Foundations of Entrepreneurial Finance
Autumn Semester 2015

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Course Topics and Goals

Entrepreneurial Finance at its core can be defined as a dynamic two part process in which companies invest in both real and human capital assets and then find the financial capital necessary to pay for those investments. The financial decision process traditionally begins with an entrepreneur working on his/her concept, buying a laptop and then realizing they have no money to move forward. Many an entrepreneur would have saved themselves an inordinate amount of personal and financial grief if they had initially spent time crunching the numbers and performing sensitivity analysis regarding the economics of their business model before leaving their current jobs or mortgaging their homes for the proverbial American Dream of becoming “Your Own Boss.”

Even with the “numbers” in place, Entrepreneurs are often faced with a plethora of other factors and realities that will factor into whether or not their fledgling enterprises are successful. Decisions are often made around personal emotions, incomplete information and assumptions about the future. This case based class is designed to expose the student to a multitude of finance and business related challenges faced by Entrepreneurs and how to begin framing the issues, establishing key evaluation criteria and generating viable financing alternatives to aid in decision making that can affect private enterprises and ultimately one’s business career.

Course Materials

(1) General course materials can be found online at the Carmen course website.

(2) The course packet which contains the cases/readings is available from Harvard Business School Publishing (HBSP). A link to HBSP and the course packet can be found on the Carmen course home page.

E-mail Communication

If it is necessary to communicate with the class between class sessions, I will send electronic mail. I will assume that you check your e-mail at least once every 24 hours, Monday through Friday, or talk to classmates who check their e-mail daily.

Laptops, Cell Phones and Recording Devices

The intellectual capital of the professor and guest speakers are not for public consumption. Laptops, cell phones and recording devices are not permitted in class. Taping of lectures is strictly forbidden.
Teams

Each case/reading should be analyzed by a student team. During the first week of class, students will form teams of five unless the instructor deems a different team size is warranted. Formation of teams will be left to your discretion, but I encourage you to include some variety in terms of gender, ethnicity, nationality, work experience, etc. If you need motivation beyond the opportunity to learn from classmates with different experiences, recognize that the teams you work with on the job usually include such diversity.

Teams are to work independently on the cases/readings. Reports, spreadsheets or class notes from students who took the class in the past are strictly off limits. In class, team members should sit in adjacent seats to facilitate discussion and to help me learn the teams.

Class Preparation

Thorough preparation—by students and instructor—and active participation are essential to a successful case course. Learning comes from struggling with the issues outside of class, then discussing the conclusions (and the struggle) in class. Unprepared students personally miss out on most of the learning and also cheat their classmates because they cannot contribute fully to the learning that occurs in class.

You will be given some assignment questions to help guide your analysis of a case/reading. These questions are not designed to be comprehensive, and I encourage you to explore relevant issues beyond the questions in the guidelines. Depending on how the class discussion unfolds, we may talk about some of the study questions but not others. At a minimum, each team should address the study questions prior to class, and each student in the group should understand the team’s analysis and decisions. Print enough copies of your analysis that each team member can participate fully in class—one copy per student seems to make sense.

Virtually every case requires an “answer” or a decision, and you should arrive in class prepared to explain and defend your decision. It is unacceptable to arrive in class without having made a decision, and statements like, “There wasn’t enough information,” will be scoffed at publicly! Decisions must be made every day with less information than one would like to have.¹

To encourage preparation and facilitate class discussion, students will be called on in class to share their insights. During lecture/discussion sessions, students are expected to have completed the assigned reading before class, and I will likely call on students during these sessions also.

Attendance

Students are expected to attend class and to arrive on time. This is much more important in a case-oriented course than in a lecture-oriented course. To a significant extent, the value you get from the course depends on your presence in class, and your classmates’ opportunities to learn from your insights depend on your presence in class.

Grading

For purposes of assigning final grades for the course, approximate weights will be the following:

- Contributions in class: 40%
- Final exam: 35%
- Midterm exam: 15%
- Key Lessons Worksheet: 5%
- Peer review: 5%
- Peer Class Contribution: ½ letter grade

¹ It is perfectly fine to explain your decision based on the information available, and then to state the additional information you would like to have and how you would use it.
The distribution of course grades in the past has been roughly 15% A, 20% A–, 35% B+ and 30% B or lower. Two things tend to produce course grades of B or lower: (1) lack of contributions to class discussions, or (2) low peer review scores due to lack of contributions to the team.

Peer Review

One bothersome aspect of group work is that it is difficult for the instructor to assess each individual’s contribution to the team’s output, and this may tempt some students to free ride on the efforts of their teammates. Peer review will be used to allow students to provide useful information about teammate contributions, to help avoid the free-rider problem and, if some students bear more than their share of the load, to reward those students. Each student will have a total of 200 points to award to the other members of his or her team. The points that you allocate should be proportional to the individual’s contribution to your team over the course of the semester/term, as you perceive it. For example, if you think that Teammate A contributed twice as much as Teammate B, then Teammate A should get twice as many points as Teammate B. Since each student awards 200 points to teammates, the average score received from peer review is also 200 points. The peer review forms will be completed at the end of the course. The form must be signed (it is not anonymous), but will be kept confidential. That is, students may be told the total number of points awarded to them by their teammates, but they will not be told the points given by individual teammates. Since peer review is an important component of course grades, please take this responsibility very seriously—a frank and honest evaluation is expected.

Class Contribution Components

In order to emphasize the necessity to be prepared for and to contribute to each class, class contribution will comprise a significant portion of your grade. As is the case with real world work environments, you are judged not by what you know but by what you contribute. Even if you feel that you know the material, unless you share your insights with the class, I cannot adequately evaluate your preparedness and contribution. Students are never penalized for making comments which don’t appear to be the “right answer.” It is only through consideration of many diverse opinions and viewpoints that we will move toward a greater shared understanding of the multi-dimensional material which this course entails.

There are three components of the class contributions grade: Student responses to core case analysis questions, overall Instructor evaluation, and overall peer evaluation.

Student Answers to Core Case Analysis Questions: The Socratic Method will be used to organize case discussions. For each case/reading discussed during the course, I will have a number of critical questions that should be considered as a starting point in analyzing the case/reading. I will randomly choose students to answer each one of these critical questions should there be no initial volunteers to open the class discussion. When I call on a student, that student has three options:

1. **Answer the question.** In answering the question, the student presents his/her analysis of this aspect of the case/reading. (*Please note: in general, you should be able to identify the key issues, problems and opportunities facing the central case/reading protagonists, to articulate and evaluate alternative approaches to problems, and to describe the course of action that you recommend and the reason for your recommendations.*) It may be the case that the student does not agree that the question asked is an important question. If this is so, a discussion about what constitutes an important question is entirely appropriate.

2. **Pass.** Each student has the opportunity, one time during the course, to pass on answering a question. We all have complex lives, and this opportunity acknowledges that complexity. However, you can only pass once. If you are absent (unexcused absence) from class, it is counted as a Pass. If you pass a
second time (either by attending class and answering “Pass” when called on or by not attending class [unexcused absence] your class contribution grade will be adjusted down.

(3) Fake it. If a student has not read and analyzed the case/reading, he/she may try to bluff through the questioning. Faking may appear to be a particularly attractive alternative if a student has read, but not analyzed, the case/reading. However, faking it is a very risky strategy. If I determine that a student is faking it, that student’s class contribution grade will suffer accordingly.

Overall Instructor Evaluations: Of course, students who are not asked the core questions for a particular case/reading are free to volunteer their insights and analyses to the ongoing discussion. The quality of this volunteer contribution is the primary determinant of a student’s overall peer evaluation and Instructor evaluation for class contribution scores. I will evaluate each person’s contribution for each and every class and keep a running score on class contribution. You are welcome to check anytime to see how you are doing.

Overall Peer Evaluations: Towards the end of the course, I will distribute a Peer Class Contribution Evaluation form. On this form, students will be asked to list (number to be determined by class enrollment) students in the class who, in their opinion, consistently demonstrated excellent class contribution throughout the course. Students may not list themselves on this form. For accounting purposes, each student will need to sign their Peer Class Contribution Evaluation form which will be kept confidential. The Peer Class Contribution Evaluation form must be returned to me no later than the last scheduled class of the course. Students who fail to turn this form in on time will not be eligible to receive a bonus class contribution grade.

Class Contribution Evaluation Criteria

I will assign points for each student’s contributions in class. These points will be based on the quality and to a degree the quantity of the student’s classroom questions, comments, and responses to questions posed by the instructor and classmates. As mentioned earlier, at an absolute minimum, each student is expected to attend class, be familiar with the case and to understand his or her team’s analysis and conclusions—evidence to the contrary will be negatively viewed. Here are a few examples of class contributions that will be positively viewed:

- Carefully explaining the major factors affecting a decision, how they were evaluated and how the different factors were weighed.
- Providing an insight about a company’s operations that was not provided in the case discussion but was gleaned from the data.
- Describing a situation you have experienced or read about that bears on the discussion.
- Pointing out an error or weakness in someone’s argument/decision, providing an alternative approach and explaining why the alternative should be preferred.
- Exploring an issue that arises naturally from the case but was not raised in the case itself or in the study questions.
- Sharing any sensitivity analysis or business models that were done in Excel.

If you are unwilling or unable to voluntarily contribute to class discussions on a regular basis, I urge you to consider taking a different class. This course, by its nature, depends on lots of student input in class to maximize learning, and substantive contributions are required to earn a good grade for the course.
Food for Thought

As mentioned earlier, students will be called on during class. Consider it your own personal opportunity to contribute to your classmates’ education and to develop your ability to think on your feet and speak extemporaneously. Mistakes will be made, but we all learn from our mistakes, and from others’ mistakes. I recognize that this creates a certain level of tension for some students, and I will try to be sensitive to anxiety-induced brain cramps. This is an opportunity to gain practice overcoming such anxiety, a skill that will serve you well in years to come.

It is important that different opinions, assumptions and methods of analysis be discussed in class. It contributes greatly to the learning process if, when you disagree with a classmate, you explain clearly what you disagree with, why you disagree, and how you think the decision should be made. This can be done energetically, but with respect for your classmates—belligerence is unnecessary and counterproductive.

Instructor Judgment

Compared to many courses, this course has less emphasis on learning new principles and techniques and more emphasis on application, often in contexts fraught with ambiguity. We continually analyze situations where many questions do not have obvious right and wrong answers. Evaluating student performance is therefore not as simple as deducting points for wrong answers. When assessing the quality of reasoning and clarity of presentation in classroom comments, part of the assessment is related to specific items, techniques and assumptions, but a large part involves judging the quality of the overall “package.” Both types of judgment, and particularly the overall quality assessment, are necessarily subjective.

As a result, grading is more subjective in this course than in many Finance courses, and I want to make sure everyone understands this clearly up front. I strive diligently to be fair and impartial when making these judgments, but it is a fact of life that the judgments must be made.

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2 I can virtually guarantee that the instructor will publicly embarrass himself several times during the course.
Tentative Course Calendar

August 25  Tuesday  (8:00am – 9:20am)

Readings:  A Perspective on Entrepreneurship (9-384-131)
Assignment:

1. Why do you think most people start a company?
2. Do you see yourself becoming an Entrepreneur? Why or Why Not?

August 27  Thursday  (8:00am – 9:20am)

Class Lecture:  Time Value of Money i.e., “TVM”

September 01  Tuesday  (8:00am – 9:20am)

Class Lecture:  Excel Modeling

September 03  Thursday  (8:00am – 9:20am)

Readings:  Legal Forms of Organization (9-898-245)
          Boards for a New Venture: Putting Together Boards and Working with Them (UV2016)
Assignment:

1. If you were starting a company today, what corporate structure would you choose?
2. What key factors influenced your decision?
3. What would be the first 5 steps you would take in starting your business?

September 08  Tuesday  (8:00am – 9:20am)

Reading:  How to Make Your Case in 30 Seconds or Less (C0201E)
          How to Pitch a Brilliant Idea (R0309J)
Assignment:

Please prepare a two-minute pitch regarding a business opportunity or idea that you will present to the class. I would like you to also either start off or end your pitch with a 10 word or less “Elevator Pitch” description summing up in layman’s terms what your opportunity or idea is. Please note, given the sheer number of students, I will be diligent in cutting you off at the two-minute mark.

The Opportunity and the Idea

Your task is to determine the business subject of your ‘pitch.’ In general, you should try to look for something that builds on an area of opportunity as defined in your readings and your business or personal life. Remember, that most opportunity results from fulfilling an unmet need or solving a particular problem or pain that:

- Addresses a significant pain point in your industry
- Stems from a technological innovation or discovery
- Capitalizes on a social or demographic trend
- Recognizes a gap or need in an existing system
- Sounds like fun and a good opportunity to you

The business idea that flows from this opportunity does not have to be fully fleshed out. It would not be realistic to think that every idea presented would be a “homerun” i.e., provide an investor
with 10x on his/her money. That being said, have fun with this and build on something that interests you no matter how far “Outside of the box” you go... On, the other hand, I do expect that you have thought about this enough that you can give a compelling pitch following the guidelines in your reading as well as your instincts and experience.

The Pitch

The key to this is to communicate your idea and the potential of your opportunity in a clear and concise manner i.e., what pain point does your idea solve and for whom; who would actually pay for this, and how much; how big is the opportunity.

Please practice! You may find that two-minutes are far longer or shorter than you might think once you have prepared yourself.

Side Benefit

Some of you may wish to enter into a Business Plan competition based on one of these pitches and form a team of interested students. As part of the course, I will be available for questions/advice (within reason) to any team who has already entered the Fisher Business Plan Competition or is looking to enter an outside Business Plan Competition.

September 10 Thursday (8:00am – 9:20am)

Case: Public Data Systems, Inc.: Investor Presentation (downloadable via Carmen)
Reading: Note on Angel Financing (E440)
A Note on Pre-Money and Post-Money Valuation (A) (9-805-019)
Assignment:

There are many forums for companies to present their ideas and receive direct feedback from Investors, former Executives and past/current Entrepreneurs. Assume that you have just witnessed a presentation and are now going over the Public Data Systems, Inc., PowerPoint Presentation. As a group of fellow Entrepreneurs and Angel Investors, please be prepared to discuss your answers to the following questions:

1. Who are Angel Investor and why would you want one as an investor in a start-up company?
2. What is an Accredited Investor and why would you want one as an investor in a start-up company? What are the two key formal definitions of an Accredited Investor that pertain to a “natural person?”
3. What is your assessment of the presentation?
4. Would you feel compelled to invest in their idea/opportunity?
5. Value the company:
   a. How much did you value the company?
   b. What valuation methodology did you use?
   c. Given your valuation of the company, what percentage of the company would you require for a $2,000,000 investment?

Please note, I am aware that this assignment is full of ambiguity. There is no right or wrong answer. My expectation is that you have thought about the above questions, made assumptions and come up with an answer to help a fellow group of Entrepreneurs who are seeking your “Candid” feedback.

September 15 Thursday (8:00am – 9:20am)

Case: Documentary Case Study: Startup.com (To be viewed in class)
Assignment:
While viewing the documentary Startup.com, please prepare your thoughts regarding the following questions:

1. If you want to be an entrepreneur and start a new business, is it better to go looking for an idea or should you wait until an idea strikes you with the passion to go start something?
2. Is it best to find a partner to start your new business or do it solo?
3. How would you build a team?
4. What are the 3 most important pieces of your business plan from the perspective of an investor?
5. Does first mover advantage matter?

September 17    Thursday    (8:00am – 9:20am)

Case: Documentary Case Study: Startup.com (Continued)

September 22   Tuesday    (8:00am – 9:20am)

Case: Documentary Case Study: Startup.com (Class Discussion)

September 24   Thursday    (8:00am – 9:20am)

Class Lecture: Fundamentals of Venture Capital – Part I
Readings: How Venture Capital Works (98611)
(Optional): Class PowerPoint Presentation (downloadable via Carmen)

September 29   Tuesday    (8:00am – 9:20am)

Class Lecture: Fundamentals of Venture Capital – Part II
Reading: How Venture Capitalists Evaluate Potential Venture Opportunities (9-805-019)
Assignment:

1. What are the Pros of Financing a Business with Venture Capital?
2. What are the Cons of Financing a Business with Venture Capital?

October 01     Thursday    (8:00am – 9:20am)

Class Lecture: Private Equity Securities
Reading: A Note on Private Equity Securities (9-200-027)
Assignment:

1. From a company perspective, what do you feel is the best private equity security to issue?
2. From an investor perspective, what do you feel is the best private equity security to buy?
3. Why would a company wish to offer a convertible note?

October 06     Tuesday    (8:00am – 9:20am)

Class Lecture: Convertible Notes
Reading: Convertible Notes in Angel Financing (9-813-017)
Assignment:

1. Why would a company wish to offer a convertible note?
2. What are the advantages of a convertible note to the investor?
3. What are the disadvantages of a convertible note to the investor?
October 08    Thursday    (8:00am – 9:20am)

Class Lecture:  Lessons Learned from the Classroom and Life as an Entrepreneur  
Guest Speaker:  Eric Corl, Serial Entrepreneur & Founder – IdeaBuyer.com, Co-founder – Fundable

October 13    Tuesday    (8:00am – 9:20am)

Midterm Exam

October 15    Thursday    (8:00am – 9:20am)

Autumn Break – No Class

October 20    Tuesday    (8:00am – 9:20am)

Class Lecture:  Company Exits  
Reading:  Process of “Going Public” in the United States (9-105-016)  
Assignment:

1. What are the Pros of taking a Company Public?
2. What are the Cons of taking a Company Public?
3. Who are the Key service providers that are needed to take a Company Public and how does one find them?

October 22    Thursday    (8:00am – 9:20am)

Class Lecture:  Buying a Business “It’s Not Just About the Numbers”  
Guest Speaker:  Kamal Boulos – Owner – The Refectory, Restaurant & Bistro

October 27    Tuesday    (8:00am – 9:20am)

Class Lecture:  Building a Capitalization Table  
Reading:  How Much is Sweat Equity Worth (R1212X)  
           A Note on Valuation of Venture Capital Deals (E-95)  
           Funding New Ventures: Valuation, Financing and Capitalization Tables (9-806-058)  
Assignment:

1. What is the main purpose of a Capitalization Table?
2. What are the key components of a Capitalization Table?
3. How should equity be split up among founders?

October 29    Thursday    (8:00am – 9:20am)

Class Lecture:  Term Sheets and Legal Representation  
Reading:  Term Sheet Negotiations for Trendsetter, Inc. (9-801-358)  
Assignment:

1. How does one find a lawyer for their business or legal questions?
2. What is the purpose and key components of a term sheet?

November 03    Tuesday    (8:00am – 9:20am)

Case:  A Dilemma, the Sole or Onglet? (1-100-107) (downloadable via Carmen)  
Reading:  A Note on Antidilution Provisions: Typology and a Numerical Example (9-805-024)  
Assignment:
This case involves putting together a Capitalization Table based on a scenario where you play the role of advisor/consultant to a group of Entrepreneurs. Each team should build a base model in Excel to answer the listed questions at the end of the case.

1. Why would an investor want Antidilution protection?
2. Where would you find the Antidilution clause and what would trigger it?

November 05    Thursday (8:00am – 9:20am)

Class Lecture: QuickBooks and Business Financials

November 10    Tuesday (8:00am – 9:20am)

Assignment:

1. Create a cash flow pro forma model. What assumptions did you make? When will Palm need cash?
2. Which of the financing options would you recommend Dubinsky and Hawkins choose?
3. What criteria did you use to evaluate the options and what was your primary reason for choosing your option? Were there any major drawbacks to your choice?

November 12    Thursday (8:00am – 9:20am)

Class Lecture: Business Plan Financials

November 17    Tuesday (8:00am – 9:20am)

Case: Davis Boatworks (9-899-248)
Assignment:

Please play the role of Buddy Davis in preparing responses to the following questions.

1. Who do I want to sell a piece of my business to?
2. How much money do I really need to get from the sale to achieve my personal and business objectives? How could I model this if I knew excel like those high priced consultants? (Prepare a model).
3. What questions or issues should I be thinking about that those on the other side of the negotiating table might bring up?
4. How are valuations in a small business such as mine determined?
5. What is the right valuation for Davis Boatworks?

November 19    Thursday (8:00am – 9:20am)

Class Lecture: Starting and Selling a Business
Guest Speaker: Scott Humphrys, Serial Entrepreneur & Co-Founder – Mission Essential

November 24    Tuesday (8:00am – 9:20am)

Class Lecture: Lessons from the School of “Hard Knocks”

November 26    Thursday (8:00am – 9:20am)

Holiday – No Class
Assignment: Assume the perspective of an Angel Investor or Venture Capitalist that invests in early stage companies. Prepare a two page investment memorandum with up to four pages of exhibits to present to your firm’s partners (at their weekly investment meeting) the position you have in regard to the following questions typically discussed in a Partner meeting:

1. What are the strengths and weaknesses of the management team? What is your overall “gut” feel about the team?
2. What post-money valuation did you give the company? What valuation methodology did you use to justify your number?
3. Do you recommend an investment in Newco? Why or why not?

Class Lecture: Newco (1-100-100) Part II

Guest Speaker: Tim and Tim McCarthy, Serial Entrepreneurs and Raising Cane’s Franchise Owners

Assignment: Complete the “Key Lessons Learned” worksheet

Class Wrap Up

Final Exam
Administrative Points or “The Fine Print”

Notification of Scores and Final Grades: The results of any graded materials, including final grades, WILL NOT be given by the instructor to individual students via phone, US post, e-mail, or verbally in person.

Materials submitted for grading throughout the course will be returned to students generally within one week after submission. Students with invalid absences on the return date must retrieve their materials at the instructor’s office.

Students may obtain their final grades online by accessing the University Registrar link.

Disability Services: The Office of Disability Services verifies students with specific disabilities and develops strategies to meet the needs of those students. Students requiring accommodations based on identified disabilities should contact the instructor at the beginning of the course to discuss his or her individual needs. All students with a specific disability are encouraged to contact the Office of Disability Services to explore the potential accommodations available to them.

Appeals: Grading errors should be corrected. Appeals must be in writing within two weeks after the graded work is made generally available—not the date you first look at it. If the end of term is within the two-week period, the two weeks will start at the beginning of the next semester. In general, the entire document will be checked for grading errors, and correcting these could either raise or lower the overall score.

Academic Misconduct: Cheating is grounds for failing the course and additional sanctions. In accordance with Faculty Rule 3335-31-02, all instances of alleged academic misconduct will be reported to the Committee on Academic Misconduct, which recommends appropriate sanctions to the Office of Academic Affairs.

Absences & Make-Ups: In general, work related conflicts or overlapping requirements due in other classes are NOT valid excuses for missing assignments. In cases of valid family, health or safety emergencies, students must contact the instructor PRIOR to the assignment deadline. Unexcused absences will result in a grade of zero (0) for any missed assignments.

It is the sole responsibility of absent students to obtain any missed class notes, handouts, etc. In general, the instructor will not provide missed handouts to absent students during subsequent class periods. In addition, the instructor will generally not discuss missed material with an absent student until that student can provide evidence that (s)he has worked diligently at understanding the material missed.

Waitlisted Students: Students who are waitlisted and seek to enroll must attend class through the first class session of the second week of the semester/term. After that date, students who have not been added will not be enrolled and may not continue to attend the class. Waitlisted students should contact either the Fisher Undergraduate Program Office or the Department of Finance office if they have any questions regarding the waitlist process.

Disenrollment: University Rule 3335-8-33 provides that a student may be disenrolled after the third instructional day of the semester/term, the first Friday of the semester/term, or the student’s second class session of the course, whichever occurs first, if the student fails to attend the scheduled course without giving prior notification to the instructor.