

Entrepreneurial Finance, 2015

Professor Niso Abuaf

Course Summary

Entrepreneurial financial decision making consists of hard (mathematical) and soft (human/behavioral) aspects. The course will cover the following eleven main topics: (1) introduction to and overview of new venture financing (differences between entrepreneurial finance and classical finance); (2) financial statement analysis; (3) the time value of money, interest rates, (3) valuing bonds, loans, and loan payments; (4) forecasting free cash flows; (5) enterprise valuation including discounted cash flow and comparables analysis and various other metrics relevant to new ventures such as pre vs. post money valuation; (6) the business plan and the elevator pitch; (7) financial contracting; (8) raising capital; (9) corporate governance; (10) harvesting; and (11) the future.

Course Content

1. Introduction and the Entrepreneurial Spectrum (BDMCh1; SSCh1&2; LLHCh1; RMCh1)
 - a. Introduction
 - b. The entrepreneurial spectrum
 - c. Entrepreneurial finance vs. classical finance
 - i. Illiquidity
 - ii. Uncertainty and information gaps
 - iii. Cyclicity
 - iv. Certification
 - v. Incentives
 - vi. Deal context
 - vii. Career management
2. An Overview of New Venture Financing and Different Types of Private Equity; Due Diligence (SSCh2; LLHCh2&3;)
 - a. The rocket analogy
 - b. Choosing the organizational form
 - c. Information problems
 - d. Stages of new venture development
 - e. Sequence and sources of new venture financing
 - i. Angel investors
 - ii. Endowments
 - iii. Pension funds
 - iv. Corporations
 - v. Sovereign wealth funds
 - vi. Intermediaries
3. Financial Statement Analysis (BDMCh2; RMCh2&3)
4. The Time Value of Money and Interest Rates (BDMCh3-5)

5. Valuing Bonds and Loans (BDMCh6)
6. Investment Decision Rules and Forecasting Free Cash Flows (BDMCh7&8; SSCh6&7)
 - a. Principles of financial forecasting
 - b. Forecasting revenue
 - c. Estimating uncertainty
 - d. Breakeven analysis
7. Valuation (BDMCh9; SSCh8&&9; LLHCh4; RMCh5)
 - a. Discounted cash flow valuation (DCF)
 - b. Comparables valuation
 - i. Stock valuation
 - ii. Enterprise valuation
 - c. Valuation by the venture capital method
 - d. Real options valuation
 - e. Pre-money and post-money valuations
 - f. Estimating the cost of capital
 - i. Risk and return (BDMCh10)
 - ii. Estimating the cost of capital (BDMCh12)
 - g. Valuing optionalities
 - i. Financial options and valuation (BDMCh20-21)
 - ii. Real options (BDMCh22)
 - h. Other factors influencing valuation
 - i. Capital structure (BDMCh14-18)
 - ii. Taxes
 - iii. Corporate governance
 - i. Valuation in practice
 - j. The entrepreneur's perspective on value
 - k. The investor's perspective on value (Copa di vino)
 - i. Shark tank episodes
8. The Business Plan and New Venture Strategy (SSCh3&4; LLHCh3)
 - a. The business plan
 - i. The elevator pitch
 - b. What to include
 - c. Confidentiality
9. Raising Capital, Information, Incentives, and Financial Contracting (SSCh11-13; LLH5; RMCh6-8)
 - a. Deal structure: addressing information and incentive problems
 - i. Proportional sharing of risk and return
 - ii. Asymmetric sharing of risk and return
 - iii. Contract choices that allocate expected returns
 - iv. Contract choices that alter venture returns
 - v. Implementation and negotiation
 - vi. Contracting with asymmetric attitudes towards risk
 - vii. Information problems, incentive problems, and financial contracting

- viii. Essentials of contract design
 - ix. Organizational choice
 - b. Private equity securities and their motivation
 - i. Basic private equity securities
 - ii. Preferred stock and its variations
 - 1. Redeemable preferred
 - 2. Convertible preferred
 - 3. Participating convertible preferred
 - 4. Multiple liquidation preferences
 - 5. Exotic securities
 - 6. Seniority and interplay of multiple securities
 - 7. Dividends
 - iii. Terms
 - 1. Vesting
 - 2. Covenants
 - 3. Anti-dilution provisions
 - c. Value added investors
 - d. Sources of capital
 - e. Debt financing
 - i. Types and sources of debt
 - ii. Creative ways to structure long-term debt
 - iii. Long-term debt rules to live by
 - iv. Debt financing for working capital
 - f. Equity financing
 - i. Sources of equity capital
 - ii. Private placements
 - iii. Corporate venture capital
 - iv. Private equity firms
 - v. International private equity
 - vi. Advice for raising private equity
 - vii. Small-business investment companies
- 10. After the Money Arrives – Corporate Governance (LLHCh6)
- 11. Harvesting and Beyond (SSCh14-16; LLHCh7)
 - a. Going public
 - b. Acquisition
 - c. Management buyout
 - d. Employee stock ownership plans
 - e. Roll-up IPO
 - f. The harvesting decision
 - g. Venture capital harvesting
- 12. The Future of Entrepreneurial Finance: A Global Perspective (SSCh7; LLHCh8-14; RMCh12)
 - a. Crowdfunding

- b. Public policy and entrepreneurial activity
- c. International comparisons
- d. The global market
- e. Private equity
- f. LBOs/MBOs
- g. Hedge funds
- h. Venture capital, hedge funds, and private equity in an international context
- i. Capital structure arbitrage and activist hedge funds
- j. The case of a US private equity firm managing its South African investment
- k. The case of a US private equity firm managing its commodities exposures

Course Philosophy

The course will consist of professor's lectures, student case and project presentations, homeworks, and active class participation. I will encourage lively discussions of current events.

The objective of the course is to help students synthesize the theory, the empirical evidence, market color and various other constraints in making pragmatic entrepreneurial finance management decisions— that is, the pragmatic application of theory. I encourage class participation and cross learning.

Grading

Will be based on Midterm (30%), Homeworks (30%), Project (30%), and class participation (10%). For absences exceeding 15% of class time, I maintain the right to fail you in the course. The project grade will be based on originality, literature survey, use of analytical methods, and presentation quality. Please upload your projects onto the BB.

Assignments

The best way to understand the material and prepare for the exams is to do problems. I will give homework problems and later discuss them in class and post written solutions on the Blackboard. You should try to solve the problems in advance, on your own. These assignments will be graded. Please note that the problems are very useful in your preparation for the exams.

Textbooks

Main textbook is Jonathan Berk and Peter DeMarzo, ***Corporate Finance (BDM)***, most recent edition, Pearson Prentice Hall. Please note that ***myfinancelab*** associated with textbook BDM is a mandatory requirement for the course. The course id for myfinancelab and Instructions on how to register for myfinancelab are listed in a separate document on the BB.

Additional texts include (***you do not have to purchase these additional texts***):

J.K. Smith and R.L. Smith (**SS**), *Entrepreneurial Finance*, Second Edition, Wiley 2004; and J.Lerner, F. Hardyman, and A. Leamon, *Venture Capital and Private Equity: A Casebook*, Fourth Edition, Wiley 2009.

Steven Rogers and Roza Makonnen. *Entrepreneurial Finance: Finance and Business Strategies for the Serious Entrepreneur*. McGraw-Hill, 2014 (RM).

Josh Lerner, Ann Leamon, Felda Hardyman . *Venture Capital, Private Equity, and the Financing of Entrepreneurship (LLH)*. ISBN 978-0-470-59143-7. Wiley e-text (\$69.60):
http://www.wiley.com/WileyCDA/WileyTitle/productCd-1118326997,descCd-interstitial_ebook.html

The Entrepreneur's Growth Startup Handbook: 7 Secrets to Venture Funding and Successful Growth
David N. Feldman
ISBN: 978-1-118-44565-5
Wiley e-text (\$48.99): <http://www.wiley.com/WileyCDA/WileyTitle/productCd-1118643291.html>

Computation requirements (EXCEL)

You can use any financial calculator. I personally prefer and highly recommend the HP-12C. Purchasing the HP-12C, or downloading it on your smartphone will make your life considerably easier. It is mandatory that you bring your calculator to class each time. I also strongly encourage you to use **EXCEL** when doing your homework problems and in your projects. Moreover, fluency in EXCEL is virtually becoming mandatory in the workplace. If you are facile with EXCEL, you may not need a calculator at all.

Blackboard (BB)

All course announcements and related materials will be posted on the class website on *Blackboard*: <http://blackboard.pace.edu>. Students are required to periodically check the class announcements and course documents on *the Blackboard*. Also, all housekeeping information regarding course management, including textbook ISBNs, myeconlab course id, class meeting places and times, exam dates, etc., advice on how to do well in the course, accommodations for students with disabilities will be posted on the BB.

Other resources

I recommend that you familiarize yourself with **Bloomberg**, particularly the equity and relative valuation (RV) pages.

I also recommend other websites such as Damodaran, Schiller, Yahoo finance, Google finance, Nasdaq, the street, seeking alpha, and various other broker-dealer websites.

General Responsibilities

It is your responsibility to read, understand and abide by all of the course information and policies listed herein. Failure to do so may result in your failing this course or being withdrawn from the course by your professor.

You are responsible for knowledge of any administrative announcements (test information, schedule changes, etc.) that are made at any time during scheduled class periods and on the BB.

Current Events.

Follow the current financial and economic events in the media. Get engaged with what is going on in the political, economic, and financial world around you. Try to read the Wall Street Journal, the New York Times, the Financial Times, Business Week, the Economist, Barron's, and other financial and economic publications. Try to watch Bloomberg TV, or CNBC. Try to listen to Bloomberg radio. Bring your observations and thoughts to class, discuss them with your class mates and your professor.

Honor Code

You are responsible for maintaining Pace University's code of conduct which mandates zero tolerance for cheating and plagiarism. Violations of the code of conduct will be prosecuted with a minimum penalty of failure for the course, as required by code of conduct rules.

Reasonable Accommodations for Students with Disabilities

The University's commitment to equal educational opportunities for students with disabilities includes providing reasonable accommodations for the needs of students with disabilities. To request an accommodation for a qualifying disability, a student must self-identify and register with the Coordinator of Disability Services for his or her campus. No one, including faculty, is authorized to evaluate the need and arrange for an accommodation except the Coordinator of Disability Services. Moreover, no one, including faculty, is authorized to contact the Coordinator of Disability Services on behalf of a student. For further information, please see Information for Students with Disabilities on the University's web site.

Additional Housekeeping

I will post additional housekeeping announcements in separate documents on the BB, see BB paragraph.