

ROCHESTER INSTITUTE OF TECHNOLOGY
SAUNDERS COLLEGE OF BUSINESS

Financing New Ventures
FINC 559-01 Undergraduate
FINC 605-01 Graduate
Spring Semester 2023 (2225)

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Classrooms: Student Innovation Hall (SIH), Bldg. 87, Room 1600
Zoom Link: <https://rit.zoom.us/j/anthonytesta>
Meeting Time: Mondays 5:30-8:20 PM
Office Hours: Mondays 8:20-9:20 PM and by appointment

SAUNDERS COLLEGE OF BUSINESS MISSION

We elevate students to make immediate and enduring contributions to organizations and the world through career-oriented experiences and our teaching and research, which integrate business, technology, and design thinking.

SYLLABUS

I. Course Description and Objectives:

Students focus on the financial concepts, issues, methods, and industry practices relevant to entrepreneurial decision makers. The course addresses a variety of topics including financial valuation; various sources of funds, structures, and legal issues in arranging financing; the private and public venture capital markets; and preparation for, and execution of, an initial public securities offering. This course provides an understanding of the segments of capital markets specializing in start-up and growth financing. Classroom activities include interactive lectures, student presentations and discussions, and presentations by guest speakers as they are available to us. **Graduate students are required to co-teach one chapter during the semester. Please see me immediately following the first class to sign up for a co-teaching session.**

II. Prerequisites: None

III. Textbook and Other Reading Material:

Required Reading

J. Chris Leach & Ronald W. Melicher, Entrepreneurial Finance, Fifth, Sixth, or Seventh Editions (Cengage Learning, 2015, 2018, 2020). [Referred to as L&M]

Business Week, Bloomberg Business, The Wall Street Journal, Fortune, and Financial Times.

Optional Entrepreneurial Resources List

Guy Kawasaki, The Art of the Start 2.0: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything (Portfolio / Penguin, 2004, 2015).

Mike Moyer, Slicing Pie: Funding Your Company Without Funds Version 2.3 (Lake Shark Ventures, 2012-2013).

Jason Calacanis, Angel: How to Invest in Technology Startups—Timeless Advice From An Angel Investor Who Turned \$100,000 Into \$100,000,000 (HarperCollins, 2017).

Brad Feld and Jason Mendelson, Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist (John Wiley & Sons, 2019).

W. Chan Kim and Renée Mauborgne, Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant—Expanded Edition (Harvard Business School Publishing Corporation, 2015).

Cameron Herold, Vivid Vision: A Remarkable Tool for Aligning Your Business Around a Shared Vision of the Future (Lioncrest, 2017).

Michael E. Gerber, The E-Myth Revisited: Why Most Small Businesses Don't Work and What To Do About It (HarperBusiness, 1995).

Dale Dauten, Great Employees Only: How Gifted Bosses Hire and De-Hire Their Way to Success (John Wiley & Sons, 2006).

David Feinleib, Why Startups Fail: And How Yours Can Succeed (Apress, 2012).

Alexander Osterwalder & Yves Pigneur, Business Model Generation: A Handbook For Visionaries, Game Changers, and Challengers (John Wiley & Sons, 2010).

Bill Aulet, Disciplined Entrepreneurship: 24 Steps to a Successful Startup (Wiley, 2013).

Brant Cooper and Patrick Vlaskovits, The Entrepreneur's Guide to Customer Development (Cooper & Vlaskovits, 2010).

Giff Constable, Talking to Humans: Success Starts with Understanding Your Customers (2014).

Steve Blank & Bob Dorf, The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company (K&S Ranch, Inc., 2012).

Adrian Slywotzky, The Art of Profitability (Warner Books, 2002).

Ray Dalio, Principles: Life and Work (Simon & Schuster, 2017).

Simon Sinek, Start With Why: How Great Leaders Inspire Everyone To Take Action (Portfolio, 2009).

The Arbinger Institute, Leadership and Self-Deception: Getting Out of the Box (Berrett-Koehler, 2018).

Chris Bradley, Martin Hirt & Sven Smit, Strategy Beyond the Hockey Stick: People, Probabilities, and Big Moves to Beat the Odds (Wiley, 2018).

Business Model Canvas and Value Proposition Canvas at www.strategyzer.com

- Sign up for a free account to download dozens of free resources, including canvases, scorecards, guides, and books

Business Model Canvas: <http://www.businessmodelgeneration.com/canvas>

- If you are not familiar with the Business Model Canvas, you may want to go through a tutorial: <http://www.alexandercowan.com/business-model-canvas-templates/>

Value Proposition Canvas: <https://strategyzer.com/canvas/value-proposition-canvas>

Steve Blank's How to Build a Startup: The Lean LaunchPad Online Course at Udacity: <https://www.udacity.com/course/ep245>

IV. Course Outline and Readings:

<u>Due Date</u>	<u>Topics</u>	<u>L&M Textbook</u>
<u>Week 1</u> Jan. 16	NO CLASS / MARTIN LUTHER KING, JR. DAY	
<u>Week 2</u> Jan. 23	Introduction: Objectives and Goals The Successful Venture Life-Cycle & Venture Financing Sources	Chapter 1
<u>Week 3</u> Jan. 30	Developing a Sound Business Model Screening Venture Opportunities ■ Write-Up #1 Due	Chapter 2
<u>Week 4</u> Feb. 6	Organizing a Venture Protecting Intellectual Property ■ Write-Up #2 Due	Chapter 3
<u>Week 5</u> Feb. 13	Preparing and Using Financial Statements Measuring Financial Performance ■ Term Project Topic Due	Chapter 4
<u>Week 6</u> Feb. 20	Using Financial Ratios Determining Whether a Venture is Burning or Building Cash ■ Write-Up #3 Due	Chapter 5 Chapter 5

Week 7

Feb. 27

Managing Cash Flow
Short-Term & Long-Term
Financial Planning

Chapter 6

Measuring a Venture's Cash
Conversion Period

Chapter 6

■ **Write-Up #4 Due**

Week 8

Mar. 6

EXAM #1**Week 9**

Mar. 13

NO CLASS / SPRING BREAK**Week 10**

Mar. 20

Types and Costs of Financial Capital

Chapter 7

Week 11

Mar. 27

Securities Law Considerations When
Obtaining Venture Financing

Chapter 8

■ **Write-Up #5 Due**

Week 12

Apr. 3

Projecting Financial Statements

Chapter 9

Valuing Early-Stage Ventures

Chapter 10

Week 13

Apr. 10

Venture Capital Valuation Methods

Chapter 11

■ **Write-Up #6 Due**

Week 14

Apr. 17

EXAM #2

Week 15

Apr. 24

Professional Venture Capital

Chapter 12

Harvesting the Venture

Chapter 15

Exit Strategies: Sell or Use IPO

■ **Write-Up #7 Due**

Week 16

May 1

TERM PROJECTS & PRESENTATIONS DUE

Week 17

May 8

DUE DILIGENCE EXAM DUE

EXAM TIME: 7:00 PM – 9:30 PM EDT

V. Class Sessions

Classes will be a combination of lectures, discussion of assigned homework, and clarification of topics you raise. Class participation is encouraged and will be included in the calculation of your grade for up to three (3) points in addition to those outlined in the grading policy below. Class participation means jumping into discussions and volunteering solutions to problems. **Participation is not simply your attendance in class.**

Class attendance and punctuality is expected. If you have to miss a class, please let me know in advance. Please note that additional material could be covered during class meetings and you are responsible for such material if you have to miss a class. When students actively contribute to the discussion, everyone benefits from a more positive learning environment and the class becomes more interesting and fun. Therefore, **you will miss important learning opportunities if you miss class.** I reserve the right to penalize your final grade for absenteeism and / or chronic tardiness as well as overall excessive lack of participation. **If you know that you will be missing 2 or more days of class, it might be in your best interest not to take this class.**

VI. Assignments

You are expected to read all assigned chapters and complete all assignments for class on the date indicated. There are seven (7) “write-ups” that are due during the semester. Write-ups are hardcopy documents that are a maximum of three (3) pages in length summarizing the week’s activities, lectures, and readings. For inclusion in each write-up due, you must identify and summarize at least one (1) additional resource used in entrepreneurial finance relating to the topic(s) of that week. That is, you must identify credible, published resources that discuss some facet of entrepreneurial finance. I have provided five general, high-level

examples of resources in this syllabus, but you should use this assignment as an opportunity to explore what resources are available to an entrepreneur. There are many resources available if you do some investigating. Write-ups are collected at the beginning of class and are used to show your comprehension of the material and to indicate your attendance in class. For your final write-up, you must include all of the resources you used during the quarter. If you are dropping the seventh write-up, then your final write-up will be the sixth write-up and you must include the resource list therein.

VII. Examinations

There will be three (3) examinations as indicated in the course outline above. Students are expected to take exams on the scheduled dates at the scheduled times. There will be no make-ups on examinations unless cleared with the instructor prior to the exam for a verifiable reason allowed by RIT policy. **The use of any electronic devices including cell phones, PDAs, laptops, iPods, etc. will not be permitted during examinations for any reason.**

VIII. Use of Electronic Devices in Class

Turn off all electronic devices while class lectures and presentations are in session.

IX. Writing Policy

“Strong written communication skills” appears as a primary requirement in most employment announcements, and this requirement was repeatedly cited by employers in recent Saunders employer interviews. As such, written communication is an important component of your RIT / Saunders education. To help develop writing skills, students in Saunders College of Business courses are expected to meet writing criteria specified by the instructor. Failure to meet these requirements will negatively impact the evaluation of your written assignments, and could impact your future job prospects.

X. Academic Honesty / Dishonesty Policy

Please familiarize yourself with RIT’s academic honesty / dishonesty policy below. I fully expect there will be no incidents of academic dishonesty in this course, however, if such matters do arise, they will be dealt with according to this policy as referenced online at <http://www.rit.edu/academicaffairs/policiesmanual/d080>.

ACADEMIC HONESTY POLICY

As a university, RIT is committed to the pursuit of knowledge and the free exchange of ideas. In such an intellectual climate it is fundamentally imperative that all members of this academic community behave in the highest ethical fashion possible in the manner by which

they produce, share, and exchange this information. In the case of students, Academic Honesty demands that at all times student work be the work of that individual student, and that any information which a student uses in a work submitted for evaluation be properly documented. Any violation of these basic standards constitutes a breach of Academic Honesty and hence becomes Academic Dishonesty.

ACADEMIC DISHONESTY

Academic Dishonesty falls into three basic areas: cheating, duplicate submission and plagiarism.

1. Cheating

Cheating is any form of fraudulent or deceptive academic act, including falsification of data, possessing, providing, or using unapproved materials, sources, or tools for a project, exam, or body of work submitted for faculty evaluation.

2. Duplicate Submission

Duplicate submission is the submitting of the same or similar work for credit in more than one course without prior approval of the instructors for those same courses.

3. Plagiarism

Plagiarism is the representation of others' ideas as one's own without giving proper attribution to the original author or authors. Plagiarism occurs when a student copies direct phrases from a text (e.g. books, journals, Internet) and does not provide quotation marks or paraphrases or summarizes those ideas without giving credit to the author or authors. In all cases, if such information is not properly and accurately documented with appropriate credit given, then the student has committed plagiarism.

XI. Course Evaluations

RIT uses *SmartEvals*, a web-based, university-wide student rating of teaching effectiveness system. With *SmartEvals* you will be able to evaluate each of your professors this term using a uniform platform and common look and feel experience across all courses. Access to each of your faculty rating forms will be open weeks 13 through 15 of the semester. Each rating form will take 10 or fewer minutes to complete. Information about this system will be shared with you via email and a dedicated website. Because I take your comments seriously and your responses allow me to reflect on my teaching and course delivery, I encourage you to participate in *SmartEvals* for this course so as to achieve as close to a 100% participation rate as possible. I will not be offering extra credit or points as incentives to complete this evaluation.

XII. Term Project

You will complete a Term Project that includes two (2) sections, each 4-5 pages in length for a total of 8-10 pages. You may work in teams of 2-3 members. The Term Project sections are described below.

Section 1: Venture Finance Concepts, Facilities & Programs

In Section One, student teams will identify a particular concept or segment of the investing / lending / borrowing community to analyze. Section One will help you understand the venture investing risk chain, how investment and lending activity works, and how different investors and lenders who have different risk outlooks interact in these markets. The objectives are:

1. To understand and explain what makes different types of investment structures and facilities work for both the investors / lenders and the entrepreneurs / borrowers, and
2. To understand and explain how, where, why and which particular lender / investor groups should be contacted and how to interact with those groups.

Following is a non-exhaustive list of topics that may be investigated; others are welcome:

1. Venture capital (seed, first round, etc.)
2. Angel investors
3. Venture banks and venture debt
4. Convertible bonds / convertible debt
5. Crowdfunding
6. "Slicing Pie" / Dynamic Ownership Models
7. Commercial banks (large loan lenders, small loan lenders, savings banks)
8. SBIR
9. Federal or state government institutions (e.g., SBA, SBIC)
10. Institutional lenders (e.g., insurance companies, bond funds, mezzanine lenders)
11. Leveraged recapitalizations
12. Term sheets: secrets and pitfalls
13. Public offering for small companies.

Section 2: Interview with an Entrepreneur

In Section Two, student teams will conduct a total of **TWO (2) INTERVIEWS**. You will identify and interview **BOTH** an entrepreneur / borrower and an investor / lender and conduct live, synchronous interviews with both parties. You will be expected to analyze and describe how the entrepreneurs / borrowers and the investors / lenders really operate, how the concept was pitched, and the terms and mechanics of the deal, including such factors as size of the investment group, payback periods, equity versus debt, and motivations of both

parties. Additionally, you should include a discussion of past experience, present activity, and future plans of both parties. Financial markets change rapidly, so this gauge of activity and appetite for this type of financial arrangement is an important component of the project.

You will need to finalize your decision on the Term Project by the fifth week of class at the latest. Your insights and analyses are essential to the Term Project overall. We want to understand how to get to the correct investors for our deals. Upon request, you should make your final paper available to your fellow students so that they may leave the course with a Reference Manual about the investing world. We want this Reference Manual to be usable so you can acquire money faster, at less cost, and on better terms. You will also need to prepare up to a five (5) minute summary per team member of only the major points of your Term Project that each Team will present during the final regular class meeting.

XIII. Grades

Your final numerical grade will be determined approximately as follows:

Two (2) Mid-Term Exams @ 20%	40%
Due Diligence Final Exam	20%
Weekly Write-Ups (7)	20%
Term Project	<u>20%</u>
Total	100%

Late Policy:

As in the commercial world, students are encouraged to submit their work on time. A penalty of ten percentage points per day (24 hours) or part day that an assignment is late is strictly enforced. This includes weekends and holidays. After 3 days (72 hours), the assignment will receive a grade of “0.” Only serious extenuating circumstances will be considered provided these are received in advance of the deadline.

Your final letter grade will be assigned approximately as follows:

93 – 100	A
90 – 92.99	A-
87 – 89.99	B+
83 – 86.99	B
80 – 82.99	B-
77 – 79.99	C+
73 – 76.99	C
70 – 72.99	C-
60 – 69.99	D
Below 60.00	F

No “I” grade will be given in this course.

Term Project Details & Outline

1. A total of one-hundred (100) points will be available on the Term Project, and it will count for a total of twenty percent (20%) of your final grade in the course. **Each interview is worth ten (10) points. Therefore, two missing interviews will put your maximum grade at eighty (80) points.**
2. Appropriate presentation attire, with a minimum level of business casual, is required.
3. Each paper must be sufficient in length to address the objectives as outlined in the syllabus. As a guide only, the paper should be in the range of eight to ten (8-10) pages plus appendices. Use your own judgment. Quality counts.
4. Appendices might include interview transcripts, term sheets, lists of lenders and their respective contact information, charts, graphs, or statistical information about the lenders themselves or the venture finance industry in general.
5. Your paper must include a bibliography and citations for all material used, including references to your interviews of lenders and their customers. If you need guidance on preparing bibliographies or citations the following websites and associated publications may be helpful to you:

<http://www.apastyle.org/>
<http://www.easybib.com>

You should also consult our RIT librarians for any assistance. They are a tremendous resource.

6. Each team member will speak for five (5) minutes when presenting the material from the Term Project during the final regular class. Material presented may be divided in any way that the team members see fit. Significant deviations in either direction from the five-minute requirement will count against your score.
7. Outline and scoring of required elements:
 - i. Title page including name, date, course number, and topic covered (4 pts.)
 - ii. Table of contents (4 pts.)
 - iii. Executive summary (5 pts.)
 - iv. Introduction to your paper and the topic (5 pts.)
 - v. Main body of findings and analyses including all elements as per syllabus (40 pts.)
 - vi. Conclusion (5 pts.)
 - vii. Bibliography, footnotes, endnotes, and citations (5 pts.)
 - viii. Appendices (7 pts.)

- ix. Five-minute oral presentation of highlights (25 pts.)
 - i. One-page summary handout (5 pts.)
 - ii. Business attire (5 pts.)
 - iii. Clear presentation of material (15 pts.)