PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIADIO
SCHOOL OF BUSINESS AND MANAGEMENT

CRAIG R. EVERETT, Ph.D.
FINC 630.11
PRIVATE CAPITAL MARKETS
SUMMER 2015 (Session B)
MONDAY, JUNE 22 – AUGUST 3
8:00 AM – 12:00 PM
MALIBU CAMPUS (L1)

SYLLABUS (SUBJECT TO CHANGE)
Private Capital Markets
FINC 630.11 SUMMER 2013

Mondays, June 22 – August 3, 8:00 am – 12:00 pm
Malibu L1

Due to a special outside speaker, our first class on June 22 will end late at 12:45 pm. To compensate for this extra time, our second class on June 29 will begin at 9:00 am.

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310-506-7323 (Fax)

Office Hours: Mondays 12:00 pm – 2:00pm

Introduction

Business students are generally taught finance as if only public companies exist in the marketplace. In fact, more than 99% of the companies in the United States are privately held and account for about half of the U.S.’s GDP and employment. Private companies, particularly those with annual sales of $5 million to $150 million, have distinct financial needs. They require unique capital markets theory to explain and predict the behavior of players in the private capital markets. This class provides insight into the private capital market participants and provides a practical framework for making sound investment and financing decisions.

Course Description

Private Capital Markets addresses the valuation, financing, and ownership transfer issues related to private businesses. Specifically, students will learn how private companies are valued; how various capital providers, such as banks and private equity firms, price risk and expected returns; and how private business interests are efficiently transferred.

Student Learning Outcomes

Students will accomplish the following objectives and the following assessment strategies will be employed:

<table>
<thead>
<tr>
<th>Learning Objective</th>
<th>Evidence to Grade and Assess Student Learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Learn about the theory underlying the activities in the private capital markets</td>
<td>• Multiple Choice or T/F Quizzes&lt;br&gt;• Final exam (multiple choice and T/F)</td>
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<tr>
<td>2. Identify the various types of capital available in the private capital markets including venture capital, private equity,</td>
<td>• Multiple Choice or T/F Quizzes&lt;br&gt;• Final exam (multiple choice and T/F)</td>
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</tbody>
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mezzanine, bank loans, asset based lending, and factoring

3. Understand how risk is evaluated in the various private capital market segments
   • Multiple Choice or T/F Quizzes
   • Final exam (multiple choice and T/F)

4. Assess the prospects of a company’s qualification for a particular capital type
   • Multiple Choice or T/F Quizzes
   • Final exam (multiple choice and T/F)

5. Learn how to calculate the cost of capital for various businesses
   • Multiple Choice or T/F Quizzes
   • Final exam (multiple choice and T/F)

TOTAL DIRECTED INSTRUCTION HOURS: 30 Hours

Prerequisites:
ACCT 602: Cost Accounting
FINC 604: Managerial Finance or MBAM 614: Finance or FINC 614: Managerial Finance

Texts and Course Materials

Pepperdine Private Capital Markets Project reports (http://bschool.pepperdine.edu/privatecapital) and older reports are available at http://bschool.pepperdine.edu/appliedresearch/research/pcmsurvey/reports.htm.

Grading
The grade description and weighting method are given as follows:

<table>
<thead>
<tr>
<th>Grade distribution</th>
<th>Assignment weights</th>
</tr>
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<tbody>
<tr>
<td>A</td>
<td>95% - 100%</td>
</tr>
<tr>
<td>A-</td>
<td>90% - 94.99%</td>
</tr>
<tr>
<td>B+</td>
<td>87% - 89.99%</td>
</tr>
<tr>
<td>B</td>
<td>83% - 86.99%</td>
</tr>
<tr>
<td>B-</td>
<td>80% - 82.99%</td>
</tr>
<tr>
<td>C+</td>
<td>77% - 79.99%</td>
</tr>
<tr>
<td>C</td>
<td>73% - 76.99%</td>
</tr>
<tr>
<td>C-</td>
<td>70% - 72.99%</td>
</tr>
<tr>
<td>F</td>
<td>Below 70%</td>
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</tbody>
</table>

A brief description of each of the assignments is given below:
1) **Quizzes**: There will be five quizzes given during the course. Each will cover mastery of the previous class’ material plus concepts from the current week’s reading. When there are guest speakers, there may also be one or two questions included from the guest speaker presentations. Each quiz will be worth 20 points. No make-up quizzes will be given for any reason. Instead, with a valid documented excuse only, the missed quiz score will be an average of all other quizzes. You must be present in class to take a quiz. Collectively, quizzes will account for 50% of your grade. I reserve the right to substitute out-of-class assignments for quizzes.

2) **Exam**: There will be one exam given during the course. The exam will count for 40% of your grade. The exam is closed book / closed notes / one cheat sheet (double sided and handwritten).

3) **Participation**: This includes actively participating in class, asking relevant questions to the guest speakers, and submitting a screen shot of your evaluation confirmation in Sakai (2 points). This course evaluation portion will be set up as an assignment in Sakai and will be due before the final exam. DO NOT email it to me. You must submit this via Sakai before the assignment deadline to receive credit. No exceptions.

**Laptop Use**

One benefits most from this class by having an undiluted focus during class meetings; therefore, laptops should be closed during class activities that do not require computer use. Laptop use during speaker presentations is **prohibited**. If one is caught using a computer during a speaker presentation, he or she will receive a reduction of one grade level (i.e., A to A-, A- to B+, B+ to B, etc.) from the **final** class grade for each violation.

**Speakers**

This class frequently utilizes speakers to discuss various segments of the private capital markets. In the past, we’ve had speakers from business valuation firms, mezzanine debt funds, private equity funds, angel funds, hedge funds, and investment bankers. The speaking schedule will be announced at a future date.

During semesters with multiple sections of this class, we will schedule a separate “speakers event” where multiple speakers will visit on the same evening. This is because of the extreme difficulty of having each speaker come to multiple sections of the regular class time. Attendance at the speakers event is not technically mandatory, but participation points will be awarded for attending and participating, and there will be questions on the final exam that will be based on each speaker’s comments.

**Attendance Policy**

Attendance for the first class is **mandatory**. It is during the first meeting that direction for the class is given. Missing the first class meeting will result in your being dropped from the class roster.

For other class meetings, while attendance is not explicitly computed in the course grade, it is expected that students will only miss class under extenuating circumstances. Prior written notice of expected absences is highly encouraged.
Office Hours and How to Contact Me

In general, I will be available before and after each class but I will be happy to arrange meetings outside of these times on request. The best way to contact me personally is through e-mail at my University e-mail address (see above). I check my e-mail regularly and will respond to messages as quickly as possible.

University Code of Ethics

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Originality of Work

This course may require electronic submission of essays, papers, or other written projects through the plagiarism detection service Turnitin (http://www.turnitin.com). Turnitin is an online plagiarism detection service that conducts textual similarity reviews of submitted papers. When papers are submitted to Turnitin, the service will retain a copy of the submitted work in the Turnitin database for the sole purpose of detecting plagiarism in future submitted works. Students retain copyright on their original course work. The use of Turnitin is subject to the Terms of Use agreement posted on the Turnitin.com website. You may request, in writing, to not have your papers submitted through Turnitin. If you choose to opt-out of the Turnitin submission process, you will need to provide additional research documentation and attach additional materials (to be clarified by the instructor) to help the instructor assess the originality of your work.

Policy on Disabilities

Assistance for Students with Disabilities

The Disability Services Office (DSO) offers a variety of services and accommodations to students with disabilities based on appropriate documentation, nature of disability, and academic need. In order to initiate services, students should meet with the Director of the DSO at the beginning of the semester to discuss reasonable accommodation. If a student does not request accommodation or provide documentation, the faculty member is under no obligation to provide accommodations. You may contact the Director of Disability Services at (310) 506-6500. For further information, visit the DSO Web site at: http://www.pepperdine.edu/disabilityservices/.
<table>
<thead>
<tr>
<th>Class</th>
<th>Topics</th>
<th>Chapters / Readings</th>
<th>Quiz</th>
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</table>
| 1 6/22 8 am to 12:45 pm | INTRODUCTION / VALUATION  
Corporate finance and private finance are compared and contrasted. The interconnection between the three main components of the class (Valuation, Capitalization and Transfer) is explained in detail. The “value worlds” concept is introduced and ‘Fair Market Value’ is explored. | 1-8, 15, Appraiser sections of PPCMP reports | Quiz 1 |
| 2 6/29 9 am to 12pm | VALUATION CONTINUED, CAPITAL STRUCTURE, BANK LENDING, ASSET BASED LENDING, FACTORING  
Other ‘value worlds’ are explored along with relevant valuation approaches. Sources of financing are introduced with a focus on debt. | 16, 17, 18, 20, 21, Bank, ABL, and Factor sections of PPCMP reports | Quiz 1 |
| 3 7/6 | LENDING CONTINUED, MEZZANINE  
This class continues the discussion of debt financing and introduces mezzanine as a capital type | 22, Mezzanine sections of PPCMP reports | Quiz 2 |
| 4 7/13 | PRIVATE EQUITY  
We explore private equity as a capital type with a focus on qualification of expected returns. | 24, private equity sections of PPCMP reports | Quiz 3 |
| 5 7/20 | ANGEL INVESTMENT, VENTURE CAPITAL  
We introduce angel investment and venture capital. | 23, angel and VC sections of PPCMP reports | Quiz 4 |
| 6 7/27 | BUSINESS TRANSFERS AND THE PRIVATE COST OF CAPITAL MODEL  
We introduce intermediaries into the discussion as well as discuss a private cost of capital model. We discuss business transfer methods. We conclude by reviewing topics for the final exam. | 26, 28, 32, 1-banking sections of PPCMP reports, Using the Private Cost of Capital Model | Quiz 5 |
| 7 8/3 | FINAL EXAM  
9:00 am. | | |