

# Venture Capital Finance

College of Business, University of Illinois at Urbana-Champaign

Prof. Ola Bengtsson

Spring 2010 First Half

## SYLLABUS

### Instructor

Prof. Ola Bengtsson, Assistant Professor of Finance

Office: 439 Wohlers Hall

Office hours: Tuesdays and Thursdays 1:00pm – 2:00pm

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### Class Time and Location

Time: Tuesdays and Thursdays, 9:30am – 10:50am (undergrad), 11:00-12:20 (masters),

Duration: First 8 weeks of Spring semester

Room: 241 Wohlers Hall

### Course Overview

Venture capitalists (VCs) provide capital and operational support to young innovative companies. Some basic U.S. statistics highlight the importance of the venture capital industry: more than 2,500 venture-backed companies went public between 1980 and 2008, about 10.4 million jobs and 2.3 billion in revenues were in 2006 created by firms which at some point were financed by VCs, and aggregate VC investments amounted to \$28 billion in 2008 alone. Famous examples of venture-backed companies are Microsoft, AmGen, FedEx, Google, Facebook and Twitter.

The focus of this finance elective is on how VCs evaluate, select, value and structure their investments in entrepreneurial private companies. Although these choices are conceptually similar to those facing investors in publicly traded mature firms, the venture capital industry offers many unique problems and solutions. This course will strengthen the ability of students to apply corporate finance theories and practical tools to venture capital transactions. Specifically, we will discuss how VCs value and contractually structure investments. The course format is a mix of lectures, case discussions, quantitative homeworks and a presentation by two partners at a Chicago-based VC.

The course targets three groups of students. The first includes business students who are interested in working for a VC or private equity firm. The second group includes students who plan to work in investment banking, law, consulting, accounting or other professional fields which frequently advice on venture capital transactions. Even students who may not work directly with VCs or entrepreneurs will find the class useful – venture capital transactions are very complex, which means that if you understand why and how these transactions are structured then you will be more easily able to understand a range of other less complex financial transactions. The third group includes students who seek to become entrepreneurs and will need to seek VC financing.

## **Course Modules**

- Week 1    Tuesday 1/19: Introduction to course  
            Thursday 1/21: How VCs stage investments + Capitalization table
- Week 2:    Tuesday 1/26: Lecture by Steve Miller and Bruce Barron, Origin Ventures (HW 0)  
            Thursday 1/28: How VCs select their portfolio companies (Case 1, HW 1)
- Week 3:    Tuesday 2/2: How VCs interact with their portfolio companies (Case 2)  
            Thursday 2/4: Introduction to term sheet negotiations (Case 3)
- Week 4:    Tuesday 2/9: Quiz 1 + Excel Modelling  
            Thursday 2/11: Details of preferred stock used in venture capital transactions (HW 2)
- Week 5:    Tuesday 2/16: Anti-dilution and other contract terms  
            Thursday 2/18: Introduction to valuation of venture-backed company
- Week 6:    Tuesday 2/23: Anti-dilution and other contract terms (HW3)  
            Thursday 2/25: Quiz 2 + Board seats, control rights and compensation
- Week 7:    Tuesday 3/2: More on valuation of venture-backed company (HW 4)  
            Thursday 3/4: Class summary
- Week 8:    Tuesday 3/9: Q&A session for final exam  
            Thursday 3/11: Final exam

## **Course Requirements and Grades**

The course requirements include class participation, four individual homework assignments, four group case memos, two quizzes and a final exam. Overall score for the course will be based on following weights:

Class Participation	10%	( $\times 1=10\%$ )
Each quiz 1-2	10%	( $\times 2=20\%$ )
Each case memo 1-4	2.5%	( $\times 4=10\%$ )
Each homework 1-4	5%	( $\times 4=20\%$ )
Final	40%	( $\times 1=40\%$ )

Your class participation grade is based partly on attendance, partly on your active involvement in class discussions. I expect you to not only physically present but also mentally present in the classroom.

The quizzes are multiple-choice and non-cumulative. No makeup quizzes will be offered.

The case memos can be completed in groups of up to three students. The memo should be a 2-3 page write-up of the specific case questions assigned to each case. The memo is due in paper format at the beginning of class. The case memos are checked off but not graded.

The homeworks are individual but you are allowed to ask fellow students basic questions about Excel (which would be used for all homeworks). The homeworks are due in paper format at the beginning of class. The homeworks are checked off but not graded, unless you fall inbetween two grades or miss one of the two quizzes – I will then pick one of your homeworks at random and grade it thoroughly. This means that one of your homeworks could be given a much higher weight in determining your final grade.

### **Course Materials**

In preparation of each class, you are expected to read the assigned chapters in the required textbook: *Venture Capital and the Finance of Innovation*, by Andrew Metrick. You are also expected to read any assigned case, and familiarize yourself with the academic and newspaper articles which are distributed. The reading list will be posted prior to each class. Finally, you are expected to follow recent news on venture capital featured by Wall Street Journal and New York Times (search for “venture capital” on their web-pages).

In addition to the material covered in this course, there are many interesting books on venture capital and entrepreneurial finance. I am happy to recommend you good readings depending on what you are looking for. Three good books are:

*Fundamentals of Venture Capital*, by Joseph Bartlett

*The Venture Capital Cycle*, by Paul Gompers and Josh Lerner

*Deal Terms*, by Alex Wilmerding

### **Class Conduct**

You are expected to come to class on time. If for some reason, you are late, please enter the room and take a seat without disturbing the class. Also, please do not forget to turn off your cell phones and other noisy devices. The sound of a cell phone ringer sounds to me like “Professor, please ask me a question”. Laptops are allowed but they should be used for class purposes only. A folded-up laptop screen looks to me like a sign saying: “Professor, please ask me a question”.

### **Academic Integrity**

For group work, you may not share any related material or information with individuals who are not members of your group. For individual work, you may not share any material or information with anybody else before, during or after the assignment or exam. The exception that verifies these rules is that I allow you to talk to other about Excel-specific matters. Cheating, plagiarism or other violation of academic integrity will not be tolerated. Please refer to the student code on <http://www.admin.uiuc.edu/policy/code/> for details about academic integrity.

### **Feedback**

Although I have taught this class several times at Cornell University, this year is my first here at UIUC. I appreciate any comments or suggestions you would have about the contents of the course or the manner in which it is taught. Please feel free to email me or talk to me whenever you think of something.