



"Topics in Entrepreneurial Finance"

FINC-UB.0061

Fall 2015

Prof. Roy C. Smith (rsmith@stern.nyu.edu)

Room: T-201

MW @ 11:00am

TA: Arvind Kaira (arvind.kaira@stern.nyu.edu)

Course Description:

This is an introductory course on venture capital (financing startups and other small businesses), and private equity (corporate restructurings through leveraged buyouts).

Its objective is to give students an understanding of how financing from institutional sources and angel investors finds its way to entrepreneurial ventures. The institutional investors' point of view has to be analyzed as well as the concerns of the entrepreneurs, who are usually disadvantaged by having to sell into a buyers' market.

The course follows a basic framework for study and analysis consisting of (a) opportunity recognition, (b) valuation and terms of financing, (c) executing (or adjusting) the business plan, and (d) harvesting the investment to create profits through IPOs or a sale of the business.

Entrepreneurial finance is not a science, with numbers to crunch to get a "solution" to problems. It is a practice of applying good judgments to make the most of limited opportunities and resources, and this process involves risk-taking under conditions of extreme uncertainty, and the application of certain skills, methodology and intuition. Experience helps, but is no guaranty of success.

The course is heavily case oriented, with real-world cases to be studied beforehand and analyzed and discussed in class. The learning to be achieved in the course comes from these analyses and an understanding of what happened later, and why.

Faculty:

Roy C. Smith is *Kenneth Langone Professor of Finance and Entrepreneurship* and a former partner of Goldman, Sachs & Co. and President of Goldman Sachs International. (rsmith@stern.nyu.edu)

Office KMEC: 9-93 Office hours: MTW (email for appointment)

Class Participation:

Because this is a large class, classroom participation is not required. But it is appreciated and the professor will take it into account in assigning grades (up to 10 additional points). Students volunteering to lead off case discussions will be acknowledged as contributing to class discussion.

Cold calling will be utilized to widen class discussion. Students who are not prepared when called upon may lose points on their grade average.

To aid you in studying cases and preparing them for discussion it is suggested that you form study groups to meet before class.

Homework Problems:

We have prepared 8 short homework problems for students to answer during the course. The answers must be submitted before class on the day assigned, and the answers will be posted on NYU Classes by the end of that day. The answers will not be graded (but you can compare your answer to the posted one). You will be 2.5 points credit for each one submitted (8 x 2.5 = 20% of your grade). You will be given instructions on how to submit the assignments to the TA, and you must adhere to these for full credit.

Course Requirements and Grading:

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty has adopted a grading guideline for elective courses with enrollments of more than 25 students in which a maximum of approximately 35% of students will receive an "A" or "A-" grade.

The grading weights for this course are as follows:

- Midterm exam 40%
- Final exam 40%
- Homework 20%
- Class participation +/- up to 10%

Course Readings and Cases

Students are required to purchase a course packet from the Bookstore that contains cases purchased from HBS. Everything else needed is posted under “Assignments” on NYU Classes/Resources.

General Conduct and Behavior:

Students are expected to maintain and abide by the highest standards of professional conduct and behavior. Please familiarize yourself with Stern's Policy in Regard to In-Class Behavior & Expectations (<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Disruptive Behavior Policy (<http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/bullying--threatening--and-other-disruptive-behavior-guidelines.html>).

In particular this means: (a) attendance is mandatory – if you cannot make it you must get permission from the instructor to miss class, (b) no personal use of electronic devices in class (only note taking is allowed), and (c) display your name cards at your seat so the instructor can get to know you.

Academic Integrity Above All:

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to: (a) Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage. (b) Clearly acknowledge the work and efforts of others when submitting written work as one's own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced. (c) Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: www.stern.nyu.edu/uc/codeofconduct

To help ensure the integrity of our learning community, all assignments that you submit via the course's NYU Classes website will be routed through Turnitin, which will compare your submission to a database of prior submissions, current

and archived Web pages, periodicals, journals, and publications. Your document will automatically become part of the Turnitin database.

Students with Disabilities

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify the instructor at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD) at Tel. (212) 998-4980 or www.nyu.edu/csd verifying your registration and outlining the accommodations the Center staff recommends. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form (EAF) to them at least one week prior to the scheduled exam time to be guaranteed the alternative venue.

Syllabus

The schedule and assignments are indicated below (subject to change announced in class and/or by NYU Class messaging). Case names are in italics. HBS cases are in the course packet.

1. 9/2 Introduction
 - *Billpay.com* (to be handed out in class)
 - The VC Asset Class
 - RC Smith "The Entrepreneurs" from *The Wealth Creators*

2. 9/9 Venture Capital: A Framework for Analysis
 - Read the Executive Summary of the *National Venture Capital Association 2014 Yearbook*
 - Read: RC Smith, "Managing Venture Capital Investments"

3. 9/14 Angel Investors
 - *US Cybersites*
 - "What You Need to Know to Become an Angel Investor"
 - "For Startups – How Many Angels are Too Many?"
 - Prepare and submit Problem #1

4. 9/16 The VC Industry
 - *Pennell Venture Partners*
 - Prepare and submit Problem #2

5. 9/21 The Clean Tech Industry
 - *Highland Capital Partners* (HBS)

6. 9/23 The Clean-tech Industry
 - *Solazyme* – a biofuel startup

7. 9/28 The Clean-tech Industry
 - *Sungevity* – a solar panel startup
 - Term Sheet Glossary
 - Prepare and submit Problem #3

8. 9/30 New Industries
 - *Zipcar* (HBS) -- a new type of car rental business
 - Read: *Best Practices: Decision Making Among Venture Capital Firms*, (HBS)

9. 10/5 New Industries
 - *Rent-the-Runway* (HBS) -- a rent-a-dress startup

10. 10/7 New Industries
 - *Vermeer Technologies (HBS)* -- a Silicon Valley startup
11. 10/14 New Industries
 - *Hotmail (HBS)* -- an early email startup
 - Valuation Exercise: What price per share should the round be set at?
 - Prepare and submit Problem #4
12. 10/19 Corporate VC
 - *Parenting Magazine (HBS)* -- taking on a large corporate partner
 - Prepare and submit Problem #5
13. 10/21 - Midterm exam
14. 10/26 Lecture: Exits by IPOs
 - Read: Aswath Damodaran, *The Dark Side of Valuation*,
 - Elio Motors, An IPO via Startengine.com, a cloud-sourcing website.
15. 10/28 IPOs
 - *Tesla Motors* -- an electric car IPO
 - Read: Tesla Motors Registration Statement
 - Read: *Tesla* (Aswath Damodaran's Blog)
16. 11/2 The IPO of *Alibaba*
 - *Alibaba* Registration Statement
 - Read: *Alibaba* (Aswath Damodaran's Blog)
17. 11/4 BioTech IPOs
 - *ImmuLogic Pharmaceutical (HBS)*
 - Prepare and submit Problem #6
18. 11/9 Lecture: Selling a Company in the M&A market
 - "Determining the Purchase Price"
19. 11/11 Exit by Corporate Acquisition
 - *Nantucket Nectars** (HBS) -- a bottled juice startup/M&A
20. 11/16 Lecture – LBOs and other forms of Private Equity,
 - RC Smith, "The Amazing LBO Machine"
21. 11/18 - LBOs
 - *OM Scott (HBS)* -- a grass seed LBO
22. 11/23 *Burger King* – a corporate turnaround LBO

- Prepare and submit Problem #7
- 23. 11/30 Mezzanine Finance
 - *Sirrom*, mezzanine finance for small and mid-sized businesses
- 24. 12/2 Bankruptcy Workouts
 - *GSC Partners and Regal Cinema (Parts 1 and 2)*
 - Prepare and submit Problem #8
- 25. 12/7 International Private Equity
 - *Oriflame* – a going-private LBO
- 26. 12/9 International Private Equity
 - *Shenzhen Capital Group* (HBS) – A Chinese investment fund
 - The Chinese Private Equity Industry
- 27. 12/14 Course Review/Career opportunities in Entrepreneurial Finance