

Finance 8010 – Class Curriculum

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Schedule: Mondays 7 pm – 10 pm, class meets virtually only (with some classes offering the option to meet in person)

Class Description

The goal of this course is to put students in the seat of a private equity professional working on an investment from start to finish. Students will learn about the substance, process and mechanics of private equity investing, through the lens of the investment professional. The class will conduct a semester long case study, taking a specific transaction from the management presentation stage, to various modules in the deal process including: business diligence, industry diligence, accounting diligence, legal diligence, financial modeling, financing, valuation, negotiating the stock purchase agreement, and culminating in an investment committee presentation and recommendation. Working in teams, students will be required to build an integrated financial model to value the business, negotiate the key terms of the transaction agreements, and put together an investment committee presentation, defending their investment thesis and valuation. The class will also include several noteworthy guest speakers from the private equity industry and potentially smaller case studies to reinforce key topics.

Class 1 (August 29) – Introduction, State of PE Industry, Anatomy of a PE Deal

- Introduction of class and of instructor
- Discussion of plan for the semester and class curriculum
- State of the PE industry today
- Discussion on the Anatomy of a PE Deal
- Discussion of the time-line of a deal
- *Assignment for September 12 class: Read The Mutual Fund Store Offering Memorandum in data room. Come prepared to discuss the business including your i) Investment Thesis and ii) Investment Considerations/Investment Risks*

Monday September 5, Labor Day – No Classes

Class 2 (September 12) –Introduction to The Mutual Fund Store

- Management Presentation by The Mutual Fund Store CEO
- The Mutual Fund Store business review
- Discussion of investment thesis and investment considerations
- *Assignment for September 19 class: In assessing The Mutual Fund Store, come prepared to discuss i) the business, ii) the sector, iii) total addressable market (TAM), iv) growth opportunities, and v) prepare a simple diligence items work plan for the company (see sample diligence work plan in data room) to discuss in class*

Class 3 (September 19) – Business and Sector Diligence

- Sector, market and TAM overview
 - Market overview
 - Growth, competition, TMFS positioning
- Discussion of competitive strengths of company
- Discussion of threats and competitive weaknesses
- Assessment of the company using Porter's 5 Forces
- Design of diligence work plan and discussion
- *Assignment for September 26 class: Review new data room materials thoroughly. Be prepared to discuss key diligence materials in data room with a focus on: i) Store expansion opportunity (in existing markets and new markets), ii) Store Unit Economics, iii) Key Man Risk, iv) Legal diligence key out takes, v) accounting diligence key out takes. Please note, while there is no deliverable for the September 26th class, there is a considerable amount of material in the data room that you are asked to read in preparation for the class*

Class 4 (September 26) Due Diligence Review / Diligence Data Pack

- Store maturation curve and embedded EBITDA
 - Tier I, II and III stores
- Market expansion opportunity / store openings
 - Unit economics and new store IRRs / ROIC (Tier I, II and III store)
- Net flows and impact from business cycle
 - Market appreciation (equity and fixed income)
- Radio and Radio Show review
- Investment Product and performance
- Legal Diligence key take aways
- Accounting Diligence key out takes
- *Individual Assignment for October 3 class: Review Primerica Case study in data room. Individual assignment (not to be done with your team) for September 26: Prepare for hand in prior to class thorough responses for Key Questions listed at the end of the Primerica case.*

Class 5 (October 3) – Case Study: Primerica

- Review of the Primerica investment case
- Valuation of Primerica
- Was this a good deal for private equity, was it a good deal for Citi, was it a good deal for management?
- *Team Assignment for October 24 class: Build a financial model (LBO Model) valuing The Mutual Fund Store. In this analysis, assume total leverage of 3.0x of 2011 EBITDA of \$22 mm. What IRR would you target for this investment? Assuming this target IRR, what would you value the company at? Please make sure to show i) what you assume in terms of equity and fixed income markets appreciation, ii) new store openings per year (company and franchised), iii) split between Tier I, Tier II and Tier III stores, iv) operating leverage and impact on EBITDA margins in the business, v) other key assumptions and KPIs. Several Teams will be asked to present on their models and key out takes in class. Thus, please prepare several Power Point Slides summarizing the key KPIs, assumptions, outputs and valuation from your model. Model and summary slides*

must be handed in prior to the class by each team. Please start early on the modelling assignment, as it will take some time

Class 6 (October 10) – Guest Speakers

- To be confirmed, [Robert Seminara, Head of Europe, Apollo: International Private Equity]
- To be confirmed, [Karl Peterson, Managing Partner TPG Pace Group, Senior Partner TPG: The SPAC Market]
- *Assignment for October 24 class: Read sections 2.02, 2.04 and 6.02 of Bank Book in the data room.*

Monday October 17, MBA Opportunity Week – No Class

Class 7 (October 24) – Financial Analysis and Model Review

- Model discussion presentations
 - Presentation of model and key outtakes by several teams
- Discussion of key model drivers, sensitivities and KPIs
 - Keys to building up the model
- Discussion of valuation of business
 - LBO Model
 - DCF
 - Equity Comps
 - Transaction Comps
- Discussion of financing markets and how to leverage this investment
 - Appropriate level of leverage
 - Credit analysis and risks
 - Key terms in a financing
- *No assignment for next class*

Class 8 (October 31) – Guest Speaker

- To be confirmed, [Evan Rothenberg, Head of Financial Sponsors Group, Barclays: Lessons from 25 years of working with private equity]
- *Assignment for November 7 class: Review and be prepared to discuss The Mutual Fund Store Stock Purchase Agreement and Key Issues List for Stock Purchase Agreement in data room. There is no deliverable for the November 7th class, but please be sure to read the Stock Purchase agreement and SPA Issues list in data room carefully.*

Class 9 (November 7) – Transaction Documents

- Discussion of the anatomy of a Stock Purchase Agreement
 - Review of key sections and items in a stock purchase agreement
- Review of The Mutual Fund Store SPA
 - What matters and what doesn't
 - Key protections to ask for and nice to have
- Issues List Discussion
 - Discussion of key issues list as per data room

- *Assignment for December 7 class: Your teams will be randomly paired up with half the teams taking the part of the PE buyer and half the teams taking the part of Adam Bold and Summit Partners (the PE seller). Paired up teams will be asked to negotiate key points of the SPA and the Adam roll over and employment agreements in preparation for the November 14th class. At the November 14th class, the first 90 minutes of the class will be used by teams to finalize their negotiation and hand in their final and mutually signed negotiated terms*

Class 10 (November 14) – SPA Negotiation

- First 90 minutes of class: paired up teams will connect virtually to negotiate and agree on the key terms of the SPA and the transaction
- Second 90 minutes of class: paired up teams will then be asked to jointly present their agreed-on terms
- *Assignment for December 5 class: Prepare Investment committee memo in Power Point for The Mutual Fund Store investment. Each presentation should have a i) Summary and recommendation, ii) Business Description, iii) Industry Overview, iv) Investment Pros, v) Investment Risks, v) Summary of key financials and projections, vi) Valuation, vii) Final recommendation on whether to invest or not and price. Presentation should not be more than 10 -15 pages in total. Each team will present to the Investment Committee (the professors and TA) in class.*

Monday November 21 – No MBA Classes

Class 11 (November 28) – Guest Speaker

- Guest speaker to be confirmed, [Jed Hart, Senior Managing Director, Head of European Credit Investing, Centerbridge Partners: Distressed Debt Investing]
- Guest Speaker to be confirmed[, Raj Kushwaha, Co-Head of Investment Support Group, Warburg Pincus: Role of operating executives in the due diligence and value creation post investment in private equity]

Class 12 (December 5) – Investment Committee Meeting

- Investment Committee presentations by each team to the Investment Committee (the professor and TAs)

Class 13 (December 12) – Post-Mortem and Discussion

- The Mutual Fund Store post-mortem
 - Discussion of the transaction and what happened afterwards
 - Lessons learned
- Discussion and Q&A on semester and class

End of Semester

Course Grading

Course performance will be evaluated based on five elements:

- *Class Participation: (30%):* Evaluation will be based on both the substance and frequency of students' individual in-classroom engagement. If students are cold called, they will be expected to be paying attention and have ready value additive content. In light of the interactive nature of the course attendance is mandatory; any classes missed require approval from Dan Zilberman. Video cameras must be on at all times. This will be an individual grade.
- *Primerica Case Hand in (10%):* Evaluation will be based on quality of the write up, soundness of the analysis and ultimate valuation arrived at. This will be an individual grade.
- *Model Assignment (25%):* Evaluation will be based on technical soundness and quality of the financial model, financial logic of modeling assumptions and model build up, as well as ultimate answer arrived at. This will be a team grade.
- *SPA Negotiation and Results (10%):* Evaluation will be based on results of ultimate negotiation and soundness of outcome reached
- *Investment Committee Deck and Presentation (25%):* 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. This will be a team grade.

Please note that any requests for regrading of an assignment will permit a regrading of the entire assignment and not only the issue raised.

Course Materials

There is no text book for this class. However a considerable amount of materials will be available in the class "data room" posted to Canvas prior to every class.

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—all, but one, of the assignments in the class will be done in groups. We will ask you to choose your own team, but would be happy to assist in putting teams together for those that would request it. We suggest a variety of backgrounds and skills on each team, but would specifically recommend at least one team member to have strong financial modeling experience. Once a group is formed, please register your team on the Canvas site with all team member names listed. 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 #[NN] – Project Name [NN] ([Last Name 1, Last Name 2, Last Name 3, etc.])". As an example: Team #5 – Project: Investment Committee Memo (Zilberman, Jones, Smith).

Student Responsibility

This class operates under the Wharton Honor Code. Students are expected to do their own work (or work within their group) and are not permitted to use materials from others students, prior year students, or any information on the company and transaction discussed not provided in the class (ie do not Google the company or transaction of note). Any violations of this rule will be treated as a breach of the Honor Code.