

VENTURE CAPITAL FINANCING
FINC-GB.3173.W1

Professor Glenn A. Okun

E-mail: gokun@stern.nyu.edu

Home page: www.stern.nyu.edu/~gokun

COURSE DESCRIPTION

When it comes to raising capital for early stage companies, entrepreneurs, venture capitalists, agent bankers and their research analysts alike often consider themselves at cross purposes. This course provides institutional background and detail necessary to deal with the venture capital and new issues markets. Students will examine basic valuation issues, appropriate capital structure, the value of liquidity, and the value of control. They will also consider the intangible aspects of entrepreneurship and venture capital forms of financing.

Course Themes

The course focuses on eight principal themes:

Raising and Structuring Private Equity Funds – where we examine the issues involved in investing in a commingled venture capital pool and raising this type of fund.

Evaluating Opportunities and Developing Strategies - where we examine the issues involved in screening and launching a start-up, raising capital and valuing partner contributions.

Developing and Evaluating Business Plans - where we examine the issues involved in constructing and evaluating business plans for a new venture.

Marshalling Resources and Making Choices - where we examine the issues involved in developing negotiation and capital raising strategies and creating financial and operational flexibility.

Assessing Roll-up and Consolidation Plays - where we examine the issues involved in creating a new venture through an acquisition strategy.

Dealing with Multiple Investors - where we examine the issues involved in handling the interplay between a large corporate investor and traditional venture capitalist co-investors.

Financing the Needs of a Family Business – where we examine the issues involved in financing the reconstruction of a family business.

Managing the IPO Process and the Public Company- where we examine the issues involved in going public and managing a public company.

Course Methods

Class assignments and discussions are designed to develop the critical thinking, communication and managerial skills necessary to successfully plan, start, successfully operate or invest in corporate venturing initiatives. Each class will include discussion of readings, case analysis and group activities. Students will analyze cases with an action orientation, for example, what steps should we take to further the development of the venture? What are the venture's risks and how should they be managed? How should the company be financed? What valuation and terms are appropriate given

the venture's risks? What tactics might be utilized in order to secure a more favorable deal? We will attempt to adopt the perspective of different roles in all case discussions (for example, the issuer versus the financier, corporate investors versus fund operators and angels). A brief lecture and discussion of the assigned readings will follow the case analyses.

Classroom Contributions. The learning experience in a course like this one depends heavily on each student being prepared to actively participate in every class session. We all have expectations that will enrich the topic and direction of discussion in the course. This means that you need to be fully acquainted with the readings and cases for a given session. Positive participation includes attendance, active involvement in all in-class exercises and discussions, and maintenance of a classroom demeanor that encourages the participation of others. You will be evaluated on the quantity as well as the *quality* of your contribution and insights. Quality comments possess one or more of the following attributes: (a) Contribute to moving the discussion forward; (b) Offer a different, unique and relevant perspective on the issue; (c) Build on other comments of others; and (d) Include some evidence or analysis of inherent tradeoffs, i.e., demonstrate reflective thinking.

Written case analysis. Everyone will be required to prepare a written case-related analysis of “@Hoc: Leveraging Israeli Technology in the United States”. Your analysis should address the questions assigned for in-class discussion. This should be a maximum of 4 pages, excluding exhibits. The case analysis paper consists of in-depth written analysis and application of techniques and methods to a company's venturing experience. The case assignment will be graded for content and format. You are required to turn in a paper that conforms to professional standards of organization, grammar, punctuation, spelling, and paragraph/sentence structure. The assignment is due at 9 AM on January 9. Please see the last page of the syllabus for delivery instructions.

Business Plan Evaluation Project. See herein.

Required Materials. *Cases and Readings Packet*

Grading Plan. The course grade will be based on the following components and weights:

Classroom Contributions:	25%
Case Report (individual):	25%
Final Project (group):	50%

Late papers will receive a grade of F. Emails without attached papers or with attachments that are unreadable by Microsoft Word will be considered to have not been submitted and will also receive an F. An F will be quantified as a zero in the calculation of course grades. No extensions to deadlines will be granted.

Instructor

Glenn A. Okun is a clinical professor of management and entrepreneurship at New York University Stern School of Business where he teaches courses in entrepreneurship, private equity, venture capital, investment management and corporate finance. Mr. Okun advises corporations on financial and investment matters. He was President of Mitchum, Jones & Templeton, a merchant bank and broker dealer headquartered in San Francisco, California from 1998 to 2001. He previously served as a Director of Allen & Company Incorporated in New York. Mr. Okun invested in early and later stage financings of private companies in various industries. He also ran a small cap emerging growth stock hedge fund and a special situations portfolio. Mr. Okun has advised corporate clients on mergers, acquisitions and restructurings and has underwritten public offerings and private placements of securities. Mr. Okun began his investment career at the IBM Retirement Fund where he invested in mezzanine private placements, real estate, public emerging growth equities and oil and gas assets. Mr. Okun holds JD and MBA degrees from the joint degree program of Harvard University and a BA degree from Wesleyan University.

SCHEDULE

January 5

Raising and Structuring Private Equity Funds

Session #1 The Institutional Investment Decision

Case: *“Yale University Investments Office: July 2000”*

Questions: How has Yale selected, compensated and controlled private equity fund managers? Compare the approach with the approach used in other asset classes. How has Yale determined the timing of investing in this asset class? What are the risks in Swensen’s private equity strategy?

January 7

Evaluating Opportunities and Developing Strategies

Session #2 Screening the Deal

Case: *“The Knot”*

Questions: What is the nature of the opportunity? Evaluate the the team, the business model and the risk reward ratio. How much money should be raised? Describe the target investor, valuation and use of funds.

Session #3 Launching the New Venture

Case: *“Heather Evans”*

Reading: *“Bootstrap Finance”*

Questions: What strategies and tactics have been used by the founder to develop the business? How has their use affected the risk profile of the venture? What should he do now?

January 10

Developing and Evaluating Business Plans

Session #4 The Investor’s Perspective

Case: *“@Hoc: Leveraging Israeli Technology in the United States”*

Reading: *“Some Thoughts on Business Plans”*

Questions: What is your assessment of @Hoc’s business model? What questions would you ask the entrepreneurs about their business concept? If you were a venture capitalist, would you invest? Advise the entrepreneurs on the amount, structure, prospective source and valuation of their proposed financing.

Evaluating Opportunities and Developing Strategies

Session #5 The Financing Choice

Case: *"Honest Tea"*

Readings: "A Note on Pre and Post Money Valuations"
"Deal Structure"
"Valuation of Venture Capital Deals"
"A Note on Valuation in Private Equity Settings"
"A Note on Private Equity Securities"

Questions: How do you gauge Honest Tea's performance? What key factors will determine the company's future success? How much financing does the company need? Evaluate the company's historical capital raising strategy. Propose a fund raising approach for the next round. Does the company's proposed financing and valuation seem sensible? (assume that the ten-year government bond in December was yielding 5.24%)

Marshalling Resources and Making Choices

Session #6 Dealing with Multiple Investors

Case: *"Securicor Wireless Networks"*

Readings: "Alternative Sources of Financing"
"Securities Law and Private Financing"

Questions: What are the risks, advantages and disadvantages of the term sheet for the business, the founders and the various investors? What course of action do you recommend?

January 12

Session #7 Capital Raising Strategies

Case: *"Metapath Software: September 1997"*

Questions: What is your recommendation? Evaluate each of the proposals carefully, assessing the advantages, disadvantages and risks of the proposals for both the business and for the founders.

Assessing Rollups and Consolidation Plays

Session #8 Acquisition Strategies, Deal Structure and Financing

Case: *“Project Dial-Tone”*

Readings: “A Note on Valuing Private Businesses”
“An Introduction to Cash Flow Valuation Methods”

Questions: Which companies can serve as platforms for the roll-up? Assess the value and risks associated with creating a roll-up.

January 14

Financing the Needs of a Family Business

Session #9

Case: *“The Fojtasek Companies and Heritage Partners”*

Readings: “LBOs for Smaller Companies”
“A Note on the Private Equity Fundraising Process”
“A Note on Private Equity Partnership Agreements”

Questions: Why is the family raising capital? What risks are inherent in the current operation of the business? Which proposal would you recommend the owners accepting? Why?

Managing the IPO Process and the Public Company

Session #10

Case: *“ArthroCare”*

Readings: “A Note on the Initial Public Offering Process”

Questions: Was the IPO a sensible financing strategy for ArthroCare?
How would you have valued the company at the time of the IPO? How would you value the company on August 8, 1996?
What should ArthroCare’s CEO do now?

Business Plan Evaluation Project

The major assignment for the course will be a group project that involves assessing a firm in which a venture capital or private equity organization might want to invest. The objective of this group assignment is to write an evaluation of its business plan and current performance and to present your analysis and investment recommendation to an “investment committee.” Groups will be expected to address business and industry analysis as well as deal structure and valuation. Teams must explain what factors, including business plan elements, that would need to change so that an affirmative opinion (including a specific deal structure and valuation) would be offered on a contingent basis. Teams should be composed of no more than **six** people.

Written Report. Your report is due, by 9 AM, January 18. Late papers will not be graded. Each group should submit two copies of its final report.

Text. The report should not exceed 20 double-spaced typed pages with normal margins, excluding exhibits, tables, figures, appendices, and references. The name of the firm analyzed, the names of the team members responsible for the report preparation, the date, and the course number should be on the *front* page.

Exhibits. Exhibits should contain specific types of analyses, such as financial ratio analyses, break-even charts, decision tree analyses, organization charts, etc. In general, exhibits should contain any information that is relevant, but would take up too much space if included in the body of the paper. Exhibits should not be used as strictly an extension of textual material.

References. Footnotes should be used to acknowledge sources quoted in the text. The bibliography should list all the sources referenced or quoted in the body of the text in alphabetical order by author.

Delivery. Reports should be sent by email to each of the following two addresses: gokun@stern.nyu.edu and gokun1@mac.com. Students must send two separate emails (not one in which the other address receives a copy upon delivery).