

**Kauffman Fellows Program  
Class 18 Session Guide  
Module II**

Dear Class 18 Kauffman Fellow,

The theme for this module – Investment DNA: Getting Capital Formation Right – is to develop a framework for assessing and addressing the many forces that influence a portfolio company over its life. Particular emphasis will be placed on the front-end of the process. Activities related to sourcing new deals – due diligence, term sheets, and the discussions and negotiations that lead to company formation – will be explored.

The aim is to build up your intuition about the vital importance of these initial steps in affecting the eventual health and success of a new venture. Transparent, constructive, and direct engagement with entrepreneurs will be the order of the day – as always, informed by genuine empathy and a spirit of risk-sharing and collaboration.

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Bill Tobin  
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## Session 1: Deal DNA Keynote

*Speaker:* David Hornik, August Capital

*Session Goals:*

When I was growing up, my mom would say the same thing each year as I started with a new teacher -- "don't forget that first impressions matter." And she was right. First impressions do matter. You can start off a relationship on the right foot or the wrong foot. You can get the benefit of the doubt, or not. Things can be made easier or harder. It all depends upon how you get things started.

- The same is true with investing. First "impressions" count. What constitutes a first impression?
- The first email you send an entrepreneur
- The first meeting you have with an entrepreneur
- How you perform "due diligence"
- How you negotiate a term sheet
- The terms you agree to in the financing
- The first board meeting you have with the company
- How responsive you are

There are a million ways in which you will set the tone of your relationship with an entrepreneur and his or her company going forward. It will have a huge impact on the success or failure of 1) your relationship with the entrepreneur, 2) your relationship with the team, and 3) the company itself. Getting it right from the beginning really matters.

*Questions to Ponder:*

- Am I a buyer or a seller?
- How will my actions during the diligence process impact my ability to get the deal done?
- How will my actions today impact my interactions with the company going forward?
- How will the financing terms today impact future financings?
- How will my actions today impact my ability to get future deals done?

*Notes:*

## **Session 2: Field Project Cohorts**

*Speakers:* Jewel Savadelis, Savadelis Films  
Bill Tobin, Strayer Consulting Group  
Phil Wickham (Charter Class), Kauffman Fellows

### *Session Goals:*

Develop concrete proposals for field projects; understand goals, methods, expectations, possibilities, timelines, teaming, prior art.

### *Questions to Ponder:*

- What is the range of possible topic areas I should be evaluating?
- What level of impact should I strive for?
- Will I be able to formulate a provocative, persuasive, 5-10 year forecast?
- What partners might I court (other venture investors, entrepreneurs, universities, corporate, governments, foundations...)?
- Who is my primary audience?
- What are the possible channels for communication and publication?
- Will I be proud of my work, looking back 5 or 10 years from now? (Will my forecasts be right?)

*Notes:*

### **Session 3: Company Presentations and Due Diligence and the Essence of Great Investing**

*Companies:* Josh Margulies, Liviam  
James Richards, Teleborder  
*Speaker:* Gene Hill, SV Life Sciences

#### *Session Goals:*

To share and discuss best practices for conducting due diligence. To consider how the diligence process varies – by firm, by individual, by sector, stage, geography, and circumstance – and how it can be an effective tool for making superior investments. Through the use of scenarios, focus on issues of leadership, emotional awareness, and social awareness in the due diligence process.

Fellows will watch two live pitches from entrepreneurs currently fundraising in both the healthcare IT and cloud/freemium space. Consider how these opportunities present themselves by using the due diligence framework provided by Gene Hill in the 5M article you received as prework. In groups, Fellows will revise and develop a single due diligence plan that they will then report out to the class.

#### *Questions to Ponder*

- How does the diligence process evolve as a company progresses from Series A through subsequent financings.
- As an existing investor, what are your disclosure obligations to prospective investors?
- As a prospective investor, how should you weigh and interpret the input and endorsements you receive from existing investors?
- How should you balance qualitative and quantitative inputs? Facts versus opinions? Contradictory inputs? Confirmation bias? Not-invested-here expert bias?
- How thorough and consistent is your firm's diligence process?
- How well does it facilitate decision consensus?
- How often (in retrospect) does it tend to generate false positives and false negatives?
- What happens when diligence work is accelerated in the face of competitive pressure?
- Should you share your findings outside your firm? With the company? When unfavorable?
- Should you have a model for due diligence?
- Can your model be different from that of another great investor and still be successful?
- What are the two or three most common questions investors ask that add very little value to the investment process?
- What are the two or three most valuable questions that investors fail to ask?
- Does the way in which you conduct due diligence have post-investment impact?
- Do leadership, emotional awareness, and social awareness have a role in the due diligence process?

*Notes:*

## **Session 4: TBA**

*Speakers:* TBA

*Session Goals:*

*Questions to Ponder:*

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*Notes:*

## **Session 5: Influence Without Authority**

*Facilitator:* Bill Tobin, Strayer Consulting Group  
Jeff Harbach (Class 16), Entrepreneur. Investor. Mentor  
Allen Taylor (Class 16), Endeavor Global  
Steve Reale (Class 9), Levensohn Venture Partners

### *Session Goals:*

As we move from the highly structured and codified environments of school, established businesses and governmental systems to those that are more chaotic and unstructured in the innovation ecosystem, we need to also evolve our thinking and modify our (previously successful) behavioral practices toward a leadership style that provides a vision that others will want to follow, instills their trust and faith in us, and motivates the discretionary effort that will help us be successful. This session will help the class understand why influence matters and how it plays a role in long-term individual and firm successes. In addition, we will identify situations (on boards, in portfolio companies, etc.) where influence significantly impacts your results. You will experience how to apply influence principles and strategies to improve intended outcomes.

### *Questions to Ponder:*

- How have I been successful to date using my own two hands? How about being able to direct others' work (command and control)? How have I started to use influence rather than directing others or doing it myself?
- How well do I craft compelling narratives for the future?
- Do I see others as potential allies or enemies?
- How much empathy and compassion do I have for others in my daily activities?
- Am I good at understanding and exercising reciprocity with others?
- Am I developing a powerful network that will drive my future business ecosystem?
- Where and how do I lose influence?

*Notes:*

## Session 6: Conflict to Creativity

*Speakers:* Ward Ashman, Ian Schmidt, Trimergence LLC

*Session Goals:*

Conflict naturally occurs when people have differing opinions and tend to see their own opinion as accurate and ultimately correct. Creativity is activated when people are open to diverse points of view, which are then integrated into a new and innovative perspective. By using Trimergence' Conflict to Creativity model you can apply the skills to successfully navigate these conflict situations to collaborate and generate creative breakthroughs. Key to using these skills is to remember that conflict is actually an indicator of the opportunity for collaboration, potential for synergy, and creative outcomes.

Leaders require this communications skill set in order to activate and drive highest quality solutions. Those leaders that use this simple, yet powerful tool can grow quickly and master their interpersonal relationships, thus naturally rising to the top. Those leaders who use conventional interpersonal styles erode their influence, and miss opportunities by getting stuck in relationship breakdowns, which then require a command and control approach. Those leaders who are not able to manage conflict well lose their influence via the relationship breakdowns they unwittingly create. Which type of leader are you now? Most importantly, which type of leader do you want to be?

*Questions to Ponder:*

- What is my approach to conflict? Do I aggressively push my position or do I back off to avoid conflict?
- Which do I value more in my conversations: convincing people of my perspective or listening thoroughly to the point of view of others?
- What have I learned about myself through the MBTI and TKI models that will help me more effectively navigate conflict?
- Where have I seen the value of diversity of perspective that has led to new and creative breakthrough solutions?
- How have I facilitated creative breakthroughs and conflict transformation in the past?
- How can I better facilitate other's authentic expression of charged and/or vulnerable thoughts and feelings?
- What aspect of my conflict style am I most familiar with and how do others perceive me in conflict historically?
- What loss have I incurred in the past by choosing my historic style of conflict?
- How would I like to show up in conflict in the future? What would this look like?
- What would I gain by managing conflict as an opportunity for creative partnership?

*Notes:*

## Session 7: Term Sheet Negotiations

*Facilitator:* Cindy Hess, Fenwick & West LLP  
Warren Packard, Thuuz Sports

### *Session Goals:*

To understand: the business rationale for various investment deal terms; how to set mutual goals with entrepreneurs in a way that achieves alignment with investors; how to account for what might happen as a portfolio company matures; and how to cope with misalignments that may emerge.

### *Questions to Ponder:*

- How do stakeholders and participants share in the rewards when a young company has a successful outcome? What mechanisms drive these results?
- How should I describe common terms in a way that is understandable and acceptable to the entrepreneur? How do I make these legal terms palatable and still show that I am excited and interested in the company?
- What are typical areas of misalignment between the investor and the portfolio company (at this funding and future ones, including exits) that we can take into account in this term sheet? How accurately do they correlate to the most important points of conflict?
- What protections and accommodations does the term sheet provide for the entrepreneur?
- What is the range of entrepreneur reactions to an initial term sheet?
- What are the common objections? The most onerous terms?
- Which terms rarely get discussed (or invoked) despite their importance?
- When does a term sheet become too investor-friendly or entrepreneur-hostile? Would most entrepreneurs agree with these perceptions?
- What two or three things would I change about the typical term sheet to make it a more effective tool?

*Notes:*

## Session 8: Wednesday Offsite Autodesk and TechShop

*Speaker:* Patrick van der Pijl, Business Models, Inc.  
Lisa Solomon, Innovation Studio

*Session Goals:*

### Designing Business Models of the Future

What does it mean to *design* a business model? In a time of increased volatility, blurring of customer and competitor boundaries and industry uncertainty, designing business models is a highly efficient and dynamic process that connects vision with need; revenue with cost; front end delivery with back-end activities. Business model innovation enables executives to imagine concrete possibilities of the future through customer needs, rapid iteration, collaborative conversation, and visualization.

Join Patrick van der Pijl, producer of the international best-seller *Business Model Generation* (Wiley 2008) and CEO of Business Models Inc. and Lisa Kay Solomon, adjunct professor at the California College of the Arts MBA in Design Strategy and co-author of *Moments of Impact: How to Design Strategic Conversations that Accelerate Change* (Simon & Schuster, 2014) for a hands-on introduction to the Business Model Canvas and its role in the global movement of designing better businesses.

*Questions to Ponder*

- What is your definition of business model? What is your design criteria for what makes for a successful and sustainable model?
- What is the business model of your organization? Would your partners, co-investors, or limited investors describe it the same way?
- How do you typically evaluate the business models of your investments?
- What are basic elements you look for when evaluating business models?
- What assumptions, either implicit or explicit, do you have about the viability of your business model?
- What elements of your business model do you think are ripe for disruption?
- What are some things that you've seen at the Autodesk Gallery that you'll investigate further?
- How might you look at your business model differently using the Business Model Canvas?



*Notes:*