



**COMMERCE 4FV3
Venture Capital
Winter 2023 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

Fridays at 11.30 AM

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

COMMERCE 2FB3 (or 3FA3) or IBH 3AC3; and registration in any Bachelor of Commerce or Engineering and Management program or relevant minor

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 an investment-focused valuation and financing project centred on actual businesses. Working in teams, students will research the valuation and financing of a business by first proposing to take it private and then offer insights into improving it. 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 corporate project they may be pursuing elsewhere.

REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

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

OPTIONAL COURSE MATERIALS AND READINGS

Leach, Melicher; Entrepreneurial Finance, *Fifth (5th) 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

Two Term Tests	Variable weight (individual)	55%
Private Equity Assignment	Due online during the term (group)	15%
Private Equity Project	Due online at the end of the term (group)	30%
Total		100%

Term Tests

Two term tests – *open-book*, *open-notes* tests – will be written during the term. More details of the format, structure, and content coverage will be provided on the course website.

A student *missing a Term Test* is required to contact the ‘Student Experience – Academic Office’ and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If ‘Student Experience – Academic Office’ adjudicates that relief be provided, the student will be able to write an alternate test, in lieu of the missed test, during the final exam period at the end of the term.

While the combined weight of the two term tests is 55%, **the test in which the student’s percentage mark is higher will form 30% of the student’s final grade** with the other test forming the remaining 25%. This re-weighting is still applicable if an alternate test is written in lieu of a missed test.

Private Equity Assignment

The *Private Equity Assignment* will be completed and submitted online by students in groups. More details of the format, structure, and content coverage will be provided during the term.

Students will form groups for this component. Each student group will also complete the *Private Equity Project* as described further below. *The group members will be assigned individual grades relative to the group grade based on the peer assessments completed towards the end of the course.*

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.

Students will form groups for this component. Each student group will also complete the *Private Equity Assignment* as described further below. *The group members will be assigned individual grades relative to the group grade based on the peer assessments completed towards the end of the course.*

Each group will choose to complete **either a VC Project or an LBO Project.**

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 \$100 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, or TSX) and with a market capitalization of between \$500 MM and \$5,000 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.

More Details

More details will be available on the course website. *The project is due online by the end of the term.* See course schedule for the dates.

COURSES WITH AN ONLINE ELEMENT

In this course, we may use online elements (e.g. e-mail, A2L, web pages, etc.). Students should be aware that, when they access the electronic components of a course using these elements, 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 a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

ONLINE PROCTORING

In this course, we may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the *Code of Student Rights & Responsibilities* (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of A2L, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

EXTREME CIRCUMSTANCES

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

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

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.

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.

RESEARCH DATA

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.

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

Wk.	DATE	CONTENT	CASES
1	<i>Virtual</i>	Introduction <i>Ch. 1 – An Introduction to Private Equity</i>	-
2	Fri, Jan 20	Valuation of Private Companies <i>Valuation of Private Companies</i>	-
3	Fri, Jan 27	Due Diligence and Financial Instruments <i>Ch. 2 – Financial Instruments in Private Equity</i>	-
4	Fri, Feb 3	Term Sheets <i>Ch. 3 – Venture Capital Term Sheets</i>	Half & Full: <i>Questions 1 to 3</i>
5	Fri, Feb 10	Venture Investment Model <i>Ch. 4 – The Venture Investment Model</i>	Half & Full: <i>Questions 4 to 5</i>
6	Fri, Feb 17	Term Test 1 (Written in Class Hours)	
-	Feb 20 to 26	Midterm Recess (No Classes)	
7	Fri, Mar 3	Leveraged Buyouts: Debt Layers, Revolvers, and Capacity <i>Ch. 5 – An Introduction to Leveraged Buyouts</i>	-
8	Fri, Mar 10	Leveraged Buyouts: LBO Model, Cash Flow Waterfall, and Return Metrics <i>Ch. 6 – The Leveraged Buyout Model</i>	-
9	Fri, Mar 17	Distressed Debt Investing <i>Introduction to Distressed Debt Investments</i>	H Partners and Six Flags
10	Fri, Mar 24	Term Test 2 (Written in Class Hours)	
11	Fri, Mar 31	Exit Strategies	Workbrain Corp – A Case in Exit Strategy
-	Mon, Apr 3	<i>Private Equity Assignment</i> due online by 10.00 AM	
12	<i>Virtual</i>	Healthcare Ventures	(TBA*)
-	Wed. Apr 12	Private Equity Project – Final Report Due Online by 11.59 PM	

* To be announced during the term