General Course Information:
FINC-GB.3173.30-S2017 VENTURE CAPITAL FINANCING
Thursdays 6-9pm, 1st half of spring semester
Room: TBC

Course Overview and Objectives
This is a half-semester, 1.5-credit course that focuses on financing entrepreneurial companies, especially start-up and early-stage ventures. The course is aimed at both students wishing to start their own businesses or work for a start-up and students wishing to pursue careers in venture capital and other forms of start-up financing.

The start-up scene in the U.S. is exploding, with ever more start-ups raising large amounts of venture capital and disrupting existing business models on a grand scale. Outside the U.S., particularly in Europe, Asia and Latin America, we see similar trends. What does it take to start a disruptive business? And what does it take to finance it?

Investing in entrepreneurial ventures is characterized by very high degrees of uncertainty and complex asymmetries of information between investors and the entrepreneur which can lead to misalignment of incentives and conflicts of interest. The twin aims of the course are for students to learn how to make investment decisions in these situations (i.e. which opportunities to pursue and which to pass up) and how to structure the terms of the investment in such a way as to cope with uncertainty and reduce conflicts of interest arising due to asymmetries of information.

The first aim requires you to master tools for screening investment opportunities in the absence of much "hard" financial data. The requisite "opportunity recognition" tools mainly draw on finance, strategy, and the economics of industrial organization. A good example is the importance of barriers to entry for achieving sustainable profit margins. The second aim requires you to develop an understanding of contract and deal design. For instance, deals are often structured in such a way as to make the valuation paid by the outside investor contingent on the subsequent performance of the venture (using options etc.).

At the end of the course, you should be able to demonstrate that you can make intelligent investment decisions regarding highly risky entrepreneurial ventures, and can structure investments with a view to incentivizing and motivating the entrepreneur while minimizing the investor's downside risk.

The course tracks a start-up from idea (Recognizing and Valuing Opportunities) to harvest (Exiting a venture-backed investment, typically by taking it public or selling it to another corporation).

Unlike many other finance courses, the course incorporates both traditional quantitative elements and qualitative analysis. Examples of the former include spreadsheet models (on the valuation side and in understanding the securities and contracts used to fund new ventures). Examples of the latter include analysis of a VC's decision whether to fund a start-up company and a board's decision how to optimally raise funding. In general, the nature of the subject matter is such that you will encounter ambiguities and ambivalence which defy formulaic (e.g., mathematical) solutions. Making sound decisions under such conditions requires an analytical understanding of the problem in hand. If you are uncomfortable with this, do not take this class.
Prerequisites and Co-requisites

The Foundations of Finance core course (COR-GB.2311) or approved equivalent courses at the Law School etc. is a prerequisite. Corporate Finance (FINC-GB.2302) is a co-requisite, meaning it must be taken either before or concurrently with this course.

The course is not open to students taking, or having taken, the three-credit Entrepreneurial Finance course (FINC-GB.3361) or the three-credit New Venture Financing course (FINC-GB.3373).

Instructor Information:
Professor Alexander Ljungqvist
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Office Hours: TBC

Professor Ljungqvist holds the Ira Rennert Chair in Finance and Entrepreneurship at New York University’s Stern School of Business, where he serves as the director of the NYU Salomon Center. He has taught at Harvard, Oxford, Cambridge, London Business School, and Tokyo, and joined NYU in 2000. He is a Research Associate of the National Bureau of Economic Research in Cambridge, a Founding Senior Fellow of the Asian Bureau of Finance and Economic Research in Singapore, and a Research Fellow of the Centre for Economic Policy Research in London. Dr. Ljungqvist is the recipient of the 2011 Ewing Marion Kauffman Prize Medal for Distinguished Research in Entrepreneurship and of several teaching awards.

Outside Stern, Dr. Ljungqvist serves on the Nasdaq Listing Council and the board of a European biotech company, and he is a member of the World Economic Forum’s Expert Committee on Alternative Investments. He previously served on a World Economic Forum working group tasked with “Rethinking financial innovation.” In the 2000s, he designed alternative investment strategies for Deutsche Bank Securities. Over the past 20 years, he has consulted widely on private equity, corporate finance, regulatory economics, and corporate strategy.

Instruction and Assessment

Grading - read carefully!

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 processes and techniques involved in financing start-up and early-stage ventures.

The course uses a mixture of cases, lectures, and student assignments.

Cases and written assignments

The course has a substantial case element. The cases are designed to help you apply the principles covered in class to analyze real life situations. For some of the cases, you will hand in a group report and/or make a formal in-class presentation; for others, you will be asked to analyze certain aspects of the case and submit answers to online quizzes ahead of the class in which we discuss the case. In general, solutions will not be handed out, but we will discuss each case in class. Case teams need to have 4 or 5 members (no fewer, no more).
Sessions for which a written deliverable or online quiz is due are clearly marked in the Assignments section on NYU Classes.

It is your responsibility to keep track of the deadlines for all deliverables. Please note that online deliverables must be completed before class (unless otherwise noted); NYU Classes links to online deliverables will disappear when the class in question has begun, and credit cannot be given retroactively. So: submit on time or lose the points! You are strongly advised to "print screen" before submitting any online deliverables, so that you have a paper record of your answers (for future reference, not least the exam), and in case NYU Classes crashes before your submission is recorded.

Class Participation

Attendance in class and active participation in class discussion are integral parts of the learning experience and the assessment. You may miss one class, if you have to, without affecting your class participation score. If you are unable to attend class, you must notify me before class by email.

Examinations

There will be a 90-minute final, in-class exam. The final will not be multiple-choice but instead will require you to apply the material covered in class. The emphasis will be on problem solving, not on recall. For instance, a major part of the final exam will consist of data on a certain deal which you will be asked to analyze qualitatively and quantitatively.

Course Grade

The course grade will consist of the following components:
- graded assignments, submission of online deliverables, and course participation: 50%
- final exam: 50%

The Stern curve

This course is an Advanced Finance Elective and so is graded on the Stern curve.

Honor Code and Stern Default Policies

Students are required to adhere to the MBA Honor Code. Every student is obliged to report to the instructor any suspected violation of the code that he or she has observed. Full details can be found at http://w4.stern.nyu.edu/scorp/committee.cfm?doc_id=4797.

All default policies for Stern courses apply by incorporation. See http://w4.stern.nyu.edu/academic/affairs/policies.cfm?doc_id=7511.

Reading Materials:

Required

Reading materials (including cases) will be sold in the NYU book store. Additional readings and handouts will be made available in class and, if we have copyright permission to do so, electronically.

In most weeks, I list both essential and additional readings. Note that you are expected to read
all of the material assigned for the course, but readings marked "additional" are probably best tackled after the class to which they refer.

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**Recommended (but not required)**

In addition to the required readings, you may find the following book of interest. It is NOT compulsory nor will it feature in the exam.

*A nice collection of practitioner insights is*


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**Target audience**

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

As mentioned above, this course is *not* suitable for first-year MBA students, due to its integrative nature. You are strongly advised to wait till your second year before taking this course.

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**Students with disabilities**

Academic accommodations are available for students with disabilities. Please contact the Moses Center for Students with Disabilities (212-998-4980 or mosescsd@nyu.edu) for further information. Students who are requesting academic accommodations are advised to reach out to the Moses Center as early as possible in the semester for assistance.

If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, their rules demand that you submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

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**Health and wellness**

Stern's Dean's Office would like you to know the following. To access the University's extensive health and mental health resources, contact the NYU Wellness Exchange. You can call its private hotline (212-443-9999), available 24 hours a day, seven days a week, to reach out to a professional who can help to address day-to-day challenges as well as other health-related concerns.

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**Auditing**

*Sorry – owing to space constraints, I cannot allow auditing.*

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**Missed a class?**

Classes will be recorded. You can watch a streaming video of any class. Links will be posted on NYU Classes.