



## ANGEL AND VENTURE CAPITAL FINANCING FOR ENTREPRENEURS AND INVESTORS

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### COURSE SYLLABUS

#### **OBJECTIVE**

This course covers the funding process of early stage high-growth companies, from seed funding to venture capital rounds to a successful exit. We will concentrate on how entrepreneurs and investors make and should make important decisions. Examples of issues that we will cover: How can entrepreneurs raise funding successfully? What are typical mistakes entrepreneurs make in raising capital and negotiating with investors? How should entrepreneurs pick between competing investors? What is the best way to pitch to investors? How do angels and venture capitalists (VCs) generate and process their deal flow and select companies? How are VCs involved in business decisions such as recruiting talent and replacing CEOs? What are the important (and unimportant) provisions of financial contracts between VCs and founders? What do founders and investors need to know about term sheets, cash flow rights, voting rights, and control rights? How to value early-stage companies? How are venture capital firms and funds structured? What is the economics of venture capital funds? What determines returns of angel and venture capital investors?

The course is very applied. We will discuss many of the nitty-gritty details that founders and investors must know. We will discuss a number of real-life cases. We also have many speakers scheduled including case protagonists, founders, angels, and VCs.

No prior knowledge of the VC industry is needed.

#### **FORMAT AND TEACHING METHODS**

The course is intensive. There will be reading assignments and cases to prepare for many sessions. You should be prepared for each session both by reading the assigned material and by working with a group on the assigned case or problems. In addition, there will be individual projects.

## **STUDENTS RESPONSIBILITIES**

This course covers a large amount of material in significant depth and because it is only ten weeks in length, it is necessarily fast-paced and tough. You should keep up with the material as we go along and be prepared for each class.

**Attendance:** This course is fun (we promise) and informative but also intensive. It is important to attend all sessions. Session attendance is *mandatory*. (If you cannot make a session with a good excuse, please e-mail Ilya and Sandy well in advance.) Punctuality is also important.

You are absolutely encouraged to ask questions in class (given limited amount of time, we likely may not have time to cover all of them in class but we intend to answer *all* the questions in private/on course website). If you do have any questions and they were not resolved in class, do send us an e-mail.

We also will have a number of guests and we encourage you to prepare questions in advance (we will aim at having a short Q&A session with each guest).

## **GROUP ASSIGNMENTS AND WORK**

Most cases and assignments should be done in study groups. The assignments should be submitted online (for group assignments, one assignment from each group) on Canvas. Submit one report per group of students. Before submitting the first assignment, choose a name for your group. State the names of the group's members clearly. No late submissions will be accepted.

In addition, for each case there will be a short pre-discussion individual Qualtrics survey and a post-discussion individual survey that students must submit. These surveys will not be graded separately, but will be counted towards class participation. All pre-discussion surveys must be submitted before the start of the case discussion. All post-discussion surveys should be submitted no later than the stated deadline.

## **INDIVIDUAL PROJECT**

Each student must submit an individual project.

For the project, you will be given a legal filing by one of the VC-backed companies and you will be tasked with studying the document and writing up the provisions of the contract and its impact on various parties. Special instructions and the write-up format will be made available on the course website.

## **GROUP PROJECT AND A PARTNER MEETING**

Students will work in groups, with the help of their advisor(s), on the funding related issues of their start-up projects. This would include preparing the presentation for VCs. We will have a simulation of a partner meeting, when student groups present their projects and invited professional VCs will be evaluating these projects and giving advice to students.

## **EXAMS**

This text is for GSB audience only.

## **MATERIALS AND READINGS**

There is no textbook for this course. Handouts will cover a lot of material and will contain teaching notes on most of the topics we will be discussing.

**GUESTS**

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**ASSISTANTS**

This text is for GSB audience only.

**OFFICE HOURS**

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**GRADING**

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**DEADLINES TO KEEP IN MIND (All deadlines below are 8am PST)**

**Monday, October 23:**

Group Assignment to be submitted: *Selfscore: Series A or B?*

**Friday, November 3:**

Group Assignment to be submitted: *Evaluation of VC Term Sheets*

**Friday November 10:**

Group Assignment to be submitted: *Trulia: IPO or Sale*

**Monday November 27:**

Group Start-up Assignment to be submitted: Two-page description of the group start-up

**Friday, December 1:**

Group Assignment to be submitted: *Our Start-up: Investor Pitch (if your group is in Section A)*

**Friday, December 8:**

Group Assignment to be submitted: *Our Start-up: Investor Pitch (if your group is in Section B)*

**Monday, December 11:**

Individual Assignment to be submitted

## **SESSION BY SESSION PLAN**

Please note that we may have to deviate from our plan and that some cases and materials can be updated/changed. The new versions will be posted online and highlighted in class.

### **Session 1: Monday, September 25**

#### **Introduction to Angel and Venture Capital Investment.**

##### **Materials:**

*HANDOUTS: Slides will be posted online, so that you can review the class material beforehand.*

*MATERIAL TO READ: “The Economic Impact of Venture Capital”, latest version is found at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2681841](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2681841)*

We will start with the general overview of the world of angel and venture capital investment. We will talk about problems that effective innovative ecosystems should solve, and why Silicon Valley became such an ecosystem. We will identify the major players and issues. We then overview the major trends in recent years.

We also discuss the group start-up project.

### **Session 2: Friday, September 29**

#### **Angels and VCs**

##### **Materials:**

*NOTE: Note on Angel Financing (Stanford GSB, E440)*

We will start discussing the VC cycle. Then we will spend most of the time discussing the nature of Angels, VCs, their types and differences between them, how angel investors select deals, advise companies, and value deals. We will also talk about the dynamics of angel decision-making process as well as types of angels (individuals, groups, incubators, superangels).

### **Session 3: Monday, October 2**

#### **Making Decision in an Angel Group**

##### **Materials:**

*NOTE: Note on Angel Financing (Stanford GSB, E440)*

*CASE: Sand Hill Angels (Stanford GSB, E442)*

Refer to case study questions and the Qualtrics survey.

*GUESTS: We expect 4 to 67 SHA members to participate. The list will be announced closer to the date.*

We will discuss how members of SHA make investment decisions.

### **Session 4: Friday, October 6**

#### **Angel and VC Decision-Making**

*CASE: VC Deal Sourcing and Screening (Stanford GSB, E447)*

*MATERIAL TO READ: “How Do Venture Capitalists Make Decisions?” (Sections devoted to screening and selection)*

the latest version is found at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2801385](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2801385)

We will discuss how angel investors & VCs screen and select deals. We will also talk about the dynamics of investor decision-making process.

**Session 5: Monday, October 9**  
**Term Sheets, Contracting, and Negotiations. Part 1**

*MATERIAL TO READ:*

“How Do Venture Capitalists Make Decisions?” (Sections devoted to contracts and negotiations)  
the latest version is found at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2801385](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2801385)

We will start our discussion of contracting between entrepreneurs and financiers, both VCs and angels. This is a building block for all our discussions in the course. We will start by discussing the major issues in negotiations and contracting, as well as the purpose of the term sheet. We then devote most of our time understanding, step by step, various securities issued in the process of funding start-ups, their purpose and their differences, and then will go into great detail about important features of contracts.

**Session 6: Friday, October 13**  
**Life of Venture Capitalists**

**Materials:**

*NOTE: Day in Life of Venture Capitalist (Stanford GSB, E444)*

*GUESTS: We expect a number of VCs to join us.*

We will discuss various activities VCs are involved in with guest VCs.

**Session 7: Monday, October 16**  
**Term Sheets, Contracting, and Negotiations. Part 2**

*MATERIAL TO READ:*

“Squaring Venture Capital Valuations with Reality” (Sections devoted to contracts)  
the latest version is found at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2955455](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2955455)

We continue our discussion of term sheets and negotiations between entrepreneurs and financiers.

**Session 8: Friday, October 20**  
**Seed Funds**

**Materials:**

*CASE: Floodgate (Stanford GSB)*

Refer to case study questions and the Qualtrics survey.

*GUESTS: We expect Mike Maples, a partner of Floodgate, to join us.*

We will discuss the nature of early stage seed funds, their similarities to and differences from angels and VCs.

**Session 9: Monday, October 23**  
**Raising Early Stage VC Funding**

**Assignment to be submitted:**

*CASE: Selfscore: Series A or B? (Stanford GSB)*

Refer to case study questions and the Qualtrics survey.

*GUESTS: We expect Kalpash Kapedia, the founder of Selfscore, and Blake Modersitzki from Pelion Venture Partners to join us.*

We will discuss the process of Series A and Series B funding. We will discuss the dynamics of fundraising, the relationship between VCs and founders, and revisit the practical implementation of the term sheet.

**Session 10: Friday, October 27**  
**Term Sheets, Contracting, and Negotiations: Part 3**

We will continue our discussion of term sheets and contracting.

**Session 11: Monday, October 30**  
**Term Sheets, Contracting, and Negotiations: Part 4**

We will continue our discussion of term sheets and contracting.

**Session 12: Friday, November 3**  
**Term Sheets, Contracting, and Negotiations: Case Discussion**

**Assignment to be submitted:**

*CASE: Evaluation of VC Term Sheets (Stanford GSB, ETBC)*

Refer to case study questions and the Qualtrics Survey

Two founders are raising an angel round and land two VC term sheets. What should they do and how do they evaluate various term sheets.

**Session 13: Monday, November 6**  
**Valuation of Start-ups**

We will discuss the valuation used in the venture capital industry and the way to value early stage companies.

**Session 14: Friday, November 10**  
**Exit: IPO vs. M&A**

**Assignment to be submitted:**

*CASE: Trulia: IPO or Sale (Stanford GSB, ETBC)*

Refer to case study questions. Please come fully prepared.

*GUESTS: We expect Pete Flint, a co-founder of Trulia, to join us.*

We will discuss exit options in VC deals. We will also concentrate on the dynamics of the board decisions in entrepreneurial firms, post-investment relationship between VCs and founders, and valuation of late-stage entrepreneurial ventures.

**Session 15: Monday, November 13**  
**VC Fund Structure**

We will discuss the structure of venture capital funds, relationship between general and limited partners, returns on VC funds, and compensation of VCs.

**Session 16: Friday, November 17**  
**Corporate Venture Capital**

*GUESTS: We expect a number of corporate VCs to join us.*

We will discuss the world of corporate venture capital

**Session 17: Monday November 27**  
**Raising VC Fund**

**Group Start-up Assignment to be submitted (DEADLINE: November 27)**

Two-page description of their start-up (will be posted for all the students and invited VCs)

In this session, we will discuss relationship between VCs and LPs, and the process of raising a VC fund.

**Session 18: Friday, December 1**  
**Decision Making: Pitches and Re-enacting Partner Meeting**

**Assignment to be submitted:**

*Our Start-up: Investor Pitch (if you are in Section A)*

*GUESTS: We expect a large number of Angels and VCs to join us.*

**Group preparation:** You will be working in a group on your start-up idea. See the special document on how to work on your start-up idea/pitch.

We will split all the groups into sections A and B. Those in A will present on December 1. Those in B will present on December 8.

During the class: [this is to be modified depending on the number of groups]

- (1) Groups in Section A will have about 8 minutes [the exact timing to be confirmed] to make a pitch to the whole class and the attending VCs (about 5 minute pitch; 3 minute Q&A).
- (2) Each student (and each VC) will also make decisions about investing in other group start-ups as an angel.
- (3) VCs will provide feedback on pitches.

Our goal is to re-enact partner meetings. VC advisors and we will provide feedback on strengths and weaknesses of the decision-making process.

**Session 19: Monday December 4**  
**Final session**

Unusually, this class will be the “final” class [this is because as we will learn in the course, VCs are very busy on Mondays and it is easier to get a large group of prominent VCs to come to use on a Friday]

We will discuss the Startup Pitches of Session 18. Otherwise, we keep this class on purpose flexible, to discuss issues that are left over from our previous discussions.



Session 20: Friday, December 8

Decision Making: Pitches and Reenacting Partner Meeting

**Assignment to be submitted:**

*Our Start-up: Investor Pitch (if you are in Section B)*

*GUESTS: We expect a large number of Angels and VCs to join us.*

**Group preparation:** You will be working in a group on your start-up idea. See the special document on how to work on your start-up idea/pitch.

We will split all the groups into sections A and B. Those in A will present on December 1. Those in B will present on December 8.

During the class: [this is to be modified depending on the number of groups]

- (1) Groups in Section B will have about 8 minutes [the exact timing to be confirmed] to make a pitch to the whole class and the attending VCs (about 5 minute pitch; 3 minute Q&A).
- (2) Each student (and each VC) will also make decisions about investing in other group start-ups as an angel.
- (3) VCs will provide feedback on pitches.

Our goal is to re-enact partner meetings. VC advisors and we will provide feedback on strengths and weaknesses of the decision-making process.