

Course is capped at 40 students

FINC-GB.3365.10 Private Equity Finance

Instructor Information:

Gustavo Schwed

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Office Hours: By appointment

Prerequisites:

Foundations of Finance (COR1-GB.2311)

Corporate Finance (FINC-GB.2302)

Visiting students must have taken comparable prerequisite courses at their home institutions.

Prerequisites must have been completed prior to taking this course.

Course Summary

This course will use the case method to provide a comprehensive overview of private equity finance. The objective of this course is to survey the private equity industry and to provide students with an understanding of the origination, valuation, execution, monitoring, and realization of private equity transactions and of the process of investing in private equity funds. The course will include a series of lectures designed to teach specific skills and concepts used in the practice of private equity and case discussions through which those skills and concepts will be illustrated and utilized.

Private equity, including venture capital, growth investing, distress, and leveraged buy-outs, has grown from less than \$5 billion in assets under management in 1980 to over \$1 trillion today and is therefore a field worthy of study. Its emergence as a significant global asset class has elevated the industry in the public consciousness and led to a debate about its effect on portfolio companies, contribution to systemic risk, and compensation and taxation practices. The dramatic growth of assets under management by private equity firms has also led to a compression in investment returns, making the tasks of executing successful private equity transactions and selecting private equity funds increasingly challenging.

The course will be divided in two parts. The first section will examine the industry from the perspective of the private equity firms who invest in and manage portfolio companies (referred to as the general partners or "GP"s). While this section will address all significant segments of the GP universe, including venture capital, growth investing, distressed investing and leveraged buy-outs, the main focus will be on the LBO industry. In this section, we will discuss the techniques used by private equity firms to originate, diligence, value and execute transactions as well as how these PE firms seek to add value to

their portfolio companies and eventually exit these investments. Through the cases, we will analyze several private equity transactions and situations through which we will apply these concepts and techniques.

The best way to understand how a leveraged buyout works is to construct an LBO model. The first section of the course will include a lecture on LBO modelling as well as several assignments through which students will learn how to build an LBO model step by step.

The second section of the course will examine the private equity industry from the perspective of the institutions that invest in private equity funds (the limited partners or "LP"s and their consultants or "gatekeepers"). We will survey the LP universe (pension funds, endowments, fund-of-funds, sovereign wealth funds, and secondary funds). We will analyze the investment track records of GPs, identify the factors that lead to strong performance, and review the process for PE fund raising, due diligence and selection. We will also discuss the terms of fund agreements and the current state of LP/GP relationships.

Instructor Policies

Attendance/Lateness

This course will rely and be heavily graded on active, high quality class participation. Therefore, on-time attendance is required for every class except in cases of documented serious illness, family emergency, religious observance, or civic obligation. Recruiting activities are not acceptable reasons for class absences. Please notify me of any absence prior to the start of the class. Unexcused absence and/or tardiness will hurt your grade.

Assignments

Unless otherwise noted, all assignments must be submitted prior to the beginning of the class in which they are discussed. Late submissions will not be accepted and will be assigned a failing grade. Please submit all assignments through NYU Classes.

Use of Electronic Devices

Please do not use smart phones or other electronic devices during class. Use of laptops for note-taking is permitted.

Honor Code

All students must adhere to the Stern Code of Conduct: <http://www.stern.nyu.edu/uc/codeofconduct>

Students with Disabilities

Students who require academic accommodation during the course should provide me with a letter from the Moses Center for Students with Disabilities (<http://www.nyu.edu/csd>) outlining the accommodations they recommend.

Class Process

This class will primarily utilize the case method to cover the material. The process for reviewing cases will work as follows:

I will divide the class into groups of three or four depending on class size. I will place students with relevant experience (such as private equity, leveraged finance, M&A, financial sponsors' coverage, and private equity transaction support consulting) into different groups to insure that the groups are equitably balanced. I will reshuffle the groups once during the course.

While each student is required to prepare for every case discussion, there will be group case analyses due for only eight of the fifteen cases. Each group will work together on these cases. The case analysis should not exceed 2-3 of double spaced typed pages (in a reasonable font size) plus any analyses or exhibits you chose to include (see further below for case analysis directions) and should be submitted via NYU Classes prior to the beginning of the relevant class. It is up to the group members to decide how the work on each case is divided. In the event a member of a group is consistently not pulling his/her weight, the other members of the group should try to persuade this student to contribute more fully. Failing that, the group should notify me and I will take corrective action. Keep in mind that all members of a group will receive the same grade for each written case analysis. For the avoidance of doubt, groups should not consult or share work with each other when preparing these analyses.

I will release questions/suggested topics for each case analysis prior to the start of the course. Each group should feel free to add anything to the case analyses that it feels would help get to the heart of the case.

At the beginning of each case discussion, I will cold call on an individual student to present his/her group or individual analysis depending on the case. I will continue to cold call students throughout the case discussions and will also call on volunteers. To insure that students are prepared for every case discussion, I will especially rely on cold calling for cases for which no group assignment is due. While I expect a robust discussion in which students feel free to disagree with each other (and with me) I would like that case discussions to be conducted with utmost civility and respect.

In addition to the eight group case analyses, there will be three individual assignments due throughout the course, each relating to the construction of a different section of the same LBO model: a) operating assumptions and projections, b) sources and uses of funds, capital structure, and opening balance sheet adjustments, and c) sensitivity analysis, IRRs and DCFs.

In some classes, I will lecture on a particular topic (such as LBO modeling, due diligence, valuation techniques, portfolio company exit, etc.) and we will not review a case. While there will be less time for discussion during these lectures, I expect students to remain alert, engaged, and prepared to be cold called.

In several classes we will have guest who will either lecture on a particular topic or lead a case discussion. These guest lecturers are private equity industry leaders. I am keen that this be a great experience for both you and them. Therefore I will be especially focused on assessing class engagement during these guest lectures.

Class participation is an important element of your grade. I will grade participation after each class and will give interim feedback around mid-term. Students may approach me throughout the term to receive class participation feedback. In order to facilitate class participation assessment, please use name cards and sit in the same place in every class (although I will make every effort to memorize all names).

Class participation will be evaluated based on the quality of contributions and insights. Quality comments 1) contribute to moving the discussion forward, 2) offer a unique and relevant perspective on the issue, 3) build on the comments of others, and 4) show evidence of analysis of inherent trade-offs.

At the end of the course, you will be handed a case to prepare on your own (with no consultation with any other individual), which will serve as a take-home final exam. Instructions for the take home exam will be released closer to the end of the course.

Case Analysis Directions

When preparing the case analyses, you should avoid rehashing facts from the case. Instead, you should focus on delivering conclusions and recommendations, showing the analysis that supports such conclusion and reflecting on the trade-offs and risks inherent in your conclusions or recommendations. These analyses should be written as if the audience were a decision maker at a private equity firm. They can be written in prose or in presentation style. They should be written, organized, and formatted according to professional standards.

Use of “Forum” section of NYU Classes Site

I will set up a Forum thread for each assignment where students should post any questions or comments and where I, where appropriate, will address questions on the assignments. This will insure that all students benefit from the Q & A related to that assignment. Students are welcome to answer questions posted on Forum. Comments, questions and answers that are particularly helpful and illuminating will count towards your class participation grade.

Grading

Class Participation:	30%
Written Group Case Analyses	30%
LBO modelling individual assignments:	10%
Final Exam:	30%

Grade distribution will roughly follow the Stern finance department grading curve although I will retain discretion for a few more or less A grades depending on class performance.

Course Materials

Most all of the cases and reading materials are available for purchase and down-load through the following link to the HBSP site:

<https://cb.hbsp.harvard.edu/cbmp/access/24199049>

The few cases and articles that are not available through the above link have been posted to the Resources section of the NYU Classes course site.

Prior to the beginning of the first session, I will make all of the HBSP material available through XanEdu.

Course Outline

<u>Date</u>	<u>Topic</u>	<u>Case</u>	<u>Deliverables</u>	<u>Readings/Other Assignments</u>
2/3	Overview of Private Equity	No Case, Lecture		Lerner, "A Note on Private Equity Partnership Agreements".
2/5	The Private Equity Firm	Wulf & Wagoner, "Corporate Strategy at Berkshire Partners"		
2/10	Deal Origination	Godes, Egawa & Yamazaki, "Carlyle Japan (A), (B), and (C)".	Case Analysis 1	
2/12	Private Equity Deal Due Diligence	No Case, Lecture		
2/19	Deal Due Diligence	Roberts, "Summit Partners -- The FleetCor Investment (A)".		
2/24	Deal Due Diligence	Roberts, "Summit Partners--The FleetCor Investment (B) and (C)".	Case Analysis 2	
2/26	LBO Modelling	No Case, Lecture		

3/3	Valuation Techniques	No Case, Lecture		Kaplan, "A Note on Discounted Cash Flow Valuation Methods" and Hellmann, "A Note on Valuation of Venture Capital Deals".
3/5	Valuation & Execution: Venture Capital	Kaplan, Glickman & Terachi, "Iron Gate Technologies".		Hardymon & Lerner, "A Note on Private Equity Securities" and Roberts & Stevenson, "Deal Structure and Deal Terms".
3/7		No Class	Duke's LBO Model Part 1	
3/10	Capital Structure in Leveraged Transactions	No Case, Lecture		Gompers, Ivashina & Van Goul, "Note on LBO Capital Structure".
3/12	Valuation & Execution: LBO	El Hage & Simon, "Thoma Bravo – Citect Corporation Take-Private".		
3/14		No Class	Duke's LBO Model Part 2	
3/24	LBO Modelling (2)	Discussion of the Duke's LBO	Duke's LBO Model Part 3	
3/26	Distressed Investing: Loan to Own	Gompers & Weisburst, "Charter Communications Bankruptcy".		

3/31	Valuation & Execution	Hardymon, Lerner & Leamon, "Lion Capital and the Blackstone Group: the Orangina Deal".	Case Analysis 3	
4/2	Value Creation in Portfolio Companies	No Case, Lecture The TDC A/S LBO		Rogers, Holland & Haas, "Value Acceleration: Lessons from Private- Equity Masters".
4/7	Portfolio Company Value Creation and Exit Strategy	El-Hage & Chia, "The Blackstone Group: Merlin Entertainment".	Case Analysis 4	
4/9	Exiting PE Investments	No Case, Lecture		Fruhan, "Company Sale Process" and Lerner, "Note on the Initial Public Offering Process".
4/14	Exiting PE Investments	Hardymon, Lerner & Leamon, "Apax Partners and Xerium S.A."	Case Analysis 5	
4/16	PE in Emerging Markets	Musacchio & Goldstein, "Silver Lake and Private Equity in Brazil: Carnival or Calamity?"		Lerner, Leamon & Vase, "A Note on Private Equity in Developing Countries".
4/21	Investing in Private Equity Funds	No Case, Lecture		Robinson & Sensoy, "Private Equity in the 21st. Century: Cash Flows, Performance, and Contract Terms from 1984-2010" and Harris, Jenkinson & Kaplan, "Private Equity Performance: What Do We Know?"

4/23	Investing in Private Equity Funds	Lerner, Rhodes-Kropf, Burbank, "The Canadian Pension Plan Investment Board: October 2012".	Case Analysis 6	
4/28	Investing in Private Equity Funds	Chaplinski, Loutskina & Walsh, "Oregon Public Employees Retirement Fund: Push and Pull Over GP/LP Compensation."	Case Analysis 7	
4/30	Private Equity Fund Raising	No Case, Lecture		Lerner, Hardymon, and Leamon, "A Note on the Private Equity Fund Raising Process".
5/5	The Private Equity Industry and Private Equity Fund Selection: A Gatekeeper's Perspective	No Case, Lecture		Hardymon, Lerner & Leamon, "Between a Rock and a Hard Place: Valuation and Distribution in Private Equity".
5/7	The Private Equity Firm as a Public Company	Hardymon, Lerner, Leamon, "The Blackstone Group's IPO".	Case Analysis 8	
5/12	Course Review	No Case, Lecture		