



FIN 374S – Entrepreneurial Finance (UTC 3.124)

FALL 2014

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1. Overview and Learning Objectives

This course examines the application of advanced corporate finance concepts in the private equity (PE) markets. Private equity is a major source of capital for new venture and established private and public firms. The size of the organized private equity market has grown dramatically in recent years. For example, assets under management have escalated from under \$1 trillion in 2000 to almost \$3.5 trillion in 2013. The amount of capital that has been committed to traditional private equity funds worldwide, but remains un-invested (dry powder) as of 2013, is estimated to be over \$1 trillion. PE funds have also received increasing scrutiny from both the financial press and regulators in recent years that could affect their ability to raise and deploy capital in the future.

Course objectives are to provide students with an understanding of the nature of the private equity markets, the principal participants in these markets and their activities, and the financial strategies that they employ. Topics covered include: how private equity funds are raised, structured, and financed; contracting in the private equity markets; financing investments; valuation of business interests; M&A and restructuring; and exit strategies.

2. Prerequisites and Preparation

Restricted course with prior completion of Finance 357 or 357H

3. Course Materials:

Required:

1. Venture Capital, Private Equity, and the Financing of Entrepreneurship, 2012, Lerner, Leamon, Hardyman, Wiley. (http://www.coursesmart.com/IR/5845697/9780470591437?_hdv=6.8)
2. Course packet, which is available at the University COOP, contains some readings and cases.
3. Course-related information, including the syllabus and class notes, and assignments will be posted on Canvas.

General References Materials:

Corporate Finance by Ross, Westerfield and Jaffe, McGraw-Hill.

Private Equity Reference:

Cendrowski, Harry, Louis W. Petro, James P. Martin and Adam A. Wadecki, 2012, *Private Equity: History, Governance, and Operations*, (2nd ed.), John Wiley & Sons, Inc., Hoboken, NJ.

Bartlett, Joseph W., 1995 & 2009, *Equity Finance: Venture Capital, Buyouts, Restructurings, and Reorganizations* (2nd ed., 2009 Cumulative Supplement), Aspen Publishers division of Wolters Kluwer Law & Business, New York, NY.

Levin, Jack S., 2010, *Structuring Venture Capital, Private Equity, and Entrepreneurial Transactions*, Aspen Publishers division of Wolters Kluwer Law & Business, New York, NY.

Metrick, Andrew, 2010, *Venture Capital and the Finance of Innovation*, (2nd ed.) John Wiley & Sons, Inc., Hoboken, NJ.

Valuation and mergers and acquisitions references:

Pignataro, Paul, 2013, *Financial Modeling and Valuation: A Practical Guide to Investment Banking and Private Equity*, (1st ed.), John Wiley & Sons, Inc., Hoboken, NJ.

Koller, Tim, Marc Goedhart, and David Wessels, 2010, *McKinsey Valuation* (5th ed.), John Wiley & Sons, Inc., Hoboken, NJ.

Bruner, Robert F., and Joseph R. Perella, 2004, *Applied Mergers and Acquisitions*, John Wiley & Sons, Inc., Hoboken, NJ.

Gaughan, Patrick A., 2010, *Mergers, Acquisitions, and Corporate Restructurings* (5th ed.), John Wiley & Sons, Inc., Hoboken, NJ.

4. Evaluation and Grading Policies:

Midterm	25%
Final Exam/Case	35%
In-class participation	20%
Case Reports	15%
Peer Evaluation	5%

a. Midterm Exam. There will be an in-class exam on Thursday October 16, 2014. Students will be responsible for all course material covered up through October 14, 2014. Makeup exams are only given to students with documented, university-approved excuses. If an absence is excused, the makeup exam will be scheduled within 3 days of the missed exam. The format of the makeup exam may vary from that of the regular exams and will be at the discretion of the instructor. All exams are comprehensive with emphasis on the newest material presented.

b. Final exam. The final assignment in this course will consist of a written case analysis (individually prepared – no collaboration or discussion with other students). The case will be distributed on the last day of class, December 4, 2014, and the analysis will be due by 10:00 a.m. on Thursday, December 11, 2014. The report will not exceed six pages (including exhibits). More details on the exact parameters and structure will be posted later in the semester.

c. Case Analysis and Reports. Cases are intended to expose the student to more complex and ambiguous analyses than what can be obtained from simple textbook problems. They cover situations that complement class lectures. To properly analyze a case you should: a) browse the provided study questions, b) read the case while noting any particularly relevant information or details, c) conduct any analyses, and d) develop a proposed plan of action and alternative strategies. There is no single correct answer. Some students find the lack of a definitive answer to be frustrating and want to be provided with a solution. Cases are not intended for this purpose. I will be happy to discuss individual analyses, but will not provide a solution set because it fosters the erroneous thinking that only one correct answer exists (moreover, this is often prohibited due by the case publishers).

Case reports will be done in self-formed groups of 4 students. Each group will be responsible for completing short summaries for 3 cases during the semester to be assigned at the third class. These summaries will be a *maximum* of two pages of text plus one exhibit that outlines the following: 1) defining the issues/problems; 2) discussion of analysis (valuation) with key assumptions and considerations; 3) a proposed solution or strategy and implementation. Teams may deviate from this structure if the case does not follow this outline. These must be in at least 11-point font with 1 inch margins. Provide a cover page with the section time and names of each person in the group.

d. Class participation. This portion of the grade will be based on the contribution of each individual student to the class discussion throughout the term. It will be based on the quality and quantity of class participation. Quality will be the far more important of the two dimensions.

Relatively frequent contributions to the discussion that demonstrate logical and thorough analysis will be required to earn the full 20%. Everyone should have read the case, so merely regurgitating facts covered in the case does not move class discussion forward in a substantive way. For example, instead of noting that the company had profits of \$10 million, it is more useful to discuss trends in sales/costs that reflect industry conditions or strategic decisions by the company being studied. If you are asked about a value for a company, you should be prepared to support your answer by stating what analyses, facts, and assumptions lead you to that conclusion. Moreover, a good question can be worth as much as a good answer. I intend to cold-call one person to start the discussion for each case. I will then either continue to cold-call or ask for volunteers for follow-up questions and discussion.

Some of the points that I will use to grade class discussion are:

- Was the problem or issue clearly defined?
- Did you take a firm stand and back it with evidence?
- Did you outline your assumptions?
- Did you use the frameworks, valuation models and notes discussed in class?
- Did you explore the pros and cons of the strategic alternatives?
- Did you perform both qualitative and quantitative analysis?
- Was a plan of action presented along with implementation steps, timing and costs?
- How did you respond to your peer's questions about your solution?

I will mark participation after each class. Therefore, it is imperative that you display your name card at each and every class session. If you do not display your tag, you may not receive credit. Moreover,

missing class, arriving late, or exhibiting any disruptive behavior (talking, using the phone, etc.) will reduce participation scores. The class will be much more enjoyable and productive for everyone, if there is active debate and consideration of the issues at hand.

e. Peer evaluation. At the end of the semester, I will ask each member of the group to evaluate the contribution of the *other* members by awarding a set of points across the group. This evaluation can either increase or decrease your grade relative to the group.

f. Final Grade. The evaluation format is designed to generate meaningful dispersion in measured student performance. The class gpa will be a target of 3.5 with no more than 50% A/A- being awarded. Though each assignment is graded separately, final grades will be assessed based on the totality of all work and participation of each individual.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the undergraduate program experience hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects. The classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Class Schedule/Readings

Date	Agenda	Reading/Preparation Work
28-Aug	Lecture 1: Course introduction and overview	Textbook Chapter 1
2-Sep	Lecture 2: How private equity funds are raised, structured, and managed	Textbook Chapter 2
4-Sep	Lecture 2: Continued	Textbook Chapter 3
9-Sep	Case 1	Yale University Investments Office: February 2011 (investing in private equity)
11-Sep	Lecture 3: Creating the Deal	Textbook Chapter 3
16-Sep	Case 2	Acme Investment Trust : January 2001 (analyzing an investment in a private equity fund)
18-Sep	Lecture 3: Continued	Textbook Chapter 3
23-Sep	Case 3	Oregon Public Employees Retirement Fund: Push and Pull Over GP/LP Compensation
25-Sep	Lecture 4: Deal Valuation	Textbook Chapter 4
30-Sep	Lecture 4: Continued	Textbook Chapter 4
2-Oct	Lecture 4: Continued	Textbook Chapter 4
7-Oct	Case 4	Bidding for Hertz: Leveraged Buyout (LBO valuation)
9-Oct	Lecture 5: Deal Structuring	Textbook Chapter 5
14-Oct	Lecture 5 : Continued	Textbook Chapter 5
16-Oct	Midterm	Study
21-Oct	Lecture 5 : Continued	Textbook Chapter 5
23-Oct	Case 5	HCA, Inc., (LBO Process)
28-Oct	Case 6	Term Sheet Negotiations for Trendsetter, Inc. (Interactions with owners/managers)
30-Oct	Lecture 7: Management after the Investment	Textbook Chapter 6
4-Nov	Lecture 7: Continued	Textbook Chapter 6

6-Nov	Case 7	Between a Rock and a Hard Place: Valuation and Distribution in Private Equity
11-Nov	Case 8	O.M. Scott & Sons Co. Leveraged Buyout (Incentive mechanisms)
13-Nov	Lecture 8: Exit Strategies	Textbook Chapter 7
18-Nov	Lecture 8: Continued	Textbook Chapter 7
20-Nov	Case 9	HCA, Inc. LBO Exit (Exit Strategies)
25-Nov	Lecture 9: Restructuring	Handouts
2-Dec	Case 10	Investing in Sponsor-Backed IPOs: The Case of Hertz (Exit Strategies)
4-Dec	Wrap-up	Final Assignment Handed Out

*The exam dates are fixed, but the course schedule may vary depending on the pace of the class.