

# the Cambridge MBA 2010-11

## New Venture Finance

Randy Haykin

### Overview

New Venture Finance prepares students for a better understanding of 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 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 the 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 various sources of funding, including boot-strapping, friends/family, angel and venture capital. 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 online video. Classes will consist of interactive case study discussion (class participation) and lecture. If technically feasible, we will try to have 1-2 visiting speakers via Skype.

### 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. Note: a computer will be needed in order to complete your Individual Assignment.

## Requirements

Because this is an intense one-week class, students will have a heavy reading load prior to each class (particularly the first and fourth classes) and will be expected to come to class prepared with notes on readings, to answer questions from the professor and interact with classmates in real-time. Our 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. Hard work in this course will prepare you for the real thing when it occurs one day.

Overall, we 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 and observations.

## Assessment

Class participation (in class and/or on online discussion forum)	30%
Group Assignment	20%
Individual Assignment	50%

Students will be graded on attendance and participation, one group assignment and an individual assignment. The MBA Office will assign teams.

Your grade for class participation will depend upon your ability to think on your feet. Prof R may be cold-calling on members of the class to open each day's case study for the class, and may cold-call during class discussion to generate broader discussion.

We will be creating an ongoing Discussion for each topic discussed in class and the professor will post a few questions on the forum for each of the four classes. Those that participate in the forum discussions on a regular basis will receive extra credit for this in your Participation grade.

There is one group assignment during the course: *How Much Money Does Honest Tea Need and When?*

- The Deliverable: Written analysis (approx. 2 to 3 pages)
- Due by electronic submission: Fri. June 10, start of class

An individual assignment will be given out in the form of a Case with questions to answer. You will each have 2 hours to work on the case (on your own, with no internet access, but you may use your notes). You should use a computer for the final so that it may be submitted electronically.

## Preparation for Each Class

Since you will be graded on your class attendance and participation, my expectation will be that you:

- 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) Come prepared to join the conversation and contribute!

# Course Summary

**Class 1** The Basics: Strategy & Planning with the Exit in Mind; Unraveling Business Models; Equity/Ownership in Start-ups.

Cases:

Wasserman, N. and Uy, A. (2008)	<i>Frank Addante, Serial Entrepreneur</i> (HBS 9-809-046)	<b>Study Pack</b>
Haykin <i>Innovation</i>	<i>Reply, Inc.</i> (written and online – watch)	<b>Video via <a href="#">Haykin Innovation</a></b> <b>Requires user name and password</b>

*Additional Readings:*

Stevenson, H. H. and Roberts, M. J. (2002)	<i>New Venture Financing</i> (HBS 9-802-131)	<b>Study Pack</b>
Magretta, J. (2002)	“Why Business Models Matter.” <i>Harvard Business Review</i> , 80(5): pp. 86-92	<b>E-article via <a href="#">Business Source Complete</a></b> <b>Printed article in Mezzanine Journals</b>
Osterwalder, A.	<i>How to Describe and Improve Your Business Model</i> – PDF	<b>Study Pack</b>

- 1) Introduction and Exit Planning
- 2) Frank Addante case – Equity/Ownership
- 3) Reply video/case - Business Models and how to understand them

**Class 2** Preparation for Funding: Creating Financials, the Capital Budgeting Model, How to Present to Investors

Case:

Gompers, P. A. (2001)	<i>Honest Tea</i> (HBS 9-201-076)	<b>Study Pack</b>
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*Additional Reading:*

Bhide, A. (1992)	“Bootstrap Finance: The Art of Start-ups.” <i>Harvard Business Review</i> , 70(6): pp. 109-117	<b>E-article via <a href="#">Business Source Complete</a></b> <b>Printed article in Mezzanine Journals</b>
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- 1) Creating Great Financials – what investors look for, Milestone planning
- 2) Honest Tea case - Capital Budgeting, and determining funding needs
- 3) Presenting to Investors – Do’s & Don’ts: walk through of an example pitch

Group Assignment – Honest Tea – how much does co. need – due on Fri 10<sup>th</sup> June.

**Class 3** Sources of Capital: The start-up growth cycle; How to work with Angels, Angel groups, Incubators, Venture Capital Funds

Cases:

Glynn, J. W. and Coates, B. (2007)	<i>Les Concierges</i> (Stanford GSB case E280)	<b>Study Pack</b>
Haykin <i>Innovation</i>	<i>True Ventures (A)</i> (Berkeley case, written and online – watch)	<b>Video via <a href="#">Haykin Innovation</a> Requires user name and password</b>

*Additional Readings:*

Stevenson, H. H. and Roberts, M. J. (2002)	<i>New Venture Financing</i> (HBS 9-802-131)	<b>Study Pack</b>
Roberts, M. J., Stevenson, H. H. and Morse, K. P. (2000)	<i>Angel Investing</i> (HBS 9-800-273)	<b>Study Pack</b>
Roberts, M. J. and Barley, L. (2004)	<i>How Venture Capitalists Evaluate Potential Venture Opportunities</i> (HBS 9-805-019)	<b>Study Pack</b>

- 1) Start-up Growth Cycle - Bootstrapping
- 2) Les Concierge case – Angels – motivations, types, how to work with; Angel Networks, Incubators
- 3) True Ventures (part I) - Venture Capital – how a VC fund works, typical VC process, how to work with
- 4) Additional sources of funding: debt financing, strategic investors, IPO

**Class 4** Blocking & Tackling: Cap Tables, Valuation and other Deal Terms

Case:

Hardymon, G. F., Lerner, J. and Leamon, A. (2002)	<i>Endeca Technologies</i> (HBS 9-802-141)	<b>Study Pack</b>
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*Additional Readings:*

Lerner, J. and Willinge, J. (1996)	<i>A Note on Valuation In Private Equity Settings</i> (HBS 9-297-050)	<b>Study Pack</b>
Kuemmerle, W. (2004)	<i>Note on Antidilution Provisions</i> (HBS 9-805-024)	<b>Study Pack</b>
Roberts, M. J. (2005)	<i>Funding New Ventures: Valuation, Financing and Capitalization Tables</i> (HBS 9-806-058)	<b>Study Pack</b>
Sahlman, W. A. and Willis, R. M. (2003)	<i>Basic Venture Capital Formula</i> (HBS 9-804-042)	<b>Study Pack</b>

- 1) Endeca case (part II) – detailed analysis of valuation and other terms
- 2) Understanding key terms in a Term Sheet
- 3) Course summary and Wrap-up

# Biography

**“Professor R” (a.k.a. Randy Haykin, email: [haykin@haas.berkeley.edu](mailto: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, Marketing and Innovation at Brown University, Stanford, Harvard Business School and the University of Edinburgh. He has been on the Professional Faculty at UC Berkeley Haas School 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](http://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](http://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](http://www.vihchorus.org)). Randy has been married over 20 years, lives in Pleasanton and has three teenage daughters.