

Update: January 9, 2016

# Management 264: Venture Capital and Entrepreneurial Management

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## 1. Course Information

Time: Spring 2016: Mondays & Wednesdays, 10:30 a.m.-11:50 a.m.  
Classroom: 215 Steinberg Hall – Dietrich Hall  
TA: Arjun Mahadevan ([amah@wharton.upenn.edu](mailto:amah@wharton.upenn.edu))

## 2. Course Description and Objectives

Venture capital and the technology sector that it supports<sup>1</sup> continue to evolve at a bewildering pace. Beginning with the dot-com bubble of 1998-2000, the industry has been buffeted by one dynamic development after another. These have included, among others, the dramatic economic upheaval in 2008-2009; the explosive growth of early stage companies with an Internet-based business model; the sharp reduction in infrastructure costs of starting up companies; the globalization of business in general; and the emergence of crowdfunding and accelerators/incubators as alternative channels of funding.

MGMT 264 focuses on venture capital and the typical venture-backed startup company, based on conventions and practices in the United States. Specifically, the course covers many of the traditional conventions in the industry that have historically shaped investor and company behaviors, and the various industry dynamics that are affecting the current state of play. In particular, the course approaches the topics from the different and distinct perspectives of both the entrepreneur and the venture capital investor. In particular, the entrepreneur’s perspective addresses the challenges in organizing and financing the venture, while the venture capitalist’s perspective explores issues of concern to investors in evaluating, structuring and pricing venture capital investments.

The course is designed to achieve three main objectives:

1. Introduce you to basic concepts and topics in venture capital and the typical venture-backed start-up company.
2. Help you to understand the issues in organizing and financing a start-up company.
3. Expose you to methods and perspectives on evaluating, structuring and pricing venture capital investments.

## 3. Course Design

The course is pragmatic in its orientation. The course is designed principally to address the interests of students who expect to embark on an entrepreneurial career, expect to assume a managerial role with a venture-backed start-up

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<sup>1</sup> For purposes of our class, the technology sector includes companies in a wide range of industries that look to venture capital as a principal financing resource. These industries include traditional technology companies (software, internet, semiconductor, electronic hardware, and mobile, etc), biotech companies (medical device, pharmaceutical, life science, digital health and health care, etc.), clean and green tech companies (fuel cell, solar, wind, battery storage, conservation technologies, etc.), homeland security companies, and consumer companies (social media, e-commerce, gaming, web 2.0, etc.).

company, or wish to pursue a career in venture capital. The course assumes a basic understanding of general business principles. In light of the time constraints associated with a half-unit course, the curriculum is confined to key fundamentals in the area of venture capital and startup companies. The course will touch upon a range of fields including finance, accounting, executive compensation, strategy and corporate law and will attempt to identify mainstream “best practices” in the area of high growth potential startups.

#### **4. Assignments and Grading**

Your final course grade will be computed as follows:

Classroom Participation	20%
Caselette/Problem Set Memos	20%
Negotiation Exercise	30%
Quiz	30%

**Class Participation (20%):** Class participation is especially important in an area like venture capital and entrepreneurship as learning often occurs through interaction. Your class participation will be evaluated based on the quality of your contribution to the classroom discussion. To make quality contribution, here are some general tips:

- Be well prepared to discuss the case studies and reading materials when you come to class
- Be engaged and active in class discussion. **You may use tablets and laptops for note taking and responding to polls only. As a common courtesy to other students and the instructor, any other use of cell phones, tablets, and laptops is not permitted in the classroom;** and
- Be respectful of comments from your classmates. Always try to build on the views of others or voice your disagreement in a kind and considerate manner.
- **Display your name tent in each class to facilitate teacher/student interaction.** Note: Failure to display your name tent may result in not getting any participation credit for the class session in which your name tent was not displayed.

You are also encouraged to participate in the class through YellowDig which is accessible via Canvas.

You are expected to attend all sessions and be on time. In the case of a legitimate need to miss class, please inform me of your absence in advance via the Course Absence Reporting (CAR) system.

**Caselette/Problem Set Memos (20%):** The short case studies, or Caselettes, which will be used in this course are based on actual occurrences (with some degree of poetic license, as appropriate) and are substantially shorter than the traditional case studies. Each Caselette has been prepared with the objective of highlighting “best practices”, conventions in the industry, or issues that are commonly encountered. The Caselettes will be posted on Canvas and are part of the required readings.

Students are asked to form study group teams of up to 6 students per team. For each of the assigned Caselettes or problem set, the study group team will turn in, before the start of class by uploading to Canvas, a memo in which the assigned study questions are addressed. The write-up should be limited to 2 pages in length (double-spaced, font size 11). The 2-page limit is for text only. You may attach as many Tables and Figures as you wish in an Appendix BUT your submission must be integrated into a single file. The names of the students in the study team must appear on front page of the memo. The due date of each memo is specified in the outline of the course. No credit will be given for write-ups which are submitted late or not submitted.

**Negotiation Exercise (30%):** A critical component of the course is the negotiation exercise which enables students to apply and integrate their learning. The detailed instruction of the exercise will be handed out during the course. Each negotiation team is required to upload the deliverables of the negotiation exercise to Canvas before the

deadline specified in the instruction (to be handed out in class) and all team members are required to participate in the assigned presentation. More information about the exercise will be available during the course.

**Quiz (30%):** There will be an in-class quiz for the course. It may be taken on an open book/open notes basis. You must bring a calculator to the quiz. No laptops are allowed.

**Peer Evaluation:** You will be evaluated (on a 0-100 scale) by each of your team members based on your contribution to each category of group assignments, namely Caselette/problem set memos and negotiation exercise, at the end of the class. The average of the evaluation from all your team members will be used to adjust your grade in each group assignment category.

## **5. Course Resources**

There will be a dedicated Canvas eRoom for our course. Lecture notes, readings and other course materials that are not copyrighted by a third party will be posted on the Canvas site.

All third party copyrighted readings are found on Study.net (you should receive an email with logon information from Study.net at the beginning of the semester). You will be able to access Study.net through Canvas. Please contact [customerservice@study.net](mailto:customerservice@study.net) with any login issues.

## **6. Feedback and Questions**

To make this course a valuable learning experience, you are encouraged to provide feedbacks and suggestions at any time. For any course related issues you would like to discuss, please feel free to contact the instructor via emails, come to the office hours or set up an appointment.

<b>VI. Course Outline At-A-Glance MGMT 264 Spring 2016</b>				
<i>Session Number</i>	<i>Date</i>	<i>Topic</i>	<i>Case/activity</i>	<i>Submissions Due</i>
1	W 1/13/2016	Course Introduction and Overview		
	M 1/18/2016	No Class	Martin Luther King, Jr. Day	
2	W 1/20/2016	VC Firm Activities		
3	M 1/25/2016	VC Firm Structure		
4	W 1/27/2016	VC Firm Strategies	Andreesen Horowitz	
5	M 2/1/2016	Evaluating Opportunities I		
6	W 2/3/2016	Evaluating Opportunities II	Chemdex Case	
7	M 2/8/2016	Evaluating Opportunities III	CredEx Case	
8	W 2/10/2016	The Formation of a Startup I: Organizational Issues	Caselette #1	Caselette #1
9	M 2/15/2016	The Formation of a Startup II: Initial Capitalization	Caselette #2	Caselette #2
10	W 2/17/2016	The Formation of a Startup III: Compensation	Caselette #3	Caselette #3
11	M 2/22/2016	Fundraising I: The Landscape	500 Startups	
12	W 2/24/2016	Fundraising II: Crowdfunding	Angellist	
13	M 2/29/2016	Fundraising III: Angel Investing	Blink	
14	W 3/2/2016	Guest Speaker		
	M 3/7/2016	No Class	Spring Break	
	W 3/9/2016	No Class	Spring Break	
15	M 3/14/2016	Valuation Methodologies		
16	W 3/16/2016	Valuation Methodologies (Optional)	HBS Problem Set	HBS Problem Set
17	M 3/21/2016	Negotiating the Term Sheets		
18	W 3/23/2016	Guest Speaker		Caselette #4
19	M 3/28/2016	Analysis of a Term Sheet	Caselette #5	Caselette #5
20	W 3/30/2016	Integrating Valuation with Term Sheet I	APEX Case	
21	M 4/4/2016	Integrating Valuation with Term Sheet II	LuckyPai Case	
22	W 4/6/2016	Q&A Session for Quiz		
23	M 4/11/2016	Quiz	Quiz	
24	W 4/13/2016	Guest Speaker		
25	M 4/18/2016	Corporate Governance in a Venture-Backed Firm		
26	W 4/20/2016	Managing the Exit		
27	M 4/25/2016	Term Sheet Debriefing		
28	W 4/27/2016	Term Sheet Debriefing and Course Summary		

### **Detailed Course Outline**

*Note: The session outline below is subject to change in order to accommodate the pace of class discussions and guest speakers' schedules*

#### **Wednesday, January 13, 2016**

##### **Session 1: Course Introduction and Overview**

- Course introduction
- Study group formation
- The role of venture capital industry in the economy

##### **Reading:**

- “Does Venture Capital Foster the Most Promising Entrepreneurial Firms?” by R. Amit, L. Glosten & E. Muller, California Management Review, 32 (3): 102-111, 1990

#### **Wednesday, January 20, 2016**

##### **Session 2: VC Firm Activities**

- Venture Capital firms activities
- Fundamental Issues on Venture Capital Investment

##### **Reading:**

- “A Day in the Life of A Venture Capitalist” (Stanford Case E-44, January 28, 2013)

#### **Monday, January 25, 2016**

##### **Session 3: VC Firm Structure**

- The structure of VC firms
- The dynamics between limited partners and general partners

##### **Reading:**

- “The Structure and Governance of Venture-Capital Organizations” by William Sahlman, Journal of Financial Economics, 27:473-521, 1990

#### **Wednesday, January 27, 2016**

##### **Session 4: VC Firm Strategies**

- Venture Capital Firm key capabilities
- Venture Capital Firm growth strategies

##### **Case:**

- Andreesen Horowitz (HBS Case 9-814-060, October 24, 2014)

#### **Monday, February 1, 2016**

##### **Session 5: Evaluating Opportunities I**

- VC's perspectives on evaluating investment opportunities

**Readings:**

- “How Venture Capitalists Evaluate Potential Venture Opportunities”, (HBS Note 9-805-019, December 1, 2004)
- “In Search of the Next Big Thing”, Harvard Business Review (May 2013)

**Wednesday, February 3, 2016**

**Session 6: Evaluating Opportunities II**

- Evaluating the IMPACTS of an idea

**Case:**

- “Chemdex.com” (HBS Case 9-898-076, revised: June 22, 1999)

**Monday, February 8, 2016**

**Session 7: Evaluating Opportunities III**

- Evaluating the business model and organizational challenges

**Case:**

- CredEx (A) (Wharton Case-90, revised November 8, 2015)

**Wednesday, February 10, 2016**

**Session 8: The Formation of A Start-up: Organizational Issues**

- Forming the company: legal forms
- Intellectual property: the importance of getting it right

**Case:**

- **Caselette #1:** Organizational Issues in the Formation of a Start-Up  
(Case memo due before class)

**Readings:**

- “The Legal Forms of Organization” (HBS Note 9-898-245 February 19, 2004)
- “The Legal Protection of Intellectual Property” (HBS Note 9-898-230 April 17, 1998)

**Monday, February 15, 2016**

**Session 9: The Formation of Start-up: Initial Capitalization**

- Initial capitalization: design the equity and capital structure
- Founders’ stock and basic equity incentive arrangements

**Case:**

- **Caselette #2:** Considerations in establishing the initial capitalization of the start-up  
(Case memo due before class)

**Reading:**

- “Vesting of Founders’ Stock: Beyond the Basics,” by Doug Collom, WSGR Entrepreneurs Report (Spring 2008)

**Wednesday, February 17, 2016**

**Session 10: The Formation of Start-up: Compensation**

- Compensation Elements
- Alternative forms of Incentive compensation

**Case:**

- **Caselette #3:** Issues encountered in connection with First Round Financing  
(Case memo due before class)

**Readings:**

- “Equity Compensation in Startup Ventures”, (HBS Note 9-815-074, March 2, 2015)

**Monday, February 22, 2016**

**Session 11: Fundraising I: The Landscape**

- Sources of capital
- Alternative forms of fundraising

**Case:**

- “500 Startups: Scaling Early-Stage Investing”, (Stanford Case E-238, September 5, 2014)

**Reading:**

- "Financing New Venture" (HBS Note N9-811-093, March 28, 2011)

**Wednesday, February 24, 2016**

**Session 12: Fundraising II: Crowdfunding**

- Pros and cons of raising money through crowdfunding
- The business model of crowdfunding

**Case:**

- “Angellist: Changing the Landscape of Investing”, (Stanford Case E-520, June 15, 2014)

**Monday, February 29, 2016**

**Session 13: Fundraising III: Angel Investing**

- Evaluating funding options
- Convertible note

**Case:**

- “The Case of Blink”

**Reading:**

- “Convertible Notes in Angel Financing.” (HBS Note 9-813-017, September 11, 2012)

**Wednesday, March 2, 2016**

**Session 14: Guest Speaker**

- Guest speaker: TBD

**Monday, March 14, 2016**

**Session 15: Valuation Methodologies**

- Financial valuation methodologies; the art and the science of valuation
- Financing strategies and the impact of dilution

**Reading:**

- “A Method For Valuing High-Risk, Long-Term Investments” (HBS Note 9-288-006, July 24 2009)

**Wednesday, March 16, 2016**

**Session 16: Valuation Methodologies (Optional)**

**Case:**

- The Venture Capital Method – Valuation Problem Set (HBS Case 9-396-090, October 5, 1995)  
(**Answers from study group due before class**)

**Monday, March 21, 2016**

**Session 17: Negotiating the Term Sheets**

- Selected critical elements in venture term sheets

**Reading:**

- “Venture Capital Negotiations: VC versus Entrepreneur.” (HBS Note 9-800-170, March 2, 2000)

**Wednesday, March 23, 2016**

**Session 18: Guest Speaker**

- Guest speaker: TBD

**Case:**

- **Caselette #4:** Liquidation Preferences and Anti-dilution Formulas  
(**Case memo due before class**)

**Monday, March 28, 2016**

**Session 19: Analysis of a Term Sheet**

**Case:**

- **Caselette #5:** Analysis of a Typical Venture Capital Term Sheet



(Case memo due before class)

**Hand out materials for negotiation session**

**Term Sheet Negotiation Assignment**

- Materials explained
- Selection of negotiating teams

Note: At the end of this class session we will confirm with you the pairing of the negotiation teams. Each team will be designated as either Entrepreneurs or as VCs.

We will pair two VC teams with a single Entrepreneur team. Each Entrepreneur team will get term sheets which reflect initial offers from the two different VC teams. Everyone will get a “backgrounder” document which explains the assignment in great detail.

**In the last two sessions of the course**, each team will be required to summarize and present to the class the results of the term sheet negotiation.

The exact details of the negotiation process and the presentations (e.g., submission deadlines) will be outlined in the materials which will be handed out to you.

**Wednesday, March 30, 2016**

**Session 20: Integrating Valuation with Term Sheet I**

**Case:**

- Apex Investment Partners (A): April 1995 (HBS Case 9-296-028, Nov. 17, 1997)

**Monday, April 4, 2016**

**Session 21: Integrating Valuation with Term Sheet II**

**Case:**

- An Early-Stage VC Investment: DT Capital Financing of LuckyPai (Wharton Case-88, July 31, 2014)

**Wednesday, April 6, 2016**

**Session 22: Q&A session for Quiz**

**Monday, April 11, 2016**

**Session 23: QUIZ**

- Bring your calculator. (No laptops allowed)
- Open books/Open notes/Open minds...

**Wednesday, April 13, 2016**

**Session 24: Guest Speaker**

- Guest Speaker: TBD

**Monday, April 18, 2016**

**Session 25: Corporate Governance in a Venture-Backed Firm**

- The roles and composition of the BOD

**Reading:**

- “After The Term Sheet” by Dennis T. Jaffe and Pascal N. Levensohn (November 2003)

**Wednesday, April 20, 2016**

**Session 26: Managing the Exit**

- IPO and alternative exit strategies

**Reading:**

- “A Note on the Initial Public Offering Process”, (HBS Note # 9-200-018, July 20, 2007)

**Monday, April 25, 2016**

**Session 27: Term Sheet Debriefing**

During this session, teams will present their negotiated term sheets and discuss the issues they ran into during the negotiation.

**Wednesday, April 27, 2016**

**Session 28: Term Sheet Debriefing and Course Summary**

During this session, teams will present their negotiated term sheets and discuss the issues they ran into during the negotiation.