



Help from an investor

The strategic role of a venture capitalist

<http://www.vcchina.com>

VCChina, China

Venture capital is money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies. Venture capital acts as an intermediary between investors looking for high returns and entrepreneurs in need of capital.

Venture capitalists generally have a long-term orientation and take higher risks with the expectation of higher rewards. They add value to the company through active participation by providing management and business skills, contacts and strategy formulation. Their considerations while lending are management term and market potential rather than collateral.

Venture capitalists mitigate the risk of investing by developing a portfolio of young companies in a single venture fund. Many times they co-invest with other professional venture capital firms. In addition, many venture partnerships manage multiple funds simultaneously. For decades, venture capitalists have nurtured the growth of high technology and entrepreneurial communities in the USA, resulting in significant job creation, economic growth and international competitiveness.

In India, these funds are governed by the Securities and Exchange Board of India (SEBI) guidelines. According to this, venture capital fund means a fund established in the form of a company or trust, which raises monies through loans, donations, issue of securities or units as the case may be, and makes or proposes to make investments in accordance with these regulations. (Source: SEBI (Venture Capital Funds) Regulations, 1996)

The difference between a venture capitalist and bankers/money managers

A banker is a manager of other people's money while the venture capitalist is basically an investor.

A venture capitalist generally invests in new ventures started by technocrats, who generally are in need of entrepreneurial aid and funds.

Venture capitalists generally invest in companies that are not listed on any stock exchanges. They make profits only after the company obtains listing.

The most important difference between a venture capitalist and conventional investors and mutual funds is that he is a specialist and lends management support and also:

- Financial and strategic planning;
- Recruitment of key personnel;
- Obtain bank and other debt financing;
- Access to international markets and technology;
- Introduction to strategic partners and acquisition targets in the region;
- Regional expansion of manufacturing and marketing operations; and
- Obtain a public listing.

Stages in venture financing

1. Early stage financing
 - Seed financing for supporting a concept or idea
 - R&D financing for product development
 - Start-up capital for initiating operations and developing prototypes
 - First stage financing for production and marketing
2. Expansion financing
 - Second stage financing for working capital and initial expansion
 - Development financing for major expansion
 - Bridge or mezzanine financing for facilitating public issue
3. Acquisition/buyout financing
 - Acquisition financing for acquiring another firm for further growth
 - Management buyout financing for enabling operating group to acquire the firm or part of its business
 - Turnaround financing

Differences between venture finance and debt finance

	Venture finance	Debt finance
Objective	Maximize return	Interest payment
Holding period	2-5 years	Short/long term
Instruments	Common shares, convertible bonds, options, warrants	Loan, factoring, leasing
Pricing	P/E Ratio net tangible assets	Interest spread
Collateral	Very rare	Yes
Ownership	Yes	No
Control	Minority shareholders, rights protection, board members	Covenants
Impact on B/S of finance	Reduced leverage	Increased leverage
Exit mechanism	Public offering, sale to third party, sale to entrepreneur	Loan repayment



Venture finance

Raising capital

<http://www.technopreneurs.net.my>

Multimedia Development Corporation Sdn Bhd, Malaysia

Effectively raising capital will give you the edge. Sufficient capital will help to ensure your R&D, marketing, and hiring potential superiors to your competitors.

What are the sources of funds?

Capital can be acquired from a multitude of sources that include:

- Family and relatives - if they are willing to invest in your venture;
- Banks - you most often have to put down some collateral;
- Government grants and loans - pay attention to the eligibility criteria; and
- Angels, venture capitalists and individual investors - refer to investors.

Decide how much you need and for how long

If your financing needs are greater than your asset base or profitability, you may need to consider equity finance (financ-

ing the value of the shares of your company) instead of term lending, especially if you need finance over a long period. However, these alternatives are not mutually exclusive and you may end up with financing from a combination of sources. Ask your advisers to help you decide what types of finance are most suitable for your business.

You must work out how much you need to borrow. That's why preparing a cash flow projection is important. For example, if you spread the payments for your investment over a period of time by taking out a bank loan, a cash flow projection will help you decide how big a capital injection is needed to cover any anticipated cash shortfall. Forecasting is not an exact science so you should aim to raise finance slightly in excess of your projected needs to allow for a margin of error.

Notes on equity financing

With equity financing, there are no interest payments, so there is no impact on your profitability or cash flow. However, your

How will different finance options affect profitability or cash flow?

Equity financing		Loan financing	
Advantages	Disadvantages	Advantages	Disadvantages
<ul style="list-style-type: none"> ● Can provide a large injection of capital ● No interest payments ● No obligation to repay capital 	<ul style="list-style-type: none"> ● Capital is usually only available in very large amounts ● It means 'selling' a part of your business ● Venture capitalists expect high returns on their investments (at least 25% pa) ● Investors may require you to buy them out at a future point 	<ul style="list-style-type: none"> ● Amount borrowed can vary according to your needs ● As long as it is repaid it will not affect your ownership of the company 	<ul style="list-style-type: none"> ● It creates a debt obligation ● Interest will be charged - affecting profitability ● Collateral is usually required and banks will value your assets conservatively ● If you borrow from friends or relatives, it can sour relations if the business fails

investors may require distribution of profits in the form of dividend payments after a certain period of time. They may also have an exit strategy that requires you to buy them out at a future point in time. Both scenarios can affect your cash flow significantly.

Equity providers will become part owners in your company and will therefore be part of the decision making process. They may also insist on legal agreements that give them extensive powers such as the right to place restrictions on the business if performance does not match projections.

There may also be safeguards built into an equity finance deal to reduce the chances of failure and give the investor the right to intervene in your business if things go wrong.

Notes on debt financing

With loan or asset-based financing, the interest payments you make will affect both your profitability and cash flow. However, you may be able to structure the loan so that interest payments are deferred until your revenue can support the repayments.

Capital providers will want to protect their investment. Banks may require security in the form of a fixed charge against your personal or company assets that restricts your ability to dispose of those assets. They may also impose clauses that limit the scope of some of your actions.

With loan financing, you will need to meet interest payments and repayments of the principal. If your business doesn't meet these obligations, there is a risk that the bank may foreclose on you. With equity financing the capital providers share the risk and rewards but they may remove or restrict you if the business does not perform adequately.

The cost of financing depends on how much risk the lender associates with your business. The interest you pay compensates the lender for risks taken in lending. With equity financing, funding is unsecured which means a high level of risk for the equity investor. This means your capital provider must believe you have a good chance of earning a high return, usually in the form of an increase in the company's valuation.

What documents will you need to support your request for financing?

Apart from certified copies of the basic company registration forms and the Memorandum and Articles of Association, the following will be required by the potential financiers:

- A detailed business plan; and Cash flow analysis.

It is important for you to gain the confidence of your potential financiers. They have to feel confident in your business, your management team, your business concept and its potential.

Preparing a business plan and cash flow projection

A business plan describes the market in which your business operates, identifies and evaluates the risks, shows the impact of new investment and provides credible cash flow and profit forecast.

For more information about what to include in a business plan see the section on creating a business plan or visit www.bplans.com or www.bizplanit.com/vplan.htm.

The extent of detail in any business plan depends on the amount and type of finance sought. As a general rule, the more finance required in relation to the value of the company's assets, the greater the risk and the greater the need for a detailed analysis.

A cash flow projection is a forecast of actual cash inflow or outflow from your business. It is a key diagnostic tool for measuring your company's health.

A good cash flow projection tells you:

- When and by how much, your available cash will rise and fall;
- Where your cash is coming from and what it will be spent on;
- Your ability to sustain the business; and
- Whether you can plan for growth.

To produce a cash flow projection you must forecast sales and expenditures and identify the actual dates of revenue collection and payments. □

2006 Asia telecom statistics and market overview

Vertical Market Report Pack

The Report Pack offers a wealth of information on the overall Infrastructure, fixed and mobile services and internet markets in: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, China, Hong Kong, Japan, Macau, Mongolia, North Korea, South Korea, Taiwan, Afghanistan, Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan, Sri Lanka, Brunei, Darussalam, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand and Viet Nam.

This Report Pack is a compilation of the 4 regional Telecoms Statistics and Market Overview report files.

The subjects covered include:

- Infrastructure Issues;
- Regulatory issues and government policies regarding infrastructure;
- Mobile networks, including Value Added Services and Next Generation Services, where relevant;
- Development of Internet services and, where relevant, broadband; and
- Brief overview of major telecommunications carriers and service providers.

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