Course Syllabus

MBA 705-001 Venture Capital and Private Equity Finance Fall, 2011

Class Location and Meeting Time:
University Hall Room 1204, Fairfax Campus
Monday, 7:20 to 10:00 pm

Instructor: Robert Johnston
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E-mail: johnston@gmu.edu (office)
FAX: (703) 993-1870 (office)
Office hours: Monday & Tuesday 6:00 to 7:00 pm. and by appointment

Course Website:
At the suggestion of my students from prior semesters, the case supporting items and the as well as selected VC and PE equity valuation/return models are organized by class dates. Individual cases assignments are posted on this site as well as some additional resources that may be helpful.

Course Prerequisites: Admission to the MBA program and completion of MBA 643.

Course Materials:
Cases:
Harvard Business School Publishing cases as noted in the course schedule and topics. These are available directly from HBS Publishing. The link below is to the HBS Publishing web site for the cases and related items I have selected for this course.
http://cb.hbsp.harvard.edu/cb/access/9759147

Simulation Model:
We are going to use a financial simulation of the private equity deal by Blackstone to acquire Celanese in 2003 as part of this course. This is available via the above link for the cases.

Background Supporting Notes/Explanations:
I have selected the three following notes/explanation guides to provide some background and perspective for the course.
- A Note on Valuation in Venture Capital Deals, Thomas Hellman, Graduate School of Business, Stanford University, 2006.
These are also available via the above link for the cases.

Course Objectives:
1. To provide MBA students an introduction to venture capital and private equity finance.
2. To help MBA students develop an understanding of the competing needs of various parties involved in venture capital and private finance transactions.
3. To provide an opportunity to apply financial valuation models to venture capital and private equity finance cases.
**Course Organization and Approach:**
A venture capital/private equity finance course might be approached from a finance perspective or from a management one. Both are certainly viable. As my area of expertise is finance, we will be using a finance emphasis for this course. I have organized it as a case course.

**Course Schedule and Topics:**

<table>
<thead>
<tr>
<th>Scheduled Date</th>
<th>Class Meeting</th>
<th>Specific Topic Coverage</th>
<th>Discussion Cases and Topic Area</th>
</tr>
</thead>
</table>
| Monday 29 August     | #1            | a. Course Introduction  
b. Capitalization Tables  
c. VC Valuation Basics                                                                 | Rationale for Private Investment  
- Yale University Investment Office: August 2006                                                                 |
| Monday 12 September  | #2            | a. Venture Capital Return Model  
b. Introduction to Crystal Ball and the Venture Capital Returns  
c. Illustration of Alternative Distributions to Partners                              | Preparation for a VC Funding Presentation  
- Zipcar: Refining the Business Model                                                                 |
| Monday 19 September  | #3            | a. New Firm VC Valuation Illustration Model  
b. Venture Capital Return Model with a Debt Component                               | Models of Venture Capital Firms  
- Emergence, Valhalla, and Orchard: Divergent Models for Venture Capital Funds  
- Eli Lilly Corporate Venture Capital  
- Microsoft’s IP Ventures                                                                                           |
| Monday 26 September  | #4            | a. Zero Coupon and Debt Discount Debt Possibilities  
b. Valuation of a Loan with Warrants                                                  | Venture Capital Term Sheet Valuation  
- Spiffy Term, Inc                                                                                                 |
| Monday 3 October     | #5            | a. Subscriber Valuation Model                                                          | Venture Capital Debt Investment  
- John M. Case Company  
- Western Technology Investment                                                                                   |
| Tuesday 11 October   | #6            | a. Cash Flow to Equity Valuation                                                       | Venture Capital: Subscriber Model Valuation  
- NetFlix.com, Inc.  
- Growing Up in China: The Financing of Baby Care Ltd.                                                               |
| Monday 17 October    | #7            |                                                                                         | Owner/Founder Exit with Venture Capital  
- Spyder Active Sports—2004  
- Davis Boatworks                                                                                                     |
| Monday 24 October    | #8            | a. Seller’s Call Option Valuation                                                      | Private Equity: Valuation and Investment Choice  
- Tad O’Malley: The Investment Conundrum                                                                                     |
| Monday 31 October    | #9            |                                                                                         | Private Equity: “Roll Up” Deal  
- Project “Dial Tone”                                                                                                  |
| Monday 7 November    | #10           | a. Adjusted PV                                                                            | Private Equity: Mezzanine Finance Deals  
- BCI Growth III, May 1993                                                                                           |
| Monday 14 November   | #11           |                                                                                         | Private Equity: Due Diligence for an Investment  
- Summit Partners—The Fleetcor Investment (A)  
- Summit Partners—The Fleetcor Investment (B)  
- Summit Partners—The Fleetcor Investment (C)                                                                            |
| Monday 21 November   | #12           | Blackstone-Celanese Simulation Introduction                                              | Private Equity: Firm Valuation & Bidding Strategy  
- Pacific Salmon Company  
- Berkshire Partners: Bidding for Carters                                                                                  |
|                      |               |                                                                                         | Private Equity: Management of an Investment  
- ABNY Partners, LLC: Wide Open West                                                                                     |
|                      |               |                                                                                         | Private Equity: LBO Deal                                                                                     |
The Use of Cases in this Course and Grades

**Review and Preparation for a Case Discussion**
You will need to have carefully reviewed each case prior to class. For each case, I have posted on the course website a set of suggested questions you should consider as you review the case. For some cases I had also included some key assumptions that you may find useful in organizing your review and analysis of the case. I have also posted an outline of how I plan to lead the discussion of the case. Both of these are intended as a guide to help you prepare and know how I will approach leading our discussion. For some cases I have posted an Excel template that may be helpful in structuring your analysis. My experience with discussion cases is that you will only learn from these if you do take the time to prepare in advance. For most cases, it is helpful as you review a case to try and gain an understanding of the nature of the business or industry that a firm is in. Most finance cases do focus upon one or more valuation elements. However, we will do several general cases in this course that do not require much in the way of quantitative analysis.

**Case Assignments**
You will each be given an assignment to prepare the analysis (see case analysis reports section below) for four cases. Each of these four case assignments will represent 20% of your final grade in the course. The remaining 20% will be for participation in the discussion of the cases as well as the Blackstone—Celanese simulation we will be doing. Just attending and listening is not sufficient. I do record a class participation mark for all students following each class. In addition to the students assigned the responsibility for a case, I do expect everyone will have carefully reviewed the case in advance of class and contribute to the class discussion.

**Submission of Case Reports**
Case analysis reports must be turned in no later than the class session when the case is presented and discussed in class. It is unfair to the other students in the class assigned a case to submit an assigned case report following the class discussion and presentation. There will be zero credit for late case analysis reports.

I will post on the course website a listing of assigned cases by individual student.

**Grading Norms and Weights**
I review all the case reports on a given case prior to assigning case grades. Grading is relative with the “best” case report receiving the highest mark and the poorest report the lowest mark. I do use + and – grades in addition to letter grades.

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
</tr>
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<tbody>
<tr>
<td>First Case Assignment Report</td>
<td>20%</td>
</tr>
<tr>
<td>Second Case Assignment Report</td>
<td>20%</td>
</tr>
<tr>
<td>Third Case Assignment Report</td>
<td>20%</td>
</tr>
<tr>
<td>Fourth Case Assignment Report</td>
<td>20%</td>
</tr>
<tr>
<td>Case Class Discussion and Simulation Participation</td>
<td>20.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
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I have taught this course at George Mason twice in the past. The class overall GPA’s were 3.51 and 3.77.
Class Case Presentation
The analysis of these cases is much more effective if someone has carefully worked through the analysis and is prepared to lead everyone through this part of the case. I will designate one or more students to present their analysis of the case to the class. You should be prepared to take the class through your analysis. You may wish to present some of your analysis in Excel and/or Power Point if you feel this will help the rest of the class better understand how you have approached the problem. You must not miss the class session when you are assigned the responsibility to present your analysis to the class. If you should miss this session, you will receive zero credit for the case assignment.

Case Analysis Reports
All of these case analyses reports should be concise and similar in style and content to a report intended for a firm's senior management. The case analyses must be computer printed. I will grade these reports and return them to you. A suggested outline for a case analysis report follows:

1) Executive Summary (including your recommendation)
2) A Statement of the Problem(s) you see the firm or decision maker facing
3) Methodology or Techniques (those that you believe are best for this problem and that you recommend employing)
4) Data Requirement or Sources (those necessary to employ your recommended technique)
5) Key Assumptions (those you had to make to conduct your analysis)
6) Analysis
7) Conclusions and Concerns

As the case analysis reports are to be prepared as business reports, there is not a formal limit on the length of the reports. As a business report, they do need to be effectively prepared and certainly the length will vary with the complexity of the case.

These case analysis reports should be prepared on your own. You should not include the analysis of someone else in your case report.

Consultation Regarding a Case
You may discuss a case and your thoughts regarding how you might organize your analysis with other students in the class. However, you should not collaborate and/or share your work with other students or anyone else. The work you submit should be your own. Using someone else’s work in the analysis and preparation of your case report is not acceptable.

I am available to consult with you regarding your analysis of a specific case. This consultation is more effective if you have begun the analysis and I am able to see how you are approaching the problem. Some students prefer to come in with their analysis. Others email me their Excel file and after I have taken a look we discuss their analysis by telephone or email. If you email me regarding a case, I will do my best to respond within 24 hours except on weekends. During a weekend it may be 48 hours before I am able to get back to you. I will be unable to assist you with a case during the 24 hour period prior to it being due. Please be sure to include in your email the title of the case you are working on.

Other Matters
Attendance:
Class participation is an important part of the learning process and with a case based course it is vital. It is important that you attend class for two basic reasons. First, in the week or two leading up to a case assignment, we will be discussing and reviewing the issues, approaches, and methodologies that may be applicable to the case. Second, with a case approach, all students are expected to contribute to the discussion of the case issues. Unless you are in class you can not contribute.

Software requirements:
You will need a recent, licensed version of Excel (2007 or 2010) for this course. If you are using a Mac, please make sure your version of Excel if fully supported. For most class sessions at least some of the presentation materials will be in Excel. Further, the detailed quantitative exhibits within the cases have been saved as Excel files and posted to the course website. You may download these directly. You will not need to enter these data. Some of the case assignments will be extraordinary time consuming if not impossible without Excel.

Crystal Ball Software Download:
Crystal Ball is a Monte Carlo simulation software package that works with Excel. Once you have constructed your Excel analysis of a finance problem, Crystal Ball allows you to quickly simulate the analysis in order to develop a distribution of
possible outcomes. Crystal Ball is an Oracle product. As some of the cases for this course involve simulation, the School of Management has acquired licenses for the students enrolled in this course to be able to download and install this software on their personal laptops (or desktops). If you did not download this in a prior course, please email me and I will provide you the link to download it.

Additional resources:
Bring your laptop to class. We will be working through the several valuation and return models during some of our class sessions. Being able to see the logic and links of an Excel models on your laptop does help in resolving a number of questions.

Honor Code:
I expect you to follow the University’s honor code as presented in the University’s publications. I consider it to be inappropriate and a violation of the University's honor code, to (i) use someone else’s work, including spreadsheet models, and submit them as your own or (ii) to use a purchased case solution.

22 August 2011