

Private Equity Finance S 2017

(Tue Jan 17, 2017 01:00 PM - Fri Jun 30, 2017 01:00 PM)

FINC-GB.3365.01 Private Equity Finance

Spring 2017

Meets: Mondays and Wednesdays 3:00-4:20 PM.

Room: KMC 3-90

Instructor Information:

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Prerequisites/Co-requisites:

Foundations of Finance (COR1-GB.2311): prerequisite

Corporate Finance (FINC-GB.2302):co-requisite

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

Prerequisites must have been completed prior to taking this course.

This course requires a substantial financial forecasting and analysis. While it is not a prerequisite, students without a strong background in finance may find it helpful to take Modeling Financial Statements (ACCT-GB.3304) 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 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 \$3 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 modeling as well as several assignments through which students will learn how to build an LBO model.

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 fund selection. We will also learn about the economic arrangements between LPs and GPs and 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 excused absences: 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 absences and/or tardiness will hurt your grade, potentially materially. Attendance is taken for every class.

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, laptops or other electronic devices during class. I understand many of you like to follow the lecture and take notes on your laptop. As an alternative, I suggest you print out the presentation for each lecture and bring it with you to class.

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:

For most cases, you should carefully read the case and the questions posted on the Assignment section of NYU Classes and think through the key issues before class. For four cases (Summit/Fleetcor (B) and (C), TDC/Sunrise, Apax/Xerium, and CPPIB/Waterfall), you will work in groups and submit case analyses. 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 ensure that the groups are equitably balanced. I will reshuffle the groups once during the course. The case analysis submissions should not exceed 2-3 of double spaced typed pages (in a reasonable font size) and/or spreadsheet if required 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. I make my comments directly on the submissions so you should use Word, Excel or some other editable platform. 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 post the prompts for each group case analysis assignment in the Assignments section of the NYU Classes course site.

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 ensure 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 case discussions to be conducted with utmost civility and respect.

In addition to the four group case analyses, there will be four individual assignments due throughout the course, each relating to the construction of a different section of the same LBO model (the Princess Telecom LBO Modeling case): a) operating assumptions and projections, b) sources and uses of funds, capital structure and debt schedules, credit statistics and opening balance sheet adjustments, c) valuation, IRR and DCF analysis, and d) leveraged recapitalization analysis.

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 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. The class participation grade will also consider the asking of relevant questions, on-time attendance, posting of questions and relevant materials in the class Forum, and other evidence of active engagement.

There will be no midterm or final exam.

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

Questions of a non-personal nature regarding assignments should be posted in the Forum section of NYU Classes, where they will be answered by me or a TF. This insures 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:	25%
Written Group Case Analyses:	35%
LBO modelling individual assignments:	10% each x 4

Grade distribution will roughly follow the Stern finance department grading curve for non-introductory courses which limits the number of A/A- to 35% of the class.

Course Materials

Most course materials are included in the course pack. You may purchase your course pack at the bookstore or by following the instructions below:

Go to the NYU Bookstore web site: <http://www.bookstores.nyu.edu>

Click on "Search For a Book" and enter the following number in the "Search by ISBN" option: 978200009841B

Proceed to Checkout and complete your order.

After completing your order you will receive an email with your access code and instructions regarding accessing the course pack. You can also purchase a editable digital course pack by clicking the "XanEdu Course Pack" tab in the NYU Classes course site and following the instructions.

I will distribute some additional material throughout the semester, which will be posted in the Resources section of the NYU Classes course site.

Course Outline

<u>Class #</u>	<u>Date</u>	<u>Topic</u>	<u>Case</u>	<u>Deliverables</u>	<u>Other Readings/Assignments</u>
1	1/30	Overview of Private Equity	No Case, Lecture		Lerner, "A Note on Private Equity Partnership Agreements".
2	2/1	The Private Equity Firm & Deal Origination	Eccles & Knoop, "The Carlyle Group" and Godes, Egawa & Yamazaki, "Carlyle Japan (A), (B), and (C)".		
3	2/6	Private Equity Deal Due Diligence	No Case, Lecture		
4	2/8	Deal Due Diligence	Roberts, "Summit Partners -- The FleetCor Investment (A)".		
5	2/13	Deal Due Diligence	Roberts, "Summit Partners--The FleetCor Investment (B) and (C)".	Case Analysis 1	
6	2/15	LBO Modelling	No Case, Lecture		Schwed, "A Note on Building an LBO Model" Section 1
7	2/22	Valuation & Execution: Venture Capital	Strebulaev, Gouw Ranzetta & Hoyt, "Evaluating Venture Capital		Hardymon & Lerner, "A Note on Private Equity Securities"

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			Term Sheets".		Roberts & Stevenson, "Deal Structure and Deal Terms".
8	2/27	Capital Structure in Leveraged Transactions	No Case, Lecture	Princess Telecom LBO Model Part 1	Schwed, "A Note on Building an LBO Model" Section 2 Gompers, Ivashina & Van Gool, "Note on LBO Capital Structure".
9	3/1	Valuation Techniques	No Case, Lecture		Kaplan, "A Note on Discounted Cash Flow Valuation Methods" Hellmann, "A Note on Valuation of Venture Capital Deals".
10	3/6	Valuation & Execution: LBO	Gompers, Misztal & Van Gool, "Hg Capital and the Visma Transaction". Cases A, B-1 and B-2.		
11	3/8	Valuation & Execution: LBO	Collis, Yoffie & Shaffer, "Taking Dell Private".		
	3/9		No Class	Princess Telecom LBO Model Part 2	
12	3/20	Distressed Investing: Loan to Own	Gilson & Abbott, "Countrywide plc".		Fruhan, "Restructuring Distressed Companies-Cross National Comparisons."
13	3/22	Portfolio Company Value Creation	No Case, Lecture		Rogers, Holland & Haas, "Value Acceleration: Lessons from Private- Equity Masters".
	3/27	LBO Modelling (2)	Discussion of the Princess Telecom LBO Model	Princess Telecom LBO Model Part 3	

<u>Class #</u>	<u>Date</u>	<u>Topic</u>	<u>Case</u>	<u>Deliverables</u>	<u>Other Readings/Assignments</u>
14					
15	3/29	Value Creation in Portfolio Companies: TDC buy-out	Lerner, "Private Equity Transforming TDC"		
16	4/3	Value Creation in Portfolio Companies: TDC: The Sunrise Decision	Lerner, "Private Equity Transforming TDC"	Case Analysis 2	
17	4/5	Exiting PE Investments	No Case, Lecture		Schwed, "Note on Modeling Leveraged Recapitalizations" Fruhan, "Company Sale Process" Lerner, "Note on the Initial Public Offering Process".
18	4/10	Exiting PE Investments	Hardymon, Lerner & Leamon, "Apax Partners and Xerium S.A."	Case Analysis 3	
19	4/12	Private Equity: Management's Perspective	No Case, Lecture		
20	4/17	Private Equity in Emerging Markets	Restinas, Creo & Reisen de Pinho, "Equity International: The Second Act"		Lerner, Leamon & Vase, "A Note on Private Equity in Developing Countries". Gompers, Ivashina & Dore, "Private Equity Valuation in Emerging Markets".
	4/19	Investing in Private Equity Funds	No Case, Lecture	Princess Telecom	

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21				LBO Model Part 4	
22	4/24	Investing in Private Equity Funds	Lerner, Rhodes-Kropf, Burbank, "The Canadian Pension Plan Investment Board: October 2012".		
23	4/26	Private Equity Fund Raising	No Case, Lecture	Case Analysis 4	Lerner, Hardymon, and Leamon, "A Note on the Private Equity Fund Raising Process".
24	5/1	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".
25	5/3	The Private Equity Firm as a Public Company	Hardymon, Lerner, Leamon, "The Blackstone Group's IPO". and Lerner, Dionne, Migdal: "Blackstone at Age 30".		
26	5/8	Course Review	No Case, Lecture		