
Private Equity and Venture Capital

Professor: Filippo Ippolito

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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 **real options** and the so called "**venture capital method**", 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 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. 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.

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** and a dedicated **simulation game**, 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

- Learn how to compute the value of an entrepreneurial firm using different approaches, in alternative to the standard discounted cash flow method
- Learn how to assess different financing options for a venture firm

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- Learn how to write your own business plan

Methodology

At mix of lectures and case studies with class discussion.

Evaluation criteria

- Participation in class: 15%
- Case presentations (= continuous assessment): 50%
- Course project: 35%

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

In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the "Retake" period). In the meantime, the student will get an "incomplete", which will be replaced by the actual grade after the final exam is taken. The "incomplete" will not be reflected on the student's Academic Transcript.

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."

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Calendar and Contents

Units	Content	Date	Session
1	LECTURE: Introduction to venture capital (BDM ch23)		1
2	LECTURE: Review of Options (BDM ch20)		
3	CASE: Introduction to Penelope's Pocket Phones BP: Introduction to the Business Plan project		
4	LECTURE: Review of Option Pricing (BDM ch21)		2
5	LECTURE: Real Options (BDM ch22)		
6	LECTURE: Real Options (BDM ch22)		
7	CASE: Presentations of Penelope's Pocket Phones		3
8	CASE: Introduction to Arundel Partners		
9	BP: Presentations of the value proposition (sections 1-3 of BP template)		
10	LECTURE: Structure of VC partnerships		4
11	CASE: Work in class on Arundel Partners		
12	BP: Market and Competition (sections 4 of BP template)		
13	LECTURE: VC securities		5
14	CASE: Introduction to Store Escape		
15	BP: Operations and Strategy and Marketing (sections 5-6 of BP template)		
	Deadline to submit 5-slide presentation		
	Online voting begins to select the four finalists		
16	CASE: Presentations of Arundel Partners		6
17	LECTURE: Venture Capital Valuation Method		
18	CASE: Work in class on Store Escape		
19	CASE: Presentations of Store Escape		7
20	GAME: Choosing the right financing options at Sunflower Nutra		
21	CASE: Introduction to Venture Outreach Networks		
22	BP: Start up expenses and projection of revenues (sections 7 of BP template)		8
23	LECTURE: Venture Capital Valuation Method – Exercises		
24	LECTURE: Performance of VC investments		9
25	BP: Video BP: Pro-forma Accounts (sections 7 of BP template)		
26	CASE: Presentations of Venture Outreach Networks		10
27	BP: Valuation and financing (sections 7 of BP template)		

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	Deadline for the four finalists to submit 60-second video		
28	BP: Presentations of Business Plans		11
29	BP: Presentations of Business Plans		
30	BP: Presentations of Business Plans		12
	Noon (NY time) On-Line Contest – Zoom video – the four finalists pitch – judges select winner		

Each unit is 60 minutes = 50 class + 10 break

Reading Materials

- Investment Valuation, A. Damodaran, 2nd Ed.
- Venture Capital and Private Equity: A Casebook, 5th Edition, Josh Lerner, Felda Hardymon, Ann Leamon
- Venture Capital, Private Equity, and the Financing of Entrepreneurship, Josh Lerner, Ann Leamon, Felda Hardymon
- 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

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 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.

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