
Finance for startups

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Office hours: (by appointment)

Course Description

This course examines business plans, financial planning and the valuation of entrepreneurial firms. You'll learn how to value high-growth firms, R&D-intensive investments and firms with negative cash flows. With the help of real-world examples, you'll gain a better understanding of the broad range of situations and problems that you'll likely face as an entrepreneur.

Objectives

The objective of the course is for students to understand the financial aspects of the decision making process and day-to-day operations of a new, young, and small business venture.

More specifically, you will:

- i. Construct, read and draw practical insights from the financial statements of a venture, and especially the cash flow statement.
- ii. Understand how to determine the amount of money an entrepreneur requires to successfully start and operate a venture.
- iii. Calculate the value of a venture and appreciate the many roles valuation plays in the creation and development of a venture.
- iv. Become familiar with the characteristics of the various debt and equity sources of financing available to new, young, and small businesses, and the factors which lenders/investors weigh most heavily when making investment decisions.
- v. Formulate a deal structure for a start-up venture and grasp the multiple variables that can be introduced when structuring a deal.
- vi. Understand key tactics and approaches to negotiation when attempting to structure financing deals for new, young, and small ventures.
- vii. Recognize a company in financial distress and understand the options for the company

Methodology

There will be both lecture and practical sessions. The module requires the preparation of case studies, and the completion of complementary team tasks. Lectures will mainly develop the concepts and methodologies that make up the items of the course list. These classes are based on the textbooks that support the course, but we have also prepared a set of slides that set out the main material more specifically.

Both the textbook and the slides should be the fundamental support for personal preparation before and/or after the lectures. Resolutions of the cases will be presented in groups. During those sessions, we will also encourage student participation in the discussions, which will be evaluated individually.

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Note: This document is only informational, detailed contents and faculty may change.

Evaluation criteria

Active participation in class discussions is valued since it contributes to overall learning. I will judge your performance based both on the quality and the quantity of your comments. This will account for 30% of the grade.

You will also produce a financial plan geared at obtaining funding for a new business venture. This is a group project in which each group will write an investor proposal and present their proposal to the class. The aim of the investor proposal is to obtain financing for your firm from the type of investor of their choice. This will account for 40% of the grade.

We will also discuss real business cases. Students will need to prepare a solution and be ready for group discussion. The preparation of the case can be done in groups but the discussion will be evaluated individually. This will account for 30% of the grade.

Students are required to attend 80% of classes. Failing to do so without justified reason will imply a Zero grade in the participation/attendance evaluation item and may lead to suspension from the program

As with all courses taught at the UPF BSM, students who fail the course during regular evaluation will be allowed ONE re-take of the examination/evaluation. Students that pass any Retake exam should get a **5 by default as a final grade for the course**. If the course is again failed after the retake, students will have to register again for the course the following year.

In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the “Retake” period). In the meantime, the student will get an “incomplete”, which will be replaced by the actual grade after the final exam is taken. The “incomplete” will not be reflected on the student’s Academic Transcript.

Plagiarism is to use another’s work and to present it as one’s own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the “Honor Code,” students acknowledge that they understand the schools’ policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program.”

Contents

The twenty classes are divided into four course sections:

1. Overview of Entrepreneurial Finance:

- i. Valuation for entrepreneurial ventures and possible funding sources for them.
- ii. Types of investments and planning horizons.
- iii. Tools for analysis.

2. Opportunities Assessment and Creation

- i. Opportunities from point of view of the founder, management team and funder.
- ii. Valuation concepts
- iii. Model opportunities.

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- iv. Capital structures and value options.

3. Venture Capital Funding and Valuation

- i. Examine VC funding and how it works.
- ii. Funding rounds and the business of funding.
- iii. Challenges of managing and funding growth.
- iv. Term sheets and the concept of Due Diligence.

4. In the Growth and Exit Strategies

- v. Liquidity events such as Initial Public Offerings, sales and mergers.
- vi. Later stage financing, including mezzanine financing and buy-outs.
- vii. International growth.
- viii. Corporate and strategic venture funds.

Bibliography

Investment Valuation: Tools and Techniques for Determining the Value of Any Asset: University Edition, by Aswath Damodaran, John Wiley & Sons Inc; 2Rev Ed edition (28 Feb 2002)

Entrepreneurial Finance, by J. K. Smith and R. L. Smith, John Wiley & Sons Inc, 2nd Edition (2004)

Bio of Professor

Albert Banal-Estanol is Associate Professor at the Universitat Pompeu Fabra, programme director of the MSc in Corporate Finance and Banking, affiliated Professor at the Barcelona GSE, affiliated Reader at City University London and visiting professor at the IFP-Energies Nouvelles in Paris. He has held teaching and research positions at the University of Western Ontario in Canada, Northwestern University (US), University of Cambridge, UCL London Business School (UK), and the University of Munich in Germany. He has delivered executive training courses for government agencies, regulators and private companies. His main research interests are in the fields of Corporate Finance, Competition and Regulation, and Innovation and Entrepreneurship.