UNIVERSITY OF PENNSYLVANIA
The Wharton School

VENTURE CAPITAL AND PRIVATE EQUITY
FNCE 250

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OVERVIEW
The course surveys the private equity industry, with an emphasis on the financial and economic tools useful for private equity and venture capital investing. The course is divided into three modules. We begin with an introductory module on the organization and strategies of private equity funds. The second module covers examples of the basic types of private equity transactions, and the third module expands on these types by studying transactions with options and hybrid financing structures. The primary audience for this course is finance majors interested in careers at private equity funds. The secondary audience is students planning careers that have significant interaction with private equity funds, either as providers of these funds (pension fund managers, institutional investors, investment advisors) or as consumers of them (managers/owners of startups or buyout candidates). The course will be primarily case-based, with written assignments by student teams required for about a third of the class meetings. There is also a mid-term and a final exam, to be completed by individuals (not teams).

After completing this course, students should understand deal structure and valuation for a broad range of private equity transactions. They should also know the current institutional and contractual practices in the private equity industry, and understand how these practices are driven by the particular information and incentive problems faced by the key players.

MATERIALS
There is no assigned textbook for the course. All the readings will be provided in a bulk pack, which is available at Reprographics. The cost of handouts distributed in class is not included in the cost of this bulk pack and will be billed separately at the end of the
semester. In addition, I will assign some review readings from introductory corporate finance textbooks, which I will assume students already own or have access to. These textbooks are: Corporate Finance, 6th edition, by Ross, Westerfield and Jaffe, McGraw Hill, 2001 (or its earlier edition).

FORMAT
The course is primarily in a case/discussion format, supplemented by some lectures and guest speakers. For the majority of class meetings, there will be a single case assigned. Students will form into four-person partnerships at the beginning of the semester. Partnerships are expected to meet (in-person or virtually) to discuss each case ahead of the class meetings. For each case, each partnership will designate one person as “managing partner” (MP); the MP will turn in a two-page report (plus up to three pages of supporting calculations) for the partnership. Each student must serve as MP for at least three cases during the semester. All students are encouraged to participate in class discussion; MPs must be ready to be cold-called. If an MP has to miss class for some reason, then another partner must be designated to take his or her place in class discussion.

GRADES
There are four components to the grading: Case Write-ups (30%), Mid-term exam (20%), final exam (40%) and class participation (10%).

Case Reports: two-page reports (plus up to three pages of supporting calculations), handed in by each partnership for each case. These reports will be graded on a 5-point scale, with scores counting twice for the managing partner on that case. Changes in partnerships will *not* be permitted once partnerships are formed.

Mid-term exam: An in-class, closed-book exam.

Take-home Final exam: A report no longer than ten pages (including supporting calculations), prepared and written individually (i.e., not by teams), containing a detailed case analysis.
SCHEDULE

All case materials and additional readings are in the bulkpack unless noted otherwise.
RWJ = the Ross, Westerfield and Jaffe Text

Week 1

I. Introduction: Private Equity Funds

1/13  Course Overview

1/15  Lecture: Introduction to the Private Equity Market
Readings: The Private Equity Industry: An Overview, Sections I-IV

Week 2

1/20  NO CLASS (Martin Luther King Holiday)

1/22  Case: Accel VII
Readings: A Note on Private Equity Partnership Agreements
Due: Memo #1 and Partnership Agreements

Week 3

1/27  Case: Yale University Investments Office, July 2000
Readings: The Private Equity Industry: An Overview, Sections V-VII

1/29  Case: Hamilton Lane Advisors
Due: Memo #2

Week 4

II. Basic Private Equity Transactions

2/3  Lecture: DCF and Comparables Valuation methods
Readings: A Note on Valuation in Private Equity Settings

2/5  Case: The Fojtasek Companies and Heritage Partners
Due: Memo #3

2/6  Guest Speaker:  TBA (might replace the 2/24 engagement)
Week 5

2/10  Lecture: The Venture Capital Method
      Readings: A Note on Valuation in Private Equity Settings

2/12  Case: Francisco Partners
      Due: Memo #4

Week 6

2/17  Lecture: Private Equity Securities
      Readings: A Note on Private Equity Securities
                Options and Corporate Finance: Basic Concepts (RWJ, Ch.22)

2/19  Case: Apex Investment Partners (A)
      Due: Memo #5

Week 7

2/24  Guest Speaker: TBA

2/26  Mid-term Exam [Hours & Location: TBA]

Week 8

3/3   Case: The Exxel Group
      Readings: A Note on Private Equity in Developing Countries
      Due: Memo #6

      III. Private Equity Transactions with Options

3/5   Lecture: Introduction to Options
      Readings: Warrants and Convertibles (RWJ, Ch. 24)

3/7-3/14 Spring Break (NO CLASS)

Week 9

3/17   IPOs
      Readings: ImmuLogic Pharmaceutical Corporation
                A Note on the Initial Public Offering Process
3/19  Lecture:  More on Options  
Readings:  Warrants and Convertibles (RWJ, Ch. 24)

Week 10

3/24  Case: BCI Growth  
Due: Memo #7

3/26  Guest Speaker:  TBA

Week 11

3/31  Case: Aberlyn Capital Management  
Readings:  A Note on the Venture Leasing Industry  
Readings:  An Introduction to Patents and Trade Secrets  
Due: Memo #8

4/2  Lecture:  Embedded Options

Week 12

4/7  Case: Walnut Ventures  
Due: Memo #9

4/9  Guest Speaker:  TBA

Week 13

4/14  Case: Metapath Software  
Readings:  Securicor Wireless Systems  
[This case provides some background for Metapath.]  
Due: Memo #10

4/16  NO CLASS (eDocs negotiation)

Week 14

4/21  Case: eDocs, Inc.  
Due: Memo #11

4/23  Closing Lecture
Final Exam: [Dates TBA ]