

UNIVERSITY OF PENNSYLVANIA
The Wharton School

The Finance of Buyouts and Acquisitions: FNCE 251/751
Professor Doron Levit
Spring 2020

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

Contact Information:

Instructor: Doron Levit

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Email: dlevit@wharton.upenn.edu

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

Course website: <https://canvas.upenn.edu/courses/1494031>

Teaching Assistants:

- Akash Pulluru: apulluru@wharton.upenn.edu
- David Hua: huad@wharton.upenn.edu
- Brandon Li: brali@wharton.upenn.edu

Location and Time:

251 001 - Monday, Wednesday, 12:00-1:20, SHDH 213

251 002 - Monday, Wednesday, 1:30-2:50, SHDH 213

751 001 - Monday, Wednesday, 3:00-4:20, SHDH 213

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 **6 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 case-solution **prior to class discussion, at 11am**. The questions that need to be addressed will be posted on the course webpage. The raw data for cases will also be available at the course webpage in .xls format.
2. Exams: (approximately **50%** of the course grade)
There are **two mid-term exams** during the semester (**March 4** and **April 15, 6-8pm**). You will be tested on the concepts and methods studied in this course. You will have access to a calculator and a limited amount of information. The exams are equal weighted. **There is no final exam.**
3. 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 **April 1**. The final written version is due on **April 22**. Each group is required to give 10-15 minutes presentation in front of the class. Presentations will take place on **April 22, 24, and 29**. More details will be provided at the course webpage during the semester.
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.
- Assumptions and formulas that are used should be provided (preferably as a footnote).
- Supporting computations and tables can be included in an appendix.
- 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 and typed 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 1 - Group formation deadline
- February 12 - Submit group assignment #1: Dow
- **March 4 - Exam I (6:00-8:00pm, location TBA)**
- April 1 - Submit group assignment #2: HCA
- April 6 - Deal proposal identification deadline
- **April 15 - Exam II (6:00-8:00pm, location TBA)**
- April 22 – submit deal proposal
- April 22, 27, 29 - 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 and deal proposal presentations might be held outside regular class location and time.**

Session 1: January 15 (Wed)

Introduction and organization

Basic valuation concepts #1

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

Session 2: January 22 (Wed)

Basic valuation concepts #2

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

Session 3: January 27 (Mon)

CASE 1: Paradyne

Session 4: January 29 (Wed)

Overview of Mergers and Acquisitions

Reading: (B) Chapters 3, 4

Session 5: February 3 (Mon)

Transaction design, sale process, and purchase agreements

Reading: (B) Chapter 19

Session 6: February 5 (Wed)

Transaction design, sale process, and purchase agreements

Reading: (B) Chapter 19

Session 7: February 10 (Mon)

Valuation of Synergies, NOLs, and Control

Reading: (B) Chapters 11,15

Session 8: February 12 (Wed)

CASE 2: Dow's Bid for Rohm and Haas

****Note: NO CLASS on February 17 (Mon, President's Day)**

Session 9: February 19 (Wed)

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

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

Session 10: February 24 (Mon)

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

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

Session 11: February 26 (Wed)

CASE 3: Vodafone

Session 12: March 2 (Mon)

Review

Session 13: March 4 (Wed)

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

******* SPRING BREAK: March 9, 11 *******

Session 14: March 16 (Mon)

PE Overview & LBO model

Session 15: March 18 (Wed)

Guest Lecture: Perry Golkin 3:00-4:30.

Session 16: March 23 (Mon)

LBO model, multiples and comp analysis

Session 17: March 25 (Wed)

CASE 4: SunGard

Session 18: March 30 (Mon)

Guest Speaker: John R. Jonge Poerink, Linley Capital 3:00-4:30

Session 19: April 1 (Wed)

CASE 5: HCA

Session 20: April 6 (Mon)

CASE 6: Green Food

Session 21: April 8 (Wed)

Private Equity Fund Structure

Reading: (M&M): Chapters 2 and 3; Reading: “Note on Private Equity Partnership Agreements” by Josh Lerner;

Session 22: April 13 (Mon)

Review

Session 23: April 15 (Wed)

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

Session 24: April 20 (Mon)

TBA

Session 25: April 22 (Wed)

Students Presentations #1

Session 26: April 27 (Mon)

Students Presentations #2

Session 27: April 29 (Wed)

Students Presentations #3