BYU Hawaii Curriculum Proposal Number [13-08]
Section 1 - Approvals

Name of Proposal: Small Business Management & Entrepreneurship Minor (ENTR Minor)

Submitted by: Richard Tanner  Signature: [Signature]
Submitted by: Jason Scott Earl  Signature: [Signature]

Date: 10/4/2013

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Recommendation/Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faculty Vote: For [number], Against [number], Abstain [number], Absent [number]</td>
<td></td>
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</tr>
<tr>
<td>1. Approved by Department [separate block for each dept]</td>
<td>Signature: [Signature]</td>
<td>10/11/13</td>
</tr>
<tr>
<td></td>
<td>Chair: Richard S. Tanner</td>
<td></td>
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<tr>
<td></td>
<td>Jason Scott Earl</td>
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<tr>
<td>2. Approved by College [separate block for each college]</td>
<td>Signature: [Signature]</td>
<td>10-11-2013</td>
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<tr>
<td></td>
<td>Dean: Glade Tew</td>
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<tr>
<td>3. Approved by University Curriculum Committee</td>
<td>Signature: [Signature]</td>
<td>10/24/13</td>
</tr>
<tr>
<td></td>
<td>UCC: Jennifer Lane</td>
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<td></td>
<td>AVP: Max Checketts</td>
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<tr>
<td>5. Approved by the President's Council (for new programs)</td>
<td>Signature: [Signature]</td>
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<tr>
<td></td>
<td>Pres: Steven Wheelwright</td>
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</table>
Summary:

1. Propose Small Business Management & Entrepreneurship Minor
2. Introduce ENTR 180 and ENTR 499 as new courses to the proposed Minor
3. Change PreRequisite requirements for ENTR 283, 383, 385, 401 and 483
4. Revise the Certificate in Entrepreneurship

The Willes Center has restructured the entire list of its course offerings including the addition of four new courses to create a connected sequence of classes that will take the student from the introductory phase of entrepreneurship through a capstone experience. The intent behind the entire sequence is to teach the knowledge and skills of entrepreneurship and small business primarily to the non-business major. This is a proposal to offer a minor using existing classes plus the addition of ENTR 180, ENTR 283, ENTR 483 and ENTR 499. The curriculum committee recently approved ENTR 283 and ENTR 483, which are currently being taught this Fall semester. The syllabus for ENTR 180 (The Cycle of Cash) and ENTR 499 (Cash & Valuation) are attached and they are meant to be the introductory and capstone courses which raise the overall level of academic rigor for this proposed minor in Small Business Management & Entrepreneurship.

Our goal at the Willes Center is for the students of the university to be able to gain the business tools, skills and judgment which students need to understand what it takes to start, acquire or sell a small business. Having a minor in small business management and entrepreneurship gives them several advantages over just taking a few of the classes separately. We expect that this minor will help students to combine a technical skillset with something that they are passionate about in order to gain a larger view of the whole entrepreneurial picture (see Figure 1 above).
The small business and entrepreneurship minor will also help students to understand the phases of the entrepreneurial journey when it comes (1) recognizing opportunities, (2) marshalling resources to launch the small business, (3) managing risk while growing or scaling the business and (4) valuing the business so that they know when it is right to harvest the venture (see Figure 2 below). We believe that based on the design of these course and that the way in which they connect with each other that the minor will have a greater impact on employers than a certificate, and will also help students find better jobs.

![Figure 2. Example Illustration of the 4 Transitions of the Entrepreneurial Journey](image)

**Changes in Graduation Requirements:**
There are no changes in graduation requirements as these classes do not change any major requirements for graduation in any field of study.

**Changes in Expected Teaching Load:**
There will be no change in any teaching load with the exception of bringing on additional volunteers in the form of visiting faculty on sabbatical or volunteer missionaries. See attached teaching schedule.

**Minor vs. Certificate:**
The proposed minor is a total of 18 credits with 15 credits of required courses and 3 credits of Electives. The proposed certificate is a total of 13 credits which can be completed within two semesters by the student. The additional on-campus conferences which are required for this certificate make it an equivalent 15 credits to other certificates.

The proposed minor is more rigorous with the addition of ENTR 499 (Cash & Valuation). It is not intended that a student would get both the minor and the certificate. A copy of the syllabus for this course has also been attached for review. The minor in Small Business Management & Entrepreneurship will require at least 3 semesters in order to be completed by the student.
Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new program proposal.

**Effective Date:** Winter 2014

**College:** College of Business, Computing, and Government

**Minor:** Small Business & Entrepreneurship Minor

**Abbreviation:** ENTR Minor

-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
Small Business & Entrepreneurship Minor  
MIENTRE.2013  
18 credits  

Effective Date: 1/ 2014

The terms of this certificate will be honored by the Department and University within the next 8 years. If courses cease to be offered, options for substitution will be provided.

<table>
<thead>
<tr>
<th>Course #</th>
<th>Title</th>
<th>Hr.</th>
<th>Prerequisites</th>
<th>Offered</th>
<th>Sem.</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTR 180</td>
<td>The Cycle of Cash</td>
<td>2</td>
<td></td>
<td>F,W,S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 283</td>
<td>Small Business Creation</td>
<td>3</td>
<td>ENTR 180 (Co-req)</td>
<td>F,W,S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 383</td>
<td>Small Business Management</td>
<td>3</td>
<td>ENTR 180 (Co-req)</td>
<td>F,W,S</td>
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<td></td>
</tr>
<tr>
<td>ENTR 375R</td>
<td>Lecture Series</td>
<td>1</td>
<td></td>
<td>F,W,S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 483</td>
<td>Entrepreneurial Management</td>
<td>3</td>
<td>ENTR 283</td>
<td>F,W,S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 499</td>
<td>Cash and Valuation</td>
<td>3</td>
<td>ENTR 483</td>
<td>W,S</td>
<td></td>
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Elective Coursework  
3 Credits

<table>
<thead>
<tr>
<th>Course #</th>
<th>Title</th>
<th>Hr.</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTR 275</td>
<td>Leadership</td>
<td>1</td>
<td>Variable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 380</td>
<td>Social Entrepreneurship (in class)</td>
<td>3</td>
<td>Variable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 390R</td>
<td>Special Topics</td>
<td>1-3</td>
<td>Variable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENTR 401R</td>
<td>Leadership Practicum</td>
<td>1</td>
<td>Instructor Permission</td>
<td>Variable</td>
<td></td>
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</table>

Total Credits Mapped for Graduation: 18 Credits

ONE retake is allowed per class, for up to three classes. Additional retakes require special permission. All grade must be a C or higher.
Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new program proposal.

**Effective Date:** Winter 2014

**College:** College of Business, Computing, and Government

**Certificate:** Small Business & Entrepreneurship Certificate

**Abbreviation:** ENTR Certificate
Certificate in Entrepreneurship
CTENTRE.2013
13 credits
Effective Date: 1/ 2014

Core Requirements

<table>
<thead>
<tr>
<th>Course #</th>
<th>Title</th>
<th>Hr.</th>
<th>Prerequisites</th>
<th>Offered</th>
<th>Sem.</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTR 180</td>
<td>The Cycle of Cash</td>
<td>2</td>
<td>F,W,S</td>
<td>F,W,S</td>
<td></td>
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<tr>
<td>ENTR 283</td>
<td>Small Business Creation</td>
<td>3</td>
<td>Entr 180 (Co-req)</td>
<td>F,W,S</td>
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<td>ENTR 275</td>
<td>Leadership</td>
<td>1</td>
<td>Variable</td>
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<tr>
<td>ENTR 375R</td>
<td>Lecture Series</td>
<td>1</td>
<td>F,W,S</td>
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<tr>
<td>ENTR 483</td>
<td>Entrepreneurial Management</td>
<td>3</td>
<td>Entr 283</td>
<td>F,W,S</td>
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</tr>
</tbody>
</table>

Required Participation

- Great Ideas Entry
- Empower Your Dreams

Elective Coursework

<table>
<thead>
<tr>
<th>Course #</th>
<th>Title</th>
<th>Hr.</th>
<th>Prerequisites</th>
<th>Offered</th>
<th>Sem.</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTR 201R</td>
<td>Entrepreneurship Leadership Practicum</td>
<td>1</td>
<td>Variable</td>
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<tr>
<td>ENTR 380</td>
<td>Social Entrepreneurship</td>
<td>3</td>
<td>Variable</td>
<td></td>
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</tr>
<tr>
<td>ENTR 383</td>
<td>Small Business Management</td>
<td>3</td>
<td>Entr 180 (Co-req)</td>
<td>F,W,S</td>
<td></td>
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<tr>
<td>ENTR 390R</td>
<td>Special Topics</td>
<td>1-3</td>
<td>Variable</td>
<td></td>
<td></td>
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</tbody>
</table>

Total Credits Mapped for Graduation: 13 Credits

ONE retake is allowed per class, for up to three classes. Additional retakes require special permission. All grade must be a C or higher.

The terms of this certificate will be honored by the Department and University within the next 8 years. If courses cease to be offered, options for substitution will be provided.
The terms of this certificate will be honored by the Department and University within the next 8 years. If courses cease to be offered, options for substitution will be provided.

## Certificate in Entrepreneurship
**ENTRCERT.2011**
15 credits/points

Effective Date: 12/2011

| Name of Student: | | Graduation Date |
|------------------|------------------|
| Student ID #:    | | IWORK |
| Home Country:    | | Date |
| Advisor:         | | |

<table>
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<td>ENTR 275</td>
<td>Leadership (in class)</td>
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<tr>
<td>ENTR 375R</td>
<td>Lecture Series (in class)</td>
</tr>
<tr>
<td>ENTR 380</td>
<td>Social Entrepreneurship (in class)</td>
</tr>
<tr>
<td>ENTR 383</td>
<td>Entrepreneurship (in class)</td>
</tr>
<tr>
<td></td>
<td>Great Ideas Entry (November)</td>
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<tr>
<td></td>
<td>Empower Your Dreams (March)</td>
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</table>

<table>
<thead>
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<th>Choose 5 additional hours/points</th>
<th>5 Credits/Points</th>
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<tbody>
<tr>
<td>ENTR 375R</td>
<td>Lecture Series (online or in class) May be taken twice</td>
</tr>
<tr>
<td>ENTR 385</td>
<td>Applied Entrepreneurship (in class)</td>
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<td>BUSM 180</td>
<td>Introduction to Commerce and Enterprise</td>
</tr>
<tr>
<td></td>
<td>Great Ideas Entry (November)</td>
</tr>
<tr>
<td></td>
<td>Empower Your Dreams (March)</td>
</tr>
<tr>
<td>ENTR 399R</td>
<td>WCIE Internship</td>
</tr>
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<td>Internship</td>
<td>1</td>
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<td>Service Club/Organization:</td>
<td>(1)</td>
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<tr>
<td>SIFE, Sustainability Club, McKay Center for Intercultural Understanding, BYUHSA &amp; Service Council, Social Work Club, BYU Management Society, SCOPE, AMPS, Ho’okipa, Accounting Society, &amp; Law Society</td>
<td></td>
</tr>
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</table>

**Total Credits Mapped for Graduation:**
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

Effective Date: Winter 2014
College: Business, Computing and Government
Course Prefix: ENTR
Course Number: 180

NEW COURSE.

Full Title: The Cycle of Cash
Short Title (for Transcript, 30-char max): The Cycle of Cash
Catalog Entry (50-word recommended maximum): The Cycle of Cash course provides the financial tools, skills, and judgment students need to read financial statements and make correct financial decisions for a small business or new venture. This course will also review what it takes to start, acquire or sell a small business.
Prerequisites: None
Credit Hours: 2
Frequency: F,W,S
Grading Method: A,B,C...

Learning Objectives: Students will be able to:
1. Understand the accounting terms and the cash flow of a business.
2. Forecast how investments and operating decisions will affect the Free Cash Flows of the small business or new venture.
3. Use Financial Statement Analysis to compare your firm’s business model with other companies.
4. Choose the right amount of debt (if any) to minimize your cost of capital and maximize the future cash flow of the small business or new venture.
5. Compare the Intrinsic Equity Value to the Market Price that a motivated buyer might pay, so know when it is time to sell all or part of your equity.
6. Accurately report your small business financial results to third parties.

Immediately following this page, attach a sample syllabus if needed.
Syllabus

ENTR 180 The Cycle of Cash

DESCRIPTION
The Cycle of Cash course provides the financial tools, skills, and judgment students need to read financial statements and make correct financial decisions for a small business or new venture. This course will also review what it takes to start, acquire or sell a small business.

You should expect to do something each day for this course. There is a lot that you will learn, and waiting to do it all in one day will limit your ability to learn. This is a 2.0 credit course taught Tuesdays and Thursdays.

COURSE STRUCTURE

Textbook/Required Materials
- A total of 20 Harvard Business School cases
- What Every CEO Wants You to Know (Ram Charan)
- Access to QuickBooks™ Financials (~$20)

Objectives
Students will be able to:
1. Understand the accounting terms and the cash flow of a business.
2. Forecast how investments and operating decisions will affect the Free Cash Flows of the small business or new venture.
3. Use Financial Statement Analysis to compare your firm's business model with other companies.
4. Choose the right amount of debt (if any) to minimize your cost of capital and maximize the future cash flow of the small business or new venture.
5. Compare the Intrinsic Equity Value to the Market Price that a motivated buyer might pay, so you know when it is time to sell all or part of your equity.
6. Accurately report your small business financial results to third parties.

Schedule

Introduction Week — Course Introduction to Accounting and Cash Flow
Week 2 — Understanding of the Cash Flow Cycle
Week 3 — Unit Economics
Week 4 — Accounting for Long-Term Assets
Week 5 — Accounting for Liabilities
Week 6 — Types of Ownership
Week 7 — Financial Aid Statement Analysis
Week 8 — Buying a Company
Week 9 — Starting a Company
Week 10 — Selling a Company
Week 11 — Real Options Analysis
Week 12 — Minimizing your Cost of Capital
Week 13 — Accurately Reporting Financial Results
Final Week — Course Summary & Conclusion
COURSE REQUIREMENTS

Assignments

**Online Poll:** Students will indicate their preparation for the case discussions through a poll before class. Students will be expected to complete approximately 10 polls, one for every case. Students will be required to defend their position and the lowest poll score will be dropped.

**Great Ideas Conference:** Students will be encouraged to participate in the Great Ideas Conference which will be held November 20th and 21st. Students will be required to submit their idea as either an individual or part of a group for this conference with the expected deadline of November 9th.

**Case Discussion:** Discussions will be a critical setting for learning “where prepared students, exercising faith, step out beyond the light they already possess, to speak, to contribute, and to teach one another. It is precisely in that moment that the Spirit teaches” (President Kim B. Clark).

**Online Business Simulation:** Each student will work in groups to complete 4 practice rounds and 4 competition rounds of the simulation. The practice rounds will not be graded; however, the final balanced scorecard for the competition rounds is worth 100 points. The board presentation is also worth 100 points for each student. This board presentation provides students with the opportunity to reflect and apply what they are learning with their classmates.

**Chapter Quizzes:** Approximately one chapter is covered during each week of the course. A simple 5 question quiz will be held every Friday in class to cover the respective chapters from “What Every CEO Wants You to Know” by Ram Charan. There is NO MAKEUP for the weekly quiz.

**Midterm:** A midterm case analysis will be given half-way through the semester. The students will work on the case individually and then complete four questions. The midterm will be evaluated based on the Learning Outcomes for the course: (1) students who take this course should be able to effectively read the financial statements and (2) be able to make a decision that leads to effective action.

**Final:** The final exam will be due diligence on a company that is for sell by a small business owner. Students will be expected to be able to review the company information, read the financial statements and make a decision whether to “buy” or “pass” on the offer based on their individual analysis.

Time Commitment

The class policy is that for every credit hour, you should expect to spend 3 hours of work per week. For 2 credit class, **you should plan on spending about 6 hours per week.**

POLICIES

Grading

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Participation/ Quizzes</td>
<td>20%</td>
</tr>
<tr>
<td>Online Polls for Cases</td>
<td>10%</td>
</tr>
<tr>
<td>Great Ideas Conference</td>
<td>5%</td>
</tr>
<tr>
<td>Case Discussion</td>
<td>15%</td>
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<tr>
<td>Business Simulation (Innov8)</td>
<td>20%</td>
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<tr>
<td>Midterm Exam</td>
<td>10%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>20%</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
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</tbody>
</table>
Late Work

No late work will be accepted. You are expected to stay up-to-date on all of your assignments.

Grading Scale

<table>
<thead>
<tr>
<th>Grade</th>
<th>Score Range</th>
<th>Grade</th>
<th>Score Range</th>
<th>Grade</th>
<th>Score Range</th>
</tr>
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<tbody>
<tr>
<td>A</td>
<td>93–100</td>
<td>B+</td>
<td>87–89.9</td>
<td>C+</td>
<td>77–79.9</td>
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<tr>
<td>A-</td>
<td>90–92.9</td>
<td>B</td>
<td>80–82.9</td>
<td>C</td>
<td>70–72.9</td>
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<tr>
<td>B+</td>
<td>87–89.9</td>
<td>B-</td>
<td>77–79.9</td>
<td>C-</td>
<td>&lt;60.0</td>
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<tr>
<td>B</td>
<td>80–82.9</td>
<td>C+</td>
<td>73–76.9</td>
<td>D+</td>
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<tr>
<td>B-</td>
<td>77–79.9</td>
<td>C</td>
<td>70–72.9</td>
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<tr>
<td>C-</td>
<td>&lt;60.0</td>
<td>D</td>
<td>60–62.0</td>
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</table>

ADDITIONAL INFORMATION

Course Description:
See attached file for more details on the course.

Faculty Member: Jason Scott Earl, Ph.D.
Feel free to contact the faculty with any questions or concerns. Contact information is listed below:

Email: jasonscotearl@byuh.edu
Phone: (808) 675-3355

Brother Earl loves three things in this life: the gospel of Jesus Christ, his family and his students. If he can leave you with three things after this course, he hopes that it would be; (1) a stronger testimony of the gospel, (2) a stronger desire to serve others and (3) a better ability to support your family.

University Policies

Academic honesty is required and any violation will be dealt with according to the University Academic Honesty Policy of Brigham Young University Hawaii.

Policy on Sexual Discrimination/Harassment
Title IX of the Education Amendments of 1972 prohibits sex discrimination against any participant in an education program or activity that receives federal funds, including Federal loans and grants. Title IX also covers student-to-student sexual harassment. If you encounter unlawful sexual harassment or gender based discrimination, please contact the Personnel Office.

Reasonable Accommodation for Students with Disabilities:
Brigham Young University Hawaii is committed to providing a working and learning atmosphere which reasonably accommodates qualified persons with disabilities. If you have any disability which may impair your ability to complete this course successfully, please contact the Services for Students with Disabilities Office. Reasonable academic accommodations are reviewed for all students who have qualified documented disabilities. Services are coordinated with the student and instructor by this office. If you need assistance or if you feel you have been unlawfully discriminated against on the basis of disability, you may seek resolution through established grievance policy and procedures. You should contact the Personnel Office.

Personal Conduct
All of your correspondence with the teacher or other classmates must be respectful. Writing something disrespectful or "venting" is unprofessional and not becoming of a university student. In addition, it is not in accordance with the Honor Code and you will be subject to discipline accordingly.
Course Description

ENTR 180: The Cycle of Cash

Introduction

The Cycle of Cash course provides the financial tools, skills, and judgment students need to understand the accounting for a small business or new venture.

By the end of the course you should be able to:

- Understanding the accounting cycle and cash flow of a business.
- Forecast how investments and operating decisions will affect the *Free Cash Flows* of the small business or new venture.
- Use *Financial Statement Analysis* to compare your firm’s *business model* with other companies.
- Choose the right amount of debt (if any) to minimize your *cost of capital* and maximize the *future cash flow* of the small business or new venture.
- Compare the *Intrinsic Equity Value* to the *Market Price* that a motivated buyer might pay, so you know when it is time to sell all or part of your equity.
- Accurately report your small business financial results to third parties.

The Introduction to Cash Flow course mimics how entrepreneurs learn financial skills and judgment in the real world. In the earliest cases, we will focus on simple businesses, basic tools, and rules of thumb for *estimating the overall impact that traditional accounting decisions have upon the small business*. As the course progresses and the businesses become more complex, you will be introduced to different tools and skills.

Time after time, you will use the course framework to attack real-world dilemmas, learning to ask the right questions, in the right order, until untangling financial problems becomes second nature. Time after time, you will link financial results to the factory floor and sales showroom, until finance and accounting becomes not a vague set of concepts but a series of tools you use to organize activities and measure results.

Some accounting courses treat accounting as an arcane language to be memorized and regurgitated; finance courses deliver a mixture of financial theory, corporate finance lessons, and the latest Wall Street fads.

We believe that the main purpose of financial and accounting skills is to help you make better operational decisions. We see accounting as a discipline that collects data for
finance. As such, the main focus of the Introduction to Cash Flow course is how investments and operational and financial decisions affect the free cash flows to you, the owner of a business.

The value of your company will soar if you measure cash, invest it wisely, and continually increase free cash flows by serving customers well. Run out of cash and your business dies.

This course will not make you an expert in accounting. Accounting concepts are covered in the course only when necessary to help you measure, project, and value the cash produced by a business and report its results to investors and regulators.

_to do well in class, refer to this course introduction frequently_. Use the lessons and goals in both to help you identify the issues in a case and make decisions. Reflect on the course introduction and framework at the beginning and end of every section of the course. Use the questions and tools so often that they become ingrained, so that when you face the challenge of running a real company, the right questions have become second nature – just like a seasoned entrepreneur. The ENTR 499: Cash & Valuation course will serve as a book end to this introductory course.

**Schedule:**
Intro Lesson
Lesson 1 An Introduction to Cash Flow
Lesson 2 Understanding the Cash Flow Cycle
Lesson 3 Unit Economics
Lesson 4 Accounting for Long-Term Assets
Lesson 5 Accounting for Liabilities
Lesson 6 Types of Ownership
Lesson 7 Financial Aid Statement Analysis
Lesson 8 Buying a Company
Lesson 9 Starting a Company
Lesson 10 Selling a Company
Lesson 11 Real Options Analysis
Lesson 12 Minimizing Your Cost of Capital
Lesson 13 Accurately Reporting Financial Results
Course Conclusion

**Course Assignments:**
Examinations 50%
Quizzes 10%
Group Activities 20%
Homework 10%
Group Participation 10%

Total 100%
The overarching question of the Introduction to Cash Flow course is:

Are you making financial decisions that increase or decrease the overall value of your small business?

If you become lost during case preparation, in a study group session, or in class discussion, return to this overarching question for direction.

The course is divided into eight sections, building from simple tools and problems to more-complex challenges, in a way that tracks how entrepreneurs learn finance in the real world.

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**Introduction to Cash Flow**

**Course Flow**

- **Introduction**
  - (1 class)

- **Debt or Equity?**
  - (2 classes)

- **What is your business worth?**
  - (9 classes)

- **How do you grow and scale the business?**
  - (3 classes)

- **How do you convert cash flow into equity?**
  - (4 classes)

- **Is it time to sell?**
  - (3 classes)

- **How do you accurately report economic reality to third parties?**
  - (4 classes)

- **Summary and Celebration**
  - (1 class)
Section I: Introduction
Are you making investment, operational, and financial decisions that maximize the value of your small business?

The first case puts you in the shoes of two entrepreneurs facing a classic start-up decision: How do you make commitments of money, energy, and time in a way that maximizes the value of an opportunity?

Section II: Debt or Equity?
Which way is best to grow the business and how much equity should you give up, if any?

The second section explores the options and consequences of both long-term debt and giving up equity in the business. It also introduces the concept of value as a combination of cash, risk, and time.

Section III: What is your business worth?
Are you making investment and operating decisions that minimize the investment and maximize the Free Cash Flows and Intrinsic Value of a more complex firm?

In a step-by-step fashion, starting with simple Variable-Cost businesses and building to complex businesses with multiple revenue streams, Operating Leverage, Working Capital, and recurring capital expenditures; you will learn to create models of the firm’s unlevered free cash flows to predict how investment and operational decisions will affect the investment required in early years and the excess free cash flows generated in later years.

Section IV: How does your business model compare with others’?
Do the customers and processes you have selected lead to fewer risks and greater profits?

In this section you will learn how to use Financial Statement Analysis to compare revenue growth, margins, operating leverage, financial leverage, and competitive intensity between industries and companies within industries. With this you will gain the judgment you’ll need to make more-precise estimates of your own revenue growth rates, terminal values, and discount rates.

Section V: What is your equity worth?
Can you add debt to the firm to increase the value of your equity without risking bankruptcy?

The cases in this section show how adding debt affects the value of the firm and your equity. You will learn to convert the unlevered Free Cash Flows of a Firm into Equity Free Cash Flows, so that you’ll never add more debt than a firm can support. You will also learn to judge how adding debt will affect the intrinsic value of your equity.
Section VI: Is it time to sell?
Would someone else pay more for your firm (or its equity) than you think it’s worth?

In this section, you will explore how Intrinsic Value (the value you place on the free cash flows of your firm and your equity) can differ from Market Price (the highest price someone else is willing to pay for the firm and your equity).

You will investigate non-cash flow valuation methods that use proxies or shortcuts to compare one firm with another, or the value of the equity in one firm with the value of equity in another. You will see how monitoring the difference between Intrinsic Value and Market Price can signal when it might be time to sell part or all of the company.

Section VII: How do you accurately report economic reality to third parties?
Are you reporting results to third parties in a way that reflects the underlying economic realities of the business?

Keeping track of how operating decisions affect cash flow and valuing the impact of different operating decisions is critical for a business. You must also know how to report your financial progress to investors and regulators using Generally Accepted Accounting Principles (GAAP). In this section you will see some of the difficult decisions you may face when trying to report accurately to outside parties.

The emphasis in this section is not on memorizing accounting rules but rather on how to make difficult choices that best reflect economic reality when you know you may be second-guessed.

Section VIII: Summary and Celebration

The final case provides a comprehensive review of all you have learned during the semester and a chance to celebrate how far you have come.

Example Lesson I:

Balance Sheets

Outcomes: Understand a basic balance sheet and what it is used for. Understand assets, liabilities and owners’ equity

Preparation: read a fictitious case that describes and summaries what happened over the first year of operation of a small company. I would highlight what they own and what they owe and summarize income and expenses. Also, they should read a very brief note that tells what a balance sheet is (could be links to web) and briefly describes assets, liabilities and owners’ equity.
**Opener:** Ask students to be prepared to tell how much one of the owner’s ownership is worth after the first year.

**Anchor questions:**

1. How much was it worth the day it opened
2. How much did the value of the company increase (or decrease) over the first year?
3. Could the company buy a machine that costs $XX and if they did what would it do to the balance sheet? Would that be OK?
5. Show 4 or 5 simple balance sheets and have teams discuss what that company situation is. (Note: We might show balance sheets that have a lot of debt or receivables or too much short term liabilities to be able to pay things off.

**Example Lesson II:**

**Income Statements, and Statement of Cash Flows.**

**Outcomes:** Understand income statements, statement of cash flows and the difference between the two. Understand what these statements are used for. Understand revenues, expenses, cash receipts, and cash expenditures.

**Preparation:** read the continuation of the fictitious case that will go into more detail about revenue, expenses, cash purchases, sales on account, etc.

**Opener:** Ask students to be prepared to tell how much the net income is for the second year of operations and how much cash was generated or spent in the second year of operations.

**Example Lesson III:**

**How the Financial Statements Flow Together**

**Outcomes:** Understand how the financial statement affect each other.

**Preparation:** Analyze three financial statements from the fictitious company so students can try to determine what happened in year three. Read a note on the interdependence of the financial statements.

**Opener:** Ask students to be prepared to reconcile the “discrepancies” between the financial statements. Highlight the key numbers (net income vs increase in cash vs current cash, etc.)
Example Lesson IV:

Too rapid of growth

Outcomes: Learn that positive net income doesn’t always mean there will be plenty of cash (Hide this outcome from the students).

Preparation: I would like to have a case that has a story of strong, rapid growth, real financial statements for a few years, and not enough cash to make payroll in the last year. Read a note on how to analyze financial statements (I would have to find or write one).

Lesson Plan:
Opener: Ask students to explain why this profitable company doesn’t have enough cash to make payroll.

So on to the mid-term where students would have to analyze a case and tell what is not so healthy about a company. Then we would have a number of other cases until the final that would be similar but harder.

Ideas for cases and financials that highlight problems that small business managers would face:

- Debt load
- Valuing assets when making decisions
- Too rapid of growth
- Lack of cash cushion
- Paying too much for something
- Show they do a risky thing that cost money?
- ROI, ROE
- How much inventory should we carry?
- Allocated costs
- Sunk cost are irrelevant
- Incorporating risk into decision making.
- Discounted cash flow in decision making

Summary

Upon completion of The Cycle of Cash course, you should be confident in your ability to measure, forecast, and value the free cash flows of your business. You should understand the difference between business models and how they affect free cash flows and be able to read financial statements in order to check the overall health of your small business and value to a third party.
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

Effective Date: Winter 2014
College: Business, Computing and Government
Course Prefix: ENTR
Course Number: 499

NEW COURSE.

Full Title: Cash and Valuation
Short Title (for Transcript, 30-char max): Cash and Valuation
Catalog Entry (50-word recommended maximum): The Cash and Valuation course provides the financial tools, skills, and judgment students need to maximize the value of a firm and their equity in it. This course allows students to measure, forecast, and value the free cash flows of their business in order to make better management decisions.
Prerequisites: ENTR 483
Credit Hours: 3
Frequency: W,S
Grading Method: A,B,C...

Learning Objectives: Students will be able to:

1. Decide whether to risk making a sunk investment (like building a factory) or a fixed-period cost commitment (like hiring an employee) in order to be able to produce and sell more products and services.
2. Forecast how investments and operating decisions will affect the Free Cash Flows to your firm and the Intrinsic Firm Value (the value you place on its free cash flows).
3. Use Financial Statement Analysis to compare your firm’s business model with other companies.
4. Choose the right amount of debt (if any) to minimize your cost of capital and maximize the Intrinsic Equity Value of the cash flows to you as the owner, without risking bankruptcy if your revenue forecasts turn out to be optimistic.
5. Compare the Intrinsic Equity Value to the Market Price that a motivated buyer might pay, so you know when it is time to sell all or part of you equity.
6. Accurately report your rim’s financial results to third parties.

Immediately following this page, attach a sample syllabus if needed.
Syllabus

ENTR 499 Cash & Valuation

DESCRIPTION

The Cash & Valuation course provides the financial tools, skills, and judgment students need to maximize the value of a firm and their equity in it. This course allows students to measure, forecast, and value the free cash flows of their business in order to make better management decisions.

You should expect to do something each day for this course. There is a lot that you will learn, and waiting to do it all in one day will limit your ability to learn. This is a 3.0 credit course taught Monday, Wednesday and Friday.

COURSE STRUCTURE

Textbook/Required Materials

- A total of 20 Harvard Business School cases
- Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist (Brad Feld)
- Access to Innov8 Simulation ($40)

Objectives

Students will be able to:

1. Decide whether to risk making a sunk investment\(^1\) (like building a factory) or a fixed-period cost commitment (like hiring an employee) in order to be able to produce and sell more products and services.

2. Forecast how investments and operating decisions will affect the Free Cash Flows to your Firm and the Intrinsic Firm Value (the value you place on its free cash flows.)

3. Use Financial Statement Analysis to compare your firm’s business model with other companies.

4. Choose the right amount of debt (if any) to minimize your cost of capital and maximize the Intrinsic Equity Value of the cash flows to you as the owner, without risking bankruptcy if your revenue forecasts turn out to be optimistic.

5. Compare the Intrinsic Equity Value to the Market Price that a motivated buyer might pay, so you know when it is time to sell all or part of your equity.

6. Accurately report your firm’s financial results to third parties.

Schedule

**Introduction Week** — Course Introduction to Cash & Valuation

**Module 1** — Should You Invest? (3 classes)

**Module 2** — What is Your Business Worth? (9 classes)

**Module 3** — How Does Your Business Model Compare to Others? (3 classes)

**Module 4** — What is Your Equity Worth? (4 classes)

**Module 5** — Is it Time to Sell? (3 classes)

**Module 6** — How do You Accurately Report Economic Reality to 3\(^{rd}\) Parties? (4 classes)

**Module 7** — Summary and Celebration (1 class)

**Final Week** — Course Summary & Conclusion
COURSE REQUIREMENTS

Assignments

**Online Poll:** Students will indicate their preparation for the case discussions through a poll before class. Students will be expected to complete approximately 10 polls, one for every case. Students will be required to defend their position and the lowest poll score will be dropped.

**Great Ideas Conference:** Students will be encouraged to participate in the Great Ideas Conference which will be held November 20th and 21st. Students will be required to submit their idea as either an individual or part of a group for this conference with the expected deadline of November 9th.

**Case Discussion:** Discussions will be a critical setting for learning “where prepared students, exercising faith, step out beyond the light they already possess, to speak, to contribute, and to teach one another. It is precisely in that moment that the Spirit teaches” (President Kim B. Clark).

**Online Business Simulation:** Each student will work in groups to complete 7 practice rounds and 7 competition rounds of the simulation. The practice rounds will not be graded; however, the final balanced scorecard for the competition rounds is worth 100 points. The board presentation is also worth 100 points for each student. This board presentation provides students with the opportunity to reflect and apply what they are learning with their classmates.

**Chapter Quizzes:** Approximately one chapter is covered during each week of the course. A simple 5 question quiz will be held every Friday in class to cover the respective chapters from "Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist" by Brad Feld). There is NO MAKEUP for the weekly quiz.

**Midterm:** A midterm case analysis will be given half-way through the semester. The students will work on the case individually and then complete four questions. The midterm will be evaluated based on the Learning Outcomes for the course: (1) students who take this course should be able to effectively read the financial statements and (2) be able to make a decision that leads to effective action.

**Final:** The final exam will be due diligence on a company that is ready to be launched. Students will be expected to be able to review the company information, read the financial statements and make a decision whether to “launch” or “kill” the business based on their individual analysis.

**Time Commitment**

The class policy is that for every credit hour, you should expect to spend 3 hours of work per week. For a 3 credit class, **you should plan on spending about 9 hours per week.**

POLICIES

**Grading**

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Participation/ Quizzes</td>
<td>20%</td>
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<tr>
<td>Online Polls for Cases</td>
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<tr>
<td>Great Ideas Conference</td>
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<tr>
<td>Case Discussion</td>
<td>15%</td>
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<tr>
<td>Business Simulation (Innov8)</td>
<td>20%</td>
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<tr>
<td>Midterm Exam</td>
<td>10%</td>
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<td>Final Exam</td>
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<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
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**Late Work**

**No late work will be accepted.** You are expected to stay up-to-date on all of your assignments.

**Grading Scale**

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<tr>
<th>Score Range</th>
<th>Grade</th>
<th>Description</th>
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<tbody>
<tr>
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<td>A</td>
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<tr>
<td>90–92.9</td>
<td>A-</td>
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<tr>
<td>87–89.9</td>
<td>B+</td>
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<td>83–86.9</td>
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<tr>
<td>80–82.9</td>
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<td>73–76.9</td>
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<td>70–72.9</td>
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<td>67–69.9</td>
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<td>&lt;60.0</td>
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**ADDITIONAL INFORMATION**

**Course Description:**
See attached file for more details on the course.

**Faculty Member: Jason Scott Earl, Ph.D.**
Feel free to contact the faculty with any questions or concerns. Contact information is listed below:

Email: jasonscottearl@byuh.edu
Phone: (808) 675-3355

Brother Earl loves three things in this life: the gospel of Jesus Christ, his family and his students. If he can leave you with three things after this course, he hopes that it would be; (1) a stronger testimony of the gospel, (2) a stronger desire to serve others and (3) a better ability to support your family.

**University Policies**

Academic honesty is required and any violation will be dealt with according to the University Academic Honesty Policy of Brigham Young University Hawaii.

**Policy on Sexual Discrimination/Harassment**
Title IX of the Education Amendments of 1972 prohibits sex discrimination against any participant in an education program or activity that receives federal funds, including Federal loans and grants. Title IX also covers student-to-student sexual harassment. If you encounter unlawful sexual harassment or gender based discrimination, please contact the Personnel Office.

**Reasonable Accommodation for Students with Disabilities:**
Brigham Young University Hawaii is committed to providing a working and learning atmosphere which reasonably accommodates qualified persons with disabilities. If you have any disability which may impair your ability to complete this course successfully, please contact the Services for Students with Disabilities Office. Reasonable academic accommodations are reviewed for all students who have qualified documented disabilities. Services are coordinated with the student and instructor by this office. If you need assistance or if you feel you have been unlawfully discriminated against on the basis of disability, you may seek resolution through established grievance policy and procedures. You should contact the Personnel Office.

**Personal Conduct**
All of your correspondence with the teacher or other classmates must be respectful. Writing something disrespectful or "venting" is unprofessional and not becoming of a university student. In addition, it is not in accordance with the Honor Code and you will be subject to discipline accordingly.
Course Description

ENTR 499: Cash and Valuation Course

Introduction

The Cash and Valuation course delivers the financial tools, skills, and judgment you need to maximize the value of a firm and your equity in it.

By the end of the course you should be able to:

- Decide whether to risk making a sunk investment (like building a factory) or a fixed-period cost commitment (like hiring an employee) in order to be able to produce and sell more products and services.

- Forecast how investments and operating decisions will affect the Free Cash Flows to your Firm and the Intrinsic Firm Value (the value you place on its free cash flows.)

- Use Financial Statement Analysis to compare your firm’s business model with other companies.

- Choose the right amount of debt (if any) to minimize your cost of capital and maximize the Intrinsic Equity Value of the cash flows to you as the owner, without risking bankruptcy if your revenue forecasts turn out to be optimistic.

- Compare the Intrinsic Equity Value to the Market Price that a motivated buyer might pay, so you know when it is time to sell all or part of your equity.

- Accurately report your firm’s financial results to third parties.

The Cash and Valuation course mimics how entrepreneurs learn financial skills and judgment in the real world. In the earliest cases, we will focus on simple businesses, basic tools, and rules of thumb for estimating Discount Rates and Terminal Values to use in valuing your business. As the course progresses and the businesses become more complex, you will be introduced to different tools and skills.

Time after time, you will use the course framework to attack real-world dilemmas, learning to ask the right questions, in the right order, until untangling financial problems becomes second nature. Time after time, you will link financial results to the factory floor and sales showroom, until finance becomes not a vague set of concepts but a series of tools you use to organize activities and measure results.
Finally, by the end of the course, you will have wrestled with enough real-world problems to have developed the pattern recognition and judgment of a seasoned entrepreneur, without having risked real companies and real careers in the process.

At most traditional business schools, tenured professors focus on training consultants, investment bankers, and mid-level corporate managers. Some accounting courses treat accounting as an arcane language to be memorized and regurgitated; finance courses deliver a mixture of financial theory, corporate finance lessons, and the latest Wall Street fads.

We believe that the main purpose of financial skills is to help you make better operational decisions. We see accounting as a discipline that collects data for finance. As such, the main focus of the Cash and Valuation course is how investments and operational and financial decisions affect the free cash flows to you, the owner of a business.

The value of your company will soar if you measure cash, invest it wisely, and continually increase free cash flows by serving customers well. Run out of cash and your business dies.

This course will not make you an expert in accounting. Accounting concepts are covered in the course only when necessary to help you measure, project, and value the cash produced by a business and report its results to investors and regulators.

To do well in class, refer to this course introduction and the Cash and Valuation Framework frequently. Use the lessons and goals in both to help you identify the issues in a case and make decisions. Reflect on the course introduction and framework at the beginning and end of every section of the course. Use the questions and tools so often that they become ingrained, so that when you face the challenge of running a real company, the right questions have become second nature – just like a seasoned entrepreneur.

The Cash and Valuation Course: Step by Step

The overarching question of the Cash and Valuation course is:

Are you making investment, operational, and financial decisions that maximize the value of the firm and your equity?

If you become lost during case preparation, in a study group session, or in class discussion, return to this overarching question for direction.

The course is divided into eight sections, building from simple tools and problems to more-complex challenges, in a way that tracks how entrepreneurs learn finance in the real world.
Section I: Introduction

*Are you making investment, operational, and financial decisions that maximize the value of the firm and your equity?*

The first case puts you in the shoes of two entrepreneurs facing a classic start-up decision: How do you make commitments of money, energy, and time in a way that maximizes the value of an opportunity?

Section II: Should you invest?

*Are you making the right sunk investments and fixed-period commitments?*

The second section explores how commitments of sunk investments (like building a plant) or fixed-period costs (like signing a lease on office space or hiring employees)
either create or destroy value. It also introduces the concept of value as a combination of cash, risk, and time.

**Section III: What is your business worth?**  
*Are you making investment and operating decisions that minimize the investment and maximize the Free Cash Flows and Intrinsic Value of a more complex firm?*

This section introduces the major tool for the course: *unlevered Free Cash Flows to the Firm (uFCFF)*.

In a step-by-step fashion, starting with simple *Variable-Cost* businesses and building to complex businesses with multiple revenue streams, *Operating Leverage, Working Capital*, and recurring capital expenditures; you will learn to create models of the firm’s unlevered free cash flows to predict how investment and operational decisions will affect the investment required in early years and the excess free cash flows generated in later years.

You will learn the basics of how to estimate *Terminal Values*, which capture the value of cash flows that occur past the end of your financial projections, and estimate *Discount Rates* so you can discount future cash flows to the present to estimate the intrinsic value of the firm.

**Section IV: How does your business model compare with others’?**  
*Do the customers and processes you have selected lead to fewer risks and greater profits?*

In this section you will learn how to use Financial Statement Analysis to compare revenue growth, margins, operating leverage, financial leverage, and competitive intensity between industries and companies within industries. With this you will gain the judgment you’ll need to make more-precise estimates of your own revenue growth rates, terminal values, and discount rates.

**Section V: What is your equity worth?**  
*Can you add debt to the firm to increase the value of your equity without risking bankruptcy?*

The cases in this section show how adding debt affects the value of the firm and your equity. You will learn to convert the unlevered Free Cash Flows of a Firm into Equity Free Cash Flows, so that you’ll never add more debt than a firm can support. You will also learn to judge how adding debt will affect the intrinsic value of your equity.
Section VI: Is it time to sell?
Would someone else pay more for your firm (or its equity) than you think it’s worth?

In this section, you will explore how Intrinsic Value (the value you place on the free cash flows of your firm and your equity) can differ from Market Price (the highest price someone else is willing to pay for the firm and your equity).

You will investigate non–cash flow valuation methods that use proxies or shortcuts to compare one firm with another, or the value of the equity in one firm with the value of equity in another. You will see how monitoring the difference between Intrinsic Value and Market Price can signal when it might be time to sell part or all of the company.

Section VII: How do you accurately report economic reality to third parties?
Are you reporting results to third parties in a way that reflects the underlying economic realities of the business?

Keeping track of how operating decisions affect cash flow and valuing the impact of different operating decisions is critical for a business. You must also know how to report your financial progress to investors and regulators using Generally Accepted Accounting Principles (GAAP). In this section you will see some of the difficult decisions you may face when trying to report accurately to outside parties.

The emphasis in this section is not on memorizing accounting rules but rather on how to make difficult choices that best reflect economic reality when you know you may be second-guessed.

Section VIII: Summary and Celebration

The final case provides a comprehensive review of all you have learned during the semester and a chance to celebrate how far you have come.
The C&V Course Framework provides the questions you need to make investment, operational, and financial decisions to maximize the value of the firm and your equity.

The four main questions of the framework are:
- Are you making the right sunk investments and fixed-period cost commitments?
- Is the business model attractive?
- Will adding debt increase the intrinsic value of your equity?
- Can you sell the business for more than it is worth?
Framework Questions

The questions that follow may seem overwhelming at first, but as the course progresses revisit these questions from time to time, to see how practicing with real world problems can help you decide which questions need to be asked.

The first set of framework questions address basic operations – the simplest actions of making, selling and keeping score that are fundamental to any business, from a lemonade stand to a multinational conglomerate.

**Basic Operations**

1) Do you expect to add more value through basic operations, using assets more efficiently, lowering your cost of capital, or selling your business for more than it is worth?
2) Should you price high or low for your product or service?
3) Are contribution and net margins relatively low or high?
4) Is there a little or a lot of operating leverage at current production levels?
5) How long will Fixed-Period Costs stay fixed?
6) Is the business easy or hard to copy? How soon will competition affect margins?
7) What is the Primary Sunk Investment?
8) How much capacity is available past breakeven? How many un-served customers remain after breakeven?
9) Where is the risk in the business: revenues, expenses, asset intensities, terminal values, or competition?
10) Is more cash, cash sooner, less-risky cash, or staying in business more important?
11) How much revenue is required to Break Even? When does Payout occur? What are the cumulative profits?
12) What multiple of the current annual cash flows would a buyer pay for the business?

**Using Assets More Efficiently in a Complex Business**

Adding production processes and sales funnels introduces more complexity; making larger commitments requires projecting free cash flows farther into the future. The second section of the framework will help you ask the right questions to make the right decisions as your business grows in size and complexity.

1) If revenues grow quickly, how much operating leverage do you have and how soon will a lack of customers or capacity limit growth?
2) Are management’s projections of revenue growth, margins, and capital intensity more or less optimistic than what the company has accomplished in the past?
3) Do the Unit Economics support an optimistic or a pessimistic view of the future?
4) Will revenue grow quickly or slowly?
5) When do you expect revenue growth to slow to match the general economy?
6) Should we forecast out one, three, five, seven, or more years?
7) What is limiting revenue growth: high prices, a lack of customers, or a lack of capacity?
8) Are the Costs of Good Sold (COGS) and Sales, General, and Administrative costs (SG&A) mainly fixed or variable?
9) Is there a little or a lot of operating leverage at current production levels?
10) How will competition affect margins in the future?
11) Is Working Capital intensity low or high?
12) Is Capital Expenditure intensity low or high?
13) What is the company’s most valuable asset?
14) Should we drive Inventory projections by Accounts Payable, Revenues, COGS, or something else?
15) Are the impacts of Depreciation and Capital Expenditures accurately reflected in the free cash flows?
16) Are Working Capital needs high because of fast growth or deteriorating operational effectiveness?
17) Is the cash cycle long or short?
18) Are margins low or high? Is capital intensity low or high?
19) Should you add a 5%, 10%, 15% or higher risk premium to the risk-free rate to calculate an appropriate discount rate?
20) Is the Intrinsic Firm Value more sensitive to changes in revenue, margins, discount rate, or exit multiples?
21) Should you use an EBITDA\(^2\) multiple or the Perpetuity with Growth formula to calculate a Terminal Value?
22) How large a multiple would be appropriate if you use the EBITDA method?
23) Should the multiple you use for a terminal value in later years be lower, the same, or higher than the multiple you would use to value today’s free cash flows?

Adding Debt to Lower the Cost of Capital

Once you understand basic operations and how to use assets more efficiently in the long run, it’s time to decide whether adding debt would make your equity more valuable or conversely, add too much risk of bankruptcy.

1) Does your company generate high equity returns due to high margins, extremely efficient use of assets, or high financial leverage?
2) Is the value generated by the extra growth worth the cost of the money you are borrowing?
3) What is the Intrinsic Equity Value?
4) Do you have large enough Equity Free Cash Flows to make required debt payments?

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\(^2\) Earnings before interest, taxes, depreciation and amortization.
Selling the Firm for More than It Is Worth

Most of the time you want to focus on the Intrinsic Value of your business – making decisions that increase the value of the free cash flows to you. Eventually, however, the time will come to sell your business, and you’ll need to compare your Intrinsic Value to the Market Price that someone would pay if you auctioned off the business.

1) Have you calculated an Intrinsic Value before entertaining offers?
2) Do you believe that the firm would sell for more or less than its intrinsic value if it were sold at an auction?
3) Do you have a complete set of comparable companies? Which comparable company does your company most resemble? With regard to size? With regard to sales growth? With regard to margins? With regard to asset intensity? With regard to debt load?
4) Which economic yardstick should you use to compare companies?
5) Should you add (or subtract) anything to (or from) the Intrinsic Firm Value because of your (noncash) personal wants and needs?
6) Are you starting a firm when market multiples are low and selling it when market multiples are high?

Tools and Skills

At first these tools may seem to be little more than streams of jargon. But over time, as you master different tools by learning to apply them to real world problems, revisit this list to see how each new tool builds on the others and delivers you new skills to address increasingly more complex businesses.

Tools and skills are introduced in Cash and Valuation in the same sequence they are encountered by an entrepreneur in the real world, as a business grows in size and complexity.

1) Unit Economics helps you make profitable commitments in order to serve more customers.
2) Unlevered Free Cash Flow to the Firm models how investment and operational decisions will affect the amount of money the firm needs as well as the excess free cash flows it will generate.
3) Unlevered Intrinsic Firm Value uses the unlevered Free Cash Flow to the Firm, a Discount Rate, and a Terminal Value to calculate the value of the business to you.
4) Financial Statement Analysis allows you to compare your business model with others, to better judge the risks and potential of an opportunity, as well as how competitors might react.
5) Intrinsic Equity Value values the equity by subtracting the Market Value of debt from the Unlevered Intrinsic Firm value.
6) Running the Equity Free Cash Flows shows how far revenues can drop before your business runs out of cash, given the operational and financial leverage you have chosen.

7) Comparables Valuation helps estimate the Fair Market Value (Market Price) of your firm or equity by comparing the prices of similar companies in recent transactions or by comparing your firm with publicly traded companies.

8) GAAP financial statement preparation allows you to accurately report to third parties.

Themes, Lessons, and Philosophies

The themes, lessons, and philosophies below will be prudent and profitable in most cases, but there are exceptions to every rule. While disregarding the wisdom below is usually a bad idea, sometimes the most interesting opportunities are the extraordinary exceptions when these themes, lessons, and philosophies fail to apply.

Revisit this list from time to time, and see if you can link each lesson you have learned to a particular case discussion.

Overarching Themes, Lessons, and Philosophies

1) Sahlman’s four rules of cash:
   a. More cash is better than less cash.
   b. Cash sooner is better than cash later.
   c. Less-risky cash is better than more-risky cash.
   d. Above all else, never run out of cash!

2) Value is a combination of cash plus risk plus time, so no one financial yardstick can accurately measure value.

3) You cannot “hire someone” to run your numbers. If you don’t understand the Unit Economics and how to model the free cash flows of a firm, do not invest in it.

4) First concentrate on building and running a business that creates value; then determine intrinsic firm value; then, and only then, think about adding debt (but not so much that you run out of cash); and finally, only worry about Fair Market Value (the market price) if you are raising equity or ready to sell the business. In other words, Unit Economics comes before FCFF and FCFF comes before FCFE.

5) Be clear about your financial objective before you pick up a financial tool. Foolish MBAs learn one free cash flow template in Excel and rely on it to base projections on whether they are feeling optimistic or pessimistic.

6) Companies and individuals routinely misuse financial terms, so make sure to translate all jargon into concrete terms.

7) Experienced entrepreneurs use financial data and tools like a detective, looking for clues to current economic reality and hints of future opportunities.

8) Financial skills are a commodity; operational skills are precious.

9) The customers, processes, and competitors you choose will determine your business model.

10) Simple businesses can make a lot of money. Above all else, look for businesses with high margins, low capital intensities, and high barriers to competition.
11) Highly capital-intensive businesses with low margins are not attractive and can be difficult to finance. Businesses with long lead times and long cash cycles are more difficult to manage and have volatile free cash flows. Fast revenue growth in a complex business makes accurate reporting extraordinarily difficult.

12) Since many businesses are only marginally profitable, even minor changes in revenue growth, margins, and capital intensity can cause large changes in value. This means accurate valuation is next to impossible without deep industry knowledge.

13) A profitable business that runs out of money and collapses is worth nothing. It’s best to assume that all cash problems are serious until proven otherwise.

14) Unit Economics helps you decipher the “simplicity on the other side of complexity” of a business model. Use Unit Economics to raise questions as if you were a financial detective.

15) Valuation is more of an art than a science, but it is not arbitrary. Narrow the region of darkness. Choose the tool that fits your most accurate data and try to “narrow the region of darkness” in a valuation by getting “close enough” and then cross-checking with alternative valuation methods.

16) Intrinsic Value is the value you place on future cash flows; Market Price is the value the highest bidder would place on your business. Always calculate intrinsic value before checking comparables for market price so you will not be influenced by the “anchoring effect.”

17) Be careful with showing one set of projections to one group and a less or more optimistic set to another—this can get you into legal problems if your company fails.

18) GAAP was designed for manufacturing companies and doesn’t always reflect economic reality for companies with large investments in intangible assets or sales funnels.

19) Economic depreciation, GAAP depreciation, and tax depreciation are all different.

Lessons from Section II: Should you invest?

1) The market sets the price; only you can set the personal value of something to you.

2) Value is a personal, subjective judgment; price is what someone will pay to satisfy a need.

3) The maximum price per unit that you can charge is the lesser of the maximum value a customer places on satisfying a need or the price of the nearest substitute.

4) Simple measurements and simple economic yardsticks work best. Risk can be measured by the Break Even volume needed and expected time to Payout. Potential reward can be measured by the capacity and unreached market that remain beyond Break Even and the cumulative annual profits expected beyond payout.

5) Your business model will be defined by the “unit of desire” of the customers you choose, the processes you create to satisfy them, and the investments in working capital and fixed assets required.
6) Revenue prediction, Fixed-Period Cost commitments and Sunk Investments each represent a different type of risk.
7) The most difficult task is forecasting revenue. Forecasting revenues for a company with no history is extremely difficult.
8) Accurately forecasting revenue growth requires that you understand the ultimate size of the market and the speed of adoption.
9) High operating leverage means that near Break Even sales volumes, small changes in sales can cause large changes in profitability and cash flows.
10) The value of a fixed asset depends on its ability to generate cash flow or its liquidation value in an auction. A “Cadillac on the moon” isn’t worth anything.
11) Competition will eventually slow revenue growth and narrow margins. The key questions are When? and By how much?
12) Sometimes, accepting an incremental sale can seem like easy money, but it may be a trap if it adversely affects existing customers and processes.
13) High discount rates can distort value, particularly for opportunities with long-lived cash flow streams.

Lessons from Section III: What is your business worth?
1) You must understand customer selection, cost structure, and competitive forces to make an accurate forecast of the unlevered Free Cash Flow of your Firm.
2) Unit Economics is a snapshot; FCFF helps you project longer term. Nevertheless, often understanding the Unit Economics of each competitor and each player in the supply can help you predict your future margins, asset intensity, and thus FCFF.
3) Rather than adding more capacity, you can increase prices to regulate demand and keep your factory or service delivery business at full capacity.
4) Cost of Goods Sold and Sales and General and Administrative accounts track expenses by activity; Fixed-Period Costs, Variable Costs, and your Primary Sunk Investment show how cash flows, profitability, breakeven, and payout change with volume.
5) Businesses with high margins and low capital intensity give you many options. If you are forced to sell equity to fund growth, at least your remaining equity will be worth a great deal.
6) High capital intensity means that each dollar of increased sales requires a large investment in working capital or capital expenditures.
7) Long supply chains and cycle times mean small variations in sales can cause large “elephant in the python” slugs of sunk investments and working capital that make it difficult to run, finance, or accurately account for a company.
8) Rapidly growing firms with recurring capital expenditures often have fast top line (revenue) growth that can disguise fundamental economic problems.
9) Communicating about Accounts Receivable, Accounts Payable, and Inventory in terms of “days” can connect the finance department with the shop floor. Learn to visualize inventory as “piles on the floor” rather than numbers on a page if you want to learn how to really run a company.
10) Operational changes often are less expensive and less risky and add more value than new investments. But you cannot magically improve operations by simply
changing an assumption. There must be a concrete action plan to implement the changes.

11) Working capital risks sometimes can be offset by customer deposits.
12) Comparing today’s EBITDA multiple with the EBITDA multiple used for the terminal value can tell you whether you expect market conditions to worsen or improve.
13) The inability to make convincing long-term projections suggests higher uncertainties and thus a lower valuation multiple.
14) A venture is likely to be high-risk if most of its value is concentrated in the terminal value.
15) Discount rates will vary depending on the operating and financial risks in the company, the size of the company, whether the company is public or not, and the liquidity in the financial market.
16) It is difficult to calculate a terminal value until revenue growth declines to at or near the growth rate of the overall economy (gross domestic product growth). This means you need to be able to count the number of “your3” customers in the market and when you expect revenue growth to approach a point of diminishing returns.
17) Depreciation can be hidden on the income statement in many places.

Lessons from Section IV: How does your business model compare with others’?
1) Return on equity comes from a combination of operating margins, capital efficiency, and financial leverage.
2) Business models can differ greatly, even in the same industry.
3) Often your most valuable asset isn’t listed on the balance sheet.

Lessons from Section V: What is Your Equity Worth?
1) High levels of operational leverage and financial leverage mean you will look like a genius when things go well and a fool when they don’t.
2) When is it appropriate to use debt? When the value created by “renting” money is greater than its cost, debt is cheaper than equity, and fixed interest and principal payments aren’t likely to cause you to run out of cash.
3) The Free Cash Flow to the Firm plus the tax shield is the total amount you have to split between debtors and equity holders. Debt adds value mainly through the tax shield, which generally is a small percentage of the overall firm value.
4) The right amount of debt can lower your cost of capital and boost equity returns; too much debt can cause your company to run out of cash and die.
5) High debt levels can restrict growth for a capital-intensive business. Businesses that have volatile revenue streams or large amounts of operational leverage are not good candidates for large amounts of debt.
6) The higher the risk to the lender, the higher the interest rate.
7) A hidden cost of external financing is time taken away from customers.
8) A hidden cost of debt is the loss of operational flexibility.
9) Debt can be an offensive or a defensive weapon.

3 Customers who are likely to choose your company over a competitor or substitute.
10) Widespread seller financing is a clue that it’s a good time to buy, because it signals that there is little liquidity in the market and thus less competition.

11) Calculate Intrinsic Equity Value by subtracting the market value of your debt from the Intrinsic Firm Value. Use Free Cash Flows to Equity to test how low revenue can decline before you run out of cash.

**Lessons from Section VI: Is it Time to Sell?**

1) First concentrate on building and running a business that creates value; then determine intrinsic value; then and only then think about adding debt (but not so much that you run out of cash); and finally, only worry about fair market value if you are raising equity or ready to sell the business.

2) Don’t let investment bankers fool you with fancy acronyms. Always read the fine print.


4) Accurate financial projections are more art than science, but not arbitrary. Focus on “narrowing the region of darkness.” If your valuation is close enough, and you do a good job running the business, everything will work out.

5) Intrinsic Value is the value you place on future cash flows; Market Price is the value the highest bidder would place on your business (or equity).

6) Always calculate intrinsic value before checking comparables for market price so you will not be influenced by the “anchoring effect.” Use comparables to estimate the highest reasonable valuation the market will pay you.

7) Warren Buffett says: “In the short run, the market is a voting machine; in the long run, it is a weighing machine.” Look at the history of a business to see if value is truly being added over time.

8) Public companies generally sell for more than private companies because of increased liquidity. In other words, there are more potential buyers and lower transaction costs for a share of a public company, and this leads to higher prices.

9) Investment bankers focus on comparables to get the deal done and collect their fee. You must focus on FCFF to understand the value.

10) A CEO faces great conflicts of interest in a buyout. Should he or she be loyal to the current or future owners, particularly if doing so affects his compensation?

11) What is a brand worth? Answer: no more than the free cash flow it can generate.

**Lessons from Section VII: Accurately Reporting Economic Reality**

1) GAAP are designed to report to third parties in a consistent manner and do not necessarily reflect economic reality.

2) GAAP depreciation often doesn’t match economic reality.

3) GAAP statements are not designed to help make operational decisions.

4) If you discover a reporting problem, it’s often difficult to have the courage to report it. Most people dig themselves into a deeper hole.

5) CEOs get in trouble one small step at a time. If results are slightly below forecast, you may create much larger problems by trying to disguise the problem while you fix it.
6) Misleading regulators, debtors, or investors can cost you twenty to life.
7) Decisions that were perfectly innocent—or at least not malicious—will be seen (in hindsight) by disgruntled investors as purposely misleading if a business fails.
8) Reporting is expensive. Do as little as possible, but report enough information to convey the economic reality of the business. The only thing more expensive than reporting too much information is not reporting enough.

**Hard Questions**

Hard questions are the most difficult choices you will face in choosing a business model or valuing its free cash flows. Revisit this list from time to time to help you internalize the hard questions you will need to unravel and solve difficulty dilemmas as an entrepreneur.

*Overarching Hard Questions*

These are the hard questions that apply to any business, at any time. They represent the most fundamental and difficult choices you will face as an entrepreneur.

1) When it comes to value, do you care more about:
   a. Stopping the bleeding (breakeven)
   b. A return of your money (payout)
   c. A return on your money (Internal Rate of Return or “IRR”)
   d. Total profits
2) Should you use optimistic or pessimistic forecasts?
3) Are your cash-flow challenges short term in nature (Working Capital) or long term in nature?
4) How much leverage do you need?
   a. Do you want a little or a lot of operating leverage?
   b. Do you want a little or a lot of financial leverage?
   c. How far off can your revenue and expense projections be before you run out of cash?
5) Should you avoid more-complex businesses or do you have a competitive advantage in a complex business because of your personal skills and knowledge?

*Basic Operations*

These questions not only apply to simpler businesses, but are the most critical building blocks for building a larger business.

1) Should you price high to skim the customers with the most-intense need or price low to penetrate the market as quickly as possible?
2) Should you invest a little or a lot?
3) Is more cash, cash sooner, less-risky cash, or staying in business more important?
4) Are you a risk taker or a risk seeker?
5) Should you have a little or a lot of operational leverage?
6) How long will your fixed-period costs stay fixed?
More-Complex Businesses
More complex businesses require making projections farther into the future. These hard questions help you construct more thoughtful free cash flow projections.

1) Which business model is best for your venture?
2) Should you extrapolate the past (historical financial statements) or use fundamentals (Unit Economics) to forecast the future?
3) Is this a low- or high-risk venture? Is risk coming from revenue instability, operating leverage, competitive pressure on margins, cost creep, sunk investments, or something else?
4) Will revenue grow quickly or slowly?
5) How far out into the future should you forecast free cash flows? When do you expect revenue growth to decline to GDP growth?
6) Should you forecast out one, three, five, seven, or more years?
7) Should you base your Discount Rates and Terminal Values on comparables, historical norms, or your own guesses?
8) Should you use a 5%, 10%, or 15% risk premium over the risk-free rate for your discount rate?
9) Should you use the Perpetuity with Growth Method or an EBITDA multiple for your terminal value?
10) Should a cash outlay be treated as an investment, inventory, or an expense?

Adding Debt
Debt can be a blessing or a curse. These hard questions help you balance the allure of lower cost capital and higher equity returns against the risk of going bankrupt.

1) How much debt can your company safely support?
2) What is the optimum debt level?
3) Do you have enough liquidity to keep from running out of cash?
4) Would you rather do a leveraged buyout (LBO) of a stable firm or a turnaround?

Comparing Market Values
Is it time to sell? These hard questions will help you determine a Market Price to compare to your Intrinsic Value of the free cash flows.

1) Are markets perfect or not?
2) How comparable does a comparable have to be to be valid?
3) Is finding the right comparable or the right yardstick harder?

Reporting Accurately
Reporting accurately to third parties always is a challenge. Do you disclose everything or as little as possible? These hard questions will help you keep investors and regulators informed, without giving too many secrets away to competitors.

1) Is it your responsibility to make things crystal clear to even the least educated investor or simply to meet the requirements of GAAP?
2) Should you avoid public companies because investors are so poorly educated and the criminal penalties for misstatements are so severe?
3) How do you change the financial reporting if your business model changes?
4) Is your goal in financial reporting to be conservative or to account accurately?
5) Are intangible assets easier or harder to account for?
6) If you realize that there’s a problem with the financials, should you disclose the problem, restate the financials, and risk a drop in your stock price or continue the charade, hoping you can gradually adjust the financials to reflect reality?
7) Do you fully disclose everything or hold some information back for competitive reasons?
8) Do you side with the accountants or the lawyers? Do you report too much or too little detail?
9) Should you record and report events as they happen or forecast what you believe will happen based on past experiences?
10) Is there a difference in reporting standards for public and private companies?
11) Is your goal for financial reporting reliable accounting for costs, comparability to similar firms, showing intrinsic value or market value, or fooling stockholders?

Summary

Upon completion of the Cash and Valuation course, you should be confident in your ability to measure, forecast, and value the free cash flows of your business. You should understand the difference between business models and how they affect free cash flows and be able to use alternative valuation methods to check your firm and equity valuations.

You should also be able to structure a highly leveraged transaction and value the share of cash flows owned by each debtor and equity owner.

Understanding how to model, predict, measure, and value cash flows is not the same as creating value. Sales and operational skills are generally much more important than financial skills, because you must create value before you can measure or divide it. But the skills in Cash and Valuation will help you stand between the Sales and Operations departments and “count” so you can make better decisions about which customers you will serve and how you will price, make, and deliver a product or service.
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

Effective Date: Winter 2014
College: Business, Computing and Government
Course Prefix: ENTR
Course Number: 283

Prerequisites: Old: None New: ENTR 180 OR concurrent enrollment
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

Effective Date: Winter 2014
College: Business, Computing and Government
Course Prefix: ENTR
Course Number: 383

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Prerequisites: Old: None New: ENTR 180 OR concurrent enrollment
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

**Effective Date:** Winter 2014

**College:** Business, Computing and Government

**Course Prefix:** ENTR

**Course Number:** 401

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**Prerequisites:**

**Old:** None

**New:** Instructor Permission
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

Effective Date: Winter 2014
College: Business, Computing and Government
Course Prefix: ENTR
Course Number: 483

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Prerequisites: Old: Juniors and Seniors only   New: ENTR 283
Section 4 - Course Proposal (core)

Upon approval, the information presented on this course proposal sheet will become binding on the department and the university. Any material changes require a new course proposal.

Effective Date: Winter 2014
College: Business, Computing and Government
Course Prefix: ENTR
Course Number: 385

Prerequisites: Old: None  New: Instructor Permission
Willes Center (ENTR) Courses
New Current Catalog page as of 10/21/2013

180. The Cycle of Cash (2) (F, W, S) The Cycle of Cash course provides the financial tools, skills, and judgment students need to read financial statements and make correct financial decisions for a small business or new venture. This course will also review what it takes to start, acquire or sell a small business.

201R. Entrepreneurship Leadership Practicum (1-2) (Variable) Learn and apply leadership principles, guided by a faculty member, and evaluate leadership experience.

275. Entrepreneurship Leadership Training (1) (Variable) Students learn practical steps to leadership in life and business. Achieving a successful life both temporally and spiritually.

283. Small Business Creation (3) (F, W, S) (Prerequisite: ENTR 180 or concurrent enrollment) Introduction to small business creation, including: fundamentals of sales and capital. Uses mentors and case studies. Learn traits and practices of entrepreneurs and small business owners, managerial processes used to identify, establish, and operate a new business, and/or purchase an existing business, including elements of business plan modeling.

375R. Entrepreneurship Lecture Series (1) (F, W, S) Willes Center sponsors successful entrepreneurs and leaders to BYU-Hawaii Campus to share their experiences and allow students to engage and question these guests.

380. Social Entrepreneurship (3) (Variable) An introduction to solutions of some of the world's problems through entrepreneurship, focusing on leadership skills, NGO's innovation, and business management.

383. Entrepreneurship and Small Business Management (3) (Variable) (Prerequisite: ENTR 180 or concurrent enrollment) This course is for any student to develop their entrepreneurial skills to start a small business. Students will learn the range of activities from identifying opportunities to operating the business. (Prerequisite DL English level 50+) – We don’t want this taught to DL students.

385. Applied Entrepreneurship Skills (3) (Variable) (Prerequisite: Instructor’s Permission) This entrepreneurship practicum exposes students from any major to the basic requirements for success as business owners and entrepreneurs by helping them start, run, and shut down a small enterprise.

390R. Special Topics in Entrepreneurship (1-3) (Variable) Special topics in entrepreneurship.

399R. Internship in Entrepreneurship (1-12) (F, W, S) Credit for applied experience in entrepreneurship management. Prior approval must be obtained and coordinated by a faculty member and on-site supervisor.

401R. Leadership Practicum (1) (Variable) (Prerequisite: Instructor’s Permission) Learn and apply leadership principles, guided by a faculty member, and evaluate leadership experience.
483. Entrepreneurial Management (3) (F, W, S) (Prerequisite: ENTR 283) An intense, fast-paced course designed to help students learn how to make decisions. Students participate in two HBS case studies each week. Develop analytical skills to know if a venture has reasonable prospects, evaluating costs and benefits, and identifying risk, scalability, and when to exit. (Juniors and Seniors only).

495R. Independent Study (1-4) (Variable) An opportunity to pursue subjects otherwise not offered by the department. Instructor's permission required.

499. Cash & Valuation (3) (W, S) (Prerequisite: ENTR 483) The Cash & Valuation course provides the financial tools, skills, and judgment students need to maximize the value of a firm and their equity in it. This course allows students to measure, forecast, and value the free cash flows of their business in order to make better management decisions.