Course Overview:
This course is intended to provide a survey of the private equity asset class. Over the past 30 years, private equity has evolved into a global industry approaching $2 trillion of capital commitments. There are now hundreds of well-established private equity firms with differentiated strategies, producing meaningful returns for a wide range of investors around the world.
We will explore the evolution of the private equity market and its participants, focusing on its players as well as the characteristics that have contributed to its sustainability. A unique characteristic of this asset class is the relationship between general partners and limited partners; we will study the perspectives and motivations of both sides. Through case analysis, class discussion and role playing, students will develop a comprehensive understanding of each perspective.
The building blocks of a private equity firm will be evaluated in detail:

   Investments (deals) – understanding a company’s fundamentals, conducting due diligence, developing an investment thesis, creating a capital structure, assessing and securing leverage, forming a valuation, negotiating, executing on the investment plan and exiting.

   Investors (capital) – developing a track record, raising capital, aligning interests, reporting and communications, managing conflicts and regulatory issues, creating an ongoing relationship/brand.

   Managing the business (people) – creating competitive advantages (team, strategy, deal sourcing), designing economic incentives that are sustainable, managing human capital (deal professionals, operating partners, portfolio company management teams), creating franchise value.

The course broadly will be comprised of three parts as follows:

   Overview of the private equity industry, including the history, terminology, categories within the asset class, participants, anatomy of funds and partnership agreements, key terms, economics, GP and LP perspectives and negotiations (approximately 3 classes).

   The fundamentals of private equity investments, including an overview of diligence and valuation basics (approximately 3 classes, including a mid-term exam).

   Understanding and evaluating private equity firms, including the building blocks of a firm, the selection of top-quartile funds, portfolio constructions, and managing LP liquidity options. This section will also include class presentations, as well as a discussion of current topics in the field, including the emerging markets and publicly-traded private equity vehicles (approximately 4 classes).
**Prerequisites:**
A general understanding of finance, the capital markets and accounting is expected. It is recommended that students considering this course have completed FIN301.

**Course Requirements:**
This course will comprise lectures and class discussion. Course materials will be a combination of selected text materials, cases, private equity firm source material (fund offering documents, partnership agreements and investment material) and articles. Texts will be available in the bookstore and library. There will be a case packet at the copy center.

Class participation is essential. Students will be expected to attend classes and to come prepared. Preparation includes reading materials, specific Session cases and questions, role playing exercises and team projects. There will be a mid-term exam focused on confirming a sound understanding of key industry fundamentals. Students will also organize themselves into teams, which will be reviewed and approved by the instructor, and each will prepare a presentation to be delivered to the class.

Grading will be based on the mid-term exam (25%), class participation, including team presentation, and team member ratings, (40%; 10% will be team member ratings), and final paper (35%). Class participation will be determined by a combination of instructor and team member reviews.

**Textbook:**

**PART I: THE INDUSTRY**

*An Overview of the Strategies, the Players and the Dynamics*
- Introductions, course overview and expectations of class participants
- Overview of the terminology
- History of the industry, developments and today’s landscape
- Overview of private equity strategies
- Discussion of the current economic, investing, and regulatory landscape
- Introduction to the key documents, and the “anatomy” of these materials

*Required Readings:*
PART II: TRANSACTION FUNDAMENTALS
An Overview of Due Diligence, Capital Structure and Company Valuation

Week #2-3: Conducting Due Diligence, Analyzing the Company and Considering the Capital Structure

- Overview of the deal process and the participants
- Assessing the business and management, and conducting due diligence at the company level
- Overview of forecasting and the financial model – identifying key variables and value drivers
- Analyzing comparables
- Components of the capital structure and introduction to leveraged finance
- Introduction to valuation approaches

Required Readings:
- Tuck School Case Study #5-0004 (Note on Leveraged Buyouts) (2003).

Week #4: Leveraged Finance, Valuation and Negotiation – Pulling It All Together

- Discussion of valuation approaches
- Identifying components of strategic plan and operating improvements
- Financing commitments, the commitment process and execution risks
- Discussion and assignment of presentations for Part III

Required Readings:

Week #5: Midterm Examination / Executing the Plan, Monitoring and Managing the Exit

- Mid-term examination (for half of the class)
- Monitoring the investment and board composition
- Implementing strategy and the role of operating partners
- Assessing the exit strategy

Required Readings:
PART III: THE PRIVATE EQUITY FIRM
Identifying Top Tier Performance, Raising Capital, Managing the Firm and Evolving the Business Model

Week #6: The Search for Alpha – Evaluating Private Equity Firms

- Exploring the sources of alpha within a leveraged buyout fund
- Evaluating the fund’s investment strategy and competitive advantage
- Analyzing track record – assessing the realized and unrealized performance
- Assessing the depth and breadth of the investment team
- Examining the alignment of incentives

Required Readings:

Week #7 Current Topics – case studies and Simulation

Private Equity in Turkey, Deloitte, June 2003
Case Study, Mey Icki
Team Simulation Exercise: Blackstone/Celanese: Role playing in simulation exercise involving buy-out of a chemical firm by a private equity fund.