

UNIVERSITY OF PENNSYLVANIA
The Wharton School

**FNCE 884 Advanced Topics in
Private Equity Course Syllabus
Spring 2016 (Quarter 3)**

Professor Bilge Yilmaz (yilmaz@wharton.upenn.edu)
Fellow David J. Bard (TBD)

COURSE DESCRIPTION

This course will address a variety of applied topics in private equity (PE), with a focus on growth and later-stage buyout transactions (venture capital is not explicitly addressed in this course), and a primarily U.S.-centric view that should be largely applicable in other markets. In addition, the course will focus on the transaction stage of PE investing – i.e., the art of the deal – and mostly leave aside deal sourcing, portfolio management and investor relations. The goal of this course is to educate students about the substance, process and mechanics of PE investing, through the lens of the investment professionals, counterparties and advisors that drive transactions to completion. Course topics will address the entirety of the deal process, and will include the following:

- Commercial Diligence (incl. financial modeling)
- Debt Financing
- Accounting Diligence
- Sale & Purchase Agreements
- Comps Analysis
- Other Advisory Work

Throughout the course, students will learn about each element of the deal process through in-class lectures, while concurrently apply those learnings to a ‘real-time’ mock deal, preparing deal materials that mirror a real private equity transaction. The in-class lectures will cover both conceptual frameworks and real-world examples, while the deal simulation will expose students to both the mechanics and art of the deal through a real world lens.

Students will be expected to actively engage in classroom discussions, challenging one another and the lecturers about how to think through these issues in an ever-evolving investment world. In addition, throughout the seven weeks of the course, students will participate in the above mentioned mock deal in which they are part of a deal team looking to acquire “TargetCo”. Students will work through the deal process as if it were the year in which TargetCo was being evaluated, from signing the non-disclosure agreement through drafting the final Sales & Purchase Agreement.

PREREQUISITES

Successful completion of core finance requirements, FNCE 601 and FNCE 602, as well as at least one of FNCE 726 or FNCE 751; special permission can also be requested based on relevant professional experience.

COURSE GRADING

Course performance will be evaluated based on four elements:

- Bid Letter & Investment Committee Deck (35%): Evaluation will be based on the soundness of the investment judgment shown, including identification of appropriate theses and risks, supporting evidence for conclusions drawn with respect to them, and the reasonableness of the final purchase price proposed.
- Debt Negotiation & Write-up (20%): Evaluation will be based on the quality and professionalism of terms achieved (relative to typical market), and the soundness of the negotiating objectives and strategy described by the team in the write-up.
- SPA Negotiation & Write-up (20%): Evaluation will be based on the quality of terms achieved, professionalism of the final SPA product, and the soundness of negotiating objectives and strategy described by the team in the write-up.
- Class Participation (25%) Evaluation will be based on both the substance and frequency of student's individual in-classroom engagement

Please see 'Course Outline' for relevant due dates and 'Deliverables' for descriptions.

COURSE MATERIALS

There will be a variety of non-textbook reading materials throughout the course which will be available in a bulkpack. In addition, mock deal materials will be available in an online, dataroom-like environment which students will log into in order to download relevant TargetCo deal files.

In addition to the above materials, students who seek to engage in the private equity community, will also stay current with a variety of others sources, including:

- PEHub (www.pehub.com)
- New York Times Dealbook (<http://www.nytimes.com/pages/business/dealbook/>)
- Wall Street Journal (www.wsj.com)
- [additional sources TBC]

GROUPS

Each member of the course will need to join a group of four students which will work together on the mock deal throughout the duration of the course. While you can choose your team, we would recommend a variety of backgrounds and skills. Once a group is formed, please register your team on the Canvas site.

COURSE OUTLINE

| Date | Part | Course Title | Description | Deliverable |
|---------|------|--|--|--------------------------------|
| 3/14/16 | A | Course Intro & Deal Process Overview | Discuss course content and composition; walk through typical deal process, mapping out key deal elements, which will guide course | None |
| | B | Commercial Diligence 101 | Review key elements of commercial diligence that drive business valuation; covers both conceptual guidance and practical applications, including financial forecasting and valuation | |
| 3/21/16 | A | Commercial Diligence 101 Continued | Continue prior lecture and discuss at-home reading materials | |
| | B | Debt Financing | Discuss key objectives of debt financing negotiations, explore various structuring alternatives and design options, and typical mechanisms included by Buyers and financing sources | |
| 3/28/16 | A | Debt Financing (Continued) | Continue prior lecture and discuss at-home reading materials | |
| | B | In-class Debt Negotiation | Students teams use class time to advance debt term negotiations. See Deliverable description for more details | |
| 4/4/16 | A | Basics of Accounting Diligence | Review key elements of accounting diligence which are encountered as part of the transaction, including Quality of Earnings, Net Working Capital targets, Debt-like Items and Tax | #1: Investment Committee Deck |
| | B | Sale & Purchase Agreements (SPA) | Discuss key objectives of each party while to an SPA, key terms that are commonly negotiated, and typical mechanisms to achieve Buyer and Seller objectives | |
| 4/11/16 | A | Sale & Purchase Agreements (Continued) | Continue prior lecture and discuss at-home reading materials | #2: Financing Terms & Write-up |
| | B | In-class SPA Negotiation | Student teams use class time to advance debt term negotiations. See Deliverable description for more details | |
| 4/18/16 | A | Review Final Debt Terms & Docs | Discuss journey from initial indications to final grid to debt documentation for TargetCo, and key issues that arose during | |

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| | | | the transaction and thereafter | |
| | B | How to Use (and Not Use) Comps | Review usefulness and applicability of comparative multiple analysis from a private equity viewpoint, including both trading and transaction comps, and key driver analysis | |
| 4/25/16 | A | Review Final SPA Terms & Other Advisor Reports | Walk through TargetCo final SPA, with a focus on major Buyer issues and key changes from Seller draft to final version; discuss other advisory work completed to support diligence | #3 Final SPA & Write-up |
| | B | What Actually Happened & Course Wrap Up | Discuss TargetCo investment thesis and risks, deal process and eventual outcome with the professional responsible for the investment | |

DELIVERABLES

#1: Investment Committee Deck

Students will have access to a variety of private company materials, and third-party advisor materials about TargetCo. Based on those materials, student deal teams will leverage those materials to create materials for final Investment Committee, in which the team will present the deal to the Investment Committee along with a recommendation around whether to put in a final bid and, if so, at what valuation. The document (or 'deck') should be [20-25] pages (plus up to [10] pages of appendixes), with more guidance to be provided during the first two lectures. Depending on course time availability, teams will be selected to present the deal to the broader class and potentially outside parties.

#2: Final Debt Docs & Write-up

Student teams will use initial financing indications provided and their judgment around the needs of the transaction, to negotiate full terms for Commitment Papers. Each team will be designated as either Buyer or Financing Bank, and will have approximately 2 weeks to come to terms. Terms will consist of the full set of items that Buyer and Financing Bank would like to see in the final debt documentation, including more detailed terms which might more typically be reserved for after signing Commitment Papers (e.g., bank covenant levels). If both sides cannot come to terms, then any open items should be clearly identified as such, with an explanation of where each side was at completion. It should be noted that it is highly unusual for both sides to not come to terms in the context of a competitive environment, but both parties need to believe that the agreed upon terms support their investment and returns objectives. Finally, each team will provide a write-up of no more than [1,000] words that discusses the negotiation dynamics, including key issues which each team believed were most important for them and their counterparties. More details will be provided during the course.

#3 Final SPA & Write-up

Student teams will negotiate a SPA from initial draft (to be provided) to a final document to be signed by Buyer and Seller. Each team will be designated as either Buyer or Seller, with 'Buyers' from the Debt Financing exercise assigned as Sellers, and vice-versa; teams will have approximately 2 weeks to come to terms. Each team will submit a mutually agreed upon SPA or, if both sides cannot come to terms, then the near-final SPA. If both sides come to terms, please provide an issues list that lays out each commercial issue that was changed from initial SPA to final SPA. If both sides did not come to terms, for any open terms, please highlight where each side was on those issues. It should be noted that not coming to terms means that the Seller is left having invested months in an unsuccessful sales process and the Buyer's has invested >\$1.5M in diligence and months in resources and doesn't have a deal to show for their efforts. In addition, each team will provide a write-up of no more than [1,500] words that discusses the negotiation dynamics, including key issues which each team believed were most important for them and their counterparties. More details will be provided during the course.

STUDENT RESPONSIBILITY

This class operates under the Wharton Honor Code. Students are expected to do their own work (or work within their group) and is not permitted to use materials from former students or prior years that relate to the mock deal other than what is currently provided on the course website. Any violations of this rule will be treated as a breach of the Honor Code

CONTACT, TUTORIALS AND RECORDINGS

Professor Yilmaz's office is located at SHDH 2333 and he will be holding offices hours on Tuesday from 3:00pm to 4:30pm. David J. Bard is a visiting fellow from New York City and will be commuting in on Monday's for the course. He will be holding telephonic office hours on XX from XX-XX. This course will not be recorded.