

FIN 623 – VENTURE CAPITAL FINANCE

SYLLABUS, WINTER 2023

Instructor:	Emmanuel Yimfor, Ph.D.	Email:	eyimfor@umich.edu
Grader:	Milind Rao	Email:	msrao@umich.edu
Time:	Tuesday/Thursday 2:10 PM – 4:30 PM	Place:	B1580 and over Zoom
Office Hours:	Monday 3:00 PM – 5:00 PM		

Booking Office Hours: Office hours are by appointment over Zoom or in person. Book an appointment slot using [Google Calendar](#). You are welcome to book multiple slots if you would like to meet for longer. If you cannot make this time, please email me to arrange a separate time.

Contact Information: To ensure a timely email response, please place “FIN/ES 623” in the subject heading.

Course Prerequisites: It is assumed that enrolled students have a sound understanding of fundamental financial concepts and basic business statistics.

Course Description: This course presents the fundamentals of venture capital (VC) finance. We will discuss the institutional structure of VC funds, how VCs raise funding, and how they finance startups, focusing on tools and methods they use to value startups. We will also cover four core aspects of the VC investment process: deal structuring, syndication, governance, and harvesting. To build intuition through hands-on application of these concepts, we will use case studies, invite guest speakers, and use data to explore trends in VC funding.

Course Materials:

1. **Lecture Slides:** All lecture slides and supplementary materials will be posted to Canvas. Students are responsible for checking Canvas regularly for announcements, assignments, and supplementary material. I consider posting information on the Canvas website to be sufficient notice to you for you to be held responsible for it. To enhance health and safety, improve sustainability, and ensure equal learning access, all materials for Ross courses will be made available in electronic format only. Printed copies of course packs (“TextPaks”) are available in addition to the electronic version. Please see our course Canvas site and/or contact the [Kresge Library](#) for further information.

All materials generated for the course including slides, handouts, review materials and assignments, or any other materials prepared by you or the professor for this course are intended for use by current students in this class only, unless you have the permission of your instructor. You are not permitted to use materials related to the class that were generated by the professor or students in previous versions of this course. A violation of this policy may be a violation of the Ross Community Values Code and may result in disciplinary action.

2. **Textbook:** There are two optional textbooks for this course:
 - Venture Capital & the Finance of Innovation, 2nd Edition, by Metrick Andrew and Ayako Yasuda (VCFI).
 - Venture Deals, 4th Edition, by Brad Feld and Jason Mendelson (VD).

I made these books optional because we will use small portions of each textbook throughout the course. You can purchase these books online or at the university bookstore.

3. **Attendance Policy:** Attendance impacts your participation grade. Attendance during all class sessions is 50% of your participation grade.
4. **Format:** This course will be in person. There will be a non-interactive remote option, meaning that students attending remotely cannot ask questions or participate in class discussions. Students need a valid reason to use the non-interactive remote option instead of attending in person. I will modify the participation grade of students attending remotely. For those attending class in person:
 - Observe all safety precautions and protocols, including wearing of face coverings.
 - Sit only at locations indicated by the blue dots and corresponding seats. Please do not move your seating away from the blue-dot location as this would decrease social distancing and safety.
 - Use your laptop to connect to the Zoom for the class. Keep your camera on for the duration of the class. Please contact your professor if you have any questions or concerns.

I will constantly encourage conversations amongst your classmates. If there isn't enough participation, I will cold-call people to answer questions during class.

5. **Cases:** You will be required to purchase cases through Kresge using the course-pack information posted on Canvas.
6. **Laptop/Electronic Device Use and Zoom Connectivity in Class:** Laptop and electronic device use will be necessary for those attending courses remotely. Naturally, for those attending courses remotely you will need an electronic device (e.g. desktop, laptop, or tablet) with a video camera (built-in or external), an audio device, and a microphone to engage fully in the course. A stable and sufficient bandwidth connection will also be necessary.

Grading: Grades will be distributed according to the following weights:

Arlan Hamilton and Backstage Capital Case	15%
Coupa Case	15%
WebTracker Case	15%
Square case	15%
Team project	30%
Class Participation	10%

Each student's letter grade at the end of the course is calculated based on the MBA elective course grading guidelines, with the following distribution: $\leq 35\%$ Excellent (EX); $\leq 75\%$ Excellent (EX) + Good (GD) Grades combined. The cases and the team project are group projects. Students will be asked to complete a survey at the conclusion of the course to evaluate the other members of their team. These ratings will be used to adjust individual grades on group assignments to ensure students are contributing fairly to their teams.

Team Project:

I will create teams of no more than 4 members for the semester-long team project, based on your preferences from a survey I will administer at the start of the course. This project will integrate the course material and ask you to apply it by creating an investment memo your group will present to the class at the end of the semester. Your team will take the role of VCs considering an investment opportunity. The final deliverable is an investment memo for other GPs (the class) to evaluate. You will source a deal, evaluate its potential, and convince other GPs that it fits the objectives of the fund. This semester-long endeavor

will culminate in a 20-minute in-class pitch at the end of the semester. Here is an overview of the five deliverables, which are spaced throughout the semester. These deliverables have been further separated into seven milestones and due dates to help you stay on track (see Tentative Schedule below).

1. **Deal Sourcing and Screening (5%):** You will source a deal and relate the portfolio company to your fund's strategic focus.
2. **Team Evaluation (15%):** You will discuss the qualifications of the members of the founding team, relate their experience to the business idea, and identify areas for improvement post investment.
3. **Market Evaluation (10%):** You will discuss the industry in which the company operates, the total addressable market, competition, and macro-economic and regulatory risk that could affect the industry.
4. **Valuation (20%):** Propose a seed round valuation for the company and discuss the assumptions behind your proposed valuation. Also, discuss any contract terms and the type of security you propose to finance the investment.
5. **In-class presentations (50%):** Each team will give a presentation at the end of the semester. All students, except the presenting group, will evaluate the final presentations.

Each student not in the presenting group will use the grading rubric on the last page of the syllabus to grade the presenting group. I will grade the written portion of the investment memo, which comprises the other 50% of your grade for the Team project. Use [this](#) YouTube investment memo, which starts on page 10, by Sequoia as a working example of what your final deliverable might look like.

Students will be asked to complete a survey at the conclusion of the course to evaluate the other members of their team. These ratings will be used to adjust individual grades on group assignments to ensure students are contributing fairly to their teams.

TENTATIVE COURSE OUTLINE

Date	Topic	Readings	Assignment Due Next Week	Team Project Items Due
January 10	Syllabus, The VC Industry	Canvas Module: Lecture 1 [1], [2]		Respond to survey that I will use to create teams
January 12	VC Fundraising	Canvas Module: Lecture 2 [3], [4], [5]	Case I: Arlan Hamilton Case	
January 17	VC Deal Sourcing and Selection	Canvas Module: Lecture 3 How Venture Capitalists Evaluate Potential Venture Venture Capital Deal Sourcing and Screening Summit Partners The Fleecor Investment A,B, and C [6], [7], [8]		Milestone I: The Deal
January 19	VC financing Instruments; Convertible Notes, Preferred Stock, Venture Debt, and Common Equity	Canvas Module: Lecture 4 Convertible Notes in Seed Financing [9], [10], [11]	Case II: Coupa Case	Milestone II: Market Team and Competition
January 24	Guest speaker Kola Olokinboba VC fundraising by Minority Groups	Canvas Module: Lecture 5		Milestone III: Financing Strategy

Date	Topic	Readings	Assignment Due Next Week	Team Project Items Due
January 26	Valuation, Cap Tables, and Term Sheets	Canvas Module: Lecture 6 Multi-Stage Financing of High-Potential Ventures Basic Venture Capital Formula A Simple Free Cash Flow Valuation Model [12] , [13]	Case III: WebTracker Case	
January 31	Guest Speaker Charles Hudson Syndication	Canvas Module: Lecture 7 [14] , [15]	Fast Ion Battery Case	
February 2	Deal Structuring and Valuation II	Canvas Module: Lecture 8 A note on Valuation in Private Equity Settings		Milestone IV: Valuation Term Sheet Funding Terms
February 7	Valuation III, Cap Tables, and Term Sheets II	Canvas Module: Lecture 9 [16]	Case IV: Square Case	Milestone V: Financing and Valuation
February 9	Exits; SPACS and IPOs	Canvas Module: Lecture 10 [17]		
February 14	Exits II; M&As, Direct Listings Secondary transactions	Canvas Module: Lecture 11 [18] , [19]		Milestone VI: Risk Factors
February 16	Team presentations			Milestone VII: Submit Investment Memo

FIN 623 – PITCH GRADING RUBRIC

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		Below Average (0-59)	Average (60-79)	Above Average (80-100)	Score
1	Overall Presentation	Disorganized or hard to understand	Easy to understand but transition and flow could be improved	Easy to understand and smooth transition between sections	
2	Founding Team	Founding team experience is not related to business idea	Founding team experience is somewhat related to idea	Founding team has experience and passion to execute idea	
3	Financing Strategy	Financing strategy makes little sense	Financing strategy is unrealistic but well developed	Financing strategy is realistic and well developed	
4	Valuation	Valuation assumptions are vague	Valuation assumptions are clear but unrealistic	Valuation assumptions are clear and somewhat realistic	
5	Company Strategy	No discussion of regulatory or macro-economic factors that might affect company	Some discussion of regulatory or macro-economic factors that might affect company	Good understanding of regulatory or macro-economic factors that might affect company's operations and strategy is consistent with opportunity	

Recordings: I intend to record all of my classes and make these recordings available to you through Canvas. Students may not record or distribute any class activity without written permission from me, except as necessary as part of approved accommodations for students with disabilities. This applies to both live recording of an actual class, as well as the duplication of any recordings that I share with you via Canvas. Any recordings posted on Canvas may only be used for the student's own private use.

Academic Integrity and Community Values: Personal integrity and professionalism are fundamental values of the Ross School community. You have a duty to be familiar with and understand the Ross School's Statement of Community Values, the Ross School Academic Honor Code, and the Ross School Code of Student Conduct including all campus public health policies. **In light of COVID our community has enhanced the Code of Student Conduct to include our commitment to each other and adherence to campus and School public health policies.** Each of these, including a Statement of Student Rights and Responsibilities, may be found in the Ross School Impact on [Ross Community Values](#). In addition every student at the University of Michigan accepts the rights and responsibilities of membership in the University's academic and social community. These rights and responsibilities are clearly laid out in [The Statement](#). By enrolling in this course you confirm that you have read and understood these statements and policies, and further that you agree to abide by them. The Ross Community Values site contains valuable information and links on writing and how to check to make sure you have not plagiarized the work of others. Claimed ignorance of these codes and policies will be viewed as invalid should a violation take place. In all cases if you have questions please address them with the professor as far **in advance** as possible.

Any violation of the Ross School Academic Honor Code such as plagiarism, otherwise passing off anyone else's work as your own, unauthorized collaboration, use of materials generated for use during past offerings of this course, or any form of cheating will be referred to the Community Values Committee. Possible penalties include course failure with a permanent notation of an honor policy violation on your transcript and even expulsion. As a community we are all still adapting and learning how this applies to hybrid and remote learning environments, but the same principles of academic integrity apply.

Health and Safety- COVID-19: For the safety of all students, faculty, and staff on campus, it is important for each of us to be mindful of safety measures that have been put in place for our protection. By returning to campus, you have acknowledged your responsibility for protecting the collective health of our community. Your participation in courses on an in-person basis is conditional upon your adherence to all safety measures mandated by the State of Michigan and the University, including maintaining physical

distancing of six feet from others, and properly wearing a face covering in class. Other applicable safety measures may be described in the [Wolverine Culture of Care](#) and the [University's Face Covering Policy for COVID-19](#). Your ability to participate in this course in-person as well as your grade may be impacted by failure to comply with campus safety measures. Individuals seeking to request an accommodation related to the face covering requirement under the Americans with Disabilities Act should contact the [Office for Institutional Equity](#). If you are unable or unwilling to adhere to these safety measures while in a face-to-face class setting, you will be required to participate on a remote basis (if available) or to disenroll from the class. I also encourage you to review the Statement of [Students Rights and Responsibilities](#), which includes a COVID-related Statement Addendum.

Wellness and Mental Health: As a student, you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance or reduce a student's ability to participate in daily activities. University of Michigan is committed to advancing the mental health and wellbeing of its students. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. You can learn more about the broad range of confidential mental health services available on campus [here](#), including our campus' office of [Counseling and Psychological Services](#) ("CAPS"). You may also find helpful the [well-being resources for students](#) offered through the University's office of student life.

The Ross School of Business has a CAPS Embedded Counselor available to its students. Embedded Counselors are located in school/college buildings and services are tailored to the school's climate. For more information, please visit the [CAPS Embedded Model](#) site. To schedule, please email [Julie Kaplan](#), LMSW. Also, the services offered by CAPS have been adapted to the unique needs of our community during COVID. You can schedule a tele-health appointment remotely from their home page. You may also find helpful their resources directly addressing mental health and wellness during COVID [here](#). If you have an urgent matter when CAPS is closed, please call 734-764-8312 to connect with [CAPS After Hours](#).

Accommodations: The University of Michigan is committed to providing equal opportunity for participation in all programs, services and activities. Students wishing to receive testing accommodations must register with the University of Michigan [Services for Students with Disabilities \(SSD\)](#) office as soon as possible. Students must then submit their Verified Individualized Services and Accommodations (VISA) form online as early as possible, but no later than two weeks prior to the first test or quiz for which accommoda-

tions are requested. Accommodations arrangements are not guaranteed for students who submit their VISA form with less than two weeks' notice.

Requests must be sent using the [Ross Accommodations Request Form](#) and must include a scanned or photographed copy of the VISA form. This form only needs to be submitted once during your academic career with Ross unless your accommodations eligibility expires.

In rare cases, the need for an accommodation arises after the two week deadline has passed (example: a broken wrist). In these cases, students should still contact SSD and the Ross Accommodations Coordinator. However, due to logistical constraints, we cannot guarantee that an accommodation can be made after the two week deadline has passed.

Questions can be directed to the Ross Accommodations Coordinator at RossAccommodationsCoordinator@umich.edu.

References

- [1] Andrew Metrick and Ayako Yasuda. The economics of private equity funds. *The Review of Financial Studies*, 23(6):2303–2341, 2010. 5
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- [5] Yael V Hochberg, Alexander Ljungqvist, and Annette Vissing-Jørgensen. Informational holdup and performance persistence in venture capital. *The Review of Financial Studies*, 27(1):102–152, 2014. 5
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- [14] Yael V Hochberg, Alexander Ljungqvist, and Yang Lu. Networking as a barrier to entry and the competitive supply of venture capital. *The Journal of Finance*, 65(3):829–859, 2010. 6
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- [16] Will Gornall and Ilya A Strebulaev. A valuation model of venture capital-backed companies with multiple financing rounds. *Available at SSRN 3725240*, 2021. 6
- [17] Minmo Gahng, Jay R Ritter, and Donghang Zhang. Spacs. *Available at SSRN 3775847*, 2021. 6
- [18] Sridhar Arcot, Zsuzsanna Fluck, José-Miguel Gaspar, and Ulrich Hege. Fund managers under pressure: Rationale and determinants of secondary buyouts. *Journal of Financial Economics*, 115(1):102–135, 2015. 6
- [19] Francois Degeorge, Jens Martin, and Ludovic Phalippou. On secondary buyouts. *Journal of financial economics*, 120(1):124–145, 2016. 6