBO Method**

**Session 21: March 31**

Incentives and Private Equity Fund Structure

Reading:

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

**Session 22: April 5**

Case 6: HCA

[This case is posted on Canvas.]

**Session 23: April 7**

Case 6: HCA (2)

**Session 24: April 12**

Guest Speaker

**Session 25: April 14**

CASE 7: Domino's

[This case is posted on Canvas.]

**Session 26-28: April 19, 21 & 26**

Presentation