

## Glossary

### A

#### **Acquisition**

The establishment of control in one business entity by another, often with the assistance of private equity. Third party acquisition is a common Exit Mechanism for private equity funds.

#### **Acquisition for Expansion Financing**

Capital provided to a company to finance its controlling interest in another entity for growth purposes.

#### **Agent**

A market intermediary that assists in the structuring of a private equity transaction.

#### **Angel**

A wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutional or other individual investors.

#### **Average Company Financing**

The dollar value of total capital invested divided by the total number of investee firms in a given period.

### B

#### **Balanced Fund**

A private equity fund strategy whereby a wide range of investment targets is pursued, as distinct from a Specialized Fund

#### **Bio**

Biotechnology

#### **Bridge Financing**

Capital provided on a short-term basis to a company prior to its going public or its next major private equity transaction

#### **Bridge financing**

Short-term private equity funding provided to a company generally planning to float within a year

#### **Burn rate**

The rate at which a company requires additional cash to keep going

#### **Buyout Capital**

A specialized form of private equity, characterized chiefly by risk investment in established private or publicly listed firms that are undergoing a fundamental change in operations or strategy. Buyout funds are often called such, even if their mandates are not exclusively buyout-related

### C

#### **Capital Available for Investment**

The total dollar value of Capital Under Management less those resources that have already been invested by a private equity fund. Also known as liquidity.

#### **Capital Commitment**

Resources flowing from individual, institutional and other external sources to private equity funds.

#### **Capital Gains**

The proceeds obtained on the sale of assets.

**Capital Under Management**

The total dollar value of capital resources, both invested and un-invested, in a private equity fund or market as a whole.

**Carried interest**

The substantial share, often around 20%, of profits that are allocated to the general partners of a venture capital partnership.

**Chinese walls**

Arrangements that prevent sensitive information being passed between different parts of the same organization, to prevent a conflict of interest or breach of confidentiality.

**Co-investment**

Two or more investors in a given transaction. Also known as syndication. The average rate of co-investment is the total number of investments made in the total number of deals in a given period.

**COMM**

Communications and networking

**Committed capital**

Pledges of capital to a venture capital fund. This capital is drawn down over the life of the fund.

**Common stock**

The equity typically held by management and founders. Typically, at the time of an initial public offering, all equity is converted into common stock.

**Company Buyback**

The redemption of private stock by the management of a Portfolio Company. This is a common Exit Mechanism for private equity funds

**Consolidation**

A private equity investment strategy that involves merging several small firms together and exploiting economies of scale or scope

**Convertible equity or debt**

A security that can be converted under certain conditions into another security (often into ordinary shares). The convertible shares often have special rights that the ordinary shares do not have

**Corporate Fund**

A private equity fund that is a division or subsidiary of a financial or industrial corporation to invest in other firms outside the corporation.

**Corporate venture capital**

An initiative by a corporation to invest either in young firms outside the corporation or units formerly part of the corporation. These are often organised as corporate subsidiaries, not as limited partnerships

**D****Deal**

See Financings and Investments

**Deal flow**

The rate at which business plans are received by a venture capital fund over a certain timeframe.

**Disbursement**

The actual dollar amount flowing from a private equity fund or funds to a company in a given transaction

**Distressed debt**

A private equity investment strategy that involves purchasing discounted bonds of a financially distressed firm. Distressed debt investors frequently convert their holdings into equity and become actively involved with the management of the distressed firm

**Divestiture Financing**

Capital provided to a company to facilitate the sale of its interest in a product, division or subsidiary to another business entity

**Down road**

A round of financing where typically new investors purchase stock from a company at a lower valuation than the valuation placed upon the company by earlier investors.

**Due Diligence**

The process of assessing the business and financial viability of a potential investment target, as well as the potential terms and conditions of an investment agreement

**E****Early Stage Financing**

Capital provided to a young or emerging company to facilitate its growth and development, as illustrated in Seed Financing and Start-up Financing

**Earn-out**

Part of the price of a transaction, which is conditional on the performance of the company following the deal

**Employee Buyout Financing**

Capital provided to facilitate the takeover of all or part of a business entity by employees or a labor organization

**ES**

Early stage

**EX**

Expansion

**Exercise price**

The price at which an option or warrant can be exercised

**Exit Mechanism**

The strategic means by which a private equity fund liquidates its stake in a business and achieves optimal returns. There are multiple exit routes, including Acquisition, Company Buyback, Initial Public Offering, Secondary Purchase and Write-off

**Expansion**

To grow and expand an established company. For example, to finance increased production capacity, product development, marketing and to provide additional working capital. Also known as “development” or “growth” capital.

**Expansion Financing**

Capital provided to a company to facilitate its growth and development objectives

## **F**

### **Factoring companies**

provide finance by buying trade debts at a discount, either on a recourse basis (you retain the credit risk on the debts) or on a non-recourse basis (the factoring company takes over the credit risk)

### **Financings and Investments**

Each transaction involving a private equity fund or funds in a given portfolio company represents one round of financing. Each financing is made up of one or more investments, depending on the presence of co-investors. Financings are also known as deals

### **Firm**

The partnership which manages a venture capital fund. One firm might manage more than one fund

### **First closing**

The initial closing of a fund

### **First fund**

An initial fund raised by a venture capital organisation

### **First round**

The first investment in a company made by external investors.

### **Float**

In a public market context, the percentage of the company's shares that is in the hands of outside investors, as opposed to being held by corporate insiders

### **Flotation**

To obtain a quotation or IPO on a stock exchange, such as the Australian Stock Exchange or the NASDAQ

### **Follow-on Financing**

A supplementary round of financing in an existing Portfolio Company that builds on its original financing, generally in line with business growth and development. Venture-backed firms are often engaged in multiple follow-on deals

### **Follow-on fund**

A fund that is subsequent to a venture capital organisation's first fund

### **Follow-on offering**

An offering by a firm that has already completed an initial public offering and whose shares are already publicly traded

### **Fund**

A pool of capital raised periodically by a venture capital organisation. Usually in the form of limited partnerships, venture capital funds typically have a ten-year life, though extensions of several years are often possible

### **Fund**

The pool of capital established for the purposes of private equity activity. Often a Management Company will be responsible for several funds that may vary according to mandate or investment period

### **Fund Manager**

The professional manager of a private equity fund or funds

### **Fund of funds**

A fund that invests primarily in other venture capital funds rather than portfolio firms, often organised by an investment adviser or investment bank

**Fund-raising**

The activity whereby a private equity fund seeks to raise new Capital Commitments from external sources of supply.

**G****Gatekeeper**

A professional advisor or intermediary operating in the private equity market on behalf of clients, such as institutional investors

**Gearing, debt/equity ratio or leverage**

The total borrowings of a company expressed as a percentage of shareholders' funds

**General Partner**

See Limited Partnership

**Government/State Fund**

A government-owned private equity fund, usually organized through a national or state agency.

**H****Holding Period**

The length of time an investor holds all or part of their interest in a portfolio company

**I****Initial Public Offering (IPO)**

The sale or distribution of the privately-held stock of a Portfolio Company on public markets for the first time. This is a common Exit Mechanism for private equity funds, especially venture capital funds

**Institutional buy-out (IBO)**

To enable a private equity firm to acquire a company, following which the incumbent and/or incoming management will be given or acquire a stake in the business. This is a relatively new term and is an increasingly used method of buy-out. It is a method often preferred by vendors, as it reduces the number of parties with whom they have to negotiate

**Institutional Investor**

Pension funds, insurance companies, endowments, charitable foundations, mutual funds and other non-bank financial institutions that are often key suppliers to private equity funds. In Canada, certain large institutional investors also have in-house programs for direct market activity

**Institutional Venture Capital**

The organized market for venture activity, based on an industry of management firms and funds, as distinct from the informal investment market.

**Internal rate of return (IRR)**

The discount rate equating the present value of cash outflows with the present value of cash inflows

**Investment adviser**

A financial intermediary who assists investors, particularly institutions, with investments in venture capital and other financial assets. Advisers assess potential new venture funds for their clients and monitor the progress of existing investments. In some cases, they pool their investors' capital in funds of funds

**Investment banks**

Financial institutions that organise the provision of medium to longer-term loans, usually for larger amounts than clearing banks. Later they can play an important role in the process of "going public" by advising on the terms and price of public issues and by arranging underwriting when necessary

**Involuntary exit**

Where the company goes into receivership or liquidation

**IPO**

Initial Public Offering, "flotation", "float", "going public", "listing" are just some of the terms used when a company obtains a quotation on a stock market

**IRR: Internal Rate of Return**

There are three versions of the internal rate of return - the arithmetic average, the capital weighted average, and the pooled average. The arithmetic average IRR for a sample would be the sum of the IRRs for the individual funds in the sample divided by the number of funds in the sample. The capital weighted average IRR is calculated in a similar manner, except the individual IRRs are weighted by fund size and affect the average in proportion to their size. Therefore, this average for the sample is skewed towards the larger funds. A pooled average IRR isn't actually an average, but one average calculated for the entire sample. In other words, instead of using the cash flows of the funds to calculate IRRs for each fund, the sample (and all of the accompanying cash flows) is treated as one fund and one IRR is calculated for it

**IT**

Information technology

**L****LBO**

Leveraged buyout, the acquisition of a firm or business unit, typically in a mature industry, with a considerable amount of debt

**Leveraged buyout fund**

A fund, typically organised in a similar manner to a venture capital fund, specialising in leveraged buyout investments. Some of these funds also make venture capital investments

**Limited Partnership (LP)**

A legal fund structure most frequently used by Private-Independent Funds to raise capital from external sources, such as institutional investors. The primary relationship in this structure is the general partner (the fund manager) and the limited partner (the capital source)

**Liquidity**

See: Capital Available for Investment

**Lock-up**

A provision in the underwriting agreement between an investment bank and existing shareholders that prohibits corporate insiders and private equity investors from selling at the time of the offering

**M****Management buy-in (MBI)**

To enable a manager or group of managers from outside a company to buy into it

**Management buy-out (MBO)**

To enable the current operating management and investors to acquire or to purchase a significant shareholding in the product line or business they manage.

**Management Buyout Financing**

Capital provided to facilitate the takeover of all or part of a business entity by a team of managers

**Management Company**

The professional manager of a private equity fund or funds

**Management fee**

The fee, typically a percentage of committed capital or net asset value, that is paid by a venture capital fund to the general partners to cover salaries and expenses

**Merger**

The strategic combination of one business entity with another, often with the assistance of private equity

**Mezzanine Financing**

Late-stage venture capital, usually the final round of financing prior to an IPO.

**Mezzanine Capital**

A specialized form of private equity, characterized chiefly by use of Subordinated Debt, or preferred stock with an equity kicker, to invest largely in the same realm of companies and deals as buyout funds (see: Event Transaction, Middle Market)

**N****Net Present Value (NPV)**

NPV is a standard method in the planning of long-term investments. Using the NPV method a potential investment project should be undertaken if the present value of all cash inflows minus the present value of all cash outflows (which equals the net present value) is greater than zero. A key input into this process is the interest rate, or "discount rate" which is used to discount future cash flows to their present values.

**O****Option:**

The right, but not the obligation, to buy or sell a security at a set price (or range of prices) in a given period

**P****PI**

Private independent fund

**Placement agent**

A financial intermediary hired by venture organisations to facilitate the raising of new venture capital funds

**Portfolio Company**

A business entity that has secured at least one round of financing from one or more private equity funds. Also known as an investee firm

**Post-money valuation**

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

**Preference shares**

These are non-equity shares. They rank ahead of all classes of ordinary shares for income and capital. Their income rights are defined and they are usually entitled to a fixed dividend.

**Preferred stock**

Stock that has preference over common stock with respect to any dividends or payments in association with the liquidation of the firm. Preferred stockholders may also have additional rights, such as the ability to block mergers or displace management

**Private Equity**

The generic term for the private market reflecting all forms of equity or quasi-equity investment. In a mature private equity universe, there are generally three distinct market segments: Buyout Capital, Mezzanine Capital and Venture Capital

**Private equity**

Private equity includes organisations devoted to venture capital, leveraged buyouts, consolidations, mezzanine and distressed debt investments, and a variety of hybrids such as venture leasing and venture factoring

**Prospectus**

A condensed, widely disseminated version of the registration statement filed with the relevant securities and exchange commission outlining summary data about the firm.

**Q****R****Ratchets**

A structure whereby the eventual equity allocations between the groups of shareholders depend on either the future performance of the company or the rate of return achieved by the private equity firm.

**Re-capitalization Financing**

Capital provided for a significant overhaul of a company's financial structure. See also: Event Transactions

**Refinancing**

The purchase of the venture capital investors' or others' shareholdings by another investment institution

**Rescue/turnaround**

To finance a company in difficulties or to rescue it from receivership

**Restructuring/ Turnaround Financing**

Capital provided to a established firm, usually in a traditional sector, that is undergoing financial distress or a major re-organization, but is perceived as having long-term commercial viability.

**Return**

See: Internal Rate of Return

**Road show**

The marketing of a venture capital fund or public offering to potential investors

**S****Secondary offering**

An offering of shares that are not being issued by the firm, but rather are sold by existing shareholders. The firm consequently does not receive the proceeds from the sales of these shares

**Secondary purchase**

When a private equity firm acquires existing shares in a company from another private equity firm or from another shareholder or shareholders

**Seed Financing**

Capital provided to facilitate commercialization of new product concepts, often from laboratories, research centers or entrepreneurs. If successful, a seed financing may result in a Start-up.

**Shares outstanding**

The number of shares that the company has issued

**Shareholders Agreement**

Agreement between the shareholders of a company relating to the ownership and management of the company.

**Specialized Fund**

A private equity fund strategy whereby the focus is on specific investment targets (e.g., sectors, stages of development), as distinct from a Balanced Fund

**Stages of Development**

Critical points on the growth continuum for firms assisted by venture capital and other types of private equity. Typically, a venture-backed company receives cumulative rounds of financing to facilitate its progression from one stage of development to the next. • Early Stages of Development o Seed stage: A developing business entity that has not yet established commercial operations and needs financing for research and product development. o Start-up: A business in the earliest phase of established operations and needs capital for product development, initial marketing and other goals. o Other early stage: A firm that has begun initial marketing and related development and needs financing to achieve full commercial production and sales. • Late Stages of Development o Expansion: An established or near-established company that needs capital to expand its productive capacity, marketing and sales. o Acquisition/Buyout: An established or near-established firm that needs financing to acquire all or a portion of another business entity for growth purposes, such as an Acquisition for Expansion Financing. o Turnaround: An established or near-established company that needs capital to address a temporary situation of financial or operational distress. o Other stage: Includes Secondary Purchase, or the sale of portfolio assets among investors, and working capital

**Staging**

The provision of capital to entrepreneurs in multiple installments, with each financing conditional on meeting particular business targets. This helps ensure that the money is not squandered on unprofitable projects

**Start-up Financing**

Capital provided to facilitate the first-time establishment of a legal company structure around a marketable product concept.

**Subordinated Debt**

A financial instrument with qualities of both debt and equity, often used in transactions as an alternative, or complement to, pure equity.

**Succession Plan**

The basis for transfer of business ownership from one generation of managers to the next, often with the assistance of private equity

**Syndication**

See: Co-investment

**I****Term Sheet**

A summary sheet detailing the terms and conditions of an investment opportunity.

**Tombstone**

An advertisement, typically in a major business publication, by an underwriter to publicize an offering that it has underwritten

**Trade sale**

The sale of the company's shares to another company, perhaps in the same industry sector

**TU - Turnaround**

Turnaround Financing See: Restructuring/Turnaround Financing and Stages Of Development

## U

### **Underwriting**

The purchase of a securities issue from a company by an investment bank and its (typically almost immediate) resale to investors

## V

### **Valuation Policy**

The method or guidelines used by a private equity fund to determine the value of its portfolio assets

### **Venture Capital (VC)**

A specialized form of private equity, characterized chiefly by high-risk investment in new or young companies following a growth path (see: Stages of Development) in technology and other value-added sectors

### **Venture capitalist**

A general partner or associate at a venture capital organisation

### **Vintage Year**

The year in which a private equity fund is first created

## W

### **Write-off**

The write-down of a portfolio asset to the value of zero, with the result that the private equity investor or investors go without proceeds upon disposition

## X

## Y

### **Yield**

Calculated by dividing the gross dividend by the share price and expressed as percentage. It shows the annual return on an investment from interest and dividends, excluding any capital gain element

## Z

### **Sources:**

- Venture Economics Glossary
- Investors Words
- Alt Assets
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