

**UNIVERSITY OF PENNSYLVANIA**  
**The Wharton School**  
**FNCE 251: The Finance of Buyouts and Acquisitions**  
**Professor Burcu Esmer**  
**Fall 2020**

**Course Objective:**

The aim of the course is to provide an understanding of key concepts and institutions involved in corporate buyouts and mergers and acquisitions. Students will develop skills necessary to structure a deal or form an opinion about a proposed transaction. This course is most suitable for finance majors who are considering careers in corporate finance, investment banking, private equity, or consulting.

**Co-requisite:**

Advanced Corporate Finance FNCE 203 **or** Corporate Valuations FNCE 207

**Reading Materials:**

- Course Reader (cases and articles)
- Lecture notes and other reading materials on course webpage (Canvas)
- Suggested background reading:
  - Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 7<sup>th</sup> ed., Wiley, 2017
  - Pitchbook, Preqin, The New York Times Deal Book..

**Course Web Page**

Important course materials such as lecture notes, required assignments, deadlines, solutions to problems, and other useful information will be available on the Canvas course web page:

<https://canvas.upenn.edu/courses/1545648>

Any important announcements will be made on the web page. So be sure to check this page regularly. It is **your responsibility** to keep yourself informed of important developments pertaining to the course.

**Format**

This course will be taught synchronously online via Zoom. Some content may be pre-recorded and made available on Canvas. When appropriate, pre-recordings may replace some of the class time. All lectures and case discussions will be recorded and will be available to view until following Monday, 9am (EST). Slides will be posted ahead of time to allow students sufficient time to print them before class.

The structure of the course includes lectures, case discussions, and guest speakers. The lectures provide institutional information, empirical evidence, and analytical methods that will be needed for case discussions. Case discussions will take place in real time. 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, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions**. While there are no “right” answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and nonsensical arguments. Considering my analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that in the “real world” there is a single correct recipe.

### Study Groups

The two term projects and cases will be group work. Students should organize themselves into groups of four or five. **All teams should self-register on Canvas by no later than 11:59pm EST on September 15**. You may use the discussion board on Canvas to post that you are looking for a team member or a 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. Groups must be fixed throughout the semester. Diverse backgrounds within the group is beneficial. Since group work is a cooperative undertaking, students are urged to ensure that they form groups that are able to work effectively.

### Grade Decomposition

Weekly Quizzes	35%
Case Study Assignments	15%
LBO Deal Proposal & Presentation	20%
Merger Deal Proposal & Presentation	20%
Participation & Attendance	10%

Course grades will be “curved” at the end of the semester.

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

### Student Responsibilities and Assessment:

Post-Class Quizzes: (35 % of the course grade)

Each week, a quiz will be posted on Canvas related to that week’s material. The weekly quiz will be published Thursday evening and will be due at 9am (EST) the following Monday.<sup>1</sup> There is no make-up for missed quizzes. If you experience any technical issues, you must notify me as soon as possible so that we can fix the issue in a timely manner. There is no make-up for missed quizzes.

---

<sup>1</sup>The first quiz will be published in the week of September 7.

### Case Study Assignments: (15% of the course grade)

There will be two case study assignments during the semester that require write-ups. 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 in a 2-3 page long executive summary prior to any class discussion. Supporting computations and tables can be included in an appendix. All of the assumptions and formulas used should be provided (preferably as a footnote). Groups must submit the .xls file along with their executive summary. Raw data from the case exhibits in .xls format and some hints for the analysis will be available on Canvas. HCA case is on Canvas under Cases folder. Dow case is under Study.Net materials folder.

Although brief discussions across groups are allowed, exchange of analysis or calculations is not. Most cases we will cover 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 from previous years or from similar courses elsewhere for your write-ups and class discussions.

Case write-ups must be submitted via Canvas and are due at 9:00am on assigned dates (please see course schedule below). Late submissions and submissions via email will not be accepted.

### Class Participation and Attendance: (10% of the course grade)

Because so much learning occurs in the classroom, it is important that you attend every class in real time with your video on. A goal of the course is to provide students with the opportunity to learn how to best contribute to discussions about complex financial issues. Moreover, many students have relevant experience that benefits other students when brought into the classroom. For these reasons, participation in the classroom discussion is a central part of the course.

Starting on September 8, attendance will be recorded within five minutes of the start of each lecture. Recorded attendance requires that you have your web camera on at all times. If you are in a location with poor-quality internet, you may apply for an individual exception to this rule in advance no later than September 11 by filling out the course survey on Canvas.

Your need to make sure that your zoom log in name matches your name on your academic record, otherwise we may not be able to track your attendance. There will also be in-class polls given at random times which will enable us to monitor your presence during the class. Attendance will not be recorded for sessions held outside the regular class time. Missing up to two classes for any reason (illnesses, interviews, religious holidays, case competitions etc.) will not affect your attendance score. Any absences beyond two will lower your attendance grade.

Your participation score will be determined based on three factors. First, students are expected to actively participate to the class. You may use the “raise hand” function in Zoom to show that you would like to contribute. We encourage voluntary participation, but may also cold call to ensure that the class enjoys the benefit of every student’s contribution. 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 quality of your comments as well as quantity. The overall class participation grade is based on each student’s total participation score over the term.

Second, each student will anonymously evaluate his/her team members for each case and project submission. Your team members' evaluation of your efforts will contribute to your participation score.

Third, we will circulate a survey related to each guest speaker session. Filling out these surveys will contribute to your participation score.

Inadequate class participation combined with several absences can lead to a failing grade.

LBO Deal Proposal: (20% of the course grade)

Each group is asked to identify a target firm as a financial buyer and prepare a deal proposal. The deal proposal is an active learning tool and allows you to apply many concepts that you have learned at the Wharton School. You may use firm specific or market data that are publicly available for your analysis. However, you cannot use materials prepared by professionals for a deal. Furthermore, any existing deal that is used in a teaching material (e.g., a case study) cannot be chosen as the topic of your proposal. **Each group should fill out the survey which will be published on Canvas and disclose the firm they picked by 11:59pm EST on Monday, October 19.**

A written report and a power point presentation **are due at 9:00am EST on Monday, October 26.**

Five or six selected groups will present their deal proposals during the week of October 26 in front of a panel of industry professionals. Exceptional presentation performances will contribute to participation scores. The remaining groups must record and submit their presentation by **11:59pm EST on October 30.** Additional details are in the LBO Proposal Guidelines on Canvas.

Merger Deal Proposal (20% of the course grade)

Each 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 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. **Each group should fill out the survey on Canvas and disclose the firm they picked by 11:59pm EST Monday, November 30.**

A written report and a power point presentation **are due at 9:00am EST on Monday, December 7.** Three or four selected groups will present their term projects on the last day of class (December 10). Exceptional presentation performances will contribute to individual participation scores. The remaining groups should record and submit their presentation by **11:59pm EST on December 11.** Additional details are in the Merger Project Guidelines on Canvas.

## Re-grades

Grades are non-negotiable. You may submit a re-grade request to me if you believe that there is a grading error. 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 whole assignment, not just the part(s) that are mentioned in your request.

## 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. Failure to follow this rule may result in an automatic failing grade for the course. The University of Pennsylvania's Code of Academic Integrity is available at: <https://provost.upenn.edu/policies/pennbook/2013/02/13/code-of-academic-integrity>

## Office Hours and Contact Information:

Professor Burcu Esmer

Office Hours: Thursdays, 5:00-6:00pm (EST) on <https://upenn.zoom.us/j/92954136261>

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

If you have questions about the material, the best place is the Canvas discussion board. The TAs and I will monitor these boards frequently. This board helps ensure that all students have access to the same information. Please avoid using e-mail to ask case- and quiz related questions. If your question requires an elaborate answer, please come to the office hours. You are welcome to contact me directly regarding any questions that you prefer not to be shared with others.

## Teaching Assistants

The teaching assistants (TAs) are responsible for taking attendance and answering questions about the grading of case and project submissions, grading some parts of quizzes, and holding weekly office hours.

Whitney Elmlinger [whitneye@wharton.upenn.edu](mailto:whitneye@wharton.upenn.edu) (will attend to Section 1 sessions)

Benjamin Golub [bgolub@wharton.upenn.edu](mailto:bgolub@wharton.upenn.edu) (will attend to Section 2 sessions)

Spencer Hu [spphu123@wharton.upenn.edu](mailto:spphu123@wharton.upenn.edu) (will attend to Section 3 sessions)

TA office hours will start in the week of September 7. Please see Canvas for more information.

## Important Dates

- September 11 – Fill out Class Survey (midnight EST)
- September 15 – Group formation deadline (via Canvas) (midnight EST)
- September 29 – Submit group assignment #1: HCA (9:00 am EST)
- October 5 – Submit peer evaluation regarding HCA case (midnight EST)
- October 19 – Disclose firm selection for LBO Deal Proposal (midnight EST)
- October 26 – LBO Deal Proposal & PowerPoint Submission deadline (9:00 am EST)

- October 27 & October 29 – LBO Deal Proposal Presentations – Live
- October 30 – LBO Deal Proposal Presentation Recordings are due (midnight EST)
- November 2 – Submit peer evaluation regarding LBO Deal Proposal (midnight EST)
- November 12 – Submit group assignment #2: Dow’s Bid for Rohm and Haas (9:00 am EST)
- November 16 – Submit peer evaluation regarding Dow case (midnight EST)
- November 30 – Disclose firm selection for Merger Proposal (midnight EST)
- December 7 – Merger Deal Proposal & PowerPoint Submission deadline (9:00 am EST)
- December 10 – Merger Deal Proposal Presentation – Live
- December 11 – Merger Deal Proposal Presentation Recordings are due (midnight EST)
- December 14 – Submit peer evaluation regarding Merger Deal Proposal (midnight EST)

## TENTATIVE COURSE OUTLINE

This outline is a preliminary guide as to when material will be covered. There may be changes, with advance notice given in class and/or on Canvas. Note that guest lectures may be scheduled outside of the regular class slots due to our guests' work schedules. Conditional on our guests' permission, these sessions will be recorded and made available on Canvas.

### PART I: BUYOUTS

#### **Session 1: September 1**

*Introduction and Organization*

**No Class** (Please watch the recording on Canvas)

#### **Session 2: September 3**

*Valuation Concepts*

#### **Session 3: September 8**

*Valuation Concepts cont.*

#### **Session 4: September 10**

*In-Class Exercise: Paradyne*

#### **Session 5: September 15**

*PE Process*

Reading:

- Gaughan Ch. 8 and 9

#### **Session 6: September 17**

*PE Trends*

#### **Session 7: September 22**

*Reduced Form Valuation / Multiples*

#### **Session 8: September 24**

*LBO Model*

#### **Session 9: September 29**

*Case 1: HCA\**

#### **Session 10: October 1 at 10:30am or watch the recording**

*What really happened?*

Guest speaker: James D. Forbes, Vice Chairman, Morgan Stanley Investment Banking

#### **Session 11: October 6**

*Case 2: Realogy*

#### **Session 12: October 8**

*Restructuring: Comparative Analysis*

**Session 13: October 13**

*Case 3: Middle Market*

**Session 14: October 15**

*Guest Speaker TBA*

**Session 15: October 20**

*Incentives and Private Equity Fund Structure*

Reading:

- “Note on Private Equity Partnership Agreements” by Josh Lerner

**Session 16: October 22**

*Guest Speaker TBA*

**Sessions 17-18: October 27 and 29**

*LBO Deal Proposal Presentations*

---

**PART II: MERGERS AND ACQUISITIONS**

**Session 19: November 3**

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

Reading:

- Gaughan Ch. 1 and 2
- Eckbo, B. Espen, 2014, “Corporate takeovers and economic efficiency”, Annual Review of Financial Economics 6, 51-74
- Eckbo, B. Espen, 2009, “Bidding strategies and takeover premiums: A review”, Journal of Corporate Finance 15, 149-178.
- McConnell, John J., and Valeriy Sibilkov, 2016, “Do investment banks have incentives to help clients make value-creating acquisitions”, Journal of Applied Corporate Finance 28, 103-117

**Session 20: November 5**

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

Suggested 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

**Session 21: November 10**

*Synergy valuation and target stand-alone value*

Suggested Reading:

- Gaughan Ch. 15

**Session 22: November 12**

*Case 4: Dow’s Bid for Rohm and Haas\**



**Session 23: November 17**

*Accretion/dilution, method of payment, and exchange ratio* bn

Suggested Reading:

- Rappaport, Alfred, and Mark L. Sirower, 1999, Stock or cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions, *Harvard Business Review* (Nov-Dec), reprint 99611

**Session 24: November 19**

*Price protection and risk sharing*

Suggested Reading:

- 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.

**Session 25: November 23 (Mon) at 9am and 10:30am, or watch the recording**

*Interactive role-play focusing on the legal and regulatory issues in M&A transactions*

Guest Speaker: Stuart Cable, Partner Goodwin Procter LLP

Reading:

- Gaughan Ch. 3

**Session 26: December 1**

*Hostility, defensive tactics, and antitrust*

Suggested Reading:

- Gaughan Ch. 5

**Session 27: December 2 (Wed) at 9am or watch the recording**

*Structuring the deal*

Guest speaker: Stephen Munger, Managing Director and Chairman, Global M&A

Morgan Stanley Investment Banking Division

**Session 28: December 8**

*Course Wrap-up*

**Session 29: December 10**

*Merger deal proposal presentations*