



Entrepreneurial Finance & Private Equity (B7345-001)

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Professor Tania Babina

Office Hours: by appointment, please email to schedule
Office: Uris 814
Email: tania.babina@gsb.columbia.edu
Tel: (212) 851-0174
Web: <https://www8.gsb.columbia.edu/cbs-directory/detail/tb2707>

Course Description

The course uses a two-pronged approach to the study of entrepreneurial finance. 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. Entrepreneurial Finance and Private Equity investing are intrinsically linked. 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 interested in either pursuing entrepreneurial activity or financing entrepreneurial ventures.

What is "entrepreneurial finance"? In short, it is a course designed to learn how to evaluate, finance, and capitalize on new business opportunities. More generally, we know that 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. Moreover, new and growing firms likely face "financing constraints" on growth and hence difficult decisions about financial contracting have to be made. The capital market for financing entrepreneurial activities, and private equity investing more generally, differs fundamentally from capital markets considered in standard corporate finance.

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 analyses 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.

Course Requirements and Grading

Class Participation	1/4
Case Assignments	1/4
Class Project	1/4
Final Exam	1/4

Class Participation. This course relies heavily on class participation and requires substantial preparation for each session. To facilitate class discussion and dynamics, please bring name cards to each session. It is essential that students complete all required readings and prepare for class discussions before each session. Students should expect to be cold-called to provide answers to class related questions. To encourage class discussions and presentations, 1/4 of the course grade will be based on class participation broadly defined. I expect that each student can open a case discussion and also contribute to the ongoing class discussion.

Case assignments. Each study group (with four or fewer students) is required to submit a two-page (typed and double-spaced) write-up analyzing the case due at the beginning of each session. Study groups will be assigned at the beginning of the first class. Once formed, groups will work together during the whole semester. Study questions will be also be provided for your guidance with each case assigned. The write up should be in either Microsoft Word (or similar) or PDF format and submitted through CANVAS. You may attach related numerical calculations to support your team’s two-page write-up of analysis and recommendation. This supporting martial 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. These case write-ups will comprise 1/4 of the course grade.

Class project. Each study group is required to prepare a writeup and present in class a project pitching an idea for a startup or for a VC fund, depending on students’ interest.

Final Exam. The remaining 1/4 of the course grade will be based on an individual take-home case analysis. The exam case will be available through CANVAS on and it is due exactly one week from the distribution date. The final examination will be prepared on an individual basis

(group work is not allowed) and submitted through CANVAS (details will be provided). All requests for re-grades should be submitted, in writing, within two weeks of my returning cases to you. You need to submit a detailed description of your request.

Course Materials and Information

Required readings and cases will be made available to you in advance in class and will also be posted at the course website on CANVAS. Please regularly check the course website. There is no required textbook for the course. I will recommend various books and articles depending on the subjects.

I will also 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. Solutions will be posted on the course website (CANVAS).

Course Outline

The following tentative outline serves as a guideline for our course. Due to time constraints, we will selectively cover the cases listed below. I will announce the details in advance.

1. Introduction, requirements, and course overview
 - Lecture on conceptual framework
 - Cases: Technical Data Corporation: Business Plan
2. Valuation methods, real options, entrepreneurial finance
 - Lectures on standard valuation, venture capital (VC), real options methods
 - Guest speakers: entrepreneurs and VCs
 - Cases: Lotus, Genset, Technical Data Corporation
3. Deal terms, financing options, exit
 - Lectures on deal terms, financing options, exit
 - Guest speakers: entrepreneurs and VCs
 - Cases: Sunrise, Circles, Metapath, ArthroCare
4. Private Equity (PE) and Venture Capital (VC): GPs, LPs, incentives, fees, and exits
 - Lectures on private equity from GP's and LP's perspectives
 - Guest speakers: PEs
 - Potential cases: Altoona, Liquidating Harvard, Pawson
5. Course review

General Course Policies

- Computers and other electronic devices are not to be used unless instructed to do so
- You are expected to abide by the Honor Code. All violations of the Honor Code will be penalized in accordance with University guidelines