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University of Pennsylvania
The Wharton School
Management Department

Venture Capital and Entrepreneurial Management

MGMT 804, Q1 – Fall 2021
MW 10:15 AM – 11:45 AM
Room: JMHH 265

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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 States¹.

Venture capital and the technology sector that it supports² has continued to evolve, impacted by major macroeconomic events over the years.

- The dot-com bubble of 1998-2000 resulted in the widespread demise of substantial numbers of early stage ventures and many of the funds and institutions that sustained them, and substantially altered the entire investment infrastructure for startups at all stages. The highly anticipated “information revolution” of the late 1990’s was never realized, and legislation implemented by regulatory forces at both the state and federal levels to correct for the excesses of the pre-bubble period is still with us today.
- With the dramatic economic upheaval in 2008-2009, the industry in the aftermath contorted again, this time marked by the explosive growth of early stage companies with an Internet-based business model; the sharp reduction in infrastructure costs of starting up companies; 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); the increasing frequency of the “mega-deal” (a private equity financing of \$100 million or more) for later stage companies and its impact on the entire sector; and the introduction of accelerators/incubators as increasingly effective means of forming and funding startups.

¹ There are many business structures for early stage companies, including companies that are sole proprietorships, general partnerships, limited partnerships and limited liability corporations. The focus of this course is on early stage corporations, typically incorporated as Subchapter C corporations, that are predominantly supported by venture investors in the technology sector. Thus, companies that are family-owned, closely held or outside the profile of the typical venture-backed company are outside the purview of this course.

² 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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- With the advent of the Covid-19 pandemic and the corresponding and widespread economic damage to the world economy that is still unfolding before us, the U.S. venture capital industry and the innovation that it supports may be on the threshold of a convulsive and perhaps unprecedented upheaval. Although the usual industry performance indicators for both venture funds and companies were robust in 2020, due in part to the performance of the U.S. public equity markets in 2020 which enabled a surge in technology and biotech IPOs and a remarkable level of capital formation and wealth creation, there are several destabilizing factors at play which portend the potential for unfavorable headwinds for the industry going forward. These factors include the entry of “tourist investors” such as hedge funds and mutual funds into the venture capital market, the unprecedented growth of SPACS which present an alternate source of funding for later stage companies, the substantial role of private secondary markets as an alternative exit outside of the traditional IPO, direct listings 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 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 seven principal areas relevant to the formation and funding of 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.
- 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.
- The challenges of fundraising, due diligence, and financing strategies.

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- 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.
- 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, 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.

Canvas Site: There is a dedicated Canvas site for our course. Lecture notes, caselettes, and course materials as well as periodic announcements will be posted on this Canvas site.

- The Canvas URL is: <https://canvas.upenn.edu/courses/1587763>
- Students will be able to access copyrighted reading materials through Canvas, via the "Study.net Materials" and the “Course Materials @ Penn Libraries” Tabs on the Canvas site. Please email courseware@wharton.upenn.edu with any issues regarding the reading materials. You may also contact customerservice@study.net outside of normal business hours regarding the Study.net materials.

Readings: 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 can be found on Canvas.

Case Studies: There are two HBS case studies that are assigned along with four short case studies, or caselettes, which will be used in this course. These caselettes are based on actual occurrences (with some degree of poetic license as appropriate) and are substantially shorter than traditional case studies. Each caselette has been prepared with the objective of highlighting “best practices,” conventions in the industry, or issues that are commonly encountered. The caselettes 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 case study and caselette, specific study questions have been assigned. In most class sessions, we will consider these questions in addition to the material in the case.

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Study Groups: Students are asked to form study group teams of up to 5 students per team. Study groups are expected to meet to discuss and prepare each assignment. Choose your teammates carefully—changes will not be allowed once your study-group team has been formed. **The deadline for team formation is Monday August 30, 2021.**

Requirements and Evaluation

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

- Classroom participation 20%
- Case memos and other assignments 20%
- Negotiation submissions & presentation 30%
- Quiz 30%

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 "Learning Agreement" (<https://mba-inside.wharton.upenn.edu/mba-learning-agreement/>) any other use of electronics such as cell phones 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 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 the 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 (30%): 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. At the end of class 8 on Monday, September 27, 2021, we will confirm with you the pairing of the negotiation teams. Each team will be designated as either Founders or as VCs. We will pair two VC teams against a single Founders team. Each Founders team will get the term sheets that reflect initial offers from the two different VC teams along with "backgrounder" documents that provide details about the VC investors. Each investor team will get copies of the

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initial term sheet that they gave to the Founders along with a backgrounder.

During the class on **Wednesday, October 6, 2021, Founders teams and VC teams will be asked to summarize and present to the class the results of the term sheet negotiation.** Detailed schedules will be distributed in class and posted on Canvas.

Each negotiation team is required to upload the deliverables of the negotiation exercise onto Canvas no later than 5:00 PM EST on Tuesday, October 5, 2021. 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.

The exact details of the negotiation process and the presentations that are due will be outlined in the materials that will be handed out to you.

Quiz (30%): Will be held on **Monday, October 11, 2021** during class time. This is an open-book, open-notes quiz. Students must bring a calculator to the quiz.

Peer Evaluation: Since 50% 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 and made available online. 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.

Lecture Notes:

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

Learning Environment and Excused Absence Policy:

Consistent with the **Wharton Learning Agreement**, which depicts the Students and Instructor standards, please note that:

- Class starts and ends exactly on time. Students and faculty are expected to be prompt.
- Students sit according to a seating chart.
- 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.

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

As well, we will adhere to the **Wharton Excused Absence Policy** (<https://mba-inside.wharton.upenn.edu/academic-performance/excused-absence-policy/>).

Feedback and Questions

I 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 course-related issues you would like to discuss, please feel free to contact me via email, come to the office hour that is scheduled for Monday between 3:30-5:00PM, or set up an appointment with me.

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<i>Course Outline At-a-Glance</i>				
MGMT 804 Q1 Fall 2021 ³				
<i>Session Number</i>	<i>Date</i>	<i>Topic</i>	<i>Case/Activity</i>	<i>Submissions Due</i>
1	Monday, August 30, 2021	Course Introduction; The VC Industry Today; VC Firm Structure and Activities	Study group formation	
2	Wednesday, September 1, 2021	Evaluating VC Investment Opportunities	HBS Case Study #420-080 (2020) <i>CredEx Fintech: Business Model Transformation in the Digital Era</i>	Prepare the discussion questions. No submission is due.
3	Wednesday, September 8, 2021	Organizational Issues and Initial Capitalization in the Formation of a Start-Up	Caselette #2: Considerations in Establishing the Initial Capitalization of the Start- Up	Upload Case Memo #2 (Note: There is no Caselette #1)
4	Monday, September 13 2021	The Fundraising Landscape	Caselette #3: Issues Encountered in Connection with a First Round Financing	Upload Case Memo #3
5	Wednesday, September 15, 2021	Lecture on the VC Valuation Method		
6	Monday, September 20, 2021	Applying the VC Valuation Method Note: this is an optional session. While a group submission is due, students who feel that they have sufficient understanding of the VC valuation method may choose not to attend.	HBS Problem Set (HBS Case # N9-396-090)	Upload Questions 1-5 before class

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7	Wednesday, September 22, 2021	Term Sheets		
8	Monday, September 27, 2021	Negotiating the Term Sheet	Caselette #4: Liquidation Preferences and Anti-Dilution Formulas	Upload Case Memo #4 Hand out negotiation materials
9	Wednesday, September 29, 2021	Analysis of a Term Sheet Compensation practices in VC backed start-ups	Caselette #5: Analysis of a Term Sheet	Upload Case Memo #5
10	Monday, October 4, 2021	Corporate Governance	Class discussion of the Alantec handout	
11	Wednesday, October 6, 2021	Class Presentations on Term-Sheet Negotiations		See details of deliverables Submissions must be uploaded onto Canvas no later than: Tuesday, October 5th at 5:00 PM EST
12	Monday, October 11, 2021	Quiz		

³ Note: The session outline is subject to change in order to accommodate the pace and content of class discussions

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Detailed Course Outline

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

Monday, August 30, 2021**Session 1: Course Introduction; The VC Industry Today; VC Firm Structure and Activities**

- An overview and brief history of the venture capital industry and its role in fostering the growth of firms
- Fundamentals of VC investments

Session 1: Required Readings

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

Session 1: Supplemental Readings

- “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
- “So Really, What is Venture Capital?” Chapter 2 of “Secrets of Sand Hill Road—Venture Capital and How to Get It,” by Scott Kupor, Andreessen Horowitz (2019)
- “Does Venture Capital Foster the Most Promising Entrepreneurial Firms?” by R. Amit, L. Glosten & E. Muller, *California Management Review*, 32 (3): 102-111, 1990
- “Coronavirus: The Black Swan of 2020,” Sequoia Capital (March 5, 2020)
- “The Tech Start-Up Economy Is Broken,” by Mark Lemley and Andrew McCreary (September 12, 2020)
- “Get Ready for a Crazy Wave of IPOs. Here Are the Ones to Watch,” by Eric Savitz (August 31, 2020)
- “Demystifying Venture Capital Economics, Part I,” by Andy Rachleff (June 19, 2014)
- “Demystifying Venture Capital Economics, Part II,” by Andy Rachleff (September 24, 2014)
- “Behind the Scenes at a VC Fund, Part 3: Fund Structure, Fundraising, Investor Relations and FAQs,” by Leo Polovets, Susa Ventures (March 2017)
- “A New Silicon Valley Venture Report Shocks—Because of How Little the Pandemic Has Impacted Dealmaking,” by Connie Loizos, StrictlyVC, (June 15, 2020).

Wednesday, September 1, 2021**Session 2: Evaluating VC Investment Opportunities; The CredEx Case**

- Opportunity definition and recognition
- Evaluating opportunities

Session 2: Required Readings

- CredEx Fintech: Business Model Transformation in the Digital Era (HBS Case # 420-080, 2020)

Case Discussion Questions:

1. **Describe the Business opportunity: e business model.** What has been the business opportunity of CredEx? What is the innovation of this company?
2. **Explain the transition to an Offline-to-Online (O2O) business model.** Why did CredEx move to an O2O business model? How does its O2O business model compare to its initial offline business model? What were the major challenges in the transformation process and how did the CredEx management team overcome these challenges? What are core capabilities needed to implement this O2O business model? Why might some companies be transitioning from offline-to-online, whereas others transition from online-to-offline?
3. **What factors (antecedents) drove the transition of the O2O business model to an innovative handheld, mobile phone-based, and online business model?** What are the novel aspects of the new online business model and why do they matter?
4. **Envision the future of CredEx.** How would you further innovate CredEx's business model to adapt to the changing market, technological and regulatory-institutional environment?

Be prepared to discuss these and related issues in class. No submission is due.

Session 2: Supplemental Readings

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

Wednesday, September 8, 2021**Session 3: Organizational Issues and Initial Capitalization in the Formation of a Start-Up**
Submission Due: Case Memo #2

- Forming the company and creating a capital structure in preparation for venture funding
- Founders' stock and foundations of equity incentive arrangements
- Basic building blocks involved in equity financings with venture investors
- Corporate structures to support financing
- **Prepare Caselette #2:** Considerations in Establishing the Initial Capitalization of the Start-Up (**Post before the beginning of class**)
*Note: There is no Caselette #1

Session 3: Supplemental Readings

- “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)

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- “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)
- “Cap Tables, Share Structures, Valuations, Oh My! A Case Study of Early Stage Funding,” by Jason Rowley (September 26, 2017)
- “How to Split Equity Among Co-Founders,” by Michael Seibel, Y-Combinator (June 6, 2019)
- “The Very First Mistake Most Startup Founders Make,” by Noam Wasserman and Thomas Hellman (February 23, 2016)
- “Dividing Equity Between Founders,” by Chris Dixon (August 23, 2009)
- “Selecting and Protecting a Company Name,” by Aaron Hendelman, WSGR Entrepreneurs Report (Summer 2008)

Monday, September 13, 2021

Session 4: The Fundraising Landscape

Submission due: Case Memo #3

- Sources of capital
- Alternative forms of fundraising
- Convertible note financing
- Fundraising process and fallacies
- ***Prepare Caselette #3:*** Issues Encountered in Connection with a First Round Financing (**Post before the beginning of class**)

Session 4: Required Readings

- "Financing New Ventures" (HBS #9-811-093, March 28, 2011)
- “Convertible Notes in Seed Financings” (HBS #9-813-017, September 23, 2016)

Session 4: Supplemental Readings

- “The Rise of Alternative Venture Capital,” by Tristan Pollack, Entrepreneur (March 24, 2020)
- “Silicon Valley Is Quietly Building Its Own Wall Street,” [re: the Long Term Stock Exchange] by Adam Bluestein, Marker (February 18, 2020)
- “The SPAC Hack,” The Economist (July 30, 2020)
- “Update on Special Purpose Acquisition Companies,” by Layne, Lenahan and Morgan, Vinson & Elkins (August 17, 2020)
- “Initial Public Offerings Are Back in Silicon Valley,” The Economist (August 22, 2020)
- “A New Breed of Tech IPOs May Give the Stock Market Reason to Party Like It’s 1999,” by Lina Saigol, MarketWatch (August 27, 2020)
- “Biotech IPOs Are on a Tear,” by Joanna Glasner, Crunchbase (August 19, 2020)
- “How Biotech Startup Funding Will Change in the Next 10 Years,” by Jared Friedman, Y-Combinator (no date)
- “Raising Money for Your Startup? Here Are 6 Things You Absolutely Must Do,” by Mark Suster (May 9, 2018)

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- “A Guide to Seed Fundraising,” by Geoff Ralson, Y-Combinator (no date)
- “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)
- “What Is a Startup Accelerator? Research on Top Startup Accelerators 2020,” by Taras Tymoshchuck (June 1, 2020)
- “How to Raise Money,” by Paul Graham (September 2013)
- “6 Pros and Cons of Joining a Startup Accelerator,” by Karthik Sridharan, Wharton (February 25, 2016)
- “Is a Startup Accelerator Right for You?” by Jess Bardo, Silicon Valley Bank (no date)
- “How Crowd-Funding Is Changing Everything and What That Means for Your Startup” by First Round Capital (2017)
- “Equity Crowdfunding: The Future of Financing,” by Neil Patel (May 25, 2020)
- “Blockchain, Bitcoin, Cryptocurrency and ICOs—All You Need to Know in 10 Minutes,” by Bernard Marr (September 15, 2017)
- “The Top 5 Trends Defining Crypto in Late 2020,” by Gregory Klumov (August 9, 2020)
- “Angels: Foundational Investors to VC,” Pitchbook (June 2020)
- “Corporate VC Firms Buck “Tourist” Reputation with Pandemic Dealmaking,” James Thorne, Pitchbook (September 28, 2020)
- “What’s the Difference between Pre-Seed and Seed Funding Rounds?” by Matthew Lynley (July 9, 2019)
- “Decade in Review: Trends in Seed and Early Stage Investing,” by Gene Teare, Crunchbase (March 3, 2019)
- “Why Has Seed Investing Declined? And What Does this Mean for the Future?” by Mark Suster (February 12, 2019)
- “Bitcoin and Cryptocurrencies—What Digital Money Really Means for Our Future,” by Alex Hern (January 29, 2018)
- “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)
- 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)
- “Pros and Cons of Raising Seed Financing via Convertible Notes vs. Preferred Stock,” by Sundance Banks, WSGR Entrepreneurs Report (Q3 2013)
- “SAFE Financing Documents,” byCarolynn Levy, Y-Combinator (September 2018)
- Simple Agreement for Future Equity [SAFE] (post-money valuation cap with discount), Y-Combinator form (September 2018)
- Form of Convertible Note Term Sheet, Cooley Law Firm (October 2020)
- 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)

Wednesday, September 15, 2021**Session 5: The VC Valuation Method**

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

Session 5: Required Readings

- “A Note on Valuation in Private Equity Settings.” [Harvard Business School](#) (HBS # 9-297-050, April 2002)
- “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)

Session 5: Supplemental Readings

- “How to Talk About Valuation When a VC Asks,” by Mark Suster (May 29, 2018)
- “Startup Valuation—The Ultimate Guide to Value Startups 2021,” Pro Business Plans (March 30, 2021)
- “What Most People Don’t Understand About How Startup Companies Are Valued,” by Mark Suster of Upfront Ventures (February 24, 2016)
- “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 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’s My Company Worth?” by Herb Fockler, WSGR Entrepreneurs Report (Fall 2007)
- “Want to Know How VC’s Calculate Valuation Differently from Founders?” by Mark Suster (July 22, 2010)

Monday, September 20, 2021**Session 6: Applying the VC Valuation Method (optional)**

Submission Due: HBS Problem Set (Required)

- ***Case Discussion:*** The Venture Capital Method—Valuation Problem Set (HBS Case # 9-396-090, October 5, 1995)

Upload Questions 1– 5 before the beginning of class.

Wednesday September 22, 2021**Session 7: Term Sheets**

- Environmental factors surrounding term sheets

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- Selected critical elements in venture term sheets

Session 7: Required Readings

- “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)

Session 7: Supplemental Readings

- “Negotiating Term Sheets: Focus on What’s Important,” by Matthew Bartus, Cooley Godward (no date)
- “Financing Trends for 1H 2020,” The Entrepreneurs Report, Wilson Sonsini (1H 2020)
- “How to Negotiate a Term Sheet in the Covid-19 Era,” by Russ Wilcox, Pillar VC (August 11, 2020)
- “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)
- “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)
- Series A Preferred Memorandum of Terms, WSGR template (October 2017)

Monday, September 27, 2021**Session 8: Negotiating the Term Sheet*****Submission Due: Case Memo #4***

- Review and discuss caselette regarding term sheets
- ***Prepare Caselette #4:*** Liquidation Preferences and Anti-dilution Formulas (**Post before the beginning of class**)

Course Syllabus

Session 8: Supplemental Readings

- Memorandum of Terms for Preferred Stock (negotiated)
- 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

Term Sheet Negotiation Assignment

- Materials explained

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 VCs.

We will pair two VC teams against a single Founders team. Each Founders team will get term sheets that reflect initial offers from the two different VC teams. You will get a “backgrounder” document that provides background information for the assignment.

During the class on **Wednesday, October 6, 2021** each team will be required to summarize and present the results of the term sheet negotiation.

The exact details of the negotiation process and the **presentations that must be uploaded onto canvas by Tuesday, October 5, 2021 no later than 5:00 PM** will be outlined in the materials that will be handed out to you.

Wednesday, September 29, 2021

Session 9: Analysis of a Term Sheet and Compensation Practices

Submission Due: Case Memo #5

- Compensation Elements
- ISOs and NSOs
- Alternative forms of incentive compensation
- **Prepare Caselette #5:** Analysis of a Venture Capital Term Sheet (**Post before the beginning of class**)
- **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.
- **Please bring a hard copy of Caselette #5 to this class meeting**

Session 9 Required Reading

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

Session 9 Supplemental Readings

- “A Counterintuitive System for Startup Compensation,” by 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)
- “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 Leo Widrich (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)
- “Recommendations for Startup Employee Option Plans,” by Scott Kupor of Andreessen Horowitz (July 26, 2016)

Monday, October 4, 2021**Session 10: Corporate Governance**

Handout: Alantec case – handed out in class

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

Session 10 Supplemental Readings

- “Board Members and the Good Housekeeping Seal of Approval,” Chapter 12 of “Secrets of Sand Hill Road—Venture Capital and How to Get It,” by Scott Kupor, Andreessen Horowitz (2019)
- “What You Need to Know About Startup Boards,” by Samer Hamadeh and Adam Dinow (November 2016)
- “How to Prepare for a Board Meeting to Make Sure You Crush It,” by Mark Suster (February 27, 2019)
- “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)
- “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)

Course Syllabus

- “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)
- “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, October 6, 2021**Session 11: Presentations**

During this session, teams will present their negotiated term sheets and discuss the issues they ran into during the negotiation. Each team has been allocated **10 minutes** for its presentation.

Submissions are due by Tuesday, October 5th no later than 5:00 PM

- **Each of the investor teams and founders teams will prepare a PowerPoint presentation, which includes the final proposed valuations as well as detailed commentary on the content and process of the term sheet negotiations.**
- **Founders teams additionally provide a detailed summary of the final agreement using the format outlined in the Negotiation Instruction handout that will be distributed in class.**
- **Investor teams additionally provide detailed valuation calculations**

Monday, October 11, 2021**Session 12: Quiz****QUIZ**

- **Bring your calculator.**
- *Open books*
- *Open notes*
- *Open minds...*