



## Venture Capital and Private Equity



PRIVATE FUNDING INSTRUMENTS EQUITY

Designed for start-ups



### What is it?

Venture capital (VC) is financing in the form of private funding given to a start-up in exchange for equity.

Considering the risk involved in such investments the VC invests only into start-ups which are deemed to have high potential and offer substantial return on investment inside a mid-term time period.

In addition to equity, venture capitalists typically seek board membership to have weight in the decision making process of the start-up.

The goal of a venture capital is to have their start-up's reach a stage where they are ready for a sale (exit) to another investment fund, a trade sale to a corporate, or for an initial public offering (IPO) within few years.

As VC's have a vested interest in the success of the business, they support their portfolio companies through providing access to their networks, advisory and follow-on investment.

Private equity firms (PE) invest to obtain a significant minority position in a company. The key difference to VC is the entrance point in the financing value chain, PE typically comes after VC investment and looks for mature companies with relatively lower risk but significant expansion potential.

### How to use it?

A start-up needs to prepare a pitch deck for the VC including the following points: current market problem, solution and unique selling proposition (USP), market size, business model, competition, financial plan and investment needs.

After the initial pitch the investors will want to ask detailed questions about the business to date.

The VC makes a decision after due diligence takes place. If they are willing to invest the VC will propose a termsheet to the start-up.

### Who can benefit?

- Any start-up requiring capital for product or service development can source funding from seed stage VC's.
- Any start-up reaching a point ready to go to market but requires a larger investment in order to progress through the growth stage can source funding from early-stage VC's.
- Only highly scalable start-ups with the potential to generate significant returns in a relatively short term and that target a significant market.

## Key Points in a pitch deck

Current market problem, solution and USP

Market size

Business model

Potential customer base

Competitors

Team

Company finance rundown

Capital acquired and capital required






Key performance indicators and milestones

### Useful links

A non-exhaustive list of VCs can be found on the European Commission's "Access to finance" website ([www.access2finance.eu](http://www.access2finance.eu)) or on Invest Europe, the private capital industry associations' website ([www.investeurope.eu](http://www.investeurope.eu)).

### Key benefits

- Access to significant amounts of capital that can scale with the company needs.
- Funding for high risk business models of start-ups with great potential.
- Business resources for when a start-up starts to build through a growth phase.
- Access to the contacts and networks of the VC as they have vested interest in the businesses' success.
- Assisted decision making by VC for important crossroad points in terms of strategy and development.

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