

VC Glossary

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VC Glossary

The world of Venture Capital is often overwhelming at first sight, even more so when you do not have the primary knowledge. This guide will help you understand the basic context to start getting into this subject. In addition, there will be occasional videos that we believe will help you gain a greater understanding of the concepts listed.

Basic Processes

First, for a company to raise capital, foundation rounds are necessary. The basic ones that need to be taken into account for these processes are the following.

Acquisition: When one company purchases most or all of another company's shares to gain control of that company.

Funding Round: Anytime a company raises money from one or more investors. They're given a letter, such as A Round, B Round, C Round, etc. because each round follows another. The letter identifies which number of rounds they're on.

- A. Early-Stage Funds: These funds are generally from \$2 million to \$15 million in size and invest in seed stage and Series A companies but occasionally lead a Series B round. They are also referred to as Seed Rounds, as they help lay the foundation for a company.
- B. Mid-Stage Funds: These funds usually range from \$30 million to \$60 million. They generally invest in Series B and later rounds.
- C. Late-Stage Funds: Take place when the company is successful and self-funded. It is typically done as the last financing before a prospective initial public offering (IPO), or taking part in Series C and the following.

Recommended videos:

Startup Funding Explained: Everything You Need to Know. Available [here](#).
How Does the Stock Market Work? Available [here](#).

IPO:	Process that offers shares of a private corporation to the public in a new stock issuance. With the objective of raising capital from public investors.
Pre-Seed Round:	An early pre-institutional seed round that either has no institutional investors or is a very low amount, often below \$150k.
Seed Round:	The first Funding Round that a startup receives; it helps in the beginning for the development of the business idea.

Business Actors

In capital investments we usually only take into account, as part of the game, entrepreneurs and investors. However, there are more players you should know about.

Board of Directors:	They represent the shareholders and establish management and supervision policies for companies. Every public company must have a board of directors. They are more common in large firms.
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CEO:	It stands for Chief Executive Officer. Is the highest-ranking executive in a company, whose primary responsibilities include making major corporate decisions, managing the overall operations and resources of a company, acting as the main point of communication between the board of directors and corporate operations and being the public face of the company. A CEO is elected by the board and its shareholders.
Entrepreneur/ Founder:	The one who starts and operates a new business venture and absorbs much of the financial risk that comes from doing that. Is the starter, the driver and the responsible for his company destiny.
Managing Director:	The most senior person in the firm. These VCs make the final investment decisions and sit on the boards of directors of the companies they invest in. They are more common in small firms.
The Mentor:	The one who is willing to guide the businessman and give him advice so that he can make the best decisions. Many mentors end up being early angel investors in companies or get a small equity grant.

Documents and Statements

Well, now that you know the actors in this play and the processes they carry out, it is time for you to learn the documents and organization that you will need to have in order to raise investments and manage your business.

Capitalization table:

A spreadsheet that defines and analyzes the economics of the deal. For example: the share percentages, capital value and dilution.

Company's balance sheet:

A financial statement that reports a company's assets, liabilities and shareholders' equity at a specific point in time, and provides a basis for computing rates of return and evaluating its capital structure. It is a financial statement that provides a snapshot of what a company owns, as well as the amount invested by shareholders.

Profit and Loss Statement:

A financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year. These records provide information about a company's ability or inability to generate profit by increasing revenue, reducing costs, or both.

Term sheet:

A letter from a Venture Capitalist expressing interest in investing, along with the proposed terms.

Funding Subcategories

There are a lot of funding types, here is a little guide to some of the most important ones.

Convertible Note: Is an 'in-between' round funding to help companies hold over until they want to raise their next round of funding. When they raise the next round, this note 'converts' with a discount at the price of the new round.

Recommended video: PandoHouse Rock: Convertible Notes Explained.
Available [here](#).

Corporate Round: When a company, rather than a venture capital firm, makes an investment in another company.

Crowdfunding: A way of raising finance by asking a large number of people each for a small amount of money.

Debt Crowdfunding: An alternative way for businesses to borrow money where the finance is raised via a crowdfunding or P2P lending website, and the funds are contributed by multiple investors.

Debt Financing: When a firm raises money for working capital or capital expenditures by selling debt instruments to individuals and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid.

Equity Crowdfunding:	Equity crowdfunding platforms allow individual users to invest in companies in exchange for equity. Typically on these platforms the investors invest small amounts of money, though syndicates are formed to allow an individual to take a lead on evaluating an investment.
Equity Financing:	Raising capital through the sale of shares. By selling shares, they sell ownership in their company in return for cash, like stock financing. Recommended video: Understanding Debt vs. Equity Financing with Bond Street. Available here.
Grant:	When a company, investor, or government agency provides capital to a company without taking an equity stake in the company.
Non-Equity Assistance:	When a company or investor provides office space or mentorship and does not get equity in return.
Product Crowdfunding:	In a product crowdfunding round, a company will provide its product, which is often still in development, in exchange for capital. This kind of round is also typically completed on a funding platform. Recommended video: Your Guide to Understanding Crowdfunding. Available here.
Secondary Market Transactions:	Fundraising event in which one investor purchases shares of stock in a company from other, existing shareholders rather than from the company directly.

Indicators and Criteria

To know if our investment will be worthwhile, or if our business is on the right track, it is necessary to know some indicators and criteria that will help identify the strengths and weaknesses of a company

CPI: The Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

Equity: Represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off. Is one of the most common financial metrics employed by analysts to assess the financial health of a company.

Recommended video: What Does Equity ACTUALLY Mean?. Available [here](#)

GDP: The Gross Domestic Product is an estimate of the total value of all the goods and services it produced during a specific period, usually a quarter or a year.

PPI: The Producer Price Index is a group of indexes that measures the average change over time in the selling prices received by domestic producers for their output.

ROA:	Is an indicator of how profitable a company is relative to its total assets. ROA is calculated by dividing a company's net income by total assets.
ROE:	A measure of financial performance as the return on net assets, which can be calculated by dividing net income by shareholders' equity.
RSI:	The Relative Strength Index is an indicator that measures the speed and change of price movements. The RSI oscillates between zero and 100. RSI is considered overbought when above 70 and oversold when below 30.

Investor Types

Finally, there is one of the most important pieces of this game, the investors. Among them there are several categories that you should know, to take into account the function and characteristics of each on.

Accelerator: A program intended to mentor and accelerate the growth and success of a startup company. It takes a set amount of seed equity from a number of young startups in exchange for capital and mentorship.

Recommended videos: Incubators Vs. Accelerators: What You Should Know. Available [here](#).

Insight #6 - 9 Differences Between Incubators and Accelerators. Available [here](#)

Investor:	It's a high net worth individual that provides financial support (typically a one-time investment) for startups or entrepreneurs, in exchange for ownership equity. They can be professional investors, successful entrepreneurs, friends or family members. When an Angel Investor has had one or more exits and has invested their own money in new startups, it converts into a Super Angel.
Entrepreneurship Program:	A more broadly structured initiative that works with founders to advise, provide either monetary or non-monetary resources, and grow new startups. It does not necessarily take equity or place specific requirements on its companies.
Family Investment Office:	A private wealth management advisory firm that serves ultra-high-net-worth (UHNW) investors. Their offer is the managing in the financial and investment side of an affluent individual or family. They typically do one-off investments.
Incubator:	An organization engaged in the business of fostering early-stage companies through the different developmental phases until the companies have sufficient financial, human, and physical resources to function on their own. An incubator will also take a larger amount of equity in contrast to accelerators.
Private Equity:	A management company with capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity.

**The
Syndicate:**

A temporary, professional financial services alliance (it includes every type of investor) formed for the purpose of handling a large transaction that would be hard for the entities involved to handle individually.

**Venture
Capitalist:**

A person or company that invests at a variety of stages in a business venture, providing capital for startup or expansion. Their job is to invest in businesses that are likely to provide their investors with high rates of return.

Recommended videos: If You Know Nothing About Venture Capital, Watch This First | Forbes. Available [here](#).

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