**0. Intro.** **(1) Why EF:** Strategic planning, staging, valuation, deal structure, risk and diversification, choice of finan-cing, and exit decision have the potential to add tremendous value to ideas and innovations. **(2) What makes EF different from CF?** *Interdependence between investment and (external) financing decision.* CF: 投资和融资决策是独立的; EF: 某些投资决策取决于融资决策. *Diversifiable risk and investment value.* CF: major investors have low cost of capital; EF: founders have high cost of capital, E & VC may have different views on risk. *Managerial involve-ment of investors.* CF: 投资者基本不参与决策; EF: 投资者可获得内部信息并决策. *Information problems and contract design.* 信息不对称影响投资决策, 投资者迫切需要 VC 提供收益. *The importance of Real Options.* 实物期权无处不在. *Harvesting the investment.* CF 投资收益在于未来产生的 FCF, 而 EF 收益主要来自退出(上市或并购). *Value to the Entrepreneur.* CF-shareholder, EF- entrepreneur value max.

**1. New VC.** Public firms’ financing decision: Debt vs. Equity (tax, cost, bankruptcy risk). Startup firm financing decision: 投资者类别, 信息披露方式以及具体的融资形式. **(1) Venture Life Cycle.** *Pre-Seed Funding:* typically refers to when a company’s founders get their operations off the ground: founders, close friends, supporters, and family. *Seed Financing:* funds needed to determine whether the idea can be converted into a viable business opportunity. *Startup Financing:* funds needed to take the venture from having established a viable business opportunity to initial production and sales. *First/A Round Financing:* equity funds provided during the survival stage to cover the cash shortfall when expenses and investments exceed revenues. *Second/B Round Financing:* financing for ventures in their rapid-growth stage to support investments in working capital (用于市场扩张). *Mezzanine Financing:* funds for plant expansion, marketing expenditures, working capital, and product or service improvements (用于公司扩张). *Bridge Financing:* temporary financing needed to keep the venture afloat until the next offering. *Initial Public Offering:* a corporation’s first sale of common stock to the investing public. *Seasoned Securities Offering:* the offering of securities by a firm that has previously offered the same or substantially similar securities. **(2) Sources of New Venture Financing.** *Self, Friends, and Family.* Bootstrap financing: Does not depend on investor assessment of the merits of the opportunity or asserts of the venture. *Angel Investors.* High-net worth individuals. 高风险高回报. Better deal flow; Better information; Syndicate partner/follow-up. *Venture Capital.* LP: provides capitals. GP: investment decisions. Simple consideration of VC funding: Timing; VC’s expertise; Geographic areas; Investment horizon and objectives (VC funds seek equity or equity-like returns, and the finite life of the fund). *Asset-Based Lenders.* Secured lenders (担保贷款人). *Venture Leasing.* Leasing assets that are key to the operation of the venture (减少初始投资). *Corporate Venturing.* Seek to identify and exploit synergies between firm and the new venture. 可能是公司内部也可能是外部VC子公司的形式, 内可实现创新外可获得收益. *Trade Credit.* 供货商和销售之间应付账款和应收帐款的差. *Factoring.* A factor is a specialist who buys account receivable and manages the collection activities. 保理商帮助收款. *Franchising.* 通过加盟许可收取加盟费是融资方式的一种. *Mezzanine Capital.* VC and PE offer this financing. 在净收入转正后的融资. 混合结构, 有股债还有次级债. *Debt.* 适用性强. *Private Placement.* 私人配售, 成本低. Any sale of equity or debt to a small number of investors by means other than a public offering. *IPO.* Why do firms go public & trade-offs. Good: Expansion with massive financing; Better accessibility to financial market; Increase of stock liquidity; Bad: Losing private benefit; M&A Threat. *SSO.*

**2. VC. (1) Organization of venture capital firms.** *Limited Partnership Structure.* GP Responsible for 1) raising investment capital from LP (销售, 定期报告); 2) deploying the capital by investing in portfolio; 3) harvesting investments (GP 投入 1%, 获利集中于 LP 70%); 4) screening opportunities, commits human capital to ongoing involvement in monitoring and advising. *Distribution waterfalls.* 先给 GP 管理费, 再还 LP 本金, 再给 LP 约定的最低收益, 然后给 GP 约定的最低收益, 最后按约定分配剩余的超额收益. Recovery Phase: Payment of management fee; Return of LPs’ principal; Hurdle Phase: Preferential return to LP; Catchup Phase: A carried interest portion to the GP corresponding to LPs’ preferential return; Carried Interest Phase: Remaining portion of capital gain due to LPs (80%); The GP’s remaining carried interest (20%). 注意 Catchup 机制让 GP 更有动力. *Clawbacks(回拨机制).* LP 收益没有满足的情况下, GP 需要让渡一部分收益. *The Investment Process.* Fundraising stage; Fund closing; Investments (Value creation and monitoring); Harvesting. **(2) How Venture Capitalists Add Value?** *Selecting* invest-ment and negotiating deals with screen criteria (这个地方有许多的参考标准). *Changing* the management team. *Monitoring and advising* portfolio companies (如果 VC 选择派股而不是发现金, 说明其不自信, 对价值有负面影响). *Luck vs. Skill:* What accounts for VC Success? 运气发挥重要作用, 风格坚持以及及时转向很重要. *Syndication:* VC 联合投资互补创造价值. **(3) VC Compensation and Selection.** GP 和 LP 的组成影响 VC 投资项目的选择. *Adverse Selection in VC investment.* VCs 选择项目时有信息不对称, 倾向于选择估值过高的项目. Ways: Syndication, Staging, Financial Contracting (用可转股而非 Cash), Due Diligence. **(4) VC Contracts with Ventures.** VCs can use convertible preferred stock put options, demand registration rights, and others to protect themselves and ensure to harvest. **(5) VC Contracts with Investors.** Excessive risk taking (限制 GP 加杠杆). Favoring existing funds over new funds (防止用新 funds 给老的充钱). Manipulation of management fees. Self-dealing and dilution of effort (限制 GP 投资). **(6) Role of VC Reputation.** IPOs with VC backing are less underpriced and raise more capital.

Question1: payment of management 是第一个返回？