Course Overview – Fall 2012

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.

Textbook & Resources
• Slides: I will email the key slides *after* the corresponding class. I will also email you other suggested readings as well as any time there are any 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.

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 problems to help you review the concepts and tools introduced in class.
  o 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.
  o Use the articles from the business media (Fortune, WSJ, Forbes, NYTImes, etc.) to review class content as well as to notice how it’s used/communicated by the finance-oriented 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.
Course Schedule: Session Overview

Session 1 – Sept 24 – 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):
- “Merrill Lynch – How to Read a Financial Report”
  e145.stanford.edu/upload/Merrill_Lynch.pdf
- “Accounting that Comes in Flavors”, NYTimes, July 8, 2011
- Browse Facebook’s 10-Q (June 30, 2012)
  http://www.sec.gov/Archives/edgar/data/1326801/000119312512325997/d371464d10q.htm
  Questions: how much ‘Network Equipment’ does FB own? How much did FB spend to acquire patents between Dec 31, 2011 and June 30, 2012?
- Review Google’s Q2 2012 Q2 Earnings Conference Call Webcast and Earnings Slide document
  http://investor.google.com/webcast.html

Session 2 – Oct 1 – 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):
- “Don’t Go Gaga Over Google”, Fortune, August 6, 2007
- Starmine’s Earnings Quality -
  o Review the following graphs. What is the relationship between profits and FCF? Between CapEx and CFFO?
  o 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 (FSLR), SunPower (SPWR), and Suntech Power (STP). 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 - Oct 8 – 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

**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 it 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 (FSLR), SunPower (SPWR), and Suntech Power (STP).
  - 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 - Oct 15 - 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), Mofidied IRR (MIRR)
Reading (before class):
- Brigham & Houston, Chapters 6 & 10

Review Reading (after class):
- Brigham & Houston, Chapters 6 & 10

Review Homework (after class):
- Problem 14-15, Helen’s Fashion Design, B&H, p.592
  - 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

Session 5 – Oct 22 – 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
  - Question: based on the tools you have learned so far in this course, would a corporate repatriation tax amnesty “bring jobs back to America”?

Review Reading (after class):

Review Homework (after class):
- Problem 10-23, B&H, p.420
- (Optional) Case 10-25: Allied Components Company, B&H, p.420
Session 6 – Oct 29 – Application Cases: Valuation and Venture Capital Finance

Lecture Themes:
- Valuation of Venture Capital deals
- Company Valuation
  - Is Facebook Worth $100 billion? $50 billion? What is Facebook Really Worth?
- Acquisition Valuation

Reading (before class):
- “Facebook Shares Fall as it reports $124 million loss”, July 27, 2012
- Entrepreneur’s Corner:
  - “Valuation of Venture Capital”, Millennia Partners,

Case (read and prepare for class discussion):
- “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](http://strategy.sauder.ubc.ca/hellmann/pdfs/valuation04.xls)

Review Reading (after class):
- Entrepreneur’s Corner
  - “Valuing Pre-Revenue Companies”, Kauffmann e-Venturing,
  - HBS Venture Valuation Spreadsheet: [www.alumni.hbs.edu/new_alumni/toolkit/tools/venturecapital.xls](http://www.alumni.hbs.edu/new_alumni/toolkit/tools/venturecapital.xls)

Review Homework (after class):
- Problem 11-8: Holmes, B&H, p.453
- Optional exercise: What is LinkedIn worth? What are your assumptions?
  - “Linkedin Q2 Revenue Up 89% Stock Up 5% After Hours”, Aug 2, 2012

Session 7 – Nov 5 – Application Cases – Project Finance

Lecture Themes:
- Project finance, project valuation / selection case
- Analyzing and valuing a clean energy project
Case (read and prepare for class discussion)
- Problem 11-17: Webmaster.com, B&H

Guest speaker
- CEO/CFO Guest Speaker

Reading (before class)

Review Reading (after class)
  - Download “Workshop Presentation” PDF from same webpage. Slides 53-71.

Session 8 – Nov 12 – 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)

Reading (before class):

Recommended Reading (after class):