

The University of Pennsylvania  
The Wharton School  
Management Department

# Venture Capital and Entrepreneurial Management

MGMT 804 - Q3 and Q4 Spring 2010

SUBJECT TO CHANGE

**NOTE: THIS SYLLABUS HAS BEEN PREPARED AS A GUIDE FOR STUDENTS IN COURSE SELECTION. THE CONTENT IS SUBJECT TO MINOR CHANGE. THE COURSE REQUIREMENTS WILL BE SUBSTANTIALLY SIMILAR. THE ACTUAL SESSION CONTENT AND SPEAKERS WILL BE AVAILABLE ON THE WEBCAFE FOR REGISTERED STUDENTS.**

**SPECIAL NOTE TO INSEAD STUDENTS: THE LAST DAY OF CLASS IS MONDAY, APRIL 26, DURING WHICH AN IN-CLASS QUIZ WILL BE ADMINISTERED. ALL STUDENTS MUST BE PRESENT FOR THE QUIZ. IF THERE ARE OTHER INSEAD EDUCATIONAL OPPORTUNITIES, SUCH AS THE BAY AREA VC TREK, INSEAD STUDENTS MUST MAKE A CHOICE BETWEEN THIS COURSE AND THE TREK.**

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## Course Overview and Design

This elective course focuses on venture capital management issues in the context of a high-growth potential start-up company. The course is motivated by rapid increases in both the supply of and demand for private equity over the past two decades. On the supply side, the amount of private equity under management has increased from under \$5 billion in 1980 to over \$400 billion –for venture capital and buyouts --at the beginning of 2005.<sup>1</sup> The downturn in private equity fundraising and investment activity that occurred following the burst of the technology bubble in 2002 has largely reversed with an emphasis towards deal of more maturity. These trends are, of course, good news and bad news for entrepreneurs -- capital is plentiful but highly selective for earlier stage companies. Moreover, as many other post-industrial societies and emerging markets witness a dramatic resurgence of entrepreneurship, the supply side of the equation is growing to meet the demand side..

The course addresses this topic from two distinct perspectives: issues that relate to the demand for private equity and venture capital (the entrepreneur's perspective) on the one hand, and issues that relate to the supply of capital (the investor's perspective) on the other. As well, we will address management issues that relate to how the VC and the entrepreneur work together once an investment has been made.

"The Entrepreneur's Perspective" deals with the entrepreneur's challenge to understand the financial implications of the business plan including its business model, development and marketing strategy, and capitalization plans.

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Moreover, this point of view describes the basis on which entrepreneurs must understand the context and mechanics of valuing the business. Together, these matters help define the financing requirements of the business and suggest the approach for where and how to raise capital, and thereafter manage the relationship with investors.

The second point of view is “The Venture Capitalist’s Perspective.” This perspective explores the context of the private equity asset classes and how the history and current environment of the asset class affects the decision-making process and behavior of venture capital professionals. Insights gained from this underlying theme will be valuable for students considering a future in venture capital, as well as provide essential knowledge for those who wish to pursue an entrepreneurial career. As we explore the venture capitalist’s perspective, we will address several aspects of the investment process, including the term sheet content, structure, and negotiation, valuation methods, and the impact of successive rounds of financing. The nature and tenor of this aforesaid process sets the stage for the relationship between management and investors, the governance of the company, and the management of the exit process.

The course is fundamentally pragmatic in its orientation and will attempt to expose students to both perspectives simultaneously. It will cover six principal areas relevant to the privately held high-growth-potential start-up. These include:

- Commentary on the venture capital industry generally, as well as a discussion of the typical venture partnership structure, management objectives and investment strategies
- Common organizational issues encountered in the formation of a venture-backed start-up, including issues relating to initial capitalization, intellectual property and early stage equity arrangements
- Valuation methodologies that form the basis of the negotiation between the entrepreneur and the venture capitalist in anticipation of a venture investment. Managerial and financial issues in an insider-led, “down round” financing
- The challenges of fundraising, financing strategies and the importance of the business plan and presentation
- Typical investment terms found in the term sheet and the dynamics of negotiation between the entrepreneur and the venture capitalist
- Corporate governance in the context of a venture-backed start-up company and the typical dynamics that play out between VCs and entrepreneurs in the ongoing management of the venture backed company.

The course is designed principally to address the interests of students who either expect to embark on an entrepreneurial career, those who expect to assume a managerial role with a venture-backed start-up company, or students who wish to pursue a career in venture capital. The course will touch upon a range of fields including management, finance, accounting, strategy, and legal and attempt to identify mainstream “best practices” in the area of high growth potential start-ups, with the objective of ensuring that students completing the course will have a solid understanding of the questions and issues that face the typical start-up.

### **Other course features and resources**

There will be a dedicated Web Care for our course. Lecture notes along with periodic announcements will be posted on this site.

As well, I seek your feedback on an ongoing basis. During the first class meeting, I expect the class to elect 2-3 students who will communicate frequently with the instructor or the TAs - providing feedback and suggestions as part of the Quality Circles program at the School.

### **Students Requirements and Evaluation**

The assigned readings in the course are in the range of moderate to heavy, particularly at the beginning of the course. This syllabus, the assignments, and the Bulkpack have been organized so that students can manage the requirements efficiently. As in all courses, the lectures and discussions in the classroom will be much more meaningful if the required readings have been studied in advance. From time to time, mid-course changes in presentations or materials may be made to achieve academic objectives.

The Bulkpack is divided into two components: Required Readings and Supplemental Materials. The Required Readings are generally comprised of secondary source materials provided for background. The Supplemental Materials consist of examples of legal or business documents included for the purpose of illustrating the themes discussed in class.

The course is primarily in a term "simulation" and discussion format, supplemented by lectures. For each class there will be a submission of a portion of the simulation. During the class, two student teams will present their analysis and conclusions for the relevant portion of the simulation – one from the VC point of view, the other from the entrepreneurial point of view. It is expected that all students come to class fully prepared: namely, having read the assigned readings for the session and fully ready to respond to the questions outlined in the simulation.

Depending on enrollment Students are asked to form simulation teams of **five to seven** members at the beginning of the course. Choose your team-mates carefully – changes will not be allowed once your study group team has been formed. Study groups are expected to meet and develop each part of the simulation. .

**Note: the deadline for the formation of study groups is by:**

**Thursday, March 19, 2009**

All students are expected to participate in class discussions; Students should expect to be cold called.

### **Student Grades**

The Wharton grading practices will be used. The final course grade will be computed as follows:

Five simulation memo submissions (teams) (50%)

Teams will be expected to evaluate the contributions of members using a form that will be provided by the instructor

Class contribution (10%)

Given the size of the class, the webcafe will include a course blog. Entries onto the blog will count towards class participation

Quiz, open notes/open book (40%)

**Note: The instructor will take great care to grade as fairly as possible and will strictly adhere to Wharton MBA program grading policies. Grades will NOT be discussed at the end of the course.**

### **Lecture Notes**

The PowerPoint slides used in class will be posted onto the Web Cafe prior to class. Students should print the slides and bring to class. With some exceptions, particularly in the first two sessions, three to six slides per page will be readable.

### **Required Texts**

Course Bulk-pack: MGMT 804 Venture Capital and Entrepreneurial Management, Spring 20a0 edition, compiled by Raffi Amit and Steve Sammut

### **Class Cancellation and Make-up Days:**

In the unlikely event that a class must be canceled, students will be contacted by e-mail. Generally, if a make-up class can be scheduled, it will be held on the preceding or following Friday in the AM. Make-up classes will be video recorded and posted.

## **Communicating with the Instructor**

The best way to contact me is by e-mail. If you want to see me in person you I keep an appointment sheet outside my office at on the fourth floor of Vance Hall. An appointment matrix will be posted on the webcafe. The instructor prides himself in availability to students and welcomes opportunities to get to know students.

If for any reason you are unable to attend class, please notify me in advance.

## **Please bring your name card to each class.**

### **About the instructor**

Mr. Sammut is Senior Fellow, Wharton Health Care Systems and Entrepreneurship, and Venture Partner, Burrill & Company, a San Francisco based life science venture capital fund and merchant bank. At Burrill & Company, Mr. Sammut focuses on Asian and Middle Eastern venture activity, with a special focus on global health venturing.

At the Wharton School, (and periodically in the University of Pennsylvania School of Applied Science and Engineering, School of Law and School of Medicine), he teaches venture capital management, corporate development, mergers and acquisitions, biotechnology entrepreneurship, intellectual property strategy, and private equity in emerging markets, and a special seminar on private sector participation in international health. He works actively with a student-alumni organization called the Wharton Health International Volunteer Program that provides *pro bono* consulting services to public health services and clinics in the developing world.

Mr. Sammut is also Founder and Chair of the International Institute for Biotechnology Entrepreneurship, a non-profit organization offering intensive training programs throughout the world for managers of biotechnology companies. He actively conducts research under a grant from the Bill & Melinda Gates Foundation, in collaboration with the McGlaughlin-Rotman Center for Global Health at the University of Toronto on the capability of emerging market countries in the biotechnology and pharmaceutical industries. He is also on the faculty of the World Intellectual Property Organization/UN executive education program.

Mr. Sammut has been involved in the creation or funding of nearly 40 biotechnology, Internet, and information technology companies globally. He is on numerous Boards of Directors and Advisory Boards including Doctors of the World USA, Mitsubishi Corporation Life Sciences Business Group, the Royal Bank of Canada Technology Venture Fund, the Cornell University Research Foundation, Combinent BioMedical Systems, Dynamis Pharmaceuticals, Gentis, Biowizard.com, the International Finance Corporation Bioethics Advisory Board (World Bank), the Center for Medicine in the Public Interest, Red Diamond Capital (a mid-market buyout fund), the Asia-Alpha Venture Fund, and several other organizations. He is also on the editorial board of the European Venture Capital Association Publications, The Private Equity Review, the Journal of Commercial Biotechnology and the Biotechnology Business and Law Journal.

Mr. Sammut previously held the positions of Vice President of Development of Teleflex Incorporated where he created and managed acquisitions and alliances, and at S.R. One, Ltd., GlaxoSmithKline's venture capital fund. He was also Managing Director of Access Partners, a venture fund focused on formation of companies around university technologies and capitalized by corporate strategic investors.

Earlier in his career, he was Managing Director of the Center for Technology Transfer at the University of Pennsylvania, where he spun out over one dozen companies over a two-year period. He held a similar position at Jefferson Medical College. He is also co-founder and former CEO of the Philadelphia Organ Transplant Program, the largest transplant organ bank in the United States. He holds degrees in biology and humanities from Villanova University, attended Hahnemann Medical College for two years and holds an MBA from the Wharton School of the University of Pennsylvania.

**THIS IS THE TENTATIVE SESSION SCHEDULE FOR QUARTER 3 2010**

<b>Session Number</b>	<b>Date</b>	<b>Topic</b>
1	<b>Wednesday January 13</b>	Course introduction : The structure of the VC industry
2	<b>Wednesday January 20</b>	Company formation: structures, ownership and issues
3	<b>Monday January 25</b>	Two assigned teams to present company formation section of simulation; part 1 of diligence lecture
4	<b>Wednesday January 27</b>	Part 2 of diligence lecture
5	<b>Monday February 1</b>	Two assigned teams to present due diligence section of simulation  Part 1 of Lecture on Capitalization Tables and Valuation
6	<b>Wednesday February 3</b>	Part 2 of Lecture on Capitalization Tables and Valuation
7	<b>Monday February 8</b>	Two assigned teams to present cap table and valuation section of simulation  Part 1 of Lecture on Term Sheets
8	<b>Wednesday February 10</b>	Part 2 of Lecture on Term Sheets
9	<b>Monday</b>	Two assigned teams to present term sheet section of simulation  Part 1 of lecture on Governance, Value Add and Exits;
10	<b>Wednesday</b>	Part 2 of Lecture on Governance, Value Add and Exits;
11	<b>Monday</b>	Two assigned teams to present corporate governance simulation  Brief lecture on corporate venture capital funds
12	<b>Wednesday</b>	Lecture on venture capital in emerging markets or guest speaker
13	<b>Monday</b>	Class: Summation and Quiz Review
14	<b>Wednesday</b>	Quiz

## THIS IS THE TENTATIVE SESSION SCHEDULE FOR QUARTER 4 2010

<b>Session Number</b>	<b>Date</b>	<b>Topic</b>
1	<b>Monday March 15</b>	Course introduction : The structure of the VC industry
2	<b>Wednesday March 17</b>	Company formation: structures, ownership and issues
3	<b>Monday March 22</b>	Two assigned teams to present company formation section of simulation; part 1 of diligence lecture
4	<b>Monday March 25</b>	Part 2 of diligence lecture
5	<b>Monday March 29</b>	Two assigned teams to present due diligence section of simulation  Part 1 of Lecture on Capitalization Tables and Valuation
6	<b>Wednesday March 31</b>	Part 2 of Lecture on Capitalization Tables and Valuation
7	<b>Monday April 5</b>	Two assigned teams to present cap table and valuation section of simulation  Part 1 of Lecture on Term Sheets
8	<b>Wednesday April 7</b>	Part 2 of Lecture on Term Sheets
9	<b>Monday April 12</b>	Two assigned teams to present term sheet section of simulation  Part 1 of lecture on Governance, Value Add and Exits;
10	<b>Wednesday April 14</b>	Part 2 of Lecture on Governance, Value Add and Exits;
11	<b>Monday April 19</b>	Two assigned teams to present corporate governance simulation  Brief lecture on corporate venture capital funds
12	<b>Wednesday April 21</b>	Class: Summation and Quiz Review
13	<b>Monday April 26</b>	Quiz

