



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

Venture Capital and Private Equity – 4217¹

Autumn Semester – 2018

Mon/Wed 9:35am – 10:55am

Schoenbaum Hall Room 319

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Course Topics and Goals

Most of us are familiar with transactions taking place within formal Equity and Debt Capital Markets. Inherent within these markets is access to public information and its importance in much of today's financial research, analysis and quite frankly, gossip.

Often our knowledge of financial trends is formed by what we read in various financial publications or see on CNBC! For example the Internet boom introduced many investors to the IPO market.

Venture Capital (VC) which is a subset of the formal Private Equity (PE) Markets is one of the least understood financial markets. Due to its private nature, very little information beyond industry generalities or completed transactions is available. Despite its mysterious nature, Venture Capital and Private Equity remain the primary capital sources for both startup and early/mid stage firms.

This course provides a comprehensive look into the inner workings of Venture Capital and Private Equity along with the various skill sets required of first year analysts. The class will include case studies and class discussions augmented by lectures from industry experts.

Course Materials

- (1) General course materials can be found online at the Carmen course website.
- (2) The course packet which contains the cases/readings is available from Harvard Business School Publishing (HBSP). A link to HBSP and the course packet can be found on the Carmen course home page.

E-mail Communication

If it is necessary to communicate with the class between class sessions, we will send electronic mail. We will assume that you check your e-mail at least once every 24 hours.

¹ Professors Oglevee and Carpenter may change the course schedule if necessary. Any changes made will be announced in class with sufficient advance notice and a revised syllabus will be posted on the course website.

Laptops, Cell Phones and Recording Devices

The intellectual capital of the professors and guest speakers are not for public consumption. Laptops, cell phones and recording devices are not permitted in class. The Audio and Video Taping of lectures is strictly forbidden.

Teams

Each case/reading should be analyzed by a student team. During the first week of class, students will form teams of five unless the instructors deem a different team size is warranted. Formation of teams will be left to your discretion, but we encourage you to include some variety in terms of gender, ethnicity, nationality, work experience, etc. If you need motivation beyond the opportunity to learn from classmates with different experiences, recognize that the teams you work with on the job usually include such diversity.

Teams are to work *independently* on the cases/readings. Reports, spreadsheets or class notes from students who took the class in the past are strictly off limits. In class, team members should sit in adjacent seats to facilitate discussion and to help us learn the teams.

Class Preparation

Thorough preparation—by students *and* instructors—and active participation are essential to a successful case course. Learning comes from struggling with the issues outside of class, then discussing the conclusions (and the struggle) in class. Unprepared students personally miss out on most of the learning and also cheat their classmates because they cannot contribute fully to the learning that occurs in class.

You will be given some preparation questions to help guide your analysis of a case/reading. These questions are not designed to be comprehensive, and we encourage you to explore relevant issues beyond the questions in the guidelines. Depending on how the class discussion unfolds, we may talk about some of the study questions but not others. At a minimum, each team should address the study questions prior to class, and each student in the group should understand the team's analysis and decisions. Print enough copies of your analysis that each team member can participate fully in class—one copy per student seems to make sense.

Virtually every case requires an “answer” or a decision, and you should arrive in class prepared to explain and defend your decision. *It is unacceptable to arrive in class without having made a decision*, and statements like, “There wasn't enough information,” will be scoffed at publicly! Decisions must be made every day with less information than one would like to have.²

To encourage preparation and facilitate class discussion, students will be called on in class to share their insights. During lecture/discussion sessions, students are expected to have completed the assigned reading before class, and we will likely call on students during these sessions also.

Attendance

Students are expected to **attend class** and to **arrive on time**. This is much more important in a case-oriented course than in a lecture-oriented course. To a significant extent, the value you get from the course depends on your presence in class, and your classmates' opportunities to learn from your insights depend on your presence in class.

² It is perfectly fine to explain your decision based on the information available, and then to state the additional information you would like to have and how you would use it.

Grading

For purposes of assigning final grades for the course, approximate weights will be the following:

Contributions in class	20%	Key Lessons Worksheet	5%
Exam 1	25%	Peer Review	5%
Exam 2	25%	Peer Class Contribution	½ letter grade
Final project	20%		

The distribution of course grades in the past has been roughly 15% A, 20% A–, 35% B+ and 30% B or lower. Two things tend to produce course grades of B or lower: (1) lack of contributions to class discussions, or (2) low peer review scores due to lack of contributions to the team.

Peer Review

One bothersome aspect of group work is that it is difficult for the instructor to assess each individual's contribution to the team's output, and this may tempt some students to free ride on the efforts of their teammates. Peer review will be used to allow students to provide useful information about teammate contributions, to help avoid the free-rider problem and, if some students bear more than their share of the load, to reward those students. Each student will have a total of 200 points to award to the other members of his or her team. The points that you allocate should be proportional to the individual's contribution to your team over the course of the semester/term, as you perceive it. For example, if you think that Teammate A contributed twice as much as Teammate B, then Teammate A should get twice as many points as Teammate B. Since each student awards 200 points to teammates, the average score received from peer review is also 200 points. The peer review forms will be completed at the end of the course. The form must be signed (it is not anonymous), but will be kept *confidential*. That is, students may be told the total number of points awarded to them by their teammates, but they will not be told the points given by individual teammates. Since peer review is an important component of course grades, please take this responsibility very seriously—a frank and honest evaluation is expected.

Class Contribution Components

In order to emphasize the necessity to be prepared for and to contribute to each class, class contribution will comprise a significant portion of your grade. As is the case with real world work environments, you are judged not by what you know but by what you **contribute**. Even if you feel that you know the material, unless you share your insights with the class, I cannot adequately evaluate your preparedness and contribution. Students are never penalized for making comments which don't appear to be the "right answer." It is only through consideration of many diverse opinions and viewpoints that we will move toward a greater shared understanding of the multi-dimensional material which this course entails.

There are three components of the class contributions grade: Student responses to core case analysis questions, overall Instructor evaluation, and overall peer evaluation.

Student Answers to Core Case Analysis Questions: The Socratic Method will be used to organize case discussions. For each case/reading discussed during the course, we will have a number of critical questions that should be considered as a starting point in analyzing the case/reading. We will randomly choose students to answer each one of these critical questions should there be no initial volunteers to open the class discussion. When we call on a student, that student has three options:

- (1) *Answer the question.* In answering the question, the student presents his/her analysis of this aspect of the case/reading. (**Please note: in general, you should be able to identify the key issues, problems and opportunities facing the central case/reading protagonists, to articulate and evaluate alternative approaches to problems, and to describe the course of action that you recommend and the reason for your recommendations**). It may be the case

that the student does not agree that the question asked is an important question. If this is so, a discussion about what constitutes an important question is entirely appropriate.

- (2) *Pass.* Each student has the opportunity, one time during the course, to pass on answering a question. We all have complex lives, and this opportunity acknowledges that complexity. However, you can only pass once. If you are absent (unexcused absence) from class, it is counted as a Pass. If you pass a second time (either by attending class and answering “Pass” when called on or by not attending class [unexcused absence] your class contribution grade will be adjusted down.
- (3) *Fake it.* If a student has not read and analyzed the case/reading, he/she may try to bluff through the questioning. Faking may appear to be a particularly attractive alternative if a student has read, but not analyzed, the case/reading. However, faking it is a very risky strategy. If we determine that a student is faking it, that student’s class contribution grade will suffer accordingly.

Overall Instructor Evaluations: Of course, students who are not asked the core questions for a particular case/reading are free to volunteer their insights and analyses to the ongoing discussion. The quality of this volunteer contribution is the primary determinant of a student’s overall peer evaluation and Instructor evaluation for class contribution scores. We will evaluate each person’s contribution for each and every class and keep a running score on class contribution. You are welcome to check anytime to see how you are doing.

Overall Peer Evaluations: Towards the end of the course, we will distribute a Peer Class Contribution Evaluation form. On this form, students will be asked to list (number to be determined by class enrollment) students in the class who, in their opinion, consistently demonstrated excellent class contribution throughout the course. Students may not list themselves on this form. For accounting purposes, each student will need to sign their Peer Class Contribution Evaluation form which will be kept confidential. The Peer Class Contribution Evaluation form must be returned to the instructors no later than the last scheduled class of the course. Students who fail to turn this form in on time will not be eligible to receive a bonus class contribution grade.

Class Contribution Evaluation Criteria

We will assign points for each student’s contributions in class. These points will be based on the quality and to a degree the quantity of the student’s classroom questions, comments, and responses to questions posed by the instructor and classmates. As mentioned earlier, at an absolute minimum, each student is expected to attend class, be familiar with the case and to understand his or her team’s analysis and conclusions—evidence to the contrary will be negatively viewed. Here are a few examples of class contributions that will be positively viewed:

- Carefully explaining the major factors affecting a decision, how they were evaluated and how the different factors were weighed.
- Providing an insight about a company’s operations that was not provided in the case discussion but was gleaned from the data.
- Describing a situation you have experienced or read about that bears on the discussion.
- Pointing out an error or weakness in someone’s argument/decision, providing an alternative approach and explaining why the alternative should be preferred.
- Exploring an issue that arises naturally from the case but was not raised in the case itself or in the study questions.
- Sharing any sensitivity analysis or business models that were done in Excel.

If you are unwilling or unable to voluntarily contribute to class discussions on a regular basis, we urge you to consider taking a different class. This course, by its nature, depends on lots of student

input in class to maximize learning, and substantive contributions are required to earn a good grade for the course.

Food for Thought

As mentioned earlier, students will be called on during class. Consider it your own personal opportunity to contribute to your classmates' education and to develop your ability to think on your feet and speak extemporaneously. Mistakes will be made, but we all learn from our mistakes, and from others' mistakes.³ We recognize that this creates a certain level of tension for some students, and wery to be sensitive to anxiety-induced brain cramps. This is an opportunity to gain practice overcoming such anxiety, a skill that will serve you well in years to come.

It is important that different opinions, assumptions and methods of analysis be discussed in class. It contributes greatly to the learning process if, when you disagree with a classmate, you explain clearly what you disagree with, why you disagree, and how you think the decision should be made. This can be done energetically, but with respect for your classmates—belligerence is unnecessary and counterproductive.

Instructor Judgment

Compared to many courses, this course has less emphasis on learning new principles and techniques and more emphasis on *application*, often in contexts fraught with ambiguity. We continually analyze situations where many questions do not have obvious right and wrong answers. Evaluating student performance is therefore not as simple as deducting points for wrong answers. When assessing the quality of reasoning and clarity of presentation in classroom comments, part of the assessment is related to specific items, techniques and assumptions, but a large part involves judging the quality of the overall "package." Both types of judgment, and particularly the overall quality assessment, are necessarily subjective.

As a result, grading is more subjective in this course than in many Finance courses, and we want to make sure everyone understands this clearly up front. We strive diligently to be fair and impartial when making these judgments, but it is a fact of life that the judgments must be made.

³ We can virtually guarantee that the instructors will publicly embarrass themselves several times during the course.

<p>Week 1 WED, AUG 22</p>	<p>Topic: Fundamentals of Venture Capital</p> <p>Reading: <i>Class PowerPoint Presentation (downloadable via Carmen)</i></p>
<p>Week 2 MON, AUG 27 and WED, AUG 29</p>	<p>Topic: Fundamentals of Venture Capital (Cont.) and Private Equity</p> <p>Reading: <i>The Basics of Private Equity Funds (UV6986)</i></p> <ol style="list-style-type: none"> 1. How does PE work? 2. What are the difference between PE and VC? 3. What is a typical PE Structure? 4. Who are the typical investors in PE?
<p>Week 3 MON, SEP 3 (Holiday) WED, SEP 5</p>	<p>Topic: LBO's</p> <p>Case: <i>Bidding for Hertz: Leveraged Buyout (UV1056)</i></p> <ol style="list-style-type: none"> 1. What are the benefits of LBO's for PE? Drawbacks? 4 Steps? 2. Is Hertz a good candidate for a PE LBO? Why? 3. How could a PE firm create more value vs. a company within the industry?
<p>Week 4 MON, SEP 10 and WED, SEP 12</p>	<p>Topic: What does a VC and PE Investor do?</p> <p>Readings: <i>A Day in the Life of a Venture Capitalist (E-444)</i> <i>Please see Carmen for additional hyperlinks to articles</i></p> <ol style="list-style-type: none"> 1. What are the roles of an Analyst, Associate and General Partner? 2. What qualities do you think are critical for an Analyst, Associate and General Partner to have?
<p>Week 5 MON, SEP 17 and WED, SEP 19</p>	<p>Topic: Due Diligence</p> <p>Readings: <i>How VC's Evaluate Potential Venture Opportunities (9-808-019)</i> <i>Class PowerPoint Presentation (downloadable via Carmen)</i> <i>Don't Acquire a Company Before You've Asked These Questions (H04BTU)</i></p> <ol style="list-style-type: none"> 1. Why do most companies expand into the tech space? 2. What has been driving the inflated values of these companies? 3. What are the acquiring companies actually buying?

<p>Week 6 MON, SEP 24 and WED, SEP 26</p>	<p>Topic: Private Equity Securities</p> <p>Readings: <i>A Note on Private Equity Securities (9-200-027)</i> <i>Mezzanine Money for Smaller Businesses (87313)</i></p> <p style="text-align: center;">EXAM 1: (SEP 26)</p> <p style="text-align: center;">(Covers weeks 1 – 6)</p>
<p>Week 7 MON, OCT 1 and WED, OCT 3</p>	<p>Topic: Term Sheets</p> <p>Readings: <i>Term Sheet Negotiations for Trendsetter, Inc. (9-801-358)</i></p> <ol style="list-style-type: none"> 1. Based on the note you read, what are the advantages of Common Stock over Preferred Stock? 2. From an entrepreneur’s perspective, what type of preferred stock do you think is the best? 3. From an employee perspective, how would you handle salary negotiations where you are offered options with a 4 year vesting period and a 2 year cliff? <p>Case: <i>Cumberland Entertainment (A): Expanding with PE (INS652)</i></p> <ol style="list-style-type: none"> 1. When is the best time to exit? 2. How is risk shared throughout all parties? 3. Discuss the fluidity of changing offers throughout the negotiation?
<p>Week 8 MON, OCT 8 and WED, OCT 10</p>	<p>TOPIC: Anti-dilution Clauses</p> <p>Reading: <i>Note on Anti-dilution Provisions: Typology and a Numerical Example (9-805-024)</i></p> <ol style="list-style-type: none"> 1. What is the difference between a Full ratchet and Weighted Average Anti-dilution clause? 2. What anti-dilution clause would you prefer as a VC and why? <p style="text-align: center;">NO CLASS (OCT 10)</p>
<p>Week 9 MON, OCT 15 and WED, OCT 17</p>	<p>TOPIC: Capitalization Tables and Waterfalls</p> <p>Readings: <i>Funding New Ventures: Valuation, Financing, and Capitalization Tables (9-806-058)</i> <i>A Note on Valuation of Venture Capital Deals (E-95)</i></p> <ol style="list-style-type: none"> 1. Create a Cap Table that incorporates three founders with equity splits of 70%, 20% and 10%. 2. Add an option pool of 20%. 3. Plan for an Angel Round of \$500,000 for 20% and then a Series A Round of \$1,500,000 for 30%.

<p>Week 10 MON, OCT 22 and WED, OCT 24</p>	<p>TOPIC: Exit Strategies</p> <p>Readings: <i>Process of Going Public in the United States (9-105-016)</i> <i>TeeGolf Company: To Exit or Not to Exit (UV7444)</i> <i>Private Equity Exits (9-213-112)</i></p> <ol style="list-style-type: none"> 1. How does an IPO differ from a private sale? 2. What are some of the market factors that make a sale of TeeGolf advantageous? 3. How does TeeGolf differ from their competitors' business models?
<p>Week 11 MON, OCT 29 and WED, OCT 31</p>	<p>TOPIC: Company Exits</p> <p>Guest Speaker, Kevin Pohmer, Former CEO – Financial Guard</p> <p>Case: <i>SpeedSim: Made to Exit! (CMR519)</i></p> <ol style="list-style-type: none"> 1. What are your thoughts on the exit strategy presented in this case? 2. What do you think drives a successful merger or sale?
<p>Week 12 MON, NOV 5 and WED, NOV 7</p>	<p>TOPIC: Warren Buffett</p> <p>Guest Speaker, TBD</p> <p>Reading: <i>Berkshire Hathaway (9-709-449)</i></p> <ol style="list-style-type: none"> 1. How has Berkshire Hathaway's investment strategies changed over the years? 2. What did the purchase of GEICO and the entry into the insurance industry afford Berkshire Hathaway? 3. How are the operating managers incentivized to have aligned interests with Berkshire Hathaway?
<p>Week 13 MON, NOV 12 (Holiday) WED, NOV 14</p>	<p>TOPIC: Utilizing Real Options within Private Equity</p> <p>Reading: <i>Arundel Partners: The Sequel Project (9-292-140)</i></p> <ol style="list-style-type: none"> 1. What are some of the benefits of real options? Drawbacks? 2. How is the valuation of this deal different than typical PE investments? 3. Is this an industry that can produce repeatable successes?
<p>Week 14 MON, NOV 19 and WED, NOV 21</p>	<p style="text-align: center;">EXAM 2: (NOV 19) (Covers weeks 7 – 13) and THANKSGIVING HOLIDAY BREAK (NOV 21)</p>

<p>Week 15 MON, NOV 26 and WED, NOV 28</p>	<p>Topic: Corporate Venture Capital and Building and Leading Your Senior Team</p> <p>Reading: <i>A Note on Corporate Venture Capital (9-201-036)</i> <i>Intel 64 Fund (9-800-351)</i></p> <ol style="list-style-type: none"> 1. Should Intel accept Partridge’s proposal? Does it satisfy Intel’s goals? 2. What are the main differences between corporate and traditional VC? <p>Reading <i>A Note on Building and Leading Your Senior Team (9-402-037)</i></p> <ol style="list-style-type: none"> 1. Why is partner/team selection important? 2. After leverage, what is the next way Private Equity builds value? 3. What qualities are you looking for to fill out the team?
<p>Week 16 MON, DEC 3 and WED, DEC 5</p>	<p style="text-align: center;">Final Team Presentations</p>

Administrative Points or “The Fine Print”

Notification of Scores and Final Grades: The results of any graded materials, including final grades, WILL NOT be given by the instructor to individual students via phone, US post, e-mail, or verbally in person.

Materials submitted for grading throughout the course will be returned to students generally within one week after submission. Students with invalid absences on the return date must retrieve their materials at the instructor’s office.

Students may obtain their final grades online by accessing the University Registrar link.

Disability Services: The Office of Disability Services verifies students with specific disabilities and develops strategies to meet the needs of those students. Students requiring accommodations based on identified disabilities should contact the instructor at the beginning of the course to discuss his or her individual needs. All students with a specific disability are encouraged to contact the Office of Disability Services to explore the potential accommodations available to them.

Appeals: Grading errors should be corrected. Appeals must be in writing within two weeks after the graded work is made generally available—not the date you first look at it. If the end of term is within the two-week period, the two weeks will start at the beginning of the next semester. In general, the entire document will be checked for grading errors, and correcting these could either raise or lower the overall score.

Academic Misconduct: Cheating is grounds for failing the course and additional sanctions. In accordance with Faculty Rule 3335-31-02, all instances of alleged academic misconduct will be reported to the Committee on Academic Misconduct, which recommends appropriate sanctions to the Office of Academic Affairs.

Absences & Make-Ups: In general, work related conflicts or overlapping requirements due in other classes are NOT valid excuses for missing assignments. In cases of valid family, health or safety emergencies, students must contact the instructor PRIOR to the assignment deadline. Unexcused absences will result in a grade of zero (0) for any missed assignments.

It is the sole responsibility of absent students to obtain any missed class notes, handouts, etc. In general, the instructor will not provide missed handouts to absent students during subsequent class periods. In addition, the instructor will generally not discuss missed material with an absent student until that student can provide evidence that (s)he has worked diligently at understanding the material missed.

Waitlisted Students: Students who are waitlisted and seek to enroll must attend class through the first class session of the second week of the semester/term. After that date, students who have not been added will not be enrolled and may not continue to attend the class. Waitlisted students should contact either the Fisher Undergraduate Program Office or the Department of Finance office if they have any questions regarding the waitlist process.

Disenrollment: University Rule 3335-8-33 provides that a student may be disenrolled after the third instructional day of the semester/term, the first Friday of the semester/term, or the student’s second class session of the course, whichever occurs first, if the student fails to attend the scheduled course without giving prior notification to the instructor.