

Wharton School, University of Pennsylvania  
Management Department

# MGMT 8040 - Venture Capital and Entrepreneurial Management

Version 2

0.5 CU

MGMT 8040 – Spring 2023 (Q4)

Mondays and Wednesdays

10:15 to 11:45 AM

Location: Classroom TBA

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**Stephen M. Sammut, DBA**

Senior Fellow, Health Care Management

Lecturer, Wharton Entrepreneurial Programs

Phone: (610) 202 - 6597

email: [smsammut@wharton.upenn.edu](mailto:smsammut@wharton.upenn.edu)

Syllabus as of November 25, 2022

Subject to Change

## Prolog

In these rapidly changing times from which “new normals” are bound to emerge, the importance of innovation and entrepreneurship will take center stage. Understanding the structure, operations and mindset of venture capital investors is necessary for the formation, funding, and growth of new enterprises. While we live in an era of venture capital that celebrates disruptive technologies and unicorns, there are perennial approaches and disciplines that make venture capital an enduring asset class. To achieve the great degree of learning and comprehension, this course combines extensive reading, lecturing, a simulation series, and intensive student engagement. The instructor will use available tools to preserve a great level of exchange in the virtual delivery of the course and will look to the students for additional ideas and techniques to enhance the success of the course.

## Course Overview and Design

This elective course focuses on venture capital and the typical venture-backed start-up company based on conventions and practices in the United States with some reference to practices in non-domestic markets. The course is designed for the entrepreneur who is seeking venture capital and needs insight into the structure, practices, and operations of venture capitalists. Perhaps change the wording to: This course is also meant for students aspiring to a career in venture capital as it provides insights into deal sourcing, assessment, valuation and structure, governance and exiting.

Venture capital and the companies that it supports continue to evolve in terms of their capabilities, business models and technologies. This evolution traces from the origination of the asset class in the 1970s and the role that it played in launching semi-conductor, personal computing, and

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

We will address several aspects of the investment process including the term sheet content and structure, term sheet negotiation, valuation methods, and the impact of successive rounds of financing on capitalization and ownership. These factors set the stage for the relationship between management and investors as well as the governance of the company.

The course is pragmatic in its orientation. It will cover eight principal areas relevant to the privately held, high-growth-potential start-up. These include:

- A brief overview of the venture capital industry today, as well as a discussion of the typical venture fund structure.
- Common organizational issues encountered in the formation of a venture-backed start-up, including matters relating to initial capitalization, intellectual property, and more.
- Formulation of the persuasive entrepreneurial and technology strategy in the light of the due diligence process.
- Valuation methodologies that form the basis of the negotiation between the entrepreneur and the venture capitalist in anticipation of a venture investment.
- The challenges of fundraising and financing strategies.
- Typical investment terms found in the term sheet and the dynamics of negotiation between the entrepreneur and the venture capitalist.
- Elements of compensation, both cash and equity that are common to venture-backed companies in the technology sector.
- Corporate governance in the context of a venture-backed start-up company and the typical dynamics that play out between VC and the entrepreneur in the post-financing phase.

Considering the time constraints associated with a half-unit course, the curriculum is confined to key fundamentals in venture capital and start-up companies. The course will touch upon a range of fields including finance, accounting, executive compensation, strategy, and corporate law and will attempt to identify mainstream “best practices” in high growth potential start-ups. Students completing the course will have a solid understanding of the questions and issues that typical start-up face with respect to capitalization.

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

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

**You will be able to access Study.net through Canvas. All third party copyrighted readings are found on Study.net. You should receive an email with log-in information from Study.net at the beginning of the semester.**

### **Requirements and Evaluation**

The reading assignments in the course are “front-loaded” because the entrepreneurial and venture capital processes are a never-ending simultaneous equation. This syllabus, the assignments, and the readings have been organized so that students can manage the requirements efficiently and in an iterative way. As a caveat, entrepreneurship and venture capital do not behave in a similar iterative way. As in all courses, the lectures and discussions in the classroom will be much more meaningful if the required readings have been studied in advance. From time to time, mid-course changes in presentations or materials may be made to achieve academic objectives.

### **Students Requirements and Evaluation**

#### ***Attendance:***

Attendance will be carefully monitored by the TAs and will conform to School policies. If you are ill or have a family emergence, these should be documented and noted with the TAs. Non-excused absences will affect final grades as follows:

2 or 3 missed classes: loss of one grade interval

For each missed class after 3 missed classes, loss of an additional grade interval.

#### ***Class Contributions: Readings and Participation (10% of final grade)***

The Coursepack includes Required Readings and Supplemental Materials. The session matrix identifies the two categories. The Required Readings are generally comprised of secondary source

materials provided for background. The Supplemental Materials consist of examples of legal or business documents included for the purpose of illustrating the themes discussed in class.

Coursepack: MGMT 8040 Venture Capital and Entrepreneurial Management, Spring 2023 edition, compiled by Stephen Sammut will be available on **study.net**. Readings are identified by course module and divided into Required and Supplemental. Read as much of the Required readings as possible.

Participation is both structured and spontaneous. For the structured, the end of the syllabus list six Platonic Dialogs, each consisting of a series of questions. At the start of the term, students will sign up to one Dialog and on the appointed days, students should be prepared to lead the discussion by providing answers to all the questions. While students will engage with the readings to answer the questions, sharing personal relevant experience is welcome and encouraged. On the appointed days, students should be prepared with well-considered answers for all of the questions. Otherwise, all students are expected to participate in class discussions; students should expect to be cold called.

The TAs will monitor and score class participation. Participation consists of asking well-formulated questions, carefully framed answers to questions posed by the instructors, and in-class dialog among the students when done thoughtfully and respectfully.

In order to compensate for the limited time together, Canvas includes Discussion Boards. Entries onto Boards created by the instructor or the TAs, or creation of a Discussion Board by a student will count towards class participation. The TAs will drive Discussion Boards and monitor participation for course participation grading.

### ***The Simulations (40% of final grade)***

The course is primarily in a term “simulation” and discussion format, supplemented by lectures. There are five Simulations or SIMS over the term. Students are expected to form a SIM Team of up to five students.

The five SIMS include detailed instructions. Each team must submit the specified deliverable for Sim 3: Cap Tables and Valuation and must select three out of the four remaining simulations for team submission.

Sim 1: Company Formation

Sim 2: Due Diligence

Sim 4: Term Sheet Negotiation

Sim 5: Governance and Exiting

Teams will be expected to Peer-Review the contributions of members using a form that will be provided by the instructor. “Free-riders” apparent from the peer-review process will be penalized in final grading.

*Take-home Exam for 2023 is eliminated. In its place are the following assignments:*

***Entrepreneurial Company Financing Profile (20% of Final Grade)***

This individual assignment will be due by week three of the quarter. See the schedule matrix for the specific date. It is designed for you to examine the capitalization history of a venture-backed company (currently private or recently listed) using data bases such as PitchBook or others from its inception through its most recent round of financing or IPO/SPAC. You may choose a company that reflects your technology or industry sector interests. It can be US or international. If you are planning a venture of your own, consider finding a company in a similar space so that you can better plan for financing your own company. Students with an interest in women or minority led enterprises are encouraged to use this assignment as a window into the special challenges and opportunities faced by these companies. The instructor provides a detailed format for submission of this assignment at the end of this syllabus. There's a catch. You will have to identify the company very quickly and register it on Canvas. AND only one student will be permitted to study any given company.

***Venture Capital Fund Profile (20% of Final Grade)***

This individual assignment will be due by the end of the quarter. You can think of it as the “flip side” of the previous assignment. For this assignment, you will select one of the venture capital funds that provided financing for the company you selected in the previous assignment. Yes, you can work backwards and find a VC fund – US or International -- of interest to you and then select from one of their portfolio companies for the previous assignment. This assignment gives you an opportunity to deep dive into a fund that is of interest to you as a possible source of funding for your own company or for possible employment. Here again, you would use PitchBook, other data bases and public sources of information about the firm. The bold among you might even reach out to a partner in the firm. Again, if you are planning a venture of your own, consider finding a fund that has a history of investing in your sector so that you can better plan for financing your own company. Students with an interest in women or minority-oriented funds are encouraged to use this assignment as a window into the special challenges and opportunities faced by these funds. The instructor provides a detailed format for submission of this assignment at the end of this syllabus. There's a catch. You will have to identify the VC fund very quickly and register it on Canvas. AND only one student will be permitted to study any given company.

**End of term reflection paper (10%).** The instructor will give specific guidance in class, but this assignment is meant to be a personal chronicling of a subject or project of interest developed throughout the term. It is kept as a personal document until the due date at the end of the quarter. Only the instructor will view this work. Additional guidance is provided at the end of this syllabus.

**Note: The instructor will take great care to grade as fairly as possible and will strictly adhere to Wharton MBA program grading policies. Grades will NOT be discussed at the end of the course.**

## Lecture Notes

The PowerPoint slides used in class will be posted on Canvas prior to class. These will be posted in PPT to allow note taking directly on a laptop or tablet. The instructor is allowing use of electronic devices as a courtesy. If there is abuse of such use, e.g., non-coursework use during sessions, the instructor will consider elimination of this courtesy.

## Class Cancellation and Make-up Days:

In the unlikely event that a class must be canceled, students will be contacted by e-mail. Generally, if a make-up class can be scheduled, it will be held on the preceding or following Friday in the AM. Make-up classes will be video recorded and posted.

**NOTE: It is possible that the sessions scheduled for February 13 and 15 will be either pre-recorded or conducted via Zoom. More information will follow.**

## Communicating with the Instructor

The best way to contact the instructor is by e-mail. **An appointment matrix will be posted on Canvas.** The instructor prides himself in availability to students and welcomes opportunities to get to know students.

If for any reason you are unable to attend class, please notify the instructor in advance.

If students have concerns about the course or expectations, please feel free to discuss with the instructor. If you would prefer to communicate anonymously through a TA, that is perfectly acceptable.

The instructor looks forward to sharing meals with students under the Dean's program. Dates and sign-ups for dinners will be posted on Canvas.

## Learning Environment

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

- Class starts and ends exactly on time. Students are expected to be prompt.
- Beverages are acceptable; food is not
- If using electronic devices for class activity, be courteous and considerate of those around you.
- Students remain in attendance for the duration of the class, except in an emergency.
- Students display their Wharton issued name tent cards.

## About the instructor

Dr. Stephen M. Sammut

Chairman, Industry Advisory Board, Alta Semper Capital  
Senior Fellow, Health Care Management and Lecturer, Entrepreneurship, Wharton School

Dr. Sammut has founded, managed, or financed over 40 companies in life sciences and IT globally as an entrepreneur and venture capital investor. He recently founded Pangea University for the Health Sciences in Bangalore, India, an international platform for medical, nursing and health technology education for the emerging and frontier markets. Over the last several decades he has been a partner or adviser to numerous health care and impact-oriented venture capital and private equity firms internationally and has also founded health care management MBA programs in India and throughout Africa. Through his role in VC and PE at Alta Semper, Dr. Sammut is facilitating the adoption of Universal Health Coverage in several African countries, as well as promoting the adoption of precision medicine and cancer immunotherapy into African health care.

He is also Senior Fellow, Health Care Management and Lecturer, Entrepreneurship at the Wharton School. During his 30 years teaching at Wharton and other business schools in India, Israel, Kenya, Portugal, and Russia, he has created over a dozen courses that he has taught to over 13,000 students. These courses include Venture Capital; Private Equity in Emerging Markets; Strategic Management of Intellectual Property; Health Care Services Systems (India and African venues), Health Care Entrepreneurship; and, the Role of the Private Sector in Global Health, among others. His research focuses on international development and health care and biotechnology capacity development in emerging economies, as well as adoption of precision medicine. He has published articles in *Nature Biotechnology*, the *New England Journal of Medicine*, the *Journal of Commercial Biotechnology* and has authored numerous book chapters on health care and biotechnology. Dr. Sammut puts his research findings into practice through the International Institute for Biotechnology Entrepreneurship, an organization which he founded and manages, that has offered over 55 intensive training programs in 14 countries to over 2500 entrepreneurs.

He is visiting faculty and served as coordinator of the Indian School of Business healthcare program and is Visiting Associate Professor at the Strathmore University Business School in Nairobi where he founded the first Healthcare Management MBA program on the African continent, as well as founding the African Institute for Healthcare Management, an organization focused on developing faculty and teaching materials to advance health services. He is currently co-developing a School of Global Public Health at Strathmore University in partnership with NYU.

His board memberships have included HealthRight International, Center for Medicine in the Public Interest, BioEthics International, Pandorum Technologies, the Africa Health Fund, Alta Semper, the Russian Foundation for Cancer Research and numerous other profit and non-profit organizations in the US and the emerging markets.

Dr. Sammut was a Venture Partner at Burrill & Company, a biotechnology and health care venture fund, where he focused on the development of international venture funds, until 2008. He has consulted for the IFC/World Bank on PE/VC, technology transfer and program assessment, and investments in Fintech for economic development. Similarly, he has advised the governments of Brazil, China, India, Japan, Malaysia, Singapore, South Korea, and Taiwan in the development of policies to promote venture financing of their biotechnology industries. Earlier in his career he was VP, SR One, the venture capital arm of GSK, and VP for Development and Private Equity at Teleflex Incorporated. He has also been Managing Director of Technology Transfer at the University of Pennsylvania and Thomas Jefferson University. He began his career as co-founder and CEO of the Philadelphia transplant organ bank, known today as the Gift of Life Donor Program, the largest in the United States.

He holds graduate and undergraduate degrees from Villanova University, an MBA from the Wharton School of the University of Pennsylvania and engaged in special studies in medicine and epidemiology at Hahnemann Medical college for two years. He holds a doctorate from the Fox School of Business at Temple University where his dissertation research focused on organizational aspects of precision medicine implementation. He holds certificates in precision medicine from Harvard, fintech from Oxford, global health innovation from IESE and Implementation Research from the WHO. He is a Knight of Malta through which he is engaged in African activity in food security and management of Hanson's Disease.

**PRELIMINARY SESSION SCHEDULE FOR SPRING SEMESTER Q3, 2023**

<i>Sess</i>	<i>Date</i>	<i>Topic</i>	<i>Case/Activity</i>	<i>Deliverable</i>	<i>Preparation and Required Readings</i>	<i>Supplemental Readings</i>
1	<b>Monday March 13</b>	Course introduction and The structure of the VC industry		<p><b>Simulation teams must be formed by 11:59 PM Saturday, March 18</b></p> <p><b>Students must select and sign up for a Platonic Dialog Group by Tuesday March 14, 11:59 PM. Participation in each group is limited so first-come first served.</b></p>	<p><b>The course pack designates required readings and supplemental readings for future reference. The course pack is rich with insights. At the very least read the first few required readings but it will serve you well to get through as much as possible.</b></p> <p>1. Note on the Venture Capital Industry 2. Demystifying Venture Capital Economics Part 1 3. Demystifying Venture Capital Economics Part 2 4. Behind the Scenes at a VC Fund, Part 3: Fund Structure, Fundraising, Investor Relations and FAQs 5. Does Venture Capital Foster the Most Promising Entrepreneurial Firms?</p>	<p>6. Where Is Venture Capital Headed in 2022? 7. The Great VC Pullback of 2022 8. The Rise of Alternative Venture Capital 9. What Comes After the Easy Money Era Ends for Cash-Burning Tech Companies in Silicon Valley 10. Need Advice on Navigating a Tough Startup Market? Start Here. 11. The Upside of a Downturn 12. How Far Will High-Flying Tech Investors Fall? 13. Reckoning Looms for Past VC Excesses As Market Forces Valuation Reset 14. Nontraditional Investors React to Current Market Headwinds 15. Coronavirus: The Black Swan of 2020 16. The Tech Start-Up Economy Is Broken</p>
2	<b>Wednesday March 15</b>	Company formation: structures, ownership, and issues among founders	<b>Platonic Dialog Group 1</b>		<p>17. Legal Forms of Organization 18. Legal Protection of Intellectual Property 19. The Process of Forming the Company Chapter 3 of High-Tech Start-Up 20. How to Start a Startup</p>	<p>21. How Much Should You Raise in Your VC Round? And What Is a VC Looking at in Your Model? 22. How to Raise Money 23. How Do Startup Accelerators Work? 24. 6 Pros and Cons of Joining a Startup Accelerator 25. Is a Startup Accelerator</p>

						<p>Right for You</p> <p><b>26.</b> How to Do Crowdfunding in 2021: With Expert Tips and Examples from Successful Campaigns</p> <p><b>27.</b> How to Choose a Co-Founder</p> <p><b>28.</b> How to Split Equity Among Co-Founders</p> <p><b>29.</b> Founder's Guide to Allocating Co-Founder Equity</p> <p><b>30.</b> Startup Equity Calculator: How to Split Fairly Among Founders</p> <p><b>31.</b> What is an Employee Option Pool?</p> <p><b>32.</b> Financing New Ventures</p> <p><b>33.</b> How to Manage Equity Dilution as an Early-Stage Startup</p> <p><b>34.</b> Raising Money for Your Startup? Here Are 6 Things You Absolutely Must Do</p> <p><b>35.</b> A Guide to Seed Fundraising</p> <p><b>36.</b> How to Decide the Size of Your Employee Option Pool</p> <p><b>37.</b> 9 of the Biggest Mistakes Startup Entrepreneurs Make</p> <p><b>38.</b> The Very First Mistake Most Startup Founders Make</p> <p><b>39.</b> Dividing Equity Between Founders</p> <p><b>40.</b> Selecting and Protecting a Company Name</p>
3	<b>Monday March 20</b>	Company formation wrap-up  Due Diligence 1	See CANVAS under Assignments  <b>Platonic Dialog Group 2</b>	Post Sim 1 write-up by Tuesday March 21 at 11:59 PM	<p><b>41.</b> How Venture Capitalists Evaluate Potential Venture Opportunities</p> <p><b>42.</b> Criteria Used by Venture Capitalists to Evaluate New Venture Proposals</p> <p><b>43</b> Game Analysis of Cooperation</p>	<p><b>44.</b> In Search of the Next Big Thing 169</p> <p><b>45.</b> How Venture Capitalists Make Decisions 131</p>

4	<b>Wednesday March 22</b>	Simulation 1 debrief  Part 2 of diligence lecture		Post Sim 1 write-up by Tuesday March 21 at 11:59 PM  Commence course reflection	between Start-Up and Venture Investors	
5	<b>Monday March 27</b>	Part 1 of Lecture on Capitalization Tables and Valuation	Simulation Part 2: Due Diligence should be in progress  See CANVAS under Assignments  <b>Platonic Dialog Group 3</b>		<p>46. A Note on Valuation in Private Company Settings</p> <p>47. Note on Valuation in Private Equity Settings</p> <p>48. Cap Tables, Share Structures, Valuations, Oh My! A Case Study of Early-Stage Funding</p> <p>49. Startup Valuation "" The Ultimate Guide to Value Startups 2020</p> <p>50. What Most People Don't Understand About How Startup Companies Are Valued</p> <p>51. How Do VC's and Angels Value a Company</p> <p>52. How Does an Early-Stage Investor Value a Startup?</p> <p>53. Convertible Notes in Seed Financings</p> <p>54. Pros and Cons of Raising Seed Financing via Convertible Notes vs. Preferred Stock</p> <p>55. Understanding Convertible Notes</p> <p>56. Frequently Asked Questions: Convertible Debt</p>	<p>57. How to Talk About Valuation When a VC Asks</p> <p>58. How Funding Rounds Differ</p> <p>59. Cram Downs Are a Character Test for VCs and Founders</p> <p>60. The Case for Down Rounds</p> <p>61. What's My Company Worth?</p> <p>62. Want to Know How VC's Calculate Valuation Differently From Founders?</p> <p>63. What's the Difference Between Pre-Seed and Seed Funding Rounds</p> <p>64. What is Pre-Seed Funding?</p> <p>65. Seed Funding: A Guide for Starting Up with Seed Fundraising</p> <p>66. Quick Start Guide - Y Combinator</p> <p>67. Simple Agreement for Future Equity - Post-Money Valuation Cap with Discount</p> <p>68. ABC, Inc. Memorandum of Terms, Series A Preferred Stock Purchase Agreement</p> <p>69. Term Sheet for Convertible Promissory Note Financing of ABC, Inc.</p>
6	<b>Wednesday March 29</b>	Simulation 2 debrief  Part 2 of Lecture on Capitalization Tables and Valuation		Post Sim 2 write-up by Tuesday March 28 at 11:59 PM		
<b>Due</b>	<b>Tuesday March 28</b>	<b>Company Profile Assignment due today. Post on Canvas Assignment by 11:59 PM</b>				

7	<b>Monday April 3</b>	Part 3 of lecture on cap tables and valuation	Sim 3 should be in progress		See above	See above
8	<b>Wednesday April 5</b>	Simulation 3 Debrief  Part 1 of Lecture on Term Sheets	Simulation Part 3: Cap Table and Valuation  See CANVAS under Assignments  <b>Platonic Dialog Group 4</b>	Post Sim 3 by Tuesday April 4, 11:59 PM  Continue course reflection	<b>70.</b> "Ownership, Dilution, Negotiation, and Valuation" Chapter 7 of "High Tech Start Up" <b>71.</b> Liquidation Preference in Startup Deals <b>72.</b> The Impact of Dilution <b>73.</b> Anti-Dilution Protection: What You Need to Know <b>74.</b> Negotiating Term Sheets - Focus on What's Important <b>75.</b> Control: The Critical Issue in Negotiating Financing Terms <b>76.</b> VC Negotiation Tricks: Simplified Term Sheets and Post-Money Valuations <b>77.</b> What Is It Like to Negotiate a VC Round? <b>78.</b> The Toxic Term Sheet: Founders Beware! <b>79.</b> Series A Preferred Memorandum of Terms <b>80.</b> 6 Investment Term Sheet Mistakes Founders Make	<b>81.</b> Plain Preferred Term Sheet <b>82.</b> Term Sheet for Series A Preferred Stock Financing <b>83.</b> Liquidation Preferences: What They Really Do <b>84.</b> How to Navigate a Term Sheet in the COVID-19 Era <b>85.</b> Why the Unicorn Financing Market Just Became Dangerous For All Involved <b>86.</b> Investor-Protective Deal Terms May Keep Down Rounds at Bay <b>87.</b> Dual-Class Stock: A Founder Favorite Faces Growing Investor Disapproval <b>88.</b> Limit Dual-Class Share Structures Rather Than Shun Them <b>89.</b> Super Voting Stock: The Advantages and Pitfalls <b>90.</b> Price and Preference: Participating v. Non-Participating Preferred <b>91.</b> Navigating Down-Round and Dilutive Financings <b>92.</b> Mark Suster: The Authoritative Guide to Pro-ratas <b>93.</b> Memorandum of Terms for Preferred Stock (negotiated) <b>94.</b> Memorandum of Terms for Preferred Stock (non-negotiated Company favorable) <b>95.</b> Memorandum of Terms for Preferred Stock (non-negotiated investor favorable) <b>96.</b> Terms for Private Placement of Series Seed Preferred Stock
9	<b>Monday April 10</b>	Part 2 of Lectures on Term Sheets	Simulation Part 4: Term Sheet Negotiation should be in progress  See CANVAS under Assignments			

10	<b>Wednesday April 12</b>	Simulation 4 Debrief  Part 1 of lecture on Governance, Value Add and Exits;	Take Home Exam will be posted by 11:59 PM this date	Post concluded negotiation (Sim 4) with commentary on dynamics by Tuesday April 11, 11:59 PM  Continue Course Reflection	<b>100.</b> The Fiduciary Duties of Founders <b>101.</b> What You Need to Know About Startup Boards <b>102.</b> How to Prepare for a Board Meeting to Make Sure you Crush It <b>103.</b> What You Need to Know About Board Compensation <b>104.</b> Board Compensation: 3 Charts on How Companies Pay Non-Investor Directors <b>105.</b> 3 Considerations for Advisory Board Compensation <b>106.</b> The Basic Responsibilities of VC-Backed Company Directors <b>107.</b> Considering an IPO? First, Understand the Costs <b>108.</b> Corporate Governance and Disclosure Practices of Venture-Backed Companies in U.S. Initial Public Offerings <b>109.</b> SPACs: What You Need to Know <b>110.</b> How Special Purpose Acquisition Companies (SPACs) Work	<b>111.</b> The Board Works for the Common Stock <b>112.</b> 11 Quick Tips to Get More Value Out of Your Board <b>113.</b> Pre-Series A Startup Boards <b>114.</b> How Do You Compensate Directors of Startup Companies? <b>115.</b> CEO Playbook for Early-Stage Board Meetings <b>116.</b> The Secret to Making Board Meetings Suck Less
11	<b>Monday April 17</b>	Part 2 of lecture on Governance, Value Add and Exits	<b>Platonic Dialog Group 5</b>  <b>Sim 5 should be in progress</b>			
12	<b>Wednesday April 19</b>	Simulation 5 debrief  Wrap-up on Exits	<b>Platonic Dialog Group 6</b>	Post Sim 5 submission by Tuesday April 18, 11:59 PM  Complete and submit course reflection by 11:59 PM this date		
	<b>Venture Profile Assignment</b>	<b>Venture Profile Assignment to be submitted through Canvas Assignments by 11:59 PM on Friday, April 21</b>				

**[MORE FOLLOWS]**

<b>Platonic Dialogs: Preparation Guidance</b>			
<b>Group #</b>	<b>Session # / Date</b>	<b>Topic</b>	<b>Questions to consider</b>
1	Session 2: Wednesday March 15	Company formation	<ol style="list-style-type: none"> <li>1. How does an entrepreneur determine the best type of structure for his/her entity?</li> <li>2. What are the issues in determining who participates as a founder of an entity and what their fair share of ownership should be?</li> <li>3. Intellectual property is the foundation of this entity, how should the entrepreneur start the process?</li> <li>4. What should the entrepreneur seek in the way of legal counsel and why?</li> <li>5. What should be considered when recruiting a Board of Directors? An Advisory Board?</li> <li>6. What is the importance of establishing milestones and an associated project plan? What are the best ways of establishing that process?</li> <li>7. What is the process for planning on capital needs over time?</li> <li>8. What role does exit planning play at the time of company formation?</li> </ol> <p><b>Deeper Thinking:</b></p> <ol style="list-style-type: none"> <li>1. What kinds of experiences will improve your wisdom in company formation?</li> <li>2. Are there ethical considerations in company formation?</li> </ol>
2	Session 3, Monday March 20	Due Diligence	<ol style="list-style-type: none"> <li>1. What is “due diligence” and what is its purpose? Why?</li> <li>2. How does a venture capital firm go about preparing a due diligence strategy?</li> <li>3. Generically, what are the critical issues for exploration in due diligence?</li> <li>4. What considerations must an entrepreneur make when formulating a business model? A revenue model?</li> <li>5. How does a venture firm assess the viability of a business model? Of a revenue model?</li> <li>6. What comparison tools and techniques can be used in the due diligence process?</li> </ol>

			<p>7. What are the key issues of diligence to be cited in the Investment Memorandum?</p> <p>8. What approaches can be taken to compensate for concerns identified in due diligence?</p> <p><b>Deeper Thinking:</b></p> <ol style="list-style-type: none"> <li>1. What kinds of experiences will improve your wisdom in the due diligence process?</li> <li>2. Are there ethical considerations in due diligence?</li> </ol>
3	Session 5, Monday March 27	Valuation	<ol style="list-style-type: none"> <li>1. Can the valuation methodologies for established companies be applied to earlier stage entities? If so, How and in what way?</li> <li>2. Is the concept of working from the future backwards in order to derive a present value a legitimate approach to valuation?</li> <li>3. What are the challenges in the derivation of a “terminal value?” Do you place any credence in the concept?</li> <li>4. What types of dilutional events will affect the valuation of a company when looking forward?</li> <li>5. How can these events be predicted or documented in the valuation exercise?</li> <li>6. Are there special considerations for valuation methods at different stages of a company’s development?</li> <li>7. Once you’ve arrived at a valuation or valuation range, what is the best way of introducing it to the VC (from an entrepreneur’s point of view) or to an entrepreneur (from a VC’s point of view)?</li> <li>8. Is the recent history of valuation of companies, especially “Unicorns” a rational approach to valuation? What have we seen reported in the financial literature?</li> </ol> <p><b>Deeper Thinking:</b></p> <ol style="list-style-type: none"> <li>1. What kinds of experiences will improve your wisdom in company valuation?</li> <li>2. Are there ethical considerations in valuation?</li> </ol>

4	Session 8, Wednesday April 5	Term Sheets	<ol style="list-style-type: none"> <li>1. What is a term sheet and what purpose does it play?</li> <li>2. Who prepares the term sheet and why?</li> <li>3. How does the due diligence process relate to term sheet construction and content?</li> <li>4. How does the valuation process relate to term sheet construction and content?</li> <li>5. What are the major issues for negotiation in term sheets and why?</li> <li>6. What approaches should be taken when negotiating terms sheets?</li> <li>7. Are their codes of conduct or ethics associated with term sheet negotiation?</li> <li>8. Once a term sheet is accepted, what happens next?</li> </ol> <p><b>Deeper Thinking:</b></p> <ol style="list-style-type: none"> <li>1. What kinds of experiences will improve your wisdom in term sheet composition and negotiation?</li> <li>2. Are there ethical considerations in term sheets?</li> </ol>
5	Session 11, Monday April 17	Value-add and Governance	<ol style="list-style-type: none"> <li>1. What do we really mean by “value added activity?” Value from whose point of view?</li> <li>2. How does the entrepreneur introduce the value-add strategy into the business plan?</li> <li>3. Is there a relationship between due diligence and value-add activity?</li> <li>4. What is the role of the VCs individually, the Board of Directors and the Advisory Board in building value?</li> <li>5. What are the best ways of addressing failure to meet plan or other surprises from the entrepreneur’s point of view?</li> <li>6. What are the best ways of addressing failure to meet plan or other surprises from the Board’s point of view?</li> <li>7. What are the principles for “just” compensation? Is there even a legitimate notion of “just” compensation?</li> <li>8. What are the Board/Management dynamics in negotiating compensation?</li> </ol> <p><b>Deeper Thinking:</b></p> <ol style="list-style-type: none"> <li>1. What kinds of experiences will improve your wisdom in value-</li> </ol>

			<p>add activity and corporate governance?</p> <p>2. Beyond the fiduciary duties, are there ethical considerations in value-add activity and governance?</p>
6	Session 12, Wednesday April 19	Exiting	<ol style="list-style-type: none"> <li>1. What are the potential conflicts among and within the Board on the issues of exiting?</li> <li>2. What are the potential conflicts between management and the Board with respect to exit planning?</li> <li>3. What are the lessons from the exiting process, especially as related to IPOs, over the last two years?</li> <li>4. When and how does the IPO process start?</li> <li>5. What are the strategic considerations in planning or managing the company for acquisition?</li> <li>6. Is there a preferred route towards exiting? Why and under what circumstances?</li> <li>7. What happens to the proceeds associated with an acquisition?</li> <li>8. What happens to the management team post exit?</li> </ol> <p>Deeper Thinking:</p> <ol style="list-style-type: none"> <li>1. What kinds of experiences will improve your wisdom in planning and executing exits?</li> <li>2. Beyond maximizing shareholder value, are there ethical considerations in exiting?</li> </ol>

**[MORE FOLLOWS]**

### ***OUTLINE for Entrepreneurial Company Financing Profile (20% of Final Grade)***

This individual assignment will be due by the middle of the quarter. It is designed for you to examine the capitalization history of a venture-backed company (currently private or recently listed) using data bases such as PitchBook or others from its inception through its most recent round of financing or IPO/SPAC. You may choose a company that reflects your technology or industry sector interests. It can be US or international. If you are planning a venture of your own, consider finding a company in a similar space so that you can better plan for financing your own company. Students with an interest in women or minority led enterprises are encouraged to use this assignment as a window into the special challenges and opportunities faced by these companies. There's a catch. You will have to identify the company very quickly and register it on Canvas. AND only one student will be permitted to study any given company.

#### **Steps:**

1. Identify the company that you have selected in the designated place in CANVAS. Work quickly because once a company is listed, another student can not pursue the same company.
2. You can consider “working backwards,” i.e., if there is a venture capital firm of interest to you, say for career or financing pursuit, you can select your company for this assignment from their portfolio.
3. Your submission should follow this outline:
  - a. Name of company
  - b. Location
  - c. Type of company (corporate status)
  - d. Month/year founded
  - e. Why you selected this company
  - f. Founder and C-suite executives with backgrounds
  - g. Board of Directors with backgrounds
  - h. Description of business
  - i. Key technologies or competitive advantages
  - j. Description of initial financing: when, by whom, capital raised, identify sources, any noteworthy terms
  - k. Description of A round of financing: when, by whom, capital raised, identify sources, any noteworthy terms
  - l. Description of subsequent PRIVATE rounds of financing: when, by whom, capital raised, sources, any noteworthy terms
  - m. If public now, identify mechanism, e.g., IPO, SPAC; describe listing, valuation, profile public ownership
  - n. If acquired, describe acquiring company, motivation, date of transaction, financial data if available
  - o. If company has had strategic alliances, identify partners, motivation, deal characteristics
  - p. Commentary: discuss any noteworthy events in the company's life cycle, e.g., down rounds. How were these handled? Was there a straight-line path to strategy and growth, or did the company pivot at some point? Why? What were the consequences? This section is your opportunity to show what you are learning and how to apply it. Critical analysis is

welcome. You are free to contact the CEO at any point in your analysis. Be prepared to describe the assignment and why you selected this company.

- q. Would you like to work at this company? Why? Why not?
- r. Your conclusions of forecast of the company's prospects.

***OUTLINE: Venture Capital Fund Profile (20% of Final Grade)***

This individual assignment will be due by the end of the quarter. You can think of it as the “flip side” of the previous assignment. For this assignment, you will select one of the venture capital funds that provided financing for the company you selected in the previous assignment. Yes, you can work backwards and find a VC fund – US or International -- of interest to you and then select from one of their portfolio companies for the previous assignment. This assignment gives you an opportunity to deep dive into a fund that is of interest to you as a possible source of funding for your own company or for possible employment. Here again, you would use PitchBook, other data bases and public sources of information about the firm. The bold among you might even reach out to a partner in the firm. Again, if you are planning a venture of your own, consider finding a fund that has a history of investing in your sector so that you can better plan for financing your own company. Students with an interest in women or minority-oriented funds are encouraged to use this assignment as a window into the special challenges and opportunities faced by these funds. The instructor provides a detailed format for submission of this assignment at the end of this syllabus. There's a catch. You will have to identify the VC fund very quickly and register it on Canvas. AND only one student will be permitted to study any given venture fund.

1. Your submission should follow this outline:

- a. Name of venture capital fund
- b. Location(s)
- c. Type of partnership
- d. Month/year founded
- e. Why you selected this fund
- f. History as best as you can determine when founded, how many funds (vintages) have they had, what were the sizes of those funds
- g. Founders and current senior partners
- h. Profile of the team structure including principals, associates, analysts. What do you think of their team structure?
- i. Composition of Investment Committee (may be difficult to ascertain but try)
- j. This may be challenging but try to identify the key limited partners over its history
- k. Your point of contact, perhaps the partner or associate that led the financing of the company in your Profile. Be prepared to describe the assignment and why you selected this company when you make the approach.

- l. Description of CURRENT fund strategy
- m. Cross section of current portfolio companies divided by sectors
- n. Any patterns of their syndication partners (you can search Pitchbook to get a handle on this)
- o. Stages of development where they invest (seed, A, B, etc. Growth Equity, cross over into PE)
- p. Their history with the company that you selected for the Profile Assignment
- q. Why they selected that company and other noteworthy aspects of the due diligence
- r. Their governance role with that company
- s. Their value-add role with that company
- t. From the Profile, you should already know about their capital commitment(s), valuation, etc. Repeat that here as well as anything else you might learn from the fund
- u. Commentary: discuss any noteworthy events in the fund's history. Was there a straight-line path to strategy and growth, or did the company pivot at some point? Why? What were the consequences? This section is your opportunity to show what you are learning and how to apply it. Critical analysis is welcome.
- v. Your conclusions and forecast of the fund's prospects.
- w. Would you like to work at this fund? Why? Why not.

### ***Reflective memo guidance***

**An individual, running reflection or observations and challenges associated with venture financing (10%).** This assignment is meant to be a personal chronicling of a subject or project of interest developed throughout the term. It is kept as a personal document until the due date at the end of the quarter. Only the instructor will view this work. Here are some suggestions for managing and developing this assignment.

- a. Don't wait until the end of the course to begin your work
- b. Early in the terms, think about the issues that are having the largest impact on your learning and understanding of the entrepreneurial finance process. Think of these as themes and develop them through the term as you acquire insights from lectures, readings, the SIMS, and your research.
- c. You can approach the reflection either from an entrepreneurial point of view or a venture capitalists' point of view based on your career interests.
- d. Reflect and share especially on surprises, twists of fate, relationship of capital markets to venture financing. Basically, anything that catches your attention and prepares you to meet your goals
- e. Sum up your learnings
- f. Your total reflection should be expressed in about 1000 carefully chosen words that jump off the page, in other words, follow the narrative style with which you are most comfortable. This can be formal or informal so long as it displays passion and learning.