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Management 804: Venture Capital and Entrepreneurial Management

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1. Course Information

Time: Spring 2017 Q3: Mondays & Wednesdays, 10:30 a.m.-11:50 a.m.
Classroom: TBD
TA: Vedant Thyagaraj (vedantt@wharton.upenn.edu)

2. Course Description and Objectives

Venture capital and the technology sector that it supports¹ 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 804 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

¹ 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 occur 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 to try to build on the views of others or voice your disagreement in a kind and considerate manner.
- **Display your Wharton-issued name tent in each class to facilitate teacher/student interaction.**
Note: Failure to display your Wharton issued name tent may result in not getting any credit for the class session in which your name tent was not displayed.

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.

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 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 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 with any logon 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.

Course Outline At-A-Glance MGMT 804 Spring 2017 Q1				
<i>Session Number</i>	<i>Date</i>	<i>Topic</i>	<i>Case/Activity</i>	<i>Submissions Due</i>
1	W 1/11/2017	VC Firms: Activities and Structure		
	M 1/16/2017	No Class	Martin Luther King, Jr. Day	
2	W 1/18/2017	VC Firms: Strategies and Capabilities	Andreessen Horowitz	
3	M 1/23/2017	The Formation and Initial Capitalization of a Start-up	Caselette	Case Memo #1
4	W 1/25/2017	Opportunity Evaluation	CredEx(A)	Case Memo #2
5	M 1/30/2017	The Fundraising Landscape	Blink	
6	W 2/1/2017	Valuation Methodologies		
7	M 2/6/2017	Negotiating the Term Sheets		Valuation Problem Set
8	W 2/8/2017	Analysis of a Term Sheet	Caselette	Case Memo #3
9	M 2/13/2017	Integrating Valuation with Term Sheet	LuckyPai	
10	W 2/15/2017	Guest speaker		
11	M 2/20/2017	Corporate Governance in a Venture-Backed Startup and Exit		
12	W 2/22/2017	Quiz		
13	M 2/27/2017	Term Sheet Negotiation Debriefing		
14	W 3/1/2017	Term Sheet Negotiation Debriefing		

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 11, 2017

Session 1: VC firms: Activities and Structure

- Venture Capital firms activities and structure
- Fundamental issues on Venture Capital Investment

Reading:

- “16 Definitions on the Economics of VC,” by Scott Kupor, Andreessen Horowitz (September 2016)
- “A Day in the Life of A Venture Capitalist” (Stanford Case E-44, January 28, 2013)

Wednesday, January 18, 2017

Session 2: VC Firms: Strategies and Capabilities

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

Case:

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

Monday, January 23, 2017

Session 3: The Formation and Initial Capitalization of a Start-up

- Forming the company: legal forms
- Initial capitalization: design the equity and capital structure
- Founders' stock and basic equity incentive arrangements

Cases:

- **Caselette:** Considerations in establishing the initial capitalization of the start-up
(Case memo #1 due before class)

Readings:

- “The Legal Forms of Organization” (HBS Note 9-898-245 February 19, 2004)
- “Vesting of Founders' Stock: Beyond the Basics,” by Doug Collom, WSGR Entrepreneurs Report (Spring 2008)
- “Equity Compensation in Startup Ventures”, (HBS Note 9-815-074, March 2, 2015)

Wednesday, January 25, 2017

Session 4: Opportunity Evaluation

- VC's and entrepreneur's perspectives on evaluating investment opportunities

Case:

- CredEx (A) (Wharton Case-90, revised November 8, 2015)
(Case memo #2 due before class)

Reading:

- “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)

Monday, January 30, 2017

Session 5: The Fundraising Landscape

- Sources of capital
- Alternative forms of fundraising

Case:

- “The Case of Blink”

Reading:

- "Financing New Venture" (HBS Note N9-811-093, March 28, 2011)
- “Convertible Notes in Angel Financing.” (HBS Note 9-813-017, September 11, 2012)

Wednesday, February 1, 2017

Session 6: Valuation Methodologies

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

Case:

- The Venture Capital Method – Valuation Problem Set (HBS Case 9-396-090, October 5, 1995)
(Problem set answers due before the next class)

Reading:

- “A Method For Valuing High-Risk, Long-Term Investments” (HBS Note 9-288-006, July 24 2009)
- “When Is a ‘Mark’ not a Mark,” by Scott Kupor, Andreessen Horowitz (September, 2016)

Monday, February 6, 2017

Session 7: 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, February 8, 2017

Session 8: Analysis of a Term Sheet

Case:

- **Caselette:** Analysis of a Typical Venture Capital Term Sheet
(**Case memo #3 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.

Monday, February 13, 2017

Session 9: Integrating Valuation with Term Sheet

Case:

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

Wednesday, February 15, 2017

Session 10: Guest speaker

- Guest speaker: TBD

Monday, February 20, 2017

Session 11: Corporate Governance in a Venture-backed Start-up and Exit

- The roles and composition of the BOD
- IPO and alternative exit strategies

Reading:

- “After The Term Sheet” by Dennis T. Jaffe and Pascal N. Levensohn (November 2003)
- “A Note on the Initial Public Offering Process”, (HBS Note # 9-200-018, July 20, 2007)

Wednesday, February 22, 2017

Session 12: Quiz

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

Monday, February 27, 2017

Session 13: Term Sheet Negotiation Debriefing

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

Wednesday, March 1, 2017

Session 14: Term Sheet Negotiation Debriefing

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