

FINS3623

Venture Capital

Course Outline

Semester 2, 2017

Course-Specific Information

The Business School expects that you are familiar with the contents of this course outline. You must also be familiar with the School's Course Outlines Policies webpage which contains key information on:

- Program Learning Goals and Outcomes
- Academic Integrity and Plagiarism
- Student Responsibilities and Conduct
- Special Consideration
- Student Support and Resources

This webpage can be found on the Business School website:

<https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>

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COURSE-SPECIFIC INFORMATION

1 STAFF CONTACT DETAILS

Position	Name	Email	Room	Phone
Lecturer-in-charge	A/Prof Jason Zein	j.zein@unsw.edu.au	BUS 310	x55875
Lecturer	A/Prof Peter Pham	peter.pham@unsw.edu.au	BUS 307	x55889
Tutor-in-charge	Mr. Jimmy Tran	jimmy.tran@unsw.edu.au	TBA	TBA

A full list of tutors will be posted on Course Website.

2 COURSE DETAILS

2.1 Teaching Times and Locations

Lectures start in Week 1 and go to Week 12. The course consists of one 2-hour lecture and a 1-hour discussion session (tutorial). Students should ensure that they are properly enrolled in a tutorial as participation and attendance is assessable. The lecture time and venue are:

Thursday 4-6 pm, Law Theatre G04

Online Lectures: Both the audio and video of every lecture in this course will be made available immediately after the lecture through EchoCentre. Recordings can be accessed through the EchoCentre item on Moodle.

Tutorials start in Week 2 (to Week 13). A full list of tutorials, times and tutors will be on the Course Website.

2.2 Units of Credit

The course is worth 6 units of credit. There is no parallel teaching in this course.

2.3 Summary of Course

This course examines venture capital and private equity investments. In particular, it focuses on issues surrounding the funding of entrepreneurial firms that are financed by venture capital or private equity funds. The course departs from conventional investment approaches that examine risk and return of publicly listed securities, which have previously been covered by your earlier finance courses and analyses issues associated with financing growing, innovation intensive private businesses.

2.4 Course Aims and Relationship to Other Courses

This course covers the theory and practice of venture capital financing of entrepreneurial firms. Topics to be discussed include, but are not limited to, the following areas:

1. The venture capital industry in Australia (and other countries), and other sources of funds for financing new ventures (including angel investors, banks and other institutions).
2. Venture fundraising and characteristics of venture capital firms. In particular Limited partnerships structures and corporate venture capital
3. Characteristics of entrepreneurial ventures at different stages of development including: (a) Seed, Start-up, (b) Expansion, Mezzanine,(c) Buyout, Turnaround,
4. The structure of financial contracts: This includes staging and syndication of deals, forms of finance (debt, convertible debt, preferred equity, convertible preferred equity, common equity, warrants, and combinations of these instruments), board representation, restrictive covenants and confidentiality agreements, and legal and institutional barriers to efficient venture capital financial contracting,
5. Exiting an investment through (a) Initial Public Offerings (IPOs),(b) Mergers / Strategic Acquisitions,(c) Secondary Sales, Buybacks, Write-offs,(d) Partial exits
6. Various entrepreneurial firm valuation techniques including (a) Traditional valuation methods, (b) Valuation of private firms
6. Buyouts and Going-Private Transactions including (a) Buyout industry in Australia, (b) Special features of buyouts transactions (c) Valuation of buyout deals.
7. Venture Capital and Private Equity Investments in an International Context

2.5 Student Learning Outcomes

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all undergraduate students in the Business School. Program Learning Goals are what we want you to BE or HAVE by the time you successfully complete your degree (e.g. 'be an effective team player'). You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree (e.g. 'participate collaboratively and responsibly in teams').

For more information on Program Learning Goals and Outcomes, see the School's Course Outlines Policies webpage available at:

<https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed (they may also be developed in tutorials and other activities):

Program Learning Goals and Outcomes		Course Learning Outcomes	Course Assessment Item
<i>This course helps you to achieve the following learning goals for all Business School undergraduate students:</i>		<i>On successful completion of the course, you should be able to:</i>	<i>This learning outcome will be assessed in the following items:</i>
1	Knowledge	<ul style="list-style-type: none"> Understand the role that venture capital plays in financing innovation. Understand why the need for venture capital arises. Explain how the structure of entrepreneurial financing arrangements alleviates some of the difficulties in funding new firms. 	<ul style="list-style-type: none"> Investment Report Case Reports Exams
2	Critical thinking and problem solving	<ul style="list-style-type: none"> Use your knowledge of contracting problems to predict likely conflicts of interest that arise in a venture capital setting and suggest methods and instruments that can be used to overcome them. Evaluate the business strategy of various entrepreneurial ventures and provide suggestions as to how they can raise financing for expansion. 	<ul style="list-style-type: none"> Case Reports Investment Report Exams
3a	Written communication	<ul style="list-style-type: none"> Construct written work which is presented in a logical, profession and convincing manner, with the aim of persuading a venture capitalist to provide funding. 	<ul style="list-style-type: none"> Investment Report
3b	Oral communication	<ul style="list-style-type: none"> Communicate ideas in a succinct and clear manner. 	<ul style="list-style-type: none"> In-Class Case Presentations Part of tutorial participation mark
4	Teamwork	<ul style="list-style-type: none"> Work collaboratively to complete a group's investment report. Evaluate each other's role and contribution in a team exercise. 	<ul style="list-style-type: none"> Investment Report

3 LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

Lectures are conducted in 2-hour blocks, reinforced by a 1-hour tutorial per week. The 2-hour lectures are intended to impart the necessary information for students to gain an adequate understanding of various theories, facts and phenomena related to venture capital and private equity. The tutorials will focus on the practical application of what is taught in the lectures by working through cases with accompanying discussion and questions.

Students are required to do the required readings before attending the lecture as well as reading the prescribed case prior to attending the tutorials. **The tutorial program can**

be downloaded from Moodle. The questions that accompany the cases will be released one week before the tutorial. Outside the lecture, we encourage students to form study groups to engage in interactive discussion. For each case study, students should enrich their background understanding by performing a group-based or an individual-based research. When possible, group discussion will be brought to class.

Consultation hours: students are encouraged to fully utilise the available consultation hours to best prepare the cases, assignment reports and to review for the quiz and exam. Both the lecturer and the tutor(s) will be available for these consultation sessions. For the assignment, the tutors will provide extra assistance in terms of clarifying the issues and methodologies related to the investment evaluation report.

3.2 Learning Activities and Teaching Strategies

As an elective course at the end of your degree program, independent learning from students is expected. The course will draw on concepts, issues and practical information from various readings and cases. Students are therefore required to read and understand these materials and their relevance. Students are also expected to extend and apply their knowledge acquired in the lecture to current issues discussed in the financial press.

A large part of the course and its assessment components requires students to critically analyse and apply lecture materials to real-life cases. This reflects the skills required to work in today's financial services environment. Part of the course will allow the students to practice their analytical and problem-solving skills, and then receive appropriate feedback. It is essential that students utilise this time to actively participate in the discussion of the prescribed materials and raise questions with the tutor regarding areas where further clarifications and discussion are necessary.

4 ASSESSMENT

4.1 Formal Requirements

In order to pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all assessment tasks (see below).

4.2 Assessment Details

Assessment Task	Weighting	Due Date
Individual Assessments		
Homework Case Preparation	2.5%	TBA (but before Week 5)
Tutorial Attendance and Participation	5%	On-going
Mid-Session Class Quiz	20%	4 th September (Week 7)
Final Examination	30%	University Exam Period

Group Assessments		
In-Class Case	2.5%	TBA with 1 week's notice
Assignment: Investment Evaluation Report	30%	Friday 6 th October 5pm
Simulation Activity	10%	Monday 23 th October 5pm

Case Preparations (Individual and Group) and Tutorial Participation

Questions based on a case study will be posted on Moodle. At each class, the key facts of a case will be discussed first, followed by an in depth analysis of the cases which will be guided by the focus questions available through Moodle. You are strongly encouraged to participate in the case discussion and interaction with the tutor and other students. In addition, you will be required to submit one written case report at the beginning of the corresponding discussion session upon the request of the tutor. There will also be a group case assessment where students will work in a group during the discussion portion of the lecture to provide an analysis of the case which is to be handed in at the end of the lecture.

Students may volunteer to take up presenting the key facts of the case to class, during the week the case is discussed. This presentation should not be longer than 10 minutes in total. **Doing so enables students to attain a higher tutorial participation mark (1 automatic mark) than otherwise.** Cases may be presented by a maximum of two students. Case preparation should **not** answer the prescribed questions but rather identify the key facts in each case, linking them to the theories, and explaining why they are key facts, as well as sharing any other insights you may have about the case.

Assignment: Investment Evaluation Report & Simulation Activity

The 30% Investment Evaluation Report and the 10% Simulation Activity are group assessments. Students will be required to form groups early on in the session. Details of the assignment and expectations as to the groups' functioning will be discussed in the class.

For each group assignment, students will be required to complete a 'cover sheet' indicating the level of contribution of each student to the assignment, including the number of meetings attended and percentage contribution in three areas: research, synthesis and writing. This cover sheet will be available on Moodle.

There may be instances where individual students, through prolonged sickness or misadventure, were unable to make an appropriate contribution. If this becomes an issue, such students may be given the option to complete an individual assignment on a new topic to be nominated. Otherwise 'individual' assignments are discouraged. Each group should be made up of no more than 4 students.

It is encouraged that students raise issues and conflicts related to group work (e.g. lack of contribution from a group member) early to the lecturers so that we can intervene quickly and make group work fair and enjoyable. Students should keep copies of all of their individual contributions (e.g., spreadsheet calculation, draft writing), which could be marked separately if there are serious group conflicts.

All assignment reports should follow a formal style of presentation and must include an executive summary, introduction, main body, conclusion, appendices (where their main

supporting articles are attached) and list of references. A consistent style of referencing should be used. Marks will be deducted for inadequate presentation.

Quality Assurance

The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential.

5 COURSE RESOURCES

Cases:

The cases will be made available online through Moodle. It is your responsibility to either print them out or have them available in class in soft copy.

Prescribed Readings: Lecture Handouts and Moodle Articles

All handouts in the lecture and articles posted on Moodle are considered required readings and will be examinable. These materials provide the core theories of the course. Copies of these will be distributed in Moodle one week before the relevant lectures (see the course schedule).

Recommended Readings

In addition, there are two supplementary texts:

1. Josh Lerner, Ann Leamon and Felda Hardyman, **Venture Capital, Private Equity and the Financing of Entrepreneurship**, Wiley Publishing.
2. Andrew Metrick and Ayako Yasuda, **Venture Capital and the Finance of Innovation**, 2nd Edition, John Wiley and Sons, Inc., 2010

The purchase of these texts is not compulsory. However, this text contains useful materials which can be used for assignment and exam preparation purposes. The library should have several copies of these books.

6 COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process is one of the ways in which student evaluative feedback is gathered. In this course, we will seek your feedback through end of semester CATEI evaluations. You are also encouraged to provide constructive feedback to the lecturer directly in class, during consultation times or via email. We greatly value these suggestions, and even criticisms. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

7 COURSE SCHEDULE

COURSE SCHEDULE			
Week	Topic	Required Readings	Lecturer
Week 1 24 July	Introduction to the Course and Overview of Private Equity Investments	1) How Venture Capital Works, <i>Harvard Business Review</i> , Nov/Dec98, Vol. 76 Issue 6, pp 131-140. 2) A Note of Funding Digital Innovation Startups	A/Prof Zein
Week 2 31 July	Venture Capital Fund Raising and Fund Structure I	1) Gompers, P. and Lerner, J., What drives venture capital fundraising? <i>Brookings Papers on Economic Activity – Microeconomics</i> (August 1998): 149-92. 2) Raising Startup Capital A Note on Private Equity Fundraising	A/Prof Zein
Week 3 7 August	Venture Capital Fund Raising and Fund Structure II	1) Gompers, P. and Lerner, J., The use of covenants: An analysis of venture partnership agreements, <i>Journal of Law and Economics</i> 39, 1998, until the end of Section IV. 2) A Note on Private Equity Partnership Agreements	A/Prof Zein
Week 4 14 August	Venture Capital Investing I – Investment Selection Process	Gompers, P, Optimal investment, monitoring and the staging of venture capital, <i>Journal of Finance</i> , 50, 1995, sections I and V only.	A/Prof Zein
Week 5 21 August	Venture Capital Investing II - Methods & Instruments	1) Lerner, J. The syndication of venture capital investments, <i>Financial Management</i> 23, 1994, until the end of Section I 2) A Note on Private Equity Securities	A/Prof Zein
Week 6 28 August	Venture Valuation I - Qualitative Analysis and Multiple-based valuation	1) Best Practices: Decision Making among Venture Cap 2) A Note on Valuation in Private Equity Settings 3) Kaplan, S. and Stromberg, P., Characteristics, contract and actions: Evidence from venture capitalist analyses, <i>Journal of Finance</i> , 59, 2177-2210	A/Prof Pham
Week 7 4 September	Mid session exam – in class		

Week 8 11 September	Venture Valuation II - Quantitative Techniques and Pricing	Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges, Aswath Damodaran	A/Prof Pham
Week 9 18 September	Overview of Private Equity Exit Strategies	1) Paul Gompers and Josh Lerner, The Venture Capital Cycle, Chapter 14. 2) Gladstone and Gladstone, Venture Capital Investing: the complete handbook for investing in private businesses for outstanding profits, Chapter 11.	A/Prof Pham
Mid-semester break: 23 September – 2 October inclusive (2 Oct = Labour Day Public Holiday)			
Week 10 3 Oct	Venture Exiting Through Initial Public Offerings	1) Roger G. Ibbotson, Jody L. Sindelar, and Jay Ritter. "Initial Public Offerings" <i>Journal of Applied Corporate Finance</i> , summer 1998. 2) A Note on the Initial Public Offering Process	A/Prof Pham
Week 11 9 October	Leveraged Buyouts	Leveraged Buyouts: Inception, Evolution, and Future Trends, Perspectives, Vol. 3, No. 6	A/Prof Pham
Week 12 16 October	International Aspects of Venture Financing	1) A Note on European Private Equity 2) A Note on Private Equity in Developing Countries 3) Lihui Tian and William Megginson, "Regulatory Underpricing: Determinants of Chinese extreme IPO returns", 2007.	A/Prof Pham
Week 13 29 May		NO LECTURES	

Tutorial Schedule

Tutorials start in Week 2 and finish in Week 13.

Week	Case
1	No Tutorial
2	Dermacare: Zapping Zits Directly
3	Grove Street Advisors
4	Avid Radiopharmaceuticals and Lighthouse Capital Partners
5	Adams Capital Management: Fund IV
6	Metapath Software
7	No Case
8	Webtracker
9	BTF Pty Ltd.: An Australian VC Transaction
10	Outreach Networks: the first venture round
11	Apax Partners and Xerium
12	Blackstone Celanese Simulation (details available on Moodle)
13	Blackstone Celanese Simulation (details available on Moodle)