



MGT 298E-01: Venture Capital Strategy

Prof. Olav Sorenson - Fall 2025

Location: D301; Time: 1:00pm-3:50pm (Oct 28; Nov 4, 18, 25; Dec 2)

Course overview

Venture capital plays a critical role in the founding and development of new enterprises, and in stimulating the growth of economies. Over the past 45 years, there has been an enormous surge in the financial resources allocated to venture capital. According to the National Venture Capital Association (NVCA), the pools of funds raised to invest in startups has grown from roughly \$2 billion in 1980 (in 2025 dollars) to more than \$200 billion in 2024 just in the United States.

In this course, we will review all aspects of starting and operating a venture capital firm. At the end of the course, your ability to answer the following questions should have improved:

- How can I attract investors into a fund?
- How can I best select among potential equity investments?
- How can I best invest in early-stage and high-growth companies?
- How can I manage a portfolio of venture investments?
- As an investor, how can I choose among different 'exit' options?

To address these questions, we will draw on recent advances in competitive strategy, organization theory, financial economics, and economic sociology. Though built on rigorous theory and evidence, the focus of the course is nonetheless highly practical. Please note that, while I teach the course from the perspective of the investor, the venture capitalist, potential private equity partners, potential entrepreneurs, potential investors in funds (i.e. limited partners), and potential policymakers should also find useful a better understanding of the industry.

I have one main goal for the course: I wish to give you a nuanced view of the structure of the venture capital industry and the relationships between venture capitalists and both limited partners and the firms in which they invest. By doing so, I hope to prepare you: (i) to manage venture capital funds, (ii) to raise capital for entrepreneurial ventures, and (iii) to choose among private equity investments.

Management 235: Although the course has been designed to serve as a stand-alone introduction to venture capital, for those interested in developing a deeper understanding of the industry, this course can also serve as a complement to *Management 235: Venture Capital and Private Equity*. While this course focuses on the strategic decisions involved in managing a fund, that course focuses more on the financial analysis and valuation of the broad spectrum of private equity investments. Those interested in both courses should feel free to sequence them as best fits their schedules.

Assessment

I will evaluate your performance in the course on four components: class discussion, three pre-class small group discussions, an in-class midterm, and two group assignments. I will weight them as follows in determining the final grade.

Component	Weight
Class participation	20%
Pre-class discussions	30%
In-class midterm	30%
Group assignment	20%

Class participation: Through effective class discussion, we will all learn more about the industry and its operations. You add value when you (i) listen to others, (ii) *constructively* critique others' arguments, (iii) ask questions or pose positions that improve our understanding of the materials, (iv) describe and connect related personal experiences to the discussion, and (v) integrate ideas from other courses.

Pre-class discussions: Each student must complete **three** of the (six) case pre-class discussion options. These small group discussions, conducted on the Breakout Learning platform, will ask you to discuss some aspects of the case before class. These discussions will help to prepare you for class, will hone your understanding of venture capital, and will give me a better sense of what concepts the class already understands well and which ones may require more time in class.

Midterm: We will have an in-class midterm on **November 25**. The midterm will cover some of the core concepts around the structure of the industry, the practice of venture capital, and the use of financial instruments.

Group assignment: Prior to class on **November 18**, each group should prepare a position sheet and negotiate out terms with another group. A more detailed description of this assignment appears in the daily schedules below.

AI: Artificial Intelligence, especially many of the recent Large Language Models (LLMs), such as ChatGPT, Claude, and Gemini, can serve as an incredible tool in many ways. They can help you do research or Bing, for example, could help you do research. These tools will probably become as common and ubiquitous as spreadsheets. I would therefore encourage you to learn how to use them effectively.

In terms of using AI to prepare for class and to assist in assignments, I would encourage you to consider AI tools as similar to a classmate. You should feel free to use these tools for any purpose where it would seem reasonable to get assistance from a classmate.

Instructor

You can reach me by e-mail at olav.sorenson@anderson.ucla.edu. If you wish to schedule office hours or meet with me outside of class, you can find my availability at youcanbook.me. You can book a time slot and it will send you a calendar invite. I have two different calendars for in-person meetings at Anderson and for those by Zoom/telephone. If you want to meet remotely, please send me an email with your preferred connection information (i.e. telephone number, Zoom link, Teams link, etc.).

In-person: <https://olavsorenson.youcanbook.me>.

Remote: <https://olavsorenson-zoom.youcanbook.me>.

Teaching Assistant:

- Angela Tran: angela.tran.phd@anderson.ucla.edu.

Schedule

1. COURSE INTRODUCTION AND RAISING A FIRST FUND (OCTOBER 28).

- Reading: Sahlman, William (1990), “The structure and governance of venture-capital organizations.” *Journal of Financial Economics*, 27: 473-521
- Reading: Nanda, Ramana, Sampsa Samila, and Olav Sorenson (2020), “The persistent effect of initial success: Evidence from venture capital.” *Journal of Financial Economics*, 137: 231-248
- **SMALL GROUP OPTION (Case):** *Carmichael Roberts: To Create a Private Equity Firm?*

Study questions:

- (a) If Roberts raises a fund, would *you* want to invest in it?
- (b) Where should Roberts base his fund?
- (c) What sorts of investments should he focus on?
- (d) Should his departure concern his colleagues at North Bridge?

2. ACCESSING DEAL FLOW, SELECTING INVESTMENTS, AND VALUING COMPANIES (NOVEMBER 4).

- Reading: Gansler, Sam (2025), “Venture Capital Sourcing Playbook”
- Reading: Gompers, Paul, Will Gornall, Steven N. Kaplan, and Ilya Stebulaev (2019), “How do venture capitalists make decisions?” *Journal of Financial Economics*, 137: 169-190
- Reading: Lyonnet, Victor, and Léa H. Stern (2025), “Machine learning about venture capital choices.” Working paper, University of Michigan
- **SMALL GROUP OPTION (Case):** *Pear VC*

Study questions:

- (a) Would you want to put money into Pear’s fund?
- (b) How would you describe Pear’s investment thesis?
- (c) Which of Pear’s activities do you see as most critical to generating deal flow?
- (d) How does Pear differentiate itself from hundreds of other Silicon Valley VC firms?

- **SMALL GROUP OPTION (Case):** *PunchTab, Inc.*

Study questions:

- (a) Did you find the pitch deck compelling?
- (b) What are the strengths of PunchTab as an investment?

- (c) What do you see as the risks for PunchTab?
- (d) If Barr offers to invest, how much should she invest? Why?

3. STRUCTURING AND NEGOTIATING INVESTMENTS (NOVEMBER 18).

- Reading: Sorenson, Olav (2024), “Valuing New Ventures”
- Practice: Sorenson, Olav (2024), “Practice problems”
- Reading: Kawasaki, Guy (2006), “The top ten lies of entrepreneurs.”
https://guykawasaki.com/the_top_ten_lie_1-3/
- Reading: Kawasaki, Guy (2006), “The top ten lies of venture capitalists.”
https://guykawasaki.com/the_top_ten_lie-3/
- Case: *Rebel Technologies Series Seed Negotiations*

- **GROUP ASSIGNMENT: Term sheets**

Each team will play the role either of Emperor Ventures or of the management of Rebel. I will provide additional information to teams (distributed on November 4). You should use that information to determine your reservation price. Each team should write a brief memo detailing how they arrived at their reservation price. Teams should then also schedule a negotiation with their paired negotiating partner team.

4. DOING DUE DILIGENCE AND FOLLOW-ON INVESTING (NOVEMBER 25).

- **MIDTERM (To be distributed and completed in class)**
- **SMALL GROUP OPTION (Case): *Fast Ion Battery***

Study questions:

- (a) What factors should John Davidson consider in deciding whether or not to pitch his partnership on continuing to fund Fast Ion Battery?
- (b) What are the implied probabilities of success at each stage (based on the project cap table in Figure 2)?
- (c) If they decide to do the Bridge round, should they implement the pay-to-play clause?

5. INVESTING THROUGH DEBT AND EXITING INVESTMENTS (DECEMBER 2).

- Reading: Loughran, Tim, and Jay Ritter (2004), “Why has IPO underpricing changed over time?” *Financial Management*, 33: 5-37

- **SMALL GROUP OPTION (Case):** *Avid Radiopharmaceuticals and Lighthouse Capital Partners*

Study questions:

- As one of Barnes' colleagues, why might you oppose lending to Avid?
- How do the proposed terms mitigate the risks inherent in lending to companies with few assets and negative cash flow?
- Should Skovrosky take the venture debt? Why or why not?

- **SMALL GROUP OPTION (Case):** *Square, Inc. IPO*

Study questions:

- Is now the right time for Square to go public?
- Why did Square's stock price go up so much on the first day?
- Who wins and who loses in the IPO versus in an acquisition at a similar valuation?

Materials

- Sahlman, William A. (1990), "The structure and governance of venture-capital organizations." *Journal of Financial Economics*, 27: 473-521
- Nanda, Ramana, Sampsa Samila, and Olav Sorenson (2020), "The persistent effect of initial success: Evidence from venture capital." *Journal of Financial Economics*, 137: 231-248
- Carmichael Roberts: To Create a Private Equity Firm*, HBS Case 9-317-079
- Gansler, Sam (2025), "Venture Capital Sourcing Playbook"
- Gompers, Paul, Will Gornall, Steven N. Kaplan, and Ilya Stebulaev (2020), "How do venture capitalists make decisions?" *Journal of Financial Economics*, 137: 169-190
- Lyonnet, Victor, and Léa H. Stern (2025), "Machine learning about venture capital choices." Working paper, University of Michigan
- Sorenson, Olav (2024), "Valuing New Ventures"
- Pear VC*, Stanford GSB Case E-630
- PunchTab, Inc.*, HBS Case 9-812-033
- Sorenson, Olav (2024), "Practice Problems"
- Rebel Technologies Series Seed Negotiations*

12. *Fast Ion Battery*, HBS Case 9-815-025
13. Loughran, Tim, and Jay Ritter (2004), "Why has IPO underpricing changed over time?" *Finanacial Management*, 33: 5-37
14. *Avid Radiopharmaceuticals and Lighthouse Capital Partner*, HBS Case 9-810-054
15. *Square, Inc. IPO*, HBS Case 9-817-054