

**VANDERBILT UNIVERSITY**  
**Owen Graduate School of Management**  
**Venture Capital**  
**Course Syllabus**

MGMT 531 (Fall 2005, Mod 2)

Class Hours: M/W 9:40 A.M. – 11:10 A.M. [Section 01, Room 216]

M/W 11:20 A.M. – 12:50 P.M. [Section 02, Room 216]

Office Hours: M 2:00 P.M. – 3:00 P.M. (or by appointment)

Professor Amar Gande

308 Management Hall

Tel: 343-7322; Fax: 343-7177

[amar.gande@owen.vanderbilt.edu](mailto:amar.gande@owen.vanderbilt.edu)

<http://mba.vanderbilt.edu/faculty/agande.cfm>

**Course Objectives**

This course is meant to cover major corporate finance activities of financial intermediaries in the private equity markets, including: unique aspects of private equity investing, major players in private equity markets, financial strategies of early stage ventures, venture capital partnerships, fund raising, term sheet negotiation, financial contract considerations, private company valuation, intellectual property valuation, corporate venture capital investing, initial public offerings and other venture capital exits. This course will familiarize you with the economic environment, opportunities and challenges of venture investing. A variety of case situations will be explored where valuation, strategic decision making and financial contracting are practiced.

The cases will challenge students to use various analytical tools in corporate finance to structure private equity investments to create value for owners.

**Prerequisite**

The prerequisite for this course is Corporate Value Management (MGT 432a).

**Grading**

Case Presentation	5%	
Case Reports [5]	35%	
<i>Group Effort</i>		40%
Class Participation	10%	
Peer Evaluation	5%	(feasible range is 0%-15%)
Individual Problem Sets [2]	10%	
Final Exam	35%	
<i>Individual Effort</i>		60%
<i>Total</i>		100% (60% determined prior to Final Exam)

**Case Reports/Presentation**

There will be five assigned cases. In addition, there will be one case that will be discussed in the class for which you will be expected to be fully prepared (contributes to your class participation grade). The questions for the cases will be given to you at least a week in advance. You need to form a case group of four students with at least one international student (i.e., obtained an undergraduate degree from a school outside the United States) and at least one domestic student. Moreover, all students in a group must be registered in the same

section. One member of each group should submit by email: (a) the names of their group members, and (b) the first three choices of the case project before 5 P.M. on Thursday, October 20<sup>th</sup>. The presenting group will have 30 minutes to present their case analysis. The presentation should include an outline of the main issues, address the assigned case questions, and suggest specific recommendations supported by a thorough analysis.

The presentation must briefly mention the assumptions, the justifications for making these assumptions, and specify any additional data needed to arrive at conclusions. Copies of overheads of your presentation should also be left in my mailbox by 9:00 A.M. on the day of the scheduled presentation. The case presentations will be graded based on form, content and handling of the questions from other students. A number of cases may involve two case groups independently presenting solutions to the class. After each presentation, students will have approximately 10 minutes to raise questions about the presentation. During the remaining part of the class, students will have an opportunity to discuss the case in further detail, including critiquing the analysis and recommendations of the presenters and offering alternative solutions. I will attempt to bring some clarity to the problem and to suggest alternative solutions.

All presenting groups must prepare a comprehensive typed case report of at most 5 pages of text (double spaced, font size 11 pt or higher) excluding the cover sheet and at most 5 pages of exhibits, tables and figures.

All non-presenting groups must prepare a brief typed case report of at most 2 pages of text (double spaced, font size 11 pt or higher) excluding the cover sheet and at most 2 pages of exhibits, tables and figures. The case reports should be in my mailbox by 9:00 A.M. of the day of the scheduled presentation. The case reports should outline the main issues, address the assigned case questions, and suggest specific recommendations supported by a thorough analysis. The case reports must clearly state any assumptions made, the justifications for making these assumptions, and specify any additional data needed to arrive at conclusions. The case reports will be graded based on both form and content.

### **Peer Evaluation**

At the end of the course, you will have the opportunity to grade the extent to which the other members of your group contributed to your learning and/or the group's performance on the cases and case presentations. The peer evaluation form will be administered together with your final examination. In this form, you will assign an average of 5 points to each of the other members of your group. For example, if you were part of a four-person group, you evaluate the other three members (not yourself) and you will assign a total of 15 points among them. In other words, the feasible range for your peer evaluation score is 0-15 points.

### **Class Participation**

Your class participation grade is based on the quality and quantity of your comments, e.g., during lecture days, and on days when other groups present their assigned case. In addition, there will be one case that will be discussed in the class (no group will be presenting this case) for which you will be expected to be fully prepared and your comments will contribute to your class participation grade. Finally, your comments during the guest lectures will also contribute to your class participation grade.

### **Problem Sets**

There will be two problem sets and the questions for these problem sets will be given to you at least a week in advance. You may discuss only with group members in your case group. Your individual write up should be in my mailbox or handed to me before the beginning of the class on the day the problem set is due. Besides the assigned problems, there may be a few non-assigned problems in each problem set, intended to provide you with additional practice and build your confidence.

### **Final Exam**

The final exam will be a comprehensive take-home exam aimed at testing all aspects of the course. Students can pick up the final exam anytime between 1:00 P.M. – 4:00 P.M. on Tue, Dec 6, and the final exams are due within 24 hours, i.e., by the same time the next day. Students are bound by the Owen honor code in answering the questions on the final exam, and should budget about 3-4 hours during the available 24-hour period. A sample final exam with solutions will be available on Blackboard a couple of weeks before the final exam.

### **Honor Code**

First, some cases and problem sets in this course have been used before at Owen. Do not consult with students who have used these cases or use their notes, or other materials they developed in analyzing these cases. Second, evaluations and critiques found in books or articles from the business press concerning the corporate actions described in these cases are not to be used in your case preparation. However, public information available prior to the decision point in the case can be used. Third, problem sets may be discussed only with your group members, and each student is responsible for his or her own individual write up of solutions to the assigned problems. I will treat the use of any prohibited information source or a departure from the above guidelines as a violation of the Owen Honor Code. Finally, in answering questions on your final exam, you will not seek any help from (or provide any help to) other students either directly or indirectly.

### **Withdrawal from the course**

As per the guidelines of the academic administration at Owen, withdrawal from the course is permitted only before 5 P.M. on Thursday, October 20<sup>th</sup>. I plan to adhere to these guidelines and I do not intend making any exceptions since late withdrawal from the course creates negative externalities to other members of the group.

## **Required Course Materials**

Packet of Cases and Readings

Electronic documents on Blackboard

## **Reference Texts**

Bartlett, J. Fundamentals of Venture Capital (Madison Books: Lanham MD) 1999.

Bartlett, J. Equity Finance: Venture Capital, Buyouts, Restructuring, and Reorganizations, 2nd edition, (Aspen Law & Business: Fredrick MD) 1995.

Gladstone, D. and L. Gladstone. Venture Capital Handbook (Prentice Hall: Upper Saddle River NJ) 2002.

Gompers, P. and J. Lerner. The Venture Capital Cycle (MIT Press: Cambridge) 1999.

Gompers, P. and J. Lerner. The Money of Invention (Harvard Business School Press: Boston MA) 2001.

Gompers, P. and W. Sahlman. Entrepreneurial Finance (Wiley: New York) 2002.

Gupta, U. Done Deals (Harvard Business School Press: Boston MA) 2000.

Jenkinson, T. and A. Ljungqvist. Going Public, 2nd edition, (Oxford Press: Oxford, UK) 2001.

Lerner, J. Venture Capital and Private Equity Vol.1 (Wiley: New York) 2000.

Lerner, J. and F. Hardymon. Venture Capital and Private Equity Vol. 2 (Wiley: New York) 2001.

Levin, J. Structuring Venture Capital, Private Equity, and Entrepreneurial Transactions (Aspen Law & Business: New York) 1998.

Schell, J. Private Equity Funds: Business Structure and Operations (Law Journal Press: New York) 1999.

Smith, J. and R. Smith. Entrepreneurial Finance (Wiley: New York) 2000.

Wilmerding, A. Term Sheets & Valuations (Aspatore) 2003.

Zygmunt, J. The VC Way (Perseus Publishing: Cambridge MA) 2001.

## Course Outline

\* Recommended, not required reading

### **I. Overview of Private Equity Market (1 lecture)**

Fenn, G., N. Liang, and S. Prowse. "The Private Equity Market: An Overview." Financial Markets, Institutions and Instruments 6, (1997) Chapters 1-2.

\*Fenn, G., N. Liang, and S. Prowse. "The Private Equity Market: An Overview." Financial Markets, Institutions and Instruments 6, (1997) Chapter 3.

### **II. Overview of Venture Capital (1 lecture & 2 cases)**

Fenn, G., N. Liang, and S. Prowse. "The Private Equity Market: An Overview." Financial Markets, Institutions and Instruments 6, (1997) Chapter 4.

Zider, R. "How Venture Capital Works." Harvard Business Review (November-December 1998) 131-139.

\*Gorman, M. and W. Sahlman. "What Do Venture Capitalists Do?" Journal of Business Venturing, 4 (1989).

\*Gompers, P. and J. Lerner. "The Venture Capital Revolution." Journal of Economic Perspectives 15, (Spring 2001) 145-168.

\*Lerner, J. "A Note on Private Equity Fundraising Process" Harvard Business School Case Note, March 2001.

CASES: Immulogic, Exxel

### **III. Private Equity Valuation (1 lecture)**

Lerner, J. "A Note on Valuation in Private Equity Settings." Harvard Business School (1997).

\*Reinsbergs, I. And D. Crane. "Note on Valuing Private Businesses." Harvard Business School (April 2001).

\*Kim, M. and J. Ritter. "Valuing IPOs." Journal of Financial Economics 53, (September 1999) (skim to understand the objectives, testable predictions and conclusions).

\*Luehrman, T. "What's It Worth?" Harvard Business Review (1997).

\*Copeland et. al. Valuation: Measuring and Managing the Value of Companies (3rd edition) Chapter 20, "Real Options".

\*Gaughan, P. Mergers, Acquisitions & Corporate Restructurings 3rd edition (Wiley: 2002), Chapter 14

#### **IV. Venture Capital Contracts: Terms Sheets & Limited Partners (1 lecture & 1 case)**

Gompers, P. "Contracting and Control in Venture Capital." Harvard Business School Case Note, February 1998.

Gompers, P. and J. Lerner. "A Note on Private Equity Partnership Agreements." Harvard Business School Case Note, September 1998.

\*Wasserman, N. "Venture Capital Negotiations: VC versus Entrepreneur." Harvard Business School Case Note, March 2000.

\*Wasserman, N. "The Venture Capitalist as Entrepreneur." Harvard Business School Case Note, March 2000.

\*Wilmerding (2003) Chapters 1-3.

\*Kaplan, S. and P. Stromberg. "Financial Contracting Theory Meets the Real World: An Empirical Analysis of Venture Capital Contracts", University of Chicago Working Paper, 2000.

CASE: Xedia and Silicon Valley Bank

#### **V. Intellectual Property Rights and Venture Leasing (1 lecture & 1 case)**

Roberts, M. and H. Stevenson. "The Legal Protection of Intellectual Property." Harvard Business School Case Note, April 1998.

Chaplinsky, S. "Methods of Intellectual Property Valuation" Darden School of Business Technical Note, 2002.

\*Lerner, J. "An Introduction to Patents and Trade Secrets." Harvard Business School Case Note, September 1995.

\*Lerner, J. "A Note on Venture Leasing" Harvard Business School Case Note, Sept. 1998.

\*Hart, M. and H. Zaharoff. "The Protection of Intellectual Property in the United States." Harvard Business School Case Note, March 1998.

Case: Aberlyn Capital Management

#### **VI. Corporate Venture Capital (1 lecture & 1 case)**

Lerner, J. "A Note on Corporate Venture Capital" Harvard Business School (March 2001)

Chesbrough, H. "Making Sense of Corporate Venture Capital" Harvard Business Review, March 2002.

CASE: Xerox Technology Ventures

### **VII. Initial Public Offerings, Acquisitions and Other Outcomes (1 lecture & 1 case discussion)**

Petty, J., W. Bygrave and J. Shulman. "Harvesting the Entrepreneurial Venture: A Time for Creating Value." Journal of Applied Corporate Finance (Spring 1994)

Lerner, J. "A Note on the Initial Public Offering Process." Harvard Business School (November 2001).

\*Benveniste, L. and W. Wilhelm. "Initial Public Offerings: Going by the Book", Journal of Applied Corporate Finance (Spring 1997).

\*Jenkinson, T. and A. Ljungqvist, Going Public: The Theory and Evidence on How Companies Raise Equity Finance 2nd edition, (Oxford University Press 2001), Part I

\*Lerner, J. "Venture Capitalists and the Decision to Go Public." Journal of Financial Economics 35, (1994) 293-316.

CASE (for class discussion): Genset IPO

### **VIII. Guest lectures (2 lectures)**

TOPICS: To be announced.

**CORPORATE VALUE MANAGEMENT  
CLASS SCHEDULE**

Lecture	Date	Topics
1	Mon, Oct 17	Overview of the private equity market
2	Wed, Oct 19	Overview of venture capital Email me the names of group members and choices of case presentation by Thursday, Oct 20 by 5 P.M.
3	Mon, Oct 24	Private equity valuation
4	Wed, Oct 26	Case 1: Immulogic
5	Mon, Oct 31	VC Contracts: Term sheets and limited partners
6	Wed, Nov 2	Case 2: Exxel Group (Int'l VC) Problem Set 1 due
7	Fri, Nov 4	Guest lecture (Speaker and topic: To be announced)
8	Mon, Nov 7	Case 3: Xedia and Silicon Valley Bank
9	Wed, Nov 9	Intellectual Property Rights and Venture Leasing
10	Fri, Nov 11	Guest lecture (Speaker and topic: To be announced)
11	Mon, Nov 14	Case 4: Aberlyn Capital Management
12	Wed, Nov 16	Corporate Venture Capital  Thanksgiving break (Fri, Nov 18 – Sun, Nov 27)
13	Mon, Nov 28	Case 5: Xerox Technology Ventures
14	Wed, Nov 30	Initial Public Offerings (IPOs), Acquisitions and other Outcomes Problem Set 2 due
15	Mon, Dec 5	Class Discussion: Genset IPO
16	Wed, Dec 7	No class; Take-home final exam due (pickup on Tue, Dec 6)