

Venture Funding

1. TEACHING FACULTY - Benoit Leleux

Dr Leleux is Stephan Schmidheiny Professor of Entrepreneurship and Finance at IMD (Switzerland), where he was previously director of the MBA program and director of Research and Development. He was previously at INSEAD and Babson College from 1993 to 1999. Dr Leleux started his career as manager of corporate venturing in South East Asia for a major agribusiness conglomerate. He is a director, advisor, and/or investor in a dozen startups and venture capital funds in Europe and the US. His case studies have won a dozen European case writing awards over the last 10 years.

2. MODULE OVERVIEW

The module provides a comprehensive overview of growth financing and valuation issues for entrepreneurial situations, mostly startups, fast growing firms and buyouts, including the latest concepts such as contingent valuation. Emphasis will be put on growth financing issues, such as deal structuring, due diligence, and negotiation. Applications will include mostly entrepreneurial, growth situations. The participants are expected to develop a good understanding of growth financing and entrepreneurial finance issues.

3. COURSE REQUIREMENTS

The module will be entirely case-based. You are required to read and prepare the cases for each session according to the guidance provided for each. There is no book for this module. You will be evaluated on the basis of class participation and a short individual assignment based on the material for the third day of the seminar.

4. MODULE OUTLINE

Thursday 4 November 2010
Issues in Growth Financing

Morning Session

Introduction to Venture Capital and the VC Industry
JON HIRSHTICK'S NEW VENTURE

Afternoon Session

Growth Financing in High Tech Environments
LERNOUT AND HAUSPIE SPEECH PRODUCTS

Friday 5 November 2010
From Valuation to Contingent Valuation

Morning Session

Contracting for Value Creation: The Venture Capital Process
E-DOCS, INC. (A)

Afternoon Session

Making the Business Case for Funding
PAPYRUS LASER (A)

Saturday 6 November 2010
From Values to Value and from Seed to Growth Capital

Morning Session

Building Conscience and Purpose in Startups
NOIR / ILLUMINATI II: DEFINING SOCIALLY RESPONSIBLE AFFORDABLE LUXURY CLOTHING

Afternoon Session

Growth Capital in Emerging Markets
OndadeMar: Catching the Next Wave...

5. TEACHING METHODS

Combination of case studies and presentations, with exercises.

6. DETAILED OUTLINE & PREPARATION FOR THE SESSIONS

Thursday 4 November 2010
Issues in Growth Financing

Morning Session

Introduction to Venture Capital

JON HIRSHTICK'S NEW VENTURE

Readings:

Opportunity Recognition, by Jeff Timmons. Ch 2 in Portable MBA in Entrepreneurship, 1997.

Preparation Questions:

1. Why is this deal attracting top-notch venture capitalists such as Atlas Venture, Burr, Egan, Deleage & Co. and North Bridge Venture Capital Partners?
2. Can the founders optimize their personal financial returns and simultaneously ensure that SolidWorks has sufficient capital to optimize its chances of succeeding? What other factors should the founders consider?
3. How can the financing syndicate optimize its potential return? What factors should it consider?
4. How would you structure a deal that would serve the best interests of the founders, the company and the VC firms?

Afternoon Session

Growth Financing in High Tech Environments

LERNOUT AND HAUSPIE SPEECH PRODUCTS (ABRIDGED)

Objectives:

Introduction to the ways and means of entrepreneurial finance: where corporate finance ends and guerilla financing begins!

Preparation Questions:

1. How would you qualify the fund raising process at LHSP prior to the contemplated Nasdaq Initial Public Offering (IPO)? What are its strengths and weaknesses?
2. What are the main alternatives to fund such an early stage venture? What are their pros and cons?
3. What are the main drivers in deciding an "optimal financing policy" for a firm like Lernout and Hauspie?

Assignment:

Read the Lernout and Hauspie Speech Products NV (LHSP) case as an interesting description of the fund raising process of a dynamic, high technology Belgian company. Read the assigned document to kick start your thought process on entrepreneurial financing.

Readings:

Benoit Leleux: "Resource maps and financing ecotypes: A visual approach to resourcing the entrepreneurial business", Babson Entrepreneurial Review, Spring 1998.

Friday 5 November 2010

From Valuation to Contingent Valuation: The Dynamics of Venture Funding

Morning Session

Contracting for Value Creation: The Venture Capital Process

E-DOCS, INC. (A)

Reference Document :

Leleux and Martel: "Venture Capital Investment Contracts: A Primer and Taxonomy", IMD Note.

This document is not to be read: it is a reference technical note covering in detail many issues in deal structuring in early stage companies.

Objectives:

Introduce the venture capital process and valuation in that context. Provide an inside perspective on the interaction between valuation and contracting.

Preparation Questions :

1. What do you think about edocs, Inc. as an investment opportunity? Strengths / weaknesses and overall evaluation.
2. What do you think about the deal between the edocs, Inc. management team and the partners at Charles River Ventures (CRV)?
3. How do you analyze the requirement that edocs "not shop around the deal"? Do you see it as normal or abusive?
4. What are the key drivers of any "deal"?

Afternoon Session

Making the Business Case for Growth Financing (or everything you always wanted to know about business plans but never cared to ask...)

PAPYRUS LASER (A)

Objectives:

How do you make a powerful case for funding a new project or business? What are your objectives in preparing a business plan? What makes it impactful? How do you structure repeated rounds of financing?

Assignment:

Read the case (it is short) and get inspired (or not) by it! If you have a special interest in the topic, you may also want to read the article "How to Write a Great Business Plan", by William Sahlman, Harvard Business Review, Reprint 97409

Preparation Questions:

1. Evaluate the Papyrus Laser opportunity: would you invest in it?
2. Evaluate his business plan as a whole: what are its strengths and weaknesses?
3. What are the key success factors for a catalogue marketer of specialized stationery and related products in Europe? What are the critical risks faced?
4. Analyze the financing of the plan: Does it appear appropriate to you? i.e. would you invest in this deal under these conditions? If no, what would you want to see in the business/financing plan to consider investing in it?

Saturday 6 November 2010

From Values to Value and from Seed to Growth Capital

Morning Session

Building Conscience and Purpose in Startups

Noir / Illuminati II: Defining Socially Responsible Affordable Luxury Clothing

Objectives :

Building social / environmental responsibilities into new ventures. Sustainable development as value proposition and competitive advantage. Managing the opportunity overload. Prioritizing on the basis of the value chain and competitive advantages.

Assignment :

Read the case Noir / Illuminati II (IMD-3-1909)

Preparation Questions :

1. What do you think about the Noir / Illuminati II customer proposition? Is socially responsible luxury an internally consistent proposition?
2. How important is it to separate the two components of projects, i.e. the fashion house and the high end cotton fabric producer? What are the issues there?
3. Where do you see the strengths and weaknesses of the company?
4. Can you build a fashion brand on guilt? Or is it what most companies do when they build on "feel good" factors? What are the psychological issues at play?
5. How would you advise them going forward?

Afternoon Session

Growth Capital in Emerging Markets (Sessions 17 & 18)

OndadeMar: Catching the Next Wave...

Objectives:

Understanding the rationale and structure of growth capital deals, in particular in emerging markets such as Colombia. The challenges and opportunities of private equity in Latin America. What kind of deals are you likely to find in those environments? What are the main issues you have to deal with? Does it make sense in today's financial environment?

Preparation Questions:

1. Why would you want to acquire OndadeMar? Draw a list of the pros and cons of the company as a buyout / growth capital deal.
2. What would you do with the company if you were to acquire it? In other words, what would be your gameplan to create value with it?
3. How would you deal with Queipo, the founding designer?
4. How would you value such a company? Focus on methodology and issues to be tackled more than on the actual number.