Entrepreneurship and new ventures finance

Overview and Introduction

Prof. Antonio Renzi

FACOLTÀ DI ECONOMIA

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First part: Foundations of entrepreneurship and new ventures finance (6 credits)
Antonio Renzi

Second part: Cases and applications (3 credits)
Luca Bertone

Class schedule:

Tuesday 11am Class 6b; Thursday 9pm (Class 6c); Friday 9am (Class 6c)

Information posted on the website:

Course Syllabus; Exam Dates; Slides; Other Materials

Exam:

Oral Test and one Applicative Work

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Office hours: Wednesday from 6pm (Antonio Renzi); Monday from 12pm (Beatrice Orlando)

General overview

1. Course goals
2. Course motivations
3. Course topics
4. Details about the exam

Overview – Title and goals

Entrepreneurship and new ventures finance

Issues of entrepreneurship

Issues of ventures finance

Goals:

1. **Acquisition of basic skills for becoming an entrepreneur**
2. **Acquisition of basic skills for working in the field of venture finance**

Overview - Entrepreneurship

The traditional issues of management regard big corporations

The entrepreneurship subject is focused on new small businesses that promise a potential growth

Overview - Entrepreneurship

Two general kinds of entrepreneurship:

1. External entrepreneurship – Focus: start ups

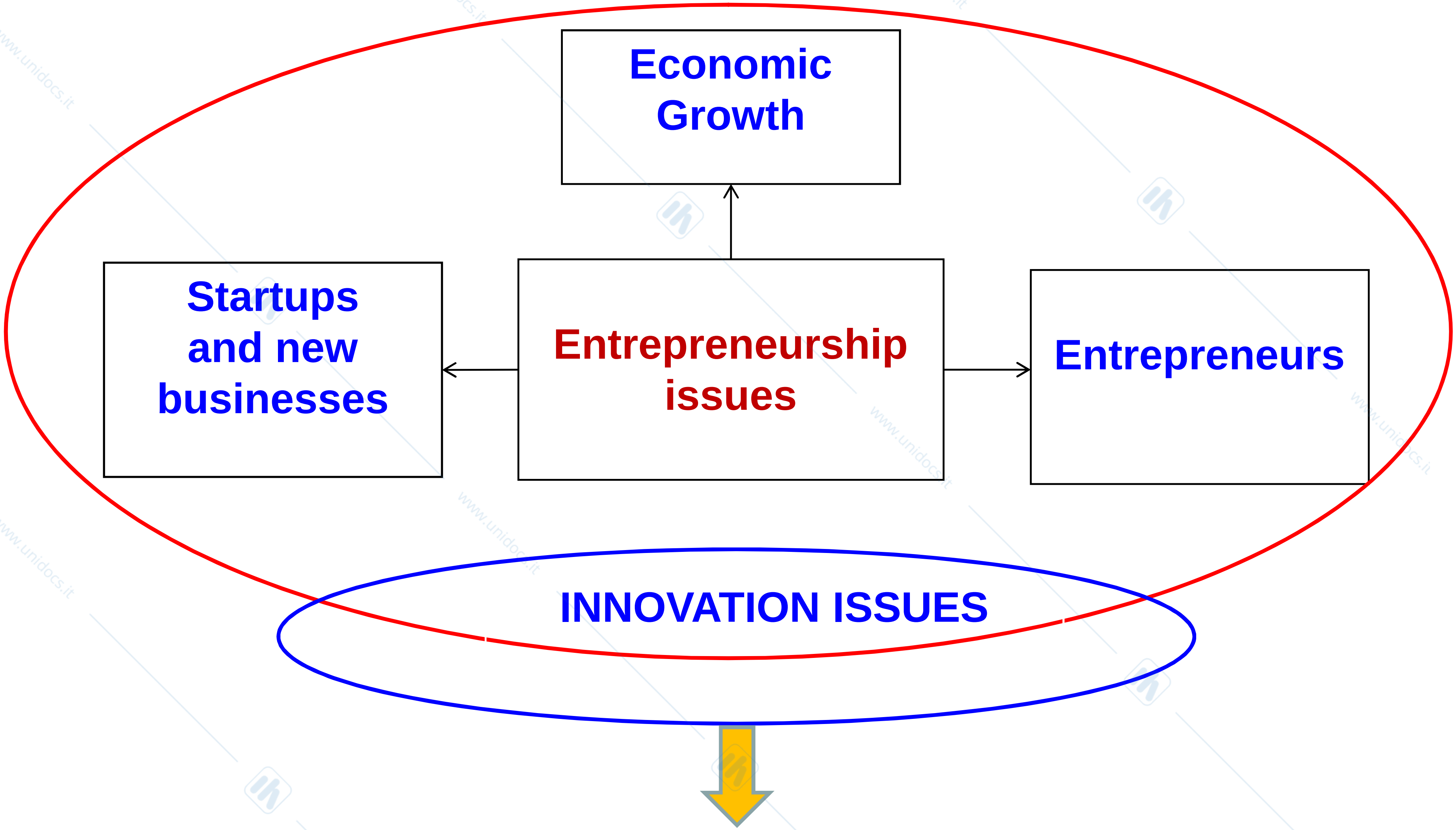
2. Internal entrepreneurship - Focus: new businesses promoted by existing firms

The external entrepreneurship affects the number of new firms

The internal entrepreneurship affects the size of existing firms.
It is a way for developing new projects

In some cases big corporations make investments in external entrepreneurship (corporate venture capital). This allows an externalization of the risk

Overview - Entrepreneurship and ventures



Entrepreneurial Risk ì Venture concept

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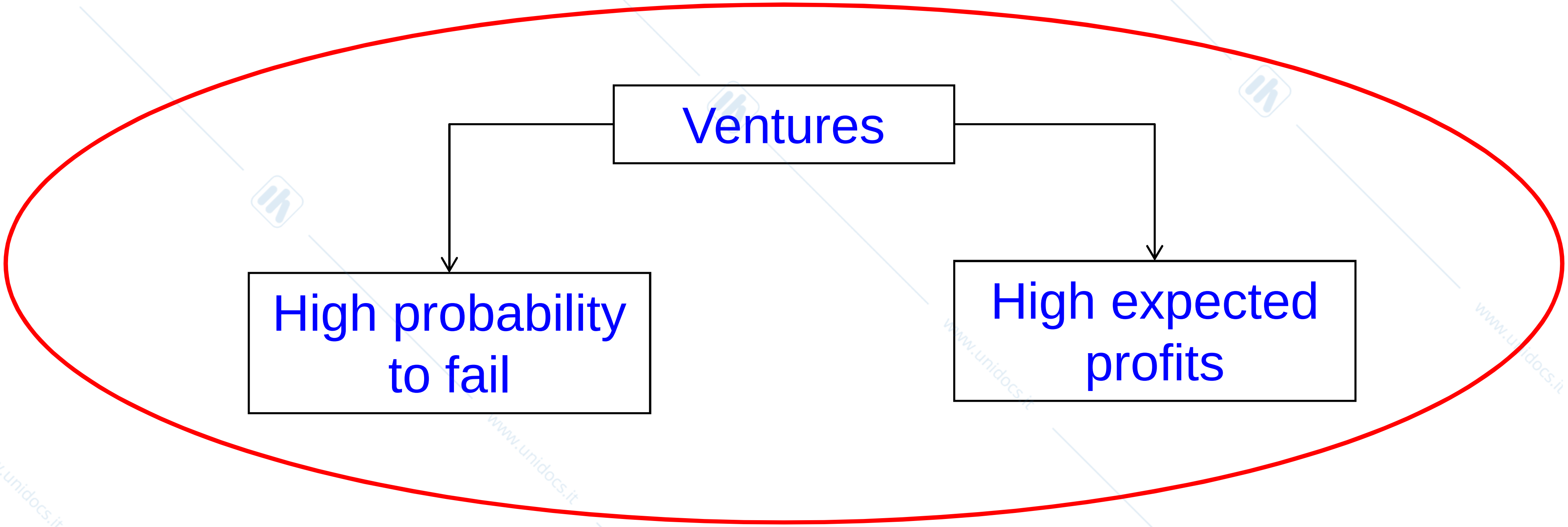
Overview - Entrepreneurship and ventures

An entrepreneurial activity is a venture when it is based on an innovative project that entails high expected profits and high risk.



Ventures imply an extreme risk-return relationship

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Overview –Failure rate of new ventures

Year	Percent Failed
Year 1	25 %
Year 2	36 %
Year 3	44 %
Year 4	50 %
Year 5	55 %
Year 6	60 %
Year 7	63 %
Year 8	66 %
Year 9	69 %
Year 10	71 %

Source: Statistic Brain Institute

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Overview - Entrepreneurship and ventures

Typically, an extreme risk-return relationship arises when a firm challenges a big corporation with an innovative product.

For example Google arose thanks to a new product better than that of Yahoo (large profits).

At the beginning of "Google Project" few investors believed in its success, because the possibility to compete with Yahoo seemed improbable.

New ventures need speculators. This explains why the venture finance exists.

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Overview - Ventures finance (financial side of entrepreneurship)

Entrepreneurial Risk ì Venture's concept

Venture finance

Financial need of new ventures

Risk of new ventures

Venture financing:
- **Venture financing tools;**
- **Venture capitalist and other investors.**

Venture valuation:
- **Traditional financial models;**
- **Innovative financial models.**

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Good side and bad side of venture finance

Good side:

-Venture finance affects positively the number of entrepreneurial opportunities;

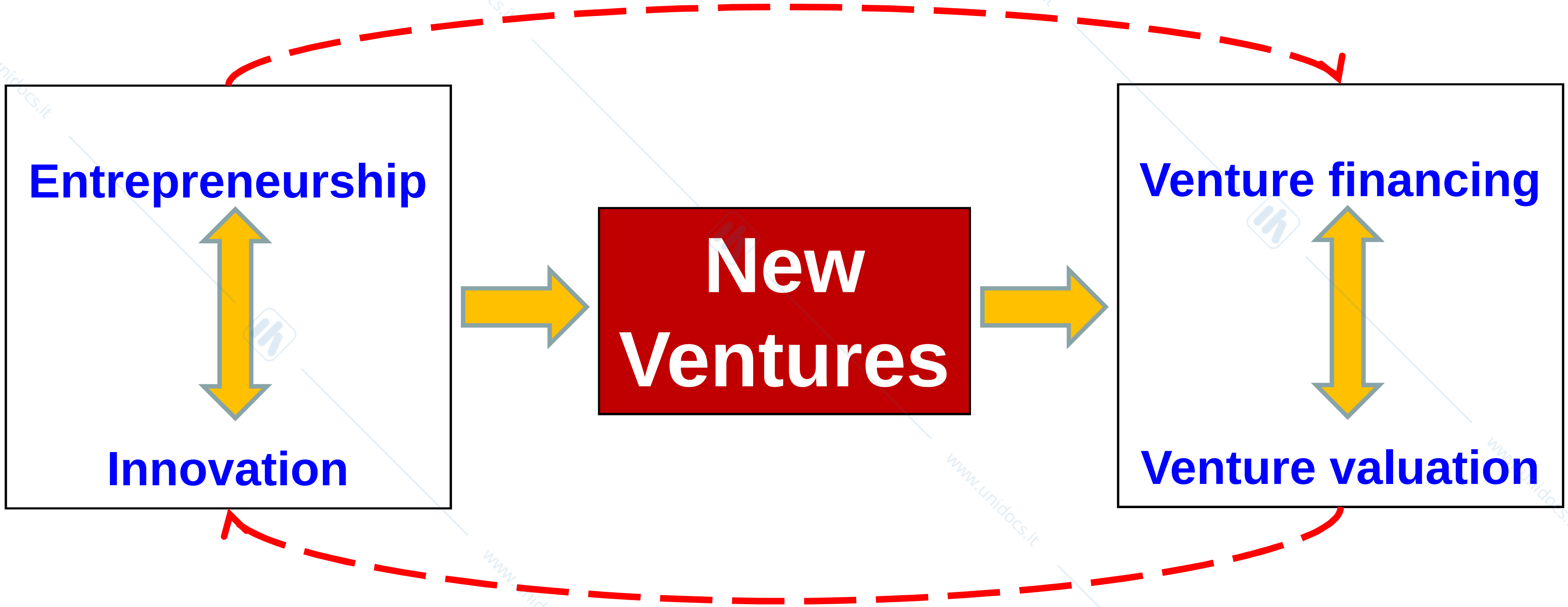
- Venture finance is based on "good speculation" (long period).

Bad side:

-Venture financing operations amplify the systemic risk of financial system.

- The "venture finance power" can decrease the creativity of entrepreneurs

Overview – General framework



Synthesis:

1. **Ventures as a consequence of the double combination between entrepreneurship and innovation phenomena.**
2. **The characteristics of new ventures explain the role of venture finance.**
3. **Venture finance means venture financing and venture evaluation**
4. **Ventures finance is a driver of both entrepreneurship and systemic risk**

Overview - Topics

1. Entrepreneurs, entrepreneurship and innovation (open innovation)
2. Entrepreneurial design: business model and business plan
3. Open innovation and business model. WC Cases (9 credits – Luca Bertone)
4. Venture financing
5. Venture evaluation

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Overview - Topics (1): Entrepreneurs, entrepreneurship and innovation

1.1.Theoretical qualification of the entrepreneur

1.2 Theoretical qualification of the entrepreneurship

1.3 Theories of entrepreneurial opportunities

1.4. Entrepreneurship, innovation, internal resources and external relationships (open innovation)

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Overview - Topics (2): Entrepreneurial design

2.1 Entrepreneurial design as internal tools to estimate the feasibility of entrepreneurial projects

2.1 Business model: Qualitative analysis of the project

2.3 Business plan : Economics

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Overview - Topics (2): Entrepreneurial design

Feasibility analysis

Business model

Business plan

Internal valuation

External communication

A design process plays a double role: first it provides an internal valuation as well as a planning of resources and activities; second it plays the role to communicate to external actors the project profile in terms of its strategic and operative characteristics, and in terms of its capacity to generate economic and financial performances.

Business plan as “calling card” of a new business

Overview - Topics (3): Venture financing

3.1 Life cycle of ventures , financial need and venture financing processes

3.2.Venture capital and business angel

3.3. IPO (Initial Public Offering)

3.4 Corporate venture capital

3.5. European financial programs for innovative start ups (Prof. Salvatore Esposito De Falco)

Overview - Topics (4): Venture evaluation

4.1 Venture evaluation: basic methods (DCF and APV)

4.2 The equity cost analysis: tradition approach (CAPM)

Traditional valuation models

4.3. The equity cost analysis: bottom up approach

4.4 Real option analysis: the value of strategic flexibility

Innovative valuation models

4.5. Shadow option analysis (Prof. Beatrice Orlando)

Second part: cases and applications (Luca Bertone, Beatrice Orlando)

In the following part, there's the list of cases topics and applications. They are based on the Open Innovation framework and they involve real startups.

1. Corporate venturing and open innovation
2. Corporate incubators and accelerator program
3. The social impact of Open Innovation
4. Corporate absorptive capacity and innovation adoption from a start up
5. Custom made technical solutions: the risk-return relationship
6. Process and organizational innovation
7. Canvass Business Model
8. Strategic planning and the business plan
9. The implementation of strategy
10. The advertising campaign
11. Investors pitch
12. Economic evaluation of a new venture

Exam

1. Applicative work: exam on practical issues (Venture evaluation)
2. Group work about business model (Second part)

2. Final exam: oral test: exam on theoretical frameworks

Exam

Applicative work

The applicative work will based on a simulation about a valuation process of a start-up

Group work

The group work will based on a simulation about a business model

Exam

Final valuation

The final grade will depend on the grade of the applicative work, group work and oral test.

If you’ll not get the minimum grate (18/30) in relation to the applicative work and group work you must do the oral test on the overall syllabus (4/5 questions).

We can choose to delete your grate in relation to applicative work and group work. In this case you’ll do the oral test on the overall syllabus (4/5 questions).

Exam

Oral test

1. Entrepreneurs, entrepreneurship and innovation
2. General frameworks about business model and business plan
3. Venture financing
4. Theoretical frameworks about DCF and APV.
5. Theoretical frameworks about risk-return trade-off
6. Real option analysis

Part 4 and 5 are compulsory for students who will not take a minimum grade (18/30) at the applicative work

Exam

Exam dates

January 25, 2017

February 15, 2017

June 22, 2017

July 18, 2017

September 12, 2017