

Wharton School, University of Pennsylvania  
Management Department

# Venture Capital and Entrepreneurial Management

MGMT 804 – Q3 and Q 4 Spring 2018  
Mondays and Wednesdays  
10:30 to 11:50 AM  
Room TBA

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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 with some reference to practices in non-domestic markets. The course is designed for the entrepreneur who is seeking venture capital and needs insight into the structure, practices and operations of venture capitalists. At the same time, students aspiring to a career in venture capital will find that the course provides insight into deal sourcing, assessment, valuation and structure, governance and exiting.

Venture capital and the companies that it supports continue to evolve in terms of their capabilities, business models and technologies. This evolution traces from the origination of the asset class in the 1970s and the role that it played in launching semi-conductor, personal computing and biotechnology companies. The pace of evolution, however, accelerated with the information technology revolution and associated dot.com downturn of 1998-2000. Venture capital practitioners and the entrepreneurial community in the new millennia have had to confront the impact of the genomics era in medicine, “internet 2.0” business models and social media and its market influence all in the milieu of recovery from the 2008 financial crisis. At the same time, the re-thinking of business models, the emphasis on “lean management,” and unabated globalization of business have all conspired to change the investment thought processes and, therefore, the approaches that entrepreneurs must take to capitalize their companies. That said, there are classical best practices that still prevail, but that must be conducted in an ever-changing environment. This principle will guide our teaching and learning in this course.

Complementing, and sometimes in opposition to the entrepreneur’s outlook, is the venture capitalist’s perspective, 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 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. 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. It 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;
- Common organizational issues encountered in the formation of a venture-backed start-up, including matters relating to initial capitalization, intellectual property, and more;
- Formulation of the persuasive entrepreneurial and technology strategy in the light of the due diligence process;
- Valuation methodologies that form the basis of the negotiation between the entrepreneur and the venture capitalist in anticipation of a venture investment;
- The challenges of fundraising and financing strategies;
- Typical investment terms found in the term sheet and the dynamics of negotiation between the entrepreneur and the venture capitalist;
- Elements of compensation, both cash and equity that are common to venture-backed companies in the technology sector;
- 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. 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 start-up 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 start-ups. Students completing the course will have a solid understanding of the questions and issues that typical start-up face with respect to capitalization.

### **Other Course Features and Resources**

There will be a dedicated Canvas site for our course. Lecture notes, the Simulation Cases, and course materials that are not copyrighted by a third party, periodic announcements and a course blog will be posted on this Canvas site. In addition, the Lippincott Library provides access to numerous powerful data bases and other resources for venture financing that we will identify and review.

**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](mailto:customerservice@study.net) with any logon issues.**

## Requirements and Evaluation

The reading assignments in the course are “front-loaded” because the entrepreneurial and venture capital processes are a never-ending simultaneous equation. This syllabus, the assignments, and the readings have been organized so that students can manage the requirements efficiently and in an iterative way. As a caveat, entrepreneurship and venture capital do not behave in a similar iterative way. 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.

## Students Requirements and Evaluation

The Coursepack 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. All teams will be expected to submit their simulation analysis and all students come to class fully prepared to respond to the questions outlined in the simulation.

Depending on enrollment Students are asked to form a total of **TEN** simulation teams of **six to seven** members at the beginning of the course. Depending on enrollment, some teams may be permitted to have eight students Choose your teammates 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: A deadline for team formation will be announced for each of Q3 and Q4**

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 and attendance (10%)

Given the size of the class, Canvas will include a course blog. Entries onto the blog will count towards class participation. Missed classes will each reduce the final score by one point.

A running log book of observations and challenges associated with venture financing (10%)

The instructor will give specific guidance in class, but this assignment is meant to be a personal chronicling of a subject or project of interest.

Open-book take home exam (30%). This will be in essay form and is designed to synthesize course material.

**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 on Canvas 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. The instructor will abide by the practice of non-use of electronic devices during class be they laptops, tablets, mobile phones or the next new-new thing.

## Required Texts

Coursepack: MGMT 804 Venture Capital and Entrepreneurial Management, Spring 2017 edition, compiled by Stephen Sammut will be available on **study.net**. This course pack is based on reading selections made by Professors Raffi Amit and Douglas Collum for their offering of MGMT 804 during the Fall term.

## 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 the instructor is by e-mail. An appointment matrix will be posted on Canvas. 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 the instructor in advance.

## Learning Environment

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

- Class starts and ends exactly on time. Students 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 phones and electronic communication devices are turned off.

Note: The instructor, at his sole discretion, will apply grade penalties for any and all violations of these **Concert Rules**.

## About the instructor

Mr. Sammut is Senior Fellow, Wharton Health Care Management and Lecturer, Wharton Entrepreneurship. He is former Venture Partner, Burrill & Company, a San Francisco based life science venture capital fund and merchant bank. Mr. Sammut focused on international activity, with a special focus on global health venturing. He is currently an advisor to the Africa Health PE Fund operated by the Abraaj Group.

At the Wharton School, he teaches or has taught venture capital management, corporate development, mergers and acquisitions, biotechnology entrepreneurship, intellectual property strategy, private equity in emerging markets, Israeli innovation, health care systems, and a special seminar on private sector participation in international health. He is faculty advisor to student-alumni organization called the Wharton Health Volunteer Program (WHVP) that provides *pro bono* consulting services to public health services and clinics in the developing world. WHVP was awarded the

Health and Human Rights Leadership Award by Doctors of the World for its decade long work in developing world health systems.

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. His global activity also includes the formation and oversight of health care management MBA programs in Africa and South Asia.

Mr. Sammut has been involved in the creation or funding of nearly 40 biotechnology, Internet, and information technology companies globally and has served on numerous public, private and non-profit boards. He is also active with the International Finance Corporation/World Bank Group where he co-authored a report on venture capital in China, serves as the principal consultant in the IFC's Technology Transfer Facility, and advises the health care section of the World Bank in program implementation in the developing world.

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, holds an MBA from the Wharton School of the University of Pennsylvania, and is a candidate for Doctor of Business Administration at Temple University.

## SESSION SCHEDULE FOR SPRING SEMESTER Q3 and Q 4, 2018

<i>Sess</i>	<i>Date</i>	<i>Topic</i>	<i>Case/Activity</i>	<i>Deliverable</i>	<i>Preparation and Required Readings</i>	<i>Supplemental Readings</i>
1	<b>Q3: Wednesday January 10</b>  <b>Q4: Monday March 12</b>	Course introduction and The structure of the VC industry			“A Note on the Venture Capital Industry,” Harvard Business School (HBS # 9-295- 065, July 12, 2001)  “How Venture Capital Works,” by B. Zider, Harvard Business Review (Nov-Dec 1998)	
2	<b>Q3: Wednesday January 17</b>  <b>Q4: Wednesday March 14</b>	Company formation: structures, ownership and issues		<b>Teams must be formed.</b>	“The Legal Forms of Organization,” Harvard Business School (HBS # 9-898- 245, 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)  “Venture Capitalists,” Chapter 9 in High tech start-up: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)	“Avoiding Trouble: Provisions in Previous Employment Documents that Every Start-up Company Founder Needs to Review,” by Yokum Taku, WSGR Entrepreneurs Report (Winter 2008)  “Guide to Trademark Issues for a New Company,” WSGR Entrepreneurs Report (2005)  “Selecting and Protecting a Company Name,” by Aaron Hendelman, WSGR Entrepreneurs Report (Summer 2008)  “Starting Up: Sizing the Stock Option Pool,” by Doug Collom, WSGR Entrepreneurs Report (Summer 2008)
3	<b>Q3: Monday January 22</b>  <b>Q4: Monday March 19</b>	Two assigned teams to present company formation section of simulation; part 1 of diligence lecture	Simulation Part 1: Company Formation  See CANVAS under Assignments	Post case write- up by Sunday,  Q3: January 21, 11:59 PM  Q4: March 18, 11:59 PM	“New Venture Financing,” Harvard Business School (HBS # 9-802-131, August 1, 2006)  “Non-Traditional Financing Sources,” by G. Sneddon and J. Turner in Pratt’s Guide to Private Equity Sources, by Thomson Venture Economics (2004)  “Strategic Investors in the Early-Stage Company,” by Allison Spinner, WSGR Entrepreneurs Report (Winter 2007)  “Super Angels Fly In to Aid Start-Ups,” Tam & Ante, WSJ (Aug. 16, 2010)	“Startup Companies and Financing Basics,” by Yoichiro Taku, WSGR Entrepreneurs Report (Fall 2007)  “Top 10 Intellectual Property Tips for Early- Stage Companies,” by Peter Eng, WSGR Entrepreneurs Report (Summer 2008)  “Vesting of Founders’ Stock: Beyond the Basics,” by Doug Collom, WSGR Entrepreneurs Report (Spring 2008)

					<p>“VC Nomenclature and the Investor Spiral,” by Manu Kumar, CNN Money (May 16, 2011)</p> <p>“VC ‘Super Angels’: Filling a Funding Gap or Killing ‘The Next Google?’” Knowledge@Wharton (September 1, 2010)</p>	<p>2010 Equity Incentive Plan</p> <p>2010 Stock Option Agreement</p>
4	<p><b>Q3:</b> <b>Wednesday</b> <b>January 24</b></p> <p><b>Q4:</b> <b>Wednesday,</b> <b>March 21</b></p>	<p>Part 2 of diligence lecture</p>		<p>Complete Log Book Entry for “Phase 1” by 11:59 PM this date</p>	<p>Read Simulation 2 Due Diligence Materials</p> <p>“Meeting with the Venture Capitalist,” by W. Kingsley in Pratt’s Guide to Private Equity Sources, by Thomson Venture Economics (2004)</p>	
5	<p><b>Q3:</b> <b>Monday</b> <b>January 29</b></p> <p><b>Q4:</b> <b>Monday,</b> <b>March 26</b></p>	<p>Two assigned teams to present due diligence section of simulation</p> <p>Part 1 of Lecture on Capitalization Tables and Valuation</p>	<p>Simulation Part 2: Due Diligence</p> <p>See CANVAS under Assignments</p>	<p>Post case write-up by Sunday,</p> <p>Q3: January 28, 11:59 PM</p> <p>Q4: March 25, 11:59 PM</p>		
6	<p><b>Q3:</b> <b>Wednesday</b> <b>January 31</b></p> <p><b>Q4:</b> <b>Wednesday,</b> <b>March 28</b></p>	<p>Part 2 of Lecture on Capitalization Tables and Valuation</p>			<p>“A Note on Valuation in Private Company Settings.” (HBS # 9-297-050, April 2002)</p> <p>“Ownership, Dilution, Negotiation, and Valuation,” Chapter 7 in High tech start-up: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)</p> <p>“Valuation: What It’s Worth,” VentureEdge, 2001</p>	
7	<p><b>Q3:</b> <b>Monday,</b> <b>February 5</b></p> <p><b>Q4:</b></p>	<p>Two assigned teams to present cap table and valuation section of simulation</p>	<p>Simulation Part 3: Cap Table and Valuation</p> <p>See CANVAS</p>	<p>Post case write-up by Sunday,</p> <p>Q3: February 4, 11:59 PM</p>		

	<b>Monday, April 2</b>	Part 1 of Lecture on Term Sheets	under Assignments	Q4: April 1, 11:59 PM		
8	<b>Q3: Wednesday February 7</b>  <b>Q4: Wednesday, April 4</b>	Part 2 of Lecture on Term Sheets		Complete Log Book Entry for "Phase 2" by 11:59 PM this date	<p>"Anti-Dilution Protection: What You Need to Know," by Mark Baudler, WSGR Entrepreneurs Report (Spring 2008)</p> <p>"Liquidation Preferences: What They Really Do," by Craig Sherman, WSGR Entrepreneurs Report (Winter 2007)</p> <p>"Control: The Critical Issue in Negotiating Financing Terms," by Caine Moss, WSGR Entrepreneurs Report (Fall 2008)</p> <p>NVCA Model Documents: "Term Sheet for Series A Preferred Stock Financing..."</p>	<p>"Founders Now Take the Money and Maintain Control," by Evelyn M. Rusli, The New York Times (April 7, 2011)</p> <p>"Navigating Down-Round and Dilutive Financings," by Yokum Taku, WSGR Entrepreneurs Report (Fall 2008)</p> <p>"The Nuts and Bolts of Recaps and Pay-To-Play Financings," by Timothy Harris, Venture Capital Journal (May 2010)</p> <p>Memorandum of Terms for Preferred Stock (negotiated)</p> <p>Memorandum of Terms for Preferred Stock (nonnegotiated company favorable)</p> <p>Memorandum of Terms for Preferred Stock (nonnegotiated investor favorable)</p> <p>Terms for Private Placement of Series Seed Preferred Stock</p> <p>The Funded Founder Institute: "Plain Preferred Term Sheet"</p> <p>WSGR Term Sheet Generator: "Memorandum of Terms"</p>
9	<b>Q3: Monday February 12</b>  <b>Q4: Monday, April 9</b>	Two assigned teams to present term sheet section of simulation  Part 1 of lecture on Governance, Value Add and Exits;	Simulation Part 4: Term Sheet Negotiation  See CANVAS under Assignments	Post concluded negotiation by Sunday,  Q3: February 11, 11:59 PM  Q4: April 8,	"Venture Capital Negotiations: VC versus Entrepreneur." Harvard Business School (HBS# 9-800-170, March 2, 2000)	



				11:59 PM		
10	<b>Q3: Wednesday February 14</b>  <b>Q4 Wednesday April 11</b>	Part 2 of Lecture on Governance, Value Add and Exits;	Take Home Exam will be posted by 11:59 PM this date	Complete Log Book Entry for "Phase 3" by 11:59 PM this date	"New Rules on Option Pricing for Private Companies," by Craig Sherman & Scott McCall, WSGR Entrepreneurs Report (Fall 2007)  "The Do's and Don'ts of Compensation for Early-Stage Company Employees," by Kristen Garcia Dumont and Jennifer Martinez, WSGR Entrepreneurs Report (Fall 2008)	
11	<b>Q3: Monday February 19</b>  <b>Q4 Monday, April 16</b>	Two assigned teams to present corporate governance simulation  Brief lecture on corporate venture capital funds	Simulation Part 5: Governance and Term Sheet Analysis  See CANVAS under Assignments	Post case write-up by Sunday,  Q3: February 18, 11:59 PM  Q4: April 15, 11:59 PM		
12	<b>Q3: Wednesday February 21</b>  <b>Q4: Wednesday April 18</b>	Working with venture capitalists in international markets	Exercise to be posted on Canvas	Complete Log Book Entry for "Phase 4" by 11:59 PM this date	Readings will be posted on Canvas	
13	<b>Q3: Monday February 26</b>  <b>Q4: Monday, April 23</b>	Class symposium with guests to be announced	Exercise to be posted on Canvas		Readings will be posted on Canvas	
	<b>TAKE HOME EXAM DUE DATES BY QUARTER</b>			Take home exam to be posted on Canvas by 11:59 PM Q3: February 27 Q4: April 24		

14	<b>Q3: Wednesday February 28</b>  <b>Q4: Wednesday April 25</b>	Special topic to be determined by the class, e.g., special issues in working with corporate venture capital funds Course summation	Exercise to be posted on Canvas	Complete Log Book Entry for "Phase 5" by 11:59 PM by Friday, April 27	Readings will be posted on Canvas	
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