



## Sofaer Global MBA

# 1238.3609 - Funding Technology Ventures

Prerequisites: None

Module 2 – 2020/21

### Course Section Details

Section	Day	Hour	Lecturer	
Class	Monday	15:45 – 18:30	Prof. Nisan Langberg	nisan@tau.ac.il

Nisan's office hours (Recanati room 452): After class or by appointment

Eran Azaria (TA): by appointment [eranazaria@mail.tau.ac.il](mailto:eranazaria@mail.tau.ac.il)

**Date of exam according to schedule**

### Course Units

1 course units = 4 ECTS units

The ECTS (European Credit Transfer and Accumulation System) is a framework defined by the European Commission to allow for unified recognition of student academic achievements from different countries.

### Course Description

**The course setting:** Entrepreneurs, venture capitalists and venture investors must understand their business environment and stakeholders to create value and a competitive advantage to succeed. Understanding the different incentives of the parties involved in the process of funding innovative ventures, may help founders of innovative ventures and general partners in VC funds agree on the most efficient joint path to success while securing adequate returns for their investors.

**The course goal:** The goal of this course is to provide individuals who may have their own venture, or wish to take part in the private equity industry with the tools to better understand

the alternative financial arrangements or financing strategies, and their value implications. We will discuss the considerations of the entrepreneurs seeking funds and that of the Venture Capital investors that invest in such early stage ventures, and learn about the different exit options, including an Initial Public Offering or acquisition by a strategic or financial buyer. Issues related to the agency conflicts and information asymmetries that exist between entrepreneurs and venture capitalists and between funds' limited and general partners, and how such incentive conflicts are addressed through deal structure, contracts, and compensation will be emphasized.

**How?** The course will focus on both qualitative and quantitative aspects of funding innovation and how entrepreneurs and venture capitalists can better deal with the challenges they face such as: raising funds when there are differences of opinion or information asymmetries between the entrepreneur and the general partners, designing the allocation of control rights or decision making in the venture when the active participation of all stakeholders contributes to the success of the venture, pricing newly issued shares when some market participants have better information than others about the economic prospects of the venture at hand and its innovation.

To achieve these goals, the course will combine lectures, simulations, practice questions, literature exercise, and guest lectures. I expect you to arrive ready for these discussions. By doing the exercises you will gain experience in applying the tools learnt in class. We will use Excel in class exercises.

## Course Objectives

Upon completion of the course, you will be able to:

1. Understand the basic challenges entrepreneurs and venture capitalists face and how to deal with them.
2. Identify the advantages and disadvantages of the different funding methods.
3. Critically evaluate a funding arrangement and the valuation perspectives of the different parties involved while taking into account moral hazard and asymmetric information issues.
4. Realize the (sometimes) conflicting incentives and entrepreneurs and venture capitalists and how they can be resolved through efficient contracts.
5. Be familiar with the IPO process and the challenge in market pricing in this context.

## Assessment and Grade Distribution

Grade weight	Assignment	Requirements
20%	Homework (practice questions)	Homework assignments include practice questions that cover the material discussed in class. Work in groups of 2-3 students.
20%	Literature exercise	Groups choose an academic research paper in the field of entrepreneurial finance of a particular topic of interest and submit a 3-page executive summary that includes the paper's findings, the group's response to

10%	Class participation	questions, and perspective in light of what has been discussed in class. Groups will present their work in class (~10 minutes). Read mandatory articles for class, participate in in-class exercises and discussions.
50%	Final Exam	Complete assignments in and out of class.

Should a student become unable to complete an assignment or course requirement, s/he must notify the TA of the course in advance via email

## Grading Policy

As of the 2008/9 academic year the Faculty has implemented a grading policy for all graduate level courses. This policy applies to all graduate courses in the Faculty, and will be reflected in the final course grade. Accordingly, the final average of the class for this course (which is an elective course) will fall between 83-87.

Additional information regarding this policy can be found on the Faculty website.

<https://coller.tau.ac.il/MBA-students/programs/2019-20/MBA/regulations/exams>

## Evaluation of the Course by Student

Following completion of the course students will participate in a teaching survey in order to evaluate the instructor and the course for the benefit of the students and the university.

## Course Site (Moodle)

The course Moodle site will be the primary tool used to communicate messages and material to students. It is, therefore recommended to periodically check the course site in general, periodically, before each lesson, at end of the course as well. (For example: exam details and updates regarding assignments)

Course slides will be available on the course site.

Please note that topics which are not covered in the slides, but are discussed in class are considered an integral part of the course material and may be tested in examinations.

## Course Outline\*

A tentative time-line is provided below. The actual material covered in class might change, assignment due-dates and material covered might shift.

Week 1: December 14	<b>Introduction of Syllabus</b> <b>Background: The Venture Capital Arrangement, the role of VC's in value creation and how it is changing</b>
------------------------	--

	<p><b><u>Further reading:</u></b>  <b><u>Venture Capital's Role in Financing Innovation:</u></b> What we Know and How Much We Still Need to Learn, 2020, by Josh Lerner and Ramana Nanda, HBS working paper</p>
Week 2/3: December 21	<p><b>Motivating Innovation: Incentive efficient contracting in Venture Capital</b></p> <p><b><u>Further reading:</u></b>  Chapter 5 Salanie  Chapter 3 Tirole</p>
Week 3/4: December 28	<p><b>Investing in Young Ventures facing Adverse Selection</b></p> <p><b><u>Further reading:</u></b>  Chapter 3 Salanie  Chapter 6 Tirole</p> <p><b><u>Assignment due:</u></b> HW Incentive Contracting</p>
Week 5: January 11	<p><b>IPO Simulation (students play the role of fund managers and compete for share allocations in IPO firms while facing asymmetric information)</b></p> <p><b><u>Further reading:</u></b>  Steven Davidoff Solomon, Why I.P.O.'s Get Underpriced  New York Times MAY 27, 2011 (<a href="https://nyti.ms/2jH9bXR">https://nyti.ms/2jH9bXR</a>)</p>
Week 6: January 18	<p><b>Guest Speaker Dr. Dor Lee-Lo</b>  Co-founder IBI.TECHFUND</p> <p><b>Entrepreneurial Finance – Empirical studies</b>  <b>Field study group presentations</b></p> <p><b><u>Assignment due:</u></b> Empirical study summary</p> <p><b><u>Reading:</u></b>  Empirical study (TBD together with groups)</p>
Week 7: January 25	<p><b>Wrapping up and Review for Exam</b></p> <p><b><u>Reading:</u></b>  Sample Final Exam</p> <p><b><u>Assignment due:</u></b> HW Adverse Selection practice questions.</p>

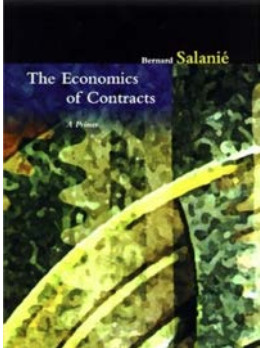
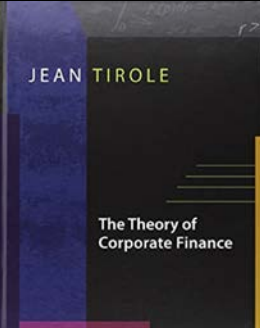
\* note the coverage of these topics may change slightly.

## Required Reading

- (1) Power-point presentations in PDF format that accompany the course will be available on Moodle. Please bring the notes to class. The class notes will include most of the material required for the class.
- (2) Empirical study – assigned by group

## Recommended Reading

**Textbooks:** while I cover the basic economic aspects of adverse selection and moral hazard issues as relevant for financial markets and financing ventures in particular, here are two excellent books that contain a more rigorous and general treatment of these issues that reaches outside of the scope of the class but can be of interest to those students with the desire to delve deeper into these important issues. The books are available in the library.

<p>“The Economics of Contracts, A Primer” By Bernard Salanie, MIT Press, 1997</p> <p>The class lecture notes apply the basic tools that appear in chapters 3 and 5 to specific venture funding issues (see schedule). Going over these chapters is a good supplement to the in-class discussions but is not required.</p>	
<p>The Theory of Corporate Finance” By Jean Tirole, Princeton University Press, 2006</p> <p>Here chapters 3 and 6 in the book are relevant to our class discussions (see schedule). Going over these chapters is a good supplement to the in-class discussions but is not required.</p>	

**Empirical papers to be discussed (TBD in class together with groups)**