



THE WORLD BANK

OVERVIEW OF THE COURSE

Private Equity Finance



EU-REPARIS is funded
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and is a part of WB EDIF



WB EDIF

Western Balkans
Enterprise Development
and Innovation Facility



Approach of the course

Course is structured into 10 modules each covering an important theme.

Presentation of the concepts cemented by real life case studies and exercises.

Each module has an end-of-module mini exam.

Participants will acquire a solid knowledge of the impact and role of private equity as a form of financing, management and corporate governance.

Module 1 – Equity Investment and Private Equity

Overview

An overview of the dynamics of the venture capital and private equity market and how fund managers identify investments.

Objective:

Private Equity Market
Overview



Key requirements of
venture capital and
growth investors



Screening process of
private equity
investors



Identifying companies
for investment



What's different about the 22,000 SMEs that private equity firms have invested in in Europe compared with the 20 million European SMEs?

Interactive Materials

Screening challenges

Screening checklist

Module 2 - Use of Funds

Overview

An overview of how investors would like to see invested funds used and how companies can respond with a thought out plan to present including cash balances for growth stage companies and when further liquidity will be required. We also discuss bolt-on acquisitions as a use of funds which is common in PE, as a quicker solution than organic growth.

Objective:

Determining use of funds:
money-in vs money-out



Capex vs debt reduction
vs working capital



Bolt on acquisitions



PE investors want to know and control how their money is spent. A bolt-on acquisition is an exciting way to grow but has risks to be managed.

Interactive Materials

Artemis acquisition synergies

Module 3 – Getting investor interest

Overview

A video “elevator pitch” will be developed.

Objective:

Best practices in creating an Investment Teaser



How to create a 90 second “elevator pitch” video



Attention is in short supply, even more in the case of people with money. You need to focus on what your audience needs to hear, not what you want to say.

Interactive Materials

Case studies –
Analysing different
Teasers from Region

Video: What is an
“Elevator pitch”

Example: FinTech
Safety Deposit Boxes
Concept

Module 4 – Negotiating private equity investment

Overview

The approach to negotiations is a factor of personal style, cultural factors and private equity specific approaches. In the face to face session a live negotiation role play will be held to underpin the concepts.

Objective:

Analysing negotiating style



Cultural specifics in negotiations



Objective setting and planning in negotiation process and the PE approach to negotiations: win-win



PE Funds are able negotiators. You will be able to play a constructive role with a better understanding of negotiation techniques.

Interactive Materials

Exercise 10.1 - Negotiation Self Test.
You will take a test and establish what kind of negotiator you are

Module 5 - Financial statements and financial analysis

Overview

An overview of the essentials of understanding company financial statements such as financial performance, financial position and cash flow. An overview of financial ratios, how to calculate them and the story they tell. How to construct a financial analysis by putting accounts into order and constructing credible forecasts.

Objective:

Financial statement analysis



Using ratios



Forecasting financial statements



Accounting profits are easy to manipulate; some basic analysis techniques will allow participants to quickly spot the main issues. By knowing how to apply a couple of relevant financial ratios, one can get an immediate snapshot of the company.

Interactive Materials

Constructing financial ratios
from a set of accounts

Module 6 – Company Valuation

Overview

An overview of how private equity and venture capital investors value companies, so that mutual understanding reduces risk of deals failing on valuation issues

Objective:

Overview of Discounted Cash Flow



Worked example from CEE-CIS environment

Overview of relative valuation



Private equity style exit driven valuation approach

Sourcing and manipulating information in developed and emerging markets



Forecasting and modelling in PE

One cannot negotiate with a private equity fund without understanding their exit driven approach to valuation and their use of different financial instruments.

Interactive Materials

DCF Valuation Exercise

Multiples valuation exercise

Exit driven valuation

VC equity round valuation simple

VC equity round valuation complex

Valuation within deal structures

Video - What is WACC?

Module 7 – Private Equity Due Diligence

Overview

Often entrepreneurs and their service providers do not understand well the needs of due diligence by investors. This module will allow them to engage based upon understanding as well as seeing the benefits of performing a sell side due diligence. It will also provide guidance on best reporting practices for service providers.

Objective:

Sell side due diligence pre investment



Sell side due diligence as a “road map” to facilitate buy side due diligence



Due diligence cost management and apportionment



Consultants working in due diligence and transaction broking



Best practices in due diligence reporting



People who think they can hide things from PE investors are fooling themselves and wasting everybody’s time. A sell side due diligence is the best way to create interest and maximise chance of success.

Interactive Materials

Due Diligence supporting materials - Due Diligence Checklist Table

Case Study Due Diligence irregularities

Module 8 – Deal Structuring

Overview

Investors often employ complex deal structures. Getting comfortable with the main aspects and the reasons for these will increase chances of a successful deal.

Objective:

How private equity and venture capital funds approach deal structuring



Why PE fund managers like complexity in deals



Financial instruments used



Main obstacles to successful deals



Private equity aspects: veto rights, flipover mechanisms, escrow accounts



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Interactive Materials

Case study 7.1 – African rubber

Case study 7.2 – Cleantech restructuring

Exercise 7.3 – Entrepreneur 50:50 dilemma

Exercise 7.4 – VC funding round dilemma

Module 9 – The Term Sheet

Overview

The Term Sheet acts as the “road map” to closing any deal. Understanding its objectives and producing a well-structured term sheet, with adjustment mechanisms, is the basis of any deal.

Objective:

Uses of a term sheet and sequence in investment process



Illustration example: working through a sample Term sheet and its typical clauses - Binding and non-binding aspects



Disputes and litigation in PE



**The Term Sheet is the nexus of the PE investment process.
Getting it right gets the parties to closing.**

Interactive Materials

Exercise - Drafting a
Term Sheet for CompCo

Module 10 – Governance & Management Post Investment

Overview

Post investment, there will be significant changes to the way financial management is conducted. It is important to understand these beforehand, being the PE style approach to ownership, to the Board of Directors and to implementing Financial Systems.

Objective:

Private Equity value addition model



Corporate Governance in PE



Post Investment Monitoring and Value Enhancement.



The PE partner is no banker or passive partner. His nose goes straight into the business and does not leave. This will require changes in mentality from the Entrepreneur which can be hard.

Interactive Materials

Reading - Venture –
GlobalNet

Reading - Expansion –
DCM

Reading - Buyout –
Maktel

Corporate governance
matrix

Exercise - Monitoring the
portfolio