

**FNCE 7510**  
**THE FINANCE OF BUYOUTS AND ACQUISITIONS**  
**SPRING 2023**



**CLASS MEETING TIME: MONDAYS 7:00 PM – 10:00 PM**  
**CLASS MEETING LOCATION: ZOOM**  
<https://upenn.zoom.us/j/96929820630>  
**RESERVED TOUCHDOWN SPACE: JMH 250**

**INSTRUCTOR**

Professor Burcu Esmer  
Email: [besmer@wharton.upenn.edu](mailto:besmer@wharton.upenn.edu)  
Office hours are available by appointment

**TEACHING ASSISTANTS (TAs)**

[Katya Jones - katyaj@wharton.upenn.edu](mailto:katyaj@wharton.upenn.edu)  
[Faye Teng - fteng@wharton.upenn.edu](mailto:fteng@wharton.upenn.edu)

Office Hours:  
Mondays 12:00 pm – 1:00 pm  
<https://upenn.zoom.us/j/91367214820>

Fridays 11:30 am – 12:30 pm  
<https://upenn.zoom.us/j/96190870152>

Additional office hours are available by appointment

**COURSE OBJECTIVE**

This course provides an understanding of key financial and legal concepts, essential considerations, and institutional information in mergers, acquisitions, and leveraged buyouts. Students will develop the skills necessary to structure a deal and form an opinion about proposed transactions.

This course is divided into two parts. The first part focuses on leveraged buyouts, and the second focuses on strategic acquisitions. Each part has a unique terminology and valuation approach; therefore, the focus will be on the fundamentals.

This course requires a solid understanding of financial modeling and working knowledge of Microsoft Excel. While I will provide supplementary material on modeling, students with limited or no modeling may still find the course challenging.

This 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, solutions to problems, and other helpful information, will be available on the Canvas course web page:

[FNCE 7510 - Spring 2023 \(upenn.edu\)](https://upenn.edu/courses/fnce7510)

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 adjust your course-level notifications by clicking the "View Course Notifications" button on the right side of our course home page.

While I 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) reading:
  - Joshua Rosenbaum and Joshua Pearl, *Investment Banking*, 3<sup>rd</sup> Edition, Wiley, 2022 (below referred to as RP)
  - Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 7<sup>th</sup> ed., Wiley, 2017 (below referred to as Gaughan)
  - 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**

This course will be taught synchronously online via Zoom. Some content may be pre-recorded and made available on Canvas. The course combines lectures, case discussions, and guest speakers. Lectures provide fundamental information, institutional details, empirical evidence, and basic analytical methods. Class time will primarily be used for interactive discussions. Several quantitative examples will be provided in pre-recorded videos to allow students to review the videos at their own pace.

We will discuss several cases throughout the semester. 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, **keep in mind that there is no single "absolutely right" approach to tackle a case; different assumptions can lead to different solutions.** The process of this course will help distinguish between good/sensible and bad/nonsensical arguments. I will be providing my case analyses; however, considering my analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that there is a single correct recipe in the "real world."

We 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 are two projects and two case studies that require group work. Students should organize themselves into groups of four or five (recommended) and self-register on Canvas no later than **Friday, February 3.**

You may use the discussion board on Canvas to seek team members and organize your group. I

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. Since group work is a 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.

### **GRADING POLICY**

#### **Individual work (30%):**

Total Participation Score	25%
Pre-Class Quizzes (seven, tentatively)	5%

#### **Group work (70%):**

LBO Proposal	27.5%
Merger Proposal	27.5%
Case Study Assignments (two)	15%

Course grades will be "curved" at the end of the semester. Historically, about 40% of the students in the class receive an A- or higher.\*

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**

#### **Total Participation Score\***

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. Your total participation score will be determined based on three factors:

- **Attendance**

Attendance will be recorded starting January 30. **Recorded attendance requires you to stay in the Zoom room with your web camera during class time (excluding the class break(s)).**

Missing (or not keeping the camera on during) one session for any reason (illnesses, interviews, religious holidays, case competitions, poor internet, etc.) will not affect your attendance score. Any absences beyond one will negatively impact the class grade.

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\* For Wharton MBA grading policies, please visit <https://mba-inside.wharton.upenn.edu/wharton-mba-academic-policies/>

\* Due to the confidential component, the total participation score will not be disclosed.

- **In Class Participation**

Students are expected to engage and participate actively. 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 **3** (active and contributing well to the flow). We consider the quality of your comments as well as the quantity.

We provide other opportunities for students to partially make up for a lack of in-class participation. First, for a number of cases, students will have the option to individually submit a case report of 3-4 pages addressing the assigned questions. The case exhibits in excel format, and case guidelines are posted on Canvas. You must upload the report on Canvas before class begins. Each write-up substitutes for class participation and gives a **maximum score of 2 conditional on attending class** (i.e., a missed class cannot be replaced with a write-up). The reports will not be returned to you. Second, students can improve their participation grades by making positive contributions to the class, for instance, by sharing interesting articles on the class discussion board<sup>1</sup> and commenting on other students' posts.

- **Group Work Participation**

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. Late submissions or submissions via email will be disregarded.

### Pre-Class Quizzes

We will have a pre-class quiz 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 open one week before the session and will close at the beginning of the session. The quizzes will not have a time limit. Grading will be based on effort. There is no makeup for a missed quiz.

### Leveraged Buyout (LBO) Deal Proposal

Your group must identify a target firm as a financial buyer and prepare a deal proposal. The targeted company must be one that none of the team members has previously valued. You may use firm-specific or market data that are publicly available for your analysis. However, the models should be built from scratch. You cannot use pre-built models that you have used in the past or materials otherwise prepared by professionals.

A written report, the excel file which shows the analyses, and a PowerPoint presentation are due **by 11:59 pm on Saturday, February 25**. Selected group(s) will present their deal proposal on **Monday, February 27**, in front of an industry professional. Exceptional presentation performances will contribute to participation scores. The groups can sign up to give the presentation by **11:59 pm on Saturday, February 25**. If slots remain

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<sup>1</sup> The discussion board will be closed on the last day of classes.

open, we will pick the presenting groups. All members of the group must take part in the presentation. Presenting students will receive full in-class participation score on the day of the presentation.

Please read the [LBO Proposal Guidelines](#) (available on Canvas) for details.

### **Strategic Acquisition/Merger 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. Using the analytical tools learned in class, you should select a bidder and a target and structure the transaction. The targeted company must be one that none of the team members has previously valued. The analysis should cover different aspects of the deal, such as the strategic and economic benefits, target and synergy valuation, payment method, 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.

A written report, the excel file which shows the analyses, and a PowerPoint presentation are due **by 11:59 pm on Saturday, April 15**. Selected group(s) will present their deal proposal on **Monday, April 17**, in front of an industry professional. Exceptional presentation performances will contribute to participation scores. The groups can sign up to give the presentation **by 11:59 pm on Saturday, April 15**. If slots remain open, we will pick the presenting groups. If slots remain open, we will pick the presenting groups. All members of the group must take part in the presentation. Presenting students will receive full in-class participation score on the day of the presentation.

Please read the [Strategic Acquisition Proposal Guidelines](#) (available on Canvas) for details.

*A general note on the proposals:*

The deal proposal is an active learning tool and allows you to apply many concepts you have learned at the Wharton School. 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 using the key concepts. A proposal takes a long time to complete, and I encourage you to start working on them early.

**Late submissions and submissions via email will not be accepted.**

### **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 are under the *Study.Net materials* folder. Case write-ups must be submitted via Canvas and are due at the beginning of the session (please see

the course schedule below). **Late submissions and submissions via email will not be accepted.**

Exchange of analysis and calculations across groups is not allowed. You may use firm-specific or market data that are publicly available for your analysis. You cannot use old notes, handouts, or solutions to the cases from previous years or similar courses elsewhere for your written reports.

### **RE-GRADE REQUESTS**

If you feel an item has been incorrectly graded, you may submit a re-grade request to me, 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) mentioned in your request. If you are submitting a request for a group project, please carbon copy (cc) your team members in your email and include your group number in your request.

### **CLASSROOM CITIZENSHIP**

- You must join the session on time. Attending the session late will negatively impact the attendance score.
- You need to make sure that your zoom login name matches your name on your academic record; otherwise, we may not be able to track your attendance.
- You must keep your camera on during the session. If you need to keep your camera off, you must notify me and the TA at the beginning of the session. Each student will be excused once (from missing a class or keeping the camera off during a session) during the semester.

Violation of the course policies, the Wharton Learning Agreement, or any basic norm of classroom etiquette and professionalism (e.g., having conversations with others during the session) can result in a lower grade.

### **CLASS FORMAT AND RECORDINGS**

- The class is conducted on Zoom. JMHH 250 is reserved for students who need a designated quiet space with reliable internet. The session will not be broadcasted from the class system. If you choose to go to the classroom, bring your own laptop/tablet.
- Sessions will *not* be recorded. If you miss a session, you can attend the TA office hour to catch up.
- Some sessions may be replaced by pre-recorded lecture material.

### **COPYRIGHTED MATERIAL**

The lectures and course materials, including slides, tests, case analyses, outlines, and similar materials, are protected by U.S. copyright law and by [University policy](#). Instructors are the exclusive owner of the copyright in those materials they create. You may take notes and make copies, of course, of materials for your own use. You may also share those materials with other registered and enrolled students in this course.

**You may not reproduce, distribute or display (post/upload) lecture notes, recordings, or**

**any course materials in any other way — whether or not a fee is charged — without the instructors' written consent. You also may not allow others to do so.**

**CODE OF ETHICS:**

Assignments submitted for grading should only be your or your team's work. Most cases in this course involve actual companies, and you may use firm-specific or market data that are publicly available for your analysis. You cannot 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 prior quizzes, exams, assignments, cases, or projects 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 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/>

**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.

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

**TENTATIVE COURSE OUTLINE**

Date	Session Number	Topic	Assignments & Deadlines
		Refresher: Financial Modeling	
1/16		Martin Luther King Jr Day	
1/23	<b>Session 1</b>	Session I: Introduction to the course Session II: PE Fundamentals and Trends	
1/30	<b>Session 2</b>	LBO Modeling	- Form a group - due February 3
2/6	<b>Session 3</b>	Session I: Multiples Session II: Case Discussion - HCA	- Pre-Class Quiz 1 - Case Report Submission - HCA (Optional)
2/13	<b>Session 4</b>	Session I: Case Discussion - Buffalo Wild Wings * Session II: Guest Speaker (TBA)	Case Report Submission - BWW
2/20	<b>Session 5</b>	Case Discussion: Realogy (& TXU)	- Pre-Class Quizzes 2 & 3 - Case Study Peer Evaluation - Case Report Submission - Realogy (Optional)
2/27	<b>Session 6</b>	Session I: Guest Speaker (TBA) Session II: LBO Deal Presentations	- Proposal Submission due February 25
3/6		<b>SPRING BREAK - NO CLASS</b>	
3/13	<b>Session 7</b>	Introduction to M&A: value creation and merger process	- Proposal Peer Evaluation
3/20	<b>Session 8</b>	Target and synergy valuation & payment choice Case Discussion - Monmouth	- Pre-Class Quizzes 4 & 5 - Case Report Submission - Monmouth Case Part A (Optional)
3/27	<b>Session 9</b>	Session I: Consideration, distribution of synergy gains, and corporate governance issues in M&A Case Discussion - Stanley, Black & Decker  Session II: Price protection and risk sharing Case Discussion - General Mills' acquisition of Pillsbury from Diageo Plc	- Pre-Class Quizzes 6 & 7 - Case Report Submission - Stanley Black & Decker (Optional)
4/3	<b>Session 10</b>	Hostility, defensive tactics and antitrust Case Discussion: Canadian Pacific's bid for Norfolk Southern*	- Case Report Submission - NS
4/10	<b>Session 11</b>	Session I: Guest speaker - Stephen Munger (Chairman, Global M&A, Morgan Stanley & Co) Session II: Course Wrap-Up	- Case Study Peer Evaluation
4/17	<b>Session 12</b>	Session I: Guest speaker - Alejandro Przygoda (Managing Director & Co-Head of Global Investment Banking, Global Head of FIG, Jefferies LLC) Session II: Strategic Acquisition Deal Presentations	- Proposal Submission due April 15 - Proposal Peer Evaluation due April 22