



## ENTREPRENEURIAL FINANCE FINC-GB.3361.20

**Professor Glenn A. Okun**

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### COURSE DESCRIPTION

This course seeks to provide an understanding of the financial and transactional skills that are required to fund new businesses and mature firms. The course will integrate both an academic and practitioner view of the challenges facing entrepreneurs and investors involved in business start-up, venture capital, and private equity investment activities.

The course presents frameworks and techniques that are needed to evaluate high-risk opportunities and structure appropriate investment transactions. It should be of interest to those who wish to work as entrepreneurs or as members of a venture capital or private equity investment company.

### Course Methods

Each class will include discussion of readings, case analysis and group activities. Students will analyze cases with an action orientation, for example, what steps should we take to further the development of the venture? What are the venture's risks and how should they be managed? How should the company be financed? How should the deal be priced and structured? What tactics might be utilized in order to secure a more favorable deal? We will adopt the perspective of different roles in all case discussions (for example, the issuer versus the financier, corporate investors versus fund operators and angels).

***Classroom Contributions.*** The learning experience in a course like this one depends heavily on each student being prepared to actively participate in every class session. We all have expectations that will enrich the topic and direction of discussion in the course. This means that you need to be fully acquainted with the readings and cases for a given session. Positive participation includes attendance, active involvement in all in-class exercises and discussions, and maintenance of a classroom demeanor that encourages the participation of others. You will be evaluated on the quantity as well as the *quality* of your contribution and insights. Quality comments possess one or more of the following attributes: (a) Contribute to moving the discussion forward; (b) Offer a different, unique and relevant perspective on the issue; (c) Build on other comments of others; and (d) Include some evidence or analysis of inherent tradeoffs, i.e., demonstrate reflective thinking.

***Written case analysis.*** Students will be required to prepare a written case-related analysis of "Xedia and Silicon Valley Bank". This assignment is due on March 13 at 9 AM. It should be a maximum of

7 pages, excluding exhibits. The case analysis papers consist of in-depth written analysis and application of techniques and methods to a company's venturing experience. The paper should address the questions assigned in the syllabus. The case assignment will be graded for content and format. You are required to turn in papers that conform to professional standards of organization, grammar, punctuation, spelling, and paragraph/sentence structure. This paper must be individual work. Do not discuss the cases or proposed solutions.

***Business Plan Evaluation Project.*** See herein.

***Delivery.*** Reports should be sent by email to each of the following two addresses: [gokun@stern.nyu.edu](mailto:gokun@stern.nyu.edu) and [gokun1@mac.com](mailto:gokun1@mac.com). Students must send two separate emails (not one in which the other address receives a copy upon delivery).

**Late papers will receive a grade of F. Emails without attached papers or with attachments that are unreadable by Microsoft Word will be considered to have not been submitted and will also receive an F. An F will be quantified as a zero in the calculation of course grades. No extensions to deadlines will be granted.**

***Required Materials. Cases and Readings Packet***

***Grading Plan.*** The course grade will be based on the following components and weights:

Classroom Contributions:	20%
Case Report 1:	30%
Business Plan Project:	50%

## **Instructor**

Glenn A. Okun is a Clinical Professor of Management and Entrepreneurship and an Adjunct Professor of Finance at New York University Stern School of Business where he teaches courses in entrepreneurship, private equity, venture capital, investment management and corporate finance. Mr. Okun advises corporations on financial and investment matters. He was President of Mitchum, Jones & Templeton, a merchant bank and broker dealer headquartered in San Francisco, California from 1998 to 2001. He previously served as a Director of Allen & Company Incorporated in New York. Mr. Okun invested in early and later stage financings of private companies in various industries. He also ran a small cap emerging growth stock hedge fund and a special situations portfolio. Mr. Okun has advised corporate clients on mergers, acquisitions and restructurings and has underwritten public offerings and private placements of securities. Mr. Okun began his investment career at the IBM Retirement Fund where he invested in mezzanine private placements, real estate, public emerging growth equities and oil and gas assets. Mr. Okun holds JD and MBA degrees from the Joint Degree Program of Harvard University and a BA degree from Wesleyan University.

## SCHEDULE

<b>January 26</b>	<b>Introduction</b>
<b>January 28</b>	<b>Raising and Structuring Venture Capital and Private Equity Funds</b>
	<b>Session #1    The Institutional Investment Decision</b>
	Case: <i>“Yale University Investments Office: July 2003”</i>
	Questions:    How has Yale selected, compensated and controlled private equity fund managers? Compare the approach with the approach used in other asset classes. How has Yale determined the timing of investing in this asset class? What are the risks in Swensen’s private equity strategy?
<b>February 2</b>	<b>Session #2    Evaluating a Prospective Partnership Investment</b>
	Case: <i>“Francisco Partners”</i>
	Reading: <i>“A Note on the Private Equity Fundraising Process”</i> <i>“A Note on Private Equity Partnership Agreements”</i>
	Questions:    What is the fund’s investment rationale? What are the strengths, weaknesses and key risks of the new fund? How can you assess Stanton’s past performance? What are the key deal terms for the general and limited partners?
<b>February 4</b>	<b>Session #3    The Problem of Underperformance</b>
	Case:            Venture Capital Fund Restructuring Vignettes
	Questions:    What actions would you recommend for each of the funds under consideration?
<b>February 9</b>	<b>Session #4    A Perspective on Funds and Fundraising</b>
<b>February 11</b>	<b>The Fund Business</b>
	<b>Session #5    Entering the Investment Field</b>
	Case:            Columbia Capital
	Questions:    Should they form a fund?
<b>February 18</b>	<b>Session #6    Fund Structures</b>

**February 23      Start-Up Investing**

**Session #7      The Business Plan**

**Case:**            Asia Renal

**Reading:**        Some thoughts on Business Plans

**February 25      Session #8**

**Case:**            Heather Evans

**Reading:**        A note on pre and post money valuations

**March 2 & 4      Session #9 & 10**

**Case:**            Valuing Project Achieve

**Reading:**        A note on valuation in private equity settings

**March 9            Session #11**

**Case:**            Financing Project Achieve

**Reading:**        A note on private equity securities  
Securities law and private financing

**March 11          Session #12**  
**Start-Up Transaction Structuring**

<b>March 23</b>	<b>Other Investors &amp; Investment Structures</b>
	<b>Session #13</b>
	Case: Parenting Magazine
<b>March 25</b>	<b>Session #14 &amp; 15</b>
	Case: Xedia and Silicon Valley Bank
	Questions: Should SVB make the loan? Determine and justify an appropriate deal structure including material business terms such as interest rate and warrant coverage.
<b>March 30</b>	<b>Session #16 Early Stage Investment Structuring</b>
<b>April 1</b>	<b>Later Stage Investing</b>
	<b>Session #17 Turnarounds</b>
	Case: Dragonfly
<b>April 6</b>	<b>Session #18 Acquisition Opportunities</b>
	Case: Radio One
	Reading: A note on valuing private businesses An introduction to cash flow valuation methods
<b>April 8</b>	<b>Session #19 Consolidation Opportunities</b>
	Case: Car Wash Partners
<b>April 13</b>	<b>The Strategy of Consolidation</b>
<b>April 15</b>	<b>Session #20 Leveraged Buyouts</b>
	Case: Seagate Technology
	Reading: Technical Note on LBO Valuation (A) Technical Note on LBO Valuation (B)
<b>April 20</b>	<b>Session #21 Later Stage Investment Structuring &amp; Exit Transactions</b>
	Reading: A Note on the Initial Public Offering Process

**April 22**

**Session #22 Repurchasing a Minority Equity Stake**

Case: Kohler Co.

Questions: Determine a settlement offer. Substantiate it with a complete valuation using DCF and multiples analysis.

**April 27**

**Project Presentations**

**April 29**

**Project Presentations**

**May 4**

**Project Presentations**

## Business Plan Evaluation Project

The major assignment for the course will be a group project that involves assessing a firm in which a venture capital or private equity organization might want to invest. The objective of this group assignment is to write an evaluation of its business plan and current performance and to present your analysis and investment recommendation to an “investment committee.” Groups will be expected to address business and industry analysis as well as deal structure and valuation. Teams must explain what factors, including business plan elements that would need to change so that an affirmative opinion (including a specific deal structure and valuation) would be offered on a contingent basis. Teams should be composed of no more than **six** people.

**Oral Presentation.** Each team is required to participate in a 20 **minute** (maximum) oral presentation of their report. Prepare a set of 5-6 “main” slides to be used for the body of the presentation and a set of “appendix” slides that provide more detailed background (and which you would use to address questions for further clarification that might come up during a Q&A session). Each team should hand in a copy of their presentation slides before they present.

The oral presentation represents will be evaluated on both *content* (how well it addressed the assignment questions) and *form*, i.e., the extent to which it displayed: (a) good focus and flow (e.g., development and communication of a logical progression of ideas, appropriate use of time, etc.), (b) good demeanor and attitude (e.g., visual contact with audience, self-confidence and authority, good handling of audience questions, etc.), and (c) good use of visual aids and handouts (e.g., legibility, integration into oral presentation, etc.).

**Written Report.** Your report is due, by 9 AM, April 26. Late papers will not be graded. Each group should submit two copies of its final report.

**Text.** The report should not exceed 20 double-spaced typed pages with normal margins, excluding exhibits, tables, figures, appendices, and references. The name of the firm analyzed, the names of the team members responsible for the report preparation, the date, and the course number should be on the *front* page.

**Exhibits.** Exhibits should contain specific types of analyses, such as financial ratio analyses, break-even charts, decision tree analyses, organization charts, etc. In general, exhibits should contain any information that is relevant, but would take up too much space if included in the body of the paper. Exhibits should not be used as strictly an extension of textual material.

**References.** Footnotes should be used to acknowledge sources quoted in the text. The bibliography should list all the sources referenced or quoted in the body of the text in alphabetical order by author.

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