



**BUS F724**  
**Venture Capital & Private Equity**  
**Fall 2023 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**

**Fridays at 2.30 PM**

*All times referenced in this document are Eastern.*

**Adeel Mahmood**

Instructor

Tel: 905-525-9140

*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 BUS F650 or FIN 601 – or an equivalent preparation – prior to the start of this course.

## **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 an investment-focused valuation and financing project centred on actual businesses. Working in teams, students will research the valuation and financing of a business by first proposing to take it private and then offer insights into improving it. 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 corporate project they may be pursuing elsewhere.

## REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

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

## 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**

Two Term Tests	Variable weights (individual)	55%
Private Equity Assignment	Due online during the term (group)	15%
Private Equity Project	Due online at the end of the term (group)	30%
<b>Total</b>		<b>100%</b>

## **Term Tests**

Two term tests – *open-book, open-notes* tests – will be written during the term. More details of the format, structure, and content coverage will be provided on the course website.

A student *missing a Term Test* is required to contact the ‘Student Experience – Academic Office’ and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If ‘Student Experience – Academic Office’ adjudicates that relief be provided, the student will be able to write an alternate test, in lieu of the missed test, during the final exam period at the end of the term.

While the combined weight of the two term tests is 55%, **the test in which the student’s percentage mark is higher will form 30% of the student’s final grade** with the other test forming the remaining 25%. This re-weighting is still applicable if an alternate test is written in lieu of a missed test.

## **Private Equity Assignment**

The *Private Equity Assignment* will be completed and submitted for marking online by students in groups. More details of the format, structure, and content coverage will be provided during the term.

Students will form groups for this component. Each student group will also complete the *Private Equity Project* as described further below. *The group members will be assigned individual grades relative to the group grade based on the peer assessments completed during the course.*

## **Private Equity Project**

The learning keystone of this course is an investment-focused valuation and financing project 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.

Students will form groups for this component. Each student group will also complete the *Private Equity Assignment* as described further below. *The group members will be assigned individual grades relative to the group grade based on the peer assessments completed during the course.*

Each group will choose to complete **either a VC Project or an LBO Project.**

### **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 \$100 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, or TSX) and with a market capitalization of between \$500 MM and \$5,000 MM as of the project proposal date. Alternatively, you can approach an existing investment firm and help the firm analyze a target public company for a potential LBO.

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

### **More Details**

More details will be available on the course website. *The project is due online by the end of the term.* See course schedule for the dates.

## 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 should conduct an informal course review with students 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.

## COURSES WITH AN ONLINE ELEMENT

Our course may use on-line elements (e.g. e-mail, Avenue to Learn, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, usernames 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 a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

## CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the *Code of Student Rights & Responsibilities* (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of A2L, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

## EXTREME CIRCUMSTANCES

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

## COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Speak with the instructor if this is a concern for you.

## ACADEMIC INTEGRITY

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. **It is your responsibility to understand what constitutes academic dishonesty.**

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, such as 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. For information on the various types of academic dishonesty, refer to the policy:

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

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. 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

## GENERATIVE AI

Students are **not permitted** to use generative AI to complete any graded assessments in this course. In alignment with McMaster academic integrity policy, it “shall be an offence knowingly to ... submit academic work for assessment that was purchased or acquired from another source”. This includes work created by generative AI tools. Also stated in the policy is the following: “Contract Cheating is the act of outsourcing of student work to third parties with or without payment.” Using generative AI tools is a form of contract cheating. Charges of academic dishonesty will be brought forward to the Office of Academic Integrity.

## COURSE MODIFICATION

From time to time, there may be a need to add and/or remove topics or to change the schedule or delivery format. If these are necessary, you will be given as much advance notice as possible.

## **MISSED ACADEMIC WORK**

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

Please do not use the online McMaster Student Absence Form (MSAF) as this is for Undergraduate students only. The MBA program will not accept an MSAF.

When students miss regularly scheduled term work which contributes 10% or more to the final grade, for legitimate reasons as determined by the Student Experience – Academic Office (SEAO), the activity necessary to compensate for the missed work will be determined by the course instructor. The compensatory activities assigned will vary with the nature of the course and the missed requirement. They include, but are not restricted to, an alternative assignment, a rescheduled midterm exam, or re-weighting the marks for the missed component to other mark components. Documentation explaining such missed work must be provided to the SEAO within five (5) working days of the scheduled date for completion of the work.

Acceptable reasons for missed work, along with the Petition for Missed Term Work and the MBA Student McMaster University Student Health Certificate, can be found on the DeGroot MBA Student website ([mbastudent.degrootemcmaster.ca](http://mbastudent.degrootemcmaster.ca)). Please direct any questions about acceptable documentation to the MBA Academic Advisors ([askmba@mcmaster.ca](mailto:askmba@mcmaster.ca)).

University policy states that a student may submit a maximum of three (3) Petition for Missed Term Work per academic year, after which the student must meet with the Director of the program.

If term work is missed without an approved reason, students will receive a grade of zero (0) for that component.

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

Students must be available for the duration of the posted exam period regardless of their personal exam schedule. This is to ensure student availability throughout the entire exam period in the event that an exam must be rescheduled due to unforeseen circumstances (university closure, power outage, storm policy, etc.). A student who misses a final examination without valid reason will receive a mark of 0 on the examination.

Students who have missed a final exam for a valid reason can apply to the SEAO to write a deferred examination by submitting an Application for Deferring a Final Exam with supporting documentation. The application must be made within five days of the scheduled exam.

The Application for Deferring a Final Exam and the MBA Student McMaster University Student Health Certificate can be found on the DeGroot MBA Current Student website ([mbastudent.degrootemcmaster.ca](http://mbastudent.degrootemcmaster.ca)).



Deferred examination privileges, if granted, are normally satisfied during the examination period at the end of the following semester. In select cases, the deferred examination may be written at a time facilitated by the SEAO and agreed to by the course instructor.

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

### **ACADEMIC ACCOMMODATION FOR STUDENTS WITH DISABILITIES**

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>

Students who are leveraging accommodation for tests and exams are supported by the SEAO. These exams are written at the Ron Joyce Centre and do not take place in the Tim Nolan Testing Centre. Correspondence for accommodations is managed via the DSBSAS@mcmaster.ca email address. Students must communicate their intent to leverage accommodations on a test or exam a minimum of 10 business days prior to the assessment.

### **ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)**

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students should submit their request to their Faculty Office **normally within 10 working days** of the beginning of term in which they anticipate a need for accommodation or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

### **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.

<b>COURSE SCHEDULE</b>			
<b>Wk.</b>	<b>DATE</b>	<b>CONTENT</b>	<b>CASES</b>
1	Fri, Sep 15	<b>Introduction</b> <i>Ch. 1 – An Introduction to Private Equity</i>	-
2	Fri, Sep 22	<b>Valuation of Private Companies</b> <i>Valuation of Private Companies</i>	-
3	Fri, Sep 29	<b>Due Diligence and Financial Instruments</b> <i>Ch. 2 – Financial Instruments in Private Equity</i>	-
4	<i>Virtual</i>	<b>Term Sheets</b> <i>Ch. 3 – Venture Capital Term Sheets</i>	Half & Full: <i>Questions 1 to 3</i>
5	Fri, Oct 13	<b>Venture Investment Model</b> <i>Ch. 4 – The Venture Investment Model</i>	Half & Full: <i>Questions 4 to 5</i>
6	Fri, Oct 20	<b>Term Test 1 (Written in Class Hours)</b>	
-	Feb 20 to 24	<b>Midterm Recess (No Classes)</b>	
7	Fri, Oct 27	<b>Leveraged Buyouts: Debt Layers, Revolvers, and Capacity</b> <i>Ch. 5 – An Introduction to Leveraged Buyouts</i>	-
8	Fri, Nov 3	<b>Leveraged Buyouts: LBO Model, Cash Flow Waterfall, and Return Metrics</b> <i>Ch. 6 – The Leveraged Buyout Model</i>	-
9	Fri, Nov 10	<b>Distressed Debt Investing</b> <i>Introduction to Distressed Debt Investments</i>	H Partners and Six Flags
10	Fri, Nov 17	<b>Term Test 2 (Written in Class Hours)</b>	
11	Fri, Nov 24	<b>Exit Strategies</b>	Workbrain Corp – A Case in Exit Strategy
-	Mon, Nov 27	<b><i>Private Equity Assignment due online by 10.00 AM</i></b>	
12	Fri, Dec 1	<b>Healthcare Ventures</b>	(TBA*)
13	<i>Virtual</i>	Project Progress Check and Q&A	-
-	Fri, Dec 8	<b>Private Equity Project – Final Report Due Online by 11.59 PM</b>	

\* To be announced during the term