Entrepreneurial Finance and Venture Capital

Professor: Filippo Ippolito
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Office hours: by appointment

Course Description

This course is primarily focused on assessing the value of investments made by entrepreneurial firms and on the valuation of entrepreneurial firms. We take both the point of view of an entrepreneur that must decide whether to make an investment or not, and that of an investor that buys an equity stake in an entrepreneurial firm.

The course contains a theory part on the valuation of investments under uncertainty. This part develops the conceptual tools that are at the core of both the investment and financing decisions. The theory of valuation is examined using two methodologies: discounted cash flows and real options. The first approach is the standard workhorse for valuation, and offers a thorough insight into how the value of an asset is computed. However, the discounted cash flows approach ignores two common features of entrepreneurial investments: first, investments are often partially or completely irreversible, and, second, investments can often be delayed to a later time in the future. The valuation approach based on real options is complementary to the discounted cash flows approach, and accounts explicitly for investment irreversibility and for the optimal timing of the investment decision.

The above theory is complemented by the practical examination of several case studies, through which students can assess how investment decisions are made in real entrepreneurial firms. The focus of the cases is varied. In some cases we take the point of view of the entrepreneur. In other cases, we examine the value of an investment from the perspective of a venture capitalist that wants to invest in an entrepreneurial firm. In other cases, we look at issues like that of taking the firm to an IPO and selling equity to the wider public.

Course objectives

1. Learn how to estimate cash flows, growth and the cost of capital in an entrepreneurial firm
2. Learn how to compute the value of an entrepreneurial firm using different approaches based on discounted cash flows
3. Learn the venture capital method to assess the investment decision in an entrepreneurial firm
4. Learn how to use multiples to value entrepreneurial firms
5. Learn how to identify and value real options in entrepreneurial investments

Methodology

At mix of lectures and case studies with class discussion.

Evaluation criteria

- Participation in class: 20%
- Case presentations: 80%

Note: This document is only informational, detailed contents and faculty may change.
Students are required to attend 80% of classes. Failing to do so without justified reason will imply a Zero grade in the participation/attendance evaluation item and may lead to suspension from the program.

As with all courses taught at the UPF BSM, students who fail the course during regular evaluation will be allowed ONE re-take of the examination/evaluation. Students that pass any Retake exam should get a **5 by default as a final grade for the course.** If the course is again failed after the retake, students will have to register again for the course the following year.

In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the “Retake” period). In the meantime, the student will get an “incomplete”, which will be replaced by the actual grade after the final exam is taken. The “incomplete” will not be reflected on the student’s Academic Transcript.

Plagiarism is to use another’s work and to present it as one’s own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the “Honor Code,” students acknowledge that they understand the schools’ policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program.

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**Calendar and Contents**

**Part I: From the entrepreneur’s point of view**
- Should we invest?
  1. Hannson Private Label: Class Work
  2. Hannson Private Label: Discussion
- How to finance the investment?
  3. Jones Electrical Distribution: Class Work
  4. Jones Electrical Distribution: Discussion

**Part II: From the investor’s point of view**
- Traditional methods (NPV and multiples)
  5. Teuer A: Class Work
  6. Teuer A: Discussion
  7. Teuer B: Class Work
  8. Teuer B: Discussion
- The venture capital method
  9. Theory
  10. Problem Set (minicase)
  11. Outreach Networks: Class work and discussion
- Theory of real options
  12. Theory of real options
  13. Applications of real options
  14. Penelope’s Pocket Phones: Class Work and Discussion
- Valuation of an entrepreneurial firm
  15. Arundel Partners: Class Work
  16. Arudel Partners: Discussion
  17. Store Escore: Class Work
  18. Store Escore: Discussion
  19. Aqua Bounty: Class Work

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**Venture Capital/Financing for Start-Ups**

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20. Aqua Bounty: Discussion

Reading Materials

- Corporate Finance, J. Berk and P. DeMarzo, Pearson, 2nd or 3rd edition
- Investment Valuation, A. Damodaran, 2nd Ed.
- Additional notes, exercises and cases will be distributed within the course pack

Bio of Professor

Filippo Ippolito is an Associate Professor of Financial Management at Universitat Pompeu Fabra and a research affiliate at the Centre for Economic Policy Research (CEPR), London, and at the Barcelona Graduate School of Economics. He holds a PhD in finance from Said Business School, Oxford, and an MPhil in Russian and Eastern European Studies from the University of Oxford. In the past he has worked in the financial and consulting sectors. His research focuses on corporate debt, capital structure, corporate liquidity management and private equity. Prof Ippolito has published in the Journal of Finance, Journal of Financial Economics, Journal of Financial Intermediation, and Journal of Corporate Finance.