



FINC 4790-01 – Entrepreneurial Finance
Syllabus – Winter Quarter 2020

Instructor details:

Bo Han
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Office Hours: T/Th 3:30-4:30 pm & by appt.

Class details:

Tues./Thurs. 8:00–10:05 am in PGT 101
Website: on Canvas <https://seattleu.instructure.com/>

Required Material:

Reader of required cases, available at <https://hbsp.harvard.edu/import/690383>

1. Materials on Canvas, posted during the quarter.
2. A financial calculator (or equivalent).

Additional (optional) References:

- **Robert C. Higgins**, *Analysis for Financial Management* (12th or previous editions), Irwin/McGraw-Hill
- Your textbook from FINC 3400 or 3420 might also serve as a useful reference.

Course Description and Objectives:

Entrepreneurship, in the words of Paul Gompers, is “the relentless pursuit of opportunity without regard to resources currently controlled.” Entrepreneurial finance is, then, the collection of financial skills necessary to execute this apparent act of legerdemain.

If you are to pursue opportunity without regard to resources currently controlled, it is necessary to be able to identify (and value) attractive business opportunities, to estimate the resources necessary to undertake these opportunities, to secure such resources on favorable terms, and to prudently manage them in pursuit of the opportunity. The aim of this course is to sharpen your skills in all of these activities.

In our study of Entrepreneurial Finance, we must first cover what might be called “small business survival skills,” including assessing financial performance, financial planning, identifying external financing needs and valuing businesses. We will then address the issues and challenges associated with one common source of financing for entrepreneurial enterprises: venture capital. In particular, we will analyze the terms and provisions of typical venture capital agreements, critically evaluate them and examine how they can be used to address the underlying risks and opportunities facing entrepreneurs and venture capitalists. Because attracting funds depends critically on business valuation now and in the future, we will also devote considerable time to business valuation, and the interplay of valuation and financing terms.

Entrepreneurial Finance is intended for individuals interested in careers in small businesses, family enterprises, entrepreneurial new ventures, and private equity and venture capital investing. The course should also appeal to individuals interested in general management careers in larger companies who believe that an entrepreneurial perspective is valuable in all walks of business life.

When you complete this course, you should be able to:

- Assess company financial statements to identify strengths and weaknesses.
- Prepare pro forma financial forecasts and cash budgets.
- Estimate a company’s future need for external financing.

- Converse about a broad range of real-world experiences presented by guest speakers.
- Value business opportunities using three techniques: discounted cash flow, comparable firms and trades, and the venture capital method.
- Critically evaluate the terms and provisions in typical venture capital agreements.
- Understand the issues associated with initial public offerings (IPO's) and other exit strategies.

Ideally, at the end of the quarter you will have a very good idea of what is involved in the financing, financial control, and valuation of the start-up firm. In addition, we will be relying on the wisdom of several guest speakers. This means **attendance is crucial; i.e., mandatory**. If you believe you might miss more than two classes, your daily work score will approach zero, and you might not pass this class—in such cases, I strongly recommend you take this class a different quarter.

The course is organized into four principal sections:

- I. The entrepreneur and financial planning
- II. Valuation
- III. Private Equity
- IV. The entrepreneur's perspective

This course will be composed of lectures, class discussion, problem solving, guest speakers, and case applications, with emphasis on the latter. You are encouraged to introduce current topics that have been gathered through your regular reading of the Financial Times, WSJ, or the Economist.

This course also furthers your progress towards achieving the Albers Finance majors learning goals:

- Describe and explain to lay individuals financial concepts relating to: value creation, risk management, and the functioning of financial institutions and world financial markets, for corporate and investor decision-making.
- Demonstrate strong critical thinking and problem solving skills within an ethical framework.
- Apply tools such as spreadsheet, mathematical, and statistical modeling to analyze problems and issues in finance.
- Employ discipline knowledge and skills orally and in written form in a professional manner in service to the community.
- Recognize social justice issues inherent in financial decision-making.

Prerequisites: FINC3400—please see Canvas review materials to re-acquaint yourself with essential tools.

Course Responsibilities:

Course responsibilities will consist of daily class work (class participation), individual assignments, and case write-ups (completed in groups). Your performance in the components of this course will be weighted as follows:

<u>Assignment</u>	<u>Due Date</u>	<u>Weight</u>
Daily Class Preparation & Participation	Daily	15%
Individual Assignment	TBD	15%
I. Hampton Machine Tool	Jan. 28, Tue	17.5%
II. Allen Lane	Feb. 11, Tue	15%
III. Outreach Networks	Feb. 25, Tue	17.5%
IV. Apex (A)	Mar 10, Tue	20%
Total		100%

Please see Canvas for more details concerning case preparation ideas and expectations, class participation, and specific case assignments. All cases must be prepared before class, and the assignments related to the

cases handed in at the beginning of class. The **last page of this syllabus** provides an overview of case write-up (and other) due dates. This table provides due dates and grade weights:

The Course letter grade will be assigned according to the following schedule:

95 - 100	A	77 - 79.99	C+
90 - 94.99	A-	74 - 76.99	C
87 - 89.99	B+	67 - 73.99	C-
84 - 86.99	B	60 - 66.99	D
80 - 83.99	B-	< 59.99	F

If the average class score at the end of the quarter is lower than a B, the target distribution for this course will be adjusted such that the median course grade is a B.

My assessment of your daily in-class work will be based on three things: 1) your presence (it's hard to contribute to class learning when you are not there) 2) my assessment of the extent to which you helped to make the class a productive learning experience, 3) and my assessment of the depth of your command of the material. This last assessment is also informed by your case write-ups. **If you find it necessary to miss a class** during the term, you can partially atone for your sins by *preparing and submitting* a two or three page analysis of the readings and cases you missed. Because much of the learning is accomplished via class discussions among us and our guest speakers, attendance is *essential* — **if you believe you will miss more than two classes, you should not take this class.**

Daily Classwork (participation):

It is essential that you prepare conscientiously for class. The preparation and related in-class discussion provide most of the learning experience. Plan to spend at least **three hours** preparing for each class session. You should be ready to present an overall analysis of the case, or address one or more of the case discussion questions, when called upon. Your daily class-work grade **will depend heavily on the quality of your contributions** to class discussions, and **your engagement with our guest speakers**. Note that cases present real-world, “messy” problems that often have no easy (or even unique) answer. Ambiguity in dealing with case problems is an essential part of the learning experience in this class. Consequently, **if you are uncomfortable with this level of ambiguity, you should not take this class.**

So what is conscientious case preparation? Read the case thoroughly; identify (and organize) the principal issues to be addressed in the case; attempt to analyze these issues using your common sense and any appropriate tools or techniques; and note any action recommendations implied by your analysis. (See Canvas for a document on case preparation.) Alternatively, if you find yourself hitting a roadblock, try to articulate what your problem is. Oftentimes, identifying roadblocks is as valuable as a complete analysis.

To help you in your analysis, I will post spreadsheets on the class website with data from relevant exhibits to most of the cases. I will **not**, however, provide additional guidance before each class—I will be a facilitator in the process of discovery and the rest is up to you. You will work hard, and be frustrated—don't let this dissuade you. Keep at it until you grasp the situation; this is an important part of your learning process. In a sense, the journey has more value than the destination.

For each case assigned you will note on Canvas that I have posed one or more preparation questions. The questions play several roles depending on the case. Usually the questions are simply to help you get started on your analysis, and you should not feel constrained by them. Nor should you assume that answering all of the preparation questions necessarily constitutes a complete analysis. In other instances, I may give you additional information in the questions, or when the case is a mechanical one, I may ask you to perform specific calculations. My general advice is always to read the preparation questions, but do not feel overly constrained by them.

Do not be surprised if after conscientious preparation you still feel there are some loose ends in the case you are not certain about. If it were otherwise, there would be nothing for you to learn in class, and I would have been guilty of selecting a case that was too simple. Your test of whether you are learning the material, and progressing adequately, should be how you feel after the class discussion, not before. You are doing fine if after a class discussion you believe you could adequately handle a similar situation in the future.

I tend to vacillate between asking for volunteers and calling on individuals. ***If you are not prepared, please notify me before class, and we can both avoid the embarrassment.*** If you have spent several hours on the case, but still feel unsure of your opinions, count yourself prepared. If you have made the effort, you should never feel embarrassed by the result.

Office Hours:

If you have been attending class but are still falling behind, visit me during my office hours. I have formal office hours as shown on page 1. If you need to see me, but cannot attend scheduled office hours, e-mail or see me for an appointment. These meetings will be much more productive if you come well prepared, and you can express your difficulties in terms of a specific problem or concept covered in class. Be familiar with the definitions and notation related to a topic even if you are having conceptual difficulties. Most importantly, do not tell me that you understand something when you are still perplexed. It's OK to come to my office confused, but you should never leave in that state.

You may also communicate any questions or comments to me via e-mail. ***However***, email is ***not*** a real-time mode of communication—do not necessarily expect a same-day response. Additionally, most questions are best asked and *most effectively* answered during class time (when the question and answer can benefit the greatest number), or in person after class and during office hours. ***Do*** write to me ***beforehand*** if you must miss class. I look forward to your messages with comments, requests, or suggestions for class discussion.

Follow the Code of Academic Integrity:

Personal integrity is the key to your success and happiness in business and life. Throughout your life, you will be expected to abide by the ethics of the culture in which you find yourself, and failure to do so can destroy your career or worse. Seattle University does not tolerate any cheating or other dishonesty. ***The use of material from previous quarters, other students, and other sources of solutions (e.g., the Internet) is forbidden. Consulting previous students of this class is a violation of the Academic Integrity policy and will be disciplined accordingly.***

Seattle University is committed to the principle that academic honesty and integrity are important values in the educational process. All students must comply with Seattle University policies for conduct and academic honesty at all times during this course. SU's academic integrity policy and the associated tutorial can be found at the following address: <https://www.seattleu.edu/academicintegrity/Default.aspx>

Lastly, if you are not sure whether a particular action is acceptable according to the Academic Integrity Policy you should check with the instructor before engaging in such an activity.

Academic Resources:

- Library and Learning Commons (<http://www.seattleu.edu/learningcommons/>)
(This includes: Learning Assistance Programs, Research [Library] Services, Writing Center, Math Lab)
- Academic Integrity Tutorial (found on Canvas and SU Online)

Academic Policies on Registrar website (<https://www.seattleu.edu/redhawk-axis/academic-policies/>)

- Academic Integrity Policy
- Academic Grading Grievance Policy
- Professional Conduct Policy (only for those professional programs to which it applies)

Notice for students concerning Disabilities

If you have, or think you may have, a disability (including an ‘invisible disability’ such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance as a student in this class, you are encouraged to arrange support services and/or accommodations through Disabilities Services staff located in **Loyola 100, (206) 296-5740**. Disability-based adjustments to course expectations can be arranged only through this process.

Office of Institutional Equity

Title IX of the Education Amendments of 1972 (Title IX) prohibits discrimination based on sex in educational programs or activities that receive Federal financial assistance. This prohibition includes sexual misconduct, which encompasses sexual harassment and sexual violence. Seattle U remains committed to providing a safe and equitable learning, living, and working environment. Seattle U offers emergency, medical, and other support resources, as well as assistance with safety and support measures, to community members who have experienced or been impacted by sexual misconduct.

Seattle U requires all faculty and staff to notify the University’s Title IX Coordinator if they become aware of any incident of sexual misconduct experienced by a student.

For more information, please visit <https://www.seattleu.edu/equity/>. If you have any questions or concerns, you may also directly contact the Title IX Coordinator in the Office of Institutional Equity (**email:** oi@seattleu.edu; **phone:** 206.296.2824) University Resources and Policies

Course Schedule

Class	Date	Topics	Lecture / Cases	Readings
		Introduction and course overview		Syllabus
1	7-Jan	I. Building a Financial Plan A. Fin. statements, performance	Lecture	Higgins Ch. 1, 2
2	9-Jan	I. Building a Financial Plan B. Pro-forma statement	Lecture	Higgins Ch. 3
3	14-Jan	I. Building a Financial Plan C. Cash budget	Lecture, Group sign-up sheet due	Higgins Ch. 4
4	16-Jan	I. Building a Financial Plan D. Managing growth		
5	21-Jan	I. B. Fin. and business planning	<u>Case: Cartwright Lumber</u> Speaker: Kolby Waggoner	Higgin Ch. 7
6	23-Jan	I. B. Fin. and business planning	<i>Cartwright Lumber (cont.)</i>	
7	28-Jan	I. B. Fin. and business planning	<u>Case: Hampton Machine Tool†</u>	
8	30-Jan	II. Valuation	Lecture, Speaker: Richard Wood	Higgins Ch. 6, Note on valuating private business (HBS)
9	4-Feb	II. Valuation & Entrepreneur's Perspective	Lecture	Higgins Ch. 8&9;
10	6-Feb	II. Valuation & Entrepreneur's Perspective	Lecture	<i>A note on valuation in private equity settings (HBS)</i>
11	11-Feb	II. Valuing early-stage ventures; business valuation;	<u>Case: Allen Lane †,</u>	
12	13-Feb	II. Valuing early-stage ventures; business valuation;	<u>Case: Allen Lane (cont.);</u> Speaker: Brad Harlow	
13	18-Feb	III. PE & VC valuation method	Lecture	How VCs evaluate potential venture opportunities (HBS)
14	20-Feb	III. PE & VC valuation method	Lecture, Speaker: Chuck Porter	Higgins Ch. 5
15	25-Feb	III. PE & VC valuation method	<u>Case: Outreach Networks ("ORN") †</u>	
16	27-Feb	IV. Incentive and control - Term sheets	Lecture	<i>Note on Contents of a term Sheet (Ivey)</i>
17	3-Mar	IV. Incentive and control - Term sheets	<u>Case: Trendsetter</u>	
18	5-Mar	IV. Incentive and control - Term sheets	<u>Trendsetter continued</u>	
19	10-Mar	IV. Incentive and control - Term sheets	<u>Case: Apex (A) †</u>	
20	12-Mar	IV. Incentive and control - Term sheets	<u>Case: Apex (A) (cont.)</u>	

* **Higgins** refers to **Higgins Analysis for Financial Management**, the recommended textbook.

† Indicates a **hard-copy of your write-up is due** at the beginning of class.

If there's no "†", you do not need to hand anything in, but you **do** still need to prepare the case.