Private Equity/Venture Capital

DS 741
Fall 2013

Monday, Wednesday, 12:40pm-2:00pm, PCBE 125


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Blackboard site: www.blackboard.unh.edu

Overview
In general, private equity means the use of capital (invested) in non-public companies and usually involves unique risks of considerable significance. Nascent entrepreneurs lacking historical track records going to market with untested concepts can create a level of investment uncertainty that few can tolerate. The information deficiency inherent in venture investing amplifies agency and market risks considerably while the absence of liquidity allows for very unpredictable investment horizons. Accordingly, successful private equity investing requires approaches, skills, and strategies that are markedly different from investing in public markets. Likewise, within a corporation, the successful development and implementation of new products and processes requires unique and innovative approaches, skills, and strategies.

Private equity investing, while understudied and poorly understood, significantly affects our entrepreneurial economy and is a substantial force behind innovation in the marketplace. Many believe venture investing is the driving force behind our country’s leading economy. During the economic rise of the late 1990s, the flood of private equity exaggerated the economic frenzy creating an abundance of new companies. However, quicker than its rise, the risk capital market plummeted to significant depths at the turn of the century leaving a long trail of bankrupt ventures and displaced workers. Today, the markets continue to create new companies and are in constant flux.

The primary focus of this course is private equity in the context of financing innovation, whether one is approaching private equity investors or corporate management for budget support. Particular emphasis is on business angels (private investors) and venture capitalists. The course will be viewed primarily from the investor’s perspective. If an entrepreneur/corporate innovator understands how an investor views the private equity market the entrepreneur/corporate innovator is in a better position when seeking this high risk capital. Since the Paul College has an established reputation as one of the leading
schools in the US in the study of business angels and private equity, the research presented will be the most current available and will often contain information not available to the general public.

**Course Scope**
Conceptually, this course covers everything from screening entrepreneurial ideas and business plans through the spectrum of entrepreneurial financing stages—bootstrapping, seed, later-stage and bridge financing, acquisition/buyouts—to harvests, exits and IPOs. Additionally, we will look at the art and science of deal negotiations, entrepreneurial financing structures, business valuations, legal considerations, management and board participation. Students will research, discuss and present state-of-the-art analyses and practices while having the opportunity to interact with a variety of market practitioners—entrepreneurs, venture capitalists, angel investors etc. No previous experience in finance or entrepreneurship is necessary beyond the traditional Paul College curriculum for fourth-year students.

The course is recommended for students interested in understanding private equity markets; seeking financing/venture capital to start their own companies; participating in private venture investing, investment banking, investment management or entrepreneurial management; and/or working for a private equity investment firm.

**Course Objectives**
- Provide an understanding of the role of private equity in the economy, the structure of the industry, its participants and the forces that shape its development
- Develop and apply analytical skills in evaluating private equity financing deals
- Increase knowledge of entrepreneurial financing options

**Deliverables**

**The Next Big Thing – group presentation**
Each team, comprised of 3-4 students, will lead a class discussion on a particular sector of the private equity market that they think is “The Next Big Thing”. You can draw from a variety of sources and involve the class as you see appropriate. Your presentations (including questions, exercises, discussion, etc.) should be limited to 15 minutes. Please provide a hard copy of your visual material (i.e., slides) before your presentation.

**Individual Research Presentation and Paper - individual**
Each individual will choose a country (excluding the US) and prepare a written report (3 pages) and a 10 minute presentation (including questions and discussions) on the particular country’s activity and programs in private equity financing with respect to country tax incentives, country sponsored seed funds, and/or programs to develop and facilitate private equity financing. This should include a 2 page evaluation of the effectiveness of the country initiative and 1 page for the program description and references.
Financial Statements for your Business Plan - individual or group
Each individual or group will prepare a 5 page written report and 10 minute presentation (including presentation and questions) on the financial aspects of their business plan. The 5 pages will include a two page discussion and 1 page each for the cash flow statement, income statement and balance sheet.

Negotiation Session – group
Students will be divided into groups of investors and entrepreneurs where they will evaluate, debate and negotiate an entrepreneurial business proposal presented by the entrepreneurs. In addition to determining a final value for the business, the investors will decide under what conditions, if any, they are willing to invest in the company and to what extent. Your performance will be evaluated by how you apply the concepts and material of the course and the depth and breadth of your analysis.

- **The Entrepreneurs** – Each entrepreneurial team will give a 10-minute presentation of their business proposal to an investor team. At least one class prior to the presentation, the entrepreneurial team must provide the investor-team a copy of their business plan that includes an executive summary, a marketing plan and pro-forma cash flows, balance sheet and income statement.

- **The Investors** – The investor team will discuss the merits of the entrepreneurial opportunity and apply screening and evaluative tools discussed in class, determining the quality of the opportunity. If the investor team decides to offer the financing, they will provide the entrepreneurial team term sheets. If they decide not to invest in the group, they must provide the entrepreneurial team a written copy of their 5 page due diligence report.

Due Diligence Project - group
This is the project for a venture capital firm. The project will be for us to conduct due diligence for ventures that the venture capital firm is considering investing in. The deliverable would be a due diligence report with recommendations as to whether or not to proceed with the investment. This will be a group project with 2-3 students evaluating one venture.

It is not possible to establish a due date at this time since we will be working with venture capitalists in coordinating their schedule and our class activities. Thus, the due date will need to be flexible and discussed when we meet with the venture capitalist.

Grade determination criteria

20% - The Next Big Thing
20% - Research Report
20% - Due Diligence Project
20% - Negotiation Session/Financial Statements
20% - Class Participation
Class Participation components include general participation in class discussions, active participation in lectures, engagement of the outside speakers, your participation in your classmates presentations and your overall contribution to the educational environment of the class. The quality, including both the breadth and depth, will be taken into consideration.

As a senior level course I expect each student to keep up with the material and actively participate in class. The professor reserves the right to schedule two exams if that is deemed appropriate with each exam constituting 15% of the grade, with the above 5 categories of grading categories being reduced accordingly.

**Notice regarding class material and class speakers**

During the course, you may receive confidential information, including business plans and other proprietary materials. Improperly disclosing such information could cause competitive harm, damage the reputation of PCBE and the firms with which we will be working. By enrolling in this course, you agree to safeguard the confidentiality of proprietary information and not to disclose or distribute any materials outside of the course- including to classmates not taking the course- without explicit prior permission.

**Course Schedule**

Please note that this list of topics covered will serve as a guide. Handouts (check blackboard) to be read before class will accompany the majority of these topics as well as assigned sections in the textbook. Our progress and the topics actually covered will be based on market activities, our interest, the schedule of external speakers, our discussions and opportunities that arise throughout the semester.

Please note that 2-4 guest speakers will be coming to class. Since their schedules are not finalized yet these speakers will require us to be flexible in our schedule of topics.

**August 26**
Introduction/Market stages
CHAPTER 3

**August 28**
Private equity market overview
CHAPTER 3

**September 4**
Bootstrapping
CHAPTER 11
Blackboard article “Mitigating the Limited Scalability of Bootstrapping” posted under ‘Bootstrapping’.
September 9  
The Early Stage Equity Market  
  Private Investors  
  Women Angels  
  All Blackboard readings posted under “Angels” and “Women Angels and Entrepreneurs”.  
  Review all documents on the Center for Venture Research (CVR) website: http://paulcollege.unh.edu/center-venture-research, including the Analysis Reports.

September 11  
The Early Stage Equity Market  
  Private Investors  
The Later Stage Equity Market  
  Venture Capital Funds  
  CHAPTERS 13 and 14  
  All Blackboard readings posted under “Venture Capital”  
  Review documents and data on the National Venture Capital Association (NVCA) website: www.nvca.org

September 16, 18 and 23  
The Next Big Thing

September 25  
Business Plan from the Investor View  
  CHAPTER 8  
  All Blackboard readings posted under “Business Plans From The Investor View”

September 30  
New Venture Valuation  
  Investor’s Perspective  
  Entrepreneur’s Perspective  
  CHAPTER 15

October 2  
Crowdfunding  
  All Blackboard readings posted under “Crowdfunding”  
  Review and be familiar with information from the following websites:  
  Kickstarter: http://www.kickstarter.com  
  Indie Go Go http://www.indiegogo.com/  
  Kiva: http://www.kiva.org
October 7, 9, 14 and 16  
Financial Projections  
Financial Statements Due  
CHAPTERS 8, 11 and 13  
All Blackboard readings posted under “Financial Projections”

October 21  
Venture Legitimacy  
Blackboard article “The Sources of Legitimacy for New Venture Angel Investors” posted under ‘Venture Legitimacy’

October 23  
The Pitch  
Screening Investments: idea vs. opportunity  
CHAPTERS 5 and 6

October 28 and 30  
Due Diligence  
Deal Structure  
Terms and Conditions of Private Equity  
CHAPTERS 5, 6 and 15

November 4, 6, 12 (Tuesday – follows a Monday schedule)  
Entrepreneur/Investor Negotiation Sessions

November 13  
Exits  
Blackboard article “Roadmap for an IPO” posted under ‘Exits’

November 18  
Private Equity and Public Policy  
US, State and Federal  
European initiatives in private equity  
European Business Angel Network (EBAN) – http://www.eban.org  
European Venture Capital Association (EVCA) – http://www.evca.eu  
World Business Angels Association (WBAA) – http://wbaa.biz

November 20, 25 and December 2  
Individual Research Paper/Presentation (country)

December 4  
Wrap Up
Professor Jeffrey E. Sohl is Director of the Center for Venture Research and Professor of Entrepreneurship and Decision Sciences at the Whittemore School of Business and Economics at the University of New Hampshire. His current research interests are in early-stage equity financing for high growth ventures. He currently serves on the National Academy of Sciences Committee on Capitalizing Science, Technology and Innovation, the Advisory Board of Borealis Ventures, the New Hampshire Community Loan Fund, United States Association for Small Business and Entrepreneurship (Vice President - Research), Babson College Entrepreneurship Research Conference Review Board, and the Editorial Board for Venture Capital and Entrepreneurship Theory and Practice. In 2006 he was awarded the national Hans Severiens Award by the Kauffman Foundation in recognition of his research on angel investing in the US. He has served as editor for special issues of Entrepreneurship Theory and Practice and Venture Capital. He has presented his research in academic seminars and practitioner forums in North America, Europe and Asia, and in briefings for several government agencies and scholars from North America, Europe, Scandinavia, Australia, Asia and Africa. He has appeared on CNBC, MSNBC, National Public Radio, NHPTV’s NH Outlook, and has been quoted in Inc., Forbes, Fortune, the Wall Street Journal, The Economist, Red Herring, Newsweek, Business Week, Newsweek-Japan, Financial Times, New York Times, Chicago Tribune, Los Angeles Times and the Financial Times-France. He has written over 50 articles which have been published in academic journals, including Venture Capital: An International Journal of Entrepreneurial Finance, the Social Science Journal, the Journal of Forecasting, Frontiers of Entrepreneurship Research, Entrepreneurship and Regional Development, Entrepreneurship: Theory and Practice, Entrepreneurship 2000 and the Journal of Business Venturing.