

**NBA 5570**  
**Case studies in Venture Financing**  
Johnson Graduate School of Management  
Cornell University  
Fall 2008

**SYLLABUS**

**Instructors**

- Prof. Ola Bengtsson (lob2@cornell.edu; 607-254 8807), 401B Sage Hall
- Mr. Fred Beste, Partner at Mid-Atlantic Venture Funds, (fred@mavf.com; 610-865 6550)
- 7 entrepreneurs and 3 Venture Capitalists

**Class Location and Time**

Case Week: Thursday 5:00-8:00 and Friday 9:00-12:00

Lecture Week: Thursday 5:00-6:30

Room: B10 Sage Hall

Please note that no food or drinks are allowed in the classrooms!

**Class Overview**

This course focuses on the development of entrepreneurial companies and their financing by venture capitalists. It is aimed at any student who has an interest in the entrepreneurial or private equity sector. This includes both students who wish to start new ventures or join new and growing organizations, and students who wish to work in buyout, venture capital or business development.

The course is built around a series of real-world cases. The cases are actual business plans that were developed by entrepreneurs and later evaluated and invested in by venture capitalists. In class, we do due diligence of these business plans, i.e. analyze the strengths and weaknesses of the product, marketing plan, management team, etc. We also discuss what venture capitalists do to help the entrepreneurs and to mitigate investment risks that are specific to the financing of early stage companies. Each case is presented by both the entrepreneur who developed the business plan and the venture capitalist who invested in the company. With this class format, this course offers a unique chance for students to meet and interact with professionals who have extensive experience of venture financing. Each case is followed by a dinner where the students can interact more informally with the entrepreneur and venture capitalist. In addition to the cases, the course has a lecture series where Prof. Bengtsson discusses some broader perspectives on the entrepreneurial process and venture capital investment strategies.

## Class Content

This course studies the process that entrepreneurial companies go through when they obtain external financing. Our analysis centers on the following questions:

Entrepreneurs	How to become an entrepreneur? What personal characteristics are important in the startup process? How much money does an entrepreneur make? What determines compensation to entrepreneurs?
Business model	How does the company's industry and market work? What are the weaknesses and strengths of the business model? How and when will the company start making money? What management team does the company need?
Approaching VCs	What signifies a good business plan? How do VCs read business plans? How can entrepreneurs identify and contact potential VCs?
VC due diligence	What do VCs look for in a company? How do VCs assemble and evaluate information? What is most important in a company – people or product?
Financing problem	What are the different type of risks in VC investments? What is the role of information asymmetries? What does an entrepreneur and Tony Soprano have in common?
Selecting a VC	Which VC is the best investor for the company? How are deals structured? What does the VC bring to the table except cash?
Post-investment	How does the relationship between VCs and entrepreneurs evolve? What changes to the business model do VCs push for? What happens to the founding entrepreneurs?
Exit	How can a VC exit their investment in a company? What do entrepreneurs do after exit?

The course does not emphasize the following (important) topics: valuation, deal terms, and contract negotiations. The cases that we study are all growth companies financed by venture capitalists. The course is designed to be a very good complement to NBA6780 – *Advanced Private Equity*.

## **TA Sessions and Office Hours**

There are no scheduled TA sessions but Prof. Bengtsson has an open door policy at his office Sage 401B (4<sup>th</sup> floor facing Statler Hotel). Formal office hours are on Thursday 9:00-12:00. Please send an email in advance if you want to meet outside office hours.

Fred Beste will, when his schedule permits, make himself available for one-on-one conversations related to career or personal business matters, generally on Thursdays before his scheduled class time. Nancy Bell, the course assistant, will make the class' students aware of such opportunities at least several days in advance. Nancy can be reached at nch5@cornell.edu or 607-255-6637.

## **Prerequisites and Relationship to Other Courses**

The class has no formal prerequisites, but uses tools and theories from finance, strategy and to some degree accounting.

This class has been designed to minimize overlap with other courses in the finance and entrepreneurship area. Relative to NBA 5640 – *Entrepreneurship and Private Equity* – it gives a more in-depth analysis of the due diligence process and the relationship between the VC and the entrepreneur. Relative to NBA 6780 – *Advanced Private Equity* – it does not study buyouts and the structure of the private equity markets. Also, it does not cover in-depth deal terms, valuation and contracts. While some overlap with other courses on content is inevitable, the perspectives taught in this course are different.

## **Case Series**

### **Schedule**

This course has six two-day cases taught by Fred Beste and guest lecturers. Each two-day case session consists of a Thursday evening session, which runs from 5:00pm to 8:00pm, and a Friday morning session, which runs from 9:00am to 12:00pm. Each two-day session is presented first by the venture capitalist and then the entrepreneur.

### **Dinner with Guest Speakers**

Each two-day case includes a complimentary dinner at the Statler Hotel after class on Thursday. As part of the class requirement you have to participate in at least one dinner and dinners count as class attendance. A maximum of 10 students can attend each dinner (I will circulate sign-up sheets). Business casual outfit is recommended if you will attend the dinner.

## Case Descriptions

### Case 1 (September 4-5)

TrueCommerce – Provider of EDI (Electronic Data Interchange) solutions

Entrepreneur: George McKee, CEO of TrueCommerce

VC: Fred Beste, Partner Mid-Atlantic Venture Funds

### Case 2 (September 11-12)

Caregain, Inc. – Information technology startup targeting the healthcare insurance market.

Entrepreneur: David Lenihan, Former CEO of Caregain, Current CEO of HxTI

VC: Todd Pietri, Partner Milestone Venture Partners

### Case 3 (October 16-17)

Retail Camera Store, One of the largest single-location camera stores in the United States

Entrepreneurs: Dan Poresky and Mike Woodland, Current and Former CEO of Camera Store

VC: Fred Beste, Partner Mid-Atlantic Venture Funds

### Case 4 (October 23-24)

ESP Pharmaceuticals, Inc – Acquisition and development of specialty pharmaceuticals

Entrepreneur: Howard Weisman, Former CEO ESP, current CEO of EKR Therapeutics

VC: Adele Oliva, Partner Quaker BioVentures, JGSM alumn

### Case 5 (November 13-14)

MagnaVan Systems, Provider of specialized truck-trailer systems

Entrepreneur: Tom Torcomian, CEO of MagnaVan

VC: Glen Bressner, Partner Milestone Venture Partners.

### Case 6 (December 4-5)

Landreth Seed Company – 250 year old seed company (for the garden) trying to expand

Entrepreneur: Barbara Melara, CEO of Landreth Seed Company

VC: Fred Beste, Partner Mid-Atlantic Venture Funds

## Class Rules

The nature of this course makes it extremely important that you attend and actively participate in every two-day case. The venture capitalists and entrepreneurs who present and lead the class have taken valuable time out of their busy lives to come and share their knowledge and experience with you.

If you have a legitimate reason not to attend a case class, you may ask for approval from Prof. Bengtsson. Such request has to be made before 4:00pm for Thursday classes and before 8:00am for Friday classes. You cannot skip a case class without a legitimate reason. If you are absent one or two days (one case = two days) with a legitimate reason, you do not receive class attendance credit for those days. If you are absent three or more than case days, your overall class attendance grade for this class will be adversely affected. If you take this class Pass/Fail, you cannot miss more than four case days in order to get a passing grade.

In addition to the above, please show our guest speakers the respect they deserve. Make sure that you arrive on time, have your cell-phone turned off, and **not use your laptop**. Also, bring your name card so the speakers can call you by name. It is imperative that you are well prepared to actively participate in the classroom discussion. This means that you have read through the material for the case and are ready to ask questions. Class attendance is a major component of your final grade, and my definition of attendance includes active participation.

### Preparations Before Class

In the week of a two-day case, each student must individually read the material related to each class and prepare a two page due diligence memo (double spaced with normal margins; you are allowed to include up to two additional pages with exhibits). Materials for the cases could be found in the course package. Note that there is no material for Case 3 and you are consequently not required to prepare a memo for this case. For your memos, you are allowed and encouraged to work in groups but your final write-up has to be individual work. The memo has to be submitted in paper format at the beginning of each Thursday class. The memo should address the major considerations of the investment from the perspective of the venture capitalist and the entrepreneur respectively. In particular, the following questions should be answered. Clearly mark which question a particular answer refers to.

1. Briefly describe the business idea.
2. What are the main risks associated with an investment in this company?
3. Which aspects of the company would you focus your due diligence effort on?
4. What changes to the business idea, management team, etc should the VC push for?
5. Would you invest?

In addition, you should include two questions in your class memo that you would like to ask the venture capitalist and/or the entrepreneur. The questions could be case specific. A memo is counted towards your final course grade as long as it indicates that you have read the case and spend some time (~2-3 hours) analyzing it. I do not grade the memos or give you individual comments – you have plenty of opportunities during class to discuss with the speakers your perspectives on the case. However, if your final course grade is on the border between two grades, I read all your cases and use them to determine your final grade.

## Lecture Series

### Lecture Descriptions

The lectures are designed to complement the case series. Whereas the cases will focus on the details of a specific business plan and investment decision, the lectures will cover more conceptual issues. The readings for each lecture include both academic articles and recent newspaper articles.

#### Lecture 1 (August 28):

Introduction and description of course. Overview of VC. Due diligence in VC deals.

#### Lecture 2 (September 18):

Importance of people vs idea in business plan. Entrepreneurial talent. VC relationships.

#### Lecture 3 (October 2):

Deal terms. This lecture is optional for students who also are enrolled in NBA678 Advanced PE.

#### Lecture 4 (November 20):

Reverse due diligence. VC quality and specialization. Value add vs selection. Syndication.

### Schedule and Class Rules

The lectures are held on Thursdays between 5:00pm and 6:30pm.

If you have a legitimate reason not to attend a lecture, you may ask for approval from Prof. Bengtsson. Such request has to be made before 4:00pm on Thursday. You cannot skip a lecture without a legitimate reason. If you are absent one lecture with a legitimate reason, you do not receive class attendance credit for this lecture. If you are absent two or more lectures, your overall class attendance grade for this class will be adversely affected. If you are also taking NBA678 Advanced Private Equity you can skip the lecture 3 (deal terms) without grade penalty. If you take this class Pass/Fail, you cannot miss more than two lectures in order to get a passing grade.

Prof. Bengtsson's classes have mandatory participation and attendance. If you have a legitimate reason not to attend a case class, you may ask for approval from Prof. Bengtsson. Such request has to be made before 12:00am for Thursday classes. You can be absent from 2 lectures without major implications on your grade. You are **not allowed to use a laptop in class**. Also, bring your name card.

### Quizzes

At the beginning of each lecture, except the first, has a quiz at the beginning of class. The quizzes cover the material discussed in the **previous** lecture. The quiz questions are multiple-choice type (which does not mean that they are trivial). The total number of quizzes is 3 but only the 2 best quiz results are counted towards your final grade. If you fail to take a quiz, you will receive a score of 0 on that quiz.

## **Course Material**

Materials for the cases and lectures are found in the course package. There is no required text book for this class. The following books are useful references on venture capital:

- *Fundamentals of Venture Capital*, by Joseph Bartlett
- *Venture Capital and the Finance of Innovation*, by Andrew Metrick (fairly technical book)
- *The Venture Capital Cycle*, by Paul Gompers and Josh Lerner (good overview of VC)

## **Grading**

The grading for this class is as follows:

35%	Attendance (come to class and be active)
30%	Final exam (take-home, business plan analysis)
15%	2 Quizzes (multiple-choice, only best 2 quizzes of 3 count)
20%	5 case memos (reasonable effort, graded if your final grade is on border)

Note that your class participation grade is significantly reduced if you are absent on more than two days with case sessions, or more than two lectures. The final is an individual take-home case analysis and is due is December 7<sup>th</sup> at 8:00 am.

## **Regrade Requests**

The deadline for a regrade request is one week after the homeworks, quizzes or final are returned. The deadline for a course regrade request is two weeks after the final grade has been posted. All regrade requests have to be submitted in writing (email or paper format) where you outline the reasons for why your grade is wrong. I do not meet with students to discuss regrade requests.

## **Grading**

The Johnson School faculty has adopted a suggested grade average of 3.5 for elective courses. This course will follow that guideline. Compared to many other Johnson School courses, the grade distribution of this course is relatively flat because a large part of the material covered in this class is subjective and impossible to evaluate. A flat grade distribution means that few students will receive an A+. It is allowed and encouraged to take this course Pass/Fail.

## **Honor Code**

Each student in this class is expected to abide by the Cornell University Code of Academic Integrity. Any work submitted by a student in this course for academic credit will be the student's own work. Memos, quizzes and the final exam should be done individually and no collaboration is allowed. Any violation of the Cornell University Code of Academic Integrity is considered cheating.

## **Other**

This course gives 3 credits, and can be taken for letter grade or Pass/Fail. The course is open to non-Johnson students, conditional on space and instructor approval.