

Session 20

Activist Growth Investing: Be your own change agent

Test

1. In the traditional venture capital approach to valuation, you forecast earnings in a future year, apply a multiple to these earnings and discount it back to today at a target rate of return to get a value for the business. If you are the VC negotiating for a stake in the business, in return for the capital you are providing to it, which of the following combinations will you most likely to use in your valuation?
 - a. Low forecasted earnings, low multiple of earnings, high target rate of return.
 - b. Low forecasted earnings, high multiple of earnings, high target rate of return.
 - c. Low forecasted earnings, low multiple of earnings, low target rate of return.
 - d. High forecasted earnings, low multiple of earnings, high target rate of return.
 - e. High forecasted earnings, high multiple of earnings, high target rate of return.
 - f. High forecasted earnings, high multiple of earnings, low target rate of return.
2. In the traditional venture capital approach to valuation, you forecast earnings in a future year, apply a multiple to these earnings and discount it back to today at a target rate of return to get a value for the business. If you are the owner of the business negotiating with the VC about the portion of the business that you will give up in return for the capital you are providing to it, which of the following combinations will you be most likely to use in your valuation?
 - a. Low forecasted earnings, low multiple of earnings, high target rate of return.
 - b. Low forecasted earnings, high multiple of earnings, high target rate of return.
 - c. Low forecasted earnings, low multiple of earnings, low target rate of return.
 - d. High forecasted earnings, low multiple of earnings, high target rate of return.
 - e. High forecasted earnings, high multiple of earnings, high target rate of return.
 - f. High forecasted earnings, high multiple of earnings, low target rate of return.
3. Assume that a young business has been valued at \$40 million, using the VC approach. The venture capitalist will be investing \$10 million in the company to cover investing and operating needs for the future. What proportion of the company should he get in return?

- a. 20.00% of the company
 - b. 25.00% of the company
 - c. 33.33% of the company
4. When venture capitalists invest in young companies, which of the following services do they generally provide?
- a. Supply capital to meet the company's current needs
 - b. Provide advice on operations and management
 - c. Monitor the founder/managers of the company
 - d. Facilitate access to other capital (debt and equity)
 - e. Prepare for initial public offering or sale
 - f. All of the above
5. The target rates of return demanded by VCs are much higher than the actual returns earned by VCs on their investments. Which of the following best explains the divergence?
- a. VCs consistently over value the companies that they invest in.
 - b. VCs consistently under value the companies that they invest in.
 - c. The earnings at young companies are generally much lower than initially projected.
 - d. The earnings at young companies are generally much higher than initially projected.
 - e. The failure rate among young companies is very high.