



University of California, Santa Barbara
College of Engineering

ENGINEERING 191/291B
PROFESSIONAL SEMINAR: NEW VENTURE FINANCE

SUSAN BLOCK

SPRING 2008

Time: Thurs 3:30-5:30 PM

Location: Broida 1640

COURSE DESCRIPTION

This course provides students with the tools necessary for the strategic analysis and understanding of financial information particular to new ventures. The course will provide insights into how financial information can be used to design optimal financing strategies, prepare valuation models for new ventures and assist in strategic planning for the venture. Also discussed will be the alternative capital sources for firms. Guest speakers will be used to provide applied examples of core concepts.

REQUIRED READING

Entrepreneurial Finance, Janet Smith and Richard Smith, John Wiley & Sons, available on reserve in Library Reserve Section. Select readings will be assigned in the Entrepreneurial Finance text but it does not require purchasing it. If you do wish to purchase this text, it is available online – please check with me if you need information .

Other course reading handouts may be provided and select class notes and assignments will be posted on TMP website.

Additional reference can also be made to the following texts (available in Library Reserve Section):

Pratt, Jamie “Financial Accounting”, 4th Edition, South Western (1999)

Brealey, Richard A, and Myers, Stewart C., “Principles of Corporate Finance” 6th edition, Irwin (2000)

FACULTY

Susan Block, Office Hours by appointment and immediately before and after class

Phone – cell 698-1000

Email – block@blockbowman.com

ASSESSMENT

The course will be assessed on the basis of class participation, class projects and a final examination. Weighting will be as follows – 15% participation, 85% projects/final exam. Graduate students will be given additional project(s) and reading assignments.

CLASS TIMETABLE – ENGINEERING 191/291B

Week 1 **An Introduction to Finance for New Ventures**

- ❑ Finance vs. Accounting – How different, how are they similar
- ❑ Understand the range of decisions made by, and the information needs of, external and internal users of accounting information.
- ❑ Gain insights into how security markets operate and what is meant by efficiency as it relates to securities markets.
- ❑ Describe the content and purpose of the various types of information contained in a typical Annual Report and Accounts.
- ❑ Gain insights into other sources of financial information about a business enterprise.

Week 2 **The Supply of Accounting Information**

- ❑ Describe the form and content of the balance sheet, income statement
- ❑ Cash flow vs. Accounting income
- ❑ State the accounting equation and describe how it is related to the balance sheet, income statement, statement of retained earnings and statement of cash flows.

Week 3/4 **Corporate Finance and the Time Value of Money**

- ❑ Understand timing issues and how financial decision making takes place
- ❑ Understand the valuation framework, and basic assumptions of time value of money
- ❑ Capital Structure issues

Week 5 **Analyzing Financial Statements**

- ❑ Understand basic techniques of financial statement analysis, including horizontal and vertical analysis.
- ❑ Be able to calculate common size statements and calculate basic ratios.
- ❑ Use financial information to assess earnings quality and what is important for raising capital or valuation
- ❑ Financial statements as a strategic planning and competitive analysis tool

Weeks 6/7 **Financing of New Ventures and Capital Requirements**

- ❑ Determining the amount of capital needed for startup or growth financing and use of proceeds
- ❑ Debt and Equity funding alternatives
 1. Angel and private investors
 2. Venture capital and Private Equity Groups
 3. Strategic Alliances and Corporate Partners
 4. Letter of Credit Financing
 5. Asset-Based Financing
 6. Factoring and Accounts Receivable Financing
- ❑ Determining which source of funding is appropriate and optimal timing
- ❑ Private Placements vs. Public Placements
- ❑ Preparing for capital raising and the capital raising process
- ❑ Funding capital equipment or new projects

Week 8/9 **Valuation Models of New Ventures**

- ❑ Valuation of new ventures
 1. Determinants of Value
 2. Pre- and post-money valuation and how to value subsequent rounds of financing
 3. Structuring equity funding and rounds of financing: Seed Capital, Mezzanine Financing, Warrants, put options, call options.
 4. What is dilution and how to protect investors
- ❑ Valuation of revenue generating firms:
 1. Discounted Cash flow Valuation Method – Gordon Growth and Exit Multiple DCF Models
 2. Precedent Transaction Valuation Method
 3. Multi-Company Comparison Valuation Method

Week 10 **Case Study/ Guest speakers**