

Seed Investment Practicum One Week Interim Class - January 2018

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Class meets All day from Monday, January 8, 2018 to Friday, January 12, 2018 plus weekly one hour teleconferenced or in-person sessions through the third module.

Duration January 8 through the end of Mod 3

Credits 2 credit hours

Prerequisite None

Course Description

The course objective is to guide students through the entire process of sourcing, selecting and initial approach to funding of a seed stage investment. The class will focus on various aspects of identifying, screening, conducting due diligence and negotiating with one or more finalist companies to invest in. The class will construct a term sheet, present it to the company and, finally see if a suitable investment can be structured – leading to a nominal sum being invested from the instructor). The practical work will be supplemented with readings, one quiz on the required readings and one open book exercise

Here is the schedule for the first week (January 8-12):

Schedule	Monday, Jan. 8	Tuesday, Jan. 9	Wednesday, Jan 10	Thursday, Jan 11	Friday, Jan 12
0900-1000		Open for Study	Open for Study	Open for Study	Open for Study
10:00	Company Presentations	VC Panel	Open for Study	Fourth Lecture	Project Work (Interactive with me) and Schedule Finalization for the Rest of the Mod
11:00			Third Lecture	Travel Window	
12:00	Lunch	Lunch	Lunch	Sands Capital 1000 Wilson Blvd. Suite 3000 Arlington, VA 22209	
1:00pm		Second Lecture - Diligence Discussion & Investment Sourcing	Travel Window		
2:00pm	Introduction to the Course - Schedule and Discussion of Objectives for the companies that have presented	John Song Investment Banker Robert W. Baird	In-Q-Tel Presentation - 2107 Wilson Blvd. Suite 1100, Arlington, VA 22191	Travel Window	
3:00pm		Q&A After Second Lecture		Halcyon Tour. - 3400 Prospect St NW Washington, DC 20007	Open for Study
4:00pm			Travel Window		Lecture - Discussion on Term Sheets
5:00pm	Open for Study or contacting your companies	Social Tables - 1325 G Street 3rd Floor Washington, DC 20005 (Between 13th & 14th)	Open for Study	Travel Window	
6:00pm				pmEntrepreneur vs. VC PanelNetworking Event Sara Zulkosky, Greenspring Assoc. Parag Sheth, MD Venture Fund David Fairbrothers, DorsataGreg Herrington, Dorsata Matt Mueller, KnotStandard	
7:00pm					
8:00pm					
9:00pm					

KEY
Open for Study/Personal Time
Lectures or In-Class Work
Guest Presentations (but in class)
Lunch
Travel Time
Off-Site Presentations

Class Exercises and Deliverables

At this point, there are eight companies that have volunteered to be reviewed by the class. As such the class will be divided into four teams to conduct the required work. There will be no more “companies that will be added to this roster but there could be some drops before Monday. Regardless, teams should be comprised of two students each and each team will likely have two companies to review for potential investment. This exercise will be the primary assignment for the class. Initial presentations by the teams will take place on Monday and then every team will be responsible for continued interaction with your respective companies over the course of the class to arrive at your final determine regarding moving ahead with an investment (or not) by the second to the last week of the class. I will provide you with templates for these reviews and your deliverables will include your due diligence findings, a summation regarding “invest-ability” and a term sheet for the investment. This assignment will constitute 30% of your grade for the class – 15% for the due diligence and 15% for the term sheet development and this assignment will be due in the class the week of 2/5.

The second assignment will be to evaluate a more advanced company for potential investment. This roster will be companies that I am considering investing in and need further diligence. I have done initial screening of these but have not done extensive diligence. I will provide detailed information and the points of contact for you on the first day of class but here are the different companies:

- **PIXM**
- **Mingle Analytics**
- **Hopi**
- **Tridentis**
- **Gravwell**
- **Leviathan Analytics**

I will need to make introductions to the students that are assigned to review these investments and the company founders so we will sort this out in the class on Monday. This exercise will represent 15% of your overall class grade.

The third exercise (which I’m calling an “open book quiz”) will be to build hypothetical waterfalls on three Lavrock portfolio companies: Graphika, Neurio, and SixGen. An overview of these companies and the Lavrock positions in those companies is provided below:

Analysis of Lavrock Investments						
Investment	Company	2017 Revenue	Investment	Percent Ownership	Projected 2018 Growth	Investment per dollar of revenue X percent ownership
Investment One	Graphika	\$ 1,700,000	\$ 2,000,000	11%	100%	9%
Investment Two	SixGen	\$ 2,000,000	\$ 1,250,000	23.8%	75%	38%
Investment Three	Neurio	\$ 6,500,000	\$ 1,500,000	5%	100%	22%

These three companies constitute the early investments by Lavrock and, for this analysis, you should assume were made on January 1, 2018. You will see in the above table, the amount of Lavrock's investment, the percentage ownership Lavrock holds and both the projected revenue growth expected this year. You should begin to build waterfall models that will bracket different estimated growth in both revenue and profit projections over a five year period. Again, this is hypothetical but assume 10% net profit in 2018. From there, you should build different revenue growth projection models revenue growth in years 2019 through 2023 with net profit growth as follows

2019	12% of Revenue
2020	14% of Revenue
2021	16% of Revenue
2022	18% of Revenue
2023	20% of Revenue

Again, you should plug different revenue growth into your model and the net profits should always be the above factors of that revenue.

Each of these companies has reasonably detailed websites and, after reviewing the sites, you should see if you can find comparable company valuations and use some of the input for the basis for building your exit models for each of the three companies in 2023. You should use your judgment with regard to modelling in potential additional funding rounds between now and 2023.

This "individual exercise (as opposed to team) constitutes your second quiz and designated as "Open book exist analysis exercise" in the grading table below and will constitute 15% of your grade.

The fourth exercise is designed to provide you with another challenge that associates in venture firms and angel groups are frequently tasked with. In this "team" exercise, you should investigate the following areas (one topic per team – we will determine which team takes which topic) and try to research early stage companies that may be appropriate to investigate for investment consideration. Funds have different areas of "functional area focus" and smart firms do not just sit back and wait for companies desiring funding to come to them. Rather they implement exhaustive outreach to try to find companies that might consider taking investment from their fund as these sourced companies may not be as "picked over" as the companies reaching out to several VCs. We will research the following areas:

- Autonomous airborne vehicles (Drones)
- Niche cyber related companies
- Augmented and virtual reality start-ups
- Open spectrum point-to-point data communications companies

This paper should provide a few credible sources of early stage companies that seem to be building technology in these respective areas and will constitute 15% of your grade.

The pace of the course will be fast but very reflective of how seed stage investors screen, preview and arrive at valuations for seed stage investments. Students will work as small teams to learn how to analyze small companies for their "invest-ability," discuss investment terms and investor expectations with company executives, and develop term sheets for the investments. A by-product for the companies will be student feedback to company executives to perfect their "investment message" and prepare them for suitable seed stage investments. Students should expect to spend

time outside of class (telephonic or in-person) with their nominated companies in either team settings or individually to determine investment suitability, ease or challenges of working with the team and other aspects of the investment selection. Additionally, students will be expected to perform high level due diligence on the companies to build their investment case for the nominated companies, as well as negotiate investment terms with their respective companies.

After the class, we will want students to take an active interest in tracking their respective companies to determine how successful they have been at attracting follow on financing, advancing their business plans and generally engage in the progress of the company.

Also, scheduled during the first week of January (in Washington DC) will be presentations by angel investors and venture capitalists along with a session with “In-Q-Tel”, the intelligence community’s venture capital organization and “Helcion” a high profile local incubator. Furthermore, the class will attend a panel of venture capitalists that are convened for the local “Venture Capital Bootcamp. Pre-reading that will be helpful on In-Q-Tel (<http://about.crunchbase.com/news/heres-20-q-tel-investments-said-taking-cias-money/>)

In addition to each team’s work on their respective companies, each team will evaluate one particular area of potential investment. If you were working for a seed investment firm, you would frequently be tasked to try to source and evaluate particular companies in given markets the firm is interested in investing in. During the first day of class, we will examine three or four different technologies and try to find great start-ups in those markets that might be worthy of pursuing investments in. This exercise will also be team oriented with a final paper due at the end of the class on your findings.

Course Content by Class

The above schedule is still tentative – subject to confirmation on times from outside speakers.

Expectations

Attendance is mandatory. If, for any reason, you expect to miss a class, please alert Professor Hunt ahead of time. If you ever need an extension on an assignment for any reason, please alert the instructor as soon as possible. Students who wait until the last minute will not be granted an extension.

All of the course presentations will be made available online after each lecture. Thus, there is no reason to use your computers during class. Computers will be allowed for note taking and, under specific direction from Professor Hunt for the pursuit of specific online information. Otherwise, computers can be used for note taking but not for surfing the internet or engaging in non-class internet related application use during class.

Course Requirements and Evaluations

Students will receive a grade that will follow the guidelines set forth in DuLac and the Faculty Handbook of the University of Notre Dame. Grades will be based upon following breakdown:

Grading	Individual or Team	Weight	*Due
Quiz	Individual	10%	Week of 1/15
Open book exit analysis exercise	Individual	15%	Week of 2/5
Diligence Work (on potential investment)	Team	15%	Week of 2/5
Term Sheet Development	Team	15%	Week of 2/5
Secondary company screening	Individual	15%	Week of 1/22
Research on Sourcing	Team	15%	Week of 1/29
Class Participation	Individual	15%	N/A

Grading Criteria

Class participation will be graded based on the student's preparedness for each class as well as the value added during class discussion. Note that this does not mean that students should sacrifice quality for quantity.

Grades for the diligence and final assignments will be based on effort, thoughtfulness, and completeness. High quality work will be rewarded, which includes making sure assignments are professional. All written assignments are to be the original work of the student or the teams. Anything copied directly from another source or derived from another author will require proper footnotes. Otherwise, plagiarism will be assumed and no credit will be earned for the assignment.

Honor Code

All students in the course are expected to adhere to University standards of academic integrity. Cheating, plagiarism, and other forms of academic dishonesty will not be tolerated in this course. This includes, but is not limited to, consulting with another person during a quiz or examination, turning in written work that was prepared by someone other than you, and making minor modifications to the work of someone else and turning it in as your own. Ignorance will not be permitted as an excuse. If you are not sure whether something you plan to submit would be considered either cheating or plagiarism, it is your responsibility to ask for clarification. By accepting enrollment in this class, you acknowledge your understanding of the expectations of this class and affirm an understanding of the Student Guide to the Academic Code of Honor. As a member of the Notre Dame community, I will not participate in or tolerate academic dishonesty.

Readings

Periodicals and BLOGS

Seed Funding & Investor Perspective:

- <http://avc.com/2010/07/lead-investors-dipshit-companies-and-funding-every-entrepreneur/>
- <https://www.usatoday.com/story/money/columnist/2013/08/05/baverman-angel-investors/2600653/>
- <http://www.wired.com/business/2013/07/startup-reckoning/>
- http://www.avc.com/a_vc/2013/06/valuation-vs-ownership.html
- <http://www.siliconlegal.com/reports/seed-financing-report-2015>

- <http://patents-innovation-commercialization.blogspot.com/2017/10/historical-vc-investing-trends-how-it.html>
- <http://tomtunguz.com/the-11-risks-vcs-evaluate/>
- <http://fundersandfounders.com/inside-the-investors-mind-jeff-clavier-early-investment/>
- <https://blog.wealthfront.com/impact-of-dilution/>
- http://codingvc.com/why-startup-technical-diligence-is-a-waste-of-time/?utm_source=CB+Insights+Newsletter&utm_campaign=f2ca9f8a89-ThursNL_7_14_2016&utm_medium=email&utm_term=0_9dc0513989-f2ca9f8a89-86670009
- <https://www.cbinsights.com/reports/Q3-2014-Venture-Capital-Activity-Report.pdf>
- <http://www.businessinsider.com/marc-andreessen-on-startup-burn-rates-worry-2014-9>
- <http://www.bothsidesofthetable.com/2010/08/01/my-seed-funding-policy/>

Small Company Advantage:

- <http://www.economist.com/news/special-report/21707050-superstar-companies-are-far-more-resilient-critics-give-them-credit-new?frsc=dg%7Ca>

Valuation:

- <https://angel.co/valuations>
- <http://www.businessinsider.com/why-its-better-to-sell-a-startup-for-20-million-instead-of-200-million-2013-7#ixzz2XynnNvX7>

Crowd Funding:

- <http://sandhill.com/article/will-software-disruptors-be-disrupted-by-equity-based-crowdfunding/>
- <https://fundrise.com>

Start-up Struggles:

- <http://www.businessinsider.com/6-attributes-of-companies-that-change-the-world-2013-11>
- <http://jamesaltucher.quora.com/The-Ultimate-Cheat-Sheet-For-Starting-And-Running-A-Business>
- <http://sandhill.com/article/why-many-smart-people-fail-as-entrepreneurs/>
- <https://www.cbinsights.com/blog/startup-failure-post-mortem/#2017update1>
- https://www.cbinsights.com/blog/venture-capital-funnel/?utm_source=CB+Insights+Newsletter&utm_campaign=5d0ce37ce9-FridayNL_7_29_2016&utm_medium=email&utm_term=0_9dc0513989-5d0ce37ce9-86916425
- <http://startupyard.com/9-things-not-to-do-when-talking-to-investors/>

Term Sheets:

- www.seriesseed.com.