

**COMMERCE 4FV3  
Venture Capital  
Fall 2019 Course Outline**

**Finance and Business Economics Area  
DeGroote School of Business  
McMaster University**

**COURSE OBJECTIVE**

This course focuses on the availability and use of venture capital and private equity by small- and medium-sized and growing companies. The course is recommended for students considering careers in the venture capital and private equity industries and merchant and investment banking, as well as those who anticipate careers as entrepreneurs. Topics include issues in the financing of entrepreneurial companies, business assessment and valuation, transaction and negotiation strategies, and exit strategies. This course will cover a range of industries and financing structures.

**INSTRUCTOR AND CONTACT INFORMATION**

Class Timing: **Mondays, 2:30 pm to 5:30 pm**  
*All times referenced in this document are Eastern.*

**Adeel Mahmood**

Instructor

Tel: 905-525-9140

*Office Hours:* After class or by appointment

**COURSE ELEMENTS**

Credit Value: 3	Leadership: Yes	IT skills: No	Global view: Yes
Avenue: No	Ethics: No	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group Work: Yes	Oral skills: Yes

**COURSE PREREQUISITES AND COMPLEMENTS**

Students should have the academic credit of 3FA3 or equivalent prior to the start of this course.

## **COURSE DESCRIPTION**

This course focuses on the availability and use of venture capital and private equity by small- and medium-sized and growing companies. The style of instruction is centred on the case method and project work but will also include lectures and discussions. It may also be supplemented by the participation in class of guest speakers.

The course is centred on early-stage, growing, and private companies and will be of interest to those considering careers in finance or as entrepreneurs. The course follows the arc of the private investment process: due diligence; valuation; negotiation of deal terms; working with the investee company; and exiting the investment.

In addition, from the perspective of an entrepreneur, the course will allow students to research and potentially implement the valuation and financing of an early-stage, growing, or private company, including a family business.

## **LEARNING OUTCOMES**

There are both individual and team learning aspects of this course.

### **Individual Learning Outcomes**

Upon completion of this course, students will be able to exhibit sound knowledge of the following key topics:

- Assess the risk/reward of an investment in an entrepreneurial company;
- Identify the material that an entrepreneur must provide to an investor;
- Conduct the necessary due diligence to decide if an investment is warranted;
- Perform the financial analysis necessary to support an investment decision (as an investor) or prepare the necessary financial materials for submission to an investor;
- Determine an appropriate valuation for making an investment (as an investor) or accepting private capital (as an entrepreneur);
- Understand a term sheet for investment and analyze the related legal terms; and
- Determine the best course for exiting an investment, including IPO or private sale, and understand the steps of doing so.

### **Team Learning Outcomes**

The learning keystone of this course is two investment-focused valuation and financing projects centred on actual businesses. Working in teams, students will research the valuation and financing of an early-stage, a growing, or a private business, including a family business. While the focus of the projects will be on analyzing and presenting the valuation and financing analysis

of an investment case, teams can incorporate this project in a broader business plan or a start-up they may be pursuing elsewhere.

The definition of a business that can be analyzed is fairly broad in the context of this course. Please refer to the *Evaluation* section of this document for more details.

Students, including full teams, can continue to work on the project as a part of formal business plans either on their own or as a part of the Small Business/Entrepreneurial Finance course.

## REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

- <http://avenue.mcmaster.ca>

COMMERCE 4FV3 - Custom Courseware:

- Available from the university bookstore

## OPTIONAL COURSE MATERIALS AND READINGS

Leach, Melicher; Entrepreneurial Finance, Fifth (5<sup>th</sup>) Edition; CENGAGE learning, 2014

- ISBN: 9781285425757

Metrick and Yasuda, Venture Capital and the Finance of Innovation, Second (2nd) Edition; Wiley, 2010:

- ISBN: 9780470454701

## EVALUATION

Individual learning in this course results primarily from in-class discussions based on thorough preparation in advance of the assigned cases. The balance of the individual learning results from lectures on specific topics, student research, and industry speakers.

Team learning focus of this course is on an investment-focused valuation and financing project centred on an actual business. Working in teams, students will research the valuation and financing of an early-stage, a growing, or a private business, including a family business.

The final grade will be calculated as follows:

**Components and Weights**

Participation	In-class contribution (individual)	10%
Venture Capital (VC) Test	Written in the 6 <sup>th</sup> class (individual)	30%
Leveraged Buyout (LBO) Test	Written in the 11 <sup>th</sup> class (individual)	30%
Private Equity Project	Due at the end of the term (group)	30%
<b>Total</b>		<b>100%</b>

**Participation**

Name cards are used to help give credit for class participation and contribution to in-class case discussion. Students must have name cards with their full first and last names clearly written and displayed in front of them for every class. It is imperative that students prepare for every class. **Class participation marks are primarily based on the quality of contribution.** No class attendance results in zero mark.

A student **missing a class** during the term, excluding a class where a test or an exam is held, is required to contact the MBA Student Experience Office and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) participation grade for that class.

If the office adjudicates that relief be provided, the student’s participation grade for the classes with relief requests will be re-assigned to the graded classes.

Generally, the office will approve request for relief only if ***the student’s absence is for legitimate reasons***, in which case documentation explaining the absence (or absences) must be provided to the office within five (5) working days after returning to school.

Refer to the **Participation Details** document available online in Avenue for more details on the evaluation aspects of this course component.

## ***Venture Capital Test***

The Venture Capital (VC) Test – an *open-book, open-notes* test – will be written in the **6<sup>th</sup> class** of the term. More details of the format, structure, and content coverage will be provided during the course of the term.

A student *missing the test* is required to contact the ASO and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If the ASO adjudicates that relief be provided, the student's grade for the test will be re-assigned proportionately to the graded components of the course.

## ***Leveraged Buyout Test***

The Leveraged Buyout (LBO) Test – an *open-book, open-notes* test – will be written in the **11<sup>th</sup> class** of the term. More details of the format, structure, and content coverage will be provided during the course of the term.

A student *missing the test* is required to contact the ASO and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If the ASO adjudicates that relief be provided, the student's grade for the test will be calculated based on the scheme outlined in the *Missed Tests* document available online.

## ***Private Equity Project***

The learning keystone of this course is an investment-focused valuation and financing project centred on actual businesses. Working in teams, students will research the valuation and financing of an early-stage, a growing, or a private business, including a family business.

### **Group Formation**

Students will form groups of their choice. **Each group will complete either a VC Project or an LBO Project**. Individual group members of a particular group may be marked based on their relative contribution to group work as judged by the group itself.

## **VC Project**

In the VC Project, you will approach an existing start-up or an existing small business and complete a valuation and financing plan for the company. Alternatively, you can approach an existing VC or investment firm and help the firm analyze a target company from a valuation and financing perspective.

The target company must have less than \$50 MM in total annual revenues for the most recent fiscal year. (The company may have no revenue at all.) The target company must be a private company. The company can be as small as a student-led startup with just a business plan.

Your task will be to analyze the target company from the perspective of a VC firm.

## **LBO Project**

You can choose a company listed on a major stock exchange in North America (NYSE, NASDAQ, AMEX, or TSX) and with a market capitalization of between \$100 MM and \$1,000 MM as of the project proposal date. Alternatively, you can approach an existing LBO or investment firm and help the firm analyze a target public company (within the above parameters) from an LBO perspective.

Your task will be to analyze the target company from the perspective of an LBO firm.

## **Project Proposal**

A one-page project proposal for your project type – containing your team member names and a brief project description – is ***due online by the 8<sup>th</sup> class of the term.***

## **Details of the Projects**

The details of the work to be completed are contained in a formal project document available on the course website. ***The project is due online by the end of the term.***

Any student missing the submission deadline will be subject to a marks deduction equal to 20% of the project grade for each day rounded **up** that the submission is late.

## ONLINE COURSE COMPONENTS

In this course we will be using Avenue to Learn (A2L). Students should be aware that when they access the electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure.

If you have any questions or concerns about such disclosure, please discuss it with the instructor.

## ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the *Academic Integrity Policy* at: [www.mcmaster.ca/academicintegrity](http://www.mcmaster.ca/academicintegrity)

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

## REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below:

<http://ug.degroot.mcmaster.ca/forms-and-resources/misled-course-work-policy/>

## STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be

arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail [sas@mcmaster.ca](mailto:sas@mcmaster.ca).

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

## **ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)**

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

## **ACKNOWLEDGEMENT OF COURSE POLICIES**

Your enrolment in this course will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.

Lack of awareness of the course policies cannot be invoked at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

## **POTENTIAL MODIFICATIONS TO THE COURSE**

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.



**COURSE SCHEDULE**

CL.	DATE	CONTENT	CASES
1	Mon. Sep 9	<b>Introduction</b> Read: <i>Ch. 1 – An Introduction to Private Equity (Courseware)</i>	-
2	Mon. Sep 16	<b>Valuation of Private Companies</b> Read: <i>Valuation of Private Companies (Avenue)</i>	-
3	Mon. Sep 23	<b>Due Diligence and Financial Instruments</b> Read: <i>Ch. 2 – Financial Instruments in Private Equity (Courseware)</i>	-
4	Mon. Sep 30	<b>Term Sheets</b> Read: <i>Ch. 3 – Venture Capital Term Sheets (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Questions 1 to 3 (Courseware)</i></li> </ul>
5	Mon. Oct 7	<b>Venture Investment Model</b> Read: <i>Ch. 4 – The Venture Investment Model (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Questions 4 to 5 (Courseware)</i></li> </ul>
-	Oct 14 to 18	<i>Midterm Recess – No Class</i>	
6	Mon. Oct 21	<i>VC Test – To Be Written in Class</i>  <i>(No Lecture or Case Discussion)</i>	
7	Mon. Oct 28	<b>Leveraged Buyouts: Debt Layers, Revolvers, and Capacity</b> Read: <i>Ch. 5 – An Introduction to Leveraged Buyouts (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Question 6 (Courseware)</i></li> </ul>
8	Mon. Nov 4	<b>Leveraged Buyouts: LBO Model, Cash Flow Waterfall, and Return Metrics</b> Read: <i>Ch. 6 – The Leveraged Buyout Model (Courseware)</i>	<ul style="list-style-type: none"> <li>• <i>Half &amp; Full: Questions 7 to 10 (Courseware)</i></li> <li>• <b>Project Proposals</b> – Due by 11.59 PM</li> </ul>
9	Mon. Nov 11	<b>Distressed Debt Investing</b> Read: <i>Introduction to Distressed Debt Investments (Avenue)</i>	<ul style="list-style-type: none"> <li>• <i>H Partners and Six Flags (Courseware)</i></li> </ul>

CL.	DATE	CONTENT	CASES
10	Mon. Nov 18	<b>Exit Strategies</b>	<ul style="list-style-type: none"> <li>• <i>Workbrain Corp – A Case in Exit Strategy (Courseware)</i></li> </ul>
11	Mon. Nov 25	<b><i>LBO Test</i></b> – To Be Written in Class <i>(No Lecture or Case Discussion)</i>	
12	Mon. Dec 2	<b>Review / Special Topics</b>  <i>Course evaluations to be conducted at the beginning of the class</i>	-
-	Thu. Dec 5	<b>Private Equity Project</b> – Due by 11.59 PM	

*Class schedule may be revised during the course of the term.*

<b>RESEARCH DATA</b>
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Any research data obtained by a student from publicly available sources for the purposes of completing term work (including data used in assignments, projects, and tests) are the joint property of the student, the instructor, and the university. All parties are free to use the research data subject to the original copyright of such data. Students hereby agree not to use in their term work any proprietary data or data subject to copyright protection without the prior written approvals of the instructor and the owner of any such copyright.