Theory 10

Venture financing

Today's topic is more hand-on learning, so we start to know some specific words.

Reasoning on sustainable growth

Start with question: do you think is there any direct and indirect relation between country welfare and companies' growth? In another word, do you think does the culture, environment, welfare of country influence companies' growth?

Opinions from students: It depends, like tax is very relevant issue with companies' growth. Country use tax to develop education, medicine system and so on.

Fortune global 500 is a list of 500 biggest companies in the world in terms of income. Recently, the tendency of Apple is growing rapidly while Microsoft stay stabled and Nokia dropped sharply from 277 to more than 400. There are so other cases, like Spotify, Uber.

The financing cycle for ventures is from seed, start-up, first stage, consolidation and maturity. The seed, it is called FFF focused on idea or project fine tuning, which means you develop product with your own time and resources which can not be sold and made money, that is why in the first stage it declines. Then, we go to second part: business angles who are interested in your product and ideas. If the program is attractive, we start venture capital where the cash and resources flow increases rapidly. When company is successful enough and a lot of people are willing to buy our product, we can go to stock exchanges where we make money and add value in stock market. Another part of this graph is risk. It is deceasing from seed to maturity. Some elements are not found in ordinary companies like shops since it is more suitable for creative and huge companies.

Investment type in seed stage is structural costs and intangible assets. The investment extent is restrained and usually the financial dimension is below 0.25 million. In start-up phase, it focus one prototype, device or product launch. The investment type is working capital and a combination of tangible and intangible assets which is quite substantial.

Debt Capital, Risk Capital and Venture Capital

Debt capital is typical what bank give us o it is a temporary form of funding. It foresees a specific debt remuneration plus the capital reimbursement.

Risk Capital is a totally different type of funding. It is a stable form of funding provided through a company governance agreement. It does not foreseen contractual remuneration but only dividends and capital provider has the right to participate.

Private Equity

Private equity means investing a company and becoming the core of that company. It includes Angel Investors, Corporate Investors and Venture Capital. Eg. Uber is a corporate investor with google.

Business angle

Usually they are physical persons or specialized companies who privately intervene in a start-up Capital. They can support start-ups to growth using management expertise, market knowledge and technology.

Venture Capital

Usually they are financial entities but also physical persons. (rare since it asks for a huge amount of money) Based on investment amount, they receive a certain equity on total shares. They put money in highly risk companies but aim at earring big profits at disinvestment time. Venture capital originated in medieval age from Islamic culture where the partnership between investor and entrepreneur was preferred to loans.

How VC criteria select ideas? Questions involves with market opportunity, value proposition, management team and financials.