INVESTING IN SOCIAL VENTURES (B8767)

Spring 2016

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Note: classes are on Mondays from 10:45am-2:00 pm, beginning Monday, March 21st.

REQUIRED COURSE MATERIAL

Investing in Social Ventures utilizes the following cases, articles and background readings:

Session 1: Due Diligence
- EBay’s Founder on Innovating the Business Model of Social Change (HBR)
- How Venture Capitalists Evaluate Potential Venture Opportunities (805-019)
- Best Practice Guidance for Angel Groups – Due Diligence
- The Top 20 Reasons Startups Fail

Session 2: Due Diligence – Emerging Markets
- Actis: January 2008 (808-130)
- Making Social Ventures Work (R1009D)
- Ziqitza Health Care Limited (INS295)

Session 3: Funding Non-Profits
- Venture Philanthropy: Its Evolution and Its Future (313-111)
- A New Approach to Funding Social Enterprises (HBR)
- GiveWell: Real Change for Your Dollar (SI-122)

Session 4: Impact Measurement
- The Robin Hood Foundation (310-031)
- Acumen Fund: Measurement in Impact Investing (A) and (B)

Session 5: Valuations, Deal Structure and Negotiation
- Investment Valuations of Seed and Early-Stage Companies (Kauffman Foundation)
- Best Practice Guidelines for Angel Groups – Deal Structure and Negotiation
- Acumen Fund and Embrace: From the Leading Edge of Social Venture Investing
REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

Co-Requisite: Students must have completed, or be currently registered in, one of the following courses: Finance & Sustainability (B8349), Impact Investing Seminar (B8355), Social Ventures & Impact Investing (B8562), or Impact Investing (B7360).

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tbody>
<tr>
<td>Corporate Finance</td>
<td>1. Time value of money</td>
</tr>
<tr>
<td></td>
<td>2. Efficient markets</td>
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<td>3. Risk</td>
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<tr>
<td>Decision Models</td>
<td>1. Use of analysis in decision making</td>
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<tr>
<td></td>
<td>2. Decision making under uncertainty and risk</td>
</tr>
<tr>
<td>Global Economic Environment</td>
<td>1. Role of financial markets in the economy</td>
</tr>
<tr>
<td></td>
<td>2. Exchange rates</td>
</tr>
<tr>
<td>Managerial Economics</td>
<td>1. Analyzing complex decision making under uncertainty</td>
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</tbody>
</table>

Students will be expected to have mastered these concepts and be able to apply them in the course.

COURSE DESCRIPTION

This half semester course provides students interested in impact investing with the opportunity to perform due diligence on start-up social ventures (nonprofit and for profit ventures with a social or environmental mission). Students will be randomly placed in teams that will evaluate social entrepreneurs who have applied for funding from the Tamer Fund for Social Ventures, completing detailed due diligence on the applicants, the social ventures, and the sector. The course will conclude with a written due diligence report and recommendation to the Tamer Venture Fund Investment Board.

This course is designed to teach students how to perform due diligence on early stage social ventures, including for-profit and nonprofit ventures. The course is composed of six modules:

1. *Due Diligence* – understanding the process that traditional venture capitalists and angel investors use when evaluating for-profit enterprises, with a focus on early stage businesses.

2. *Due Diligence: Emerging Markets* – identifying and managing the challenges faced by venture investors in developing countries, examining both traditional investors and investors focused on social ventures.

3. *Funding Nonprofits* – understanding how leading philanthropists evaluate nonprofit organizations for donations and other forms of funding.

4. *Impact Measurement* – evaluation of the tools used by impact investors and philanthropists to measure their effectiveness.

5. *Valuations, Deal Structure, and Negotiation* – understanding how investments in early stage enterprises are optimally structured and negotiated by venture capitalists and impact investors.

6. *Presentations and Reports* – student teams will provide a one-page overview of the social venture they have reviewed, followed by a 5-minute presentation by each social entrepreneur. Student teams will submit a comprehensive due diligence report on their assigned social venture during the exam period following the end of the course.
COURSE OBJECTIVES

This course is designed for MBA students interested in impact investing, social entrepreneurship, or philanthropy. The objective of the course is for students to learn both the theory of investing in early stage social ventures and the practice of evaluating early stage social ventures through a due diligence process. This course is not designed for the evaluation of larger/long running social enterprises.

ASSIGNMENTS

Students are assigned to groups of three. Each group is responsible for completing (i) a mid-course two-page plan on their due diligence process, (ii) a final due diligence report of five pages plus exhibits at the end of the course, and (iii) a two-page summary of their final due diligence report with recommendations for improvement which will be submitted to the social venture. Students are also expected to assist their assigned social venture team with the preparation of their presentation for the final class session.

METHOD OF EVALUATION

This course will utilize readings, cases and guest speakers. Most of the classes will begin with a lecture and case discussion led by the professor, followed by a guest speaker. The guest speakers are primarily venture capitalists, impact investors, or philanthropic leaders, providing an opportunity for students to meet industry specialists. This course requires active class participation, and students’ grades will be heavily dependent on the quality of class discussion.

Grades will be based on class participation, the mid-course due diligence process plan, and the final due diligence report. The mid-course due diligence process plan is a two-page outline of your group’s proposed due diligence of the social venture you will be evaluating. The final due diligence report is a five-page report plus exhibits, evaluating the social venture as a candidate for funding from the Tamer Fund for Social Ventures.

<table>
<thead>
<tr>
<th>Class participation</th>
<th>50%</th>
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<tbody>
<tr>
<td>Due Diligence Process Plan (Type A – group/group)</td>
<td>10%</td>
</tr>
<tr>
<td>Final Due Diligence Report (Type A – group/group)</td>
<td>30%</td>
</tr>
<tr>
<td>Feedback and Recommendations to the social venture (Type A – group/group)</td>
<td>10%</td>
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CLASSROOM NORMS AND EXPECTATIONS

Students are required to prepare for each class by reading and analyzing the assigned readings and cases. Students are expected to add thoughtful analysis to each class discussion. Most classes will include a guest speaker, and students are expected to engage guest speakers with questions and comments.