Private Equity Finance – FIN/ENTP 6316-501 – Spring 2021
The University of Texas at Dallas – Naveen Jindal School of Management

Course Information:

Course Number/Section	FIN/ENTP 6316-501
Course Title	Private Equity Finance
Term	SPRING 2021
Days & Times	Thursdays, 7:00pm – 9:45pm
Location	Online - Remote
Platforms	eLearning, Blackboard, Collaborate, Microsoft Stream, Microsoft Teams

Professor Contact Information:

Professor	David J. Springate, Ph.D., Finance Professor, Founding Director, Center for Finance Strategy Innovation Academic Director, Executive MBA and GLEMBA Programs
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Email Address	spring8@utdallas.edu
Office Location	JSOM 2.403 -Working from home
Office Hours	By appointment. Call (972-743-0947)

Administrative Contact Information:

Administrative Assistant	Jeanette Henriques
Email Address	Jeanette.Henriques@utdallas.edu

Course Pre-Requisite:
FIN 6301 is required.

Course Overview:
The course is an examination of modern private equity finance– a development that has significantly changed the perspectives of investors, executives and boards over the last thirty years and shows every sign of becoming more important. Private equity has evolved from a relatively minor field of finance to a major force in the economy. This development is a result of continually increasing commitments from institutional investors seeking higher returns in times of low interest rates, a rapid proliferation of private equity investment funds, the growth of substantial institutional co-investors, and the increased breadth and diversity of private capital investments.

The course is positioned as providing professional development for its student participants. Students of finance, whether they wish to participate professionally or not, need to know about the nature of private equity funds, the types of investments they make, and the resulting impact on companies purchased and held in investment portfolios.

The general aim is to cover current private equity activity as carried out through designated investment funds raised and managed by private equity firms. We will consider issues of concern to:

- Limited partners (endowments, pension funds, funds of funds)
- Co-investors (large institutional or quasi-government entities)
- General partners (fund managers and private equity firms)
- Portfolio companies and their management
- Buyers and sellers of private equity funded assets and liabilities

Topic coverage will be selective. It includes:

- Investment allocation
- Structuring and valuation of leveraged buyouts
- Debt management

- Working with lenders and hedge funds
- Equity returns
- Governance and operational management of portfolio companies
- Exits, IPO's, strategic sales, and secondary offerings
- Fees, carried interest, performance measurement, and disclosure
- Strategic issues: breadth-of-activity, liquidity, and management of long-term returns
- Co-investment and the use of funds of funds
- Domestic and international perspectives
- The growing importance of private equity

The structure of the course will convey the continuing evolution of private equity from a starting emphasis on debt management, to an emphasis on efficiency and growth, to later investments in infrastructure and industrial structure, and to a new, evolving pattern of working with sister funds, such as private debt and hedge funds, under a parental umbrella.

There will be no substantial coverage of:

- Fundraising
- Tax issues
- Distressed investing
- Venture capital activity (Although it is considered by many to be part of private equity, venture capital is covered in the Entrepreneurial Finance course (FIN 6315)).

Case analysis for decision-making and relevant theory will be stressed. Participants must be willing to speak in class (although virtual) and take a position on debatable issues. Similarly, participants should be prepared to submit a number of papers that require both analysis and taking a position as a decision-maker. Simply analyzing without making a recommendation for action is insufficient and will not do.

There will be ongoing evaluation and grading. This evaluation includes submitted papers/analyses, which will be returned with professor's feedback and comments, and participation in class discussions. No final examination is scheduled.

Speakers from the financial community are expected to join the class on limited occasions. This will add depth and breadth to the coverage of various topics.

Center for Finance Strategy Innovation:

In addition to being a finance faculty member, your professor is director of the Center for Finance Strategy and Innovation. It was founded in 2008 to focus on education and research programs in areas crucial to today's economy. Working with businesses, the center addresses corporate transformations/restructurings, as well as funding for innovation, project finance, and growth capital. It also supports internship programs in fintech.

Conduct of the Course:

We will explore topics though guided class discussion of real case situations faced by investors, analysts, fund managers, and executives of companies held by private equity owners. Classes (using Blackboard Collaborate) will include some combination of case discussion, work with useful concepts and frameworks, and limited visitor presentations. Each class (all online) will last for about 90 minutes and will be recorded for posting on Microsoft Stream. To make up for the shorter-than-usual classes, we will increase time spent on written analyses and their review. eLearning will be used as the course management software. Each week an assignment sheet will be posted on Blackboard to convey the week's assigned case or activity. There may be a pre-class posting of a lecture. Student submissions will be made through Turn-it In. Course feedback will be returned by eLearning. Multi repetitions of the case-analysis cycle will aid your learning and development. Any discussions about your progress in the course will be scheduled on Microsoft Teams or telephone.

Course Topics:

See the attached class schedule for details of topics, page 5.

Student Learning Objectives/Outcomes:

The objectives of the course are to build your skills, frameworks and knowledge with respect to the evolving world of private equity finance. The skills and frameworks are similar to those needed in traditional corporate finance. They are, of necessity, more focused on identification of financial opportunities, on projecting future cash flows, on developing value and possibilities for return enhancement within a specified period, and on deal making. The context of private equity finance is different than that of traditional corporate finance. Companies and funds are, by definition, not listed on public exchanges. They are not required to file many public reports. They focus on cash, not earnings. A capital structure involving debt, which can be public or private, is usual. Deal making, acquisitions, dispositions, transformation and shared interests are involved. Expanding beyond traditional private equity activity, larger and diversified institutional investors, more specialized private capital providers, and larger, more lightly regulated funds are some newer features of the private equity world.

The specific course aims are to improve your capacity to:

- Recognize, and value, opportunities worth adopting and financing through private equity
- Explain the reasons behind any analysis or any recommendation you make
- Succeed in the evolving world of private equity finance
    - Deliver results in private equity finance based on innovative strategy, appropriate capital structuring and debt management, and good risk assumptions/allocations
    - Be able to respond to the differing needs of fund investors, partners in private equity firms, lenders, portfolio company managers and co-investors
    - Operate in a context where larger financial groups are increasingly moving toward combining private equity funds, hedge funds and aggressive lending groups, in part to be more independent of traditional financial market constraints.

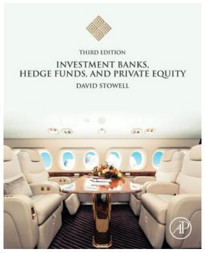
Required Textbook and Case Materials:

You will need specific materials to proceed in the course. These are a coursepack of 15 business cases, a note, and the textbook: ***"Investment Banks, Hedge Funds, and Private Equity"*** by David Stowell. The cases and note should be purchased from Harvard Business Publishing. The link for this purchase is https://hbsp.harvard.edu/import/785125.

List of Required Cases and Note:

- Yale University Investments Office – February 2015 815124-PDF-ENG
- Blackstone Group: Dry Powder in an LBO Drought (A) W20532-PDF-ENG
- Brazos Partners and the Tri-Northern Exit. 813157-PDF-ENG
- Oregon Public Employees Retirement Fund: Push and Pull Over GP/LP Compensation UV5622-PDF-ENG
- Illinois Teachers' Retirement System, 2019: Private Equity Performance UV8086-PDF-ENG
- Assessing Private Equity Performance UV7808-PDF-ENG
- Finding the Perfect Recipe: KKR's Buyout of WMF IN1382-PDF-ENG
- ISS A/S: The Buyout 214027-PDF-ENG
- The Canada Pension Plan Investment Board: October 2012. 813103-PDF-ENG
- TXU (A): Powering the Largest Leveraged Buyout in History 320064-PDF-ENG
- Hertz Corporation (A) 208030-PDF-ENG
- Private Equity Achieves Returns Through Operating Improvements: CDR's A+T of Hertz IN1461-PDF-ENG
- Investing in Sponsor-Backed IPO's: The Case of Hertz UV1409- PDF-ENG
- Centerbridge Partners and Great Wolf Resorts: Buying from a Highly Regarded Competitor 818023-PDF-ENG
- The Blackstone Group: Merlin Entertainment 210014-PDF-ENG

Required Textbook:



Investment Banks, Hedge Funds, and Private Equity (3rd ed.)

By
David Stowell, Professor of Finance, Northwestern University

Hardbound, 714 Pages
Published: 2018
ISBN 13: 978-0-12-804723-1
Imprint: ACADEMIC PRESS

Financial Models and Templates:

The book's companion site has some downloadable financial models and templates. On occasion, you may wish to build more advanced valuation spreadsheets or use another Excel template. There are many LBO template models and other valuation models available on the web. Some sources will charge for use, while other models are for sale. Still others are available free. There is no need for uniformity here. Choose models or templates that work for you.

Here are four examples of LBO-model sources you might investigate.

https://www.eloquens.com/tool/nRSN/finance/leveraged-buyout-lbo/merger-lbo-valuation Damodaran

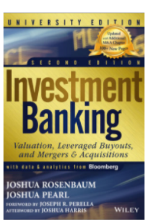
https://www.eloquens.com/tool/94RINj/finance/leveraged-buyout-lbo/lbo-model-template Burns

https://macabacus.com/excel/templates/lbo-model-short Macabacus

https://macabacus.com/excel/templates/lbo-model-long Macabacus

The models associated with the book below (available by download) will also do this job well. The book itself is a useful secondary supporting source for the course.

Joshua Rosenbaum, Joshua Pearl, *Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions. Second Edition, 2013. Wiley.* ISBN:978-1-118-28125-3



Academic and Assignment Calendar – Private Equity Finance – FIN 6316-501 – SPRING 2021 – David Springate						
Week &	**Date**	**Course Section**	**Topics**	**Case**	**Pre-Class Short Paper Required?**	**Reading**
1	1/21	**Introduction to Private Equity Finance and Basic LBO Model**	• Private Equity • Syllabus • Introductions	• None	N	Ch 10
2	1/28		• Investing for Inefficiency and Excess Returns	• Yale University Investments Office – February 2015	N	Ch 16
3	2/4		• Managing a Buyout for Value	• Blackstone Group: Dry Powder in an LBO Drought	Y	Ch 17
4	2/11		Classes Cancelled			
5	2/18					
6	2/25	**Measuring and Sharing Excess Returns**	• Compensation	• Oregon Public Employees Retirement Fund: Push and Pull Over GP/LP Compensation	N	Ch 15, 19
7	3/4		• Fund Performance	• Illinois Teachers' Retirement System, 2019: Private Equity Performance Assessing Private Equity Performance	Y	Ch 18
8	3/11	**Private Equity – Evolution from Basic LBO to Integrated Management of Private Capital**	• Operational Improvements	• Finding the Perfect Recipe: KKR's Buyout of WMF	N	Ch 1, 7
9	3/25		• Take-over Debt • Expansion	• ISS A/S: The Buyout	N	Ch 4, 11, 12
10	4/1		• Significant Co-Investors • Long-Term Investors	• The Canada Pension Plan Investment Board: October 2012	N	Ch 3, 13, 14
11	4/8		• Managing Risk • Public Policy	• TXU (A): Powering the Largest Leveraged Buyout in History • *Plus: Supplementary Materials to be Provided*	N	
12	4/15				Y	
13	4/22		• Operational Improvements • Capital Structure	• Hertz Corporation (A) • Private Equity Achieves Returns Through Operating Improvements: CDR's Acquisition and Turnaround of Hertz	Y	Ch 5, 8, 20
14	4/29		• Loans and IPO's • Special Dividends	• Investing in Sponsor-Backed IPO's: The Case of Hertz	Y	Ch 2, 6
15	5/6		• Liquidity and Returns	• The Blackstone Group: Merlin Entertainment	N	Ch 8, 9

First Written Paper will be "Brazos Partners and the Tri-Northern Exit", assigned 2/18 due 2/28.
Second Written Paper will be " ISS A/S: The Buyout", assigned 3/25, due 4/5.
Third Written Paper will be "The Blackstone Group: Merlin Entertainment", assigned 4/29, due 5/10.

These descriptions and timelines are subject to change at the discretion of the professor

Deliverables and Notifications:

You will be judged on class discussion of topics and cases and on your questions for any visitors. Other deliverables include individual written analysis of three cases and five pre-class one-page papers summarizing the thoughts you are bringing to the class. All cases and papers will be graded, with comments, and returned.

www.eLearning@utdallas.edu is where assignments will be posted, where you can communicate with the professor and other classmates, and where general class discussions or announcements will be posted. elearning will have private group chat and discussion areas set up once any study groups have been established.

Evaluation:

Class discussion and participation in case analysis*	30%
Three Individual written case analyses	30%
Five pre-class one-page papers	40%
	100%

Evaluation and Grades for Asynchronous Students:

As above. Asterisked discussion (*) points will be awarded for Discussion Board entries set up by the week.

Grading Criteria for All Students:

To be awarded an 'A' or 'A-', a paper must contain an cogent analysis of most major, relevant issues. A 'C' paper will reference a smaller number of issues with an incomplete analysis. It is possible to be awarded a failing grade on a paper. Based on experience, most students will earn an 'A' or 'B' in the course.

Oral contributions will be primarily judged by frequency of participation, the relevance of comments to the ongoing discussion, and originality.

You will receive a decimal form equivalent to a letter grade at each stage of the course. The table below shows the equivalence. Your progress grades will show in eLearning in decimal form.

A	A-	B+	B	B-	C+	C	P	F	I
4.0	3.67	3.33	3.00	2.67	2.33	2.00	Pass	Fail	Incomplete

Course Policies:

Late Work
All work should be submitted even if late. Penalties may apply.
Class Attendance/Online
Grades depend, in part, on attendance. You are expected to be in class.
Classroom Citizenship
Participation calls for due respect of classmates and the instructors. Do not embarrass yourself. Come prepared to class with required readings and case preparation complete

Student Conduct & Discipline:

The University of Texas System and The University of Texas at Dallas have rules and regulations for the orderly and efficient conduct of their business. See (https://go.utdallas.edu/syllabus-policies). It is the responsibility of each student and each student organization to be knowledgeable about the rules and regulations which govern student conduct and activities.