

**UNIVERSITY OF PENNSYLVANIA**  
**The Wharton School**

**The Finance of Buyouts and Acquisitions: FNCE 251/751**  
**Professor Doron Levit**  
**Spring 2015**

**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. This course is most suitable for finance majors who are considering careers in corporate finance, investment banking and buyout funds.

**Co-requisite:**

Advanced Corporate Finance FNCE 203/726 or Corporate Valuations FNCE 207/728

**Format:**

The structure of the course includes lectures, case discussions, and guest speakers.

**Contact Information:**

Instructor: Doron Levit

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Office Hours: Tuesday 9:00am-10:30am

Teaching Assistants:

- Xingyi Chen, [xingyic@wharton.upenn.edu](mailto:xingyic@wharton.upenn.edu)
- Armaan Pai, [armaanpai@gmail.com](mailto:armaanpai@gmail.com)
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**Location and Time:**

251 001 - Monday, Wednesday, 1:30-3:00, SHDH 213

751 001 - Monday, Wednesday, 3:00-4:30, SHDH 213

251 002 - Monday, Wednesday, 4:30-6:00, SHDH 213

**Reading Materials:**

- Main text book (required reading): Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004 (**B**)
- Course Reader - cases and articles (required reading).
  - Chapters 2,10, Simon Beninga and Oded Sarig, *Corporate Finance: A Valuation Approach* McGraw-Hill/Irwin; 1 edition (August 1, 1996) (**B&S**)
- Further materials and lecture notes on course webpage (Canvas)
- Recommended (but not required) for background reading:
  - i. Berk and DeMarzo, *Corporate Finance*, Addison Wesley, 2007 (**B&D**)

- ii. Thomas Meyer and Pierre-Yves Mathonet, *Beyond the J Curve: Managing a Portfolio of Venture Capital and Private Equity Funds*, the Wiley Finance Series, 2009. (M&M)

### **Student Responsibilities and Assessment:**

1. Group Assignments: (approximately **20%** of the course grade)  
Students will organize themselves into groups of five members to work on case assignments. Groups must be fixed throughout the semester. Diverse background within the group is beneficial. All group members must be in the same section. Since group work is a cooperative undertaking, students are urged to ensure that they form groups that are able to work effectively as a team. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not. Many 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 years or similar courses elsewhere for your written reports and class discussions. There are two cases that require write-ups: Dow and HCA. For these two cases, each group is expected to **hand in** a hard-copy of their conclusions in a one or two page executive summary **prior to 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). The questions that need to be addressed will be posted at the course webpage. The raw data for cases is also available at the course webpage in .xls format.
2. Deal Proposal: (Approximately **20%** of the course grade)  
Each group is asked to come up with a real target firm and prepare a deal proposal for the firm as a financial buyer (LBO). You may use firm specific or market data that are publicly available for your analysis. However, you cannot use materials prepared by professionals for the potential deal, if these materials exist. Each group must identify a deal by March 23. The final version is due on April 22. Each group is required to give 10-15 minutes presentation in front of the class. Presentations will take place on April 22 and April 27. More details will be provided at the course webpage during the semester.
3. Exams: (approximately **50%** of the course grade)  
You will be tested on both the concepts and the methods studied in this course. You will have access to a calculator and limited amount of information. There are two exams during the semester. The exams are equal weighted. **There is no final exam.**
4. Class Participation and Attendance: (Approximately **10%** of the course grade)  
Participation is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. Voluntary class participation is encouraged. "Cold calls" will be made. Inadequate class participation combined with several absences can lead to a failing grade. I will judge performance based on the quality of comments/answers. Students are expected to prepare for each case and participate actively in class. Students are asked to display a name card and remain in the same seat and section for the entire semester. If you must attend another section, you may do so with my permission.

### **General Guidelines for Assignments:**

- Assignments and dates will be posted at the course webpage.
- All assignments should be submitted online by noon of the due date.
- Keep your write-ups organized and concise, all assignments must be typed.
- Show your work. It will help me understand what you did and give you credit accordingly.

**Regrade Policy:**

You have one week from the date on which the assignment or exam is handed back to submit a written appeal. The appeal must refer to the specific error that you have detected. However, I will keep the option to regrade the entire assignment/exam. As a result, the regarded score may increase, remain the same, or decrease. There are no subsequent appeals of the grading. Please hand the written appeal to the receptionist in the finance department on the second floor of SHDH, and ask them to leave it in my mailbox.

**Code of Ethics:**

Submitted assignments for grading should be your own 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 observe this rule may result in an automatic failing grade for the course.

**Important Dates:**

- February 9 - Group formation deadline
- February 18 - Submit group assignment #1: Dow
- **March 4 – Exam I**
- March 23 - Deal proposal identification deadline
- April 6 - Submit group assignment #2: HCA
- **April 15 – Exam II**
- April 22 – submit deal proposal
- April 22,27 - Students presentations

## **Tentative Course Outline**

1. This outline is a rough guide as to when material will be covered. It is highly likely to have a number of changes with advance notice given in class and/or Canvas.
2. Guest lectures will substitute for class on that day. They will take place either between 4:30pm and 6pm.

### **Session 1: January 14 (Wed)**

Introduction and organization

Basic valuation concepts #1

Reading: (B&D) Chapters 4, 12, 15, 18; (B&S) Chapter 2

### **Session 2: January 21 (Wed)**

Basic valuation concepts #2

Reading: (B&D) Chapters 19; (B&S) Chapter 10

### **Session 3: January 26 (Mon)**

Basic valuation concepts #3

### **Session 4: January 28 (Wed)**

CASE 1: Paradyne

### **Session 5: January 30 (Fri)**

Optional session on valuations concepts (10:30-11:50am, Location TBA)

### **Session 6: February 2 (Mon)**

Overview of Mergers and Acquisitions

Reading: (B) Chapters 3, 4

### **Session 7: February 4 (Wed)**

Transaction Design & SPA

Reading: (B) Chapter 19

### **Session 8: February 9 (Mon)**

The market for corporate control and the legal framework of M&A

Reading: (B) Chapters 26, 27, 32, 33

### **Session 9: February 11 (Wed)**

The market for corporate control and the legal framework of M&A

Reading: (B) Chapters 26, 27, 32, 33

### **Session 10: February 16 (Mon)**

Valuation of Synergies and NOLs

Reading: (B) Chapters 11,15

**Session 11: February 18 (Wed)**

CASE 2: Dow's Bid for Rohm and Haas

**Session 12: February 23 (Mon)**

Forms of Payments

Reading: (B) Chapters 20, 23

**Session 13: February 25 (Wed)**

CASE 3: Vodafone

**Session 14: March 2 (Mon)**

Review

**Session 15: March 4 (Wed)**

Exam I (6:00-8:00pm, location TBA)

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**SPRING BREAK: March 10,12**

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**Session 16: March 16 (Mon)**

PE Overview & LBO model

**Session 17: March 18 (Wed)**

CASE 4: Sungard

**Session 18: March 23 (Mon)**

Guest Speaker

**Session 19: March 25 (Wed)**

TBA

**Session 20: March 30 (Mon)**

CASE 5: Green Food

**Session 21: April 1 (Wed)**

Private Equity Fund Structure

Reading: (M&M): Chapters 2 and 3

Reading: "Note on Private Equity Partnership Agreements" by Josh Lerner;

**Session 22: April 6 (Mon)**

CASE 6: HCA

**Session 23: April 8 (Wed)**

Guest Speaker - Value Creation

**Session 24: April 13 (Mon)**

Review

**Session 25: April 15 (Wed)**

Exam II (6:00-8:00pm, location TBA)

**Session 26: April 20 (Mon)**

TBA

**Session 27: April 22 (Wed)**

Students Presentations #1

**Session 28: April 27 (Mon)**

Students Presentations #2

**Session 29: April 29 (Wed)**

Wrap-up