

Finance 624

PRIVATE EQUITY FINANCE

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Office Hours:
Tuesday, 9:30-3:30
(and by appointment)

Electronic Copies of Syllabus and Readings on CTools

Fall Term "B", 2006

Section 001, 451
Monday, 7:00 PM – 10:00 PM

Teaching assistant:

Oleg Svitstinski
Faculty Support Staff: Marilyn Bernhardt

INTRODUCTION

The purpose of the course is to help students build upon the operational aspects of the processes involved in venture capital learned in Finance 623 and extend that to an understanding of leveraged buyouts and later stage private equity finance and investment. We focus on the processes and institutions involved in financing of expanding companies, buyouts and turnarounds, as well as harvesting vehicles such as IPO's and M&A transactions. The course also covers the formation and management of private equity investment funds and the management of the private equity portfolio. The course is designed for students who wish to enter the private equity finance market as investors (individual or institutional), intermediaries, or as owner-managers of companies seeking to raise funds. The course has been offered continuously in the Michigan Business School since 1982 and has been taken by over 3,000 students at the University of Michigan and other universities.

OBJECTIVES AND STRUCTURE OF THE COURSE

In this course we address the problem of funding business firms, as they pass through the later stages of their development to harvest and maturity. The objective of the course is to *teach* students how to finance expanding and restructuring companies (their own or someone else's), and to *encourage* them to join, acquire or start up such companies themselves or to engage in the financing of such firms by joining private equity finance funds.

Along with assigned readings and lectures, the course structure features three major applied work project assignments, described below. For each assignment, teams will be formed as described below. Each assignment is “real world” and will be competitive among teams. Students will benefit from working in teams and will evaluate the work of other team members. These evaluations will be turned in to me and will constitute part of your grade in the course.

As an extension of Finance 623, 624 and 629, students are invited to participate in the activities of the Center for Venture Capital and Private Equity Finance (CVP). These include the Michigan Global Private Equity Conference (October 27, 2006) and the annual Michigan Growth Capital Symposium (May 15, 16, 2007). These programs bring together operating companies and private equity investors. For details on these programs as well as research opportunities and access to employment avenues in private equity, please link to the CVP Web site:

<http://www.bus.umich.edu/CVP>

WORK ASSIGNMENT PROJECT I

[The Long Point Capital and Harris Williams Private Equity Analysis Competition](#)

WORK ASSIGNMENT PROJECT II
**The Glencoe Capital "Public to Private" Buyout Competition and the Alan Gelband
Scholarship Prize**

A core feature of the Finance 624 Private Equity course is the Glencoe Capital "Public to Private" Buyout Competition, a real-time competition among teams each consisting of four students enrolled in the class.

Throughout the Fall, 2004 term, each team will work to find and present that U.S. public company which in their analytical opinion represents the best opportunity for conversion from "public" status to "private" status by means of a buyout by Glencoe Capital, a private equity firm in Chicago, IL (www.glencap.com).

Candidate public companies will be chosen from a list of such companies that will be provided in advance. Operating and financial information and data on these firms will be accessible through the facilities of the Tozzi Center at the Ross School of Business. Teams will also be provided with the acquisition and investment criteria of Glencoe Capital on the basis of which each team's search, analysis and presentation will be made.

A complete analysis of the target company, the investment thesis, capital structure and "pitch book" will be presented to a judging panel by December 6 and a live presentation by each team will be made to the panel on December 10. Two teams will be chosen by the judging panel on the combined basis of the total work product described above. Both teams will go to Chicago on December 15 to give a 90 minute (including Q&A) presentation to the Glencoe Capital Investment Board. On the basis of this presentation, the Investment Board will choose the winner and runner-up teams. Each of the 4 members of the winning team will receive directly a \$1,875.00 share of the Alan Gelband Scholarship which carries a \$10,000 total cash award. Each of the 4 members of the runner-up team will receive directly a \$625.00 share of the of the Alan Gelband Scholarship.

Mr. David Evans (BA, Michigan, MBA, Chicago), founder and Chairman of Glencoe Capital, and Mr. Alan Gelband (BA and MBA, Michigan), founder and President of Alan Gelband Company, New York, NY, will join us in class on November 17 to initiate the competition. They will be accompanied by David Hiemstra (BBA and MBA, Michigan) of PricewaterhouseCooper, who will be special consultant to the teams, as well as Oleg Svitsitski, (MS, Michigan) TA of the Finance 624 course. Access to facilities in Tozzi Center will be provided with the assistance of Mr. Kai Petainen, of the Tozzi staff.

TEAM ASSIGNMENTS

Teams of 4 people will be formed for the purpose of completing the assignments set forth in this syllabus. For each assignment listed below, teams will prepare a detailed written analysis to be turned in to me.

The written team projects and their due dates and discussion dates are as follows:

<u>Assignment</u>	<u>Due Date</u>
The Leveraged Buyout John M. Case Company	November 3
"Harvesting a VC-Backed Company" Jeff Bistrong Harris, Willams, Inc. Boston, MA	November 8
PIPEs Investment Analysis	November 10
"Buying and Managing a Portfolio of Private Companies" George N. Gillett, Jr., Founder & CEO Booth Creek Management Corp., Vail, CO and James G. Skidmore, VP, Booth Creek Management	November 15
"The Public to Private Process" David Evans, Founder, Chairman, Glencoe Capital, Chicago, IL	November 17
"Restructuring the ASC Corporation, Inc." Case, Jason Runco, Vice President, Questor Capital, Detroit, MI	November 22
"Fund Raising for Strength Capital II" Mark McCammon, Managing General Partner, Strength Capital, LP, Birmingham, MI	November 29
"The Art of Turnaround Management: An Insider's View" Robert Peiser, CEO, Imperial Sugar Corporation, Houston, TX	December 1
Submit 6 paper copies and an electronic copy of your team's "Public to Private Competition" pitch book for judges review	December 5
Oral presentation of your team's summary pitch (and Q&A) at a time to be assigned	December 10
Course Overview, results of Public to Private Competition	December 13

Two chosen teams "pitch" their proposals to the Investment Committee of Glencoe Capital, Chicago, IL. Winner and runner-up determined by the Committee

December 15

COURSE WORK AND ASSIGNMENTS

The course structure features three main elements:

- 1. selected readings, found in your Course Materials and on Course Tools, for which each student is responsible individually,**
- 2. case studies, found in your Course Materials and on Course Tools, for which students in teams of 4 are jointly and severally responsible for submitting a written analytical report (2 -3 pages of double spaced text plus exhibits) and conducting an active discussion of the case in class and**
- 3. required participation in the "Public to Private Buyout Competition" as described below...in lieu of a final examination.**

Students will be responsible individually for attending all classes and participating in class in the discussion of readings, case studies and lecture points. Grades will be assigned on the basis of participation quality.

Tuesday is "official" office hours day, all day, so please organize your team office hours visits for Tuesday and schedule your visits in 30 minute blocks by email to Marilyn Bernhardt before 5 P.M. on Monday. Appointments may be scheduled in advance, by e-mail, for other times of the week.

We have a lot of work to do in this class and it is tightly scheduled within the time limits of the Fall "A" Term. Please consider your willingness and ability to comply with the schedule and the work involved before committing to take the course. To be fair to your assigned team members, please quickly make your decision to commit (or not) to the course and the time and work involved. If you are registered for the class and decide to drop, please advise me and your team members by e-mail immediately.

Please provide me with your continuous feedback on our progress in the course. Feel free to do this in person, by phone or e-mail. If you wish, please use the system designed for class use by Prof. Scott Moore. Please access it at:

<http://www.samoore.com/class-feedback.php>

GRADING

UMBS policy imposes the following grading curve for elective courses as well as required courses:

<i>Grade</i>	<i>Maximum Percentage of Class</i>
Excellent	25%
Good	
Maximum Sum of Excellent and Good	75%
Pass	
Low Pass	
Fail	
Total	100%

Your grade in the course will be determined on the basis of the distribution shown below. It is possible for team members to earn different final grades in the course, depending upon performance in all of these aspects of the course.

<i>Basis of your grade</i>	<i>Percentage Distribution</i>
Individual Work: Class Participation (daily discussion, cases)	30%
Team Work Total:	70%
Team Grade on Written Case Deliverables	30%
Public to Private Competition	30%
Individual Work Graded by Peer Team Members (Please submit to me by e-mail at the time of your	10%

case report submission, your evaluation, on a scale of 0 - 10 for each team member, of each of your team members' contribution to your team case submission)

RESERVE MATERIALS

The following books and periodicals are on general closed reserve in the UMBS library. They will be very useful to you as sources of general information and data on transactions and trends.

Baker, George P. and G.D.Smith, The New Financial Capitalists Cambridge, UK,(Cambridge University Press, 1998), 257 pp.

Frome, Robert L. and Herbert B. Max. Raising Capital: Private Placement Forms and Techniques. Law and Business Publications, Harcourt Brace Jovanovich, 1981 (current supplement) on closed reserve.

Halloran, Michael J. Venture Capital and Private Equity Finance and Public Offering Negotiations. Law and Business Publications. Harcourt Brace Jovanovich. 1982 (current supplement) ["Agreement of Limited Partnership" pp. 1-133 and "Term Sheet" pp. 253-268].

Levin, Jack S., Structuring, Venture Capital, Private Equity and Entrepreneurial Transactions, Gaithersberg, NY (Aspen Publishers, Inc, 2000), 1100 pages

Pratt, Shannon P., Valuing A Business: The Analysis and Appraisal of Closely Held Companies , Homewood,IL, Dow Jones-Irwin, 1981. [Chapter 17, Valuing Preferred Stock and Chapter 18, Valuing Stock Options]

VENTUREXPERT WEB SITE AND DATA BASES:

Access via UMBS Kresge Library Home Page

Students are encouraged to use the VentureXpert website and databases as a source of general and specific current information and data relevant to this class. It is available to the school under a license and will accommodate 4 users at a time.

www.venturexpert.com

CLASS SCHEDULE

This schedule presents the topics, readings and cases to be discussed in specific class sessions. Class materials are on CourseTools and in your CoursePack. Please read these articles and be prepared to discuss them during the class for which they are assigned. Other materials may be distributed on an occasional basis for use and discussion in class.

WEEK 1

Monday, November 1

Introduction to Private Equity Finance

Kester & Luehrman, Rehabilitating the Leveraged Buyout

Wednesday, November 3

Discussion Topic: The Leveraged Buyout

The leveraged buyout (LBO) is a well-seasoned vehicle which serves both as a method through which an entrepreneur can gain control of a company and as a means to harvest or exit a venture capital/private equity-backed investee company. The LBO market provides a large amount of the demand for private equity and is a major force in providing business continuity and restructuring. In this session, we study two recent cases in order to focus upon the important structural considerations in buyout transactions, as well as the terms, covenants and tax implications of various debt and equity securities used in dynamic buyout transactions.

Reading: Levin, Chapter 5, Structuring the Buyout

Technical Note on LBO Valuation (A): LBO Structure and the Target IRR Method of Valuation 9-920-004

Technical Note on LBO Valuation (B): The Equity Cash Flow Method of Valuation Using CAPM 9-902-005

Case Study: John M. Case Leveraged Buyout

Factoring in the risks involved, how should the group finance the acquisition and what should the capital structure be?

Trace the changes in the LBO business since the 1970's and explain how the proposed LBO transaction might look in today's marketplace.

Factoring in the risks involved, how much should the buying group pay for the disk drive operations?

WEEK 2

Monday, November 8

Discussion Topic: Harvesting a Private Equity Investment

Reading: Levin, Chapter 9, Exit Strategies: Structuring IPO or Sale of VC-Financed Portfolio Company

Free Cash Flow Valuation Problem Set 9-396-269

Case study: Harris Williams, Inc., Boston, MA focusing on issues involved in a venture capital firm harvesting a technology-based firm. Case materials are posted on CTools.

(Jeff Bistrong, Harris, Williams, Inc., Boston, MA)

Wednesday, November 10

Discussion Topic: Private Investment in Public Entities (PIPEs)

PIPEs article: Brophy, Ouimet and Sialm. "PIPE Dreams?"

WEEK 3

Monday, November 15

Discussion Topic: Buying, Building and Harvesting Businesses

"Buying and Managing a Portfolio of Private Companies"

George N. Gillett, Jr., Founder & CEO

Booth Creek Management Corp., Vail, CO

and James G. Skidmore, VP, Booth Creek Management

Hale Auditorium

Wednesday, November 17

Discussion Topic: The Public to Private Transaction Process

**David S. Evans, Chairman and C.E.O., Glencoe Capital, Chicago, IL
Alan Gelband, Founder and C.E.O., Alan Gelband Company, New York, NY
David Hiemstra, PWC, Detroit, MI**

WEEK 4

Monday, November 22

Discussion Topic: The "Restructuring" Investment

Reading: Chapter 8, Levin, Structuring Turn-Around Investment in Overleveraged or Troubled Company

**"Restructuring the ASC Corporation, Inc."
Case, Jason Runco, Vice President,
Questor Capital, Detroit, MI
22**

Monday, November

Wednesday, November 24

No Class

WEEK 5

Monday, November 29

Discussion Topic: Raising Capital for the Private Equity Fund

**Reading: A Note on the Private Fund Raising Process 9-201-042
Levin, Chapter 10, "Structuring Formation of Private Equity Fund"**

**"Fund Raising for Strength Capital II"
Mark McCammon, Managing General Partner,
Strength Capital, LP, Birmingham, MI www.strengthcapital.com**

Wednesday, December 1

**"The Art of Turnaround Management: An Insider's View"
Robert Peiser, CEO, Imperial Sugar
Corporation, Houston, TX**

WEEK 6

Monday, December 6

**Deadline 2:40 PM Submit 6 Paper copies plus an electronic copy of your team's
"Public to Private" final "pitch book"...**

Wednesday, December 8

**In-class discussion of oral "pitch" presentations for "Public to Private" Judges
Panel**

Friday, December 10

**Oral presentations to "Public to Private" Panel of Judges at time and place to be
announced**

WEEK 7

Monday, December 13

Course review and announcement of "Public to Private" results.

Wednesday, December 15

**Two selected teams go to Chicago to each make 90 minute presentation/Q&A to
Investment Committee of Glencoe Capital. Winner and runner-up to be chosen by
the Committee.**

The Public to Private Competition will count in lieu of a final exam...

