COLUMBIA BUSINESS SCHOOL
Entrepreneurial Finance and Private Equity (B7345)
Preliminary Syllabus
Spring 2014

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Course Overview
Entrepreneurship is a popular focus of discussion among business people, financiers, economists, and policymakers. At a macro level, economists and policymakers have increased their attention to entrepreneurial enterprise because of its importance to economic growth, the significance of entrepreneurial businesses in job creation, and the role of business owners in aggregate saving and wealth accumulation. Today on the demand side, many students want to start their own businesses or be part of emerging businesses, while on the supply side, other students are interested in participating directly in the growth of venture capital and private equity.

What, then, is “entrepreneurial finance”? We know that Finance studies valuation and the allocation of resources under uncertainty. Indeed, fundamental topics in finance (e.g., valuing cash flows, assessing the cost of capital, choosing among suppliers of funds, and aligning incentives for value maximization) are as important for entrepreneurial firms as for more established firms. Moreover, new and growing firms likely face “financing constraints” on growth and hence difficult decisions about financial contracting have to be made.

The capital market for financing entrepreneurial activities – and private equity investing more generally – differs fundamentally from capital markets considered in standard corporate finance: First, start-ups are young, mostly unprofitable companies, with short operating histories and little capital. Young firms face exceptionally high degrees of uncertainty, constraining financing and creating difficult decisions about financial contracting, keeping in mind that today’s financial decisions may have implications for future opportunities and choices. Second, capital markets for privately held companies are predominantly “deal markets” where terms and valuations are negotiated on a case-by-case basis, where investors can add value and are actively involved with the companies they finance. Throughout the course, we emphasize financial opportunities
and decisions of entrepreneurs and private equity investors investing in these entrepreneurs.

The course uses a two-pronged approach. First, we will apply principles of corporate finance, valuation, and coordination and control of firms, with an eye toward developing the tools and concepts of entrepreneurial financial management. Second, we will use cases to illustrate how these tools and concepts may be applied in practice. We will analyze the cases from the viewpoint of both the entrepreneur and that of the investors to understand their motivations, objectives, and considerations. Entrepreneurial Finance and Private Equity investing are intrinsically linked. As an entrepreneur, you cannot negotiate effectively without understanding the investor’s motivations. As an investor, you cannot evaluate a potential opportunity without appreciating the entrepreneur’s perspective and incentives.

Course Requirements and Grading

This course will rely heavily on class participation and requires substantial preparation for each session. It is essential that students complete all required readings and prepare for class discussions on the assigned case study for that session. Group discussions and team-based case analysis prior to class are strongly encouraged. Each study group (with four or fewer students) is expected to submit a two-page (typed and double-spaced) write-up analyzing the case before the session starts. You may attach related numerical calculations to support your team’s two-page write-up of analysis and recommendation. Late submissions of the write-up will not be accepted. These case write-ups will comprise 1/3 of the course grade.

Given the importance of discussions (both in this class and in the real world, 1/3 of the course grade will be based on your class participation. Each student is expected to be prepared such that he or she can open a case discussion and also contribute to the ongoing class discussion. To facilitate class discussion and dynamics, I will assign the seating chart in the first class. Please remember to bring name cards to every session.

The remaining 1/3 of the course grade will be based on an individual take-home case analysis. You will be given the exam on the last day of the class and it is due exactly two weeks from the distribution date.

All requests for re-grades must be submitted, in writing, within two weeks of my returning the cases to you. You must submit a detailed description of your request. Re-grading may potentially lead to a lower score.

Course Materials and Information

Required readings and cases will be made available to you in advance in class and will also be posted at the course website on CANVAS. Please regularly check the course
website. There is no required textbook for the course. I will recommend various books and articles depending on the subjects.

Preliminary Course Outline

1. January 11: Course overview and requirements
2. January 18: Standard valuation methods and entrepreneurial finance
   a. Lecture on real options
   b. Cases: Technical Data Corporation: Business Plan and Lotus
3. January 25: Real options and entrepreneurial finance
   a. Cases: Technical Data Corporation and NetFlix.com, Inc
4. February 1: Financial structure of leveraged buyouts and valuation
   a. Lecture on leveraged buyouts
   b. Case: John M. Case Company
5. February 8: Agency problems and leveraged buyouts
   a. Lecture on agency problems
   b. Case: O.M. Scott & Sons Company Leveraged Buyout
6. February 22: Evaluating and structuring venture capital investments
   a. Lecture on term sheet and contracting
   b. Cases: Trendsetter, and Parenting Magazine
7. March 1: Evaluating and structuring venture capital investments
   a. Lecture on contracting
   b. Case: Apex Investment Partners (A)
a. Lecture on exit

b. Cases: Netscape’s Initial Public Offering, Anthrocare, and Sun Brewing

9. March 22 (may not be able to meet): Private Equity Partnerships
   a. Lecture on private equity
   b. Case: Weston Presidio Offshore Capital: Confronting the Fundraising Challenge

10. March 29: Private equity investors’ perspectives
    a. Lecture on LP’s asset allocation
    b. Case: Yale university investments office and Liquidating Harvard

11. April 5: Private equity management compensation and incentives
    a. Lecture on GP’s compensation and incentives
    b. Cases: Pawson

12. April 12: The exit of private equity firms and course wrap-up
    a. Case: Blackstone
    b. Course summary

13. April 26 (we only use this slot if we do not meet on March 22)

Notes:

1. We will meet 12 times. One and only one of the 3/22 and 4/26 meetings will take place.

2. The course outline is preliminary and will surely change as we progress over the semester.

3. If time permits (which I really doubt), we will discuss International Private Equity using cases.

4. I may bring speakers to the class.

5. We will only cover a subset of the cases listed under each session.