
Early Stage Capital

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Introduction and Logistics

- ▶ Discussion: how can you raise early stage capital today?
- ▶ Structure of Classes
- ▶ The Simulation Rounds



How can you raise early stage capital today?



Talking with graduates and current students, they say we need:

- ▶ More discussion of how to raise money in a difficult funding environment
- ▶ More on the practical details of how to negotiate early stage funding
- ▶ More development of our network with venture capitalists and other early investors



Course goals

- ▶ A course that demystifies the VC investment process
- ▶ A course that deciphers legalese and term sheet jargon
- ▶ A course that gives you the tools to negotiate effectively (on either side of the table)
- ▶ A course that brings in high level outside speakers who fund startups and who have been funded:
 - ▶ as “live cases” that focus on term sheets
 - ▶ NOT a prosem format



Course Structure (see syllabus)

- ▶ Today: introduction and logistics
 - ▶ Course overview and expectations
 - ▶ Detailed review of rounds



Classroom Ground Rules

- ▶ 1/3 course grade is class participation
- ▶ Prepare for class
- ▶ "Friendly cold calling"
- ▶ Informal small group coffees/beers after class:
 - ▶ what works for you?



Classroom Ground Rules (continued)

- ▶ This is a very intensive course with high-level outside guests:
 - ▶ **No** Laptops/Palm Pilots in operation when we have guests, please
 - ▶ **No** lunches when we have guests, please
 - ▶ **No** walking in and out when we have guests, please



Turning to the Simulations . . .

- ▶ The General Idea
- ▶ Teamwork:
 - ▶ 1 Warm-Up Exercise
 - ▶ 2 Simulation Rounds
- ▶ Tips, Requests and Mechanics



The General Idea: Term Sheets

- ▶ The simulations are focused on learning how to negotiate more effectively *in a venture capital setting*



The General Idea: Term Sheets

- ▶ The class sessions are intended to support the simulations, by giving you a chance to discuss “live cases” about term sheet negotiation and strategy



Teamwork:

1. **Form a team:** 4 people; pick a name; must be formed by end of class, Thursday, October 30
2. **Find a lawyer:** Warm up exercise only; short and focused, *don't obsess*



Teamwork: (continued)

3. **Strategize with a lawyer:** Nobody is born knowing how to use a lawyer
4. **Negotiate with a VC:** Demystify the ritual when it's only for a grade



Tuesday, November 4 (by start of class) **"Find a lawyer" conclusions due**

Goal: identify a shortlist of appropriate lawyers for your new startup.

Steps:

- ▶ Agree on a simple, fictional fact set for your new startup **for *this exercise only*** (the simulations have their own standard fact packet)
- ▶ Perform a legal services needs assessment for your startup with your teammates
- ▶ Find out about lawyers (network)
- ▶ Short write-up



November 5-November 19: Lawyer strategy sessions

- ▶ Sessions take place at law firms' offices, typically in the evenings.
- ▶ Teams will sign up on the Sloan server for rounds by 8pm, Thursday, October 30
- ▶ Teams should rank 3 slots



November 6-November 20: Lawyer strategy sessions (continued)

- ▶ TA will contact you
- ▶ Each session:
 - ▶ 1 hour simulation
 - ▶ 30 minutes Q&A/feedback
 - ▶ *Either TA or I will attend for grading purposes*



Lawyer strategy sessions (continued)

- ▶ 24 hours prior to meeting, teams will send to the TA:
 1. written meeting agenda
 2. firm profile
 3. filled-in term sheet

- ▶ Within 48 hours after meeting, teams will send TA written summary and evaluation of round.



November 20-December 9: Venture Capitalist negotiation sessions

- ▶ Sessions take place at VC firms' offices

- ▶ Sign up on Sloan server by 8pm, Thursday, October 30
 - Same scheduling process



November 21-December 9:
**Venture Capitalist negotiation sessions
(continued)**

- ▶ Each session: 1 hour round; 30 minutes Q&A/feedback. *TA or I will attend*

- ▶ *24 hours prior to meeting, teams will send to the TA:*
 1. *formal meeting agenda*
 2. *strategic internal agenda—this document is a lot of work*



**Venture Capitalist negotiation sessions
(continued)**

- ▶ Within 48 hours after meeting, teams will send TA written summary and evaluation of round and terms of their final “deal.”

- ▶ We will compare deal terms and VC practices at last class.



Tips and Requests for Both Rounds

- ▶ Schedule enough time between your 2 rounds to allow adequate preparation
- ▶ Go in character. Talk in character.
- ▶ No role-playing during Q&A/feedback session



Tips and Requests for Both Rounds

- ▶ We will give you the term sheet you have been offered.
- ▶ We will give you the fact pattern about your firm. It is deliberately vague. *Do not obsess about this.* It's essentially irrelevant to the goal and value of the rounds



Things you cannot do (mistakes earlier teams have made)

- ▶ Don't negotiate valuation — it's too fact-specific
- ▶ Don't contact your VCs or lawyers; the TA will forward your documents to them
- ▶ Don't make your own company/idea the subject of the round



Things you cannot do (mistakes earlier teams have made)

- ▶ Don't be late and don't get lost! Some VC offices are hard to find; rush hour traffic is miserable; ***plan accordingly***

Check with me if you have any questions about what constitutes unprofessional behavior.



The networking is very important

- ▶ Be open to feedback
- ▶ We include associates as participants to facilitate and foster peer relationships:
 - ▶ *Make friends*
 - ▶ *Figure out how you can help them*
- ▶ Try to involve people in other MIT activities



Mechanics

- ▶ Check Sloan server frequently
 - ppt and handouts will be posted there regularly
 - round schedules will be posted
 - send breaking news/interesting stories or deals to course TA to post
- ▶ Attendance will be taken. Let us know if you must miss a class.



Mechanics (continued)

- ▶ Make sure TA has your correct e-mail-- especially if you are adding.
- ▶ Remember, when we have guests and during your simulations, you are the face of MIT and Sloan.

