

UNIVERSITY OF PENNSYLVANIA
The Wharton School
The Finance of Buyouts and Acquisitions: FNCE 251
Professor Burcu Esmer
Fall 2019

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)
- Recommended (but not required) for background reading:
 - i. Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004
 - 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.
 - iii. Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 6th ed., Wiley, 2015.
- Additional readings: Pitchbook, Prequin (You can subscribe Pitchbook daily newsletter) etc..

Course Web Page

Important course materials such as lecture notes, required assignments, deadlines, solutions to problems, and other useful information will be available on the Canvas course web page.

Any important announcements will be made on the web page. So be sure to check this page regularly. It is **your responsibility** to keep yourself informed of important developments pertaining to the course.

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.

Where to Ask Questions

If you have questions about the material, the best place is the Canvas discussion board. The TAs and I will monitor these boards frequently. This board helps ensure that all students have access to the same information. Please avoid using e-mail to ask case- and exam related questions. Further, if your question requires an elaborate answer, please come to the office hours. More sensitive questions that you prefer not to be shared with others are of course welcome over e-mail or in person.

Deadline for exam-related questions: To ensure fairness, there is a deadline for exam-related questions: we will answer questions that you send or post on Canvas by 6:00pm EST on the day before an exam. Questions sent or posted afterwards will be answered after the exam.

Grade Decomposition

Exams	40%
Case Study Assignments	20%
LBO Deal Proposal	25%
Participation& Attendance	15%

Course grades will be “curved” at the end of the semester.

Student Responsibilities and Assessment:

- Case Study Assignments: (Approximately 20% of the course grade). Students will organize themselves into groups of four or five, depending on the final class size. All teams should be self-registered on Canvas no later than *Friday, September 6*. You may use the discussion board on Canvas to post that you are looking for a team member or a group. If you have difficulty finding a group, please let me know in time (before the deadline), and I will be happy to help you find a group. If a student does not self-register by the deadline, s/he will be randomly assigned to a group. It is student’s responsibility to contact with team members and arrange meetings.

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 **submit** a soft-copy of their conclusions in a 2-3 page long 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.

Written case analyses are submitted via Canvas and are due at 12:00pm on assigned dates (please see course schedule). Submission via email and late submissions will not be accepted.

- Class Participation and Attendance: (Approximately 15% of the course grade)

Because so much learning in this course occurs in the classroom, it is important that you attend every class. Attendance will be recorded within five minutes of the start of each lecture (starting on September 4). Lectures will have a seating chart so please keep the same sitting arrangement throughout the semester. Each student is given a credit of two penalty-free absences which require no explanation. This covers religious holidays, illnesses, interviews, case competitions, feeling like sleeping in. Thus, if a student misses two or fewer classes, then s/he will receive a perfect attendance grade. After using up your two penalty-free absences, all subsequent absences will lower your attendance grade. If you do miss a class, you are encouraged to report and explain it using Course Absence Report. This will enable us to keep track of the absences easily. (<https://undergrad-inside.wharton.upenn.edu/attendance/>)

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 “meaningful” class participation. It is an important and essential part of this course. **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.**

Students can also earn participation points by doing a presentation. Students that a presentation will automatically get 30% of the max participation credit. Presentation slots will be available on a first-come/first-served basis. On the presentation dates, I expect at least one member of your team to be in the audience.

Wharton “concert rules” apply: be seated when class is scheduled to start and don’t leave the room unless absolutely necessary.

- Examination: (Approximately 40% of the course grade)

You will be tested on both the concepts and the methods studied in this course. Exams are closed book. You will have access to a calculator and limited amount of information.

Exams will be given in the evening (if there are rooms available) and there are no classes on the exam date.

Exam times are non-negotiable. If you have an unavoidable conflict, you must inform me by the end of the second week of the course, i.e. September 6 (please check immediately to ensure the exam times do not conflict with another exam or a religious holiday, etc.). If you think you will miss an exam (1) contact me as soon as possible and (2) bring reliable proof of absence (hospital receipt, copy of obituary, etc.). Absent clear and hard evidence you will receive a failing grade for the exam.

The make-up exam will be cumulative and will be given at the end of the semester. There is no guarantee that the make-up exam will have the same difficulty and type of questions as the common exam.

- Deal Proposal: (Approximately 25% of the course grade)

Each group is asked 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. **Each group must identify a deal by October 26 (please note that this is a self deadline, you do not need to notify me). The final version is due at 11:59pm on November 27, 2019.**

The deal proposal has two components, a presentation and a written report. Presentation will be 15-20 minutes (Depending on the class size and judges' schedule) in front of a panel of industry professionals. Out of fairness, all groups will submit their presentation decks by December 1, 11:59pm. In your presentation, 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. Presentation deck will not be graded, however presentation performance will be added to the participation score of students individually. Not everyone in the group has to present. Although first presentation of each student gets points automatically, good presentations will be awarded with additional participation points.

Re-grades

Grades are non-negotiable. You may request a re-grade if you think you found a grading error. Each re-grade request must be accompanied by a concise written explanation of the request and submitted to me, in writing, within one week after the exams/cases are graded and available for review. Your dispute should be attached to the original graded exam/case. I will re-grade the whole exam/case. As a result, your score can either increase or decrease. Please note that re-grade requests via emails will not be accepted.

Laptop and Other Electronic Device Usage

Students should not use laptops, phones, or other electronic devices during class. However, laptops/tablets will be allowed for students that wish to take electronic notes, but in this case, these students will need to get permission from me beforehand and then send me an e-mail copy of their typed notes after each lecture (within 24 hours). The failure to do so will impact your participation grade negatively. Accessing e-mail or the Internet during class is not permitted, as doing so can be distracting for others.

This class will not be video recorded.

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. The University of Pennsylvania's Code of Academic Integrity is available at:

<https://provost.upenn.edu/policies/pennbook/2013/02/13/code-of-academic-integrity>

Faculty-Student Meals

In an effort to get to know students personally, I plan to take between 4 and 6 students to lunch//dinner at a nearby restaurant at a regular frequency throughout the semester. There will be a sign-up function on the course website where I will post, throughout the semester, the dates for which I am available. These slots fill out quickly and the link no longer works once all slots are gone.

If you wish to schedule a meal by yourself, please find at least three more students and email me, and I will do my best to accommodate you.

Once you sign up for a slot, you are expected to show up on time. Please do not sign up unless you are absolutely sure that frame works for you.

Office Hours and Contact Information:

Office: SHDH 2455

Office Hours: by appointment (please note: 30 min max /student per week)

Email: besmer@wharton.upenn.edu

Teaching Assistants

The teaching assistants (TAs) are responsible for taking attendance and answering questions about the grading of case hand-ins, exams, and the term project. TAs for the course are:

Stephen Brand stbrand@wharton.upenn.edu

Brandon Li brali@wharton.upenn.edu

Michael Lu mzlu@wharton.upenn.edu

Akash Pulluru apulluru@wharton.upenn.edu

Yin Wang yinw@wharton.upenn.edu

TA office hours will start in the week of September 9 and time/location TBA.

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**

Week #	Session #	Date	Deadlines	Topics	Suggested Readings
Week 1	Session 1	28-Aug		Introduction and Organization	
Week 2		2-Sep	No Class	Labor Day	
	Session 2	4-Sep		Basic Valuation Concepts	
		6-Sep	Register Teams		
Week 3	Session 3	9-Sep		Basic Valuation Concepts (cont.)	
	Session 4	11-Sep		Overview of Mergers & Acquisitions: value creation and the merger process	<ul style="list-style-type: none"> •Gaughan Ch. 1, Ch.2 and Ch.4 •Bruner Ch. 3, Ch. 4 •Eckbo, B. Espen, 2014, "Corporate takeovers and economic efficiency", Annual Review of Financial Economics 6, 51-74. •McConnell, John J., and Valeriy Sibilkov, 2016, "Do investment banks have incentives to help clients make value-creating acquisitions", Journal of Applied Corporate Finance 28, 103-117
Week 4	Session 5	16-Sep	Case 1 Submission	Target stand-alone value and synergy valuation CASE 1a: Monmouth	<ul style="list-style-type: none"> •Gaughan Ch. 15 •Bruner Ch. 9, Ch. 11
	Session 6	18-Sep		Accretion/dilution, method of payment, and exchange ratio CASE 1b: Monmouth	<ul style="list-style-type: none"> •Bruner Ch. 20, Ch. 21 •Rappaport, Alfred, and Mark L. Sirower, 1999, Stock or cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions, Harvard Business Review (Nov-Dec), reprint 99611.
Week 5	Session 7	23-Sep		Price protection and risk sharing	<ul style="list-style-type: none"> •Bruner Ch. 22, Ch. 23 •Caselli, Stefano, Stefano Gatti, and Marco Visconti, 2006, Managing M&A risk with collars, earn-outs and CVRs, Journal of Applied Corporate Finance 18 (4), 91-104. •Amobi, Tuna N., 1997, Price protection in stock-swap transactions, Merger & Acquisitions 32, 22-28.
	Session 8	25-Sep		Hostility, defensive tactics, and antitrust, fission, Expected deal probability, merger arbitrage, and empty voting	<ul style="list-style-type: none"> •GaughanCh. 5, Ch. 6, Ch. 7, Ch 11 •Bruner Ch. 32, Ch. 33 •Gillan, Stuart L. and Laura T. Starks, 2007, "The Evolution of Shareholder Activism in the United States", Journal of Applied Corporate Finance 19, 55-73.
Week 6	Session 9	30-Sep	Time: 1:30 pm	Form of Acquisition and Law and Economics of Market for Corporate Control Guest Speaker: Eric S. Robinson, Of Counsel, Wachtell, Lipton, Rosen & Katz	
	Session 10	2-Oct	Time: 4:30 pm Location: SHDH 350	Alejandro Przygoda, Global Head of the Financial Institutions Group, Credit Suisse Group AG	
Week 7	Session 11	7-Oct	Case 2 Submission	Deal Risks CASE 2: Dow's Bid for Rohm and Haas	
	Section 12	9-Oct		No Class	

	Session 13	14-Oct		Review Session (time and location TBA)	
Week 8		15-Oct	Exam I	Exam I (6-8pm)	
	Session 14	16-Oct		Private Equity Framework and Industry Overview	
Week 9	Session 15	21-Oct		Private Equity Framework and Industry Overview	
	Session 16	23-Oct		Reduced-Form Valuation Methods	
Week 10	Session 17	28-Oct		LBO Model	
	Session 18	30-Oct		Incentives and Private Equity Fund Structure	**Note on Private Equity Partnership Agreements" by Josh Lerner * Meyer and Mathonet: Chapters 2 and 3
Week 11	Session 19	4-Nov	Case 3 Submission	Case 3: HCA	
	Session 20	6-Nov		Case 3: HCA (cont.)	
Week 12	Session 21	11-Nov		Guest Lecture TBA	
	Session 22	13-Nov	Exam II	Exam II (6pm-8pm, location tba)	
Week 13	Session 23	18-Nov		Case 4: Realogy (Part 1 and 2)	
	Session 24	20-Nov		Restructuring: Comparative Analysis	
Week 14	Session 25	25-Nov		Case 5: Middle Market	
		27-Nov	Deal Proposal Submission Deadline	No Class	
		1-Dec	Deal Proposal Presentation Submission Deadline		
Week 15	Session 26	2-Dec		Deal Proposal Presentations	
	Session 27	4-Dec		Deal Proposal Presentations	
Week 16	Session 28	9-Dec		Deal Proposal Presentations	