Different exit modes for PE/VC – A comparative analysis

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Abstract
One of the emerging and innovative source of finance is the venture capital funding and private equity funding especially for high risk projects of start-ups and existing players. The funding goes through different stages. The return generated varies as per the stages of funding and more so on the exit routes followed. Present paper focuses on the comparative analysis of returns generated through different exit modes used by venture capitalists.

Keywords: High risk projects, venture capital (VC) funding, private equity (PE) funding, stages of funding, exit mode

Introduction
VC/PE players focus on high potential growth small companies, thus expecting exponential growth in returns. Normally, they conduct indepth research on the business plan and try to assess the feasibility of the project.

Stages of Financing

i) The first stage of venture capital financing is seed stage. In the seed-stage the company is still in the establishment stage of commercial operations and requires funding for further research and product development.

ii) The next is the start-up stage wherein companies just got organized or have been in business for a short time but have not yet sold their product in the marketplace. The funding in this stage is provided for new product development and initial marketing.

iii) Series A and Second Round of funding is provided to initiate commercial manufacturing and sales.
iv) Mezzanine Financing and Bridge Financing is the usually the final stage of funding to enable the VC/PE to exit through various routes.

Different modes of VC/PE Exits are
i. IPO Exit route- One of the popular modes of exit is by floating the shares to public and getting listed on the stock exchange. This is normally preferred when good economic condition prevails.
ii. Mergers & Acquisitions- VC/PE can exit the investment in the unlisted company by selling off the shares to the listed company.
iii. Public Market- Another mode of exit is the selling of the shares to another company operating in the same industry. It provides VC/PE immediate exit from the investment.

Review of Literature
Cefis et al. (2012) in the paper “The Effect of Specialization on the Exit Strategy of Private Equity Firms” studied the Private Equity (PE) exit strategies, focusing on two specific PE firm behavior: specialization by industry and by stage. They found that PE firms with higher industry focus are more likely to exit their investments through acquisition, as a deep knowledge of a specific market enables PE firms to mitigate information asymmetries with the buyer. On the other hand, PE firms with higher portfolio diversification are more prone to exit through an IPO.

Cao (2011) in his paper “IPO Timing, Buyout Sponsors’ Exit Strategies and Firm Performance of RLBOs” found that LBO duration is negatively related to hot IPO market conditions. He also suggested that the IPO timing does not affect the sponsor’s exit strategies and monitoring post IPO.

Different modes of VC/PE Exits are

A comparative analysis of popularity of different exit routes followed by private equity players in India.

Objective of the research

Hypothesis

H0: There is no significant difference in average returns generated by PE/VC using different exit routes.

H1: There is a significant difference in average returns generated by PE/VC using different exit routes.
**Research Design**

“Descriptive Research Design” is used to analyse, interpret and arrive at appropriate conclusion based on empirical study.

Data collection Method: Secondary data taken from Venture Intelligence Database.

Data collected was compiled and used to analyse the popularity of different exit route used by VC/PE players. Jan 2010 to December 2015 (Clear Data) were considered to calculate the average returns generated to PE funding from various exit modes.

The objective of this paper is to understand whether there is any significant relationship between the returns generated and the type of exit mode used by private equity players.

### Tools for Analysis

**SPSS ver 23.0**

### Descriptives

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### Limitations

During the data collection, some sectors could not be considered because of less popularity of VC/PE funding. Only last five years data has been taken.

### Scope for Further Research

If sector-wise decomposition and analysis of different exit modes used by PE/VC players is conducted, the output may differ.

### References