

FNCE 2510
THE FINANCE OF BUYOUTS AND ACQUISITIONS
FALL 2023
(UPDATED ON OCTOBER 20)



SECTION 1: MW 12:00 PM-1:30 PM
JMHH 350

SECTION 2: MW 1:45 PM-3:15 PM
JMHH 350

INSTRUCTOR

Professor Burcu Esmer
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Office hours are available by appointment

TEACHING ASSISTANTS (TAs)

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

COURSE OBJECTIVE

This course provides an understanding of key financial and legal concepts, essential considerations, and institutional information in mergers, acquisitions, and leveraged buyouts. Students will develop the skills necessary to structure a deal and form an opinion about proposed transactions.

This course is divided into two parts. The first part focuses on leveraged buyouts, and the second focuses on strategic acquisitions. Each part has a unique terminology and valuation approach; therefore, the focus will be on the fundamentals.

This course requires a solid understanding of financial modeling and working knowledge of Microsoft Excel. While I will provide supplementary material on modeling, students with limited or no modeling may still find the course challenging.

This course is most suitable for finance majors who are considering careers in corporate finance, investment banking, private equity, or 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 - Fall 2023 \(upenn.edu\)](#)

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

¹ 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

While I 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
- 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 reading²:
 - Joshua Rosenbaum and Joshua Pearl, *Investment Banking*, 3rd Edition, Wiley, 2022 (below referred to as RP)
 - Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 7th ed., Wiley, 2017 (below referred to as Gaughan)
 - 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 provide fundamental information, institutional details, empirical evidence, and basic analytical methods. Class time will mostly be used for interactive discussions, and several quantitative examples will be provided in pre-recorded videos to allow students to go over the videos at their own pace.

We will discuss several cases throughout the semester. The primary 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, **keep in mind that there is no single "absolutely right" approach to tackle a case; different assumptions can lead to different solutions.** The process of this course will help distinguish between good/sensible and bad/nonsensical arguments. I will be providing my case analyses; however, considering my analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that there is a single correct recipe in the "real world."

We 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 four 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 **Wednesday, September 13.**

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

Course Notifications" button on the right side of our course home page.

² The ebooks are available on course page under Course Materials@Penn Libraries.

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:

| | |
|------------------------------|-----|
| Exam | 30% |
| Participation and Attendance | 10% |
| Pre-Class Quizzes | 5% |

Group work:

| | |
|------------------------------|-----|
| Deal Proposal & Presentation | 30% |
| Case Study Assignments | 25% |

Course grades will be "curved" (across all FNCE 2510 sections) at the end of the semester. Historically, about 40% of the students in the class receive an A- or higher.

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

Exam

We will have one exam on leveraged buyouts on **Wednesday, October 25, from 7:00 pm – to 8:30 pm.**

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.

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.

Participation and Attendance³

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.

³ Due to the confidential component, participation scores will not be disclosed.

For these reasons, participation in classroom discussions is central to having a great learning experience and is a graded component. Inadequate class participation combined with several absences can lead to a failing grade.

Starting September 6, attendance will be recorded during the first five minutes of each lecture. Missing two classes for any reason (illnesses, interviews, religious holidays, case competitions, etc.) will not affect your attendance score. 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 be paying attention and have ready 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, for instance, by sharing an interesting article on the class discussion board.

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 11:59 am on the day of the session. The quizzes will not have a time limit. Grading will be based on effort.

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.

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

Your group must identify a target firm as a financial buyer and prepare a deal proposal. 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. The proposal must be submitted via Canvas **by 11:59 pm on Friday, December 1**. Selected groups will present their deal proposal on **Monday, December 4** in front of an industry professional. Exceptional presentation performances will contribute to participation scores. 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. Using the analytical tools learned in class, you should select a bidder and a target and structure the transaction. The company being targeted must be one that none of the team members has valued before. The analysis should cover different aspects of the deal, such as the strategic and economic benefits, target and synergy valuation, method of payment, bidding strategy, target management reaction, and corporate governance issues. You should rely on firm and 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. Exchange of analysis and calculations across groups is not allowed.

The proposal must be submitted via Canvas **by 11:59 pm on Sunday, December 3**. Selected groups will present their deal proposal on **Wednesday, December 6**, in front of an industry professional. Exceptional presentation performances will contribute to participation scores. Please read the [Merger 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.

The deal proposal is an active learning tool and allows you to apply many concepts you have learned at the Wharton School. 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 using the key concepts. A proposal takes a long time to complete, and I encourage you to start working on it early.

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.

Exchange of analysis and calculations across groups is not allowed. You may use firm-specific or market data that are publicly available for your analysis. You cannot use old notes, handouts, or solutions to the cases from previous years or similar courses elsewhere for your written reports.

Case write-ups must be submitted via Canvas and are due by 12:00 pm 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 carbon copy (cc) your team members in your email and include your group number in your request.

CLASSROOM CITIZENSHIP

- 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.
- No phones during class (violation of this rule will lead to a lower participation grade).
- Preferably use tablets or electronic devices that lay flat for notetaking. If you need to use your laptop, please set it to airplane mode.
- Please bring your nameplates to all sessions and keep the same seat arrangement throughout the semester.

Violation of the course policies, the Wharton Learning Agreement, or any basic norm of classroom etiquette and professionalism (e.g., using electronic devices for purposes other than class purposes) will result in a lower grade.

CLASS FORMAT AND RECORDINGS

- The class is conducted in person; however, we may use selective virtual-only classes to accommodate the scheduling of the 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/>

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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.

USE OF GENERATIVE AI

You may use generative AI programs (e.g., tools like ChatGPT) to help generate ideas and brainstorm. However, you should note that the material generated by these programs may be inaccurate, incomplete, or otherwise problematic. Beware that use may also stifle your own independent thinking and creativity. **You may not submit any work generated by an AI program as your own. If you include material generated by an AI program, it should be cited like any other reference material (with due consideration for the quality of the reference, which may be poor).** Any plagiarism or other form of cheating will be dealt with severely under relevant Penn policies.

TENTATIVE COURSE OUTLINE

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.

Session 1: August 30

Introduction and Organization

Session 2: September 6

Refresher: Valuation Concepts

Reading:

- RP Ch. 3

Session 3: September 11

Refresher: Valuation Concepts (cont.'d)

Reading:

- RP Ch. 1 and 2

Session 4: September 13

Refresher: Financial Statements and Financial Modeling

Session 5: September 18

Private Equity Fundamentals

Reading:

- Gaughan Ch. 8 and 9
- RP Ch. 4

Session 6: September 20

Private Equity Trends

Reading:

- Bain Global Private Equity Report 2023
- PitchBook US PE Breakdown 2023

Session 7: September 25

LBO Modeling Fundamentals

Reading:

- RP Ch. 5

Session 8: September 27

Reduced Form Valuation / Multiples

Reading:

- Primer on Multiples Valuation and Its Use in the Private Equity Industry, HBS 9-218-017

Session 9: October 2

Case Discussion: HCA

Session 10: October 4

Growth Equity vs Buyouts

Guest Speaker: [Mitchell Hollin \(Partner, LLR\)](#)

Time: TBA

Session 11: October 9

Case Discussion: Realogy

Case Submission Due, 12:00 pm

Session 12: October 11

Restructuring: Comparative Analysis

Case Discussion: TXU Deal

Session 13: October 16

*Case Discussion: Roark Capital: Buyout of Buffalo Wild Wings, UV8340 **

Case Submission Due, 12:00 pm

Session 14: October 18

Incentives and Private Equity Fund Structure

Reading:

- The Basics of Private Equity Funds, UV6986

Session 15: October 23

Fund Structure

Guest Speaker: [Suzannah Hacking \(Partner, Kirkland & Ellis\)](#)

Session 16: October 25

No Class - TA Office Hours During Regular Class Time

Exam, 7-8:30 pm, Location: TBA

STRATEGIC ACQUISITIONS**Session 17: October 30**

Introduction to M&A: value creation and the merger process

Reading:

- Gaughan Ch. 1 and 2.

Session 18: November 1

Synergy valuation and bid premiums

Case: Monmouth, HBS 4226.

Reading:

- Gaughan Ch. 15.
- RP Ch 7.5

Session 19: November 6

Accretion/dilution, method of payment, and exchange ratio

Case: Monmouth, HBS 4226.

Reading:

- Evaluating M&A Deals: Accretion vs. Dilution of Earnings-per-share, HBS 9-208-059
- Evaluating M&A Deals—Equity Consideration, HBS 9-208-077
- RP Ch 7.6

Session 20: November 8

Consideration, distribution of synergy gains, and corporate governance issues in M&A

Case: Stanley, Black & Decker, HBS 9-211-067

Reading:

- Gaughan Ch. 4 and 13.
- M&A legal context: Basic framework for corporate governance, HBS 9-803-200
- Standards related to the sale or purchase of a company, HBS 9-904-004

Case Submission Due, 12:00 pm

Session 21: November 13

Price protection and risk sharing

Case: General Mills' acquisition of Pillsbury from Diageo Plc., UV0089

Readings:

- 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, 1997, Price protection in stock-swap transactions, Merger & Acquisitions 32, 22- 28
- Technical note on consideration: floors, caps, and collars, HBS 9-902-056
- Note on basic option properties, HBS 9-205-105
- Note on option valuation, HBS 9-205-106

Session 22: November 15

Expected deal probability, merger arbitrage, and empty voting

Case: Mylan Labs' proposed merger with King Pharmaceutical, HBS 9-214-078

Readings:

- Gaughan Ch. 7.
- 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

Session 23: November 20

Hostility, defensive tactics, and antitrust

Case: Canadian Pacific's bid for Norfolk Southern, HBS 9-216-057

Case Submission Due, 12:00 pm

Reading:

- Gaughan Ch. 5
- M&A legal context: Hostile takeovers, HBS 9-904-005

Session 24: November 27

Guest Speaker: [Stephan Feldgoise \(Co-Head of Global M&A, Goldman Sachs\)](#)

Time: 12:00 pm - 1:45 pm, Location: TBA

Session 25: November 29

Guest Speaker: [Alejandro Przygoda \(Co-Head of Global Investment Banking, Jefferies\)](#)

Time: 1:45 pm to 3:15 pm, Location: TBA

Additional Session: December 1

Guest Speaker: [Luigi Rizzo](#) (Vice Chairman of Investment Banking, Morgan Stanley)

Time: 12 pm – 1:30 pm, Location: TBA

Session 26: December 4

LBO Deal Presentations

Judge(s): [Connor Crump \(VP, LLR\)](#), [Connor Shaw \(VP, LLR\)](#), [James Lai \(Associate, Apollo\)](#)

Session 27: December 6

Merger Deal Presentations

Judge(s): [Rob Friedsam \(Partner, PJT Partners\)](#)

Session 28: December 11

Course-Wrap Up