

Updated: August 22, 2023

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

**Venture Capital and Entrepreneurial Management**

**MGMT 8040, Q1 – Fall 2023  
MW 10:15 AM – 11:45 AM  
Room: Vance B11**

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**Office Hours:** Mondays 3:30 – 5:00 PM during Q1.

**Setting the Stage for our Class**

In the world of venture capital and startups in the United States, 2021 broke industry records across the board—funds raised, capital invested, number of financings, new company starts, valuations, public listings, and so on. Then 2021 roared into 2022 with such momentum that it was not until the latter part of 2022 that the effects of the pandemic, increasing inflation, rising interest rates, and a volatile public equity market began to have an impact. By the beginning of 2023, it was clear that the economic headwinds were impacting the entire industry, and the pace and level of activity had slowed considerably from the two prior years. Investors and entrepreneurs alike were pondering whether the change represented an “industry reset” to pre-pandemic levels or signified a prelude to a more dramatic negative trajectory.

On Friday, March 10, 2023, in the middle of this speculation, Silicon Valley Bank failed. In the space of four hours, prompted by rumors of SVB’s weakness, its depositors descended on the bank and withdrew and transferred out over \$40 billion in deposits. The bank’s efforts to raise emergency capital to meet depositor demands were unsuccessful, and the federal government swiftly intervened to seize the bank. The following Monday, the bank reopened under government control and the FDIC assured all depositors that 100% of their capital would be safe and accessible.

In the avalanche of investigative reports that followed, SVB’s prominence in the venture capital and startup industry became broadly known. SVB had 37,000 businesses as clients and was the exclusive provider of banking, lending, and related services to nearly 50% of the venture-backed startups in the U.S. Prior to the bank run, the bank held \$152 billion in uninsured deposits by its clients. With deep ties to the startup and venture community, and untold thousands of individual clients built up over nearly 40 years, SVB had solidified itself as the dominant bank in the industry. SVB’s banking practices included credit and lending and depositary facilities and other means of support to venture firms and startups and their employees

that most other banks would not consider. SVB thus became the “go to” bank for the entire industry and served as a key driver behind the innovation and growth that the sector is known for.

Now, even with the backstop guarantee from the FDIC of all uninsured deposits, the looming question is whether SVB’s failure, and the rippling effect it has already had on the entire banking community, will tip the venture and startup community into a nosedive.

Industry trends that were already clear at the end of 2022 and in the first quarter of 2023, and are now likely to be exacerbated by SVB’s failure, include:

- Declining levels of investment, valuations and deal sizes across early stage and later stage startups. VC firms are already much more conservative in their investment activities, resulting in more due diligence in approaching investment opportunities, more demanding selection criteria in determining which startups to fund, longer times to complete individual financings, and lower company valuations and higher equity stakes in their investments.
- Increasing hesitancy of non-traditional investors (“NTIs”) to play in the venture capital arena. NTIs (e.g., investment banks, mutual funds, insurance companies, hedge funds, PE firms and sovereign wealth funds, among others) were a substantial factor in the record investment levels in 2021 and 2022. Now, they have stepped back their level of participation, particularly in their investments in later stage startups where valuations have dramatically declined and the time horizons to an exit have stretched into uncertainty.
- The growing conviction of founders and managers that the “growth at all costs” philosophy that marked successful startups in 2021 and into 2022 needs to dramatically refocus on expense management and profitability. Where additional capital is no longer freely available as it was in 2021 and 2022, startups at all levels are taking severe measures to preserve cash and extend their runway.
- Term sheets for equity financings that are increasingly investor-favorable, with lower valuations, lower deal sizes, and higher levels of equity stakes for investors. Down round financings (i.e., where the company valuation is lower than the last round of financing) and related pay-to-play provisions and other terms for downside protection are becoming substantially more prevalent.
- An increasing belief among VC firms that, while fundraising from the limited partner community in the past two years hit record levels, the party may be over in 2023. LPs have largely achieved their alternative asset allocation into mainstream VC firms and are unlikely to push any significant funds into the asset class for the foreseeable term.

The trajectory of the startup and venture industry in 2023 will almost certainly fall short of the levels achieved in 2021 and 2022. Given the negative macroeconomic factors in the current year, compounded

now by the widespread turmoil resulting from the failure of SVB, 2023 looks to present challenges across the entire industry. In our class, we will discuss the impact of many of these challenges for both startups and investors.

Venture capital and the technology sector that it supports<sup>1</sup> have continued to evolve, impacted by major macroeconomic events over the years. Since it first emerged in the 1970s, the United States venture capital and startup sector has always been dynamic, buffeted and shaped by dramatic technological and economic forces. Some of the more compelling technological changes include the development and proliferation of the internet, the semiconductor chip, the laptop computer, mobile communication, e-commerce, social media, and more recently, the emergence of artificial intelligence, autonomous technologies, advancing battery technologies, vaccine capabilities, blockchain and related technologies, gene therapy and gene editing, and personalized medicine, to name only a few. Where once venture capital was almost exclusively dedicated to electronic technologies and software, today it has expanded to embrace almost all areas of innovation.

### **Course Overview and Design**

Our class will cover many of the traditional conventions in the industry that have historically shaped investor and company behaviors, and the various industry dynamics that are affecting the current state of play.

This elective course focuses on venture capital and the typical early stage venture-backed startup company, based on conventions and practices in the United States. 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). We will also address management issues regarding the working relationship between the VC and the entrepreneur and corporate governance.

The entrepreneur's perspective addresses the challenges in organizing and financing the venture. 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

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<sup>1</sup> 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, artificial intelligence, internet, semiconductor, electronic hardware, mobile, food, agtech, fintech, 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.).

of the investment process including current financing trends in early stage companies, the term sheet content and structure in a typical VC financing (both convertible debt and equity), term sheet negotiation, valuation methods, and the impact of successive rounds of financing on capitalization and ownership. All of these factors set the stage for the relationship between management and investors as well as the governance of the company.

The course is 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 six 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 criteria.
- 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.
- 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.
- 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/1711300>
- 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](mailto:courseware@wharton.upenn.edu) with any issues regarding the reading materials. You may also contact [customerservice@study.net](mailto:customerservice@study.net) outside of normal business hours regarding the Study.net.

**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 is one HBS problem set 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.

**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 Wednesday, August 30, 2023. Note: students who have not signed up for a study group by the above deadline will be assigned to a study group by the TA.**

## 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. There will be assigned seating in the class: During our second class meeting on **August 30<sup>st</sup> 2023** you will be asked to choose your seat. A seating chart will be displayed before the beginning of each class meeting. **You are required to display your Wharton-issued name tent in each class to facilitate teacher/student interaction. Note:** Failure to sit in your assigned seat or failure to display your Wharton-issued name tent may result in not getting any credit for the class session. (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.

**Term Sheet Negotiation Assignment (30%):** A critical component of the course is the term sheet negotiation assignment which enables students to apply and integrate their learnings. The detailed instructions of the exercise will be distributed during the course. At the end of Class 7 on **Wednesday, September 20, 2023**, we will confirm with you the pairing of the 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 initial term sheet that they gave to the Founders along with a backgrounder.

During the class on **Monday, October 2<sup>nd</sup>** 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 term sheet negotiation team is required to upload the deliverables of the negotiation exercise onto Canvas no later than 5:00 PM EDT on Sunday, October 1, 2023.** 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 term sheet negotiation process and the presentations that are due will be outlined in the materials that will be distributed to you electronically.

**Quiz (30%):** Will be held on **Monday, October 9, 2023** 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 the group assignments. 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/>).

**Moderate use of Generative AI permitted:**

You may use generative AI programs (e.g., tools like ChatGPT) to help generate ideas and brainstorm. However, you should note that the material generated by these programs may be inaccurate, incomplete, or otherwise problematic. Beware that use may also stifle your own independent thinking and creativity. You may not submit any work generated by an AI program as your own. If you include material generated by an AI program, it should be cited like any other reference material (with due consideration for the quality of the reference, which may be poor). Any plagiarism or other form of cheating will be dealt with severely under relevant Penn policies.

You may wish to review [a guide to how to use AI](#) which my colleague Ethan Mollick compiled.

**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.



Course Syllabus				
<i>Course Outline At-a-Glance</i>				
<b>MGMT 8040 Q1 Fall 2023<sup>2</sup></b>				
<b>Session Number</b>	<b>Date</b>	<b>Topic</b>	<b>Case/Activity</b>	<b>Submissions Due</b>
1	<b>Monday, August 28, 2023</b>	Course Introduction; The VC Industry Today	Study group formation	
2	<b>Wednesday, August 30, 2023</b>	VC Firm Structure and Activities; Evaluating Opportunities		
3	<b>Wednesday, September 6, 2023</b>	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 <i>(Note: There is no Caselette #1)</i>
4	<b>Monday, September 11, 2023</b>	The Fundraising Landscape	Caselette #3: Issues Encountered in Connection with a First Round Financing	Upload Case Memo #3
5	<b>Wednesday, September 13, 2023</b>	Lecture on, and examples of, the VC Valuation Method		
6	<b>Monday, September 18, 2023</b>	Applying the VC Valuation Method Negotiating the Term Sheet	HBS Problem Set (HBS Case # N9-396-090)	Upload Questions 1-5 before class

<sup>2</sup> Note: The session outline is subject to change in order to accommodate the pace and content of class discussions

7	<b>Wednesday, September 20, 2023</b>	Term Sheets (Continued)	Caselette #4: Liquidation Preferences and Anti-Dilution Formulas	Upload Case Memo #4  Distribute negotiation materials
8	<b>Monday, September 25, 2023</b>	Analysis of a Term Sheet  Corporate Governance	Caselette #5: Analysis of a Term Sheet  Class discussion of the Alantec handout	Upload Case Memo #5  Bring a hard copy of the case study to class.
9	<b>Wednesday, September 27, 2023</b>	Guest Speaker: Amir Goldman, founding partner Susquehanna Growth Equity	<a href="https://sgep.com/team/amir-goldman/">https://sgep.com/team/amir-goldman/</a>	
10	<b>Monday, October 2, 2023</b>	Class Presentations on Term-Sheet Negotiations		See details of deliverables  <b>Submissions must be uploaded onto Canvas no later than:  Sunday, October 1, 2023 at 5:00 PM</b>
11	<b>Wednesday, October 4, 2023</b>	Review Session and sample Quiz questions; Course Summary		
12	<b>Monday, October 9, 2023</b>	Quiz	<b>Bring your calculator to class.</b>	

## Detailed Course Outline

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

**Monday, August 28, 2023**

### Session 1: Course Introduction; The VC Industry Today

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

#### Session 1: Required Readings

- “A Note on the Venture Capital Industry,” Harvard Business School (HBS # 9-295-065, July 12, 2001)
- “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)  
(*See Course Materials @ Penn Libraries tab*)

#### Session 1: Supplemental Readings

- “Startup life expectancy expected to fall,” by Marina Temkin, PitchBook, (January 11, 2023)
- “State of VC in 2023: The Resilience of Venture Capital,” TrueBridge Capital Partners (March 20, 2023)
- “Q1 2023: The State of Venture Capital,” by Eugene Tetlow, Juniper Square (February 13, 2023)
- “Nervous Investors Drive VC Funding for Startups Down by 55%,” by Priya Anand, Bloomberg (April 5, 2023)
- “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)
- “The upside of a downturn,” Lightspeed Venture Partners (May 16, 2022)
- “How Venture Capitalists Make Decisions,” by Paul Gompers, Will Gornall, Steven Kaplan and Ilya Strebulaev, Harvard Business Review (March-April 2021)

**Wednesday, August 30, 2023****Session 2: VC Firm Structure and Activities; Evaluating Opportunities**

- VC firm structures and activities
- Opportunity definition and recognition
- Evaluating opportunities

**Session 2: Supplemental Readings**

- “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)
- “How Venture Capitalists Evaluate Potential Venture Opportunities,” Harvard Business School (HBS # 9-805-019, December 1, 2004)
- “Criteria used by venture capitalists to evaluate new venture proposals,” by I. MacMillan, R. Siegel, and P. Subba Narashima, Journal of Business Venturing 1, 119-128 (1985)

**Wednesday, September 6, 2023****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 (**Each study group should post the writeup before the beginning of class**)  
*\*Note: There is no Caselette #1*

**Session 3: Supplemental Readings**

- “The Process of Forming the Company.” Chapter 3 of High tech startup: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)
- “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)
- “Founder’s guide to allocating co-founder equity,” by Long Term Stock Exchange (LTSE) (no date)
- “Startup Equity Calculator: How to Split Fairly Among Founders,” Embroker (September 2, 2021)
- “What is an Employee Option Pool?” by AngelList Venture (no date)
- “How to Decide the Size of Your Employee Option Pool,” by Jenna Lee, Carta (June 9, 2021)
- “9 of the Biggest Mistakes Startup Entrepreneurs Make,” by Donna Finn, Business Insider (August 27, 2019)
- “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)

**Monday, September 11, 2023****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**

- “A Guide to Seed Fundraising,” by Geoff Ralston, Y-Combinator (no date)
- “How to Raise Money,” by Paul Graham (September 2013)
- “Convertible Notes in Seed Financings” (HBS #9-813-017, September 23, 2016)

**Session 4: Supplemental Readings**

## Course Syllabus

- “How to Manage Equity Dilution as an Early-Stage Startup,” by Jenna Lee, Carta (June 9, 2021)
- “The SPAC Bust Could Be a Boon for Targets,” by J. Kengelbach, L. Pot, O. Bennerholm, and T. Endter of Boston Consulting Group (January 31, 2023)
- “Considering an IPO? First, Understand the Costs,” PWC (no date)
- “Raising Money for Your Startup? Here Are 6 Things You Absolutely Must Do,” by Mark Suster (May 9, 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)
- “How do startup accelerators work?” by James Wilson, Silicon Valley Bank (no date)
- “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)
- “30 Best Startup Accelerators 2023,” by TRUiC Team (January 9, 2023)
- “The Y Combinator Deal,” by Kirsty Nathoo, YC (no date)
- “How to Do Crowdfunding in 2021: With Expert Tips and Examples from Successful Campaigns,” by Desirae Odjick (July 23, 2021)
- “Equity Crowdfunding: Is It Right for You?” by Roxanne Voidonicolas (January 16, 2023)
- “What’s the Difference between Pre-Seed and Seed Funding Rounds?” by Matthew Lynley (July 9, 2019)
- “What is Pre-Seed Funding?” by Jaclyn Robinson, Crunchbase (March 17, 2022)
- “Pre-Seed Funding: A Comprehensive Guide,” by Gini (2023)
- “Seed Funding: A Guide for Starting Up with Seed Fundraising,” MacDonald Ventures (September 20, 2021)
- “Pros and Cons of Raising Seed Financing via Convertible Notes vs. Preferred Stock,” by Sundance Banks, WSGR Entrepreneurs Report (Q3 2013)
- “Understanding Convertible Notes,” FundersClub (no date)
- “Frequently Asked Questions: Convertible Debt,” by Peter Werner of Cooley Law Firm
- “Quick Start Guide,” Y-Combinator (no date)
- Simple Agreement for Future Equity [SAFE] (post-money valuation cap with discount), Y-Combinator form
- Terms for Private Placement of Series Seed Preferred Stock, Cooley Law Firm
- Term Sheet for Convertible Promissory Note Financing of ABC, INC., Cooley Law Firm

**Wednesday, September 13, 2023****Session 5: Lecture on, and examples of, the VC Valuation Method**

- Financial valuation methodologies; the art and the science of valuation
- The venture capital valuation methods.
- 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 18, 2023****Session 6: Applying the VC Valuation Method; Negotiating the Term Sheet*****Submission Due: HBS Problem Set (HBS Case # N9-396-090)***

- **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.***

- Selected critical elements in venture term sheets

**Session 6: Supplemental Readings**

- “A Series A Term Sheet Template: A Standard and Clean Series A Term Sheet,” Y Combinator (no date)
- ““Investor-protective deal terms may keep down rounds at bay,” by Priyamvada Mathur, Pitchbook (May 20, 2022)
- “VC Negotiation Tricks: Simplified Term Sheets and Post-Money Valuations,” by Elad Gil, Elad Blog (September 17, 2017)
- 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
- “Cram downs are a character test for VCs and founders” by Steve Blank (April 18, 2022)
- “Liquidation Preference in Startup Deals,” Startup Valuation School (August 3, 2020)



**Wednesday September 20, 2023****Session 7: Term Sheets (Continued)*****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**)

**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)
- “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)

## Course Syllabus

- “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)

**Term Sheet Negotiation Assignment**

- Materials explained

*Note: At the end of this class session, we will confirm 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.

Details of the process and content of this assignment will be distributed to you electronically.

**Monday, September 25, 2023****Session 8: Analysis of a Term Sheet; Corporate Governance**

***Submission Due: Case Memo #5 (bring a hard copy of the case to class)***

**Handout:** Alantec case – handed out in class

- Board members’ duty to stockholders
- Composition and roles of the board of directors in the private company
- ***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 8 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) (***See Course Materials @ Penn Libraries tab***)
- “The Fiduciary Duties of Founders,” by Silicon Hills Lawyer (January 13, 2016)
- Startups beware: Juggling board members may drop the ball,” by Leah Hodgson, PitchBook (January 6, 2023)
- “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)
- “What You Need to Know about Board Compensation,” Matt Blumberg, Bolster (May 4, 2021)
- “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 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)
- “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, September 27, 2023**

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**Session 9: Guest Speaker:** Amir Goldman, founding partner *Susquehanna Growth Equity*

<https://sgep.com/team/amir-goldman/>

**Monday, October 2, 2023**

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**Session 10: Class Presentations on Term-Sheet Negotiations**

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 Sunday, October 1, 2023 no later than 5:00 PM EDT.**

- 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.
- Investor teams additionally provide detailed valuation calculations.

**Wednesday, October 4, 2023**

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**Session 11: Review session and sample Quiz questions; Course Summary****Monday, October 9, 2023**

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**Session 12: Quiz**

**QUIZ (open books; open notes; tablets and laptops in airplane mode; muted communication)**

- Bring your calculator.