

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

**FNCE 895401 and 395401: ADVANCED SEMINAR ON PRIVATE EQUITY**

(In Progress as of March 10, 2010)

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**Course Objective**

This is a seminar on the private equity asset class. Its objective is to bring students and industry experts together to study concepts, agents, and institutions of the late stage corporate private equity market in the U.S. and around the globe.

**Course Content**

Private equity funds currently have around \$2 trillion in capital committed globally, from a figure of around \$8 billion in the US in 1991. Buyout funds manage about two thirds of the capital in this sector and, with leverage; they control an investment portfolio that is several times the base capital. This course will primarily examine the buyout market and the activities of corporate buyout funds from the differing perspectives of private equity investors, private equity fund sponsors, and managers of the portfolio companies.

The course topics will follow the private equity cycle closely:

1. Private Equity Structure and Fundraising
2. Investment Origination, Due Diligence, and Valuation
3. Value Creation and Management of Portfolio Companies
4. Investment Exit

We will cover the above topics by studying representative transactions in the U.S. and international markets.

This is a half unit course and it is designed for finance majors who are interested in careers in private equity and the investment banking industry.

**Course Format**

This course will be taught mostly through cases except for a brief review lecture in the beginning.

**Guest Lecturers**

Distinguished Wharton alumni in the private equity industry will lecture and conduct case discussions for many of the sessions. Our guest lecturers will bring their experience and insights to the classroom. The cases in the seminar are mostly based on the transactions that they personally executed.

**Course Prerequisites**

Prerequisites for this course are FNCE 726-Advanced Corporate Finance and FNCE 751-Finance of Buyouts and Acquisitions or permission from the professor.

## Grades

This course will be graded on a pass or fail basis. Your final grade will be based on:

- a. Attendance (40%)
- b. Class Participation (20%)
- c. Takehome exam (40%)

## Class Attendance and Class Participation

Lecturers in this seminar are experienced senior managers of major private equity firms who completed many complex transactions and managed large funds. You will learn directly from their experiences. You are expected to attend every class and engage in class discussions with the lecturers. Sessions will be recorded for eventual broadcast or publication. You should arrive to class on time and remain in class until the end of class period. No food or drinks are allowed in class.

## Takehome Exam

You need to write a takehome exam at the end of the term. It will be a case on the private equity industry. The takehome exam will be posted on webCafé at 9:00 am on April 27 and you must turn it in before 8:00 PM on May 7.

## Course Materials

### a. Textbooks

There is no required textbook for the course. There are many trade books and some will be on reserve at the Lippincott Library for your reference. A complete list of books is listed on webCafé. The following text might be useful.

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.

### b. Readings

The required readings and cases will be available on Study.net. Some relevant readings and references will be on webCafé. In addition, we will develop some original teaching and case materials for the course; they will be distributed as we complete them. Reading list and the course outline will be updated throughout the term.

### c. WebCafé

The course site at Wharton webCafé contains optional and relevant reading materials as well as some reference materials. You can also find other course information such as case questions and exhibits, lecture notes and handouts distributed in class, and relevant news articles as well as the most up to date information about the course. All announcements for the course will be on webCafé. As the course progresses, we will add additional reading materials that will be related to the various stages of your course project.

## Correspondence by e-mail

I will do my best to respond to your brief e-mails. If your question is interesting for everyone, we will post it along with our answers on webCafé anonymously.

## Scheduling, Workload, and a Word of Caution

This is a new experimental course. The workload for class preparation is not heavy compared to Advanced Corporate Finance (FNCE 726) and not as technical. However, you need to spend time for the final course project. There might be unexpected changes in the schedule. I will do my best to give you advance warning, but be prepared to accommodate our guest lecturers.

## **Grant of Permission to Record and to Use Name, Likeness, and Content**

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## **PART I: THE INDUSTRY**

### **3/15 Session #1 Course Overview and Review of Valuation Part I**

#### **a. Course overview**

- History of the industry, developments, and recent trends
- Current economic, investing, and regulatory environment
- Review of key documents
- Industry Segmentation-Geography, deal size

Readings: The Economics of the Private Equity Industry (BP & WebCafé)  
Meyer and Mathonet, Chapter 2

Reference Materials: Lerner, “Note on Private Equity Information Sources” (HBS 9-299-018)

#### **b. Valuation**

- Overview of forecasting and the financial model-identifying key variables and value drivers
- Analyzing comparables
- Components of the capital structure
- Valuation approaches

Readings: A Note on Valuation in Private Equity Setting (HBS 9-297-050)  
A Note on Leveraged Buyouts (Tuck School, 5-0004)

Case: RJR Nabisco

**Lecturer: Bulent Gultekin**

### **3/17 Session #2 Valuation Part II and Recent Issues**

Readings: McJunkin Red Man Bond Prospectus (on webCafé)

Case: McJunkin Red Man

Lecturer: Jack Daly, Managing Partner, Goldman Sachs & Co.

### **3/22 Session #3 Investors' and General Partner's Perspective**

- Overview of the limited partner (LP) space
- Portfolio management and asset allocation
- Performance assessment of PE funds
- Alignment incentives and negotiating Limited Partnership Agreements (LPA)
- Liquidity and the secondary markets for private equity
- Overview of the general partner (GP) space
- Negotiating LPA from GP's vantage point
- Regulatory and political environment in the US and the rest of the world

Readings: Meyer and Mathonet, Chapters 3 and 8  
Lerner, Hardyman, Leamon, “A Note on Private Equity partnership Agreements”

Case: **TBD**

**Lecturer: Antoine Dréan: Chairman and CEO, Triago**

### **3/24 Session #4. Raising Capital**

- Designing the financing “pitch” and optimizing the investor base
- Structuring a fund – traditional models and “permanent capital” extensions
- Governance models and succession planning
- Reporting, monitoring and the management of investor relations

Readings: Lerner, Hardyman, Leamon, “A Note on Private Equity Fund-Raising”  
Parts of Private Placement Memorandum for Quad-C funds (on webCafé)

Case: Quad-C Management Inc.

**Lecturer: Anthony R. Ignaczak: President, Quad-C Management Inc.**

## **PART II: TRANSACTION FUNDAMENTALS**

### **3/29 Session #5 Conducting due Diligence**

- Overview of the deal process and participation
- Assessing the business and management, and conducting due diligence at the company level

Readings: TBD

Case: Luxury Optical Holdings LLC

**Lecturer: John R. Jonge Poerink: Managing Partner, Linley Capital  
Bulent Gultekin**

### **3/31 Session #6 Industry Review**

Readings: TBD

**Lecturer: Ed Mathias: Managing Director, Carlyle**

### **4/05 Session #7 Financing, Negotiation and Deal Structuring**

- Identifying components of strategic plan and operating improvements
- Financing commitments the commitment process and execution risks
- Structuring the deal

Readings: TBD

Case: Eagle Rock Energy Partners, L.P.

**Lecturer: Billy Quinn: Managing Partner, Natural Gas Partners**

### **4/7 Session #8 Executing the Plan, Monitoring and Managing the Exit I**

- Monitoring the investment and board composition
- Implementing the strategy and the role of operating partners
- Value creation
- Assessing the exit strategy

Readings: Kaplan, Klebanov, Sorensen, Which CEO Characteristics and Abilities Matter?  
Private Placement Memorandum of Apollo Fund VII and S-1 IPO Filing

Case: TBD

**Lecturer: Josh Harris: President and Founding Partner, Apollo Management**

### **4/13 Session #9 Executing the Plan, Monitoring and Managing the Exit II**

Case: TBD

**Lecturer: Marc Wolpov: Co-CEO, Audax Group**

## **PART III INTERNATIONAL PRIVATE EQUITY**

### **4/14 Session #10 International Private Equity: Middle East North Africa Region**

Readings: TBD

Case: TBD

**Lecturers: Ammar Al-Khudairy, CEO & Fadi Arbid, Executive VP, Amwal Al Kaleej  
Bulent Gultekin**

### **4/19 Session #11 International Private Equity: East Asia**

Readings: TBD

Case: TBD

**Lecturer: Chang Sun: Managing Director, Warburg Pincus Asia  
International Private Equity: South America**

### **4/21 Session #12 International Private Equity: Microfinance and Commercial Social Enterprise Investments**

Readings:

Case: Vaatsalya: Healthcare Clinics in Rural India

**Lecturer: Jean Philippe de Schrevel, Eric Berkowitz & Natalia Mouhapé, Bamboo Finance  
Bulent Gultekin**

### **4/26 Session #13 International Private Equity: South America**

Readings: TBD

Case: **TBD**

**Lecturer: Octavio Lopes: Executive Officer and Member of the Board**

<b>Session</b>	<b>Date</b>	<b>Topic</b>	<b>Lecturer</b>
1	3/15	Introduction and Valuation Review	Bulent Gultekin
2	3/17	Valuation in Buyout Market Today	Jack Daly/Goldman Sachs
3	3/22	Perspectives of Limited Partners and General Partners	Antoine Dréan/TRIAGO
4	3/24	Raising Capital	Anthony R. Ignaczak/Quad C Management
5	3/29	Due Diligence	John R. Jonge Poerink /Linley Capital & Bulent Gultekin
6	3/31	Current Buyout Market and the Future	Ed Mathias/Carlyle
7	4/05	Financing, Negotiation and Deal Structuring	Billy Quinn/Natural Gas Partners
8	4/07	Executing the Plan, Monitoring and Managing the Exit	Josh Harris/Apollo
9	<b>4/13</b>	Executing the Plan, Monitoring and Managing the Exit	Marc Wolpov/Audax Group
10	4/14	International Private Equity: Middle East North Africa	Ammar Al-Khudairy & Fadi Arbid/Amwal AlKhaleej & Bulent Gultekin
11	4/19	International Private Equity: East Asia	Chang Sun/Warburg Pincus Asia
12	4/21	Private Equity for Social Projects	J.P. de Schrevel, E. Berkowitz & N. Mouhapé and Bulent Gultekin Bamboo Finance
13	4/26	International Private Equity: South America	Octavio Lopes/GP-Investments

Please note that the 9<sup>th</sup> session is on Tuesday, April 13 in JMHH 350