

# The Risk Capital Project Definitions

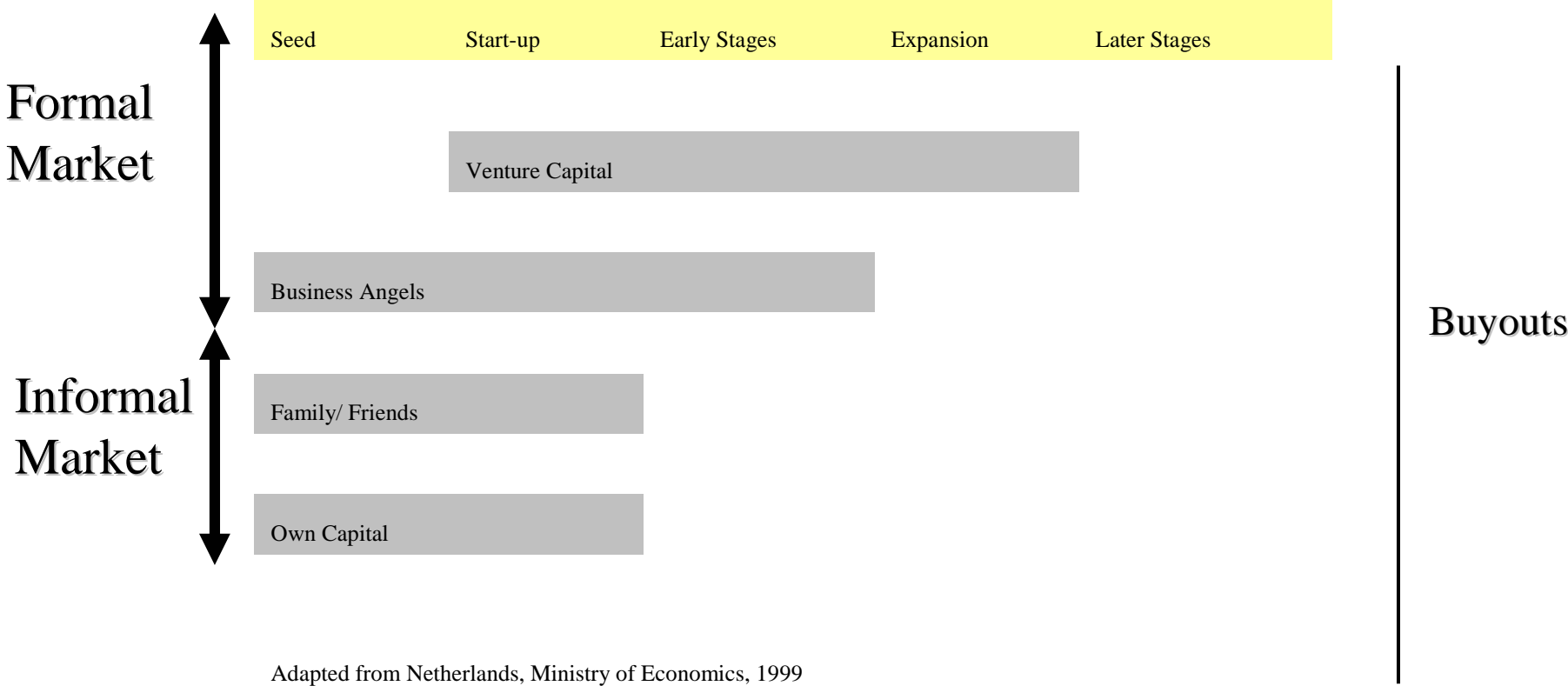
**The International Consortium on Entrepreneurship (ICE)  
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# The Risk Capital Definition

- Risk capital definition for this project (ICE):
  - Equity only (not debt or quasi equity)
  - Public and private money
  - Formal and informal sources capital:
    - Friends and family
    - Venture Capital (not buyout)
    - Business Angels
  
- Note: Term not commonly used within the industry

# Formal and Informal Risk Capital Market





# Sources of Data

- Focus on ICE countries
- Industry Sources
  - National Venture Capital Associations
  - Business Angel Associations
- Data Sources (Industry Data and Research Providers)
  - Thomson Financial (Venture Economics)
  - PriceWaterhouseCoopers
  - Kauffman Foundation
- International Organisations
  - Investors in Private Equity ( EBRD, EIF)
  - Data users (OECD, IMF, WB)
- Academics

# Industry Segments

	Formal Risk Capital Market			Informal Risk Capital Market
	Private Equity	Buyouts	Venture Capital	Business Angels
US National Venture Capital Association	All venture investing (includes buyouts, funds of funds and quasi equity instruments ) quoted and not quoted companies	Combination of borrowed funds, target company's asset as collateral	Equity financing ranging from seed to pre-IPO (does not include buyouts)	Mentor companies to provide capital and expertise.
European Venture Capital Association	Equity capital to not quoted companies, can be used at all stages (includes buyouts)	Funds whose strategy is to acquire other businesses, includes mezzanine	Equity financing in seed, start-up and expansion stages.	Private investor who invest finance and business expertise
Canadian Venture Capital Association	All forms of equity and quasi-equity investments for not quoted companies	Investment in established private or public firms that are undergoing structural changes.	Equity investment in early stages	"Informal investor" typically investing at early stages.
British Venture Capital Association	Generic term for equity investing, includes VC and buyouts	Purchase of a firm by a limited partner, new management will be given a small stake of the business.	Strong orientation towards later stages.	Operate in different segments than venture capitalists considered too risky
European Business Angel Networks	Ownership in the company represented by shares of common preferred stock		Equity financing from seed to later stages	Private investor who invest finance and business expertise

# Venture Capital Investment Stages

	Seed	Start-up	Early Stages	Expansion	Later Stages
US National Venture Capital Association	<ul style="list-style-type: none"> <li>• Management Team</li> <li>• Business Plan</li> <li>• Prototype (R&amp;D)</li> </ul>		<ul style="list-style-type: none"> <li>• Senior Management team</li> <li>• Completed R&amp;D</li> <li>• Min. revenues</li> <li>• Negative cash flows</li> </ul>		<ul style="list-style-type: none"> <li>• Viable products</li> <li>• Market</li> <li>• Customers</li> <li>• Revenues</li> <li>• Positive cash flows</li> </ul>
European Venture Capital Association	<ul style="list-style-type: none"> <li>• R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Marketing</li> <li>• Business set up</li> <li>• No commercial activity</li> </ul>	<ul style="list-style-type: none"> <li>• Completed R&amp;D</li> <li>• Manufacturing and sales</li> <li>• No profit</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in production capacity</li> <li>• Increase R&amp;D and marketing</li> <li>• Break even or profit</li> </ul>	
Canadian Venture Capital Association	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• No commercial activity</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Marketing</li> <li>• Business set up</li> <li>• No commercial activity</li> </ul>	<ul style="list-style-type: none"> <li>• Completed R&amp;D</li> <li>• Manufacturing and sales</li> <li>• No profit</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in production capacity</li> <li>• Increase R&amp;D and marketing</li> <li>• Break even or profit</li> </ul>	
British Venture Capital Association	<ul style="list-style-type: none"> <li>• Business Plan</li> <li>• Prototype (R&amp;D)</li> <li>• Prior to market</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Business set up</li> <li>• No commercial activity</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacturing and Sales</li> <li>• Completed R&amp;D</li> <li>• Profit or not</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in production capacity</li> <li>• Increase R&amp;D and marketing</li> </ul>	
European Business Angel Networks	<ul style="list-style-type: none"> <li>• R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Marketing</li> <li>• Business set up</li> <li>• No commercial activity</li> </ul>	<ul style="list-style-type: none"> <li>• Completed R&amp;D</li> <li>• Manufacturing and sales</li> <li>• No profit</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in production capacity</li> <li>• Increase R&amp;D and marketing</li> <li>• Break even or profit</li> </ul>	

# Types of Exits

<b>Exits/ Divestment</b>	Private equity investors generally get their principal return on investment via a capital gain or sale or flotation. While an IPO may be the most glamorous type of exist, venture capitalists and owners, most successful exits of venture investment occur through a M&A
<b>IPO</b>	Initial Public Offering, “flotation”, “float”, “going public”, “listing” are just some of the terms used when a company obtains a quotation on a stock market. Stock markets include the Official List of the London Stock Exchange (where around 40% of trading company flotations are venture backed), the Alternative Investment Market (AIM), NASDAQ Europe, NASDAQ (USA) and other overseas exchanges
<b>Trade Sale/M&amp;A</b>	The venture firm receives stock or cash from acquiring company and the venture investor will distribute the proceed from the sale to its limited partner;
<b>Write-off</b>	Reduction in the value of an investment
<b>Secondaries</b>	When a private equity firm acquires existing shares in a company from another private equity firm or from another shareholder or shareholders.



# Conclusions

- More similarities between definitions
- Some terms are used interchangeably within the industry (industry segments and investment stages)
- Risk capital term: A neutral term?
- Theoretical and practical approach