
BAEN505: Venture Capital Finance of Entrepreneurship

Program: FT MBA

Course Outline

COURSE INFORMATION

Division: Entrepreneurship and Innovation Group

Credit Value: 1.5

Term/period: Period 4

Section number: 001

Instructor: Richard MacKellar

Class meeting times: Mondays 6:00PM – 9:30PM

Email: Richard.mackellar@sauder.ubc.ca

Course duration: March 4th to April 8th 2019

Phone: 604 805-7457

Classroom location: HA 132

Office hours: by appointment after class

Pre-requisites:

Teaching Assistant: TBD

Tutorials / labs:

Email:

Course website:

Phone:

Office hours:

IMPORTANT DATE for make-up class

There will be no class on Monday, March 18th, as I will be in Australia. There will be a make-up class on **Thursday March 28th, 2019 at 6pm**. Note that this makeup date is different to the make-up date for all other classes.

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BRIEF COURSE DESCRIPTION

Over the last four decades, venture capital has become an important segment of the financial system, and the economy at large. The venture capital industry provides vital equity financing to privately-held companies, and covers a surprisingly large spectrum of deals.

In this class students will learn about the main challenges faced by venture capital practitioners, taking sometimes the investor perspective, sometimes switching perspective by looking at deals from the perspective of companies. Students will become familiar with the terminology and institutional background of the industry, and learn to understand the underlying economic issues. While this course does not aim to provide a comprehensive treatment of financial valuation techniques, it will discuss many of the financial trade-offs that arise in the context of venture capital deals, both in terms of valuation and contractual structures. It will also relate these financial trade-offs to the broader strategic decisions made by entrepreneurs and venture capital investors.

In summary, the purpose of this course is

- 1. To introduce students to the topics of venture capital and entrepreneurial finance.*
 - 2. To expose students to the variety of challenges faced by different types of entrepreneurs, in the process of seeking funding for their entrepreneurial ventures.*
 - 3. To examine theoretical, applied and practice-based perspectives to provide a symbiosis of alternative perspectives that aim to understand the financing challenges of entrepreneurial companies and their venture investors.*
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COURSE GOALS

Purpose

To learn and practice the basic tools for analyzing an entrepreneurial business.

To learn basic methods for valuing an entrepreneurial business.

To understand entrepreneurship from the side of a venture capitalist, as well as an entrepreneur

To gain an appreciation on how to fund an entrepreneurial business.

To gain an appreciation on how to exit an entrepreneurial business.

To get an introduction of the terms under which investments are made in start-up companies.

LEARNING OBJECTIVES

What will the students be able to do at the end of the course?

Students will be able to understand the complexities of raising funds for novel ideas. They will be able to critically evaluate a business plan and presentation and identify the key business and financing issues. They will learn how to generate financial projections for start-ups and they will also learn how to perform alternative valuations methods to assess the valuation and price of investment deals. They will know how to negotiate terms sheets and how to prioritize contractual clauses. Finally, they will be able to make recommendations on fundraising strategies for both entrepreneurs and venture capital firms.

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COURSE MATERIALS & REQUIREMENTS

There will be a course package that includes case studies and some background readings. The case studies will be the basis for much of our classroom discussion. Obtaining the course package is mandatory. The course package includes the following texts:

1. Matrix Canvas: Chapter 3: Evaluating Business Opportunities
 2. Hardina Smythe, Harvard Business School 9-811-073
 3. A Note on Valuation of Venture Capital Deals, Stanford Case Study E - 95
 4. Athleta, HBS 9-803-045
 5. Khosla Ventures: Biofuels Gain Liquidity, HBS 9-812-035
 6. Highland Capital Partners: Investing in Cleantech, HBS 9-811-009
 7. Right Now Technologies, HBS 9-805-032
 8. Venture Capital, by Constance Bagley and Craig Dauchy, Chapter 15 of The Entrepreneurial Venture, W. Sahlman, H. Stevenson, M. Roberts and Amar Bhide (eds.), Harvard Business School Press, 1999
 9. Yieldex (A), Harvard Business School 9-809-090
 10. UpDown (A) Harvard Business School HBS 9-809-020
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ASSESSMENT SUMMARY

<i>Class participation</i>	<i>30%</i>
<i>Assignments</i>	<i>30%</i>
<i>Classroom Exercises</i>	<i>10%</i>
<i>Final presentation</i>	<i>20%</i>
<i>Investment proposal</i>	<i>10%</i>

ASSESSMENT

Assessments of class participation will be based on attendance at classes and the level of quality participation.

Class assignments consist of writing a 2-page memo that discusses the assignment questions for each of the 5 cases that will be discussed in this course. When appropriate, students are encouraged to include spreadsheets with their calculations. Each assignment is worth 6 points, and the total number of points for assignments is capped at 30 points.

Assessment of the final presentations will be based on the performance on the day of presentation, as judged by the attending venture capitalist and the professor. This will be a group grade, although points will also be allocated based on individual contribution.

The investment proposal will be a short write-up of the content of the final presentation, and will be graded as a group project.

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Assessment activities

Team Project

This course includes a novel team project that involves a unique cooperation between course participants, and one of the leading Canadian venture capital firms: Chrysalix (<http://www.chrysalix.com>). Student teams will be provided an option of undertaking one of two assignments:

- Investment Decision: You will be provided access to “real world” business plans of entrepreneurs seeking venture capital financing. The objective of the project is for student teams to experience the entire process of selecting investment opportunities, performing due diligence, and making an investment recommendation to the senior partners of a venture capital firm; or*
- Exit Analysis: You will be provided access to “real world” business plans for portfolio companies that already exist in a venture firm. You will be asked to analyze how you would monetize the company and what value the investor could expect from an exit.*

Due to the confidential nature of the information provided by Chrysalix, students are not allowed to make direct contact with the companies that they are evaluating. They are encouraged to perform a due diligence analysis of the company, its competitors, and its industry, but should never disclose the identity of the company that they are researching.

We will set aside a little bit of class time to discuss the investment evaluation exercise, but much of the additional work will happen outside of class time. Teams will need to meet on a regular basis. In addition, there is a presentation that will be made in front of Chrysalix partners. Note that the final presentation is scheduled outside of regular class time, on Monday April 8th in the evening (6-9pm).

Investment Decision

For those choosing the investment project, the presentations will have to address two major areas: First, the “investment selection.” Teams will present their preliminary evaluation of all the business plans. They will also need to justify their top three choices, and in particular the one that they selected for the second part of the project, in depth analysis.

The second part of the presentation will then be an “investment proposals.” Teams will present an in-depth analysis of their selected business plan, and propose a complete investment structure for funding the company and a recommendation valuation and investment terms. Finally, teams will be required to make a recommendation on whether the company should be funded or not.

Exit Analysis

For those choosing the exit analysis, the presentation will have to address two major areas. The first part of the presentation needs to address what is the most likely exit path for this company, considering the case for both an IPO and an acquisition. In considering an acquisition scenario do your own research as to the potential acquirers, the alternative acquirers, why these acquirers might be interest. Then consider whether an IPO might be more or less attractive.

The second part of the presentation will be your exit timeline and valuation analysis for the company, justifying your approach.

Written Report

A written report submitted by the team covering their selection and in depth analysis of the business plans is required. The team report is worth 10 points, while the presentation is worth 20 points. The report will be a team mark, while the presentations will be have a team component and an individual component to the mark. Team members not participating in presenting will receive the team component of the mark, but miss out on the individual component.

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SCHEDULE

Week by week class schedule.

Class#	DATE	CLASS TOPICS	ACTIVITIES / READINGS	WHAT'S DUE
Class 1	Monday 4 th March, 2019	1. Introduction 2. Valuation	Da Rin/Hellman Evaluating a Business Hardina Smythe Guest: Peter van der Gracht*	Case Memo #1 Hardina Smythe
Class 2	Monday 11 th March, 2019	3. Raising capital 4. VC investors	Athleta Khosla & Highland	Case Memo #2 Athleta Case Memo #3 Khosla & Highland
NO CLASS	Monday 18 th March, 2019	NO CLASS		
Class 3	Monday 25 th March, 2019	5. Exit 6. Negotiating Equity Splits	Right Now UpDown	Case Memo #4 Right Now Negotiation Outcome Sheet
Class 4	Thursday 28 th March, 2019	7. Alternative investors 8. Terms Exercises	Venture Capital (Bagley Dauchy) Guest: Justin Young*	Finance Clinic
Class 5	Monday 1 st April, 2019	9. Term sheets 10. Summary Lecture	Yieldex	Case Memo #5 Yieldex
Present-ation	Monday 8 th April, 2019	Final Presentation	Guest: Alfred Lam (Chrysalix)	Final Pres. & Inv. Prop.

* Guest speakers may change.

TEACHING & LEARNING ACTIVITIES

A large part of this course will be taught by the case study method. There will also be a class negotiation. Visitors will come to the class from time to time.

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KEY REGULATIONS

Attendance: As per RHL Regulations on Professionalism, Attendance and Behaviour, students are expected to attend 100% of their scheduled classes. Students missing more than 20% of scheduled classes for reasons other than illness will be withdrawn from the course. Withdrawals, depending on timing, could result in a “W” or an “F” standing on a student’s transcript. Students must notify their instructors at the earliest opportunity if they are expected to miss a class due to illness. A medical note from a licensed, local doctor is required if more than 20% of scheduled classes for a course are missed due to illness. Students are required to notify the Student Experience Manager if they are absent from two or more classes due to illness.

Tardiness: As per RHL Regulations on Professionalism, Attendance and Behaviour, students are expected to arrive for classes and activities on time and fully prepared. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving halfway through a scheduled class, or later, will be treated as absent for that class.

Electronic Devices: As per RHL Regulations on Professionalism, Attendance and Behaviour, laptops and other electronic devices (cellphones, tablets, personal technology, etc.) are not permitted in class unless required by the instructor for specific in-class activities or exercises. Cellphones and other personal electronic devices must be turned off during class and placed away from the desktop. Students who fail to abide by the RHL “lids down” policy will be asked to leave the room for the remainder of the class. Research has shown that multi-tasking on laptops in class has negative implications for the learning environment, including reducing student academic performance and the performance of those sitting around them.

ACADEMIC MISCONDUCT

All UBC students are expected to behave as honest and responsible members of an academic community. Failure to follow appropriate policies, principles, rules and guidelines with respect to academic honesty at UBC may result in disciplinary action.

It is the student’s responsibility to review and uphold applicable standards of academic honesty. Instances of academic misconduct, such as cheating, plagiarism, resubmitting the same assignment, impersonating a candidate, or falsifying documents, will be strongly dealt with according to UBC’s procedures for Academic Misconduct. In addition to UBC’s Academic Misconduct procedures, students are responsible for reviewing and abiding by RHL’s policy on Academic Integrity.

STANDARD REFERENCE STYLE

The Robert H. Lee Graduate School uses American Psychological Association (APA) reference style as a standard. Please use this style to cite sources in your work unless directed to use a different style.

LATE ASSIGNMENTS

Late submissions will not be accepted and will receive a zero.

OTHER INFORMATION

IMPORTANT DATE for make-up class.

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