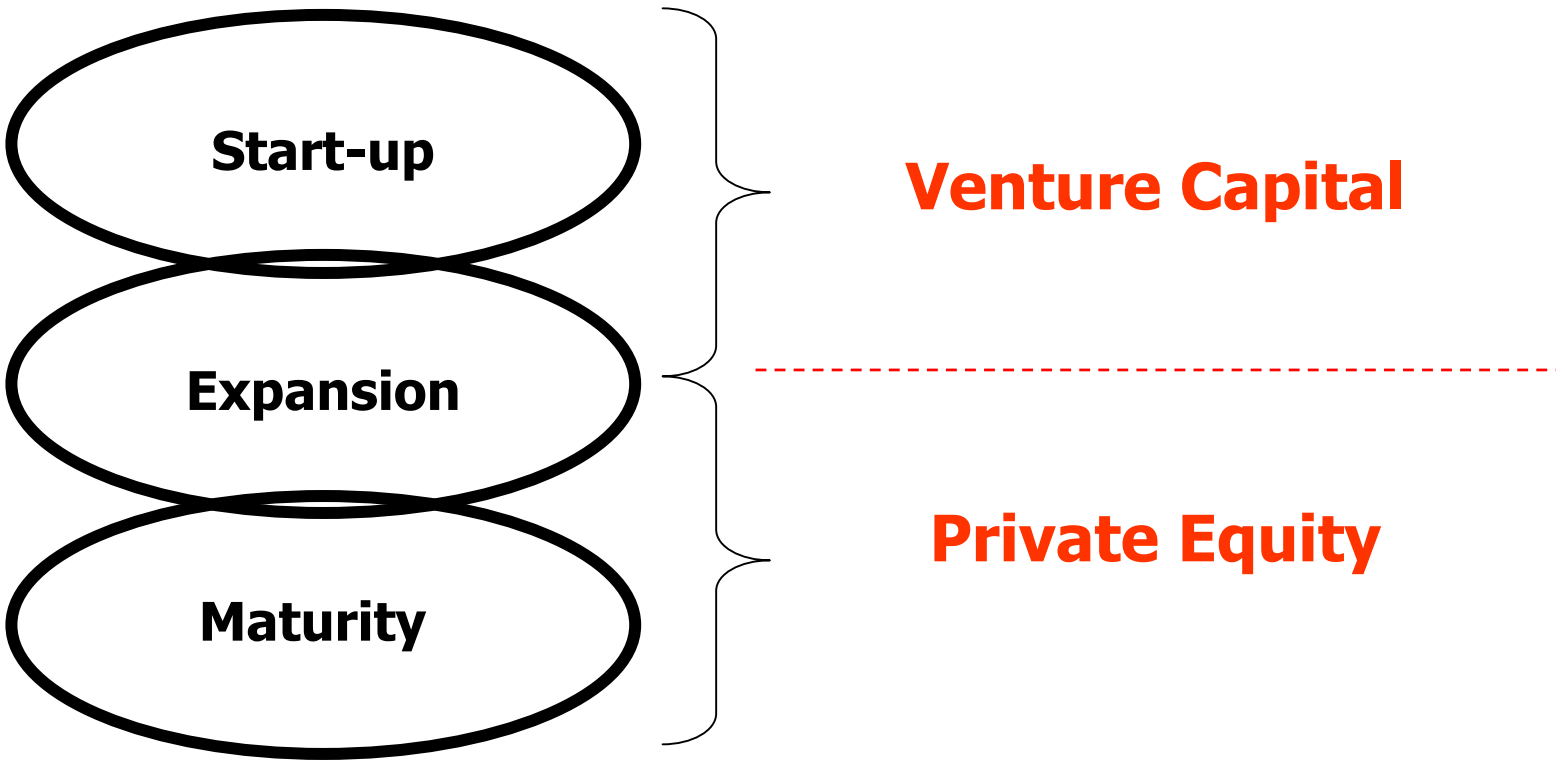
Private Equity and Venture Capital

Private Equity & Venture Capital

- Private Equity and Venture Capitalist are equity-oriented investors who also provide management expertise to the acquired comapany
  - venture capital -- financing of new and young bisiness
  - private equity -- financing already developed business

Stage of investment



Type of investment

- Early Stage Financing
- Expansion Financing
- Replacement Capital
- Turnaround Financing
- Cluster Venture
- Buy Out

Early Stage Financing

Financing of new and young business

Seed Financing → Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase

Start-up Financing → Financing provided to companies for product development and initial marketing. Companies mey have been in business for a short time, but have not sold their product commercially

First Stage Financing → Financing to companies that have completed product development stage and require further funds to initiate commercial manufacturing and sales

Expansion Financing

Financing of existing and developed business

Second Stage Financing → Financing is used for initial expansion of a comapny that is already been producing and selling a product

Third Stage Financing → Financing is provided to fund major expansion such as plant expansion, product improvement or marketing

Bridge Financing → Financing made avalaible to a company in the period of transition from being privately owned to being publicly quoted

Other type of investments

Financing of mature/fully developed business

Replacement capital	Purchase of existing shares in a company from another private equity investment organization or from another shareholder
Turnaround financing	Financing made avalaible to existing business which have experienced trading difficulties, with a view to re-establishing prosperity
Cluster Venture	Financing provided to different indipendent companies that can be integrated vertically or horizontally

Buy Out

Acquisition of mature/fully developed business

Management Buy Out	Financing to enable current operating management and investors to acquire an existing company
Management Buy In	Financing to enable a manager or a group of managers from outside the comapany to buy in the company with the support of private equity investors
Leverage Buy Out	A management buy out or buy in financed with the use of leverage

Investment process

Deal flow

Selection

Due diligence

Negotiation/Investment

Monitoring

Exit

Exit

- Initial Public Offering -- the company is sold through the quotation of the company itself
- Trade sale -- the company is sold through a private negotiation:
  - sale to new shareholders, financial or non financial investors
  - merger with another comapny.
- Buy-back -- the stockholding of the private equity investor is sold to the majority shareholder or to the mangement of the company
- Write-off -- the value of the investment is brought down to zero

Initial Public Offering

Advantages & disadavantages of going public

Going public is one of the most important decision in the life of a company. To be a public company involves

- Advantages
- Disadvantages

But going public still remains a milestone for a growing company

Advantages of going public

- Lower cost of capital
- Personal wealth
- Company prestige
- Enhanced compatitive position
- Enhanced ability to grow through acquisitions
- Enhanced ability to borrow without guarantees
- Enhanced ability to rise equity
- Attracting key managers

Disadvantages of going public

- Cost of going public
- Market pressure to mantain growth pattern
- Disclosure of information
- Loss of control
- Shareholders lawsuits
- Company valuation depending on market trend

10 IPO Success factors

- Winning IPOs address a significant market opportunity
- The IPO should be a first mover or a category killer
- The product or service must be superior
- The IPO needs to have e reasonable size, given its market and competitor
- The management of the comany should have relevant backgrounds and be up to the task

10 IPO Success factors (concl.)

- Barriers to entry should be high
- A focused company is more likely to be successful company
- To rach a high valuation, a growth company must have sustainable growth
- Strong brand identity is a necessity in both costumer and business market
- Having a low cost structure allows an IPO to survive the expected pricing and comptetitive pressure as its market develops