

MVC training session #1

Intro to the Primary Market

Primary vs. Secondary market

Primary market

- Fundraising
 - Privately Offered Fund
 - Public Offering of Fund (IPO)
- Corporate Savings→Capital

Secondary market

- Stock Market
- Capital Realization + Circulation

From Founding to IPO

Venture Capital

Growth Equity

Private Equity

IPO

matrix
PARTNERS CHINA
经纬中国

Blackstone

IDG Capital

KKR



Venture Capital (VC)

- **Funding Rounds :**

- Seed—B round

- **Project Cycle:**

- 3-5 years

- **Examples:**

- IDG
- Matrix Partners.

- **Sellside:**

- Small size
- Low valuation
- (Almost) unprofitable
- New ideas/technologies not yet been proven in the market

- **Buyside:**

- High risk
- Smaller investment amount (2-10 million / 10-20% equity)
- Large number of projects (2008-2015: 280 companies/seven years)

Private Equity(PE)

- **Funding Rounds:**

- C—IPO

- **Project Cycle:**

- 2-3 years

- **Examples:**

- Blackstone
- KKR

- **Sellside:**

- Larger in size
- Relatively mature
- Stable ARR ($\geq 10M$), GRR ($\geq 90\%$)

- **Buyside:**

- Higher investment amount (\$50M-hundreds of millions)
- Ability to identify and tolerate certain risks

Financial Advisor (FA)

- **Main Purpose:**

- “Mediator” between startup and investors
- Promote funding of projects

- **Representative FA institutions:**

- Dana Investment Advisors
- Salem Investment Counselors

- **For Investors:**

- “Project filter”: filtering, matching projects

- **For Start-Ups:**

- “Specialists”: lead the way to speed up the financing process
- Customized financing solutions
- Draft BP
- Calculate equity structure
- Arranging roadshows

Fund's operating model

Participating entities and corresponding responsibilities:

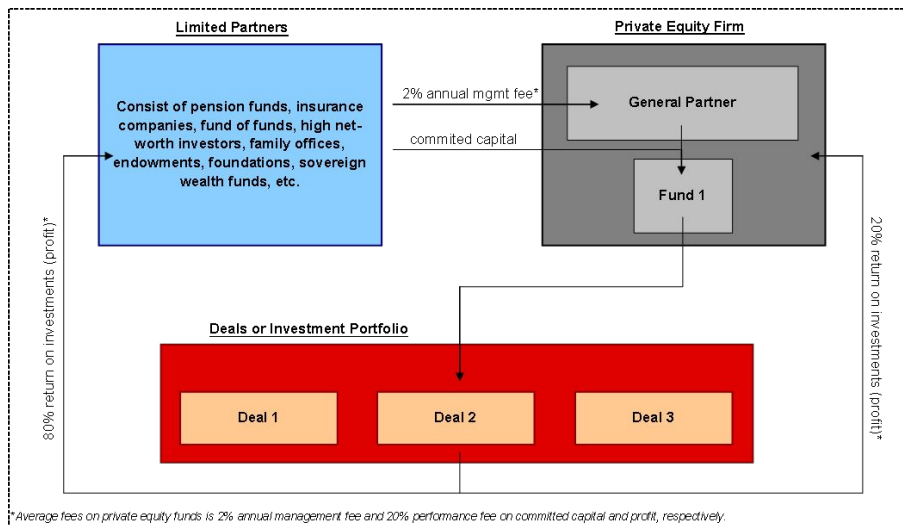
- LP: Limited Partner, contributes money
- GP: General Partner, contributes to the effort
- FA: boutique investment banker, brokering deals
- Startups

Flow of funds and distribution of revenue:

- Flow of funds and distribution of revenue.
- LP→GP: Management fee
- Between LP and GP: Distribution of excess returns
- Return for FA

Motivations behind:

- Consistency of interests between GP and LP



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Specific examples:

- Company that "successfully penetrated the depths of a narrow niche": Grammarly
- Company that seized the opportunity and untapped demand: Hopin (virtual convention SaaS)
- Imaginative company: Canva
- Companies with unique competitive advantages in core technologies

What unicorns mean to VCs: they tend to emerge in regions where innovation is concentrated and dynamic, and their industries tend to be technology-leading and boundary-breaking

How VCs create value

Top layer: financial support

Underlying: "active investment", beyond capital

- Empowerment for entrepreneurs / entrepreneurs in pain: e.g. Fosun's investment in Iflytek Co.,Ltd
- Empathy for entrepreneurs, entering the adventure with companies: e.g. early stage chip investment
- Synergy will exist between the fund's portfolio companies

The meaning of value investment: the returns could be social value instead of increase on the financial statement.

A unique type of investment institution: CVC

Definition: Corporate Venture Capital

- The equivalent of traditional VC can be Independent venture capital

Main features:

- Source of funds: as industrial capital, invest with the parent company's own funds
- Investment purpose: strategic investment and financial investment in synergistic layout (horse race), around the core business of their parent company to invest
- Investment characteristics: typical "long money" and "long term", "long term" investment, after the investment can provide diversified value-added services, the income basically belongs to the parent company to create capital gains. More flexible exit

Example: Ali invests in Cainiao Technology

The development of the U.S. VC industry

- **Pre-1990s :**
 - ARD and Whitney pioneered venture capital in 1946
 - In 1958, the SBIC Small Business Investment Act was passed, providing leveraged capital for corporate investment firms and popularizing the idea of entrepreneurship and investment
 - In 1978, after a brief market retreat, various policy and institutional adjustments revived the length of time, and the VC fund industry entered a period of rapid growth

The development of the U.S. VC industry

- **Post-1990s:**

- From 1990 to 1991, the U.S. economy experienced a full-scale recession, social demand for venture capital weakened, and a large number of institutional investors had quality problems with their assets, and the venture capital fund industry slid sharply.
- The U.S. economy gradually recovered in 1992
- From 1995 to 2000, with the Internet bubble, the venture capital fund industry continued to grow again, and a series of outstanding investment companies such as Tiger and Insight Venture Partner emerged during the period.
- From 2000 to 2003, the Internet bubble burst, the market returned to rationality, and a number of institutions such as A16Z were born.

Well-known funds #1: TIGERGLOBAI

- **Year Founded:** 2001
- **Founder:** Chase Coleman III
- **Size:** \$1247 B
- **Industry Invested:** IT, Tech, Communications, Media, Retail, Consumer Goods
- **Successful Investments:** Instacart, Quora, Facebook, Spotify, LinkedIn

Well-known funds #2: SEQUOIA

- **Year Founded:** 1972
- **Founder:** Don Valentine
- **Size:** \$85.5 B
- **Industry Invested:** private technology companies, including those in the clean tech, consumer internet, crypto, financial services, healthcare, mobile, and robotics sectors
- **Investment Stages:** seed stage, early stage, and growth stage investments
- **Successful Investments:** Apple, Google, Cisco, Oracle, Yahoo, LinkedIn

Well-known funds #3:



- **Year Founded:** 1995
- **Founder:** Jeff Horing, Jerry Murdock
- **Size:** \$30+ B
- **Industry Invested:** Software, IT
- **Successful Investments:** Udemy, Twitter, CRED

Well-known funds #4:



- **Year Founded:** 1991
- **Founder:** Avram Miller
- **Size:** \$125+ M
- **Industry Invested:** AI, Cloud Databases, Automation, 5G, Next-Gen Computation, Semi-conductors & Hardware, Software Services
- **Successful Investments:** MySQL, GoodData, Switch

Well-known funds #5:



- **Year Founded:** 1977
- **Founder:** Richard Kramlich, Chuck Newhall, Frank Bonsal
- **Size:** \$20+ B
- **Industry Invested:** IT, Healthcare
- **Successful Investments:** Willow, Merge, Bright Health

Well Known Venture Capitalist #1

**Marc Lowell
Andreessen**



a16z
ANDREESSEN HOROWITZ

- 1993—UIUC B.S. in Com. Sci.
- 1994—Co-Founded Netscape Communications Corp
- 1999—Co-Founded America Online Inc
- 1999—Co-Founded LoudCloud Systems Inc
- 2002—Co-Founded Opsware Inc
- 2004—Co-Founded Ning Inc
- 2009—Co-Founded AH Capital Management LLC
- Notable investments: Meta, Zynga

Well Known Venture Capitalist #2

Arthur Rock

First Venture
Capitalist



- 1948—B.A. Syracuse University
- 1951—MBA Harvard
- 1951—Securities Analyst in NYC
- Corporate Finance @ Hayden, Stone & Company: focus on raising money for small high-technology companies
- 1957—Co-Founded Fairchild Semiconductor
- 1961—Founded Davis & Rock Venture Capital.
- Notable Investments: Intel, Apple, Xerox