

Syllabus – Angel Investing – ENTRE 579
Fall 2019, Winter & Spring 2020



UNIVERSITY of WASHINGTON

Instructor: John Hansen
Class hours: Mon, 6:00-9:20pm, PCAR 393
Office hours: Mon, 5:00-6:00pm PCAR 446
By appointment

Email: jhansen4@uw.edu

Class Website: Canvas > ENTRE 579 (<https://canvas.uw.edu/courses/1332269>)

Course Summary: An experiential learning opportunity for understanding the early stage funding process for startup companies.

COURSE DESCRIPTION: This three quarter course (4 credits in Fall, 2 credits in Winter and Spring) provides real world, hands-on learning on angel investing and raising capital for early stage companies. You will learn from both perspectives: angel investor and the entrepreneur raising capital. If you are an aspiring entrepreneur that needs outside capital, you need to understand how investors make their investment decisions. If you are an aspiring early stage investor, you need to understand the issues facing entrepreneurs and the broader criteria for smart investment decisions.

There are two experiential components to the class: participating with an outside angel investment group and actually investing \$50,000 as investment capital to two early stage companies. Each student is assigned to a Seattle area angel group or early stage fund – typically 2 students per entity. I have already arranged membership in the groups and funds. You will attend member meetings, screening committee meetings, participate in due diligence and interact with group members for the entire school year.

LEARNING AND PERFORMANCE OBJECTIVES

Students are expected to develop a detailed understanding of the fundamental concepts of angel investing in early stage companies, including:

- Sourcing investment opportunities
- Intense market and industry research
- Financial metrics and statements for start-ups
- Team dynamics, leadership and organizational structure and design
- Negotiation and decision making
- Portfolio theory for investment decisions
- Corporate legal and capital structures

RECOMMENDED PREPARATION

- A) Come prepared to each class by completing reading assignments to actively participate in discussions, debates, and team projects.
- B) Carefully read the directions and grading criteria for assignments.
- C) Actively participate as both a class member and outside group member, fulfilling various roles and observing group dynamics and performance as part of the learning

environment. Please note that the experiential nature of investing in real companies will create true conflicts that will need to be managed.

D) Complete assignments on time and with MBA-level quality (spelling, format, grammar).

BOOKS and MATERIALS

- 1) **Required:** Venture Deals by Brad Feld and Jason Mendelson, Publisher: Wiley, 4th Edition. ISBN: 1119594820. Amazon for \$41.85 (hardback), or Kindle for \$26.39. (Version 3.0 is acceptable, but not previous versions)
- 2) **Cases:** Harvard Business School coursepack of 2 cases available at: <https://hbsp.harvard.edu/import/668771>
- 3) **Optional:** The Art of the Start 2.0 by Guy Kawasaki, Publisher: Portfolio. ISBN: 1591847842. Amazon for \$13.68 (paperback), or Kindle for \$14.99.
- 4) Distributed readings via Canvas

CLASS ORGANIZATION AND ACTIVITIES: Entre 579 is a three quarter course. This class requires self-discipline, self-direction and exceptional participation skills. The class will be organized into 3 phases aligning with each quarter.

First Quarter Activities:

“Genius is the ability to make the most mistakes in the shortest amount of time.” – Steve Blank.

During the first quarter, students will learn angel investing in class, as well as participate in an outside angel investment group or early stage investment fund. Students will team up and participate together in the outside group. Students will report their outside experiences and learnings to the class. In addition, the student teams will identify early stage companies for potential investment, conduct extensive research on the candidate companies, and report their findings to the class.

Second Quarter Activities

This quarter is designed to narrow down the candidate early stage companies, conduct due diligence, arrange and participate in company presentations, negotiate deal terms and recommend one \$25,000 investment to the investment committee at the end of the quarter.

The two hour classes will be more practical and workshop-based with occasional guest speakers. Students will continue to grow their knowledge and understanding of the early stage investment process and community. Student teams will continue to source investment opportunities in preparation for investment in the 3rd quarter.

Third Quarter Activities

This quarter will bring all your learnings together and applying them to your post-MBA career. Early in the quarter the class will make a second \$25,000 investment. We will execute on the investments and observe post-funding progress at the two companies. We will debrief the two investment experiences as a class.

PERFORMANCE MEASUREMENT & GRADING

The point distribution by assignment is as follows:

| | Points |
|--|------------|
| <u>1st Quarter</u> | |
| Investment Memorandum | 20 |
| Elemental Tech Case | 15 |
| Angellist 2017 Case | 15 |
| Angel Group Participation | 25 |
| Class Participation | 25 |
| <i>1st quarter Total</i> | 100 |
| <u>2nd Quarter</u> | |
| 2 Investment Evaluation Reports | 25 ea |
| Angel Group Participation | 25 |
| Class Participation | 25 |
| <i>2nd quarter Total</i> | 100 |
| <u>3rd Quarter</u> | |
| 2 Investment Evaluation Reports | 25 ea |
| Angel Group Participation | 25 |
| Class Participation | 25 |
| <i>3rd quarter Total</i> | 100 |

COURSE ASSIGNMENTS

A) **Investment Memorandum (20 points)**

During the quarter, you will be sourcing and evaluating several start-up companies seeking early stage funding. As a disciplined investor, you'll prepare an investment memorandum for one of the companies and present it to the class. The class will then decide on a few companies to take to the next level of evaluation.

B) **Business Cases (2 cases at 15 points each)**

Cases will be submitted in a format outlined on Canvas. **Case Assignments are due at Midnight of the day before class.** Late assignments will be penalized 20% up to one week late. Assignments must not exceed 3 pages, single-spaced, 1 inch margins, 12 point font, and must have the Student Name / Section in the header. You may have additional pages for graphs or charts and works-cited.

C) **Investment Evaluation Reports (2 reports at 25 points each per quarter)**

During Winter and Spring quarters, you will be assigned in a team to create investment evaluation reports for 2 companies that the class selected for further evaluation for potential investment. The report details the growth opportunity, results of due diligence,

deal structure and terms, management team evaluation, and returns analysis. The reports will be presented to the investment committee for their use in investment selection.

D) Angel Group Participation (25 points each quarter)

You will be actively participating in an outside angel group or seed fund. This is a significant portion of your learning experience. At the end of each quarter, you'll submit a 3 page analysis of your experience, the strengths / weaknesses of the angel group, and its role in the early stage funding ecosystem. In addition, your sponsors will submit to me an evaluation of your participation in the angel group and your value-add to the group.

E) Class Participation (25 points each quarter)

As you've already learned in your MBA classes and career, speaking up in business demonstrates your skills and analytical thought process. While many of us are "introverts," to be successful in business you must speak up. Therefore, class participation is a significant portion of your grade and the grading scale is significantly positioned to reward those that participate. ***The best way to ensure your readiness for each class is by completing the readings and assignments.***

This course demands a highly interactive discussion environment. Your active participation in class is needed. You WILL be called upon in class, so regular attendance is expected. If you miss class, your class grade will suffer. If you are unable to attend class for legitimate reasons, please inform me. But participation is more than attendance. To receive a high grade, you must contribute to the class discussions. You are to challenge yourself, your classmates and your instructor in a constructive fashion so that we all develop a deeper understanding of the issues discussed in class. Evaluation of class participation will be based upon your ability to raise and answer questions, to bring up ideas or insights and to build upon the ideas of others, NOT on the simple frequency of speaking. If you have concerns about your ability to participate in class discussions, please contact me immediately.

In addition, there will be several guest speakers from the angel investment community that will be speaking to the class, including entrepreneurs, investors, professional advisors, and university representatives. All of the speakers will be highly interactive as well and your engagement with them should be respectful, thoughtful and engaging.

At the end of each class session, I'll mark the appropriate participation points in Canvas, using a 5 point scale, from minimal (0) to very high (5) participation. *At the end of the quarter, I normalize the participation points to equal the total points (25 pts per quarter).*

GRADING PRINCIPLES

I give students the opportunity to earn higher grades through exceeding expectations work. Most business and organizations evaluate the performance of employees based on a "meets expectations" basis. Employees only receive top ratings (outstanding or excellent) when they "exceed expectations." Your course grade will be the result of your performance on the assignments. The grading scale conversion of your course weighted average to the 4 point scale is below, along with the UW grade definition

95%+ = 4.0 "Superior performance in all aspects, the highest quality"

| | |
|------------------|--|
| 90-94% = 3.5-3.9 | “Superior performance in most aspects with high quality” |
| 85-89% = 3.0-3.4 | “High quality performance in some aspects” |
| 80-84% = 2.5-2.9 | “Satisfactory performance” |
| 75-79% = 2.0-2.4 | “Generally marginal performance” |

POLICIES

Late assignments

Assignments turned in late will be penalized 20% of received points and only accepted up to 1 week late. All assignments must be submitted on Canvas prior to the time listed on the assignment to be considered on time.

Course Intellectual Property

I ask that you do not record any portion of the class, neither video nor audio. All of the course content is copyrighted by me, University of Washington, textbook authors, or case study authors. Thank you!

Confidentiality

In this class you will be exposed to A LOT of confidential business ideas and plans from startup companies, as well as proprietary processes and systems at the angel groups and seed funds. We will discuss real people, real companies in critical evaluative ways. All of this data and interactions must respect privacy, be completely professional, and held to the highest level of confidentiality. If you have any questions about this policy, ethical situations, or privacy issues, please do not hesitate to ask.

Use of Technology in Classroom

Appropriate use of technology can enhance the learning environment but can also serve as a major distraction.

I permit use of laptops and tablets for the explicit use of notetaking, watching assigned videos, accessing the course management tools in Canvas, or using online textbook features. However, using features such as: Facebook, Twitter, email, instant messaging will not be permitted. Cell phones must be off or in silent mode (not vibrate), phone calls are never acceptable.

I assume that if you are using technology, you are using it for class and therefore I can call on you at any time to share your findings. If a question comes up about a technology used during my course, I will give you one warning to refrain from its use. Furthermore, if you do not adhere to this course policy there will be the following repercussions:

- Participation grade will be significantly lowered
- And if it continues, I will consider it a violation of the Student Code of Conduct.

Code of Conduct

Students are expected to adhere to the Foster School of Business Code of Conduct found in the MBA Honor Code:

<https://foster.uw.edu/wp-content/uploads/2019/09/2019-20-Honor-Code-Booklet.pdf>

“Cheating, attempted cheating, plagiarism, lying, and stealing in relation to academic work is prohibited.”

A specific word about using other’s work such as prior students’ work or information purchased or found from academic websites. This is strictly prohibited and considered cheating and a violation of the Code of Conduct.

Disability Resources

Your experience in this class is important to me. If you have already established accommodations with Disability Resources for Students (DRS), please communicate your approved accommodations to me at your earliest convenience so we can discuss your needs in this course.

If you have not yet established services through DRS, but have a temporary health condition or permanent disability that requires accommodations (conditions include but not limited to; mental health, attention-related, learning, vision, hearing, physical or health impacts), you are welcome to contact DRS at 206-543-8924 or uwdrs@uw.edu or disability.uw.edu. DRS offers resources and coordinates reasonable accommodations for students with disabilities and/or temporary health conditions. Reasonable accommodations are established through an interactive process between you, your instructor(s) and DRS. It is the policy and practice of the University of Washington to create inclusive and accessible learning environments consistent with federal and state law.

Religious Accommodation

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW’s policy, including more information about how to request an accommodation, is available at Faculty Syllabus Guidelines and Resources. Accommodations must be requested within the first two weeks of this course using the Religious Accommodations Request form available at:

<https://registrar.washington.edu/students/religious-accommodations-request/>