

Venture Capital

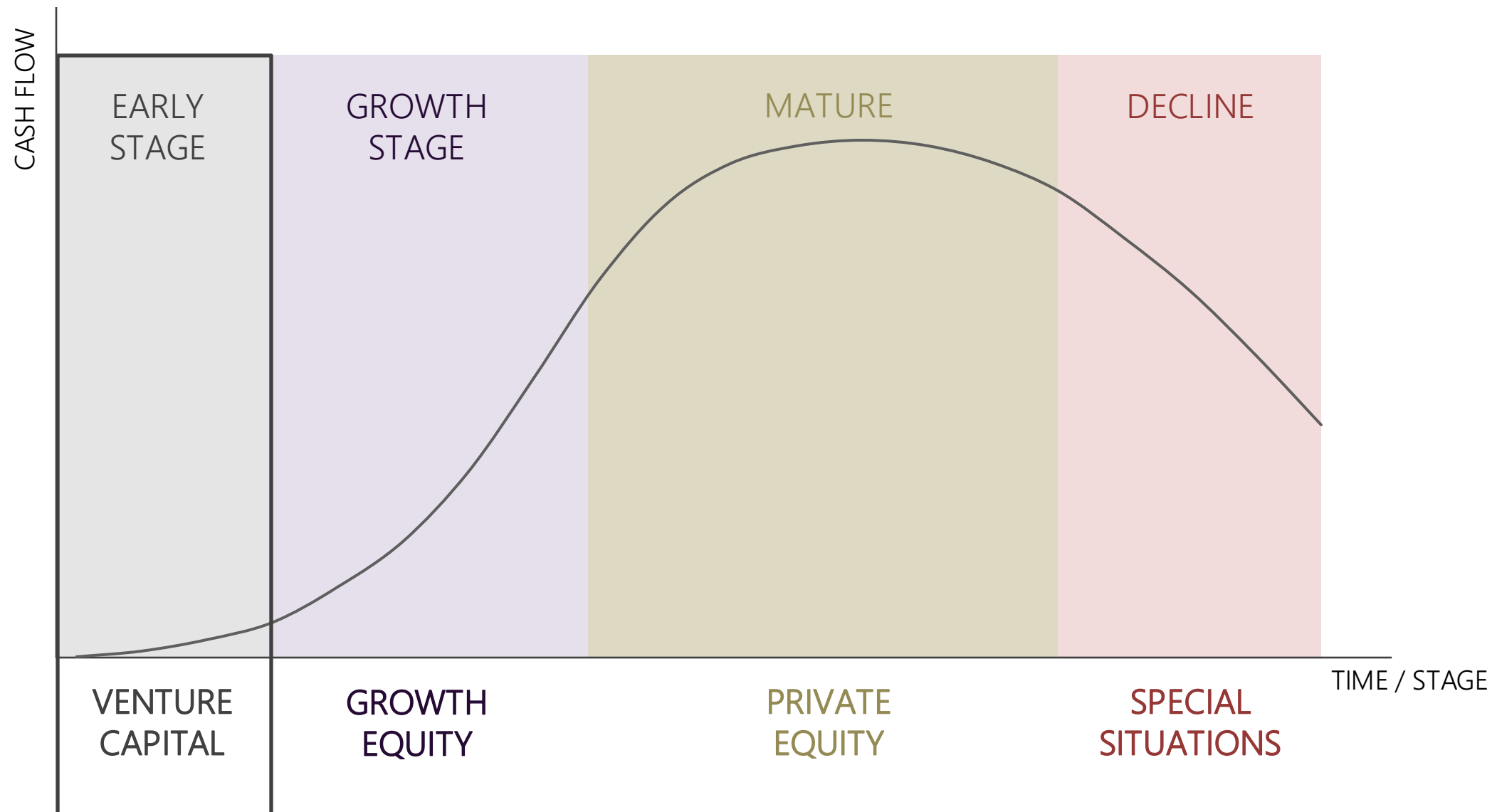
Comillas Private Equity & Venture Capital Club

Private Markets 101

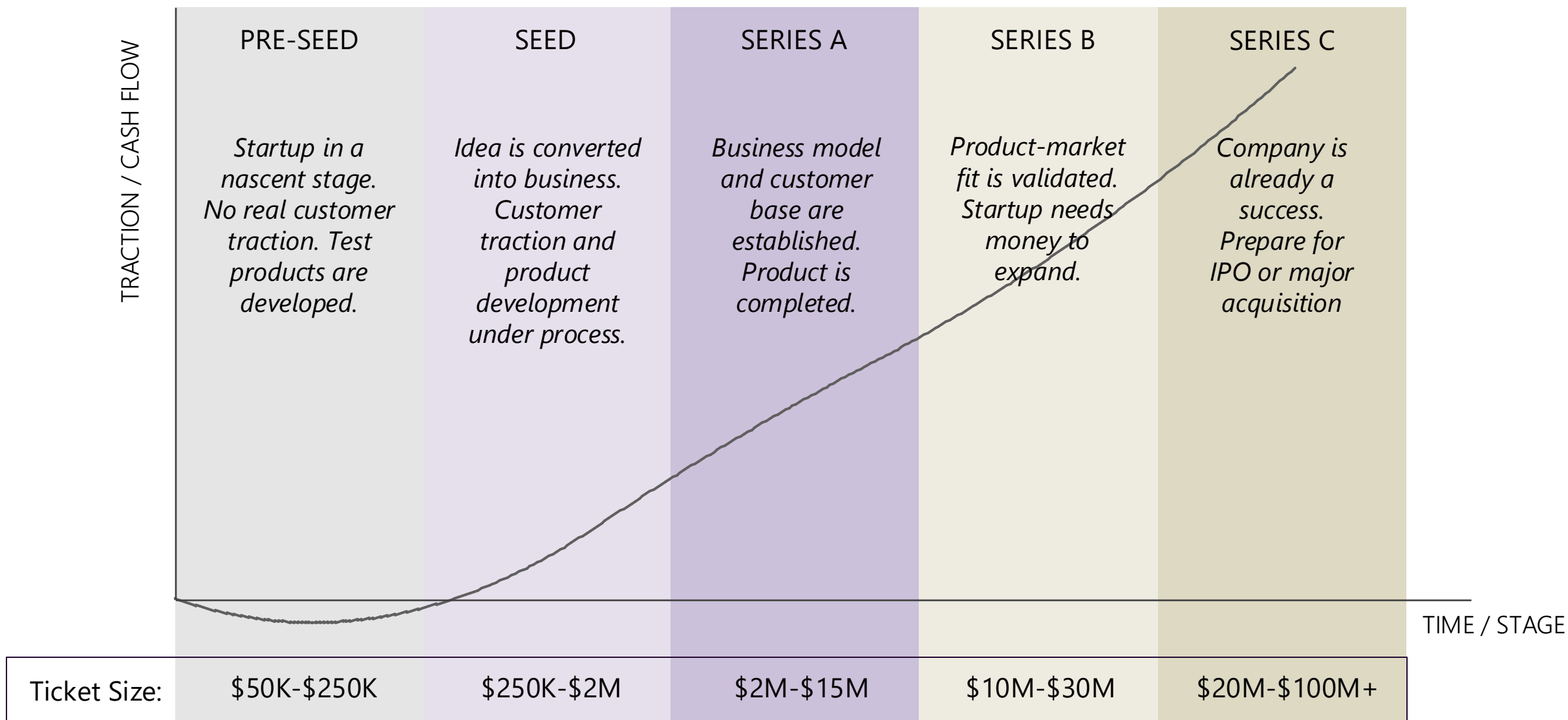
Map of the Course

- Understanding Private Markets
- Private Equity
- **Venture Capital**
- Private Credit
- Infrastructure and Real Estate Investments

Reminder of a Company's Lifecycle



Funding Stages



What is Venture Capital?

1

Minority investments in early-stage, high-growth startups with high risk and potential for outsized returns.

2

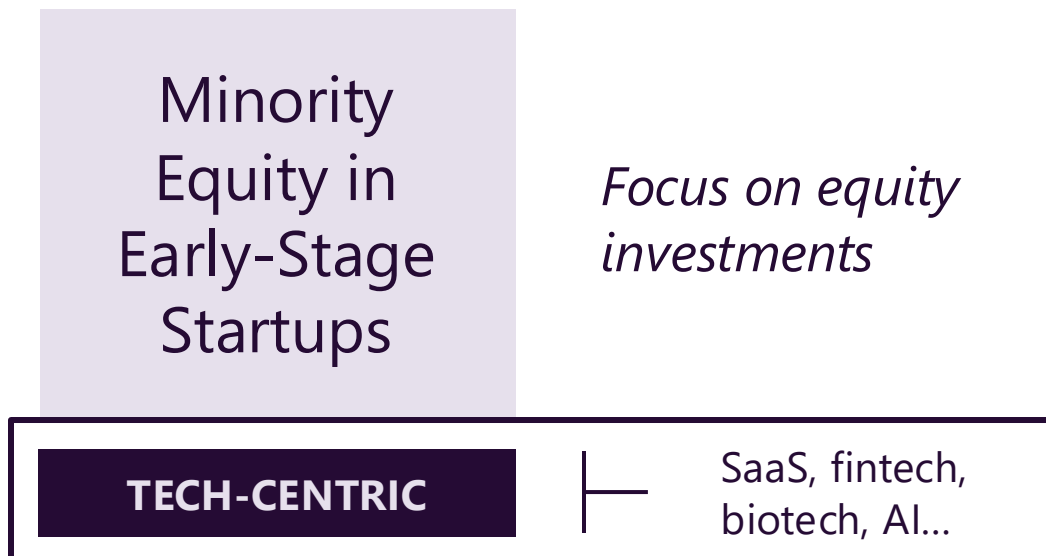
Fueling innovation and disruptions challenging the status quo in tech, health, finance and more.

3

Active support beyond capital — VCs bring networks, strategic advice, and help with hiring and scaling.

Key Differences Between Venture Capital and Private Equity

Venture Capital



- Typically no board control
- High risk, power-law returns
- Exit-dependent (IPO or M&A)
- Focused on rapid scaling, market expansion and strategic partnerships
- Equity-only exposure

Private Equity



- Active governance and board control
- Targets stable, risk-adjusted returns
- Less dependent on market timing for exit
- Focused on operational improvement and financial engineering
- Uses both equity and leverage

The Mechanics of Venture Capital

Venture Capital Investment Process

1 DEAL SOURCING

Startups reach out or are referred through the VC's network.

2 SCREENING

Quick evaluation of market, team, product and fit with the fund's thesis.

3 DUE DILIGENCE

Deep dive into business model, traction, competition, tech, legal.

4 TERM SHEET

Non-binding agreement outlining key terms of the investment.

5 CLOSING

Execution of legal documents (SAFE, convertible, SHA...).

6 MONITORING

VC supports the company with strategy, hiring, intros and follow-on rounds.

7 EXIT

Via IPO, strategic acquisition or secondary sale.

How Venture Capital Funds Work

1

LP-GP Structure: VC Funds are structured as Limited Partnerships (LLPs) as in Private Equity.

2

VC Funds are smaller than PE Funds (often \$50M-\$500M) and are composed of early-stage companies-

3

Most startups fail or return little, but a few “home runs” (ideally unicorns¹) drive the fund’s overall performance. GPs expect 1-2 big winners to return the fund.

4

Fund’s Lifecycle is similar to PE Funds with a 10 year term and gradually deployed capital.

5

Each investment round adjusts the startup’s cap table² and causes dilution³ for existing shareholders, which VC funds track carefully to manage their ownership stake.

1. Unicorns are privately held startups valued at over \$1 billion.
2. Cap (capitalization) Table is a record showing each shareholder’s ownership percentage in a company.
3. Dilution is the reduction of an existing shareholder’s ownership percentage due to new shares issued in funding rounds.

Key Legal Instruments in Venture Capital

PRE-INVESTMENT AGREEMENTS

- **Term Sheet:** summary of key deal terms.
- **NDA** (Non-Disclosure Agreement): confidentiality agreement.

INVESTMENT INSTRUMENTS

- **SAFE / Convertible Note:** deferred equity tools often used in early rounds.
- **Equity Purchase:** direct share acquisition.

GOVERNANCE AND RIGHTS

SHA (Shareholders Agreement): sets out rights, protections and rules.
Key clauses: liquidation preference, anti-dilution, pro-rata rights, veto rights.

Note: VC transactions rely on flexible instrument tailored to early-stage uncertainty with governance protection balancing investor and founder interests.

Exit Strategies in Venture Capital



IPO (Initial Public Offering)

Rare but highly lucrative. Provides liquidity and branding.



Strategic Sale

Acquisition by a large corporate player, most common form of exit.



Secondary Sale

Shares sold to another VC or private buyer.



Acquihire

Buyer acquires startup mainly for the team. Limited return, but better than full loss.



Write-off (Liquidation)

Startup shuts down, capital is lost (expected outcome in most startups).

Challenges in Venture Capital

1

High Failure Rate – portfolio must absorb frequent losses.

2

Valuation Uncertainty – prone to bubbles or overhyped rounds.

3

Dilution Through Rounds – ownership decreases as new investors join. Requires follow-on capital.

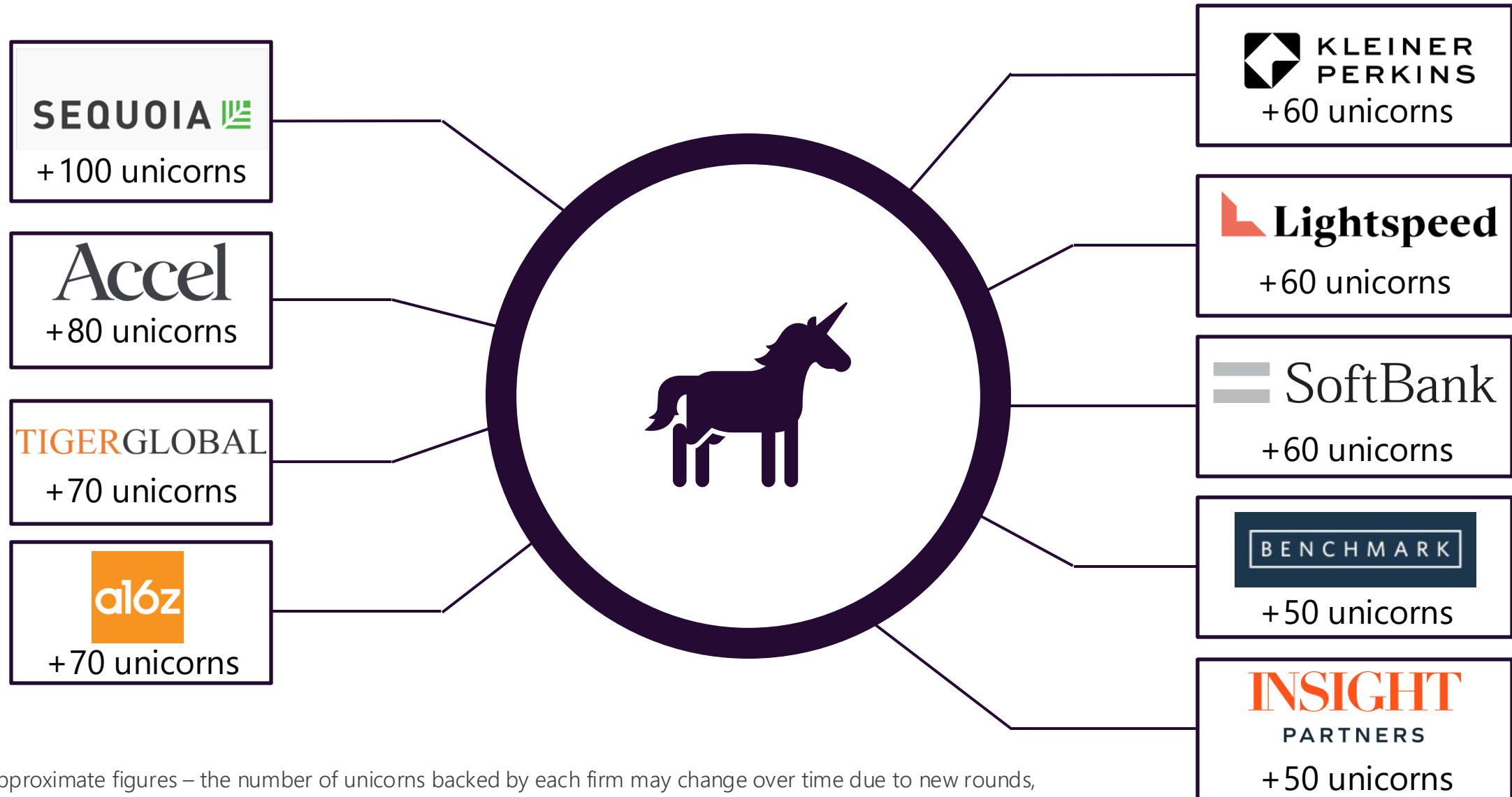
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Limited Investor Control – minority stake means little influence in daily operations. Relies on founders.

5

Exit Unpredictability – liquidity events are rare and timing is uncertain.

Top Venture Capital Firms by Unicorns Backed



Approximate figures – the number of unicorns backed by each firm may change over time due to new rounds, mergers or changes in valuation.

Current Trends in Venture Capital

Rise of **climate tech** and **deep tech** – Strong investor appetite for clean energy and AI.

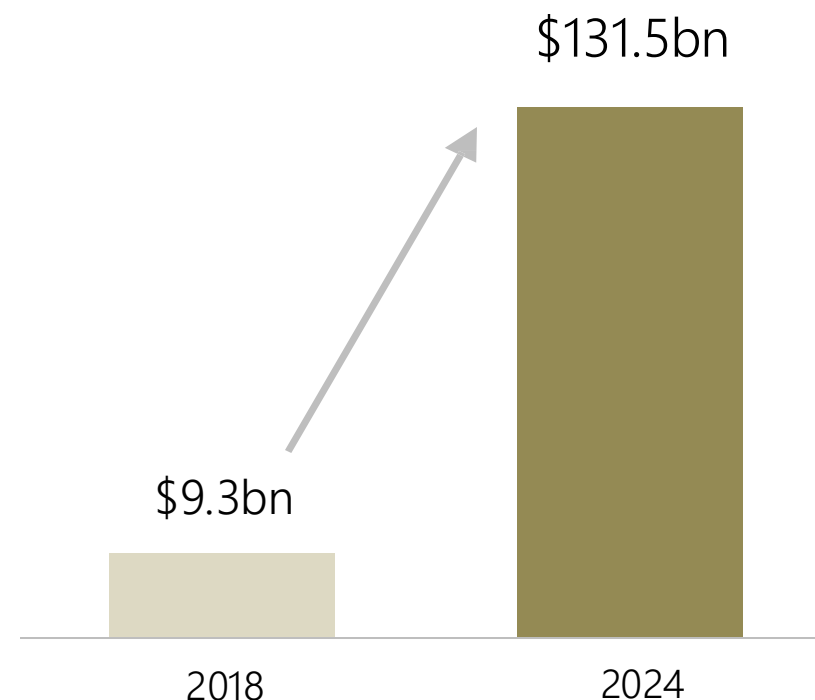
Geographic expansion **beyond Silicon Valley** – Growing VC activity in Europe, LatAm and SE Asia.

Micro VCs & Angel Syndicates – surge in smaller funds and collaborative syndicates.

Secondary Markets for startups – more liquidity options through secondary transactions.

Focus on **ESG Impact** – increased demand for responsible investment.

GROWTH OF VC INVESTMENT IN AI



Sharp increase in investor focus on AI in recent years.