

**University of Illinois
College of Business**

Finance 490: Private Equity and Entrepreneurial Finance

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Instructor:

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Readings:

A course packet with a set of cases and supplemental readings will be used in this course, and is available in the bookstore. A good source for information about the private equity industry is www.altassets.net, from which you can receive a free newsletter describing recent developments in the private industry. A very useful reading summarizing the industry is, "The Economics of the Private Equity Market," by George Fenn, Nellie Liang, and Stephen Prowse, which can be downloaded for free from: <http://www.federalreserve.gov/pubs/staffstudies/1990-99/ss168.pdf>. A very good recent textbook which I highly recommend (but do not require) is by Andrew Metrick, entitled *Venture Capital and the Finance of Innovation*, published by John Wiley in 2007.

Course Overview:

Over recent years, there has been a tremendous growth in the private equity industry. For example, capital committed to U.S. private equity firms increased from \$8 billion in 1991 to over \$150 billion in 2006. Private equity funds are responsible for a large percentage of merger activity both inside and outside the U.S., and has been responsible for financing of most of the most prominent new companies that have gone public in recent years. The organized private equity market has become a major component of the capital markets.

The objective of this course is to provide students with an understanding of the nature of the private equity market, the principal participants in this market, and the financial strategies that they employ. Topics covered include: How private equity funds are raised, structured, and financed; contracting in private equity markets; valuation of private equity interests; sources of capital for private companies; strategies for value creation; and exit strategies.

Course Procedures:

This course is designed to be a time-consuming and challenging course. The course will follow a combination of traditional lectures and cases. During the lectures, I like to encourage student participation and thus will at times actively call on students. My intention is not to test you, but rather to keep everyone actively engaged in the material.

For each case, I have assigned study questions concerning the case. During class, we will consider these questions and the material in the case. You are allowed and encouraged, but not required, to meet in groups outside of class to discuss and analyze the cases. In the past, students have found that these groups complement class discussion well. I have written up a document "Preparing Cases: A Short Guide", that should help you get started on your case preparation.

Because of the nature of the course (and its grading criteria), it is extremely important that you attend every class, arrive on time, and be prepared to participate. To help me out, you should bring your name cards to each class.

Grading: Grading will be based on attendance/class participation, assignments that will be handed out in class, and a final exam.

Class participation and attendance:

Class participation will count for 35% of the final grade. I will judge your performance based both on the quality and the quantity of your comments. Because so much of the learning in this course occurs in the classroom, it is very important that you attend every class. Low class participation combined with several absences can lead to a failing grade.

For those of you who think that 35% is high, remember that in the post-graduate school, real world, more like 100% of your "grade" is based on how you communicate with your colleagues. This class is one of the last low-risk environments for students to work on their communication skills.

If you are uncomfortable with such a heavy weight on participation, do not take this class.

Case memoranda:

For at least three of the cases we do during the semester, I require you to submit a two-page memorandum of analysis and recommendations at the beginning of each case discussion. Feel free to turn in more than three memoranda if you choose; I will look favorably on "extra" memoranda if you are on the border between grades at the end of the semester.

You may choose to prepare cases in groups of no more than three students. If you choose to work in a group, you can prepare one memorandum for the group, but each student should turn in his or her own copy. If you request it, I will assign you to a group. Alternatively, some students prefer to work on their own; preparing memoranda individually is acceptable.

Memoranda will not be accepted after the class has met. There will be no exceptions to this rule. A memorandum will be given credit if it is handed in and no credit if it is not. Initially, therefore, I will not grade them. However, I will use the memoranda to determine final grades, especially for those students who are on the border between grades. These memoranda will count for 15% of the course grade.

Exam:

The exam will count for 50% of the final grade and will be given during the last class session.

Topics to be Covered

Module 1 – The Structure of Private Equity Funds

Readings:

- “A Note on PE Partnership Agreements” (HBS 9-294-084)
- “A Note on the PE Fundraising Process” (HBS 9-201-042)
- “The Economics of the Private Equity Market,” (by Fenn/Liang/Prowse)

Cases:

- “Yale University Investments Office: June 2003.” (HBS 9-204-055)
- “Acme Investment Trust” (HBS 9-296-042)
- “Accel Partners’ European Launch” (HBS 9-803-021)

Module 2 – Private Equity Investing

Readings:

- “A Note on Private Equity Securities” (HBS 9-200-027)
- “A Note on Valuation in Private Equity Settings” (HBS 9-297-050)

Cases On Buyouts:

- “Brazos Partners: the CoMark LBO” (HBS 9-202-090)
- “The Exxel Group, March 2001” (HBS 9-202-053)

Cases on Venture Deals:

- “Apex Investment Partners (A)” (HBS 9-296-028)
- “Irongate Technologies”
- “Endeca Technologies (A)” (HBS 9-802-141)

Module 3 – Exiting Investments

Cases:

- “Metapath Software: September 1997” (HBS 9-899-160)
- “Investitori Associati: Exiting the Savio LBO (A)” (HBS 9-299-048)