

Entrepreneurial Finance (B7345-001)

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Is This Course a Good Fit for Your Needs?

“Entrepreneurial Finance” is a course designed to learn how to evaluate and finance new, high-growth-potential business opportunities. As such, the course might not fit the needs of some students. I would like to provide to prospective students as much information about the course as possible so they can determine if this course would be helpful for them to take. If, after reading this syllabus, you have any questions about the course, please do not hesitate to reach out to me by email—I would be happy to answer your questions. I will start with some key things to consider: if a prospective student answers *yes* to any of the points 1–6 below, this course might not be a great fit:

1. You are looking for a course that focuses exclusively on term sheets.
 - Explanation. This course provides a general overview of entrepreneurial finance market. Among many things, we will cover how to break down the valuation problem of early-stage ideas, the sources of financing for young businesses and which sources are more vs. less appropriate for different types of young businesses, investment strategy for fundraising, term sheets and how contract terms change over a business’s life-cycle (we will have a lecture, spend several cases and have guest speakers to talk about term sheets), potential exit strategies, the inner-workings of private equity industry and incentives of different players. See the rest of the syllabus for more details of the covered material and other details.
2. You are looking for an easy course that does not require preparation or participation in class.

- Explanation. This course is designed to be time-consuming and challenging: it will require the time to prepare case write-ups, do required reading, a class project, and a final case-based exam (think of it as another case that will need to be completed individually).
3. You are looking for a course that mostly focuses on financing issues during COVID environment.
 - Explanation. While we will cover a case discussing financing issues arising during a market downturn, and guest speakers will be able to provide insights about current market conditions, this is a general course (see point 1 above).
 4. You are not interested in investing, starting or working for a high-growth-potential young business.
 - Explanation. The majority of this course will focus on issues related to financing of high-growth-potential businesses—the types of young firms that angel investors and venture capitalists are interested in investing.
 5. You have extensive experience of raising funds for startups or working in venture capital.
 - Explanation. You likely know most of the stuff covered in class because it covers fundamentals.
 6. You have already taken “Foundations of VC” by Professor Angela Lee.
 - Explanation: “Foundations of VC” and this “Entrepreneurial Finance” course have high degree of overlap.

Course Description

Finance studies valuation and the allocation of resources under uncertainty. Indeed, fundamental topics in finance (e.g., valuing cash flows, assessing the cost of capital, choosing among suppliers of funds, and aligning incentives for value maximization) are as important for entrepreneurial firms as for more established firms. However, the capital market for financing entrepreneurial activities, and private equity investing more generally, differs fundamentally from capital markets considered in standard corporate finance. New and growing firms likely to have less information about their future prospects. Investments in private companies are also often illiquid and under-diversified, hence difficult decisions about financial contracting have to be made.

The primary objective of the course is to provide an understanding of the concepts and institutions involved in entrepreneurial finance and private equity markets. Since entrepreneurial finance and private equity investing are intrinsically linked, the course is purposefully designed to be broad and comprehensive. As an entrepreneur, you cannot negotiate effectively without understanding investors’ motivations. As an investor, you cannot evaluate a potential investment opportunity without appreciating entrepreneur’s perspective and incentives. Therefore, the

course is designed for students who are potentially interested in either pursuing entrepreneurial activity or financing entrepreneurial ventures; although potential entrepreneurs might benefit a little bit more from the course.

The course uses a multipronged approach to the study of entrepreneurial finance and private equity. First, we will analyze principles of corporate finance, valuation, and coordination and control of firms, with an eye toward developing the tools and concepts of entrepreneurial financial management. Second, we will use cases on firms at different stages of their life cycle to illustrate how these tools and concepts may be applied in practice. We will analyze the cases from both the viewpoint of the entrepreneur and that of the investors to understand their motivations, objectives, and considerations. Third, we will have a number of guest speakers who represent both entrepreneurs and investors. Guest speakers bring valuable lessons from their experiences and provide insights into current market conditions.

In principle, we can think of a life cycle of entrepreneurial financial decisions comprised of stages of identifying opportunity, marshaling resources, executing the business decisions, and “harvesting” success. In practice, entrepreneurial finance is not a linear process though this life cycle, and most of the cases we examine will necessarily involve considering multiple stages of the life cycle. As a further dimension, both economists and private equity practitioners describe the need to think simultaneously about four success factors: people, opportunity, context, and the deal. Our case analysis will follow this general framework.

Although numbers and formulas will be an important part of the course, what matters the most is seeing the big picture and being able to apply what we learn in class into real world situations rather than memorizing how to plug numbers into formulas. At the end of the day, formulas may be forgotten and looked up if needed in the future, but the main storyline should stay with you forever.

Goals for This Course

Given the course description, the course’s main goals, from most to least important, are:

1. Help students gain deeper understanding of finance in entrepreneurial finance setting
2. Provide a framework for making investment decisions about high-growth potential projects
3. Provide students with institutional background, specialized vocabulary, and important facts about the venture capital/private equity industry
4. Expose students to current market developments in entrepreneurial finance industry

Given the course objectives, the course is designed for students who are interested in gaining a broad understanding of the concepts and institutions involved in entrepreneurial finance and private equity markets. Given the course provides a broad overview of the entrepreneurial finance industry, the course might not fit the interests of students who seek detailed course on private equity only or who are interested exclusively in term sheets.

Course Materials and Information

There is no required textbook for the course. I will recommend various books and articles depending on the subjects. Required readings and cases will be made available to you in advance in CANVAS for each session. The reading list can also be found in “Files/Class Lectures and Readings/Readings” folder on CANVAS.

I will distribute three problem sets (on valuation, deal terms, and real options). These problems sets are not graded. They are provided for students to practice using financial tools learned in the class. We will solve some of the problems in class and solutions will be posted on CANVAS.

Course Requirements and Grading

This course is designed to be a time-consuming and challenging course. **Unless you have the time to prepare cases, do required reading, and a class project, I recommend not taking the course.** This course also places a strong emphasis on presentation and discussion skills. It will be important to explain your positions or arguments to each other and to try to argue for the implementation of your recommendations. The grading for the class is as following:

Class Participation	1/3
Case Assignments	1/3
Class Project	1/3

Class Participation. Class Participation will count for 1/3th of the course grade. This course relies heavily on class participation and requires substantial preparation for each session. **I will evaluate your performance based both on the quality and the quantity of your comments, not on being present.** I expect that each student can open a case discussion and also contribute to the ongoing class discussion. To facilitate class discussion and dynamics, please bring name cards to each session. **Students should expect to be cold-called to provide answers to class related questions.**

Case Assignments. The case write-ups will comprise 1/3 of the course grade. The write-up can be done in study groups or solo. **Each study group (with four or fewer students)** is required to submit a two-page (typed and double-spaced) memorandum analyzing the case. **The case write-ups are due 30 minutes before the class where we discuss the case.** Study groups will be formed during the first class. Once formed, groups will work together during the whole semester.

During our first class, we will analyze together our first case “Technical Data Corporation: Business Plan.” Please note, **you are not required to submit a case write-up for this case.** But you need to be ready to contribute to the case discussion. You can access the case link and guidance questions through “Assignments” tab on CANVAS.

For other cases, the two-page memorandum of recommendation and analysis should be addressed to the major decision maker in the case. Clearly, you should present your recommendations to that decision maker, the support for your position, and any other comments you believe relevant to resolving the situation. **Your memorandum should not be more than 2 pages long.** The write up should be in either Microsoft Word (or similar) or PDF format and submitted through CANVAS (they can be emailed to your TA or me in case you have difficulties submitting through CANVAS). You may attach related numerical calculations to support your team's two-page write-up of analysis and recommendation. This supporting material should accompany the main two-page analysis as an Appendix and be in either Word (or similar) or PDF format. **Late submissions of the write-up will not be accepted.**

Guidance questions will be also provided with each case assigned. The guidance questions are designed to assist you in working through the case and preparing for class discussion. Clear answers will certainly assist in developing your recommendations to the decision maker. However, the guidance questions are just that: guidance toward important issues you should address in your study and class preparation. They are not intended to encompass nor constrain all of the issues that you may decide are important to the situation at hand. Here, you need to do your own "big picture" thinking and feel free to explore and raise issues beyond the guidance if you think they are important. Guidance questions rarely ask for a fully developed recommendation. The answers to them may lead to, but usually do not meet your core responsibility for the two-page assignment: a recommendation. You need to draw your own conclusions about the nature of that recommendation and support it with logical arguments and facts.

Class Project. Class project will comprise 1/3 of the course grade. Each study group is required to prepare a writeup and pitch in class to raise money for a startup. Teams will present in front of a panel of experienced investors, who evaluate and rank the teams' presentations. More details and guidance will be provided in class.

Course Outline

The course will have 5 major modules: (1) conceptual framework, (2) financing and valuation, (3) deal terms, (4) exit, (5) Private Equity (PE). The following tentative outline serves as a guideline for our course. I will announce the details in advance.

1. Introduction, requirements, and course overview
 - Lecture on conceptual framework
 - Cases: Technical Data Corporation: Business Plan
2. Financing and valuation
 - Lectures on financing options, valuation, real options methods
 - Guest speakers: entrepreneurs and VCs
 - Cases: Technical Data Corporation

3. Deal terms

- Lectures on deal terms
- Guest speakers: entrepreneurs and VCs
- Cases: Sunrise, MuMate, Metapath

4. Exit

- Lectures on exit options
- Guest speakers: entrepreneurs and VCs
- Cases: Technical Data Corporation, Metapath

5. Private Equity (PE) and Venture Capital (VC): GPs, LPs, incentives, fees, and exits

- Lectures on overview of private equity
- Guest speakers: PE investor

6. Course review

General Course Policies

- Computers and other electronic devices are not to be used unless instructed to do so
- Attendance at every class is considered important because a case and discussion oriented course relies on class participation for its success. Missing classes will automatically reduce your grade because participation is part of your grade
- If you miss a class, it will be your responsibility to figure out from your classmates what materials were covered, what additional assignments were made, and what items may have been distributed in class
- You are expected to abide by the Honor Code. All violations of the Honor Code will be penalized in accordance with University guidelines

Meeting Times and Class Material

This course will be taught in person format (if nothing changes!). You will also be able to find the class's Zoom link in "Zoom" tab on the class's CANVAS page. The classroom is TBD as of 12/14/2021. We will meet on the following dates:

Date	Time	Location	Material
January 8	8:30 AM	Classroom TBD/Zoom	Lecture: Class Overview. Case: Technical Data Corporation Business Plan
January 22	3:45 PM	Classroom TBD/Zoom	Case: Technical Data Corporation. Guest Speaker: Financial Professional - Fundraising Process
February 4	3:45 PM	Classroom TBD/Zoom	Lecture: Financing Options. Guest Speaker: Entrepreneur - Raising Money and Hard Stuff
February 5	12:30 PM	Classroom TBD/Zoom	Case: Circles: Series D Financing. Guest Speaker: Entrepreneur - Finding the Right Investors
February 18	8:30 AM	Classroom TBD/Zoom	Lecture: Valuation. Guest Speaker: Investor - Drivers of Investment Decisions
February 19	3:45 PM	Classroom TBD/Zoom	Lecture: Deal Terms. Practice Problems: Deal Terms
March 4	12:30 PM	Classroom TBD/Zoom	Case: Sunrise Inc. A Tale of Two Term Sheets. Guest Speaker: VC - Deal Terms
March 5	8:30 AM	Classroom TBD/Zoom	Case: MuMate. Guest Speaker: Entrepreneur - Financing Lifecycle
March 11	3:45 PM	Classroom TBD/Zoom	Lecture: Options for Exit. Case: Metapath Software
March 12	12:30 PM	Classroom TBD/Zoom	Lecture: Private Equity Overview. Guest Speaker: PE - Past, Current and Future of the PE Industry
March 25	12:30 PM	Classroom TBD/Zoom	Project: Teams Presentations
April 9	12:30 PM	Classroom TBD/Zoom	Case: Final Case Discussion. Lecture: Class Summary