NOTE: THIS IS THE 2004 SYLLABUS. THE UPDATED 2005 SYLLABUS WILL
BE AVAILABLE IN JANUARY 2005.

General Course Information:
C15 0061.001-S2004 Topics in Entrepreneurial Finance
Tues/Thurs 8:00-9:15am
Room: TBC

Instructor Information:
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Teaching Assistant:
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Course Overview and Objectives
This is a full-term course that focuses on financing entrepreneurial companies, especially start-up and early-stage ventures. Investing in such ventures is characterized by very high degrees of uncertainty and complex asymmetries of information between investors and the entrepreneur which can lead to misalignment of incentives and conflicts of interest. The twin aims of the course are for students to learn how to make investment decisions in these situations (i.e. which opportunities to pursue and which to pass up) and how to structure the terms of the investment in such a way as to cope with uncertainty and reduce conflicts of interest arising due to asymmetries of information.

The first aim requires you to master tools for screening investment opportunities in the absence of much ‘hard’ financial data. The requisite ‘opportunity recognition’ tools mainly draw on finance, strategy, and the economics of industrial organization. A good example is the importance of barriers to entry for achieving sustainable profit margins. The second aim requires you to develop an understanding of contract and deal design. For instance, deals are often structured in such a way as to make the valuation paid by the outside investor contingent on the subsequent performance of the venture (using options etc.).

At the end of the course, you should be able to demonstrate that you can make intelligent investment decisions regarding highly risky entrepreneurial ventures, and can structure investments with a view to incentivizing and motivating the entrepreneur while minimizing the investor’s downside risk.

The course is structured into three modules. We begin with valuation, which covers qualitative opportunity recognition tools (how to tell a great opportunity from a mere ‘good idea’) as well as quantitative valuation techniques adapted to situations of high uncertainty. The second module covers the private equity market. Here we will discuss how to negotiate funding, how to structure deals (so as to avoid conflict before it arises and optimize performance incentives), and
how to manage private equity investments (e.g. by helping the entrepreneur in non-financial
matters). The third module deals with issues arising from the way in which outside investors exit
their venture investments (typically by taking them public or selling them to another corporation).

If we want to understand how private equity investors such as venture capitalists and
entrepreneurs can create value despite high degrees of uncertainty and asymmetries of
information, we also need to understand the VCs' own incentives and constraints. These are
linked to the fund-raising cycle and the structure of a fund. VCs are continually raising new funds
and the terms on which they do so influence their behavior. For an entrepreneur, it is critical to
understand how. This implies that we will explore new venture financing from three different
perspectives: the entrepreneur’s, the venture capitalist’s, and that of the investors backing the VC
(such as pension funds and college endowments).

Unlike many other finance courses, this is not a very quantitative course. While there are
quantitative elements requiring spreadsheet modeling (on the valuation side and in understanding
the securities and contracts used to fund new ventures), our focus will typically be on the
analytics. Note that the nature of the material is such that you will encounter ambiguities and
ambivalence. Making sound decisions under such conditions requires an analytical understanding
of the problem in hand. If you are uncomfortable with this, do not take this class.

Grading – read carefully!

The educational emphasis throughout the course is on learning how to make good judgments
about companies and investment opportunities under high degrees of uncertainty and potential
conflicts of interest, and understanding the processes and techniques involved in financing start-
up and early-stage ventures.

The course uses a mixture of cases, lectures, and student assignments.

Cases and written assignments

There will be several case studies in which you will be required to apply the principles covered in
class to analyze real life situations. Teams will be asked to present their findings in class and
case work will count towards the course grade. The cases should be completed in teams of 4 or 5
students. For some cases, you will hand in a group report; for others, you will be asked to analyze
certain points and submit answers to online quizzes. In general, ‘solutions’ will not be handed out,
but we will discuss the cases in class.

The course places a strong emphasis on presentation and discussion skills: you will need to
explain your positions or arguments to each other and to try to argue for the implementation of
your recommendations. Class-room participation is key and affects course grades.

Sessions for which a written assignment is due are clearly marked in the “Assignments” section. It
is your responsibility to keep track of assignment deadlines!

Examinations

There will be a mid-term and a final exam. The exams will not be multiple-choice but instead will
require you to apply the material covered in class. The emphasis will be on problem solving, not
on ‘recall’. For instance, a major part of the final exam (accounting for a third of the points)
consists of data on a certain deal which you will be asked to analyze qualitatively and
quantitatively.
Course grade

The course grade will consist of the following components:

- 3 graded assignments, submission of online quizzes, peer evaluations, and course participation: 40 points
- mid-term exam: 20 points
- final exam: 40 points

However, there are two over-ride criteria.

Over-ride Criterion 1: Attendance

The course places a strong emphasis on presentation and discussion skills: you will need to explain your positions or arguments to each other and to try to argue for the implementation of your recommendations. Class-room participation is key and affects course grades.

Given the 8am start, I will give you an added incentive to attend. You will earn bonus points the more classes you attend, as per the following schedule:

- 26 classes or more: 10 points
- 23-25 classes: 6 points
- 21-22 classes: 3 points

So if you score 85 on the course and attend 27 classes, your final score will be 95. To earn these bonus points, you have to be in class at 8m sharp!

Over-ride Criterion 2: Intra-team Evaluation

For each of your three written group assignments, you will each allocate points to fellow group members, based on their contribution to your case work. The number of points you have to allocate is equal to the number of other group members x 10.

So, if there are 4 other people on your team (not counting yourself), you will allocate 40 points between them. If everyone pulled their weight, an obvious allocation is 10 points to each member, in which event this element of the evaluation will disappear. You do not grade yourself.

If a substantial number of team members believe a member has either not participated fully, or has carried more than a proportional share of the work, I will take that into account in the final course grade.

It is your responsibility to submit the intra-team evaluations online. For submitting each of the three intra-team evaluations, you get a total of 6 (3 times 2) points towards your course participation grade.
Prerequisites

"Foundations of Finance" (C15.0002).

Reading Materials:

Required

Articles and cases are sold in the NYU book store as course packet #1 and #2, respectively. Additional readings and handouts will be made available in class and, if we have copyright permission to do so, electronically.

There are a couple of core readings that you will need to download from the web. (This saves you money: they are free on the web, but the book store would charge you if I included them in the course packets...)

In most weeks, I list both essential and additional readings. Note that you are expected to read all of the material assigned for the course, but readings marked "additional" are probably best tackled after the class to which they refer.

Recommended (but not required)

In addition to the required readings, here are three readings that you may find interesting. They are NOT compulsory.

If you are interested in getting deeper into the venture capital literature, try Gompers, P. and J. Lerner (1999), The venture capital cycle, Cambridge, MA: The MIT Press.


Target audience

The course should be useful to those seeking careers in a start-up of their own, venture capital, private equity investing, investment management or in senior management positions of entrepreneurial corporations. Note, however, that VCs rarely hire students straight out of business school, preferring instead a consulting, banking or especially operating background.

Late registrations

If you have yet to decide whether to take this course, you can access the course website for a while using the following login and password:

   username:
   password:

You must register by TBA if you wish to take the course. Sorry - no auditing.
Once registrations close, this login will be disabled.