COURSE SYLLABUS

Course Details			
Course	Finance 394.2 – Financial Strategies in Private Equity		
Semester	Fall 2012		
Instructor	William T. Charlton, Jr., Ph.D., CFA		
Office	CBA 6.304D		
Phone	(512) 232-6834		
Email	billy.charlton@mccombs.utexas.edu (***The best way to reach me***)		
Office Hours	TTH 4:00-5:30, others by appointment		
Classroom	TTH 12:30-2:00, UTC 1.104, 03630 TTH 2:00-3:30, UTC 1.104, 03640		
Teaching Assistant	TBA		

COURSE OBJECTIVES

This course examines the application of advanced corporate finance concepts in the private equity markets. Private equity is a major source of capital for new and established private and public firms. The size of the organized private equity market has grown dramatically since the early 1990s. For example, capital committed to traditional private equity funds in the U.S. increased from \$8 billion in 1991 to over \$250 billion in 2007. The amount of capital that has been committed to traditional private equity funds worldwide, but remains un-invested as of mid-2010, is estimated to be over \$750 billion.

As investors have been attracted to private equity markets, private equity funds have developed specialized strategies and targeted specific market segments. In addition to the original LBO funds from the 1980's and the venture funds of the late 1990's, growth, mezzanine, middle market buyout, infrastructure, and energy funds, among others, have been popular investment vehicles for institutional investors.

The objectives of this course are to provide students with an understanding of the nature of the private equity markets, the principal participants in these markets and their activities, and the financial strategies that they employ. Topics covered include: How private equity funds are raised, structured, and financed; contracting in the private equity markets; financing investments; valuation of business interests; corporate restructuring and reorganization; M&A, and exit strategies.

Course Materials				
Required Materials	The course packet, which is available at the University COOP, contains daily assignments, readings, and the cases that will be discussed during the course. The course packet is the only required text. However, you may find the following books to be useful references at various times during the course. The <i>Wall Street Journal</i> should be read on a daily basis.			
	To subscribe: http://subscribe.wsj.com/semester			
General Reference	Berk, Jonathan and Peter DeMarzo, 2007, <u>Corporate Finance</u> , Pearson/Addison-Wesley, Boston, MA (<i>your BA385T Text</i>).			
Private equity references				
	Levin, Jack S., 2009, Structuring Venture Capital, Private Equity, and Entrepreneural Transactions, Aspen Publishers division of Wolters Kluwer Law & Business, New York, NY.			
	Metrick, Andrew, 2007, Venture Capital and the Finance of Innovation, John Wiley & Sons, Inc., Hoboken, NJ.			
	Schell, James M., 1999, <u>Private Equity Funds: Business Structure and Operations</u> , Law Journal Press, New York, NY.			
Valuation and mergers and	Koller, Tim, Marc Goedhart, and David Wessels, 2010, McKinsey Valuation (5th ed.), John Wiley & Sons, Inc., Hoboken, NJ.			
acquisitions references	Bruner, Robert F., 2002, <u>Applied Mergers and Acquisitions</u> , John Wiley & Sons, Inc., Hoboken, NJ.			
	Gaughan, Patrick A., 2006, Mergers, Acquisitions, and Corporate Restructurings (4th ed.), John Wiley & Sons, Inc., Hoboken, NJ.			
Perquisites	BA 285T, FIN 286, FIN 397.1, and FIN 394.1.			

Course Policies		
	Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512- 471-6259, http://www.utexas.edu/diversity/ddce/ssd/ .	

Course Policies				
Religious Holidays	By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.			
BlackBoard	Students should check Blackboard regularly. I will post announcements, assignments, any changes to the course schedule, as well as other useful information on that site.			
Participation	Participation is one of the best ways for a student to insure that they understand the material. I intend to create an environment that encourages open discussion and allows you to feel comfortable in asking any question. An unasked question, particularly about a basic point, may impede the student's learning.			
Feedback	I am open to and encourage students to offer suggestions on how to improve the course both for the existing semester and future ones. My goal is to optimize my approach to helping students understand the important topics that we will be covering this semester. Any suggestions for improvements will be much appreciated.			
Laptops/ Devices	The use of laptops and other electronic devices including cell phones is prohibited during class lectures and exams. All electronic devices must be stored during the lecture, that is .			
Honor Code				

COURSE POLICIES

You are expected to abide by the University Honor Code at all times. All violations will be handled according to University procedures and referred to proper authorities. I will pursue any violations to the fullest extent of the code. If you are ever in doubt about a particular issue, please ask!

The course is intentionally structured to give students multiple opportunities to achieve an appropriate grade. No single test will determine a student's grade (see discussion of the optional final below). It is my hope that this structure will minimize the incentives to violate the Honor Code.

Campus Safety

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, http://www.utexas.edu/safety/:

- .. Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- .. Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- .. Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.
- .. In the event of an evacuation, follow the instruction of faculty or class instructors.
- .. Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- .. Behavior Concerns Advice Line (BCAL): 512-232-5050
- .. Further information regarding emergency evacuation routes and emergency procedures can be found at: http://www.utexas.edu/emergency/

Privacy

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see:

http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas BBA experience hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

The Texas Wild Classicom experience is emianeed when.				
Students arrive on time	On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.			
Students are fully prepared for each class	Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.			
Students attend the class section to which they are registered	Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.			
Students respect the views and opinions of their colleagues	Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.			
Laptops are closed and put away	When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.			
Phones and wireless devices are turned off	We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.			

	EVALUATION			
Weighting	Final Case 40% Class Participation 25% Midterm Exam 20% Case Write-ups 10% Peer Evaluation 5% Total 100%			
Distribution	This course uses the target grade distribution approved for all Core and Flex Core courses by the MBA Programs Committee: A (4.0) 25% A- (3.67) 20% B+ (3.33) 15% B (3.0) 35% B- & below (2.67) 5%			
Midterm Exam	There will be an in-class exam on October 16. Students are responsible for all course material covered through October 11.			
Final Case	The final assignment in this course will consist of a written case analysis (individually prepared). The case will be distributed on the last day of class, December 6, 2010, and the analysis will be due by 9:00 a.m. on Wednesday, December 12, 2010. The report will not exceed six pages (including exhibits). See the following page of this syllabus for additional details.			
Class Participation	This portion of the grade will be based on the contribution of each individual student to the class discussion throughout the term. It will be based on the quality and quantity of class participation. Quality will be the far more important of the two dimensions. What is important is your overall contribution to moving the class forward during the semester. Relatively frequent contributions to the discussion that demonstrate logical and thorough analysis will be required to earn.			
Case Write-up	For each case, 1-3 students will be assigned either to represent the company or as an external analyst/critique of the company. Students will be randomly assigned cases at the beginning of the semester so they have sufficient time to prepare. The responsibilities for this assignment are twofold: 1) preparing a one-page executive summary (due at the beginning of class); and, 2) verbally representing the respective position during the class discussion. The executive summary should include a brief synopsis, address the assignment questions, and reach a conclusion. In class, students assigned to the case will be expected to represent their respective position.			
Peer Evaluation	·			

INSTRUCTIONS FOR PREPARING WRITTEN CASE ANALYSES

Case Analysis

1. Read the case carefully. Identify the significant points and relationships. Use the exhibits to help you understand and/or interpret the text.

- 2. Analyze the data presented in the case and evaluate it in light of the situation. Try to understand not only the present situation, but also its historical origin and how it developed.
- 3. Decide what the major problems are and, if appropriate, prioritize them.
- 4. With the problems in mind, identify the feasible alternative courses of action. Determine what additional information is necessary to evaluate the alternative courses of action. Obtain that additional information.
- 5. Decide what your specific recommendation is to be. In doing so, use your understanding of the alternatives to frame a solution to the problem(s), and predict and evaluate the probable consequences of your solution.
- 6. Decide how you will organize the presentation of your solution to the case.

Document Organization

- 1. **Problem Statement:** Identify the problem(s) concisely, using whatever case facts are necessary to show significance and/or priority.
- 2. **Analysis:** Avoid generalities. Be as specific as possible. Express your ideas clearly, supporting them adequately with evidence, explanation, and references to appropriate exhibits. The strengths and weaknesses of alternative courses of action should be developed. The analysis should build to support your recommendation. Reasons for accepting or rejecting alternatives should be stated and, if necessary, defended.
- 3. **Recommendation:** State your recommendation clearly and in detail sufficient to guide implementation. Discuss both the positive and negative results of following your recommendation and why you think that it is the appropriate course of action. Make sure that the recommendation follows logically from your analysis.

Document Organization

The case solution will be written as a report to senior management. The first page should provide a short executive summary that is no more than one three or four sentence paragraph in length. The detailed analysis should be presented on the following pages. All pages should be numbered and the document typed with one-inch margins and double spacing. Use a 10 point font or larger. Tables, Charts, spreadsheets, or any other supporting materials may be attached as exhibits. Each exhibit must be referred to in the text and clearly labeled.

Note: This is a tentative course outline. Topics may be re-sequenced, dropped or added depending on our progress throughout the semester. I will inform you of any changes as they are made and post any changes on BlackBoard.

	Tentative Course Outline				
Date	Topic	Format	Readings		
			Introduction		
8/30	Course introduction and overview	Lecture	How Firms Raise Capital, Chapter 15 in Fundamentals of Corporate Finance by Robert Parrino and David S. Kidwell, John Wiley & Sons, Inc., Hoboken, NJ, 2009.		
	and over view		Technical Note: The Private Equity Industry		
9/4	Private equity markets	Lecture	Prowse, Stephen D., The Economics of the Private Equity Market, <i>Economic Review</i> , Federal Reserve Bank of Dallas (Third Quarter 1998), pp. 21 – 34.		
			Acharya, Viral V., Julian Franks, and Henri Servaes, Private Equity: Boom or Bust, <i>Journal of Applied Corporate Finance</i> (Fall 2007), pp. 44 – 53.		
			Kaplan, Steven N., Private Equity: Past, Present, and Future, <i>Journal of Applied Corporate Finance</i> (Summer 2007), pp. 8 – 16.		
			Kaplan, Steven N. and Josh Lerner, It Ain't Broke: The Past, Present, and Future of Venture Capital, <i>Journal of Applied Corporate Finance</i> (Spring 2010), pp. 36 – 47.		
	How Private Equity Funds Are Raised, Structured, And Managed				
9/6	Raising, structuring, and managing private equity funds	Lecture	An Introduction to Private Equity Funds, Chapter 1 in <u>Private Equity Funds: Business Structure</u> and Operations.		
9/0			Structuring Formation of Private Equity Fund, Chapter 10 in Structuring Venture Capital, Private Equity, and Entrepreneurial Transactions.		
9/11	Investing in private equity	Case	Yale University Investments Office: August 2006		
9/13	Investing in a private equity fund	Case	Acme Investment Trust		

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	Tentative Course Outline				
Date	Topic	Format	Readings		
	Relationships Between Private Equity Funds And Entrepreneurs/Managers				
9/18	Private equity funds and entrepreneurs	Lecture	 Term Sheet: The Substance of The Deal Between the Founder and Investors, Chapter 9 in Equity Finance: Venture Capital, Buyouts, Restructurings, and Reorganizations (pp 187-210) and pp 73-93 from 2009 Cumulative Supplement. Form 26-1: Sample Term Sheet, in Volume 3 of Equity Finance: Venture Capital, Buyouts, Restructurings, and Reorganizations (pp 86-98) and (pp557-562) from 2009 Cumulative Supplement. Key Agreements: Stock Purchase, Stockholders, Employment, Chapter 10 in Equity Finance: Venture Capital, Buyouts, Restructurings, and Reorganizations (pp 211-252). 		
9/20	Motivating managers	Lecture	 Executive Compensation, Stephen F. O'Byrne, Chapter E9 in <u>Handbook of Modern Finance</u>, edited by Dennis Logue and James Seward, Warren, Gorham & Lamont RIA Group, Boston, MA, 1999. O'Byrne, Stephen F. and S. David Young, Six Factors That Explain Executive Pay (and its 		
			Problems), Journal of Applied Corporate Finance (Spring 2010), pp. 109 – 117.		
			Wruck, Karen H., Private Equity, Corporate Governance, and the Reinvention of the Market for Corporate Control, <i>Journal of Applied Corporate Finance</i> (Summer 2008), pp. 8 – 21.		
9/25	Structuring compensation in a private firm	Case	Henkel: Building a Winning Culture		
	Financing				
9/27	Determining financial policy	Case	North Village Private Equity Scan Chapters 14-16 on Capital Structure in <u>Corporate Finance</u>		
10/2	Financing a business	Case	Noble Group		
10/4	Project finance	Case	Petrolera Zuata, Petrozuata C.A.		

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	Tentative Course Outline			
Date	Topic	Format	Readings	
10/9	Project finance and infrastructure projects	Case	Athens Ring Road (Attiki Odos)	
10/11	Leasing Policy	Case	Note on leasing policy	
10/16			Midterm exam (Time and location TBD)	
			Valuation	
10/18	General valuation methods	Case	Berg Electronics Corporation Ruback, Richard S., Capital Cash Flows: A Simple Approach to Valuing Risky Cash Flows, Financial Management (Summer 2002), pp. 85-103.	
10/23	LBO valuation	Case	 Dillon, Nancy, DLJ Knows Where the Beef Is, New York Daily News (October 3, 2000) Mehring, Jaine I., Analyst Report on IBP, Inc., SalomonSmithBarney, Oct. 2, 2000, pp. 1– 4. McMillin, John. M. and Jeffrey G. Kanter, Analyst Report on IBP, Inc., Prudential Securities, Oct. 3, 2000, pp. 1– 5. Mehring, Jaine I., Analyst Report on IBP, Inc., SalomonSmithBarney, Oct. 2, 2000, pp. 1– 9. 	
10/25	LBO valuation	Case	Bidding for Hertz: Leveraged Buyout	
10/30	LBO valuation	Case	Comerica Incorporated: The Valuation Dilemma	
11/1	Evaluating risk	Case	BASIX Monte Carlo Simulation, Section 10.2 in Chapter 10 of <u>Principles of Corporate Finance</u> (6th ed.) by Richard A. Brealey, Stewart C. Myers, and Franklin Allen, New York, NY, McGraw Hill/Irwin, 2000, pp. 268 - 275.	
	Strategies For Creating Value			
11/6	Restructuring and reorganization	Case	Corporate restructuring and Reorganization, James K. Seward, Chapter E8, E9 in <u>Handbook of Modern Finance</u> , edited by Dennis Logue and James Seward, Warren, Gorham & Lamont RIA Group, Boston, MA, 1999.	

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	Tentative Course Outline			
Date	Topic	Format	Readings	
11/8	Recapitalization	Case	Ford Motor Company's Value Enhancement Plan (A)	
11/13	Financial decisions under duress	Case	Pacific Grove Spice Company	
11/15	Restructuring	Case	WL Ross and Plascar	
11/20	Restructuring	Case	NEC Electronics	
11/27	Mergers and acquisitions and value drivers	Case	Service Corp. International	
			Exit Strategies	
11/29	Exit strategies	Lecture	Exit Strategies: Structuring IPO or Sale of VC-Financed Portfolio Company, Chapter 9 in Structuring Venture Capital, Private Equity, and Entrepreneurial Transactions (pp 9-1 to 9-49). Initial Public Offerings, Jay Ritter, Chapter D11, E9 in Handbook of Modern Finance, edited by Dennis Logue and James Seward, Warren, Gorham & Lamont RIA Group, Boston, MA, 1999. Lazard, Robert Berger, SPACs: An Alternative Way to Access the Public Markets, Journal of Applied Corporate Finance (Summer 2008), pp. 68 – 75.	
12/4	Exit strategies following corporate turnaround	Case	Transportation Displays Incorporated (C)	
Conclusion				
12/6	Summary and course wrap-up			
12/12	Final case due by 9:00 a.m.			