

Venture Capital Dictionary

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Accelerator	An institution which provides cohort-based programs through mentorship, space, connections, and educational components, usually culminating in a pitch event to accelerate growth.
Advisory Board	A group of external advisors to a private equity group, portfolio company or a start-up company that provides non-binding strategic advice to the management. The advice provided varies from overall strategy to portfolio valuation to complex industry specific issues.
Amortization	An accounting procedure that gradually reduces the book value of an intangible asset through periodic charges to income.
Angel Financing	A seed and pre-seed round of investment into a start-up company from angel investors who were not previously affiliated with the founder. Typically, the first money invested in a company after the founder's own money, and the founder's friends and family.
Angel Investor (Business Angel)	A wealthy individual providing capital and in some cases network, industry expertise as well as strategic advice to a start-up in an early development stage of the company.
Anti-Dilution Provisions	Anti-Dilution Provisions are contractual measures that allow investors to keep a constant share of a start-up's equity in light of subsequent equity issues. These may give investors pre-emptive rights to purchase or receive new stock of the start-up.
Articles of Incorporation (Articles of Association)	A document that contains the purpose of the company, as well as the duties and responsibilities of its members, defined and recorded clearly. It is an important document which needs to be filed with the Registrar of Companies.
Assets	This word refers to all resources that a corporation owns. Current assets can be any form of currency, including traded inventory, investments, and checks. Fixed assets (capital assets) consist of material goods and equipment of a company, such as the land, the company buildings, and technological machinery. Intangible assets mainly comprise of intellectual property protection, copyrights, patents, etc.
Business to Business (B-to-B)	Your company sells to other companies.
Business to Consumer (B-to-C)	Your company sells directly to the consumer.

Balance Sheet	An institution which provides cohort-based programs through mentorship, space, connections, and educational components, usually culminating in a pitch event to accelerate growth.
Bankruptcy	An inability to pay debts.
Benchmark	A performance goal against which a company's or employees' success is measured. Benchmarks are often used by investors to help determine whether a company should receive additional funding or whether management should receive extra stock.
Black Swan	An unpredictable event typically with extreme consequences.
Blind Pool	A pool of capital accumulated (usually in a form of limited partnership) for investment without specifying investment opportunities and used at the discretion of the general partner.
Board	A group of people elected by the company's shareholders (often to the terms of the negotiated Shareholders Agreement) that makes decisions on major company issues, including hiring/firing the Chief Executive Officer.
Bonds	Specific type of debt instrument.
Business Plan	A document utilized by management and relied upon by investors, that entrepreneurs use in detailing their business concept as well as their company's overall strategic and financial objectives.
Buyback	A buyback, also known as a repurchase, is the purchase by a company of its shares that reduces the number of its outstanding shares.
Call Option	The right to buy a security at a given price (or range) within a specific time period.
Valuation Cap	The maximum company valuation at which a convertible instrument will convert into a company's equity securities.
Capital	Monetary assets currently available for use. Entrepreneurs raise capital to start a company and continue raising capital to grow the company.
Capital Under Management	The amount of capital available to a VC or PE Fund's management team for investments.

Capitalization Table	A table depicting the quantity of shares or unit ownership which is held by each investor in a company, typically including founders' equity, investor equity, and advisor / employee Stock Option Pools.
Carried Interest	The portion (usually 20%) of any gains realized by the fund to which the fund managers are entitled. Carried interest payments are customary in the venture capital and private equity industry, in order to create a significant economic incentive for venture capital and private equity fund managers to achieve capital gains.
Cliff	A moment in time when the stock of a company becomes vested. Usually applies to vesting schedules of shares or the stock options. Cliffs are used to prevent a person from leaving the company within a limited period of time (usually 1 year), i.e. before cliff.
Closing	An investment event occurring after the required legal documents are implemented between the investor and a company and after the capital is transferred in exchange for company ownership or debt obligation.
Co-investment	An investment by an independent investor alongside a venture capital fund in a financing round or the syndication of a venture capital financing round.
Collateral	Property or other assets a borrower uses to secure a loan. If payments are not made, the lender can seize the collateral to cover its loss.
Committed Capital	The total amount of capital pledged to a venture capital or private equity fund.
Conversion Ratio	The number of shares of company into which a convertible security may be converted. The conversion ratio is usually expressed as the par value of the convertible security divided by the conversion price.
Convertibles	Convertibles are the corporate securities, usually preferred shares or convertible bonds, that can be exchanged for a set number of another form, usually common share, at a pre-stated price.
Convertible Bond	A corporate security purchased by an investor that can be converted into another (equity) security of the company such as shares of common or preferred stock at an agreed conversion ratio.

Convertible Loan	An agreement between an investor and company to borrow money with the intent that the loan and the interest accrued will later be converted into equity of the company at a later valuation.
Convertible Preferred Stock	A preferred stock that may be converted into common stock or another class of preferred stock, either voluntarily or mandatory at an agreed conversion ratio.
Corporate Venture Capital	A subsidiary of a large corporation which makes venture capital investments.
Covenant	A protective clause in an agreement.
Crowdfunding	The process of raising capital for a venture or a start-up via smaller amounts from many investors (“the crowd”). The capital can be provided without the expectation of financial return, or in exchange of a specific good or service.
Deal Lead	The investor or investment organization taking primary responsibility for organizing an investment round in a start-up. The deal lead typically negotiates the terms of the investment and serves as the primary liaison between the company and the other investors.
Deal Structure	The framework of a deal between investors and a start-up which is typically outlined in a term sheet and defined in detail in Purchase Agreements and related documentation.
Debt Financing	A process when a firm raises money from creditors and promises to repay principal and interest on the debt.
Deck (aka Pitch Deck)	A presentation (usually to investors) that covers the main aspects of a business in a concise and compelling way.
Dilution	A reduction in the percentage ownership of a given shareholder in a company caused by the issuance of new shares.
Discounted Convertible Loan	A loan that converts into the equity security being purchased in a future investment round, but at a discounted price representing a risk premium for early investment.
Diversification	The process of spreading investments among various types of securities and various companies in different fields.
Double Bottom Line	In Impact Investing, the goal of measuring a company by its positive societal impact in addition to its financial returns.

Down-round	A situation when the valuation of a company at the time of an investment round is lower than its valuation at the conclusion of a previous investment round.
Drip Feed	When investors fund a start-up in portions of the agreed investment amount over a time or upon reaching certain benchmarks instead of one lump-sum investment.
Dry Powder	Money held in reserve by a venture fund or angel investor in order to be able to make investments into start-ups.
Due diligence	The analysis an investor makes of all the facts and figures of a potential investment. The due diligence is usually performed by the consultants (e.g. lawyers, auditors etc) of the investor.
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	A measure of cash flow calculated as: = Revenue - Expenses (excluding tax, interest, depreciation, and amortization).
Economies of Scale	Economic principle that, as the volume of production increases, the cost of producing each unit decreases.
Employee Stock Option Plan (ESOP)	A plan established by a company whereby a certain number of shares is reserved for purchase of and issuance to key employees. Such shares usually vest over a certain period of time to serve as an incentive for employees to build long-term value for the company.
Equity	The totality of non-debt securities (usually common or preferred shares of stock) issued by the company, or Ownership in the capital of a Company, usually expressed as a difference between the value of the assets and the value of the liabilities of a company.
Equity Financing	Company's issuance of equity securities (typically shares of common or preferred stock) to raise capital. Capital raised in exchange of equity securities of the company does not need to be paid back (unlike debt).
Executive Summary	A short overview of the startup's business plan with a focus on obtaining investor interest for potential investment.
Exit	The sale or exchange of a significant amount of company ownership for cash (or for debt and/or equity of another company).
Expansion Stage	A period of company's development when a company may already have been successful commercializing products and services but may not generate desired turnover/profit or may not cover desired geographical regions.

Expenses	The cost a business incurs during operations in order to generate revenue. The expenses are usually divided into cash expenses (e.g. salaries, payments to suppliers etc.) and non-cash expenses (e.g. depreciation, amortization etc.) according to the accounting standards.
First-round Financing	First-round financing is the first investment in a company made by external investors.
Flat Round	An investment round in which the pre-money valuation of a start-up is the same as its post-money valuation from the previous round.
Flip	The act of moving a start-up to another jurisdiction (country).
Founders' Agreement	A formal written agreement among the founders of a start-up which documents the founders' accord on ownership, roles and responsibilities, company governance / decision-making and operations. Issues such as founder contributions, vesting and exit / departure are also typically included in these Agreements.
Friends & Family Round	An investment round in a start-up that often follows the founder's own investment, from people who are investing primarily because of their relationship with the founder rather than their knowledge of the business.
Golden Handcuffs	An agreement between a start-up and an employee to relinquish unvested shares of stock when terminating employment contract early (e.g. before cliff).
Golden Parachute	An agreement that provides a large payout upon the occurrence of certain conditions, e.g. a share purchase by an outside entity.
Hockey Stick	The shape of the curve of company's revenue growth (e.g. 100% year-on-year) venture capital investors expect.
Holding Company	A company that owns the securities of another company, usually with voting control.
Hurdle Rate (preferred return)	The internal rate of return that a fund must achieve before its general partners (managers) may receive a portion of the proceeds of the fund.
Illiquid investment	An investment that cannot be readily sold or converted into cash.
Income Statement	A financial statement that shows a company's financial performance over a specific time period. It delineates the Revenue, Expenses and Net Income.

Information Rights	A provision, usually in Investment Agreement or Shareholders' Agreement which requires start-ups to provide board updates and financial information to investors on a periodic, (such as quarterly or yearly) basis.
Initial Public Offering (IPO)	The first sale of stock by a private company to the public.
Institutional Investors	Organizations that professionally invest, including insurance companies, pension funds, investment companies, mutual funds, endowment funds etc.
Internal Rate of Return	A typical measure of performance of venture capital and private equity funds. IRR is technically a discount rate: the rate at which the present value of a series of investments is equal to the present value of the returns on those investments.
Investment Round	A set of one or more investments made into a start-up by one or more investors on essentially similar terms at essentially the same time.
Intellectual Property	Category of property that includes intangible creations of the human intellect: artistic works like music and literature, as well as discoveries, inventions, words, phrases, symbols, and designs.
J-curve	The appearance of a graph showing the typical value progression of early stage investment portfolios. Values often drop soon after the initial investment during the startup and early stage period, but rebound significantly in later years after companies reach profitability.
Key Employees	The most important employees of a start-up crucial for its success. Key employees are typically retained with ownership of the start-up.
Lead Investor	The primary investor of a syndicated round of financing. This investor is typically the largest investor of the syndicated round and usually structures and leads the negotiation of terms related to the investment's documentation.
Leverage	Use something — technology, partnerships, etc. — to your advantage.
Leveraged buyout (LBO)	A process when a company is purchased with a significant amount of debt while the target company's assets or revenue is used as "leverage" to pay back the debt.

Liquidation	The process of sale of shares of a company or of dissolving a company by selling off all of its assets (making them liquid).
Liquidation Preference	It is the agreed right of investor to receive a specific amount of investment value for its share of stock before others in case of liquidity event.
Liquidation Waterfall	The sequence in which all parties, including investors, employees, creditors, and others receive payments in the event of a company's liquidation through acquisition or bankruptcy.
Liquidity Event	An agreed event (usually a bankruptcy of a company, a sale of shares of a company or dissolving of a company by selling off all of its assets) that allows an investor to realize a gain or loss on an investment based on the agreed liquidation waterfall. The liquidation preference is usually applied upon the occurrence of the liquidity event.
Lock-up Period	The period of time during which certain stockholders have agreed to waive their right to sell their shares of a company.
Management Buy-in	A purchase of a business by an outside team of managers usually with co-investment from a private equity fund and a plan to manage the purchased business actively.
Management Buy-out	A purchase of a business by operating management from either a public or private company.
Management Fee	Compensation typically paid annually from an investment fund to the general partner or investment advisor of the fund to cover administration costs, expenses related to investor relations and to compensate them for their services and expertise.
Management Team	The individuals who oversee and manage the operations and activities of a startup company or venture capital/private equity fund.
Market Capitalization	The total value of all outstanding shares of a company listed on the public equity market computed as number of shares multiplied by current share price share on the public equity market. (See also: Valuation.)
Minimum Viable Product	The basic version of a product required to test it in the market in order to achieve proof of concept. The term is usually applied to the software which is still in development.

Non-disclosure agreement	An agreement between two parties to protect sensitive or confidential information, such as trade secrets, from being shared with outside parties.
Net Income	The resulting earnings of a company after deducting all costs and expenses, including operations, general and administrative, selling, depreciation, interest expense, and taxes.
No Shop, No Solicitation Clauses	A clause in the agreement which obliges the company to negotiate exclusively with the investor, and not solicit an investment proposal from other investors for a set period of time after the term sheet is signed. The key provision is the length of time set for the exclusivity period.
Non-Solicitation Agreement	An agreement under which an employee or principal agrees not to solicit their existing employer's or company's employees, clients or customers after departing the company either for their own benefit or that of a competitor.
Non-Compete Agreement	An agreement under which an employee or principal agrees not to solicit their existing employer's or company's employees, clients, or customers, after departing the company either for their own benefit or that of a competitor.
Non-Disclosure Agreement	An NDA is a formal legal agreement between two or more parties undertaken by the parties to keep information shared or provided by one party to another confidential. NDAs are utilized where parties become privy to confidential and / or sensitive information, which the disclosing party desires not be made available to third parties or the general public. Such agreements may also include the confidentiality of the relationship in existence between the parties.
Operating Budget	A set of estimates of income and expenses from a company's operations typically prepared on an annual basis.
Option (option agreement)	A security granting the holder the right to purchase (or sell) a specified number of a Company's securities at a designated price at some point in the future. The term is generally used in connection with employee stock option plans. However, "stand-alone options" may be issued outside of any plan.
Pari Passu	On equal terms, without preference.
Pipeline	The continuing flow of upcoming business or underwriting deal opportunities.

Pitch Deck	A presentation (usually to investors) that covers the main aspects of a business in a concise and compelling way.
Pivot	A change of direction of a start-up typically by going after a different market segment or using a product for an entirely new purpose.
Portfolio	A collection of companies invested in by an angel, venture capital or private equity fund.
Portfolio companies	Companies in which an angel, venture capital fund, or private equity firm have invested.
Post-money Cap Table	A table depicting the ownership of the founders, employees and investors in terms of absolute quantities of shares and percentages of total ownership they represent after an investment by new investors.
Post-money Valuation	The valuation of a startup company immediately following its most recent round of investment calculated by taking the total number of shares outstanding after the investment and multiplying it by the share price of this latest investment round.
Pre-emptive Right	A shareholder's right to acquire a number of shares in a future offering at prices per share paid by new investors.
Preferred Dividend	A dividend ordinarily accruing on preferred shares payable where declared and superior in right of payment to common dividends.
Private Company	A company, the shares of which are not publicly traded on the stock market.
Private Equity	Any equity security of a company that is not listed and cannot be traded on a public stock exchange. Private equity is far less liquid than publicly traded stock.
Private Placement	The sale of a security directly to a limited number of investors in a private transaction.
Private Placement Memorandum	A document that outlines the terms of securities to be offered in a private placement.
Pro rata	'in proportion.' The term is usually used when describing the right of an investor to proportionally increase ownership of a company in subsequent investment rounds.

Proof of concept	A demonstration of the feasibility of a concept or idea that a start-up is based on.
Representations and Warranties	A list of material statements or facts which are included in the investment agreement and which are confirmed by the entrepreneur.
Retained Earnings	Retained earnings are the corporate profits that are neither paid out in cash dividends to stockholders nor used to increase capital stock, but are reinvested in the company.
Return on Investment (ROI)	A ratio of the profit or loss resulting from an investment, usually expressed as an annual percentage return.
Reverse Vesting	A process when founders of a company agree that they will give back part of their stock holdings if they leave the company before a specified date.
Scalability	The ability of a startup to grow and operate at a larger scale
Secondary Sale	The sale of a portfolio company by a venture capital fund or private equity fund to other investors.
Securities	Any and all types of equity and debt instruments and rights in and to them.
Seed Capital	Funds used to purchase equity in a startup company at a seed stage.
Seed Round	The first formal round of investment beyond friends and family with investment usually from business angels and venture capital funds. The term comes from planting a seed for the first time.
Seed Stage	The stage of a startup where entrepreneurs typically validate their product or service to the marketplace, develop their MVP, commence initial market testing and development, and begin development of their business model / go to market strategy.
Series A Round	The first major investment round usually provided by the private equity funds or venture capital funds after the founders have used their seed capital to provide a “proof of concept” demonstrating that their business concept is a viable and eventually profitable one.
Series B, C, D... rounds	Investment rounds from venture capital funds subsequent to the Series A round.

Shares (Common Stock)	Share is an indivisible unit of capital, expressing the ownership relationship between the company and the shareholder. The denominated value of a share is its face value, and the total of the face value of issued shares represent the capital of a company.
Preferred stock	A preferred stock is a class of ownership in a company that has a higher claim on company's assets and earnings than common stock. Preferred shares generally have a dividend that must be paid out before dividends to common shareholders.
Share premium	Share premium is the amount by which the amount received by a company for a stock issue exceeds its face value.
Dividend	The income received by the shareholder from the ownership of shares.
Shareholders Agreement	An agreement signed by company's shareholders in which they usually agree on company's corporate governance, share transfer, voting and other important issues.
Simple Agreement for Future Equity (SAFE)	An agreement of funding for early stage companies solving a number of issues with traditional convertible bonds financing. The SAFE was developed by Y Combinator in U.S.
Soft Landing	A face-saving acquisition of an unsuccessful startup, usually for little or no compensation.
Spray and Pray	A term used to describe an investment strategy whereby venture capital fund invests in a high number of companies in the hopes that one of them will become a unicorn.
Stock Option Pool	Shares of stock reserved for employees of a company. The option pool is a way of attracting talented employees to a startup company.
Stock Options	The right to purchase or sell a stock at a specified price within a stated period. It is a widely used form of startup companies' employee incentive and compensation. The employee of startup company is usually given an option to purchase its shares at or below the market price for a specified period of years.
Sweat Equity	Sweat equity is the equity received in a startup company by its founders as a result of their contributions in the form of hard work, labor and toil.
Syndication	The process whereby a group of business angels or venture capital funds will each put in a portion of the amount of money needed to finance a startup.

Tag Along/Drag Along	Provisions in a Shareholders' Agreement that permit investors under certain defined circumstances to sell their shares if the founder sell its shares (tag), or force the founder to sell its shares if the investor sells its shares(drag).
Term sheet	A document outlining the major aspects of an investment to be made into a startup company.
Trademark	An identifying word, phrase, design or symbol that permits third parties to distinguish and differentiate the goods of differing parties. Trademarks are registered with the appropriate governmental offices.
Unicorn	A startup company with a valuation in excess of \$1 Billion.
Up-round	A situation when the valuation of a company at the time of an investment round is higher than its valuation at the conclusion of the previous round.
Valley of Death	The period between the initial funding of a startup and the moment when a startup starts generate revenue.
Valuation	The total value of all outstanding shares of a startup company computed as number of shares multiplied by the share price in the current investment round, or The process of establishing the value of a startup company.
Venture Capital	Investment capital made available to high growth, scalable startups, typically beginning at the early stage through to maturity of a company, from a venture capital fund.
Venture Capital Financing	A type of private equity investment provided to early stage high growth startup companies in the latter stages of development, which have the potential for exceptional financial returns.
Venture Capital Fund	An investment vehicle managed by professional investment managers using pooled capital from various investors which seeks private equity stakes in startup companies with strong growth potential.
Vesting	A process in which startup company releases its shares to employees, management, founders, advisors, board members and other company stakeholders over time. The purpose of vesting is to grant stock to persons over a fixed period of time so to provide an incentive for them to stay with the startup company.
Vesting Schedule	A timetable and methodology under which a startup releases shares to employees, management, founders, advisors, board members and other company stakeholders.