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B.Com Honours | Semester VI | Calicut University

# FINANCIAL ADVISORY SERVICES IN INVESTMENT BANKING

Course Code: COM6EJ316 • Module 1 Notes

# Module I: Private Equity Advisory

Covers Private Equity (PE) & Venture Capital (VC) advisory, PIPE transactions, buyout funds, VC valuation vs pricing, deal structuring, term sheet negotiation, & PE exit mechanisms.

## Unit 1: Introduction to VC, PE, PIPE, & Buyout Funds

**Private Equity Landscape:**
- **Venture Capital (VC):** Early-stage equity for high-growth startups.
- **Growth PE & PIPE:** Growth capital or Private Investment in Public Equity (PIPE).
- **Buyout & Distressed Funds:** Acquiring controlling stakes in mature or turnaround firms.

## Unit 2: Investment Banking Advisory Services in PE Deals

**Advisory Role:** Deal origination, confidential information memorandum (CIM) preparation, financial modeling, virtual data room (VDR) management, & investor roadshows.

## Unit 3: Venture Capital Attributes & Valuation vs Pricing

**Valuation vs Pricing:** Valuation uses quantitative models (DCF, VC Method: $ \text{Post-Money} = \frac{\text{Exit Value}}{(1+r)^n} $). Pricing is determined by market supply/demand & negotiation leverage.

## Unit 4: PE Valuation Approaches & Process Flow

**PE Deal Flow:** Teaser $ ightarrow$ NDA $ ightarrow$ CIM $ ightarrow$ Non-Binding Offer (NBO) $ ightarrow$ Due Diligence $ ightarrow$ Binding Term Sheet $ ightarrow$ Definitive Agreements (SHA/SSA).

## Unit 5: Financial Modeling, Term Sheet, & Deal Structuring

**Term Sheet Clauses:** Valuation (Pre-Money & Post-Money), Anti-Dilution protection (Full Ratchet vs Weighted Average), Drag-Along & Tag-Along rights, Board representation, & Liquidation Preference.

## Unit 6: Regulatory Requirements & PE Exit Mechanisms

**PE Exit Avenues:** Initial Public Offering (IPO), Strategic Trade Sale, Secondary Sale to another PE fund, or Promoter Buyback.

**Practical Case Framework 1 (Venture Capital vs Private Equity Investment Attributes Matrix):** Compare investment parameter, Venture Capital (VC), and Private Equity (PE).

**Venture Capital vs Private Equity Comparison Table:**

| Investment Parameter | Venture Capital (VC) | Private Equity (PE) / Buyout |
|---|---|---|
| Target Business Stage | Early-stage, seed, or Series A/B startups | Established, cash-generative mature companies |
| Equity Ownership Stake | Minority stake (10% - 30%) | Majority control or significant minority (25% - 100%) |
| Financial Leverage & Debt | Zero debt used; 100% equity risk | High debt usage (Leveraged Buyout LBO) |

**Practical Case Framework 2 (PE Deal Term Sheet Key Governance & Exit Clauses Matrix):** Detail term sheet clause name, legal protection mechanism, and impact on investor vs founder rights.

**Private Equity Term Sheet Clauses Reference Table:**

| Term Sheet Clause Name | Investor Protection Mechanism | Governance & Equity Impact |
|---|---|---|
| Liquidation Preference (1x / 2x) | PE investor receives capital payout prior to common equity | Protects PE downside risk in distressed sale |
| Tag-Along Right (Co-Sale) | Minority PE investor can join promoter sale to third party | Prevents promoter from exiting alone |
| Drag-Along Right | Majority PE investor forces promoters to sell company | Ensures 100% company sale to strategic buyer |