

The Difference and Application of VC and VD base on High-tech Enterprises

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Abstract. As a firm increases in size, it requires more money to cover a variety of activities such as large-scale product development, extending sales and marketing operations, purchasing assets, managing cash flow, and deferring the need for more equity financing. As a result, VC and VD are becoming increasingly significant. Venture capital and venture debt are critical sources of finance for startups and high-growth enterprises, allowing them to fuel development, gain expertise, and expand operations. Understanding the distinction between venture capital and venture debt allows entrepreneurs and company owners to better plan and manage their finances. They may weigh the costs, conditions, and consequences of each financing option to choose which best fits their business objectives, development plans, and risk tolerance. Venture capitalists not only supply firms with the financial resources they require, but they also frequently provide mentorship, industry experience, and access to a network of connections. Overall, understanding the distinction between venture capital and venture debt enables entrepreneurs and business owners to make educated financing decisions, customize their fundraising tactics, manage risks, and assure the long-term financial health and success of their company.

Keywords: Venture capital, Venture debt, Start-up companies.

1. Introduction

1.1. Background

Studying the differences between venture capital and venture debt assists entrepreneurs and business owners in understanding their various funding options. They can adjust their strategy to their company's objectives and goals. For example, if a company wishes to keep control and ownership, venture debt may be a preferable option, whereas venture capital may be appropriate for enterprises looking for strategic guidance and considerable financial support.

1.2. Related research

VCs have played an important role in the economy by funding high-growth start-ups like Amazon, Apple, Facebook, and Google, among others. However, little is understood about what VCs perform and how they generate value. The authors undertook what is possibly the most extensive survey of venture capital firms to date [1]. Venture capital is quite broad and has both pros and cons. The author discusses why entrepreneurs might utilize it, how it works, and how to receive it, including how to create an elevator pitch and what sorts of venture capital are commonly available to startups [2]. Accel is a well-known venture capital firm. Many factors have contributed to this company's rapid growth, and most significantly, there are numerous lessons entrepreneurs may learn from this venture capital organization. For example, how to recognize developing prospects, build a strong network, and seek value-add investors. It also discusses the contrasts between this company and others [3].

Raising venture capital is expensive, but venture debt could be an excellent way to bridge the funding gap. The article provides an overview of how venture debt works and the advantages of venture debt for companies and investors, such as not having to give up equity. The essay also discusses the three primary categories of venture debt [4]. There are many differences between equity and venture debt and how to leverage both is critical. Venture debt can be used as performance insurance, funding for acquisitions or capital expenses or a bridge to the next round of equity. A loan is the beginning of a relationship and a partnership-focused lender will value flexibility and playing

a long-term game with your company and investors [5]. Venture loan funding has gained in popularity among high-growth enterprises in recent years. Venture finance needs no personal guarantees, requires little ownership, and is available to both non-equity and equity-backed organizations, making it ideal for companies in the development stage. The article also presents a type of venture loan known as revenue-based financing, which charges a proportion of monthly revenue rather than a fixed interest rate [6].

Venture finance is a flexible type of financing created exclusively for high-growth businesses. Fundraising may be difficult for startups, especially those that are too risky for bank loans or seek to limit shareholder dilution. The author discusses many industries that benefit the most from venture debt in the essay [7]. In response to the financial realities of fledgling businesses, professional lenders and investors have created a number of creative financing instruments that benefit both parties. The author highlights some of the advantages and disadvantages of venture capital and venture debt in the essay. He also discusses the form of expansion capital each firm should pursue [8].

There are several reasons why a corporation should engage in venture capital. There are several dangers associated with venture capital investing. It is debated how to invest in venture capital and whether or not one must be an accredited investor [9]. According to the analysis, 2021 will be a watershed year for the Indian venture capital investment environment, with a convergence of powerful tailwinds colliding in a year of record growth, with VC financing reaching \$38.5 billion [10].

1.3. Objective

The article will talk about the differences and similarities between venture capital and venture debt. Part 2 is about basic definition such as what is VC and VD, why do companies choose them and what are the advantages of choosing them. Part 3 is a detailed case study which is Space X, a famous high-tech company which had used both VC and VD.

2. Venture Capital and Venture Debt

Venture capital and venture debt are two types of finance that startups and early-stage businesses typically employ. Both of these financing methods are intended to give capital to businesses with great development potential but lack the financial capacity to pay their expansion on their own.

2.1. Venture Capital

Venture capital is a sort of finance offered to startups and early-stage businesses by investors prepared to take on a high level of risk in exchange for the possibility of a high return on investment. VC firms often invest in companies with a strong management team, a distinct product or service, and a vast prospective market, such as Apple, Facebook, or Amazon. Others like to invest in firms whose founders are personal acquaintances. According to research conducted by a group³ of Harvard students, 30% of the investments completed by a VC originate from firms created by the VC's founders' former coworkers or acquaintances. VC firms often invest in enterprises in exchange for stock ownership. This implies that the VC firm becomes a part owner of the company and has a say in how it is operated. Furthermore, VC firms typically want a seat on the company's board of directors. VC firms do more than just lend capital to their portfolio companies. They also offer advice and assistance to help the firm develop and prosper. Help with product development, marketing, and sales, as well as introductions to new clients and partners, may be included. Accel is a famous venture capital firm who focuses on technological startups and has done a lot of successful investments in a large number of famous company's companies like Facebook, Dropbox and Spotify. One reason why it becomes a well-known VC is that it offers startup companies access to capital, and it will provide those newly made companies with strategic guidance and a large number network, as well as follow-on funding. This help has allowed startups to overcome many difficulties at the early stage which made them loyal customers of Accel.

2.2. Venture Debt

Venture debt is a type of financing that is designed to provide additional capital to startups and early-stage companies that have already raised equity financing from venture capital firms. Venture debt is typically provided by banks or other financial institutions and is structured as a loan. Unlike traditional bank loans, venture debt is designed to be flexible and to provide the company with the capital it needs to grow without diluting the ownership of the company. Venture debt is typically structured as a term loan that can be used to finance a variety of growth initiatives, including product development, marketing, and sales. For example, a person may have to seek a mortgage at 2.5% in a period of 30 years. However, if that person is lucky, he or she can pull off a venture term loan with a period of more than 10 years and the according rate will be under 15%. Therefore, the rate will likely to be 25%. One of the key benefits of venture debt is that it allows companies to extend their runway without diluting the ownership of the company. This can be particularly important for startups and early-stage companies that are not yet generating significant revenue but need additional capital to fund their growth initiatives. Another benefit of venture debt is that it can be structured to provide additional capital to companies that have already raised equity financing from VC firms. This can be particularly important for companies that have already raised a significant amount of equity financing but need additional capital to fund their growth initiatives.

2.3. Comparison

While venture capital and venture debt are both sources of financing for startups and early-stage companies, there are some key differences between the two. One of the biggest differences between venture capital and venture debt is the level of risk involved. VC firms are willing to take on a high level of risk in exchange for the potential of a high return on their investment. Venture debt, on the other hand, is typically less risky than equity financing and is designed to provide additional capital to companies that have already raised equity financing from VC firms. Another key difference between venture capital and venture debt is the level of control that the investor has over the company. VC firms typically invest in companies in exchange for equity in the company and a seat on the board of directors. This gives the VC firm a direct say in the company's strategic direction. Venture debt, on the other hand, is structured as a loan and does not give the lender any ownership or control over the company.

3. Case Study

One example of a new high-tech company that has utilized both venture capital and venture debt is SpaceX. SpaceX, founded by Elon Musk in 2002, is a private aerospace manufacturer and space transportation company. The company designs, manufactures, and launches advanced rockets and spacecraft with the goal of reducing space transportation costs and enabling the colonization of Mars. SpaceX has raised significant amounts of venture capital funding from various investors, including Founders Fund, Draper Fisher Jurvetson, and Google. The company has also secured venture debt financing from institutions like Silicon Valley Bank and the Bank of America.

Table 1. The financing history of SpaceX

Terms	Time	Financed Amount	Investor
1	2008.8.1	20million	Founders Fund
2	2012.12.21	30million	DFJ Growth
3	2018.12.19	270million	Bank of America
4	2022.8.26	100million	RON BARON

The venture capital investments have provided SpaceX with the necessary capital to develop and launch its innovative rockets and spacecraft. The company has successfully developed and launched several rockets, including the Falcon1, Falcon9, and Falcon Heavy. Additionally, SpaceX has become a major player in the space industry, securing contracts with NASA and other commercial customers.

One of SpaceX's early investments was in the development of the Falcon1 rocket. Initially, this investment proved to be challenging and resulted in financial losses for the company. The Falcon1 experienced multiple failed launches before finally achieving success on its fourth attempt. However, this investment laid the foundation for SpaceX's future successes in the space industry. On the other hand, SpaceX's investment in the development of the Falcon9 rocket has been highly profitable. The Falcon9 has become a workhorse for SpaceX, successfully delivering payloads to space and even participating in missions to the International Space Station. The success of the Falcon9 has played a significant role in establishing SpaceX as a leader in the commercial space industry and has generated substantial revenue for the company. Additionally, SpaceX's investment in the development of the Dragon spacecraft has also been profitable. The Dragon spacecraft has been used to transport cargo to and from the International Space Station under NASA's Commercial Resupply Services program. This has not only generated revenue for SpaceX but has also contributed to the advancement of space exploration and research. While SpaceX has experienced both losses and profits from its early investments, the overall trajectory of the company has been positive. The success of the Falcon9 and Dragon spacecraft has positioned SpaceX as a major player in the space industry, attracting significant contracts and partnerships. These early investments have laid the foundation for SpaceX's ambitious goals, such as the development of the Starship spacecraft and the establishment of a colony on Mars. Venture debt, on the other hand, has allowed SpaceX to access additional capital without diluting the ownership stake of existing shareholders. This form of financing has helped the company bridge the gap between equity financing rounds and maintain its growth trajectory. Overall, the combination of venture capital and venture debt has been instrumental in supporting SpaceX's ambitious goals and enabling it to revolutionize the space industry.

4. Expectation

VC enthusiasm dropping against the background of a US dollar rate hike can impact the international investments. When the US dollar strengthens, it can make investments in other currencies less attractive for VC firms. For instance, let's consider a hypothetical scenario where a VC firm based in the United States is interested in investing in a startup located in a foreign country. The VC firm evaluates the potential investment and determines that it is promising. However, if the US dollar strengthens due to a rate hike by the Federal Reserve, it can result in a higher exchange rate between the US dollar and the foreign currency. As a result, the VC firm would need to invest more US dollars to acquire the same amount of the foreign currency required for the investment. This can reduce the returns on the investment and make it less appealing for the VC firm. The increased cost of the investment due to the exchange rate can lead to a drop in VC enthusiasm for international investments.

5. Conclusion

Venture capital is a type of finance available to early-stage, high-potential businesses with strong growth potential. Professional investors, such as venture capital companies, often make investments in return for stock ownership in the company. Venture capitalists are primarily interested in businesses that have the potential to generate substantial returns on investment in a short period of time. Venture debt, on the other hand, is a sort of debt funding option offered to startups and high-growth businesses. It differs from regular bank loans in that it is targeted exclusively to the needs of new and expanding firms. Typically, venture loan is given by specialist lenders that understand the dangers and problems that startups confront and are ready to take on larger risks in exchange for possibly higher rewards. Startups and high-growth enterprises frequently seek venture capital and venture loans because they require considerable resources to fuel their growth and realize their full potential. Startups and high-growth businesses require substantial finance to fuel their expansion and realize their full potential. Furthermore, acquiring money from respected venture capital companies

may lend legitimacy to the company, suggesting to other investors, consumers, and partners that it has great potential.

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