CHAPTER -1

Private equity is a way of owning and investing in private companies. Private equity funds can invest in companies that are already privately-owned, perhaps by a family or entrepreneur; they can acquire businesses that exist as divisions or subsidiaries of larger companies, or they can acquire publicly-listed companies and take them private. The private equity ownership model allows a professional team of fund managers to take large stakes in private companies, to ensure they are run in the best interests of the underlying investors.

1.1 Definitions

Because of the rise in PE deals in the last decade, the term ‘private equity’ has been broadly used, inconsistently applied and frequently conflated with the term ‘venture capital’ (Gilligan & Wright, 2008). For the purpose of this study, PE is defined as an investment by a person (e.g. business angel) or an intermediary (e.g. managed investment fund, venture capital / private equity firms). As an equity partner the investor shares the profits and the risk of business failure. It excludes funds provided by existing owners, family, relations and friends. This definition encompasses both early stage (venture capital) and later-stage (expansion, turnaround, and buy-out) investments which is consistent with the view adopted by the Australian Bureau of Statistics (ABS, 2010). Given that this study focuses on PE investments among family firms (most of which are MSMEs), the amounts that may be invested may not be very large. As a consequence, definition of PE for the purpose of this study also includes investments by individuals (e.g. business angels) in addition to that of PE firms. We follow Wright, Robbie, Chiplin, & Albrighton (2000) in defining a buy-out as “the acquisition of an enterprise by a group of individual manager and investors”. This avoids the 'agency' problem of a dislocation between the owners of assets and how they are managed. For instance, for stock market-listed companies to run effectively, management-stewards have a large degree of control over how the company is run, with reference to widely dispersed shareholders. In state-controlled businesses, the dislocation to the ultimate owners, the taxpayer, is even wider. Other forms of company ownership, such as family companies, do not enable outside investors to access their returns.
The private equity ownership model can be applied to a wide range of company types, sizes, sectors and geographies. The common factor is that all investee companies have unrealized potential. Private equity investment will aim to unlock this potential. Private equity is considered to be a form of alternative investing, meaning that it contrasts traditional investing in bonds and stocks (Metrick, 2006). More specifically, private equity is a term that refers to any type of equity investment in an asset in which the equity is not freely tradable on a public stock market. Private equities are generally less liquid than publicly traded stocks and are thought of as a long-term investment (IFSL Research, 2008). In the past two decades this asset class has grown enormously (Kaplan and Schoar, 2005; IFSL Research, 2008). According to India Private Equity Report 2014, Global buyout activity in 2013 rose by 22% over 2012, though the deal count went down 11%. Deal activity bounced back in North America and Europe as it grew by 24% and 36%, respectively. Asia-Pacific’s deal value went down by 22%, driven by a steep decline in Japan, China, Australia and New Zealand, while India and Korea remained in the positive zone. Asia-Pacific’s deal activity was primarily impacted by growth slowing down, exit overhang building up and the inability in many instances to exert control. India witnessed a tough macroeconomic environment with muted year-over-year GDP growth of approximately 5%, inflationary pressures, about 11% currency depreciation and unstable interest rates. Despite overall slowdown, financial services, insurance, real estate and business services, as well as community, social and personal services, continued to grow at rates in excess of 6%. In the face of all these challenges, PE continues to play a major role in Indian capital needs. Indian PE and VC deal value increased by 16% to reach $11.8 billion in 2013 over 2012; deal volumes grew even faster at 26% over 2012. GPs pointed out that deals activity in 2013 was influenced by the macroeconomic situation, the exit environment and changes in valuation expectations. The number of PE and VC funds investing in India continued to increase. Approximately 150 funds from 2012, continued engaging in deals in 2013, while about 160 funds that did not invest in 2012 made investments in 2013. These factors are expected to continue to be key motivators of change in 2014.
1.2 Types of Private Equity

Private equity investing can be divided into four types: Venture capital, Mezzanine, Buyout and Distress investing also named Special situations (Metrick, 2006). Figure 1.2 exhibits the overlapping structure of the four categories and the intersection with another category of alternative investments, hedge funds. The largest rectangle in figure 1.2 contains all alternative investments, of which private equity and hedge funds are only two of the categories. Note that the circles and rectangles by no means match the size of the investing types, they rather serve to show overlap between the different categories.
Figure 1.2: Private equity investment strategies and Hedge funds

Source: Metrick (2006)

Venture capital

Venture capital on the far left, represents primarily investments in young, unquoted companies that have capacity for rapid growth. Frequently, these investments are in high-technology companies (Metrick, 2006; Wright and Robbie, 1998). Illustrations of early investments made by venture capital are recent successes of Google and YouTube. In 2007, global venture capital investments amounted $51.6bn (IFSL Research, 2008), representing 11 percent of the total amount invested in private equity globally. The United States is the world leader in venture capital accounting for approximately 60 percent of the global investments (IFSL Research, 2008). Venture capital investments have traditionally been concentrated in two sectors: information technology and healthcare (Metrick, 2006; Zarutskie, 2008). The former sector includes the communication, semiconductor, software and hardware industries the latter sector includes life sciences, medical equipment and other healthcare services. In line with Metrick’s (2006) findings, one can conclude that information technology and healthcare remain to be the primary sectors in which venture capital is invested. This concentration does not come as a surprise because venture capital is generally
invested in small companies with the potential to grow large quickly. Hence, venture capital investors search for businesses with large addressable markets. To realize headway in such markets, a company needs a technological advantage of some kind—therefore the venture capital focus on the high-tech industries within the sectors information technology and healthcare.

**Mezzanine**

The investment is typically structured as subordinated debt combined with equity participation in the form of options to buy common stocks (Metrick, 2006). The alternative meaning of mezzanine is also an investment in the form of subordinated debt combined with equity participation. However, not to serve as late-stage venture capital but to provide an extra layer of debt for leveraged buyouts. Nowadays, most private equity firms are doing this type of investing when pursuing a mezzanine investment strategy.

**Buyout**

Buyout represents investments that, in contrast to venture capital, generally take majority control in the acquired company (Kaplan and Strömberg, 2008; Metrick, 2006; IFSIL Research, 2008). In a typical buyout a business is acquired using a relatively small portion of equity, usually between 20 and 40 percent of the purchase price, and a relatively large portion of outside debt financing borrowed from banks, public markets and mezzanine investors (Axelson et al., 2008; Kaplan and Strömberg, 2008; Metrick, 2006). Hence, these investments are commonly referred to as leveraged buyouts (LBOs). Different from venture capital, buyout investments are usually in mature companies that operate in older cash rich industries (Kaplan and Strömberg, 2008; Metrick, 2006; Renneboog and Simons, 2005).

**Distress investing**

The last type of private equity is distress investing, also referred to as special situations. This category of private equity invests in troubled companies. Because distress investments are often buyouts, this type intersects with the category buyout (Metrick, 2006).
1.3 Private Equity vs. Hedge Funds

In Figure (1.2) the four types of private equity intersect with another category of alternative investing, hedge funds. Hedge funds share the same organizational structure as private equity. Differently, they invest in any possible asset class (e.g. real estate, commodities, bonds, public equity and private equity). In case hedge funds invest in private equity they do so with a different intention. Specifically, private equity funds are generally long-term investors, while hedge funds are short-term traders. For instance private equity funds that engage in distress investing will, after gaining control, operate and restructure the distressed firm before reselling it. In contrast hedge funds invest in distressed companies with the intention to make a trading profit by quickly reselling the securities (Metrick, 2006).

1.4 Structure of Private Equity Market

The organized private equity market consists of three main players: investors, intermediaries and issuers (Fenn et al., 1997). Figure 1.3 shows the interaction of these three players with each other.

**Figure 1.3: Organized Private Equity market**

**Investors**

The variety of groups that invest in private equity has increased significantly. Two decades ago it was mainly wealthy individuals that invested in early-stage private equity. Currently, institutional investors provide the lion’s share of capital followed by endowments, foundations, bank holding companies and high-net-worth individuals. Insurance companies, investment banks, nonfinancial corporations provide the rest. Recently a new category of investors, sovereign wealth funds, has emerged (Fenn et al., 1997; IFSL Research, 2008). Lastly, an additional player can be identified. Specifically, fund-of-funds serve as an intermediary between institutional investors and the specialized intermediaries.

**Intermediaries**

Four-fifth of all private equity investments are managed by specialized intermediaries. Most institutional investors invest in private equity via these intermediaries because of the fact that selecting, structuring and managing private equity investments requires specific skills. Almost all these intermediaries are organized as limited partnerships. Under the partnership arrangement, investors who provide the fund’s capital are the limited partners whereas the professionals running the fund are the general partners. These general partners are usually associated with partnership management firms, e.g. for buyout KKR and for venture capital KPCB (Kaplan and Schoar, 2005). Some, less than 20 percent, of the management companies are affiliations of financial institutions, for instance Goldman Sachs Principal Investment Area (Research, 2008). Funds managed by affiliated general partners are referred to as captive funds when they only invest for the parent or semi-captive if they invest for the parent and other institutional investors.

Limited partnerships typically have a ten to twelve-year life (Kaplan and Schoar, 2005). During this period, limited partners (investors) forgo all control over partnership. Potential conflicts between limited partners and general partners are addressed through general partners concern to establish a favourable track record. Namely, general partners need a good track record to raise new funds in the future. Secondly, potential conflict is addressed by making a significant portion of general partners’ compensation depend on the partnership’s profit (Fenn et al., 1997).
Through monitoring and the provision of advice, general partners frequently take an active role in the companies in which they invest. Often they gain voting control, including seats on board of directors. Besides monitoring, general partners assist in matters ranging from corporate strategy to locating customers (Fenn et al., 1997).

Intermediaries not organized as limited partnerships are Small Business Investment Companies (SBICs) and publicly traded investment companies. They, however, play a marginal role in private equity (Fenn et al., 1997). Institutional investors might also make direct investments, or co-invest along intermediaries, in private equity securities.

**Issuers**

Issuers of venture capital are young companies, often developing innovative technologies with significant growth capacity. These companies may still be in their R&D stage or early stage of commercialization. Alternatively, later-stage companies, those that have several years of sales but are still growing quickly, may issue venture capital. Issuers of buyout financing are generally stable and profitable private and public companies (Kaplan and Strömberg, 2008; Metrick, 2006; Fenn et al., 1997).

**1.5 Organizational Economics of Private Equity**

This section discusses the organizational economics of private equity and sheds light on the differences between the economics of venture capital and buyout-the two main sectors of the private equity industry. As discussed before both venture capital and buyout funds are typically organized as limited partnerships, in which the private equity firm serves as the general partner (GP) and the limited partners (LPs) consist of institutional investors and wealthy individuals providing the bulk of the capital. The GP has an agreed time period in which to invest the amount of capital provided by the LPs, usually five years. Moreover, the GP usually has ten to twelve years to return the provided capital to the LPs (Kaplan and Schoar, 2005). At the fund’s inception partnership agreements define the expected payments to GPs. Payments to GPs consist of a fixed component, an annual management fee, and a variable (performance based) component, carried interest. Traditionally management fees are assessed as a constant percentage of total committed capital by LPs. Carried interest represents a fixed share of the total profits earned by the partnership (Metrick and Yasuda, 2008).
Buyout fund managers also generate revenue by charging transaction and monitoring fees, aside from management fees and carried interest (Phalippou, 2009).

Private equity firms stay in business by launching subsequent funds every three to five years (Metrick and Yasuda, 2008). Kaplan and Schoar (2005) find strong performance persistence across subsequent funds of private equity firms. Gompers et al. (2006) conclude that a large fraction of success by top-tier venture capital firms can be attributed to skill. If the current fund performs well, and assuming that L.Ps expect performance to persist, and hence infer performance as skill rather than luck, one would expect the L.Ps’ demand curve for the subsequent fund to shift out. GPs may respond to this outward shift of the demand curve by either altering the terms of the new fund, so as to receive higher expected revenue for each dollar under management. Alternatively, they may enlarge the size of their new fund to mainly boost management fees, as these fees are calculated as a percentage of committed capital. Both responses allow GPs to capture the rents following from superior skill, as has been suggested for mutual funds by Berk and Green (2002).

Gompers and Lerner (1999), focusing exclusively on venture capital funds, provide evidence for relatively homogeneous compensation terms. In their sample most funds used compensation schemes with 1.5-2.5 percent management fees annually and 20 percent carried interest. Similarly, the venture capital and buyout funds assessed by Metrick and Yasuda (2008) exhibit homogeneous lifetime fee and carry levels among each type of private equity. Overall, there seems to be little evidence that all returns to superior skill are appropriated by the GPs through higher fees and greater profit sharing in subsequent funds.

Alternatively, in response to the outward demand shift, GPs may increase the size of their subsequent fund. Kaplan and Schoar (2005) conclude that better performing private equity partnerships are more likely to raise larger funds. Metrick and Yasuda (2008) shed light on striking differences between venture capital and buyout funds. They showed that buyout funds earn lower revenue per managed dollar than venture capital funds. Thus, on average, venture capital funds have fund terms in place that result in higher revenue per managed dollar. However, they find that buyout funds earn significantly higher revenue per partner and professional than venture capital
funds. Hence, buyout funds manage to more than make up for the lower revenue earned per managed dollar, by raising larger funds.

Furthermore, Metrick and Yasuda (2008) find the number of investments per general partner to be stable across the assessed buyout funds. The same is found across the scrutinized venture capital funds. Consequently, buyout GPs appropriate their superior return to skill by significantly increasing fund size and investing this capital in larger companies. In contrast, venture capital GPs are not able to appropriate their superior return to skill to the extent buyout GPs do. Namely, venture capital funds appear to have difficulties scaling up the size of each firm they invest in, a strategy that appears to be successfully executed by buyout firm. The best they can do to increase fund size is make more investments. This however requires more staff and does not increase the size of capital managed per partner, consequently failing to significantly increase revenue per partner. Overall, the buyout business is more scalable than venture capital.

This raises questions such as why do partnership management firms decide to pursue a certain investment strategy (e.g. why is KKR active in the buyout business and why KPCB in venture capital)? Why can buyout firms scale up the size of each firm they invest in and venture capital not? Why venture capital GPs do not change to a buyout investment strategy considering the higher revenue per partner earned in this category of private equity? A combination of the resource-based view (RBV) and human capital theory can possibly provide an answer to these questions.

1.6 Advantages of Private Equity

The main reason that firms consider PE above other types of investment is that some research has shown that, in general, PE-invested firms improved their performance and long-term value (Gurung & Lemer, 2008; Lemer, Sorensen, & Strömbärg, 2009). As Gurung & Lemer (2008) note, “While government- and family-owned firms, as well as firms owned by private individuals, have substantial ‘tails’ of badly managed firms, those owned by PE appear to be consistently well managed”. In the Australian context, the Economist Intelligence Unit (2008) found in its study of Australian executives attitudes towards PE that 79% of executives believed that with the arrival of PE firms will be more focused on efficiency and 68% believed that PE will also expand the strategic options of firms.
Private equity ownership has a number of important advantages that allow it to create value and realize capital gain in a repeatable fashion. The universe of potential company investments for private equity is huge.

1. It is a vast and unchartered land of opportunity. They can invest in unlisted companies that are at the beginning of their growth journey and in private hands they can invest in the unloved divisions of larger corporations; or they can take-private those listed companies that are unloved and under appreciated by the stock markets.

2. Private equity firms are extremely selective and spend significant resource assessing the potential of companies, to understand the risks and how to mitigate them. Managers will often drill down from thousands of potentials to the one company that has all the right characteristics to achieve growth.

3. Private equity firms invest in a company to make it more valuable over a number of years, before selling it to a buyer who appreciates that lasting value has been created. Private equity firms are therefore patient investors, unconcerned with short term performance targets. But assets are held for sale, so they always have their eyes on the prize.

4. The management team of companies owned by private equity are answerable to an engaged professional shareholder that has the power to act decisively to protect its shareholding. The combination of this clear accountability between company managers and shareholders combined with the need for a realization means that incentive structures can directly link tangible value with reward. There are no rewards for failure. Such clear accountability has many benefits. For instance, it gives comfort to potential lenders, allowing investments to be leveraged

1.7 Disadvantages of Private Equity

Investing in private companies presents a number of challenges that are reflected in the traditional private equity investment experience.

1. Restricted access. The traditional way of investing in private equity is through Limited Partnerships. These are institution-only vehicles are mainly open to
institutions and other larger sophisticated investors. They cannot be access by many types of investor.

2. Barriers to entry. Limited partnerships require investors to commit very large minimum amounts. Private companies are illiquid by their nature. Private equity firms expect to commit to each investment for several years. For this reason, Limited Partnerships are commonly structured as ten-year vehicles. Your money is ‘locked up’ for a decade or more.

3. Higher costs: Encompassing such a vast and unregulated opportunity set as the private company universe requires resource, infrastructure and expertise. The due diligence required can translate into higher costs.

1.8 Differences between Public Companies and Private. Equity-Backed companies

<table>
<thead>
<tr>
<th>Public companies</th>
<th>Private Equity-backed companies</th>
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<tbody>
<tr>
<td>Large number of small shareholders</td>
<td>Small number of large shareholders</td>
</tr>
<tr>
<td>Most shareholders have little or no operational input</td>
<td>Private Equity investors often on the board and involved operationally</td>
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<tr>
<td>Shareholders may have different agendas</td>
<td>Shareholders usually have the same agenda</td>
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<tr>
<td>Difficult for management to have a meaningful economic interest in the company</td>
<td>Management normally very highly incentivized and the incentives are aligned with the interests of other shareholders</td>
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<tr>
<td>Public companies often concentrate on short-term earnings figures - can make it hard to take tough decisions if it hits earnings</td>
<td>Shareholders not concerned about taking tough decisions if that is the optimal strategy</td>
</tr>
<tr>
<td>Need to seek shareholder approval for large transactions - costly, slow and time consuming</td>
<td>Very quick decision making process means companies can move swiftly and keep costs down</td>
</tr>
</tbody>
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## 1.9 Differences between Listed Private Equity and Limited Partnerships

**Table 1.2**

<table>
<thead>
<tr>
<th>Listed Private Equity</th>
<th>Limited Partnership Funds</th>
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</thead>
<tbody>
<tr>
<td>Usually evergreen (unlimited life)</td>
<td>Generally have a fixed life of 10 years</td>
</tr>
<tr>
<td>Usually fixed size, but can raise additional capital (both debt and equity) or return capital</td>
<td>Fixed size</td>
</tr>
<tr>
<td>Fees usually lower than LPs - shareholders often own management company</td>
<td>Fees typically 1.5 - 2% of commitments + 20% carry</td>
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<tr>
<td>Shares can be sold in the secondary market</td>
<td>Can be difficult to sell</td>
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<tr>
<td>Usually well diversified by deal type and vintage</td>
<td>Direct funds tend to be focused</td>
</tr>
<tr>
<td>Easy to rebalance portfolio private equity exposure</td>
<td>Active management of draw downs/exposure required</td>
</tr>
<tr>
<td>No co-investment opportunities for</td>
<td>Sometimes offer co-investment</td>
</tr>
<tr>
<td>Listed Private Equity</td>
<td>Limited Partnership Funds</td>
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<tr>
<td>-----------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>shareholders</td>
<td>opportunities</td>
</tr>
<tr>
<td>Company usually subject to at least some tax, though rarely material</td>
<td>Tax-transparent</td>
</tr>
<tr>
<td>Produce reports and accounts, but full disclosure often limited by commercial sensitivities</td>
<td>Detailed information on the investments available to investors</td>
</tr>
<tr>
<td>Shareholders not able to participate in the management of the company</td>
<td>Investors can sometimes participate on advisory boards</td>
</tr>
<tr>
<td>Shareholder democracy</td>
<td>Investors can change managers, but usually have few other powers</td>
</tr>
<tr>
<td>Can often buy at a discount</td>
<td>Initially invest at asset value</td>
</tr>
<tr>
<td>Realization proceeds usually reinvested, although some listed funds return capital. There can be cash drag pending reinvestment.</td>
<td>Realization proceeds are returned to investors</td>
</tr>
<tr>
<td>No minimum size and diversification can be achieved with a smaller number of holdings</td>
<td>High minimum size of investment - and investors need to invest in a wide range of direct funds to diversify properly</td>
</tr>
</tbody>
</table>
1.10 Private Equity Secondary Market

The private equity secondary market (also often called private equity secondary’s) refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. Sellers of private equity investments sell not only the investments in the fund but also their remaining unfunded commitments to the funds. By its nature, the private equity asset class is illiquid, intended to be a long-term investment for buy-and-hold investors. For the vast majority of private equity investments, there is no listed public market; however, there is a robust and maturing secondary market available for sellers of private equity assets.

Increasingly, secondary’s are considered a distinct asset class with a cash flow profile that is not correlated with other private equity investments. As a result, investors are allocating capital to secondary investments to diversify their private equity programs. Driven by strong demand for private equity exposure, a significant amount of capital has been committed to secondary investments from investors looking to increase and diversify their private equity exposure.

Investors seeking access to private equity have been restricted to investments with structural impediments such as long lock-up periods, lack of transparency, unlimited leverage, concentrated holdings of illiquid securities and high investment minimums.
Secondary transactions can be generally split into two basic categories:

1. Sale of Limited Partnership Interests – The most common secondary transaction, this category includes the sale of an investor's interest in a private equity fund or portfolio of interests in various funds through the transfer of the investor's limited partnership interest in the fund(s). Nearly all types of private equity funds (e.g., including buyout, growth equity, venture capital, mezzanine, distressed and real estate) can be sold in the secondary market. The transfer of the limited partnership interest typically will allow the investor to receive some liquidity for the funded investments as well as a release from any remaining unfunded obligations to the fund.

2. Sale of Direct Interests – Secondary Directs or Synthetic secondary’s, this category refers to the sale of portfolios of direct investments in operating companies, rather than limited partnership interests in investment funds. These portfolios historically have originated from either corporate development programs or large financial institutions.

1.11 Early History and Development of Venture Capital and Private Equity

The seeds of the US private equity industry were planted in 1946 with the founding of two venture capital firms: American Research and Development Corporation (ARDC) and J.H. Whitney & Company. Before World War II, venture capital investments (originally known as "development capital") were primarily the domain of wealthy individuals and families. In 1901 J.P. Morgan arguably managed the first leveraged buyout of the Carnegie Steel Company using private equity. Modern era private equity, however, is credited to Georges Doriot, the "father of venture capitalism" with the founding of ARDC and founder of INSEAD, with capital raised from institutional investors, to encourage private sector investments in businesses run by soldiers who were returning from World War II. ARDC is credited with the first major venture capital success story when its 1957 investment of $70,000 in Digital Equipment Corporation (DEC) would be valued at over $355 million after the company's initial public offering in 1968 (representing a return of over 500 times on its investment and an annualized rate of return of 101%). In January 1982, former United States Secretary of the Treasury William Simon and a group of investors acquired Gibson Greetings, a
producer of greeting cards, for $80 million, of which only $1 million was rumored to have been contributed by the investors. By mid-1983, just sixteen months after the original deal, Gibson completed a $290 million IPO and Simon made approximately $66 million. The success of the Gibson Greetings investment attracted the attention of the wider media to the nascent boom in leveraged buyouts. Between 1979 and 1989, it was estimated that there were over 2,000 leveraged buyouts valued in excess of $250 million.

During the 1980s, constituencies within acquired companies and the media ascribed the "corporate raid" label to many private equity investments, particularly those that featured a hostile takeover of the company, perceived asset stripping, major layoffs or other significant corporate restructuring activities. Among the most notable investors to be labeled corporate raiders in the 1980s included Carl Icahn, Victor Posner, Nelson Peltz, Robert M. Bass, T. Boone Pickens, Harold Clark Simmons, Kirk Kerkorian, Sir James Goldsmith, Saul Steinberg and Asher Edelman. Icahn developed a reputation as a ruthless corporate raider after his hostile takeover of TWA in 1985. Many of the corporate raiders were onetime clients of Michael Milken, whose investment banking firm, Drexel Burnham Lambert helped raise blind pools of capital with which corporate raiders could make a legitimate attempt to take over a company and provided high-yield debt ("junk bonds") financing of the buyouts.

One of the final major buyouts of the 1980s proved to be its most ambitious and marked both a high-water mark and a sign of the beginning of the end of the boom that had begun nearly a decade earlier. In 1989, KKR (Kohlberg Kravis Roberts) closed in on a $31.1 billion takeover of RJR Nabisco. It was, at that time and for over 17 years, the largest leverage buyout in history. The event was chronicled in the book Barbarians at the Gate: The Fall of RJR Nabisco. KKR would eventually prevail in acquiring RJR Nabisco at $109 per share, marking a dramatic increase from the original announcement that Shearson Lehman Hutton would take RJR Nabisco private at $75 per share. A fierce series of negotiations and horse-trading ensued which pitted KKR against Shearson and later Forstmann Little & Co. Many of the major banking players of the day, including Morgan Stanley, Goldman Sachs, Salomon Brothers, and Merrill Lynch were actively involved in advising and financing the parties. After Shearson's original bid, KKR quickly introduced a tender offer to obtain RJR Nabisco for $90 per share—a price that enabled it to proceed without the approval of RJR.
Nabisco's management. RJR's management team, working with Shearson and Salomon Brothers, submitted a bid of $112, a figure they felt certain would enable them to outflank any response by Kravis's team. KKR's final bid of $109, while a lower dollar figure, was ultimately accepted by the board of directors of RJR Nabisco. At $31.1 billion of transaction value, RJR Nabisco was by far the largest leveraged buyouts in history. In 2006 and 2007, a number of leveraged buyout transactions were completed that for the first time surpassed the RJR Nabisco leveraged buyout in terms of nominal purchase price. However, adjusted for inflation, none of the leveraged buyouts of the 2006–2007 periods would surpass RJR Nabisco. By the end of the 1980s the excesses of the buyout market were beginning to show, with the bankruptcy of several large buyouts including Robert Campeau's 1988 buyout of Federated Department Stores, the 1986 buyout of the Reveco drug stores, Walter Industries, FEB Trucking and Eaton Leonard. Additionally, the RJR Nabisco deal was showing signs of strain, leading to a recapitalization in 1990 that involved the contribution of $1.7 billion of new equity from KKR. In the end, KKR lost $700 million on RJR.

1.12 Age of the Mega-Buyout 2005–2007

The combination of decreasing interest rates, loosening lending standards and regulatory changes for publicly traded companies would set the stage for the largest boom private equity had seen. Marked by the buyout of Dex Media in 2002, large multi-billion dollar U.S. buyouts could once again obtain significant high yield debt financing and larger transactions could be completed. By 2004 and 2005, major buyouts were once again becoming common, including the acquisitions of Toys "R" Us, The Hertz Corporation, Metro-Goldwyn-Mayer and SunGard in 2005.

As 2005 ended and 2006 began, new "largest buyout" records were set and surpassed several times with nine of the top ten buyouts at the end of 2007 having been announced in an 18-month window from the beginning of 2006 through the middle of 2007. In 2006, private equity firms bought 654 U.S. companies for $375 billion, representing 18 times the level of transactions closed in 2003. Additionally, U.S. based private equity firms raised $215.4 billion in investor commitments to 322 funds, surpassing the previous record set in 2000 by 22% and 33% higher than the 2005 fundraising. The following year, despite the onset of turmoil in the credit markets in
the summer, saw yet another record year of fundraising with $302 billion of investor commitments to 415 fund Among the mega-buyouts completed during the 2006 to 2007 boom were: Equity Office Properties, HCA Alliance Boots and TXU.

In July 2007, turmoil that had been affecting the mortgage markets, spilled over into the leveraged finance and high-yield debt markets. The markets had been highly robust during the first six months of 2007, with highly issuer friendly developments including PIK and PIK Toggle and covenant light debt widely available to finance large leveraged buyouts. July and August saw a notable slowdown in issuance levels in the high yield and leveraged loan markets with few issuers accessing the market. Uncertain market conditions led to a significant widening of yield spreads, which coupled with the typical summer slowdown led many companies and investment banks to put their plans to issue debt on hold until the autumn. However, the expected rebound in the market after 1st May 2007 did not materialize and the lack of market confidence prevented deals from pricing. By the end of September, the full extent of the credit situation became obvious as major lenders including Citigroup and UBS AG announced major write downs due to credit losses. The leveraged finance markets came to a near standstill during a week in 2007. As 2007 ended and 2008 began, it was clear that lending standards had tightened and the era of "mega-buyouts" had come to an end. Nevertheless, private equity continues to be a large and active asset class and the private equity firms, with hundreds of billions of dollars of committed capital from investors are looking to deploy capital in new and different transactions.

1.13 Evolution of Private Equity in India

The seeds of Indian private equity industry were laid in the mid 80’s. The first generation venture capital funds which can be looked at as a subset of private equity funds were launched by financial institutions like ICICI and IFCI. In 1984, ICICI decided to launch its venture capital scheme to encourage start-up ventures in the private sector and emerging technology sector. This was followed by the establishment of Technology Development and Information Company Ltd. and IFCI sponsored Risk Capital and Technology Finance Corporation of India Ltd. Commercial banks like Canara Bank also came up with their own venture capital funds. Subsequently various regional venture capital funds came up in Andhra Pradesh and Gujrat. In late 80’s and early 90’s various private sector funds also came
into being. Between 1995-2000, several foreign PE firms like Baring PE Partners, CDC Capital, Draper International, HSBC Private Equity and Warbug Pincus also started coming. Firms like Chrys Capital and West Bridges Capital set up by managers of Indian origin with foreign capital also embarked into India with a focus on IT and internet related investments in tune with the technology boom in US during the period 2005. During the mid 90’s laws for venture capital funds formally started taking shape. The SEBI(Venture Capital Funds), regulations, 1996. These regulations were amended in 2000. The PE industry slowed down between 2001-03 after the technology boom burst in US 2000. Many foreign PE investors fled India during that period. Investment activity revived in 2004 with the upward trend in domestic stock market. Six PE backed companies went public successfully. However, despite a long history, the penetration of PE capital into India remains a miniscule 0.61 percent of GDP today.

In India too, private equity has been emerging as a potential source of finance for corporate supplementing the traditional sources of resource mobilization such as public equity issues, private placements, euro issues, and external commercial borrowings. The key driving factors behind the flow of private equity capital into India are its strong macroeconomic fundamentals characterized by high growth rate, high gross domestic investment and a booming stock market. In fact, private equity interest in India grew from 2003 onwards when the domestic stock markets recorded higher returns. A booming secondary market and regulatory reforms in the primary market widened the exit possibilities for private equity firms and hence attracted them to India. Over the last few years, private equity has emerged as a potential source of finance for the cash strapped small and medium enterprises, infrastructure sector, education and environment sensitive sectors too. The number of private equity deals increased from 82 in 2004 to 439 in 2007 with the total investment rising from US$ 1719 million in 2004 to US$ 13,269 million in 2007. Private equity mainly flowed into banking and financial services, construction and real estate, information technology, media and entertainment and other sectors. During 2012 maximum private equity investment was in the healthcare sector.

1.14 Regulation of Private Equity in India: In India, private equity is not a regulated activity, per se (Gopinath; 2009). However, indigenous and foreign venture capital funds are regulated by SEBI (Venture Capital Funds) Regulations, 1996 and
Foreign Venture Capital Funds Regulations, 2000. Further, private equity/venture capital funds investments from abroad have to adhere to the restrictions on foreign capital inflows. In other words, although there may not be any explicit regulations for private equity fundraising and investment in India like in US and UK, private equity funds are regulated within the ambit of existing regulations.

1.15 SEBI (Venture Capital Funds) Regulations, 1996

Venture capital, which can be looked at as a subset of private equity, has been under regulatory oversight since 1996 when the SEBI (Venture Capital Funds) Regulations, 1996 came into existence. This legislation enumerated the norms for registration of venture capital funds, investment conditions and restrictions, general obligations and responsibilities and investigation and inspection. Under this, venture capital funds are prohibited from inviting subscription from public. They can only obtain funds through private placement of units. Further, no venture capital funds shall be eligible to list on a recognized stock exchange till the expiry of three years from the date of issuance of its units. Restrictions on investment conditions include disclosure of investment strategy at the time of registration of funds and investment in a particular undertaking shall not exceed 25 per cent of the corpus of the fund, etc.

1.16 Foreign Venture Capital Funds Regulations, 2000

Subsequently, SEBI introduced Foreign Venture Capital Investors (FVCI) Regulations in 2000 to enable foreign funds to register with SEBI and avail of some benefits which are otherwise not available under FDI route. Some of these benefits include no lock up of shares held by registered investors and exemption from applicability of valuation norms, thereby enabling investors to buy and sell shares in Indian unlisted companies at prices they deem appropriate, upon mutual agreement between buyers/sellers. However, they cannot invest more than 33.3 per cent of the investible funds in shares of listed companies or debt instruments. Further, the provisions of SEBI (Substantial Acquisitions of Shares and Takeover) Regulations, 1997 do not apply to shares transferred from an FVCI to the promoters of the company or the company itself. Thus if the promoters intend to buy-back their shares from FVCI, they will not be required to comply with the public offering requirements of the Takeover Code. FVCIs registered with SEBI are ‘Qualified Institutional
Buyers’ under SEBI (Disclosure and Investor Protection) Guidelines, 2000 and hence are eligible to participate in the primary issuance process. They are subject to regular inspection and investigation by SEBI. Further, Indian venture capital funds (VCFs) are entitled to tax benefits under Section 10(23FB) of the Income Tax Act (1961) under which any income earned by SEBI registered VCF, established either as a trust or company, to raise funds for investment in VCF, is exempt from tax. Further, FVCIs particularly benefit from the Section 90(2) of Income Tax Act which provides relief from double taxation to non resident investors residing in countries with whom India has Double Tax Avoidance Agreement such as Mauritius. Mauritius is now increasingly used by foreign investors to establish offshore entities and invest into Indian VCFs, thus benefiting from the tax avoidance treaty. However, while considering an FVCI application, SEBI reviews the applicant’s track record, professional competence, financial soundness, experience, general reputation, whether the applicant is regulated by an appropriate foreign regulatory authority or is an income tax payer, amongst other factors. However, it is not mandatory for a foreign venture capital fund to register with SEBI. They can still invest in India via the foreign direct investment route subject to compliance with applicable securities pricing norms.

1.17 Restrictions on Inflow of Foreign Private Equity

Foreign venture and private equity funds came to invest in India through the FDI route. Foreign investments, either through FII route or FDI route, are subject to sectoral caps. Government of India has imposed investment limits for FIIs of 10 per cent and the maximum FII investment in each publicly listed company may at times be lower than the sectoral cap for foreign investment in that company. Under the FDI route, FIPB approval is required for foreign investments where the proposed shareholding is above the prescribed sector cap or for investments in sectors where FDI is not permitted or where it is mandatory that proposals be routed through the FIPB. Very recently, the Foreign Investment Promotion Board has ruled that foreign investment can flow into private equity funds registered as trusts. The Department of Industrial Policy and Promotion is framing the guidelines for allowing investments in trusts that invest in companies, especially start-ups, with the aim of long-term capital gains.
1.18 Prudential Regulations for Private Equity

As of now, there are no prudential regulations on private equity unlike Indian banks. However, keeping in view that Indian financial sector is largely bank-intermediated and there have been recent cases of Indian banks engaging in sponsoring and managing private pools of capital such as venture capital funds and infrastructure funds, the Reserve Bank of India had mandated maintenance of certain level of economic capital in some of the cases approved in the recent past (Gopinath, 2009). Further, in the Annual Policy Statement 2009-10, RBI has proposed to issue a paper on prudential issues in banks floating and managing private pools of capital. However, legal caution still prevails with respect to private equity investment into leveraged buyouts and exit through foreign listing. The laws for leveraged buyout of Indian companies are not conducive. Companies Act 1956, Section 77(2) prohibits a public company (or a private company which is a subsidiary of a public company) from providing any financial assistance whether by means of guarantee, provision of security in connection with purchase of their shares or shares of their holding companies. Further, if a public company is listed, prior to being acquired in a LBO, the company must delist and convert itself to a private company. FIPB’s Press Note 9 bars a foreign investment company from borrowing from an Indian bank to buy into a company in India (Chokshi, 2007). While exit of private equity investment through domestic public listing is under the process of liberalization, laws still hold back exit through foreign listing. SEBI guidelines require mandatory listing of Indian companies on domestic exchange prior to foreign listing. Bulk of the private equity transactions in India are minority transactions. This is because in a large number of Indian companies, management control rests with promoters who may not want to divest their controlling stake for additional capital. In the absence of control, it may be difficult to finance a minority investment using leverage given the control over the cash flows of the target company to service the debt. Further, a minority private equity investor will be unable to sell its holding to a strategic buyer, thereby limiting the exit options available for the investment.

Besides, there are restrictions on the use of investment instruments. Funds investing in Indian companies have the option of investing in equity shares, preference shares, debentures and other instruments depending on the status of the portfolio company.
i.e. whether it is a private limited company, public unlisted or public listed company. Usage of innovative customized instruments while investing in private limited companies require the prior approval of Government. Hence, private equity investors mostly subscribe to traditional instruments while investing in private companies. Even within the available instruments, investing in preference shares and debentures raises several regulatory restrictions. For example, proceeds raised by non convertible/optionally convertible debentures or preference shares cannot be used for general corporate purposes. Also such instruments need to have a minimum maturity period and cap on the coupon payable, if they are to be issued without approval (Gandhi, 2008).

1.19 Prospects of Private Equity Market in India

The shift in financial conditions since the US sub-prime crisis in August 2007 has magnified vulnerabilities that extend beyond the mortgage markets. Tangentially related markets like the leveraged buyout market are being affected through second and third order effects as concerns in structured finance markets triggered a broad-based increase in risk premium and induced a reluctance to lend, a reduced distinction between investments and other changes in market psychology (GFSR; 2008). At higher leverage and price multiples, the LBO business of private equity firms are facing high economic risks today. The Global Financial Stability Report of IMF, 2008 has stated that private equity deals are most sensitive to situations of high growth and high interest rates. Rising interest rates have been squeezing the interest coverage ratios (cash flows relative to cash interest payments) and consequently narrowing the gains to private equity holders on LBO targets. The medium term prospects also appear challenging for LBO market because most recent deals are likely to face financing difficulties. Private equity firms may not be able to secure financing on attractive terms and may also have to carry more demanding debt service burden than anticipated in the coming months (GFSR; 2008). Given this gloomy scenario in the rest of the world, what are the prospects for the private equity inflow into India?

The correlation between developed world markets and emerging markets have increased in recent years due to opening up of the trade and financial sector. But due to the gradual pace of opening of the economy, efficient regulatory supervision, strong domestic demand and comparatively limited dependence on foreign trade,
economies like India have been able to partially shield themselves from the uncertainties in the rest of the world economy. Thus when the rest of the world has submerged into a recession after the global financial crisis, India has revived relatively faster from the initial contagion of global downturn. India’s growth prospects remain robust with the growth forecast for 2009-10 at 6.5 per cent and gross domestic investment expected to be steady at 36.5 per cent of GDP (estimates of PM’s Economic Advisory Council). India’s industrial and service sector growth remains resilient. Given this congenial investment climate and sound business outlook, India remains a relatively high-return and low risk source of diversifying returns for private equity investments.

However, fresh private equity inflows may witness some rearrangement in portfolio allocations in the near term. Thus while there may be a trend away from sectors like manufacturing and export oriented IT sectors because of slowdown, banking and financial institutions, media and entertainment and telecom sectors may see more inflows in the coming years given the Government’s proposal to infuse more reforms into these sectors (PwC, 2008). Further, capital market reforms may also reinforce growth of private equity finance. SEBI has amended SEBI (Disclosure and Investor Protection) guidelines and listing agreement to reduce the time duration for Rights issue to 43 days from the present 109 days. Efforts are on to squeeze the IPO process to the international best practice of 7 days from the current 21 days. SEBI has also eased SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations, 1997 to extend the creeping acquisitions limit beyond 55 per cent. Under this, SEBI has done away with the requirement of public announcement by non-promoters before acquiring stake in any company. The efforts towards setting up of stock exchange for small and medium enterprises and easing of several public listing norms including reduction of the time period for listing would go a long way in attracting private equity investment into India. Emphasis on infrastructure development and affordable housing will also attract private equity investment into India in a big way. However, tougher trading conditions throughout most economic sectors would shift the way private equity firms create value. Whereas previously private equity firms have achieved high returns through acquisitions, balance sheet restructuring and rising valuations, today they may have to emphasize on growth improvements for which organizational changes and operational improvements would become essential.
1.20 Private Equity Terminology

**Acquisition** – The process of taking over a controlling interest in another company. Acquisition also describes any deal where the bidder ends up with 50 per cent or more of the company taken over.

**Advisory board** – An advisory board is common among smaller companies. It is less formal than the board of directors. It usually consists of people, chosen by the company founders, whose experience, knowledge and influence can benefit the growth and direction of the business. The board will meet periodically but does not have any legal responsibilities in regard to the company.

**Alternative assets** – This term describes non-traditional asset classes. They include private equity, venture capital, hedge funds and real estate. Alternative assets are generally more riskier than traditional assets, but they should, in theory, generate higher returns for investors.

**Bridge loan** – a kind of short-term financing that allows a company to continue running until it can arrange longer-term financing. Companies sometimes seek this because they run out of cash before they receive long-term funding; sometimes they do so to strengthen their balance sheet in the run up to flotation.

**Business angels** – Individuals who provide seed or start-up finance to entrepreneurs in return for equity. Angels usually contribute a lot more than pure cash – they often have industry knowledge and contacts that they can pass on to entrepreneurs. Angels sometimes have non-executive directorships in the companies they invest in.

**Buy-out** – This is the purchase of a company or a controlling interest of a corporation’s shares. This often happens when a company’s existing managers wish to take control of the company.

**Capital commitment** – Every investor in a private equity fund commits to investing a specified sum of money in the fund partnership over a specified period of time. The fund records this as the limited partnership’s capital commitment. The sum of capital commitments is equal to the size of the fund. Limited partners and the partner must make a capital commitment to participate in the fund.
**Carried interest** – The share of profits that the fund manager is due once it has returned the cost of investment to investors. Carried interest is normally expressed as a percentage of the total profits of the fund. The industry norm is 20 per cent. The fund manager will normally therefore receive 20 per cent of the profits generated by the fund and distribute the remaining 80 per cent of the profits to investors.

**Company buy-back** – The process by which a company buys back the stake held by a financial investor, such as a private equity firm. This is one exit route for private equity funds.

**Debt financing** – This is raising money for working capital or capital expenditure through some form of loan. This could be by arranging a bank loan or by selling bonds, bills or notes (forms of debt) to individuals or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise to repay principal.

**Due Diligence** – Investing successfully in private equity at a fund or company level, involves thorough investigation. As a long-term investment, it is essential to review and analyze all aspects of the deal before signing. Capabilities of the management team, performance record, deal flow, investment strategy and legal’s, are examples of areas that are fully examined during the due diligence process.

**Early-stage finance** – This is the realm of the venture capital – as opposed to the private equity firm. A venture capitalist will normally invest in a company when it is in an early stage of development. This means that the company has only recently been established, or is still in the process of being established – it needs capital to develop and to become profitable. Early-stage finance is risky because it’s often unclear how the market will respond to a new company’s concept. However, if the venture is successful, the venture capitalists return is correspondingly high.

**Equity financing** – Companies seeking to raise finance may use equity financing instead of or in addition to debt financing. To raise equity finance, a company creates new ordinary shares and sells them for cash. The new share owners become partly owners of the company and share in the risks and rewards of the company’s business.

**Exit** – Private equity professionals have their eye on the exit from the moment they first see a business plan. An exit is the means by which a fund is able to realize its
investment in a company by an initial public offering, a trade sale, selling to another private equity firm or a company buy-back. If a fund manager can’t see an obvious exit route in a potential investment, then it won’t touch it. Funds have the power to force an investee company to sell up so they can exit the investment and make their profit, but venture capitalists claim this is rare – the exit is usually agreed with the company’s management team.

**General partner** – This can refer to the top-ranking partners at a private equity firm as well as the firm managing the private equity fund.

**Green field job creation** - Originally, in IT, it referred to an application written or installed from scratch.

**Holding period** – This is the length of time that an investment is held. For example, if Company A invests in Company B in June 1996 and then sells its stake in June 1999, the holding period is three years.

**Incubator** – An entity designed to nurture business ideas or new technologies to the point that they become attractive to venture capitalists. An incubator typically provides physical space and some or all of the services – legal, managerial, technical – needed for a business idea to be developed. Private equity firms often back incubators as a way of generating early-stage investment opportunities.

**Institutional buy-out (IBO)** – If a private equity firm takes a majority stake in management buy-out, the deal is an institutional buy-out. This is also the term given to a deal in which a private equity firm acquires a company outright and then allocates the incumbent and/or incoming management a stake in the business.

**Initial public offering (IPO)** – An IPO is the official term for ‘going public’. It occurs when a privately held company – owned, for example, by its founders plus perhaps its private equity investors – lists a proportion of its shares on a stock exchange. IPOs are an exit route for private equity firms. Companies that do an IPO are often relatively small and new and are seeking equity capital to expand their businesses.

**Internal rate of return (IRR)** – This is the most appropriate performance benchmark for private equity investments. In simple terms, it is a time-weighted return expressed
as a percentage. IRR uses the present sum of cash draw downs (money invested), the present value of distributions (money returned from investments) and the current value of unrealized investments and applies a discount.

**Later stage finance** – Capital that private equity firms generally provide to established, medium-sized companies that are breaking even or trading profitably. The company uses the capital to finance strategic moves, such as expansion, growth, acquisitions and management buy-outs.

**Lead investor** – The firm or individual that organizes a round of financing, and usually contributes the largest amount of capital to the deal.

**Leveraged buy-out (LBO)** – The acquisition of a company using debt and equity finance. As the word leverage implies, more debt than equity is used to finance the purchase, e.g. 90 per cent debt to ten per cent equity. Normally, the assets of the company being acquired are put up as collateral to secure the debt.

**Limited partners** – Institutions or individuals that contribute capital to a private equity fund. LPs typically include pension funds, insurance companies, asset management firms and fund of fund investors.

**Limited partnership** – The standard vehicle for investment in private equity funds. A limited partnership has a fixed life, usually of ten years. The partnership’s general partner makes investments, monitors them and finally exits them for a return on behalf of the investors – limited partners. The GP usually invests the partnership’s funds within three to five years and, for the fund’s remaining life, the GP attempts to achieve the highest possible return for each of the investments by exiting. Occasionally, the limited partnership will have investments that run beyond the fund’s life. In this case, partnerships can be extended to ensure that all investments are realized. When all investments are fully divested, a limited partnership can be terminated or ‘wound up’.

**Lock-up period** – A provision in the underwriting agreement between an investment bank and existing shareholders that prohibits corporate insiders and private equity investors from selling at IPO.

**Management buy-in (MBI)** – When a team of managers buys into a company from outside, taking a majority stake, it is likely to need private equity financing. An MBI
is likely to happen if the internal management lacks expertise or the funding needed to ‘buy out’ the company from within. It can also happen if there are succession issues – in family businesses, for example, there may be nobody available to take over the management of the company. An MBI can be slightly riskier than a MBO because the new management will not be as familiar with the way the company works.

Management buy-out (MBO) – A private equity firm will often provide finance to enable current operating management to acquire or to buy at least 50 per cent of the business they manage. In return, the private equity firm usually receives a stake in the business. This is one of the least risky types of private equity investment because the company is already established and the managers running it know the business – and the market it operates in – extremely well.

Mezzanine Financing – This is the term associated with the middle layer of financing in leveraged buy-outs. In its simplest form, this is a type of loan finance that sits between equity and secured debt. Because the risk with mezzanine financing is higher than with senior debt, the interest charged by the provider will be higher than that charged by traditional lenders, such as banks. However, equity provision – through warrants or options – is sometimes incorporated into the deal.

Portfolio – A private equity firm will invest in several companies, each of which is known as a portfolio company. The spread of investments into the various target companies is referred to as the portfolio.

Portfolio Company – This is one of the companies backed by a private equity firm.

Private equity – This refers to the holding of stock in unlisted companies – companies that are not quoted on a stock exchange. It includes forms of venture capital and MBO financing.

Private Placement – When securities are sold without a public offering, this is referred to as a private placement. Generally, this means that the stock is placed with a select number of private investors.

Public to Private – This is when a quoted company is taken into private ownership – more recently by private equity firms. Historically, this has involved a large company
selling one of its divisions. A new trend has been for whole companies to be bought out and subsequently delisted.

Secondary’s – The term for the market for interests in venture capital and private equity limited partnerships from the original investors, who are seeking liquidity of their investment before the limited partnership terminates. An original investor might want to sell its stake in a private equity firm for a variety of reasons: it needs liquidity, it has changed investment strategy or focus or it needs to re-balance its portfolio. The main advantage for investors looking at secondaries is that they can invest in private equity funds over a shorter period than they could with primaries.

Seed Capital – The provision of very early stage finance to a company with a business venture or idea that has not yet been established. Capital is often provided before venture capitalists become involved. However, a small number of venture capitalists do provide seed capital.

Strategic Investment – An investment that a corporation makes in a young company that can bring something of value to the corporation itself. The aim may be to gain access to a particular product or technology that the start-up company is developing, or to support young companies that could become customers for the corporation’s products. In venture capital rounds, strategic investors are sometimes distinguished from venture capitalists and others who invest primarily with the aim of generating a large return on their investment.

Syndication – The sharing of deals between two or more investors, normally with one firm serving as the lead investor. Investing together allows venture capitalists to pool resources and share the risk of an investment.

Turnaround – Turnaround finance is provided to a company that is experiencing severe financial difficulties. The aim is to provide enough capital to bring a company back from the brink of collapse. Turnaround investments can offer spectacular returns to investors but there are drawbacks: the uncertainty involved means that they are high risk and they take time to implement.

Venture Capital - The term given to early-stage investments. There is often confusion surrounding this term. Many people use the term venture capital very loosely and what they actually mean is private equity.