

## BUSINESS F724/V705 – Venture Capital and Private Equity Fall 2019 Course Outline

### Finance and Business Economics Area DeGroote School of Business McMaster University

#### COURSE OBJECTIVE

This course focuses on the availability and use of venture capital and private equity by small- and medium-sized and growing companies. The course is recommended for students considering careers in the venture capital and private equity industries and merchant and investment banking, as well as those who anticipate careers as entrepreneurs. Topics include issues in the financing of entrepreneurial companies, business assessment and valuation, transaction and negotiation strategies, and exit strategies. This course will cover a range of industries and financing structures.

#### INSTRUCTOR AND CONTACT INFORMATION

Class Timing: **Mondays, 11:30 am to 2:30 pm**  
*All times referenced in this document are Eastern.*

**Adeel Mahmood**

Instructor

Class Location: **RJC 357**

*Office Hours: After class or by appointment*

#### COURSE ELEMENTS

Credit Value: 3	Leadership: Yes	IT skills: No	Global view: Yes
Avenue: No	Ethics: No	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group Work: Yes	Oral skills: Yes

#### COURSE PREREQUISITES AND COMPLEMENTS

Students should have the academic credit of F600 or F650 or equivalent prior to the start of this course. A complementary course, F720 (Small Business/Entrepreneurial Finance), focuses on the general financial management issues facing small businesses, including early-stage, growing, and private companies.

## **COURSE DESCRIPTION**

This course focuses on the availability and use of venture capital and private equity by small- and medium-sized and growing companies. The style of instruction is centred on the case method and project work but will also include lectures and discussions. It may also be supplemented by the participation in class of guest speakers.

The course is centred on early-stage, growing, and private companies and will be of interest to those considering careers in finance or as entrepreneurs. The course follows the arc of the private investment process: due diligence; valuation; negotiation of deal terms; working with the investee company; and exiting the investment.

In addition, from the perspective of an entrepreneur, the course will allow students to research and potentially implement the valuation and financing of an early-stage, growing, or private company, including a family business.

## **LEARNING OUTCOMES**

There are both individual and team learning aspects of this course.

### **Individual Learning Outcomes**

Upon completion of this course, students will be able to exhibit sound knowledge of the following key topics:

- Assess the risk/reward of an investment in an entrepreneurial company;
- Identify the material that an entrepreneur must provide to an investor;
- Conduct the necessary due diligence to decide if an investment is warranted;
- Perform the financial analysis necessary to support an investment decision (as an investor) or prepare the necessary financial materials for submission to an investor;
- Determine an appropriate valuation for making an investment (as an investor) or accepting private capital (as an entrepreneur);
- Understand a term sheet for investment and analyze the related legal terms; and
- Determine the best course for exiting an investment, including IPO or private sale, and understand the steps of doing so.

### **Team Learning Outcomes**

The learning keystone of this course is two investment-focused valuation and financing projects centred on actual businesses. Working in teams, students will research the valuation and financing of an early-stage, a growing, or a private business, including a family business. While the focus of the projects will be on analyzing and presenting the valuation and financing analysis

of an investment case, teams can incorporate this project in a broader business plan or a start-up they may be pursuing elsewhere.

The definition of a business that can be analyzed is fairly broad in the context of this course. Please refer to the *Evaluation* section of this document for more details.

Students, including full teams, can continue to work on the project as a part of formal business plans either on their own or as a part of the Small Business/Entrepreneurial Finance course.

## REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

- <http://avenue.mcmaster.ca>

Venture Capital and Private Equity - Custom Courseware:

- Available from the university bookstore

## OPTIONAL COURSE MATERIALS AND READINGS

Leach, Melicher; Entrepreneurial Finance, Fifth (5<sup>th</sup>) Edition; CENGAGE learning, 2014

- ISBN: 9781285425757

Metrick and Yasuda, Venture Capital and the Finance of Innovation, Second (2nd) Edition; Wiley, 2010:

- ISBN: 9780470454701

## EVALUATION

Individual learning in this course results primarily from in-class discussions based on thorough preparation in advance of the assigned cases. The balance of the individual learning results from lectures on specific topics, student research, and industry speakers.

Team learning focus of this course is on an investment-focused valuation and financing project centred on an actual business. Working in teams, students will research the valuation and financing of an early-stage, a growing, or a private business, including a family business.

The final grade will be calculated as follows:

**Components and Weights**

Participation	In-class contribution (individual)	10%
Venture Capital (VC) Test	Written in the 6 <sup>th</sup> class (individual)	25% or 30%
Leveraged Buyout (LBO) Test	Written in the 11 <sup>th</sup> class (individual)	25% or 30%
Private Equity Projects	Due at the end of the term (group)	35%
<b>Total</b>		<b>100%</b>

**Participation**

Name cards are used to help give credit for class participation and contribution to in-class case discussion. Students must have name cards with their full first and last names clearly written and displayed in front of them for every class. It is imperative that students prepare for every class. **Class participation marks are primarily based on the quality of contribution.** No class attendance results in zero mark.

A student **missing a class** during the term, excluding a class where a test or an exam is held, is required to contact the MBA Student Experience Office and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) participation grade for that class.

If the office adjudicates that relief be provided, the student’s participation grade for the classes with relief requests will be re-assigned to the graded classes.

Generally, the office will approve request for relief only if ***the student’s absence is for legitimate reasons***, in which case documentation explaining the absence (or absences) must be provided to the office within five (5) working days after returning to school.

Refer to the ***Participation Details*** document available online in Avenue for more details on the evaluation aspects of this course component.

## **Venture Capital and Leveraged Buyout Tests**

The Venture Capital (VC) and Leveraged Buyout (LBO) Tests – *open-book, open-notes* tests – will be written in the **6<sup>th</sup> class** and **11<sup>th</sup> class**, respectively, of the term. More details of the format, structure, and content coverage will be provided during the course of the term.

A student *missing a Term Test* is required to contact the ‘Student Experience – Academic (MBA) office’ and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If the ‘Student Experience – Academic (MBA) office’ adjudicates that relief be provided, the student’s grade for the test will be calculated based on the scheme outlined in the *Missed Tests* document available online.

*Of the two tests (i.e. VC and LBO tests), the one with the higher percentage student mark will form 30% of the overall student grade – with the other test forming 25% of the overall grade. This reweighting is specific to each individual student and is only applicable if both tests are written by the student.*

## **Private Equity Projects**

The learning keystone of this course is two investment-focused valuation and financing projects centred on actual businesses. Working in teams, students will research the valuation and financing of an early-stage, a growing, or a private business, including a family business.

### **Group Formation**

Students will form groups of their choice. **Each group will complete a VC Project and an LBO Project.** Individual group members of a particular group may be marked based on their relative contribution to group work as judged by the group itself.

The higher-marked project of the two types (VC and LBO) will receive two-third weight of the overall project grade, while the lower-marked will receive the remaining one-third weight.

### **VC Project**

In the VC Project, you will approach an existing start-up or an existing small business and complete a valuation and financing plan for the company. Alternatively, you can approach an existing VC or investment firm and help the firm analyze a target company from a valuation and financing perspective.

The target company must have less than \$50 MM in total annual revenues for the most recent fiscal year. (The company may have no revenue at all.) The target company must be a private company. The company can be as small as a student-led startup with just a business plan.

Your task will be to analyze the target company from the perspective of a VC firm.

## LBO Project

You can choose a company listed on a major stock exchange in North America (NYSE, NASDAQ, AMEX, or TSX) and with a market capitalization of between \$100 MM and \$1,000 MM as of the project proposal date. Alternatively, you can approach an existing LBO or investment firm and help the firm analyze a target public company (within the above parameters) from an LBO perspective.

Your task will be to analyze the target company from the perspective of an LBO firm.

## Project Proposals

A one-page project proposal for each project type – containing your team member names and a brief project description – is *due online by the 8<sup>th</sup> class of the term*.

## Details of the Projects

The details of the work to be completed are contained in a formal project document available on the course website. *Both projects are due online by the end of the term (on the same date)*.

Any student missing the submission deadline will be subject to a marks deduction equal to 20% of the project grade for each day rounded **up** that the submission is late.

<b>GRADE CONVERSION</b>
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At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme:

LETTER GRADE	PERCENT	POINTS
A+	90-100	12
A	85-89	11
A-	80-84	10
B+	75-79	9
B	70-74	8
B-	60-69	7
F	00-59	0

## COMMUNICATION AND FEEDBACK

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

<http://mbastudent.degroote.mcmaster.ca/contact/anonymous/>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors are encouraged to conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

## STUDENT ACCESSIBILITY SERVICES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

## ACKNOWLEDGEMENT OF COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of this course will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

## **ACADEMIC DISHONESTY**

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy at:

[www.mcmaster.ca/academicintegrity](http://www.mcmaster.ca/academicintegrity)

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

In this course we will be using Avenue to Learn. Students should be aware that when they access the electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure.

If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

## **MISSED ACADEMIC WORK**

### ***Missed Mid-Term Examinations / Tests / Class Participation***

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the Student Experience – Academic (MBA) office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the Student Experience – Academic (MBA) office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide to Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroot website at



<http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the Student Experience – Academic (MBA) office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by Student Experience – Academic (MBA).

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

### ***Missed Final Examinations***

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the Student Experience – Academic (MBA) office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student's transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MBA Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MBA Final Examination and the McMaster University Student Health Certificate can be found on the DeGroote website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/> Please do not use the online

McMaster Student Absence Form as this is for Undergraduate students only. Students who write examinations while ill will not be given special consideration after the fact.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons (for example religious, or for part-time students only, work-related reasons):

- Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.
- Part-time students who have business commitments which make it impossible to write examinations at the times posted are required to produce a letter on company letterhead from the student's immediate supervisor stating that they are unable to be present owing to a specific job commitment.

In such cases, applications must be made in writing to the Student Experience – Academic (MBA) office at least ten business days before the scheduled examination date and acceptable documentation must be supplied.

If a student is representing the University at an academic or athletic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the Student Experience – Academic (MBA) office.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within ten business days of the end of the examination period.

Note: A fee of \$50 will be charged for a deferred exam written on campus and a fee of \$100 for deferred exams written elsewhere. In cases where the student's standing is in doubt, the Graduate Admissions and Study Committee may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

## **POTENTIAL MODIFICATIONS TO THE COURSE**

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

**COURSE SCHEDULE**

CL.	DATE	CONTENT	CASES
1	Mon. Sep 9	<b>Introduction</b> Read: <i>Ch. 1 – An Introduction to Private Equity (Courseware)</i>	-
2	Mon. Sep 16	<b>Valuation of Private Companies</b> Read: <i>Valuation of Private Companies (Avenue)</i>	-
3	Mon. Sep 23	<b>Due Diligence and Financial Instruments</b> Read: <i>Ch. 2 – Financial Instruments in Private Equity (Courseware)</i>	-
4	Mon. Sep 30	<b>Term Sheets</b> Read: <i>Ch. 3 – Venture Capital Term Sheets (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Questions 1 to 3 (Courseware)</i></li> </ul>
5	Mon. Oct 7	<b>Venture Investment Model</b> Read: <i>Ch. 4 – The Venture Investment Model (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Questions 4 to 5 (Courseware)</i></li> </ul>
-	Mon. Oct 14	<i>Thanksgiving Holiday – No Class</i>	
6	Mon. Oct 21	<i>VC Test – To Be Written in Class (No Lecture or Case Discussion)</i>	
7	Mon. Oct 28	<b>Leveraged Buyouts: Debt Layers, Revolvers, and Capacity</b> Read: <i>Ch. 5 – An Introduction to Leveraged Buyouts (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Question 6 (Courseware)</i></li> </ul>
8	Mon. Nov 4	<b>Leveraged Buyouts: LBO Model, Cash Flow Waterfall, and Return Metrics</b> Read: <i>Ch. 6 – The Leveraged Buyout Model (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Questions 7 to 10 (Courseware)</i></li> <li>• <b>Project Proposals</b> – Due by 11.59 PM</li> </ul>
9	Mon. Nov 11	<b>Distressed Debt Investing</b> Read: <i>Introduction to Distressed Debt Investments (Avenue)</i>	<ul style="list-style-type: none"> <li>• <i>H Partners and Six Flags (Courseware)</i></li> </ul>

CL.	DATE	CONTENT	CASES
10	Mon. Nov 18	<b>Exit Strategies</b>	<ul style="list-style-type: none"> <li>• <i>Workbrain Corp – A Case in Exit Strategy (Courseware)</i></li> </ul>
11	Mon. Nov 25	<b><i>LBO Test</i></b> – To Be Written in Class  <i>(No Lecture or Case Discussion)</i>	
12	Mon. Dec 2	<b>Public-Private Partnerships</b>  <i>Course evaluations to be conducted at the beginning of the class</i>	<ul style="list-style-type: none"> <li>• <i>407 ETR (Avenue)</i></li> </ul>
-	Fri. Dec 6	<b>Private Equity Projects</b> – Due by 11.59 PM	

<b>RESEARCH DATA</b>
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Any research data obtained by a student from publicly available sources for the purposes of completing term work (including data used in assignments, projects, and tests) are the joint property of the student, the instructor, and the university. All parties are free to use the research data subject to the original copyright of such data. Students hereby agree not to use in their term work any proprietary data or data subject to copyright protection without the prior written approvals of the instructor and the owner of any such copyright.