Question #1 of 14

Question ID: 1574533

With respect to venture capital, the term "mezzanine-stage financing" is used to describe the financing:

A) that supports product development and market research.

B) to initiate commercial manufacturing.

C) to prepare for an initial public offering.

Explanation

Mezzanine-stage venture capital financing provides capital during the period prior to an initial public offering. (Module 80.1, LOS 80.a)

Question #2 of 14

Question ID: 1577987

Which of the following types of private debt has the lowest level of risk?

A) Mezzanine debt.

B) Unitranche debt.

C) Venture debt.

Explanation

Unitranche debt is a blend of different classes of debt and typically ranks between senior and subordinated debt. Mezzanine debt is subordinated to senior debt and often unsecured. Venture debt is the riskiest because it finances start-up companies that have high business risk and often lack positive cash flow and assets.

(Module 80.1, LOS 80.b)

Question #3 of 14

Question ID: 1574530

The formative stage of venture capital investing when capital is furnished for market research and product development is *best* characterized as the:

A) angel investing stage.

B) seed stage.

C) early stage.

Explanation

In the seed stage of venture capital investing, capital is furnished for product development, marketing, and market research. The angel investing stage is when investment funds are used for business plans and assessing market potential. The early stage refers to investments made to fund initial commercial production and sales.

(Module 80.1, LOS 80.a)

Question #4 of 14

Question ID: 1574536

Kettering Incorporated is a successful manufacturer of technology hardware. Kettering is seeking capital to finance additional growth that will position the company for an initial public offering. This stage of financing is *most accurately* described as:

A) mezzanine-stage financing.

B) angel investing.

C) early-stage financing.

Explanation

Mezzanine stage capital prepares a company for and IPO. Angel investing and early-stage financing describe venture capital in a company's formative stages.

(Module 80.1, LOS 80.a)

Question #5 of 14

Question ID: 1577988

The vintage year is the year in which a private equity fund:

A) makes its first investment.

B) receives its first capital commitment.

C) sells its first investment.

Explanation

The vintage year is typically defined as the year a private equity or venture capital fund makes its first investment. The year of the first capital commitment is not necessarily the same as the year of the first investment by the fund into a portfolio company, because there might be a lag between when the capital is committed and when it is deployed.

(Module 80.1, LOS 80.c)

Question #6 of 14

Question ID: 1574534

Supplying capital to companies that are just moving into operation, but do not as yet have a product or service available to sell, is a description that *best* relates to which of the following stages of venture capital investing?

A) Mezzanine stage.

B) Angel investing stage.

C) Early stage.

Explanation

The description relates best to the early stage wherein the capital that is supplied helps fund initial production and sales.(Module 80.1, LOS 80.a)

Question #7 of 14

Question ID: 1577989

SuperStarts Venture Capital Fund has a favorable performance record compared to other venture capital funds. This *most likely* suggests SuperStarts began investing its capital in a:

A) high valuation market.

B) business cycle expansion.

C) business cycle contraction.

Explanation

Funds that begin investing during a business cycle expansion are likely to earn higher rates of return if they specialize in early-stage companies. Funds that begin investing during business cycle contractions are likely to earn higher rates of return if they specialize in distressed companies.

(Module 80.1, LOS 80.c)

Question #8 of 14

Question ID: 1577985

At what stage in its lifecycle is a company *most likely* to have distressed debt?

A) Mature.

B) Growth.

C) Start-up.

Explanation

Distressed debt is typically that of mature companies that have encountered financial trouble, which may be due to a temporary situation or a structural issue.

(Module 80.1, LOS 80.b)

Question #9 of 14

Question ID: 1574532

A private equity firm that provides equity capital to a publicly traded company to finance the company's restructuring, but does not take the company private, is *best* described as engaging in:

A) private investment in public equity.

B) mezzanine-stage financing.

C) angel investing.

Explanation

Private investment in public equities refers to a private equity firm providing equity financing to publicly traded companies. Angel investing refers to financing the formation of a business. Mezzanine-stage financing refers to capital provided to a firm as it prepares for an initial public offering. (Module 80.1, LOS 80.a)

Question #10 of 14

Question ID: 1574537

Relatively infrequent valuations of private equity portfolio companies *most likely* cause:

A) average fund returns to be biased upward.

B) standard deviations of fund returns to be biased upward.

C) correlations of fund returns with equity returns to be biased downward.

Explanation

Infrequent valuation results in downward bias in both standard deviations and correlations. (Module 80.1, LOS 80.a)

Question #11 of 14

Question ID: 1577984

What type of private debt is *least likely* to have warrants?

A) Direct lending. ✓

B) Mezzanine debt. ✗

C) Venture debt. ✗

Explanation

Direct lending is often senior and secured. Venture debt and mezzanine debt often have features such as warrants to compensate investors for taking on additional risk.

(Module 80.1, LOS 80.b)

Question #12 of 14

Question ID: 1574531

To exit an investment in a portfolio company through a trade sale, a private equity firm sells:

A) the portfolio company to one of the portfolio company's competitors. ✓

B) shares of a portfolio company to the public. ✗

C) the portfolio company to another private equity firm. ✗

Explanation

A trade sale involves selling a portfolio company to a competitor or another strategic buyer. An IPO involves selling all or some shares of a portfolio company to the public. A secondary sale involves selling a portfolio company to another private equity firm or a group of investors. (Module 80.1, LOS 80.a)

Question #13 of 14

Question ID: 1577986

Compared to traditional bonds, private debt provides:

A) higher returns.

B) higher liquidity.

C) lower risk.

Explanation

Overall, investing in private debt is illiquid and riskier than investing in traditional debt. Given that investors want to be compensated for higher risk, private debt should have the potential to provide higher returns. Also, some private debt may include equity upside potential.

(Module 80.1, LOS 80.b)

Question #14 of 14

Question ID: 1574535

The stage at which venture capital financing is used to fund market research and product development is *best* characterized as the:

A) seed stage.

B) early stage.

C) angel investing stage.

Explanation

Seed stage financing is used for market research and to fund product development and/or marketing and is typically the first stage at which a venture capital fund will invest in a start-up company. (Module 80.1, LOS 80.a)