SAMPLE SYLLABUS

NEW YORK UNIVERSITY STERN SCHOOL OF BUSINESS

Entrepreneurial Finance (B40.3361)

Syllabus for Spring 2001 – **draft 1.0**

Tues/Thurs 10:00-11:20am

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Introduction

This is a full term course that offers an overview of financial issues affecting entrepreneurial investments. By “entrepreneurial” investments we mean, in essence, high-risk/high-reward opportunities. These are often associated with small and rapidly growing ventures, but the subject goes beyond start-ups and early stage investment situations. Entrepreneurial opportunities also occur in other forms of investments, for example, in various forms of corporate restructuring such as leveraged buyouts, and inside established companies.

The overall aim of the course is to understand how investors and entrepreneurs create value, noting that their interests do not always coincide. This involves learning about the following topics which trace out the ‘venture capital cycle’: opportunity recognition (how to tell a great opportunity from a mere ‘good idea’); valuation and evaluation (placing a value on the opportunity for funding purposes); negotiating funding; structuring the financing contract (so as to avoid conflict before it arises and optimize performance incentives); managing the investment (helping the entrepreneur in non-financial matters and safeguarding the investment); exit (taking the investee company public in an IPO, selling it to management or a trade buyer, or closing it down).

If we want to understand how venture capitalists create value in this ‘cycle’ and how they interact with entrepreneurs, we also need to understand the VCs’ own incentives and constraints. These are linked to the fund-raising cycle and the structure of a fund. VCs are continually raising new funds and the terms on which they do so influence their behavior. For an entrepreneur, it is critical to understand how.

This implies that we will explore entrepreneurial finance from a number of different perspectives: the entrepreneur’s, the venture capitalist’s, that of the investors backing the

VC (such as pension funds and college endowments), and stock-market investors at the IPO.

Unlike many other finance courses, this is **not** a very quantitative course. Whilst there are quantitative elements on the valuation side, the main focus will be on the analytics. **If you are uncomfortable with this, do not take this class.**

Course structure

The course is structured into three modules: valuation; the private equity market; and harvesting entrepreneurial value. These modules roughly follow the chronology of an investment in an entrepreneurial company: the deal origination/valuation stage; the involvement of the capital providers on certain terms and conditions; and the exit stage where the value of the investment is realized.

Instruction and assessment

The educational emphasis throughout the course is on learning how to make good judgments about companies and investment opportunities under high degrees of uncertainty and potential conflicts of interest, and understanding the economic and legal processes and techniques involved in financing small or otherwise entrepreneurial business opportunities.

The course uses a mixture of cases, lectures, professional external speakers, an interactive game (assuming this can be shipped in time) and student assignments.

There will be several case studies in which students will be required to apply the theory covered in class to analyze real life situations. Teams will be asked to present their findings in class and case work will count towards the course grade. The cases should be completed in teams of 3 to 5 students. In general, ‘solutions’ will not be handed out, but we will discuss the cases in class.

The course places a strong emphasis on presentation and discussion skills: you will need to explain your positions or arguments to each other and to try to argue for the implementation of your recommendations. Class-room participation is key and may affect course grades.

There will be a mid-term and a final exam. These will **not** be multiple-choice but instead focus on material covered in class. There will also be short essays based on a short “casette” requiring analysis.

Target audience

The course should be useful to those seeking careers in venture capital, private equity investing, investment management or in senior management positions of entrepreneurial corporations. Note, however, that VCs rarely hire students straight out of an MBA program, preferring instead a consulting, banking or especially operating background.

Relationship to related courses

The course is different from other related courses offered at Stern (such as Venture Capital, or E-Commerce, E-Corporate Finance, or Securities Valuation). It covers a broader spectrum than small businesses and start ups, is not concerned with operational issues, and uses a market-investor approach to valuation. It is **not** mainly focused on Internet or “new-economy” investments, though these are discussed at some length. It also uses current events to illustrate cycles and euphoric tendencies and to illustrate procedural practices and makes use of outside guests to provide examples of career development and real world and current market insights.

A detailed course schedule will be posted at http://www.stern.nyu.edu/~aljungqv in the near future.

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