

THE UNIVERSITY OF
NEW SOUTH WALES



Australian School of Business
School of Banking and Finance

FINS3623
VENTURE CAPITAL

COURSE OUTLINE
SESSION 2, 2007

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1. COURSE STAFF

1.1 Communication with Staff

Dr. Peter Pham (Weeks 1 – 7)

Location: QUAD 3040 (HEFFORN 311 after August 12th)

Contact no.: (02) 9385 5952

Email: p.pham@unsw.edu.au

Consultation: 11 – 12 AM Tues

Dr. Jason Zein

Location: QUAD 3039 (HEFFRON 310 after August 12th)

Contact no.: (02) 9385 5857

Email: j.zein@unsw.edu.au

Consultation: TBA

Tutors: Joseph Kuk (z3162640@student.unsw.edu.au)

Adrian Mak (z3099451@student.unsw.edu.au)

1.2 Communication with Staff

- All enquiries should be directed to course coordinator, Jason Zein.
- Announcements will be made periodically on WebCT Vista at <http://vista.elearning.unsw.edu.au>

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and Locations

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 class time and location are:

Tuesday 9-11 am, ChemSc L1

2.2 Units of Credit

This course has 6 units of credit and 3 contact hours per week.

2.3 Relationship of this course to other course offerings

As the name suggests, this course examines entrepreneurial investments, otherwise known as venture capital or private equity financing. The course departs from conventional investment approaches to examining risk and return, and analyses issues associated with long term financing of growing private business.

2.4 Approach to learning and teaching

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 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 feedbacks. It is essential that students utilise this time to actively participate in the discussion of the prescribed materials and raise questions to the tutor regarding areas where further reviews are necessary.

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

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:
 - (a) Limited partnerships
 - (b) Corporate venture capital
3. Characteristics of entrepreneurial ventures at different stages of development:
 - (a) Seed, Start-up,
 - (b) Expansion, Mezzanine,
 - (c) Buyout, Turnaround,
 - (d) Privately owned firms,
 - (e) Newly listed firms
4. The structure of financial contracts:
 - (a) Staging, Syndication,
 - (b) Forms of finance (debt, convertible debt, preferred equity, convertible preferred equity, common equity, warrants, and combinations of these instruments),
 - (c) Board representation,
 - (d) Restrictive covenants and confidentiality agreements,
 - (e) Legal and institutional barriers to efficient venture capital financial contracting,
5. Exiting investments:
 - (a) Initial Public Offerings (IPOs),
 - (b) Mergers / Strategic Acquisitions,
 - (c) Secondary Sales, Buybacks, Write-offs,
 - (d) Partial exits,

- (e) Legal and institutional barriers to efficient exit strategies,
 - (f) Privately-Owned Businesses.
6. Entrepreneurial firm valuation.
- (a) Traditional valuation course methods,
 - (b) Valuation of private equity firms,
 - (c) Augmented firm valuation methods based on the material covered in #1-5 above.
6. Buyouts and Going-Private Transactions
- (a) Buyout industry in Australia,
 - (b) Special features of buyouts transactions,
 - (c) Do buyouts add value?
7. Venture Capital and Private Equity Investments in an International Context

3.2 Student Learning Outcomes

At the end of the course student are expected to be able to:

1. Understand the Venture Capital Cycle
2. Identify the main factors that influence the fundraising of venture capital funds and partnerships.
3. Identify the issues relating to how to make venture capital investments
4. Understand the main issues associated with monitoring investments
5. The methods to exit a venture capital investment.
6. Identify the key factors that contribute to the success of an entrepreneurial venture
7. Analyse and critique the management, personnel, marketing and sales plan, production plan and overall performance of an entrepreneurial venture.

3.3 Teaching Strategies

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 the lecture materials. The tutorials will focus on 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 WebCT.** 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. Students are also encouraged to use online discussion forum on WebCT (<http://vista.elearning.unsw.edu.au>) as a venue to engage in discussion.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Workload

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Attendance

Your regular and punctual attendance at lectures and seminars is expected in this course. **University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.**

4.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.4 Keeping informed

You should take note of all announcements made in lectures, tutorials or on the course WebCT site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

5. LEARNING ASSESSMENT

5.1 Assessment Details

Individual Assessment Component

Case Preparation (2 Cases, 5%) and Discussion (Weeks 2 – 11, 10%)	15%
Mid-Session Class Quiz (Week 7)	20%
Final Quiz (Week 14)	20%

Group Assessment Component

Assignment: Investment Evaluation Report (End of Week 11)	35%
Presentation: Investment Evaluation Summary (Weeks 12-13 tutes)	10%

Details on each of the assessment components will be discussed in class.

5.2 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 next page).

- **Unsatisfactory Failure Condition:** you must **pass the individual assessment component** (i.e., an aggregate mark of 27.5 or above for the tutorial assessment, mid-session quiz and final quiz) in order to pass the course, regardless of their performance in the group assessment component. Otherwise, you may get an Unsatisfactory Fail grade. As this course has a substantial the group assessment component, this condition ensures that each student must show sufficient individual effort to warrant a Pass grade.

5.3 Assignment Format and Group Arrangement

The 35% Investment Evaluation Report and the 10% Investment Evaluation Summary Presentation are group assessments. Students will be required to form groups early on in the session within their tutorials. Details of the assignment and our 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 WebCT.

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.

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.

5.5 Special Consideration and Supplementary examinations

Information and policy about special consideration and supplementary examinations follows a standard policy of the School of Banking and Finance, which is available on the School website (<http://banking.web.unsw.edu.au/>)

Further, UNSW policy and process for Special Consideration also applies (see <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>). Specifically:

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the assessment to which it refers) – applications will **not** be accepted by teaching staff;
- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;

- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge;
- Please note: a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.

6. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html>

Plagiarism is the presentation of the thoughts or work of another as one's own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person's assignment without appropriate acknowledgement;
- paraphrasing another person's work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does *not* amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle

† Adapted with kind permission from the University of Melbourne.

7. STUDENT RESOURCES

7.1 Course Resources

Prescribed Text and Cases:

Josh Lerner, Felda Hardymon, and Ann Leamon, **Venture Capital and Private Equity: A Casebook**, Third Edition.

The text contains some of the theory covered in the course although it is primarily a casebook which will be used in your tutorials to apply some of the theory into practise.

Prescribed Readings: Lecture Handouts and WebCT Articles

All handouts in the lecture and articles posted on WebCT are considered required readings and will be examinable. These materials provide the core theories of the course not covered in Lerner, Hardymon and Felda. Copies of these will be distributed in **WebCT** (or in class) one week before the relevant lectures (see the course schedule).

Recommended Readings

In addition, there are two supplementary texts:

2. Paul Gompers and Josh Lerner, **The Venture Capital Cycle**, 2nd Edition
3. David Gladstone and Laura Gladstone, **Venture Capital Investing: the complete handbook for investing in private businesses for outstanding profits**, 1st edition, 2004, Prentice Hall.

The purchase of these texts is not compulsory. However, this text contains useful materials which can be used for assignment preparation purposes. The library has several copies of the book. Some of the chapters in this text are also **prescribed readings**.

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- **Learning and study support**
 - FCE Education Development Unit (<http://education.fce.unsw.edu.au>)
 - UNSW Learning Centre (<http://www.lc.unsw.edu.au>)
 - EdTec – WebCT information (<http://www.edtec.unsw.edu.au>)
- **Counselling support** - <http://www.counselling.unsw.edu.au>
- **Library training and support services** - <http://info.library.unsw.edu.au>

- **Disability Support Services** – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (<http://www.equity.unsw.edu.au/disabil.html>). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- **Examination procedures** and advice concerning illness or misadventure <https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html>
- **Occupational Health and Safety** policies and student responsibilities; <http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf>

8. CONTINUAL COURSE IMPROVEMENT

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 (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

You are also encouraged to provide constructive feedbacks to the lecturers and tutors directly in class, during consultation times or via email. We greatly value these suggestions, and even criticisms.

9. COURSE SCHEDULE

Week	Date	Lecture Topic	Readings
1	24 July	Introduction to the Course and Overview of Private Equity Investment	LHL Ch. 1. + See Prescribed Readings
2	31 July	Venture Capital Fund Raising and Fund Structure I	LHL Ch 7. + See Prescribed Readings
3	7 August	Venture Capital Fund Raising and Fund Structure II	LHL Ch 5. + Prescribed Readings
4	14 August	Venture Capital Investing I – Investment Selection Process	LHL pp. 137 -141 + See Prescribed Readings
5	21 August	Venture Capital Investing II - Methods & Instruments	LHL. Ch 17. + See Prescribed Readings
6	28 August	Venture Valuation I – Qualitative Analysis and Peer Firm Selection Methods	See Prescribed Readings
7	4 Sept	MID-SESSION CLASS QUIZ IN THE LECTURE Case Discussion in Tutorial	
8	11 Sept	Venture Valuation II – Quantitative Techniques and Pricing	LHL. Ch. 12, 24 + See Prescribed Readings
9	18 Sept	Venture Exiting I – Overview of Private Equity Exit Strategies	LHL. Ch. 24 + See Prescribed Readings
MID-SESSION BREAK (24 – 28 September)			
10	2 Oct	Venture Exiting II – Initial Public Offerings	LHL. Ch. 23 + See Prescribed Readings
11	9 Oct	Going Private Transactions and Leverage Buyouts	See Prescribed Readings
12	16 Oct	Going Private Transactions and Leverage Buyouts (Cont)	See Prescribed Readings
13	23 Oct	International Aspects of Venture Financing	LHL. Ch 13, 20
14	30 Oct	FINAL QUIZ (no lecture)	

LHL = Lerner, Hardymon, and Leamon – Case Book

9.1 Prescribed reading list

All prescribed readings will be distributed in class or made available on WebCT the week before the lecture. These reading are required as preparatory readings before each lecture.

Week	Article(s)
1	How Venture Capital Works, <i>Harvard Business Review</i> , Nov/Dec98, Vol. 76 Issue 6, pp 131-140.
2	Gompers, P. and Lerner, J., What drives venture capital fundraising? <i>Brookings Papers on Economic Activity – Microeconomics</i> (August 1998): 149-92.
3	Gompers, P. and Lerner, J., The use of covenants: An analysis of venture partnership agreements, <i>Journal of Law and Economics</i> 39, 1998, 463-498 Gompers, P. and Lerner, J., An analysis of compensation in the U.S. venture capital partnership, <i>Journal of Financial Economics</i> 51, 1999, 3-44
4	Gompers, P., Optimal investment, monitoring and the staging of venture capital, <i>Journal of Finance</i> , 50, 1995, 1461-90
5	Lerner, J., Venture capitalists and the oversight of private firms, <i>Journal of Finance</i> , 50, 1995, 301-18 Lerner, J. The syndication of venture capital investments, <i>Financial Management</i> 23, 1994, 16-27.
6	Kaplan, S. and Stromberg, P., Characteristics, contract and actions: Evidence from venture capitalist analyses, <i>Journal of Finance</i> , 59, 2177-2210. Gladstone and Gladstone, <i>Venture Capital Investing: the complete handbook for investing in private businesses for outstanding profits</i> , Chapter 6.
7	Mid Session Quiz
8	Gladstone and Gladstone, <i>Venture Capital Investing: the complete handbook for investing in private businesses for outstanding profits</i> , Chapter 8.
9	Paul Gompers and Josh Lerner, <i>The Venture Capital Cycle</i> , Chapter 14. Gladstone and Gladstone, <i>Venture Capital Investing: the complete handbook for investing in private businesses for outstanding profits</i> , Chapter 11.
10	<i>The New Corporate Finance: Where Theory Meets Practice</i> . Chapter “Initial Public Offerings”
11	Reserve Bank of Australia, Private Equity In Australia, <i>Financial Stability Review</i> , March 2007
12	<i>Perspectives</i> , Vol. 3, No. 6: Leveraged Buyouts: Inception, Evolution, and Future Trends
13	TBA
14	Final Quiz

9.2 Tutorial Program

Week	CASES
1	No Tutorial
2	Ch 3. Yale University Investments Office: July 2000
3	Ch 6. Grove Street Advisors
4	Ch 8. Gold Hill Venture Lending
5	Ch 9. Adams Capital Management
6	Ch 16. Metapath Software
7	Ch 10. Martin Smith: May 2002
8	Ch 18. Endeca Technologies
9	Investori Associati: Exiting the Savio LBO (to be distributed in WebCT)
10	Google Dutch-Auction IPO Case (to be distributed in WebCT)
11	Ch 21. Apax Partners and Xerium S.A.
12	Assignment Presentations in Tutorials (no tutorial materials)
13	Assignment Presentations in Tutorials (no tutorial materials)
14	Final Quiz – No Tutorials

Tutorials are based on the above case studies. Where applicable, tutorial questions based on a case will be posted on WebCT. At each tutorial, the key facts of a case will be discussed. You will be **assessed on your participation in the case discussion and interaction with the lecturer and other students**. In addition, you are to submit **(twice) a written case report for certain cases (at the beginning of the corresponding tutorials) upon the request of the lecturer/tutor (announced one week before each submission)**. Case preparation should identify the key facts in each case, link them to the theories, and explain why they are key facts, as well as sharing any other insights they may have about the case.

Note: Case preparation/discussion accounts for 15% of the total assessment of this course, of which 10% is for the in-class discussion of weekly cases.