FIN 231F (2) Private Equity
Spring 2018, Module 2
Wednesday, 6:30-9:15pm, Room: Lemberg 180 (T.H. Lee Hall)

Anil Shrivastava, Adjunct Professor, ashrivastava@brandeis.edu
Office: Sachar 1-G, Office Hours: 5:30-6:20pm Wednesdays before class
TAs: Sam Suri (sams@brandeis.edu) and Xitong Zhou (xitongzhou@brandeis.edu)
TA Office Hours: Suri, Mondays 2-3:30pm and Zhou, Wednesdays 4:30-6:30pm (or by appointment)

OVERVIEW

Private equity (PE) funds have a sizeable and growing influence on worldwide capital markets. In this course, we examine the PE industry, with a focus on the US Leveraged Buyout industry – why has it been so successful at attracting capital and what firms do to generate returns for themselves and their investors. That includes not only finance, but also the strategic and operational factors that create a successful investment. Topics include:

- The Private Equity industry – its history, structure, players and adjacent industries
- What kind of company makes an attractive private equity investment?
- How do private equity funds add value to their investments (operational improvement, management incentives, balance sheet)
- What do private equity funds do when ‘things go wrong’?
- How do private equity funds create successful exits from their investments?

The course is designed to be relevant not only to students considering a career in private equity, but to those in related careers: investment banking, commercial banking, fund placement and line management of leveraged companies.

LEARNING GOALS

At the conclusion of this course, the student should be able to understand:

- Why has PE become such a major force in global capital markets?
- How does the PE industry work?
- What are the common themes that define and create PE successes?
- What do PE firms do when ‘things go wrong’?
- What are the differences and commonalities between leveraged buyouts (LBO) and venture capital (VC)?
- How can I make better lending and investment decisions by thinking like a PE pro?

Success in this two-credit course is based on the expectation that students will spend a minimum of 9 hours of study time per week in preparation for class (readings, papers, discussion sections, preparation for exams, etc.)
COURSE REQUIREMENTS

**Required Reading:** We have link at Harvard Publishing online which will allow you to access the Celanese simulation, which serves as the final exam for this course at [http://cb.hbsp.harvard.edu/cbmp/access/76925815/](http://cb.hbsp.harvard.edu/cbmp/access/76925815/) There will also be another link for reading materials (noted in the assignment text where relevant). If you have not registered with Harvard Business Online, you will be required to do so. Students can access PDF files of course materials via a link of Harvard Business Online for six months from the date of purchase. You will have immediate access to the materials upon placing your order; for subsequent access, you must login to [http://harvardbusinessonline.org/](http://harvardbusinessonline.org/) For technical assistance, please view the Quick Tips section or contact Harvard Business School Publishing at 1-800-810-8858. They are open 8am-6pm ET. They can also be reached at techhelp@hbsp.harvard.edu

**Prerequisite:** FIN 202a and FIN 212a or equivalents. The course assumes that you have a working knowledge of accounting and financial ratios. I would strongly urge you to retake this course at a later date if you do not have sufficient finance, accounting and financial statement analysis background.

**Class Participation:** Class participation is expected of everyone in this course, and class attendance is required. Each week there will be a new case assigned and every student is expected to be prepared to discuss the case in detail, including a thorough analysis of the financial statements where required. To facilitate participation, I will ask all students to place a name card on their desks. Unexcused absences will adversely affect your participation grade. Perfect attendance but no participation receives a grade of “B” towards the overall grade. Each unexcused absence results in a reduction in this grading element (A to A-, and so on).

**Written Assignments:** Team assignments must be done in groups of four students. Grades on each assignment are assigned to all members of the team (although I reserve the right to alter individual grades in certain circumstances, e.g., when it is clear to me that an individual did not contribute to the assignment in a consistent and meaningful way). I will assign teams randomly.

**Special Accommodation.** If you are a student with a documented disability on record at Brandeis and wish to have a reasonable accommodation made for you in this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

**Final Exam:** This course will have a final exam, currently scheduled on May 2nd. If you have obligations that will prevent you from being in class on that date, you should not take this class!
Grading (85% individual, 15% team)

- Class Participation: INDIVIDUAL 20%

Required Assignments:
- Hubbardton Forge (A) case writeup: INDIVIDUAL 15%
- ARS case writeup: TEAM 15%
- Hertz case writeup: TEAM 15%
- Final Exam (Celanese simulation): INDIVIDUAL 20%

Optional Assignments: (must do 1 of 2!)
- Hubbardton Forge (B) case writeup: INDIVIDUAL 15%
- Regal case writeup: INDIVIDUAL 15%

Case write-ups should provide a detailed, fact-driven answer to the case questions posed, complete with charts and other exhibits as appropriate. Suggested length is 2-4 pages + exhibits. You can use either word or slides to make your case. If using slides a suggested length would be 8-15 pages (with embedded exhibits).

Class Format. Beyond the first week, class sessions will follow a standard format. The first half of the class session will be a discussion of that week’s case, sometimes with the benefit of a guest who has been involved in that (or a similar) case. The second half of each class session will be a lecture that will tidy up loose ends from that week’s case and/or provide background and context for the following week’s case assignment.

Academic Honesty. You are expected to be honest in all your academic work. Please consult Brandeis University Rights and Responsibilities for all policies and procedures related to academic integrity. Students may be required to submit work to TurnItIn.com software to verify originality. Allegations of alleged academic dishonesty will be forwarded to the Director of Academic Integrity. Sanctions for academic dishonesty can include failing grades and/or suspension from the university. Citation and research assistance can be found at LTS - Library guides. Under no circumstance may you search the internet (or turn to any other outside source) for any information regarding these cases without my permission. Failure to comply with this directive is cheating.
CLASS ONE – WEDNESDAY, March 7
Introduction to Private Equity Funds / What makes an attractive Private Equity Deal?

In this introductory lecture we will answer the following questions, which will provide the foundation for our remaining sessions:

- Why do we have a ‘Private Equity’ industry? Where did it come from and what is its unique role in capital markets? How does it different from other family run or other private businesses?
- What is the structure of the global Leveraged Buyout (LBO) industry? How is the same and how is it different in major geographies around the world?
- Where does Private Equity money come from? Why do limited partners invest? What are they trying to achieve?
- Given the above, what are the motivations for a PE investor? Where are they convergent and divergent vs. their limited partners and financing sources?

The second half of this class will introduce the class to ‘LBO math’, using a real LBO deal (HCA) as an example, answering the following:

- What types of businesses make attractive LBO investments and why?
- How does LBO financing produce such high returns?
- What are the similarities and differences between an attractive LBO and an attractive corporate M&A transaction?

We will also establish the basic ‘Private Equity Success Formula’ that we will explore in subsequent classes:

Buy Right + Add Value + Exit Well = Attractive PE Returns

CLASS TWO – WEDNESDAY, March 14
Buying Right - Case: Hubbardton Forge (A)
Hubbardton Forge (A) INDIVIDUAL case write up due!

Reading: Hubbardton Forge (A) – via LATTE
Key Questions: Bunker Hill Capital is considering an acquisition of Hubbardton Forge, a lighting company. Is Hubbardton Forge a “good business”? What valuation would you put on the business? What are your primary risks and concerns?

The starting point for any private equity investment is evaluating the attractiveness of a potential target and creating a valuation of the business incorporating different performance and economic scenarios.

During the class we will discuss your answers to the key questions above and debate different points of view. Be prepared to share your logic and thinking with each other!
We then explore strategies for exit. The need to exit and the positioning for exit is a critical difference between a PE buyer and a corporate buyer. We will address the following:

- What are the major opportunities for exit, and when is each most appropriate?
- What are the specific things that a private equity owner will do to position a portfolio company for attractive sale?
- When is the ‘optimal’ time for exit? How do PE funds manage the ongoing tension between ‘declaring victory’ and getting cash back to investors vs. continuing to compound capital and hope for a larger payday later?
- What is a dividend recap, and when is it an appropriate part of an exit strategy?

**CLASS THREE – WEDNESDAY, March 21**

**Exit or Add Value? (ARS, Inc.)**

**ARS INDIVIDUAL case write-up due!**

**Guest Speaker: Sam Bartlett, Charlesbank Capital Partners**

**Reading:** ARS, Inc. (distributed via LATTE)

**Key Questions:** Charlesbank is considering an acquisition of ARS, a heating/cooling and plumbing service provider. Is ARS a “good business”? What is driving its growth? If you were Charlesbank would you continue to hold the business or sell it? What other options would you consider to maximize return for the firm and your investors?

We will also explore how our basic framework of: Buy Right + Add Value + Exit Well applies to venture capital (VC) and growth equity, answering the following questions:

- What is ‘venture capital’, what are its various forms and flavors?
- How does the return profile and objectives of VC differ from LBO?
- What types of companies make attractive VC investments?
- How do VC firms add value?
- How do they ‘exit well’?

Growth equity is an investment niche between start-up venture capital and mature leveraged buyouts. Equity investments, generally with little or no debt, support the ongoing growth of emerging business models, often supplementing the founder start-up capital.

**CLASS FOUR – WEDNESDAY, March 28**

**Growth Equity - Case: Regal Cinemas**

**Regal Cinemas INDIVIDUAL case writeup due!**

**Reading:** Regal Cinemas case writeup (via LATTE)

**Key Questions:** Is Regal Cinema’s a good business and have the investors made a good investment? What do the investors need to achieve to create a successful investment? How much cash will it take to do so and can they achieve it? If you owned it in 1999 one year after the investment, what would you do with the company: push for more growth, less, same?

Growth equity companies have their own challenges – rapid growth can create rapid increases in valuation, but also create significant stresses on management teams. The right decision on
how and when to sell vs. “keep growing and investing” can make the difference between an “ok” and a “great” investment.

In the second half of the day, we will explore how private equity funds add value to their portfolio companies, discussing:

- How are PE firms organizing themselves to add value to their portfolios?
- What are the most important tools that a PE owner will use to add value?
- How can acquisitions add value to a portfolio company?
- How do PE firms incent their managers to add value?
- What governance structures do funds employ to provide oversight to their portfolio company investments?

CLASS FIVE – WEDNESDAY, April 11
Add Value - Case: Hubbardton Forge (B)
Guest Speaker: Prof. Mike McKay, Board Director, Hubbardton Forge (and Senior Lecturer!)

Reading: Hubbardton Forge (B) (via LATTE)
Key Questions: Hubbardton Forge has had mixed results since Bunker Hill took it private. What parts of the investment thesis remain intact? Which may have to be revisited? What actions does the company need to take now and what actions should Bunker Hill and the board take to maximize the investment from here?

After the break, we will review negotiating strategies and discuss one the largest and storied private equity investments of its time – Hertz Corporation - setting you up for the team assignment that will be due in the next class.

CLASS SIX – WEDNESDAY, April 18
Pulling it all together - Case: Hertz
Reading: Bidding for Hertz (via Harvard Publishing link http://cb.hbsp.harvard.edu/cbmp/access/76925752)
Key Questions: Hertz has created good returns for a number of owners. Why is that? Is it a good business? Exercise the full framework: What is buying right in this case? What actions should be considered to add value during the holding period? What would the most likely value-added exit entail.

After discussing the case together (make sure your team is ready to justify your point of view!), I will do a brief introduction of Celanese, our final assignment. We will then explore the future of the PE industry. After thirty years of explosive growth in funds and fund size, many experts predict that the next five years will bring a significant shakeout. We will discuss the following:

- What strategies should PE funds pursue to continue to attract talent and deliver attractive returns? How geographically focused or diverse should they be? How industry focused should they become? Should they enter additional asset classes?
- How is the limited partner base evolving, and what does that imply for required strategies by PE firms?
- How can PE funds manage ‘generational succession’ as founders reach retirement age?
- What strategies do those founders have to ‘exit well’ from their PE partnership?
FINAL EXAM – Wednesday, May 2
Let’s try it out! - Case: Blackstone / Celanese simulation
Part 1 of Celanese is to be done before class!

READING: Blackstone / Celanese Finance Simulation (3712-HTM-ENG)

Part 2 of Celanese is the simulation and the Final Exam