

## FE854 ESG Entrepreneurial Finance

This course will provide the student a set of financial tools and vocabulary to plan, raise capital and grow a start-up enterprise. The sequence of enterprise building is examined from launch, through financing rounds, to exit. The course is designed for students interested in, or currently engaged in, starting a business enterprise. The skills taught are also useful to investors who wish to engage in private equity investing, and coursework may be modified for interest in a role as either investor or entrepreneur.

Comfort with the vocabulary, tools and strategies of start-up financing are essential for traditional and mission-oriented entrepreneurs alike. While there are no prerequisites for this class, the student should have comfort with financial statements and basic accounting concepts. There will be light spreadsheet work and math on quizzes, but most of the reading and case homework balance emphasize financial concepts and strategy. Optional reading in nonprofit startups and social impact enterprises will be available, and assignment work can be modified for interest in nonprofit startups.

Students should take this course who:

- are interested in learning the essential tools and vocabulary for launching a start-up
- anticipate being involved in both for profit and nonprofit enterprises over their career
- need to know current financing and structure alternatives available
- are comfortable with creating forecasts and financial spreadsheet building

The course will expose the student to a balance of applied mathematics, case studies, and will involve creating and presenting a startup or investment idea. In addition to lectures, asynchronous recordings, and readings, there will be guest lecturers from a variety of fields essential to the start-up process.

Learning Objectives:

*Comfort with Essential Tools of Startups, including:*

- *Equity Ownership Creation and Staging*
- *Forecasting Cash Flow Need and Fundraising Needs*
- *Understanding and preparation of:*
  1. *Investor Term Sheets*
  2. *Investors Pitch Decks*
- *Creation and Interpretation of Investor Payoff Diagrams*
- *Payoff Priorities via Preparation of Waterfall Tables*
- *Calculation of Financial Impact of Anti-Dilution provisions*
- *Choices of equity incentive structures – for profit and nonprofit entities*
- *Business Objectives versus Mission Statements*

*Understanding Use of Tools in Stages of Business Evolution*

*Using Cash Flow Forecasting and Choosing Valuation Methods*

*Protecting and Managing Equity Ownership Through Multiple Financing Rounds*

*Understanding of the Motivations of Participants in Startups – For Profit and Nonprofit Perspectives*

*Planning and Executing a Successful Exit*

*Measuring Objectives: Integrating Financial Success and Impact Success*

## **II.2. Grading**

Grading will be based upon the following weights:

Homework and Class Participation 25%;

4 Case Assessments – 25%;

Final Presentation - 25%;

In Class Quizzes (3) – 25%

## **II.3. Course Material**

### **Basic Text**

- Da Rin and Hellman, Fundamentals of Entrepreneurial Finance, Oxford University Press

*I would recommend purchase of Da Rin and Hellman textbook in electronic form as it is sizeable. I will supply key material if you do not wish to purchase, but I would highly recommend owning this current text if you are either planning to invest in startups or launch one yourself.*

### **Excerpts from:**

- Mallaby, Sebastian; **The Power Law: Venture Capital and the Making of the New Future**

*A very current updating of the Silicon Valley history that underlies the many tools and strategies taught in this course.*

- Bussgang, Jeffrey, **Mastering the VC Game**

***The Power Law** is the most current of these texts and is an excellent read to understand the origins of many of the VC investment practices today. **Mastering the VC Game** is older, but it is a good summary of the actual process of raising capital from a VC.*

**Course Packet – Contains Case Studies and Workbooks and is a required purchase.**

Final Business Plan Evaluation - The number of students make it possible for me to review all individual reports. The form will be an evaluation of a business plan of a company of your choosing. I will distribute the format of the plan in early March.

The final class day will be reserved (4/25) for each person present to the class an overview of their company in a short summary for comment in an order that I will provide.

Following class comments, you will then submit a full business plan analysis (components will be given to you, and will generally follow the VEMatrix areas) by the final exam date.

## II. Course Schedule

Class	Topics	Student Actions
1	<b>Introduction to Course Materials and Class</b>  Course Syllabus  Course Schedule and expectations.  Introduction to FIRE and FUEL  Overview of Course Expectations  Student Startup Business Interest - Introduction	Please come to first class prepared to discuss your interest in Entrepreneurial Finance. In particular: <ol style="list-style-type: none"> <li>1. Investor or Entrepreneur interest?</li> <li>2. Industry or industries of particular interest?</li> <li>3. Specific areas of expertise that you'd like to bring to a startup investment or enterprise.</li> </ol> I will use this input to help craft your individual year end project for you as well as select guest speakers of interest.
2  1/31	<b>Evaluating Venture Opportunities</b>  Venture Evaluation Matrix  Introduction to Financial and Business Plans  Risk Profile and Company Founders  Risk Profile of Investors  Equity allocation among start-up company founders  Understanding Ownership Through Investment Series - Stacked bar diagrams	<b><u>Assignments Due for Class</u></b>  <b><u>Read:</u></b> <i>Da Rin and Hellman</i> Chapter 1 "The Entrepreneurial Finance Process"  <b><u>Read:</u></b> <i>The Power Law:</i> Chapter 1 "Arthur Rock and Liberation Capital"  <b><u>Read:</u></b> <i>Mastering the VC Game:</i> Introduction and Chapter 1 "The Entrepreneurial Itch: Change the World"  <b><u>Assignment Due:</u></b> 2-3 paragraph response to question in Assignment Tab on Blackboard. (Pandora – FIRE framework)

Class	Topics	Student Actions
3  2/7	<b>Business Plans and Financial Forecasting</b>  Determining equity allocation policy  Cash flow projections for start-ups  Introduction to Valuation Methods  Margins of Safety	<u><b>Assignments Due for Class</b></u>  <b>Case Study - Read and Answer Questions:</b> NanoGene Technologies Case Study. Case Study Prompts will be supplied on Assignments Tab in Blackboard.  <u><b>Reading from:</b></u> <i>The Power Law, Chapter 2</i>  <u><b>Reading from:</b></u> <i>Da Rin and Hellman</i> Chapter 2  <b>Assignment:</b> Answer Prompts on NanoGene Case Study in Assignment Tab on Blackboard.  <b>Self Study Quiz</b> in Quiz portion of Blackboard. Not Graded.
4  2/14	<b>The Mechanics of Venture Capital Financing</b>  The Alternative Ways of Establishing Fair Value  <ul style="list-style-type: none"> <li>- Discounted free cash flow</li> <li>- Comparative valuation of peers</li> <li>- Alternative views of value</li> </ul> Forecasting Working Capital Needs  SAFE Financing Documents  Financing Alternatives  <b>Graded Case Submission</b>	<b>First In Class Quiz</b>  <u><b>Case Study - Read and Answer Questions:</b></u> Jones Electrical Case Study. Case Study Prompts will be supplied on Assignments Tab in Blackboard.  <u><b>Read:</b></u> <i>Da Rin and Hellman</i> Chapter 3 (skip Workhorse case in chapter and focus on Jones case)  <b>Non-Text Reading:</b> Simple Agreements for Future Equity (SAFEs) <a href="https://www.ycombinator.com/library/6m-understanding-safes-and-priced-equity-rounds">https://www.ycombinator.com/library/6m-understanding-safes-and-priced-equity-rounds</a>  <b>Practice Quiz Questions will be posted - ungraded</b>
5  2/28	<b>Maintaining Ownership</b>  Capitalization Tables  Dilution of Ownership: pros and cons  Phases in the capital raising process  Structuring Deals  <b>IN CLASS QUIZ</b>	<b>Case Study - Read and Answer Questions:</b> Punchtab Case Study. Case Study Prompts will be supplied on Assignments Tab in Blackboard.  <u><b>Reading from:</b></u> <i>Da Rin and Hellman</i> , Chapter 4: Ownership and Returns  <u><b>Read:</b></u> <i>The Power Law</i> Chapter 4: The Whispering of Apple  <u><b>Reading From:</b></u> <i>Mastering the VC Game</i> Chapter 3: <i>The Pitch: Being the one in Three Hundred</i>

Class	Topics	Student Actions
6  3/14	<b>Partnerships – Costs and Benefits</b>  Introduction to Term Sheets  Venture Capital Method  Valuation Exercises  Convertible Preferred, Caps and Dilution  Contractual Milestones	<p><b>Problem Set Homework:</b> The Venture Capital Method - Valuation Problem Set (Question 1 &amp; 2) (Course Packet)</p> <p><b>Read:</b> The Basic Venture Capital Formula (Course Packet). Video from class also available on Blackboard.</p> <p><b>Read:</b> Funding New Ventures: Valuation, Financing and Capitalization Tables (Course Packet)</p> <p><b>Answer Prompts:</b> On Blackboard, <b>PunchTab</b>, Inc (part 2)</p> <p><b>Read:</b> Da Rin and Hellman, Chapter 5 (through 5.5.1 Scenario Analysis)</p>
7  3/21	<b>Structure and Motivation of Investors – Tools for Management</b>  Term Sheets Continued  Anti-Dilution Strategies  Compensation  Syndication  Deal Negotiations & Closing  <b>Graded Case Submission</b>  <u><b>Guest Speaker: Scott Steele, JMH Capital – Venture Investors and Nonprofit Management</b></u>	<p><b>Case Study - Read for Discussion:</b> Strava, (Course Packet)</p> <p><b>Case Study - Read and Answer Questions:</b> Term Sheet Negotiations for Trendsetter, Inc. (Course Packet) for Graded Case Submission.</p> <p><b>Read:</b> Da Rin and Hellman, Chapter 6 Term Sheets</p> <p><b>Read:</b> NVCA Sample Term Sheet (from the National Venture Capital Association, <a href="http://nvca.org">nvca.org</a>)</p> <p><b>Read:</b> More VC Math: Breaking Down a Deal  <a href="https://www.vcrazor.com/vc-razor/fund-fit/more-vc-math/">https://www.vcrazor.com/vc-razor/fund-fit/more-vc-math/</a></p>

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<p>8</p> <p>3/28</p>	<p><b>Corporate Governance/Deal Structuring</b></p> <p>Board of Directors</p> <p>Voting Rights</p> <p>Control Issues</p> <p>The MATCH Tool</p> <p><b>IN CLASS QUIZ</b></p> <p><u>Guest Speaker – Tom Aulet, Co - Founder and CEO - Ergatta (Game based Rowing Maching Software and Equipment)</u></p>	<p><b>Case Study - Read and Answer Questions:</b> Notes on Antidilution Provisions: Typology and Numeric Example</p> <p><b>Reading from:</b> <i>The Power Law</i>, Chapter 7, Benchmark, Softbank, and “Everyone Needs \$100 million”</p> <p><b>Read:</b> Da Rin and Hellman, Chapter Selections: 7.2.3 Valuing an Idea - 7.3.3 The MATCH Tool – Box 7.6 The Seven Bad Habits of Inexperienced Entrepreneurs</p> <p>Chapter 8 Selections: 8.2 Corporate Governance Structures – 8.3 Investor Value Adding</p> <p><b>Optional:</b> “Systems Thinking” HBS Module Note July 22, 2021</p> <p><b>Optional:</b> Drayton, Bill, “Everyone A Changemaker: Social Entrepreneurship’s Ultimate Goal,” MIT Press with Harvard University and George Mason University, Pp.1-27.</p>
<p>9</p> <p>4/4</p>	<p><b>Exits – Strategy and Tactics</b></p> <p>Initial Public Offering</p> <p>Strategic Exits for Nonprofits</p> <p>M&amp;A</p> <p>Valuation Revisited</p> <p>Alternative Exits - SPACs</p> <p><u>Speaker – Jon Lipnik: Kirkland &amp; Ellis Partner, specializes in venture fund structures</u></p> <p><b>Graded Case Submission</b></p>	<p><b>Case Study - Read and Answer Questions:</b> “RightNow Technologies” (Course Packet)</p> <p><b>Read:</b> Da Rin and Hellman, Chapter 11 “Exit”</p> <p><b>Reading from:</b> <i>The Power Law</i>, Chapter 9 “Peter Thiel, Y Combinator, and the Valley’s Youth Revolt</p> <p><b>Reading:</b> <i>Mastering the VC Game</i>, Chapter 6</p> <p><b>Read:</b> Review of Coursera S-1; IPO; Find new S-1 going public in 1<sup>st</sup> quarter.</p>

Class	Topics	Student Actions
<b>10</b>  4/11	<b>Investor Ecosystems</b>  Angel Investor Groups  Incubators  Venture Investor – Understanding Motivations  Lenders for ESG Oriented Startups   <b>IN CLASS QUIZ (Optional)</b>	<p><b>Case Study - Read and Answer Questions:</b> GreeNEWit: Financing the Next Level (Course Packet) – Read Prompts for Discussion</p> <p><b>Reading From:</b> <i>Mastering the VC Game Chapter 3: The Pitch: Being the one in Three Hundred</i></p> <p><b>Reading from:</b> <i>The Power Law, Chapter 11, Accel, Facebook, and the Decline of Kleiner Perkins.</i></p> <p><b>Readings from:</b> Da Rin and Hellman, <b>Chapter 9</b> selections: 9.3 “Term Sheets for Staging” – 9.4 Managing Financial Difficulties. Plus <b>Chapter 12</b> “Venture Capital”</p> <p>Selected Readings and Links to be posted.</p>
<b>11</b>  4/18	<b>Debt and Working Capital Management</b>  Anti-dilution Provisions  Waterfall Tables  <u>[Guest Speaker – Kousha Bautista-Saeyen – Farther Wealth Management Platform, Venture investor]</u>	<p><b>Case Study - Read and Answer Questions:</b> Financing Entrepreneurial Ventures (Course Packet). Answer Prompts and Use of included financial models</p> <p><b>Read:</b> <i>Da Rin and Hellman</i> Chapter 10 “Debt Financing”</p> <p><b>Reading from:</b> <i>The Power Law</i> Chapter 10 “To China, and Stir”</p>
<b>12</b>  4/25	<b>Legal Agreements and Private Equity Fund Structures</b>	<p><b>Case Study - Read and Answer Questions:</b> KickShot: Goooooooooal! (in Course Packet)</p> <p><b>Read:</b> <i>Da Rin and Hellman</i> Chapter 11: Exit Section 1-4</p> <p><b>Read:</b> Note on The Initial Public Offering Process (Course Packet)</p> <p><b>SPAC Reading</b> – Bill Gurley “Above the Crowd” Blog. <a href="https://abovethecrowd.com/2020/08/23/going-public-circa-2020-door-3-the-spac/">https://abovethecrowd.com/2020/08/23/going-public-circa-2020-door-3-the-spac/</a></p>
<b>13</b>  4/25	<b>Individual Presentations in Class</b>	

Class	Topics	Student Actions
5/9	<b>Final Presentation Due 6:30 pm</b>	