

UNIVERSITY OF PENNSYLVANIA
The Wharton School

The Finance of Buyouts and Acquisitions: FNCE 251/751
Professor Doron Levit
Spring 2018

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 2322

Email: dlevit@wharton.upenn.edu

Office Hours: Wednesday, 5:00pm-6:00pm

Course website: <https://canvas.upenn.edu/courses/1271928>

Teaching Assistants: TBA

Location and Time:

251 001 - Monday, Wednesday, 12:00-1:20, SHDH 215

251 002 - Monday, Wednesday, 1:30-2:50, SHDH 215

751 001 - Monday, Wednesday, 3:00-4:20, SHDH 215

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 of 5 members to work on case assignments. Groups must be fixed throughout the semester. 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. Many 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. There are two cases that require write-ups: Dow and HCA. Each group is expected to **submit online** 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 26. The final version is due on April 18. Each group is required to give 10-15 minutes presentation in front of the class. Presentations will take place on April 18 and April 23. More details 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 **10%** 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 **11am** 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:

- February 12 - Group formation deadline
- February 19 - Submit group assignment #1: Dow
- **February 28 – Exam I (6:00-8:00pm, location TBA)**
- March 26 - Deal proposal identification deadline
- April 4 - Submit group assignment #2: HCA
- **April 11 – Exam II (6:00-8:00pm, location TBA)**
- April 18 – submit deal proposal
- April 18,23 - Students presentations

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. Guest lectures will substitute for class on that day. Some of the **guest lectures will be held outside regular class location and time**. Furthermore, **the deal proposal presentations might take place outside regular classes**.

Session 1: January 10 (Wed)

Introduction and organization

Basic valuation concepts #1

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

Session 2: January 17 (Wed)

Basic valuation concepts #2

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

Session 3: January 22 (Mon)

Basic valuation concepts #3

Session 4: January 24 (Wed)

CASE 1: Paradyne

Session 5: January 26 (Fri)

Optional session on valuations concepts (10:30-11:50am, Location TBA)

Session 6: January 29 (Mon)

Overview of Mergers and Acquisitions

Reading: (B) Chapters 3, 4

Session 7: January 31 (Wed)

Transaction design, sell process, and purchase agreements

Reading: (B) Chapter 19

Session 8: February 5 (Mon)

Transaction design, sell process, and purchase agreements

Spinoffs, and purchase agreements

Reading: (B) Chapter 19

Session 9: February 7 (Wed)

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

Reading: (B) Chapters 26, 27, 32, 33

Session 10: February 12 (Mon)

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

Reading: (B) Chapters 26, 27, 32, 33

Session 11: February 14 (Wed)

Valuation of Synergies, NOLs, and Control

Reading: (B) Chapters 11,15

Session 12: February 19 (Mon)

CASE 2: Dow's Bid for Rohm and Haas

Session 13: February 21 (Wed)

Forms of Payments

Reading: (B) Chapters 20, 23

Session 14: February 26 (Mon)

Review

Session 15: February 28 (Wed)

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

SPRING BREAK: March 5, 7

Session 16: March 12 (Mon)

CASE 3: Vodafone

Session 17: March 14 (Wed)

Guest Speaker: John R. Jonge Poerink

Linley Capital

Session 18: March 19 (Mon)

PE Overview & LBO model

Session 19: March 21 (Wed)

Guest Speaker- Perry Golkin

Session 20: March 26 (Mon)

CASE 4: Sungard

Session 21: March 28 (Wed)

CASE 5: Green Food

Session 22: April 2 (Mon)

Private Equity Fund Structure

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

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

Session 23: April 4 (Wed)

CASE 6: HCA

Session 24: April 9 (Mon)

Review

Session 25: April 11 (Wed)

Exam II (6:00-8:00pm, location TBA)

Session 26: April 16 (Mon)

TBA

Session 27: April 18 (Wed)

Students Presentations #1

Session 28: April 23 (Mon)

Students Presentations #2

Session 29: April 25 (Wed)

Wrap-up