Credit Markets and Leveraged Buy-Outs: The Good, The Bad and The Ugly
Fall 2015: Thursday, 4pm – 7:15 pm

Professor: Margaret Cannella

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Office Hours: Thursday, 10-4 pm by prior appointment

Teaching Assistants: Eugenia Gandoy, egandoy16@gsb.columbia.edu

Ernesto Padron, epadron16@gsb.columbia.edu

In addition to the Professor’s regular office hours and other meetings by appointment, teaching assistants will also hold weekly review sessions targeted at those with less relevant prior experience.

COURSE DESCRIPTION
The course provides you with a framework and the tools to address the question of how value is created in leveraged transactions. You will learn how private equity firms think about the merits and risks of an investment, valuation, financing structure, post-close initiatives and exit opportunities in order to create value across different industries and in different market conditions. It exposes you to a broad array of leveraged buy-out transactions, some of which have been highly remunerative to financial sponsors ("the good"), while others have proven more difficult to exit ("the bad") and still others have required extraordinary financial or operational engineering to salvage ("the ugly"). A final project enables you, playing the role of a private equity firm, to pitch to a team of high yield capital markets bankers for acquisition financing.

We examine each of the nine cases from the vantage point of private equity firms, company management and creditors.

This course differs substantially from the block week course “From Feast to Famine and Back Again: Investing through Cycles”, which focuses on the credit markets and how investors may benefit through cycles.

This course is designed for students who intend to pursue careers across the private equity industry, as General Partners, Limited Partners or fixed income investors; bankers will also find it to be useful.

COURSE OBJECTIVES
To provide students with the tools to make important decisions related to LBO transactions:
1. Identifying companies that make good LBO candidates
2. Determining the appropriate price for an LBO transaction
3. Structuring the LBO transaction
4. Exiting the LBO transaction
5. Investing in the LBO capital structure

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

Corporate Finance and Capital Markets are required prerequisites for the course.

The learning in this course will utilize, build on and extend concepts covered in the following core courses and prepare you for roles in private equity, investment banking, sales and trading and equity or fixed income research:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tr>
<td>Corporate Finance</td>
<td>1. Firm Valuation Model</td>
</tr>
<tr>
<td>Financial Accounting</td>
<td>1. The Accounting Model</td>
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<td></td>
<td>2. Resources and Obligations</td>
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<tr>
<td>Global Economic Environment</td>
<td>1. What are the role of financial markets in the economy</td>
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<tr>
<td>Business Analytics</td>
<td>1. Models in Practice</td>
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Students will be expected to have mastered these concepts and be able to apply them in the course. In addition, every student is expected to master the short-form LBO model.

SPECIFIC ASSIGNMENTS/COURSE MATERIALS


COURSE OUTLINE

See the Course Roadmap on Canvas, which provides an agenda for each Session as well as a summary of assignments, and includes office hours for the professor and review sessions for the teaching assistants.

METHOD OF EVALUATION

Final grades will be based on (1) the quality of your class participation (25%); (2) a mandatory reading assignment (5%); (3) written responses to case questions (25%); (4) a team cross evaluation (10%); (5) a mid-term (15%) and (6) a final project (20%). Please note that, on this basis, 45% of your grade will be based on your individual contribution; 55% of your grade will be based on your team’s contribution. For further detail, see below:

<table>
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<tr>
<th>Class Participation</th>
<th>25%</th>
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<tbody>
<tr>
<td>Reading Assignment/Written</td>
<td>5%</td>
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<tr>
<td>Mid-term Exam</td>
<td>15% Individual 45%</td>
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<tr>
<td>Cross Evaluation</td>
<td>10%</td>
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<tr>
<td>Case Questions/Written</td>
<td>25%</td>
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<td>Final Project</td>
<td>20% Team 55%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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Class Participation. (25%) This is a highly interactive class and your participation is critical to your success and the success of the course. There will be substantial cold calling of both reading and case assignments. You will be asked to note your attendance and any contribution(s) you make in a weekly survey. In each survey, you will answer two questions – first, did you attend the class and second, did you contribute to the class by answering questions or making comments. If you are excused from class with reason, you may get attendance credit by watching the class video and summarizing it in one page, single spaced. Quality of contributions will be determined by the Professor and noted to the students with comments after the fourth, eighth and final sessions. A good quality contribution provides insight on some issue under study.

Reading Assignment/Written (5%) Howard Marks has authored a treasure trove of letters to investors over the past decade. I have assigned a few handfulls of these letters to you to read each week; there is a written assignment for one of these readings.

Written Responses to Case Questions. (25%) Detailed assignments and related readings are provided weekly. Please note that in Session 1, teams will draw lots to prepare no more than one recent transaction in lieu of written casework in a given week for the same grade in sessions 3 through 10.

Cross-Evaluation/Written (10%) It is critical that your team has the time to complete their work. It is also critical that team members share the work among themselves. To enforce these qualities, a cross-evaluation will be done at mid-term and at semester end. This confidential survey will ask you to rate your team members. Cross evaluation grades are individual. The survey is available on canvas.

Mid-Term Examination/Final Projects. (35%) Your mid-term is in-class and open-book and your final project will be graded and presented off-site to practitioners.

In an ungraded assignment due immediately following Session 1, you will be asked to read a Technical Note and complete the short-form LBO model included in that Note for Dollar General. This assignment will be reviewed by Teaching Assistants and there will be remedial sessions immediately following to assist students who have not previously completed an LBO model. This model will be used in a number of cases throughout the semester.

Rubrics, available on canvas, should help you understand what is expected of you in any given assignment.

CLASSROOM NORMS AND EXPECTATIONS

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University’s Office of Disability Services online at www.health.columbia.edu/docs/services/ods/index.html or by contacting (212) 854-2388.

- Ensure that you read this syllabus, particularly with regard to the contribution grade and how that is determined.
• To ensure that I get to know you quickly, sit in the same spot each class and use your nameplate.

• For team casework, form teams in the number as directed the first day of class, usually no fewer than four and no more than five students. Take advantage of your classmate’s different backgrounds, experiences and interests. Ensure that modelling responsibilities are shared within the team.

• If problems arise within work teams, and can’t be resolved, please bring them to my attention early in the semester.

• In-class, please demonstrate consideration for your classmates (and your instructors and guest speakers) by closing laptops during lectures and guest appearances, posting nameplates and by being on time at the beginning of the class and at the break.

• We will provide hard copies of slide presentations; these will also be posted on Canvas to view during class.

• Use canvas to submit all assignments including articles that you would like to contribute.

• Contact me or our teaching assistants in the event you have any questions and/or use our office hours to ask questions in person.