tlv partners

Startup Glossary

Acqui-hire
One company's acquisition of another for the primary purpose of hiring its employees, rather than for the intrinsic value of the business itself.

Acquisition
When one company buys a controlling stake in another company. Can be friendly (agreed upon) or hostile (no agreement).

Advisory Board
A group of external advisors to a portfolio company. Less formal than a Board of Directors.

Agile
A philosophy of software development that promotes incremental development and emphasizes adaptability and collaboration.

Alpha Test
Internal testing, of a pre-production product, typically on a controlled basis, with the objective of identifying functional deficiencies and design flaws.

Angel investor
An individual who provides a small amount of capital to a startup for a stake in the company. Typically precedes a Seed Round and usually happens when the startup is in its infancy.

Anti-dilution protection
A provision used to ensure that investors are not penalized when companies are undergoing additional financing. An anti-dilution provision protects an investor from dilution resulting from later issues of stock at a lower price than the investor originally paid. These may give investors preemptive rights to purchase new stock at the new offering price. Examples include broad-based Weighted Average Ratchet, Narrow-Based Weighted Average Ratchet, and Full Ratchet Anti-Dilution.

ARR (Annual Recurring Revenue)
The recurring subscription-based revenue which software as a service/platform as a service, (SaaS/PaaS) based companies receive annually; also known as the run rate.

B2B (Business to business)
This describes a business that is targeting another business with its product or services. B2B technology is also sometimes referred to as enterprise technology.

B2C (Business to consumer)
This describes a business that is selling products or services directly to individual customers.

Benchmark
The process by which a startup company measures its current success in relation to the industry standard. An investor measures a company's growth by determining whether or not it has met certain benchmarks.

Board of directors
A group of influential individuals, elected by stockholders, chosen to oversee the affairs of a company. A board typically includes investors and mentors. Investors typically require a board seat in exchange for an investment in a company.

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

Bridge loan/ Convertible debt
When a company borrows money with the intent that the debt accrued will later be converted to equity in the company at a later valuation. This allows companies to delay setting the valuation while raising funds in their early stages. Most bridge loans will have a built-in discount and sometimes a cap.
SAFE loans are a convertible debt with favorable terms for the founders.

Budget
An estimation of revenue and expenses over a specified future period of time that is compiled and re-evaluated on a periodic basis.

Burn Rate
The rate at which a company expends net cash over a certain period, usually a month.

CAC (Customer Acquisition Costs)
The cost associated with convincing a customer to buy a product/ service. This cost is incurred by the organization to convince a potential customer. This cost is inclusive of the product cost as well as the cost involved in research, marketing, and accessibility costs.

Cap
Refers to a "cap" placed on investor notes in a bridge loan. Entrepreneurs and investors agree to place a cap on the valuation of the company where notes turn to equity. This means that the valuation of the company during the time where the bridge converts to equity will not be higher than the agreed upon valuation (the ”cap”).

Capital
For start-ups, it is mainly monetary assets available for use. Entrepreneurs raise capital to start a company and continue raising capital to grow the company.

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

Capitalization Table
A table depicting the quantity of shares or unit ownership which is held by each investor in a corporation, typically including founders' equity, investor equity, and advisor/employee stock option pools.

Common Stock
A class of ownership that has lower claims on earnings and assets than preferred stock. It is riskier to own common stock because, in the event of liquidation, common stock shareholders are the last to claim rights to assets.

Corporate Venture
An investment from one corporation in another, typically at an early stage for strategic reasons.

Crowdfunding
The process of raising financial support for a venture via smaller amounts from many investors ("the crowd"), rather than the alternative pattern of larger amounts from a smaller number of supporters.

DAU (Daily Active Users)
Distinct website users who engage with a site's offerings or services in a given day.

Dilution
Issuing more shares of a company dilutes the value of holdings of existing shareholders. Dilution is a reduction in the percentage ownership of a given shareholder in a company caused by the issuance of new shares.

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

Down-round
When the valuation of a company at the time of an investment round is lower than its valuation at the conclusion of a previous round.

Due diligence
An analysis an investor makes of all the facts and figures of a potential investment. Can include an investigation of financial records and a measure of potential ROI. A typical DD will include DD on the founders (reference and interviews), market analysis (customer feedback and market sizing), technology deep dive,and legal and financial analysis (going

over the budget).

Elevator Pitch
An elevator pitch is a brief presentation, typically 30 – 60 seconds in duration, presenting the entrepreneur's concept/solution, business model, "go to market" strategy, and value proposition to potential angel or venture capital investors, in order to obtain the attention of the investors such that they are compelled to learn more about the opportunity.

Enterprise
Typically refers to a company or business which has at least 1,000 employees and more than $1B in annual revenues.

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

Equity financing
The act of raising capital by selling off shares of a company. All VC rounds are equity financing. Also, an IPO is technically a form of equity financing.

ESOP (Employee stock ownership plan)
A plan established by a company whereby a certain number of shares is reserved for purchase and issuance to key employees. Such shares usually vest over a certain period of time to serve as an incentive for employees to build long-term value for the company.
ESOPs represent the most common form of equity compensation.

Exit
The method by which an investor and/or entrepreneur intends to sell their shares in the company, thus "exit" their investment in a company. Common ways to exit are an IPO or buyout from another company. Entrepreneurs and VCs often develop an "exit strategy" while the company is still growing.

Flat Round
An investment round in which the pre-money valuation of a startup's round is the same as its post-money valuation from the previous round.

Incubator / Accelerator
A private legal entity, for profit, that supplies its portfolio companies with the following: work environment, administrative services, technological & business guidance, and legal & regulatory assistance, in exchange for equity in the company.
In Israel, the office of the chief scientist has a technological incubator program. The primary goal of the program is to transform innovative technological ideas, that are too risky and in too early a stage for private investments, into viable

startup companies. The incubation term of a project in a technological incubator is approximately two years and the total budget for the two-year term ranges from US $500,000 to US $800,000.

IPO - Initial public offering
The first time shares of stock in a company are offered on a securities exchange or to the general public. At this point, a private company turns into a public company (and is no longer a startup).

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

Liquidation preference
Liquidation preference determines the payout order in case of a corporate liquidation. More specifically, liquidation preferences are frequently used in venture capital contracts to specify which investors get paid first and how much they get paid in the event of a liquidation event, such as the sale of the company.

MAU (Monthly Active Users)
Distinct website users who engage with a site's offerings or services in a given month.

Milestones
A set of goals which could be financial or business that the company targets for a given period of time. Sometimes VCs will use milestones to determine whether they will keep financing the company.

MRR
(Monthly Recurring Revenue)
Income that a company can reliably anticipate every month.

NDA
(Non-disclosure agreement)
An agreement between two parties to protect sensitive or confidential information, such as trade secrets, from being shared with outside parties.

Oversubscription
Occurs when demand for shares exceeds the supply or number of shares offered for sale. This occurs when a deal is in great demand because of the company's growth prospects.

PaaS (Platform as a Service)
A cloud computing service category which provides a foundation upon which customers can develop, operate, and manage multiple app functionalities without the need to develop the underlying infrastructure.

Pay-to-Play
Provisions designed to provide a strong incentive for investors to participate in future financings. In their simplest form, such provisions require existing investors to invest on a pro rata basis in subsequent financing rounds or they will lose some or all of their preferential rights (such as anti-dilution protection, liquidation preferences, or certain voting rights).

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

POC (Proof of concept)
A demonstration of the feasibility of a concept or idea that a startup is based on. In the consumer space, POC may mean initial traction and growth with consumers. In B2B, it may include some initial feedback from potential customers or a prototype of the product. Many VCs require proof of concept if you wish to pitch to them.

Portfolio company
A company that a specific venture capital firm has invested in is considered a "portfolio company" of that firm.

Post money valuation
The post-money valuation refers to the pre-money valuation plus the cash added to the company during that specific investment round.

Pre money Valuation
A pre-money valuation is a term widely used in venture capital industries, referring to the valuation of a company prior to a round of investment.

Preferred stock
A class of ownership in a corporation that has a higher claim on its assets and earnings than common stock. Preferred shares generally have a dividend that must be paid out before dividends to common shareholders, and the shares usually do not carry voting rights.
Preferred stock combines features of debt and equity, in that it both pays fixed dividends and has the potential to appreciate in price.

Pro rata rights
From the Latin 'in proportion.' A VC with pro rata rights gives him or her the option of maintaining his or her ownership of a company in subsequent rounds of funding. Supra pro rata rights will give him or her the right to increase his or her ownership percentage in subsequent rounds.

Reverse Vesting
When founders of a company agree that they will give back part of their stock holdings if they leave the company before a specified date (typically four years). This is usually required by investors, and a good thing for founders themselves in the case of multiple founders.

Right of First Refusal
A right to enter into a business transaction before others. For example, preferred stockholders have the right to purchase additional shares issued by the company. The right of first refusal gives the holder the right to meet any other offer before the proposed contract is accepted.

ROI - (return on investment)
This is the much-talked-about "return on investment." ROI is the measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio.

In the above formula, "gain from investment" refers to the proceeds obtained from the sale of the investment of interest. Because ROI is measured as a percentage, it can be easily compared with returns from other investments, allowing one to measure a variety of types of investments against one another.

Round
Startups raise capital from VC firms in individual rounds, depending on the stage of the company. The first round is usually a Seed round followed by Series A, B, and C rounds if necessary.

Runway
How long a startup can survive before it goes broke; that is, the amount of cash in the bank divided by the burn rate.

SAAS (Software as a Service)
A cloud based software application where users are charged on a subscription basis.

SAFE (Simple Agreement for Future Equity)
A new form of funding for early stage companies developed by Y Combinator to solve a number of issues with traditional convertible note financing.

Sector
The market in which a startup operates. Examples include:

consumer technology, cleantech, biotech, and enterprise technology. Venture capitalists tend to have experience investing in specific related sectors, and thus tend not to invest outside of their area of expertise.

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

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

SMB (Small Midsize Business)
A business which, due to its size, has different IT requirements—and often faces different IT challenges—than do large enterprises, and whose IT resources (usually budget and staff) are often highly constrained. The attribute used most often to define business size is number of employees; small businesses are usually defined as organizations with fewer than 100 employees; midsize enterprises are those organizations with 100 to 999 employees. The second most popular attribute used to define the SMB market is annual revenue: small businesses are usually defined as organizations with less than $50 million in annual revenue; midsize enterprises are defined as organizations that make more than $50 million, but less than $1 billion in annual revenue.

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

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

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

Up-round
When the valuation of a company at the time of an investment round is higher than its valuation at the conclusion of the previous round.

Valuation
The process by which a company's worth or value is determined.

Venture capital
Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. For startups without access to capital markets, venture capital is an essential source of money. Risk is typically high for investors, but the downside for the startup is that these venture capitalists usually get a say in company decisions.

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

Venture Lending / Debt financing
When a company borrows money from investors with the promise that the debt will be repaid with interest and/or equity; the interest rate may be quite high. There are special groups that specialize in venture lending – VCs will rarely give a venture loan.

Vesting
A process in which you "earn" your stock over time. The purpose of vesting is to grant stock to people over a fixed period of time so they have an incentive to stick around. A typical vesting period for an employee or founder might be three to four years, which would mean they would earn 25% of their stock each year over a four year period. If they leave early, the unvested portion returns back to the company.

Vesting Schedule
A timetable and methodology under which a startup releases shares to employees, management, founders, advisors, board members, and other company stakeholders.