

Study Questions for:

“Yale University Investment Office: June 2003”

- 1) How has the Investment Office selected, compensated, and controlled private equity fund managers? What explains the differences between their strategy in private equity with that in other asset classes (e.g., real estate)?
- 2) How has the Investment Office decided when to make private equity investments? What explains the differences between their strategy in private equity with that in other asset classes (e.g., real estate)?
- 3) How has the Investment Office made international private equity investments? What explains the differences between the performance of their international and domestic private equity investments?
- 4) How is the private equity industry changing? How could David Swensen’s private equity strategy go wrong?
- 5) Should David Swensen shift his private equity strategy?

Study Questions for:

“Acme Investment Trust”

- 1) Why is Warburg, Pincus proposing a different fee structure from the standard arrangement?
- 2) More generally, why are the incentives offered venture capitalists (Exhibit 4) so similar?
- 3) What are the financial implications of the shift? In particular, how does Warburg’s compensation change? To examine this question, you may wish to compare the net present value of their management fee with the variable compensation. (You may want to use a discount rate of 15%.) The following assumptions may help:
 - the fund has a 12-year life, with committed capital (the total amount of funds that the investors have promised to provide) of \$2 billion.
 - the funds are received in six equal installments, at the beginning of the first six years of the fund.
 - the management fee is either 1.5% or 1% of capital (not including those funds that are promised but have not yet provided by the investors), payable in advance at the beginning of the year.
 - the fund’s assets (not including those funds that are promised but have not yet provided by the investors), grow at a steady rate each year. Three representative rates are 5%, 20%, and 35%.
 - at the end of the sixth year, 20% of the value of the partnership’s assets at that time are returned to the investors. At the end of each subsequent year, 20% of the value of the assets are distributed. At the end of the 12th year, all the partnerships’ assets are distributed.
 - Warburg received either 15% or 20% of all distributions, but not until the investors have received distributions equal to their committed capital (\$2 billion).

Study Questions for:

“Accel Partners’ European Launch”

- 1) Is Cape Clear an attractive transaction? Why or why not? Is it appropriate as a “first deal” of a new private equity group?
- 2) What is the process that the partners went through when assessing the transaction? Is this approach sustainable? Can it be improved?
- 3) How attractive is the structure of Accel’s European affiliate? What are the pluses and minuses of this arrangement?
- 4) What alternatives should Accel’s partners have considered in structuring their European initiative?

Study Questions for:

“Brazos Partners: the CoMark LBO”

- 1) What is Brazos’ investment strategy? Does it seem well suited for its position as a first-time fund? How do you assess the merits of the GTT transaction?
- 2) How has the current recessionary climate affected Brazos’ investment strategy, either in favorable or unfavorable ways?
- 3) Is CoMark an attractive investment? What are your major concerns with the proposed deal? How attractive is the purchase price?
- 4) The Brazos partners claim that structuring the transaction as an asset purchase (rather than a stock purchase) is beneficial not just to Brazos, but also to the management team. Assess this claim.

Study Questions for:

“The Exxel Group: March 2001”

- 1) How is undertaking private equity investments in developing countries similar to and different from investing in the United States? In Europe?
- 2) How has Navarro gone about developing a ‘franchise’ for Exxel in Argentina? How has his relationship with Oppenheimer evolved? What are the strengths and weaknesses of this form of international private equity organizations?
- 3) Evaluate the Norte investment? Does the price seem fair? Do both an APV and a comparables analysis.
- 4) Explain the structure transaction between Exxel and Promodes. Why did Exxel and Promodes agree on the unusual structure of their transaction?
- 5) Would you advise Exxel to exercise its put option in March 2001?
- 6) What opportunities and challenges will Exxel face as the Argentine private equity market evolves?

Study Questions for:

“Apex Investment Partners (A)”

- 1) Is AccessLine an attractive investment opportunity? Why or why not? What are the key risks associated with the investment?
- 2) How has AccessLine financed itself to date? Why have they chosen this strategy? What have been the implications for the firm? Why is Dan Kanzler now considering raising funds from Apex Investment Partners?
- 3) How attractive are the terms that AccessLine has proposed to Apex for the Series B financing? How does the deal structure address the risks of investment? What issues, if any, should concern Apex?
- 4) What is an appropriate valuation for AccessLine? Do analyses using the discounted cash flow and the ‘venture capital’ methods suggest similar or different values? What do you think of Apex’s analysis?

Study Questions for:
“Iron Gate Technologies”

- 1) What are the important economic aspects of Iron Gate’s business? Is it a good opportunity (qualitatively)? What else would you like to know?
- 2) What role has Beitler played at Iron Gate? What role has Early played? Have they added value? How? Will Beitler add more value in the future if he invests? How? In general, what role do VCs play in portfolio companies? What role should they play?
- 3) Does the proposed deal with Iron Gate make sense for Trident? How attractive is it quantitatively? Qualitatively?
- 4) Should Beitler give the term sheet now or listen to his partners and wait?
- 5) Should Early accept the Trident offer? How should he make this decision? How should he and Beitler deal with the milestone issue?

Study Questions for:

“Endeca Technologies”

- 1) Critique Steve Papa’s fundraising strategy for the ‘C’ financing round? What steps did he take that were sensible? What mistakes did he make?
- 2) What are the virtues and drawbacks of accepting the financing package offered by the insiders? The Ampersand proposal?
- 3) What are the key differences in the term sheets offered by the insider group and Amersand? What explains the key differences?
- 4) Analyze the impact of renegotiating the anti-dilution provisions. Consider both the quantitative and qualitative impact. (When considering the quantitative impact, note that the previous formula adjusted the conversion price to the average of the price in B and C rounds, weighted by the sizes of the two financing rounds.) Was Bessemer’s request to adjust these terms reasonable?

Study Questions for:

“Metapath Softward: September 1997”

- 1) Analyze Metapath’s capital structure, in particular the focus on the various forms and pieces of preferred stock from the multiple previous rounds of financing. How has this capital structure affected the offer from Robertson & Stephens? How would RSC’s participating preferred interact with the other tranches of preferred stock?
- 2) How do you analyze the RSC offer? In particular, what is the value of the participating preferred feature to the RSC syndicate? What are the risks to the Metapath shareholders if the board accepts the RSC offer? Even though the company has only projected its activity one quarter forward, is it possible to assess the reasonableness of the valuation? (For those brave enough to attempt to do a discounted cash flow valuation, the ten-year Treasury rate in September 1997 was 6.21 %.)
- 3) Is the Celltech offer fair? How should the Metapath board view the Celltech stock? What are the risks for the Metapath shareholders if the board accepts the Celltech offer?
- 4) If you were on the Metapath board, which option would you support?

Study Questions for:

“Investitori Associati: Exiting the Savio LBO (A)”

- 1) What are the pros and cons of taking Savio public? If the investors choose to do so, which market should they use?
- 2) Why the emphasis on creating public markets in Europe? What, aside from offering a second exit option, do they offer?
- 3) What approaches would you recommend to stimulate venture capital investment in Europe? How do you see its challenges from those of Japan? How are they the same?.