

Topics in Entrepreneurial Finance

FINC-UB61 | Spring 2016 | Tuesday-Thursday | Section 1: 9:30-10:45 | Section 2: 11-12:15

Assistant Professor Sabrina T. Howell

TAs: TBD

Draft Syllabus (11/3/2015)

CLASS OVERVIEW

This course will explore how high-growth new ventures (i.e. startups) are founded and funded. We will initially focus on the entrepreneur's perspective, and then shift to the financier's perspective as we study the venture capital industry.

Entrepreneurial finance is characterized by large amounts of uncertainty, and one aim of the course is to learn how to balance good qualitative judgment with quantitative valuation. Due to the inherently ambiguous nature of many decisions that early stage investors and entrepreneurs face, this course will be less quantitative/mathematical than most finance courses. If you are uncomfortable with more qualitative/non-formulaic approaches to problems, then this course is not for you.

We will follow a successful startup's path from opportunity recognition and company founding through the stages of new venture finance. Part I of the course takes the entrepreneur's perspective. You will learn how to develop a business plan for a new idea and pitch it to investors. We will also develop the core skills of valuation. Then we will study the venture capital industry and learn how VCs make deals with startups (Part II). The third part of the course will examine experimentation in entrepreneurial finance. In the final part of the course, we will examine how entrepreneurs and investors realize returns, and discuss the IPO process (Part III).

This course will use a mixture of cases, lectures, and outside speakers. You will hear from a range of entrepreneurs and financiers. These guest speakers will usually come for part of the class (10-10:45 for the first section, and 11-11:45 for the second). Please note that scheduling conflicts arise often for these busy individuals. We should expect some of the speakers to reschedule, cancel, or limit themselves to one section.

There is a strong emphasis on in-class discussion. If you are not normally talkative in class, this will be a safe opportunity to learn to be more outgoing. There are no wrong answers in entrepreneurship –failure is a badge of honor in Silicon Valley.

A key component of the course will be group work. In your groups, you will produce the Startup Project deliverables. You are also encouraged to discuss cases prior to the case class discussion in your groups. Working well in a group is an important skill for a career in business. One goal of this course is to facilitate group work, and peer evaluation will be a component of your grade.

RESPONSIBILITIES AND GRADING

You are responsible for:

- A) Studying lecture materials for in-class quizzes and the midterm.
- B) Preparing case questions for in-class discussion in your groups.
- C) Identifying thoughts or questions about assigned reading to bring up in class.
- D) Preparing Startup Project deliverables in your groups.
- E) Attending class with your name placard.

Grading is as follows:

- A) In-class quizzes (24%)
- B) Midterm Exam (15%)
- C) Class participation (26%)
- D) Startup Project deliverables (25%)
- E) Peer evaluation (10%)

You will simulate the critical elements of founding a new venture through the Startup Project. At the beginning of the course we will randomly divide the class into groups of roughly 5 students. You will pick your startup technology/idea from a set of options, and then will work with your group on the following deliverables throughout the semester:

- A) Business Plan
- B) Pitch
- C) Cap Table based on In-Class Negotiation Exercise
- D) Growth and Exit Plan Memo

Peer evaluation will work as follows. You will have 100 points to allocate across the other group members. If everyone pulls their weight, you should give each person the same number of points. If one person contributed more, you can give him/her more points and others fewer points. The average number of points a person receives from his/her group members will be used to generate the peer evaluation score. The TAs and myself will keep your allocation in strict confidence.

In-class quizzes essentially take the place of a final exam. The quizzes will begin at the start of class and take about 10 minutes; if you are late or absent without an excuse, you cannot take the quiz and will receive a 0. The quizzes will cover only the most recent 2 classes; anything mentioned in the lecture notes is fair game. There will be 9 quizzes on random days, and your lowest score will be dropped.

To have an excused absence, you must email one of the TAs and CC Prof. Howell at least 24 hours in advance. No student may have more than 2 excused absences, except in extenuating circumstances (like a major and documented illness).

Class Rules:

- A) You must bring your name placard and place it in front of you each class.

- B) No computers or phones are permitted in class. If we believe you are texting or typing, we will confiscate your device(s) for the duration of the session.
- C) Deliverables for the class are listed under the date in the schedule below. They must be uploaded to the Classes site at least 1 hour before class begins.
- D) Late deliverables are not accepted unless your group asks for an extension at least 24 hours in advance and has a very good reason.

Hard copies of lectures will be brought to class to help with note taking. They will be posted online later that day.

CLASS SCHEDULE

January 25 - Introduction to the Entrepreneurial Financing Landscape

PART I: Founding and Valuing a New Venture

This part of the course will address how entrepreneurs conceive a new venture and begin the process of raising early stage finance. It will give you the key tools that VCs and startups use to price deals.

January 28 - Opportunity Recognition & Business Models

Required Reading: Blank. (2013). "Why the Lean Start-Up Changes Everything." Harvard Business Review.

February 2 - Methods of Valuation I

Required Reading: Katz et al. (2009). "HurryDate." HBS Case 9-110-035.

February 4 - Pitching

Guest Speaker: Allison Kopf, Founder and CEO of Agrilyst

Skim: Applegate. (2014). "Developing Business Plans and Pitching Opportunities." HBS Core Curriculum 8062.

February 9 - Methods of Valuation II: Real Options Method; (Convertible) Preferred Stock

Deliverable Due: Startup Project Business Plan

February 11 - Angel Investment

Guest Speaker: Charlie O'Donnell, Partner and Founder of Brooklyn Bridge Ventures

Required Reading: O'Donnell Blog. "[How to Build a Successful and Diverse Venture Capital Portfolio Without Really Trying](#)"; "[10 Surefire Ways to Increase Your Chance of Startup Failure](#)" "[The Idea Stage is Broken and a Tool to Fix It](#)"; "[What to Expect When You're Expecting Venture Capital Returns](#)"; "[When doing the right thing by people is also the better business model: Why I backed Homer Logistics](#)"

February 16 - Convertible Notes and the Punchtab Case

Required Reading: Nanda et al. (2011). "Punchtab, Inc." HBS Case 9-812-033.

PART II: Venture Capital and Deals

This part of the course will introduce the VC industry and deal-making between VC firms and entrepreneurs.

February 18 - Capitalization Tables

Guest Speaker: Jeff Behrens, CEO of Siamab Therapeutics and Angel Investor

February 23 – VC Partnerships: Organization and Compensation

Required Reading: Lerner et al. (2011). “Note on Private Equity Partnership Agreements.” HBS Note 9-294-084.

February 25 – Startup Project Pitches. Judges: Josh Wolfe (VC), and Adam Rentschler (serial entrepreneur).

Deliverable Due: Startup Project Pitch

March 1 – VC Deal Sourcing and Evaluation

Guest Speaker: Adam Rentschler, Serial entrepreneur, currently CEO and Co-Founder of ValidEval

March 8 – VC Deals and Term Sheets

Required Reading: Applegate, et al. (2011). “Internet Securities, Inc.” HBS Case 9-811-098.

March 3 – Risk and Return; VC as an Asset Class

Required Reading: 1) Ghalbouni, J., and D. Rouzies (2010). “The VC shake-out.” Harvard Business Review; 2) Nicholas and Chen (2012). “George Doriot and American Venture Capital.” HBS Supplement.

March 10 – Clean Tech Startup Finance

Guest Speaker: Alec Guettel, Co-Founder of Sungevity

Required Reading: Roberts et al. (2011). “U.S. Department of Energy & Recovery Act Funding: Bridging the ‘Valley of Death.’” HBS Case 9-810-144.

Skim: Smith, Roy. “Sungevity.”

March 15-17: Spring Break

March 22 – Midterm

March 24 – Private Equity Fundraising and Distribution

Part III: Experimentation and Growth

This part of the course will address why companies raise money in multiple rounds and the importance of experimentation for new ventures.

March 29 - Fast Ion Battery

Required Reading: Nanda, et al. (2015). “Fast Ion Battery” HBS Case 9-815-025.

March 31 – Experimentation in Entrepreneurial Finance

Required Reading: Lassiter, et al. (2014). “Airbnb,” HBS Case 812-046

April 5 – Rent the Runway

Guest Speaker: Jenny Fleiss, Co-Founder and Head of Business Development at Rent the Runway

Required Reading: Eisenmann and Winig. (2012). “Rent the Runway.” HBS Case 9-812-077.

April 7 – Startup Project-VC Negotiation Exercise

End of Class Deliverable: Negotiation outcome (valuation and % purchased if any)

April 12 – Non-Equity Financing

Part IV: Realizing Value

This part of the course will address how VCs and entrepreneurs transform a new venture into a successful company. We will focus on how VCs usually earn returns, through IPO or acquisition.

April 14 – Flipkart

Required Reading: Iyer (2014). “Flipkart: Valuing a Venture Capital-Funded Startup.” MDI Gurgaon Case W14467.

Deliverable due: Startup Project Cap Table

April 19 – Terrapower

Required Reading: Sahlman, et al. (2013). “Terrapower.” HBS Case 9-813-108.

April 21 – The IPO Process

Guest Speaker: Jonathan Wolfson, CEO and Co-Founder of Solazyme

April 26 – Facebook’s IPO

Required Reading: Compeau, et al. (2014). “Facebook, Inc: The Initial Public Offering” Ivey Case W12453.

April 28 – Listing Choice and Exit Alternatives (Acquisition, Stay Private)

Skim: Hrnjic. (2014). “Alibaba’s IPO Dilemma: Hong Kong or New York?” National University of Singapore Case W14598.

May 3 – Bubbles, Herding and the Unicorn Problem

Guest Speaker: Josh Wolfe, Co-Founder and Managing Partner of Lux Capital

May 5 – Globalization of Startups and VC

Deliverable Due: Startup Project Growth and Exit Plan Memo

Required Reading: Zhao, et al. (2011). Jiuding Capital: Private Equity Firm with Chinese Characteristics.” Tsinghua SEM Case TU0027.