

Course Outline

RSM 439 H1F, L5101

Private Equity and Entrepreneurial Finance

Fall 2022

Course Meets: Friday 9-11AM (L5101) – WO 30

Web page URL <https://q.utoronto.ca/courses/280861>

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Course Scope and Mission

The primary objective of the course is to improve students' ability to understand the concepts and institutions involved in entrepreneurial finance and private equity. Private equity firms have demonstrated an ability to create value by acting as a financial intermediary, between firms and ultimate investors. The course will provide students with skill sets so they can analyze and understand entrepreneurial financing opportunities and private equity from multiple perspectives: the perspective of the founder seeking and receiving private equity financing for their project; the perspective of the private equity fund (GP); and, the perspective of the limited partners (LP) that provide finance for private equity funds.

The course should be of interest if you anticipate interactions with private equity firms as a founder, a provider of services (e.g. investment banking, consulting, law), a buyer of private equity services (e.g. as institutional investor in a pension plan or family office) or working in a private equity firm. The course will take advantage of concepts from finance, economics, accounting, law and strategy and apply them to case situations.

Course Learning Outcomes

- To improve students' ability to understand the concepts and institutions involved in entrepreneurial finance and private equity.
- Understand valuation approaches and qualitative frameworks used in private equity: i.e. DCF Valuation, Comparables Valuation, VC method valuation, LBO valuation.
- Understand alternative approaches to entrepreneurial funding and their comparative merits: e.g. non-priced funding, term sheets
- Understand role of PE firms (GPs) in value creation.
- Understand skill sets of successful GPs, and incentives arising from fund structures.
- Identify factors affecting attractiveness of private equity to Limited Partners (LPs), how private equity fits into a portfolio, performance measurement.
- Understand Limited Partnership agreements and the incentives they create.

- Improve communication skills.

Course Prerequisites

RSM 333 (fas.calendar.utoronto.ca/section/Rotman-Commerce).

Students will benefit if they have also completed RSM 336 and RSM 433, but these are not prerequisites.

Last date to add F term course, Wed September 21. Last date to drop F term Wed Nov 16

Required Readings

Venture Capital and the Finance of Innovation, 3rd Edition, Andrew Metrick and Ayako Yasuda, Wiley Publishing, 2021.

Electronic Course Materials

This course will be using the following electronic course materials:

<https://www.thecasecentre.org/course/registerForCourse?ucc=C%2D4813%2D404923%2DSTU>

<https://hbsp.harvard.edu/import/962852>

The first link takes you to 'Case publishing', which provides one case study. The second link takes you to 'HBS publishing', which provides the remaining case studies for the course. You must purchase materials from **both** links.

These materials will cost a total ~ \$42.75 (USD). The use of these materials complies with all University of Toronto policies which govern fees for course materials.

Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well they have command of the course materials.

<u>Work</u>	<u>Weighting</u>	<u>Due Date</u>
Class Participation	20%	Ongoing
In-class quizzes/problem sets	10%	Ongoing
Case Presentations/write-ups	10%	Assigned
Midterm	10%	TBD
Group Presentation	20%	materials submit Nov 26 th
Final Exam	30%	December Exam Period

Course Format and Expectations

Private equity involves working in teams, and communication skills are particularly important in this industry and an important component of your grade. This class is a low-risk opportunity for you to improve your analytical reasoning and your communication skills, in writing and orally.

1. **Class participation (20% of your overall grade).**

Your participation grade depends on your contribution to classroom learning and understanding, primarily through in-class participation along with a few additional opportunities that will be discussed in class. Your participation will be based on the quality of your comments (e.g. demonstrating understanding and analysis of the topic, generating ideas, promoting further discussion), the frequency of comments, and your professionalism.

I expect you to come to every class, be on time, and be prepared to participate. You must bring a class card, so I can call on you using a name you prefer, and so class participation can be appropriately recorded and rewarded. You should sit in the same seat each class, so participation can be recorded accurately. If a class is online, please keep your videos on for the duration of the class.

2. Short in-class quizzes and problem sets on readings, cases (10%).

There will be four sessions where at the beginning of class I will provide a very short quiz covering course materials, with each quiz worth 2%. If you come to class prepared and are paying attention, you should be able to get perfect on this component of the grading scheme. There will also be 2 problem sets, each worth 1%. You will get the full 1% credit for each if you submit them on time. You may work together on the problem sets. This is good preparation for technical questions that may show up on the final exam.

3. Case Presentation/ Write-ups (10%)

You will be required to work with a group that we will assign. We will assign two case studies to your group. The case deliverable date is midnight on Tuesday, the day before the class (submissions will automatically lose 1% per minute following the deadline). *As part of the deliverable*, upload the following three items to Quercus:

(a) a written answer to the case questions (no more than 2 pages of text, with additional excel files as you wish). You should aim for clarity, strong organization, concision, professionalism, and correct grammar. Sources should always be correctly attributed.

(b) a powerpoint presentation deck (max 15 slides, with additional appendix slides as you wish). This presentation deck should reflect strong planning and organization. Sources should always be correctly attributed.;

(c) a videotaped presentation, where all group members must be involved in presentation. This presentation should use the same powerpoint presentation deck. Clarity of speaking and an engaging demeanour make for better presentations.

For each case, I will provide study questions to stimulate your thinking. Your answer should address the study questions, but you can choose to emphasize the points you think to be most important, as well as anything else you think is interesting or important.

4. Midterm evaluation. (10%).

This will be a closed-book midterm evaluation, covering valuation approaches, other skills in VC investing, and other topics covered in the first half of the course.

5. Group Presentation and Debrief on Lessons Learned. (20%).

For this presentation, you and your group will provide a presentation for a company to be acquired by a GP in a going-private transaction. The groups will be the same as for your case presentations. The deliverable will consist of a PowerPoint presentation, and a recorded video of that presentation. A subset of groups will be chosen to present before the full class and a panel of judges. More details will be provided in the 2nd week of the course.

6. Final Exam (30%).

The final exam will be a closed-book exam during the exam period.

Team or Group Assignments

The Case write-ups/Presentations and the Group presentations require students to work in teams of ~5 students. Learning to work together in teams is a crucial transferrable skill you will use not only in your coursework, but also in your future careers. Support is available if you encounter common teamwork challenges such as:

- Team members feeling left out of the team.
- Team members not responding in a timely manner to communication.
- Division or quality of work among team members being unequal or unfair.

Consult the [Centre for Professional Skills Teamwork Resources page](#) for tips, strategies, and best practices. You can also [book an appointment with a teamwork mentor](#) through the RC

Centre for Professional Skills Writing Centre. Teamwork mentors can help you resolve or mitigate conflict, strategize on planning, or improve team communication.

If you are a student registered with Accessibility Services, and extensions are one of your academic accommodations, consult with your Accessibility Advisor about the teamwork in this course.

Missed Tests and Assignments (including mid-term and final-term assessments)

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may request special consideration.

In such cases, students must:

1. Notify the instructor AND the Rotman Commerce Program Office **on the date** of the missed course deliverable, e.g. missed test, final assessments, assignment or class (in the case of participation marks).
2. Complete a [Request for Special Consideration Form](#) and submit it along with your Absence Declaration on [ACORN](#) (please read the instructions on how to use the Absence Declaration in ACORN) within **2 business days** of the originally scheduled course deliverable.

Students who do not provide this information will be given a grade of 0 (zero) for the missed course deliverable.

An excused missed midterm will be handled by reweighting the final exam percentage of the grade. An excused case write-up will be handled by reweighting the other components in the 10% of the grade assigned to case write-ups. An excused in-class quiz will be made up by reweighting the other components of the 10% grade assigned to in-class quizzes and problem sets. An excused missed Group presentation will be made up by reweighting all other components of the grade in the course.

Late Assignments

All assignments are due on the date and at the time specified in Quercus. Late case write-ups, and Group presentation materials will be penalized at a rate of 1% for every minute after the specified time. There are no makeups for in-class quizzes and problem sets, when the absence is unexcused.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

Statement on Equity, Diversity and Inclusion

The University of Toronto is committed to equity, human rights and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect where all members of our community can express themselves, engage with each other, and respect one another's differences. U of T does not condone discrimination or harassment against any persons or communities.

Commitment to Accessibility

The University is committed to inclusivity and accessibility, and strives to provide support for, and facilitate the accommodation of, individuals with disabilities so that all may share the same level of access to opportunities and activities offered at the University.

If you require accommodations for a temporary or ongoing disability or health concern, or have any accessibility concerns about the course, the classroom or course materials, please [email Accessibility Services](#) or [visit the Accessibility Services website for more information](#) as soon as possible. Obtaining your accommodation letter may take up to several weeks, so get in touch with them as soon as possible. If you have general questions or concerns about the accessibility of this course, you are encouraged to reach out to your instructor, course coordinator, or Accessibility Services.

Original

Normally, students will be required to submit their course essays to the University's plagiarism detection tool for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the tool's reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of this tool are described on the [University's Plagiarism Detection Tool FAQ](#) page from Centre for Teaching Support & Innovation.

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the U of T degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

[The University of Toronto's Code of Behaviour on Academic Matters](#) outlines the behaviours that constitute academic misconduct, the process for addressing academic offences and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers.
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to) medical notes.

All suspected cases of academic dishonesty will be investigated by the procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any

questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other U of T or RC resources such as the RC Centre for Professional Skills, the College Writing Centres or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all U of T students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up and properly entered on ACORN. For more information visit the [Information Commons Help Desk](#).

Forwarding your utoronto.ca email to a Gmail or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Gmail accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted. Students who have been previously granted permission to record lectures as an accommodation for a disability are excepted. This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission for recording is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in any way. It is forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

Weekly Schedule

Session	Date	Topic	Readings / Videos
1	Sept. 14 th	Introduction and Overview of PE	Metrick and Yasuda (MY), Ch. 1 Case: Yale Investment Office: November 2020
2	Sept. 21 st	Review of Valuation Approaches for Entrepreneurs and Investors	The Valuation and Financing of Lady M Confections MY, 2.1 and 2.2, Ch 11, Ch 12
3	Sept 28 th	I – Founder Perspective Opportunities and Challenges with Venture Financing	Case: Ovinto Ch. 10
4	Oct. 5 th	Non-priced Funding (SAFE, Convertible Notes). Introduction to Term Sheets.	Case: Ovinto (cont.) MY 8, 9, Appendix A
5	Oct 12 th	II – GP Perspective Canadian VC and PE Term Sheets Continued	Case: Birch Hill and Mastermind (available via Quercus) MY, 5, 7.2 Problem Set 1 due
6	Oct 19 th	Emerging Markets PE Term Sheets Continued	Case: Surya Tutoring MY 6
7	Oct 26 th	Understanding LBOs Intro to VC Method with Debt	Case: Brazos and Cheddars
	TBD	Midterm	Likely oct 27 or oct 28
8	Nov. 2 nd *	Understanding LBOs VC Method with Debt	Case: Berkshire Partners Problem Set 2 due
9	Nov 16 th	III – LP Perspective Limited Partnership Agreement Economics and Measurement	MY, 2.3, 3, 4 Case: Illinois Teachers' Retirement System 2019
10	Nov. 23 rd	Direct Investing, Secondaries	Case: CPPIB, 2021
11	Nov. 30 th	Group Presentations	Note copy of presentation deck due Nov 26 th .
12	Dec 7 th	Lessons learned and course wrap	Debrief memo due

Please note that the last day you can drop this course without academic penalty is November 16, 2021. Fall reading week no classes (Nov 7- Nov 11)

*** Section 0101 will have a rescheduled time/date this week. TBD.**