Introduction

This course examines the private equity marketplace. Private equity is a significant source of capital for both new ventures and established firms. Private equity is the investment of capital in private companies to fund growth or in public companies to take them private.

Private equity is segregated into several sub-markets of which the principal focus of this class is on the leveraged buyout markets. Since its origins after World War II, the size of the private equity market has grown substantially and has become institutionalized. For example, annual capital commitments to private equity funds have grown from $8 billion in 1991 to a peak of more than $500 billion in 2007. Since the financial crisis in late 2007, private equity commitments and deal volumes have declined substantially but by 2014 commitments had risen to $500 billion. At year-end 2014, there was approximately $1.2 trillion of private equity “dry powder” available for sponsors to call for private investments. In 2014, private equity “exits” totaled $456 billion.

The objective of this course is to provide an overview of the private equity market from the differing perspectives of private equity investors (limited partners), private equity fund sponsors (general partners) and the managers of portfolio companies by focusing on the nature of the market and the strategies employed.

The “private equity cycle” will be explored and developed in the course. The private equity cycle includes:

1. Private equity fundraising and structure;
2. Investment origination, valuation, value creation and investment management;
3. Exit strategies.

Topics expected to be covered include:
1. Fundraising and Structure
   i. Private equity risk and return
   ii. Private equity manager selection
   iii. Asset allocation
   iv. Structure of private equity funds
   v. Analyzing a fund investment opportunity
   vi. Raising a first time fund

2. Investment Origination, Valuation, Value Creation and Management
   i. Valuation
   ii. Leveraged investments
   iii. Value creation
   iv. Debt securities
   v. Bad investments & restructuring
   vi. Private Equity securities
   vii. Investment management

3. Investment Exit
   i. Initial public offerings
   ii. Sale of portfolio companies
   iii. Leveraged recapitalizations
   iv. Distributions of portfolio investments

4. The Institutionalization of Private Equity

The teaching method will employ reading, discussion and lecture based principally on case studies. Since this is a mini-course, we will cover topics quickly, touching on the highlights rather than studying issues in depth. We will not discuss every topic or reading in class. Students will be expected to actively participate in classroom discussion.

**Class Prerequisites**

*Foundations of Finance* (COR-GB.2311) are a prerequisite. It is also strongly suggested (but not required) that students have completed or are taking concurrently *Corporate Finance* (FINC-GB.2302). Working knowledge of finance, including investments and investment banking, and management policy is quite helpful.

Students who have taken similar courses such as Entrepreneurial Finance, Venture Capital Financing and New Venture Financing should only take this class with the Instructor’s permission. Students who have taken Private Equity Finance may not take this course.

**Schedule**
Class will be held Mondays from May 16th to June 27th except for May 30th, which is a NYU holiday, from 6 pm to 9 pm. We will take one 10 to 15-minute break during each class.

A mid-term written assignment will be distributed at the end of the class on June 6th and will be due on June 13th at the beginning of class. The final written assignment will be distributed on the last day of class, June 27th, and will be due no later than 6 pm on July 5th.

Students are expected to work individually on all the weekly assignments and on the two major written papers.

Primary Materials

Harvard Business School cases and notes will constitute the primary course materials. The course packet as individual cases and materials can be downloaded at the HBS Publishing website.

Course Outline

See Excel Spread Sheet in NYU Classes

Unlike many finance courses this course is not an overly quantitative course. While the section discussing valuation contains quantitative work as does one of the major papers, the main focus will be on analytics, especially qualitative factors. This course places a strong emphasis on presentation and discussion skills. Students will need to explain their thinking about an issue to the class and the Instructor. Participation will be an important element of the final grade as described below. Participation will be judged primarily on the quality of the insight provided in the classroom comments rather than on the quantity of the participation. Students will participate either by volunteering or by being selected to participate by the Instructor. Relatively frequent contributions to the discussion that demonstrate logical and complete analysis will be required to excel in the participation portion of the grade.

In order to facilitate class participation, please use name cards and sit in the same seat in every class.

Assessment

The instructor will follow the suggested grade distribution standards of the Stern Department of Finance for upper division graduate courses. These guidelines suggest the following grade distribution: “A” 15%, “A-” 20%, “B+” 10%, “B” 45-55% and “C” 0-10%.

Grades will be based 25% on the first written major assignment, 40% on the second written major assignment, 10% on the weekly assignments and 25% on class
participation. For every class, the instructor will distribute the previous week an assignment tied to the current reading assignment. Students may submit only 5 of the 6 weekly assignments for full credit. If you wish to take an Incomplete you must request it prior to the end of our class.

**Other Comments**

The Stern Default Policies shall be followed except as otherwise indicated. See [http://www.stern.nyu.edu/portal-partners/academic-affairs-advising/policies-procedures/default-policies-stern-courses](http://www.stern.nyu.edu/portal-partners/academic-affairs-advising/policies-procedures/default-policies-stern-courses)

Please not notify me in advance for any excused absence. If you are called on and are not present without an excused absence it will affect your participation grade.

Given the relatively small size of our class, I expect that every student will volunteer or be called on in each class.

If you miss a class, you are responsible for any material that you miss, including any weekly assignments and administrative announcements. The Instructor will ask Stern IT to employ Class Capture for later viewing, however often the recording malfunctions.

To be fair to other students, there will be no extra-credit assignments.

Your final grade will be determined solely by the system described above.

The written assignments will be available solely from the instructor.

Students shall adhere to the MBA Honor Code. Every student is obligated to report to the Instructor any suspected violation of the code that he or she has observed.

Upon request, the Instructor will re-grade the student’s work but only at the end of the term and only by reviewing each and every assignment of the term. The Instructor will not re-grade single assignments. The student will then receive the grade arising from the re-grade even if it is lower than the original grade.

In general, students will not receive direct feedback on the two major assignments in order to preserve future grading integrity. However following the submission of the first major assignment the instructor will present a model answer to the assignment. Students may contact the instructor after the final case for feedback on the final assignment if desired.

In the past, students have complained about the volume of reading for this course. However it is not possible to cover our survey materials in the mini-course format without reading. The instructor assigns an average 23 pages of reading (not including exhibits) each week.
I try to balance class participation by both asking for volunteers and by “cold calling.” Not all students like cold calling. While I understand the issue, each student will be cold called at some point in our class. Being unprepared when cold called will affect your participation grade. Faking a response when cold called because you are unprepared will also affect your grade.

Laptops are permitted for note taking only. All other electronic devices are not permitted in class.

**Instructor**

Robert Semmens is a private investor currently involved with early stage, growth and buyout companies in energy, life sciences, medical devices and information technology. He has been investing in private equity transactions for more than 25 years. Since 2001 Mr. Semmens has been an Adjunct Professor of Finance at the Leonard N. Stern School of Business at New York University, where he teaches MBA finance course entitled *Topics in Private Equity Finance*, which covers growth and buyout investing. He currently serves on the board of a NYSE listed company and three private companies. From 1993 until 2000 when the company was sold to JPMorgan Chase, Mr. Semmens was a General Partner of the Beacon Group, a private investment and advisory firm, where he managed private equity funds investing in the energy business totaling $1.5 billion. Prior to co-founding The Beacon Group he worked for Goldman, Sachs & Co for 10 years. At Goldman Sachs, Mr. Semmens was a Vice President in the Investment Banking Division where he worked in the energy group of Corporate Finance, at J. Aron & Co. (Oil & Gas trading/ derivatives) and led and managed private equity investments in energy. He holds law and MBA degrees from Northwestern University.

**Document Format**

The written text should not exceed 5 pages. All pages should be numbered and the document typed with one-inch margins and double spacing. Use a 12 point font or larger. Tables, charts, spreadsheets, or any other supporting materials may be attached as exhibits. Each exhibit must be referred to in the text and clearly labeled. If you submit your work electronically you must insure that the document prints properly.

The weekly assignments can be written in whatever format the student finds most useful but cannot exceed one written page (although analytics may comprise additional pages.) The Instructor recommends an outline format for the weekly assignments.