

# Course Outline

## **RSM439H1S; Section L0101**

Private Equity and Entrepreneurial Finance

Winter 2023

Course Meets: Friday 9-11 AM, WO 20

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Instructor: Nicholas Moritsugu & Ethan Feldman  
Email: [nmoritsugu@mail.utoronto.ca](mailto:nmoritsugu@mail.utoronto.ca) | TBD  
Webpage: <https://q.utoronto.ca>  
Phone: 647-278-8344  
Office Hours: Thursday, 5:30pm-6:30pm, online only  
Teaching Assistant: TBD

## 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](https://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.

## 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.

## Required Readings

***Venture Capital and the Finance of Innovation, 3<sup>rd</sup> Edition***, Andrew Metrick and Ayako Yasuda, Wiley Publishing, 2021.

***Case Package from HBS publishing and The Case Centre (see below for links)***

## 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%	March 31 <sup>st</sup>
Final Exam	30%	Winter Exam Period

## Course Format and Expectations

### 1. **Class participation (20%)**

Private equity involves working in teams, so 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 both your analytical reasoning and your communication skills. Your participation grade depends on your contribution to classroom learning and understanding, primarily through in-class participation which will be evaluated by the instructor/TA with a few additional online opportunities that will be discussed in class. I evaluate your participation based on the quality of your comments, the frequency of comments, and your professionalism. I expect you to come to every class, be on time, and be prepared to participate. Please make sure you have brought your class card (or name in zoom if online), so I can call on you using a name you prefer, and so class participation can be appropriately rewarded. You should sit in the same seat each class, so participation can be awarded accurately.

### 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 full credit if you hand them in 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 and

- (1) present one case to the class, that you will be assigned (7%),
- (2) provide a write-up answer for another case that you will be assigned (3%).

For (1), I will assign the case study you will present. The deliverables include: (a) a written answer to the case questions (no more than 2 pages of text, with additional excel files as you wish); and, (b) a PowerPoint deck (max 15 slides, with additional appendix slides as you wish). For (2), the write-up case, you must submit a written answer to the case (no more than 2 pages of text, with additional excel files as you wish), and you may also be asked in class to give an overview of your analysis, conclusions, etc in response to the group which was assigned the case to present.

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.

Your deliverables are due before the class. Specifically, they will be due on Wednesday at midnight.

Finally, for some cases more than one group will present. Accordingly, you may be asked to only present a portion of your prepared PowerPoint deck. All case presentations will be followed by a Q & A period.

### 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 presentation. 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 2<sup>nd</sup> week of the course.

### 6. Final Exam (30%).

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

#### Other items to note

- There is no extra credit in this course
- Students will only be able to submit an appeal regarding the Mid-Term grade within two weeks of receiving their grade.

#### Ouriginal

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 Centre for Teaching Support & Innovation web site (<https://uoft.me/pdt-faq>).

#### RC Centre for Professional Skills Writing and Presentation Support:

Please note that **clear, concise and correct writing and/or speaking** will be considered in the evaluation of Case presentations, the Group Presentation, and the final exam. How well you communicate your ideas, in writing or orally, will be considered in the evaluation of the

assignment. In your written assignments, you should aim for clarity, strong organization, concision, professionalism, and correct grammar. Your presentations should reflect strong planning and organization, clarity of speech, and an engaging demeanour. Sources, whether in written or presentation assignments, should always be correctly attributed.

Support is available through the RC Centre for Professional Skills (CPS) for students who would like help or feedback on their writing or speaking (presentations). CPS offers both individual and group appointments with trained writing instructors and presentation coaches who are familiar with the RC program and common types of business assignments. You can also access your college Writing Centres for help with written assignments.

You can [book an appointment with a writing or presentation coach](#) through the RC Centre for Professional Skills Writing Centre. For more information about writing centres, student supports, and study resources, see the [Writing and Presentation Coaching academic support page](#).

## Class Participation

Students are expected to prepare thoroughly and make every effort to attend every class. As class participation is a graded component of the course, students will be evaluated on the following:

- The frequency of participation
- The quality of participation, which includes: Thoughtful responses, Understanding and analysis of topic, integration of comments into the flow of discussion.
- Promotes further discussion and understanding

## Rotman Commerce Centre for Professional Skills Teamwork Support:

The Case Presentation and the Group Presentation both require students to work in teams. 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.

## Electronic Course Materials

This course will be using the following electronic course materials:

The Case Centre: <https://www.thecasecentre.org/course/registerForCourse?ucc=C%2D4436%2D478163%2DSTU>  
HBS: <https://hbsp.harvard.edu/import/902125>

The first link takes you to Case publishing, which provides one case study (Ovinto). 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 of ~\$40 (USD). The use of these materials complies with all University of Toronto policies which govern fees for course materials.

## Weekly Schedule

Session	Date	Topic	Readings / Videos
1	Jan 13 <sup>th</sup>	Introduction and Overview of PE	Metrick and Yasuda (MY), Ch. 1 Case: Yale Investment Office: November 2020
2	Jan 20 <sup>th</sup>	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	Jan 27 <sup>th</sup>	<b>I – Founder Perspective</b> Opportunities and Challenges with Venture Financing	Case: Ovinto MY Ch. 10
4	Feb 3 <sup>rd</sup>	Non-priced Funding (SAFE, Convertible Notes). Introduction to Term Sheets.	Case: Ovinto (cont.) MY 8, 9, Appendix A
5	Feb 10 <sup>th</sup>	<b>II – GP Perspective</b> Canadian VC and PE Term Sheets Continued	Case: Birch Hill and Mastermind (available via Quercus) MY, 5, 7.2 <b>Problem Set 1 due</b>
6	Feb 17 <sup>th</sup>	Emerging Markets PE Term Sheets Continued	Case: Surya Tutoring MY 6
February 20 <sup>th</sup> – 24 <sup>th</sup> – Reading Week, No Classes			
7	TBD	Midterm	
8	Mar 3 <sup>rd</sup>	Understanding LBOs Intro to VC Method with Debt	Case: Brazos and Cheddars
9	Mar 10 <sup>th</sup>	Understanding LBOs VC Method with Debt	Case: Berkshire Partners <b>Problem Set 2 due</b>
10	Mar 17 <sup>th</sup>	<b>III – LP Perspective</b> Limited Partnership Agreement Economics and Measurement	MY, 2.3, 3, 4 Case: Illinois Teachers' Retirement System 2019
11	Mar 24 <sup>th</sup>	Direct Investing, Secondaries	Case: CPPIB, 2021
12	Mar 31 <sup>st</sup>	Group Presentations (1 <sup>st</sup> half) Lessons learned and course wrap (2 <sup>nd</sup> half)	<b>Presentation deck due Mar 29<sup>th</sup></b>

**Please note that the last day you can drop this course without academic penalty is March 19, 2023.**

## Policies and Procedures

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. Please email your documents to [rotmancommerce.info@utoronto.ca](mailto:rotmancommerce.info@utoronto.ca)

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

***If a student has an excused absence for the final, they must take a make-up exam. If a student has an excused absence for a weekly quiz, the overall grade for each quiz will be re-weighted to reflect the excused absence.***

### Late Assignments

*All assignments are due on the date and at the time specified in Quercus. Students will lose 1% for every minute they are late.*

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

### 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.

### 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 following 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 resources such as 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 [help.ic.utoronto.ca/category/3/utmail.html](http://help.ic.utoronto.ca/category/3/utmail.html).

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.

## Quercus and the Course Page

The online course page for this course is accessed through Quercus. To access the course page, go to [q.utoronto.ca](http://q.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ACORN, wait 48 hours.

## 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 exempted. 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.