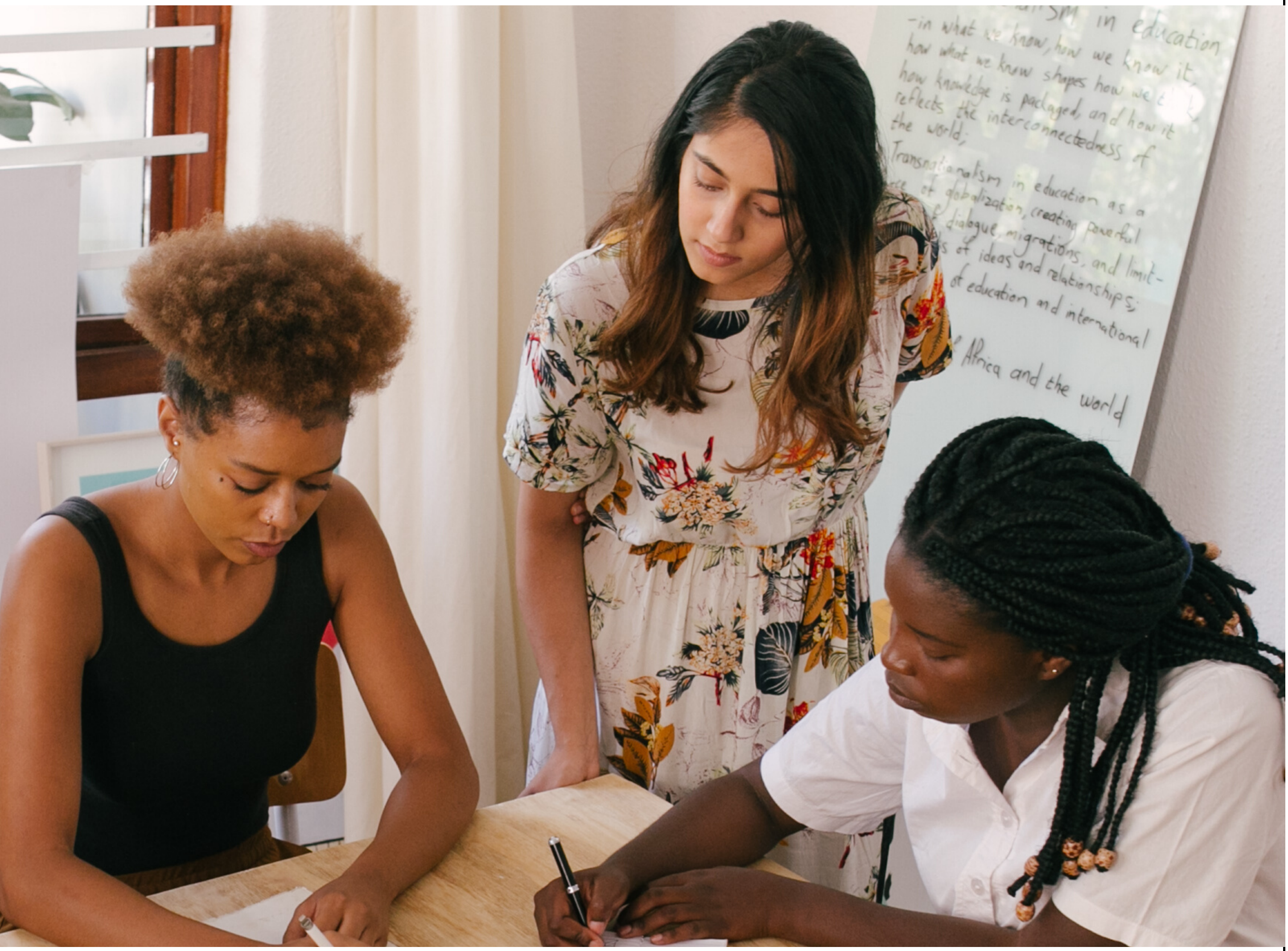
ANGEL INVESTOR TRAINING

GLOSSARY



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FAB FOUR

Learning all the lingo in one sitting is a lot. So we've outlined four essential terms here to get you started.

capital ★

n. Monetary assets currently available for use. Entrepreneurs raise capital to start a company and continue raising capital to grow the company.

entrepreneur ★

n. An individual who starts a business venture, assuming all potential risk and reward for his or herself.

venture capital ★

n. Money provided by venture capital firms to small, high-risk, startup companies with major growth potential.

venture capitalist ★

n. An individual investor, working for a venture capital firm, that chooses to invest in specific companies. Venture capitalists typically have a focused market or sector that they know well and invest in.

A

acquisition

n. When one company buys controlling stake in another company. Can be friendly (agreed upon) or hostile (no agreement).Agile - A philosophy of software development that promotes incremental development and emphasizes adaptability and collaboration.

B

b2b

n. Business to business. This describes a business that is targeting another business with its product or services. B2B technology is also sometimes referred to as enterprise technology. This is different from B2C which stands for business to consumer, and involves selling products or services directly to individual customers.

benchmark

n. The process by which a startup company measures their current success. An investor measures a company's growth by determining whether or not they have met certain benchmarks. For example, company A has met the benchmark of having X amount of recurring revenue after 2 years in the market.

board of directors

n. A group of influential individuals, elected by stockholders, chosen to oversee the affairs of a company. A board typically includes investors and mentors. Not all startups have a board, but investors typically require a board seat in exchange for an investment in a company.

bootstrapped

n. A company is bootstrapped when it is funded by an entrepreneur's personal resources or the company's own revenue. Evolved from the phrase "pulling oneself up by one's bootstraps".

bridge loan

n. Also known as a swing loan. Short-term loan to bridge the gap between major financing.

buyout

n. A common exit strategy. The purchase of a company's shares that gives the purchaser controlling interest in the company.

C

capital under management

n. The amount of capital, or financial assets, that a venture capital firm is currently managing and investing..

capped notes

n. Refers to a "cap" placed on investor notes in a round of financing. Entrepreneurs and investors agree to place a cap on the valuation of the company where notes turn to equity. This means investors will own a certain percentage of a company relative to that cap when the company raises another round of funding. Uncapped rounds are generally more favorable to an entrepreneur/startup.

convertible debt

n. This is when a company borrows money with the intent that the debt accrued will later be converted to equity in the company at a later valuation. This allows companies to delay valuation while raising funding in it's early stages. This is typically done in the early stages of a company's life, when a valuation is more difficult to complete and investing carries higher risk.

debt financing

n. This is when a company raises money by selling bond, bills, or notes to an investor with the promise that the debt will be repaid with interest. It is typically performed by late-stage companies.

disruption

n. Also known as disruptive innovation. An innovation or technology is disruptive when it "disrupts" an existing market by doing things such as: challenging the prices in the market, displacing an old technology, or changing the market audience.

due diligence

n. An analysis an investor makes of all the facts and figures of a potential investment. Can include an investigation of financial records and a measure of potential ROI.

E

enterprise

n. The term enterprise typically refers to a company or business (i.e. an enterprise tech startup is a company that is building technology for businesses).

entrepreneur-in-residence (EIR)

n. A seasoned entrepreneur who is employed by a Venture Capital Firm to help the firm vet potential investments and mentor the firm's portfolio companies.

equity financing

n. The act of raising capital by selling off shares of a company. An IPO is technically a form of equity financing.

exit

n. This is how startup founders get rich. It's the method by which an investor and/or entrepreneur intends to "exit" their investment in a company. Commons options are an IPO or buyout from another company. Entrepreneurs and VCs often develop an "exit strategy" while the company is still growing.

F

fund of funds

n. A mutual fund that invests in other mutual funds.

G

ground floor

n. A reference to the beginning of a venture, or the earliest point of a startup. Generally considered an advantage to invest at this level.

I

incubator

n. An organization that helps develop early stage companies, usually in exchange for equity. Companies in incubators get help for things like building their management teams, strategizing their growth, etc.

Initial Public Offering (IPO)

n. The first time shares of stock in a company are offered on a securities exchange or to the general public. At this point, a private company/startup turns into a public company.

L

lead investor

n. A venture capital firm or individual investor that organizes a specific round of funding for a company. The lead investor usually invests the most capital in that round. Also known as "leading the round."

leveraged buyout

n. When a company is purchased with a strategic combination of equity and borrowed money. The target company's assets or revenue is used as "leverage" to pay back the borrowed capital.

liquidation

n. The process of dissolving a company by selling off all of its assets (making them liquid).

M

mezzanine financing

n. A form of hybrid capital typically used to fund adolescent and mature cash flow positive companies. It is a form of debt financing, but it also includes embedded equity instruments or options. Companies at this level, which are no longer considered startups but have yet to go public, are typically referred to as "mezzanine level" companies.

N

Non-Disclosure Agreement (NDA)

n. An agreement between two parties to protect sensitive or confidential information, such as trade secrets, from being shared with outside parties.

P

pivot

n. The act of a startup quickly changing direction with its business strategy. For example, an enterprise server startup pivoting to become an enterprise cloud company.

portfolio company

n. A company that a specific Venture Capital firm has invested in is considered a "portfolio company" of that firm.

preferred stock

n. A stock that carries a fixed dividend that is to be paid out before dividends carried by common stock.

proof of concept

n. A demonstration of the feasibility of a concept or idea that a startup is based on. Many VCs require proof of concept if you wish to pitch to them.

pro rata rights

n. Also known as supra pro rata rights. Pro rata is from the Latin 'in proportion.' A VC with supra pro rata rights gives him or her the option of increasing his or her ownership of a company in subsequent rounds of funding.

R

recapitalization

n. A corporate reorganization of a company's capital structure, changing the mix of equity and debt. A company will usually recapitalize to prepare for an exit, lower taxes, or defend against a takeover.

ROI

n. This is the much-talked-about "return on investment." It's the money an investor gets back as a percentage of the money he or she has invested in a venture. For example, if a VC invests $2 million for a 20 percent share in a company and that company is bought out for $40 million, the VC's return is $8 million.

round

n. Startups raise capital from VC firms in individual rounds, depending on the stage of the company. The first round is usually a Seed round followed by Series A, B, and C rounds if necessary. In rare cases rounds can go as far as Series F, as was the case with Box.net.

S

SaaS

n. Software as a service. A software product that is hosted remotely, usually over the internet (a.k.a. "in the cloud").

seed

n. The seed round is the first official round of financing for a startup. At this point a company is usually raising funds for proof of concept and/or to build out a prototype and is referred to as a "seed stage" company.

secondary public offering

n. When a company offers up new stock for sale to the public after an IPO. Often occurs when founders step down or desire to move into a lesser role within the company.

sector

n. The market that a startup companies product or service fits into. Examples include: consumer technology, cleantech, biotech, and enterprise technology. Venture Capitalists tend to have experience investing in specific related sectors and thus tend not to invest outside of their area of expertise.

series

n. Refers to the specific round of financing a company is raising. For example, company X is raising their Series A round.

stage

n. The stage of development a startup company is in. There is no explicit rule for what defines each stage of a company, but startups tend to be categorized as seed stage, early stage, mid-stage, and late stage. Most VCs firms only invest in companies in one or two stages. Some firms, however, manage multiple funds geared toward different stage companies.

startup

n. A startup company is a company in the early stages of operations. Startups are usually seeking to solve a problem of fill a need, but there is no hard-and-fast rule for what makes a startup. A company is considered a startup until they stop referring to themselves as a startup.

T

term sheet

n. A non-binding agreement that outlines the major aspects of an investment to be made in a company. A term sheet sets the groundwork for building out detailed legal documents.

V

valutation

n. The process by which a company's worth or value is determined. An analyst will look at capital structure, management team, and revenue or potential revenue, among other things.

vesting

n. When an employee of a company gains rights to stock options and contributions provided by the employer. The rights typically gain value (vest) over time until they reach their full value after a predetermined amount of time. For example, if an employee was offered 200 stock unites over 10 years, 20 units would vest each year. This gives employees an incentive to perform well and stay with the company for a longer period of time.