

Donna M. Hitscherich
Uris Room 313
Office Phone: 212-854-0763
Email: dmh9@gsb.columbia.edu
Office Hours: Mondays by appointment
Teaching Assistant contact information on Canvas

Course Information and Required Materials:

This course is offered over the Fall 2018 and Spring 2019 semesters (12 sessions of 1.5 hours each per semester). This is a required course for students who have been selected as Private Equity Fellows.¹ There are a limited number of seats available for students who are not Private Equity Fellows. **Each semester class is for 1.5 credits.**

The Fall 2018 semester class is a prerequisite for the Spring 2019 semester class. The student must attain an acceptable grade in the Fall 2018 semester class to be eligible for the Spring 2019 semester class. The full course (Fall 2018 semester and Spring 2019 semester) will cover twelve (12) modules, all as more fully described below.

The first six (6) modules will be covered in the Fall 2018 semester class and the remaining six (6) modules will be covered in the Spring 2019 semester class.

Students must have the following materials for this course:

1. Private Equity Case Materials (Donna M. Hitscherich © 2018) (the “PE Case Materials”). The PE Case Materials will be provided in hard copy and contain the lecture notes for the associated Modules set forth below
2. Articles posted to CANVAS or distributed by the professor prior to the class sessions (collectively, the “Articles”)
3. Materials and assignments distributed by in-class speakers throughout the semester (“Practitioner Materials”)

Please note the following:

¹ The Private Equity Fellows Program has an extensive application procedure, including an LBO modeling test, faculty recommendations, essay, resume submission, and disclosure of student grades attained in the core classes. The Private Equity Program selects 40 to 50 full-time MBA and a limited number of selected EMBA candidates for the Fellows Program. A student’s prior professional career background in private equity or finance plays a role in the selection process; however, a student who makes a compelling case for a thoughtful and actionable career transition into private equity will also be considered and may be selected for the Fellows Program. Additional information on the Fellows Program may be found at:

<https://www8.gsb.columbia.edu/privateequity/fellows#>

1. Neither the *PE Case Materials* nor the *Practitioner Materials* will be available in electronic versions
2. Class sessions will not be recorded
3. Active class participation is an important component of the course and will count for one-third (1/3) of the course grade
4. Prior preparation of materials for each and every class session is essential. In addition to the assigned readings, there will be a written assignment required for each of the class sessions. These assignments will account for one-third (1/3) of the course grade and will involve both individual and group work
5. The course will require a final group presentation presented during class time and successful completion of an individual take-home closed book objective short answer 50-question “quiz”. These items together will account for one-third (1/3) of the course grade. The purpose of the “quiz” is to insure the individual student has mastered the key foundational concepts of the class.

The *PE Case Materials* along with the associated *Articles* and *Practitioner Materials* are designed to be self-contained and to serve as lecture materials for the designated classes. The remainder of the course materials and information—case questions, teaching notes, announcements, case and current event specific web links, and additional handouts will be found on the course web page on CANVAS. Students should plan to check the site regularly, as hard copies of materials published on CANVAS will not generally be made available.

Additional materials are available (and on Reserve) on the CBS Watson library website:
<http://library.columbia.edu/locations/business.html>

Required Prerequisites and Connection to the Core:

This course builds upon the introductory courses in finance and connects with many aspects of the Columbia Business School core curriculum. Materials covered in this class and the pace of the class presume student mastery of the topics covered in the core curriculum, including those set forth below.

Core Course	Connection to the Class
Corporate Finance	Firm Valuation Models Capital Structure
Decision Models	Fundamental Concepts of Decision Making Sensitivity Analysis
Financial Accounting	Business Combinations
Global Economic Environment	Drivers of Business Cycles
Leadership Development	Negotiations

Course Objectives, Class Work and Module Topics:

This course is an applications oriented course requiring the student to solve actual problems likely to be encountered by professionals in today's private equity market.

Class topics will be imparted through lectures, assigned reading materials, required individual assignments, required written group case studies, and presentations by various private equity and legal professionals. **Students will be expected to complete each of the assigned readings prior to class and consequently, be in a position to participate meaningfully in class discussions.** Class lectures will focus on the “nuts and bolts” of the private equity practice, while practitioner presentations and student discussions will focus on the practical and real world issues associated with decision making in the context of private equity. Appendix A to this syllabus sets forth a list of representative presenters along with firm affiliation and topics covered in prior semesters of the Private Equity Fellows Program.

At the conclusion of this course students will have an understanding of the topic areas set forth below gained through class presentations and the opportunity to practice many of the quantitative and non-quantitative skills necessary for success in the private equity industry.

- **MODULE 1: FINANCIAL SPONSORS vs. PRIVATE EQUITY – WHAT’S IN A NAME?**

Questions Considered: What was the genesis of today's private equity industry? What are the key differences between private equity of the 1980s and today? Who are they key players on today's private equity landscape? What fuels competition among private equity firms today?

Reading Assignments:

B. Burrough and J. Helyar, Barbarians at the Gates: The Fall of RJR Nabisco (1989)
(Excerpts as assigned)

C. Bruck, The Predator's Ball (1988) (Excerpts as assigned)

The Barbarian Establishment, The Economist (October 22, 2016)

The Rise and Rise of Private Markets, McKinsey Global Private Markets Review (2018)

Reflection: Identify and provide support for the three (3) biggest differences between the private equity industry in the 1980s and private equity industry of today.

- **MODULE 2: WHAT IS THE BUSINESS MODEL OF PRIVATE EQUITY?**

Questions Considered: How does private equity make money? How does private equity lose money? What are the risks to the private equity business model? How are private equity returns calculated? What is “carried interest”? Are family offices and co-investing changing the economics of private equity?

Reading Assignments:

J. Kelly, *The New Tycoons: Inside the Trillion Dollar Private Equity Industry that Owns Everything* (2012) (Excerpts as assigned)

Reflection: Identify and provide support for each of the three (3) biggest challenges and three (3) biggest opportunities facing the private equity business model.

- **MODULE 3: HOW DO YOU START A FUND?**

Questions Considered: How are private equity funds structured? Why is careful structuring in establishment of a private equity fund important? What are the key structural considerations in starting a fund? What are the legal liability differences between a “general” and a “limited” partner? What happens to the fund if a portfolio company faces legal liability from a third party? What is a private placement? What is a “fund of funds”?

Reading Assignments:

Case study: Realza Capital (A)

Reflection: What are key considerations of each of the General Partners and Limited Partners, PE Principals in the fund formation process?

- **MODULE 4: WHAT VALUATION TECHNOLOGIES ARE EMPLOYED IN PE?**

Questions Considered: How are “buyouts” analyzed? How does participation of management change the economics of the transaction? What is the holding period trade off? How does a private equity buyer stack up with a strategic buyer?

Reading Assignments:

P. Gompers, S. Kaplan, V. Mukharlyamov, *What Do Private Equity Firms Say They Do?* (HBS Working Paper 15-081)

Cannella, *Technical Note on LBO Valuation and Modeling* (Columbia Caseworks 2015)

Reflection: How does the methodology employed by private equity buyers differ from the valuation methodology typically employed by a strategic buyer and as such, what are the most important valuation concerns for the private equity buyer relative to a strategic buyer?

- **MODULE 5: WHAT IS A “TYPICAL CAP TABLE” FOR A PE TRANSACTION?**

Questions Considered: How is an LBO typically financed? What are the major terms of the debt financing? What determines the “optimal” capital structure for the LBO?

Reading Assignments:

Skadden, Arps, Slate, Meagher & Flom LLP, Impact of US Tax Reform on Mergers and Acquisitions: New Opportunities and Pitfalls (January 2018)

Case study: Cannella, Dynacast: Solid Middle Market LBO (Columbia CaseWorks 2016)

Reflection: How have recent market conditions and legislation impacted the attractiveness of mega-buyouts?

- **MODULE 6: WHAT ARE THE LEGAL CONSIDERATIONS FACING A BOARD WHEN SELLING TO PRIVATE EQUITY?**

Questions Considered: What are the duties of the Board of Directors when selling a company? Must the Board of Directors sell to the highest bidder? What is a “proprietary” deal?

Reading Assignments:

Orrick, Have Your Directors Met Their *Revlon* Duties? Delaware Court Dismisses Strike-Suit Allegations as Merely Cosmetic (July 2014)

Wachtell, Lipton, Rosen & Katz, 2018 Takeover Law and Practice (Excerpts as assigned)

Case study: J. Crew

Reflection: What are the key elements of a “well-run” sales process (i.e, one that will satisfy the duties of the Board of Directors of the target company)?

- **MODULE 7: HOW ARE TRANSACTIONS SOURCED?**

Questions Considered: What is an “auction”? Is it necessary to run a “process” when selling a public company? What is a “busted IPO”? What is a parallel path? What is a “no-shop”? What is a go-shop?

Reading Assignments:

Wachtell, Lipton, Rosen & Katz, 2018 Takeover Law and Practice (Excerpts as assigned)

A. Antoniadis, C. Calomiris and D. Hitscherich, No Free Shop: Why Target Companies in MBOs and Private Equity Transactions Sometimes Choose Not to Buy ‘Go Shop Options’, 88 Journal of Economics and Business 36 (November – December 2016)

Reflection: What is the role of an investment bank in the private equity deal sourcing process and how are deal sourcing and the provision of financing connected?

- **MODULE 8: WHAT ARE THE STEPS FROM “THE HANDSHAKE” TO DEAL CLOSING?**

Questions Considered: What is due diligence? What are the key provisions of a confidentiality agreement? What is a letter of intent and is it enforceable? What are the key provisions of a merger agreement? What are “social” issues? What is the difference between a one-step deal and a two-step deal? How important is tax in the context of a transaction? What is an NOL and how has the recent changes to the tax code impacted the value of NOLs and deductibility of interest expense?

Reading Assignments:

D. Hitscherich, *Challengers to the Deal-Mastering Transactions Series in The Financial Times* (October 19, 2006)

Wachtell, Lipton, Rosen & Katz, 2018 Takeover Law and Practice (Excerpts as assigned)

Reflection: What are the principal differences between the acquisition of a private target and a public company target?

- **MODULE 9: HOW IS THE PORTFOLIO COMPANY MANAGED?**

Questions Considered: What is a “100 day” plan? How important is the “talent” component in a private equity transaction? What are the key metrics to determine portfolio company performance? What are some of the key considerations in providing appropriate incentives for the management of the portfolio company?

Reading Assignments:

M. Fitzpatrick, K. Kellner and R. Williams, What Private Equity Strategy Planners Can Teach Public Companies (McKinsey Corporate Finance October 2016)

H. Kazimi and T. Tan, How Private Equity Owners Lean Into Turnarounds, McKinsey Quarterly (January 2016)

Reflection: What are the three (3) most significant challenges facing the sponsor in the management of the portfolio company?

- **MODULE 10: WHAT ARE EXIT STRATEGIES?**

Questions Considered: What is the difference between a “private” market exit and a “public” market exit? What is a secondary buy-out? What is a leveraged recap? How does the holding period of the asset impact the exit decision? How do market conditions impact the exit decision? What are the attributes of a portfolio company that make it an attractive IPO candidate? When is a parallel path strategy appropriate?

Reading Assignments:

M. Ewens and J. Farre-Mensa, The Deregulation of the Private Equity Markets and the Decline in IPOs Michael (March 8, 2018)

Reflection: What are the three (3) most important attributes of a portfolio company that is a candidate for a public market exit and one that is a candidate for a private market exit?

- **MODULE 11: WHAT HAPPENS IN A RESTRUCTURING?**

Questions Considered: What is a typical bankruptcy process? Are there advantages to buying an asset out of bankruptcy? What are the biggest risks to buying an asset out of bankruptcy?

Reading Assignments:

Bankruptcy Judges Division Administrative Office of the United States Courts, Bankruptcy Basics (Third Edition November 2011) (Excerpts as assigned)

Case study: South Bay

Reflection: Who are the key constituencies in a bankruptcy and how does the federal statute seek to protect each constituency?

- **MODULE 12: ACTIVISTS AND PRIVATE EQUITY-A CORPORATE GOVERNANCE DREAM?**

Questions Considered: What makes a company an attractive target for an activist? What makes a company an attractive target for a private company firm?

Reading Assignments:

How Might the Changing Face of Shareholder Activism Affect Your Company? PwC Governance Insights Center (January 2018)

L. Bebchuk, A. Brav and W. Jiang, The Long-term Effects of Hedge Fund Activism, Columbia Law Review (June 2015)

Reflection: Do you believe activists and/or private equity firms contribute to “good corporate governance”? If so why and if not, why not.

Assignments, Final Project and Evaluation of Performance:

This course will require (all as more fully described on the Course Schedule and Assignment Due Dates posted on CANVAS): (1) **individually** prepared assignments of Type B1 (“Individual Assignments”) and **group prepared** case studies (“Group Case Studies”) of Type A (**one-third**); (2) class participation of Type C (“Class Participation”) (**one-third**); and (3) final project (“Final Project”) (**one-third**) composed of two parts: (a) individually prepared comprehensive take home final objective short-answer questions of Type C (“Objective Questions”) and (b) group presentation of Type A (“Group Presentation”) which will require the

student group to (a) in the Fall 2018 semester class to pitch an investment idea to the investment committee and (b) in the Spring 2019 semester to pitch their newly formed private equity fund to potential investors.

Each part of the Final Project is equally weighted; however, the student must achieve a grade of 65% or higher on the Objective Questions to receive a grade of P or higher for the course.

The grading rubric for each assignment is on the course website with the assignment. Due dates for the class work will be posted to the course website in the Class Schedule. **All assignments are due on the date indicated. Late assignments will not be accepted for full credit.**

Readings:

Reading assignments must be completed prior to class. Before the next class, class time will be devoted to previewing the next assignment and the key concepts thereof. Reading assignments are designed to support the case materials, which will form the basis of the class discussions. **Class discussions constitute an integral part of the course and prior preparation of the assignments is essential.** **Class participation accounts for one-third of the grade in this course and will be evaluated through (1) quality of contribution to class discussion and posting on weekly Discussion Boards on CANVAS and (2) class surveys and in class questions that will be answered individually by the student using interactive response ware.**

Review Materials:

Students are encouraged to contact the professor with any questions or problems that may arise during the course. Students may set up an appointment a mutually convenient time. Contact information is as follows:

Donna M. Hitscherich
Room 313 Uris Hall
Tel: 212-854-0763
E-mail: dmh9@gsb.columbia.edu
Twitter: [@dmhcspe](https://twitter.com/dmhcspe)

Course Schedule and Assignment Due Dates:

The Course Schedule and Assignment Due Dates are posted to CANVAS. Please note that while the material covered in each class session is subject to change (due to the scheduling of presentations by outside private equity professionals), the assignment due dates are not.

Integrity Code:

Students are expected to abide by the Honor Code of Columbia Business School. Accordingly, when preparing solutions to Individual Assignments, Case Studies and the Final Project students

are expected to present only *original* work. Thus, you must not rely on the work of students who have taken the course previously, students in other sections of the course, solutions posted on the internet, etc.

For the avoidance of doubt, reproduced below are the Individual and Group Work Guidelines as set forth in the Honor Code of Columbia Business available at:

<https://www8.gsb.columbia.edu/honor/definitions>

Individual and Group Work Guidelines

TYPE	DESIGNATION	GRADE	PREPARATION OF SUBMISSION	DISCUSSION OF SUBMISSION*	DISCUSSION OF CONCEPTS**
A	Group Work	Same grade for all group members	By the group	Permitted to discuss (within group)	Permitted
B1	Individual w/ Discussions of Concepts and Submission	Individual grade	Individual preparation	Permitted to discuss; sharing solutions or submission files is not allowed	Permitted
B2	Individual w/ Discussions of Concepts Only	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Permitted
C	Individual	Individual grade	Individual preparation	Not permitted to share/discuss solutions or submission	Not permitted***

* Submission means any work and/or output pertaining to the specific assignment. If an assignment submission contains a calculation or decision related to a specific set of data and setting, discussing the details how to make this calculation or decision with regard the data/setting is to discuss the submission. Providing another student with a draft of the calculation or decision is sharing the submission.

** Concepts mean any ideas, examples, readings, or other related materials from the class/course. Conceptual discussion should not be based on a specific set of data or setting related to a calculation or decision required in the assignment, but could be based on other related examples, preferably those from class/course materials.

*** As no conceptual discussion is permitted, Type C is akin to a take-home exam.

Other Administrative Issues:

Class Attendance/Lateness: It is expected that you will come to class on time and stay for the full period. **In addition, please note that this course will apply the core course standard regarding unexcused absences. Thus, unexcused absences equal to or greater than 33% of the number of class sessions (4 classes) will result in a grade of no higher than P and unexcused absences equal to or greater than 50% of the number of class sessions (6 classes) will result in a grade of F for the course.** Excused absences will follow the guidelines established by the Office of Student Affairs, including religious observance, personal, medical and family emergencies, military service, or court appearances.

Return of Assignments: Assignments will be returned by the next class session either in class or in your mail folders.

Laptops and Other Electronic Devices: Laptops and other electronic devices will not be permitted during class sessions. You should bring an individual copy of the case or problem set assignment that we will be discussing on a particular day.

Name Cards: Please bring your name cards to all class sessions.

Resumes: Your professional experiences before business school will greatly enhance the learning experience. Accordingly, so I may best integrate your experiences into the class discussion, please upload a copy of your most recent resume to the DROP BOX on CANVAS. If you do not wish to upload your formal resume, you may upload a brief career summary.