

COURSE INFORMATION

Course title:	Entrepreneurial Finance	Credits:	1.5
Course code:	BAEN 505	Class location:	HA 132
Session, term, period:	2021W1, P4	Class times:	Mondays 6:00 PM – 9:30 PM
Section(s):	001	Pre-requisites:	n/a
Course duration:	September 10 th to October 16 th , 2021	Co-requisites:	n/a
Division:	Innovation and Entrepreneurship Group		
Program:	MBA		

INSTRUCTOR INFORMATION

Instructor:	Richard MacKellar	Office location:	Off-campus
Phone:	604 805-7547	Office hours:	After class
Email:	richard.mackellar@sauder.ubc.ca		

Teaching assistant: **Andrew Elliot**
Email: jaelliott232@gmail.com

COURSE DESCRIPTION

Entrepreneurs have changed the world over the last four decades. There are now many forms of finance available from angels and venture capital to government programs and many others. These sources of funding have become an important segment of the financial system, and the economy at large. In this course we will look at financing for privately-held companies, particularly startup companies from the perspective of the entrepreneur and the investor.

In this class students will learn about the main challenges faced by entrepreneurs and investors, particularly venture capital practitioners, taking sometimes the entrepreneur's perspective, sometimes switching to the perspective of the venture capitalist. 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 that the entrepreneur needs to understand 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 entrepreneurial finance and venture capital.
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.
4. To introduce decision making around structuring startups with founders and funding.
5. To consider decisions faced by entrepreneurs around exiting companies.

COURSE FORMAT

The course will be taught in the Classroom setting largely with the case study method. There will also be a negotiation simulating the situation in which founders of companies often find themselves. Each Monday evening will be divided into two classes over the five weeks of the course, making 10 classes in total. A break between the first and second class in the evening will allow students to 10 minutes. Some classes will include guests such that the exact time of the break may vary.

LEARNING OBJECTIVES

1. To learn and practice the basic tools for analyzing an entrepreneurial business.
2. To learn basic methods for valuing an entrepreneurial business.
3. To understand entrepreneurship from the side of a venture capitalist, as well as an entrepreneur.
4. To gain an appreciation on how to fund an entrepreneurial business.
5. To gain an appreciation on how to exit an entrepreneurial business.
6. To get an introduction of the terms under which investments are made in start-up companies.

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.

ASSESSMENTS

Summary

<u>Component</u>	<u>Weight</u>
Assignments	30%
Classroom Exercises	10%
Final Presentation	20%
Investment Proposal	10%
Class participation	<u>30%</u>
Total	<u>100%</u>

Details of Assessments

Assessments of class participation will be based on the level of quality participation. Attendance at classes is not sufficient to achieve marks for participation. Active discussion will be expected and graded.

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, unless otherwise noted, 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.

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 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.

LEARNING MATERIALS

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 (note this may be supplied at a later date)
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 Bhidé (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

COURSE-SPECIFIC POLICIES AND RESOURCES

Missed or late assignments, and regrading of assessments

Late submissions will not be accepted and will receive a zero. This is standard policy of RHL courses.

Academic Concessions

If extenuating circumstances arise, please contact the RHL Graduate School program office as early as reasonably possible, and submit an [Academic Concession Request & Declaration Form](#) <https://webforms.sauder.ubc.ca/academic-concession-rhlee>. If an academic concession is granted during the course, the student will be provided options by RHL, or by the instructor in consultation with RHL, per [UBC's policy on Academic Concession](#).

POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL

Attendance

Excepting extenuating circumstances, students are expected to attend 100% of their scheduled class hours. Absent students limit their own academic potential, and that of their classmates, and cause unnecessary disruption to the learning environment. Students missing more than 20% of the total scheduled class hours for a course (including classes held during the add/drop period) without having received an academic concession will be withdrawn from that course. Withdrawals, depending on timing, could result in a "W" or an "F" standing on the transcript.

COVID-19 Policies for Attendance & Academic Concessions:

If a student feels unwell, they should stay home and send a courtesy email to each impacted instructor and cc their program manager. The student should also submit an [Academic Concession Request & Declaration Form](#).

If a student suspects possible Covid-19 infection, they should use the BC Ministry of Health's [self-assessment tool](#), to help determine whether further assessment or testing for COVID-19 is recommended.

If a student is required to self-isolate (e.g., while waiting for test results), they should follow the steps above (stay home, email instructor(s) and program manager, submit an [Academic Concession Request & Declaration Form](#), and follow BC Health Guidance.

Students who are required to quarantine, should get in touch with their Program Manager to discuss the possibility of academic concessions for each impacted course. The Program Manager will work closely with your instructors to explore options for you to make up the missed learning.

COVID-19 Safety in the Classroom:

Masks: Masks are **required** for all indoor classes, as per the BC Public Health Officer orders. For our in-person meetings in this class, it is important that all of us feel as comfortable as possible engaging in class activities while sharing an indoor space. For the purposes of this order, the term "masks" refers to medical and non-medical masks that cover our noses and mouths. Masks are a primary tool to make it harder for Covid-19 to find a new host. You will need to wear a medical or non-medical mask for the duration of our class meetings, for your own protection, and the safety and comfort of everyone else in the class. You may be asked to remove your mask briefly for an ID check for an exam, but otherwise, your mask should cover your nose and mouth. Please do not eat in class. If you need to drink water/coffee/tea/etc, please keep your mask on between sips. Students who need special accommodation are asked to discuss this with the program office.

Seating in class: To reduce the risk of Covid transmission, please sit in a consistent area of the classroom each day. This will minimize your contacts and will still allow for the pedagogical methods planned for this class to help your learning.

Visit the following website for the most recent updates regarding Covid-19 protocol on campus: <https://students.ubc.ca/campus-life/returning-to-campus>

Punctuality

Students are expected to arrive for classes and activities on time and fully prepared to engage. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving later than halfway through a scheduled class will be treated as absent for that class.

Electronic Devices

Devices such as laptops, tablets, and cell phones are not permitted to be used in class unless directed by the instructor for in-class activities. Students who do not follow the School's policy in this regard may be required to leave the room for the remainder of the class, so that they do not distract others. Research shows that students' use of laptops in class has negative implications for the learning environment, including reducing their own grades and the grades of those sitting around them.

On-Line Lecture Regulations

During online lectures, students are not permitted to use any electronic devices other than the primary one used for attending the online lecture (e.g. laptop or desktop). Only Zoom should be open during the online lecture unless an instructor advises the use of another program/website for an in-class activity.

Feedback from students indicates that personal devices are the number one distraction from effective learning and participation in the online learning environment.

Citation Style

Please use the American Psychological Association (APA) reference style to cite your sources.

Details of the above policies and other RHL Policies are available at:

<http://www.calendar.ubc.ca/vancouver/index.cfm?tree=12,199,506,1625>

UNIVERSITY POLICIES AND RESOURCES

UBC provides resources to support student learning and to maintain healthy lifestyles but recognizes that sometimes crises arise and so there are additional resources to access including those for survivors of sexual violence. UBC values respect for the person and ideas of all members of the academic community. Harassment and discrimination are not tolerated nor is suppression of academic freedom. UBC provides appropriate accommodation for students with disabilities and for religious observances. UBC values academic honesty and students are expected to acknowledge the ideas generated by others and to uphold the highest academic standards in all of their actions. Details of the policies and how to access support are available on the UBC Senate website at <https://senate.ubc.ca/policies-resources-support-student-success>.

Respect for Equity, Diversity, and Inclusion

The UBC Sauder School of Business strives to promote an intellectual community that is enhanced by diversity along various dimensions including status as a First Nation, Metis, Inuit, or Indigenous person, race, ethnicity, gender identity, sexual orientation, religion, political beliefs, social class, and/or disability. It is critical that students from diverse backgrounds and perspectives be valued in and well-served by their courses. Furthermore, the diversity that students bring to the classroom should be viewed as a resource, benefit, and source of strength for your learning experience. It is expected that all students and members of our community conduct themselves with empathy and respect for others.

Academic Integrity

The academic enterprise is founded on honesty, civility, and integrity. As members of this enterprise, all students are expected to know, understand, and follow the codes of conduct regarding academic integrity. At the most basic level, this means submitting only original work done by you and acknowledging all sources of information or ideas and attributing them to others as required. This also means you should not cheat, copy, or mislead others about what is your work. Violations of academic integrity (i.e., misconduct) lead to the breakdown of the academic enterprise, and therefore serious consequences arise and harsh sanctions are imposed. For example, incidences of plagiarism or cheating may result in a mark of zero on the assignment or exam and more serious consequences may apply if the matter is referred to the President's Advisory Committee on Student Discipline. Careful records are kept in order to monitor and prevent recurrences.

Academic Freedom and Students Studying from Outside Canada [do not modify this paragraph]

During this pandemic, the shift to online learning has greatly altered teaching and studying at UBC, including changes to health and safety considerations. Keep in mind that some UBC courses might cover topics that are censored or considered illegal by non-Canadian governments. This may include, but is not limited to, human rights, representative government, defamation, obscenity, gender or sexuality, and historical or current geopolitical controversies. If you are a student living abroad, you will be subject to

the laws of your local jurisdiction, and your local authorities might limit your access to course material or take punitive action against you. UBC is strongly committed to academic freedom, but has no control over foreign authorities (please visit <http://www.calendar.ubc.ca/vancouver/index.cfm?tree=3,33,86,0> for an articulation of the values of the University conveyed in the Senate Statement on Academic Freedom). Thus, we recognize that students will have legitimate reason to exercise caution in studying certain subjects. If you have concerns regarding your personal situation, consider postponing taking a course with manifest risks, until you are back on campus or reach out to your academic advisor to find substitute courses. For further information and support, please visit: <http://academic.ubc.ca/support-resources/freedom-expression>

COPYRIGHT

All materials of this course (course handouts, lecture slides, assessments, course readings, etc.) are the intellectual property of the instructor or licensed to be used in this course by the copyright owner. Redistribution of these materials by any means without permission of the copyright holder(s) constitutes a breach of copyright and may lead to academic discipline and could be subject to legal action. Any lecture recordings are for the sole use of the instructor and students enrolled in the class. In no case may the lecture recording or part of the recording be used by students for any other purpose, either personal or commercial. Further, audio or video recording of classes are not permitted without the prior consent of the instructor. Students may not share class Zoom links or invite others who are not registered to view sessions.

ACKNOWLEDGEMENT

UBC's Point Grey Campus is located on the traditional, ancestral, and unceded territory of the x^wməθk^wəyəm (Musqueam) people, who for millennia have passed on their culture, history, and traditions from one generation to the next on this site.

ONLINE TEACHING TOOL & REQUIREMENTS

This course might be taught using Zoom for synchronous classes and office hours.

For this course, you might be required to use a Zoom account during synchronous classes and office hours. If you do not have a Zoom account, you can create one here: <https://zoom.us/signup>. Note: creating a Zoom account requires that you provide a first name, last name, and email address to Zoom. For privacy purposes, you may consent to using your existing email address and your real name. Alternatively, if you prefer, you may sign up using an alternative email address and an anonymized name that does not identify you (i.e. Jane Doe, jane.doe@email.com). If you have trouble creating an account, or accessing a Zoom session, please contact CLCHelp@sauder.ubc.ca. You will be required to provide the email address associated with your Zoom account in a Canvas quiz for identification purposes.

To help replicate the classroom experience, make sessions more dynamic and hold each person accountable, both students and instructors are required to have their cameras on during Zoom sessions. Students who require an accommodation with regard to the "camera on" requirement must contact their instructors in advance of the first class to discuss options. As professional graduate students, students are expected to conduct themselves professionally by joining sessions on time, muting mics when not speaking, refraining from using any other technology when in-session, attending in business casual dress (at a minimum), and participating from a quiet environment. Content from synchronous sessions will be selectively recorded per instructor discretion and made available to students on Canvas

for a maximum duration of the course length. This is done to allow students the opportunity to return to lecture content to solidify learnings.

COURSE SCHEDULE

(Subject to change with class consultation)

Class	Date	Topic	Readings or Activities	Assessments due
Class 1	Friday, September 10, 2020	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, September 13, 2020	3. Raising capital 4. VC investors	Athleta Khosla & Highland	Case Memo #2 Athleta Case Memo #3 Khosla & Highland
Class 3	Monday, September 20, 2020	5. Exit 6. Negotiating Equity Splits	Right Now UpDown	Case Memo #4 Right Now Negotiation Outcome Sheet
Class 4	Monday, September 27, 2020	7. Alternative investors 8. Terms Exercises	Venture Capital (Bagley Dauchy) Guest: Justin Young *	Finance Clinic
Class 5	Monday, October 4, 2020	9. Term sheets 10. Summary Lecture	Yieldex	Case Memo #5 Yieldex
Presentation	TBD, Week of October 11-15, 2020	Final Presentation	Guest: Alicia Lenis (Chrysalix)*	Final Presentation & Investment Proposal

* Guests may change.