הפקולטה לניהול
ע"ש קולר
אוניברסיטת תל אביב

Coller School of Management
Tel Aviv University

The Leon Recanati Graduate School of Business Administration

1231.3950.01 – Financing startups using different sources of Capital

Summer Semester – 2023

Section	Day	Hour	Exam date	Lecturer	Email	Telephone
01			For details of the exams schedule	Dr. Shai Bernstein	sbernstein@hbs.edu	

STUDENTS will have to read a case, and a note already **before the first class** ! Purchase of CASE STUDIES from Harvard Business Publishing https://hbsp.harvard.edu/home/

https://hbsp.harvard.edu/import/1081136

Course Units

1 course unit = 4 ECTS units

The ECTS (European Credit Transfer and Accumulation System) is a framework defined by the European Commission to allow for unified recognition of student academic achievements from different countries.

Course Description

This is a course about the financial decision-making process largely from the point of view of the CEO of an entrepreneurial venture, ranging from very early to very late stages. The course analyzes the incentives of all parties in entrepreneurial financial transactions: founders, employees, angels, VCs, corporate investors and public markets.

The main goal of the course is to expose students to various forms of financing instruments available for early stage ventures along the life cycle. The pedagogy takes a two-pronged approach: First, develop tools and concepts modeling, valuation, control, and investment decisions within an entrepreneurial context. Second, we use cases with firms at different stages initial angel or venture capital investments through exit decisions, in order to see the issues that arise when these principles are applied in practice. Specifically, the class will discuss various sources of funds that are most attractive for entrepreneurial ventures at different points in time, and consider how much control does the entrepreneur need to relinquish? What defines control of a company?

Course Objectives

Upon completion of the course, the student will be able to:

1. understand the financial decision-making process from early to late stage start-ups
2. analyzes the incentives for all parties involved in entrepreneurial financial transactions
3. recognize various forms of financing instruments

Evaluation of Student and Composition of Grade

Percentage	Assignment	Date	Group Size/Comments
40	Class Participation		
60	Final Project		

* Participation in all classes of a course is mandatory.
* Students who absent themselves from classes or do not actively participate in class may be removed from the course at the discretion of the lecturer. (Students remain financially liable for the course even if they are removed.)

Course Assignments

The course will require students to carefully prepare all cases, to read and understand all materials, and to participate actively in class discussion. Constructive participation constitutes a significant portion of the grade. Readings are important to understanding applications and to following the lectures and classroom dynamic. All students are expected to participate in the case discussion and students will be frequently (cold) called upon to illuminate their view on the topic, as well as on the practical and theoretical underpinnings of the material.

Case questions that will motivate the discussions will be published before class.

Grading Policy

In the 2008/9 academic year the Faculty instituted a grading policy for all graduate level courses that aims to maintain a certain level of the final course grade. Accordingly, this policy will be applied to this course's final grades.
Additional information regarding this policy can be found on the Faculty website.
Score Retention Policy

Evaluation of the Course by Student

Following completion of the course students will participate in a teaching survey to evaluate the instructor and the course, to provide feedback for the benefit of the students, the teachers and the university.

Course Site (Moodle)

The course site will be the primary tool to communicate messages and material to students. You should check the course site regularly for information on classes, assignments and exams, at the end of the course as well.
Course material will be available on the course site.
Please note that topics that are not covered in the course material but are discussed in class are considered integral to the course and may be tested in examinations.

Course Outline*

NB: This schedule is tentative and subject to change.

Session **Case / Lecture**

1 Introduction and the link between business model and financing strategy

- CASE: Athleta (814-055) + exhibits
- Pre-class reading material: Evaluating Startup Ventures (9-819-039)
- Assigned questions:
    i. How would you assess Athleta's historical financial performance
    ii. How do you evaluate Athleta's financial forecasts?
    iii. How much money does the company need? From whom should the money be raised? On what terms?
    iv. If you were writing a term sheet for Athleta, what would you be sure to include?
    v. What should Scott Kerslake and his team do?

2 Term sheets, VC valuation and contracts – the fundamentals of venture economics

- CASE: Webtracker (915-543)
- Pre-class reading material: A method for valuing high-risk, long-term investment (9-288-006)
- Assigned questions:
    i. What are the primary differences and similarities between the two term sheets?
    ii. Which one do you prefer and why? How do the reputations and characteristics of the two individual VCs and their firms factor into your choices?
    iii. Which specific terms would you attempt to negotiate with each VC and what would your negotiation strategy be?
    iv. How does your view of WebTracker's growth and exit trajectory influence your decision i.e., if you believe the scenario laid out by the founders in the case? If you don't? If you see a merger/acquisition or IPO as the likely exit?

3 Bridge Financing (and convertible notes lecture)

- CASE: Fast Ion (815-025)
- OPTIONAL Pre-class reading material: Convertible notes in Seed Financing (9-813-017)
- Assigned questions:

    1) What factors should John Davidson be considering as he decides whether or not to convince his partnership to continue funding Fast Ion Battery? How might John Davidson approach calculating the expected present value of his alternatives?
    2) We will be doing a role-play between John Davidson and Donna Lerner during the class. Please put yourself in the shoes of these two protagonists and think about how you would discuss the merits of either continuing -or- abandoning your investment in Fast Ion.

3) Referencing Exhibit 4, and assuming that Blue Lock Ventures decides not to participate in the bridge round or any future financings:
    a) If Ware Street Capital and Franconia Ventures each invest their pro-rata and additionally split Blue Lock Venture's pro-rata portion of the bridge, how many warrants would each firm receive?
    b) If Ware Street Capital and Franconia Ventures decide to implement the "Pay-to-Play" mechanism, how many, and what type of, shares will Blue Lock Ventures retain?

4) <u>Extra Credit</u>: Assuming the following, how much impact does receiving the warrants (calculated in 3.a above) have on Ware Street Capital's ultimate IRR? How about implementing the "Pay-to-Play"? Both together?
    a) Ware Street Capital and Franconia pick up Blue Lock's pro-rata in the bridge;
    b) Fast Ion raises the Series B and Series C as depicted in Exhibit 5;
    c) Fast Ion is acquired in December 2016 for $350 million in cash.

4 Growth funding: Convertible Debt

- CASE: Western Technology Investment (817-019)
- Pre-class reading materials:
- Assigned questions:
    i. Conceptually, where on the risk --return frontier should venture debt lie in relationship to other private equity (broadly defined) asset classes? Based on the data in the case, does venture debt seem like an attractive asset class relative to these others, or not.
    ii. In what ways does WTI's strategy seem to help or hinder it's risk-return profile and performance?
    iii. Evaluate the proposed venture debt financing of Juvo from both WTI's and Juvo's perspectives. What are the advantages and disadvantages of a standard venture debt loan from the perspective of Juvo?
    iv. Based on the assumptions listed on pg. 10 of the case, what is the projected equity ownership of Juvo held by WTI at exit (please create a Capitalization Table for Juvo as a way to get to the answer, assuming WTI gets the full 12% warrant coverage and makes a $500,000 investment in the next round)?

5 Going public and the pricing of the IPO:

- CASE: Square's IPO (817-054)
- Assigned questions:
    i. Just a year before the IPO, Square had been valued at $15.50 a share, implying a post money valuation of approximately $6 BN. Do you believe that the Series E investors overpaid?
    ii. Using the data in Exhibit 12a, 12b and 12c, please create a pre-IPO capitalization table, showing the fully diluted shares and their value immediately prior to the IPO at the originally proposed $12 and the revised $9 share price. Who were the winners and losers from this fall in price from the prior round of financing?
    iii. Do you think the Square underwriters simply underpriced the IPO, or had the pricing strategy been correct, ensuring robust market demand for the shares after the IPO?
    iv. What have been the drivers behind the changing market for IPOs (and late stage finance) among VC-backed startups over the prior decade? How are these impacting startups, VCs and employees?