

## **FNCE 2510: THE FINANCE OF BUYOUTS AND ACQUISITIONS**

**Spring 2023**

**The Wharton School, University of Pennsylvania**

**-- Syllabus --**

### **INSTRUCTOR**

**Professor Lu Liu**

Email: [lliu1@wharton.upenn.edu](mailto:lliu1@wharton.upenn.edu)

Office hours available by appointment

### **CLASS TIMES**

Section 001: TR 10:15 AM - 11:45 AM, JMHH G55

Section 002: TR 1:45 PM - 3:15 PM, JMHH G55

### **TEACHING ASSISTANTS (TAs)**

Nicole Bobovich - [bobovich@wharton.upenn.edu](mailto:bobovich@wharton.upenn.edu)

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Office Hours: TBA (Please see the Canvas homepage for TA office hours)

### **COURSE OBJECTIVE**

This course provides an in-depth introduction to leveraged buyouts and mergers & acquisitions. The course covers key financial concepts, economic and strategic considerations, and the institutional context in which such deals take place. Students will develop the skills and modeling tools necessary to structure a deal and critically analyze proposed transactions. The course is divided into two parts. The first part focuses on leveraged buyouts, and the second focuses on strategic acquisitions. The course requires a solid understanding of financial modeling using Microsoft Excel. While the course provides supplementary material on modeling, students with limited or no modeling experience may find the course challenging. This course is most suitable for finance majors who are considering careers in investment banking, private equity and consulting.

### **COURSE WEB PAGE**

Course materials, including lecture notes, suggested readings, required assignments, deadlines, solutions to problems, and other helpful information, will be available on the Canvas course web page:

[FNCE 2510 - Spring 2023 \(upenn.edu\)](#)

Please be sure to check the course page regularly for any updates and deadlines.<sup>1</sup>

While we will start each lecture with weekly reminders, it is the student's responsibility to be mindful of deadlines and any important developments pertaining to the course.

### **CLASS MATERIALS**

- Class notes, practice problems, and non-licensed articles/cases can be found under Files on the course webpage

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<sup>1</sup> You can set and customize the frequency of course notifications on Canvas by clicking on Account > Notifications and changing the Course Content setting to "Immediately." While these notification preferences apply to all courses, you can adjust your course-level notifications by clicking the "View Course Notifications" button on the right side of our course home page.

- Licensed cases can be found under Study.net materials on the course webpage
- Licensed articles and the recommended books can be found under Course Materials @ Penn Libraries on the course webpage
- Recommended (but not required) for background reading:
  - Jonathan Berk and Peter DeMarzo, Corporate Finance, 5<sup>th</sup> Edition, Pearson, 2019 (henceforth, “BM”).
  - Gaughan, Patrick A., Mergers, Acquisitions and Corporate Restructurings, 7<sup>th</sup> Edition, Wiley, 2017 (“GA”).
  - Joshua Rosenbaum and Joshua Pearl, Investment Banking, 3<sup>rd</sup> Edition, Wiley, 2022 (“RP”).
  - PitchBook, Preqin, PEHub, The New York Times Deal Book, Wall Street Journal, Financial Times, Reuters M&A Page, MarketWatch M&A Page

## **METHOD OF INSTRUCTION**

The course combines lectures, case discussions, and guest speakers. Lectures cover analytical tools, institutional context and empirical evidence. Class time will mostly be used for interactive discussions on lecture material and cases. The primary objective of the case method is to replicate the nature of real-world finance problems: coming up with solutions that are grounded in analytical rigor, while making judgements and assumptions. Just as in the real world, there will be no single "absolutely right" approach to tackle a case; different assumptions can lead to different solutions. The course will help distinguish between good/sensible and bad/nonsensical arguments, and provide case analyses for illustrative purposes, which are not considered as single correct solution templates. In addition, the class will host several guest speakers who will provide practical industry insights into the topics and deals discussed in class. Any information provided by guest speakers but not discussed in lectures/cases is supplemental, and students will not be tested on them.

## **GROUP WORK**

There is one project and two case studies that require group work. Students should organize themselves into groups of four or five (recommended) and self-register on Canvas no later than Tuesday, January 24.

You may use the discussion board on Canvas to seek team members and organize your group. If a student does not self-register by the deadline, s/he will be randomly assigned to a group. It is the student's responsibility to contact the other team members and arrange meetings. Since group work is a cooperative undertaking, students should ensure that they form groups that are able to work effectively. It is beneficial to have diverse backgrounds within a group. Group members do not need to be in the same section. However, if a group is selected to give a presentation, all members of the team are expected to be present.

## **GRADING POLICY**

### **Individual work:**

Two Exams	40%
Participation and Attendance	10%
Pre-Class Quizzes	5%

### **Group work:**

Deal Proposal & Presentation	30%
Two Case Study Assignments	15%

Course grades will be "curved" (across all FNCE 2510 sections) at the end of the semester. I reserve the right to raise a student's course grade by one level based on my subjective assessment of their efforts, although such adjustment is rare. For the sake of equal and fair treatment, any request for a grade adjustment for reasons other than grading errors will be disregarded.

The cutoff for Fail will be determined based on the class curve at the end of the semester. Failure to contribute to group assignments and missing classes may lead to a failing grade.

## **GRADE COMPONENTS**

### **1) Exams**

We will have two exams, one on leveraged buyout and one on strategic acquisitions. The exams will not be cumulative. Below are the dates/times for the exams:

**Exam 1 (Leveraged Buyouts) – Tuesday, February 28, 7:00 pm – 9:00 pm**

**Exam 2 (Strategic Acquisitions) – Tuesday, April 4, 7:00 pm – 9:00 pm**

For each exam, a practice exam will be posted on Canvas beforehand. In the exams, you will need a calculator and will be given a cheat sheet.

To be excused from an exam, the student must email the instructor as soon as possible (prior to the exam when possible) with written evidence (i.e., from a doctor or Penn Student Health Service) that the student is ill or unavailable for another excusable reason at the scheduled time of an exam. This is the only valid process to be excused from an exam. Please note that attending social/sports events, job interviews, or simply not feeling well without a written doctor's note are not considered excusable reasons. In the event of an excused absence from an exam, a makeup exam will be given at the end of the semester.

Students who fail to take an exam without making arrangements with the instructor in accordance with the preceding requirements will receive a grade of zero for that exam.

### **2) Participation and Attendance**

This course provides an opportunity to learn how to best approach and discuss complex financial issues. Moreover, many students have relevant experiences that others can learn from. For these reasons, participation in classroom discussions is central to having a great learning experience and is a graded component.

Starting January 17, attendance will be recorded during the first five minutes of each lecture. Missing up to two classes for any reason (illnesses, interviews, religious holidays, case competitions, etc.) will not affect your attendance score and you do not have to email to excuse your attendance. Any absences beyond two will negatively impact the class grade.

Your participation score will be determined based on two factors:

- **In-Class Participation**

Students are expected to participate actively in the class. Class participation is scored individually and based on your contributions in each session; you will receive 0 (no participation), 1 (minimal participation), or 2 (active and contributing to the flow). We consider the quality of your comments as well as quantity. If students are cold called, they will be expected to have paid attention and be ready to contribute value-additive content. This part of the participation grade is based on each student's total in-class participation score over the term.

- **Evaluation Scores**

Each student will anonymously evaluate his/her team members for each case and project submission. Your team members' evaluation of your efforts and your participation in the survey will contribute to your individual participation score. Failing to complete the survey on time will only impact your participation score.

Students can improve their participation grades by making positive contributions to the class, and by sharing an interesting article on the [Canvas discussion board](#).

### **3) Pre-Class Quizzes**

We will have a pre-class quiz for selected sessions. The quizzes will have short questions on the session topic that are useful for class discussions. The purpose is to encourage advance preparation. The quizzes will open one week before the session and will close at **10:00 am** on the day of the session. The quizzes will not have a time limit. Grading will be based on effort.

### **4) Deal Proposals & Presentations**

Each team must complete **one** deal proposal (buyout or strategic acquisition deal). The deal proposal must consist of a written report, an excel file that shows the analyses, and a PowerPoint presentation. It must be submitted via Canvas by the times indicated below. Late submissions/submissions via email will not be accepted.

- **Leveraged Buyout (LBO) Deal Proposal**

Your group must identify a target firm as a financial buyer and prepare a deal proposal.<sup>2</sup> Selected groups will present their deal proposal on **Tuesday, April 18** in front of an industry professional. The remaining groups should record and submit their presentation by 11:59 pm on **Friday, April 14**. Please read the [LBO Proposal Guidelines](#) (available on Canvas) for details.

- **Strategic Acquisition Deal Proposal**

Your group must propose a potential takeover transaction, taking the role of an investment bank pitching the deal to the bidder or the target.<sup>3</sup> Selected groups will present their deal proposal on **Thursday, April 20**, in front of an industry professional. The remaining groups must record and submit their presentation by 11:59 pm on **Tuesday, April 18**. Please read the [Strategic Acquisition Proposal Guidelines](#) (available on Canvas) for details.

The company being targeted must be one that none of the team members has valued before. You may use firm-specific or market data that are publicly available for your analysis. However, you cannot use pre-built models that you have used in the past or materials otherwise prepared by professionals. Furthermore, any existing deal used in teaching material (e.g., a case study) cannot be chosen as the topic of your proposal. Exchange of analysis and calculations across groups is not allowed. Exceptional presentation performances will contribute to participation scores.

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<sup>2</sup> The analysis should cover the rationale for choice/screens used, an industry/market overview & trends/overview of the target, a formal SWOT analysis, the investment thesis, valuation and deal structure, see LBO Proposal Guidelines.

<sup>3</sup> The analysis should cover different aspects of the deal, such as the strategic and economic benefits, target and synergy valuation, deal structure/method of payment, bidding strategy, and post-merger issues, see Strategic Acquisition Proposal Guidelines.

Please note that the deal proposal is an active learning tool and allows you to apply many concepts you have learned in class. There are many ways to be successful with these projects. Since the transactions are all hypothetical, there is no single right answer. What is key is that your group demonstrates a thoughtful and thorough analysis, with well-grounded judgements and assumptions. A proposal takes a long time to complete, and I encourage you to start working on it early.

### **5) Case Study Assignments**

There will be two case study assignments during the semester. These cases are marked with an asterisk in the tentative course outline below. Each group is expected to submit a soft copy of their conclusions via Canvas in a 2-3 page long executive summary and the excel file showing their calculations by the submission deadline. All of the assumptions and formulas used should be provided (preferably as a footnote). Any supporting computations and tables can be included in an appendix.

For your convenience, raw data from the case exhibits in excel format, and some hints for the analysis will be available on Canvas. The cases will be under the Study.Net materials folder. Although brief discussions across groups are allowed, exchanging analyses or calculations is not. Most cases we will cover in this course involve actual companies, and you may use firm-specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions from previous years or similar courses elsewhere for your write-ups and class discussions.

Case write-ups must be submitted via Canvas and are due by **10:00 am** on assigned dates (please see course schedule below). Late submissions and submissions via email will not be accepted.

### **RE-GRADE REQUESTS**

If you feel that an item has been incorrectly graded, you may submit a re-grade request to me, not to a TA. Each re-grade request must include a concise written explanation of the problem accompanied by the original graded assignment and must be submitted within one week after the assignment is graded and made available for review. Please note that re-grading applies to the whole assignment, not just the part(s) that are mentioned in your request. If you are submitting a request for a group project, please cc your team members in your email and include your group number in your request.

### **CLASSROOM CITIZENSHIP AND GROUND RULES**

- 1) Please arrive at the classroom on time. If you arrive at the classroom door five minutes after the class starts, you must not enter the classroom.
- 2) No phones during class (violation of this rule will lead to a lower participation grade).
- 3) Preferably use tablets or electronic devices that lay flat for notetaking. If you need to use your laptop, please set it to airplane mode.
- 4) Please bring your name plates to all sessions and keep the same seating arrangement throughout the semester.
- Violation of any of these ground rules, course policies, the Wharton Learning Agreement, or any basic norm of classroom etiquette and professionalism will result in a lower grade.

### **QUESTIONS PERTAINING TO THE COURSE AND GRADED COMPONENTS**

Please use the Canvas discussion board thread “Class Q&A” for any particular questions regarding the course and graded components, which will be monitored by me and the TAs. This is a more efficient and fair way to respond to your questions, as any additional information or clarification will benefit all students.

## **CLASS FORMAT AND RECORDINGS**

- The class is conducted in person; but we may use select virtual-only classes to accommodate the scheduling of guests.
- Sessions will not be recorded.
- Some sessions may be replaced by pre-recorded lecture material.

## **CODE OF ETHICS**

Assignments submitted for grading should be your 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. Students are not allowed to rely on the work of current or prior students who are not on their team. Similarly, students must not rely on any prior quizzes, exams, assignments, cases, or projects that are directly relevant to the assignment being completed. When a project requires you to produce a forecasting/valuation model, the use of a model not created exclusively by the students on the team for the purposes of this class is a violation of the code of academic integrity. For all submitted assignments, students must start with an Excel spreadsheet that is either blank or is populated only with raw data. Failure to follow this rule will result in an automatic failing grade for the course. The University of Pennsylvania's Code of Academic Integrity is available at: <https://catalog.upenn.edu/pennbook/code-of-academic-integrity/>

## **COPYRIGHTED MATERIAL**

The lectures and course materials, including slides, tests, outlines, and similar materials, are protected by U.S. copyright law and by University policy. Instructors are the exclusive owner of the copyright in those materials they create. You may take notes and make copies of course materials for your own use. You may also share those materials with other registered and enrolled students in this course. You may not reproduce, distribute or display (post/upload) lecture notes or recordings or course materials in any other way — whether or not a fee is charged — without the instructors' written consent. You also may not allow others to do so.

Important note: If your travel or interview plans conflict with the course schedule, you must change your plans or drop the course now.

**COURSE OUTLINE (preliminary / subject to change)**

The course outline is a preliminary guide as to when the material will be covered. There may be changes with advance notice. Note that guest lectures may be scheduled outside the regular class slots due to our guests' work schedules. Conditional on our guests' permission, these sessions will be recorded, and the recordings will be posted on Canvas.

	Date	Topic	Readings (Chapters)/ Case	Deadline
		<b>Part 0: Introduction</b>		
1	Thu, Jan-12	Introduction and Organization		
2	Tue, Jan-17	The Market for Corporate Control	BM (28)	
3	Thu, Jan-19	Valuation Methods	RP (1,2,3)	
4	Tue, Jan-24	Financial Statements and Financial Modeling	RP (3,5)	Submit groups
		<b>Part I: Leveraged Buyouts</b>		
5	Thu, Jan-26	Introduction to Private Equity	GA (8,9)	
6	Tue, Jan-31	LBO Modeling	RP (5)	
7	Thu, Feb-02	Multiples, Value Creation & Exit Strategies	HBS Primer 9-218-017	
8	Tue, Feb-07	Case Discussion: HCA	<i>HCA</i>	Quiz #1
9	Thu, Feb-09	Case Discussion: Realogy	<i>Realogy</i>	Quiz #2
10	Tue, Feb-14	Case Discussion: TXU	<i>TXU</i>	Quiz #3
11	Thu, Feb-16	Guest Speaker (Ryan Limaye, Goldman Sachs)		
12	Tue, Feb-21	Case Discussion: Buffalo Wild Wings (BWW)	<i>Buffalo Wild Wings*</i>	Case Submission, 10:00 am
13	Thu, Feb-23	Private Equity Fund Structure	UV6986	
14	Tue, Feb-28	No Class		Exam, 7-9 pm, Location: TBA
15	Thu, Mar-02	Guest Speaker (Erica Martin, KKR)		
16	Tue, Mar-14	Guest Speaker (Isaiah Schulze, Cerberus)		
		<b>Part II: Strategic Acquisitions</b>		
17	Thu, Mar-16	Introduction to M&A	GA (1,2)	
18	Tue, Mar-21	Valuation and Synergies	<i>Monmouth</i> , GA (15)	Quiz #4
19	Thu, Mar-23	Accretion/Dilution, Method of Payment	<i>Monmouth</i> , RP (7.6)	Quiz #5
20	Tue, Mar-28	Case Discussion: Stanley, Black & Decker	<i>Stanley, B &amp; D</i> , GA (4,13)	Quiz #6
21	Thu, Mar-30	Price Protection and Risk Sharing	<i>General Mills</i> , supp. material	Quiz #7
22	Tue, Apr-04	No Class		Exam, 7-9 pm, Location: TBA
23	Thu, Apr-06	Hostility, Defensive Tactics, and Antitrust	GA (5), HBS 9-904-005	
24	Tue, Apr-11	Guest Speaker (TBC)	<i>Canadian Pacific*</i>	Case Submission, 10:00 am
25	Thu, Apr-13	Guest Speaker (Piero Novelli, Euronext)		LBO slides by Friday, April 14
26	Tue, Apr-18	LBO Deal Presentations		M&A slides by Tuesday, April 18
27	Thu, Apr-20	Merger Deal Presentations		
28	Tue, Apr-25	Course-Wrap Up		