

## Chapter # 12

"Informal Risk Capital,  
Venture Capital, And  
Going Public".



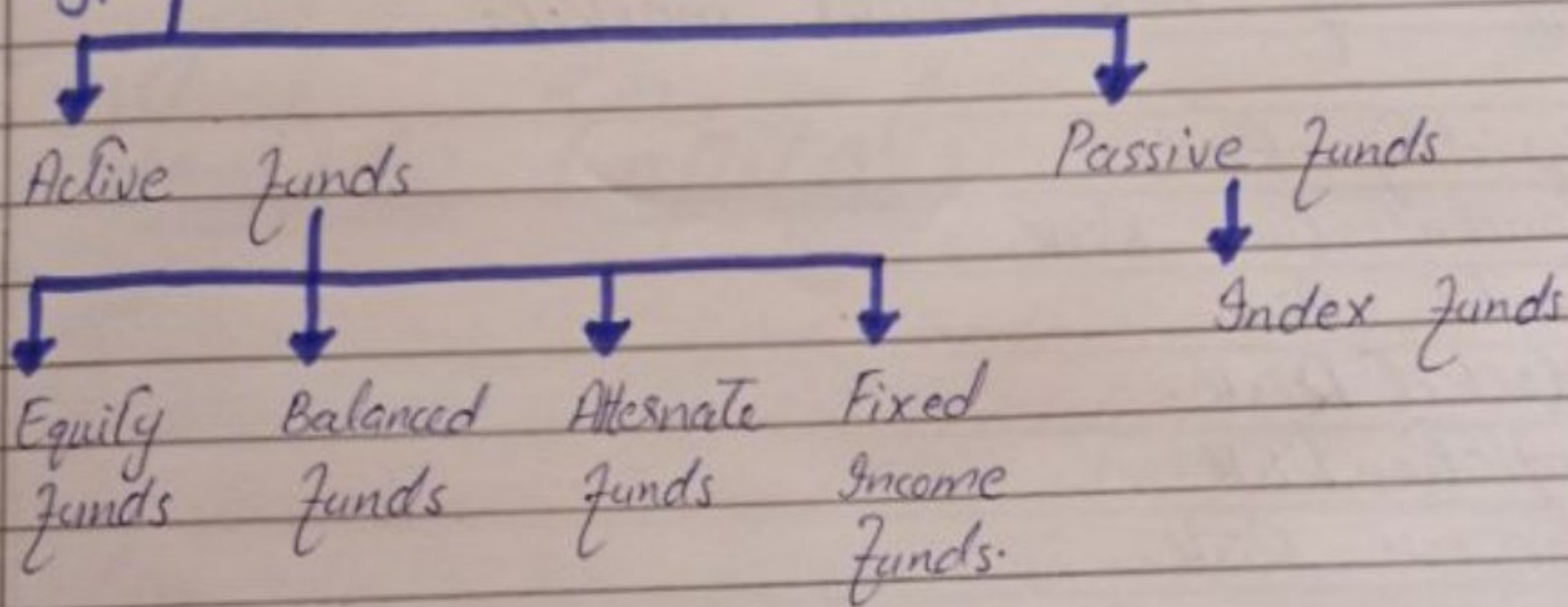
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## Short Answers:

### 1. Types of Funding:

- Fund: A sum of money saved or made available for a particular purpose.

- Types:



### 2. Stages of Business Development Funding:

- ⇒ Seed Capital.
- ⇒ Angel Investor funding.
- ⇒ Venture Capital financing.
- ⇒ Mezzanine financing & Bridge loans.
- ⇒ IPO (initial public offering).

### 3. Risk Capital Markets:

- ⇒ Investment in long term financial instruments



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is accompanied by high capital market risks.

=> Since, there are two types of market capital:

- Stock market.
- Bond market.

=> So, risk are present in both the market.

#### 4. Type of Risk Capital Market:

=> Types of risk capital market:

- Liquidity Risk.
- Concentration Risk.
- Credit Risk.
- Market Risk.
- Inflation Risk.
- Horizon Risk.

#### 5. Informal Risk Capital:

=> It consists of a virtually invisible group of wealthy investors called Business angels.

=> Investment amounts at all dollar levels.

=> Contains the largest pool of risk capital in the United States (more than venture capital!).

=> Provide first stage financing.

=> Hard to calculate exact size.



## 6. Characteristics of Informal Risk

### Capital:

#### • Characteristics:

- ⇒ Industries.
- ⇒ Investment size.
- ⇒ Time frame.
- ⇒ Finding them.

- Business Angels.
- Usually start-up.
- Hard to calculate exact size.

## 7. Venture Capital:

- ⇒ Venture capital is a mechanism where investors support entrepreneurial talent by providing finance and business skills in order to obtain long-term capital gains by exploiting market opportunity.

## 8. Primary stages of Venture Capital:

- ⇒ Seed stage.
- ⇒ Start-up stage.
- ⇒ Early stage.
- ⇒ Expansion stage.
- ⇒ Bridge stage.

## 9. Factors to Valuing Company:

- ⇒ Business growth prospect.
- ⇒ Industry growth prospect.



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- => Business earning Track record.
- => Competitive environment.
- => Customer concentration.
- => Location.
- => Product and service concentration.

## 10. Ratio Analysis:

- => Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by comparing information contained in its financial statements.

## 11. Deal Structure:

- => The Deal Structure outlines a set of terms that will help guide a smooth transfer of business ownership, usually include the buyer's down payment, financing terms, non-compete agreements, and more.

## ① Going Public:

- => Going public refers to a private company's initial public offering (IPO), thus becoming a publicly-traded and owned entity.



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- ⇒ Businesses usually go public to raise capital in hopes of expanding.

## ② Advantages:

- ⇒ Prestige.
- ⇒ Personal wealth.
- ⇒ Ability to obtain equity capital.
- ⇒ Liquidity.
- ⇒ Valuation.
- ⇒ Enhanced ability to raise equity.
- ⇒ Enhanced ability to borrow.

## ② Disadvantage:

- ⇒ Increased risk of liability.
- ⇒ Expense.
- ⇒ Disclosure of information.
- ⇒ Loss of control.
- ⇒ Pressure to maintain growth pattern.

