

COURSE INFORMATION

Course title:	Entrepreneurial Finance	Credits:	1.5
Course code:	BAEN 505	Class location:	HA 133
Session, term, period:	2023W2, P3	Class times:	Mondays 6:00 PM – 9:30 PM
Section(s):	001	Pre-requisites:	n/a
Course duration:	8 th Jan – 5 th Feb, 2024	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
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Teaching assistant:	Matt Tong
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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.

SUSTAINABLE DEVELOPMENT GOALS (SDGS)

At UBC Sauder, we are committed to responsible business practices that can have transformative impacts on society. One of the ways we are reinforcing our commitment to responsible business is by showcasing relevant content in our courses via the lens of the [United Nations Sustainable Development Goals](#). In this course, we will touch on topics that relate to the following goals:

<p>Goal 9: Industry, Innovation and Infrastructure</p> 	<p><i>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</i></p> <p>Global Examples: In week two we will discuss innovation through sustainable investments by two VC firms. Throughout the course we will discuss innovative companies focused on sustainability.</p>
<p>Goal 13: Climate Action</p> 	<p><i>Take urgent action to combat climate change and its impacts</i></p> <p>Global Examples: In week two we will consider the significant array of climate investments made by Khosla Ventures, covering all aspects of energy and the energy transition away from fossil fuels. The final course submission will include examples of companies that have an impact on climate change. Throughout the course examples of companies will be discussed from personal experiences to address reduction in carbon emissions.</p>

<p>Goal 14: Life Below Water</p> 	<p><i>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</i></p> <p>Global Examples: if time allows, a specific example on reduction in carbon emissions in marine transportation, while also reducing the impact of marine life and coastal shoreline life and shoreline erosion, will be discussed.</p>
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ASSESSMENTS

Summary

<u>Component</u>	<u>Weight</u>
Assignments	30%
Classroom Exercises	10%
Final Presentation	20%
Investment Proposal	10%
Class participation	30%
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. Student teams will be provided the chance to be a VC. You will be required to make an *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;

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 not 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. Note that the final presentation is scheduled outside of regular class time, during the week of Monday February 12th to Thursday February 15th.

Investment Decision

The investment project 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.

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 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

COURSE MATERIALS – STUDENT PACKAGE

The course package contains most of the cases and reading that you need for the course. Other items will be posted on Canvas. The course package costs \$43.20.

To access the course package, follow these instructions:

1. Go to the Ivey Publishing website at www.iveypublishing.ca

2. Log in to your existing account or click "Register" to create a new account and follow the prompts to complete the registration. If registering, choose the "Student" role.
3. Click on this link or copy into your browser: TBC
4. Click "Add to Cart".
5. Go to the Shopping Cart (located at the top of the page), click "Checkout", and complete the checkout process.
6. When payment has been processed successfully, an Order Confirmation will be emailed to you immediately and you will see the Order Confirmation screen.
7. Once you have completed your order, click on your username on the top right --> Orders --> Downloads

COURSE-SPECIFIC POLICIES AND RESOURCES

Missed or late assignments, and regrading of assessments

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

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](#). 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](#).

Other Course Policies and Resources

Code Plagiarism

Code plagiarism falls under the UBC policy for [Academic Misconduct](#). Students must correctly cite any code that has been authored by someone else or by the student themselves for other assignments.

Cases of "reuse" may include, but are not limited to:

- the reproduction (copying and pasting) of code with none or minimal reformatting (e.g., changing the name of the variables)
- the translation of an algorithm or a script from a language to another
- the generation of code by automatic code-generations software

An "adequate acknowledgement" requires a detailed identification of the (parts of the) code reused and a full citation of the original source code that has been reused.

Students are responsible for ensuring that any work submitted does not constitute plagiarism. Students who are in any doubt as to what constitutes plagiarism should consult their instructor before handing in any assignments.

POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL [DO NOT MODIFY]

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.

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.

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 Indigeneity (including identification as First Nation, Métis, or Inuit), 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.

Use of Artificial Intelligence

For this course, students are encouraged to use Large Language Models (LLMs) such as Bard and ChatGPT in your work. Where you do, then please include the following information in your submissions:

- The questions asked, in quotations
- The responses given, in quotations
- The reason you asked the questions the way you did
- Your critique of the responses

Submissions failing to critique responses received from LLMs will result in a 50% reduction in marks for that question. Failure to disclose the use of LLMs will result in a 0%.

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.

COURSE SCHEDULE

(Subject to change with class consultation)

Class	Date	Topic	Readings or Activities	Assessments due
Class 1	Monday, January 8, 2024	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, January 15, 2024	3. Raising capital 4. VC investors	Athleta Khosla & Highland	Case Memo #2 Athleta Case Memo #3 Khosla & Highland
Class 3	Monday, January 22, 2024	5. Exit 6. Negotiating Equity Splits	Right Now UpDown	Case Memo #4 Right Now Negotiation Outcome Sheet
Class 4	Monday, January 29, 2024	7. Alternative investors 8. Terms Exercises	Venture Capital (Bagley Dauchy) Guest: Justin Young *	Finance Clinic
Class 5	Monday, February 5, 2024	9. Term sheets 10. Summary Lecture	Yieldex	Case Memo #5 Yieldex
Presentation	TBD, Week of February 12-17, 2024	Final Presentation	Guest: TBD	Final Presentation & Investment Proposal

* Guests may change.