

VIRGINIA TECH

Pamplin College of Business

FIN 4234: Venture Capital and Investment Banking (Spring 2014)

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Time and Location: 11:00 am – 12:15 pm Tuesday and Thursdays, PAM 3010.

Office Hours: 11:00 am – 12:00 pm Monday and Wednesdays, or by appointment.

Course Objective: This course provides students with an understanding of venture capital, private equity, and investment banking industries, with particular focus on the financing of hi-tech start-up companies.

Course Organization and Content:

The first part of the course explores the venture capital cycles of fund-raising, investing in portfolio firms, and exiting the investments. In particular, we will explore:

- i) The relationships and contracts established between the venture capitalist/general partner and the investor/limited partner, and between the venture capitalist and the managers of the firms in the portfolio,
- ii) The terms of financing/deal structure based on the venture capital method of valuing the portfolio firm.

The second part of the course focuses primarily on the role/function of investment banks in helping firms raise capital in the public markets. We will explore,

- i) The function of investment banks reasons for and the process of going public,
- ii) Initial public offering process, including the selection of underwriters, pricing of offers, share allocation, research coverage etc.
- iii) Regulation of the industry, financial crisis of 2008, and other issues surrounding the industry.

Course Prerequisites: Investments (FIN 3144), Corporate Finance (FIN 3154)

In particular, you must be familiar with the concepts of time value of money, risk, return, and portfolio theory. If you are not comfortable with these concepts you should review your previous class notes, textbooks, or other resources on these topics. In addition, you should be familiar with Excel at a basic level for the purposes of the project.

Course Material:

Electronic Course Pack: <https://cb.hbsp.harvard.edu/cbmp/access/24505761>

Collection of HBS notes and cases from Harvard Business Publishing plus three textbook chapters. Online registration is required to purchase the course pack. The cost is \$40.64 and can be paid online by credit card. You can also order a print copy at additional cost after purchasing the electronic version. Please note that by purchasing the course pack, you “agree that it is for your use only and is not to be copied in any form for others.”

PowerPoint Slides: They will be available for download on Scholar prior to the corresponding lecture.

Scholar: You must check Scholar regularly for announcements, course documents and important information.

NYT Dealbook: <http://dealbook.nytimes.com/category/series/morning-agenda/>

We will use the New York Times Dealbook blog to follow current events relevant for the course and as a basis for class discussion. I expect you to follow Dealbook on a regular basis and contribute to class discussions. Dealbook also serves as the main source of material for the mini-quizzes. You can visit their website on a regular basis (there is a link on Scholar) or alternatively sign up for e-mail delivery here: <http://dealbook.nytimes.com/dealbook-e-mail/>

Twitter Feed: <http://twitter.com/FIN4234>

I use Twitter as an open and permanent online repository for news and articles that are relevant for our course. I encourage you to follow the feed and read the articles.

Supplementary Readings: Occasionally I will post relevant articles from the financial press on Scholar. I will ask you to read these articles in advance and we will discuss them in class. You will be responsible from these articles in the exams.

Format of the Class:

Class topics will generally follow the course pack and PowerPoint slides, though we will occasionally take detours. I expect you to read the course pack chapters before coming to class and follow NYT Dealbook and the Twitter feed on a regular basis. Most of the topics in FIN 4234 can serve as the basis of interesting in-class discussion and I encourage you to get involved so that lectures become more of an active experience. Feel free to bring to my attention interesting articles from the financial press, so that we can discuss them in the class. Class participation is strongly encouraged. I will on occasion call on students to answer questions or provide their opinions related to the topic at hand.

Assignments and Grading:

- 3 homeworks: $3 \times 5\% = 15\%$
- Project: 10%
- 1st Midterm: 20%
- 2nd Midterm: 20%
- Final exam: 30%
- 7 current event pop-quizzes: $Top\ 5 \times 1\% = 5\%$

Current events quizzes: There will be a total of seven pop-quizzes. You will be asked to briefly discuss an event of your choosing reported by NYT Dealbook Morning Agenda (in the M&As, I-Banking, PE, IPO, or VC sections) or posted on the Twitter feed since the previous class (prior Thursday to Tuesday news for quizzes on Tuesday, and Tuesday to Thursday news for quizzes on Thursday). Each quiz is worth 1% with no partial credit. Only the top 5 will count towards your grade.

Project: The project is about calculating the discounted present value of yearly cash flows generated by a venture capital fund for its general and limited partners, and will be solved using Excel. You will be allowed to work in groups of up to three members. I will ask you to form a group before I hand out the case study. Students that are not in a group but would like to be in one will be assigned randomly into groups of two or three.

Course Rules:

Laptops are allowed in the classroom but their use is restricted to work related to the course only.

Make-up exams will be given only if you have obtained prior approval. Approval requires a detailed explanation for your absence from the scheduled exam/assignment with sufficient advance notice.

In the case study, using the work of another individual or group, or sharing answers constitutes cheating and will be regarded as a violation of the Virginia Tech Honor Code.

The following Honor Code applies to all work that will be submitted in this course. The text is taken from <http://www.honorsystem.vt.edu/>.

HONOR CODE

The Virginia Tech Honor Pledge is: "I have neither given nor received unauthorized assistance on this assignment."

This pledge applies to all work submitted at Virginia Tech! Every student who is admitted to Tech has pledged to abide by the Honor Code. The admission application states this, and by signing it, each student agrees to the Honor Code.

Outline:

PART I - Venture Capital and Private Equity

I. Introduction to VC/PE

Readings: “New Venture Financing”
“Note on the Venture Capital Industry”

II. Start-up Valuation

III. The Fund Raising Cycle

Reading: “A Note on Private Equity Partnership Agreements”

IV. The Investment Cycle

Reading: “Contracting and Control in Venture Capital”

V. The Exit Cycle

Reading: “Note on Distribution of Venture Investments”

VI. Buyouts

PART II - Investment Banking

I. Introduction to Investment Banking

Reading: “Regulation of the Securities Industry”

II. The Role of Investment Bankers in Raising Capital

Reading: “Financings”

III. The Financial Crisis

Reading: “Investment Banking Issues”
Reading: “Goldman Sachs and its Reputation”