

**Early Stage Capital F03**  
**15.391**

**Venture Capitalist Simulation Round:  
Negotiate the Deal, Build the Relationship**

**Overview**

Armed with keen insight from your lawyer round, your team will now formulate its negotiating strategy for reaching the best deal with your VC, and meet for a round of negotiation session with a venture capitalist.

**Mechanics**

- Most of the general process of the VC round is the same as for the lawyer round. You will be in the same roles for the same MITunes-based startup, relying on the same Fact Packet background you used in your lawyer round. You (and your VC) will be using the same Firm Profile and filled-in term sheet you previously prepared.
- The format is also the same. The simulation will last approximately 60 minutes. This session is then immediately followed by 30 minutes of unstructured feedback and Q&A with the VC.
- Signup for VC rounds will be done by an online survey. Your team must be signed up by **8:00 pm, Thursday, October 30**. The VC rounds will run from Thursday, November 20 through Tuesday, December 9, typically in the evenings.
- The primary difference in the work product for this round are the 2 forms of agenda you must prepare. These are discussed in detail below. You must provide the course TA with the 2 forms of agenda 24 hours before your scheduled round.
- The TA will forward your firm profile, filled-in term sheet and the *formal* agenda (only) directly to the VC as soon as received, for the VC's review prior to the round.
- It is your responsibility to manage scheduling conflicts among team members and to schedule sufficient time between your lawyer and VC rounds to allow adequate preparation.
- The meetings will take place at the VCs' offices. You must coordinate transportation with your team members.
- Several of the VCs' offices are located in Waltham and can be tricky to find the first time. Traffic can be positively miserable at rush hour. You are responsible for allowing sufficient time to get to your VC's office before your appointment time. Print out directions from the website beforehand.
- We will notify you of any relevant security and building clearance requirements for each firm.
- Most teams tend to wear jacket and tie, to add to the seriousness of the exercise. Attire is at your discretion, however.

## Work Product

### Pre-Meeting Work Product

Teams will collectively prepare the following 2 forms of agenda. In addition, the course TA will also forward copies of your previously prepared Firm Profile and filled-in Term Sheet to your VCs. (You do not need to resend these.) **The agendas should be submitted to the TA at least 24 hours prior to your scheduled round.**

1. *Formal meeting agenda.* This document should be an objective, rather spare outline that prioritizes your issues to be discussed. It should be a product of your lawyer meeting notes together with conclusions from team discussion regarding the priority provisions you want to negotiate with your VC.

The agenda should outline 2-4 priority issues you are prepared to negotiate as critical deal points at your VC session. Include *minimal* elaboration in the outline.

As well, although you will likely have insufficient time to cover them all, your agenda should also list (in *roughly* descending order) all other issues your team finds objectionable in the term sheet. This is the “issue-spotting” part of the exercise; it is objective and will be graded accordingly. The goal is to demonstrate your ability to identify all potential hot spots lurking in a term sheet.

2. *Internal strategic agenda.* This document should reflect the team’s internal negotiating strategy, and a *candid* analysis of how the team has set its priorities.

The internal strategic agenda should clearly demonstrate the team’s understanding and mastery of the material covered in this course:

- basic term sheet provisions
- business and financial implications of relevant legal jargon
- customary market practice and norms for term sheet provisions
- standard alternative proposals and compromise tactics

When properly drafted, the internal agenda will make a persuasive case for why and how the team has chosen to balance and trade off relative priorities. A sample internal strategic agenda will be posted.

The internal strategic agenda represents the major deliverable of this course, and will be graded as such in lieu of a final in-class exam.

***Important:*** The internal strategic agenda will ***NOT*** be provided to the VC.

### Post-Meeting Work Product

1. *Meeting evaluation.* A collective appraisal of the simulation overall, the appropriateness of the agenda, and your team’s effectiveness in the meeting. For purposes of the final class session of “compare and contrast VCs”, please summarize the bottom line of your deal, detailing the major substantive provisions that were

agreed to, as well as listing any “standards” or “firm philosophies” that the VC holds to. (For example, “At Greylock, we don’t believe in participating preferred.”) Provide to the TA within 48 hours after your meeting.

2. *Peer evaluation.* Individual confidential appraisals of the constructive participation (or otherwise) of the other members of your team. This will take place at the end of the course and cover all aspects of team work. These will be done by email and be reviewed by me only.

## **The VC Simulation Round: Striking the Best Deal with Your New Partner**

### **Valuation**

For purposes of this meeting, assume that valuation discussions are ongoing. You value your company pre-money at \$7 million; you are looking for a \$5 million investment (resulting in a \$12 million post-money valuation and giving up ~40% of the company). The current offer values the company at \$5 million pre-money, with a \$5 million investment for 50% of the company, resulting in a \$10 million post-money valuation. Although you are not ready to accept these numbers, you feel comfortable that you are making progress and that you will resolve the valuation question satisfactorily.

You have agreed, however, to table discussions on “pure” valuation at this meeting, and take up the other points your team has flagged in the term sheet. *That is, valuation is deemed an excluded provision from the negotiations.* You may, however, offer to lower the current valuation offer in exchange for a VC concession on one of your other points. Do not enter into negotiations over how much lower.

### **Substantive technology**

The technology described in this exercise is deliberately vague. This is done 1) to keep the exercise focus properly on the investment negotiation process, and 2) to marginalize the background material our professional participants (and you) need to be familiar with.

Substantive technological expertise is irrelevant to the goals of the negotiation. All teams (and professionals) have been provided with the same packet of substantive information. All negotiations should be based solely on the information provided.

### **The meeting: partners to be**

This is a negotiation involving a great deal of money and the loss of some control of your company, and it is essential that you make every effort to persuade the VC of your views where they differ materially from his or hers. Never lose sight of the fact, however, that at the end of this negotiation, you’ll have to live with this new partner. Banging the table with your shoe is not a good way to start.

Also, bear in mind that the VC will be doing other kinds of due diligence during the negotiation—looking at character, integrity, leadership, management skills and teamwork. Those intangibles are critical in how he evaluates the potential of the venture. *Foster some trust*; help her lower her risk assessment of your team—you’ll probably get a better deal as well.

### **Points that bear repeating**

Teams determine the roles and responsibilities of the members in the meeting. For example, each team member may speak for 15 minutes about a particular issue or concern, or one member may act as an obsessive CEO and do all the talking. This decision should be reflected in the agendas.

Come to the office “in character.” Introduce yourselves as founders of your firm, not MIT students. (Receptionists will know only that you are new clients. Act the part.) This all enhances the value of the simulation, and makes it much easier to get the meeting started. (No awkward metamorphoses before the VC’s eyes.)

On the other hand, any simulation must balance the value of role-playing and verisimilitude against the goal of education. As this is not a course on negotiation, the role-playing should yield to opportunities to learn more, even if it takes you “out of character.”

The feedback period, after the simulation, is not structured. The VCs will give their impressions, and then allow for team members to ask questions. You should not be playing any roles. This is the time to exchange your real MIT business cards with the VC.

## Notes

We will be working with the following VC firms:

- Adams Capital Management, [www.acm.com](http://www.acm.com),
- Advent, [www.adventinternational.com](http://www.adventinternational.com)
- Flagship Ventures, [www.flagshipventures.com](http://www.flagshipventures.com)
- Key Venture Partners. [www.keyvp.com](http://www.keyvp.com)
- M/C Venture Partners, [www.mcventurepartners.com](http://www.mcventurepartners.com)
- Polaris, [www.polarisventures.com](http://www.polarisventures.com)

Familiarize yourself with your VC's history of investment and general philosophy of investing. Most firms have extensive websites. Educate yourself and know your investor.

In most cases, we will be able to tell you the names of the specific individual with whom you will be meeting.

## Real World

While the VCs participating in these exercises are busy professionals, they have a vested interest in making connections at MIT. To the extent you can engage your VC in some part of the spectrum of MIT and Sloan activities, do so. Some of the participating firms are very active here, others less so. Can you foster more interaction? Invite your VC to a conference or club event in which you are active? Look for *natural* ways to build your informal networks, for the benefit of yourself and Sloan (and even the VC).