

COURSE INFORMATION  
ENTR 7337 - ENTREPRENEURIAL CAPITAL  
SPRING, 2016 (REV 1/4/16)

INSTRUCTOR

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READING MATERIALS

- Brad Feld and Jason Mendelson: *Venture Deals (2<sup>nd</sup> ed.)*, John Wiley & Sons, Inc., 2013
- Handouts and HBS/HBR materials as assigned
- (optional) Judith Orloff and Darrell Mullis: *The Accounting Game: Basic Accounting Fresh from the Lemonade Stand (Rev. ed.)*, Sourcebooks, Inc., 2008

COURSE OBJECTIVES

The broad objective of this course is to provide the tools, skills, and judgment you need to supply your business with the right amount of external funding at the right time on the right terms.

By the end of this course:

- You should know the basics of debt finance, including the pros and cons of debt (vs. equity), sources of debt financing, the mechanics and criteria of bank loans, and how to calculate the amount of debt your business might qualify for.
- You should know the basics of equity finance, including the pros and cons of equity (vs. debt), sources of equity financing, the mechanics and criteria of different equity sources, how to calculate the amount of equity financing needed to start and grow a business, and how to structure equity deals.
- You should know who to approach to raise the right amount of money in the right form at the lowest total cost.
- You should be able to make a compelling presentation to potential sources of capital, clearly explaining the reason(s) why money is needed, how much is needed, and why this is a good deal.
- In general, you should learn about "real world" finance for entrepreneurial ventures.

### INSTRUCTIONAL PHILOSOPHY

- Learn by doing. My general approach is: (1) I explain how to do something, (2) you do it, (3) the class as a group engages in candid and constructive discussion of the specified topic.
- I anticipate free discussion with lots of questions. If you don't understand something said in class, or want more information on how it might apply to your personal situation, speak up. Guests are welcome, and everybody is invited to "put their two cents in."

### EXPECTATIONS

I have the following expectations regarding your behavior in this class:

- Attend class unless prevented by illness or pressing matters, and come on time.
- Cell phones should be off for the entire class, no usage including texting. Laptop usage is permitted to review or take notes, but usage not related to the class is not permitted in class.
- Assignments are due at the start of class on the due dates. No late work will be accepted.
- Wear business attire when you make class presentations.
- Treat your fellow students and others with respect. This includes being respectful of your mentors' time.
- Generally act in an ethical, professional manner.

### ACADEMIC HONESTY

The University of Houston Academic Honesty Policy is strictly enforced by the C.T. Bauer College of Business. No violations of this policy will be tolerated in this course. A discussion of the policy is included in the University of Houston Student Handbook which can be downloaded at <http://www.uh.edu/dos/publications/handbook.php>. Students are expected to be familiar with this policy.

### ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.

COURSE SCHEDULE

<u>Dates</u>	<u>Topic / Reading, WRITTEN ASSIGNMENT</u>
1/25	<p>Course introduction; Financial statements review</p> <p>Topics:        Entries on the income statement                          Entries on the cash flow statement                          Entries on the balance sheet                          The balance sheet as a historical document                          Building interlinked financial statements                          The cash conversion cycle                          Is income the same as cash flow?                          “Short-form” calculation of cash flow                          Net income vs. EBITDA and FCF                          Current vs. long term balance sheet entries                          Liquidity                          What is "working capital"??                          Using long term money for long term assets                          Unit economics                          Breakeven analysis                          Operating leverage                          Handout: Reading and understanding basic financial statements</p>
2/1	<p>Projecting revenues, costs, and financing needs</p> <p>Topics:        How to project revenues for a new or young business                          How to project costs                          Did you miss any costs?                          Projecting financing needs at startup                          Projecting financing needs for expansion                          Asset intensity                          Sustainable growth rate                          Can you “grow broke”?                          Handout: Projecting sales for a new business                          Handout: Projecting costs for a new business                          Handout: How much funding do you need</p>
2/8	<p>Case Discussion</p> <p>READING:     Science Technology Co. - 1985 case HBS 9-289-040</p> <p>WRITTEN:     STC Case Funding Needs Spreadsheet</p>
2/15	Class Cancelled

2/22

## Debt, equity, and "non-capital" financing

Topics: Debt vs. equity  
 How are debt holders paid?  
 How much do debt holders get if the business does well?  
 How are equity holders paid?  
 How much do equity holders get if the business does well?  
 Why won't banks accept risk?  
 Who gets paid first?  
 Subordinated debt  
 Preferred stock  
 Non-capital financing  
 Discussion of a fuels distributor  
 The effects of collecting early and paying late  
 Factoring  
 The effects of controlling inventory  
 The effects of leasing fixed assets  
 The effects of outsourcing capital intensive processes  
 Do you really need that asset?

READING: New venture financing HBS 9-802-131

2/29

## Time value of money

Topics: Time value of money  
 Internal rate of return

READING: Handout: Internal rate of return

WRITTEN: IRR CALCULATIONS DUE

## Valuation and risk

Topics: Methods of valuation  
 P/E ratios  
 Cap rates  
 Value differs by risk  
 Types of risk  
 Controlling risk  
 Value differs by milestone  
 Value differs by business type and scale  
 Value differs by exit plan  
 Rollups  
 How much of the business should you give?  
 Pre-money and post-money value

READING: Handout: Valuing businesses  
 Note on financial contracting: deals HBS 9-288-014  
 NY Times: Self-finance or raise money: a quandary for startups

WRITTEN: As assigned

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## Making the pitch

READING: PowerPoint: Making the pitch  
 Garage presentation templates  
 Feld and Mendelson: *Venture Deals*, chap. 1-2, 10-11

- 3/21      Term sheets and covenants  
 Topics:      Economic terms  
                  Control terms  
                  Other terms  
                  The capitalization table  
                  Convertible debt  
                  Convertible preferred  
                  Dilution  
 READING:    Feld and Mendelson: *Venture Deals*, chap. 3-8, 12  
                  (Optional: Handout: NVCA term sheet)  
                  (Optional: Handout: Annotated investor term sheet)
- 3/28      Case discussion  
 READING:    TixToGo case HBS 9-800-376  
 WRITTEN:    TixToGo CASE DUE  
                  TixToGo TERM SHEET DUE
- Case discussion  
 READING:    Zipcar case HBS 9-803-096  
 WRITTEN:    ZIPCAR CASE DUE  
                  ZIPCAR TERM SHEET DUE
- 4/4      Overview of equity investors  
 Topics:      Types of investors  
                  What do different types of investors want?  
                  What deals fit what types of investors?  
                  How to put your own assets into the deal  
                  How to put family money into the deal  
                  How to bring investors' money into the deal  
 READING:    Handout: Types of investors  
                  Everything you (don't) want to know about raising capital HBR 89613  
                  Bootstrap finance: the art of startups HBR 92601
- 4/11      Angels  
 Topics:      What do angels want?  
                  How to get in front of angels  
                  Mechanics of an angel deal  
                  How long does it take before you see money?  
                  Choosing the right angels
- Venture capital  
 Topics:      What do VCs want?  
                  How to get in front of VCs  
                  Mechanics of a venture capital deal  
                  How long does it take before you see money?  
                  Choosing the right VC  
 READING:    Feld and Mendelson: *Venture Deals*, chap. 9

How venture capitalists evaluate potential venture opportunities  
HBS 9-805-019

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## Private equity

Topics: What do private equity firms want?  
How to get in front of private equity firms  
Mechanics of a private equity deal  
How long does it take before you see money?  
Choosing the right private equity firm

## Loans overview

Topics: Loan sources: Banks, insurance companies, bondholders  
More loan sources: SBA, community lenders  
More loan sources: vendors  
More loan sources: family, investors, high yield debt  
Types of bank loans (term, line of credit, revolver)  
Matching loan length with asset life  
The loan evaluation/granting process  
Loan evaluation criteria  
Valuing loan collateral  
Loan covenants  
Loan paperwork  
How long does it take before you see the money?  
How to make a good impression  
Working with bankers

READING: Note on bank loans, HBS 9-921-026  
Note on acquiring bank credit, HBS 9-931-010  
How long should you borrow short term? HBR 86213

4/25

## More funding sources

Topics: Crowdfunding  
Accelerators  
Private placements  
IPOs  
Direct Public Offerings  
Student experiences: Crowdfunding, Surge

READING: NY Times: Seeking capital, some companies turn to DIY IPOs

## Can you buy a business with its own money; Franchising

Topics: Leveraged buyouts  
Reasons to franchise  
Requirements for successful franchising  
Potential problems with franchising

READING: LBOs for smaller companies HBR No. 88113  
Assessing the franchise option BH009

5/2

## Selling the business

READING: Feld and Mendelson: *Venture Deals*, chap. 13

5/9 Final business plan presentations  
WRITTEN: FINAL BUSINESS PLAN PRESENTATIONS

### GRADING

Your course grade will have the following components:

Team assignments: The following assignments will be submitted by teams, one submission per team. All team members are expected to contribute to these assignments and all will receive the same grade. At the end of the semester, you will be asked to submit peer evaluations in which you objectively rate the contribution of each team member.

- STC Case (10)
- TixToGo case (10)
- TixToGo term sheet (5)
- Zipcar case (10)
- Zipcar term sheet (5)
- Final business plan (30)

Individual assignments: The following assignments will be submitted on an individual basis. You are allowed to receive assistance from your teammates but must complete the work yourself.

- IRR calculations (5)
- In-class performance (20 related to participation, presentations, professionalism, and attitude)
- Peer review for team assignments (20)

At the end of the semester, these grades will be totaled. Course grades will be assigned according to point totals and will be curved around an average of "B."