Investing 101
GLOSSARY

WOMEN EFFECT

Angel Investment Terminology

Capitalization table
A capitalization table is a spreadsheet or table, typically for a startup or early stage venture, that shows capitalization or ownership stakes in a company, including equity shares, preferred shares and options. It also shows the various prices paid by stakeholders for these securities. The table uses these details to show ownership stakes on a fairly diluted basis, thereby enabling the company's overall capital structure to be ascertained at a glance. Founders are usually listed first, followed by executives and key employees with equity stakes, then investors, such as angel investors and venture capital firms, and others who are involved in the business plan.

Common stock
Common stock is a security that represents ownership in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Common stockholders are on the bottom of the priority ladder for ownership structure; in the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders and other debtholders are paid in full.

Convertible note
A debt security that contains an option where the note will be converted into a predefined amount of the issuer's shares. A senior convertible note has priority over all other debt securities issued by the same organization. Since the bondholder receives two benefits not found on a normal bond issue (a call option and first priority for recourse I the event that the issuer goes bankrupt), the amount of interest offered to the bondholder will tend to be lower than any other bond offered by the same issuer.

Dilution
Dilution is a reduction in the ownership percentage of a share of stock caused by the issuance of new shares. Dilution can also occur when holders of stock options, such as company employees, or holders of other optionable securities exercise their options. When the number of shares outstanding increases, each existing stockholder owns a smaller, or diluted percentage of the company, making each share less valuable.

Preferred stock
A preferred stock is 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, in that it pays fixed dividends, and equity, in that it has the potential to appreciate in price. The details of each preferred stock depend on the issue.

Seed capital (Stage)
Seed capital is the initial capital used when starting a business, often coming from the founders' personal assets, friends or family, for covering initial operating expenses and attracting venture capitalists. This type of funding is often obtained in exchange for an equity stake in the enterprise, although with less formal contractual overhead than standard equity financing. Because banks and venture capital investors view seed capital as an "at risk" investment by the promoters of a new venture, capital providers may wait until a business is more established before making larger investments of venture capital.

Term sheet
A term sheet is a nonbinding agreement setting forth the basic terms and conditions under which an investment will be made. A term sheet serves as a template to develop more de-tailed legal documents. Once the parties involved reach an agreement on the details laid out in the term sheet, a binding agreement or contract that conforms to the term sheet details is the drawn up.

Valuation
Valuation is the process of determining the current worth of an asset or a company; there are any techniques use to determine value. An analust placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings and market value of assets.

Vesting
Vesting is the process by which an employee accrues non-forfeitable rights over employer-provided stock incentives or employer contributions made to the employee's qualified retirement plan account or pension plan. Vesting gives an employee rights to employer-provided assets over time, which gives the employee an incentive to perform well and remain with the company. The vesting schedule set up by the company determines when the employee acquires full ownership of the asset. Generally, non-forfeitable rights accrue based on how long the employee has worked there.

Stock option pool
An option pool consists of shares of stock reserved for employees of a private company. The option pool is a way of attracting talents employees to a startup company – if the employees help the company do well enough to go public, they will be compensated with stock. Employees who get into the startup early will usually receive a greater percentage of the option pool than employees who arrive later.

Acquisition
An acquisition is a corporate action in which a company buys most, if not all, of the target company's ownership stakes to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy when it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both.

Venture Capital and Startup Terminology

Accelerator (See also, Incubator)
An organization that helps to develop early stage companies on a path to growth, sometimes in exchange for equity in the company. Can be a physical or residential accelerator where entrepreneurs are on site together, for a period of time, or it can be virtual. Companies in accelerators get help with things like building their product propositions to the next level, developing their teams, strategizing for growth, getting investment readiness support, and more.

Angel investor
Individual who provides capital to a startup or early stage company for a stake in the company or as debt or quasi equity. Can be small amount of capital but can also be quite sizeable. Angels typically come in when a startup is in its infancy but can invest much later as well. Less than 20% of all angels globally are women, and in some countries, less than 5%. That is changing and needs to change, as angel capital is critical to early stage companies.

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. This is different from B2C which stands for business to consumer, and involves selling products or services directly to individual customers, and from B2G which stands for business to government or public services.

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

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

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

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

Capital
Monetary assets currently 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 capital firm is currently managing and investing.

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

Convertible debt

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

Debt financing

This is when a company raises money by selling notes or a bond to an investor with the promise that the debt will be repaid with interest. Debt financing can be "asset backed/collateral-backed" or "non asset-backed". Sometimes there is a personal guarantee element where the borrower needs to sign that they will personally guarantee and repay the loan if the company isn't able to repay it. Sometimes there is a quasi equity element (see below) which changes the structure to include a 'kicker' or additional amount tied to business performance in addition to the interest rate.

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.

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.

Enterprise

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

Entrepreneur in residence (EIR)

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

Equity financing

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

Exit

This is how startup founders and their investors get liquidity or cash from a privately held venture. The most common version is a buyout by another company. It can mean an IPO (Initial Public Offering) or listing on a stock exchange. Occasionally it can mean a sale to a holding company. Entrepreneurs and their investors develop an exit strategy while the company is growing. Terms in the term sheet and the share agreement dictate the conditions upon which investors and owners get compensated in an exit, and their rights. Not all companies exit. They can spin off dividends to investors and owners, they can go out of business, or they can just break even.

Fund of funds

An investment fund that invests in a group of other funds. It creates diversification and sometimes lower risk, but also tends to carry a higher fee structure than investing in an individual fund.

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

Incubator (see also Accelerator)
An organization that helps to develop earliest stage companies, sometimes in exchange for equity in the company. Can be a physical or residential incubator where entrepreneurs are on site together for a set period of time, or can be virtual. Companies in incubators get help with things like building their minimum viable products, developing their teams, strategizing for growth, getting investment readiness support, and more.

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."

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

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

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

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.

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

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

Preferred stock
Stock that carries an investment return that is to be paid out before and/or at a better rate of

investment returns than for common stock. Preferred stock can have many characteristics, defined in term sheets and then in shareholder agreements.

Proof of concept
A demonstration of the concept or the feasibility of a startup concept or idea. Many investors require proof of concept at investment pitches, and definitions vary according to the investor. Some want to see the concept brought to life. Some want to see traction or uptake from a target set of customers.

Pro rata rights
Also known as supra pro rata rights. Pro rata is from the Latin 'in proportion.' An investor with pro rata rights gets the option of increasing her or his ownership of a company in subsequent rounds of funding at a level that is at the same percentage of a total round of investment that they came in at earlier.

Quasi equity
This is when a company raises money with what is currently a non traditional structure. Demand dividends, revenue participation notes, and other structures are emerging where there is a debt structure but with other components of return for investors, tied to performance of the business.

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

ROI
Return on Investment. ROI measures the amount of return on an investment relative to the investment's cost and is typically used for investment decisions, to compare a company's profitability or to compare the efficiency of different investments. 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 impact investing, people often talk about impact returns as well as financial returns. There is another concept in impact investing called Social Return on Investment.

Round
Privately held companies raise capital from investors in individual rounds, often tied to the stage of the company. The first round after the entrepreneur's own capital and/or 'friends and family' round is usually a Seed round followed by Series A, B, and C rounds if necessary. In rare cases rounds can go as far as Series F. There is no rule about how big a round is, but ideally, the valuation increases with each round (sometimes there are 'flat rounds' or 'down rounds' where the valuation stays even or decreases.)

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

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.

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

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

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

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

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

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.

Valuation
The process by which a company's worth or value is determined for an investment or sale. An analyst will look at capital structure, management team, revenue or potential revenue, profitability, market size, and unique IP, among other things. There are many different ways of performing valuations on companies, and at the end of the day, a company is valued at whatever the lead investor is willing to invest at and the company agrees on. Valuation can be an art and a science. Debt deals are done without valuations. Equity investments are made at specific valuations.

Venture capital
Money provided by venture capital firms to companies with major growth potential. At the time of writing, less than 3% of venture capital goes to women led or women founded ventures, globally. Some venture capital can come in quite early in the life of a company, some venture capital can come in even after the company has been around for 10 years. Usually, but not always, venture comes in after friends and family rounds, crowdfunding, or angel capital. Sometimes venture funds co-invest with angel investors. There is also corporate venture capital where the source of the capital comes from a corporation that wants to invest in innovative ventures.

Venture capitalist
An individual investor, working for a venture capital firm, that chooses to invest in specific companies.

Venture capitalists typically have a focused market or sector that they know well and invest in.

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

Miscellaneous

Public equities
Public equity investments are investments into those companies traded on a public exchange. Public equities with a gender lens might have a set of screens or criteria relative to gender factors in management, governance, policies and practices, supply chains, or other.

SRI public equities often have negative or positive screens.

Community investing
The provision of loans that usually work with underserved communities or specific local communities. Providers often include banks, credit unions, or nonprofit financial institutions.

Development impact bonds
Development impact bonds (DIBs), like social impact bonds (SIBs), are results-based contracts in which private investors provide pre-financing for social programmes and public sector agencies pay back investors their principal plus a return if, and only if, these programmes succeed in delivering social outcomes. Unlike SIBs, DIBs involve donor agencies, either as full or joint funders of outcomes. Because repayment to investors is contingent upon the achievement of specified social outcomes, DIBs are not "bonds" in the conventional sense.

This type of approach to financing and delivering social services has been given many names in different countries, including "Social Impact Bonds" in the U.K. and Ireland; "Pay for Success" in the U.S.; and "Social Benefit Bonds" in Australia. The principle of all of these approaches is the same: investor returns are linked to results, driving results-focused social programmes.

Microfinance
The provision of financial services to micro-entrepreneurs and small business owners, who lack access to banking and related services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are (1) relationship- based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Funds that specialize in microfinance are a popular investment vehicle for impact investors because it gives low-income individuals or groups access to capital that they would otherwise be denied, which can support them in becoming more self-sufficient.

Mission-related investing
Mission-related investing is defined as the practice of harmonizing a charitable organization or

foundation's mission for social or environmental impact with the management and investment of assets while sustaining long-term financial return.

Program-related investing

Investment terminology more often used in the US than elsewhere, for some Foundation investments. The IRS defines program-related investments as:

1. The primary purpose of the investment (usually a loan but it can be equity) is to accomplish one or more of the foundation's exempt purposes
2. Production of income or appreciation of property is not the most significant purpose

PRIs are counted as part of the annual distribution (at least 5% of its endowment) a private foundation in the US is required to make. Usually PRIs are low interest loans, made to non-profit or for-profit entities, in line with an organisation's grant priorities, where the goal is to get at least return of capital but primarily to achieve social or environmental impact.

Social impact bonds

A Social impact bond is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner.

Thank you to Pragya Kothari for her contribution to this guide. For more resources, including gender lens investing articles, data and interviews with experienced investors, go to womeneffect.com.