Syllabus – Introduction to Leveraged Buyouts
DeCal | UGBA 198 | Fall 2017

Meetings: Mondays 4-6pm, C230 Haas School of Business

Instructors

- Tom Cohen, Steven Fogel, Eli Chin, Eddie Lee

Course Description

This course is designed to bridge the gap between finance theory and economic reality. While many students understand both the basics of finance and Microsoft Excel, they are unable to effectively merge these two skills into applicable, real-world financial models. The course will take a “zero-to-sixty” approach to modeling, beginning with Excel basics and best practices, and culminating in the development of a simple leveraged buyout model. No prior knowledge of or experience with financial modeling is required.

Goals

By the end of the course, students will learn about:

- Financial modeling and its various applications
- Basic conceptual links between financial theory and applied modeling techniques
- Keyboard-based Excel navigation
- Drivers of financial projections and estimates
- The from-scratch development of a functional, iterative, and linked leveraged buyout (LBO) analysis

Requirements and Recommended Prerequisites

In-class exercises and homework will require the use of a laptop computer with access to Microsoft Excel (Windows recommended.)

Highly recommended completion of or concurrent enrollment in Introduction to Financial Accounting (UGBA 102A) or preexisting knowledge of accounting.

Required Readings:
1. The 400 Investment Banking Interview Questions
   (http://static1.squarespace.com/static/5482214fe4b01f389b5bf459/t/56a157f2a2bab874f0b310ed/1453414392730/MI+400+Questions+IB+Guide.pdf)

2. The Alchemy of LBOs

3. Why iHeart Radio’s Leveraged Buyout Is Another One Doomed to Fail

4. How the World's Biggest Buyout Deal Crashed and Burned

Optional Readings:

1. The Most Important Thing Illuminated: Uncommon Sense for the Thoughtful Investor – By Howard Marks

2. The Predator’s Ball: Inside the Story of Drexel Burnham and the Rise of the Junk Bond Raiders – Connie Bruck


Methods of Instruction

Class will be held once a week for 110 minutes (2 hours of “Berkeley time”). The first hour of class will be dedicated to lecture-style instruction of new material. Given the applied nature of the course, the remaining class time will be dedicated to group and project work. The work will vary from in-class exercises to facilitated project help as the semester progresses.

Grading and Evaluation

The course offers 2 units on a Pass / No Pass basis. The grading rubric is detailed below:

- Class Attendance 20%
- Assignments 20%
- Modeling Test 20%
- Final Project 40%
Class attendance is mandatory. Students are allowed at most one unexcused, one excused and one unexcused, or two excused absences. Excused absences must be approved a minimum of 24 hours in advance or they count as unexcused. Excused absences will be approved only for valid events such as recruiting, case competitions, or other academic-oriented events as determined by the instructors. Any absences outside of these parameters will result in an NP for the course.

Outside of the final project (detailed below), in class assignment grades will be given on the basis of completion and effort. It will be due at the end of class.

Final Project

The course will culminate in the development of a full three-statement leveraged buyout model. This model will incorporate topics taught throughout the course and will serve as a final project. Grades will be assigned based on the accuracy of the application of course material.

Policy on Cheating

Any indication of plagiarism or cheating (sharing work with other students, copying spreadsheets from the internet, etc.) will result in an immediate “No Pass” grade. No exceptions will be made.

Course Timeline

Introduction & Course Entry Codes

Week 1  Topics covered: Course overview / syllabus review, course administration and logistics

Modeling Basics

Week 2  Topics covered: Follow-up course administration and logistics, accounting refresher, Excel basics, introduction of the LBO case company
  Reading: Accounting readings - see bCourses

Week 3  Topics covered: Financial statement analysis, projecting free cash flow
  Assignment: Finish and submit classwork
  Reading: Debt reading - see bCourses
| Week 4 | **Topics covered:** Debt schedule and interest schedule  
**Assignment:** Finish and submit classwork  
**Reading:** DCF reading - see bCourses |
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| Week 5 | **Topics covered:** Discounted cash flow analysis  
**Assignment:** Finish and submit classwork  
**Reading:** LBO Reading - see bCourses |
| Week 6 | **Topics covered:** Sources and uses, capital structure, debt pricing, mandatory amortization, building out the LBO model  
**Assignment:** Finish and submit classwork  
**Reading:** 400Q – P.76-80 |
| Week 7 | **Topics covered:** Debt schedule, credit stats, sensitivities and returns  
**Assignment:** Finish and submit classwork  
**Reading:** 400Q – P.80-88 |
| Week 8 | **Topics covered:** Review of LBOs, levers of returns  
**Assignment:** Finish and submit classwork  
**Reading:** 400Q – P.148-154 |
| Week 9 | **Topics covered:** LBO Modeling Review  
**Assignment:** Finish and submit classwork  
**Reading:** 400Q – P.155-158 |
| Week 10 | **Topics covered:** Private Equity Modeling Test  
**Assignment:** Submit test by end of class, submit final groups of 2-3 to bCourses  
**Reading:** 400Q – P.159-161 |
| **Final Project** | |
| Week 11 | **Topics covered:** Work on final project with group  
**Reading:** The Alchemy of LBOs - see bCourses |
| Week 12 | **Topics covered:** Work on final project with group |
Assignment: Submit model and final PowerPoint deck before next class
Reading: Why iHeart Radio’s Leveraged Buyout Is Another One Doomed to Fail - see bCourses

Week 13
Topics covered: Presentation of model and insights from the class
Reading: How the World’s Biggest Buyout Deal Crashed and Burned – see bCourses