

## ENTRE 579 A/B: ANGEL INVESTING

FOSTER SCHOOL OF BUSINESS, UNIVERSITY OF WASHINGTON

FALL 2016 THROUGH SPRING 2017

**INSTRUCTOR:** Susannah Malarkey

**CLASS TIME:** For Fall 2016 - Monday 6:00 PM to 9:30 PM

**CLASS ROOM:** For Fall 2016 – PACCAR 492

**CONTACT INFORMATION:** my uw email address is [malars@uw.edu](mailto:malars@uw.edu); my home email is [spmontlake@gmail.com](mailto:spmontlake@gmail.com)

**OFFICE HOURS:** By appointment

**Please Note: This class fulfills your MBA graduation Practical Requirement.** To obtain your practicum credits, you must complete the entire year class, which is all three quarters.

**COURSE THESIS:** The course is called “Angel Investing” but it is actually in the entrepreneurship program. How does that work?

The best way to understand your audience is to get a chance to experience actually “being” your audience. Therefore, as aspiring entrepreneurs who will need capital to grow your companies, you need to understand how investors make their decisions. Only a small portion of companies who seek angel investments ever receive it, and even fewer raise venture capital. Becoming one of the “chosen few” requires much more than being enthusiastic and having an innovative idea. That is a good start, but with many competitors for limited angel investment dollars, it is essential that you know how to effectively communicate a compelling business, and that you also understand all the reasons that investors usually say “no.” Learning about angel investing through being an actual angel investor will teach you the key elements of a compelling narrative for investors, and will give you a deeper understanding of what it means to be a successful entrepreneur.

This course is highly experiential. Each of you will all be assigned to an existing angel investor group within the greater Seattle area – typically 2 students per group. The Foster School will obtain a membership for each of the groups. You will attend member meetings, participate in due diligence groups and generally interact with group members for the entire school year.

The course is almost entirely what you make of it, as an entire group. I will of course lead discussions on numerous topics to help you get started in analyzing companies, and I will bring in a variety of guest speakers who will share various concepts, information and points of view on the investment process. I ran the Alliance of Angels for 15 years and worked with hundreds of investors, entrepreneurs and more

than twenty 20 MBA fellows during the course of my tenure there. I know many fabulous Seattle area entrepreneurs and investors and I will make sure you get a chance to broaden your personal networks by the people I have visit class. Through this course you will be exposed to some of the smartest people around on the topic, and will be introduced to the key concepts and components of early stage investing.

The primary mechanism by which you will learn is through the direct experience of seeing investment pitches, researching relevant markets, reviewing various technologies, talking to entrepreneurs and other investors about various deals, and discussing various investment opportunities as a class. You will be actively working to invest significant capital into new ventures. This includes the entire process from sourcing investments, to evaluating them, and finally closing investment deals with them. Funds in the Dean's budget have been set aside to allow this class to make an investment, even possibly two, each year. That's real investments in real companies.

**READINGS:** While this is an experiential course, there will be one text for the class, which will give you great background, and introduce key concepts and terminology. It is Venture Deals by Brad Feld and Jason Mendelson, and will also serve as a very handy reference for you as you review investment opportunities. You will need to buy it on Amazon or some other source as I was asked to teach this class in too short of a time frame to go through the UW process. I will also assign other short readings during the course of the year.

**LEARNING OBJECTIVES:** Because this is a course within the entrepreneurship program, my learning objectives reflect our ultimate goal of creating first-class entrepreneurs:

- 1. Understand the landscape of early stage investing and become familiar with the concepts, terms and norms of the space.** Every culture has its own vocabulary and peculiarities and early stage investing is no exception. I want you to leave feeling very comfortable with the concepts, the shorthand and the modes of operating in early stage investing so that it will be a world you feel comfortable operating in and around. The best way to learn this is to SHOW UP. Your angel investor meetings are typically monthly and attending them must be a top priority.
- 2. Hone your analytic skills.** You will learn to understand the factors that influence a company's success or failure, both external and internal. You will learn to identify and define ways to the increase likelihood of success for a start-up company. The more deals you see the better you will get at this. This is really about practice, practice, practice.
- 3. Build your tool kit.** You will learn to be prepared and competent in your understanding of the investment process so you can apply it to your own entrepreneurial aspirations. You will develop and refine your ability to communicate and persuasively make the case with entrepreneurs and/or co-investors for or against investing. Skills to acquire include understanding what a successful pitch entails; key terms and concepts in financing deals; core qualities and competencies of fundable teams; effective market research for emerging technologies or business services; and avoiding the inevitable deal killers.
- 4. Address your weaknesses.** Entrepreneurs need to be insanely well-rounded. The skill set required is long and often contradictory. The objective is for you to leave UW with the mix of skills and attributes that lead to real success. I am going to ask each of you to identify a weakness in your entrepreneurial practice that you believe gets in the way of your entrepreneurial success. (Think of it as a muscle that

needs strengthening.) Choose one that this class experience offers you the opportunity to address, and identify how you plan to address this area of improvement over the next 9 months. Think about it, and we will work on finalizing this component during our first class session.

**5. Learn to both effectively access and add to the wisdom of the group.** This class is a journey and we are all in it together. Participating fully in class and on your angel group teams is what will make all the difference. It will also really help you succeed with Objective #4.

### **GRADING FOR FALL QUARTER 2015:**

#### **Investment Theses:**

For each company that you progress with, you will need to produce an investment memo. We will review these in detail and re-work them regularly. These memos will be the process by which you apply your understanding of angel investing and increase your learning. These are not long documents, but need to be well-researched and clearly written. You will do several preliminary ones during the course of the term. These will be worth 33% of your grade.

#### **Class Assignments:**

I will give out various class assignments, including ones for you to address your identified weakness, which we euphemistically refer to as “AFIs” for “Areas for Improvement” so no one outside our class has any idea what we are actually up to. Other class assignments will be related to guest speaker topics and some will be related to lecture topics or readings. 33% of your grade.

#### **Class & Angel Group Participation:**

Showing up and participating fully in discussions is essential. We will constantly be sharing information we discover at our angel group meetings, through research projects, and investment documents. To maximize your and your fellow classmates learning, we need consistent active participation. Class attendance, attendance at various key entrepreneur/investor events that will be assigned to you, and attendance at your angel group meetings will be worth 33% of your grade.

Final course grades are subject to grade distribution guidelines set by the Foster School of Business for MBA courses. This is intended to produce an equitable distribution that ensures academic rigor and offers accurate feedback to students regarding their academic performance relative to their peers in the same cohort. The median grade is expected to be 3.5 for MBA courses in the Foster School of Business. In my grading process, I will focus on the quality of your work, the depth of your thinking, and your willingness to go the extra mile in problem solving as differentiators.

#### **COURSE POLICIES:**

- Self-motivated hard individual work combined with effective team work is the rule of the day.
- You are all professionals and will of course treat each other with respect and kindness at all times. I will ask all of us, including myself, to be fully present, to listen carefully, and to speak with impeccability.

- We will handle A LOT of private information from private companies. We will discuss real people in evaluative ways. We will be actively reaching out to people to learn more. All of these interactions must respect privacy and be completely professional. When you're not sure if something is appropriate, err on the side of caution. You may always consult me first if you are concerned about ethics or privacy issues.
- I am quite reachable; contact me anytime you are working on something and need assistance. I will do my very best to get back to you promptly.
- Late submission of assignments will be assessed at a 20% lower grade level.
- We will observe the Foster School of Business Honor Code:  
<http://www.foster.washington.edu/academic/mba/currentstudents/Pages/honorcode.aspx>

**COURSE FORMAT:** This is a small class, so your engagement at all times is frankly essential. Please do not use personal electronic devices, other than as related to classroom activities. This is an important concern for the class since the level of learning depends on everyone's participation and engagement. While some classes will be limited to students and instructor, we will have regular guest speakers including entrepreneurs, investors, professional advisors, university representatives, and others who will add to our learning community.

**SCHEDULE:** The following is subject to change, especially since it is my first time teaching the course. I will give plenty of prior notice for any modification which impacts assignments and deliverables.

Class	Topic	Prep For That Week	Activity
Oct 3, 2016	<ul style="list-style-type: none"> <li>• Introduction to course structure, content and process.</li> <li>• Introduction to angel investing</li> <li>• What to look for when seeing an investor pitch; matrix review</li> <li>• Assignment to angel groups</li> <li>• Identifying you AFI</li> </ul>	<p>Read first 2 chapters of Venture Deals (it is a quick read)</p> <p>Sign up for at least 2 Entrepreneur Showcases</p>	Presentation; Individual & Group assignments; Class discussion
Oct 10, 2016	<ul style="list-style-type: none"> <li>• How do we invest in companies?</li> <li>• Intro to term sheets and definitions</li> <li>• Finalizing AFIs</li> <li>• Angel group reports</li> </ul>	<p>Begin attending angel groups</p> <p>Read Chapters 3-7 of Venture Deals</p>	Presentation; Group discussion; Presentation on term sheets by <b>Tyler Hollenbeck</b> , DLA Piper
Oct 17, 2016	<ul style="list-style-type: none"> <li>• The importance and use of research; exposure to the databases available at Foster and how to use them</li> <li>• Angel group reports</li> <li>• The entrepreneur's perspective on raising early stage financing</li> </ul>	Company write-ups	Company write-ups – how to <b>Daniel Malarkey</b> , Doosan Gridtech, on entrepreneur's perspective on angels

Oct 24, 2016	<ul style="list-style-type: none"> <li>Investor Showcase from the Swan Fund with 2 companies and 5 investors –learning how angels think</li> </ul>	Company write-ups	Guest Speakers: A team of 5 from the <b>Swan Fund</b> plus 2 companies
Oct 31, 2015	<ul style="list-style-type: none"> <li>How to ascertain and analyze markets in angel deals</li> <li>Angel group reports</li> </ul>	Market research exercise	Working session: In class market research and compnay report prep
Nov 7, 2016	<ul style="list-style-type: none"> <li>Investment memos and thesis: What are they? What do they contain? How to construct?</li> <li>Due diligence methodology reports</li> <li>Early stage finance</li> </ul>	Prepare due diligence methodology and topics for discussion	Research (from your angel group or elsewhere) due diligence methodology Early stage finance by <b>Michael Schutzler, WTIA and angel investor</b>
Nov 14, 2016	<ul style="list-style-type: none"> <li>Understanding start-up financials and cap tables</li> <li>Angel group reports</li> </ul>	Financials exercise	Presentation; <b>Ken Myer</b> on cap tables;  Winning teams with <b>Tim Porter, Madrona Ventures</b>
Nov 21, 2016	<ul style="list-style-type: none"> <li>Discuss assignment on company analysis and presentation</li> <li>Angel group reports</li> </ul>	Due Diligence exercise	Guest speaker; <b>Leslie Meagley</b> on markets and marketing Discussions
Nov 28, 2016	<ul style="list-style-type: none"> <li>Work in class on company analysis/investment thesis and presentations</li> </ul>	Have outline of presentation for input	Working session
Dec 5, 2016	<ul style="list-style-type: none"> <li>Presentation of investment thesis on companies</li> </ul>	Pitch your company	Student presentations  In front of investor panel