

Course Outline

BAEN 580D Entrepreneurial Finance and Private Equity

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Office hours by appointment

Course Objective

Over the last two decades, private equity has become an important segment of the financial system, and the economy at large. The private equity industry provides vital equity financing to privately-held companies, and covers a surprisingly large spectrum of deals, ranging from venture capital investments in technology start-ups, all the way to large buyouts of mature companies.

In this class students will learn about the main challenges faced by private equity practitioners, taking mostly the investor perspective, but occasionally also switching perspective by looking at deal from the perspective of companies, and even limited partners. They will become familiar with the terminology and institutional background of the industry, and learn to understand the underlying economic issues. While this course does not aim to provide a detailed treatment of financial valuation techniques, it will discuss many of the financial trade-offs that arise in the context of private equity deals. It will also relate these financial trade-offs to the broader strategic decisions made by private equity investors.

This course will use a combination of case-study based discussion, lectures, guest speakers and a variety of other exercise. In addition, the course involves a team project described below. A detailed outline of the class by class schedule will be distributed the first day of class.

Team Project

This course includes a novel team project that involves a unique cooperation between course participants, and one of the leading Canadian venture capital firms. We are very fortunate to have the opportunity to work with Richard McKellar, who is a partner at Chrysalix (<http://www.chrysalix.com>). He will provide student teams access to “real world” business plans of entrepreneurs seeking venture capital financing. The objective of the project is for student teams to experience the entire process of selecting investment opportunities, performing due diligence, and making an investment recommendation to the senior partners of a venture capital firm.

Due to the confidential nature of the information provided by Chrysalix, students are not allowed to make direct contact with the companies that they are evaluating. They are encouraged to perform a due diligence analysis of the company, its competitors, and its industry, but should never disclose the identity of the company that they are researching.

We will set aside a little bit of class time to discuss the investment evaluation exercise, but much of the additional work will happen outside of class time. Teams will need to meet on a regular basis. In addition, there are two presentations that will be scheduled outside of regular class time. These presentations will be made in front of Chrysalix partners.

On (date to be determined, outside of regular class time) we will have a first set of presentations concerning “investment selection.” Teams will present their preliminary evaluation of six business plans. They will also need to justify their selection of their choice of one business plan that they plan to use for the second part of the project.

On (date to be determined, outside of regular class time) we will have a second set of presentations concerning “investment proposals.” Teams will present an in-depth analysis of their selected business plan, and propose a complete investment structure for funding the company. On that occasion, each team will also submit a 10-page written investment proposal.

Contact information for Richard McKellar

Email: rmackellar@chrysalix.com

Webpage: <http://www.chrysalix.com/section.asp?catid=77&pageid=293>

Course grading

Individual class participation	30%
First investment presentation	20%
Second investment presentation	30%
Written investment proposal	20%
Total	100%

There are a few ground rules to remember about class participation. You cannot possibly make very insightful remarks if you have not prepared for class. If you miss more than one double-class, this will impact your grade. If you miss more than two double-classes, you may fail solely on the basis of that. Finally, please don't come late or leave early. This is not only a matter of missing part of a class, it is also a matter of respect for your fellow students.

More than half the grade will be based on team performance. There will be an opportunity for students to provide some feedback on the performance of their peers. Individual grades will be adjusted based on these peer evaluations. This is to reward exceptional performers, and to discourage and punish free-riders. To that effect, at the end of the term, each individual will be asked to fill out a peer evaluation form (see below). This form will ask you to rate the contribution of all your team members by assigning a percentage score to each member. These scores will be used to calculate the

weight that will be applied to the individual's teamwork as illustrated by the example below. Note that the weights for all team members have to add up to 100%.

%	Given to A	Given to B	Given to C	Given to D	Total
Given by A	XXX	40	30	30	100
Given by B	30	XXX	40	30	100
Given by C	40	40	XXX	20	100
Given by D	35	35	30	XXX	100
	105	115	100	80	400

Suppose a particular team mark was 80, then the peer-adjusted team mark would be as follows: A gets $80 \times 105\% = 84$, B gets $80 \times 115\% = 92$, C gets $80 \times 100\% = 80$ and D gets $80 \times 80\% = 64$. The final grade will be a combination of unadjusted and peer-adjusted team marks.

To determine the weights for each team member, you will be given the following team member evaluation form:

TEAM MEMBER EVALUATION FORM (to be submitted by XXX)	
Team Name:	
Your Name:	
<i>DO NOT RATE YOURSELF. And make sure that the weights for all other team members add up to 100%.</i>	
Team Member's Name	% Effort (scale 1-100%)

Vista

We will be making extensive use of Vista in this class. You will also be able to use Vista to communicate with each other. Within the first week of the course you should introduce yourself on Vista. Details for this will be discussed in class.

Texts and readings

We will be using the following case studies and readings

1. Iron Gate Technologies, Chicago Case Study
2. How Venture Capitalists Evaluate Potential Venture Opportunities (HBS 9-805-019)
3. A Note on Valuation of Venture Capital Deals (Stanford Case E-95)
4. Honest Tea (HBS 9-201-076)
5. Note on Angel Investors, Tuck School of Business at Dartmouth, Center for Private Equity and Entrepreneurship, Case # 5 – 0001
6. SpiffyTerm Inc: January 2000, Stanford Case Study, SM – 86
7. Venture Capital, by Constance Bagley and Craig Dauchy, Chapter 15 of The Entrepreneurial Venture, W. Sahlman, H. Stevenson, M. Roberts and Amar Bhide (eds.), Harvard Business School Press, 1999
8. Warburg Pincus and emgs: The IPO Decision (HBS 9-807-092)
9. Note on Exits, Tuck School of Business at Dartmouth, Center for Private Equity and Entrepreneurship, Case # 5 – 0022
10. Lion Capital and the Blackstone Group: The Orangina Deal (Harvard Business School Case Study, 9-807-005)
11. Note on Leveraged Buyouts, Tuck School of Business at Dartmouth, Center for Private Equity and Entrepreneurship, Case # 5 – 0004
12. Orchid Partners, HBS 9-804-138
13. Note on Private Equity Partnership Agreements, HBS 9-294-084
14. Yale University Investment Office: August 2006, HBS 9-807-073
15. Note on Private Equity Asset Allocation, Tuck School of Business at Dartmouth, Center for Private Equity and Entrepreneurship, Case # 5 – 0015