Venture Funding Network™
Bringing Businesses and Investors Together

Venture Capital Glossary

Definition of Venture Capital Terms:

Accredited Investor:

Accredited investor is a wealthy investor who meets certain SEC requirements for net worth and income as they relate to some restricted offerings. Accredited investors include institutional investors, company directors and executive officers, high net worth individuals, and certain other entities. Some limited partnerships and angel investor networks accept only accredited investors.

Acquisition: Acquisition is the process through which one company takes over the controlling interest of another company. Acquisition includes obtaining supplies or services by contract or purchase order with appropriated or non-appropriated funds, for the use of Federal agencies through purchase or lease.

Add-on Service: Add-on Services are the services provided by a venture capitalist that are not monetary in nature, such as helping to assemble a management team and helping to prepare the company for an IPO.

Adventure capitalist: Adventure capitalist is an entrepreneur who helps other entrepreneurs financially and often plays an active role in the company's operations such as by occupying a seat on the board of directors, etc.

Angel Investor: Angel or Angel Investor is an individual who provides capital to one or more startup companies. Unlike a partner, the angel investor is rarely involved in management. Angel investors can usually add value through their contacts and expertise.

Benchmarks: Benchmarks are performance goals against which a company's 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.

Blind pool: Blind pool is a form of limited partnership which doesn't specify what investment opportunities the general partner plans to pursue.

Bridge loans: Bridge loan is a short-term loan that is used until a person or company can arrange a more comprehensive longer-term financing. The need for a bridge loan arises when a company runs out of cash before it can obtain more capital investment through long-term debt or equity.

Buyout: Buyout is defined as the purchase of a company or a controlling interest of a corporation's shares or product line or some business. A leveraged buyout is accomplished with borrowed money or by issuing more stock.

Capital Gain: Capital Gain is the gain to investor from selling a stock, bond or mutual fund at a higher price than the purchase price. The capital gain is usually the amount realized (net sales price) less your investment (adjusted tax basis) in the property. A capital gain may be short-term (one year or less) or long-term (more than one year) and must be claimed on income taxes.

Capital under management: Capital under management is the amount of capital available to a management team for venture investments.

Civilian unemployment rate: Civilian unemployment rate is calculated by the number of unemployed people divided by the total size of the labor force and is expressed as a percentage. People who are jobless, looking for jobs, and available for work are considered unemployed. The labor force is defined as people who are either employed or unemployed.

Closing: Closing is the final event to complete the investment, at which time all the legal documents are signed and the funds are transferred.

Convertible: Convertibles are the corporate securities, usually preferred shares or bonds, that can be exchanged for a set number of another form, usually common share, at a pre-stated price. Convertibles are appropriate for investors who want higher income than is available from common stock, together with greater appreciation potential than regular bonds offer. From the issuer's standpoint, the convertible feature is usually designed as a sweetener, to enhance the marketability of the stock or preferred.

Corporate venture capital: Corporate venture capital is a subsidiary of a large corporation which makes venture capital investments.

Corporate Venturing: Corporate Venturing is a practice of a large company, taking a minority equity position in a smaller company in a related field.

Deal flow: Deal flow (dealflow) is the rate at which investment offers are presented to funding institutions.

Debt Financing: Debt Financing means when a firm raises money for working capital or capital expenditures by selling bonds, bills, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise to repay principal and interest on the debt.

Direct financing: Direct financing is a financing without the use of underwriting. Direct financing is often done by investment bankers.

Drive-by Deal: Drive-by Deal is a slang often use when referring to a deal in which a venture capitalist invests in a startup with the goal of a quick exit strategy. The VC takes little to no role in the management and monitoring of the startup.

Due diligence: Due diligence is the process of investigation and evaluation, performed by investors, into the details of a potential investment, such as an examination of operations and management and the verification of material facts.

Equity financing: Equity financing is a term used for company's issuance of shares of common or preferred stock to raise money. Equity financing is commonly done when its per share prices are high-the most money that can be raised for the smallest number of shares.

Equity Offerings: Equity Offerings is raising funds by offering ownership in a corporation through the issuing of shares of a corporation's common or preferred stock.

Exit: Exit is the sale or exchange of a significant amount of company ownership for cash, debt, or equity of another company.

Exit Route: Exit Route is the method by which an investor would realize an investment.

Exit Strategy: Exit Strategy is the way in which a venture capitalist or business owner intends to use to get out of an investment that he/she has made. Exit Strategy is also called liquidity event.

Financier: Financier is a person or financial institution engaged in the lending and management of money and makes a living participating in commercial financing activities.

First-round financing: First-round financing is the first investment in a company made by external investors.

First Stage Capital: First Stage Capital is the money provided to entrepreneur who has a proven product, to start commercial production and marketing, not covering market expansion, de-risking, acquisition costs.

Follow-on: Follow-on is a subsequent investment made by an investor who has made a previous investment in the company, generally a later stage investment in comparison to the initial investment.

Full ratchet: Full ratchet is an investor protection provision which specifies that options and convertible securities may be exercised relative to the lowest price at which securities were issued since the issuance of the option or convertible security. The full ratchet guarantee prevents dilution, since the proportionate ownership would stay the same as when the investment was initially made.

Fund of Funds: Fund of Funds is a mutual fund which invests in other mutual funds. Fund of Funds is an investment vehicle designed to invest in a diversified group of investment funds.

Ground floor: Ground floor is a term used for the first stage of a new venture or investment opportunity.

Incubator: Incubator is a company or facility designed to foster entrepreneurship and help startup companies, usually technology-related, to grow through the use of shared resources, management expertise and intellectual capital.

Institutional Investors: Institutional Investors refers mainly to insurance companies, pension funds and investment companies collecting savings and supplying funds to markets but also to other types of institutional wealth like endowment funds, foundations, etc.

Investment Bank: Investment Bank is a financial intermediary that performs a variety of services which includes underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients.

Invisible venture capital: Invisible venture capital is a venture capital from angel investors.

Initial Public Offering: IPO: Initial Public Offering or IPO is the first sale of stock by a private company to the public. IPOs are often smaller, younger companies seeking capital to expand their business.

IRR: Internal Rate of Return or IRR is often used in capital budgeting, it's the interest rate that makes net present value of all cash flow equal zero. Essentially, IRR is the return that a company would earn if they expanded or invested in themselves, rather than investing that money abroad.

Lead investor: Lead investor is a company's principal provider of capital, such as the entity which originates and structures a syndicated deal.

Leveraged Buy-out: **LBO:** Leveraged Buy-out or LBO is an acquisition of a business using mostly debt and a small amount of equity. The debt is secured by the assets of the business. In LBO, the acquiring company uses its own assets as collateral for the loan in hopes that the future cash flows will cover the loan payments.

Limited Partnership: Limited partnership is a business organization with one or more general partners, who manage the business and assume legal debts and obligations and one or more limited partners, who are liable only to the extent of their investments. Limited partnership is the legal structure used by most venture and private equity funds. Limited partners also enjoy rights to the partnership's cash flow, but are not liable for company obligations.

Liquidation: Liquidation is the sale of the assets of a portfolio company to one or more acquirers when venture capital investors receive some of the proceeds of the sale.

Liquidation preference: Liquidity preference is the right to receive a specific value for the stock if the business is liquidated.

Liquidity event: Liquidity event is the way in which an investor plans to close out an investment. Liquidity event is also known as exit strategy.

Lock-up Period: Lock-up Period is the period an investor must wait before selling or trading company shares subsequent to an exit, usually in an initial public offering the lock-up period is determined by the underwriters.

Management Buy-in: **MBI:** Management Buy-in or MBI is the purchase of a business by an outside team of managers who have found financial backers and plan to manage the business actively themselves.

Management Buy-out: **MBO:** Management Buy-out or MBO is the term used for the funds provided to enable operating management to acquire a product line or business, which may be at any stage of development, from either a public or private company.

Master Limited Partnership:**MLP:** Master Limited Partnership or MLP is a limited partnership that is publicly traded. MLP combines the tax benefits of a limited partnership with the liquidity of publicly traded securities.

Mezzanine Debt: Mezzanine debts are debts that incorporates equity-based options, such as warrants, with a lower-priority debt. Mezzanine debt is actually closer to equity than debt, in that the debt is usually only of importance in the event of bankruptcy. Mezzanine debt is often used to finance acquisitions and buyouts, where it can be used to prioritize new owners ahead of existing owners in the event that a bankruptcy occurs.

Mezzanine Financing: Mezzanine Financing is a late-stage venture capital, usually the final round of financing prior to an IPO. Mezzanine Financing is for a company expecting to go public usually within 6 to 12 months, usually so structured to be repaid from proceeds of a public offerings, or to establish floor price for public offer.

Mezzanine level: Mezzanine level is a term used to describe a company which is somewhere between startup and IPO. Venture capital committed at mezzanine level usually has less risk but less potential appreciation than at the startup level, and more risk but more potential appreciation than in an IPO.

Minority Enterprise Small Business Investment Companies: **MESBICS:** Minority Enterprise Small Business Investment Companies or MESBICS are government-chartered venture firms that can invest only in companies that are at least 51 percent owned by members of a minority group or persons recognized by the rules that govern MESBICs to be "economically

Owner-employee: Owner-employee is a sole proprietor or any individual who has ownership of at least one-fifth of the capital and/or profits associated with a given venture.

Pari passu: Pari-passu is a latin term that means "of

PIPE or Private Investment in Public Equity: PIPE or Private Investment in Public Equity is a term used when a private investment or mutual fund buys common stock for a company at a discount to the current market value per share.

Pipeline: Pipeline is the flow of upcoming underwriting deals.

Pitch: Pitch is the set of activities intended to persuade someone to buy a product or take a specific course of action.

Portfolio company: A portfolio company is a company or entity in which a venture capital firm or buyout firm invests. All of the companies currently backed by a private equity firm can be spoken of as the firm's portfolio.

Private equity: Private equities are equity securities of unlisted companies. Private equities are generally illiquid and thought of as a long-term investment. Private equity investments are not subject to the same high level of government regulation as stock offerings to the general public. Private equity is also far less liquid than publicly traded stock.

Private limited partnership: Private limited partnership is a limited partnership having no more than 35 limited partners and thus able to avoid SEC registration.

Private Placement: Private placement is a term used specifically to denote a private investment in a company that is publicly held. Private equity firms that invest in publicly traded companies sometimes use the acronym PIPEs to describe the activity. Private placements do not have to be registered with organizations such as the SEC because no public offering is involved.

Raising Capital: Raising Capital refers to obtaining capital from investors or venture capital sources.

Recapitalization: Recapitalization is a financing technique used by companies to defend against hostile takeovers. By recapitalization, a company restructures it's debt and equity mixture without affecting the total amount of balance sheet equity.

Resyndication Limited Partnership: Resyndication Limited Partnership is a limited partnership in which existing properties are sold to new limited partners, so that they can receive the tax advantages that are no longer available to the old partners.

Return On Investment:ROI: Return On Investment or ROI is the profit or loss resulting from an investment transaction, usually expressed as an annual percentage return. ROI is a return ratio that compares the net benefits of a project verses its total costs.

Risk: Risk is the quantifiable likelihood of loss or less-than-expected returns. Risk includes the possibility of losing some or all of the original investment. Risk is usually measured using the historical returns or average returns for a specific investment.

Risk capital: Risk capital are funds made available for startup firms and small businesses with exceptional growth potential.

Round of funding: Round of funding is the stage of financing a start-up company is in. The usual progression is from startup to first round to mezzanine to pre-IPO.

Small Business Investment Companies:**SBIC:** Small Business Investment Companies or SBIC are lending and investment firms that are licensed and regulated by the Small Business Administration . The licensing enables them to borrow from the federal government to supplement the private funds of their investors. SBICs prefer investments between $100,000 to $250,000 and have much more generous underwriting guidelines than a venture capital firm.

Secondary Public Offering: Secondary Public Offering refers to a public offering subsequent to an initial public offering. A secondary public offering can be either an issuer offering or an offering by a group that has purchased the issuer's securities in the public markets.

Secondary Purchase: Secondary Purchase is purchase of stock in a company from a shareholder rather than purchasing stock directly from the company.

Second Stage Capital: Second Stage Capital is the capital provided to expand marketing and meet growing working capital need of an enterprise that has commenced production but does not have positive cash flows sufficient to take care of its growing needs.

Seed Capital: Seed Capital is the money used to purchase equity-based interest in a new or existing company. This seed capital is usually quite small because the venture is still in the idea or conceptual stage.

Series A Preferred Stock: Series A Preferred Stock is the first round of stock offered during the seed or early stage round by a portfolio company to the venture capitalist. Series A preferred stock is convertible into common stock in certain cases such as an IPO or the sale of the company. Later rounds of preferred stock in a private company are called Series B, Series C and so on.

Silent partner: A silent partner is an investor who does not have any management responsibilities but provides capital and shares liability for any losses experienced by the entity. Silent partners are liable for in any losses up to the amount of their invested capital and participate in any tax and cash flow benefits. Silent partner is also known as a "sleeping

Startup: Startup is a new business venture in its earliest stage of development.

Syndication: Syndication is the process whereby a group of venture capitalists will each put in a portion of the amount of money needed to finance a small business.

Term Sheet: Term sheet is a non-binding agreement setting forth the basic terms and conditions under which an investment will be made. The term sheet is a template that is used to develop more detailed legal documents.

Third Stage Capital: Third Stage Capital is the capital provided to an enterprise that has established commercial production and basic marketing set-up, typically for market expansion, acquisitions, product development, etc.

Turnaround: Turnaround is the term used when the poor performance of a company or the business experiences a positive reversal.

Underwriter: Underwriter is an investment banking firm committing successful distribution of a public issue, failing which the firm would take the securities being offered into its own books. An underwriter may also be a company that backs the issue of a contract, agreeing to accept responsibility for fulfilling the contract in return for a premium.

Venture: Venture is often use for referring to a risky start-up or enterprise company.

Venture Capital: Venture Capital is the money and resources made available to startup firms and small businesses with exceptional growth potential. Most venture capital money comes from an organized group of wealthy investors.

Venture Capital Firm: Venture Capital Firm is an investment company that invests its shareholders' money in startups and other risky but potentially very profitable ventures.

Venture capital funds: Venture capital funds pool and manage money from investors seeking private equity stakes in small and medium-size enterprises with strong growth potential.

Venture Capitalist: Venture Capitalist is a term used of an investor who provides capital to either start-up ventures or support small companies who wish to expand but do not have access to public funding.

Venture Capital Limited Partnership: Venture Capital Limited Partnership is a limited partnership which is formed to invest in small startup businesses with exceptional growth potential.

Vulture Capitalist: Vulture Capitalist is a slang word for a venture capitalist who deprives an inventor of control over their own innovations and most of the money they should have made from the invention.
