

Venture Capital & Private Equity

1. Course Description

The private equity industry, originated in the United States, was a predominant American phenomenon for several decades. Before the internet bubble exploded, there had been a tremendous boom for about two decades in the venture capital, and more broadly speaking, private equity industry. Yet last several years has seen significant instability and volatility in valuations and funds flows.

China remains the most popular geographic location of the Asia Pacific countries for new investments. Chinese government has been actively chasing venture capital. Recent years has seen a fast development of this industry in China.

This course examines how private equity funds are raised and structured, considers the interactions between private equity investors and the entrepreneurs that they finance, and examines the process through which private equity investors exit their investments, mainly based on American practice. European practice and a brief global comparison are followed. The course discusses also on the history, political and legal environment and progress, major players and some cases of venture capital and private equity in China.

2. Course Objectives and Requirements

1. Course Objectives :

- To understand the private equity cycle by learning from developed countries' practice
- To understand the status of private equity in developed and developing countries/regions, esp. in China
- To be able to take a reasonable assessment of an investment opportunity
- To be able to understand also how entrepreneurs play with venture capitalists

2. Requirements :

- Intensive pre-class preparation is required, especially the assigned cases.
- Students are expected to attend all classes, and as we learn from each other, active participation is encouraged.

3. Course Arrangement

| Course name | | Venture Capital & Private Equity | Total Credit Hours | 36 |
|-------------|--------------|--|--|---|
| unit | Credit hours | Contents | Preparation of class and reading materials | Cases |
| 1 | 2 | Unit One: Introduction to venture capital and private equity | 1. Chapter 1 of Textbook (Josh Lerner et al) 2. Case: Tad O'Malley: December 2004 | 1. Tad O'Malley: December 2004, HBS#: 806024 |
| 2 | 2 | Unit Two: Private equity cycle: Fundraising | 1. Chapter 5 and 7 of Textbook (Josh Lerner et al) 2. Chapter 4 of Textbook (Bygrave, Willam D) | |
| 3 | 6 | Unit Three: Private equity cycle: Investing | 1. Chapter 13 and 15 of Textbook (Josh Lerner et al) 2. Chapter 5-8 of Textbook (Bygrave, Willam D) 3. Case: Tad O'Malley: June 2005 | 1. Tad O'Malley: June 2005, HBS#: 806078 |
| 4 | 4 | Unit Four: Entrepreneurship & Venture capital | 1. Lecture notes 2. Case: Hindman & Company 3. Case: Bridge Capital Investors, Inc. | 2. Hindman & Company (by Timmons) 3. Bridge Capital Investors, Inc. (by Timmons) |
| 5 | 4 | Unit Five: Private equity cycle: Exiting | 1. Chapter 22 of Textbook (Josh Lerner et al) 2. Chapter 9-11 of Textbook (Bygrave, Willam D) 3. Case: Jiffy Lube International | 1. Jiffy Lube International, Inc. (by Timmons) |
| 6 | 4 | Unit Six: Global situation and international comparison 1. European private equity 2. Private equity in developing countries 3. Brief international comparison | 1. Chapter 17 and 19 of Textbook (Josh Lerner et al) 2. Chapter 12 of Textbook (Bygrave, Willam D) | |

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| 7 | 6 | Unit Seven: Venture capital and private equity development in China 1. History and issues 2. Current development and latest info | 1. Lecture notes 2. Case: Chengwei Ventures and the hdt* Investment | 1. Case: Chengwei Ventures and the hdt* Investment, HBS#: 802089 |
| 8 | 2 | Unit Eight: Introduction to business plan | 1. Lecture notes | |
| 9 | 2 | Unit Nine: A tricky subject: "Business ethics" (Esp. when making investment in China) | 1. Lecture notes 2. Chapter 13 of Textbook (Bygrave, William D) | |
| 10 | 2 | Unit Ten: The future of venture capital industry: New frontiers | 1. Lecture notes 2. Case: Actis and CDC: A New Partnership | 1. Actis and CDC: A New Partnership, HBS#:9805122 |
| 11 | 2 | Presentation on the group assignment | | |

5. Teaching Methods

Lectures, Discussions, Role Plays, Case Analysis, etc.

6. Learning Outcomes Expected

| Category | Learning Outcomes |
|--------------------------------|--|
| Master of Knowledge | <ol style="list-style-type: none"> 1. Understand the principal concept and theory of venture capital and private equity 2. Understand the fundraising process and private equity partnership agreements 3. Understand the investing process and private equity securities and be able to make valuation in private equity settings 4. Understand the exiting process and initial public offering process 5. Understand European private equity 6. Understand Private equity in developing countries, esp. in China 7. Understand the requirement of target companies 8. Understand business ethics when making investments |
| Intellectual abilities learned | <ol style="list-style-type: none"> 1. Be able to identify the requirement of limited partners 2. Be able to take a reasonable assessment of an investment opportunity 3. Be able to evaluate exit channels 4. Be able to review a business plan 5. Be able to understand also how entrepreneurs play with venture capitalists |
| Practical skills learned | <ol style="list-style-type: none"> 1. Skills of being able to review business opportunities 2. Skills of using evaluation methods for actual target company 3. Skills being able to examine real investment targets 4. Skills of being able to work out appropriate exit plans |

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| Personal competences and characters Cultivated | <ol style="list-style-type: none"> 1. The competence of creative thinking and opportunity identifying 2. The competence of thinking questions by using globalization view and the idea of sustainable development 3. The management competence of being good at planning, organization and communication 4. The competence of critical acceptance of knowledge and innovative 5. The competence of flexibly contingency management according to different external environment 6. Have the charm of leadership and responsibility 7. The team spirit of cooperation |
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7. Performance Evaluation: Means & Ratio

| Evaluation Means | Ratio (%) | Link with learning outcomes expected |
|---------------------------|-------------|--|
| Attendance and Engagement | 10 | Evaluate the abilities of understand and application of PE/VC knowledge related and the abilities of team participation and effective communication |
| Individual assignments | 30 | Focusing on case analysis, evaluate the abilities of using PE/VC knowledge related to analyses and solve the practical problems |
| Group assignment | 20 | Examine Chinese domestic PE/VC investors and the investments, or foreign investors' investment in China. To have a better understanding of real practice and make reasonable analyses and evaluation. |
| Exam | 40 | Evaluating the degree of mastering the basic concepts and important theories on the module and the ability of applying the knowledge and tools learned to analysis past real situations and current phenomenon in PE/VC industry in China. |

8. Textbook, References and Reading Materials

1) Textbook

- [1] Josh Lerner (2007) Venture Capital & Private Equity: A Casebook (4th edition). John Wiley & Sons. Inc
- [2] Bygrave, William D, Michael Hay & Jos B. Peters (1999) The Venture Capital Handbook. London: Financial Times / Prentice Hall
- [3] Paul Gompers & Josh Lerner (2004) The Venture Capital Cycle. London: The MIT Press

2) Online resources

- [1] <http://www.lib.tongji.edu.cn>
- [2] <http://www.pedaily.cn/en>
- [3] <http://www.nvca.org/>
- [3] <http://www.evca.com>
- [4] <http://www.vfinance.com>
- [5] <http://www.ventureone.com>
- [6] <http://www.thevc.com>
- [7] <http://www.cvca.com.hk>
- [8] <http://www.vcapital.com>
- [9] <http://www.nasvf.org>
- [10] <http://www.venturecapitaljournal.net>

3) Periodicals and Magazines

- [1] Asia Venture Capital Journal
- [2] Pensions & Investments
- [3] Mergers & Acquisitions: The Dealermaker's Journal
- [4] Mergers & Acquisitions Report
- [5] Leveraged Finance News
- [6] The Economist
- [7] American Banker
- [8] Wall Street Journal - Eastern Edition
- [9] Bloomberg Businessweek

9. Cases

- [1] Tad O'Malley: December 2004, HBS#: 806024
- [2] Tad O'Malley: June 2005, HBS#: 806078
- [3] Jeffrey A. Timmons, Hindman & Company
- [4] Jeffrey A. Timmons, Bridge Capital Investors, Inc.
- [5] Jeffrey A. Timmons, Jiffy Lube International, Inc.
- [6] Chengwei Ventures and the hdt Investment, HBS#: 802089
- [7] Actis and CDC: A New Partnership, HBS#:9805122

10. Assignment Requirements

In groups, to examine the venture capital & private equity industry in China.

Requirements

- 1) **Topic:** Each group can refer to the recommended topics and examining questions and determine their own specific topic according to their detailed selections. You may choose a topic as large as you can manage with abundant data or a topic as small as you can elaborate.
- 2) **Group size:** 4 persons
- 3) **Report length:** 2,000 - 2,500 words
- 4) **Presentation:** 10 minutes each group.

The criteria of assignment evaluation (100 points)

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|---|-----------|
| 1) Collection and integrity of material collection | 20 points |
| 2) Identification of key issues | 20 points |
| 3) Quality of the analysis | 25 points |
| 4) Conclusions, recommendations | 15 points |
| 5) Structure | 5 points |
| 6) Reference | 5 points |
| 7) Whether the PPT and document is made seriously and beautiful | 10 points |

Appendices:

1. The course PPT
2. Case material
3. Other teaching material (such as reading materials, the articles)