

## SYLLABUS

Course	
Name	Private Equity
Code	DOI-MII-531
Course	1MII
Semester	Second
ECTS Credits	4,5 ECTS
Department	Industrial Organization

Profesor	
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Tutoring Schedule	Pre-request bye-mail elected

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Tutoring Schedule	Pre-request bye-mail elected

## COURSE SPECIFICS

### Context of the course

#### Contribution to the professional profile

In this course we will apply the financial knowledge of students who seek creating value in their professional activity. Private Equity is a financially "aggressive" investment discipline, as it buys companies to be sold again in the medium term, during which the value of such a company needs to increase significantly. This value is not subject to investors' speculation, but they are the ones who must actively intervene in the management of the company and make decisions aimed at increasing its value in the shortest possible period of time.

It is therefore a form of investment that does not operate in stock markets or so-called over-the-counter markets, in which securities (shares or bonds) are acquired in a regulated market with thousands (if not millions) of actors, in the hope that they will increase in value. In such stock markets it is common to acquire minority holdings, whereas in Private Equity control of the company becomes crucial.

Private Equity will be useful for those professionals who want to learn to make decisions as managers with the highest responsibility, such as the board of directors or the managing directors of the company.

The objective of this subject is for the student to learn to increase the value of a company, being able to do so at any stage in its development: seed capital, venture capital, and/or expansion until, why not, becoming a multinational that will aspire to be listed in international stock markets. The subject will prepare to face that level of responsibility. For that reason, the entire spectrum of private equity financing will be covered.

This course employs techniques to simulate the behavior of businesses to management and investment decisions. The tool emulates the firm's real problems, and teaches how to react to challenges in order to confront them properly. The course will provide with complex calculation tools that will allow a number of variables to be taken into account when making sophisticated decisions that affect the company. The impact of such decisions will be determined.

Finally, but not least, integrity in decision-making will be given a preferred place and management's responsibility for decision execution will be raised.

#### Prerequisites

Basic financial training is required (provided in Financial Accounting and Cost Analysis in the first year of the Master). Students should be familiar with basic corporate finance concepts, such as Time Value of Money, Capital Budgeting (PV, NPV, Payback and IIR), Project Cash Flows, Financial Statement and Ratio Analysis, CAPM, WACC, and DCF valuation.

### Competences – Goals

#### Generic competences

- CG1** Acquire appropriate knowledge of scientific and technological aspects of: mathematical, analytical and numerical methods in engineering , electrical engineering, power engineering , chemical engineering , mechanical engineering, industrial electronics , automation, manufacturing , materials, managerial quantitative methods, industrial computing , urban planning, infrastructure, etc.
- CG2.** Project, calculate and design products, processes, facilities and plants.

**CG10.** Knowing how to communicate, clearly and unambiguously, conclusions and findings -and the knowledge and rationale underpinning these- to specialist and non-specialist audiences.

#### Basic competences

CB2 Know how to apply and integrate knowledge, understanding, scientific basis and problem-solving abilities in new and imprecisely defined environments, including multidisciplinary contexts, both for researchers and highly specialized professionals.

CB5 Know how to transmit in a clear and unambiguous way to a specialized audience or not, results from scientific and technological research or in the most advanced field of innovation, as well as the most relevant foundations on which they are based.

#### Module Competences

CMG1 Knowledge and skills to organize and manage companies.

CMG2 Knowledge and skills of strategy and planning applied to different organizational structures.

CMG4 Knowledge of financial accounting and costs

CMG7 Knowledge and skills for the integrated management of projects

#### Learning Results<sup>1</sup>

RA1. Know and understand the different methods of valuation of companies, and acquire the ability to choose the most appropriate and apply them in making real-life decisions. Apply the Discounted Cash Flow (DCF) and Comparable Company Analysis (CCA) methods in practice

RA2. Know how value can be created (or destroyed) through the capital structure policy and calculate the effect it has on stakeholders' profitability.

RA3. Understand PE funds and Venture Capitalists' transactions and the scope of action of the Investment Banks

RA4. Know how to apply this knowledge to making real decisions in both products and financial markets, valuing the profitability, risk and liquidity of the different alternatives at a specific time

RA5. Use appropriate tools and design financial processes for M & A operations, asset acquisition, capital increase, debt issuance or start-up financing, always focused on the creation of value

RA6. Be able to analyze and interpret the financial statements of a company and come with a value judgment on the economic-financial situation of the company (whether it is healthy from the financial point of view, or going through a crisis), know how to make

<sup>1</sup> Learning results are observable indicators of the competences acquired, which allow assessing the degree of competence of the students.

future projections of these financial statements and apply solutions that improve the profitability of companies.

RA7. Know how to look for the necessary information in capital markets or the general economic indicators and apply them to the analysis and valuation of a company

RA8. Understand the role of venture capital in the financing and development of business projects

RA9. Understand the private equity financial activity and the role of institutions

RA10. Be able to identify the role of investment banking and the impact it has had on the current macroeconomic order

## CONTENTS AND MODULES

<b>Contents - Theme Blocks</b>	
<b>1 Introduction to Private Equity</b>	
1.	Financing and Capital Raising
2.	The profile of investors in Private Equity
3.	How fund managers work
4.	Negotiation with PE investors
<b>2 Investment fund: modeling and management tools</b>	
1.	Modeling of acquired companies
2.	Investment Fund Management Techniques
<b>3 Buying stock</b>	
1.	Purchase and valuation process
2.	Operational and Financial Leverage
3.	The Capital Structure
<b>4 Leveraged operations: LBO and MBO</b>	
1.	LBO: Leveraged buy-out
2.	MBO: The value of management
<b>5 Business Plan and Due Diligence</b>	
1.	Due Diligence
2.	Business Plan
3.	Negotiation
<b>6 The management team</b>	
1.	The importance of the management team in creating value
2.	Integrity in senior management.
3.	How decisions affect financial models
<b>7 Divestment</b>	
1.	The Shareholders agreement
2.	Strategies

## TEACHING METHODOLOGY

### General methodological aspects

Since the objective of this subject is for students to know many of the possible realities they will find, not only in the financial department, but in any field of responsibility of the company, both of an SME and a large multinational, there will be numerous simulations of real cases. With this type of simulations, it is intended for the student to be prepared to contribute to the decision making in these levels.

To do this, tools and spreadsheets will be used in class, designed to help the student make profitable decisions with agility, and will be combined with multimedia content, as well as staging real situations experienced in companies.

This will allow to break down, evaluate, analyze and decide on any situation or challenge that is found in the workplace, from a rational and qualified financial point of view. Financial management, crisis and restructuring of companies, banking negotiation, etc. are some of the scenarios for which the student will be prepared

SUMMARY STUDENT HOURS OF WORK		
FACE-TO-FACE HOURS		
Lesson	Case resolution	Review
50	20	5
NON-CLASSROOM ACTIVITIES		
Autonomous work – theory	Project	Preparing exams
30	20	10
<b>ECTS: 4,5 (135 hours)</b>		

## EVALUATION AND QUALIFICATION CRITERIA

Evaluation activities	Assessment Chrysalters	Weight
Final Exam	- Troubleshooting problems - Theoretical concepts	40%
Final project	- Applying concepts to a real project	25%
Tasks and cases	- Delivery before the indicated dates (Early hand-ins will be graded) - Participation in class	35%

### Grading

The final note will be the result of weighing:

- 40% of the final exam
- 25% of the final project
- 35% of case delivery, homework and class participation

## REFERENCES AND RESOURCES

### Basic references

- S. A. Ross, R. W. Westerfield, J. F. Jaffe and B. D. Jordan (2019) Corporate Finance, 12<sup>th</sup> Edition. International Student Edition - McGrawHill.
- Eugene F. Brigham and Michael C. Ehrhardt (2005) Financial Management - Theory and Practice (11th edition) (Thomson South-Western)

### Complementary references

- S. A. Ross, R. W. Westerfield, J. F. Jaffe and B. D. Jordan (2018) Corporate Finance – “Core Principles & Applications”, 5<sup>th</sup> Edition. International Student Edition - McGrawHill.
- Cornett, M. Adair, T. and Nofsinger, J. (2014) Finance, 2nd Edition, McGrawHill.
- Dyson J.R. (2010) Accounting for Non-accounting Students (8th Edition) Pearso
- Brealey, R., Myers, S. and Marcus, A. (2012) Fundamentals of Corporate Finance, 7th Edition. McGrawHill.
- Crundwell, F.K. (2008). Finance for Engineers. Evaluation and Funding of Capital Projects. Springer.
- Higgins, R.C. (2011) Analysis for Financial Management, 10th Edition. McGrawHill.
- Valdez, S. and Molyneux, P. (2010) An Introduction to Global Financial Markets, Palgrave MacMillan