

COURSE SYLLABUS

COURSE DETAILS

Course Finance 374S – Entrepreneurial Finance
Semester Fall 2011
Instructor William T. Charlton, Jr., Ph.D., CFA
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Office Hours MW 2-3pm. Others by appointment
Classroom MW 12:30-1:45, UTC 1.132, 03540

COURSE OBJECTIVES

In this course we will study the financing of small and medium sized businesses from the perspective of both the entrepreneur and investors. Students will learn how the financing decisions of small and medium sized private companies differ from those of public firms. They will also see how the use of real options and milestones relate to the strategy and the value on an opportunity. We will begin by building financial forecasts that will allow for the estimation of the firm's cash flow needs. Following that, we will look at the valuation of small firms and medium sized businesses from both the entrepreneur and investors' perspectives. With that background we will then examine ways to structure agreements to properly align the incentives between the entrepreneur and investors. Finally we will discuss realization of returns through various liquidation events and the sources of financing for small companies including angels and the various types of private equity.

COURSE MATERIALS

Required Materials *Entrepreneurial Finance*, 2011, Janet Smith, Richard Smith, & Richard Bliss, Stanford University Press, ISBN: 978-0-8047-7091-0.

iClicker

The *Wall Street Journal* should be read on a daily basis.

To subscribe: <http://subscribe.wsj.com/semester>

Prerequisites Finance 374S is a Restricted Course for students who are currently enrolled in a major program in the College of Business Administration. Note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 or Finance 357 H (with a grade of at least a C).

COURSE POLICIES

Students With Disabilities Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the [Student Services Building](#). [Information on how to register](#), [downloadable forms](#), including [guidelines for documentation](#), accommodation request letters, and releases of information are available [online](#). Please do not hesitate to contact SSD at (512) 471-6259 or via [e-mail](#) if you have any questions.

Religious Holidays UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

BlackBoard Students should check Blackboard regularly. I will post announcements, assignments, any changes to the course schedule, as well as other useful information on that site.

Participation Participation is one of the best ways for a student to insure that they understand the material. I intend to create an environment that encourages open discussion and allows you to feel comfortable in asking any question. An unasked question, particularly about a basic point, may impede the student's learning.

Feedback I am open to and encourage students to offer suggestions on how to improve the course both for the existing semester and future ones. My goal is to optimize my approach to helping students understand the important topics that we will be covering this semester. Any suggestions for improvements will be much appreciated.

Honor Code The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business:

By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is

unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

You are expected to abide by the University Honor Code at all times. All violations will be handled according to University procedures and referred to proper authorities. I will pursue any violations to the fullest extent of the code. If you are ever in doubt about a particular issue, please ask!

The course is intentionally structured to give students multiple opportunities to achieve an appropriate grade. No single test will determine a student's grade (see discussion of the optional final below). It is my hope that this structure will minimize the incentives to violate the Honor Code.

Calculators A financial calculator is recommended for this course. Students are responsible for selecting and learning the operation of their calculators. Students are expected to be proficient with Time Value of Money calculations. I will post a review of TVM problems based on the TI BA 11 plus calculator on the course website. Calculators will be cleared prior to taking the exams and cannot be shared.

Note: You may NOT use a calculator application on a phone on the exams.

Laptops/ Devices The use of laptops and other electronic devices including cell phones is prohibited during class lectures and exams. This is to minimize the distraction for all participants in the classroom.

MCCOMBS CLASSROOM PROFESSIONALISM POLICY

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas BBA experience hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas BBA classroom experience is enhanced when:

Students arrive on time On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.

Students are fully Much of the learning in the Texas BBA program takes place during

- prepared for each class** classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- Students attend the class section to which they are registered** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- Students respect the views and opinions of their colleagues** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- Laptops are closed and put away** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- Phones and wireless devices are turned off** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

EVALUATION

Weighting

Exam I	100 pts.
Exam II	100 pts.
Exam III	100 pts.
Assignments (60%)	
Attendance/Quizzes (30%)	
Team (20%)	<u>100 pts.</u>
Total (see below)	400 pts.

Your grade for the course will depend on your performance on the exams, the assignments, attendance/quizzes, your team grade, and the final; there is no opportunity for extra work. Pass/fail students must take all exams and average a passing grade to receive a passing grade for the course.

Scale The standard 90%, 80%, etc. scoring system will be used with +/-'s assigned for grades within 2 points of the respective grade break points. Due to the optional final structure (discussed below) individual exams will not be curved. If necessary, the final grades (including the scores on the final exams) may be curved at my discretion. For borderline cases, class attendance and participation as well as improvement throughout the semester will be considered.

Text Problems Students are expected to work the specified problems in the textbook. Although not all the problems may be collected, students may be called on in class to explain their answers. Solutions can be found in the optional solutions manual. Note that the solutions manual has several mistakes.

Exams All exams will be held during regularly scheduled class times. The week of each exam is specified in the Tentative Course outline. The exact date of the exam will be determined as we progress through the semester. Unless you have prior approval, you are required to take the exam with the section that you are registered for.

Exams will be closed book, however a formula sheet will be provided for the exams. A sample formula sheet will be issued early in the semester so that students can familiarize themselves with it. The format of the exams will include multiple choice, problems, and short-answer. Students with questions about the exam can address them during office hours.

Final The final is optional and will be comprehensive. Your score on the final may substitute for the lowest score on one of the semester exams, but may not substitute for an unexcused absence. If your score on the final is lower than your lowest exam, the final will not be used to calculate your grade. Thus, the final can only help your course grade. At the end of the semester, I will ask you to inform me as to whether you wish to take the final or not.

I have structured the optional final for several reasons. First, to give students an opportunity to replace an exam score they think is not representative of their knowledge. Second, to provide a mechanism for students to replace an exam missed due to an excused absence. Finally, I believe this structure rewards students that have preformed well on the semester exams by allowing them to opt out of the final if they like their grade.

Note: I caution you not to take the semester exams lightly. While the final provides the opportunity to replace an exam grade we are covering a great deal of material during the semester and the final is comprehensive.

Make-ups No make-up exams will be given. Students missing an exam, whether excused or not, will have the opportunity to replace that grade by taking the comprehensive final. Note that only one exam can be dropped and by missing

an exam, both of the other exams will be used in calculating a student's final grade.

Assignments There will be weekly assignments that will be turned in via Blackboard. The **assignments will be due each Tuesday by 10pm**. At least one assignment grade will be dropped in the computation of this component. The first assignment will be due on Tuesday 8/30. Assignments will be graded on a 10 point scale. Students are responsible for uploading a readable PDF format file by the due date. The maximum score for late submissions will be 8 points and not be accepted after the assignment is discussed in class.

Attendance/ Quizzes Attendance and/or quizzes will be taken via iClicker in each class beginning with the class on 8/29. Students not in class when the attendance/quiz is administered will not receive credit for that class. Two attendance/quiz grades will be dropped in the computation of this component.

Note: attendance at both of the team presentation days in the last week of the course is **MANDATORY** and absences at either of those classes will not be used in the dropped computation.

Team Grade The team grade will be computed in two parts. First, I will assign a grade to the team as a whole that represents my assessment of the team's overall performance across the semester with a maximum of 15 points. Second, team members will anonymously give other team members a grade from 1-5. The sum of the team grade and the average of each individual's team member scores will be the student's grade for this component.

TENTATIVE COURSE OUTLINE			
Date	Topic	Chapter	Assignment/ Exam
Introduction			
8/24	Course Introduction Investments Bootcamp	1	
Financial Forecasting			
8/29 8/31	Introduction & New Venture Financing Methods of Financial Forecasting: Revenue	2 6	Assignment 1
9/7	Methods of Financial Forecasting: Integrated Financial Modeling – Developing Assumptions; Adding Uncertainty.	7	Assignment 2
9/12 9/14	Assessing Financial Needs – Sustainable Growth; Cash Flow Breakeven.	8	Assignment 3
Valuation & Strategy			
9/19 9/21	Foundations of New Venture Valuation – Relative Value; Venture Capital Method; Rates of Return.	9	Exam I (M or W, TBD)
9/26 9/28	Valuation in Practice – Continuing Value; DCF Valuation.	10	Assignment 4
10/3 10/5	The Entrepreneur’s Perspective on Value – Undiversified Investor; Partial-Commitment.	11	Assignment 5
10/10 10/12	New Venture Strategy - Strategic Planning; Real Options; Decision Trees; Game Trees.	4	Assignment 6
Deal Structuring & Financial Contracting			
10/17 10/19	Deal Structure - Proportional Risk Sharing; Asymmetric Risk & Return; Informational Issues.	12	Exam II (M or W, TBD)
10/24 10/26	Value Creation & Contract Design - Staged Investing; Signaling Beliefs & Alignment of Interests.	13	Assignment 7
10/31 11/2	Choice of Financing - Financing Alternatives; Organizational Structure; Financial Distress.	14	Assignment 8

Harvesting & Private Equity Markets			
11/7 11/9	Harvesting - Liquidation Events; IPO's; Trade Sales.	15	Assignment 9
11/14 11/16	Venture Capital - Types Of Private Equity Funds; How Funds Are Raised; How Funds Work.	3	Assignment 10
11/21 11/23	The Future of Entrepreneurial Finance	16	Exam III (M or W, TBD)
11/28 11/30	Team Presentations		
Final	Thursday 12/8, 2-5pm		

Note: This is a tentative course outline. Topics may be re-sequenced, dropped or added depending on our progress throughout the semester. I will inform you of any changes as they are made and post any changes on BlackBoard.