



## Topics in Entrepreneurial Finance

FINC-UB.0061.  
Classroom KMEC 3-110  
Tuesdays & Thursdays 2:00 pm-3:15 pm

**Fall 2019**

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Class SLACK channel: **fall2019entfin**

Office Hours: email professor, by appointment-if you email please put "UG EF" in the subject line

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### **Course Description:**

This is an introductory course on capital structure through the arc of a company's life, from birth to death. We start with venture capital (financing startups and other small businesses), and end with private equity (corporate restructurings, leveraged buyouts, mezzanine debt), and bankruptcy/restructuring.

Students will develop an understanding of how individual and institutional investors allocate capital to entrepreneurial ventures, and how they reap rewards via exits and recapitalizations; private company investing, unlike public company investing, is both an active and path-dependent process.

The course follows a basic framework of (a) opportunity recognition, (b) valuation and negotiating the terms of financing, (c) executing (or adjusting) the business plan, and (d) exiting the investment to harvest profits through IPOs or a sale of the business.

Students should develop an understanding of core finance and analytical techniques, the business drivers in a wide range of economic sectors, and a global view of entrepreneurial capital formation.

Entrepreneurial finance is both art and science. There is not always a quantitative solution to a problem. It is a practice of applying good judgments to make the most of limited opportunities and scarce resources, and this process involves risk-taking under conditions of extreme uncertainty, and the application of certain skills, methodologies, and intuition.

Because of this real world ambiguity, the course relies heavily on case studies. Students are expected to read and assess cases, individually and in groups, ahead of discussion in class. Problem sets, exercises, and reviews help students nail down key finance techniques.

### **Faculty:**

Kathleen Traynor DeRose is a Clinical Associate Professor of Finance at the Stern School. She is the one of the architects of Stern's fintech programs and the Fintech Director at the Fubon Center. She is also a non-executive director on the board of the London Stock Exchange, a U.K. plc (public company), and a non-executive director and founding investor of Evolute AG, a WealthTech SaaS platform startup. She is a former Managing Director at Credit Suisse where she led strategy and product design in wealth management. Prior to that she was a the Head of Portfolio Management and Research at a New York City hedge fund, and a Managing Director and Portfolio Manager at both Bessemer Trust and Deutsche Bank. In addition to managing public equities for nearly thirty years, she has been a successful startup investor.

### **Class Participation:**

Classroom attendance is mandatory and class participation is expected. Please come to class having read the cases, prepared the answers to the case questions, and organized your arguments. "Cold calling" will be utilized to widen class discussion.

During the semester we will also organize group work for presentation in class. Check the syllabus and watch the NYU classes site for your group assignments.

### **Homework Problems:**

We have prepared 10 short homework problems for students to answer during the course. The point of these is to practice key techniques. The answers must be submitted before class on the day assigned, and the answers will be posted on NYU Classes. The answers will not be individually

graded (you can compare your answer to the posted one), BUT you will be given 2.0 points credit for each one submitted (10 x 2.0 = 20% of your grade). You must submit the problem via a PDF on NYU classes (no word docs, and no email submissions) by the indicated deadline because we review the problems in class and post the answers after class. There are no makeups, and no credit will be given for late submissions.

### **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. We follow the “Stern curve,” 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%: in class exam October 24th**
- **Final exam 40%: take home exam posted 12/12 and due 12/19 (seven days to complete)**
- **Homework 20%: 10 problems submitted via NYU classes**
- **Class participation+/- up to 10%**
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Grade curve is not final until the end of the semester  
There will be no makeup homework or exams.

### **Course Readings and Cases**

- Students are required to purchase a course packet from the bookstore that contains cases purchased from HBS that are available on NYU Classes. NYU cases are in NYU classes/resources
- Two books are recommended for this class: Sahlman, et al: *The Entrepreneurial Venture*, and Metrick, *Venture Capital and the Finance of Innovation*, (for the first part of the course). Both are classics worth purchasing.
- Homework problems (and answers) can be found under the “Assignments” section on NYU Classes.
- Everything else needed is posted under the “Resources” section on NYU Classes.

### **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 and the NYU Disruptive Behavior Policy.*

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.

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.

**Other:**

We adhere to the Stern policies regarding any exceptions (religious etc.), which must be arranged the first week of class, subject to the conditions above. We do not give substitute or makeup assignments

## Syllabus

The schedule and assignments are indicated below (subject to change as announced in class and/or messaging on NYU Classes). Case names are in italics. HBS cases are in the course pack.

### Week 1

1. Tues. 9/3 **Introduction - The VC Asset Class**
  - *Tally Technologies, Inc.* (in NYU classes resources folder for week 1 and to be handed out in class)
2. Thurs. 9/5 **Angel Investors: US Cybersites**
  - *US Cybersites*
  - "What You Need to Know to Become an Angel Investor" (WSJ)
  - "For Startups – How Many Angels are Too Many?"  
[https://www.nytimes.com/2015/07/07/technology/for-start-ups-how-many-angels-is-too-many.html?\\_r=0](https://www.nytimes.com/2015/07/07/technology/for-start-ups-how-many-angels-is-too-many.html?_r=0)
  - **Submit Problem #1**

### Week 2

3. Tues. 9/10: **Venture Capital, A Framework for Analysis**
  - Executive Summary of the *NVCA 2016 Yearbook* (Also contains a good glossary of terms)
  - Look at: Cambridge Associates Venture Capital Database (2015)  
<http://www.cambridgeassociates.com/wp-content/uploads/2015/07/Public-USVC-Benchmark-2015-Q1.pdf>
  - Sequoia pitch deck
  - Andrew Metrick, *Venture Capital and the Finance of Innovation* Chapters 1-5 (2007)-okay to use other editions, 2011 PDF is in NYU classes
  - Listen to Recode/Decode podcast interview with Sarah Tavel

4. Thurs. 9/12: **The VC Industry: Pennell Venture Partners**
  - *Pennell Venture Partners*
  - Term Sheet Glossary
  - Passion Capital Plain English Term Sheet, Investment Agreement and Articles of Association at [www.passioncapital.com](http://www.passioncapital.com)
  - **Submit Problem #2**

### Week 3

5. Tues. 9/17; **New Industries: The Clean Tech Industry**
  - *Highland Capital Partners* (HBS)
  - Read: "The Power Revolutions," by Daniel Yergin
  - *Sungevity* – a solar panel startup
  - Read: *The Economist*: "Blinded by the Light"  
<https://www.economist.com/news/business/21695927-two-big-potential-bankruptcies-cast-shadow-over-solar-landscape-blinded-light>
6. Thurs. 9/19 **New Industries: Ride-sharing's early days**
  - *Zipcar* (HBS) -- a new type of car rental business
  - *Best Practices: Decision Making Among Venture Capital Firms*, (HBS)
  - VC Method & Zipcar: spreadsheet posted in NYU Classes
  - **Group Work Assignment** (in class presentation)
  - **Submit Problem #3**

### Week 4

7. Tues. 9/24: **New Industries: Platform Economics**
  - Clayton Christiansen et al. 2015, What is disruptive innovation?  
<https://hbr.org/2015/12/what-is-disruptive-innovation>
  - Bower & Christiansen 1995 <https://hbr.org/1995/01/disruptive-technologies-catching-the-wave>
  - Tech Crunch: <https://techcrunch.com/2016/02/27/why-clayton-christensen-is-wrong-about-uber-and-disruptive-innovation/>
  - Parker & van Alstyne: *Platform Revolution (optional-best layman's book on Platform strategies)*
8. Thurs. 9/26: **New Industries: Online Retail**
  - *Rent-the-Runway* (HBS) – a rent-a-dress startup
  - **Group Work Assignment** (in class presentation)
  - <https://www.forbes.com/sites/staceywidlitz/2019/09/29/rent-the-runway-a-wobbly-stiletto-by-no-means-a-fall/#1e37e3b76733>

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## Week 5

### 9. Tues. 10/1: **New Industries: Internet Advertising**

- *AdGrok - an online advertising pricing program*
- *Antonio Garcia Martinez, (founder of AdGrok) Chaos Monkeys (optional-very entertaining)*

### 10. Thurs. 10/3: **New Industries - FinTech**

- *Pirate Bounty Case*
- **Group Work Assignment** (in class presentation)

## Week 6

### 11. Tues. 10/8: **New Industries: Tech, Media, and Corporate VC**

- *Vermeer Technologies (HBS)*
- *Parenting (HBS)*
- **Submit Problem #4 and Problem #5**

### 12. Thurs. 10/10: **Lecture - Late Stage Investing, “Unicorns”**

- *Ken Auletta, “Blood Simpler” (Theranos)*
- *Bill Gurley, “On the Road to Recap”*

## Week 7

### **NO CLASS ON TUESDAY 10/15**

13. Thurs. 10/17: **International Startup Investing: Special Guest: Smita Aggarwal**, Investments and Policy Advisor, Flourish, former Investments Director, Omidyar Network

## Week 8

14. Tues. 10/22: **Midterm Review**

15. Thurs. 10/24: **Midterm Exam (in class)**

## Week 9

### 16. Tues. 10/29: **Lecture: Valuations, Exits by IPOs, Spotify**

- *Aswath Damodaran, Musings on Markets, *The Dark Side of Valuation, and Musings on Markets**
- *Atlantic Magazine. 2011. *Is Underwriting a Cartel?**
- *Economist Article on the Google IPO by auction*
- *Lauren Cohen, *Lazy Prices**
- *Spotify Registration Statement*

17. Thurs 10/31: **Credit Risk Forecasting (Predicting Financial Distress and Bankruptcy): Special Guest Prof. Edward Altman**

[https://en.wikipedia.org/wiki/Edward\\_Altman](https://en.wikipedia.org/wiki/Edward_Altman)

- Edward I. Altman, *A 50-Year Retrospective on Credit Risk Models, the Altman Z-Score Family of Models, and Their Applications to Financial Markets and Managerial Strategies*
- Forbes: Bankruptcy: <https://www.forbes.com/sites/georgeschultze/2016/11/15/the-good-the-bad-and-the-ugly-of-post-bankruptcy-investing/#40afd1334de4>
- Altman z-score: <https://www.accountingtools.com/articles/the-altman-z-score-formula.html>

## Week 10

### 18. Tues. 11/5: **Reg. A & Crowdfunding**

- *Elio Motors Corp*
- *Elio Motors financial statements*
- "Crowdfunding – A New Disruptive Technology?" by RCS and Won Jun Hong
- **Submit Problem #6**

### 19. Thurs. 11/7: **Large IPOs, Foreign IPOs, Alibaba**

- *Alibaba Registration Statement*
- Alibaba: Why It Could Fall 50% Further (Barron's September 12, 2015) <http://www.barrons.com/articles/alibaba-why-it-could-fall-50-further-1442036618>
- Alibaba Numbers Could be Fake (Fortune.com.pdf)
- **Submit Problem #7**
- **Group Work Assignment** (present in class)

## Week 11

### 20. Tues. 11/12: **Lecture: Selling a Company in the M&A market**

- "Determining the Purchase Price"
- Valuation drivers: <https://www.toptal.com/finance/mergers-and-acquisitions/ma-sale-process>
- Exit methods: <https://www.lexology.com/library/detail.aspx?g=981b283e-1182-4b50-9773-6b846a0ede8d>

### 21. Thurs. 11/14: **Corporate Acquisitions and Trade Sales**

- *Nantucket Nectars* (HBS) – exit of a bottled juice startup
- **Submit Problem #8**
- **Group Work Assignment** (present in class)

## Week 12

22. Tues. Nov. 19: **Warren Buffett and Dave Swensen; how famous investors exploit private equity strategies and tactics**

- Buffett's Alpha (Frazzini, Kabiller, and Pedersen, 2013)
- L'Her et al, *A Bottom-Up Approach to the Risk-Adjusted Performance of the Buyout Fund Market* (FAJ)
- Dave Swensen interview:  
[https://www.nytimes.com/2016/11/06/business/the-money-management-gospel-of-yales-endowment-guru.html?\\_r=0](https://www.nytimes.com/2016/11/06/business/the-money-management-gospel-of-yales-endowment-guru.html?_r=0)
- <https://www.forbes.com/sites/danielfisher/2016/08/07/private-equity-returns-evaporate-when-you-account-for-leverage-small-cap-exposure/#2ec2e0f534e1>

23. Thurs. 11/21: **LBOs and other forms of Private Equity**

- RC Smith "The Amazing LBO Machine"
- OM Scott (HBS) – a grass seed LBO

**Week 13**

**THANKSGIVING WEEK**

**CLASS MEETS TUESDAY, NO CLASS ON THURSDAY 11/28**

24. Tues. 11/26: **Corporate Spinouts**

- *The Auction for Burger King* (HBS)
- **Submit Problem #9**

**Week 14**

25. Tues. 12/3: Visit from the Endless Frontier Labs (former Creative Destruction Lab) **Special Guest: Professor Deepak Hedge**

- <https://endlessfrontierlabs.com>
- There will be a special event/contest for attendance at the 12/13 "Deep Tech" Endless Frontier Labs startup session.

26. Thurs. 12/5: **no class meeting on 12/5**, there will be a double class session on Tuesday 12/10

**Week 15**

27. Tues. 12/10: DOUBLE CLASS:

2:00-3:15 **Mezzanine Debt and Recapitalization in bankruptcy:**

- *GSC Partners and Regal Cinemas* (Parts 1 and 2)
- US Mezzanine Debt, Relationship to Other Credit-Driven Asset Classes (2017)

- 2016 Preqin Global Private Debt Report:  
<https://www.ft.com/content/589c2ce2-d548-11e6-944b-e7eb37a6aa8e>
- **Submit Problem #10**

3:30-4:45 **International Private Equity, public-private recaps, multi-level marketing,**

- *Oriflame* – a going-private LBO

28. Thurs. 12/12: LAST CLASS **International Private Equity, and wrap-up**

- *Shenzhen Capital Group* (HBS) – A Chinese investment fund
- Inside Jack Ma's playbook for Ant Financial's global expansion  
[strategyhttps://www.techinasia.com/ant-financial-playbook-global-expansion](https://www.techinasia.com/ant-financial-playbook-global-expansion)
- Kessler, The Glory Days of Private Equity Are Over

**TAKE HOME FINAL will be posted on NYU classes on the last day of class, 12/12/19, after class, and you will have until 12/19/19, or seven days, to complete and submit the exam on NYU classes**

**How to find stuff:**

10 HBS cases: via **coursepak** link (requires payment via bookstore):

- Highland Capital
- Zipcar
- Rent-the-Runway
- Vermeer
- Parenting Magazine
- ~~Immunologic~~
- Nantucket Nectars
- OM Scott
- Auction for Burger King
- Shenzhen Capital

10 NYU (Non-HBS) cases: posted to NYU Classes:

- Tally (handed out in the first class)
- Cybersites
- Pennell
- Sungevity
- Ad Grok
- Pirate Booty
- Elios Motors
- ~~Sirrom~~
- GSC/Regal Cinemas

- Oriflame

Books:

- Sahlman et al: *The Entrepreneurial Venture*
  - I will assign chapters during the class
- Metrick: *Venture Capital and the Finance of Innovation*
  - Short version of 2011 ed. PDF posted to classes for Class #3
  - Purchase if you care about VC, one to invest in!
- Parker & van Alstyne: *Platform Revolution*
  - Best layman's summary of platform strategies/optional
- Antonio Garcia Martinez: *Chaos Monkeys*
  - Entertaining/optional

Non-book readings:

- Access links via syllabus or search online
- Check NYU classes for articles

Extra materials:

- see last folder, has useful summaries of key finance topics