



## QST FE850 D1    QST FE450 A1

### PRIVATE EQUITY: LEVERAGED BUYOUTS

**Spring 2023:** Tues 6:30 – 9:15 PM

**Class Location:** HAR 208

**Instructor:** Nina Streeter

**e-mail:** nstreet@bu.edu

**Office Hours:** Tuesdays 5:00 – 6:00 PM and by appointment (just email me)

**Office Hours Location:** HAR 520F

**TA Information:** Paul Seiters, seiters@bu.edu

©Syllabus as of January 24, 2023 (Version 2, latest version)

**Be sure to read this Syllabus thoroughly prior to your first class!**

This syllabus includes essential information about the course, expectations, assignments, and attendance requirements. Refer to the syllabus frequently! I will let you know when it has been updated so make sure you are reading the latest version.

#### **COURSE DESCRIPTION & LEARNING GOALS**

Articles regarding Private Equity are on the front page of *The Wall Street Journal* almost daily. But what exactly is Private Equity and what are Leveraged Buyouts? How do they fit within the wide world of Private Capital? Where do Venture Capital and its unicorns fit in? How about the other alternative asset classes like Distressed Debt, Private Real Estate and all the other illiquid assets you hear about? Who are the participants, what incentives influence their behavior, how are they structured, how do they operate, and how do they make money?

This course will delve into the world of Private Capital which includes the wide swath of illiquid alternative investable assets, with the focus on private equity and leveraged buyouts. We do not cover hedge funds. Students will learn about the activities of Private Equity (PE) firms including formation, fundraising, incentives, investing (including deal structure, valuation, purchase terms, due diligence, financing and governance), exiting, and performance metrics. We will also discuss who the players are, how they have morphed over time, and how changing prices and leverage levels affect the market. In addition to deal mechanics and issues, the course will explore the influence of PE on the financial markets and corporate boardrooms, and how PE, in turn, is being affected by impact investing.

Students will become adept at creating LBO models in Excel, which they will use to help understand the role of leverage in company financials, but this is not a modeling course. This course will synthesize many of the skills and topics you have learned at Questrom.

You will benefit from this course if you plan to work in any type of Investment, Finance, Corporate, Consulting, Accounting, Banking, or Law firm, their associated ecosystems, or you plan to be in senior management, or own or buy a business.

**PREREQUISITES**

- For MBAs, completion of Corporate Finance FE820 or Finance 2.
- For Seniors, completion of Corporate Finance FE449.

Students who have not completed the pre-requisite can't enroll in this course, and given the required active participation, there is no auditing or taking it Pass/Fail.

**COURSE STRUCTURE & PEDAGOGY**

Case study is the primary mode of learning. You will be developing and relying on critical thinking skills as you synthesize information and draw conclusions. There is not always a 'right' answer and solutions need to be backed up with reasoned analysis. Your participation in class discussion is the largest single component of your grade and will be judged on both quality and quantity. In addition to class participation, assessments are based on individual and group case assignments and a short paper. There are no exams. This is joint class between graduates and undergraduates and each group learns significantly from the other.

The course packet is large and packed with a large number of cases and readings, and there is no textbook. We will start with a few lectures to give you the nuts and bolts of the industry and then embark on the cases, with guest lectures interspersed throughout the semester. PE-related current events will also be discussed frequently.

Study questions are provided for each case and going beyond those questions will be rewarded. As in all case-oriented classes, each and every one of you needs to prepare all materials for every session and participate with active and quality comments or the class falls flat, you will not learn, and it will not be fun. Students should take a point of view and use pre-class analysis and evidence from the case to support it rather than regurgitating facts. If you come to class unprepared it will be apparent. *Expect to spend about 4-5 hours per case before class.*

When assessing a case, common elements usually include:

- A definition of the problems or issues a company or protagonist faces, their relative importance, and the potential solutions or next action steps.
- To do this you need a rigorous analysis of the text, facts, data, and exhibits provided in the case which supports the recommended solution or course of action, and how to implement it. Ask yourself, what do these facts imply?

You will bring learnings from other courses (including finance, accounting, strategy, marketing, operations) and relevant work experience to bear in your analysis.

**I highly encourage students to study together in small groups in preparation for class because you will get so much more out of the cases. However, DO NOT do so for the individually graded assignments.**

**COURSE MATERIALS**

Although there is no textbook per se for this course, there is an excellent paperback book on which a short paper is required: Getting to Yes: Negotiating Agreement Without Giving In, by Roger Fisher, William Ury and Bruce Patton; Penguin Books, 1991 or 2011.

All other required reading can be found either in the primary **Course Packet available at HBSP.harvard.edu**, in a **smaller course packet from the BU Business Center (you will need both)**, or on Blackboard. The HBSP link will be sent when all the permissions have been granted. Another helpful

resource is Pitchbook (available through the BU Pardee Library). Additionally, Bain, McKinsey, PwC, Blackrock, Cambridge Associates, etc. all have great private equity-related pieces on their websites.

## **COURSE POLICIES**

### **1: Attendance**

**Attendance** is critical; students who are missing from class cannot participate and therefore cannot help their performance or the learning of their peers. You are expected to attend unless you are ill or observing a religious holiday. However, recognizing that you are facing complex demands on your time, missing one class will not result in a decline in your class participation grade. If you anticipate missing two sessions or more, then you should take this course another term. Participation Grades will begin to be materially impacted for students who miss two or more sessions; students missing more than four sessions will have their final grades reduced an entire letter grade; students missing more than six sessions may fail the course. Attendance will be taken at every class.

### **2: Professional Conduct & Classroom Etiquette**

**Treat class like a business meeting: show up on time, be prepared, stay in the room, and be engaged for the entire hour and fifteen minutes. And always have your name card.** This is a discussion class and students will be airing different, and contrasting, points of view, and I expect the discussion to be respectful. Research has shown that including multiple, different points of view, as challenging as that may be, leads to more robust outcomes. Negative comments do not encourage participation and will dampen open discussion. Constructive criticism will be welcomed. Personal criticism will not.

### **3: Academic Integrity**

It is very clear for each graded assignment what the expectations are regarding working alone or in teams. Questrom has an Academic Conduct Code ([questromworld.bu.edu/acc/](http://questromworld.bu.edu/acc/)) with which you should familiarize yourself. Cheating on cases (by seeking out former students, etc.), papers and assignments (by plagiarizing or collaborating with others, or pulling data from the internet, etc.) will not be tolerated and is grounds for failing the course at a minimum, and likely expulsion from the program. If you have questions about an assignment, deadline, project or reading, just email me.

**You may only to use the materials provided you in the course packet or on Blackboard – you may not use other materials, with the exception of for the Final Group Project.** Although this may seem counter-intuitive to life at a research university, let me explain: not all cases were written or updated yesterday, and searching for additional information to see what has happened subsequently may blunt the lesson of the case you are here to learn. It may also potentially give you an edge over others. Further, cases may use different facts than are available publicly, so the outside resources will likely lead you down the wrong path, derailing class discussion and giving others an edge over you. Most importantly, doing so is a Violation of Academic Standards.

### **4: Accommodations for Students with Special Needs**

In keeping with University policy, any student with a disability who needs or thinks they need academic accommodations must call the Office of Disability & Access Services at 617- 353-3658 to arrange a confidential appointment with a Disability & Access Services staff member. Accommodation letters must be delivered to me in a timely fashion (within two weeks of the date on the letter and not later than two weeks before any major examination). Please note that accommodations will not be delivered absent an official letter of accommodation.

### **5: Diversity and Inclusion**

The cases in the course were selected because they teach a fundamental concept, rather than for any identity or culture issue, other than the importance of ethical behavior. The course concepts are gender/race/religion/sexual orientation neutral, so nothing should be read into a case protagonist's identity.

I invite you to share your personal experiences and perspective related to the course content. If there are topics or conversations that you feel would benefit from incorporation of social context, a differing perspective, or Questrom's Office of Diversity & Inclusion at [myQuestrom@bu.edu](mailto:myQuestrom@bu.edu) please inform me and I will explore resources and opportunities for us to engage a wide variety of perspectives in our classroom.

### **6: Mental Health and Wellness**

Life in an undergraduate and graduate programs can get complicated and it is easy to feel overwhelmed, lost, anxious, or depressed. If you find yourself struggling with your mental or physical health this semester, please feel free to approach me. I will try to be flexible and accommodating, within reason. But I am not a professional and there is no shame in getting help. Help for managing stress and your mental wellbeing can be found at Student Health Services, and Behavioral Medicine. There you can find short term therapy, groups, and workshops, 24/7 on-call service (617 353-3569), referrals, and more resources. If you are feeling stressed and having trouble making choices around alcohol consumption the Collegiate Recovery Program may offer help.

### **7: Financial Insecurity**

We learn as whole people. It can be challenging to do your best in school when you are worried about meeting basic needs like safe shelter, sleep, and nutrition. If financial insecurity is an obstacle to learning, I urge you to contact Terrier Meal Share, Boston University Financial Assistance, or the Dean of Students Office.

### **8: Sexual Misconduct/Title IX Policy**

The Questrom School of Business is committed to fostering a safe learning environment for all members of the its community and preventing sexual misconduct. All forms of sexual misconduct, including rape, acquaintance rape, sexual assault, domestic and dating violence, stalking, and sexual harassment are violations of Boston University's policies, whether they happen on campus or off campus. Title IX of the Education Amendments of 1972 is a federal civil rights law that prohibits sex-based discrimination in federally funded education programs and activities. This law makes it clear that violence and harassment based on sex and gender is a Civil Rights offense subject to the same kinds of accountability and the same kinds of support applied to offenses against other protected categories such as race, national origin, etc. If you or someone you know has been harassed or assaulted, you can find the appropriate resources at <http://www.bu.edu/safety/sexual-misconduct/>.

### **9: Questrom Community Statement of Norms**

In addition to the expectations outlined by Boston University, we expect all members of our Questrom community to adhere to the following classroom norms which will allow us to continue to enjoy a residential learning experience:

- Attend classes in-person. There is no provision for remote attendance for AY22-23.
- At all times during the semester, students (and faculty and staff) must be compliant with the vaccination, testing protocols, PPE wearing, green screen, and eating and drinking regulations as outlined by Boston University.

### **10: Course Recording Policy:**

All class sessions will be recorded via Echo 360 for the benefit of registered students who are unable to attend live sessions (either in person or remotely) due to illness or other special circumstances. Recorded sessions will be made available to registered students ONLY via their password-protected Blackboard account. Students may not share such sessions with anyone not registered in the course and are restricted from posting them on any public platform.

## **COURSE EVALUATION AND EXPECTATIONS**

**Timing – No late assignments will be accepted.** All due dates are in the Syllabus and all assignments are due by 6:15 PM on the date assigned unless indicated otherwise. **All assignments should be submitted through the Assignments section of Blackboard.** Many of these assignments are submitted as Excel files

and some are Word or Power Point. Note that **Formatting matters** because it helps convey information crisply and concisely, and highlights or describes important points.

**Grading:** The relative weighting of assignments in your course grade is as follows:

- **Class Participation** **40%**  
Students ARE encouraged to work in groups to prepare for class discussion, but NOT for individual assignments. As noted above, grading is based on both quality AND quantity. Interim Class Participation grades will be provided periodically.
- **Individual Paper on Negotiation** **10%** 700 words or less, in Word format, double spaced
- **Individual assignments** **20%**  
Students **must work individually** on these assignments; collaboration will result in academic disciplinary action, which may include failure for the class, academic leave, or expulsion.
  - ACME (5%)
  - Snapple (5%)
  - UHS (10%)
- **Group case analysis** **15%** (Berkshire Partners: Bidding for Carter's)
- **Final Group Project** **15%**

The individual, paper, and group assignments are outlined in the "Assignments" folder in Blackboard. Remember that other than for the Final Group Project, you **may not use**, outside resources for cases and doing so is a **violation of Academic Standards**.

Groups for Group Assignments will likely be teams of three people with parameters set in advance. If you need help forming a team, contact me. Each member is responsible for, and should understand, the *entire* product of the group. Additionally, group members will comment on other groups members' participation, so in the unlikely event of unequal participation, individual grades may be adjusted.

You will take a company private in your **Final Group Project**. This will consist of selecting a company in the "real world" and writing and presenting an investment presentation regarding the merits, risks, valuation, and proposed capital structure for that company as an LBO investment. Do not start the project until you have learned all the components.

I will endeavor to return the Getting to Yes paper and group assignments within one week, and individual assignments within two weeks.

**Note that there will be two extra sessions offered outside of class for those students interested in learning how to build an LBO model. These will be at 6:15 on Wed Feb 1 and Mon Feb 6.**

**Grading note for non-Questrom students:** This is a Questrom course and follows Questrom grading guidelines. For graduate students, that means a "C-" is a passing grade, and I have, and will, give out Cs if they are deserved. This has not happened frequently, but it has happened. Other Schools and/or programs within BU have different standards and passing thresholds. Please be aware that a C grade may not be a passing grade for your school or program.

**COURSE SCHEDULE****Course Introduction, Industry Introduction:****(1) Tues Jan 24 Lecture/Discussion: Introductions to the Course, the Alternative Asset Classes**

Readings:

1. Course Syllabus. **Read this entire syllabus cover-to-cover** so you get a chance to see what we'll be covering. **Refer to the syllabus very frequently** to keep an eye on what's ahead each week.
2. PitchBook Private Equity & Venture Capital Glossary (on Blackboard in Course Materials/Readings)
3. McKinseys Private Markets Annual Review – Private Markets Rally to New Heights Pages 1-30. (Entire report is on Blackboard in Course Materials/Readings)
4. Bain Global Private Equity Report 2022, March Pages 74-80. (Entire report is on Blackboard in Course Materials/Readings)
5. Josh Lerner and Felda Hardyman. Venture Capital & Private Equity—A Case Book, 2nd edition—Chapter 1: Private Equity Today and Tomorrow, pp. 1-10. [This is in the BU packet]
6. Gregg A. Jarrell. "Takeovers and Leveraged Buyouts." The Concise Encyclopedia of Economics, 1992, on Blackboard and at:  
<http://www.econlib.org/library/Enc1/TakeoversandLeveragedBuyouts.html>

**Firm Formation, Firm Culture, Compensation, Asset Allocation, Limited Partners, Endowments, Debt:****(2) Tues Jan 31 Lecture/Discussion: Brief history of Leveraged Buyouts and how they work  
Introduction to the LBO Model****CASE: Iris Running Crane December 2009, rev. 2013**

The case focuses on evaluating various strengths and weaknesses among private equity firms, firm strategies, and how the principals of those firms are compensated (all as viewed by a prospective employee).

Readings:

1. Josh Lerner, Felda Hardyman, Ann Leamon. "Note on Private Equity Partnership Agreements." Harvard Business School Publishing, rev. April 29, 2011
2. John Olsen and Salvatore Gagliano. "Note on Leveraged Buyouts." Tuck School of Business at Dartmouth, September 30, 2003. [This is in the BU reading packet]  
***(This may be THE most important Note for the course; read and re-read it carefully and thoroughly. Make sure you understand how the math works. P17-23 are especially helpful. Make sure you have the version that includes these pages.)***
3. Victoria Ivashina, Henrik Boe. "Primer on Multiples Valuation and Its Use in the Private Equity Industry." Harvard Business School Publishing, January 31, 2020

**Wed Feb 1** 6:30 -8:00 Optional Modeling class in Room 412**Mon Feb 6** 6:30 -8:00 Optional Modeling class in Room 414 (repeat of the prior class)

- (3) **Tues Feb 7** Revisit the LBO model (including the debt table), short Intro to Returns, Sources and Uses, Capital tables, Dilution, Performance metrics, and Valuation Tools (Comps, WACC, APV, etc) etc.

**CASE: Yale Investments Office: November 2020, 2021**

The case introduces the concepts of asset allocation, alternative investments, the evolution of private equity, and the role/position of limited partners.

Readings:

1. Josh Lerner. “Note on the Private Equity Fundraising Process.” Harvard Business School Publishing, rev. April 29, 2011
2. Paul Gompers, Victoria Ivashina, and Joris Van Gool. “Note on LBO Capital Structure.” Harvard Business School Publishing, October 11, 2013. Don’t miss the glossary on the last page. **Great article explaining the different debt tranches.**
3. Victoria Ivashina. “Note on the Leveraged Loan Market.” Harvard Business School Publishing, Rev. November 29, 2018
4. Scott P. Mason, Susan L. Roth. “Note on Bank Loans.” Harvard Business School Publishing, Rev. October 29, 1993.

**Valuations, Performance, Capital Structure:**

- (4) **Tues Feb 14** **\*\* INDIVIDUAL Assignment is due by 6:15 PM on Blackboard \*\***

**CASE: ACME Investment Trust: 2001, rev. 2002**

This case examines competitive dynamics among funds for capital, economics of private equity funds and associated investment issues.

Readings: (PIPES)

1. “PIPES: Private Investment in Distressed Firms.” Darden Business Publishing, rev. January 6, 2011. *Read this note, but do not focus on understanding the difference between floating rate and reset convertibles or the graphs. (You need this for the ACME discussion)*
2. Carliss Baldwin. “Technical Note on LBO Valuation (A).” Harvard Business School Publishing, Rev. April 8, 2002. **Important Note for later cases!**
3. Josh Lerner and John Willinge. “Note on Valuation in Private Equity Settings.” Harvard Business School Publishing, rev. March 18, 2011. **Great piece!**

**Negotiation, Valuation:**

- Tues Feb 21** **\*\*Negotiation Paper on Getting to Yes due by 6:15 PM on Blackboard\*\***  
No Class (Monday Class Schedule Instead)

- (5) **Tues Feb 28** **Guest Lecture Lila Hunnewell, Chief Investment Officer, Boston University**  
**\*\*\*Start organizing into groups for the Berkshire/Carters Assignment**

**CASE: Tad O’Malley: The Investment Conundrum 2008**

The case addresses how to assess three investment opportunities by evaluating the merits of each, and the impact of the firm’s organizational issues on those investment decisions.

Readings: (Due Diligence)

1. “Towards Better Transaction Analysis, Mergers & Acquisition Series, Part Two, Due Diligence Review: M&A Behind the Scenes, 2006.” Financier Worldwide, Supplement,



2006. *Skim*, but pay particular attention to “Towards Better Transaction Analysis,” “Adding Value in Mid-Market Due Diligence,” “Tax Due Diligence and Tax Planning,” “Pushing New Frontiers: Environmental Due Diligence in New Market Areas” and “Beyond Information Technology-Focused Due Diligence: Understanding the Impact on Business Strategy and Operations.” (available on Blackboard)
2. Josh Lerner, Ann Leamon, Abishai Vase. “A Note on Private Equity in Developing Countries.” Harvard Business School Publishing, rev. September 21, 2015.

**Mar 7 – No Class – Spring Break - enjoy your time off!**

**Exits:**

- (6) Tues Mar 14    **\*\*INDIVIDUAL Assignment due by 6:15 PM on Blackboard\*\*****  
**Review Valuation Methodologies and tips for Berkshire/Carters**

**CASE: Snapple** rev. 2003

Behind all the numbers, LBOs are about companies and their lifecycles. This case explores the company behind one of the most successful leveraged buyouts ever, its post LBO exit, mismanagement by the “smart” corporate buyer, and finally the company’s resurrection. (Note: *you only need to skim Exhibit 6.*)

Readings:

1. Barry Winer. “Quaker Oats and Snapple” case. Tuck School of Business at Dartmouth, 1996. [This is in the BU reading packet]
2. “Evaluate Your Company with ‘Marketing Due Diligence’” (including “Why Snapple Went South”). Harvard Business School Publishing, May 1, 1999.
3. Paul A. Gompers, Timothy Dore. “Private Equity Exits.” Harvard Business School Publishing, rev. July 14, 2014.
4. Josh Lerner. “A Note on the Initial Public Offering Process.” Harvard Business School Publishing, Rev. July 20, 2007.

- (7) Tues Mar 21    Guest Lecture by Michael Elio, Partner, Stepstone Global**

**CASE: VCPE Strategy Vignettes: 2012**

There are five mini-cases here and we will use #1 (Tempting Investment), #3 (Diamond Tires), and #4 (Lerner Networks) on March 21. These provide us a range of issues including; whether a firm should change its firm strategy, should one invest good money after bad, how to deal with a senior staff member you cannot replace, whether to get involved with how founders split equity, and a bankruptcy. [We will use the last two (#2 & 5) towards the end of the course.]

- (8) Tues Mar 28    **\*\*GROUP Case Analysis on Berkshire/Carters is due by 6:15 PM\*\*****

Each member of the group is responsible for the quality of the work. PowerPoint, Excel (especially for sensitivity and scenario analyses) and other graph programs should be used (and print formatted) to support the conclusions and ensure a “professionally” prepared analysis. Refer to the earlier portion of the syllabus for guidance on case analysis. Ideally each member of the group will receive the same grade. **\*\*A short ungraded peer review by each group member will be turned in and could influence individual grades if the contributions of each member are substantially less than equal.**

**Discussion of Requirements for Final Project**

**CASE: Berkshire Partners: Bidding for Carter’s**, rev 2011



This comprehensive case explores approaches to valuation in the context of a leveraged buyout and considers the sources of comparative advantage for a private equity firm.

**(9) Tues Apr 4 Guest Speaker, and then**

**CASE: Frank Baker: Siris Capital Group and Titan Systems, rev. 2018**

Siris Capital Group must decide if they should raise their offer to a larger premium to take Titan Telecom private by acquiring its publicly-traded stock. Siris focuses on investment targets that have both mission-critical products or services that are approaching obsolescence but producing predictable cash flows, and also have new products or services on the horizon with strong growth potential. To complicate matters, Siris is in the midst of raising its second private equity fund and seeks to secure co-investment capital from many of the same investors they are pursuing as limited partners for their new fund.

Readings: (Deals)

1. William A. Sahlman. "Note on Financial Contracting: 'Deals'." Harvard Business School Publishing, Rev. June 22, 1989.

**Bankruptcy and Reorganization:**

**(10) Tues Apr 11 \*\*Selection of company for final project due; one paragraph write-up on why this company. GROUP Assignment due by 6:15 PM on Blackboard\*\***

**CASE: Bankruptcy and Restructuring at Marvel Entertainment Group, 1997**

**CASE: REFCO** (there are only the articles below, not an HBS case)

Do enough deals, and you will find yourself in a bad one at some point. This case explores the myriad of things that can happen, the players who participate, and the relationship between shareholders and debt holders in a deal with multiple entities that takes a turn for the worse. Then we compare and contrast the Marvel situation with that of Refco.

Readings: (Bankruptcy)

1. Matthias Hild and Matthew McBrady. "A Managerial Primer on the U.S. Bankruptcy Code." Darden Business Publishing, University of Virginia, 2004
2. Edward Robinson. "Behind the Rot at Refco." Bloomberg Markets, February 2006. Available on Blackboard
3. Optional: Michael Jensen. "Corporate Control and the Politics of Finance." Journal of Applied Corporate Finance, Summer 1991, Vol. 4, No. 2, pp. 13-33. (available on Blackboard)

**(11) Tues Apr 18 \*\*INDIVIDUAL Assignment is due by 6:15 PM on Blackboard\*\***

**CASE: Universal Hospital Services (UHS)**

Materials from the UHS transactions are entirely available on Blackboard. There is no written case, only actual documents related to an actual transaction (this is real world). Universal Hospital was subject to a potential take-over from a strategic buyer that could not close due to anti-trust issues. This allowed for a management-led leveraged buyout, followed a few years later by a proposed IPO which stalled in the market turbulence in the weeks following September 11, 2001, which in turn was followed by a potential sale a couple years after that, which gave way to a dividend recapitalization and ultimately a sale to a financial buyer. We will explore all these transactions and evaluate the steps taken by the controlling shareholder group at each step along the way using actual documents from the transaction.

**(12) Tues Apr 25 Semester Summary Case/Reading/Guest Lecturer Evaluation  
Final Presentation tips, SPACS**

**CASE: VCPE Strategy Vignettes: 2012**

We will do the last two cases (#2 Teapot Technology and #5 Simmons Bedding) from the VCPE Vignettes. These two cover whether one should invest good money after bad, and how a firm can go bankrupt while it's PE owner still makes money. [The document has five cases but we will only use these two.]

**(13) Tues May 2 **\*\*Presentations of your Group Final Project. Documents (power points and full excel backup) are due at 6:15 PM on Blackboard\*\*****

Ideally, each member of the group will receive the same grade. **\*\*Also**, a short ungraded peer review of group members by each group member will be turned in and could influence individual grades if the contributions of each member are substantially less than equal.

**Last Class:** Course/Instructor Evaluation