

The Wharton School
VC and Entrepreneurial Management

Instructions to VC Term Sheet Capstone Assignment

Student teams of “founders” and “investors” are asked to make a presentation summarizing term sheet negotiations. This assignment is intended to present an opportunity for all students to work through many of the issues that have been presented during the course, as well as to offer some understanding of the challenges that can be expected to arise between entrepreneurs and venture capitalists over investment terms.

The rules and guidelines for this assignment are as follows:

- Each student has been assigned to a “team.” Some students are assigned to “founders” teams and while others are assigned to “investor” teams. Team assignments, with email contact information for each team member, are attached to this instruction sheet.
- Each of the founders teams has as its mission the objective of negotiating acceptable investment terms to secure the funding of Hi-Tech, Inc., a well-known startup company with a promising technology that is a “sure thing.”
- Each of the investor teams has as its mission the objective of securing acceptable investment terms for equity financing for the purchase of Series A Preferred Stock in Hi-Tech, Inc. The venture capital firms involved are Acorn Capital and Galaxy Investment Capital. Both are respected venture capital firms.
- Each founders team is paired with two investor teams — one representing Acorn, the other representing Galaxy — for purposes of the VC term sheet negotiations. Each Acorn team and Galaxy team will have a term sheet to be negotiated with their assigned founder team — in effect, the founders team will be negotiating competing term sheets, with the expectation that only one of the two assigned investor teams will end up with a term sheet that has been successfully negotiated with the founders team at conclusion.
- A “backgrounder” on Hi-Tech, Inc. has been prepared, with factual history and context for the founders of Hi-Tech, Inc., as well as a statement of investment objectives of either Acorn or Galaxy.
- A term sheet has also been prepared for Acorn and Galaxy. As you would expect, the investment terms between the two term sheets differ substantially. The Acorn investor teams will not know the investment objectives or the proposed terms of the Galaxy investment, and the Galaxy investor teams will not know the investment objectives or the proposed terms of the Acorn investment. The founders teams will know everything.

- You are receiving a personalized email specifically with the information you are required to know to enable your team to engage in negotiating the VC deal.
 - Each founders team member will receive two “backgrounders”, as well as the initial proposed term sheets by Acorn and by Galaxy.
 - Each Acorn team member will receive a “backgrounder” referenced to Acorn, as well as the Acorn term sheet that has been presented to the founders team with whom Acorn is negotiating.
 - Each Galaxy team member will receive a “backgrounder” referenced to Galaxy, as well as the Galaxy term sheet that has been presented to the founders team with whom Galaxy is negotiating.
- Each founders team is required to successfully conclude negotiations on one of the two term sheets for class presentation. It is not acceptable for the founders team to tell both investor teams where they can put their term sheets if the founders don’t like the proposed terms.
- Acorn investor teams are instructed not to share their “backgrounders” or term sheets with Galaxy investor teams, and vice versa. Neither Acorn nor Galaxy teams are permitted to initiate syndication of the transaction.

Class “Deliverables”:

Each Investor team — the team with the successfully concluded term sheet and the Investor team that did not conclude a deal shall prepare:

A PowerPoint presentation which will include details about the process and content of your negotiations with the founders, along with details of the computation of the valuation that is implied by the initial term sheet as well as the final proposed valuation, using the VC valuation method, a sensitivity analysis, a waterfall analysis, along with commentary on the key terms that led to the successful – or unsuccessful – negotiation.

Note: All submissions must be in MS PPTX file format. No other file format will be accepted or graded.

Each Founders team shall prepare:

A PowerPoint presentation which will include details about the process and content of your negotiations along with details of the computation of the valuation that is implied by the initial term sheets that the founders received as well as the final proposed valuation of each of the offers received, using the VC Valuation method, a waterfall analysis and a sensitivity analysis of each offer, and **a detailed summary table of the negotiations using the Format which is depicted on the next page:**

Note: All submissions must be in MS PPTX file format. No other file format will be graded.

Have fun with this assignment - there is no right or wrong answer!

FOUNDERS SUMMARY TABLE FORMAT

	Original Galaxy Term Sheet	Original Acorn Term Sheet	Accepted Proposal: Negotiated Solution with <i>VC Firm Name</i>	Rejected Proposal: Last Pass with <i>VC Firm Name</i>
Initial Share Base				
Investment (\$)				
Current % of Ownership of Series A Investors				
Pre-Money Valuation (\$)				
Price per Share				
Liquidation Preference and type of Pref Share				
The flavor of Anti- dilution				
Dividends				
Board Structure				
CEO Stays?				
Etc. (add rows to list all terms)				