Analýza selhání trhu rizikového kapitálu v České republice

Market failure analysis of the venture capital market in the Czech Republic

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Abstrakt: Podíl investic rizikového kapitálu na celkových investicích PE (Private Equity) v České republice dosáhl v letech 2007-2010 v průměru jen 3,2 %, což je hluboko pod evropským průměrem. V letech 2008-2010 byl poměr investic rizikového kapitálu k celkové výši investic PE v Evropě 12,2 %, téměř 4 krát vyšší. Celkově jsou trhy PE ve střední a východní Evropě mnohem vice orientovány na větší buy-out operace než zbytek Evropy. Financování rizikovým kapitálem je v České republice velmi nízké zejména v počáteční fázi podnikání. Sítě tzv. business angels nejsou v dostatečné míře funkční. Trh rizikového kapitálu v regionu CEE, a to nejen v České republice, se tak zaměřuje především na investice většího rozsahu ve vyšších fázích vývoje podnikání.Investice do PE/VC se dosud v České republice nestaly běžnou investiční metodou. Tyto fondy jsou považovány za málo používané alternativní zdroje financování, které podnikatelé vyhledávají, až když jsou se svým investičním záměrem odmítnuti v bance. Prodej úspěšného podniku nebývá většinou cílem podnikání. Jedním z důvodů je, že v České republice je zákonem značně omezena účast penzijních fondů a pojišťoven v PE/VC investicích jako tzv. limited partners. Dalším důvodem, který omezuje expanzi PE/VC investic v České republice je neochota podnikatelů sdílet podnik s externím investorem, navíc jim často chybí znalosti v oblasti strategického řízení.

Klíčová slova: rizikový kapitál, private equity, privátní investování, finanční trhy, seed kapitál, start-up kapitál, kapitál na rozšíření

Abstract: share of amount of VC (Venture Capital) investments on total PE (Private Equity) investments in the Czech Republic was only 3.2 % on average in 2007-2010, which is far below the European level. In 2008-2010, the venture capital investment to total PE investment ratio was 12.2 % in Europe, almost 4 times higher. Overall, the CEE (Central and Eastern Europe) PE/VC markets are much more buyout oriented then the rest of Europe. Particularly, early-stage venture capital financing is very low in the Czech Republic. Furthermore, business angels' networks do not adequately take the place of lacking early stage venture capital funds. The VC market in CEE, not only in the Czech Republic, concentrates on larger later-stage investments.

PE/VC investing has not yet become a common investment method in the Czech Republic. Such funds are regarded as rarely used alternative financing sources that entrepreneurs seek out only after they are rejected at the bank. Selling a business is not a common goal of entrepreneurs. One of the reasons is that in the Czech Republic, the participation of pension funds and insurance companies as limited partners in PE/VC investing is sig-

nificantly restricted by law. Another reason still limiting expansion in PE/VC investments in the Czech Republic is that entrepreneurs are not prepared to share the business with an investor and are often lacking in strategic management knowledge.

Keywords: venture capital, private equity, financial markets, seed capital, start-up capital, expansion capital

JEL Classification: G24

Introduction

This analysis has been undertaken with aim to calculate the equity gap in the Czech Republic on the basis of international data comparison. The main research question and hypothesis is a possible existence of equity gap on the Czech venture capital market with comparison to CEE and European markets.

The analysis has been processed using documents, statistics and figures of MIT, CVCA, EVCA, EIF, EUROSTAT, Deloitte, PwC, NVCA, Thomson Reuters, The World Bank and McKinsey Global Institute.

The definitions presented in the Community Guidelines on State aid to promote risk capital investments in small and medium-sized enterprises (2006/C 194/02) and the terms used in EVCA statistics of PE markets are slightly different. Nevertheless, for the purpose of this document, we suppose that the term "*expansion stage*" used by the Commission equals the definition of "*later-stage venture*" used by EVCA.

1. Analysis

1.1.Recent development of European PE market

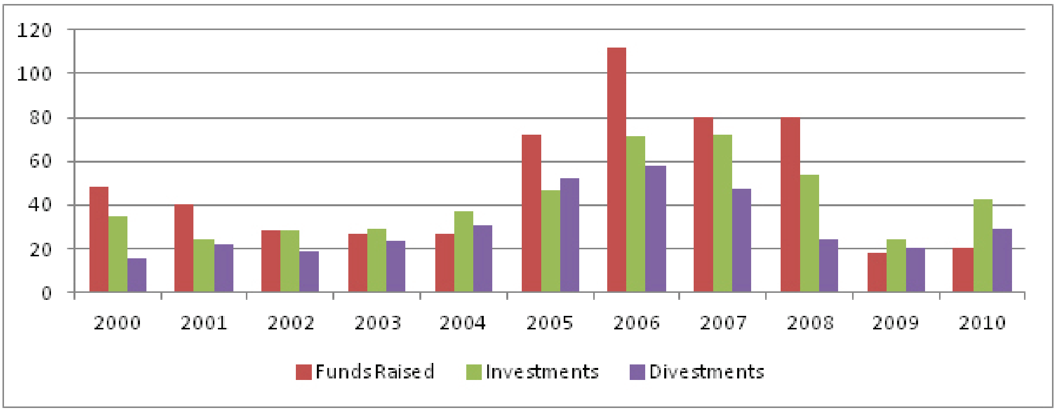
The financial crisis of 2008 and 2009 has caused serious harms to the PE market. The European PE market was pushed 10 years back after a long-term market growth peaked in 2006. The indicators of fundraising, investments and divestments slumped by 2/3 of the 2006 and 2007 values. Prognoses say that the PE market is not to fully recover within this decade. By contrast, The McKinsey Global Institute estimates that the PE share on global financial assets is about to lower from 28% in 2010 to 22% in 2020.[19] At the same time, the riskiness in PE funds' portfolios has substantially risen due to uncertain further global development – write-offs formed almost 50% of European divestments in 2009 due to EVCA. However 2010 was then the first year of recovery, write-offs were still 22.3% of total divestments value.[20] More detailed information is included in Chart 1.

The Central and Eastern Europe region (CEE), including Czech Republic, has experienced similar development; only the slump in fundraising was even higher – the 2009 re-

19) see The McKinsey Global Institute (2011)
20) see EVCA (2010)

sult was only 1/10 of the 2007 value. As regards investments, while for the rest of Europe 2009 was the worst year in decade and the market experienced certain recovery in 2010, the investments in the CEE region developed vice versa, with culmination in 2009 and halved in 2010. But, the 2009 extraordinary CEE investments peak was caused by one mega buyout transaction realised in the Czech Republic. The investment went to a consumer goods & retail company; however, the company's activities are spread throughout the CEE region, so the real impact of this investment is regional.

Chart 1: Fund-raising, investments and divestments in Europe by year, € billions, data source: EVCA



1.2. The Czech PE market

PE/VC investments have been made in the Czech Republic since 1990. An association bringing together private equity and venture capital investors (CVCA) has been in operation since 1997. Other investors who are not members of the CVCA also are active in the Czech Republic. These investors are not always typical venture capital funds, but their investments are similar to classic PE/VC investments in structure.

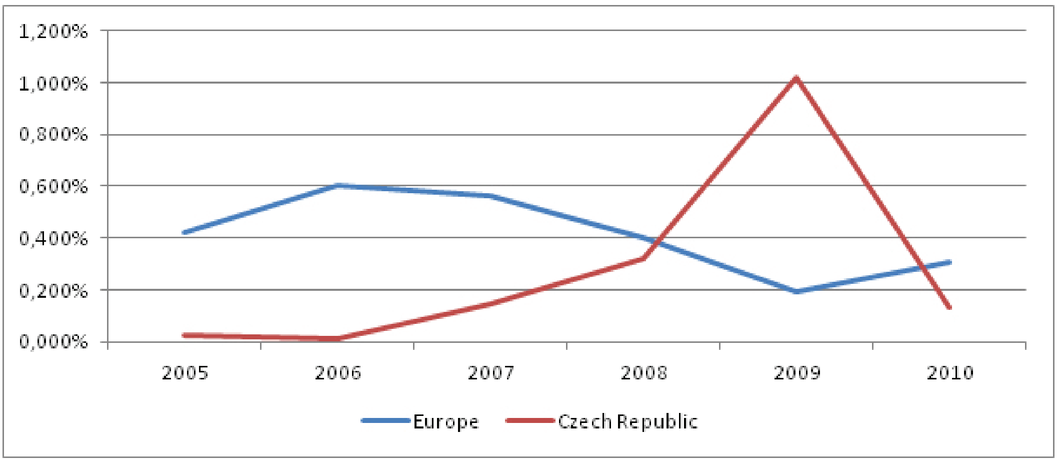
Specifically, the Czech PE market is characterized by unstable development, which is caused mainly by low total number of transactions – including all PE segments, only about 20 investments are realised in the Czech Republic per year. A vast majority of investments is concentrated on buyout, replacement and growth segments, venture capital represents minority. Under such conditions, the total value of investments is dependent on (non)existence of one or several mega/large buyout transactions in the given year.

Thus, total PE investment value in the Czech Republic ranged from € 182 million to € 1,385 million in 2007-2010 due to EVCA figures, or 0.133 to 1.017 % ratio to GDP, as seen below in Chart 2. Such figures comprise fluctuation between being European champions and outsiders. Nevertheless, the 1.017% ratio of PE investments value to GDP in 2009 was rather exceptional and probably unrepeatable deviation from long-term trend.

The 2009 figures were influenced by one mega and one large buyout transactions of CVC Capital Partners targeting a multinational brewing and retail group StarBev – more a kind of regional than country-specific investment, which represented more than 50 % of total 2009 investment values.

For the purpose of international comparison of PE markets development, it is important to use such indicators that respect the different stage of development of the respective economies. Some differences between the PE market of Europe and CEE region or the Czech Republic may be supported by distinct level of overall economic activity and output. One of such reliable indicators, which is able to clear the economic performance influence from the data, is PE investments to GDP ratio. In 2005-2010, the total value of private equity investments in the Czech Republic represented 0.275% GDP on average, whereas European average stood for 0.413%, as follows from the Chart 2. The 2009 deviation from long-term in the Czech Republic is caused by absolute values distorted by two outstanding mega.buyout transactions. This upward leap is probably non-repeatable under the new conditions in the PE/VC market. [21]

Chart 2: PE investments as GDP percentage in Europe and Czech Republic by year, data source: EVCA and EUROSTAT



In the past, the Czech Republic did not offer a suitable tax and legal environment for the establishment of private PE/VC funds and therefore most entities that operate in the Czech Republic and use local managers are domiciled abroad. The situation started to change after the accession of the Czech Republic to the European Union in 2004 when the qualified investors' fund was introduced into Czech law on collective investment (similar to Luxembourg's SIF) and other legislative changes are now being developed to standardize PE/VC area at the European level and to enhance the availability of private capital. For the purpose of accuracy in trends, we then present only 2007-2010 figures

21) see Di Carlo, A., Kelly, R. (2010)

from this point on, i.e. after the adoption of law on collective investment in the Czech Republic has substantially motivated the market to develop much faster. This is quite remarkable in Chart 2 above – in 2007-2010, the market has started to become more progressive with average PE investments to GDP ratio about 0.404% and therefore reaching European levels. Therefore, Czech position within the CEE region is very strong as 32,46% of total CEE PE investments value was realised in the Czech Republic in 2008-2010. [22]

The rise in the number of investments in recent years was also caused by the gradually expanding awareness of PE/VC investing in the Czech Republic among entrepreneurs and managers as well. Greater interest in investing also was recorded among funds investing in the CEE region as a result of the economy's maturing and its overall successful development. Nevertheless, the crisis has pulled the market indicators back to 2006-2007 values in 2010 .[23]

1.3.The Czech VC market

The situation in the venture capital does not observe similar trend as PE as a whole. Albeit, the development of investments value has been observing an upward trend since 2007 peaking in 2009 and decreasing in 2010 (as regards investments, the financial crisis has hit PE in the CEE region later than in the rest of Europe) and the position of the Czech VC market within the CEE region is quite strong with about 25 % market share over the years 2007-2010. [24]

22) see EVCA (2010)
23) see EVCA (2010)
24) see EVCA (2010)

Table 1: Investments in PE segments in the Czech Republic as GDP percentage by year, data source: CVCA, EUROSTAT

	2007	2008	2009	2010	Average
Seed	0.000%	0.000%	0.000%	0.000%	0.000%
Start-up	0.000%	0.000%	0.000%	0.009%	0.002%
Subtotal Early-stage	0.000%	0.000%	0.000%	0.009%	0.002%
Later-stage venture	0.003%	0.009%	0.020%	0.007%	0.010%
Subtotal venture	0.003%	0.010%	0.020%	0.016%	0.012%
Growth	0.093%	0.184%	0.131%	0.100%	0.127%
Rescue/turnaround	0.000%	0.000%	0.000%	0.000%	0.000%
Replacement capital	0.002%	0.000%	0.095%	0.000%	0.024%
Buyout	0.048%	0.126%	0.696%	0.017%	0.222%
Total PE	0.146%	0.320%	0.943%	0.133%	0.385%

But, share of amount of VC investments on total PE investments in the Czech Republic was only 3.2% on average in 2007-2010, which is far below the European level.[25] Due to EVCA findings, in 2008-2010,[26] the venture capital investment to total PE investment ratio was 12.2% in Europe, almost 4 times higher. Furthermore, because the CEE PE markets are much more buyout oriented, the whole CEE region VC investments represent only 2.08% of the European VC market in 2008-2010. So, however the Czech Republic ranks among regional champions in VC, it still represents a developing market in the European context.

Another good indicator suitable for measuring the differences in VC markets of the Czech Republic, CEE and Europe is ratio of VC investments value to GDP. In 2010, this was 0.016% in the Czech Republic, 0.006% in the whole CEE region and 0.027% in Europe.

We can use both indicators mentioned above (share of VC investments value on total PE investments value and VC investments to GDP ratio) to look into the VC markets even in more detail later.

Early-stage venture capital financing is very low in the Czech Republic and is following a negative trend since 2001, as show the CVCA statistics.[27] Seed and start-up capital only

25) see EVCA (2010)
26) 2007 European figures cannot be utilised because of different methodology – prior to 2008, the growth and later-stage venture segments were combined in expansion segment.
27) see CVCA (2010)

amounted 4% of the EU 25 average in 2004 with the situation to worsen in the following years. In 2008-2010, no investments were located in seed stage in the Czech Republic compared to 27 companies invested in CEE region (0.14% share on total PE investments), see Table 3. However seed capital share ranks the least in PE markets around the world, in the CEE region, it is almost invisible, including Czech Republic. As the PE market of the Czech Republic is otherwise very strong within the CEE region, this shows lack of interest of investors in this particular segment.

Table 2: PE investments by region, € x 1000, 2008-2010 totals, data source: EVCA

	Total Czech Republic	% of total	Total CEE	% of total	Total Europe	% of total
Seed	0	0,00%	8 969	0,14%	549 010	0,47%
Start-up	13 420	0,67%	96 932	1,56%	5 988 123	5,15%
Subtotal Early--stage	13 420	0,67%	105 901	1,71%	6 537 133	5,63%
Later--stage venture	52 614	2,61%	189 249	3,05%	7 627 988	6,56%
Total venture	66 033	3,28%	295 150	4,76%	14 165 119	12,19%
Growth	587 704	29,19%	1 625 374	26,20%	17 898 868	15,40%
Rescue/Turnaround	400	0,02%	11 941	0,19%	1 456 567	1,25%
Replacement capital	139 965	6,95%	212 906	3,43%	4 981 064	4,29%
Buyout	1 219 437	60,56%	4 057 708	65,41%	77 695 396	66,87%
Total	2 013 540	100,00%	6 203 078	100,00%	116 197 014	100,00%

Table 3: Number of companies receiving venture capital, 2008-2010, data source: EVCA, CVCA

	Czech Republic	CEE
Seed	0	27
Start-up	2	100
Subtotal Early-stage	2	127
Later-stage venture	9	77
Total venture	11	204

The situation is quite similar in start-up stage. Only 0.67% of total PE capital invested over the years 2008-2010 in the Czech Republic falls within this segment compared to 1.56% in CEE and 5.15% in Europe (see Table 2).

In general terms, early-stage enterprises receive only a little venture capital in the Czech Republic. The change in legislation, which enabled the PE market to become more progressive in the Czech Republic after 2004, didn't encourage investors enough to enter the venture capital market as well. This is particularly evident from Table 4, which shows the alignment of different Czech PE funds (full CVCA members). Only a few of them are oriented on early-stage investments and only two funds with total sources of only € 100 million and geographical scope of the whole CEE region prefer also investments under € 1 million. Only two investments were realised by these funds in the Czech Republic so far. The total amount of funds managed in the Czech Republic is about € 4.5 billion and the average fund size is € 373 million. On average, the minimum deal size is € 6.5 million and maximum € 50 million.

Table 4: CVCA full members, 2010, data source: CVCA

Fund name	Type of investments	Preferred amount of investment	Volume of funds managed	Sector preferences	Geographical focus	Number of deals in the CR
3TS Capital Partners	Growth Capital, Expansion Capital, Buyouts	€ 3 million - 20 million	€ 230 million	Consumer & Services, M & M, ICT, Env. & Energy.	Czech Republic, CEE	5
Advent International	Buyouts, Expansion Capital, Sector Consolidation	min. € 30 million	€ 1 billion	None	CEE, Trukey	3
Amundi Private Equity Funds	Buyouts, Expansion Capital, Sector Consolidation	€ 5 - 15 million	€ 156 million	None	CEE	None

ARGUS Capital Group Limited	Buyouts, Sector Consolidation, Later Stage Expansion Capital	€ 10 - 40 million	€ 400 million	None	CEE, Turkey	6 (including regional deals)
ARX Equity Partners	Acquisitions, Buyouts, Expansion, Sector Consolidation	€ 5 - 50 million	Approx. € 200 million	None	CEE	7
Credo Ventures	Start–Up, Growth Capital, Expansion Capital	€ 0,25 - 2 million	€ 20 million	IT&Media, Mobile Communication, Healthcare	Czech Republic, Slovakia, central Europe	2
Enterprise Investors	Acquisition, Buyouts, Expansion Capital, Sector Consolidation	€ 1 - 100 million	€ 1,7 billion	None	CEE	6 (including regional deals)
GCP gamma capital partners	Start–Up, Early Expansion; Selected Seed, Later Stage, Sp. Situations; Mezzanine	€ 0,5 – 5 million	€ 80 million	Com. & New Media, SW & IT Services, Electr. & HW, Life Sciences, Chem., Materials, Cleantech and RES	DACH and CEE	None
Genesis Capital Limited	Buyouts, Consolidation, Growth, VC: Early Stage, Growth	€ 3 - 10 million	€ 70 million	None	Czech and Slovak Republics	20
INVEST EQUITY	Buyouts, Later Stage Expansion	Up to € 100 million	€ 110 million	None	CEE, DACH	1
JV Capital Management	Early Stage Capital, Development Capital, Buyouts	€ 1- 3 million	€ 10,5 million	None	Czech Republic	24
KBC Private Equity	Non Specified	Non Specified	N/a	Non Specified	Belgium and CEE	5
Riverside Europe Partners	Buyouts, Later Stage Expansion	€ 15 - 150 million	€ 500 million	None	EU, Turkey, CH, Croatia	4

Furthermore, business angels' networks do not adequately take the place of lacking early stage venture capital funds due to CVCA findings. According to CVCA, there may be only a very limited amount of early-stage investments made off the statistics, restricted to investment agreements with individuals.[28] Ventures already having research and development results must still seek funds for their commercialization among friends and family or rely on bank loans and grants.

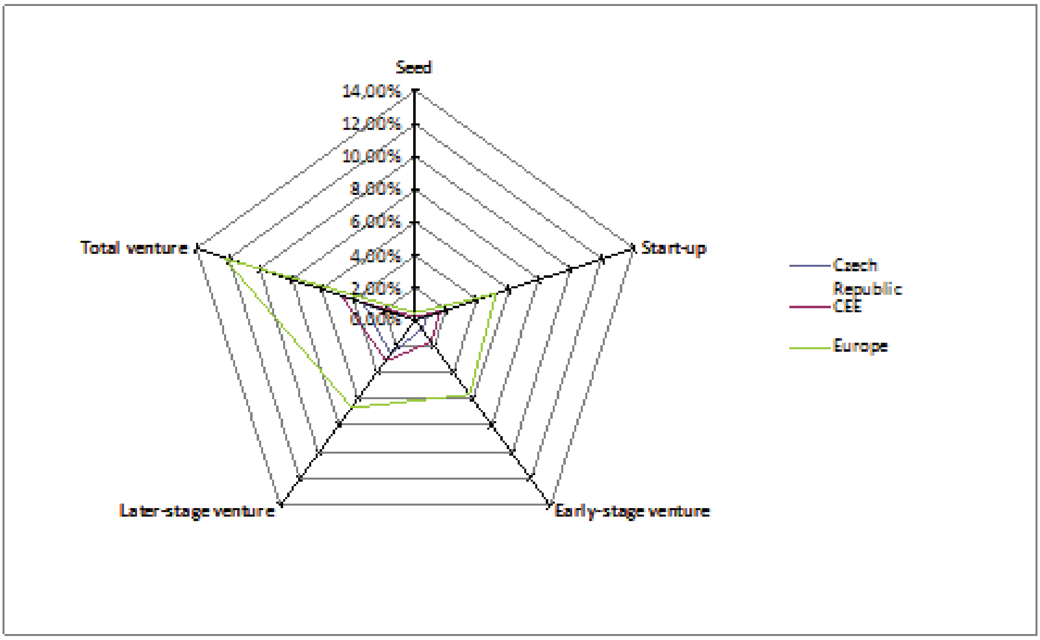
Specifically, in the CEE region, the VC investments hold only about 30% of total number of invested companies in 2010, whereas the European average is about 65%. The reason of such differences behind the figures is the major concentration of CEE PE market on later-stage, and therefore larger, investments. Stronger representation of early stage is lacking in the region. Early stage otherwise form the vast majority of companies financed through VC in pan-European statistics.[29]

Later-stage venture investments do not suffer from such large lack of interest of venture capitalists, as the average deal value is higher and generally exceeds the limit of € 1 million. Despite this, there is still a large gap in the comparison of European data, mainly as regards investments of lesser values. In 2008-2010, only five later-stage venture and one early-stage venture companies obtained VC investments in the Czech Republic totalling € 54.5 million, which represents an average of € 18.5 million. Compared to CEE data, the average value of investment per venture company is more than 3 times higher in the Czech Republic (€ 5 million in the Czech Republic, € 1.5 million in CEE).[30] Thus, seed, start-up and even smaller later-stage venture projects cannot fulfil the threshold of minimum investment values required by VC funds investing in the Czech Republic.

The following chart 3 shows venture capital investments to PE investments ratio by stage and region in 2008-2010. The gap in both early stage and later stage venture is evident even in compare of Czech and CEE data, which may be quite surprising, as the Czech PE market is among regional leaders.

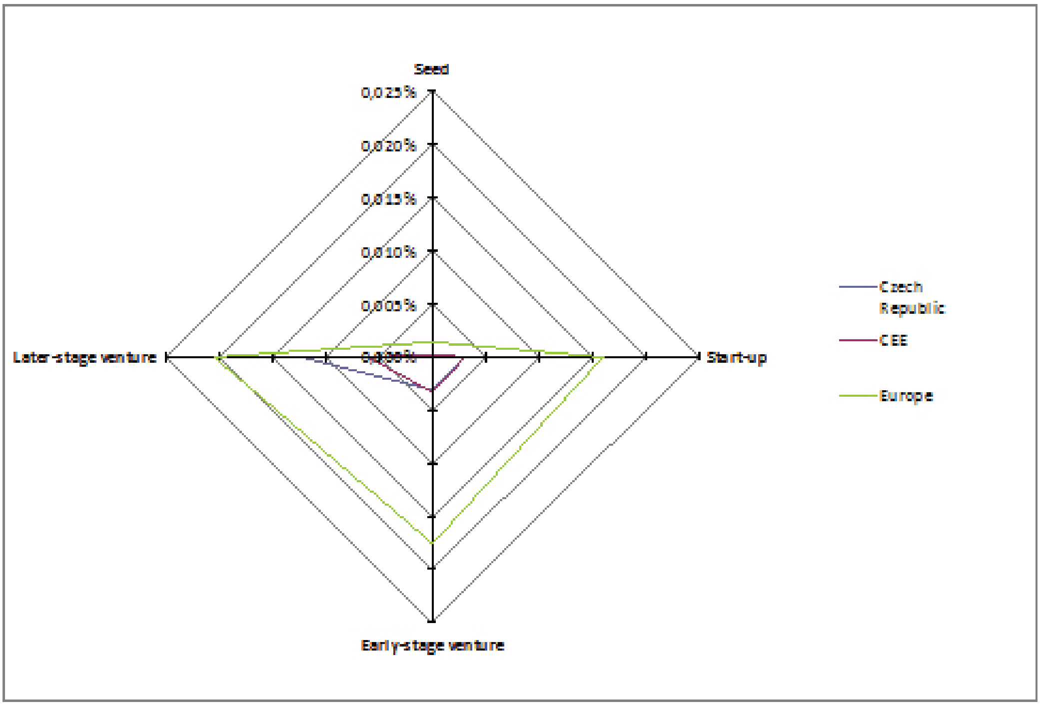
28) see EVCA (2010)
29) see EVCA (2010)
30) see EVCA (2010)

Chart 3: Venture capital investments to PE investments ratio by stage and region, 2008-2010, data source: EVCA



The following chart of investments value to GDP ratio confirms the results: as regards venture capital, the Czech market is underdeveloped in the European context. Early--stage deals do not even reach the CEE values in the Czech Republic. In this particular statistics, the influence of economic output differences on the market size is adjusted by using GDP as denominator in the calculation.

Chart 4: Venture capital stages, investments value to GDP ratio, 2008-2010, data source: EVCA, The World Bank



The comparison of both charts 3 and 4 indicates that whereas the later-stage venture shows lower investments to PE investments ratio in the Czech Republic than in the whole CEE region, the later-stage venture investments value to GDP ratio is about two times higher in the Czech Republic than in the CEE. This is caused by the above cited feature of the venture capital market in the Czech Republic – average deal value is much higher in the Czech Republic than in the rest of the CEE region (or even in Europe as a whole as regards later-stage venture). Thus, this creates a burden for companies seeking equity financing of lesser values.

According to CVCA findings,[31] PE/VC investing has not yet become a common investment method in the Czech Republic. Such funds are still regarded as alternative financing sources that entrepreneurs seek out only after they are rejected at a bank. One of the reasons for this is insufficiency of domestic sources of investment funds, upon which especially smaller venture capital oriented funds throughout Europe depend.

31) see CVCA (2010)

2. Results and discussion

Financing sources for PE/VC funds include in particular pension funds, insurance companies, banks, funds of funds, and government agencies. In the Czech Republic, the participation of pension funds and insurance companies in PE/ VC investing is significantly restricted by law. While large regional private equity funds are able to obtain funding from foreign institutions, smaller domestic funds oriented toward venture capital are too small and therefore uninteresting for such investors. Domestic sources for these funds are thus lacking. Another reason lies in legal barriers to establishing PE/VC funds within the Czech Republic. In the Czech Republic, we still encounter funds headquartered and based in foreign countries and which were established under different legal systems.

Since the 1990s, the entire financial market in the Czech Republic has been primarily focused on bank products and bank service providers. The market offers debt products for small and medium sized enterprises, but these products cannot cover all needs, mainly because of their nature (debt products). Small- and medium-sized enterprises are not able to fulfil credit guarantees and they lack a portion of equity that cannot be replaced by debt. Equity resources bring another major benefit, the know-how and experience with the commercialization of ideas and projects, which cannot be replaced by debt products.

Another reason still limiting expansion in PE/VC investments in the Czech Republic is that entrepreneurs are not prepared to accept a new partner with an equity share (the logic of "*a smaller share of a much bigger pie*"). To ensure a functional relationship between an investor and entrepreneur, it is essential that the two partners are in harmony and pursue the same goal as to the direction of the company. Only then will the invested funds be used to their best advantage and lead to the exit.

Given the evidence in the previous chapter, the Czech PE market is not able to allocate resources effectively to its venture capital segments mainly due to :[32]

- Risk aversion on the supply side leading to high minimum investment threshold
- Imperfect information on the demand side

If the Czech Republic pursues reaching the European average as benchmark, it has to fill-in a yearly gap in VC investments values of about 0.023 % GDP according to 2008-2010 figures, which represents € 33.4 million nowadays.

Stage-by-stage, the possible yearly equity gap amount is about € 2.2 million in seed, € 19.1 million in start-up and € 12.1 million in later-stage venture. The following Table 5 shows the differences relative to GDP.

32) compare with Pazour M., Marek, D. (2011)

Table 5: Possible yearly equity gap in the Czech VC market, GDP percentage, 2008-2010, data source: EVCA, EUROSTAT

	Czech Republic	Europe	Possible equity gap CZ
Seed	0,0000%	0,0015%	0,001%
Start-up	0,0031%	0,0161%	0,013%
Subtotal Early-stage	0,0031%	0,0175%	0,014%
Later-stage venture	0,0123%	0,0205%	0,008%
Total venture	0,0154%	0,0380%	0,023%

One of the main reasons is that the investment criteria applied by the VC funds operating in the Czech Republic actually exclude investments in the seed and start-up stages of SME development.[33] Even investments through the later-stage are limited given the minimum investment size of ca. € 1 million for most funds. Consequently, the majority of realized transactions are management buyouts or buy-ins and replacement or secondary purchase transactions.

The gap amount shall be calculated with regard to the real demand. There occurs imperfect information on the demand side, as the entrepreneurs are lacking practical knowledge on VC (including its indirect positive effects on business) and are usually not willing to share equity with investors. This obstacle has to be removed as well, if the Czech market should fill-in the equity gap.

Furthermore, the future impact of current development in the financial markets on the Czech VC may not be very positive. The recent regulatory measures tend to influence negatively the capital available from the funds' LPs. Less new money in the global PE market should influence even the Czech capital market, as most of the PE investors in Czech companies are represented by foreign PE/VC funds.[34] This adds another risk and uncertainty to the future development of the so far poor performing Czech VC market, mainly as regards investments under € 1-3 million. Leastwise, the change in legislation in the Czech Republic may be a positive factor, which may be further utilised by the VC investors after transposition of the AIFMD to the Czech law, which is expected in 2013.

The analysis of international data has approved the existence of an equity gap in the Czech Republic. This is in line with findings of other authors.[35] The perspective for future research is to analyse in more detail the causes of the situation on the market and to suggest steps that should help to bridge the equity gap and help prospective venture business plans to find financing to strengthen the competitiveness of the Czech Republic.

33) For instance due to higher expected IRR etc., compare with Zinecker, M. Rajchlová, J. (2010)
34) compare with The McKinsey Global Institute (2011) and Di Carlo, A., Kelly, R. (2010)
35) compare with Pazour M., Marek, D. (2011)

List of Abbreviations

AIFMDA	lternative Investment Fund Managers Directive (2011/61/EU)
BI	Business Incubator
BIC	Business Innovation Centre
CEE	Central and Eastern Europe
CoC	Cash-on-Cash
CVCA	Czech Venture Capital Association
ČRUIF	Český rozvojový, uzavřený investiční fond, a.s. (Seed/VC fund of the OPEI)
EIF	European Investment Fund
EUROSTAT	European Statistical Office
EVCA	European Venture Capital Association
GP	General Partner
IRR	Internal Rate of Return
LP	Limited Partner
MIT	Ministry of Industry and Trade of the Czech Republic
NPV	Net Present Value
OPEI	Operational Programme Enterprise and Innovation
PE	Private Equity
SMEs	Small and Medium Sized Enterprises
STP	Science-Technology Park
VC	Venture Capital

List of EVCA definitions

Private Equity: An asset class consisting of equity securities in operating companies that are not publicly traded on a stock exchange.

Buyout (Management buyout): Financing provided to enable current operating management and investors to acquire existing product lines or businesses; (Management buy-in) Financing provided to enable a manager or group of managers from outside the company to buy in to the company with the support of private equity investors.

Replacement capital: The purchase of minority stake of existing shares in a company from another PE firm of from another shareholder/s. It can be marked also as secondary purchase capital.

Rescue/Turnaround: Financing made available to an existing business, which has experienced trading difficulties, with a view to re-establishing prosperity.

Growth: Most often a minority investment in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. It is usually the first round of PE financing. Additionally, most investments made by buyout funds into venture stages would be defined as growth capital.

Venture Capital: A subset of PE, refers to equity investments made for the launch, early development or expansion of a business.

Later-stage venture: Financing provided for the expansion of an operating company, which may or may not be breaking even or trading profitably. Later-stage venture tends to finance companies already backed by VC and therefore involves third- or fourth- (or a subsequent) rounds of financing.

Early-stage venture: Provision of start-up and seed capital

Start-up: Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but not sold their product commercially.

Seed: Financing provided to research, asses and develop an initial concept before a business has reached the start-up phase.

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