

Kauffman Fellows Program Class 17 Session Guide Module VI

Dear Kauffman Fellows Class 17,

Welcome to Module 6 of the Kauffman Fellows Program. The focus of this module is on “**Synthesis: A Career in Innovation**” and will emphasize the frameworks and tools used by leading venture practitioners that have enabled successful career development. The entire entrepreneurial food chain depends on trust, transparency, risk-sharing, and empathy. The high-level concepts of Module 6 are:

1. Several of the speakers in this Module are building the next generation of venture funds. Some are emerging leaders, some are legends. Some have created new funds while some have re-engineered existing brand names. Almost all are refocusing on smaller funds with a greater emphasis on the needs of portfolio companies.
2. Emotions remain somewhat mixed globally regarding the role and future of venture capital. While the financial performance of the industry overall has been poor compared to the 1990's, pockets within the venture industry are thriving and there continues to be demand for proven investors who can work with entrepreneurs and help grow exciting organizations.
3. Some endowments are fleeing the industry while corporates are increasing their presence significantly. It might be argued that this cycle is happening in a strong buyer's market for the first time in modern history.
4. A broken small-cap IPO market has impeded exits and overall financial performance considerably. What happens to US-based innovation if this situation remains unresolved?
5. Investors, like the entrepreneurs they back, need to build distinctive strategies based on unique personal strengths. Never has the time been better for professional investors who know themselves, can understand the global landscape, and can draw and navigate a path of leadership.

Again, welcome and we look forward to a robust and insightful week together.

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Session 1: Kauffman Fellows Strategy Session

Speaker: Phil Wickham (Charter Class), Kauffman Fellows

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Session 2: Future Scenario Planning

Speakers: Lisa Solomon, Innovation Studio
Jonathan Star, Scenario Insight

Session Goals:

Scenario planning is a technique that helps teams have well-designed conversations about the future, especially when they face major uncertainty and change. It has been used as a strategy tool in organizations for over 50 years, yet is more relevant and necessary than ever. Most discussions about future possibilities are based on predictions and forecasts, which have the effect of narrowing the thinking of groups, making them susceptible to surprises. In contrast, scenarios are multiple, alternative stories about how the future could play out, which encourages teams to challenge their own assumptions and think creatively about change. Scenarios are used in many different organizational settings ? contingency planning, strategy, innovation and visioning.

This interactive session will help you understand the value and principles behind scenario planning. The discussions and exercises will focus on questions of direct relevance to all participants: What are the trends affecting the future of capital formation? What different situations might play out over the next 5-10 years? What will entrepreneurs need from their investors and advisers? Who will be the winners and losers in different futures? At the end of the session, we will have new insights into the risks and opportunities facing capital formation, and will have learned the basic steps in developing and using scenario planning for the benefit of your organizations.

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Session 3: Leadership, Culture, Relationships

Speaker: Scott Kriens, 1440 Foundation, Juniper Networks

Session Goals:

To understand and learn about the journey of one of Silicon Valley's most accomplished tech entrepreneurs. To understand from his perspective what his keys to success are, what his most valuable lessons were, the economic value of trust, and where he is looking to have impact in the next stage of his career.

The 1440 Mission: 1440 Foundation's mission is to support programs and best practices that cultivate authentic relationship skills in education, wellness and the workplace.

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Session 4: Visual Thinking

Speaker: Dan Roam, Digital Roam Inc.

Session Goals:

As business leaders, investors, and decision makers, our most important assets are our ideas -- yet explaining our ideas in a compelling way is a constant challenge. To meet this challenge, Dan Roam has spent the past 25 years developing visual communications tools for business people. In this session, Dan will demonstrate how to break any idea down into its essential visual elements, and then share that idea through the creation of a simple visual story. Whether you think you can draw or not, you will discover your inner business artist -- and discover new ways to clarify and communicate all your ideas.

Questions to Ponder:

- Have you ever noticed that the stickiest ideas tend to be those that can be described with a simple visual? (Think of the Apple logo, the Ying-Yang symbol, a tipping scale, or a "One Way" street sign.) Wouldn't it be interesting to see if equally powerful visuals could describe the essentials of your idea?
- Have you ever thought of yourself a visual thinker? If so, have you found effective ways to use visuals in communications? If not, do you see potential value in being able to visually communicate your thoughts?
- Have you ever stopped and thought about how frequently stories and images play in your own mind? Our educational systems so thoroughly push us in the direction of words, linearity, and rational logic that we tend to forget how much meaning our minds create through visual stories. Can you imagine the power you'd have in sharing your idea if you could create those visuals in your audience's mind?
- When you prepare to share your idea, how much time do you spend thinking about what your audience most wants to see? Does that seem like a useful question? After this session, how might your approach change?
- Dan introduces the "Four Stories Model," a simple tool that breaks any idea into one of four essential story types. If you easily break your idea down into a simple visual story, do you think that might help you share it?
- In his new book, *SHOW & TELL*, Dan says "Any idea can make for an extraordinary presentation; all we have to do is 1) Tell the truth; 2) Tell it with a story; and 3) Tell that story with pictures." Do you believe this could be true? How does this apply to you and your presentation style?

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Session 5: Keynote

Speaker: Bill Gurley, Benchmark

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Session 6: Venture Investor: Evolution of the Firm

Speaker: Ray Rothrock (Mentor Class 4), Venrock

Session Goals:

It's well understood that every entity has to evolve in a competitive environment or cease to exist, and we'd like to understand how a family office evolved into Venrock, one of the true pioneers of U.S. venture capital. To discover the connection between the Rockefeller family roots in aviation investments like Eastern Airlines and McDonnell Aircraft (from the 1930's) and 44 successful years of investing over \$3 billion in 460 companies (145 of which have gone public and another 152 have been acquired). Ray Rothrock, a Class 3 Mentor of the Kauffman Fellows Program, began with Venrock as an Associate in 1988 and now serves as General Partner of the firm. Venrock has offices in New York, Palo Alto, and Cambridge.

Questions to Ponder:

- What are the secrets to the longevity of a venture firm?
- Are there Rockefeller values that permeate the culture of Venrock to this day?
- What were some of the more difficult crossroads confronted?
- Is there a philosophy to recruiting and developing talent?
- What led to the initial investment in Check Point, long before Israel was an obvious hot spot for technology?
- How do you see other emerging regions of the world, such as China and India? Are there regions of interest that others don't focus on?
- With LP liquidity issues and IPO woes, how do you feel about the future of venture capital as an industry? How do you make the argument?
- As someone new to the industry, how can you have the kind of impact on entrepreneurs that these speakers and their firms have had?
- What is the source of optimism for the industry going forward? What concerns you?

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Session 7: Venture Investor: Career Path

Speaker: Nina Kjellson, InterWest Partners

Session Goals:

This session is designed to facilitate discussion about career paths in venture capital. Venture partnerships and opportunities within them are highly variable, but certain common themes exist around individual performance measurement and criteria for advancement. External environmental factors as well as unique organizational dynamics can significantly influence career progression. How can you maximize the factors within your control and best manage those outside your control? Together we will highlight some basic goals and opportunities for managing one's own venture career progression and some strategies for getting the most out of each career stage.

Questions to Ponder:

- How can you optimize the applicability of your background, training, and education to venture capital?
- What goals should you set for yourself, irrespective of the firm you are working for?
- What are some universal criteria for success within venture capital? Within venture capital *firms*?
- What degrees of freedom do you have within your firm as an investor and as a team member? How do you earn more?
- Who are the leaders and your potential advocates within your firm?
- How can you try to understand the organizational dynamics, strengths, and politics of a firm before joining? Once there?
- How can you participate in standardizing the criteria for advancement?
- Are there ways to create a support structure for career progression outside your firm? What makes for good mentors and role models?
- What are the roles and responsibilities that come with career advancement?
- What are your *long-term* career goals and what mark do you want to leave on your firm? On the industry?

Notes:

Session 8: Field Project Clinic

Speakers: Phil Wickham (Charter Class), Kauffman Fellows
Jewel Savadelis, Savadelis Films

Session Goals:

While the field project is a requirement for graduation from the program, it should be viewed as a powerful and unique opportunity that has a measurable window of opportunity. Your field project should be an extension of your personal journey – the same story that got you into the program. It should reflect your personal and career interests, as well as those of your firm or organization. In this session, we will dig deeper into the field project process and explore areas for further investigation.

Questions to Ponder:

- What is a field project and what is it not?
- How would you define your project?
- How does this project interest you?
- Who is the audience you are trying to reach?
- How will you reach your audience and how might your insights get distributed?
- What do you want the brand of “you” to be when you graduate from the Program in July?
- How does this project impact that brand?
- How can you leverage the work of those Fellows before you?
- How might your work inspire those who come after you?
- Who else besides your firm will care about your insights?
- Who else might you get involved in the project early on?

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Session 9: Singles vs. Homeruns: How to Develop a Balanced Approach to Your Portfolio and, When Necessary, Deal with Difficult Situations

Speaker: Ezra Roizen, Ackrell Capital

Session Goals:

At its core, institutional venture capital investing is a “hits driven business,” meaning that for most successful portfolios a small number of companies will drive the bulk of the returns. That said, there can be an over-focus on the few golden eggs at the expense of the overall basket. Designing a balanced professional approach, which increases the number of successful outcomes from your portfolio, will improve your return profile, enhance your reputation, reduce risk, and could be the difference between success and failure for a “hitless” portfolio.

And for those times when the basket contains what can only be truthfully described as a rotten egg, we will discuss how to extricate yourself as efficiently and painlessly as possible, and how to avoid the legal traps for the unwary in those cases.

Areas to be covered:

- Singles aren't homeruns, but enough of them can mean a winning season
- The targets you set at the board level define the amount of risk the company's management takes
- How minority investors can lead through influence
- On-going relationship development with potential acquirers is a powerful hedge
- Venture investing is a multi-game game, be a positive player
- Managing the end game
- The legal 411

Questions to ponder:

- What typically leads to portfolio companies getting into trouble? Is it execution or something else?
- What are telltale signs of management issues? Can you catch them early?
- How do you create change at the board level if you're junior or in a small ownership position?
- When a portfolio company holds no more future promise, what should be your objectives, and what are your options?
- How do I stay out of trouble, at a time when stakeholders may be looking to find a culprit, a scapegoat, or a deep pocket?

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Session 10: Working with Corporate/Strategic Investors

Speaker: Sue Siegel, GE Ventures, healthymagination

Session Goals:

Innovation is rapidly becoming a focus for most global corporations. Most large institutions are realizing that attractive margins come from new, high-growth products, but they lack the ability to develop these ideas in-house, organically. As a result, the global venture eco-system and corporate players from all industries are working more closely with the startup world.

This session will get inside the thinking of a large corporation that had been (not too many years ago) a venture-backed Silicon Valley startup. We hope to gain insight into how this pioneer in financial services responds to emerging opportunities from the startup world.

The goals of this session are to get inside the thinking of the large corporations your portfolio companies are trying to sell to or sell through, or that may acquire them; to understand the motivations of your counterparts working in Corporate Strategy or Business Development at large public companies; and to assess the advantages and disadvantages of having a corporation as a co-investor or a fund investor.

This session is also an opportunity to better understand the porosity of the boundaries in thinking practiced by the most advanced innovators in Silicon Valley, that innovation is sparked by crossing boundaries and avoiding limits of other people's definitions.

Questions to Ponder:

- Are you limited as an innovator while inside the walls of a large company?
- What are typical career paths between corporate and venture jobs? Should you get big company experience to be a better venture investor?
- How have the behaviors of venture funds and large companies become more similar over the years? (eg, Kleiner's "Keiretsu" model)
- What drives corporate behavior in the startup world? How can that understanding improve the entrepreneur's success?
- Why would a corporation operate a venture fund or invest in one?
- Under what circumstances might a large public company become a customer of a venture-backed startup?
- What are the considerations a corporation makes in assessing the acquisition of a startup?
- When does a startup/corporate partnership have the best chance of succeeding? A joint venture?

Notes:

Session 11: Fund Economics

Entrepreneurs: Gene Trainor, Foundation Capital
Steve Vassallo, Foundation Capital

Session Goals:

Fellows should learn and understand: (i) the economics that both LPs and GPs face in investing in venture capital; (ii) the economics and reasons for the variety of compensation terms in a GP-LP agreement; and (iii) how to think about raising a fund, both strategically and in concrete terms.

Questions to Ponder:

Economics/Quantitative of a PEP (Private Equity Partnership):

- What are the economics of the venture capital business?
- What will the cumulative paychecks and distributions to the LPs and GPs be over the life of the fund?
- What is the IRR to the LPs?
- How do the payoffs and net returns vary if the carry is increased from 20% to 30%?

Assume:

1. The fund has a 10 year life, with committed capital (total amount of funds including fees that the investors have promised to provide) of \$500 million
2. The funds are invested in 4 equal installments in each of the first 4 years
3. The management fee is 2.5% of committed capital for the first 5 years, payable in advance at the beginning of the year. The fee declines to 1.5% of committed capital for the final 5 years.
4. Each of the annual investments is held for 5 years and then sold/distributed. Assume that the investments earn the same annual gross rate of return of 25%.

Incentives/Covenants between GP and LPs:

- Why are incentives to Private Equity Partnerships (PEPs) structured the way they are?
- Why are the incentives so similar across different PEPs? How do these incentives compare to those for money managers?
- What covenants or restrictions are placed by LPs on PEPs?
- Overall, what are the key considerations an LP weighs in evaluating a venture fund investment?

Economic Issues for Investing Professionals

- Vesting – what are the common structures? Why carry vests over long periods of time?
- What are budget implications in an environment where fund sizes are same or shrinking?
- How should an investment professional think about compensation vs. carried interest?
- The realities of “pay your dues” vs. immediate “pay for performance”
- Career progression – what is required?; what can you expect?

Notes:

Session 12: Entrepreneur's Perspective

Entrepreneurs: Paul Lego, Bespoke Innovations
Carol Realini, Realini & Co
Kevin Judice, DiCE Molecules, Inc., K2 Therapeutics
Laura Mather, Unitive.org

Session Goals:

Your most important customer as a venture investor is the entrepreneur. Before you pack up all of the great wisdom of three days from so many practitioners, we end with a sanity check from a group of very experienced and accomplished entrepreneurs. This group should help you synthesize the more important bits of wisdom from the Module and, in many ways, those of the past two years.

Questions to Ponder:

- How does empathy for the CEO translate into improved returns to your LPs?
- What mistakes are made most commonly by young entrepreneurs early in their idea development?
- How do entrepreneurs decide which ideas to take forward?
- At each inflection point in a CEO's career, what analysis did s/he undertake to make the next decision and take the next step?
- As you managed others, are there skill-sets you wished you had developed that did not come naturally through specific industry and professional experience?
- Are there skill sets that were particularly well-developed through this professional experience?
- How does one go about acquiring the skills required to be an effective CEO?
- How does the investor assess and provide support based on the skill set of an entrepreneur?
- How does leadership style mature during a CEO's tenure, and what might be some experiences that forced it to evolve?

Notes: