



SYLLABUS

■ Course Description The course plans to focus on two major topics:

- The fundamentals of the practice of valuation in the context of Mergers and Acquisitions. We will cover valuation for combination of firms or business units including valuation of synergies; valuation of foreign firms in developed and emerging markets including treatment and analysis of foreign exchange translation, inflation and country premium; structuring and valuing leveraged buyouts and recapitalization of distressed companies; valuation of real options in mergers and acquisitions.
- The finance principles related to the risk and return of the private equity (PE) industry, valuation of PE target companies, the structuring of leveraged buyouts (LBOs), and the management of portfolio companies. Emphasis will be put on development of techniques that should be part of the tool kit of those interested in becoming professional investors and/or researchers in finance.

This course is designed to primarily address the needs of advanced students in an MBA program.

■ **Prerequisites** I will assume a good understanding of basic notions in finance: the time-value of money; return, risk and portfolio diversification; net present value; etc. These are materials covered in MGT/P/B 205 (core finance class). I will discuss some of these topics in class, but I expect you to refresh your memory on them at the very beginning of the quarter. Spending time in class to review topics that are covered by more basic courses would be inefficient and, most importantly, would take time away from new and more exciting topics. I assume that you are in this class to learn new material and get ready for the job market and I will teach the course accordingly.

Computing skills with Microsoft Excel are required.

■ **Course Materials** Optional books (there are actually hundreds of titles out there, some good, some not that good)

- Mastering Private Equity: Transformation via Venture Capital, Minority Investments and Buyouts, by Claudia Zeisberger, Michael Prah, and Bowen White, 1st Edition
- Valuation for Mergers, Buyouts, and Restructuring by Enrique R. Arzac, 2nd Edition.

■ **Assignments, Exams and Group Projects** There will be four to five group assignments handed at the end of certain classes and due the following week. A final Take Home Exam is administered at the end of the course, due within a week after the last class.

■ **Grading** A total of 100% is allocated across the assignments (80%) and final exam (20%). The final grade will be set according to UC Davis policy based on the weighted average scores as described above.



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■ **Course Outline** The intended list of topics, not necessarily in the order that they will appear during the quarter, is provided below. Topics could be added/removed as the quarter starts.

► **Mergers and Acquisitions Fundamentals**

M&A fundamental concepts. Financial statement analysis and the valuation methods

► **Deal Design**

Principles of M&A deal design and connection with accounting and valuation. Payments and financing the deal. Debt capacity for acquisition financing

► **Deal Making**

Risk shifting through contingent payments (earnouts). Value at risk, price guarantees, collars and contingent value rights.

► **Cross Border Mergers and Acquisitions**

Home versus foreign valuation. The country risk premium.

► **Leveraged Buyouts**

The effects of leverage on firm value. The private equity aspect of LBOs.

► **Distressed Firms: Recapitalization and Restructuring**

Legal, accounting and tax considerations for recapitalization and restructuring distressed firms. Asset restructuring strategy.

► **Special Topics in M&A: Negotiations, Auctions, Hostile Takeovers and Takeover Defense Strategies**

Behavioral finance and game theory applied to mergers and acquisitions.

► **Overview of PE Industry: Participants, Returns and Cost of Capital**

We will provide an overview of the VC industry with discussion of history, major players, performance measurement and global patterns. A discussion of risk and return is included providing a key translation between the language of PE and the language of financial economics – a key duality in the whole course.

► **VC Investment**

We will provide data and methods used in valuing high-growth / start-up companies by addressing the investment process used by VCs, the structure of VC transactions and the standard “total” and partial valuation techniques used by VC.

► **Overview of PE Deals, Fund Management, the GP-LP Relationship**

We continue with the presentation and analysis of the PE. This part address in detail the issues related to raising, managing and winding down the PE fund.

► **Buyouts and Distressed Investment**

We end the course with an analysis of investment and valuation techniques specific to buyouts and distressed companies.