

USC Marshall School of Business

BAEP 559: INVESTING IN NEW VENTURES

Fall 2022

Tuesday 6:30 - 9:30 pm • JKP 110

In Person -Only

Instructor: Carmen Palafox, Adjunct Professor of Entrepreneurship
Office: Fertitta Hall – Greif Center (5th Floor)
Office Hours: By appointment (in person generally Tuesday 4:00 - 5:00 pm in the Greif Center; other times via Zoom)
Phone: (310) 293-1080
Email: cpalafox@marshall.usc.edu

COURSE DESCRIPTION

This course provides practical experience and analytical frameworks to prepare you to understand the inner workings of venture capital. You will experience the role of a venture capital associate, which is the typical position at which recent MBAs are hired into VC firms. As a complement to other entrepreneurship classes at USC, this course emphasizes customer validation, business models, competitive advantage, financial analysis, and developing the skills of persuasion needed to communicate the story of a startup. The academic framework for the class will be structured on: (1) market intelligence (2) sourcing, (3) evaluating, (4) transacting, (5) managing, and (6) exiting.

You will be working and studying in teams, and your grade will be a mix of your individual performance and your team's performance. The instructor reserves the right to re-balance teams as needed, in the interest of maximizing learning potential for the entire class. You will be divided into teams of 4-5 students, each team representing a venture capital fund. Your "fund" will be responsible for sourcing and evaluating potential investments and preparing materials related to considering investments in deals. There will guest speakers along with lectures and discussions.

COURSE OBJECTIVES

This course will help you develop the skills of generating opportunities, evaluating potential investments, and persuading decision-makers with fact-based analysis. The course has the following learning objectives:

1. Develop your critical thinking, idea generation, and decision-making abilities by identifying startups in the market with the potential to become successful investments.
2. Develop your oral and written communication skills by learning to perform venture capital due diligence, construct in-depth industry and customer analyses, and deliver a persuasive investment committee pitch.
3. Develop knowledge of the core functions of a venture capital firm and the roles of its various employees.
4. Develop your understanding of how differing sources of capital function in the market and how investors manage start-up entrepreneurs.
5. Develop your sense of legal and ethical consideration in capital formation, including raising capital, investing capital, and achieving realizations.

COURSE MATERIALS

All required reading may be found online, with links provided within the **Course Outline and Assignments** section below. Please contact the Professor if you have any issue accessing the required reading.

We also will be using Blackboard. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall HelpDesk at 213-740-3000 (option 2) or HelpDesk@marshall.usc.edu." Alternatively, (213) 740-5555 will get you the USC ITS Help Desk.

GRADING

To achieve an A grade in this class, you will need to go beyond the minimum requirements as stated in the syllabus in terms of the quality of your work and your involvement in and contribution to the class. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about a 3.5.

Your final grade is based on an evaluation of the following activities:

Project	Due Date	Points	% of Grade
1. Fund Strategy and Thesis (team)	September 13, 2022	100	10%
2. Deal Flow and Ecosystem Mapping (individual)	September 27, 2022	200	20%
3. Diligence Plan (individual)	October 11, 2022	200	20%
4. Key Element Analysis & Presentation (team)	October 18, 2022	150	15%
5. Investment Term Sheet and Cap Table (individual)	November 8, 2022	100	10%
6. Exit Analysis & Presentation (team project)	December 13, 2022	150	15%
Class Participation – up to 100 points (individual)		100	10%
Total		1,000	100%

Additional detail and grading rubrics for each project will be posted to Blackboard in advance of each project due date (on or around the “assigned” date set forth in the **Course Outline and Assignments** section).

Individual grade summaries will be posted on Blackboard. If you have any questions about your grade or anything about the class during the semester, please make an appointment to discuss the issue. If you do not notify me of an incorrect or missing grade based on the grade summaries within two weeks of the grade being posted, the grade will be assumed correct. You may submit any assignment for re-evaluation; however, the entire assignment will be reviewed again, and additional points may be deducted as well as awarded.

CLASS PARTICIPATION

I expect every student to come prepared to participate in the discussions and contribute to the class. Student may earn up to 100 points through their participation and contributions to the class, which include (a) consistent involvement in class discussions, (b) identifying companies that can present in class, (c) providing and discussing current venture capital news, (d) sharing key take-aways from readings, (e) thoughtful questions for our speakers, and (f) otherwise making a positive difference in the class.

We will allocate time in every class to discuss venture news. Staying informed on macro and micro issues and trends is critical to success in venture capital investing. You will come to each class with venture news that you find interesting, e.g., new venture fund closing, new startup round closing, startup closing down, regulation impacting VC, etc. I will randomly ask you to present your news and why it matters.

COURSE OUTLINE AND ASSIGNMENTS:

The schedule may be modified during the semester to account for changes in presenting companies and guest lecturers. However, the due dates for assignments will not be modified.

Date	Topics	Readings	Assignments
Week 1 8/23	<ul style="list-style-type: none"> • Course Introduction • The Venture Industry <ul style="list-style-type: none"> • The VC business model • The 5 tools of venture capital • Venture News • Project 1: Fund Strategy and Thesis (preview) • Project 2: Deal Flow and Eco System Mapping (preview) • Pitchbook Tutorial • Startup Pitch Review 	<ul style="list-style-type: none"> • The 5 tools of venture capital Supplemental Resources: • NVCA What is VC • Bill Gurley on VC • Fund Thesis • Deal Flow Template • All Raise Masterclass viewed in class: To Fundraise or not Fundraise 	
Week 2 8/30	<ul style="list-style-type: none"> • Venture News • Venture Fund Strategy <ul style="list-style-type: none"> • 14 Points • Raising Venture Funds (overview) • Project 1: Fund Strategy (assigned) <ul style="list-style-type: none"> • Team formation • Project 2: Deal Flow and Ecosystem mapping (assigned) • Sourcing <ul style="list-style-type: none"> • How to source deals • Startup Pitch Review • Cap Tables Part 1 <ul style="list-style-type: none"> • Founders and Option Plans 	<ul style="list-style-type: none"> • "14 Points" • 11 Things I've Learned From Running a Micro VC • Why Geography Matters • The Future of Deal Flow • Jess Lee on how VCs think • VC Port Strategy Supplemental Resources: • OpenLP • StepStone The Alpha for MicroVC 	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News • Pitch Review Commentary

Date	Topics	Readings	Assignments
Week 3 9/6	<ul style="list-style-type: none"> • Venture News • Startup Pitch Review <p>Evaluating</p> <ul style="list-style-type: none"> • Assessing strategic fit • Why Startups Fail 	<ul style="list-style-type: none"> • Why Due Diligence is Important • Validating the Idea • How to Detect a Fraud <p>Supplemental Resource: All Raise Masterclass viewed in class: Business Model</p>	<p>Bonus Opportunity:</p> <ul style="list-style-type: none"> • Venture News • Pitch Review Commentary
Week 4 9/13	<ul style="list-style-type: none"> • Venture News • Evaluating <ul style="list-style-type: none"> • Due diligence overview • Pitch meetings • Investment memos and scorecards • Evaluating <ul style="list-style-type: none"> • Due diligence, with a focus on financial needs and resources • Cap Tables Part 2 <ul style="list-style-type: none"> • Pre-Money vs Post Money 	<ul style="list-style-type: none"> • Greater Elevator • How to Pitch in a Venture Capital Meeting • Investment Memo Mechanics <p>Supplemental Resources:</p> <ul style="list-style-type: none"> • BVP Memos • All Raise Masterclass Outline of a Strong Deck (viewed in class) 	<p>Bonus Opportunity:</p> <ul style="list-style-type: none"> • Venture News • Pitch Review Commentary <p>Project 1: Fund Strategy Due</p>
Week 5 9/20	<ul style="list-style-type: none"> • Venture News • PRESENTING COMPANY #2/Guest Speaker <ul style="list-style-type: none"> • Class discussion • Evaluating <ul style="list-style-type: none"> • Due diligence, with a focus on the team • Project 3: Diligence Plan assigned • Project 4: Key Element Analysis & Presentation assigned 	<ul style="list-style-type: none"> • Dig for Diligence • Venture Capital Due Diligence: Management Team <p>Supplemental Resource: AllRaise TAM for New Market (viewed in class)</p>	<p>Bonus Opportunity:</p> <ul style="list-style-type: none"> • Venture News • Speaker Engagement
Week 6 9/27	<ul style="list-style-type: none"> • Venture News • PRESENTING COMPANY #3/Guest Speaker <ul style="list-style-type: none"> • Class discussion • Evaluating <p>Due Diligence, with a focus on product and technology</p> 	<ul style="list-style-type: none"> • How to Identify Your Market & Size Up Competitors • Scouting the Competition • Getting Meaningful Customer Feedback <p>Supplemental Resource:</p> <ul style="list-style-type: none"> • Diligence Questions • All Raise Masterclass TAM view in class 	<p>Bonus Opportunity:</p> <ul style="list-style-type: none"> • Venture News • Speaker Engagement <p>Project 2: Deal Flow & Ecosystem Mapping Due</p>

Date	Topics	Readings	Assignments
Week 7 10/4	<ul style="list-style-type: none"> • Venture in the News • PRESENTING COMPANY/Guest Speaker • Class discussion • Transacting • Term sheets • Cap Tables Part 3 • Series A & Option Pool Refresh 	<ul style="list-style-type: none"> • Clean Sheets • What is a Cap Table Platform and Why do You Need One? 	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News • Speaker Engagement
Week 8 10/11	<ul style="list-style-type: none"> • Venture in the News • GUEST SPEAKER • Transacting • Valuation • Negotiation • Co-Investors & Syndicates • Project 5: Investment Term Sheet and Cap Table assigned 	Supplemental Resources: All Raise Masterclass view in class: <ul style="list-style-type: none"> • Setting your Valuation • Making the Close 	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News • Speaker Engagement Project 3: Diligence Plan Due
Week 9 10/18	<ul style="list-style-type: none"> • CLASS PRESENTATIONS of Key Element Analysis (10 min per team) 	<ul style="list-style-type: none"> • Professor Hand-Outs on Capitalization Tables • Can You Trust Your Co-Investors Supplemental Resources • All Raise Masterclass Video 	Project 4: Key Element Analysis & Presentation Due
Week 10 10/25	<ul style="list-style-type: none"> • Venture News • GUEST SPEAKER/PRESENTING COMPANY • Class discussion • Managing the Portfolio • Focusing on the Team • Continuing Diligence • Follow-on Investments • Portfolio Construction • Serving on the Board • Cap Tables Part 5 • The Down Round and Anti-Dilution 	<ul style="list-style-type: none"> • A Dozen Things I've Learned from Georges Doriot • Managing the CEO • Why Entrepreneurs Don't Scale • Deal Management • Portfolio Construction • How to Up Your Board Meeting Game • Board of Directors Roles and Responsibilities • Let's Fix Start-Up Boards 	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News • Speaker Engagement

Date	Topics	Readings	Assignments
Week 11 11/01	<ul style="list-style-type: none"> • Venture News • Potential GUEST SPEAKER/PRESENTING COMPANY • Exiting <ul style="list-style-type: none"> • Types of liquidity • How to manage an exit • Liquidation analysis • Cap Tables Part 6 <ul style="list-style-type: none"> • The Exit • Project 6: Exit Analysis and Presentation assigned (work with team to select company) 	<ul style="list-style-type: none"> • Acqui-Hiring • The VC Math Problem • Companies are Bought, Not Sold • What is a good venture return 	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News • Speaker Engagement
Week 12 11/08	<ul style="list-style-type: none"> • Venture News • Managing Venture Funds <ul style="list-style-type: none"> • Fundraising for and managing venture funds • Venture fund roles and recruiting • Legal and Ethical Considerations <ul style="list-style-type: none"> • Overview of the laws and ethics of venture investment 	<ul style="list-style-type: none"> • Kauffman Foundation on Venture Capital Funds • Is Venture Capital Worth the Risk 	Project 5: Investment Term Sheet and Cap Table Due
Week 13 11/15	<ul style="list-style-type: none"> • Venture News • Learning from Failure 	<ul style="list-style-type: none"> • Startup Failure: Reasons • Failure Case Studies 	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News
Week 14 11/22	<ul style="list-style-type: none"> • Venture News • Other Forms of Capital 		Bonus Opportunity: <ul style="list-style-type: none"> • Venture News
Week 16 11/29	<ul style="list-style-type: none"> • Venture News • Case Study in class 	Rich vs King Term Sheet Negotiations	Bonus Opportunity: <ul style="list-style-type: none"> • Venture News
Week 17 12/13	<ul style="list-style-type: none"> • Final Presentations (10 min per team) • Final Thoughts 		Project 6: Exit Analysis and Presentation

DESCRIPTION OF ASSIGNMENTS

Detailed rubrics for each assignment will be prepared and posted to Blackboard at least two weeks before the assignment due date. In the case of any conflict between the descriptions below and the rubrics, the rubrics posted in Blackboard are the final word on the requirements for the project.

1. Fund Strategy – Team Project

The fund strategy describes the key points of your team's investment strategy, including the sector, stage, and geography you will target, along with your fund's investment model.

2. Deal Flow and Ecosystem Mapping – Individual

Report on your deal flow including mapping of ecosystems. Create deal flow database (e.g., airtable) identify at least five startups that fit your fund model.

3. Due Diligence Plan – Individual Project

You will be asked to start an Investment Memo for one of the companies that has presented in class or a company in your deal flow pipeline. Specifically, you will focus on the (1) market conditions favoring the opportunity, “why now” (2) startup's value proposition, (3) team's right to win, (4) competitive landscape, and (5) potential co-investors.

4. Key Element Analysis and Presentation – Team Project

Each team will select one of the companies that has presented in the class and prepare for presentation a short PowerPoint of up to five (5) slides focusing on funder-founder fit, the important key elements for investment success or failure for the company, and the investment thesis. Also, what the company has and what it needs.

5. Investment Term Sheet and Cap Table – Individual Project

Your team will be asked to prepare an Investment Term Sheet and Capitalization Table proposing an investment in one of the companies that has presented in class. Students will be given a blank term sheet to guide them. The focus will be on the valuation offered and how it compares to the market as well as key non-dilutive provisions and how those compare to current market standard.

6. Exit Analysis and Presentation – Team Project

You will build on the Key Element Analysis with a focus on the return potential of the startup and risk mitigation based on the gap you previously identified. Each team will prepare a PowerPoint presentation, which will be presented live during the final class session.

GUIDELINES FOR ASSIGNMENTS

The following guidelines apply to ALL assignments without exception. All assignments must be posted to Blackboard by the date and time due as posted in the **Course Assignments** section above. If you will not be in class on the due date, your team's assignment must still arrive no later than the time and date it is due. Please keep copies of all your files and emails until the end of the semester. Remember to check your USC email, and not just your Marshall email, to ensure you see all Blackboard communications regarding the course and assignments.

All assignments must be submitted electronically in Blackboard and labeled properly. Please follow the logical labeling conventions below, or your assignment may be considered late:

1. Individual Projects:

Last Name First Name - Project [#]

Example for Project 6: Smith Mary - Project 6

2. Team Projects:

Team [Letter Designation or Name] - Project [#]

Example for Project 7: Team A - Project 7

Teams will be established in the second class session. You may select your own team, or the Professor can assign teams. You may choose a team name if you desire. We will not accept files with generic labels like "assignment." You should put your full name and your teammates' names in alphabetical order at the top of the page of the actual assignment document or on the cover slide of all PowerPoint decks.

Your papers may be randomly submitted to "TurnItIn" through Blackboard, which will screen your work for plagiarism. Any material cited verbatim from its original source should be in quotes and contain a reference to a full citation for that source. Paraphrased work should also contain a reference to the source citation.

LATE SUBMISSIONS

Assignments are due and must be turned in BEFORE the start of class on the due date for the assignment in order to be eligible for full credit.

Assignments turned in late will be graded in accordance with the rubric, and then a reduction will be applied as follows:

- Assignments turned in after the beginning of class but on the due date will lose 5% of the graded points.
- Assignments turned in the day after the due date will lose an additional 10% of the graded points for a total reduction of 15%.
- For each calendar day thereafter, assignments lose an additional 10% of the graded points
- An assignment turned in on the last acceptable day of seven calendar days after the due date will lose a total of 75% of the graded points.

Assignments turned in more than seven calendar days after the due date will not be graded and will receive no points.

THE IMPORTANCE OF COURSE EVALUATIONS

I very much appreciate the end-of-semester student course evaluations. We try to continuously improve the course based on feedback from students, so you can help the next generation by filling out the evaluation at the end of class.

TECHNOLOGY REQUIREMENTS

The lecture presentations, links to articles, assignments, and rubrics are located on Blackboard. To participate in learning activities and complete assignments, you will need:

- Access to a working computer that has a current operating system with updates installed;
- Reliable Internet access and a USC email account;
- A current Internet browser that is compatible with Blackboard (Google Chrome is the recommended browser for Blackboard);
- Microsoft Word as your word processing program; and
- Access to Pitchbook
- Reliable data storage for your work, such as a USB drive or Office365 OneDrive cloud storage.

If your computer does not have Microsoft Word, Office 365 package is available to you free of charge and allows you to install Word, Excel, PowerPoint, Outlook, OneNote, Publisher, and Access on up to 5 PCs or Macs and Office apps on other mobile devices including tablets. Office 365 also includes unlimited cloud storage on OneDrive. To download Office 365 log into your student (University) email through a web browser, choose Settings (top right corner), and select software. If you have further questions or need help with the software, please contact the USC ITS service portal.

While this class will be taught live and in person, if the University provides accommodation to allow you to attend via Zoom, then Online lectures through Zoom will be provided in Blackboard. Therefore, you must have access to the Internet to view/hear lectures. No special software is required, but you will need a working video camera with microphone for use on Zoom

CLASS CONDUCT

Professionalism will be expected at all times.

- Arrive on time at 6:30 pm
- Respectfully minimize distractions – turn your ringer off
- Disagree respectfully
- Respectfully pay attention to classmates
- When sending an email, please include a detailed subject line, reference the course number (BAEP 559) in the message, and sign the mail with your name
- Use proper grammar, spelling, punctuation, and capitalization
- Laptop policy: no laptops when guest speakers are present and at Professor's discretion at other times

Statement on Academic Conduct and Support Systems

Academic Conduct:

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, "Behavior Violating University Standards" policy.usc.edu/scampus-part-b. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on Research and Scholarship Misconduct.

Students and Disability Accommodations:

USC welcomes students with disabilities into all of the University's educational programs. The Office of Student Accessibility Services (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at osas.usc.edu. You may contact OSAS at (213) 740-0776 or via email at osasfrontdesk@usc.edu.

Support Systems:

Counseling and Mental Health - (213) 740-9355 – 24/7 on call

studenthealth.usc.edu/counseling

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call

suicidepreventionlifeline.org

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-9355(WELL), press “0” after hours – 24/7 on call

studenthealth.usc.edu/sexual-assault

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office for Equity, Equal Opportunity, and Title IX (EEO-TIX) - (213) 740-5086

eeotix.usc.edu

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298

usc-advocate.symplicity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office for Equity, Equal Opportunity, and Title for appropriate investigation, supportive measures, and response.

The Office of Student Accessibility Services (OSAS) - (213) 740-0776

osas.usc.edu

OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.

USC Campus Support and Intervention - (213) 821-4710

campussupport.usc.edu

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity, Equity and Inclusion - (213) 740-2101

diversity.usc.edu

Information on events, programs and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call

dps.usc.edu, emergency.usc.edu

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call

dps.usc.edu

Non-emergency assistance or information.

Office of the Ombuds - (213) 821-9556 (UPC) / (323-442-0382 (HSC)

ombuds.usc.edu

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

Occupational Therapy Faculty Practice - (323) 442-3340 or otfp@med.usc.edu chan.usc.edu/otfp

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.