

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE 884
Advanced Topics in Private Equity
Course Syllabus
Spring 2017

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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:

- LBO Modeling
- Commercial Diligence (principles and execution)
- Comparable Analysis (“Comps”)
- Debt Financing
- Accounting Diligence
- Management Packages
- Sale & Purchase Agreements
- Other Advisory Work

Throughout the course, students will learn about each element of the deal process through in-class lectures, while concurrently applying those learnings to two former transactions (these must be old enough that sharing material is no longer sensitive). The in-class lectures will cover conceptual frameworks, practical considerations and real-world case studies and examples. The two former transactions used in class will apply these learnings to the art of the deal through a real world lens. First, students will learn from an extended in-class case study of “TargetCo1”, which the instructor will use as a real-world example of the deal process elements taught during the course. Second, student teams will engage in a fulsome ‘real-time’ transaction of “TargetCo2”, that will run throughout the duration of the course; this will require students to prepare materials that mirror a real private equity transaction, from initial bid through to final SPA negotiation.

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 course, students will be expected participate actively with their teams as they proceed with at home assignments.

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:

- #1: Buyout Model Exercise (10%): Evaluation will be based on the accuracy and completeness of the modeling exercise
- #2: Bid Letter & Investment Committee Deck (30%): 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.
- #3: Debt Negotiation & Write-up (15%): 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.
- #4: 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. In light of the interactive and small group nature of the course, attendance is mandatory; any classes missed require approval from one of the two lecturers.

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

COURSE MATERIALS

There may be non-textbook reading materials throughout the course which will be available via the course website. 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)

GROUPS

Each member of the course will need to join a group of five students which will work together on assignments 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. For each assignment, please submit your assignments by uploading them to the relevant Canvas site folder by the designated deadline. Please label your assignment with the following format: “Team #[XX] – Project #[X] ([Last Name 1, Last Name 2, etc.])”. As an example: Team #3 – Project #2 (Bard, Yilmaz).

COURSE OUTLINE

Date	Part	Lead	Course Title	Description	Deliverable
1/11	A	BY (DB dial in)	Course Intro & LBO Modeling Refresher	Discuss course content and composition; walk through typical deal process, mapping out key deal elements, which will guide course	
	B		None		
1/23	A	DB	Commercial Diligence 101: What It Is	Review key elements of commercial diligence that drive business valuation; covers both conceptual guidance and practical applications, including financial forecasting and valuation	
	B	DB	Commercial Diligence 101 (Continued)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
1/30	A	DB	Commercial Diligence Case Study: TargetCo1	Discuss students’ perspective on TargetCo1 along with potential valuation range	#1: Prepare Buyout Model and Theses / Risks for TargetCo1
	B	DB	Commercial Diligence 102: What To Do	Review tactical company analyses, macro analysis, industry work and other related activities that comprise good commercial diligence	
2/6	A	DB	Commercial Diligence 102 (Continued)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
	B	DB	Commercial Diligence Wrap Up	Finish Commercial Diligence Discussion	
2/13	A	Guest	Verticals Focus – Oil & Gas	Discuss the O&G investing landscape and how the investment process is different from standard PE	
	B	Guest	Vertical Focus – FIG	Discuss the Financial Institutions investing landscape and how the investment process is different from standard PE	
2/20	A	DB	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	#2: Investment Committee Deck for TargetCo2 (<i>submitted by 10p EST on 2/19</i>)
	B	DB	Debt Financing (Continued)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
2/27	A	Guest	Investment Style & Origination – Small	Discuss real-world approach to developing theses, relationships and investment opportunities in	

			Cap	small cap PE	
	B	Guest	Investment Style & Origination – Mid Cap	Discuss real-world approach to developing theses, relationships and investment opportunities in mid cap PE	
3/13	A	DB	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	
	B	DB	Sale & Purchase Agreements (Continued)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
3/20	A	DB	Accounting Diligence & Mgmt Packages	Review key elements of accounting diligence, including Quality of Earnings, Net Working Capital targets, Debt-like Items and Tax, as well as the basics of Mgmt Package design	
	B	DB	Accounting Diligence & Mgmt Packages (Continued)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
3/27	A	DB	Review TargetCo Final Debt Terms & Docs	Discuss journey from initial indications to final grid to debt documentation for TargetCo, and key issues that arose during the transaction and thereafter	#3: Debt Financing Grid for TargetCo2 (submitted by 10p EST on 3/23)
	B	DB	Review TargetCo2 SPA Terms	Review TargetCo2 original and final marked up SPA as a case study	
4/3	A	BY	In-class SPA Negotiation	Student teams use class time to advance debt term negotiations. See Deliverable description for more details	
	B	BY	In-class SPA Negotiation (Continued)	Student teams use class time to advance debt term negotiations. See Deliverable description for more details	
4/10	A	DB	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	
	B	DB	How to Use (and Not Use) Comps (Continued)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
4/17	A	MS	Investment Cmte Presentations & What Actually Happened	Two teams will be selected to present their Investment Committee materials; Deal executive from the TargetCo2 transactions will discuss the deal process and outcome	#4 Final SPA & Write-up for TargetCo2 (submitted by 10p EST on 4/13)
	B	MS	What Actually Happened (continued)	Deal executive from the TargetCo2 transactions will discuss the deal process and outcome	
4/24	A	DB	Review Final SPA Terms & Other Advisor Reports	Walk through TargetCo2 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	
	B	DB	Course Wrap Up	Discuss any final, wrap up items	

DELIVERABLES

#1: Buyout Model

Students will have access to typical first round bid materials on TargetCo1, and will be expected to prepare a buyout model and valuation for the company. This should include a full Operating Model and Buyout Model, including valuation sensitivities. Students should also prepare their key Investment Theses and Investment Risks in one page which they will prepare and bring to class (please bring one copy per team member and an additional one for the instructor).

#2: Investment Committee Deck

Student teams will have access to a variety of private company materials, and third-party advisor materials about TargetCo2 which they will use to create materials for their “Investment Committee”. This is the opportunity for the deal team to share with the internal team their perspective of the key opportunities (or investment theses) and risks of the investment, 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 PowerPoint pages (plus up to 10 pages of appendixes), with more guidance to be provided during the early lectures. Teams should also prepare to submit their valuation model in full, including an Excel file and PDF output.

#3: Debt Financing Grid & Write-up

Student teams will have access to a variety of financing materials from the TargetCo2 transaction, including: initial bid term sheets, near-final bid commitment papers, and final debt documents. Each team will prepare a ‘grid’ of the various financing sources relative to one another, along with where the final financing ended up along those terms. Finally, each team will provide a write-up of up to 1,000 words that discusses their observations around which terms identified in the commitment papers they would have found most important (beyond quantum and rate), which terms changed most significantly, and why they believe that the equilibrium reached in the final docs came out where it did. More details will be provided during the course.

#4 Final SPA & Write-up

Student teams will negotiate a SPA for TargetCo2, 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 up to \$2M in diligence costs 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 up to 1,500 words that discusses the negotiation dynamics, covering the following topics: (i) key terms which their own team believed were important, (ii) key terms which they perceived to be most

important to their counterparty, and (iii) terms which their counterparty didn't seem to value but which their team would have valued if in their counterparty's shoes. 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 9-10 am. David J. Bard is a Senior Fellow working with American Securities and based in New York City, who will be commuting in on Mondays for the course. Office hours, whether in-person or telephonic, will be discussed during the first lecture. This course will not be recorded.