

Updated: May 23 2019

**The University of Pennsylvania
The Wharton School
Management Department**

Venture Capital and Entrepreneurial Management

**MGMT 264 – Fall 2019
MW 1:30 pm – 3:00 pm
Room: XXX**

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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 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; the proliferation of startups achieving “unicorn” valuations of \$1 billion or more; the emergence of crowdfunding and its ultimate application in the form of the Initial Coin Offering (ICO); and accelerators/incubators as increasingly effective means of forming and funding startups. In recent years the technology sector in general has been experiencing another cycle change, characterized by an unprecedented bull market in the U.S. exchanges, high valuations, large round sizes including “megadeals” of \$100 million or more, and the substantial role of private secondary markets as an alternative exit outside of the traditional IPO and merger/acquisition channels.

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. 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 negotiations, valuation methods, and the impact of successive rounds of financing on capitalization

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.).

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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 designed to achieve three main objectives:

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

The course is pragmatic in its orientation and will cover nine principal areas relevant to privately held, high-growth-potential start-ups. 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
- Opportunity evaluation
- Common organizational issues encountered in the formation of a venture-backed start-up, including matters relating to initial capitalization, intellectual property, and 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
- Typical investment terms found in the term sheet and the dynamics of negotiation between the entrepreneur and the venture capitalist
- Managing the exit
- 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 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, 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.

There is a dedicated Canvas site for our course. Lecture notes, caselettes, and course materials that are not copyrighted by a third party as well as periodic announcements will be posted on this Canvas site. The Canvas URL is: <https://canvas.upenn.edu/courses/1450987>

- 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.

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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.

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 can be found on Canvas, and are part of the required readings. The classes generally will involve both lecture and case discussions. Interaction and dialogue with the instructor are strongly encouraged.

For each caselette, specific study questions have been assigned. In most class sessions, we will consider these questions in addition to the material in the case.

Students are asked to form study group teams of up to 5 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.

Requirements and Evaluation

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

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|--|-----|
| • Classroom participation | 20% |
| • Case memos and 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 for note-taking only. As a common courtesy to other students and the instructor, and consistent with Wharton’s “concert rules,” any other use of electronics such as cell phones, tablets, or laptops is not permitted in the classroom. If you 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. 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 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 Wharton-issued name tent was not displayed. (If you do not have a Wharton issued name tent, we will provide you with a name tent.)

Case memos and other assignments (20%): For each of the assigned caselettes or cases, before the start of class each study-group team will submit online, into a designated folder on Canvas, the write-up in which the study questions are addressed. The instructor recognizes the challenges of responding to the study questions of each caselette in advance of the class discussion of each topic. The intent is to motivate the class discussion. Please do not be concerned by the fact that you may not know the exact answer because there may not be a single answer. These are normally qualitative

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issues that reflect the assessments and views of the stakeholders. The material required for all quantitative assignments will be discussed in class before the assignment is due.

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 front page of each memo.** Write these as if you were writing a recommendation to the major decision-maker in the case.

Write-ups will not be accepted after the class has met. Credit will only be given to write-ups that have been posted online on the Canvas site for our class before the beginning of the class session to which the caselette is assigned and that are visible on the due date and time. No credit will be given for write-ups which are posted late or not posted.

Negotiation Exercise (20%): A critical component of the course is the negotiation exercise, which enables students to apply and integrate their learnings. 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). All team members are required to actively participate in preparing and presenting the results of the negotiations assignment. More information about the exercise will be made available during the course.

Quiz (40%): Will be held on **October 30th, 2019** during class time. This is an open-book, open-notes quiz. Students must 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 of 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 class will be posted to Canvas prior to each class session.

Learning Environment

Consistent with the Wharton Resource Guide 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 are to remain in attendance for the duration of the class, except in an emergency.
- Students display their Wharton-issued name tents at every session.
- All mobile phones are turned off after checking into the *Wharton Attendance Tool*.

Note: The instructor reserves the right to apply grade penalties for any and all violations of these learning-environment guidelines.

Feedback and Questions

The instructor will do everything possible to provide you with a valuable and interesting learning experience. You are encouraged to provide feedback 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 that is scheduled for Monday between 3-4 PM, or set up an appointment with the instructor.

Course Outline At-A-Glance MGMT 264 Fall 2019				
<i>Session Number</i>	<i>Date</i>	<i>Topic</i>	<i>Case/activity</i>	<i>Submissions Due</i>
1	W 8/28/2019	Course Introduction and Overview		
2	W 9/4/2019	The VC Industry Today – An Industry in Transition		
3	M 9/9/2019	VC Firm Structure and Activities		
4	W 9/11/2019	Evaluating Opportunities I		
5	M 9/16/2019	Evaluating Opportunities II: Market Places	Chemdex case	Case memo
6	W 9/18/2019	Evaluating Opportunities III : Business Models	CredEx Case	
7	M 9/23/2019	Formation of a Startup I: Organizational issues	Caselette #1	Caselette #1
8	W 9/25/2019	Formation of a Startup II: Compensation	Caselette #2	Caselette #2
9	M 9/30/2019	Formation of a Startup III: Initial Capitalization and Founder Team Challenges	Caselette #3 & govWorks Video Case	Caselette #3
10	W 10/2/2019	The Fundraising Landscape		
11	M 10/7/2019	Angel Investing	Blink	
12	W 10/9/2019	Valuation Methodologies		
13	M 10/14/2019	Valuation Methodologies (continued)	HBS Problem Set	HBS Problem Set
14	W 10/16/2019	Negotiating Term Sheets		
15	M 10/21/2019	Liquidation Preferences and Price Protection Anti-Dilution	Caselette #4	Caselette #4
	W 10/23/2019	No class		
16	M 10/28/2019	Analysis of a Term Sheet (Hand out negotiation materials)	Caselette #5	Caselette #5
17	W 10/30/2018	Review session		
18	M 11/4/2018	Quiz		
19-20	M 11/4/2019	<ul style="list-style-type: none"> • Managing the Exit • Integrating Valuation with Term Sheet Structure 	LuckyPai	Class meets 4:30 – 7:00 PM, Pizza will be served.

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21	W 11/6/2019	Guest Speaker: David Spiro <i>Senior Investment Associate, Insight Venture Partners</i>		
22	M 11/11/2019	VC Negotiation meetings		
23	W 11/13/2019	VC Negotiation meetings		
24	M 11/18/2019	VC Negotiation meetings		
25	W 11/20/2019	VC Negotiation meetings		
26	M 11/25/2019	Corporate Governance – The role and composition of the BOD in a venture-backed firm	Class discussion of the Alantec handout	
	W 11/27/2019	Thanksgiving - No class		
27	M 12/2/2019	Term Sheet Debriefings	Presentations	All Presentations are due NO LATER than Sunday 12/01/2019 at 5:00 PM (Late submissions will not be accepted)
28	W 12/4/2019	Term Sheet Debriefings and Course Summary	Presentations	

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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 28, 2019**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 4, 2019**Session 2: The VC Industry Today – An Industry in Transition**

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

Required Reading:

- “A Note on the Venture Capital Industry,” Harvard Business School (HBS # 9-295-065, July 12, 2001)

Supplementary Reading:

- “The State of Early-Stage VC Funding in 2018,” by Catherine Giese (August 20, 2018)
- “Recent Venture Capital Trends Have Researchers Worried. They Couldn’t Be More Wrong,” by Sean Wise (July 23, 2018)
- “Why Venture Capital Is No Longer a ‘Lifecycle Business,’” by Polina Marinova (August 30, 2018)
- “Venture Capital Investment in US Companies to Hit \$100B in 2018,” by Kate Clark (October 9, 2018)
- “How Much Does Venture Capital Drive the U.S. Economy?” by Ilya Strebulaev and Will Gornall (October 21, 2015)
- “As Private Valuations Increase, Returns Shrink, Study Finds,” by Rolfe Winkler (November 2, 2015)
- “Demystifying Venture Capital Economics, Part I,” by Andy Rachleff (June 19, 2014)
- “Demystifying Venture Capital Economics, Part II,” by Andy Rachleff (September 24, 2014)
- “Definitions on the Economics of VC,” by Scott Kupor (managing partner of Andreessen Horowitz), September 11, 2016
- “How Pricing and Volume Drive the Private Equity Secondary Market in 2018,” by Multiplicity Partners (July 3, 2018)
- “Venture’s liquidity release valve: Analysis of direct secondary markets for venture capital,” Pitchbook (August 2017)
- “Are Venture Capitalists Becoming Less Important for US Tech Startups?” by CBInsights (March 7, 2015)
- “The Changing Structure of the VC Industry,” by Mark Suster (July 22, 2014)
- “How Do Venture Capitalists Make Decisions?” by Paul Gompers, Will Gornall, Steven N. Kaplan and Ilya A. Strebulaev (August 2016)
- “The Private IPO Phenomenon,” by Josh Kopelman (April 8, 2015)

Monday, September 9, 2019**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 in venture capital investments

Supplementary Reading:

- "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 11, 2019**Session 4: Evaluating Opportunities I**

- Opportunity definition and recognition
- The MMM Framework for evaluating opportunities

Supplementary 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)
- "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)

Monday, September 16, 2019**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 (please prepare PPT slides for presentation to the class):

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 before the beginning of the class session and be prepared to present them in class.

Wednesday, September 18, 2019**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? What is the innovation of the founders?

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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 23, 2019**Session 7: Formation of a Start-up I: Organizational Issues**

- Building a startup team
- Forming the company and creating a capital structure in preparation for venture funding
- Basic building blocks involved in equity financings with venture investors
- Corporate structures to support financing

Required Reading:

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

Please post your write-up before the beginning of the class session.

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, September 25, 2019**Session 8: Formation of a Start-up II: Compensation**

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

Required Reading:

- **Caselette #2:** Considerations in establishing the initial capitalization of the start-up

Please post your write-up before the beginning of the class session.

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

Supplementary Reading:

- “Dividing Equity Between Founders,” by Chris Dixon (August 23, 2009)
- “How to Start a Startup,” Paul Graham (March 5, 2005)
- “How to Start a Startup,” [based on the eponymous essay by Paul Graham] by Anna Vital (May 13, 2013)
- “How to Choose a Co-Founder,” by Elad Gil (February 27, 2012)
- “Selecting and Protecting a Company Name,” by Aaron Hendelman, WSGR Entrepreneurs Report (Summer 2008)
- “A Counterintuitive System for Startup Compensation,” by First Round Capital, First Round Capital (November 2014)
- “Demystifying 409A Valuations,” Parts 1 and 2, by Shri Bhashyam (November 2015)
- “Employee Equity: How Much?” by Fred Wilson (November 22, 2010)

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- “Five Compensation-Related Mistakes Startups Make (And Should Avoid),” by Caine Moss of WSGR, Venture Beat (February 9, 2010)
- “How We Explain Stock Options to Team Members & How Much Money They Would Make,” by Joel Gascoigne (November 3, 2015)
- “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)
- Model Equity Incentive Plan (January 2014)
- “Making Sense Out of Cents: Determining Employee Compensation,” by Sharon Wienbar, Entrepreneur (March 14, 2014)
- “Recommendations for Startup Employee Option Plans,” by Scott Kupor of Andreessen Horowitz (July 26, 2016)

Monday, September 30, 2019**Session 9: Formation of Start-up III: Initial VC Capitalization and founder team challenges****Required Reading:**

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

Please post your write-up before the beginning of the class session.

Video Case:

- Video Case: govWorks.com

<https://www.youtube.com/watch?v=ibuiUXOTE4M>

While watching the video during your study group meeting, please note the lessons learned in the following areas of the business:

Strategy lessons:

- What did they do well?
- What mistakes were made?

Human Resource lessons:

- What did they do well?
- What mistakes were made?

Financial lessons:

- What did they do well?
- What mistakes were made?

Marketing lessons:

- What did they do well?
- What mistakes were made?

Operational:

- What did they do well?
- What mistakes were made?

Technical/R&D:

- What did they do well?
- What mistakes were made?

Be prepared to discuss the following questions:

1. What caused the failure of govWorks.com?
2. Could the failure of the company have been avoided? If so, how?
3. What general lessons can be learned from the govWorks.com experience?
4. Have Kaleil and Tom failed as entrepreneurs? What should they do next?
5. What is your definition of, and your attitude towards, failure? How did watching the movie affect your appetite for entrepreneurship?

Wednesday, October 2, 2019**Session 10: The Fundraising 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)

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

Supplementary Reading:

- “Raising Money for Your Startup? Here Are 6 Things You Absolutely Must Do,” by Mark Suster (May 9, 2018)
- “Five Mistakes to Avoid While Fundraising for Your Startup,” by Ludovic Huraux (March 1, 2018)
- “How Much Should You Raise in Your VC Round? And What Is a VC Looking at in Your Model?” by Mark Suster (May 28, 2018)
- “So What Is the Right Level of Burn Rate for a Startup These Days?” by Mark Suster (February 15, 2016)
- “Due Diligence Reveals All,” *AlwaysOn: The Insider’s Network* (October 21, 2008)
- “How to Prepare for a Presentation to a VC,” by Carl Showalter, *Opus Capital*
- “How to Raise Money,” by Paul Graham (September 2013)
- “Why Raising Too Much Money Can Harm Your Startup,” by Mark Suster (June 30, 2016)
- “Startup Accelerators: The Industry and Its Current State in 2018,” by Angélique Moss (September 4, 2018)
- “10 Startup Accelerators Based on Successful Exits,” by Alejandro Cremades (August 7, 2018)
- “What’s the Best Way to Fund Your Startup—VC, Crowdfunding? Or Something New?” by Brett Hales (August 29, 2017)
- “Top Trends in Equity Crowdfunding,” by Jake Fisher (January 28, 2017)
- “Here’s How Regulation Crowdfunding Performed in 2016,” by Sherwood Neiss (January 11, 2017)
- “Regulation Crowdfunding Surpasses \$100 Million But Still Needs to Reform,” by Alon Y. Kapen (February 19, 2018)
- “How Crowd-Funding Is Changing Everything and What That Means for Your Startup” by First Round Capital (2017)

- “Bitcoin and Cryptocurrencies—What Digital Money Really Means for Our Future,” by Alex Hern (January 29, 2018)
- “Blockchain, Bitcoin, Cryptocurrency and ICOs—All You Need to Know in 10 Minutes,” by Bernard Marr (September 15, 2017)
- “Bitcoin Is the Greatest Scam in History,” by Bill Harris (April 24, 2018)
- “Venture Capital Investment in Blockchain and Crypto Up 280% in 2018, Report Shows,” by Marie Huillet (October 2, 2018)
- “Raising Your Seed Round from Top VCs? We’ve Got Some Good News and Some Bad News,” *CBInsights* (July 1, 2015)
- “The Seeds Have Changed: An Epilogue,” by Manu Kumar (June 5, 2015; with June 10, 2015 attached)
- “What Is the Definition of a Seed Round or an A Round?” by Mark Suster (October 7, 2014)
- “How Funding Rounds Differ: Seed, Series A, Series B, and C…” *Elad Blog* (March 15, 2011)
- “What the Seed Funding Boom Means for Raising a Series A,” by Josh Kopelman (March 17, 2015)
- *Terms for Series Seed Preferred Stock*, Cooley Law Firm form (October 2017)
- “Bad Notes on Venture Capital,” by Mark Suster, *Upfront Ventures* (September 17, 2014)
- “Frequently Asked Questions: Convertible Debt,” by Peter Werner of Cooley Law Firm
- “What is a Valuation Cap?” by Adam Lieb and Joe Wallin, *Startup Law Blog* (February 21, 2014)

Monday, October 7, 2019**Session 11: Angel Investing**

- Evaluating funding options
- Convertible note financing

Required Reading:

- The Blink Case

Discussion questions:

1. Assuming you were an angel investor and Jimmy pitched this idea to you, would you make an investment? Why or why not?
2. Assuming you were Jimmy and were facing the financing options below, which one would you choose and why?
 - A. \$100K from a well-known angel investor (and mentor) in exchange for 7% of Blink's equity
 - B. \$100K funding from DreamIt Ventures (a prominent Philadelphia-based accelerator) in exchange for 10% of Blink's equity
 - C. \$100K crowdfunded through AngelList Syndicate in exchange for 3% of Blink's equity
 - D. \$100K from GroupMe in exchange for 5% of Blink's equity
 - E. \$100K from seed fund of Sequoia Capital in exchange for 20% of Blink's equity
3. If you are an angel investor and considering whether to make an investment in the company, how would you like to structure your \$100,000 (e.g., in debt? Equity? Or convertible note)? Why?

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

- “Convertible Notes in Angel Financing,” [Harvard Business School](#) (HBS# 9-813-017, September 11, 2012)

Supplementary Reading:

- Convertible Note Financing Summary of Terms (valuation cap and discount), WSGR form (October 2017)
- Term Sheet for Convertible Promissory Note Financing (valuation cap and discount), Cooley Law Firm form (October 2017)
- Simple Agreement for Future Equity [SAFE] (valuation cap and discount), Y-Combinator form (October 2017)
- “Pros and Cons of Raising Seed Financing via Convertible Notes vs. Preferred Stock,” by Sundance Banks, WSGR Entrepreneurs Report (Q3 2013)

Wednesday, October 9, 2019

Session 12: 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:

- “How Do VC's and Angels Value a Company?” by Jeff Carter (August 8, 2014)
- “How Does an Early Stage Investor Value a Startup?” by Carlos Eduardo (undated)
- How to Talk About Valuation When a VC Asks,” by Mark Suster (May 29, 2018)
- “How Funding Rounds Differ: Seed, Series A, Series B, and C...” Elad Blog (March 15, 2011)
- “Series A Dynamics – Ownership, Timing, and Valuation,” by Rob Go, NextView Ventures (May 20, 2014)
- “The Series A Round is the New Series B Round,” by Jeff Jordan (June 18, 2013)
- “What Most People Don't Understand About How Startup Companies Are Valued,” by Mark Suster of Upfront Ventures (February 24, 2016)
- “What's My Company Worth?” by Herb Fockler, WSGR Entrepreneurs Report (Fall 2007)

Monday, October 14, 2019

Session 13: Valuation Methodologies (continued)

Required Reading:

Course Syllabus

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

Please post your write-up before the beginning of the class session.

Wednesday, October 16, 2019**Session 14: 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)
- “The Impact of Dilution,” by Andy Rachleff (August 26, 2014)
- “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)

Supplementary Reading:

- “Control: The Critical Issue in Negotiating Financing Terms,” by Caine Moss, WSGR Entrepreneurs Report (Fall 2008)
- “VC Negotiation Tricks: Simplified Term Sheets and Post-Money Valuations,” by Elad Gil, Elad Blog (September 17, 2017)
- “6 Investment Term Sheet Mistakes Founders Make,” by RubiconLaw (December 5, 2017)
- “What Is It Like to Negotiate a VC Round?” by Mark Suster (June 5, 2015)
- “Dual-Class Stock: A Founder Favorite Faces Growing Investor Disapproval,” by Lianna Whittleton of Wilson Sonsini Goodrich & Rosati, Entrepreneurs Report (1H 2016)
- “Limit Dual-Class Structures Rather Than Shun Them,” by Scott Kupor (November 20, 2018)
- “Super Voting Stock: The Advantages and Pitfalls,” by Stradling law firm (October 3, 2018)

- “Price and Preference—Participating v. Non-Participating Preferred,” by Herb Fockler of Wilson Sonsini Goodrich & Rosati, Entrepreneurs Report (Q1 2015)
- “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)
- “Startup Accelerator Anti-Dilution Provisions; The Fine Print,” by Jose Ancer (June 21, 2015)
- “The Toxic Term Sheet: Founders Beware!” by John Backus (October 6, 2015)
- “On the Road to Recap: Why the Unicorn Financing Market Just Became Dangerous...for All Involved,” by Bill Gurley (April 21, 2016)
- “Want to Know How VC’s Calculate Valuation Differently from Founders?” by Mark Suster (July 22, 2010)
- Series A Preferred Memorandum of Terms, WSGR template (October 2017)

Monday, October 21, 2019**Session 15: Liquidation Preferences and Price Protection Anti-Dilution****Required Reading:**

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

Please post your write-up before the beginning of the class session.

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)
- Memorandum of Terms for Preferred Stock (negotiated)

Course Syllabus

- Memorandum of Terms for Preferred Stock (non-negotiated company favorable)
- Memorandum of Terms for Preferred Stock (non-negotiated investor favorable)
- Terms for Private Placement of Series Seed Preferred Stock
- “Memorandum of Terms,” WSGR Term Sheet Generator
- “Plain Preferred Term Sheet,” The Funded Founder Institute
- “Term Sheet for Series A Preferred Stock Financing,” NVCA Model Documents

Wednesday, October 23, 2019

No class

Monday, October 28, 2019**Session 16: Analysis of a Term Sheet****Required Reading:**

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

Please post your write-up before the beginning of the class session.

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

Founder team. Each Founder team will get term sheets which reflect initial offers from the two different VC Investor teams. You will also get a “backgrounder” document which provides relevant information for the assignment.

In Session 27 on Monday (December 2, 2019) and Session 28 on Wednesday (December 4, 2019), 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 deliverables that are due on **Sunday December 1, 2019 by 5:00 PM** will be outlined in the materials which will be handed out to you.

Wednesday, October 30, 2019**Session 17: Review Session and Q&A****Monday, November 4, 2019****Session 18: Quiz**

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

Monday, November 4, 2019**Session 19-20:****Part A: Managing the Exit****Part B: Integrating Valuation with Term Sheet: The LuckyPai case**

NOTE: special time slot 4:30-7:00PM

Part A: 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)

Course Syllabus

- “SpeedSim: Made to Exit!” by Naeem Zafar and Victoria Chang, California Management Review, 54(4): 143-155, 2012

Part B: 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 tumbled 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?

Note: Be prepared to be called upon to address in class any of the above or other LuckyPai case related questions.

Wednesday, November 6, 2018

Session 21: Guest Speaker- David Spiro, Senior Investment Associate, Insight Venture Partners

- <https://www.insightpartners.com/>

Monday, November 11, 2019

Session 22: VC Negotiation Meetings

Wednesday, November 13, 2019

Session 23: VC Negotiation Meetings

Monday, November 18, 2019

Session 24: VC Negotiation Meetings

Wednesday, November 20, 2019

Session 25: VC Negotiation Meetings

Monday, November 25, 2019

Session 26: Corporate Governance – The Role and Composition of the BOD in a Venture-Backed Firm

Handout: Alantec case

- Board members’ duty to stockholders
- Composition and roles of the board of directors in the private company
- Sarbanes Oxley and the private company

Required Reading:

- “After The Term Sheet,” by Dennis T. Jaffe and Pascal N. Levensohn (November 2003)
- “Rites Of Passage,” by Pascal N. Levensohn (January 2006)

Supplemental Reading:

- “The Basic Responsibilities of VC-Backed Company Directors,” by Working group on Director Accountability and Board Effectiveness (January 2007)
- “Corporate Governance and Disclosure Practices of Venture-Backed Companies In U.S. Initial Public Offerings,” Wilson Sonsini Goodrich & Rosati (July 2011-June 2012)
- “The Fiduciary Duties of Founders,” by Silicon Hills Lawyer (January 13, 2016)
- “The Board Works for the Common Stock,” by Silicon Hills Lawyer (February 7, 2018)
- “11 Quick Tips to Get More Value Out of Your Board,” by Mark Suster (August 15, 2017)
- “Pre-Series A Startup Boards,” by Jose Ancer, Silicon Hills Lawyer (May 17, 2017)
- “How Do You Compensate Directors of Startup Companies?” by Paul Jones (March 7, 2013)
- “Board Compensation: 3 Charts on How Companies Pay Non-Investor Directors,” by Dana Olsen of Pitchbook (June 22, 2017)
- “3 Considerations for Advisory Board Compensation,” by Tony Lettich (June 28, 2017)
- “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)

Wednesday, November 27, 2019

NO Class—Thanksgiving Holiday

Monday, December 2, 2019

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.

Submissions Due: Please upload your deliverables to Canvas before 5:00 PM on Sunday, December 1, 2019

- Each investor team and each founder team 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

Wednesday, December 4, 2019
Session 28: Term Sheet Debriefing (continued) and Course Summary