



Venture Capital – The Business of Innovation

Syllabus
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Kellogg-Recanati International
Executive MBA

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Izhar Shay – Course Professor

Izhar Shay is a Managing General Partner with Canaan Partners Israel, a venture capital firm focused on investments in early stage technology companies. Izhar targets investments in Mobile, Digital Media, Internet, Communications and Software. He is a board member at Start A Fire, Regulus Cyber, Rollout.io, Drupe, Algomizer (TASE: Algomizer), Viewbix and LiveU, and until recently he was a board member at Prime Sense, which was acquired by Apple (Nasdaq: AAPL) and N-trig, which was acquired by Microsoft (Nasdaq: MSFT).

With more than 25 years of operational experience as a high-tech executive and a successful entrepreneur, Izhar was previously Chairman and CEO of V-Secure Technologies, and CEO and co-founder of Business Layers. Both companies have reached a successful exit under Izhar's management.

Izhar writes a weekly column in Globes, Israel's leading financial newspaper, and he is a frequent speaker on Israeli TV and Radio and in various industry conferences. Izhar is the founder of "Start-Up Stadium", the largest on-line community for high-tech entrepreneurs in Israel, with more than 39,000 members.

Izhar was selected by [Geektime](#) as one of the top 100 influencers in the Israeli high-tech.

Gil Canaani – Course Teaching Assistant

Gil Canaani is the Director of Hearst Ventures and the General Manager of Hearst Ventures Israel. Based in Tel-Aviv, Gil leads Hearst Ventures' investments in Israel. Prior to Hearst, he was a Partner at 2B-Angels, a seed stage micro-fund focused on Digital Media, mobile technologies and enterprise software. Prior to that, Gil spent four years at Canaan Partners, as part of the global investment team, where he focused on Israeli investment in the technology sector.

Gil has a strong technical background from his service in an elite technological unit of the Intelligence Corps in the Israeli Defense Forces. Previously, he worked in marketing and in R&D, for AudioCodes (Nasdaq: AUDC), which provide networking VoIP products and infrastructure.

Gil is a Kauffman Fellow. He earned his MBA from the Kellogg School of Management, Northwestern University and a B.A in Computer Sciences from Tel Aviv-Yaffo Academic College.

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Course overview

In this course, we try to understand how venture capital firms operate and how the investment professionals in these firms think, consider and make investments decisions.

Our primary goal in the course will be to attain a broad understanding of the venture capital eco system, which requires that we also examine the entrepreneurs' perspective. We will focus on learning what makes for a successful transition from an innovative concept into a business venture implementation, which may also create significant wealth through an ever increasing shareholders value.

To be successful in this course you should come to class well prepared, try to participate as much as you can, question and challenge the concepts discussed and present your own thesis and ideas. Consider yourself an investor for the duration of the course, read the materials and prepare the assignments thoroughly. Think about your participation in this course as a simulation to acting as a partner in a VC fund, investing your own firm's funds into creative ventures, which may or may not become great companies, depending on how good your investment decisions have been and how well you have supported your portfolio of exciting start-up companies throughout the lifetime of your fund.

Course Outline

Day 1, Wednesday 8 March 2017		
09:30 – 11:00	<p><u>Venture Capital 101, and some more</u></p> <ul style="list-style-type: none"> • The VC markets • History and trends • Performance criteria • Types of funds • Private investors • Crowd funding • Corporate venture funds 	<p>Reading material: The Venture Capital Cycle – Gompers/Lerner “Conclusions”, pages 62-63 “Covenants”, pages 72-77 “Xerox”, pages 131-136</p> <p><u>Prepare for class (bonus assignment):</u> Be prepared to pitch your start-up idea (see the Assignments section); one slide, 3 minutes and an exciting pitch, this is what you have to convince your class peers, all of whom are savvy, experienced and sophisticated VC investors, to invest in your venture</p>
11:30 – 13:00	<p><u>How are VC funds structured?</u></p> <ul style="list-style-type: none"> • Org structure • LPs • GPs • Management companies • Compensation • Returns 	<p>VC Panel: Partners in VC funds will present their ventures in class and will answer questions Barak Ben Avinoam (Ben-Hamou Ventures) Arik Kleinstein (Gliot Capital)</p>
Day 2, Thursday 9 March 2017		
14:30 – 16:00	<p><u>The Investment Cycles, building the next Google, Facebook and what else?</u></p> <ul style="list-style-type: none"> • Growing through rounds of financing • Determining financing needs • Syndications • Shareholders value considerations 	<p>Reading material: The Venture Capital Cycle – Gompers/Lerner “Conclusions”, pages 199 – 200 “Syndications”, pages 257-260</p> <p><u>Prepare for class (bonus assignment):</u> Be prepared to pitch your start-up idea; one slide, 3 minutes and an exciting pitch, this is what you have to convince your class peers, all of whom are savvy, experienced and sophisticated VC investors, to invest in your venture</p>
16:30 – 18:00	<p><u>Capitalization tables and Valuations, can you play the VC game?</u></p> <ul style="list-style-type: none"> • CAP tables • Share classes • ESOP • The dilution dilemma 	<p>Founders / VCs encounter: The class will watch a real pitch by a company raising a round of financing; VC partners will examine the pitch and provide feedback Dror Nahumi (NVP) Yoav Tzruya (JVP) Barak Witkowski (Drupe)</p>

Day 3, Friday 10 March 2017		
12:30 – 14:00	<p><u>Term Sheet, are you a tough negotiator?</u></p> <ul style="list-style-type: none"> • Main provisions • Non disclosures • No shop and exclusivity • Due Diligence <p><u>Board of Directors</u></p> <ul style="list-style-type: none"> • Who are the members, and why? • Fiduciary responsibilities • Board dynamics 	<p>Reading material: The Venture Capital Cycle – Gompers/Lerner Chapter 10, pages 241 - 254</p>
Day 4, Sunday 12 March 2017 (At SOSA)		
18:00 – 19:15	<p><u>Investment Decisions, do you have what it takes?</u></p> <ul style="list-style-type: none"> • Managing a deal flow • Investment focus and thesis • Building a balanced portfolio 	<p>Reading material: The Venture Capital Cycle – Gompers/Lerner “Conclusions”, pages 375-376 “The Kaufman Foundation 2012 VC report – We Have Met The Enemy... And He Is Us”</p>
19:30 – 21:30	<p>Entrepreneurs Meet Investors (PART I) – Group Work:</p> <p>The class will divide into groups of two types: Entrepreneurs and Investors. Entrepreneurs will pitch their start-up business plans to Investors and both parties will discuss the merits and flaws in those plans, with the goal of reaching an investment agreement.</p> <p>Then, we will discuss how well we did, how many ideas were funded, who failed to reach an investment agreement. And why...</p>	<p>Prepare for class: Teams of “Entrepreneurs” should be prepared to pitch their start-up ideas to VC teams of “Investors”.</p> <p>Up to 10 slides, Maximum of 10 minutes and an exciting pitch, this is what you have to convince your class peers, all of whom are savvy, experienced and sophisticated VC investors, to invest in your venture. Each team should participate in two different sessions.</p> <p>The teams will be announced during the first day of the course. In the next days, “Investors” should get together to define their strategies and investments criteria, while “Founders” should get together to prepare their pitches.</p>

Day 5, Monday 13 March 2017		
14:30 – 16:00	<p>Entrepreneurs Meet Investors (PART II) – Group Work:</p> <p>The class will divide into groups of two types: Entrepreneurs and Investors. Entrepreneurs will pitch their start-up business plans to Investors and both parties will discuss the merits and flaws in those plans, with the goal of reaching an investment agreement.</p> <p>Then, we will discuss how well we did, how many ideas were funded, who failed to reach an investment agreement. And why...</p>	<p>Prepare for class: Teams of “Entrepreneurs” should be prepared to pitch their start-up ideas to VC teams of “Investors”.</p> <p>Up to 10 slides, Maximum of 10 minutes and an exciting pitch, this is what you have to convince your class peers, all of whom are savvy, experienced and sophisticated VC investors, to invest in your venture. Each team should participate in two different sessions.</p>
16:30 – 18:00	<p><u>Fund Management, do you have what it takes?</u></p> <ul style="list-style-type: none"> • Investments cycle • Triage and reserves • Financial model 	<p>Accelerators, Angels and Beyond: We will host representatives of the eco system who specialize in early stage investments and support of young ventures</p> <p>Roy Oron (SOSA) Lior Weitzman (IBM) Jonny Saacks (The Junction, F2 Ventures)</p>
Day 6, Tuesday 14 March 2017		
14:30 – 16:00	<p><u>To Be or Not To be (an entrepreneur)?</u></p> <ul style="list-style-type: none"> • The entrepreneur’s angle • Building a team • Raising funds from VCs • Managing the VC/Entrepreneur relationships <p>Class Discussion: Who are the entrepreneurs who inspired us? And why? What could we learn from their stories, as potential Investors and – who knows – as potential Entrepreneurs?</p>	<p>Reading material: Search the ‘Net or elsewhere for a personal story of a founder, whose story inspires you and you can learn from. Read her/his story, try to look for personal angles of their entrepreneurial journey (please assume everybody else will choose Steve Jobs...).</p> <p>Prepare for class: Be prepared for a 3 minutes presentation about the entrepreneur who inspired you. Why did they become entrepreneurs, their main challenges, do you consider their story a great success or a disappointment? Why were you inspired?</p> <p>Please submit a one page, up to 300 words summary of this assignment</p>
16:30 – 18:00	<p><u>What will investors fund today</u></p> <ul style="list-style-type: none"> • Market trends • The ideal teams • Hot and “Not So Hot” opportunities 	<p>Course Summary: During this session we will also summarize the various topics discussed during the course and address questions</p>

Readings and preparations

The textbook we have selected for this course is *The Venture Capital Cycle*, by Gompers and Lerner. While specific sections in this book have been highlighted as preparation assignments for almost each day of the course, students are encouraged to expand their readings of the book and familiarize themselves with the various topics and research addressed within this outstanding scientific analysis of the VC industry.

We also provide you with the **The Kaufman Foundation 2012 VC report**, as a reading material for the course. Please make sure to read it carefully. We will not be able to analyze this report thoroughly; however we will definitely address some of its topics and conclusions during the course.

We encourage additional readings in business and technology media outlets. Please take a look at the detailed agenda and feel free to enhance your general knowledge. While the time and scope of the course do not allow us to expand on many topics, you may want to refer, either in preparations for the course or in the future, to articles linked to the following keywords:

Private Equity, Venture Capital, General Partners, Limited Partners, Management Fees, Carried Interest, Corporate VCs, VC Performance, VC Compensation, VC investments, VC Rounds of Financing, Angel Investors, Crowd Funding, Technology Incubators, Seed Funding, Late Stage funding, Accelerators, Venture Debt, Unicorns, Technology IPOs, Exits, M&A, Pitching to Investors, Entrepreneurs, Silicon Valley, Global Innovative Eco Systems, Start-Ups, Internet Bubble, and many more.

Some recommended Web Sites:

www.nvca.org

www.vcexperts.com

<https://www.pehub.com>

<http://www.privco.com/knowledge-bank/private-equity-and-venture-capital>

<http://www.ventureblogs.com>

www.techcrunch.com

You should come to each of the classes after you have completed your reading and written assignments. Please do spend appropriate time thinking and analyzing the various topics beforehand, as you prepare yourself for class each day. Your participation and contribution during class are key to everybody's success.

Assignments and Assessment

Please submit to: izhars7@gmail.com

1. Start-Up Presentation; to be continuously revised during the course, and final Submission by Monday, March 20th, 2017 (20%)

Being a good investor means, amongst many other things, understanding also the way entrepreneurs think and operate. Each participant is required to come up with an idea for a new start-up company. Once you have an innovative concept, please prepare a 10 ~ 15 slides presentation that conveys the potential of your start-up to potential investors.

Please feel free to use the following Entrepreneur's Pitch Book as a reference for your presentation: <http://www.slideshare.net/canaanpartners/canaan-pitch-workbook/1>

In order to complete this assignment successfully you should think carefully about the fundamentals of your start-up and how you may present them to potential investors. If you happen to be an entrepreneur, feel free to present your own real start-up. If not, feel free to be as creative as needed, including coming up with imaginary co-founders or suggesting a very promising business model which you have never tested before. If you are an investor who saw an interesting start-up, please use ONLY those pieces of information which are not subject to NDA provisions. Feel free to use your imagination to come up with any ideas you may want to share with the class, as long as your pitch can help you raise funds from sophisticated investors. **Note: you will be able to improve your pitch continuously during the course; you will be graded only a week after the end of the course (deadline for final submissions is March 20th, 2017).**

2. Investment Memo, Submission by March 20th, 2017 (25%)

This assignment places you in the investors' seat. Please choose one of the start-up presentations you have seen students pitch during the course, or your own start-up idea, and write a memo of up to 2 pages explaining the rationale behind your decision to fund that start-up. Your memo should include your own analysis of the potential returns, an explanation of your decision to back this opportunity and also a section of potential risks to the investment.

3. The Entrepreneur who inspired you, Submission by March 14th, 2017; Discussed on Day 6 (15%)

Understanding entrepreneurs is a crucial part of being a successful investor. Search the 'Net or elsewhere for a personal story of a founder, whose story inspires you and you can learn from. Read her/his story, try to look for personal angles of their entrepreneurial journey (please assume everybody else will choose Steve Jobs, and therefore try to be somehow unique in your own selection). Be prepared for a 3 minutes presentation about the entrepreneur who inspired

you. Why did they become entrepreneurs, their main challenges, do you consider their story a great success or a disappointment? Why were you inspired?

You will be graded based on how you considered the factors for success or failure of the entrepreneur you have been inspired by, and your explanations of those sources of inspiration. Feel free to be creative and do not be afraid of adding your own personal comments. Please submit a one page, up to 300 words summary of this assignment by March 14th, 2017.

4. Entrepreneurs Meet Investors Group Work (Days 4 and 5), Group assignment and Group Grading (20%)

This is an important session which practices the main concepts we have addressed during the course. Grades will be given based on (1) the quality of presentations, (2) arguments used during discussions between “Entrepreneurs” and “Investors” and (3) individual contribution to the discussion.

Teams of “Entrepreneurs” should be prepared to pitch their start-up ideas to VC teams of “Investors”. Up to 10 slides, 10 minutes and an exciting pitch, this is what you have to convince your class peers, all of whom are savvy, experienced and sophisticated VC investors, to invest in your venture. Each team should participate in two different sessions (once as “entrepreneurs” and once as “investors”). The teams will be announced during the first day of the course. In the next days, “Investors” should get together to define their strategies and investments criteria, while “Founders” should get together to prepare their pitches.

5. Class participation (20%)

Your participation in class will be graded. You are encouraged to volunteer to pitch your start-up idea and to contribute from your own experience whenever it is relevant. Participation during group discussions and assignments is very important and will consist of 50% of the participation grading.

Bonus Opportunity (10% credit)

- (1) The 3 minutes pitches suggested in the course syllabus are optional and those who will volunteer to give those pitches will be eligible for extra credit. Please let us know beforehand if you would like to present your 3 minutes pitch to the class.
- (2) We hope to have an interactive course, and we do encourage all types of possible digital channels; as such – blog posts, tweets, Facebook posts and any other digital interactions will be given extra credit. Generous credits will be provided to significant digital contributors.