

Finance 6434
Private Equity

Course Objective:

Over the past two decades there has been a tremendous growth in the private equity market. The size of the private equity market in the U.S. is estimated to have increased from about \$5 billion in 1980 to over \$300 billion at the start of 2001. Over time the composition of the private equity market has changed. For example, as the internet bubble burst so did the venture capital market (a portion of the private equity market) Offsetting this has been the growth of hedge funds. This course explores the private equity industry and particularly the venture capital market. This course focuses on the organized private equity markets, which involves professionally managed equity investments in unregistered securities of private and public companies. Professional management is provided by specialized intermediaries and institutional investors. These intermediaries typically acquire large ownership stakes in the companies they invest in and take an active role in monitoring and advising these firms.

The course has three primary objectives. First, the course seeks to deepen students' understanding of corporate finance by applying the intellectual frameworks used in corporate finance to analyze activities and institutions in the private equity market. Thus, one goal is to review and apply the key concepts and tools of corporate finance in a new and interesting environment.

Second, the course seeks to familiarize students with the key institutional features of the private equity industry. This involves examining how institutions and contracts are structured to mitigate agency costs and information problems that are endemic to private equity investments. While the primary focus will be on structure of contracts and institutions in venture capital market we will also examine private equity investments in mature and distressed companies.

Finally, a crucial objective of the course is to build an appreciation of the valuation process in a private equity setting. Valuation issues are often an issue of intense negotiations and contentious disputes. The goal is to familiarize students with the valuation techniques used by private equity investors and to demonstrate how the value of private equity investments is inextricably linked to the cash flow and control rights provided to investors and entrepreneur/manager of the firms.