

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE 8010
Advanced Topics in Private Equity: The Deal
Tuesday 5:15 – 8:15p
Course Syllabus
Spring 2024

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COURSE DESCRIPTION

This course will address a variety of topics in private equity (PE) leveraging a highly practical and real-world approach. It will focus on growth and later-stage buyout transactions (venture capital is not explicitly addressed in this course), and a primarily U.S.-centric view that should be largely applicable in other markets. In addition, the course will focus on the transaction stage of PE investing – i.e., the art of the deal – and mostly leave aside deal sourcing, portfolio management and investor relations. The goal of this course is to educate students about the substance, process and mechanics of PE investing, through the lens of the investment professionals, counterparties and advisors that drive transactions to completion. Course topics will address the entirety of the deal process, and will include the following:

- LBO Modeling
- Commercial Diligence (principles and execution)
- Comparable Analysis (“Comps”)
- Debt Financing
- Accounting Diligence
- Management Packages
- Sale & Purchase Agreements
- Other Advisory Work

Throughout the course, students will learn about each element of the deal process through in-class lectures, while concurrently applying those learnings to two former transactions (these must be old enough that sharing material is no longer sensitive). The in-class lectures will cover conceptual frameworks, practical considerations and real-world case studies and examples. The two former transactions used in class will apply these learnings to the art of the deal through a real-world lens. First, students will learn from an extended in-class case study of “TargetCo1”, which the instructor will use as a real-world example of the deal process elements taught during the course. Second, student teams will engage in a fulsome ‘real-time’ transaction of “TargetCo2”, that will run throughout the duration of the course; this will require students to prepare materials that mirror a real private equity transaction, from initial bid through to final SPA negotiation.

Students will be expected to actively engage in classroom discussions, challenging one another and the lecturers about how to think through these issues in an ever-evolving investment world. In addition, throughout the course, students will be expected to participate actively with their teams as they proceed with at-home assignments.

PREREQUISITES

Successful completion of core finance requirements, FNCE 611 and FNCE 613, as well as at least one of FNCE 726 or FNCE 751; special permission can also be requested based on relevant professional experience.

COURSE GRADING

Course performance will be evaluated based on five elements:

- #1: Investment Committee Deck and Model (35%): 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, the reasonableness of the final purchase price proposed, and the completion of a LBO model.
- #2: Financing Grid & Write-up (20%): Evaluation will be based on the accuracy of commitment paper and credit agreement terms reflected in grids and terms described by the team in the write-up.
- #3: SPA Negotiation & Write-up (20%): Evaluation will be based on the quality of terms achieved, professionalism of the final SPA product, and the soundness of negotiating objectives and strategy described by the team in the write-up.
- Class Participation (25%): Evaluation will be based on both the substance and frequency of students' individual in-classroom engagement. In light of the interactive and small group nature of the course, attendance is mandatory; any classes missed require approval from the instructor. To ensure your attendance is captured, please make sure that your name card is clearly present during class. If you do not have your name card, it is your responsibility to let the TA's know you are physically present in class to get attendance credit. To maximize engagement and minimize distraction for yourself and classmates, electronic devices aren't allowed for purposes other than note-taking. Use of an electronic device for other purposes during class will be reflected in your participation.

Please note that any requests for regrading of an assignment will permit a regrading of the entire assignment and not only the issue raised. Finally, see 'Course Outline' for relevant due dates and 'Deliverables' for descriptions.

COURSE MATERIALS

There may be non-textbook reading materials throughout the course which will be available via the course website. In addition, mock deal materials will be available in an online, dataroom-like environment from which students can download relevant TargetCo2 deal files.

In addition to the above materials, students who seek to engage in the private equity community will also stay current with a variety of other sources, including:

- PEHub (www.pehub.com)
- New York Times Dealbook (<http://www.nytimes.com/pages/business/dealbook/>)
- Wall Street Journal (www.wsj.com)
- Business Breakdown podcast

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 (five person teams will be first come, first served). While you can choose your team, we would recommend a variety of backgrounds and skills. Once a group is formed, please register your team on the Canvas site. Once the initial team is formed for assignment #1, you CANNOT change the teams without explicit permission from the professor. To request this, please email Professor Bard with detailed reasoning for the request. 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 #[XX] – Project #[X] ([Last Name 1, Last Name 2, etc.])". As an example: Team #3 – Project #2 (Bard, Smith).

COURSE OUTLINE

The below outline is a guide for how the course will be structured during this semester. Each class will be split into two parts with a break between (described below as "A" and "B"). Students should expect schedule changes, including to course topics and project due dates, during the course of the semester based on progress in class for certain topics as well as schedule changes of outside speakers and the instructor. In addition, due dates for projects may move a week or two based on course progression and timing.

Date	Part	Lead	Course Title	Description	Deliverable
1/16	A	DB (VC)	Course Intro & LBO Modeling Refresher	Discuss course content and composition; walk through typical deal process, mapping out key deal elements, which will guide course	
	B		None		
1/23	A	DB	Commercial Diligence 101: What It Is	Review key elements of commercial diligence that drive business valuation; covers both conceptual guidance and practical applications, including financial forecasting and valuation	
	B	DB	Commercial Diligence 101 (Cont...)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
1/30	A	DB	Commercial Diligence Case Study: TargetCo1	Discuss students' perspectives on TargetCo1 along with potential valuation range	
	B	DB	Commercial Diligence 102: What To Do	Review tactical company analyses, macro analysis, industry work and other related activities that comprise good commercial diligence	

2/6	A	Guest	Private Equity State of the Union	McKinsey's private equity practice leadership will share an update on the state of the PE markets in the context of long-term and recent history	
	B	Guest	Private Equity State of the Union (Cont...)	Continued	
2/13	A	DB	Commercial Diligence Wrap Up	Continue prior lecture, provide additional Q&A and discuss real-world examples	#1: Investment Committee Deck for TargetCo2 (<i>due by 10p on 2/17</i>)
	B	DB	Commercial Diligence Wrap Up	Finish Commercial Diligence Discussion	
2/20	A	DB	Debt Financing	Discuss key objectives of debt financing negotiations, explore structuring alternatives and design options, and typical mechanisms included by Buyers and financing sources	
	B	DB	Debt Financing (Cont...)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
2/27	A	DB	Core Exams – No Class		
	B	DB	Core Exams – No Class		
3/6	A	DB	Spring Break – No Class		
	B	DB	Spring Break – No Class		
3/12	A	Guest	Sale & Purchase Agreements (SPA)	Discuss key objectives of each party for an SPA, key terms that are commonly negotiated, and typical mechanisms to achieve Buyer and Seller objectives	
	B	Guest	Sale & Purchase Agreements (Cont...)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
3/19	A	DB	Vertical Focus – Life Sciences	Discuss the private life sciences investing landscape and how the investment process is different from standard PE	#2: Debt Financing Grid for TargetCo2 (<i>due by 10p on 3/24</i>)
	B	DB	Vertical Focus – Sciences (Cont...)	Continued	
3/26	A	Guest	Vertical Focus – FIG	Discuss the private financial services investing landscape and how the investment process is different from standard PE	
	B	Guest	SPA Negotiation	In-Class negotiation time	
4/2	A	DB	Accounting Diligence & Mgmt Packages	Review key elements of accounting diligence, including Quality of Earnings, Net Working Capital targets, Debt-like Items and Tax, as well as the basics of Mgmt Package design	
	B	DB	Accounting Diligence & Mgmt Packages (Cont...)	Continue prior lecture, provide additional Q&A and discuss real-world examples	
4/9	A	Guest + DB	What Actually Happened	Deal executive who led investment of TargetCo2 transactions will discuss the deal process and outcome, and welcome Q&A	#3 SPA & Write-up for TargetCo2 (<i>due by 10p on 4/14</i>)
	B	Guest + DB	What Actually Happened (Cont...)	Deal executive from the TargetCo2 transactions will discuss the deal process and outcome	

4/16

A	DB	How to Use (and Not Use) Comps	Review comparative multiple analysis from a private equity viewpoint, including both trading and transaction comps, and key driver analysis	
B	DB	Course Wrap Up	Wrap up and Q&A	

DELIVERABLES

#1: Investment Committee Deck & Model

Student teams will have access to a variety of private company materials and third-party advisor materials about TargetCo2 which they will use to create materials for their “Investment Committee”. This is the opportunity for the deal team to share with the internal team their perspective of the key opportunities (or investment theses) and risks of the investment, along with a recommendation around whether to put in a final bid and, if so, at what valuation. The document (or ‘deck’) should be 20-25 PowerPoint pages (plus up to 10 pages of appendixes), with more guidance to be provided during the early lectures. Teams should also prepare to submit their valuation model in full, including an Excel file and PDF output.

#2: Debt Financing Grid & Write-up

Student teams will have access to a variety of financing materials from the TargetCo2 transaction, including: initial bid term sheets, near-final bid commitment papers, and final debt documents. Each team will prepare a ‘grid’ of the various financing sources relative to one another, along with where the final financing ended up along those terms. Finally, each team will provide a write-up of up to 750 words (approximately) that discusses their observations around which terms identified in the commitment papers they would have found most important (beyond quantum and rate), which terms changed most significantly, and why they believe that the equilibrium reached in the final docs came out where it did. More details will be provided during the course.

#3 Final SPA & Write-up

Student teams will negotiate a SPA for TargetCo2, from initial draft (to be provided) to a final document to be signed by Buyer and Seller. Each team will be designated as either Buyer or Seller; teams will have approximately 2 weeks to come to terms. Each team will submit a mutually agreed upon SPA or, if both sides cannot come to terms, then the near-final SPA. If both sides come to terms, please provide an issues list that lays out each commercial issue that was changed from initial SPA to final SPA. If both sides did not come to terms, for any open terms, please highlight where each side was on those issues. It should be noted that not coming to terms means that the Seller is left having invested months in an unsuccessful sales process and the Buyer has invested up to \$2mm in diligence costs and months in resources and doesn’t have a deal to show for their efforts. In addition, each team will provide a write-up of up to 1,000 words (approximately) that discusses the negotiation dynamics, covering the following topics: (i) key terms which their own team believed were important, (ii) key terms which they perceived to be most important to their counterparty, and (iii) terms which their counterparty didn’t seem to value but which their team would have valued if in their counterparty’s shoes. More details will be provided during the course.

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 former students

or prior years that relate to the mock deal other than what is currently provided on the course website. Any violations of this rule will be treated as a breach of the Honor Code.

CONTACT, TUTORIALS AND RECORDINGS

David Bard is a Senior Fellow at Wharton and Partner at The Halifax Group, based in Washington D.C. Throughout the semester Professor Bard will host live and virtual office hours. He will contact the class in advance with details. This course will use selective virtual-only classes to accommodate scheduling and guests, and will not be recorded.