

FNCE 2510: THE FINANCE OF BUYOUTS AND ACQUISITIONS

Spring 2024

The Wharton School, University of Pennsylvania

-- Syllabus --

INSTRUCTOR

Professor Lu Liu

Email: lliu1@wharton.upenn.edu

Office hours available by appointment

CLASS TIMES

Section 001: MW 1:45 PM - 3:15 PM, JMHH 240

Section 002: MW 3:30 PM – 5:00 PM, JMHH 240

TEACHING ASSISTANTS (TAs)

Arisht Hadpawat: arisht@wharton.upenn.edu

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

--- Please review the syllabus carefully. Ignoring guidance in the syllabus can lead to a lower professionalism grade. ---

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

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.

INFORMATION ON COURSE REGISTRATION AND WAITLIST

Wharton Juniors and Seniors have priority when registering for this course. Please note that faculty do not have access to registration or waitlist and so all questions regarding registration and waitlist should be addressed to fnce-courses@wharton.upenn.edu. Please note that in some cases, it may show that spots are available but there might be none, this happens when the administration is still in the process of clearing the waitlist and so you should again direct any questions to the email above.

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 2024 \(upenn.edu\)](https://courses.upenn.edu/2024spring/fnce2510)

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

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
- 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, 5th Edition, Pearson, 2019 (henceforth, “BM”).
 - Gaughan, Patrick A., Mergers, Acquisitions and Corporate Restructurings, 7th Edition, Wiley, 2017 (“GA”).
 - Joshua Rosenbaum and Joshua Pearl, Investment Banking, 3rd 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 by the deadline shown in the course outline. You may use Ed Discussion to seek team members and organize your group. If a student does not self-register by the deadline, they will be randomly assigned to a group. There will be no re-assignment thereafter. It is the student's responsibility to contact the other team members and arrange meetings. Since group work is a

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

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.

CLASS COMMUNICATION

- Questions on course material or logistics: **Ed Discussion**

Instead of email, please submit your questions about the course material or logistics over Ed Discussion. Ed Discussion is a forum, visible to everyone in both sections, where you can both ask and answer questions about the course. You have the option to ask questions anonymously as well. To enroll, please go to Ed Discussion on the Canvas tab.

The questions 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. You can expect a response over Ed Discussion within one business day. Keep this in mind in case you have questions before an exam or other deadline. To make sure your questions are answered prior to these events, plan to submit them at least one business day in advance.

- Providing good answers to your classmates' questions can earn you extra credit.
- Please also make sure to upvote questions, this will help us take into account which topics and questions to emphasize for in-class and pre-exam revisions.
- More detailed questions on course material: **TA Office Hours**, and talk to me before or after class.
- Other questions: Please come and talk to me before or after class.
- Sensitive questions / personal emergencies: Please come and talk to me before or after class, or send an email. Please reach out if you experience any difficulties with the course as soon as possible. These difficulties may arise from the course itself, or external forces (e.g., other courses, personal issues). Regardless of the source, please let me know as soon as possible so we can work together to avoid larger problems later on.

GRADING POLICY

Individual work:

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

Group work:

Deal Proposal & Presentation	30%
Two Case Studies	15%

<u>Professionalism grade:</u>	Up to 1 grade
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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 midterm 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) – Monday, March 18, 7:00 pm – 8:30 pm

Exam 2 (Strategic Acquisitions) – Monday, April 15, 7:00 pm – 8:30 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.

If a student believes that their exam was marked incorrectly and would like for the exam to be reviewed, the student must submit a review request within one week of the day on which exams are returned. To submit a review request, the student must return a copy of the exam and attach a written, dated note stating the reason(s) for the request, and submit these to the administrative assistant in the Wharton Finance Department. The only valid reason for a regrade is an error on our part. We will not debate the merits of the grading scheme, which includes how much partial credit is appropriate when answers contain mistakes. If the request is accepted, the exam will be regraded in its entirety. As a result, the revised score may go up, down, or stay the same.

Missed Exam Policy

If you miss the first midterm exam, regardless of the reason, your second midterm's exam score will be used in its place. Note that if you take the first midterm exam, your grade for the first midterm will be recorded. That is, you cannot substitute the grade of the first midterm with that of the second midterm if you took the first midterm. Taking the first midterm is defined as entering the classroom where you will take the first midterm. Therefore, you cannot read the exam and then decide you do not want to take the first midterm and have the grade of the second midterm substitute for that of the first midterm.

Missing the second midterm exam will result in a grade of zero for that exam. The only excuse for missing this exam is a medical emergency or grave personal difficulties such as a death in the family, the validity of which will be verified by the University. When missing the exam is excused, a make-up exam will be scheduled for the student. The make-up for the 2nd midterm will be scheduled to coincide with the University's scheduled date for make-up finals, which takes place in the following semester. Students who fail to take this exam without making arrangements with the instructor will receive a grade of zero for that exam.

Medical Emergencies and Grave Personal Difficulties include:

- Illness or injury requiring urgent medical attention and/or quarantine for the student
- Death or diagnosed life-threatening illness of a spouse/partner or a close family member (for example, a student's or spouse's/partner's parents, siblings, children)
- Being the victim of a crime

Events that *do not* constitute a medical emergency nor grave personal difficulty include:

- Job interviews; Academic conferences; Weddings; Non-urgent medical appointments; Birthday, social, sports, or anniversary events; Internet or computer problems; Traffic.

If you experience a medical emergency or grave personal difficulty, please contact me as soon as it is practical for you to do so. We encourage you to reach out to your academic advisor if such an event occurs - they can help contact your professors and connect you to additional support services.

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 from the second lecture, attendance will be recorded during the first five minutes of each lecture. Missing up to three 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 three will negatively impact your attendance grade.

In the first class, you will receive a name tent. Please bring the name tent and place it in front of you every class.

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.

Also note that if you are in class but clearly not paying attention, such as by wearing headphones, talking all the time to your friends and/or watching videos on laptop, we will not count your attendance during that class, or make deductions.

Students can improve their participation grades by making positive contributions to the class, and by answering questions well and sharing interesting articles on Ed Discussion.

3) In-Class Quizzes

We will have in-class quizzes 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 take place in-class and will consist of multiple choice questions. If you cannot attend the class, the quiz grade will be zero. The worst quiz grade will be dropped.

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 in the course schedule. 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.² Selected groups will present their deal proposal in front of an industry professional. All groups must submit their presentation by the date and time indicated in the course schedule. 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.³ Selected groups will present their deal proposal in front of an industry professional. All groups must submit their presentation by the date and time indicated in the course schedule. 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.

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 **12:00 pm** on assigned dates (please see course schedule below). Late submissions and submissions via email will not be accepted.

² 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.

³ 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.

6) Professionalism

An important aspect of the workplace is to show professionalism in your interactions with clients and other team members. This portion of the grade exists to help you work on such skills. The professionalism grade will be based on being professional in your interactions with the teaching assistants and the professors. As long as you do this, it should be very easy to get a full score for this component.

Everyone starts with a 100% professionalism grade and points are deducted for unprofessional conduct. Large deductions should be rare, but in such instances, the professionalism grade can result in up to one lower grade in the grading scale (e.g. from A- to B+). Examples of unprofessional behavior include not showing up to scheduled appointments; asking questions via email that are clearly answered on the syllabus or Canvas (e.g., the due date of a case study); asking for an exception for you that is not part of the University's policy; requesting an exception to the rules stated on the syllabus (such as the exam policies); and asking for a regrade for any other reason than an error on our part. In-class behavior also counts. For instance, consistent talking during class sessions, particularly after being prompted to ask about any questions you may have by the professor, is unacceptable. Another instance includes the use of headphones during class, unless you have a specific disability that necessitates their use, in which case please inform me in advance. These examples are not comprehensive and are intended to promote a respectful and engaging learning environment. This portion of the grade exists to make sure all students are treated fairly and to help you work on professional skills that will be very important in your career.

CLASSROOM CITIZENSHIP AND GROUND RULES

- 1) Please arrive in the classroom on time. If you arrive at the classroom door five minutes after the class starts, you must not enter the classroom. Arriving late repeatedly may lower your participation grade.
- 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.
- 4) Please bring your name tents 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.

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.

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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COURSE OUTLINE (subject to change)

The course outline is a preliminary guide as to when and what 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
		Part 0: Introduction		
1	Mon, Jan-22	Introduction and Organization		
2	Wed, Jan-24	The Market for Corporate Control	BM (28)	
3	Mon, Jan-29	Valuation Methods	RP (1,2,3)	
4	Wed, Jan-31	Financial Statements and Financial Modeling	RP (3,5)	Submit groups
		Part I: Leveraged Buyouts		
5	Mon, Feb-05	Introduction to Private Equity	GA (8,9)	
6	Wed, Feb-07	LBO Modeling	RP (5)	
7	Mon, Feb-12	Multiples, Value Creation & Exit Strategies	HBS Primer 9-218-017	
8	Wed, Feb-14	Case Discussion: HCA	<i>HCA</i>	Quiz #1
9	Mon, Feb-19	Case Discussion: Realogy	<i>Realogy</i>	Quiz #2
10	Wed, Feb-21	Case Discussion: TXU	<i>TXU</i>	Quiz #3
11	Mon, Feb-26	Private Equity Fund Structure	UV6986	
12	Wed, Feb-28	Case Discussion: Buffalo Wild Wings (BWV)	<i>Buffalo Wild Wings*</i>	Case Submission, 12:00 pm
13	Mon, Mar-11	Guest Speaker (Isaiah Schulze, Cerberus)		
14	Wed, Mar-13	Guest Speaker (Ryan Limaye, Goldman Sachs)		
15	Mon, Mar-18	No Class		Exam, 7-8:30 pm, Location: TBA
16	Wed, Mar-20	Guest Speaker (Tim Drager, BPC)		
		Part II: Strategic Acquisitions		
17	Mon, Mar-25	Introduction to M&A	GA (1,2)	
18	Wed, Mar-27	Valuation and Synergies	<i>Monmouth</i> , GA (15)	Quiz #4
19	Mon, Apr-01	Accretion/Dilution, Method of Payment	<i>Monmouth</i> , RP (7.6)	Quiz #5
20	Wed, Apr-03	Price Protection and Risk Sharing	<i>GM-Pillsbury</i> , supp. material	Quiz #6
	Fri, Apr-05	Guest Speaker (Alejandro Przygoda, Jefferies)		
21	Mon, Apr-08	Case Discussion: Stanley, Black & Decker	<i>Stanley B&D, Canadian Pacific*</i>	Case Submission, 12:00 pm
22	Wed, Apr-10	No Class (Guest Lecture on April 5)		
23	Mon, Apr-15	No Class		Exam, 7-8:30 pm, Location: TBA
24	Wed, Apr-17	Guest Speaker (Nathan Wilson, Compass Lex)		
25	Mon, Apr-22	Guest Speaker (Peter Tang, Nomura)		LBO proposal by Monday, April 22
26	Wed, Apr-24	LBO Deal Presentations		M&A proposal by Thursday, April 25
27	Mon, Apr-29	Merger Deal Presentations		
28	Wed, May-01	Course-Wrap Up		