

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE 888
Advanced Topics in PE: Funding, Sourcing and Creating Value
Tuesday 6-9p
Course Syllabus
Spring 2019

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COURSE DESCRIPTION

This course will address a variety of topics in private equity (PE) leveraging a highly practical and real-world approach. It will 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. The course is a natural complement to Finance 884, and will focus on several key areas outside the private equity transaction itself: fundraising, sourcing investment opportunities, and creating value under PE ownership. The goal of this course is to educate students about these aspects of PE investing through the lens of the investment professionals, consultants, counterparties and advisors that live them each day.

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 611 and FNCE 613, as well as at least one of FNCE 726 or FNCE 751; special permission can also be requested based on relevant professional experience. This course is for second year students only.

COURSE GRADING

Course performance will be evaluated based on four elements:

- #1: 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.
- #2: Public Company Dashboard (20%): Evaluation will be based on the team's understanding of the target company's business model drivers, sensibility of the levers selected and "expected" trends identified.

- #3: Value Creation (25%): Evaluation of the project will be based on the soundness of the team's development of the Value Creation Plan. It will be based on the depth and the robust reasoning of the VCP, the underlying assumptions that were used to create it, the quality of the written and verbal communication at the company's "Board meeting".
- 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 the instructor

Please note that any requests for regrading of an assignment will permit a regrading of the entire assignment and not only the issue raised. Finally, 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, all course and project materials for will be available via the course website.

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)
- For-free Sources: Pitchbook, Daily Deal, MergerMarket

GROUPS

Each member of the course will need to join a group of five or six students which will work together on assignments throughout the duration of the course (five person teams will be first come, first served). 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, Smith).

COURSE OUTLINE

The below outline is a guide for how the course will be structured during this semester. The lectures' content and order may change modestly during the course based on progress in class for certain topics as well as schedule changes of outside speakers and instructors. Students should be prepared to adapt to such calendar changes.

| Date | Part | Lead | Course Title | Description | Deliverable |
|------|------|-------|--|--|----------------|
| 1/22 | A | BY | Course Intro | Discuss course content and composition; walk through the private equity process steps and value chain, and do a deep dive on the typical deal process, mapping out key deal elements | |
| | B | | None | | |
| 1/29 | A | DB | Survey of the PE Landscape | Expansive discussion of the historical and current PE environment, ranging from deal activity to valuations to financing and other activity | |
| | B | DB | Survey of the PE Landscape (continued) | Continued | |
| 2/5 | A | BY | The Dynamics of Fundraising | Walk through the LP landscape, including key participants and decision-makers, and the nature of GP fundraising | |
| | B | PG | LP/GP Alignment | Assess the current alignment (and misalignment) of interests between LPs and GPs, which is embedded in the typical PE fund structure | |
| 2/12 | A | Guest | [Fundraising: Lessons from the Job] | [Guest lecturer – Fund of funds, placement agent, fundraising function at PE fund, ILPA] | |
| | B | Guest | [Fundraising: the LP Perspective] | Continued | |
| 2/19 | 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) | Continued | |
| 2/26 | A | DB | Commercial Diligence 102: What To Do | Review tactical company analyses, macro analysis, industry work and other related activities that comprise good commercial diligence | |
| | B | DB | Commercial Diligence 102 (Continued) | | |
| 3/12 | A | PM | Value Creation: Planning for Success | Discuss different fund approaches value creation at their portfolio companies, including a review of investment team roles, operating partner models and best practices | Project #1 Due |
| | B | PM | Value Creation: Planning for Success (cont.) | Continued | |
| 3/19 | A | PM | Value Creation: Planning for Success (cont.) | Continued | |
| | B | PM | Value Creation: Management through Measurement | Review important tools and processes for portfolio company management, from the Board level down to the operating partner project management function | |
| 3/26 | A | PM | Value Creation: Management through Measurement (cont.) | Continued | |

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| 4/2 | B | PM | Value Creation: Manage What You Can Measure (cont.) | Continued | |
| | A | PM | Introducing the Case Study | Walk through the background of the primary case study that will be the focus of the final project, including discussion of the company, industry, business issues, and value creation template | |
| 4/9 | B | PM | Introducing the Case Study (cont.) | Continued | |
| | A | PM + Guest | The PE Operating Perspective | Hold roundtable discussion among the Instructor and two PE Operating Executives (representing small cap and large perspectives) about the “on-the-ground” opportunities and challenges | Project #2 Due |
| 4/16 | B | PM + Guest | The PE Operating Perspective (cont.) | Continued | |
| | A | DB | The Art of Sourcing | Discuss various industry approaches to sourcing new investment opportunities, including the practical realities and challenges therein | |
| 4/23 | B | DB | The Art of Sourcing (cont.) | Continued | |
| | A | BY + Guest | Deal Structuring | Discuss range of deal structures used to bridge value and/or “terms” gap between Buyers and Sellers; often has implications for Buyer’s ownership period and value creation | Project #3 Due |
| 4/30 | B | BY + Guest | Deal Structuring (Cont.) | Continued | |
| | A | PM | Case Study Read Out | Select teams present their Value Creation plans to the class, and a company executive attends to discuss actual Value Creation plan developed and progress to date against it (i.e., what happened) | |
| | B | PM | Case Study Read Out (Cont.) | Continued | |

Note: PM = Pericles Mazarakis (operating partner practitioner)

DELIVERABLES

#1: Investment Committee Deck

Student teams will have access to a variety of private company materials, and third-party advisor materials about TargetCo 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.

#2: Public Company Dashboard

Student teams will select a public company that is not a retailer, and leveraging publicly available materials and industry calls, develop a “Dashboard” they would propose to use to oversee the business as a new owner. After investing in a business, private equity owners often

reassess the internal reporting tools management uses to communicate with the Board and ownership group. The metrics selected must efficiently cover the entire spectrum of business functions while remaining manageable. In addition to presenting the illustrative dashboard (real figures should be used where possible), the team will write a less than 1,000 word memo, covering: (i) why they selected the metrics they did, (ii) what trends they would hope to see and how they would set goals, and (iii) what metrics they considered but did not include and why.

#3: Value Creation Plan

Student teams will develop a Value Creation Plan (“VCP”) for a designated public company TargetCo2, as if they were planning to acquire the company and preparing a 100-day plan strategy. This is an opportunity for the teams to review publicly available information on the dynamics of the company (and the industry as a whole) and identify those priority initiatives that will need to be pursued over the course of the prospective investment in order to deliver superior results. They will be given a VCP template which they will turn into a 15-20 page Powerpoint that details the assumptions and the reasoning for the chosen initiatives and dimensionalizes the financial upside to be achieved from each strategic initiative. There will also be in-class presentations of selected teams’ VCPs.

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

The course will primarily be taught by David Bard and Pericles Mazarakis, both of whom are practitioners who bring relevant and applicable experience to the material. Recognizing that both do not live in the Philadelphia area, office hours, whether in-person or telephonic, will be discussed during the start of the course and may change over time. Professor Yilmaz’s office is located at SHDH 2333 and he will be holding offices hours that will be posted. This course will not be recorded and lecture materials will only be provided in hard copy.