

Venture Capital and Private Equity

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Course description

The course is designed to develop a real world understanding of the private equity marketplace from the perspective of the private equity investor. The terms private equity investor and venture capitalist (VC) will often be used interchangeably.

The objectives of the course are to:

- Provide an understanding of the private equity financing process and the interaction between entrepreneurs and private equity investors.
- Employ corporate finance principles (such as contingent claims and contracting theory) for the analytical valuation of new ventures and buyouts.
- Build familiarity with the structure and key institutional features of the global private equity industry

Course requirements, grading, and attendance policies

Final exam

At the end of the course will be a three hour closed book in-class final exam. Questions in the final will be based on the material covered in class, in the readings, and might also be based on the material presented by the guest speakers (if any). Exam will consist of two parts. First part with 20 multiple choice questions accounting for 40% of the exam score and the second part with short-answer problems accounting for 60% of the exam score.

Attendance

Attendance is obligatory. If you can't attend the class, let me know in advance. I can't accept any explanation ex-post.

Grading

10% Class participation and attendance (full credit for attending all classes and meaningful participation in class discussions from time to time, up to zero credit for one or more missed class without a legitimate reason).

50% Case assignments and presentations (all four case assignments have to be submitted on time in order to complete the course).

40% Final exam (the course is incomplete without taking the final).

Course contents

Study Groups and Case Memos

There will be 4 case study assignments in this course.

Students will be asked to form study groups of no more than four or five members. Each group should submit a two-page memo for each case. Tables and graphs can be added in addition to those two pages. The memo will address specifically assigned set of questions for the case.

Each group should be prepared to make a short (15 minutes max) presentation of each case during the class. No PowerPoint presentations are needed, the group could use the submitted case memo (projected from my laptop on the screen) as a base for the presentation. I might call on 1 or 2 groups to present, my choice will be spontaneous so nobody, including myself, will know who is going to present before the class starts. Each member of the group should participate in the presentation.

Problem Sets and TA sessions

There will be around four (exact number tbd) TA sessions during the course. These sessions will cover three problem sets and will give students a chance to go over the most important concepts covered during the lecture in more detail. Problem Sets will not be graded, however I strongly suggest all students solve it.

The exact dates for the TA sessions will be determined during the first week.

Description of course methodology

The course will be primarily based on lectures, case studies, other required readings, and, schedule permitting, guest speakers. Students are required to complete all assigned readings before coming to class.

Topics covered in course include, among other things, the following:

- Key players (investors, intermediaries, portfolio companies).
- Financing stages and how to obtain financing from VCs
- Organizational structure of VC firm, venture capitalists as general partners (GPs), investors as limited partners (LPs). Private equity partnership agreements. PE compensation schemes.
- Measuring PE returns. Private equity performance from institutional investors perspective. GPs' compensation and LPs' return.
- Valuation methods in VC and PE industries.
- Capital projects as real options. NPV vs. real option methods, financial vs. real options – the variables, real options topology, multiple interacting options (note: I might or might not cover this topic depending on whether it had been covered in sufficient detail in previous classes)
- Due Diligence.
- Private equity securities. Private equity terms.
- Closing the deal with the portfolio company.
- Exiting private equity investments. Distribution.

Course materials

Required textbooks and materials

1. Course Reader will include all required articles and chapters from textbooks.
2. Lecture notes and some of the supported materials will be posted on the intranet before the class.

Additional materials

The following two books are optional materials.

Venture Capital and the Finance of Innovation, 2nd Edition, by Metrick and Yasuda, Wiley, 2010, ISBN-10: 0470454709, ISBN-13: 978-0470454701.

International private equity, by Talmor and Vasvari, Wiley, 2011, ISBN 9780470971703.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.

Case memos should be each group's own work. You may not use the solutions prepared by anybody else other than your group members. In case you decide to use information from other sources in your case memo, you should clearly state the source of this information. Final exam should be individual work; you are not allowed to discuss it with anybody else.

Failure to follow the instructions about academic integrity might result in severe penalty and a very low course grade.