COURSE DESCRIPTION

This is a course in financing new businesses from the perspective of an entrepreneur starting a new business or taking over an existing business. It teaches one how to undertake financial planning, value and then finance a new business. It is extremely useful for anyone planning to start their own business, buy a closely held firm or make major changes to an existing closely held firm. It is also useful for anyone who will be working directly with closely held firms in the future: attorneys, bankers, accountants, financial planners and insurance agents for example. The prerequisite is financial management or the instructor’s permission. While many of the topics are similar to other finance courses, this course is directed towards making decisions in a closely held firm instead of a large public corporation. There is more discussion on short term asset management and banking relationships with less discussion on capital structure and dividend policy.

COURSE MATERIALS


It is important to check Blackboard prior each class. It will provide information on the upcoming classes about that week’s objective and the approximate reading time of the assignment. It will also present an overview of the week’s assignment.

**Please read the assignments and work assigned problems prior to classes. Notes and related articles to read will be posted by period.** Assigned problems will be worked in class.

Course Requirements:
The course has 2 quizzes. Each counts 30% of your grade and a project for 40% of the final grade. You must have a passing grade average on the quizzes to pass the course.

**Students missing a quiz or turning in the project late without a prior excuse will be penalized 10% for each day late.**
## Syllabus – Fall, 2014

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<tr>
<th>Period</th>
<th>Topic</th>
<th>Assignment</th>
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<tr>
<td>1 Sept. 2/3</td>
<td>Introduction &amp; Business Plan</td>
<td>Read Chapters 1, 2, 3 &amp; 12, Review Notes</td>
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<td>2 Sept. 9/10</td>
<td>Organization Considerations</td>
<td>Review Tax Notes</td>
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<td></td>
<td>Tax Considerations</td>
<td>Read Chapters 10 &amp; 11</td>
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<td><strong>Project Idea – 1 page</strong></td>
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<td>3 Sept. 16/17</td>
<td>Cash Flow Analysis</td>
<td>Read Chapters 5, 6, Work Tax Problems</td>
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<td>4 Sept. 23/24</td>
<td>Valuation Concepts</td>
<td>Review Valuation Notes, Work Cash Flow Problems</td>
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<td>5 Sep/Oct. 30/1</td>
<td>Special Considerations</td>
<td>Read Chapter 2 from Bryant, For Closely Held Firms &amp; Long</td>
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<td>6 Oct. 7/8</td>
<td>Growth</td>
<td>Work First 4 Valuation Problems, Read Chapter 13</td>
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<td>7 Oct. 14/15</td>
<td>Capital Budgeting Review</td>
<td>Complete Valuation Problems</td>
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8 Oct. 21/22  **Quiz 1 Intermediate Financing**  Read Chapter 8 & Leasing Notes

9 Oct. 28/29  Short Term Financing  Read Notes, Work CB Problems

10 Nov. 4/5  Equity Financing  Read Chapters 7, 9 & Notes

11 Nov. 11/12  Short-term Asset Management  Review Notes

12 Nov. 18/19  Work on Project

Nov. 25/26  Thanksgiving

13 Dec. 2/3  **Projects Due**  Epilogue &  Read Notes, Chapter 14

14 Dec. 9/10  **Quiz 2 & Projects returned**
SBF Project Outline

The following covers the points to be included in your SBF project. The particular emphasis on any point depends upon your specific business idea and its resulting needs.

The project must be in 11 or 12 font, double spaced. Some financial tables can be presented in 10 font, but nothing smaller. Attach at end of project any supporting material on your proposal or varying estimates of future sales, costs, etc. Remember that this is a finance course so particular emphasis should be placed on pro forma statements and valuations estimates with particular emphasis on your opportunity cost(s).

Last year I made a slight change allowing two person projects instead of just solo projects as in previous years. In week 2 after I have reviewed initial ideas, students will meet at end of class in various idea groups to consider possible team effort. This year I am going to require each student to present a 5-10 minute discussion on his/her business idea, similar to one page requirement for week 2. We will have 2/3 students per period each week starting in week 3. For the first week, I will ask for volunteers and then assign students. This is 5 points of your 80 point project score.

I. Project direction

The first page is for instructor only in grading project. Who is the plan directed towards? These could be potential equity suppliers, potential debt suppliers or just yourself as owner/manager(s).

II. Formal introduction

This will start with a title page giving name of proposed business, your name, your email address and/or telephone number, and then brief description. For example, “This is a business plan to start a children’s book store for upper middle class children in Central NJ.”

III. Executive summary

The executive summary will be written covering at most a page. It is directed towards who the project is being written for. It should briefly cover what business the firm will enter, how it is unique, its basic marketing plan, and summary of financial needs to start it.

IV. What business is being entered into and the corresponding marketing plan?

The business being entered and its corresponding marketing plan are reviewed. This covers how the potential project is unique allowing it to earn excess returns. Then the “P’s” of marketing: product, pricing, position and promotion are discussed. One good idea is to identify the “ideal customer” and then direct that “P’s” of marketing accordingly. Your firm’s location for example would fall into this part of project. Finally the industry that you must compete in for sales should be discussed. Do not focus too narrowly as business could well change after it is initiated?
V. **Business organization**

The initial organization (C Corp., LLC, considering liability exposure, taxes and potential outside investors. This organization should be established prior your pursuit of financing.

I. **Financial projections and needs**

Sales projections and costs including initial capital costs should be given across time until a plateau is reached. Be sure to allow enough time to get business organized and started. From these estimates, pro forma financial statements including cash budgets, if necessary, until your firm reaches a plateau with its initial investments are presented. Be sure to give all sources of information for estimates used. Potential “real options” that result from the project being successful should be presented.

II. **Raising necessary capital to start business**

partnership, etc.) of your business should be covered next. The amount of capital necessary to get the project started should be determined from the sales projections and pro forma financial statements. Be sure to leave enough slack to cover initial startup problems. How should this capital be raised? Give particular emphasis on what types of financing your idea requires such as fixed assets, working capital and/or personal investments. Be realistic in sources needed. For example, do not assume that you can borrow huge amounts of money for intangible assets or your rich Grandmother will bankroll you. Try to be original in considering new potential sources.

III. **Valuation of idea**

Now value your business idea using the salary that you expect to pay yourself and other principals. Be sure to include the present value from the potential real options and also state how you estimated the discount rate used. Remember to either view your businesses as a perpetual on going firm, liquidated at some future data or sold in future. Exit strategy is very important if you plan on any outside equity.

IV. **Decision**

Data to this point after opening page would be used to raise funds, etc. in getting firm started. Now, this last section is for your own use. Make adjustments to salary taken for your opportunity cost of working as an MBA. What value does firm show now? Finally, your decision: drop idea, go with idea, actively study idea further or postpone until more information is available in real markets for your firm. Of course you must remember new competitors might eliminate your idea and business potential.