

New Venture Finance
EW MBA 295T-1 - Spring 2010
Room C210 – Cheit Building, Haas School
Thursday 6:00 – 9:30 pm

Instructor: Prof “R” (aka Randy Haykin) – haykin@haas.berkeley.edu, 925-461-9600

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Office hours: 4:30-5:30 pm, every Thursday, by appointment. Room F496

Overview of the Course

New Venture Finance prepares students for a better understanding how to finance and fund a start-up or high-growth business. The course is focused on students who expect to be a manager or CEO of a start-up in the not-too-distant future, and want to fully understand the issues, challenges and tools for managing a company through strategic planning, financial analysis, business model creation, funding alternatives, raising money and alternative financing, and exit strategies in such a start-up. While the course will be valuable for the student who wants to pursue a career in private equity or venture capital, the course is principally be aimed at the entrepreneurially-minded.

The focus of the class is primarily strategic. This is not a numbers intensive course, but rather a course that will teach a future entrepreneurial leader how to think through the issues and act accordingly. The class is more about decision making process than numerical analysis.

In New Venture Finance we will examine the various options that a company has for financing at all stages of its life-cycle – from seed-stage to later-stage and will explore the options that companies have for exit (both M&A and IPO). The course will address the full range of financing options including angel, venture capital, debt financing, corporate/strategic investment and public markets. The course will arm students with a process for evaluating future company situations and a set of tools for evaluating and setting a plan of action to fund a company.

Modes of Learning

The class will blend a mixture of cases, readings and a combination of guest speakers will include Venture Capitalists, CEO/Founders, industry experts and service providers (lawyers, investment bankers, etc). A unique feature of this class is our real-time “learning lab” – we will feature a company throughout the course that is grappling with the new venture finance process today – in real-time -- and in real markets, with real people. Members of the class will have the opportunity to meet and get to know the team of this real company over the course of the semester. In fact, we’ll break the class into teams that will each get to analyze and work with the company on some aspect of

new venture finance. As a result, the collective students in our class will actually assist the company in setting its financial plan and funding process in place. This is real-time, hands-on learning, which students in this class in the past have found rewarding, intellectually stimulating and fun.

Requirements

This course builds as it proceeds through the semester. Keeping up with the readings, attending class and completing the assignments in a timely fashion will be key for maximizing the learnings. The goal is for you to utilize what you learn in this class in a real-world situation in your career over the next 5 years. We want to make your start-up successful. So, as John Lennon said: “In the end the love you make is equal to the love you take”. Hard work in this course will prepare you for the real thing when it occurs one day.

Many classes will start with a discussion of ***New Venture Finance in the News***. Students will be responsible for paying attention to entrepreneur financing being covered in the news and forward to the instructor or bring examples to class. We will examine trends of who is funding new ventures, what type of companies are being funded, what are the valuations, how is it being structured, and what characterizes the current exit market for new ventures. Some good sources for this are Wall Street Journal, Fortune magazine, the New York Times “Dealbook,” Venturewire, TechCrunch and www.bayareatechwire.com. The Lester Center may also have access to VentureWire or VentureOne, which are fee-based, but distributed fairly widely among the Silicon Valley firms.

Students will be graded on attendance and participation (including submissions of “new venture finance in the news”; three team assignments, and a take-home final (or final team project). Students will form teams of three by the second class. For those students who are not in a team by then the instructor will assign them to a team.

Required Textbook:

We will be using Strategic Entrepreneurism by Jon Fisher throughout the semester. This is the only required textbook that you are asked to purchase for the course.

Attendance & Class Participation:

I realize that many of you are working and commuting to class during traffic times and sometimes tardiness cannot be avoided. If you are going to miss a class or be absent for part of it please email the TA or instructor ahead of time if possible. You are allowed up to 2 excused/missed classes during the semester, after that your Participating grade will be reduced.

Overall, I expect you to be well-prepared, intellectually aggressive and curious, and to help contribute to making the classroom experience more enjoyable and more valuable for all. I will basically treat class like a business meeting –you are rewarded for contributing to the whole with questions, suggestions, observations.

Your grade for class participation will depend upon your ability to think on your feet. I will be **cold-calling someone in the class to open each case for us, and may cold-call during class discussion** -- particularly during case discussions, to generate broader discussion. If you were asked to open a case earlier in the semester, you will not be asked a 2nd time (if you are, then simply remind me you've already had your "fun"). If you are called on to open a case, and you are not prepared to do so in a clear, logical way, then you have one optional "Pass". Your Participating Grade will not suffer, but you should expect you'll be asked to open another case later in the semester. If you fail to be prepared the second time I call upon you, your Participation grade will be penalized.

We will be creating an ongoing Discussion on bSpace (under "Forum" tab) for each topic discussed in class. Each week, after class, I will post a few questions in the forum for you to consider. Those that participate in the forum discussions on a regular basis will receive extra credit for this in your Participation grade.

Preparation

Since you will be graded on your class attendance and participation, my suggestion (not required, just recommended) for preparing for each class is:

- 1) Read through each given case and prep in case you are asked to "open"
- 2) Write down notes on key issues from the case in advance of class,
- 3) Read through the hand-outs/HBR readings and take short notes that you can refer back to in class
- 4) Email "In the News" items to me or your TA – and come prepared to get the class discussion on these items going.

Computers and Cell Phones in the Classroom

My policy is no cell phones on or open/connected computers in the classroom, except when we need someone to locate a fact on the Internet for class purposes. I find it is too "alluring" for many students to check email, blogs and the like. Thank you for adhering to this policy.

Assignments

There will be three assignments during the course of the semester. Groups will be created for real-time company analysis around the 3rd week of class.

- *Real-time Company Analysis (team exercise)*
 - Deliverable: Each team will analyze a component of the "real-time" company's business proposition and make recommendations for future action. Deliverable is a 15 minute Powerpoint presentation given at the start of class.
- *How Much \$\$ Does Honest Tea Need and When? (team exercise)*
 - Deliverable: Written analysis (approx. 2 to 3 pages).
 - **DUE: Start of class on March 4**

- *VC Method - Valuation Problem Set - HBS note 9-396-090 (individual exercise)*
 - Deliverable: Excel spreadsheet with calculations. Note: this one is challenging!
 - **DUE: Start of class on April 1**

Final Exam or Alternative Project – Your Choice

An exam will be distributed on Thursday, May 13th at 4 p.m. It will be a case with a series of questions to answer. You will be allowed to use any notes you took during the semester, any books/articles/cases. We will trust you individually to refrain from the use of the Internet during your exam, and refrain from any collaboration with others (you will be on honor system).

Several of you taking this class will be in the process of forming or working on a new venture. If you are one of them you may do an Alternative Team Project instead of the Final Exam – which will essentially be applying what we've learned in class to your particular venture. You may work on this in teams of four (4) or more. Review the **Alternative Team Project handout** that we will post for more specifics on this option. In prior years, we have had more than 75% of the class participate in this option. Final presentations will be made by all groups and will be scheduled during the weeks of May 3 and May 10.

Grading

The course grade is based on the following scheme:

Class participation, includes instructor's evaluation of preparedness/quality	40%
Assignments (3)	30%
Final Exam or Alternative Team Project	30%

Class 1 Introduction to the Course: Strategy & New Venture Finance
 Jan 21 Overview of the challenges facing entrepreneurs in raising money and the role of Entrepreneurial Finance in the overall strategy of a start-up company. Introduction (Part I) to the complete cycle of activities in new venture finance.

Readings and Materials:

“New Venture Financing” (HBS 9-802-131)

<http://www.ansanelli.com/blog/> - Read entries #101, 103, 124, 128

Strategic Entrepreneurism book: (Intro & ch.1), “Intro & the Basics”

Guest Speaker: Joseph Ansanelli, Founder Vontu and Connectify

(Bio at: http://www.ansanelli.com/blog/?page_id=2)

Preparation Questions:

1) What are the overall chunks/categories of issues that face a start-up looking for funding?

2) What is the difference between start-up “financial strategy” and “funding strategy”?

3) What do you find most interesting about Joe Ansanelli’s perspective?

Class 2 Planning with the Exit in Mind; Equity Ownership
 Jan 28 Introduction (Part II) to the new venture finance model and A look at ways in which the entrepreneur can plan overall fund-raising and financial process for his/her company.

Readings and Materials:

“Frank Addante – Serial Entrepreneur” (HBS 9-809-046)

Strategic Entrepreneurism book: (Ch.2-4), “Old & New Rules...”

Lecture: Prof R on “Equity/Ownership, Career Progression & End-Games”

Guest Speaker: Jon Fisher, serial entrepreneur

(Bio at: http://en.wikipedia.org/wiki/Jon_Fisher)

Class 3 Business Models: Revenue & Cost Drivers of the Business
 Feb 4 Identifying and understanding the company’s business model and reacting to market and financial pressures.

Readings and Materials:

“How to Describe and Improve Your Business Model” – Osterwalder paper

“Note on Business Model Analysis (HBS: 9-802-048)

“Why Business Models Matter” (HBR reprint R0205F)

Reply Inc. case – online “virtual” case and written case

Guest Speaker: Sam Veazey, CFO, Reply Inc.

Class 4 **The Capital Budgeting Model; Running a Lean Organization**
 Feb 11 Anatomy of the “lean company”: using milestones, financial models and growth opportunities to determine capital raising needs.

Readings and Materials:

Honest Tea case (HBS 9-201-076)

“Budgeting: Forecasting Your Company’s Fin. Future” (HBS reprint 5849BC)

Strategic Entrepreneurism book: (Ch. 7), “Collaboration with the Customer”

“Bootstrap: The Art of Finance” Bhide (HBR reprint 92601)

Alternative Team Project – read handout for class discussion

Lecture: Prof R on Capital Budgeting for Start-ups

Guest Speaker: Kevin Hartz, serial entrepreneur

Class 5 **Sources of Capital: Early-stage VC and Incubators**
 Feb 18 A look at early stage investment, including incubators and early-stage VCs.

Readings and Materials:

ONSET Ventures case (HBS 9-898-154)

Article: “The Start-Up Factory”, Inc. Magazine, Feb 1997, Bill Gross

(see <http://www.inc.com/magazine/19970201/1166.html>)

Real-time Company presentation: Blue Buzz Team 1 – Strategies and Business Models

Assignment #1: How Much \$\$ Does Honest Tea Need and When?

DUE: Start of class on March 4

Lecture: Prof R on Funding Options in Company Growth Cycle

Guest Speaker: Reed Taussig, CEO, ThreatMetrix

Class 6 **Sources of Capital: Angels, Angel Groups**
 Feb 25 A look at the various types of angel investors, their investment profile and the issues facing entrepreneurs who are working with angels.

Readings and Materials:

“Angel Investing” Roberts & Morse (HBS: 9-800-273)

Les Concierges case - Stanford GSB case E-280

Band of Angels (HBS: 9-898-188)

Real-time Company presentation: ShortForm.TV Team 1 – Strategies and Business Models

Lecture: Prof R on the various nuances of angels and angel groups

Guest Speakers: Linda Jenkinson, Chairman, Les Concierges

Randy Williams, Founder, Keiretsu Forum

Class 7 Sources of Capital: Venture Capital Funds – How they Operate
 March 4 Anatomy of a venture capital firm: how they operate, what economics motivate them and how to approach them.

Readings and Materials:

“How Venture Capitalists Evaluate Venture Opportunities” (HBS: 9-805-019)

“Venture Capital: More than Money?” (article by Timmons and Sapienza)

“Relationships between Venture Capitalist and Entrepreneurs” - Brook H. Byers
 PWC Money Tree Report – to be posted on bSpace

Real-time Company presentation: BlueBuzz Team 2 – Cash Flow, Capital Budgeting, and Financing

Assignment #2: VC Method - Valuation Problem Set (HBS: 9-396-090)

DUE: Start of class on April 1

Lecture: Rory O’Driscoll, Managing Partner, Scale Ventures

Class 8 Raising Capital, Part I: Valuation, Cap Tables, Deal Terms
 March 11 Overview of basic terms involved in angel and VC deals with focus on valuation and anti-dilution provisions.

Readings and Materials:

Endeca case – (HBS 9-802-141)

“A Note on Valuation In Private Equity Settings” (HBS: 9-297-050)

“Note on Anti-dilution Provisions” (HBS: 9-805-024)

“Funding New Ventures: Valuation...Cap Tables” (HBS: 9-806-058)

“The Basic Venture Capital Formula” (HBS: 9-804-042)

Real-time Company presentation: ShortForm.TV Team 2 – Cash Flow, Capital Budgeting, and Financing

Lecture: The Venture Capital Method

Class 9 Raising Capital, Part II: the “Venture Capital Method”, Legal aspects
 March 18 Continuation of basic terms involved in angel and VC deals and venture capital method of valuation. Legal aspects of preparing for funding.

Readings and Materials:

“The Legal Forms of Organization” - Roberts (HBS 9- 898-245)

“The Legal Protection of IP” - Roberts (HBS 9-898-230)

Legal Start-Up Packet (peruse documents)

Real-time Company presentation: Blue Buzz Team 3 – Financing Options

Guest Lecture: Michael Kimball, start-up lawyer

Class 10 Raising Capital, Part III: Deal Terms (continued); Pitching the Deal & Negotiations

April 1 **Readings and Materials:**
Term Sheet Negotiations for Trendsetter, Inc. (HBS: 9-801-358)

Real-time Company presentation: ShortForm.TV Team 3 – Financing Options

Guest Speaker: Vivek Mehra, August Capital

Class 11 Sources of Capital: Alternative Financing Options

April 8 A look at alternative forms of funding, including venture debt and strategic investors and the motivations behind their investments.

Readings and Materials:

“Bang Networks,” Gompers and Rattner (HBS: 9-201-074)

“Non-Traditional Financing Sources,” Gregory B. Sneddon

“Negotiating Strategic Alliances,” Michael Watkins (HBS: 9-902-166)

Real-time Company presentation: BlueBuzz Team 4 – VC Pitch

Guest Speaker: Kevin Kopczynski, Rockport Capital: Funding Capital Intensive Businesses

Surprise Guest: Bob Rosin, Founder Bang Networks

Class 12 Exit Strategy: M&A Preparation and Process / IPO Process

April 15 **Readings and Materials:**
Right Now A (HBS: 9-805-032)
Acquisitions and Alliances (HBS: 9-803-199)
Strategic Entrepreneurism book: (Ch.6), “Designing...to be Acquired”
IPO Guide, Bochner and Finseth, pp. 1-47
“Note on the IPO Process,” Lerner (HBS: 0-200-018)

Real-time Company presentation: ShortForm.TV Team 4 – VC Pitch

Lecture: Review of Venture Capital Method & Homework #2

Guest Speaker: David A. Liu, Managing Director, Jeffries & Company

NEXT YEAR: invite Ravi Mohan, Shasta – exit and M&A strategy framework for entrepreneurs – lifecycle of co.

Class 13 Blue Buzz Presentation to VCs on Sand Hill Road

(2480 Sand Hill Road, Suite 101, offices of **August Capital**; dinner served)

April 22 **Readings and Materials:**
None this week.

Class 14 Summary of New Venture Finance Course**April 29 Readings and Preparation:**

Bring key questions about semester to class
Handout: notes from semester from Prof R

Class 15 ShortForm.TV Presentation to VCs

(2765 Sand Hill Road, offices of Canaan Partners – dinner served)

May 6 Readings and Preparation:

None this week.

FINAL EXAM: Will be electronically distributed on 5/13 at 6 pm

ALTERNATIVE TEAM PRESENTATIONS: weeks of May 6 and 13

Instructor's Bio:

“Professor R” (a.k.a. Randy Haykin, email: haykin@haas.berkeley.edu)

Randy Haykin has been involved in technology investment and finance for over 25 years as an entrepreneur, start-up team member, angel investor and venture capitalist. He has also taught classes in Finance and Marketing at Brown University, Stanford, Harvard Business School, and the University of Edinburgh. He has been on the Professional Faculty at Haas since 2006 and currently teaches a lively course called “ICE” (Innovation, Creativity & The Entrepreneur”) to MOT (full time MBA and Eng Masters candidate) in the Fall semester.

After leaving Brown University (BA) and Harvard (MBA) he came to Apple Computer in 1988. During his tenure at Apple, he held various sales and marketing management roles and eventually created the Apple New Media Developer program, a global program for internet and multimedia developers on the Macintosh. Randy was Director of Business Development at the Paramount Media Kitchen and helped fund and launch three businesses while at Viacom/Paramount. In 1995, he joined the start-up team at Yahoo! and became the company's first VP Marketing and Sales. Following Yahoo!'s successful IPO, Randy formed Interactive Minds – a venture “catalyst” organization. Two successful clients that Interactive Minds worked with were AOL (The Greenhouse program) and Overture (helped launch the company with IdeaLab CEO Bill Gross). In 1997, Randy became Managing Director for Outlook Ventures -- over twelve years, and three funds, Outlook has invested in over 35 software companies in the enterprise, consumer and infrastructure arenas and has many successes with their portfolio.

Today, Randy is Chairman of Haykin Capital (see www.haykin.net) which does “mentor capital” with a variety of technology, non-technology and real estate enterprises. He is presently on the Boards of the American Cancer Society and Opportunity International (www.opportunity.org) for his philanthropic work. He is a bass in the award-winning men's a cappella group Voices in Harmony (www.vihchorus.org). Randy has been married over 20 years, lives in Pleasanton and has three teenage daughters.