



# How does a venture capitalist appraise investment opportunities?

Michael Queen - Finance Director, 3i Group plc  
A presentation to: 2003 Pensions Convention  
2 June 2003

1

---

---

---

---

---

---

---

---

How does a venture capitalist appraise investment opportunities?  
A presentation to: 2003 Pensions Convention



## Contents

- Overview of the private equity market
- The investment lifecycle
- Early-stage technology / life sciences vs established businesses
- The investment decision – key considerations
- Pricing investment opportunities

2

---

---

---

---

---

---

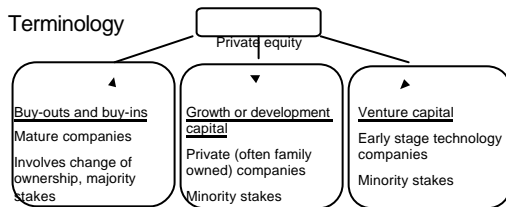
---

---

How does a venture capitalist appraise investment opportunities?  
1. Overview of the private equity market



## Terminology



3

---

---

---

---

---

---

---

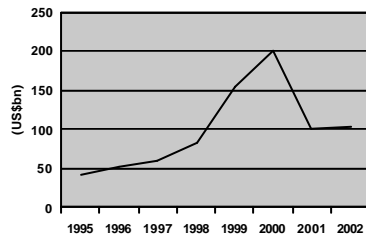
---

How does a venture capitalist appraise investment opportunities?

1. Overview of the private equity market



## Global investment trends



Source: Global Private Equity 2002 (3i/PwC) – (2002 fig is estimate)

---

---

---

---

---

---

---

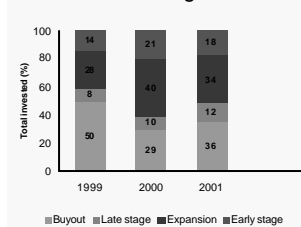
---

How does a venture capitalist appraise investment opportunities?

1. Overview of the private equity market



## Stage of investment - % of global market



Source: Global Private Equity 2002 (3i/PwC)

---

---

---

---

---

---

---

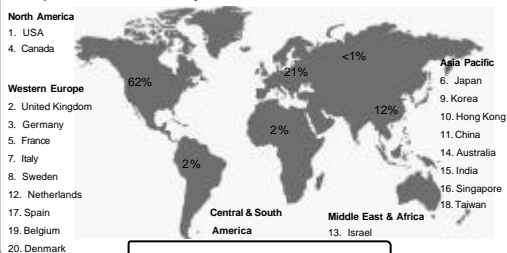
---

How does a venture capitalist appraise investment opportunities?

1. Overview of the private equity market



## Top 20 countries by investment



Source: Global Private Equity 2002 (3i/PwC)

---

---

---

---

---

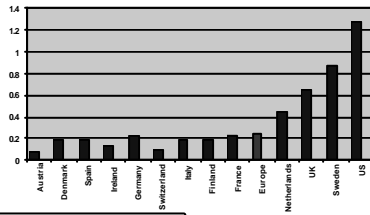
---

---

---



### Private equity investment as % of GDP



Source: EVCA Yearbook 2002

7

---

---

---

---

---

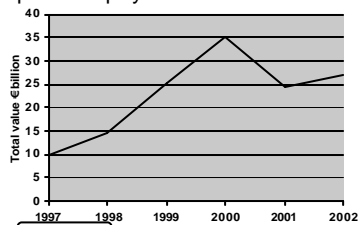
---

---

---



### European private equity investment



Source: EVCA

8

---

---

---

---

---

---

---

---



### Role of the venture capitalist

- Originating investment opportunities
- Investment execution process
- Value growth strategy implementation
- Management of exit

9

---

---

---

---

---

---

---

---



### Originating investment opportunities

- Visibility (and credentials)
- Relationships (intermediaries, research organisations, etc)
- Direct marketing to corporates (and others)
- Active acquisition searches

10

---

---

---

---

---

---

---

---



### Investment execution process

- Business plan
- Scheme design and negotiation
- Management team
- Funding
- Due diligence
- Internal reviews and approvals
- Legal documentation
- Completion

11

---

---

---

---

---

---

---

---



### Value growth strategy implementation

- Developing the value growth strategy
- Strengthening management team
- Finance
- Professional contacts
- Industry contacts
- General advice and monitoring

12

---

---

---

---

---

---

---

---

How does a venture capitalist appraise investment opportunities?  
2. The investment lifecycle



### Management of exit

- Planning for exit
- Ongoing consideration of exit options and timing
- Appointing and instructing advisers

13

---

---

---

---

---

---

---

How does a venture capitalist appraise investment opportunities?  
3. Early-stage technology / life sciences vs established businesses



### Different attributes

- Risk assessment
- Financial projections / forecasts
- Valuation
- Lack of tangible assets
- Unpredictability of cash flows
- Cash absorbing
- Syndication & corporate strategic investors
- Funding – business operating costs vs acquisition

14

---

---

---

---

---

---

---

How does a venture capitalist appraise investment opportunities?  
4. The investment decision – key considerations



### What makes a successful investment?

- Strong, well-balanced management team
- Competitive position in a growing market
- Clear strategy for value creation
- Well-executed exit plan
- Sensible use of third party gearing
- Alignment of interests of management and other shareholders
- Sound management information systems
- Understanding shortcomings and addressing them

15

---

---

---

---

---

---

---

How does a venture capitalist appraise investment opportunities?

4. The investment decision – key considerations



### Assessing and validating the value proposition

- Sector knowledge
- Developing value growth strategy (with management)
- Financial engineering
- Exit strategy
- Investment approval process
- Due diligence
- Post-deal action plan

16

---

---

---

---

---

---

---

How does a venture capitalist appraise investment opportunities?

5. Pricing investment opportunities



### Returns reflecting risks of the opportunity

- Judgment / experience
- Ability to manage / change / flex risks and returns
  - Financial engineering
  - Management team capability
  - Value growth strategy
  - Exit assumptions and timing
  - Vendor finance
  - Management stake
- Pricing - broad rules of thumb

17

---

---

---

---

---

---

---



# thank you

[www.3i.com](http://www.3i.com)

18

---

---

---

---

---

---

---