

VPM's DR VN BRIMS, Thane Programme: MMS (2021-23) Fourth Semester Regular Examination June 2023						
Course Name: Venture Capital and Private Equity			Course Code	F407		
Roll No.			Marks	60		
Total No. of Questions		6	Duration	3 Hours		
Total No. of printed pages		7	Date	03/06/2023		
<b>Course Outcome Statements:</b>						
<b>CO1: Recall</b> basic terminologies related to Private Equity and Venture Capital.						
<b>CO2: Describe</b> concepts, frameworks, term sheets used by VC firms and Private Equity and understand regulatory, taxation aspects related to PE firms.						
<b>CO3: Determine</b> investment selection methods and valuation methods used by the VC firms and role of corporate governance in PE firms.						
<b>CO4: Analyse</b> business ideas, term sheets, and investment due diligence and exit strategies for managerial decision-making.						
<b>CO5: Evaluate</b> private equity and venture capital practices in India and other emerging markets and valuation methodologies followed by them.						
<b>Instructions: -</b> (1) All questions are compulsory. (2) Use of scientific calculator is allowed. (3) Draw diagrams, flowcharts wherever necessary. (4) Complement your answers with relevant examples.			Marks	BL		
				CO		
Q. No.		Questions				
Q. 1		Case/Case-let Study (500-800 words)				
		Ralph is working as an Associate at New Money Ventures; L.P. form the past two years. Like most Associates, Ralph attends quite a few trade shows. One fortuitous day, Ralph decided that he should attend the Propeller-Head Trade Show. After a couple hours of walking the trade show floor, Ralph left with his standard five or six trade show leads. One lead was unusually intriguing. A company that he had never seen before, Think Pad, Inc. (TPI), had an extremely interesting, soon-to-be-released product called ThoughtProcessor 1.0. The ThoughtProcessor product enabled users to access all the functions of a computer merely by thinking. With it one could write a document in a word processing program or create a spreadsheet without having to type a single letter on a keyboard. Although the 1.0 version of the product had a few bugs, it had the potential to stimulate a paradigm shift in the computing industry.				

While at the trade show, Ralph introduced himself to the CEO of TPI, Mr. Herman I. S. Slick. Ralph pointed out to Slick that a partnership with New Money Ventures, L.P. could be beneficial. In addition to providing TPI with the financing to finish their R&D work, New Money could add credibility to their board, help recruit a strong management team, and aid the company in making strategic decisions throughout the delicate process of growing a company and taking it public. Slick had declined many VC firms' advances lately because he had not been convinced that they could offer much value beyond money. However, he was intrigued by Ralph's proposition and by New Money's previous success in the software industry. He considered the idea of a start-up/first round of financing with New Money.

A few days after their meeting at the Propeller-Head Show, Ralph called Slick at TPI's headquarters in Seattle. Ralph and Mr. Slick talked about TPI's product line, market, distribution channels, sales model, and management team. Mr. Slick projected that within three years Think Pad could be a \$100 million (gross annual revenue) company. Over the last two years, Ralph had encountered hundreds of entrepreneurs who thought that their products could produce annual revenues of \$100 million. Ralph was doubtful about the projections. Ralph asked Mr. Slick to send him the Thought Processor product and a business plan.

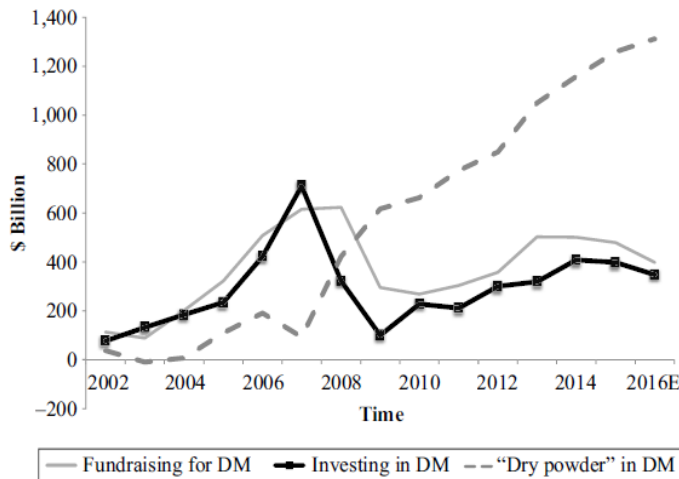
The following day Ralph received a FedEx package from TPI. Ralph read the plan and then loaded the ThoughtProcessor software into his computer. Ralph put the special infrared panel onto his monitor and fixed the infrared goggles on his head. Once the software was running, Ralph looked at the screen and thought "Open Microsoft Word." Microsoft Word began to load. He then thought "Open New Document." A new document appeared. As he composed a letter in his head, his thoughts appeared in type on the screen. Ralph was impressed.

Ralph brought the business plan and product to Reginald Eugene Xavier, New Money Venture's Managing General Partner, who was known in the venture community as Bob. After a brief demonstration, Bob decided to fly to Seattle.

	<p>The following day Bob met with Slick and Henry, the VP of Technology who was the genius behind the creation of the ThoughtProcessor product. Impressed by their story and confident of Slick's willingness to work with New Money, Bob returned to Boston and began the due diligence process. He and Ralph called everyone who knew about Slick, Henry, Think Pad, and ThoughtProcessor 1.0 and they spoke with industry analysts who had tested a beta version of the product.</p> <p>Once Ralph and Bob completed their due diligence, Bob was ready to hammer out the details of the investment. Bob believed the risk was high, and he was considering a discount rate of 50% and valuation of \$ 200 million after 6 years. After a little negotiation between Bob and Slick, they both agreed to a deal structure where New Money Ventures, L.P. acquired an equity stake in TPI for \$2 million. Slick and Henry already hold 1 million shares jointly.</p> <p>Upon completion of the investment, Bob joined TPI's Board. In the ensuing months, Bob helped Slick recruit a VP of Marketing and a VP of Sales.</p> <p>Six years later, TPI went through the rigorous process of going public. All the hard work paid off. TPI went public with 10 million shares outstanding at \$20/share. Within three months, the stock shot up to \$40/share, providing New Money Capital, L.P. with a 'home-run returns.' (Which means return of 0 to 100 times).</p>				
	a.	As Bob and Ralph, <b>analyse</b> your approach for conducting the due diligence process for Think Pad, Inc. (TPI).	6	Level 4	CO4
	b.	<b>Estimate</b> the price per share which New Money Ventures, L.P. have paid for their investment in Think Pad, Inc. (TPI) under The VC method. <b>(Note- Answer should be rounded off up to two decimal points)</b>	6	Level 5	CO5
<b>Q. 2</b>		<b>Answer Any one</b> from the following.			
	a.	You are a Venture Capitalist in Southeast Asia. You have funded many start-ups in Singapore, Malaysia, and Thailand. A Fintech start-up from Singapore has approached you for funding. Considering the geographical aspects, <b>decide</b> which valuation method you are going to adopt? And <b>determine</b> the components which you are going to assess.	6	Level 5	CO5

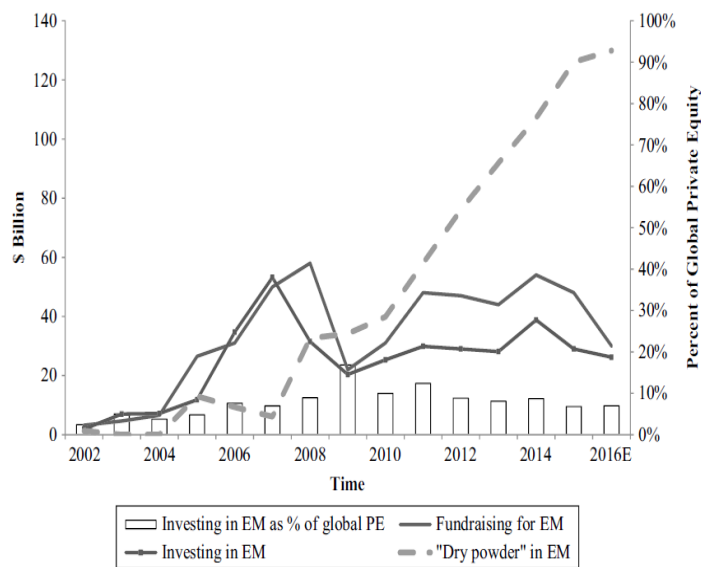
b. **Compare** the graphs given below related to key statistics about Private Equity in Developed and Emerging Market. And **determine** the reasons for the growth of Private Equity in emerging economics.

The Key Statistics for Private Equity in Developed Markets from 2002 to 2016 (expected)



Note: PE—private equity, DM—developed markets.

Panel B: Fundraising and Investing Statistics for Emerging Markets between 2002 and 2016 (Expected)



(Source- Based on EMPEA 2016)

6

Level 5 CO5

Q. 3

Answer **Any one** from the following.

a. 'Although VC firms may get lot of proposals for funding, their first filtration stage itself will reduce the number of proposals going to further stages.' **Examine** the statement based on apparent deal quality of the start-ups.

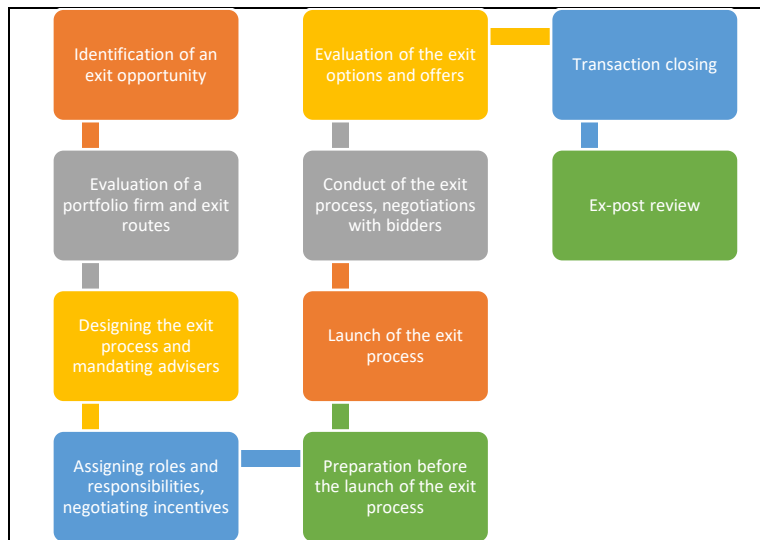
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Level 4 CO4

b. A typical Venture Capital Exit process consists of the following stages-

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Level 4 CO4



**Examine** the interrelationship among the steps.

<b>Q. 4</b>																			
	<p><b>a.</b> Mr. Ramesh is doing research on the growth of start-ups in India. As a part of his research work, he has been interacting with many founders of the start-ups. During the interaction, he realised that many start-ups under his observation rely on the funds from 3F's in the initial phases. Many start-up founders commented that 3F's are always reliable than any other sources of the traditional funding. <b>Develop</b> a reasoning to substantiate the preference towards 3F's.</p>	<b>6</b>	<b>Level 3</b>	<b>CO3</b>															
	<p><b>b.</b> You are a venture capitalist. A start-up in health-tech sector has approached you for the funding. The recent data related to the companies in the same industry is as follows-</p> <table border="1" data-bbox="491 1361 1110 1626"> <thead> <tr> <th>Company</th> <th>Valuation (in Rs. Lakhs)</th> <th>Revenue (In Rs. Lakhs)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>6000</td> <td>200</td> </tr> <tr> <td>B</td> <td>8000</td> <td>250</td> </tr> <tr> <td>C</td> <td>4000</td> <td>350</td> </tr> <tr> <td>D</td> <td>1600</td> <td>80</td> </tr> </tbody> </table> <p>Based on the above data, <b>construct</b> a valuation model for the star-up under Public Comparable Analysis and <b>Identify</b> the maximum funding which you can provide it to them?</p>	Company	Valuation (in Rs. Lakhs)	Revenue (In Rs. Lakhs)	A	6000	200	B	8000	250	C	4000	350	D	1600	80	<b>6</b>	<b>Level 3</b>	<b>CO3</b>
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	<p><b>c.</b> Mr. Suresh is working as a General Partner in ABC Venture Capital L.P. He has been appointed on the board of the portfolio companies Relica, Sodex and Hyper respectively. Funding for Relica is provided at the seed stage, for Sodex at Later Stage. For Hyper, they are preparing for their IPO which will be launched after 3 months. <b>Identify</b>, the role of Mr.</p>	<b>6</b>	<b>Level 3</b>	<b>CO3</b>															

		Suresh in Relica, Sodex and Hyper from the governance perspective.			
<b>Q. 5</b>		Answer <b>Any two</b> from the following.			
	<b>a.</b>	<b>Explain</b> the concept of Venture Capital Financing Cycle with the help of a relevant examples.	<b>6</b>	<b>Level 2</b>	<b>CO2</b>
	<b>b.</b>	You are an investor in Private Equity Fund. At the end of the investment period, you will get some returns in the form of Dividend, Interest and Capital appreciation. <b>Interpret</b> the taxation treatment for the same.	<b>6</b>	<b>Level 2</b>	<b>CO2</b>
	<b>c.</b>	<b>Summarize</b> the various control terms incorporated in the Term sheets of a venture capitalist.	<b>6</b>	<b>Level 2</b>	<b>CO2</b>
<b>Q. 6</b>		Answer <b>Any two</b> from the following.			
	<b>a.</b>	<b>What</b> do you mean by Venture Capital? And what are the characteristics of Venture Capital?	<b>6</b>	<b>Level 1</b>	<b>CO1</b>
	<b>b.</b>	<b>Define</b> Private Equity. And <b>what</b> are the characteristics of Private Equity?	<b>6</b>	<b>Level 1</b>	<b>CO1</b>
	<b>c.</b>	As a start-up vouching for funds, <b>how</b> you will choose appropriate Venture Capitalist to finance your venture?	<b>6</b>	<b>Level 1</b>	<b>CO1</b>