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**Majors:** BUSINESS AND ECONOMICS

**Course:** PRIVATE EQUITY AND VENTURE CAPITAL

**Work load:** 80 hours (class and extra class activities)

**Academic Period:** 2016/2

**Professor:** ANDREA MARIA ACCIOLY FONSECA MINARDI

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**Office hours:** Tuesday, 8:00 am to 9:30am

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**OBJECTIVE:** Private Equity (PE) and Venture Capital (VC) funds are active investors that invest in companies in different stages of their life cycle, from startups to late stage, to mature companies with restructuring and consolidation opportunities to distressed firms. Besides financial resources, PE and VC funds usually improve portfolio companies' corporate governance, professionalization and use their network to increase growth opportunities and value creation. This industry has been growing significantly worldwide. Preqin estimates that in the end of 2015 there was around US\$1.4 trillion of dry powder globally (available financial resources for PE and VC new investments in companies). Brazilian PE and VC industry also has grown substantially in the last 30 years. ABVCAP estimates there was BRL 39.1 billion of dry powder in 2014 in Brazil, and industry investments correspond to 0.24% of GDP. The objective of this course is to introduce and discuss the Private Equity and Venture Capital industry, explain how are their cycles, who are the players, what are the risk and return for investors, why the industry is important for developed and emerging countries, what are their perspectives. Although we discuss the industry globally, we have a focus in Brazil.

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**Syllabus:**

The course is structured in four modules: (1) Industry Overview and Entrepreneurial Ecosystem, (2) Structuring funds and the fundraising process, (3) Investing and monitoring portfolio companies (4) Exits and Distribution.

The sections combine lectures, case discussions and panels by practitioners.

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**Program Content:**

**Industry Overview and Entrepreneurial Ecosystem**

1. What are PE and VC funds and what are the benefits and costs of investing in this asset class.
2. PE and VC role in the Entrepreneurial Ecosystem: who are the players, what are their roles, what is the importance of the ecosystem for the economic development of a country.

### **Structuring funds and the fundraising process**

3. The relationship between investors (LP – limited partners) and fund managers (GP – General Partners): conflict of interests and agency problems, compensation arrangements, contractual clauses and governance.
4. PE and VC funds as an asset class in institutional investors' portfolio.
5. Industry organization and difficulties in raising first time funds.

### **Investing and monitoring portfolio companies**

6. Deal sourcing and evaluation: pre deal considerations and qualitative issues.
7. Deal valuation: comparable, the Venture Capital Method, WACC and APV.
8. Deal structuring: basic securities used to invest in portfolio companies, usual clauses, term sheets, due diligence
9. Monitoring portfolio companies and implementing value creation strategies: boards, governance techniques, LBO model

### **Exits and Distributions**

10. Different kinds of exits
11. The IPO process
12. Distribution to LPs

**PROGRAM:**

SEC.	DATE	PROBLEM	FUNDAMENTAL CONCEPTS	LEARNING EVIDENCES	PROGRAM	
1	09/08	What are Private Equity and Venture Capital Funds, and how are they connected with other players in the entrepreneurial ecosystem?	What is the purpose of PE/VC funds and the limited partnership model.	<ul style="list-style-type: none"> <li>- Understand the purpose of PE and VC funds</li> <li>- Understand the risk of return of investing in PE/VC funds</li> <li>- Compare the industry history in the US and Brazil</li> </ul>	<p><b>Lecture 1: Overview of PE/VC</b></p> <p>(1) Chap. 1 LLH (Lerner, Leamon e Hardymon)</p> <p>(2) Chap.9 LLH</p> <p>(3) MINARDI, KANITZ, BASSANI,. Private Equity and Venture Capital Industry Performance in Brazil:. The Journal of Private Equity, 2014.</p> <p>(4) LEAMON, LERNER. Creating a Venture Ecosystem in Brazil: FINEP's INOVAR Project. Available at <a href="https://www.innovationpolicyplatform.org/sites/default/files/rdf_imported_documents/1507.pdf">https://www.innovationpolicyplatform.org/sites/default/files/rdf_imported_documents/1507.pdf</a></p>	
2	12/08		Entrepreneurial Ecosystem: why it is important, who are the players (accelerators, incubators, angel investor, crowd funding, venture capital, private equity, mezzanine), and what are their roles.		<ul style="list-style-type: none"> <li>- Understand the entrepreneurial ecosystem and how financial players are spread in different life cycle stages</li> <li>- Understand the role of accelerators, incubators, angels, crowd funding, VC, PE and capital market.</li> <li>- Understand the importance of entrepreneurial ecosystem</li> </ul>	<p><b>Lecture 2 and 3: Entrepreneurial Ecosystem and PE/VC</b></p> <p>(1) MINARDI, CRESCIULO. Uma reflexão sobre o ecossistema de capital empreendedor no Brasil. In: Marcos Pineschi Texeira; Marcelo Sobreiro Maciel. (Org.). Série Estudos</p>
3	16/08					

				- Compare the ecosystem in developed countries with Brazilian ecosystem	Estratégicos – Capital Empreendedor. 4ed. Brasília: Câmara dos Deputados, Edições Câmara, 2014, v. 4, p. 235-246. <b>(2) Fleming and Sorenson (2016). Finance by and for the Masses: An Introduction to the Special Issue on Crowdfunding. California Management Review</b>
4	19/08				<b>Case Discussion #1: Immulogic Assignment 1</b>
A	23/08				<b>Panel #1: Accelerator Quintessa</b>
6	26/08	How are fund structured (models, clauses, compensation), how is the fund raising process and who are the players in the industry?	Different investors Intermediaries Structuring PE and VC funds for raising capital	- Understand the pros and cons of the limited partnership model - Recognize potential conflicts of interest and agency problems between LP and GP - Explain how contractual clauses can minimize agency problems - Governance issues	<b>Lecture 4: Fundraising and Structuring VC and PE funds</b> <b>(1) LLHk – Chap. 2</b> <b>(2) Minardi, , Rossi Jr., Santos. O. <u>Relação entre Investidores e Gestores de Fundos de Private Equity no Brasil.</u> working paper</b>

					2013. Available at: <a href="http://www.insper.edu.br/wp-content/uploads/2013/08/2013_wpe315.pdf">http://www.insper.edu.br/wp-content/uploads/2013/08/2013_wpe315.pdf</a>
7	29/08		Compensation and incentives	<ul style="list-style-type: none"> <li>- Understand different compensation arrangements</li> <li>- Recognize the incentive problems of different arrangements</li> </ul>	<b>Lecture 5: Compensation and Incentives</b> <b>(1) LLHk – Chap. 2</b> Metrick e Yasuda, The Economics of Private Equity Funds Case
8	02/09		PE and VC funds as an asset class in institutional investors' portfolio Different LPs	<ul style="list-style-type: none"> <li>- Understand that the origin of the money (LP) matters</li> <li>- Understand why LPs invest in PE/VC</li> </ul>	Case Discussion #2 : Yale Investment Office <b>Assignment 2</b>
9	06/09				Panel #2: Venture Capital Fund
10	09/09		Difficulties in raising first time funds	<ul style="list-style-type: none"> <li>- Understand the industry organization</li> <li>- Explain why it is difficult to raise first time fund</li> <li>- Discuss methods of overcoming difficulties and the costs</li> </ul>	Case Discussion #3: Weston Presidio <b>Assignment 3</b>
11	13/09		Different models of funds		Panel #3: Why invest in PE/VC funds? (FoF: Spectra)
12	16/09		Different models of funds		<b>Panel #4: Mezzanine Fund</b>

13	20/09	How do PE/VC funds select investments, monitor and create value? How is the relationship between fund managers and portfolio companies?	Deal flow and qualitative considerations	<ul style="list-style-type: none"> <li>- Explain different forms of pipeline generation</li> <li>- Understand qualitative aspects of the investment decision in a portfolio company</li> <li>- Due diligence of portfolio companies</li> </ul>	<b>Lecture 6: Deal sourcing and evaluation</b> - LLH Chap. 3 - Cullinan, Le Roux and Weddigen: When to Walk away <b>No assignment due, but be prepared for class discussion/ participation read article</b>						
14	23/09		(cont.)	Deal valuation: the venture capital method	<ul style="list-style-type: none"> <li>- Estimate deal's pre money and post money valuation using the VC method</li> <li>- Understand dilution</li> <li>Understand the pos and cons of staging investments</li> </ul>	<b>Lecture 7: The VC method</b> (1) LLK Chap. 4					
15A	(regular+ repl.) 27/09										
16	30/09										
15B	04/10										
17	(regular+ replac.)										
	11/10										
18	14/10 18/10						Deal valuation: WACC and APV	<ul style="list-style-type: none"> <li>- Understand the limits of WACC and when to use APV for valuing deals</li> </ul>	<b>Lecture 8: WACC and APV</b> (1) LLK Chap. 4 (2) Luehrman – Using APV: A Better Tool for Valuing Operations		
19A											
19B	21/10									Deal structuring	<ul style="list-style-type: none"> <li>- Recognize the potential conflict of interest between entrepreneurs and PE/VC funds</li> </ul>
20											
<b>MID TERM EXAM</b>											
<b>Panel #5: Search Funds</b>											

21	25/10	(cont.)		<ul style="list-style-type: none"> <li>- Explain clauses to mitigate conflicts</li> <li>- The impact of different deal structures and private equity securities on incentives, fund return and protection for losses</li> </ul>	Lecture 10: LBO and post deal considerations (1) Barbarians at the boardroom (2) LLH Chap. 6 <b>No assignment due, but be prepared for class discussion/participation – read article</b>
22	28/10		Post deal, LBO and other value creation models	<ul style="list-style-type: none"> <li>- Understand the role of boards</li> <li>- Explain the pos and cons of leverage</li> <li>- Discuss pos and cons of a LBO</li> <li>- Governance techniques</li> </ul>	Case # 4: KKR – The Dollar General Buyout <b>Assignment 4</b>
23	01/11				Panel #6: Legal risks
24	04/11				Panel #7: Private Equity Fund
25	08/11		Different fund models		Panel #8: Distressed Operations or Investee Company
26	11/11	Exit	Different strategies of exits and conflict of interests between GP and LP when liquidating investments	<ul style="list-style-type: none"> <li>- Understand different kind of exists and pos and cons of trade sale, IPOs, secondary sales, sale to owners</li> </ul>	Lecutre #11: Exits <b>(1) LLH Chap. 7</b> (2) Minardi, Ferreira e Tavares. The Performance of Brazilian IPOs Backed by Private Equity

27	18/11			<ul style="list-style-type: none"> <li>- Understand the IPO process</li> <li>- Discuss potential conflict of interest between LP, GP, portfolio company and underwriter agent in an IPO process</li> </ul>	<p>Lecture #12: the IPO process and conflict of interest  <b>(1) LLH Chap. 7</b>                  (2) MINARDI, Moita, CASTANHO. An Investigation of the partial adjustment effect of Brazilian IPOs. JBR 2015.</p>
28	22/11				<p>Case #5: Warburg Pincus  <b>Assignment 5</b></p>
29	25/11				<p>Lecture #13                  Distribution and concluding remarks  <b>(1) LLH Chap. 7</b></p>
30	TBD	<b>FINAL EXAM</b>			



**Teaching method:** The classes are structured in lectures, case discussions and panels by practitioners. Students should prepare in advance for the lectures and case discussions, according to the course program. Panels illustrate program content and lectures, and should motivate discussions.

**REQUIRED BIBLIOGRAPHY:**

1.	Lerner, J., Leamon, A. e Hardymon, F. Venture Capital, Private Equity, and the Financing of Entrepreneurship. John Wiley & Sons. 2012. 1ª ed.
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+ cases and articles disclosed in the program

**COMPLEMENTARY BIBLIOGRAPHY**

<b>1.</b>	Metrick, A. Venture Capital and the Finance of Inovation”, John Willey & Sons, 2007.
<b>2.</b>	Gompers, Paul e Josh, Lerner, “The Venture Capital Cycle”, The MIT Press, 2ª edição, 2006
<b>3.</b>	Titman, S. e Martin, J., “Valuation: The Art and Science of Corporate Investment Decision”, Pearspr. 2007.
<b>4.</b>	Lake, Ronald e Lake Rick, “Private Equity and Venture Capital – a Guide for Investor and Practioners”, Amer Educational Systems, 2000

**CRITÉRIOS DE AVALIAÇÃO**

NOME DA AVALIAÇÃO	SIGLA	PESO EM %
Mid term exam	MT	35%
Final exam	FI	35%
Class participation	PA	20%
Group work	WK	10%

**Students with frequency below 75% will automatically fail the course.**

**GENERAL GUIDELINES:** Students should read the indicated material previous the session

**Group work:** reports delivered by the groups to answer the questions designated in the folders “case studies” and “other group work activities”. Reports should be delivered on the due date before class. Each group should have at least 3 students and no more than 5.