



Venture Capital

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Venture Capital

„Investments made directly to the equity of companies which are (usually) not publicly marketable. Investor exchanges his/her cash for a significant stake in the company and holds it for a long period of time. He/she cooperates with the management and they make the effort to rise company's value with the aim to sell his/her stake after reaching desirable level and carry yield.

There are no typical collateral instruments used when securing bank loans but an attractive and feasible business plan and a company management capable to carry it out.“



Reasons for venture capital investments

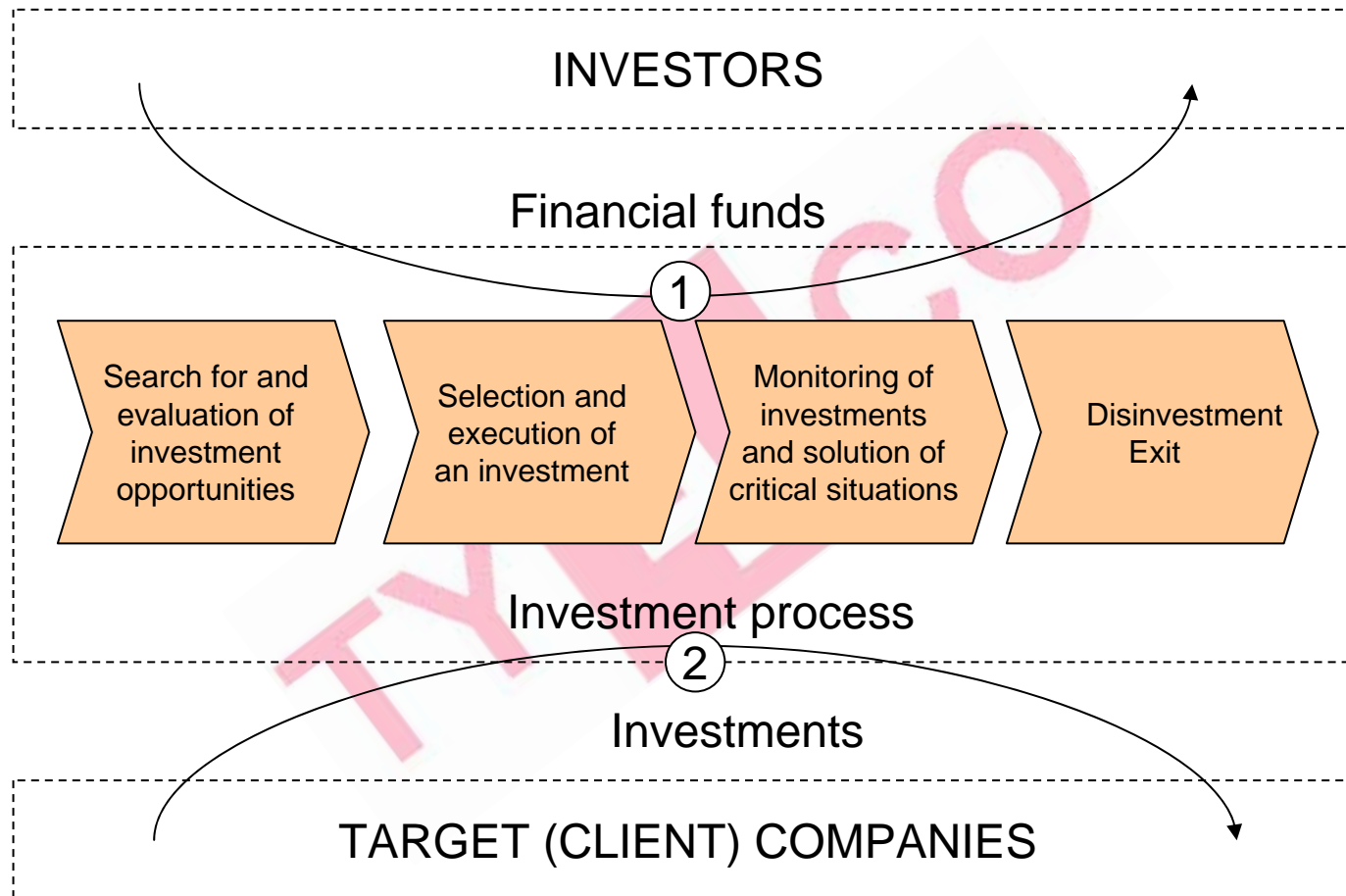
Client

- supports private equity of the company
- no guarantee by company's assets
- gains non-financial benefits

Investor

- expected higher return
- overcomes information asymmetry
- chance to affect company's strategy

Venture Capital





Types of venture capital

• **SEED CAPITAL**

- before establishment of a company
- financing of prototypes, patents, processing of business plan, etc.
- Typical scale of an investment: 10 th. EUR – 160 th. EUR
- ROI: approx. 7-12 years

• **START UP CAPITAL**

- initial capital
- Typical scale of an investment: 160 th. -800 th. EUR
- ROI: approx. 5-10 years

• **EARLY STAGE DEVELOPMENT CAPITAL**

- financing of already operating company with a potential to further development
- missing collateral for a bank loan
- Typical scale of an investment: approx. 400 th. - 1,6 mil EUR
- ROI: approx. 4-7 years



Types of venture capital

- **LATER STAGE DEVELOPMENT – EXPANSION CAPITAL**

- financing of well running company with an extra significant potential to expand
- Typical scale of an investment: 1- 6 mil EUR (even much higher)
- ROI: approx. 2-5 years

- **RESCUE CAPITAL**

- It is required to launch a growth (rescue) program together with the investment
- very often related with MBO or MBI

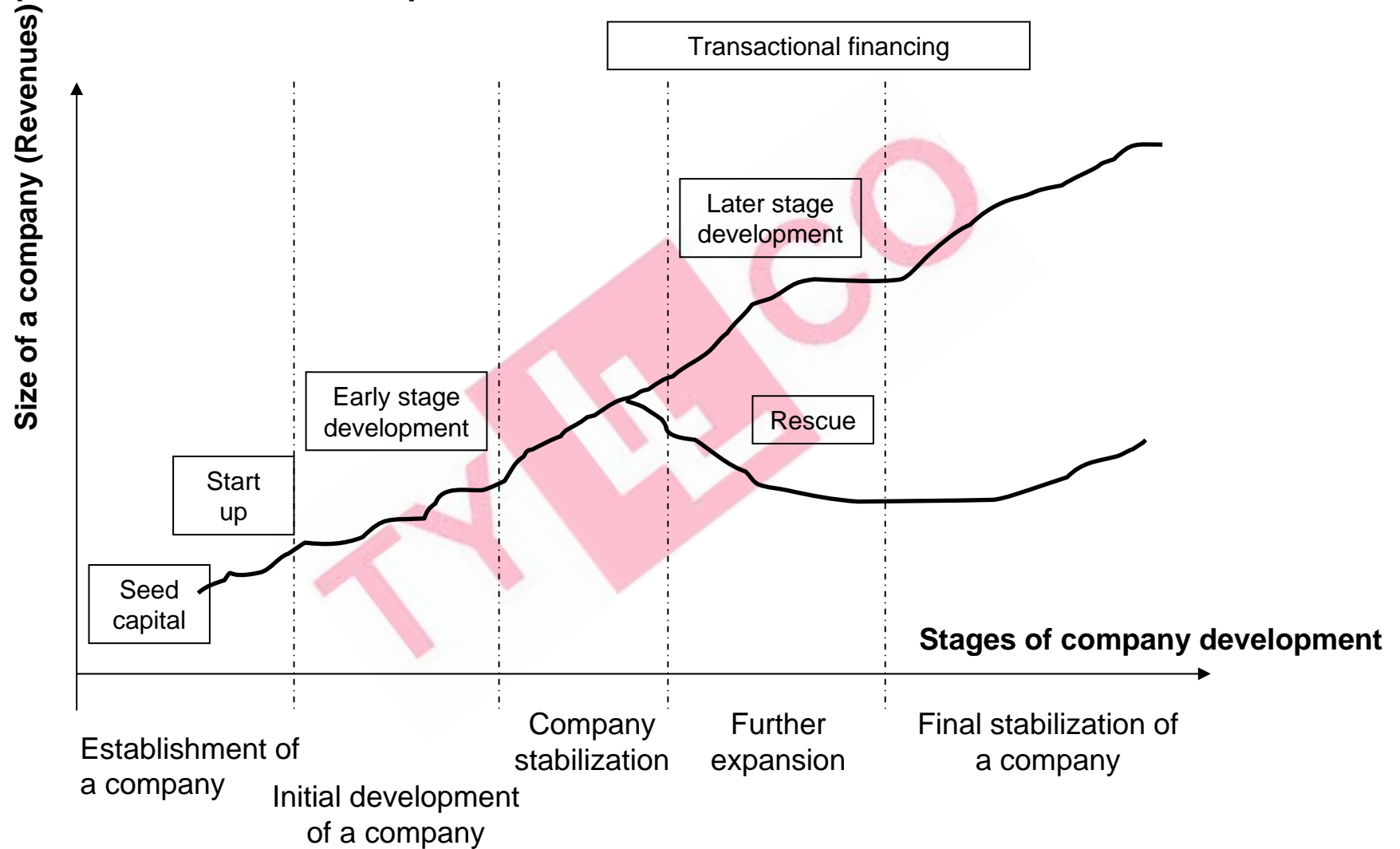
- **DEBT REPLACEMENT CAPITAL**

- replacement of debts by equity in the way of rising contributed equity

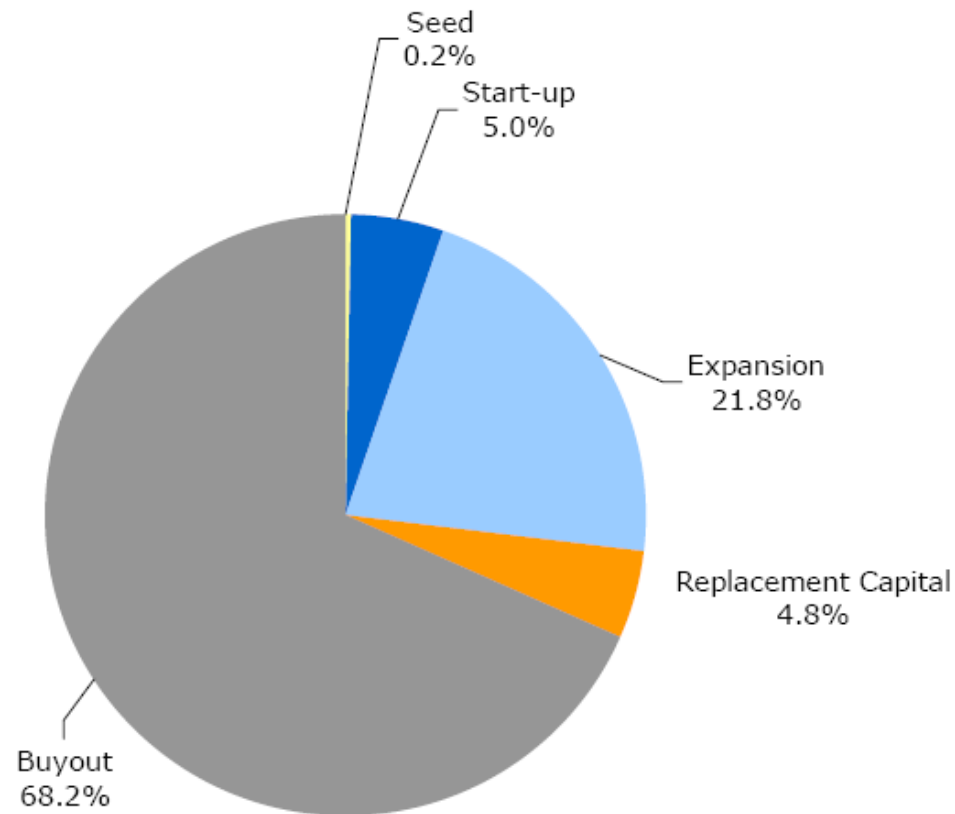
- **ACQUISITION CAPITAL**

- **MBO, MBI, BIMBO**

Types of venture capital

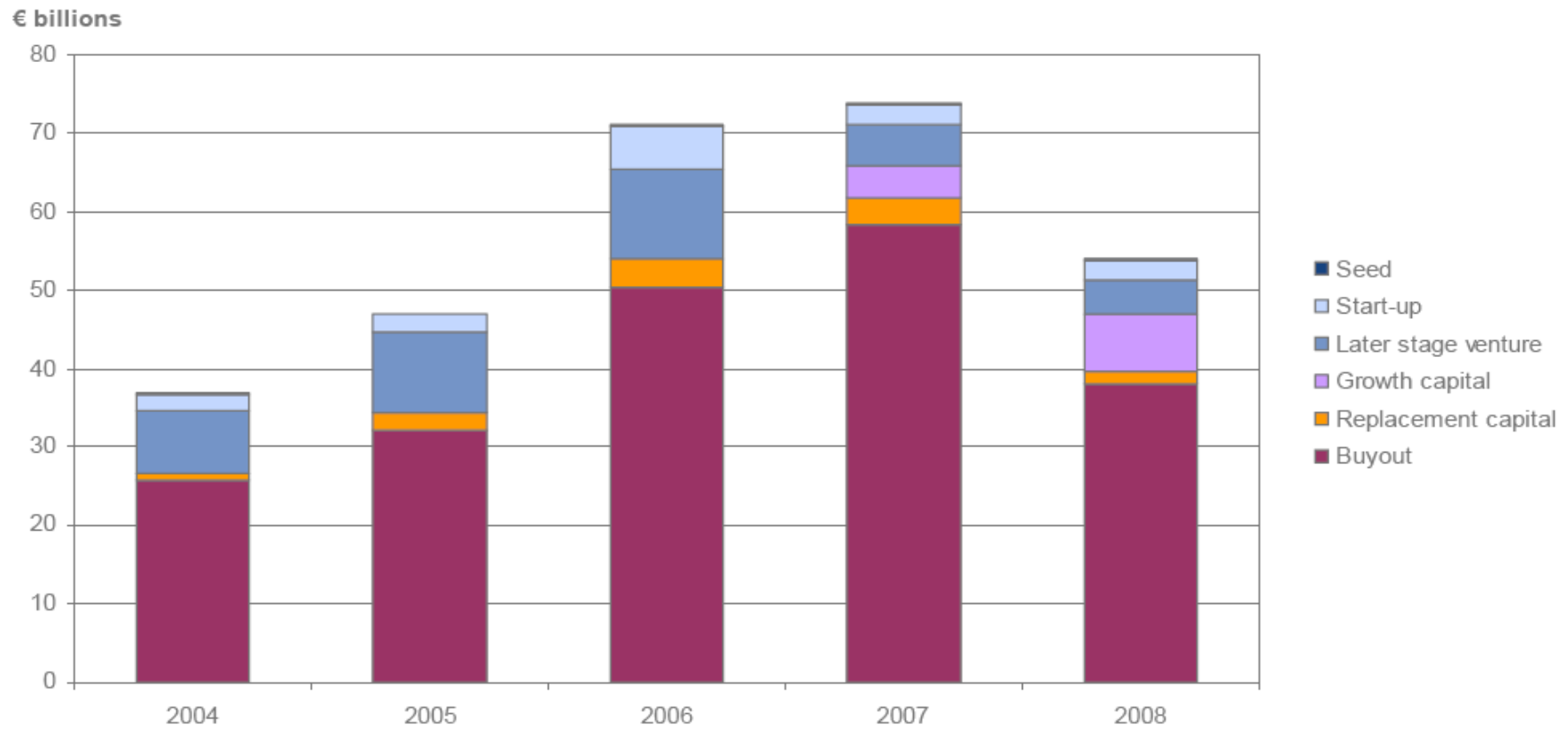


Venture capital investments according to stage of company development (invested value in 2005 in Europe)



Source: EVCA/Thomson Financial/PricewaterhouseCoopers

Venture capital investments according to stage of company development



Source: PEREP_Analytics for 2007 & 2008;
Thomson Reuters/PwC for previous years





Venture capital investors

- **Business angels**

- private individuals investing from their own capital

- **Independent investors**

- parties which created their funds from more than one source (capital from investment companies, pension funds, insurance companies, banks or private individuals)
- they are not legally connected with organizations provided them with capital

- **Dependent investors**

- venture capital specialists
- departments of larger organizations (banks, pension funds, etc.)

- **Semi dependent investors**

- dependent investors maintaining also funds established independently on their mother company

- **Government supported organizations**

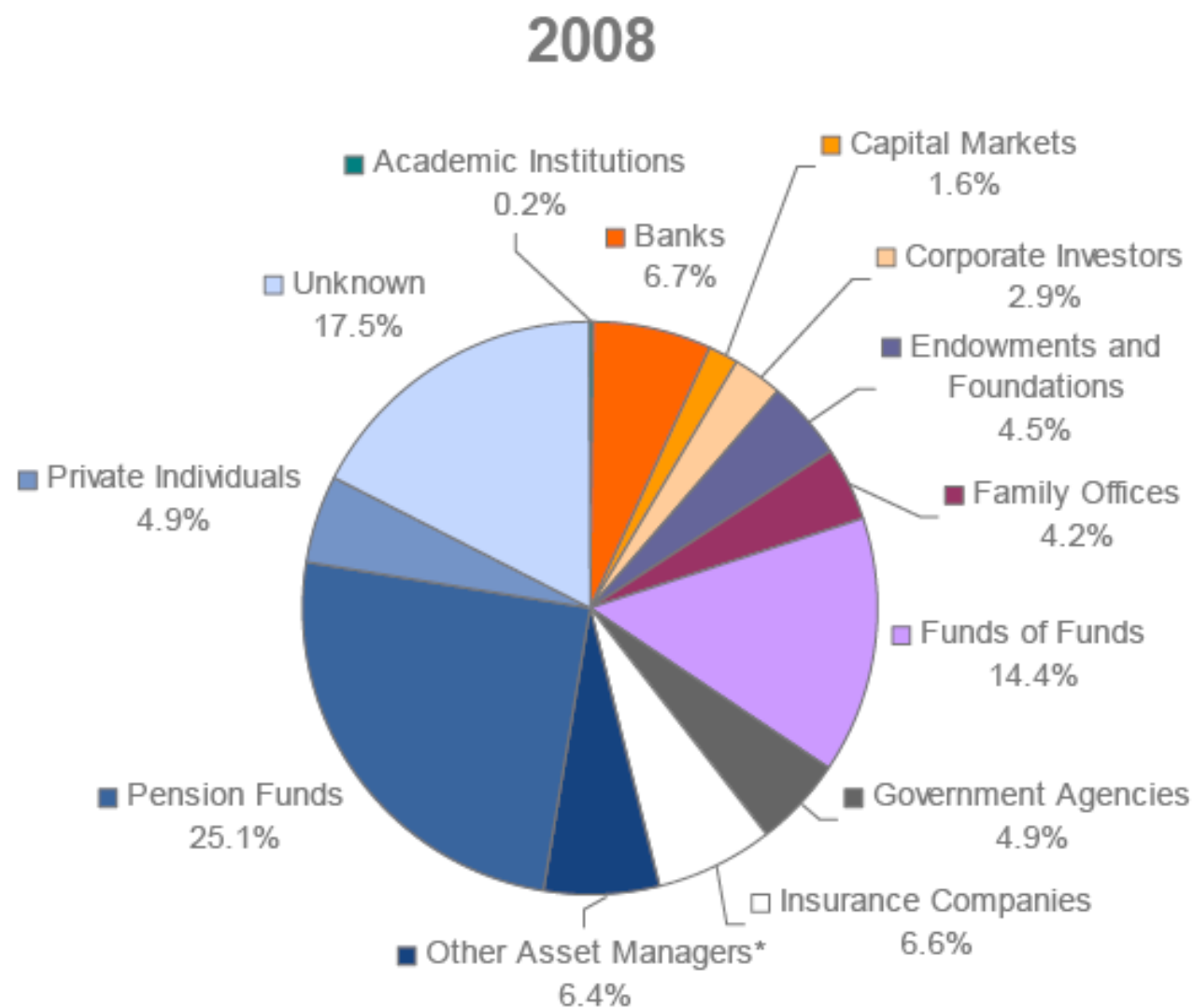


Esther Dyson

- according to Forbes she was ranked among 50 most powerful business woman in USA
- invests directly or via her own funds
- specializes in new technologies especially in IT
- prefers central and eastern Europe

Portfolio: Graphisoft, CV-online, CitySoft, asp1000, Orbitz, Trustworks, B2B centrum etc.

Investors in private equity in 2008 in Europe



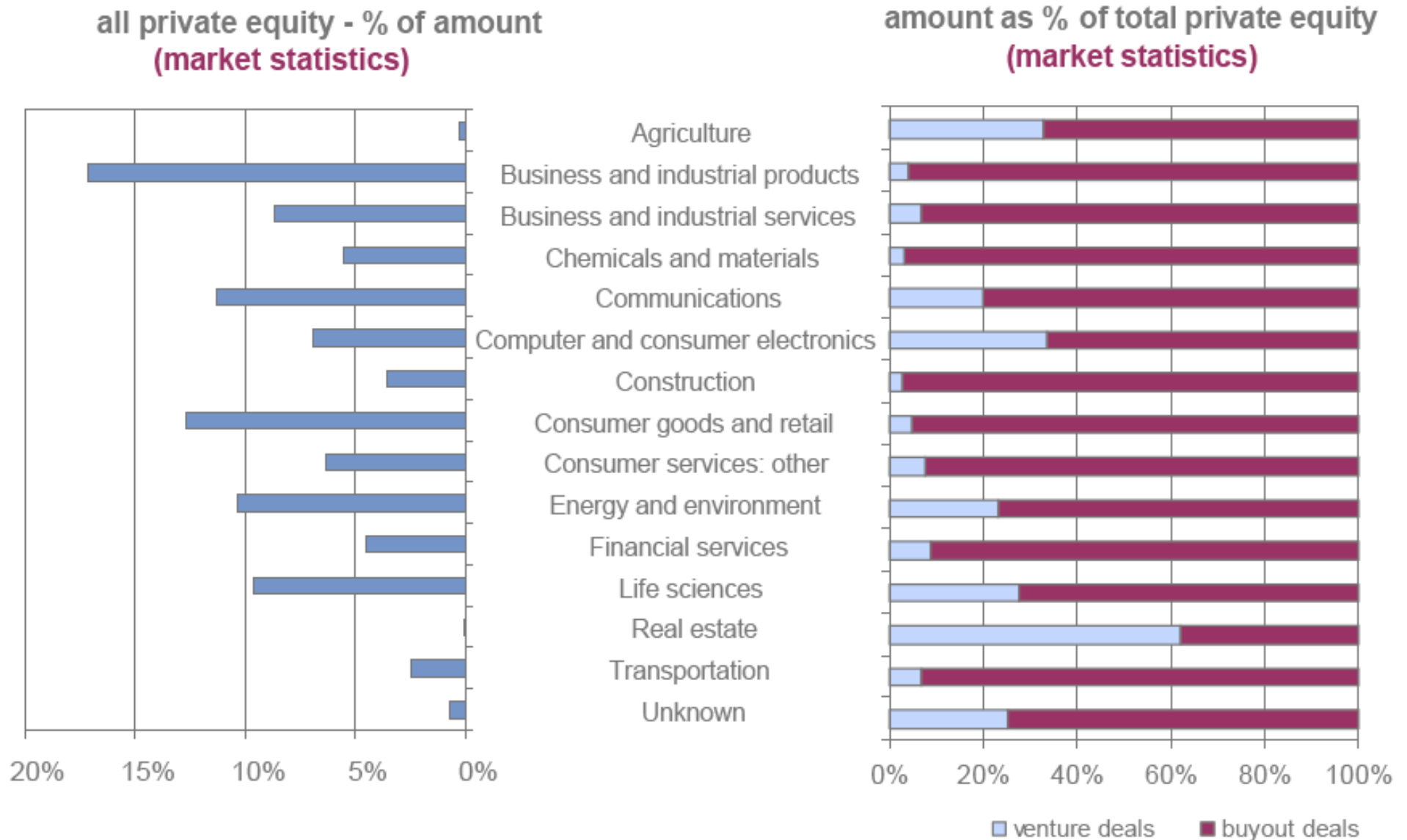


Venture capital investments by sector in Europe (thousands of EUR)

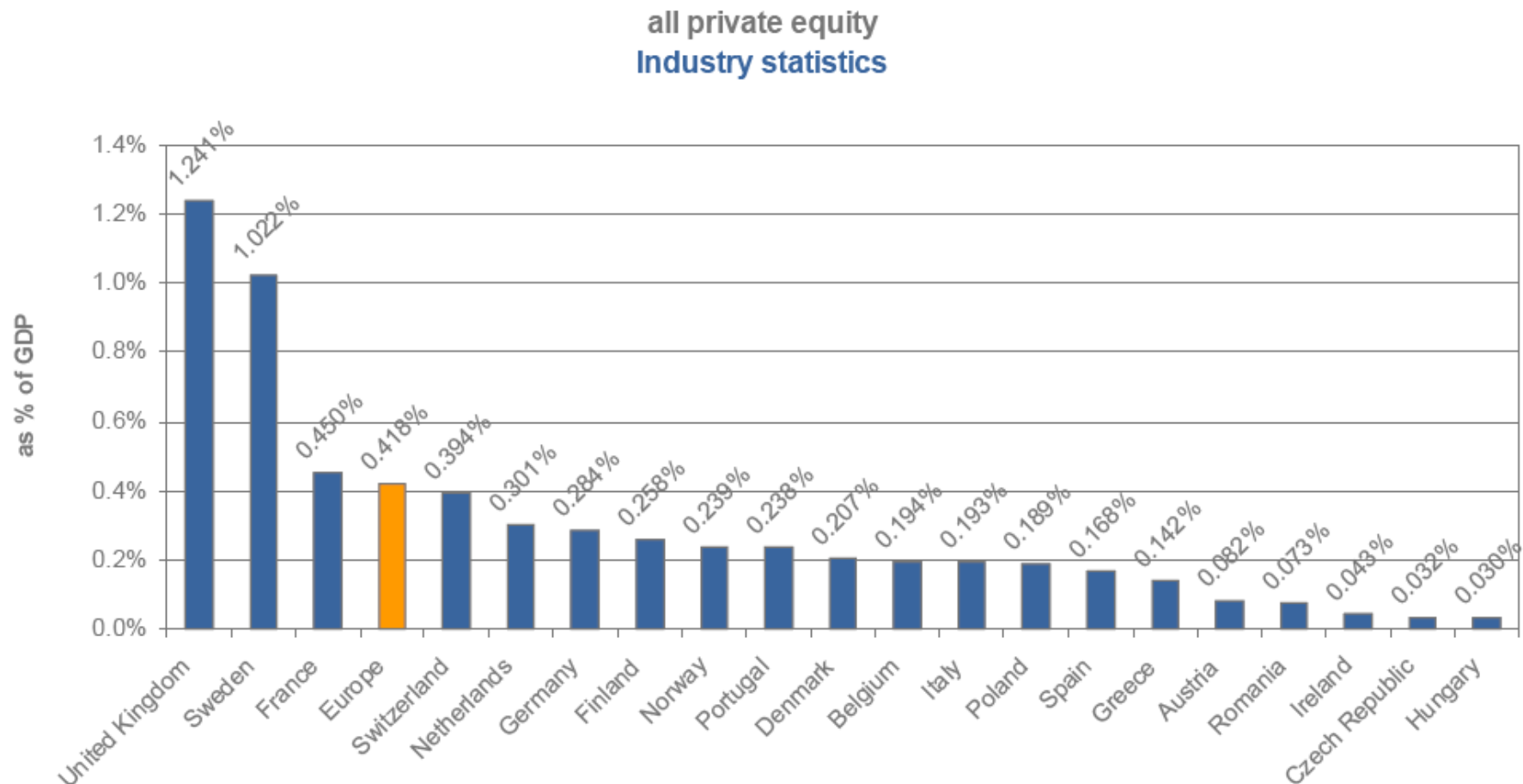
	2004	2005
Communications	4,924,434	7,247,098
Computer Related	2,350,597	2,438,522
Other Electronics Related	457,506	620,138
Biotechnology	686,617	868,257
Medical/Health Related	2,801,209	3,498,191
Energy	677,844	961,458
Consumer Related	8,546,600	12,951,032
Industrial Products and Services	1,949,670	4,163,936
Chemicals and Materials	1,003,508	911,712
Industrial Automation	219,350	1,171,586
Other Manufacturing	2,623,866	2,885,462
Transportation	892,870	1,012,650
Financial Services	1,524,058	1,619,966
Other Services	5,070,747	2,563,432
Agriculture	140,358	160,999
Construction	816,928	1,446,223
Other	2,233,603	2,479,751
Total Investment	36,919,765	47,000,415

Source: EVCA/Thomson Financial/PricewaterhouseCoopers

Venture capital investments by sector in Europe in 2008

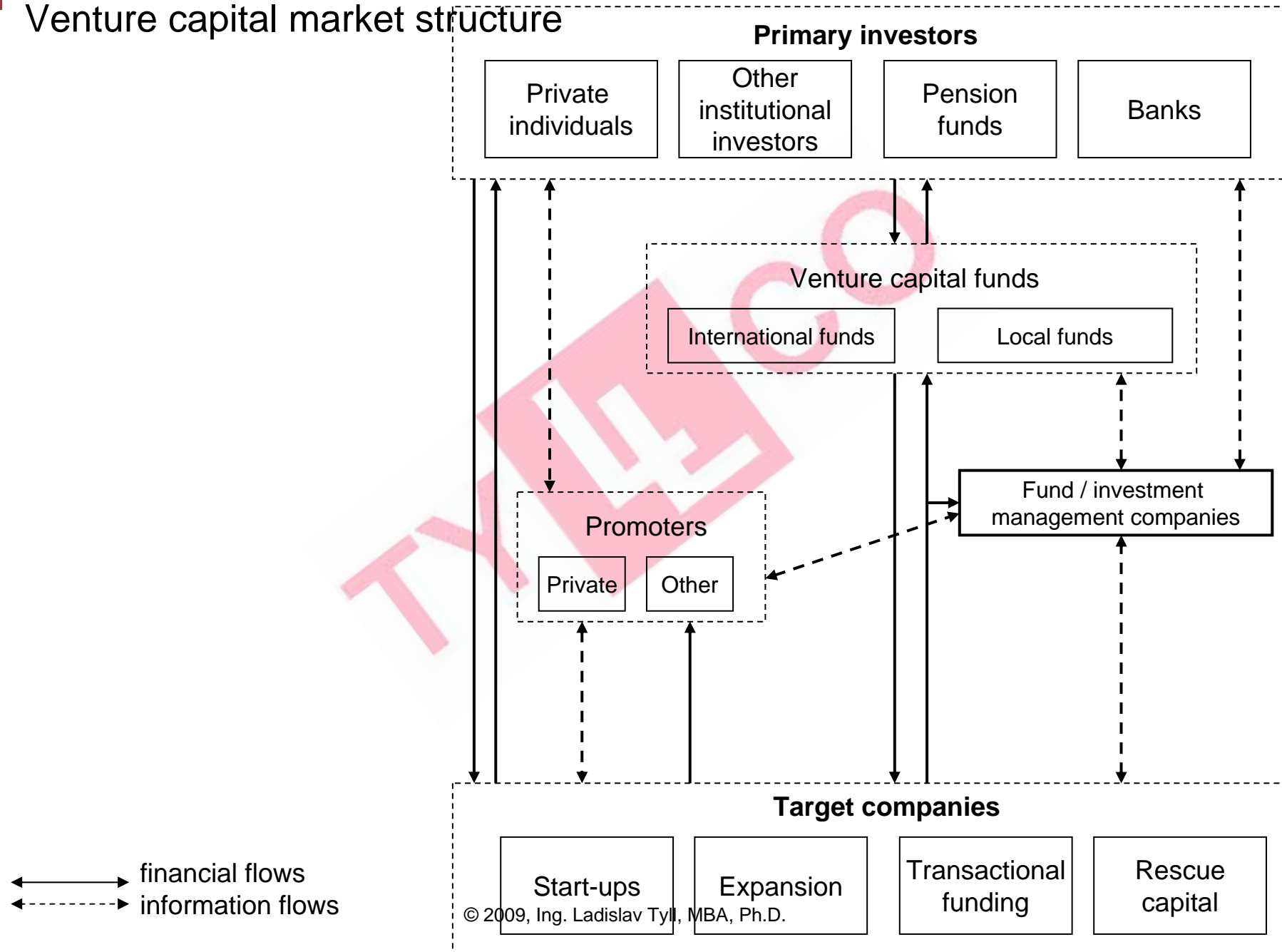


Venture capital investments as % of GDP in 2008



Source: PEREP_Analytics

Venture capital market structure





Venture capital from client's point of view

When to apply for venture capital investment

How to apply for venture capital investment

How to cooperate with investment managers

How to prevent and handle crisis situations

How to part on (well) with investment managers





Venture capital from client's point of view

When to apply for venture capital investment



Bank loan

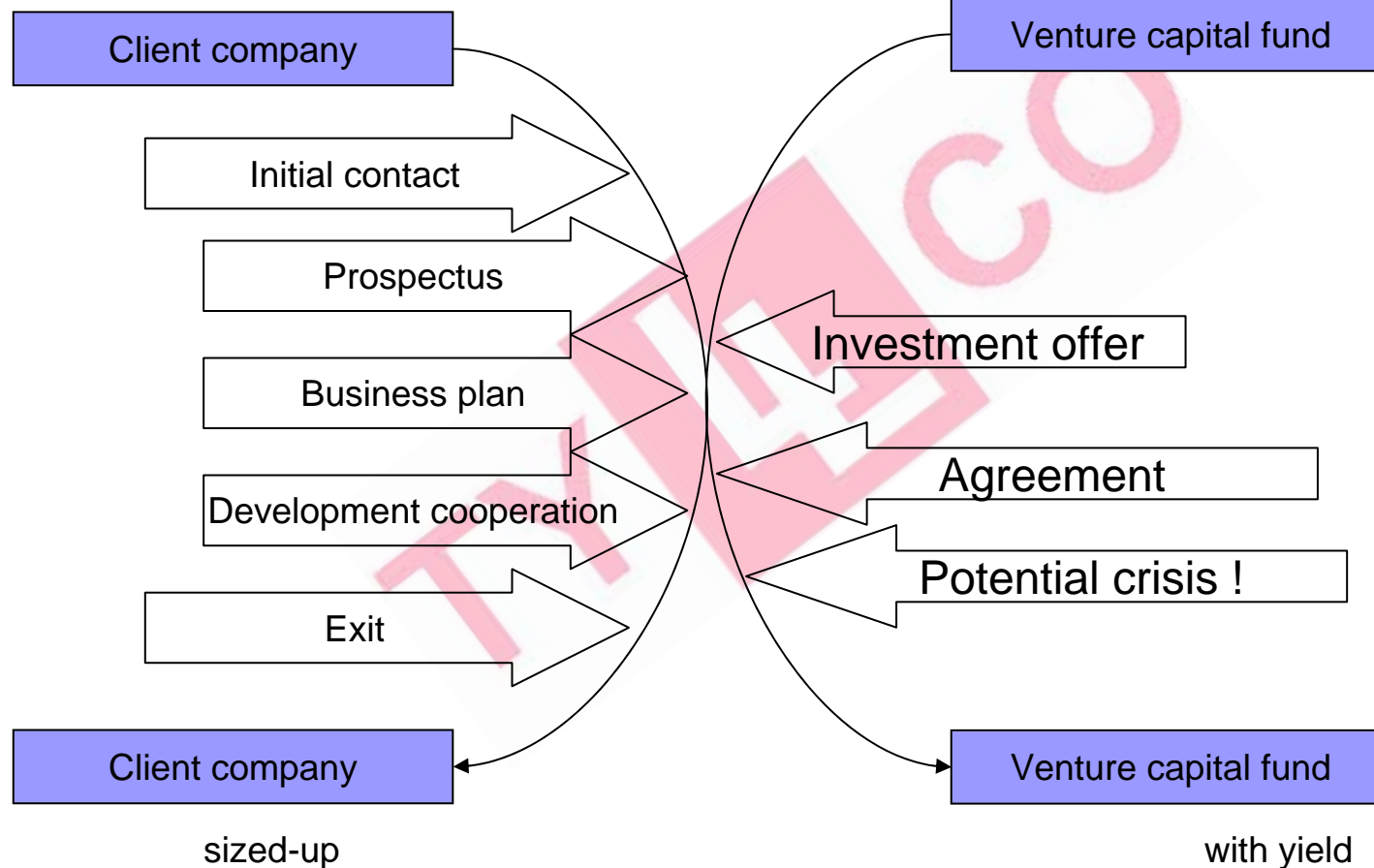
- external financial source
- payments according to schedule
- costs = interests
- obligatory collateral
- interests can have a negative impact on company development
- no change in ownership structure
- loan provider usually does not infringe into strategic management of the company
- loan provider does not bring any other benefits to the company
- different terms: SR, LR...

Venture capital

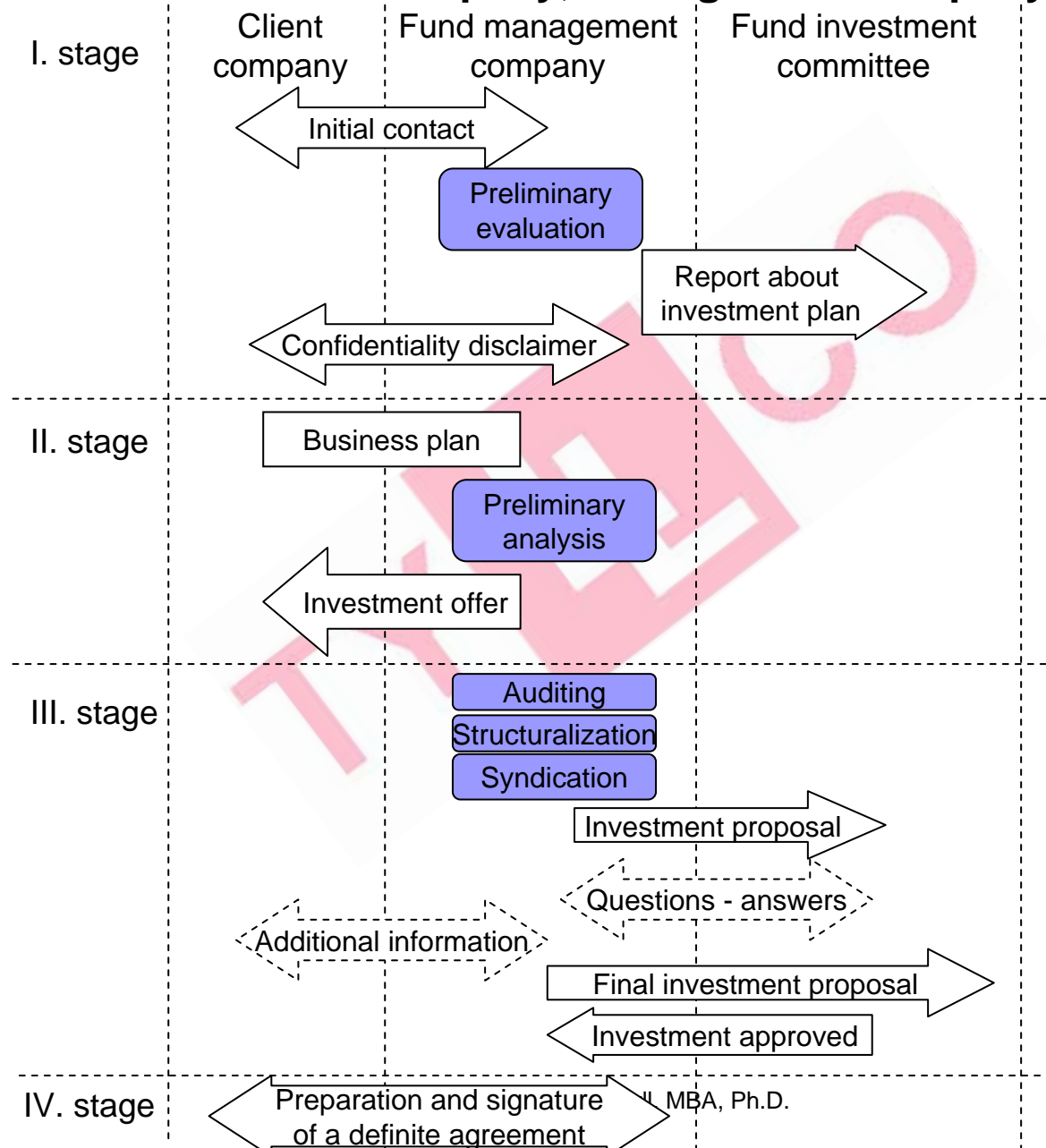
- strengthens private equity of the company
- VC provider carries its yield usually after the sale of its share
- no collateral required
- **significant change of the ownership structure**
- investor becomes a shareholder, i.e. participates in strategic management
- investor could bring also his/her experience know-how, information, contacts
- investor could help gaining a loan in the next stage of company development
- more likely long term investment

Venture capital from client's point of view

How to apply for venture capital investment



Interaction between client company, management company and investor





Venture capital from client's point of view

How to cooperate with investment managers ?

Monitoring tools:

- Right of veto – additional sources of financing, M&A decisions, sale, liquidation, decisions about loans, leasing etc.
- Right of an inspection – possibility to inspect company documents any time
- Right to vote and select top management members
- Providing funds in several stages
- „Antidilution terms“ – provisions preventing dilution of investor's stake
- Information – the right to be regularly provided by financial statements, book closings etc.



Venture capital from client's point of view

How to prevent and handle crisis situations



Crisis because of unsatisfactory economy conditions:

- unexpected market development – downturn of demand
- unexpected enter of new competition
- disruption of management team
- technology problems leading to decrease of production
- unexpected loss/failure of approved suppliers
- legislation changes
- change of input prices
- brake downs, strikes etc.



create a system of crisis indicators

Crisis caused due to a bad communication between company management and investor representative.



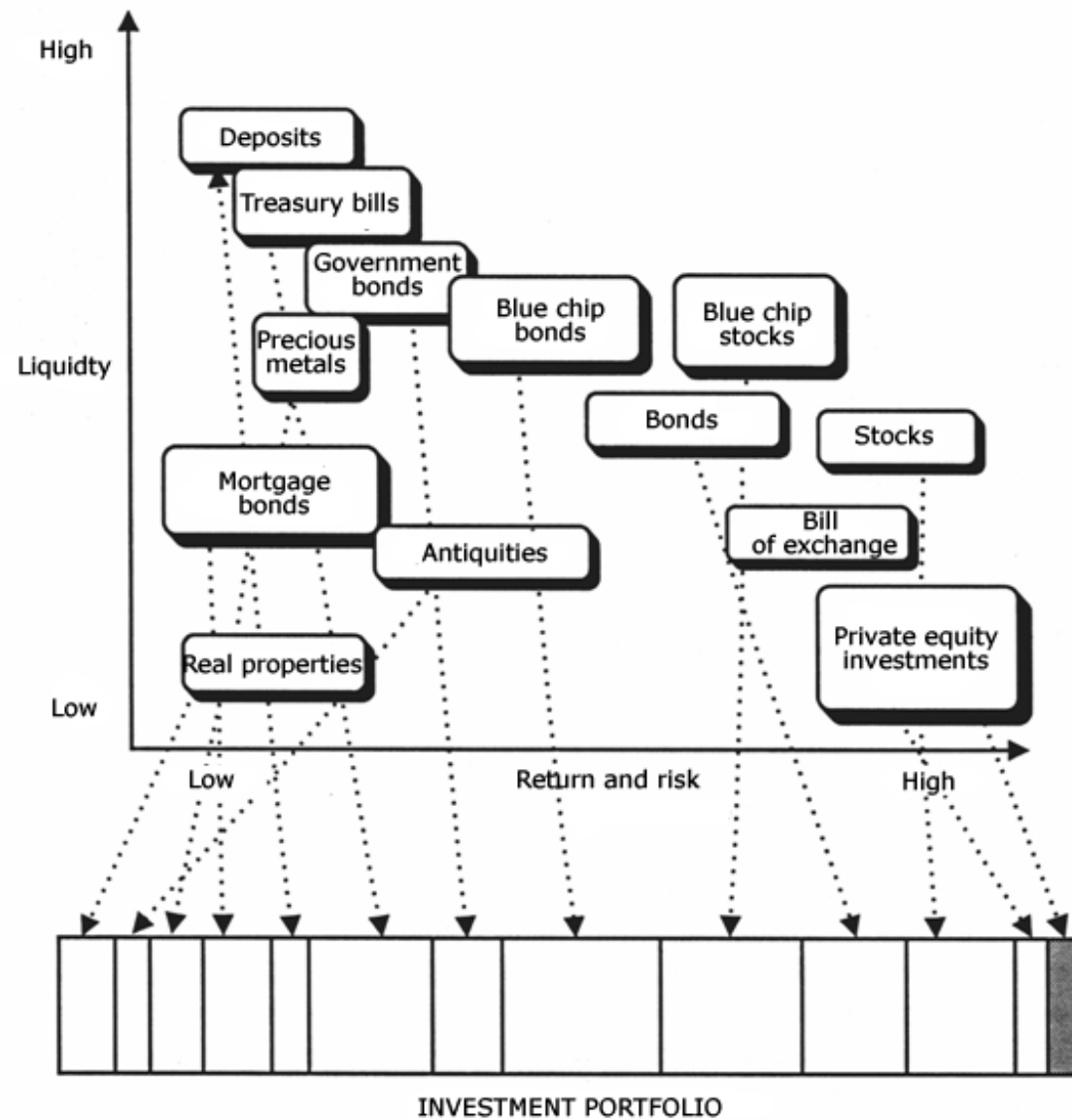
Venture capital from client's point of view

How to part on (well) with investment managers



- Buy back of shares by the company management
- Entering the company to the Exchange
- Sale of shares to strategic partner

Investment decision





www.evca.com

www.cvca.cz

www.bacz.cz

