



Venture Capital Explained

What is Venture Capital?

Venture capital (VC) is a form of investment for early-stage, innovative businesses with strong growth potential.

Venture capital provides finance and operational expertise for entrepreneurs and start-up companies, typically, although not exclusively, in technology-based sectors such as ICT, life sciences or fintech.

The main difference between private equity and venture capital comes down to the age of the company. Private equity will typically invest in a mature company, one which has been in operation for many years, if not decades. Venture capital by contrast will invest in new companies, many, if not most, of which will not yet be making a profit, but which have a disruptive business offering with the potential of very strong growth. Businesses seek venture capital investment for a number of reasons, such as to grow their manufacturing and sales operations, enhance their product development and/or expand their business and hire new staff.

Many of the world's best known companies began life with venture capital funding. In the UK, this includes the likes of Skyscanner, Seatwave and Moshi Monsters, and globally household names such as Google, Facebook and Skype all received venture backing in their early stages.

VCs take minority stakes in businesses, very often alongside other VCs and investors. Early-stage companies raise money in 'rounds' - Series A, B, C etc - which will see further investment from either the same investors and/or new ones to support the company as it grows. Many start-ups will also receive funding prior to Series A, via angel investment, crowdfunding, grants, incubators or even friends and family.

Together, these form what is known as the 'innovation eco-system', a funding chain that provides capital and business expertise to early-stage, fast-growing companies at different stages in a company's life. Venture capital houses typically hold their investments for between five and seven years, at which point the business will either be floated on the stock exchange, acquired by a multinational corporate or another investor such as a private equity house.