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# **ENGLISH FOR THE FINANCIAL SECTOR**

**Course for first year master students in Finance and Accounting**

**The academic year 2023/2024**

## **INTRODUCTION**

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

- \* present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.
- \* develop your comprehension of finance and accounting texts.
- \* provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

## **UNIT 25 Venture capital**

### **A - Raising capital**

Alex Rodriguez works for a venture capital company.

‘As you know, new businesses, called start-ups, are all private companies that aren’t allowed to sell stocks or shares to the general public. They have to find other ways of raising capital. Some very small companies are able to operate on money their founders—the people who start the company — have previously saved, but larger companies need to get capital from somewhere else. As everybody knows, banks are usually risk-averse. This means they are unwilling to lend to new companies where there’s a danger that they won’t get their money back. But there are firms like ours that specialize in finding venture capital: funds for new enterprises.

Some venture capital or risk capital companies use their own funds to lend money to companies, but most of them raise capital from other financial institutions. Some rich people, who banks call high

net worth individuals, and who we call angels or angel investors, also invest in start-ups. Although new companies present a high level of risk, they also have the potential for rapid growth—and consequently high profits—if the new business is successful. Because of this profit potential, institutions like pension funds and insurance companies are increasingly investing in new companies, particularly hi-tech ones.

**Note:** Venture capital is also called risk capital or start-up capital.

### **B - Return on capital**

Venture capitalists like ourselves expect entrepreneurs—people with an idea to start a new company—to provide us with a business plan.

Because of the high level of risk involved, investors in start-ups usually expect a higher-than-average rate of return—the amount of money the investment pays—on their capital.

If they can't get a quick return in cash, they can buy the new company's shares. If the company is successful and later becomes a public company, which means it is listed on a stock exchange, the venture capitalists will be able to sell their shares then at a profit. This will be their exit strategy.

Venture capitalists generally invest in the early stages of a new company. Some companies need further capital to expand before they join a stock exchange. This is often called mezzanine financing and usually consists of convertible bonds — bonds that can later be converted to shares—or preference shares that receive a fixed dividend. Investors providing money at this stage have a lower risk of loss than earlier Investors like us have also less chance of making a big profit.

### **C – Exercise**

Match the two parts of the sentences. Look at A and B to help you.

- 1) Banks are usually reluctant
- 2) Start-ups often get money
- 3) New companies can grow rapidly
- 4) Risk capitalists usually expect
- 5) Venture capitalists need an exit strategy — a way
- 6) Mezzanine financing is a second round of financing

- a) a higher than average return on their money.
- b) and so are potentially profitable.
- c) before a company joins a stock exchange.
- d) to get their money back after a few years.
- e) to lend money to new companies.
- f) from specialized venture capital firms.