

VC Seminar
B8385-001–Fall 2019
Columbia Business School
Professor Ed Zimmerman, with Pooja Patel

Time: 2:15:00 PM to 5:30:00 PM

Location: Room: WJW 208

Overview: Our class explores venture capital and angel investing by looking at the primary participants in the venture capital market: venture capital firms (“VCs”), high net worth individual investors (“angel investors”), limited partners who invest in venture funds (“LPs”) and the entrepreneurs who seek, receive, rejoice and/or (sometimes) regret the funding.

With a focus on the intangibles, this class will provide a hands-on understanding of:

1. The process of investing in early state (primarily tech) startups which includes:
 - a. Sourcing deals from the startup ecosystem
 - b. Evaluating/diligencing startups
 - c. Valuing startups¹ (which isn’t formula-driven)
 - d. Negotiating term sheets (financial and governance terms)
 - e. Managing a portfolio post investment
2. Seed stage investing landscape: the market participants and resources
3. The structural differences between venture capital and angel investing (including how venture funds are raised from LPs)

We’ll consider from the investor perspective, the following questions: how do VCs evaluate startup companies as potential investments (especially in tech)², what aspects of a deal are more important than valuation, what happens when there’s a founder dispute, how do venture capital transactions work, how should investors and founders think about convertible notes and SAFEs as opposed to “priced rounds” (preferred stock financings), how do companies replace CEOs/Founders, when does a financing foreclose later venture rounds, what are the perils of bridge funding or of too much funding, how valuable is reputation in venture, how do you spot and resolve ethical issues in venture, how do limited partners (pension funds, endowments, family offices, etc.) evaluate and invest in venture funds and how do VCs get paid? We’ll also discuss the venture community’s failings with diversity and how the tech and venture community are (and are not) addressing those issues.

Intended Audience:

- Aspiring VC or angel investors who want to understand how investors evaluate startups
- Founders who want to understand how seed investors evaluate startups
- Students interested in startups and in understanding the language and the market participants

While students will use some math skills, we encourage interested students to take the course even if they don’t consider themselves to be deeply numerate or technical.

¹ **DISCLAIMER:** This course will not teach students to build a financial model for valuing early stage startups. We believe that preparing a financial model for pre-revenue startups will not separate great startups from those that fail.

² Our class focuses on VC and angel investing, especially in tech (and some low tech) startups and growth companies. We won’t cover life sciences or clean tech VC investing. While we expect some discussion of European venture capital, this class won’t really have a global focus.

Professor Zimmerman has taught this class at CBS since 2005. We include guest lecturers from the VC world, including some alumni of our class. Although the course is taught by a lawyer, this course does not focus on venture law.

Professor Zimmerman has been a startup and venture lawyer at Lowenstein Sandler LLP for 25+ years. He co-founded and chairs Lowenstein Sandler’s Tech Group as well as [VentureCrush](#). He’s also an active angel and LP investor, with personal investments in more than 100 startups and multiple venture funds. Professor Zimmerman also he serves on the Wall Street Journal’s Panel of Experts. He has published more than 75 columns on the [Wall Street Journal’s blog pages](#) and another 30+ in [Forbes](#). Professor Zimmerman’s colleague Pooja Patel (also a startup and venture lawyer in Lowenstein Sandler LLP’s Tech Group) will assist with the course.

Pre-Requisites & Connection to Core

- **Capital Markets**
- **Foundations of VC (there will be multiple sections of this course offered and you are not required to take this course with Professor Zimmerman)**
- **Note that there will be an exemption exam for both pre-reqs**

Connection to the Core: This course will apply and build on concepts covered in the following core courses. Students are expected to be able to apply them in the course.

Core Course	Connection with Core
Corporate Finance	1. Time value of money 2. Risk 3. Opportunity Cost
Decision Models	1. Fundamental Concepts of Decision Making 2. Decision Making under Uncertainty and Risk
Leadership Development	1. Ethics 2. Negotiations 3. Influence and Persuasion

Instructor’s office hours are by appointment only*

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Format: We’ll largely use the case study method, with some lecturing and interactive exercises. We’ll have multiple guest speakers.

Materials: Selected cases, articles, blog posts, & podcasts.

Assignments/Grading:

Class Participation (more than attendance; adding value to the discussion): 40% of grade
 Individual Project (“Case Analysis”): 20% of grade
 Group Project (“Investment Analysis”): 40% of grade

Important Dates

October 30	Last day for add/drop period
November 6	Students create their own groups for the Group Project & e-mail Professor Zimmerman & Ms. Patel
November 12	Due date for Phase 1 of Group Project (end of day)
November 19	No class – make-up class at 11am on November 8
December 3	The last class in which we cover a case study; therefore, it’s also the deadline to submit an individual project . If you haven’t already submitted an individual project, be sure you’re submitting the project on this class’s case study, <u>prior to the start of this class.</u>
December 5	Term Sheet Day (not required)
December 10	Due date for Phase 2 of Group Project (PRIOR to the start of class)
December 10	Final Group Project Presentations

Description of the Projects

Individual Project - “Case Analysis” - 20% of grade

Due Date: Prior to the class in which the case is being discussed.

After the first class, each student will select **ONE** of the cases we cover this semester for a 5 page, double-spaced analysis. The analysis will be due at the **START** of the class, during which we discuss the case. Please prepare the analysis assuming the reader’s familiarity with the case study – please don’t summarize the case. You need only briefly recite the facts of the case in the context of analyzing those facts. Your analysis should include a statement of the problem(s) considered (ascertaining which problems deserve focus is a critical skill), an analysis of the options and a recommendation of which option to select.

Group Project – “Startup Selection and Basic Terms” - 40% of the grade

Due Date Phase 1: November 12, 2019, end of day

Due Date Phase 2: December 10, 2019, prior to class

Soon after the drop/add period ends, you will form a student groups, each student group will be assigned an actual VC fund, angel team or LP – so each student group will, for purposes of this project, *become* that fund, angel team or LP. Each student group should familiarize itself with the assigned VC fund, angel team or LP (bios, portfolio, stage, sector, size of fund, geography) in order to approach the group projects from the perspective of serving as members of that investor group. The group project will also focus on finding and evaluating startups and/or growth companies that are appropriate to the scope and stage of the fund/angel group etc.

Each student group will “source” a deal for an actual startup or other appropriate investment and present the following to that student group’s “investment committee” (the committee will consist of the instructor teaching this course as well as one or more actual investors serving as an advisor to our class).

The investment should be stage, sector, investment amount and geography appropriate to the investor group the student group represents. On the Phase 1 due date, each student group will submit a single paragraph on the investment opportunity (including the target's name, geography and funding to date – if known – as well as the URL for the target and its founders(s)) and why it makes sense for that student group. The Phase 1 Due Date will be determined. Once approved, each student group will submit:

- a) A five or six page, double-spaced paper providing a recommendation to fund the investment target (including the basis for seeing it as an investment fit for that Student Group);
- b) A slide presentation, which the student group will present live during one of the last two classes. Depending on the size of the class and the number of groups, each group will have roughly 15 or 20 minutes to present/respond to questions.

In addition to the above, the paper and summary should:

- 1) Address the business opportunity and value proposition;
- 2) Analyze the market potential and competitive landscape;
- 3) Evaluate the financial prospects and potential returns;
- 4) Assess the main risks and challenges to the proposed business and propose solutions for addressing and overcoming them;
- 5) Propose deal terms for the investment;
- 6) Describe investment fit – meaning how the startup fits within the investment thesis and mandate of the fund/angel team; and
- 7) Identify one or two potential co-investors (other venture funds or investors not already invested in the startup that would be as great co-investors in the investment and why this would be within that investor's mandate/why they'd be a great co-investor).

VC Advisors: We'll have VCs and angels meet (via skype, phone or in person) once with each student group, after the papers are submitted, to provide feedback to that student group.

Pitch Observation Opportunity: We may provide students the ability to attend some startup pitches through Lowenstein Sandler's [VentureCrushFGX](#) events.

Fall 2019 Course Schedule

VC Seminar	
<p>Week 1 (Tues, Oct. 29)</p> <p>Room: WJW 208</p>	<p><u>How VCs Raise Capital from LPs (or don't): What makes one VC fund back-able and raising/deploying venture funds in tough markets</u></p> <p><u>Readings:</u> (1) <i>Orchid Partners: A Venture Capital Start-Up</i> (HBSP 9-804-138) & (2) <i>Stanford Management Company In 2018: Venture Capital and Other Asset Allocation</i> (Case SM-294)</p> <p><u>Additional Readings:</u> Alan Patricof (Greycroft) Confessions Of A VC Who Raised Money During Financial Armageddon (2010) Questions Founders Should Ask About a Fund's Longevity (WSJ 2016)</p> <p><u>Guest Speaker(s):</u> Aaron Holiday (@AHolidayiii), Co-Founder & Managing Partner, 645 Ventures Crystal Huang (@CrystalHuang), Principal, NEA Nnamdi Okike (@nokike), Co-Founder & Managing Partner, 645 Ventures</p>
<p>Week 2 (resch. from 11/19) (Fri, Nov. 8)</p> <p>Lowenstein Sandler Office 11am start time</p>	<p><u>Raising from VCs in Up & Down Markets and Syndicate Dynamics: What constitutes a re-trade; how do competitive pressures play into up rounds and down rounds</u></p> <p><u>Reading:</u> <i>Endeca Technologies (A)</i> (HBSP 9-802-141)</p> <p><u>Additional Reading:</u> Arlan Hamilton (Backstage Capital): Dear White Venture Capitalists: If you're reading this, it's (almost!) too late (2015)</p> <p><u>Listening:</u> StartUp Podcast: Arlan Hamilton 1: Silicon Valley, By Invite Only</p> <p><u>Guest Speaker(s):</u> Arlan Hamilton (@ArlanWasHere), Founder & Managing Partner, Backstage Capital Satya Patel (@satyap), Partner, Homebrew</p>

<p>Week 3 (Tues, Nov. 12)</p> <p>Room: WJW 208</p>	<p><u>Funding the B Round and Finding the Right Investor:</u> Tech’s bias issues; investor fit; bidding on B rounds, collaboration vs collusion – how new investors think about and process the pricing of an up-round</p> <p>Reading: <i>BaubleBar: For Women By Women</i></p> <p>Additional Readings: Is Fantasy Sports More Fundable Than Jewelry? (WSJ 2013) Richard Kerby (Equal VC), Where Did you Go to School? (2018)</p> <p>Guest Speaker(s): Meghan Cross Breeden (@megabcross), Partner, Amplifyher Ventures Todd Breeden (@TPBreed), Co-Founder & Partner, Tuhaye Venture Partners Chris Fralic (@chrisfralic), Board Partner, First Round Capital</p>
<p>Tues, Nov. 19</p>	<p>There is no class on Tuesday, November 19th. This class has been rescheduled to FRIDAY, November 8th.</p>
<p>Week 4 (Tues, Nov. 26)</p> <p>Room: WJW 208</p>	<p><u>Term Sheet Day & Negotiating Seed Deals:</u> Substantive deep dive in term sheets and their ramifications; simulated negotiation for part of the class</p> <p>Reading: <i>Rebel Technologies Series Seed Negotiation</i> (SCG-534)</p> <p>Additional Reading: Aileen Lee (Cowboy Capital): Welcome To The Unicorn Club, 2015: Learning From Billion-Dollar Companies (2015)</p> <p>Guest Speaker(s): Peter Boyce (@badboyboyce), Investor, General Catalyst Beth Ferreira (@bethferreira), General Partner, FirstMark Capital Wendy Xiao Schadeck (@wen_xs), Investment Manager, Northzone</p>
<p>Week 5 (Tues, Dec. 3)</p> <p>Room: WJW 208</p>	<p><u>Double Down or Exit</u></p> <p>Readings: <i>Yieldex (A)</i> (HBSP 9-809-090) <i>Milliway Capital: Battening Down the Hatches</i> (HBS 9-809-072, March 31, 2011) What’s Cooler than a \$Billions Startup, A Real Exit! Against ‘Going Long’ (Forbes 2015) Dispatch From VentureCrushParis: VCs & Their Backers Discuss Backwards Math & Failure (Forbes 2017)</p> <p>Guest Speaker(s): Richard Kerby (@kerby), Co-Founder & General Partner, Equal Ventures Rachel Lam (@rachellam2), Co-Founder & Managing Partner, Imagination Capital Rick Zullo (@Rick_Zullo), Co-Founder & General Partner, Equal Ventures</p>

<p>Tues, Dec. 5</p> <p>Lowenstein Sandler Office</p> <p>11:30am- 2:30pm</p>	<p>Term Sheet Day (not required)</p>
<p>Week 6 (Tues, Dec. 10)</p> <p>Room: WJW 208</p>	<p>Group Project Presentations</p> <p>Guest Speaker(s): Marie Ekeland (@bibicheri), Co-Founder & Partner, daphni Pär-Jörgen Pärson (@pjparson), General Partner, Northzone</p>

Our class's "Venture Advisors" - investors who will provide feedback on Student Group

Name	Fund	LinkedIn	Twitter
Tosin Agbabiaka	Octopus Ventures	linkedin.com/in/tosinagbabiaka	@Tosin_agb
Morgan Cheatham	Bessemer Venture Partners	linkedin.com/in/morgan-cheatham-3b64a076	@MorganCheatham
Jomayra Herrera	Cowboy Ventures	linkedin.com/in/jomayraherrera	@jomayra_herrera
Cayetana Hurtado	Balderton Capital (London)	linkedin.com/in/cayetana-hurtado-687bba40	@CayeHurtado
Vishal Lugani	aCrew Capital	linkedin.com/in/vishal-lugani-79116220	@VishalLugani
Sarah Pinto	Emerson Collective	linkedin.com/in/sarah-pinto-peyronel-7878b82	@SPintoPeyronel
Charlotte Ross	Inspired Capital	linkedin.com/in/charlotte-ross	
Sydney Thomas	Precursor Ventures	linkedin.com/in/sydneypthomas	@sydneypaige10
Chris Wallace	Greycroft Partners	linkedin.com/in/christopher-wallace-1b4b4679	
Francesca "Check" Warner	Ada Ventures (London)	linkedin.com/in/francescawarner	@checkwarner
Wendy Xiao Schadeck*	Northzone	linkedin.com/in/wendyxioschadeck	@wen_xs
Rick Zullo*	Equal Ventures	linkedin.com/in/rickzullo	@Rick_Zullo

*reflects investors who are alums of our class.