

THE FINANCE OF BUYOUTS AND ACQUISITIONS
FALL 2023



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COURSE OBJECTIVE

The aim of the course is to provide an understanding of key concepts and institutions involved in corporate buyouts and public company takeovers. Students will develop skills necessary to structure a deal or form an opinion about a proposed transaction.

The 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, and other useful information will be available on the Canvas course web page:
<https://canvas.upenn.edu/courses/1723045>.

Please be sure to check the course page regularly for any updates and deadlines. 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 also adjust your course-level notifications by clicking the "View Course Notifications" button on the right side of our course home page.

It is **students' responsibility** to be mindful of deadlines and any important developments pertaining to the course.

COURSE MATERIALS

- Lecture notes and non-licensed articles (such as news articles) can be found under Files on the course webpage.
- Licensed cases and notes can be found under Study.net materials on the course webpage.
- Licensed articles and ebooks can be found under Course Materials @ Penn Libraries on the course webpage.
- Recommended (but not required) for background reading:
 - Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 7th ed., Wiley, 2017 (below referred to as Gaughan)
 - PitchBook, Prequin, PEHub, The New York Times Deal Book, Wall Street Journal, Financial Times, Reuters M&A Page, MarketWatch M&A Page

FORMAT

This course is taught mostly with cases and supplemented with a few lectures. The case method of instruction offers some distinct benefits. By preparing cases you learn more than just the financial theory required to analyze them. You learn about the agents, institutions, and transactions that comprise the modern financial system. You also learn to contribute effectively to fast paced discussions about complex financial issues and test your understanding and your solutions to these issues that are rarely black or white.

Moreover, the case method helps you use financial theory and models selectively so that you can reach coherent and defensible conclusions when faced with real world problems. One should keep in mind that there is not necessarily “the” right answer to a case; different assumptions may lead to different solutions and decisions. There is, however, always a theoretically correct and sound approach to the problems encountered in cases and, thus, to the decisions you may encounter throughout your professional career.

Because so much learning occurs through class discussions, it is important that you attend every class. 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.

STUDY TEAMS

There is a project that requires teamwork. Students should organize themselves into teams of two. All teams should self-register on Canvas by no later than **Tuesday, September 18**. You may use the discussion board on Canvas to post that you are looking for a team member. **If a student does not self-register by the deadline, s/he will be randomly assigned to a team.** Team members do not need to be in the same section. However, if a team is selected to give a presentation, both members are expected to be present.

GRADING AND EXPECTATIONS

Readings and Cases

Suggested readings will be published on Canvas under Assignments. Students are expected to have read these as well as any assigned case prior to the session.

Class attendance and participation (25% of the grade)

Class attendance is a requirement of the course. Students must check in with the MBA Attendance App every class. We follow Wharton’s policy for excused absence. Any student who has more than four unexcused absences will automatically fail the course.

Students are expected to engage and participate actively in class. We encourage voluntary participation but will also cold call to ensure that the class enjoys the benefit of every student’s contribution. Class participation is an individual effort and is rated in each session on a scale from **1** (present but without engaging in the discussion) to **4** (active and contributing well to the flow). We consider the quality of your comments as well as quantity. The final class participation grade is based on each student’s total participation score.

To facilitate modeling, the case exhibits in excel are posted on Canvas. For some cases, there are hints that help guide you through some facets of the analysis. It is optional to individually submit a case report of 3-4 pages addressing the assigned questions. The aim of this report is to allow students who feel disadvantaged in the class discussion to show their case analysis and level of preparedness. You must upload the report on Canvas before class begins. Each write-up substitutes for class participation

and gives a maximum score of 3 conditional on attending class. However, a missed class cannot be replaced with a write-up. The reports will not be returned to you.

Pre-Class Quizzes (25% of the grade).

For each case discussion, there is a short quiz in Canvas. The quiz has five simple questions on case facts that are useful for the analysis of the case. The purpose is to encourage advance preparation and help identify relevant case facts. The quizzes are individual assignments. Students have 30 minutes to take the quiz. It opens one week in advance and closes one minute prior to class. There is no makeup for a missed quiz.

Term Project (50% of the grade)

There is a term project for the course. It could be an LBO or an M&A deal. You can choose either one for the term project.

a) Leveraged Buyout (LBO) Project:

If you decide to write a paper on an LBO deal, your team must 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.

b) Merger project

Teams that prefer to work on an M&A deal should 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 through the course, 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 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. Hence, you must start with an Excel spreadsheet which is at most populated with raw data and build the models from scratch. Furthermore, any existing deal used in a teaching material (e.g., a case study) cannot be chosen as the topic of your proposal.

All teams should submit a 2-3 paragraph term project proposal by **Friday, November 17**. The proposal should provide a brief description of the transaction. For an LBO, the choice of target company and the major deal characteristics. For a merger, the choice of target and bidder and a deal rational.

A written report and an excel file containing your models are due at **8:30 AM on Tuesday, November 28**. Three teams will make a 20-minute presentation of their term projects in front of industry professionals on **Tuesday, December 5**. All students are **required to attend the presentation session**. You can sign up to give the presentation by **8:30 AM on Tuesday, November 28**. If slots remain open, we will pick the presenting groups. These groups will be notified at the end of next day. Presenting teams should prepare PP decks for their presentations. You will receive bonus points.

The exchange of analysis and calculations across teams is not allowed. Additional details are in the Project Guidelines on Canvas.

A team member has the right to break up the team if s/he feels that the other member is not contributing equally. In the case of a break-up, each member must submit an individual project report. The last day to exercise the break-up right is Friday, November 17.

GRADES AND RE-GRADE REQUESTS

Class grades are determined using a class-wide (i.e., across all FNCE 7510 sections) curve that respects any constraints imposed by the University or the Wharton School. Note that mandated grade guidelines allow up to 5% failing grades.

You may submit a re-grade request to the professor, *not 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 member in your email and include your team number 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.

Students should not in any way rely on the work of prior or current students who are not on their team. This prohibition extends to 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 which is at most populated 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:
Code of Academic Integrity < University of Pennsylvania (upenn.edu)

TEACHING ASSISTANTS

The teaching assistants (TAs) are responsible for taking attendance and recording class participation, answering questions about class content, case analyses, projects, holding weekly office hours, and grading projects.

Philip Cooke (pcooke24@wharton.upenn.edu)
Jason Idoine (jidoine@wharton.upenn.edu)
Axel Quintero Marmol Ramos (axelq@wharton.upenn.edu)
Faye Teng (fteng@wharton.upenn.edu)

Please see the Canvas homepage for TA office hours and additional information.

COURSE OUTLINE

The course outline below 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 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.

TENTATIVE COURSE OUTLINE

PART I (Q1): BUYOUTS

Session 1: August 29 (Tue)

Introduction and Organization

- Readings for Session 01 on canvas

Session 2: August 31 (Thu)

Valuation Fundamentals for Buyouts

Reading:

- Gaughan Ch. 8 and 9

Session 3: September 5 (Tue)

Valuation Fundamentals for Buyouts

- Exercise: Paradyne Inc.

Session 4: September 7 (Thu)

Case Discussion: RJR Nabisco

Session 5: September 12 (Tue)

LBO Model Fundamentals and Modeling Case

Session 6: September 14 (Thu)

Case Discussion: TXU (& Realogy)

Session 7: September 19 (Tue)

PE Industry and Trends

Guest Speaker: Perry Golkin & Erik Hirsch

Session 8: September 21 (Thu)

Case Discussion: Dell Going Private

Guest Speaker: Kurt Simon, Vice Chairman of Investment Banking, Goldman Sachs

Session 9: September 26 (Tue)

Investing in PE

Guest Speaker: Neha Champaneria Markle, MD, Morgan Stanley/Investment Management

Session 10: September 28 (Thu)

Growth Equity & Middle Market

Guest speaker: Doug Berman, MD, HIG Capital

Session 11: October 3 (Tue)

PE Industry Overview

Guest Speaker: Sanjay Patel, Chairman International, Private Equity, Apollo A

Session 12: October 5 (Thu)

Guest Speaker: Scott Kleinman

PART II (Q2): PUBLIC COMPANY TAKEOVERS

Session 13: October 24 (Tue)

Introduction: Value creation in M&A

Reading:

- Gaughan Ch. 1 and 2.

Session 14: October 26 (Thu)

The merger process and target valuation

Case: Monmouth, HBS 4226.

Reading:

- Gaughan Ch. 15 and 16.
- Corporate Valuation and Market Multiples, HBS 9-206-039.

Session 15: October 31 (Tue)

Synergy valuation, deal NPV, and offer premiums

Case: Monmouth, HBS 4226.

Reading:

- Gaughan Ch. 4.

Session 16: November 2 (Thu)

Accretion/dilution and payment method choice

Case: Monmouth, HBS 4226.

Reading:

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

Session 17: November 7 (Tue)

Sharing of synergy gains, governance issues in M&A

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

Reading:

- Gaughan Ch. 13.

Special Zoom Lecture: November 8 (Wed) @4pm

Guest speaker: Jim Loree, retired CEO, Stanley Black & Decker

Session 18: November 9 (Thu)

Choosing a bid, value of the deal funding package

Case: Playing the field: Competing bids for Anadarko Petroleum Corp., HBS 9-220-087.

Reading:

- Gaughan Ch. 5 and 6.

Session 19: November 14 (Tue)

Hostility, valuing a bid

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

Reading:

- Gaughan Ch. 3
- 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.
- Note on basic option properties, HBS 9-205-105.

Session 20: November 16 (Thu)

Deal probability, merger arbitrage, and empty voting

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

Reading:

- Gaughan Ch. 7.

Session 21: November 21 (Tue)

Joint Session for Course Project (on Zoom)

Session 22: November 28 (Tue)

Section 1: Legal and regulatory issues in M&A

Guest speaker: Stuart M. Cable, Partner, Vice Chairman, and Global Chair of M&A, Goodwin Procter LLP

Section 2-3: Recent trends in M&A

Guest speaker: Stephen Munger, Managing Director and Chairman, Global M&A, Morgan Stanley Investment Banking Division

Session 23: November 30 (Thu)

Putting it all together

Case: Novozymes acquisition of Chr Hansen

Guest speaker: Luigi Rizzo, Managing Director and Vice Chairman Investment Banking, Morgan Stanley.

Session 24: December 5 (Tue)

Term project presentations

Guests: TBA