
Private Equity and Venture Capital

Professors: Albert Banal-Estanol and Filippo Ippolito

Office hours: by appointment

Course Description

This course offers an overview of the issues that arise in financing young firms. In their early days, most firms are not profitable, and are in desperate need for external capital to support investment. Due to the lack of history, assessing the value of these firms is particularly challenging. Standard models of discounted cash flows often fall short of providing the right answer.

Over the years, the industry has developed new techniques, like the so called “**venture capital method**” and **real options**, which are meant to help in determining the value of a firm when there is little to go on in terms of available information. In the venture capital method, predictions are based on the success scenario, and discount rates are chosen to reflect an extraordinarily high level of risk. In the real option model, the stress is put on the ability that firms have to delay investment decisions until more information becomes available, and to seek new opportunities for expansion as they come along.

Besides assessing value, entrepreneurs and financiers need to choose the right form of financing for the firm. Straight equity and debt contracts may not be the ideal solution in this case, as there is so much uncertainty about the future. Alternative forms of financing have been developed to respond to this challenge. Through **realistic business cases**, students will explore how different financing options bear an impact on the operations of the firm.

Finally, students will have to take on the challenge of **developing their own business plan**. Each group will come up with an idea of a business, and will have to determine how much this idea is worth, and how it could be financed. Perhaps, one day this idea could turn into a real business....who knows!?

At the end of the course, the students will present their business plans to a group of private equity professionals of New York based investment bank [Castle Placement](#) via Zoom.

Course objectives

The objective of the course is to understand the financial aspects of the decision-making process and day-to-day operations of a new business venture.

More specifically, you will:

- i. Construct, read and draw practical insights from the financial statements of a venture, and especially the cash flow statement.
- ii. Understand how to determine the amount of money an entrepreneur requires to successfully start and operate a venture.

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- iii. Calculate the value of a venture and appreciate the many roles valuation plays in the creation and development of a venture.
- iv. Become familiar with the characteristics of the various debt and equity sources of financing available to new, young, and small businesses, and the factors which lenders/investors weigh most heavily when making investment decisions.
- v. Formulate a deal structure for a start-up venture and grasp the multiple variables that can be introduced when structuring a deal.
- vi. Understand key tactics and approaches to negotiation when attempting to structure financing deals for new, young, and small ventures.
- vii. Learn how to compute the value of an entrepreneurial firm using different approaches, in alternative to the standard discounted cash flow method
- viii. Recognize a company in financial distress and understand the options for the company.
- ix. Learn how to write your own business plan

Methodology

Lectures will mainly develop the concepts and methodologies that make up the items of the course list. These classes are based on the textbooks that support the course, but we have prepared a set of slides that set out the main material more specifically. The slides should be the fundamental support for personal preparation before and/or after the lectures.

The module requires the preparation of business case studies. Resolutions of the cases will be presented in groups. During those sessions, we will also encourage student participation in the discussions, which will be evaluated individually.

Evaluation criteria

(A) Active participation in class discussions is valued since it contributes to overall learning. We will judge your performance based both on the quality and the quantity of your comments. This will account for 15% of the grade.

(B) You will also produce a business plan project geared at obtaining funding for a new business venture. This is a group project in which each group will write an investor proposal. This will account for 35% of the grade.

(C) We will also discuss real business cases. Students will need to prepare a solution and be ready for group discussion. The preparation of the case can be done in groups but the discussion will be evaluated individually. This will account for 50% of the grade.

Retake will uniquely consist of the submission of a financial plan.

Students are required to attend 80% of classes. Failing to do so without justified reason will imply a Zero grade in the participation/attendance evaluation item and may lead to suspension from the program

As with all courses taught at the UPF BSM, students who fail the course during regular evaluation will be allowed ONE re-take of the examination/evaluation. Students that pass any Retake exam should get a **5 by default as a final grade for the course**. If the

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course is again failed after the retake, students will have to register again for the course the following year.

Plagiarism is to use another's work and to present it as one's own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the "Honor Code," students acknowledge that they understand the schools' policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program."

Calendar and Contents

Date	Session	Prof	Content	Event
Apr 12	1	ABE	LECTURE: Overview of startup finance	
Apr 19	2	ABE	LECTURE: The venture capital method	
			CASE: Netflix	
			CASE: Venture Outreach Network	
Apr 26	Online	FI	BP: Introduction to the Business Plan project	
Apr 26	3	ABE	LECTURE: Deal Structure	
May 3	4	ABE	LECTURE: Venture capital funds	
			CASE: VC Vignettes	
May 10	5	ABE	LECTURE: Exit	
			CASE: Workbrain	
May 17	6	FI	LECTURE: Real Options (BDM ch22)	
			LECTURE: Real Options (BDM ch22)	
			CASE: Introduction to Arundel Partners	
May 24	7	FI	BP: Presentations of the value proposition (sections 1-3 of BP template)	BP1
			BP: Market and Competition (sections 4 of BP template)	BP2
			CASE: Introduction to Store Escape	
May 31	8	FI	BP: Operations and Strategy and Marketing (sections 5-6 of BP template)	BP3
			BP: Start up expenses and projection of revenues (sections 7 of BP template)	BP4
			CASE: Presentations of Arundel Partners	Arundel
May			Deadline to submit 5-slide presentation	5-slide
June 7	9	FI	BP: Video BP: Pro-forma Accounts (sections 7 of BP template)	BP5

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Note: This document is only informational, detailed contents and faculty may change.

			CASE: Presentations of Store Escore	Escore
			BP: Valuation and financing (sections 7 of BP template)	BP6
			Deadline for the four finalists to submit 60-second video	Video
June 14	10	FI	BP: Presentations of Business Plans	BP7
			BP: Presentations of Business Plans	
			BP: Presentations of Business Plans	
			Noon (NY time) On-Line Contest – Zoom video – judges select winner	

Reading Materials

- Investment Valuation: Tools and Techniques for Determining the Value of Any Asset: University Edition, by Aswath Damodaran, John Wiley & Sons Inc
- Entrepreneurial Finance, by J. K. Smith and R. L. Smith, John Wiley & Sons Inc, 2nd Edition
- Venture Capital and Private Equity: A Casebook, 5th Edition, Josh Lerner, Felda Hardyman, Ann Leamon
- Venture Capital, Private Equity, and the Financing of Entrepreneurship, Josh Lerner, Ann Leamon, Felda Hardyman
- Private Equity Laid Bare Paperback, Ludovic Phalippou
- Mastering Private Equity: Transformation via Venture Capital, Minority Investments and Buyouts, Claudia Zeisberger, Michael Prah, Bowen White
- Private Equity in Action: Case Studies from Developed and Emerging Markets, by Claudia Zeisberger, Michael Prah, Bowen White
- <https://www.bplans.com/>

Biography of the Professor

Albert Banal-Estanol is Associate Professor at the Universitat Pompeu Fabra, Programme Director of the MSc in Corporate Finance and Banking, Deputy Director of the Master in Economics of Energy, Climate Change and Sustainability at the Barcelona School of Economics (BSE), affiliated Professor at the BSE, affiliated Professor at City University London and Visiting Professor at the IFP-Energies Nouvelles in Paris. Previously, he has held teaching and research positions at the University of Western Ontario in Canada, Northwestern University in the US, University of Cambridge, UCL London Business School in the UK, and the University of Munich in Germany. He has delivered executive training courses for government agencies, regulators and private companies. His main research interests are in the fields of Corporate Finance, Competition and Regulation, and Innovation and Entrepreneurship.

Filippo Ippolito is Associate Professor of Finance at Universitat Pompeu Fabra in Barcelona. He is the Director of the Master in Finance at the Barcelona School of Economics. Filippo holds a PhD in Finance from Said Business School, Oxford, and an MPhil from the University of Oxford. He has work experience in the financial and

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consulting sectors. His research focuses on corporate policies in the presence of frictions, and the implications for equity returns. Filippo has published in the Journal of Finance, Journal of Financial Economics, Journal of Financial Intermediation, Journal of Monetary Economics, Journal of Money, Credit and Banking, and Journal of Corporate Finance.