

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). Students that want to do class from campus are welcome to use JMHH 350, which is reserved for the class.

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 modelling, financing, valuation, negotiating the stock purchase agreement and culminating in an Investment Committee presentation. Working in teams, students will be required to build an integrated financial model to value the business, negotiate 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 smaller case studies to reinforce key topics.

Class 1 (August 28) – Introduction, State of PE Industry, Anatomy of a PE Deal

- Introduction of class and 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 on the timeline of a deal
- *Assignment for September 11 class: Read The Mutual Fund Store Offering Memorandum in the data room. Come prepared to discuss the i) business, ii) sector, iii) financial profile, iv) Investment Thesis, v) Investment Considerations / Investment Risks and vi) competitive positioning.*

Monday September 4, Labor Day – No Classes

Class 2 (September 11) – Introduction to The Mutual Fund Store – In Person Class for Those Available

- Management Presentation by The Mutual Fund Store CEO, John Bunch
- The Mutual Fund Store business review
- Discussion of investment thesis and investment considerations
- Due diligence work plan
- *Assignment for September 18 class: None. Guest Speaker.*

- *Assignment for September 25 class: In assessing The Mutual Fund Store, come prepared to discuss i) competitive strength and weaknesses of the business, ii) total addressable market (TAM), iii) growth opportunities, iv) financial profile, v) Key Person risk, vi) Radio Show, vii) investment product performance and viii) competitive positioning. Please note, while there is no deliverable for this class, there is a considerable amount of material in the data room that you are asked to read in preparation.*

Class 3 (September 18) – Guest Speakers

- Greg Goldfarb, Partner, Head of Summit Growth, Summit Partners: A Perspective on Growth Investing, spotting winners and losers
- *Assignment for September 25 class: As noted the previous week*

Class 4 (September 25) – Business and Sector Diligence

- Sector, market and TAM overview
 - Market overview
 - Growth, competition, TMFS positioning
- Discussion of competitive strengths of the company
- Discussion of threats and competitive weaknesses
- Radio and radio show review
- Key Person risk
- Investment product and performance
- Assessment of the company using Porter’s 5 Forces
- *Assignment for October 2 class: None, guest speaker. Please start reviewing materials in data room and thinking about the two assignments due in October*

Class 5 (October 2) – Guest Speaker

- Guest speaker: Marc Ganzi, CEO, Digital Bridge (fka Colony Capital): Infrastructure Investing and the opportunity in digital infrastructure
- *Assignment for October 9 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) Net Flows, iv) legal diligence key outtakes and v) accounting diligence key outtakes. Please note, while there is no deliverable for the October 2 class, there is a considerable amount of material in the data room that you are asked to read in preparation.*

Class 6 (October 9) Due Diligence Review / Diligence Data Pack – In Person Class for Those Available

- 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)
- Legal diligence key takeaways
- Accounting diligence key outtakes

- *Assignment for October 9 class: None. Guest Speaker.*
- *Team Assignment for October 23 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 and v) other key assumptions and KPIs. Teams will be asked to present on their models and key outtakes in class. Thus, please prepare several PowerPoint Slides summarizing the 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.*
- *Individual assignment (not to be done with your team) for October 30 class: Review Primerica case study in data room and submit hand-in of thorough responses to the Key Questions listed at the end of the Primerica case prior to class.*

Class 7 (October 16) – NO CLASS – MBA OPPORTUNITY WEEK

- *Keep Working on Assignments for October 23rd (Model) and October 30 class (Primerica)*

Class 8 (October 23) – Model Discussion and Financing Discussion

- Model discussion presentations
 - Presentation of model and key outtakes by several teams
- Discussion of key model drivers, sensitivities and KPIs
 - Elements 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 an investment
 - Appropriate level of leverage
 - Credit analysis and risks
 - Key terms in a financing
- *Assignment for October 30 class: Primerica hand in as noted previously*

Class 9 (October 30) – Case Study: Primerica – In Person Class for Those Available

- 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?
- *Assignment for November 6 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 6 class, but please be sure to read the Stock Purchase agreement and SPA Issues List in the data room carefully.*

Class 10 (November 6) – 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 November 13 class: None. Guest Speaker.*
- *Assignment for November 20 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 rollover and employment agreements in the first 120 minutes of the November 20 class— you have 120 minutes to get to a deal (or not) and to write up the results! Please prepare as a team for the negotiation and review key questions / issues to address for the negotiation in the data room in advance, as time will be limited.*

Class 11 (November 13) – Guest Speaker

- Guest Speaker, Patrick Healey, CEO, Hellman & Friedman: Investment discipline, conviction building and investment judgement
- Guest Speaker, Raj Kushwaha, Co-Head of Investment Support Group, Warburg Pincus: Role of operating executives in the due diligence and value creation in private equity
- *Assignment for November 20 class: As noted the previous week*
- *Assignment for November 27 class: Prepare Investment Committee memo in PowerPoint 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, vi) Summary of Key Financials and Projections, vii) Valuation and viii) Final recommendation on whether to invest or not and at what price. Presentation should not be more than 12 - 17 pages in total. Each team will present to the Investment Committee (the professor and TAs) in class.*

Class 12 (November 20) – SPA Negotiation and Guest Speaker

- First 120 minutes of class: paired up teams will connect virtually to negotiate and agree on the key terms of the SPA and the transaction. 90 minutes to get to a deal and write it up! Write up will need to be submitted right at end of negotiation
- Next 60 minutes of class: several of the paired up teams will be asked to jointly present their agreed-on terms

Class 13 (November 27) – Investment Committee Meeting and Post Mortem – In Person Class for Those Available

- Investment Committee presentations by each team to the Investment Committee (the professor and TAs)
- 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 value-additive content ready. In light of the interactive nature of this 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 (15%)*: 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 (20%)*: 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%)*: Team negotiation of transaction and SPA terms. Evaluation will be based on results of ultimate negotiation and soundness of outcome reached. This will be a team grade.
- *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 textbook for this class. However, a considerable amount of material 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 request this. 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 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 other students, prior year students, or any information on the company or transaction not provided in the class (i.e., do not Google the company or transaction). Individual assignments must be done on an individual basis. Any violations of this rule will be treated as a breach of the Honor Code.