

University of California, Davis
MGT160: Financing New Business Ventures
Winter 2018

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| Instructor: | Gregory Perelman | | |
| Contact e-mail: | gperelman@ucdavis.edu (subject line for all e-mails must start with "MGT160") | | |
| Teaching assistants: | Aliona Chistol Christopher Mays | Contact e-mails: | alchistol@ucdavis.edu cmays@ucdavis.edu |
| Lectures: | Thursdays, 6:10-9:00 pm | Review sessions: | Fridays (see UCD schedule) |
| Office: | GH-2215 and online (Skype/Google) | | |
| Office hours: | before class on Thursdays and by appointment | | |
| Class Web site: | Canvas | | |

Course Description:

This course will analyze the concepts and methods of financing new business ventures. Financial tools (NPV, IRR, discount rates, cash flows, etc.) will be reviewed and applied to structuring funding appropriate for newly formed businesses. Sources of equity and debt capital will be evaluated. The course will also address the demographics of U.S. businesses, their industrial composition and the rate of formation. It is assumed that students have good working knowledge of the basic accounting, statistics and math.

Prerequisites: 11A (Accounting), Mathematics 16B, 17B or 32B, Statistics 13 or higher

Required textbook:

Corporate Finance: The Core, 4th Edition, by Jonathan Berk and Peter DeMarzo

Any previous editions are acceptable.

Cases:

1. HBS #5-812-141: PunchTab, Inc.
2. Santa Fe Trading Company (link provided on class website)

Notes:

1. HBS #8072: Financing Entrepreneurial Ventures, September 1, 2014
2. HBS #9-209-107: An Introduction to consumer credit.
3. HBS #9-291-026 Note on Bank Loans, Rev. October 29, 1993

Other reading materials will be distributed in class or over the class web page.

Course Format

Lectures, class discussions, problem solving and case studies.

Grading Policies:

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| Quizzes (in-class): | 15% |
| Individual data cases (take-home): | 15% |
| Group cases: | 20% |
| Midterm: | 20% |
| Final exam: | <u>30%</u> |
| | 100% |

Class attendance, participation, discussions

To succeed in the course, you are expected to attend all classes and discussion sessions; MS Excel program will be used extensively to demonstrate financial concepts – **it is strongly recommended for you to have a laptop in class**, to follow the discussions. If you expect to miss a class for any reason, send me and your TA an e-mail beforehand. Missing more than one class meeting will negatively impact your grade. Questions and discussions are encouraged throughout the course.

Homework and quizzes

Practice questions and solutions will be made available to you on Canvas and will be reviewed in discussion sessions on Fridays; to test your progress in the course, we will have in-class quizzes during the term (open book/notes) – the quizzes will be collected via Canvas (file uploads); for those who do not have laptops available in class, alternatives will be offered (paper-based); individual data cases will be assigned as take-home and must be submitted via Canvas. **All submitted quizzes and data cases, either in-class or take-home, must be the result of your own individual work.** The lowest two scores on the in-class quizzes will be dropped in calculating your course grade. No makeup quizzes will be given.

Case Analysis (Groups)

In this class you will work with a team of 5-6 students on two case studies. Every team must submit the following:

- a) 3-5 pages write up in *Word document* (excluding exhibits) where you address the questions posted in the course schedule section below. If you include exhibits, please refer to them in the text and make clear why they are included
- b) Excel spreadsheet for Case 2, with your calculations, financial statements, data collected for your analysis, etc.

A few more comments on the write ups: no detailed background of the case is needed – a few lines will be sufficient. At the same time, do not assume that the reader knows every number in the case. The write up is a stand-alone document and should state major problems or opportunities facing the decision-maker, list alternative courses of actions and come up with specific recommendations. It is important to make your decisions given the available information provided within the cases. You are welcome to use outside sources, but, as in real life, you will never have complete information and unlimited time to make your decisions. If you make any assumptions, clearly state them. Write in complete and grammatically correct sentences. Avoid bulleted presentations in the write ups.

Midterm and Final Exam

Midterm exam will cover material in the first half of the course; the final exam is cumulative and encompass all of the material covered in the course. No make-up exams will be given, except as required by the University Policy (medical reasons, etc.)

Course Standards

Students are expected to fulfill their responsibilities under the University Of California Standards Of Conduct for Students. You can find the full text here: <http://sja.ucdavis.edu/scs.html>

TENTATIVE COURSE SCHEDULE

| Week | Topics, readings, and assignments |
|-------------|---|
| 1 | <p>Introduction</p> <ul style="list-style-type: none"> • Businesses in the U.S. • Forms of business organization • Financial statements – overview <ul style="list-style-type: none"> ○ Balance sheet ○ Income statement ○ Statement of cash flows <p><u>Required reading:</u> Chapter 1: The Corporation Chapter 2: Introduction to Financial Statement Analysis</p> <p>Readings are given for the 4th edition of the textbook – if you are using one of the previous editions, find similar chapters</p> |
| 2 | <p>Time value of money Discounted cash flows</p> <p><u>Required readings:</u> Chapter 3: Financial Decision Making Chapter 4: Introduction to Valuation: The Time Value of Money</p> |
| 3 | <p>Interest rates and bond valuation</p> <p><u>Required reading:</u> Chapter 5: Interest Rates Chapter 6: Bond Valuation</p> <p>Individual data case 1 due (take-home)</p> |
| 4 | <p>Investment criteria (NPV, IRR, etc.)</p> <p><u>Required reading:</u> Chapter 7: Investment Decision Rules Chapter 8: Fundamentals of Capital Budgeting Chapter 9: Valuing Stocks</p> |
| 5 | <p>Risk and cost of capital Valuation process</p> <p><u>Required reading:</u> Chapter 10: Capital Markets and the Pricing of Risk Chapter 11: Optimal Portfolio and Choice and CAPM Chapter 12: Estimating the Cost of Capital</p> <p>Individual data case 2 due (take-home)</p> |

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|----|---|
| 6 | <p>Venture capital industry - introduction</p> <p><u>Required reading:</u> HBS #8072: Financing Entrepreneurial Ventures</p> <p>Midterm</p> |
| 7 | <p>VC funding – discussion</p> <p><u>Group Case 1:</u> HBS #5-812-141: PunchTab, Inc. <u>Assignment:</u> submit a write-up where you address questions posted on Canvas;</p> |
| 8 | <p>Debt funding – introduction</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> • HBS #9-209-107: An Introduction to consumer credit. • HBS #9-291-026 Note on Bank Loans, Rev. October 29, 1993 <p>Individual data case 3 is due (take-home)</p> |
| 9 | <p>Debt funding - discussion</p> <ul style="list-style-type: none"> • Bank loans • Crowdsourcing • Credit scoring <p><u>Group Case 2:</u> <i>Santa Fe Trading Company</i></p> <ul style="list-style-type: none"> • <u>Assignment:</u> submit group case write-up where you address all questions listed at the end of the case; |
| 10 | <p>Alternative sources of funding for new ventures</p> <ul style="list-style-type: none"> • Crowdsourcing • P2P or marketplace lending <p>2012 JOBS Act Course review Q&A session</p> |
| 11 | <p>Final exam</p> |