



BUS56 - Finance for Entrepreneurship, Strategic Marketing, and Engineering

Lecturer: Tony Seba

(Tentative) Course Overview – Winter 2014

Course Objectives

To provide entrepreneurs, intrapreneurs, product development, technology and marketing managers with basic tools and language of finance to:

1. Build superior business plans, product development plans and strategic marketing plans.
2. Understand and communicate better with CEO, CFOs, value customers, and investors.
3. Better prepare for fundraising.

Textbook & Resources

- Textbook: Eugene Brigham & Joel Houston, “*Fundamentals of Financial Management*”, **Concise 4th ed.** Thomson Southwestern, 2004. <http://amzn.to/9e5KfE>
(Please don't purchase other editions.)
- Slides: I will email the key slides ***after*** the corresponding class. I will also email you other suggested readings as well as class changes or announcements.
- LinkedIn: We will have a LinkedIn group for connecting and communicating with classmates.

Course Grade

There are three grade options:

1. No Grade Requested (NGR) is the default.
2. Credit/No Credit (C/NC) is determined by attendance to 6 or more class sessions.
3. Letter grade. The final **class project** will account for **100% of the grade**.
Case 11-18: “Allied Food Product”, page 457 in the B&H book.

Readings and homework guidelines

- **Textbook Reading**: *skim* before each class. Go back and study carefully after class.
- **Review Reading and Homework**: for sessions 2-5, I have listed additional readings and problem sets to help you review the concepts and tools introduced in class.
 - The first problem is usually a short one and the optional one is a longer case. **These are not to be turned in and will not be graded.** The optional cases are for those of you who want more practice and depth.
 - Use the articles from the business media (The Economist, Fortune, WSJ, Forbes, NY Times, etc.) to review class content and to note how it's used/communicated by the media.
- **Cases**: for sessions 6-8, please read and thoroughly prepare the cases and be ready to discuss in class.

Legal stuff: Video / Audio Consent

- I will videotape this course and publish the videos. By staying in this class you give your **consent to be audio and videotaped, authorize the release of voice and likeness and release and hold harmless** Mr. Tony Seba and Stanford University.
- Please *note that the lectures are my copyrighted material – please don't do your own recording (audio, video, holographic or otherwise) of the lectures.*

Tentative Course Schedule: Session Overview

Session 1 – January 13 – Financial Statements

Lecture Themes

- Course Overview.
- Understanding Financial Statements – Balance Sheet, Income Statement and Cash Flow Statement. How are these connected? Annual Reports.
- Cash vs. Profits.

Reading (before class):

- Brigham & Houston, Chapter 2

Review Reading (after class):

- Google 2013 Q3 Earnings Conference Call Webcast – Review the *Earnings Slides* PDF and listen to the YouTube Webcast (at least Larry Page’s 8 min) : <http://investor.google.com/webcast.html>
- Facebook 10-Q (June 30, 2012)
<http://www.sec.gov/Archives/edgar/data/1326801/000119312512325997/d371464d10q.htm>
- Questions: how much ‘Network Equipment’ did FB own? How much did FB spend to acquire patents between Dec 31, 2011 and June 30, 2012?
- “Accounting that Comes in Flavors”, New York Times, July 8, 2011
<http://www.nytimes.com/2011/07/08/business/accounting-standards-that-come-in-flavors-floyd-norris.html>
- (Reference) “Merrill Lynch – How to Read a Financial Report”
e145.stanford.edu/upload/Merrill_Lynch.pdf

Additional (Optional) Reading

- The B-Corp: “Firm with Benefits”, The Economist, <http://www.economist.com/node/21542432>

No Class – Jan 20

Session 2 – Jan 27 – Performance Analysis

Lecture Themes

- Ratios, performance analysis: profitability, liquidity, leverage, activity ratios.
- Cost of capital, Economic Value Added (EVA)

Reading (before class):

- Brigham & Houston, Chapter 3
- Review Google’s summary financials (online) http://investor.google.com/fin_data.html

Review Reading (after class):

- “Why You Should Stop Using ROI”, Bennett Stewart, April 2013,
<http://blogs.wsj.com/cfo/2013/04/10/why-you-should-stop-using-roi/>

- “Here’s to PayDay”, The Economist, Jan 18th, 2014,
<http://www.economist.com/news/business/21594258-sell-assets-win-bonuses-buy-them-back-keep-bonuses-nice-work-heres-payday>
- “Damn The Economy: Company Profitability Full Speed Ahead”, CFO.com, Jan 17, 2012, at
http://www3.cfo.com/article/2012/1/benchmarking_eva-momentum-ranking-by-industry-q3-2011
- Starmine’s Earnings Quality -
 - Review the following graphs. What is the relationship between profits and FCF? Between CapEx and CFO?
http://www.starmine.com/newsletters/index.phtml?newsletter=eqa&eq=negative®ion=na&period=eq_aug2010
 - Watch the ‘Evaluating Earnings Quality’ Video:
http://alphanow.thomsonreuters.com/take_5_videos/

Review Homework (after class):

- Problem 2-14, Smythe, Davidson, Corp., B&H, p.66
- (Optional) Case 2-19, D’Leon, Inc, B&H, p.70
- (Optional) Choose three companies in the same industry - for example: First Solar (Nasdaq:FSLR), SunPower (Nasdaq:SPWR), and ReneSola (NYSE:SOL). Create a table comparing their Market Capitalization, Revenues, P/E, P/B, P/S, EPS, P/CF, ROE, and Debt to Equity. (Look it up at Morningstar.com).
 - How do they compare with one another and with the industry average?
 - What can you deduce from comparing these companies?

Session 3 – February 3 – Cash Management / Cash Budgeting**Lecture Themes:**

- Cash Management, cash budgeting, working capital

Reading (before class):

- Brigham & Houston, Chapter 14
- AskTheVC: “How Do you Calculate Operating Cash Flow?”
http://www.vcconfidential.com/2007/05/askthevc_how_do.html

Review Reading (after class):

- “The Real Deal for Buyouts”, Wall Street Journal, August 27, 2007,
<http://online.wsj.com/article/SB118817551376209402.html>
- “Financial Control System of the Volkswagen Group”:
http://www.volkswagenag.com/content/vwcorp/info_center/en/publications/2009/06/Financial_Control_System_of_the_Volkswagen_Group.bin.html/binarystorageitem/file/finanz.steuerungsgroessen-+3.+Auflage-english.pdf

Review Homework (after class)

- Problem 3-22: Barry Computer, B&H, p.108

- “Groupon’s Terms Not Endearing”, June 29, 2011, <http://online.wsj.com/article/SB10001424052702304314404576413663290520884.html>
 - Question: how is Groupon financing its operations? Is this sustainable?
- (Optional) Case 3-26: D’Leon, Inc, Part II, B&H, p.112
- (Optional) Choose three companies in the same industry - for example: First Solar (Nasdaq:FSLR), SunPower (Nasdaq:SPWR), and ReneSola (NYSE:SOL).
 - Calculate the Cash Conversion Cycle for the three companies.
 - Can you deduce their working capital policies? What does it tell you about their corporate strategies?

Session 4 – Feb 10 - Capital Budgeting (1) - Time Value of Money

Lecture themes:

- Selecting and prioritizing investment alternatives to increase shareholder wealth
- Capital Budgeting
- Time Value of Money, Discounted Cash Flow (DCF) analysis, Present Value (PV), Future Value (FV), Payback, Net Present Value (NPV), Internal Rate of Return (IRR), Modified IRR (MIRR)

Reading (before class):

- Brigham & Houston, Chapters 6 & 10
- “Are VCs Simply Valuation Luddites?” VC Confidential, http://www.vconfidential.com/2007/04/are_vcs_simply_.html

Review Homework (after class):

- Problem 14-15, Helen’s Fashion Design, B&H, p.592
- “A Trust Surges, Heirs and Taxes in Mind, But Mind the Details”, New York Times, July 22, 2011, <http://www.nytimes.com/2011/07/23/your-money/estate-planning/charitable-lead-trusts-draw-renewed-interest.html>
 - Assume you’re putting \$2 million in the trust and you want an annual payout of \$50,000 and want at least \$1.6 million left for your heirs. The discount rate is 2.2%. What annual return will deliver that performance? What if the IRS increased the discount rate to 3.5%?
- (Optional) Case 14-21, SKI Equipment, B&H, p. 594

Feb 17 - No Class

Session 5 – Feb 24 – Capital Budgeting (2) – Risk and Sensitivity Analysis

Lecture Themes:

- Capital budgeting with timing, risk, sensitivity analysis, scenario analysis
- Project risk analysis
- Real options

Reading (before class):

- Brigham & Houston, Chapter 11
- “The Overseas Profits Elephant in the Room” by John Chambers and Safra Katz, WSJ.com, Oct 20, 2010, <http://online.wsj.com/article/SB10001424052748704469004575533880328930598.html>
 - Question: based on the tools you have learned so far in this course, would a corporate repatriation tax amnesty “bring jobs back to America”?
- “Cash Hoarding Companies Neither Spend Nor Lend, Fouling Economy Further”, Huffington Post, June 12, 2012, http://www.huffingtonpost.com/2012/07/12/cash-hoarding-companies-spend-lend-economy_n_1666424.html

Review Reading (after class):

- “Why Entrepreneurs Seem to be Growing Fangs”, VentureBeat, Sept 29, 2010, <http://venturebeat.com/2010/09/29/why-entrepreneurs-seem-to-be-growing-fangs/>

Review Homework (after class):

- Problem 10-23, B&H, p.420
- (Optional) Case 10-25: Allied Components Company, B&H, p.420

Session 6 – March 3 – Application Cases: Valuation and Venture Capital Finance**Lecture Themes:**

- Valuation of Venture Capital deals
- Company Valuation
 - Is Facebook (Nasdaq:FB) worth \$150 billion? \$50b? \$200b? What is Facebook Really Worth?
 - Is Twitter (NYSE:TWTR) worth \$30 billion? \$11b? \$50b? What is Twitter Really Worth?
- Acquisition Valuation

Reading (before class):

- “Can Twitter Justify its \$11 billion valuation?”, Inc.com, Oct 30, 2013, <http://www.inc.com/jeremy-quittner/twitter-valuation-look-at-fundamentals.html>
- “Is Twitter Worth \$31 billion? I don’t think so”, Forbes.com, Nov 7, 2013 <http://www.forbes.com/sites/chuckjones/2013/11/07/wow-twitter-worth-30-billion-i-dont-think-so/>
- Entrepreneur’s Corner:
 - Funding Lifecycle: http://www.vcconfidential.com/2006/08/funding_life_cy.html
 - “Valuation of Venture Capital”, Millennia Partners, <http://www.bostonmillenniapartners.com/documents/whitepaper/whitepaperattachment6.pdf>
 - “Disruptions: Are Eager Investors Overvaluing Tech Startups?”, NYTimes.com, October 27, 2013, <http://bits.blogs.nytimes.com/2013/10/27/are-eager-investors-overvaluing-tech-startups/>

Venture Valuation Case: Uber (read, prepare, and be ready to discuss in class)

- “A Note on Valuation of Venture Capital Deals”, Thomas Hellmann, Stanford Graduate School of Business (download & purchase from HBSP)

- Download accompanying spreadsheet from <http://strategy.sauder.ubc.ca/hellmann/pdfs/valuation04.xls>
- Company Valuation: Uber. What is Uber worth? Review the valuation methods we used in class. Uber is a private company. Here are some publicly available numbers to use for your analysis:
 - “Leaked Uber Numbers, Which We’ve Confirmed, Point to Over \$1B Gross, \$213M Revenue”, TechCrunch, Dec 4, 2013 <http://techcrunch.com/2013/12/04/leaked-uber-numbers-which-weve-confirmed-point-to-over-1b-gross-revenue-213m-revenue/>
 - “Uber Filing in Delaware Shows TPG Investment at \$3.5 Billion Valuation”, AllThingsD, August 22, 2013, <http://allthingsd.com/20130822/uber-filing-in-delaware-shows-tpg-investment-at-3-5-billion-valuation-google-ventures-also-in/>

Review Reading (after class):

- Entrepreneur’s Corner
 - Founders Fund “Transparent Term Sheet” Plain English Guide and play with the Valuation Calculator: <http://www.foundersfund.com/termsheet/>
 - “How VCs Calculate Valuation (And How It’s Different From The Way Founders Do It)”, Mark Suster, July 22, 2010, <http://www.businessinsider.com/how-vcs-calculate-valuation-differently-from-founders-2010-7>
 - *Mint* Venture Capital Pitch Deck: <http://www.slideshare.net/hnshah/mintcom-prelaunch-pitch-deck>
 - (Reference) “Valuing Pre-Revenue Companies”, Kauffmann e-Venturing, http://www.angelcapitalassociation.org/data/Documents/Resources/AngelCapitalEducation/ACEF_-_Valuing_Pre-revenue_Companies.pdf

Review Homework (after class):

- Problem 11-8: Holmes, B&H, p.453

Session 7 – Mar 10 – Application Cases – Project Finance**Lecture Themes:**

- Project finance, project valuation / selection case
- Analyzing and valuing a clean energy project

Cases (read and prepare for class discussion)

- Problem 11-17: Webmaster.com, B&H
- Company Valuation: Uber

Guest speaker

- CEO/CFO Guest Speaker

Reading (before class)

- Browse “Project Finance Primer for Renewable Energy and Cleantech Projects”, Wilson Sonsini Goodrich Rosati, www.wsgr.com/PDFSearch/ctp_guide.pdf

Review Reading (after class)

- (Optional) “Draft PV Financial Pro-Forma Tool” spreadsheet (.xls), download from Energy & Environmental Economics “California Solar Initiative Cost-Effectiveness Evaluation” page: http://www.ethree.com/public_projects/cpuc.html
 - Download “Workshop Presentation” PDF from same webpage. Slides 53-71.
- (Optional) "The Impact of Different Economic Performance Metrics on the Perceived Value of Solar Photovoltaics", National Renewable Energy Laboratory, October 2011: <http://www.nrel.gov/docs/fy12osti/52197.pdf>
- (Optional) "Interim Report for the Study Natural Gas Monetization Pathways for Cyprus", Economic of Project Development Options, MIT Energy Initiative, August 2013, <http://mitei.mit.edu/publications/reports-studies/interim-report-study-natural-gas-monetization-pathways-cyprus>

Session 8 – Mar 17 – Application Cases – New Product Finance - Product ROI**Lecture Themes:**

- Product ROI business case, new product proposal
- Putting it all together, course review

Guest speaker

- Investor / Venture Capital Guest Speaker

Case (read and prepare for class discussion)

- “Quest Foglight ROI Case Study”, Nucleus Research, Report J105, December 2009, <http://nucleusresearch.com/research/notes-and-reports/roi-case-study-quest-anonymous-telecommunications-company/>

Reading (before class):

- Nucleus Research Standard ROI Tool: <http://nucleusresearch.com/research/roi-tools/nucleus-research-standard-roi-tool/>
- “Faith and The Markets”, The Economist, May 26, 2011, <http://www.economist.com/node/18744391>
- “Welcome to the Unicorn Club: Learning from Venture-Funded Startups”, TechCrunch, Nov 2, 2013, <http://techcrunch.com/2013/11/02/welcome-to-the-unicorn-club/>

Recommended Reading (after class):

- “The New Funding Landscape - Super Angels”, Paul Graham, Y Combinator, <http://www.paulgraham.com/superangels.html>, Oct 2010
- “Surveying the Incubator and Accelerator Landscape”, SwissNex San Francisco, Nov 6, 2012, <http://nextrends.swissnexsanfrancisco.org/incubators/>
- “The Venture Hacks Bible”, Babak Nivi and Naval Ravikant, 2010, download page: <http://www.scribd.com/doc/39758327/The-Venture-Hacks-Bible-Sample>

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Student Information Sheet (to be turned in at first class session)

Name:

Email:

Academic Experience (starting with most recent)

Work Experience (company, title)

Career Objectives:

How did you hear of this course?

What do you want from this course?

Anything else you want me to know?