



## Sofaer Global MBA

# Venture Capital and Entrepreneurial Finance - 1238.3356.01

Prerequisites: None

Module 3 – 2021/22

### Course Section Details

Section	Day	Hour	Lecturer	
Class	Tuesday	13:45-16:30	Saul Orbach	<a href="mailto:saul@beachheadgroup.com">saul@beachheadgroup.com</a>

Saul's office hours (Recanati room 328 or Zoom): By appointment

### Course Units

2 course units = 8 ECTS units

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

### Course Description

This course will provide you with a deep understanding of the venture finance industry and financing types along the funding continuum from angel investing, venture capital, and private equity funds. Although our model will be the US market where the venture finance industry originated, we will also focus on, and highlight, the idiosyncrasies of the Israeli market. We will examine each type of funding from various perspectives including the entrepreneur, fund-- or general partner-- manager, and limited partner (to the extent there are) so that you acquire a 360-degree understanding of each. This view will include fund structure and fund-raising, the relationship between general and limited partners, operational issues, evaluating opportunities and investment decisions, post investment

activities and value creation, and value realization (exit). Particular attention will be paid to understanding valuation issues, cap tables, funding rounds, and term sheets, the foundation of the actual investment.

For the entrepreneurs among us, you will receive insights into the VCs perspective that will help guide you in more successfully understanding the fundraising process and thus help you to more successfully raise capital. We will also examine the nature of the relationship between investors and entrepreneurs to better understand how to ensure the proper and successful alignment of interests.

Lastly, integrated into the venture material are several essential and fundamental legal topics including, founder's agreements, fund structure, term sheets, valuation, cap tables, and due diligence

### **How?**

To achieve these goals, the course will combine lectures, case studies, and some highly regarded guest lecturers from the investment community who will share their vast experience with you and give you the opportunity to network with these industry luminaries. The case studies will illustrate the application of the ideas learned in the real world. By doing the exercises you will gain practical experience dealing with real issues related to market research.

The group will be divided into, and work in, teams over the course of our time together, particularly in working on and submitting the select number of case assignments that illustrate important concepts of startup funding with a practical application. Through this, and via some guest visits by startup companies, each team will have the opportunity to simulate the funding process as a VC investment manager.

You are expected to attend class regularly and participate in class discussions as this will be a key factor in the final grade.

## **Course Objectives**

Upon completion of the course, you will be able:

1. To identify and characterize the different types of investments on the funding continuum
2. To understand venture capital, including being able to:
  - a. evaluate investments and be familiar with the decision process
  - b. value an early stage company for investment purposes
  - c. read, understand and differentiate between the economic and control aspects of Term Sheets
  - d. automatically identify the characteristics of various funding rounds
  - e. describe how VCs add value post investment
  - f. evaluate the why, when, and how of exiting a company
3. To know the fundamental legal aspects of venture capital investments

## Assessment and Grade Distribution

Grade weight	Assignment	Requirements
15%	<b>Case Study: Lovepop</b>	Read, analyze and respond to the questions for each case. Remember, your outcome choice is less important than the rationale you develop in reaching that choice. Put emphasis and focus on the rationale!
15%	<b>Case Study: Trendsetter</b>	
15%	<b>Case Study: Onset Ventures</b>	
5%	<b>5 short quizzes</b>	Up to 5 quizzes based on the weekly reading assignment or previous classroom discussion, 5 minutes each, will be administered at the beginning of sessions 2-6.
40%	<b>Final Exam</b>	You will be asked to look at a company that has been presented with two or three different funding options. Your job will be to analyze these funding options from both the Investor's, and the Entrepreneur's perspectives while taking into account different conditions that will be set out in the test. This test is designed for you to demonstrate your grasp of the fundamental investment material we covered on the one hand, and your analytical abilities on the other.
10%	<b>Class participation</b>	Read mandatory articles for class, participate in in-class exercises and discussions. Complete assignments in and out of class.

## Course Assignments

**Reading Assignments:** You will have weekly reading assignments posted on the Moodle which you are responsible to complete.

**Quizzes:** There will be 5 quizzes based on the weekly reading assignment or previous classroom discussion. Each quiz will be 5 minutes long, and will be administered at the beginning of sessions 2-6.

**Attendance:** Each person brings a unique set of experiences, a unique perspective and knowledge to the classroom, and I would like all class participants to tap into this diverse pool of resources and benefit from it. Therefore, we will have in-class discussions. Constructive contribution to the class discussions and active listening are important elements of this course. It is therefore essential that you be fully prepared to participate

actively in class by reading the assigned material prior to the class session.

Effective participation includes: (1) providing insightful questions and comments on concepts from lectures and readings; (2) sharing your experience or point of view with the class; (3) building on points raised by others; (4) clarifying issues; and (5) relating ongoing topics to previous class discussions. Please keep in mind that I will base your score on the quality of your comments and not their quantity.

**Critically Important:** if for whatever reason you don't understand something that's being said or discussed, PLEASE ask! If you still don't understand at the end of class, or need further clarification, PLEASE ASK ME! Don't let the opportunity to learn or understand the material pass you by!!

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

## Grading Policy

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

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

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

## Evaluation of the Course by Student

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

## Course Site (Moodle)

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

Course slides and weekly reading assignments will be available on the course site.

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

## Course Outline\*

Session	Date	Topic(s)	Submissions
1	22 February	<p><b>Venture Finance – Overview and history</b></p> <p><b>Venture Finance (or generically Private Equity):</b></p> <ul style="list-style-type: none"> <li>• Definition</li> <li>• History</li> </ul> <p><b>The Funding Continuum:</b></p> <ul style="list-style-type: none"> <li>• Introduction</li> </ul> <p><b>Comparison of funding types / objectives:</b></p> <ul style="list-style-type: none"> <li>• Seed stage capital-Self Funding, Family &amp; Friend</li> <li>• Incubators/Accelerators</li> <li>• Angel investing (Angel)</li> <li>• Venture Capital (VC): Growth</li> <li>• Corporate Venture Capital (CVC): Debt</li> <li>• Private Equity (PE): Growth and Buy Out</li> </ul>	Personal bio (1 page)
2	1 March	<p><b>Venture Capital -- The 5 roles of a VC Overview:</b></p> <p><u>Funding</u>: Fund Creation and Fund Raising</p> <ul style="list-style-type: none"> <li>• All about Limited Partners</li> </ul> <p><u>Sourcing</u>: Creating Deal Flow</p> <ul style="list-style-type: none"> <li>• Outbound and Inbound</li> </ul> <p><u>Investing</u>: Evaluating and Investing in companies</p> <ul style="list-style-type: none"> <li>• Screening, Due Diligence, Term Sheets</li> </ul> <p><u>Supporting</u>: Post-Investment Value Creation</p> <ul style="list-style-type: none"> <li>• The VC Value Add</li> </ul> <p><u>Exiting</u>: Value Realization</p> <ul style="list-style-type: none"> <li>• Identifying Options, Executing</li> </ul> <p><b>The VC process and timeline</b></p> <p><b><u>Case Assignment 1: Lovepop</u></b> (due session 6)</p>	
3	8 March	<p><b>Funding and Sourcing</b></p> <p><b>Funding</b></p> <ul style="list-style-type: none"> <li>• Fund Structure</li> <li>• Limited Partners</li> </ul> <p><b>Sourcing Deal</b></p> <ul style="list-style-type: none"> <li>• Creating Deal Flow</li> <li>• Internal vs External</li> </ul>	
4	15 March	<p><b>Investing: Evaluating companies</b></p> <ul style="list-style-type: none"> <li>• VC selection criteria</li> <li>• The VC process and timeline</li> </ul>	

5	22 March	<b>Investing in Equity: Valuation and Dilution</b>  <b>Valuation</b> <ul style="list-style-type: none"> <li>• Understanding Valuation</li> <li>• Methods to determine valuation</li> <li>• Understanding Dilution</li> <li>• Pre and post money valuation initially, and in future fund-raising rounds</li> </ul>	
6	29 March	<b>Investing in Equity: Cap Tables</b> <ul style="list-style-type: none"> <li>• Definition</li> <li>• Working with a Cap Table</li> <li>• Understanding shares</li> <li>• Option pools</li> <li>• Representing rounds on the cap table</li> <li>• Interpreting Cap Tables</li> </ul> <b>Case Assignment 2: Trendsetter</b> (due session 10)	<b>Due: Case 1: Lovepop</b>
7	5 April	<b>Due Diligence, Term Sheets and Stock Transfer Agreements</b>  <b>Due Diligence (DD)</b> <ul style="list-style-type: none"> <li>• Purpose - Importance</li> <li>• Various types of DD</li> <li>• Timeline</li> </ul>	
8	26 April	<b>Due Diligence, Term Sheets and Stock Transfer Agreements (continued)</b>  <b>Term Sheets</b> <ul style="list-style-type: none"> <li>• Economic Terms</li> <li>• Management &amp; Control</li> <li>• Protection</li> <li>• Exit &amp; Liquidity</li> </ul> <b>Stock Transfer Agreements</b> <ul style="list-style-type: none"> <li>• Finalizing the Investment Transaction</li> <li>• Overview of various agreements</li> <li>• Mapping to Term Sheet</li> </ul>	
9	3 May	<b>Funding Rounds, and Post investment Value Creation</b>  <b>Funding Rounds</b> <ul style="list-style-type: none"> <li>• Understanding a company's need for capital</li> <li>• How much, When, and Why</li> </ul>	

		<ul style="list-style-type: none"> <li>• Planning your funding future</li> <li>• Understanding the characteristics of each round</li> <li>• Partnering with other funds</li> </ul>	
10	10 May	<p><b>Post investment Value Creation</b></p> <ul style="list-style-type: none"> <li>• Ways VCs help companies grow</li> <li>• Resources available to increase portfolio value</li> </ul> <p><b>Case Assignment 3: Onset Ventures</b> (due session 13)</p>	<b>Due: Case 2: Trendsetter</b>
11	17 May	<p><b>Exiting, Late Stage investment, Private Equity</b></p> <p><b>Exiting, Late Stage investment</b></p> <ul style="list-style-type: none"> <li>• Knowing when to Sell</li> <li>• Types of Exits: IPO, Acquisition, LBO, etc.</li> <li>• Understanding mechanics and pros and cons of each</li> <li>• Working with I-Bankers</li> </ul> <p><b>Private Equity</b></p> <ul style="list-style-type: none"> <li>• Understanding Private Equity</li> </ul>	
12	24 May	<p><b>A: VCs and Entrepreneurs</b></p> <ul style="list-style-type: none"> <li>• The Entrepreneur's Perspective</li> <li>• Aligning Interests</li> <li>• Characteristics of a good fit or bad fit</li> <li>• The Relationship and Responsibilities</li> </ul>	
13	31 May	<p><b>Session 13: Summary, Closing Remarks, and Final Test Prep.</b></p>	<b>Due: Case 3: Onset Ventures</b>
14	7 June	<b>Session 14: Final Exam</b>	<b>Term Project Due</b>

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

## Required Reading (purchases)

**Textbook:** There is no textbook, but you will be assigned weekly reading materials available on the Moodle. The readings generally should not take more than 1 hour / week.

### Required readings:

Each Class Participant should go online and purchase the following three pamphlets or e-books (\$3.99 each) from [www.1x1Media.com](http://www.1x1Media.com) (follow the link at the bottom of each book page to your preferred seller site):

- 1, Startup Valuation
- 2, Cap Tables
- 3, Term Sheets

Please download the companion files for each book as well.

### Case Studies

Each **TEAM** must purchase a case study package will be available for purchase from the Harvard Business Review ([hbr.org](http://hbr.org)) web site. (Cost: TBD)

## Recommended Reading

There will be a list of resources and a bibliography of relevant books on the Moodle available on a wide range of topics for your review (at your discretion).

### Case Studies

Each **TEAM** must purchase a case study package will be available for purchase from the Harvard Business Review ([hbr.org](http://hbr.org)) web site. (Cost: TBD) (as mentioned above)

### Assignment 1: Lovepop

Length: Up to 2 pages (Not including cover sheet or other supporting documents)

Team work

Submission date: Session 3

We will examine the challenges of early-stage fundraising, plus delve into the terms, offerings, and operations of startup accelerators.

This case helps students understand the journey founders take from the launch of a business idea to their first significant financing decision. It familiarizes you with the concept of structured experimentation and typical milestones founders seek to achieve in their first few years of operation.

You will familiarize yourselves with Sahlman's POCD (people, opportunity, context, and deal) framework to assess new ventures from an Investor's perspective.

You will also have the chance to evaluate the role of incubators and accelerators in the start-up environment.



Lastly, you will have the opportunity to explore the mechanics of convertible notes and capitalization tables, and thus gain experience in evaluating the offers from a quantitative as well as qualitative standpoint.

Lovepop case materials:

- 1, Lovepop case;
- 2, Note about Business Plans by Sahlman.

### **Assignment 2: Case Study – Term Sheet Negotiations for Trendsetter, Inc**

Length: Up to 2 pages (Not including cover sheet or other supporting documents)

Team work

Submission date: Session 5

The Trendsetter case describes two aspiring entrepreneurs who have just received offering documents for venture funding (known as term sheets) from two venture capital firms. Neither of the entrepreneurs have experience in raising capital and they are wondering how to compare the two proposals and which one to choose. They need to make a decision fast. The documents contain two complete term sheets which are similar in structure but different in important ways. Both term sheets have advantages and disadvantages for the entrepreneurs. Choosing one over the other requires a careful analysis as well as a certain set of assumptions about the growth of Trendsetter, Inc.

This case teaches the elements and characteristics of term sheets and seeks to sharpen your understanding of how to compare term sheets and how to select the best term sheet given the likely evolution of a venture.

### **Assignment 3: Case Study – Onset Ventures**

Length: up to 2 pages (Plus cover sheet)

Team Work

Submission date: Session 7

ONSET Ventures, is a venture capital firm focused on seed-stage start-ups. The case describes the principles and strategies the firm has developed over its life. Also presents an in-depth discussion of one of the seed-stage companies ONSET has been incubating. Onset explores and helps teach the activities required to successfully manage a venture-capital firm and the principles of investing.