University of Pennsylvania
The Wharton School of Business

MGMT 809-001: Private Equity in Emerging Markets[1]
Spring 2008 Q3
Thursdays, 3:00-5:50 PM

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Course Overview and Design

Two premises have heavily influenced the design of this course: First, the vast majority of companies in emerging markets[2] have limited or no access to medium and long-term capital, creating an opportunity for private equity (PE) to play an enormously important role *both* for the profitability and competitiveness of individual firms, as well as for overall private sector development and macroeconomic growth. And second, PE investors in developing countries must view the asset class as significantly different than in developed countries because of a daunting range of additional risks and challenges. For example, problems of information asymmetry between investors and their portfolio companies are greater, legal systems are less reliable, corporate governance standards are weaker, regulations and public policies often are counter-productive, and exit opportunities are limited due to small or non-existent IPO markets and underdeveloped M&A markets. But these same risks also create opportunities, especially for savvy private equity investors who are able to capitalize on market and company inefficiencies. This course will highlight these differences, and explore how private equity investors can successfully overcome these obstacles. Students also will be challenged to think about what needs to change at both the company and country levels in developing countries to enhance future PE performance.

The term private equity has evolved to encompass a range of financing techniques that provide investment capital to companies of all sizes, usually before they issue publicly traded securities, including venture capital for early stage companies, equity for well-established firms, and mezzanine debt financing that has some equity characteristics[3]. Regardless of the technique or firm size, however, virtually all PE investors expect to generate high financial returns because these financings are characterized by illiquidity and high levels of risk compared to publicly issued securities. These risk factors and the relatively long-term nature of the investments

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[1] This course can be applied towards the requirements for the Entrepreneurial Management Major, or the requirements for the Individualized Major in Private Equity (students interested in the latter should see the requirements listed on the MBA Program website: http://spike.wharton.upenn.edu/mbaprogram/curriculum/majors_depts_privateequity_07.cfm).

[2] For the purposes of this course, the term “emerging markets” refers to all developing countries, including the transition economies of eastern and central Europe.

[3] Buyouts, which have become prevalent in some Western countries, are far less common in developing countries for reasons that will be explored during the course.

explain why PE investors are exceptionally rigorous and demanding in the screening, due diligence, valuation and negotiations that precede a decision about each investment, and then they remain deeply involved with the portfolio companies until an exit is completed.

This course is structured to provide students with a practical understanding of how private equity investments in developing countries are originated, structured, valued and eventually exited. The case method of teaching will predominate, allowing students to gain a realistic understanding of the roles, responsibilities and analytical skills required of practitioners, and the tensions that arise between various stakeholders, including PE investors, the entrepreneurial recipients of PE, and government officials who formulate regulations and policies that effect PE investor behavior and performance. Cases will be based on actual transactions, highlighting the challenges and tasks performed at each stage of the investment cycle, such as structuring a new fund, originating investment opportunities, conducting due diligence and valuation, monitoring and creating value in portfolio companies, and exiting. As with all case method courses, it cannot be stressed too strongly that success hinges on student willingness and ability to prepare meticulously in advance of each class, and then to participate actively in class discussion. Students reluctant to assume this responsibility should not enroll in this course (see "Requirements & Grading," p.3).

The course is designed to appeal to students with a range of career interests, including (i) private equity (especially emerging market private equity funds), (ii) entrepreneurial business ventures in developing countries and (iii) development finance institutions (DFIs) with a private sector focus.

Finally, students are strongly encouraged to provide ongoing feedback and suggestions to the Instructor and/or TAs on how to improve the course.

Qualifying Students

Although the course includes some introductory reading that overlaps with other Wharton course offerings, the majority of material is unique to the course. While there are no pre-requisites, those students who have had or are taking the following courses may benefit from a stronger foundation:

FNCE 750: Venture Capital and the Finance of Innovation
FNCE 751: Finance of Buyouts and Acquisitions
MGMT 804: Venture Capital and Entrepreneurial Management
MGMT 811: Entrepreneurship Through Acquisition

Course Materials and Study Resources

Required: Bulk Pack. "Private Equity in Emerging Markets, 2008 Edition, compiled by Professor Leeds.

Study Groups: Prior to the second class **(January 24)** students should form study groups consisting of five members, and **email the Instructor and both TAs the names and resumes of all study group members.** All students are required to be in a study group, and the group's members will remain fixed for the entire course. Because some students are likely to have

relevant work experience, the instructor expects that they will distribute themselves more or less evenly in the study groups. To ensure that there is a good mix of first and second year students, the Instructor may make changes in study group assignments during the second class.

Each study group will determine its own schedule, agenda and *modus operandi,* but normally the group should meet at least once a week, after students have individually completed their reading assignment and preliminary preparation for the upcoming class. Study group sessions provide an opportunity to exchange views and discuss some of the issues that are likely to arise during class discussion. Reaching a group consensus is not the objective (unless the group is submitting a written assignment).

Term Project: Private Equity Country Analysis

In addition to the weekly case assignments, all study groups will prepare an assessment of the opportunities and challenges for private equity investing in a specific developing country from the perspective of an established PE fund that is contemplating launching a new fund. The audience for the country analysis is the fund investment committee, which expects a well reasoned and researched presentation that includes a persuasive recommendation for why they should/should not proceed to launch a new fund in the specified country. The memo to the investment committee should be a maximum of 10 double-spaced pages (12 point font with 1" margins), plus appropriate appendices with supporting data. The appendices can be in Word, PowerPoint, Excel or any other appropriate format. In addition, during the last two or three class sessions, each study group will make a 15-minute oral presentation that summarizes the group's findings and recommendations. In the same email informing the Instructor and TAs about study group members **due no later than January 24** (see above)**,** each study group must designate three preferred countries in order of preference. Guidelines for the structure and content of these country assessments will be distributed during the first class.

Requirements and Grading [to be discussed w/ TAs before finalizing]

Two study group memos (20%)
One individual memo (25%)
Weekly class participation (25%)
Study group term project (30%)

At the beginning of class on the date due a hard copy of all written assignments must be handed-in to the Instructor, and a copy emailed to both TAs. Late papers will not be graded.

Instructor Access

E-mail: leeds@jhu.edu
Office hours: TBA
Campus mailbox: Wharton Entrepreneurial Programs, Vance Hall (4th floor)
Instructor bio: http://www.wep.wharton.upenn.edu/teaching/faculty/leeds.html

Teaching Assistants: Zack Friedman (zfriedma@wharton.upenn.edu) and Peter Hennessy (peterch@wharton.upenn.edu)

Private Equity Web sites

In addition to the Bulk Pack, students are urged to stay abreast of private equity events by regularly referring to some of the web sites that focus on the core subjects of the course, such as:

www.empea.net (Emerging Markets Private Equity Association)
www.evcj.com/ (European Venture Capital Journal)
www.privateequityinternational.com (Private Equity International)
www.asiape.com (Asia Private Equity Review)
http://mba.tuck.dartmouth.edu/pecenter/ (Dartmouth Private Equity Center)
www.venturecapitaljournal.net/
www.ventureeconomics.com
www.thedeal.com
www.privateequity.com
www.assetnews.com/products/news/pea.htm

Course Schedule

January 17	**Course Overview** **Introduction to Private Equity in Emerging Markets**
January 24	**Private Equity Fundraising** **-An Institutional Investor's Perspective– Yale University Endowment** **-A PE Fund Manger's Perspective -- Gobi Partners I (China)**
January 31	**No Class**
February 7	**Creating & Executing Fundraising Strategies:** **-Actis & CDC - guest: Paul Fletcher, Actis CEO)** **-Gobi Partners Sequel- Raising Fund II**
February 14	**Due Diligence, Valuation & the Investment Decision:** **-Fulano.com (Brazil)** **- Capital Alliance Private Equity (Nigerian Telecom) – guest: Tom Barry, Capital Alliance Board member & CEO, Zephyr Management**
February 21	**Attracting Private Equity -The Entrepreneur's Challenge; Country Presentations** **- Adesemi (Tanzania)** **- Quinta Fresca (Argentina)**
February 28	**Exiting via Strategic Investor; Country Presentations** **-Global Forest Products (South Africa) – guest: Scott MacLeod, Managing Director, Global Environment Fund**
March 6	**Exit via IPO; Country Presentations**

-Motilal Oswal Financial Services (India)

Syllabus

January 17: Introduction to Private Equity in Emerging Markets

Brief overview of course objectives and requirements. Introduction to core subjects covered, including: (i) comparison of the preparation and execution of PE transactions with other financial asset classes; (ii) assessment of the features that distinguish PE as an asset class in developing vs. industrialized countries; (iii) discussion of the rationale for and structure of PE funds; (iv) review of basic tasks performed during the PE cycle, from deal origination through exit; and (v) assessment of PE performance during the past decade.

Readings[4]

1. Apax Partners, "Private Equity in the Public Eye, 2007 Global Private equity Environment Rankings," 2007.
2. Emerging Markets Private Equity Association, "Emerging Markets Private Equitry Funds Raise More than $33 Billion in 2006," EMPE Quarterly Review, Vol III, Issue 1, Q1 2007.
3. George Fenn, Nellie Liang, & Steven Prowse, "The Economics of the Private Equity Market," Federal Reserve Board, Dec. 1995). Available at http://www.federalreserve.gov/pubs/staffstudies/1990-99/ss168.pdf*
4. Khanna, Tarun, and Palepu, Khrishna, "Why Focused Strategies May Be Wrong for Emerging Markets," Harvard Business Review (July-August 1997).*
5. Roger Leeds and Julie Sunderland, Private Equity Investing in Emerging Markets, Journal of Applied Corporate Finance, Fall 2003.
6. Roger Leeds, "Do Labels Matter?" in Private Equity International, April 2006, pp.63-65.
7. Joshua Lerner & Gonzalo Pacanins, "A Note on Private Equity in Developing Countries," (# 9-297-039), HBS Publishing, November 2003.
8. Joshua Lerner, Felda Hardymon & Ann Leamon"A Private Equity Glossary" (pp.556-62) in Venture Capital and Private Equity: A Casebook (3rd Edition), John Wiley & Sons, 2005.*
9. Fred Wainwright & Colin Blaydon, "Glossary of Terms," Center for Private Equity and Entrepreneurship, Tuck School of Business at Dartmouth: http://mba.tuck.dartmouth.edu/pecenter/resources/glossary.html

Study questions

1. What are the specific characteristics that distinguish private equity from other methods of financing private companies?
2. What are the various phases of the private equity investment cycle? How does the requisite skill set differ from other finance jobs (e.g. investment banking)?

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[4] All readings are required unless marked with an asterisk (*).

3. What are the most important features of a well-developed investment climate that are especially important for private equity?
4. What specific factors distinguish private equity as an asset class in developing countries compared to industrialized countries?
5. Why are buyouts much less prevalent in developing countries?

6. Since entrepreneurs and company managers in developing countries rank limited access to investment capital as their single largest obstacle to success, why do most PE investors complain about inadequate deal flow?
7. As an LP investor, what are the key factors for success you would look for in an emerging markets PE fund manager?
8. Why was the performance of most first generation emerging markets PE funds well below investor expectations (i.e. 1995-2003)? What has changed to suggest a turn around is in process, and why?

Assignment

No later than January 24, all study groups should email Professors Leeds and the TAs with (i) the CVs of the five study group members, and (ii) the three country preferences for the study group Term Project (**see detailed explanation above, pp. 2 & 3**).

January 24: An Institutional Investor's Perspective on Private Equity- Yale University Endowment
A PE Fund Manger's Perspective on Attracting Institutional Investors- Gobi Partners I (China)

Reading

1. Joshua Lerner, "Yale University Investments Office: August 2006"," HBS case #9-807-072 (<ay 2007).
2. Rouvinez, Christophe, "Top Quartile Persistence in Private Equity," Private Equity International, June 2006, pp. 74-77.
3. Tuck School of Business, Dartmouth, "U.S. Institutional Investors Interest in Emerging Markets Private Equity," August 2006. http://www.empea.net/docs/Research/ThirdParty/TuckLPInterest0806.pdf
4. Hardymon, Felda and Leamon, Ann, "Gobi Partners: October 2004," HBS Case # 9-805-090, November 2005.
5. Joshua Lerner, "A Note on the Private Equity Fundraising Process," HBS Case # 9-201-042, September 2000.*
6. Deloitte & Touche, "Seven Disciplines for Venture Investing in China," (2005).

Yale University Endowment: Regardless of the country, asset managers must select from a broad spectrum of investment choices representing a range of risk factors. In this case, David Swensen, Chief Investment Officer at Yale University, reviews the investment strategy for the University's $18 billion endowment, which places an unusually heavy emphasis on PE and other alternative asset classes. Although Swensen and his team have experienced a high level of PE investment success over the years, changing market conditions have triggered a reassessment of the investment criteria, including the weighting of PE in the portfolio.

Study questions

1. What factors distinguish the top quartile PE fund performers from all the rest?
2. In a relatively conservative investment portfolio such as a university endowment, what are the rationales for a significant asset allocation to private equity?
3. How has the Yale Investment Office selected, compensated and controlled private equity fund managers? What are the pros and cons of this approach?
4. What are the key factors for the investment success of Swensen and his team?
5. How do you explain the performance differences between the Investment Office's international and domestic private equity investments?
6. Do you agree/disagree with Swensen's private equity investment strategy, and why?
7. In recent years what changes are occurring in the domestic and international private equity industry, and how might those changes influence Yale's future investment strategy?
8. If you were on Swensen's team, what recommendations would you have made to your boss about future allocations between domestic, international and emerging markets private equity, and what would be the analytical justifications for your recommendations?

Gobi Partners I: Gobi Partners, a $30 million Shanghai-based private equity fund, makes investments in early stage Chinese digital media companies. After making three successful investments in the first 10 months of operation, the team of three partners is embarking on a second round of financing that they hope will raise at least $75 million of additional funding from existing and new investors. As they contemplate their strategy for securing additional capital, the partners must address and resolve a number of fund raising issues that they know will be on the minds of prospective investors, such as the unique risks of private equity investing in China, their narrow industry focus, and the new fund's lack of an exit track record.

Study Questions:

1. As a prospective LP investor interested in emerging markets, what are the key strengths and risks of the private equity investment environment in China in 2004 compared to other emerging markets?
2. As an LP, what is your assessment of Gobi's strategic approach (e.g. early stage digital media, China-only focus)?
3. How does your willingness to invest in Gobi Partners differ depending on whether you are a strategic or financial investor?
4. What key selling points would you stress if asked to prepare a road show presentation for the Gobi partners? What tough questions should be expected from prospective investors, and how should they respond?
5. Would you invest in Gobi? Why/why not?

Written Assignment

1. Study Groups TBA: Write a memo to Mr. Swensen responding to question 8 above.

2. Study Groups TBA: Write a memo to Swenson that responds to question 2 above, making the case in favor/against investing in emerging markets PE, using specific examples and data to support your point of view.
3. Individual TBA: Respond to a request from the three Gobi partners for a memo outlining the road show presentation they should make to prospective institutional investors in their fund.

January 31: NO CLASS

February 7: Creating and Executing a Fundraising Strategy:

- **Gobi Partners II**
- **Actis & CDC--Guest: Actis CEO Paul Fletcher**

Reading

1. Hardymon, Felda & Leamon, Ann, "Actis & CDC: A New Partnership," HBS Case # 9-805-122, December 2005.
2. Actis Annual Report, www.act.is
3. Theresa Sorrentino, "Note on Private Placement Memoranda," Center for Private Equity and Entrepreneurship, Tuck School of Business at Dartmouth, Case #5-0012, August 2003.* http://mba.tuck.dartmouth.edu/pecenter/research/pdfs/Private_placement_memo.pdf
4. Hardymon, Felda and Leamon, Ann, "Gobi Partners: Raising Fund II," HBS Case # 9-807-093, January 2007.

Actis Introduction: Actis, a private equity fund investing in low- income developing countries, was spun off from the U.K. government's Commonwealth Development Corporation (CDC) in 2004. According to the agreement reached by CDC and Actis, the new fund was expected to operate commercially, free of government interference, but with two goals: undertake private equity investments "to reduce poverty" in developing countries, and demonstrate its commercial viability by attracting third party capital from LP investors seeking competitive financial returns. In June 2004 Paul Fletcher, Actis CEO, is trying to decide whether his new organization should embark on a major fund raising initiative immediately, or wait until Actis is better positioned to demonstrate to prospective LP investors that it has a track record independent of CDC and the UK government.

STUDY QUESTIONS

1. What factors justify the UK's decision to spin off Actis from CDC? Do you agree with the decision, and why?
2. Is it a realistic expectation to attract investors seeking to maximize their financial returns to a fund with the goal of making private equity investments in low income developing countries (p.c. GDP below $1750) "to reduce poverty?"
3. "Private equity is not necessarily the best way to deploy billions of dollars in developing countries." (p. 12) Do you agree/disagree and why?
4. If you were advising Paul Fletcher in June, 2004, what would be the pros and cons of launching an Actis fund raising initiative now, as opposed to waiting a year or two?

5. Does Richard Laing, CEO of CDC, have interests regarding Actis fund raising that are completely aligned with Paul Fletcher's? If you were advising Laing about the Actis proposed fund raising, what issues would you highlight?
6. As an Investment Officer at an LP that is a prospective investor, would you view Actis relationship with CDC and the UK government as a plus or minus, and why?
7. If Fletcher decides to launch a major fund raising effort sooner rather than later, what are the key selling points he should emphasize with prospective investors?

Gobi Partners II Introduction: After two very difficult years of fund raising, in November 2005, Gobi Partners I finally closed with $51.75 million of committed capital. One year later, in December 2006, the Fund was almost fully invested, a second office had been opened in Beijing, the partners were generating good deal flow in their preferred sector (early stage digital media), and the Gobi brand name well established in China. Now, the partners, as well as many of their original LP investors, wanted to build on this early momentum by returning to the market to raise capital for Gobi II. But they were uncertain about their prospects for success with a second fund raising until Gobi I had completed some exits.

Study Questions:

1. How has the China VC market changed since Gobi raised its first fund that will positively and negatively influence your willingness as an LPs to commit capital to Gobi II?
2. In addition to the lack of exits, what other issues should the Gobi partners anticipate if they proceed with fund raising for Gobi II?
3. Would you advise the Gobi partners to launch their Gobi II fund raising immediately, or wait? Why/why not?

Written Assignment

1. Study Group TBA: Make a presentation to Paul Fletcher and his senior management team that addresses study question #4 above, including your personal recommendation on a go/no go decision.
2. Study Group TBA: Prepare a memo for Richard Laing making the case for why the timing is not right for Actis to undertake a fund raising campaign now, as opposed to a year or two later.
3. Individual TBA: Prepare a memo to the Gobi partners in response to question 3 above.

February 14: Due Diligence, Valuation & the Investment Decision:

- **Capital Alliance (Nigerian Telecom)-Guest: Zephyr Management CEO Tom Barry**
- **Fulano.com (Brazil)**

Reading

1. Chad Williams and William Coughlin, "Capital Alliance Private Equity: Creating A Private Equity Leader in Nigeria," HBS case # 9-800-104, November 2000.
2. Fred Wainright, Colin Blaydon & Hal Nelson, "Note on Due Diligence in Venture Capital," Center for Private Equity and Entrepreneurship, Tuck School of Business at

Dartmouth, Case #5-0014, August 2003. (Very useful reference for next five cases.) http://mba.tuck.dartmouth.edu/pecenter/research/pdfs/due_diligence.pdf

3. Michael Roberts & Lauren Barley, "How Venture Capitalists Evaluate Potential Venture Opportunities," HBS Case # 9-805-019, December 2004.
4. Roger Leeds, "Financing Small Enterprises in Developing Countries: Learning from Experience," excerpt from Financing Small Enterprises in Developing Nations: Learning from Experience (Transnational Publishers, 2003).
5. ______, "Brazil—Weighing Risks and Opportunities in the New Economy: Fulano.com.br," op.cit.

Capital Alliance: The year is 1998. Capital Alliance Private Equity, Nigeria's first major private equity fund, is assessing its first potential investment in 1998, and the fund's founders already are encountering a formidable array of obstacles. Their target is a small telecommunications firm that has been operating profitably in Nigeria for four years and is profitable. Initial due diligence by the Capital Alliance team had been encouraging, but now the latest earnings report is below expectations, which has renewed concerns about transparency and financial record keeping within the company. Although the deal team continues to be attracted to the target company, they know that a lot is riding on their decision with this, the very first deal to be brought before their investment committee. Based on the new revelations, they need to conduct additional due diligence before deciding whether to proceed, and if so, on what terms.

Study questions

1. As a knowledgeable private equity investor with a commitment to promoting investment in sub- Saharan Africa, what is your assessment of the strengths and weaknesses of the Nigerian private equity climate in 1998?
2. One advisor to the founders of Capital Alliance worried that maybe they were "too patriotic and visionary rather than hands-on and profit driven." If this assessment has merit, what would you recommend to ensure that the fund manager's priorities are geared to ensuring successful performance?
3. From a private equity perspective, what is your assessment of the strengths and weaknesses of GS Telecom as an investment opportunity? What are the key value drivers for the company and how well positioned is the company to capitalize on the telecom opportunity in Nigeria?
4. Given the significant differences about valuation between the two parties, what value would you attach to the company if you were leading the Capital Alliance deal team? How would you justify your valuation to the Investment Committee?
5. If Capital Alliance proceeds with the investment in GS Telecom, how can they work effectively with company management to mitigate some of the most significant risks? How can they ensure that they will have sufficient leverage within the company post-investment?
6. Are you comfortable with Capital Alliance's assessment of their exit strategy if they proceed with the deal?
7. Would you recommend they enter negotiations with GS Telecom's owners, and if so, what are your most important conditions for closing the deal? Or, if you believe the deal involves too great a risk for Capital Alliance's first deal, what justification would you present to the Investment Committee?

8. If you were a U.S. or European pension fund manager with a mandate to allocate a small portion of your assets to emerging markets private equity, would you invest in Capital Alliance? Why/why not?

Fulano.com: At the height of the Internet boom, at the same moment that Andre Burger is launching a new Brazilian private equity fund specializing in the technology sector, he is approached with a seemingly attractive opportunity to finance the fund's first investment. His preliminary due diligence indicates that the target company has the potential for exceptional growth and profitability. But the company's 26 year-old founder has no management experience, and like most new dot.coms, the company has no track record, no revenue stream and no historical operating and financial data that could serve as a reasonable basis for making projections and arriving at a defensible valuation. Burger has concluded that the company is likely to be either a huge success, or a complete disaster, and his Investment Committee is waiting for a recommendation.

Study questions

1. Given the optimism in Brazil about the explosive growth expected in the Internet sector, coupled with the strong track record of the RSTec team, why was the fund not able to attract more private investors? Could RSTec management have done more to attract private capital? From RSTec's perspective, does it matter?
2. If you were Andre Burger, would you have assessed the fundamental strengths and weaknesses of fulano.com in the same way? If not, specifically how does your assessment differ?
3. How would you justify to investment committee members an investment in a company with no track record that is headed by an individual with the experience of Rogerio Silverberg? How might you mitigate the risks of investing in a company with inexperienced management?
4. Do you agree with the operating and financial assumptions underlying the fulano.com financial model? What changes to the model would you recommend?
5. Would you have been as willing as the RSTec management team to increase the size of our investment without receiving a larger equity stake? Why/why not?
6. Has Andre fully anticipated all of the questions that are likely to come from his investment committee?
7. If you were on the RSTec investment committee, would you approve the proposed investment in fulano.com? Why/why not?

Written Assignment

1. Study Group TBA: As the Capital Alliance Investment Officer in charge of the GS Telecom deal, write a memo to your Investment Committee that summarizes the proposed deal structure, the strengths, risks and key issues that need to be addressed, including the significant difference between your valuation and the company's, and your recommendation on how to proceed with negotiations.
2. Study Group TBA: Make the case to the investment committee that the fund should approve the proposed investment in fulano.com.br.

3. Individual TBA: Andre Burger has asked you to prepare a memo that summarizes the strengths and weaknesses of the proposed investment in Fulano, including your specific views of the proposed valuation, and your recommendation.

February 21: Entrepreneur's Perspective on Attracting PE Investors & country presentations:
   i. Quinta Fresca (Argentina)
   ii. Adesemi (Tanzania)

Reading

1. Roger Leeds, "Financing SMEs in Argentina," in Financing Small Enterprises in Developing Countries, Transnational Publishers, 2003.
2. Monique Maddy, "Dream Deferred, The Story of a High-Tech Entrepreneur in a Low-Tech World," Harvard Business Review (May-June 2000), pp. 145-152.

Quinta Fresca: For more than a year Felipe Ayllon had been working to raise the capital needed to accelerate the expansion of Quinta Fresca, a highly successful fresh produce distribution company he had started in La Plata, Argentina. No matter how hard he worked, no matter how successful his company, no matter how many prospective funders considered investing in his firm, events seemed to be conspiring against him. Now, in July 2001, as he gathered his senior management team to assess the company's options, Felipe knew that time was short, and the company's future was at stake. If he was unable to raise capital, the long awaited expansion must be curtailed, and he would have to reassess his strategy for the company that had been his singular obsession since its founding eleven years earlier.

Adesemi: In the early 1990s Monique Maddy, recently graduated from Harvard Business School, wrote a business plan for the launch of a start-up telecommunications company in Tanzania called Adesemi, and then set off to raise money for her new venture. During the ensuing five years, the company and its founder enjoyed a few notable successes, amidst a string of frustrations and failures that are characteristic of countless entrepreneurial start-up in developing countries. Most notably, as a result of Ms. Maddy's endless quest for the capital required to sustain and grow her new business, she succeeded in raising about $15 million from a broad range of sources, including development finance institutions, private investors, the local government, strategic investors, and private equity funds. Nevertheless, her venture failed. "Losing Adesemi," she said, "was something of a public death." Thinking about the lessons learned from her experience, Ms. Maddy now wonders what she would do differently if she was to embark on another start-up in Africa.

Study questions

1. In your opinion, what are the key characteristics of a successful entrepreneur? How well do Felipe Ayllon and Monique Maddy fit your profile?
2. As a PE investor, how would you compare and contrast Mr. Ayllon and Ms. Maddy as the CEO of their respective companies? How effectively could you work with each of them to build company value, and why?
3. Looking back at the performance of each company, what do you see as the strengths and weaknesses of their respective business models?

4. What is your assessment of the respective fund raising strategies of Felipe Ayllon and Monique Maddy? What would you have done differently, and why?
5. If you had been advising Felipe in 2000 on his fund raising strategy, how would you have valued Quinta Fresca? What percentage of the company would you have advised him to be willing to sell to outside investors?
6. Could Felipe have anticipated the macroeconomic deterioration? If so, how, and what might he have done to adjust his fund raising strategy?
7. What are the pros and cons of the four options being weighed by the Quinta Fresca management team in July 2001? Are there other alternatives they should have considered? What decision would you have advised Felipe to make, and why?
8. Although Adesemi had solid business fundamentals and was competitive in its market, according to Ms. Maddy performance was adversely affected by a range of non-business factors that are especially prevalent in developing countries, such as "cultural habits and sensitivities," and unreliable local partners. As a private equity investor, how can these risks be identified and mitigated prior to making a capital commitment?
9. Ms. Maddy advises entrepreneurs in developing countries to "steer clear of do-good investors" because "often they are terrified of risk and deeply enmeshed in bureaucracy." Do you agree/disagree, and why?

Assignment

1. Study Group & Individual TBA: As a private equity investor, select 1of the 2 companies and write a memo to your investment committee making the case for why your fund should /should not invest, and why.

February 28: Executing an Exit Strategy (Strategic Investor) & Country Presentations;
- Global Environment Fund exit from Global Forest Products (S. Africa)—
Guest: Global Environment Fund Managing Director Scott MacLeod

Global Forest Products exit: Global Environment Fund (GEF), a private equity fund established in 1990, invests in emerging markets companies with business operations that deliver measurable environmental improvements through the deployment of improved environmental infrastructure, management and clean technologies. In October 2006 GEF is preparing to exit from one of its portfolio companies, Global Forest Products (GFP), an environmentally-sustainable integrated forest products company located in South Africa. GFP's activities include the planting and growing of certified plantation forests in accordance with world-class environmental standards, as well as the processing and sale of finished lumber and forest products. After purchasing 70% of the company in 2001, GEF was actively engaged in transforming GFP from a loss-making business into a highly profitable enterprise. Consolidated revenues increased 108% between January 2001 and June 2006, and EBITDA transitioned from a R35.5 million in 2001 to a profit of R136 in FY 2006.

GEF has retained Goldman Sachs to assist the Fund to exit from its GFP investment. A confidential Information Memorandum was prepared and distributed to approximately 50 prospective bidders, and received serious indications of interest from about 15 companies in the form of non-binding proposals. The GEF task now is to carefully narrow down the roster of interested bidders to a short list of about 4 or 5 finalists who would have the requisite financial

resources, operating expertise and commitment to environmental compliance that are needed to ensure that GFP continues to grow and prosper, as well as providing GEF with an attractive return on its investment. The selected finalists will then be provided with additional information about GFP prior to submitting their final bids.

Scott MacLeod, the GEF Managing Partner in-charge of the transaction, is preparing to meet with the Goldman team to establish the criteria GEF will use to select the finalists, which then will be communicated to the bidders. As a GEF Associate, Scott has asked you to prepare him for the meeting by providing him with a list of the critically important questions that each bidder should be instructed to address, as well as your view of what would constitute acceptable bidder responses to the questions in order to be selected for the final bidding round.

Reading

1. Excerpts from the Goldman Sachs **Confidential** Information Memorandum on Global Forest Products (South Africa).
2. Global Environment Fund, see web site for Fund history, investment criteria, portfolio, personnel, etc.

Study questions

1. Based on the financial projections in the Information Memo, what is an acceptable indicative value for a sale of 70% of GPF shares?
2. How will the bidders finance their proposed purchase, and do they have the financial resources to be successful?
3. What are the minimal acceptable operating credentials and track record of the bidding teams?
4. What criteria should be applied to determine whether the bidders are committed to GFP's mission maintaining world class environmental standards?
5. What additional criteria would you recommend for selecting the bidders short list?

Written Assignment: TBA

March 6: Executing an Exit Strategy (IPO) & Country Presentations

Motilal Oswal Financial Services: In late 2006 the two founders of Motilal Oswal, a diversified financial services company in India, are contemplating whether to do an IPO on the Mumbai Stock Exchange in the near future, or wait until a more opportune moment. Among the firm's existing shareholders are two private equity funds that had jointly made an investment earlier in 2006 for about 9% of Motilal Oswal's equity. The company's founders and the private equity investors have similar but not identical objectives regarding the IPO. The founders must weigh a number of factors before deciding whether to proceed with the IPO, including the interests of the private equity investors.

1. Hardymon, Felda & Leamon, Ann, "Motilal Oswal Financial Services Ltd.: An IPO in India," HBS case # 9-807-095, March 2007.
2. John Wall & Julian Smith, "Better Exits,"(Price Waterhouse survey of VC exits prepared for the EVCA), no date.

Study questions

1. From a private equity investor's, in early 2006 what are the risks and opportunities of making an investment in Motilal Oswal (e.g. your assessment of the company, the sector)? Do the two PE funds have identical objectives?
2. In your view is the valuation negotiated by the two PE funds reasonable and acceptable? Do you agree with the put option? Would you be willing to invest without the put?
3. If you were advising the founders (not the PE investors), what are the key factors they should weigh regarding an IPO now vs. later? What decision would you make, and why?
4. Regarding the exit, to what extent are the interests of the two funds aligned with each other? With management?