Early Stage Capital
15.391 Fall 2003

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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

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*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

- 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.

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**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.