



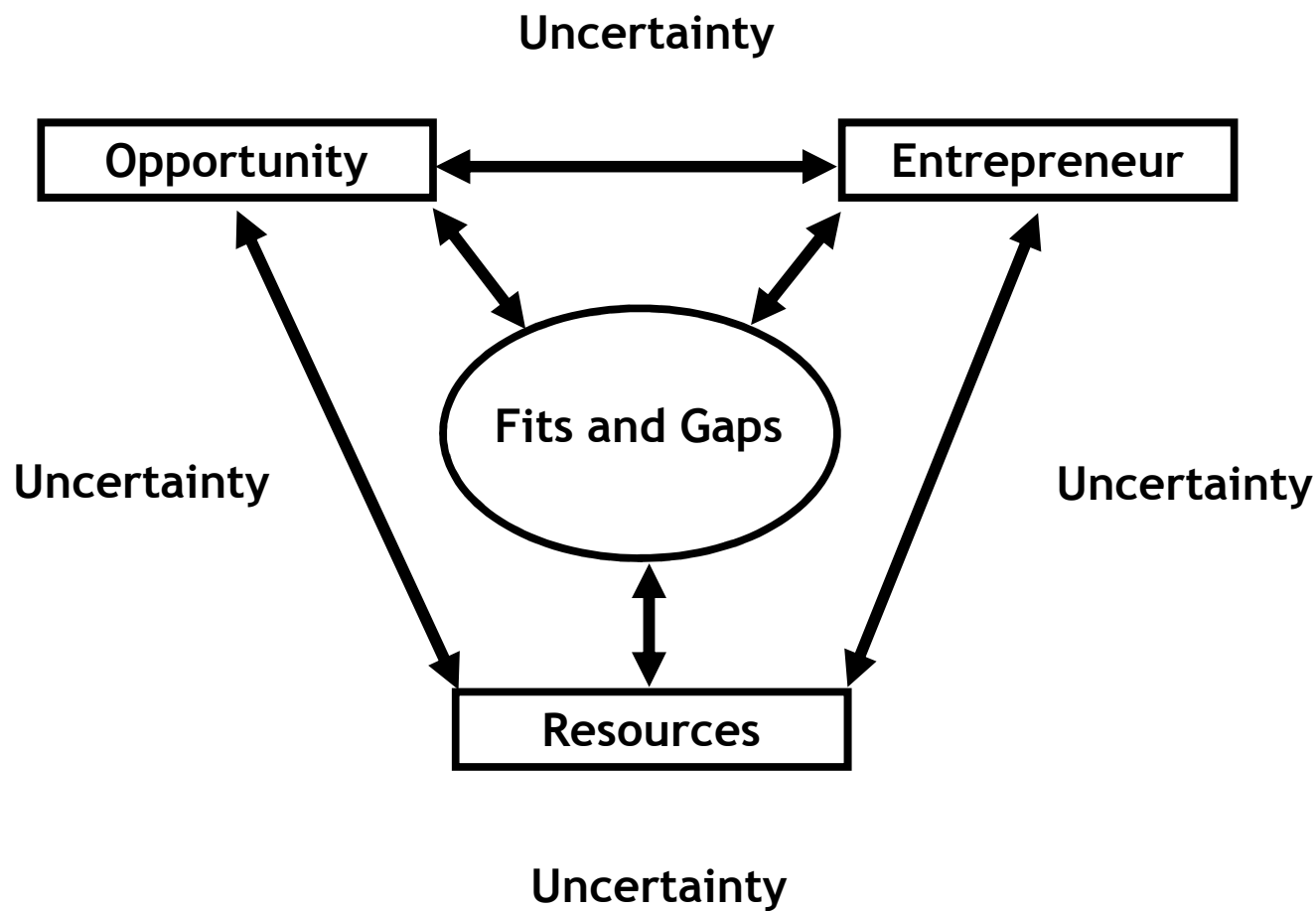
NEW VENTURE FINANCE: CHOOSE WISELY

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Three Driving Forces of Entrepreneurship



Source: Timmons Jeffrey A., *New Venture Creation*, London: McGraw-Hill, 2007



Failure Risk of New Ventures

- Starting a new venture entails a significant risk of failure
 - 24% of new ventures failed within two years of inception
 - 52% of new ventures failed within four years of inception
 - 63% of new ventures failed within six years of inception

**Economic/financial factors found to be primary causes of failure
highlighting the importance of
Entrepreneurial Finance**

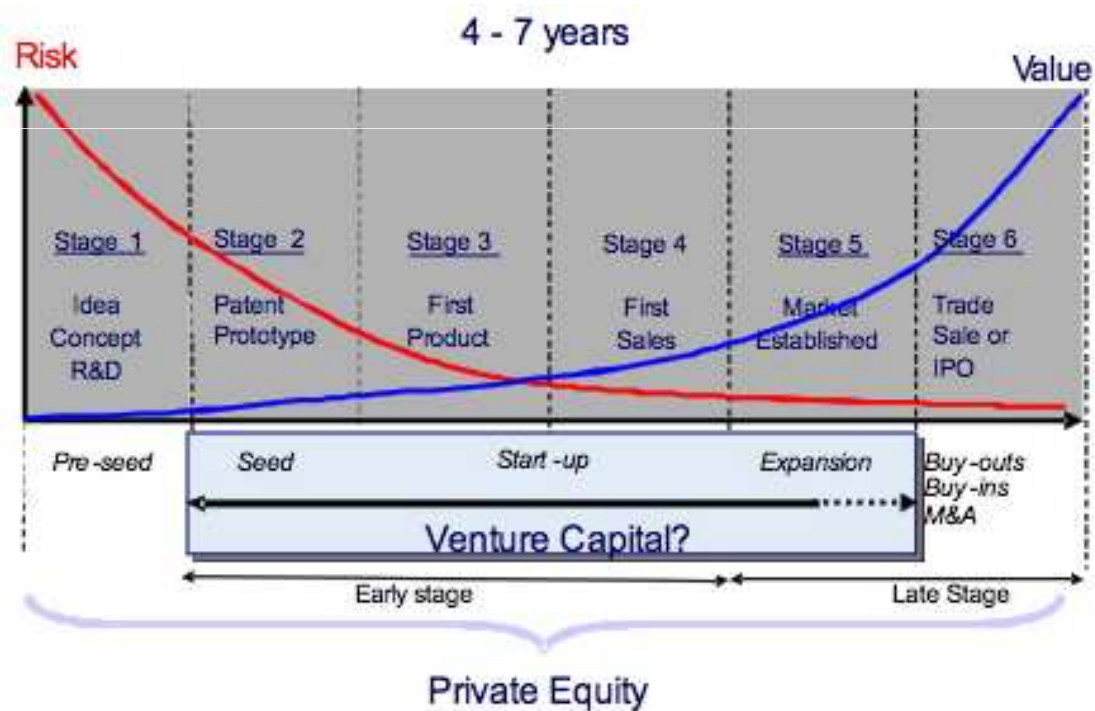


Stages of New Venture Development

- Development/seed stage
 - Idea or concept stage
- Start-up
 - Product development and initial marketing
- Early growth
 - Expansion producing/delivering products/services
- Rapid growth or Expansion
 - Products/services commercially available in volume
- Exit
 - Products/services widely available



The Life of a New Venture





Sequence of New Venture Financing

- Bootstrapping
- Seed financing
- R&D financing
- Start-up financing
- First-stage financing
- Second-stage financing
- Third-stage financing
- Mezzanine financing
- Bridge financing
- LBO, MBO, IPO



Sources of New Venture Financing

- Self, friends, and family
- Business angels
- Venture capital investors
- Trade credit and factoring
- Asset-based lending
- Mezzanine capital
- Private placements of equity (relational investors)
- IPOs
- Public debt



Types of Financing

Type of Financing	Amount Raised (£000)
Entrepreneur Personal Funds	5-50+
Personal credit card and loans	5-30+
“Friends and Family”	25-100+
Angel Investors	100-500+
Venture Leasing	500-2,000
Corporate Direct Investment	2,500-5,000
<i>Venture Capital</i>	500-25,000
<i>Private Equity</i>	
Mezzanine Financing	10,000-25,000
Buyout/Acquisition Financing	10,000-200,000+
<i>Exit</i>	
Merger and Acquisition	10,000-100,000+
Initial Public Offering	25,000-100,000+
<i>Post-Exit</i>	
Secondary/Follow-on Public Offering	25,000-100,000+
Private Placements - Debt & Equity	10,000-100,000+
Corporate Debt	10,000-100,000+

Adapted from Horvath (2001)



UK Investment by Financing Stage (BVCA)

Financing Stage	Number of companies			% of companies			Amount invested (£m)			% of amount invested		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
Seed	49	39	37	6	4	4	23	10	14	-	-	-
Start-up	62	65	57	7	7	7	47	46	125	1	1	3
Early Stage	227	219	191	26	24	22	163	168	164	2	2	3
Later stage VC	67	74	80	8	8	9	115	89	151	2	1	3
Total Venture Capital	405	397	365	46	44	43	347	313	454	5	4	9
Expansion/Growth Capital	307	328	296	35	36	35	1,651	1,651	1,055	25	20	22
Bridge Financing	10	6	21	1	1	2	6	2	15	-	-	-
Total Expansion	317	334	317	36	37	37	1,657	1,653	1,070	25	20	22
Replacement Capital	14	11	6	2	1	1	116	20	19	2	-	-
Secondary Buyout	18	19	6	2	2	1	1,126	924	148	17	11	3
PIPE	3	0	2	-	0	-	43	0	8	1	0	-
Refinancing Bank Debt		10	14		1	2		43	312		1	7
Total Replacement Capital	35	40	28	4	4	3	1,285	987	486	20	12	10
Management buyout (MBO)	79	94	63	9	10	7	2,849	4,713	1,729	44	57	36
Management buy-in (MBI)	11	9	8	1	1	1	102	39	22	2	-	-
Total MBO/MBI	90	103	71	10	11	8	2,950	4,752	1,751	45	58	37
Public to Private	2	3	3	0	-	-	156	327	78	2	4	2
Rescue/Turnaround	21	16	22	2	2	3	146	92	279	2	1	6
Other	7	7	51	1	1	6	3	113	671	-	1	14
Total Other Late Stage	30	26	76	3	3	9	304	533	1,029	5	6	21
Total	803	823	791	100	100	100	6,544	8,237	4,790	100	100	100



New Venture Financing Summary

Sources of New Venture Financing					
	Development	Start-up	Early Growth	Rapid Growth	Exit
Entrepreneur	Black	Gray			
Friends and Family	Black	Gray			
Angel Investors	Black	Black	Gray	Gray	
Strategic Partner	Black	Black	Black	Black	
Venture Capital	Gray	Black	Black	Black	
Asset-based Lender		Black	Black	Black	
Equipment Lessor		Black	Black	Black	
Trade Credit				Black	
Factor				Black	
Mezzanine Lender				Black	Black
Public Debt				Black	
IPO					Black
Acquisition, LBO,					Black

Black shading indicates primary focus of investor type. Gray shading indicates secondary focus, or focus of a subset of investors.



AND YOU CAN STAY THERE UNTIL YOU LEARN TO RESPECT YOUR VENTURE CAPITALIST BETTERS





How to Choose a VC Partner

Jason Green
Partner
Emergence Capital Partners

