

AccGlossary

A

Abandonment option

An option to stop investing in a venture if a specified or implicit condition is not satisfied.

Absolute priority rule

A rule that specifies the hierarchical order for the payment of claims for those firms in bankruptcy, usually creditors are paid in full before any payments are made to the common stockholders.

Accelerator

a fixed-term, cohort-based program that may include seed investment, mentorship, and education, leading to a public pitch event or demo day.

Acceleration provision

A contractual clause in a loan agreement that requires the borrower to immediately pre-pay all future interest and principal amounts when the borrower is in breach of the terms and conditions.

Accrual accounting

Recognizing revenue when it is realized and recognizing expenses in the period when they are incurred, without regard to when the cash from the sale is received or when the cash related to the expenses is paid.

Acquisition

The purchase of controlling interest in a firm, generally via tender offer for the target shares.

Adverse selection

An insurance term referring to the tendency of persons with above-average risk (and therefore higher expected claims) to be more likely to buy insurance than people with below average risk. More generally, the term refers to precontractual opportunism that arises when a party to a contract has private information that would make the contract less attractive to the other party.

Affirmative covenants

Actions an entrepreneur or borrower contracts to perform in exchange for receiving an investment or loan.

Agency cost

The cost incurred by (or loss of value that results from) having an agent make the decision on behalf of the principal.

Angel investors

Wealthy individuals who invest in early-stage ventures. They usually expect to be compensated in equity. They invest their own capital rather than that of other individual investors or institutions. (Also known as business angels)

Annuity

An investment that produces a level stream of cash flows for a specified number of periods.

Antidilution right

The right of an investor in a venture to be protected from dilution of value in the event of a subsequent round of financing at a lower price per share.

Arbitrage

Buying and selling equivalent financial claims simultaneously, where the selling price is above the purchase price, so that the difference provides a riskless profit.

Articles of incorporation

A document, also known as a corporate charter, which state the primary rules governing the organization and is legally recognized by the appropriate government agency.

Asset-based lending

A business loan secured by business assets, and not so much the prospect for future operating cash flows

Asset purchase agreement

An agreement between the seller and buyer, whereby the buyer acquires the productive assets of the venture and the seller continues to be directly responsible for the venture liabilities.

Asset-based lending

A form of debt financing where the lender relies on opportunity to liquidate assets as a means of loan repayment, rather than on the cash flows of the business.

Auction method offering

Generally, a public offering of shares using an auction structure in which the offering price is set after taking in all bids to determine the highest price at which the total offering can be sold. Auctions sold at lower prices are know as "dirty auctions."

B

Bankruptcy

The term refers either to an individual or a business entity that has declared that they are insolvent and cannot fulfill contractual commitments with creditors. The specifics of declaration of bankruptcy are defined by relevant laws of the relevant legal jurisdiction (federal law in the US). Chapter 7 of the US Bankruptcy Code provides for "liquidation," (i.e., the sale of a debtor's nonexempt property and the distribution of the proceeds to creditors.) Chapter 11 of the US Code provides for reorganization. The debtor usually proposes a plan of reorganization to keep its business alive and pay creditors over time.

Bayh-Dole Act

The Act (1980) enables universities to retain title to inventions they develop through government funding. A university must file patents on inventions it elects to own.

Best-efforts offering

In a best efforts offering the investment banker acts as an agent of the issuer. The underwriter uses best efforts to place the offering and does not guarantee the net proceeds.

Beta risk

A measure of non-diversifiable risk of an asset relative to the market. A stock with a beta of 1.0 is said to have non-diversifiable risk equal to the market.

Blockchain

a growing list of records, called blocks, that are linked using cryptography. A blockchain is effectively a distributed ledger that can record transactions between parties in a verifiable and permanent way.

Blue-sky laws

State regulations on securities sales, designed to protect investors from fraudulent offerings.

Bookbuilding

A general cash offering of stock where, prior to the offering the underwriter seeks indications of interest that are used to build an "orderbook".

Bond rating

Measure of a bond issuer's ability to pay interest and principal amount to its creditors. Usually evaluated by a bond-rating agency.

Bonding

The act of posting a bond to give credibility to a commitment.

Bootstrap financing

Techniques used by the entrepreneur to finance a venture in its early stage by relying on personal savings and borrowing capacity through credit cards, etc.

Bounded rationality

The ideas that individuals have limited capacity to process information, deal with complexity, and pursue rational aims.

Brandname capital

A nonsalvageable intangible asset that is most valuable to the firm or the entrepreneur in its current use. The goodwill that firm enjoys in the market place that enables it to charge a price premium above marginal cost for its products.

Bridge financing

A short-term loan or other temporary financing that is taken until permanent financing can be arranged.

Burn rate

The rate at which cash is consumed during a stage of new venture development.

Business angels

See angels.

Business plan

In the context of new ventures, a written document that describes the critical internal and external elements involved in starting the venture. It provides details on the operations, financing, marketing and the management of the venture, summarizes the proposed venture and the overriding strategy.

Business Development Company (BDC)

A closed-end investment **company** that provides growth capital to small **companies** often in the form of debt with significant equity sweeteners. Many BDCs are publicly traded **companies**.

C

C corporation

The conventional form of corporation--a legal entity that is separate from its owners, where the earnings of the corporation are taxed before proceeds are distributed to owners, and where the owners have limited liability.

Call option

The right to buy an asset on or before expiration date and at a price that is determined when the option is written.

Cap table

a spreadsheet for a startup or early stage venture, that shows ownership stakes, in the company, including common and preferred shares and options, and the prices paid for these securities.

Capital Asset Pricing Model (CAPM)

A financial model that determines the value of an asset based on its non-diversifiable risk compared to the market average, the market required return for bearing risk and the market required return for investing a riskless asset.

Capital call

In venture capital, when the manager of a venture capital limited partnership fund calls on the investors to fulfill their financial commitments to the fund.

Capital market line (CML)

The set of risk-and-return combinations that is obtainable by combining the market portfolio and risk free borrowings or lending's. Assuming homogeneous expectations and perfect markets, the capital market line represents the efficient sets of market investment opportunities.

Capitalization

In the new venture context, capitalization refers to value determined by multiplying total shares outstanding by the value per share in a given round of financing. Capitalization is also used to

refer to the practice of multiplying earnings or cash flow by a capitalization factor or “rate” to estimate equity market value.

Capitalization rate

A multiplier that is applied to an earnings projection to estimate value. The rate depends on cost of capital and growth assumptions and sometimes is determined by relative value of comparables.

CAPM

See capital asset pricing model.

Carried interest

The fraction of the capital appreciation of a venture capital fund that is retained by the venture capitalist as partial compensation and a reward for the fund’s performance.

Cash burn

Cash a venture spends on operations, financing expenses, and investments in assets. The burn rate refers to cash burn for a period of time, typically a month.

Cash flow

Net income after tax, plus non-cash expenses (e.g., depreciation), plus interest and other net debt service, less increases in net working capital and new capital expenditures.

Cash flow breakeven analysis

An evaluation tool for deriving the initial investment a venture requires to achieve a level of cash flow that is sufficient to maintain its operations (the cash flow breakeven point).

Cash conversion cycle

The sequence of converting cash to inputs such as materials, and capital, to goods and services, to receivables, and ultimately back to cash.

Central limit theorem

The principle that, given a population with a mean m and variance s^2 , the sampling distribution of the mean is a normal distribution with a mean m and a variance s^2/N , where N is sample size. As sample size increases, the sample mean is expected to approach the population mean and the standard error of the estimate approaches zero.

Certainty equivalent (CEQ)

A certain future cash flow that has the same present value as a specified risky cash flow.

Certification

The commitment, by a third party, of its own reputation (or by exposure to risk of penalty) as evidence of the truthfulness of a representation, capability, or other quality of the certified party.

Clawback

A contractual provision used in performance-based compensation contracts. It allows for taking back compensation if future events do not unfold as promised. Such a provision could be used in contractual arrangements between the general and limited partner of a VC fund.

Closely held corporations

Corporations whose stock is not publicly traded.

Closing, of venture capital fund

A closing defines a group of fund investors who are all treated similarly with regard to returns on fund investments. A single fund may have several closings.

Cold comfort letter

When an issuer's accounting firm issues a letter to the underwriter of the IPO, stating that they are not aware of any recent material changes in the venture's business.

Collateral

An asset that is accepted as security for a loan or any other financial obligation.

Commercial bank

A type of financial intermediary that primarily collects deposits, and makes loans.

Commitment of the entrepreneur

The extent to which the entrepreneur devotes the present value of her financial and human risk capital to a venture.

Common pool problem

A free-rider problem that arises because an individual creditor has the incentive to foreclose on the venture even though it is worth more as a going concern.

Common stock

A type of security that entitles the owner to voting rights and a share of ownership in a corporation.

Contingent claim

A term used in finance and economics that refers to a derivative contract or similar structure and provides a payoff structure that is related to a futures market condition.

Continuing value

An estimate of the value of future cash flows of an enterprise measured as of the end of a period over which cash flows are explicitly estimated and valued.

Continuing value period

The period during which cash flows of an enterprise are no longer forecasted explicitly and where value is estimated by capitalizing a final explicit forecast of performance.

Contractual cash flows to creditors

The interest and principal payments on a loan that are explicitly specified in the loan contract. Contractual cash flows differ from expected cash flows by ignoring default risk and early repayment risk.

Contribution margin

The difference between revenue per unit sold and variable cost per unit sold.

Continuing value

A simple approach to valuing future cash flows by assuming that they will perform as a level or growing perpetuity or annuity or will follow a pattern similar to other companies that are publicly traded.

Control person

A legalistic term referring to a party who has the potential to control or significantly influence the actions of a corporation. Generally, an officer, director, or large block holder.

Control rights

Rights allocated during new venture financing which may be allocated separately from the ownership share in the venture. Control rights may be created through the allocation of voting shares and by contractual provisions related to certain contingencies.

Convertible note

A debt instrument that can be converted into common stock under certain conditions.

Convertible preferred stock

Preferred stock that can be converted into common stock.

Cooperative

A not-for-profit entity where the participants contribute investment capital and share access to or use of the entity. Often are intended to enhance the profits of the participants.

Corporate charter

Legal document filed with a government agency to establish the corporation and to detail the company's objectives, structure, and planned operations.

Corporate venture capital (CVC)

The investment of corporate funds directly into one or more external startup companies.

Corporation

A legal entity that separates shareholders and their personal assets from the business.

Correlation

A standardized measure of the closeness of the relationship or co-variability of two variables. A correlation coefficient of one means that two variables are perfectly positively correlated.

Cost of capital

The opportunity cost of capital invested in an asset, based on the expected return that could be generated by investing in other assets of equivalent risk or equivalent market risk.

Cost of goods sold

Direct costs incurred in production of a product or service sold by a company.

Covariance

A non-standardized measure of the co-movement between two variables. The covariance equals the correlation coefficient times the product of the standard deviations of the variables.

Covenants and undertakings

An aspect of a contract where a party to the agreement delineates the actions it will undertake or refrain from undertaking if the contract is entered.

Cram down procedure

A bankruptcy procedure that accepts a reorganization plan for all creditors, even over a creditor's objections.

Cross default provision

Provision under which a bank applies all accounts of a borrower toward the future interest and principal obligations, when the default occurs with any loan.

Crowdfunding

The practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet, possibly in exchange for equity or in-kind benefits such as tee shirts or tickets.

Cross sectional analysis

Assessment of a venture's performance against another firm at one particular time.

D

Deal

In the context of entrepreneurship, the "deal" refers generally to the terms and conditions of a transaction between the entrepreneur and investors.

Deal flow

The rate at which the investment proposals and business plans are presented to the venture capital funding institutions.

Debt covenants

The elements of a debt contract between a firm and its lenders, which sets out the terms and conditions for borrowing and also states each party's rights and obligations.

Decision tree

A diagram that illustrates the interdependence of decisions where a sequence of decisions is required. The decision tree identifies the sequence of decisions and the possible choices at each stage. It may also provide for the introduction of uncertainty through states of nature.

Default risk

The possibility that a bond issuer/borrower will default on the payments due on a bond/loan.

Default risk premium

The portion of nominal interest rate that compensates the lender for the possibility of borrower defaulting a loan.

Demand registration rights

The right of an investor, under certain conditions, to force a venture to register the investor's shares and possibly the right to force the venture to go public.

Derivative

A security or other asset with a value that is derived from the value an underlying asset or group of assets.

Development stage

The stage of a venture during which a product or service is under development and before the venture begins to generate revenue.

Dilution

A reduction in the ownership percentage or voting control of a company due to the issuance of new equity by the company or the exercise of stock options by others.

Direct public listing

The listing of shares of a formerly privately held company on a public stock exchange, without the aid of an underwriter and without issuance of new shares of the company.

Direct public offering (DPO)

Direct selling by an enterprise of its securities (bonds, debt instruments or equity) to the investor, bypassing the formal investment banker underwriting and distribution process.

Discount factor

A factor, based on cost of capital, which can be used to convert a future, expected cash flow to its present valued equivalent.

Discount rate

The interest rate at which a future cash flow is discounted back to present value. Generally the same as cost of capital.

Discounted cash flow

A method of valuing an investment by discounting future cash flows considering risk and time value of money.

Discrete contract

A contract that has specific (discrete) terms and duration. An example of a discrete contract is that of a collateralized loan.

Diversifiable risk

The portion of the portfolio's total risk that is not related to the risk of the market and, hence, can be diversified away.

Down round

A round of venture capital financing where the firm is not able to raise as much as in the previous round because of a decrease in its valuation.

Drag-along rights

The right of a majority shareholder or group to force a minority shareholder or group to join in the sale of a company at the same price and under the same terms as any other seller.

Dual class ownership

Equity shares issued under different classes, generally differing with respect to voting rights, but identical in other respects.

Due diligence

In new venture financing, the investor's review of a business plan and assessment of the management team prior to a private equity investment. In public offerings, the investment banker's efforts to verify representations included in the offering prospectus and to discover other information that would be material and relevant to investors.

Duration

A measure of the weighted average timing of the present-valued stream of cash flows generated by a financial asset.

E

Early growth stage

The stage of new venture development that follows product introduction, during which the venture revenues increase rapidly. The venture still has negative cash flows and net income.

Early-stage financing

Financing during the development stage and other pre-start-up stages of the venture. Includes seed financing and development-stage financing.

Earn-out

A method of acquisition in which, the price the seller receives is based on performance of the business after the sale.

Earn-up

An ownership structure that can be used to limit the investor's risk and signal the entrepreneur's confidence in a venture. In an earn-up, the entrepreneur's ownership stake increases with better financial performance of the venture.

EBIT

Earnings before interest and tax. The earnings generated by a venture before deducting interest and tax expenses.

EBITDA

Earnings before interest, tax, depreciation and amortization. A measure of cash flow from operations that is available to investors and for payment of taxes.

Economic rent

The returns that a firm makes above the competitive level. The economic rent is attributable to ownership of a superior tangible or intangible asset, compared to competitors.

Economies of scale

When long-run average costs fall as the volume of output per unit of time increases.

Effective date

With regard to public offerings, the date when the registration statement for an offering is approved by the Securities and Exchange Commission or other regulatory authority for public sale.

Employee Retirement Income Security Act (ERISA)

The Employee Retirement Income Security Act (1979), among other things, establishes guidelines for pension fund investment in the capital markets.

Employee Stock Ownership Plan (ESOP)

A defined contribution pension plan (stock bonus and/or money purchase) designed to employee investment of retirement savings in equity of the firm.

Enterprise value

A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Entrepreneur

A person who undertakes to develop and operate a business venture and assumes the risk involved in the business venture.

Exercise, option

Purchase (call) or sale (put) of an underlying asset, at the exercise price specified in the option contract.

Exercise price

The price at which the underlying asset of an option contract can be exercised (either purchased or sold).

Exit stage

The stage during which early investors can most easily harvest their investments through public or private sale of a venture. Generally, during this stage the venture growth rate has declined to the point where cash flow available to investors is positive. The venture at this stage is able to provide returns to debt and equity investors without the need for additional outside financing.

Expansion option

The option to expand operations by increasing the amount invested in a venture.

Expected present value

Probabilistic valuation method where the present value in each case is multiplied by its probability and summed.

Expected value

Weighted average of a set of scenarios or possible outcomes.

Expected rate of return

Probability-weighted average of all possible rates of return.

Explicit value period

In the context of business valuation, the period over which future cash flows are projected explicitly and converted to their present valued equivalents.

Exponential smoothing

A forecasting method based on applying exponential weight factors to historical data.

Export-Import bank

Export Import Bank. The U.S. Export-Import Bank is the official export credit agency of the U.S. Government and is a potential funding source for ventures involved in export.

F

Factoring

The practice of selling accounts receivables to another firm or a factor at a discount to raise finance for operations. Factoring can be with or without recourse to the seller.

Feasible set

The set of all portfolios that can be formed from by combining investments in a specific group of assets with various weightings.

Filing range

A preliminary range of offering prices established by an underwriter for an initial public offering and reported in the preliminary prospectus.

Financial distress

Narrowly, financial distress refers to the condition of a firm having violated one or more of its debt covenants. More generally, a firm is in financial distress if its cash flows and ability to raise capital based on expectations of future performance are insufficient to maintain it as a going concern.

Financial leverage

The use of debt financing to increase the resources available to a firm for a given level of investment provided by equity stockholders.

Financial model

A mathematical model of the financial and accounting structure of a firm or other asset, generally used to project cash flows, financing needs, or estimate value on the basis of a set of sales projections and other assumptions.

Financial option

A put or call on an underlying financial asset, such as a share of stock.

Financial restructuring

Process of changing the contractual terms of the existing debt obligations and/or the composition of the existing debt claims of the venture.

Financial slack

Liquidity that would enable an enterprise to deal with unanticipated success or failure or to pursue unexpected investment opportunities without the need to raise new outside capital that would command a significant risk premium.

Financial strategy

Key financing decisions that are central to the overall strategy of a venture and normally would be costly to reverse and would constrain the future direction of the venture in significant ways.

Financial structure

A general term referring to the mix of financial markets, institutions, contracts, and legal constraints that characterize an economy.

Financing decision

Decisions concerning the financing choices of a venture, as reflected in the accounts on the right hand side of the balance sheet.

Fintech

Computer programs and other technology used to support or enable banking and financial services.

Firm commitment offering

The public offering of shares by a venture where the underwriter of the offering purchases the shares from the issuer and resells them at a mark-up to investors. The underwriter effectively guarantees the net proceeds of the offering to the issuer.

First Chicago method

A method of valuation used by practitioners for valuing business venture. Under this method, a small number of discrete scenarios are considered and are valued using a discount rate that reflects the venture's cost of capital.

First right of refusal

The right to meet the terms of any outside offer to provide additional financing (or other offer) and to preempt the offer by purchasing on the same terms.

First-mover advantage

The advantage the winner of a first round of negotiations, first innovator, first entrant, or other first mover gains over rivals.

First-stage financing

Financing provided to a company that has initiated production and is generating revenues but normally has not yet achieved profitability.

Fixed assets

A term used in accounting for assets and property which cannot easily be converted into cash (e.g., property, plant, and equipment).

Fixed expenses

Costs that do not vary according to the production volume for a specific time period.

Flipping

Purchasing a revenue-generating asset and quickly reselling (or "flipping") it for profit. The term is often applied to initial public offerings (IPOs), where shares are generally issued at a price below market.

Flooring loan

A loan that is secured through specific claims against individual assets in the supplier's inventory.

Forced buy-out

A provision that obligates the entrepreneur to buy out the investor if the venture does not go public or if a private sale of the venture is not arranged within a specific period.

Foreclosure

Legal process by which creditors try to collect defaulted liabilities by terminating owner's rights on a property/asset.

Franchising

An organizational form with decentralized decision-making and ownership. Franchisees finance their own operations. Franchising tends to be used to support rapid growth of organizations where decentralized decision making is efficient.

Free cash flow (FCF)

Cash flow beyond what is needed to maintain the existing assets of a venture and provide for the venture's growth. Cash flow in excess of what is needed to fund positively net present valued investment opportunities.

Full commitment of the entrepreneur

Devotion by an entrepreneur of the full present value of all financial and human capital to a venture, except for any amount invested in a riskless asset.

Fundamental analysis

An analysis of a corporation or new venture that derives from the fundamentals of the market and specific assumptions about the opportunity.

G

Game theory

A branch of economics concerned with the analysis of optimal decision making when all decision makers are aware that their actions affect each others' behavior and take these interactions into account in their decision making.

Game tree

A joint decision tree for the players in a sequential-mover game. The tree is composed of nodes and branches like a decision tree, but the identity of the decision maker changes at different nodes.

Gatekeeper

In venture capital, a professional asset manager who is responsible for allocating the funds of a principal, such as an endowment, to individual venture capital funds.

General cash offering

The sale of shares of a company to the investment community at large in exchange of cash. A general cash offering is an alternative to a rights offering, where shares are marketed by issuing rights to existing investors in the company

General partner

In venture capital, the member of a limited partnership, who has the decision making authority and who has unlimited liability for the partnership's debt. The general partner of a venture capital fund is also referred to as a venture capitalist.

Generally accepted accounting principles (GAAP)

Standards and procedures set by the financial account standards board (FASB) for reporting financial information.

Gross profit

Net sales minus the cost of production.

Gross profit margin

Gross profit divided by sales and expressed in percentage.

H

Harvesting

Realizing the return on a long-term investment by selling the shares in the capital market, or in a private transaction.

Hedge

A securities transaction that offset an aspect of the risk on an existing financial claim. Hedging can remove or reduce downside risk, upside risk, or specific components of risk.

Hedge fund

A limited partnership that uses high risk leveraged methods, such as investing buying some firms and short selling others, with the intent of realizing large capital gains. The fund may hedge some risks but enhance others.

Hedge portfolio

A customized portfolio of assets, with weights designed to offset the risk exposure associated with an existing or intended investment in an asset.

Holding-period return

A rate of return, expressed as a percentage of the investment, measured from the point of investment to the point when the return is realized.

Hostage

A performance bond that is created by given another party to an agreement control over assets that are more valuable to the bond provider than to the bond holder.

Human capital

The expected present value of a person's future earnings potential.

Hurdle rate

The minimum rate of return that is used to evaluate the acceptability of an investment opportunity, where the rate is used to value a specific cash flow projection. The hurdle rate is not necessarily the same as cost of capital, and sometimes is selected to compensate for bias in the cash flow projections.

I

In the money

An option is in the money if current acquisition or current sale of an asset would be more economical by exercising the option on the asset than by purchasing the asset directly at its prevailing market price.

Incentive alignment

Structuring a contract between a principal and an agent of the principal such that the agent's economic interest is maximized by selecting actions that also maximize the economic interest of the principal.

Incentive contracting

The practice of designing performance related contracts in ways that reward one or both parties for taking certain kinds of actions under certain conditions. Incentive alignment is one objective of incentive contracting.

Incentive problems

Contracting problems associated with the misalignment of the incentives of contracting parties. Incentive problems arise ex post from the structure of the contract and from the inability to fully align the incentives of the parties.

Income statement

A financial accounting statement that presents the revenues, expenses and income of a business over a specific period.

Incomplete contracts

Contracts that are incomplete by design, in that they do not address and provide for all contingencies. They rely on broadly stated principles or understandings and on non-contractual devices such as reputations to address uncertainty.

Incubator

A facility that provides affordable space to startup firms and may also provide shared services, management training, marketing support and access to financing.

Indications of interest

Individual and institutional investor interest in the initial public offering of a venture. The investment banker collects this information during the roadshow that precedes a public offering and uses it as an aid to pricing the offering.

Influence costs

The costs incurred in self-interested fashion to influence others' decisions.

Information asymmetry

When one party has private information that the other party lacks and cannot easily acquire.

Information impactedness

When one party is uncertain about what the other knows and the parties cannot easily communicate what they know to each other.

Information problems

Information problems are problems that arise due to lack of communication between the parties or the inability of the parties to communicate fully. Information problems exist prior to contracting and the contract structure may attempt to establish mechanisms for addressing information problems.

Initial coin offering (ICO)

A type of funding using cryptocurrencies, mostly done by crowdfunding over the Internet. In an ICO, "tokens" are sold to investors in exchange for legal tender or other cryptocurrencies. The tokens convey rights to future functional units to use the underlying service in the event that the project launches.

Initial public offering (IPO)

The process whereby a private corporation issues its common stocks to the general public and becomes a publicly traded corporation.

Insolvent

Failure to meet debt obligations or when a firm's net worth is negative.

Interest tax shield

Reduction in income tax paid by a venture because interest is deductible before taxes are paid.

Internal rate of return (IRR)

The rate of return from a project that equates the present values of cash inflows and outflows.

Investment Advisors Act of 1940

A federal law that defines "investment adviser" and specifies the SEC requirements of organizations that seek to provide financial advice to investors.

Investment agreement

A document that sets out the terms and conditions for making an investment, including any options, rights, or contingencies retained by either party.

Investment bank

An organization that acts as an intermediary between the issuers and the ultimate purchasers of securities in the primary securities market. See underwriter.

Investment Company Act of 1940

A law enforced by SEC that sets out the regulations for an "investment company".

Investment decision

Decisions that concern the acquisition (or sale) of assets as reflected in the accounting classifications on the left hand side of the firm's balance sheet.

Investment risk premium

Additional reward that investors expect to earn when investing in a risky venture.

Involuntary bankruptcy petition

Petition for bankruptcy filed by the venture's creditors.

IPO

See initial public offering.

IPO underpricing

An IPO offered at a lower price than its market value. The difference between the offered price and first-trade price.

IRR

See internal rate of return.

Issue cost

The cost incurred by an issuing firm to raise money through the capital markets by issuing debt or equity. Issue costs include direct costs borne by the issuer, underwriter fees, and underpricing of the offering.

J

Joint and several liability

Allows subsets of partners to be the object of legal action related to the partnership.

Joint liability

Legal action treating two or more people as equally liable.

Joint venture

A combination of assets contributed by two or more entities for a specific narrowly focused business venture for a limited duration. The capital contribution, profit or loss sharing and managerial controls are predetermined.

K

Keiretu

A Japanese organizational form consisting of a group of companies in different industries, which companies are held together through an extensive cross-ownership structure, usually structured around a key banking relationship.

L

Later-stage

Referring broadly to the stages of new venture development from the time when the venture begins to produce revenue through harvesting.

Law of conservation of value

The principle that combining assets or allocating publicly held financial claims in ways that do not affect the combined cash flows does not alter the aggregate value of the assets or financial claims.

LBO

See Leveraged buy out.

Lead investor

Venture investor contributing largest amount of capital than other investors.

Learning option

An option that to learn more about the possible outcomes of a decision before taking action, also referred to as a waiting option.

Leverage

With regard to financing, the amount of debt in the capital structure, of an organization. The term also is used to refer to the relation between sales revenue and assets, a higher ratio means greater operating leverage.

Leveraged Buy-Out (LBO)

Acquisition of a firm where the ultimate source of financing is increased debt of the firm that is being acquired. The result generally is that the firm has a high degree of financial leverage.

Leveraged ESOP

A form of ESOP where the ESOP trust borrows to acquire ownership of enough shares to meet the expected long-term need of the company retirement plan to provide share ownership to employees. The borrowing is repaid through annual contributions of the company to its retirement plan.

Limited liability company

A corporate structure whereby the members of the company are not personally liable for company debts but similar to a partnership in that earnings pass through to the owners without being taxed at the company level.

Limited liability partnership

An organizational form that preserves the tax benefits of a partnership and also provides some or all partners with limited liability that is similar to a corporation. Similar to a limited liability company.

Limited partnership

A partnership that includes of both limited and general partners. Limited partners have liability limited to their capital contributions and limited involvement in decision making. The general partner controls the decisions and has unlimited liability.

Liquid assets

Sum of a venture's cash and cash equivalents that can be turned quickly into cash.

Liquidity

The ability of an asset to be converted into cash quickly and without any price discount.

Liquidity event

An event, such as an IPO or private sale of the venture, which enables early investors to harvest their investments.

Liquidity premium (discount)

Additional (reduction in) value of an asset attributable to the characteristic of (not) being able to convert the asset into cash quickly at its existing value.

Lock-up period

A provision in the underwriting agreement between the investment banker and existing shareholders that prohibits corporate insiders and private equity holders from selling the shares

they own in the venture (even though the shares may be registered) for a period of 90 to 180 days following the offering.

Long-run average cost (LRAC)

The minimum cost of production at each level of production, assuming all the inputs are freely variable, so that the least-cost means of production is achieved for any level of output.

Long-term debt

Loans that have maturities of longer than one year.

M

Management buyout (MBO) financing

A leveraged buyout (LBO) where the purchasers are managers of the company that is being acquired.

Managerial stock options

Stock options provided to managers in lieu of cash compensation as incentives or as a means of spreading risk and conserving cash.

Market capitalization

Estimation of a venture's market value of equity, determined by multiplying its current stock price by the number of outstanding shares.

Market portfolio

A hypothetical portfolio of market securities, where the proportion invested in each security equals the percentage of the total market capitalization represented by the security. In practice, various indexes, such as the S&P 500 are used as approximations of the market portfolio.

Market risk

Risk that arise due to the general conditions in the economy and affects all market assets to varying degrees. Also, the component of an asset's total risk that is attributable to general market conditions.

Market risk premium

The expected return premium investors demand for investing in the market portfolio, as evidenced by return differentials between the market portfolio and a riskless asset.

Market value

The value of an asset in the capital market, based on its expected cash flows and risk characteristics, and on the aggregate effect of investor risk aversion as reflected in the market risk premium.

Marketable securities

Securities that can be easily sold as they have ascertainable value and are transferable to a new owner at any time.

Maturity premium

Extra returns that reflect increased uncertainty associated with long-term securities.

Maturity Stage

Period when the revenue continues to grow, but at a much lower rate than in the growth stage.

Mean

The mathematical average of a given set of numbers (total of the numbers divided by n , where n is the number of observations). Also referred to as the expectation or expected value.

Median

One type of average, found by arranging the values in order and then selecting the one in the middle. If the total number of values in the sample is even, then the median is the mean of the two middle numbers. The median is a useful number in cases where the distribution has very large extreme values which would otherwise skew the data.

Mezzanine financing

Capital raised by a venture at a relatively late stage of development, usually after the venture has had a stream of positive net income.

Milestones

Specific and verifiable benchmarks that are set by the investor in agreement with the entrepreneur, and which are used to evaluate the progress of the venture, and possibly as bases for anchoring various provisions of the investment agreement.

Minimum efficient scale (MES)

The smallest level of output for which long run average cost is minimized.

Minimum Viable Product (MVP)

A new product or website with features sufficient to satisfy early adopters and provide feedback for product development.

Monitoring

An activity for determining that the contractual obligations of another party have been met or that an agent is acting in ways that are consistent with the interest of investors.

Moral hazard

The incentive of a party to an agreement to act in a narrowly self-interested way under the terms of the agreement. Originally and insurance term referring to the incentive of insured parties to over-consume medical care because the cost of the care is borne by the insurer.

N

Nash equilibrium

A collection of strategies, one for each player, such that each player's strategy is optimal given the strategy of the other player(s).

Negative covenants

In the investment agreement, things an entrepreneur agrees not to do.

Net cash build

Occurs when the cash flow from operations is greater than the cash flow into investments.

Net cash burn

Occurs when the cash flows from operations is smaller than the cash flow into investments.

Net present value (NPV)

The present value of cash flows expected to receive from a particular investment less the cost of the initial investment.

Net working capital

Current assets minus current liabilities.

Nondiversifiable risk

The systematic or market risk of an investment, which risk cannot be eliminated by diversification.

Nonpriced round

A funding round of an early-stage company that does not include an explicit valuation, but that ties the convertible debt or similar instrument from the round to the price that is negotiated in the next priced round.

Not-for-profit organization

Organizations that intentionally do not generate profits. The excess of revenue over expenses normally is re-invested in the organization.

NOPAT

Net operating profit after tax.

O

Open IPO

An alternative IPO process, based on an auction developed by William Vickrey, under which individuals and firms submit direct bids for stakes in IPOs. The highest bidder wins, but all bidders pay the same as the lowest winning bid.

Operating cash flow

Cash flow generated after deducting all operating expenses from the revenues.

Operating profit or income

Sales revenue minus the cost of sales and related operating expenses. Also known as earnings before interest and taxes (EBIT).

Operating lease

A lease whose term is short relative to life of the asset. Usually the lessee handles maintenance and enjoys exclusive rights on property for the contractual period.

Opportunistic behavior

Self-interested behavior that is not constrained by moral issues.

Opportunity cost of capital

The return on the most highly valued alternative use of the capital employed

Option

A contract between two parties in which one grants the other the right to buy (or sell) a specific asset at a specific price (or range of prices) within a specific period.

Option pricing model (OPM)

The option-pricing model, developed by Black and Scholes, provides a way to price an option by exploiting the principles of complete markets and riskless arbitrage.

Option to abandon

An option to stop investing in a venture if the returns from the venture do not meet the expected returns of the investor.

Option to expand

An option to inject more funds into the venture to expand the scale or the operations of the venture.

Option to wait

An option to observe the scale and operations of the venture before deciding whether to invest in the venture (equivalent to a learning option).

Organizational strategy

The part of the strategic plan that defines the horizontal and vertical boundaries of the organization.

Organizational structure

The hierarchy within an organization that defines each individual's role and authority.

Out of the money

In the case of a call option, an option whose exercise price is greater than the market price of the underlying asset. In the case of a put option, an option whose exercise price is less than the market price of the underlying asset.

Outside investor

An investor who provides financial capital for operations to the venture and, in turn, is compensated with a share in the venture. The investor may also provide organizational expertise to the venture.

Over-the-counter market

Trade of financial securities through electronic media such as telephone or internet and without a formal organized exchange.

P

Partial commitment

An investor makes a partial commitment investment if the value of the investment is less than the value of the investor's entire financial and human capital.

Participating preferred stock

Preferred stock with a provision that allows the owners to earn extra dividends over and above the specified rate, before the company distributes profit among common stockholders.

Partnership

Shared ownership between two or more individuals. Some of the partners may, but do not necessarily, have limited liability.

Perfect contract

A contract that anticipates and provides for all the possible contingencies. The terms of the contract bind the parties in the contract, so that they cannot renegotiate the terms of the deal to take advantage of the other.

Perpetuity

An infinite annuity that produces a series of identical cash flows each period, forever.

Personal guarantee

Posting of a borrower's personal assets as security for a loan. The lender can liquidate the personal assets if promised debts are not paid.

Piggyback registration rights

Piggyback registration rights give investors the right to have shares they own included with any registration of shares issued by a venture.

Portfolio theory

A theory that concludes that cost of capital depends not on total risk, but on the component of risk that cannot be avoided through diversification.

Post-money valuation

The product of price paid per share in a financing round and the total shares outstanding after the financing round.

Pre-money valuation

The product of price paid per share in a financing round and the total shares outstanding before the financing round.

Preemptive right

The right of an investor to maintain fractional ownership by participating in subsequent equity issues of a firm.

Preferred stock

A type of security that is higher in rank than common stock.

Prepackaged bankruptcy

A company's restructuring proposal that has been approved by the majority of creditors, and is filed in the court along with the petition for bankruptcy under Chapter 11.

Present value

Today's value of all future cash flows discounted at the investor's required rate of return.

Present value break-even analysis

An analysis to determine the present value of cash inflows required for recovering the present value of the required cash outflows.

Primary market

The public market for securities originally issued by a company to fund its own operations and investments.

Prime rate

The interest rate charged by a bank or a financial institution to its best customers.

Prisoners' dilemma

Parties (prisoners) have dominant strategies that lead to a payoff that is inferior to what they could have achieved if they had cooperated.

Private Investor Securities Litigation Reform Act of 1995

Federal legislation aimed at reducing the number of class-action lawsuits surrounding IPOs. The Act changes the liability rule from joint and several liability to proportional liability and changes the procedures for filing class-action suits. It also reduces accountability for "forward looking statements" made by company management.

Private placement

The sale of securities to institutional investors, wealthy investors, venture capitalists, or others. The sale is without a formal Securities and Exchange Commission registration process.

Private workout

Voluntary agreement between a venture's owners and its creditors that provides for a financial restructuring of the venture's outstanding debt.

Pro forma analysis

Projections of future changes in a firm's income statement, balance sheet, and cash flow statement. Pro forma financial statements frequently form the basis of a valuation and the basis for assessing financial needs.

Product-market strategy

The part of the strategic plan that addresses the product market orientation of a venture, including the price, margin, quality, and differentiation. It also defines sales growth targets.

Professional corporation

A legal entity with limited liability. The management mainly consists of professionals, such as accountants, lawyers, physicians, etc. It is similar to a limited partnership, but with transferable ownership. Its securities cannot be traded on the stock exchange.

Profitability and efficiency ratios

Accounting ratios that reflect how efficiently a venture is controlling its expenses and utilizing its assets.

Proprietorship

A form of business organization with a single owner who is liable for the debt of the business. The business is not a legal entity and the ownership rights can be transferred only by sale of the business.

Prospectus

The official selling circular that provides various summary data about the issuing firm. The document generally is a condensed version of the registration statement that is filed with the U.S. Securities and Exchange Commission.

Prudent investor standard

An investment standard based on modern portfolio theory. Under the standard, pension fund managers can invest in a diversified portfolio that includes securities traditionally treated as risky. The standard replaces the prudent man standard.

Prudent man standard

Before 1979, the Employee Retirement Income Security Act (ERISA) articulated an investment standard that discouraged pension fund managers and other fiduciaries from investing in private equity of other high-risk assets. Under the standard, each security was viewed individually with regard to its risk.

Public corporation

A legal entity with shares that trade on an organized exchange.

Public offering

Sale of debt, equity, or other securities to the general public through a formal registration and offering process of the Securities and Exchange Commission.

Put option

A financial contract that gives the buyer the right, but not the obligation, to sell a security at a specified exercise price on a given date (a European put) or on or before a given date (an American put).

Q

Quasi rent

A return in excess of the minimum needed to keep a resource in its current use.

R

R&D financing

Development-stage financing. Financial capital used to fund an organization's operations during the research and development stage.

Rapid growth stage

The last stage of development for which the venture requires external financing. In this stage, revenues increase rapidly, and the venture may generate negative net income.

Ratchet provisions

A contractual provision designed to protect an outside investor from the possibility of a lower valuation in a subsequent round of financing.

Real interest rate

The nominal interest rate adjusted for inflation.

Real options

Analogous to options on financial securities, real options involve discretionary and strategic choices or rights to acquire or exchange an asset for a specified alternative. These decisions include options to wait, expand, abandon, switch, and so on, as events unfold.

Receivables lending

A type of asset based lending where account receivables are used as collateral.

Recourse

A loan provision used in conjunction with accounts receivable. If a loan is made "with recourse," the lender has a general claim against the borrower if the debt of the borrower's customer is not paid.

Red herring disclaimer

Obligatory disclaimer disavowing any intent to act as an offer to sell, or solicit an offer to buy, securities.

Registration rights

The right of an investor, under certain conditions, to have their shares registered with the Securities and Exchange Commission. Registered shares are freely tradable once the issuing firm goes public and lock-up restrictions expire.

Registration statement

A document that must be filed with and approved by the Securities and Exchange Commission before a firm can initiate a public security offering. The statement provides summary data on the issuing firm and forms the basis of the prospectus.

Regression

A statistical procedure for estimating the relationship between the values of a random variable and the corresponding values of one or more other variables. It is a technique for finding the line of best fit.

Regulation A+

Reg A+ of the JOBS Act is a type of offering that allows private companies to raise up to \$50 Million from the public. The regulation allows companies to offer shares to the general public and not just accredited investors. Companies are required to file with the SEC and get approval before launching a mini-IPO. The offering fees lower than for a traditional IPO and ongoing disclosure requirements are less burdensome, making a Reg A+ offering a mini-IPO.

Regulation Crowdfunding

The regulation enables eligible companies to offer and sell securities through crowdfunding. The rules require all transactions to take place online through an SEC-registered intermediary and set a low maximum on the amount that can be raised through crowdfunding offerings in a 12-month period.

Regulation D

Provides for an offering up to \$1 million in a 12-month period by filling Form D with the Securities and Exchange Commission.

Relational contract

A highly flexible, implicit contract based entirely on the ongoing relationships between the parties to an exchange.

Relative value

A valuation method that relies on comparable firms or transactions to infer multiples used in estimating value.

Representations and warranties

Part of an investment agreement where the seller of a business interest warrants aspects of the interest being sold. The representations and warranties are legally binding on the seller and can substitute for other forms of due diligence by the purchaser.

Reputation

The public's or trading partner's general estimation of a person or organization that is based on past experience, and that forms the basis for forecasting future behavior.

Reputational capital

Reputation capital is a quantitative measure of the value of an entity's reputation that would be lost quickly if the entity were to disappoint customers, employees, or shareholders.

Required rate of return

The required rate of return for an investment is its opportunity cost of capital. The expected return that is foregone by investing in an asset rather than securities of comparable risk.

Research and development limited partnership

A limited partnership formed to finance the research and development (R&D) activities of a firm. The partnership owns the rights to the patents, trade secrets and intellectual property rights that arise from R&D. Normally, the partnership commits to license rights to use the intellectual property to the firm that conducts the R&D.

Research and development stage

The stage of new venture development that involves investment in R&D. During this stage, the venture generates no revenues, has negative net income, and negative cash flows.

Residual claimant

An investor who is entitled to receive the residual return on an asset after all other investors have been compensated.

Restricted shares

Under Securities and Exchange Commission rules, these are unregistered shares that cannot be sold publicly or privately for a certain period, usually one year after the IPO, or that can be sold only in limited amounts. Restrictions on resale are governed by Rule 144. Rule 144A permits resale of restricted shares to certain qualified investors.

Restricted stock unit (RSU)

An RSU conveys a non-transferrable right to receive a share of stock in the future (at the time of vesting) and is taxed as income at that time, with a portion withheld to pay income taxes.

Retention ratio

The fraction of net income retained in the venture and not paid out to investors.

Return on assets

Net income divided by total assets.

Reverse merger (reverse IPO)

A means of creating a market for company shares by being acquired by a company shell that is already public and then renaming the shell to the company name.

Reversion value

Estimated value of the terminal value in present time.

Right of first refusal

Alternatively, first right of refusal. An investor's right to invest in the venture on specified terms before other parties are given the same opportunity to do so.

Right of prior negotiation

An investor's right to require the entrepreneur to negotiate future financing with the investor before agreeing to other outside financing.

Rights offering

An issue of securities offered to current shareholders in proportion to the number of shares owned by each shareholder. Normally, existing shareholders are issued rights to purchase new shares on specified terms. The rights are call options that can be either exercised or sold.

Risk capital

Capital invested in risky assets, as distinct from capital invested in riskless debt.

Risk-adjusted discount rate (RADR)

The discount rate used in a valuation approach that converts expected future cash flow to present value by applying a discount rate that reflects both the time value of money and the riskiness of the expected future cash flow.

Risk-free rate

The rate of return earned by investing in a risk-free asset, such as 90-day U.S. Treasury bill.

Roadshow

A series of presentations made by the issuer and the underwriter to brokers and institutional investors to market a private issue or a public offering. The roadshow yields information about demand for the issue helps the underwriter price the issue.

Roll-up

A private equity investment strategy that enables a company that is too small to go public by itself to do so by combining with other companies to create an organization that is large enough to make efficient use of the initial public offering process.

Rule 144

The U.S. Securities and Exchange Commission regulation that prohibits sales of unregistered securities for one year after the purchase and limits the rate of sale between the first and second year after purchase.

Rule 144A

The rule modifies the holding period requirement under Rule 144 on privately placed securities to permit qualified institutional buyers to trade positions among themselves..

S

S corporation

A type of corporation that has a tax status similar to a partnership. The profits flow directly to the shareholders, thereby avoiding double taxation on both earnings and dividends.

Screening

A party without private information offers a choice of alternative contract terms such that a party with private information reveals the information by choosing. Similar to signaling.

Seasoned offering

A public issue of shares by a corporation that already has shares trading in the market.

Secondary market

A capital market in which financial securities that are outstanding are traded among investors.

Secondary offering

Public issue by shareholders of shares that have been previously issued by the firm. The issuing firm does not receive the proceeds from the offering.

Secured lending

Lending backed by specific collateral, so that, in the case of default, the lender is entitled to the assets pledged by the borrower.

Securitization

The process of creating publicly tradable claims on privately owned assets such as pools of mortgage loans.

Securities Act of 1933

US federal law governing the initial sale of securities in public markets.

Securities Exchange Act of 1934

A federal law regulating the standards for public security trading. Also this law established Securities and Exchange Commission.

Security market line (SML)

A linear relationship, derived from the Capital Asset Pricing Model, between the required return on the securities and the betas of the securities.

Seed financing

Very early-stage financing.

Senior debt

Debt that has a priority claim on venture's assets than other debt obligations.

Signaling

Credibly demonstrating intention, ability, or other characteristic about which the actor has private information that is costly or difficult to reveal directly. For example, an entrepreneur who accepts below market pay may signal an intention to work for the firm's success.

Simple agreement for future tokens (SAFT)

When a company sells an investor a SAFT, it receives funds from that investor and the investor receives documentation indicating that, in the event that a cryptocurrency or other product is created, the investor will be given access. The developer uses funds from sale of the SAFT to develop the technology required to create a functional token, and then provide the tokens to investors with the expectation that there will be a market to sell them.

Simulation

A method for estimating the probability distribution of possible outcomes, such as for a project of a financial claim.

Sinking fund payments

Periodic repayments of a portion of debt principal.

SLOR

Abbreviation for “Standard Letter of Rejection”, or sometimes used as a verb to indicate the dispatch of such a letter.

Small Business Administration (SBA)

A federal government agency through which the federal government has sought to stimulate the formation and development of new business ventures by providing financing subsidies.

Small Business Investment Company (SBIC)

A private institution that provides a program of financing to small business using government subsidized financing sources.

Small Corporate Offering Registration (SCOR)

A simplified way for smaller companies to raise capital by issuing shares. A SCOR provides an exemption from the normal registration requirements for companies that offer and sell up to \$1 million any 12-month period.

Small and medium-size enterprise (SME)

Countries have their own definition of what is considered a small and medium-sized enterprise. In the U.S., there is no distinct way to identify an SME. In the European Union, a small-sized enterprise has fewer than 50 employees, while a medium-sized enterprise has fewer than 250.

Small numbers bargaining

Negotiation of an exchange when the parties have few alternative contracting partners.

Social venturing

An undertaking by a firm or organization, whether for-profit or not-for-profit, that seeks to provide systemic solutions to achieve a perceived social objective.

Sole proprietorship

Refer to proprietorship.

Specific investment

Investments that support a given activity or relationship. These investments are valuable in the activity or relationship but have little alternative value.

Spontaneous financing

Working capital structures that generate financing for the venture. For example, a change in accounts payable policy may generate short term financing for the venture.

Spontaneously generated funds

Increases in accounts payables and accruals that accompany sales increases.

Staging

The provision of capital to entrepreneurs in installments that are tied to achieving specific milestones.

Standard deviation

A statistical measure of the dispersion of possible outcomes around the expected value of a random variable.

Start-up financing

The financing provided to cover the activities and expenses associated with initiation of production and sales.

Start-up stage

The stage of new venture development when the venture acquires the facilities, equipment, and employees required to produce the product.

Stock purchase agreement

The outstanding equity of a firm is purchased for cash. The purchaser acquires ownership of all assets of the venture and assumes all liabilities.

Strategic decision

Decisions related to a course of action, which are consequential, both active and reactive and commit the decision-maker by limiting the range of future actions that are possible.

Strategic partnering

Partnership with another entity such as a supplier or key customer to jointly achieve a strategic objective.

Strategic plan

A broad plan for achieving a set of strategic objectives.

Subordinated debt

Debt which ranks below other senior debts with regard to claim on a venture assets.

Sunk costs

Costs that have been incurred and cannot be recovered.

Sunk investment

See sunk costs.

Surplus cash

Excess cash balance after required cash, all operating expenses, and reinvestments are made.

Sustainable growth

The growth rate a venture can achieve and maintain without needing to raise additional equity or modify its financial leverage policy.

Sustainable sales growth rate

Sales growth rate which a venture can finance through retention of its profits in the business, rather than raising new debt or issuing new equity.

Systematic liquidation

Selling off a firm's assets, clearing its debt obligations and then distributing the remaining assets among the owners.

Systematic risk

The component of an asset's total risk that is explained by correlation with the overall market.

T

Tag-along rights

Also referred to as "co-sale rights," a tag-along right is a contractual obligation to protect a minority shareholder, usually in a venture capital deal. Sale by a majority shareholder gives the minority shareholder the right to join the transaction.

Term sheet

A concisely stated summary that reflects the understandings of both the parties in a financing or acquisition agreement. The term sheet forms the basis for the investment agreement.

Term structure of interest rates

Relation between nominal interest rates and time to maturity assuming default risk is constant.

Terminal value

See continuing value.

Termination rights

The right of an investor to end future investments in a venture.

Trade credit

Credit granted by one firm to another for the purchase goods or services from the credit provider. Trade credit generates accounts receivable for the seller and accounts payable for the buyer.

Trade secrets

Information or an intellectual property that a company keeps it secret, and which brings economic or competitive advantage to the holders.

Trademarks

Intellectual property rights that allow firms to differentiate their products and services through the use of unique marks.

Transactions costs

Costs incurred to search for trading partners, negotiate terms, and enforce agreements.

Turnover

A measure of operating leverage, denoted by dividing the sales by assets.

U

Underinvestment

Foregoing positive net present valued investment opportunities due to lack of funds or concern with adverse market reaction to capital raising efforts.

Underlying asset

An asset to which option contracts are tied.

Underpricing

In a public offering, intentionally pricing an issue below the expected price in the aftermarket. Underpricing results in positive first-day returns.

Underwriter

In capital-raising transactions, an organization that acts as an intermediary that purchases securities from an issuer and resells to the ultimate purchasers of securities in the primary security market.

Underwriting

The process by which investment bankers bring new securities to the public security market.

Underwriting spread

Difference between the price at which securities are sold to public investors and price paid by the under-writing firm, in a new issue of securities.

Unicorn

A privately held startup company valued at over \$1 billion based on post-money valuation.

Unlevered free cash flow

A measure of expected cash flow from assets assuming no debt financing.

Unlevered cost of equity

The cost of equity capital if the firm had no debt financing, the same as the required return on assets.

Unlimited liability

Arises when the owners or partners are personally responsible for all the debt obligations of the venture, not limited to the venture's assets or owner's investment.

Unpriced round

A private funding round using convertible debt or a similar instrument where there is no explicit valuation of the company.

V

Value additivity

Principle that under certain assumptions the value of the whole must equal the sum of the values of the parts.

Variance

Mean squared deviation from the expected value. The squared value of the standard deviation.

Vendor financing

See trade credit.

Venture capital (VC)

Independently managed pools of investment capital that are focused on equity-linked investments in high-growth companies. Also used in the generic sense to mean capital invested in entrepreneurial ventures.

Venture capital firms

An investment company that invests in risky, new and fast-growing ventures.

Venture capital fund

Generally, a limited partnership fund formed by a venture capital firm to invest in a portfolio of high-growth, high-risk entrepreneurial ventures.

Venture capital method

The traditional and the simplest method of investment valuation in the venture capital industry. Valuation is based on projected cash flows under a success scenario.

Venture Capitalist (VC)

The person or entity who is the general partner of a venture capital fund.

Venture leasing

Leasing contracts where one component of the return to the lessor is a type of ownership in the venture, usually through warrants.

Venture life cycle

Maturation of a new business venture from development stage through various phases of revenue growth.

W

Waiting option

A real option to defer investing until after some element of uncertainty is resolved or gains clarity.

Warrants

A type of call option issued by the firm whose stock serves as the underlying security. Typically warrants have longer times to expiration than listed or over-the counter call options.

Waterfall provision

A type of payment scheme for a company repaying more than one loan. The company pays off the higher-tiered creditors first, who receive interest and principal payments, and then pays off the lower-tiered creditors who receive only interest payments. When the higher-tiered creditors have received all interest and principal payments in full, the next tier of creditors begins to receive interest and principal payments.

Weighted average cost of capital (WACC)

The rate a company is expected to pay on average to all of its security holders (debt holders, equity holders, etc.) It is an average of the cost of the individual sources of capital according to each source's weight in the whole capital structure.

Working capital

Current assets of the firm that are integral to operations, for example accounts receivable and cash. See net working capital.

Writer

The seller of a call option, the writer is obligated to deliver the underlying asset if the option is exercised.

X

Y

Yardstick, in valuation

A comparable company used in valuation.

Yield curve

Plot of interest rate and time to maturity of a debt.

Z
