15.431 Entrepreneurial Finance and Venture Capital
T/Th 1-2:30pm (A) 2:30-4pm (B)
E51-335

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Course Description
This course examines elements of entrepreneurial finance, focusing on technology-based start-up ventures, and the early stages of company development. Addresses key questions relevant to all entrepreneurs: how much money can and should be raised; when should it be raised and from whom; what is a reasonable valuation of a company; and how funding, employment contracts and exit decisions should be structured. Aims to prepare students for these decisions, both as entrepreneurs and venture capitalists. In-depth analysis of the structure of the private equity industry.

REQUIRED MATERIAL
A packet of cases.

OPTIONAL MATERIAL


COURSE OVERVIEW
This course will use a combination of case discussions and lectures to study entrepreneurial finance. The course is targeted to budding entrepreneurs and venture capitalists. There are five main areas of focus.

1) Business Evaluation and Valuation: Here we will give you some tools to valuate early stage business opportunity. We will also review the standard tools of valuation applied to start-up situations and introduce the venture capital method and the real options approach to valuation.

2) Deal Structure: In this module, we will highlight the main ways that entrepreneurs are financed and analyze the role of financial contracts in addressing information and incentive problems in uncertain environments.

3) Setting up the Venture: Discussed is the allocation of founder equity, setting up the board and
managing the venture.

4) **Funding Environment**: We will look at the different sources of capital and the changing market for startup capital, such as angels, venture capital, corporate VC or social venture capital. Discussed are also the structure and incentives of different investors and their fund raising process.

5) **Exit**: How should founders exit? Should they sell to another company, take it public, or continue independently as a private company?

We will also have a number of guest speakers who will discuss recent developments in the industry.

**REQUIREMENTS**
The course requires the concepts and skills developed in 15.402, *Corporate Finance*. It is a pre-requisite. Some knowledge of option pricing will also be needed in a few instances. Because we will be linking financial concepts to other business concepts your broad MBA training will also come in handy.

This course also places a strong emphasis on presentation and discussion skills. It will be important for you to explain your positions or arguments to each other and to try to argue for the implementation of your recommendations.

**PROCEDURES**
This course is designed to be challenging and time-consuming. You should expect to prepare an average of one case per week. Each case will come with guideline questions. Students are required to submit a two-page memorandum on the cases. Students can (but are not required to) work in teams of no more than four.

The memorandums should be typed and double-spaced. They should be written as if you were presenting it to your business partners (be they your fellow entrepreneurs or investors). The two-page limit is for text only. You may attach as many numerical calculations as you wish. Memoranda will not be accepted after the class has met. Grading of the memoranda will be on the bases of check marks. The grades on these memorandums tend to help on the margins, moving students up or down half a grade. Each group has the right to skip one case write up, but not the first one (Right Now). Even if a group does not hand in a case a given week, students have to be prepared to discuss the case in class.

Class attendance is critical to the learning process. Because this is such a new area of academic inquiry, there are no textbooks from which to distill all the critical information. The learning will come from struggling together to come to a better understanding of the key issues in the case. Also because this is a new course, your input is particularly valued as we learn together. Please bring your name cards so that I get to know you.

**GRADING**
Grading will be based on class participation (25%), the short memoranda (25%) and a final examination (50%). The final exam will be an in class exam and will be held during the exam week. The exam will be open book but no computers, cell phones nor tablets will be allowed during the exam.
TENTATIVE COURSE SCHEDULE

Thurs. September 7- Introduction and Overview of Entrepreneurial Finance

New Venture Valuation
2. Tues. September 12- Valuation 1: DCF and the Venture Capital Method
3. Thurs. September 14- Case: Right Now 1
4. Tues. September 19- Case: Right Now 2
5. Thurs. September 21- Valuation 2: Real Option Valuation
6. Tues. September 26- Case: Genzyme/Geltex

Deal Structure
7. Thurs. September 28- Deal Structure 1
8. Tues. October 3- Case: Walnut Venture Associates (A) and (D)
9. Thurs. October 5- Deal Structure 2
12. Tues. October 17- Case: Punchtab

Setting up the Venture and Equity Ownership
14. Tues. October 24 & Thurs. October 26- NO CLASS- SIP WEEK
15. Tues. October 31- Case: Venture Vignettes - Guest: Carl Stjernfeldt (Senior Venture Principal, Shell Technology Ventures)

Funding Environment
16. Thurs. November 2- Case: Forte Ventures
17. Tues. November 7- Case: Fast Ion Battery
18. Thurs. November 9- AngelList and Crowdfunding - Guest: Jeff Fagnan (Founder, Accomplice)
19. Tues. November 14- Corporate Venture Capital – Guest: Carl Stjernfeldt (Senior Venture Principal, Shell Technology Ventures)
20. Thurs. November 16- Social Venture Capital and Program Related Investment
21. Tues. November 21- Search Funds - Tom Matlack (Lead Investor, Alpha Credit)
23. Tues. November 28- Case: Endeca- Carl Stjernfeldt (Senior Venture Principal, Shell Technology Ventures)
24. Thurs. November 30- Fund of Funds - Diana Frazier (Co-Founder, Flag Capital)

Exit
25. Tues. December 5- IPO Lecture
26. Thurs. December 7- Case: Grand Junction
27. Tues. December 12- Review Session

Final Exam
28. TBD