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‘Entrepreneurial Deal Analysis’ Course Energizes Students

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The Entrepreneurial Deal Analysis course works well for students pursuing careers in real estate, business development, consulting, banking, and other fields.

This spring, the Schulze School of Entrepreneurship experimented with a new “Entrepreneurial Deal Analysis” course for undergraduate students. For years we’ve seen a huge student interest in venture capital and other early-stage investing , and we took the opportunity to create an upper-level “signature” course that would give them a capstone experience while providing visibility for our program and our students in the start-up community. Course leaders included an entrepreneurship professor and an adjunct with experience in private equity and angel investing.

Three aspects of this course may be useful for other schools developing venture capital/deal analysis courses or other entrepreneurship courses:

- The use of a “project sprint” format
- The design of each project sprint with an investment partner from the business community
- The design of “hyper-focused” deliverables

THE 'PROJECT SPRINT' FORMAT

Rather than introducing students to early-stage investing via lectures and guest speakers, we designed the course around four three-week investment analysis projects. Each project had an investment partner and involved a different context: accepting a start-up to an accelerator program, screening start-ups for an early-stage venture capital (VC) firm, assessing a potential investment for a private equity firm, and performing a small business acquisition analysis. At the start of each segment, the project partner joined us for class to pitch the project and talk about their niche in the investment world. At the end of each segment, student teams presented their analyses to the partner, who evaluated the teams’ performance.

Project 1: Accelerator Stage Analysis

Each team was assigned a start-up that had been accepted to a local accelerator in the past two years. Teams had to analyze their assigned start-up and present a recommendation to the accelerator on whether they would accept the start-up again, based on its progress since being in the accelerator program (interestingly, half of the teams recommended against accepting a second time). The investment partner for this project was the managing director of the accelerator and was largely responsible for selecting start-ups that had been admitted.

Project 2: Venture Capital Stage Analysis

This project was designed around an activity that a local VC firm uses in screening prospective employees. Teams were given a list of 24 prospect companies that the VC firm was currently researching, and each team was tasked with 1) narrowing the list to only companies that best fit the VC’s investment criteria, and 2) presenting two companies from the remaining list that the VC should invest in. The investment partners for this project were a managing partner and an investment analyst from the local VC firm.

Project 3: Private Equity Stage Analysis

A local private equity investor gave the teams a disguised 50-slide confidential investment memorandum on an actual investment prospect. Teams were also given the five-slide template that the investor’s team uses for analyzing and presenting. Teams had to develop an investment thesis, identify risks and considerations, develop a value-creation plan, and model financial performance to come up with an investment recommendation for the private equity investor. This investor was a director for a local private equity firm who was also engaged in start-up mentoring and angel investing.

Project 4: Acquisition Search and Analysis

For this project, teams had to apply what they learned from the first three projects to an acquisition search and analysis. Teams needed to create search parameters, identify a list of companies that fit those parameters, and narrow it down to one firm to pitch as an acquisition, along with how to finance it. The investor for this project was an alumnus who had worked as an investment analyst in private equity before acquiring, operating, and exiting a company in the transportation industry.

The project sprint format brought three main benefits:

Motivation and Momentum. Because students did not have an extended period of time to work on each project, they started their research right away and came to each class with progress to report. It also made them eager to attack each subsequent project. For example, after getting their feet wet with the first project, the teams were so excited to get the list of companies from the venture capital firm that they immediately began doing research when the list was handed out in class.

Repetition and Skill Development. The four projects allowed students to hone core critical analysis skills while experiencing how these skills are applied in different contexts. They also gave us the ability to add levels of analysis with each project. For instance, the first project focused mainly on evaluating product/market fit, traction, and market opportunity; the second project took these a step further to consider fit with the investor, financial upside, and potential risks; the third project took these concepts even further, requiring students to do financial modeling and develop a value-creation plan. The progress that student teams made in terms of their focus and quality of analysis was significant over the four projects.

Multiple Professional Perspectives. Having four projects gave students an opportunity to meet and interact with several different members of the start-up and investment community. This allowed students to see the similarities and differences of how each partner approached assessing investment opportunities, and to hear the questions that professionals ask and the vocabulary they use. For instance, during the venture capital project presentations, the partners repeatedly discussed “stickiness” as one of their top considerations, telling students, “Focus on stickiness rather than details on market size. It doesn’t matter if the market size is $156.2 billion or $213.8 billion. If it’s over $50 billion, it’s big enough to be interesting. What we’re more interested in is how much the product costs, how often it is used, how easy it is for customers to let go of it.”

ENGAGING INVESTMENT COMMUNITY 'PARTNERS' FOR PROJECTS

Our partners from the start-up and private equity community were involved in the course in three ways: designing the projects, introducing the project along with a presentation/discussion on their investment niche (accelerator, venture capital, etc.), and evaluating student analyses. We observed this model to be powerful in the following ways:

Students got to work on “real world” projects. Students were motivated by the fact that these projects were based on actual investment opportunities our partners had considered (or, in the case of the acquisition project, their own investment opportunity). They were excited to be analyzing “real” opportunities and to hear how their analyses compared to the investor assessment in each project. They said things like: “I can’t tell you how amazing it is that we get to analyze the same businesses that a VC is looking at right now…and then hear what they think of them!” and “It’s incredible that we are doing the exact same analysis [a private equity firm] did last year!”

Students gained confidence from professional evaluation. In addition to the motivating factor of being evaluated by professionals, students grew in their ability to evaluate opportunities and present recommendations. There were parallels between the students’ opinions and those of our partners, giving students confidence that they could enter a professional role in this space and execute effectively. In fact, our venture capital partner remarked that the student presentations compared “favorably” to the job prospects he interviews, who generally have at least 2-3 years of investment analyst experience.

The students and our partners became “invested” in each other. In addition to making the projects real,

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the impact of having our partners come into class at the beginning of the project period and again at the end was powerful. The first introduction created a bond between our students and partners, so that students were motivated to perform at a higher level for them, and our partners became invested in the success of our students and project. In fact, one partner became so invested that he decided to sit in on all of the class periods for his project and two additional projects; he co-led the lectures and activities for his project; and he mentored students on their projects as well.

'HYPER-FOCUSED' DELIVERABLES

Rather than assigning lengthy papers and presentations, we decided to force students to be hyper-focused by limiting them to 2-page written investment analyses and 5-slide investment presentations. We were concerned that this might allow students to only do surface-level analyses to meet the requirements, but our hope was that this would give students more time to analyze rather than write and allow them to get used to communicating in a clear, concise manner.

We found that these “hyper-focused” deliverables were effective in three aspects:

Level of Analysis. Because students were spending less time writing and creating presentations, we were able to place more emphasis on critical analysis: asking the right questions, finding information to address those questions, and interpreting the information to make recommendations. As a result, teams’ analyses were thorough, and the teams were well-prepared to answer in-depth questions. Student comments proved that this focus allowed them to be more effective with their time.

Communication. When we set up the class, our investment partners stressed the importance of professional communication: being clear and concise and only focusing on important aspects. These deliverables were effective in forcing students to communicate this way without “fluff.” One partner observed, “I expected long-winded explanations in the presentations; I was surprised at how effective students were at describing what each company does and what is attractive about the investment opportunity.”

Repeatability. Using a two-page deliverable and five-slide pitch deck allowed us to do many analyses over the course of the semester. Within each project module, students wrote two-pagers to prepare for case study discussion and guest speakers. This was an efficient method for class preparation and also gave students more opportunities to apply analysis tools. By the end of the semester, this process became second nature for students.

CONCLUSIONS

One of our hopes with this article is that others will build on this model to create more innovative approaches to courses on early-stage capital, especially at the undergraduate level. Because undergraduate students are rarely hired by venture firms, it is critical that they learn skill sets that apply to many fields. These skills can also be indispensable for real estate, business development, raising capital, consulting, banking, and other areas. They also be incredibly useful tools for entrepreneurial students who want to evaluate future business opportunities for themselves.

As important, we believe that other entrepreneurship courses can reap benefits by adopting the elements of this course: utilizing a design sprint format, creating “real-world” projects with partners from the business community, and paring down deliverables to emphasize critical thinking and professional communication. These elements can be applied in courses on human-centered design, business model analysis, entrepreneurial finance or marketing, and more to create a fun, energetic atmosphere in which students are given an opportunity to grow and gain confidence.

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