Update: July 23, 2016

The University of Pennsylvania
The Wharton School
Management Department

Venture Capital and Entrepreneurial Management

MGMT 264 – Fall 2016
MW 1:30 pm – 3:00 pm

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Course Overview and Design

This elective course focuses on venture capital and the typical venture-backed start-up company, based on conventions and practices in the United States.

Venture capital and the technology sector that it supports[1] continue to evolve structurally. This evolution traces from the dot-com bubble of 1998-2000; the dramatic economic upheaval in 2008-2009; the explosive growth of companies with an Internet-based business model; the globalization of business in general; the expansive adoption of consumer-based technologies, products, and services; and other influential changes. Our class will cover traditional conventions in the industry that have historically shaped investor and company behaviors, as well as the structural changes that we are witnessing now.

The course will take all of these factors into consideration from the different and distinct perspectives of both the entrepreneur and the venture capital investor (including the angel and early-stage professional investor). As well, we will address management issues regarding the working relationship between the VC and the entrepreneur, corporate governance, and executive compensation.

The entrepreneur's perspective addresses the challenges in organizing and financing the venture. The examination of this perspective reveals how entrepreneurs gain an understanding of 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.

Complementing, and sometimes in counterpoint to, the entrepreneur's outlook is the perspective of the professional investor, which explores issues of concern to investors in evaluating, structuring, and pricing venture capital investments. Insights gained from these class discussions will be valuable for students considering a career in venture capital, while also providing essential information for entrepreneurs. As we

[1] For the 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, etc.), biotech companies (medical device, pharmaceutical, healthcare, etc.), clean and green tech companies (fuel cell, solar panel, wind, battery storage, conservation technologies, etc.), homeland security companies, and consumer companies (social media, e-commerce, gaming, Web 2.0, etc.).

explore the venture capitalist's perspective, we will address several aspects of the investment process including the term sheet content and structure, term sheet negotiation, valuation methods, and the impact of successive rounds of financing on capitalization and ownership. All of these factors set the stage for the relationship between management and investors, as well as the governance of the company.

The course is pragmatic in its orientation and will cover eight principal areas relevant to the privately held, high-growth-potential start-up. These include:

- A brief overview of the venture capital industry today, as well as a discussion of the typical venture fund structure and related venture capital objectives and investment strategies
- Evaluating VC investment opportunities
- Common organizational issues encountered in the formation of a venture-backed start-up, including matters relating to initial capitalization, intellectual property, early-stage equity incentive, and compensation arrangements
- Elements of compensation, both cash and equity, that are common to venture-backed companies in the technology sector
- The challenges of fundraising, due diligence, and financing strategies
- Valuation methodologies that form the basis of the negotiation between the entrepreneur and the venture capitalist in anticipation of a venture investment
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- 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 VC and the entrepreneur in the post-financing phase

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 company, or wish to pursue a career in venture capital. The course assumes a basic understanding of general business principles. 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 start-ups. 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 is a dedicated Canvas site for our course. Lecture notes, caselettes, course materials that are not copyrighted by a third party, and periodic announcements will be posted on this Canvas site.

  The Canvas URL is: https://canvas.upenn.edu/courses/1326712

- You will be able to access Study.net through Canvas. All third party copyrighted readings are found on Study.net. You should receive an email with log-in information from Study.net at the beginning of the semester. Please contact **customerservice@study.net** with any logon issues.

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 readings 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 readings are 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 optional reading materials and examples of legal or business documents included for the purpose of illustrating the themes discussed in class. All required readings and supplemental readings, organized by session, can be found on Canvas or in the Study.net window found on the Canvas website.

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 study. 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 found on Canvas, and are part of the required readings. The class meetings generally will involve both lecture and case discussions, and interaction and dialogue with the instructor is strongly encouraged.

Specific study questions have been assigned for each caselette. We will consider these questions and the material in the case during most class sessions.

Students are asked to form study group teams of up to **five** students per team. Study groups are expected to meet to discuss each caselette. Choose your teammates carefully—changes will not be allowed once your study group team has been formed.

The final course grade will be computed as follows:

- Classroom participation 20%
- Case memos & other assignments 20%
- Negotiation submissions & presentation 20%
- Quiz 40%

Individual class participation (20%): Active class participation is very important for this course. The quality of your comments counts as much as your participation activity level. Because so much of the learning in this course occurs in the classroom, it is important that you attend every class. You may use tablets and laptops for note-taking only. As a common courtesy to other students and the instructor, this course will follow Wharton's "concert rules." Any other use of cell phones, tablets, or laptops is not permitted in the classroom. If you absolutely have to miss class, please notify the instructor and the TA in advance by e-mail. All students are expected to participate in class discussions. Students should expect to be called upon in class. If you are unprepared for the class session, please inform the instructor before the beginning of the class and you will not be called upon. You are required to display your name tent in each class to facilitate teacher/student interaction**.** Note: If you do not have a name tent, please let the TA know and we will provide you with your name tent. Failure to display your Wharton-issued name tent may result in not getting any credit for the class session in which your Wharton-issued name tent was not displayed.

Case memos and Other Assignments (20%): For each of the assigned caselettes or cases, before the start of class, each study group team will turn in a hard copy (or submit online into a designated folder on Canvas) of the write-up in which the study questions are addressed.

The write-up should be double-spaced, in 11-point font, and as a guideline should be limited to four pages in length. The four-page limit is for text only. You may attach as many numerical calculations as you wish, **but your submission must be integrated into a single file.** The names of the students in the study team must appear on the front page of the assignment. Write these as if you were writing a recommendation to the major decision-maker in each case.

Note: write-ups will not be accepted after the class has met. Credit will only be given to write-ups which are submitted in hard copy (or posted online) by the **beginning** of the class session to which the caselette is assigned. No credit will be given for write-ups which are handed in late or not handed in.

Negotiation Exercise (20%): 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 (40%): Will be held on **November 16** during class time**.** This is an open book/open notes quiz. Students should bring a calculator to the quiz.

Peer Evaluation: Since **40%** of your course grade depends on group work, you will be asked to evaluate the contributions of each of your study-group members using a form that will be distributed in class. Specifically, at the end of the class 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 the negotiation exercise. The average of the evaluation by all your team members will be used to adjust your individual grade in each group assignment category. Submission of this form in a timely manner is a requirement of this course.

Note: The instructor will take great care to grade as fairly as possible, and will not discuss grades at the end of the course. Students wishing to discuss their Quiz are asked to make an appointment with the TA to do so.

Lecture Notes

PDF files of the PowerPoint slides used in each class will be posted on Canvas prior to each class.

Learning Environment

Students are expected to strictly adhere to "Concert Rules," including:

- Class starts and ends exactly on time. Students and faculty are expected to be prompt.
- Students remain in attendance for the duration of the class, except in an emergency.
- Students display their Wharton-issued name tents.
- All mobile phones are turned off.

Note: The instructor, at his sole discretion, will apply grade penalties for any and all violations of these learning environment guidelines.

Communication, Feedback, and Questions

The instructor will do everything possible to provide you with a valuable and interesting 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 email, come to the office hour on Monday between 3:00 – 4:00PM (SH – DH 2012) throughout the semester, or set up an appointment with the instructor.

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 during the morning on the preceding or following Friday. Make-up classes will be video recorded and posted to Canvas.

Course Outline At-A-Glance MGMT 264 Fall 2016

Session Number	*Date*	*Topic*	*Case/activity*	*Submissions Due*
1	W 8/31/2016	Course Introduction and Overview		
2	W 9/7/2016	The VC Industry Today – An Industry in Transition		
3	M 9/12/2016	VC Firm Structure and Activities		
4	W 9/14/2016	Evaluating Opportunities I		
	M 9/19/2016	NO CLASS		
5	W 9/21/2016	Evaluating Opportunities II: Market Places	Chemdex case	Case memo
6	M 9/26/2016	Evaluating Opportunities III : Business Models	CredEx Case	
7	W 9/28/2016	Formation of a Startup: Organizational issues I	Caselette #1	Caselette #1
8	M 10/3/2016	Formation of a Startup: Compensation II	Caselette #2	Caselette #2
9	W 10/5/2016	Formation of a Startup: Initial Capitalization III	Caselette #3 & GovWorks Video Case	Caselette #3
10	M 10/10/2016	Fundraising: The Landscape		
11	W 10/12/2016	Valuation Methodologies		
12	M 10/17/2016	Valuation Methodologies (continued)	HBS Problem Set	HBS Problem Set
13	W 10/19/2016	Negotiating Term Sheets		
14	M 10/24/2016	Liquidation Preferences and Price Protection Anti- Dilution	Caselette #4	Caselette #4
15	W 10/26/2016	Analysis of a Term Sheet (Hand out materials for negotiation session)	Caselette #5	Caselette #5
16	M 10/31/2016	Angel Investing	Blink Case	
17	W 11/2/2016	Crowdfunding	AngelList Case	
18	M 11/7/2016	Integrating Valuation with Term Sheet Structure	APEX Case	
19	W 11/9/2016	Integrating Valuation with Term Sheet Structure	LuckyPai Case	
20	M 11/14/2016	Review session and Q&A (Optional session)		
21	W 11/16/2016	Quiz	Quiz	
22	M 11/21/2016	Corporate Governance – The role and composition of the BOD in a venture-backed firm		
	W 11/23/2016	Thanksgiving – NO CLASS		
23	M 11/28/2016	Managing the Exit		
24	W 11/30/2016	Term Sheet Debriefing		
25	M 12/5/2016	Term Sheet Debriefing and Course Summary		

Detailed Course Outline

Note: The session outline below is subject to change in order to accommodate the pace and content of class discussions.

Wednesday, August 31, 2016
Session 1: Course Introduction and Overview

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

Supplementary Reading:

- "Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy", by IHS Global Insights and National Venture Capital Association (NVCA), 2011
- "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, September 7, 2016
Session 2: The VC Industry Today – An Industry in Transition

- An overview on the trend of global venture capital industry
- Current industry trends in US
- Current industry trends in China

Supplementary Reading:

- "The VC Shakeout" by Joseph Ghalbouni and Dominique Rouziès, Harvard Business Review (Jul/Aug 2010)
- "National Venture Capital Association Yearbook 2015" Thomson Reuters
- "Why the Structural Changes to the VC Industry Matter" by Scott Kupor (July 30, 2014)
- "The New Reality of Venture Capital" by Joey Dwyer (February 25, 2014)

Monday, September 12, 2016
Session 3: VC Firms: Structure and Activities

- Venture Capital objectives and investment strategies
- Venture Capital firms activities
- The structure of VC firms
- The relationship between limited partners and general partners
- Fundamental Issues on Venture Capital Investment

Supplementary Reading:

- "A Note on the Venture Capital Industry" Harvard Business School (HBS# 9-295-065 July 21, 2001)
- "How Venture Capital Works" by B. Zider, Harvard Business Review (Nov-Dec 1998
- "The Venture Capital Funnel" CB Insight (April 7, 2014)
- "The Evolving Relationship between LP and GPs" by Ann Leamon, Josh Lerner and Susana Garcia-Robles (September 5, 2012)
- "The Structure and Governance of Venture-Capital Organizations" by William Sahlman, Journal of Financial Economics, 27:473-521, 1990
- "A Day in the life of a Venture Capitalist" (Stanford Case -44, January 28 2013

Wednesday, September 14, 2016
Session 4: Evaluating Opportunities

- Opportunity definition and recognition
- Frameworks on evaluating opportunities

Supplementary Reading:

- "Criteria used by venture capitalists to evaluate business plans" by I. MacMillan, R. Siegel, and P. Subba Narashima. Journal of Business Venturing 1, 119-128 (1985)
- "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)

Note: NO CLASS September 19, 2016

Wednesday, September 21, 2016
Session 5: Evaluating Opportunities II: Market Places and the Chemdex case

Required Reading:

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

Case Discussion Questions:

1. How would you describe the opportunity that David Perry identified?
2. Imagine you are considering an investment in Chemdex in 1997. How would you evaluate this specific opportunity? Please post your PowerPoint slides on our Canvas site in the Assignment Folder and be prepared to present them in class.

Session 6: Evaluating Opportunities III: Business Models and the CredEx case

Required Reading:

- CredEx case (A) (Wharton Case-90, revised January 2016)
- "Business models" (C. Zott & R. Amit) in J.D. Wright (Ed.), *International Encyclopedia of the Social & Behavioral Sciences*, 2nd Edition, Volume 3, Oxford: Elsevier, pp. 33-36, 2015.
- "Creating value through business model innovation" (r. Amit & C. Zott), *Sloan Management Review*, Volume 53(3), pp. 41-49, Spring 2012.

Case Discussion Questions:

1. What is the entrepreneurial market opportunity identified by the founders? What are the factors that make this opportunity attractive or unattractive?
2. What is the targeted customer group of CredEx? Why did they target this group of customers?
3. What was the initial business model of CredEx? How does it compare with the traditional business model in the industry?
4. What is the current business model of CredEx? How does this compare with its initial business model? What do you think enabled the business model transformation?
5. In your view, what are the challenges CredEx faces in executing its expansion plan?
6. In your view, what are the challenges CredEx faces in its attempt to raise money from professional venture capitalists (VCs)?

Note: Be prepared to be called upon to address in class any of the above questions.

Monday, September 26, 2016

Wednesday, September 28, 2016

Session 7: : Formation of A Start-up: Organizational Issues

- Building a startup team
- Forming the company: legal forms
- Intellectual property: the importance of getting it right

Required Reading:

- **Caselette #1**: Organizational Issues in the Formation of a Start-Up

Supplementary Reading:

- "The Legal Forms of Organization" Harvard Business School (February 19, 2004)
- "The Legal Protection of Intellectual Property" Harvard Business School (HBS# 9-898-230 April 17, 1998)
- "The Process of Forming the Company." Chapter 3 of High tech start-up: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)

Wednesday, October 3, 2016

Session 8: Formation of A Start-up: Compensation

- Initial capitalization: design the equity and capital structure
- Compensation elements
- Founders' stock and equity incentive arrangements

Required Reading:

- **Caselette #2:** Considerations in establishing the initial capitalization of the start-up
- "Equity Compensation in Startup Ventures," (HBS Note 9-815-074, March 2, 2015)

Supplementary Reading:

- "Vesting of Founders' Stock: Beyond the Basics," by Doug Collom, WSGR Entrepreneurs Report (Spring 2008)
- "Dividing Equity Between Founders," by Chris Dixon (August 23, 2009)
- "Five Compensation-Related Mistakes Startups Make (And Should Avoid)," by Caine Moss of WSGR, Venture Beat (February 9, 2010)
- "A Counterintuitive System for Startup Compensation" by First Round Capital, First Round Capital (November 2014)
- "Making Sense Out of Cents: Determining Employee Compensation" by Sharon Wienbar, Entrepreneur (March 14, 2014)

Wednesday, October 5, 2016

Session 9: Formation of Start-up: Initial VC Capitalization and founder team challenges

Required Reading:

- **Caselette #3:** Issues encountered in connection with First Round Financing

Video Case:

- **Video Case: GovWorks**
  (Discussion questions will be handed out in class prior to watching the video)

Supplementary Reading:

- "Starting Up: Sizing the Stock Option Pool," by Doug Collom, WSGR Entrepreneurs Report (Summer 2008)
- "The Dos and Don'ts of Compensation for Early-Stage Company Employees" by Kristen Garcia Dumont and Jennifer

Martinez, WSGR Entrepreneurs Report (Fall 2008)

Monday, October 10, 2016
Session 10: Fundraising – The Landscape

- Sources of capital
- Alternative forms of fundraising
- Fundraising process and fallacies

Required Reading:

- "New Venture Financing" Harvard Business School (HBS note # N9-802-131, Aug. 1, 2006)
- "Financing New Venture" (HBS Note N9-811-093, March 28, 2011)

Supplementary Reading:

- "Strategic Investors in the Early-Stage Company" by Allison Spinner, WSGR Entrepreneurs Report (Winter 2007)
- "Best Practices For Raising a VC Round," by Chris Dixon (May 4, 2011)

Wednesday, October 12, 2016
Session 11: Valuation Methodologies

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

Required Reading:

- "A Note on Valuation in Private Equity Settings" (HBS # 9-297-050, April 2002)
- "A Method for Valuing High-Risk, Long-Term Investments" (HBS Note 9-288-006, July 24 2009)

Supplementary Reading:

- "What's My Company Worth?" by Herb Fockler, WSGR Entrepreneurs Report (Fall 2007)
- "How Do VC's and Angels Value a Company?" by Jeff Carter (August 8, 2014)

Monday, October 17, 2016
Session 12: Valuation Methodologies (continued)

Required Reading:

- The Venture Capital Method – Valuation Problem Set (HBS case # N9-396-090)

Wednesday, October 19, 2016
Session 13: Negotiating Term Sheets

- Environmental factors surrounding term sheets
- Selected critical elements in venture term sheets

Required Reading:

- "Venture Capital Negotiations: VC versus Entrepreneur." Harvard Business School (HBS# 9-800-170, March 2, 2000)

Supplementary Reading:

- "Control: The Critical Issue in Negotiating Financing Terms," by Caine Moss, WSGR Entrepreneurs Report (Fall 2008)

- "Navigating Down-Round and Dilutive Financings," by Yokum Taku, WSGR Entrepreneurs Report (Fall 2008)
- "Mark Suster: The Authoritative Guide to Pro-Rata Rights" by Mark Suster, Venture Capital (October 13, 2014)

Monday, October 24, 2016

Session 14: Liquidation Preferences and Price Protection Anti-Dilution

Required Reading:

- **Caselette #4:** Liquidation Preferences and Anti-Dilution Formulas

  (**Case memo due before class**)

Supplementary Reading:

- "Anti-Dilution Protection: What You Need to Know" by Mark Baudler, WSGR Entrepreneurs Report (Spring 2008)
- "Liquidation Preferences: What They Really Do" by Craig Sherman, WSGR Entrepreneurs Report (Winter 2007)

Wednesday, October 26, 2016

Session 15: Analysis of a Term Sheet

Required Reading:

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

Your assignment: The purpose of this caselette is issue spotting. The Summary of Terms depicted in the caselette is conventional in most respects, and as is true of most legal documents, the wording is precise. However, a number of terms have been deliberately revised in ways that would create serious issues either for the Company or the Investors – there are a number of "traps for the unwary" that have been dropped into this term sheet. To assist in this exercise, sections of the term sheet that have **not** been planted with any "traps" have been *italicized* and marked with [brackets]. Your assignment is to identify each of the 20 or so traps.

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 Founders or as VC Investors.

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

For Session 24 on Wednesday (November 30, 2016) and Session 25 on Monday (December 5, 2016), 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 that are due on **Tuesday, November 29, 2016 by 12:00 Noon** will be outlined in the materials which will be handed out to you.

Monday, October 31, 2016

Session 16: Angel Investing

- Evaluating Funding options
- Convertible note financing

Required Reading:

- The Blink Case
- "Convertible Notes in Angel Financing." Harvard Business School (HBS# 9-813-017, September 11, 2012)

Supplementary Reading:

- "VC 'Super Angels': Filling a Funding Gap or Killing 'The Next Google'?", Knowledge@Wharton (September 1, 2010)

Wednesday, November 2, 2016
Session 17: Crowd funding

- The pros and cons of crowdfunding your venture
- The Business model of crowdfunding

Required reading:

- "AngelList: Changing the Landscape of Investing", (Stanford Case E-520, June 15, 2014)

Supplemental readings:

"How Crowd-Funding Is Changing Everything and What That means for Your Startup", First Round Review

Monday, November 7, 2016
Session 18: Integrating Valuation with Term Sheet: The Apex Case

Required Reading:

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

APEX Case Discussion Questions:

1. Do you think AccessLine is an attractive investment opportunity (regardless of valuation)? Why and why not?

2. What is the proposed valuation for AccessLine in Series B financing?

3. How has AccessLine financed itself to date? Why have they chosen this strategy? What have been the implications for the firm?

4. Why does Dan Kranzler regard Apex Investment Partners as an attractive source of venture capital?

5. How attractive are the terms that AccessLine has proposed to Apex for the Series B financing? What are the key differences from those in Series A financing round? What issues, if any, should concern Apex?

Note: be prepared to be called upon to address in class any of the above questions.

Wednesday, November 9, 2016
Session 19: Integrating Valuation with Term Sheet: The LuckyPai case

Required Reading:

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

Case Preparation Questions:

1. If you were an investor, would you make an investment in LuckyPai Group Limited (LuckyPai)? How would you evaluate this investment opportunity? What criteria would you use? What risks have you identified?
2. What is your pre-money valuation for LuckyPai based on different valuation methodologies [e.g., comparable, discounted cash flow (DCF), and venture capital (VC)]? (Notes: (1) According to the prospectus of Acorn International Inc., its IPO price was US$15.5, which implies a price-to-earnings ratio (P/E) of 96.9 and a price-to-sales ratio (P/S) of 1.4 at IPO. By the end of 2011, the stock price of Acorn International Inc. had stumbled down to US$4.08/share, which suggested a P/E of 24 and a P/S of 0.34; (2) the 10-Year-Treasury Bond in January 2006 had a yield of 4.4 percent)
3. If you were the founder of LuckyPai, how would you assess DT Capital Partners (DT Capital) as a potential investor? How would you evaluate the proposed syndication structure?
4. If you were the founder of LuckyPai and the two options below were available to you along with the proposed deal of DT Capital, which one would you choose? a. Option 1: Acorn International Inc. proposes a US$15 million investment at a much higher pre-money valuation for the company.b. Option 2: An angel investor proposes a US$3.6 million investment in the form of a convertible note which would cover your spending in the first 6 months with much more amiable terms than DT Capital proposed.
5. If you were the founder of LuckyPai, how would you negotiate the proposed term sheet from DT Capital?

Monday, November 14, 2016
Session 20: Review and Q&A session (Optional Session)

Wednesday, November 16, 2016
Session 21: QUIZ

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

Monday, November 21, 2016
Session 22: Corporate Governance – The Role and Composition of the BOD in a Venture-Backed Firm

- The roles and composition of the BOD

Required Reading:

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

Supplemental Reading:

- “The Basic Responsibilities of VC-Backed Company Directors” by working group on Director Accountability and Board Effectiveness (January 2007)
- “Venture-Backed Boards More Active, Better Aligned Amidst Financial Crisis”

Dow Jones VentureSource (November 10, 2009)

- "CEO Playbook for Early Stage Board Meetings," by Geoff Yang, Red Point (August 2, 2013)
- "The Secret to Making Board Meetings Suck Less," First Round Review (October 18, 2013)

Monday, November 28, 2016
Session 23: Managing the Exit

- IPO and alternative exit strategies

Supplementary Reading:

- "A Note on the Initial Public Offering Process," (HBS note # 9-200-018, July 20, 2007)
- "SpeedSim: Made to Exit!" by Naeem Zafar and Victoria Chang, California Management Review, 54(4): 143-155, 2012

Wednesday, November 30, 2016
Session 24: Term Sheet Debriefing

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

Submissions Due: Please upload your deliverables to Canvas before 12:00 Noon on Tuesday November 29, 2016.

- Each investor team and the founder to prepare a PowerPoint presentation, which includes the final proposed valuations as well as commentary on the process of the negotiations, on the key terms that were critical in the negotiation of the term sheet, and on lessons learned
- Founders additionally provide a detailed summary of the final agreement using the format outlined in the Negotiation Instruction handout which will be distributed in class
- VC investors must provide the details of their valuation calculations

Monday, December 5, 2016
Session 25: Term Sheet Debriefing (continued) and Course Summary