Venture Expert Glossary

Angel financing
Capital contributed by an independently wealthy private investors.

Acquisition
The obtainment of control, possession or ownership of a private portfolio company by an operating company or conglomerate.

Acquisition for Expansion Financing
Funds provided to a firm to finance its acquisition of companies. A consolidator of companies in specific industries.

Asset allocation
A fund manager’s allocation of his investment portfolio into various asset classes (eg stocks, bonds, private equity).

Asset class
A category of investment, which is defined by the main characteristics of risk, liquidity and return.

Average IRR
The arithmetic mean of the internal rates of return.

Balanced fund
Venture capital funds focused on both early stage and development with no particular concentration on either.

Balanced
A venture fund investment strategy which includes investment in portfolio companies at a variety of stages of development (Seed, Early Stage, Later Stage).

Beauty parade
An accepted mechanism for an investee company to select a provider of financial and professional services. The investee normally draws up a short list of potential providers, who are then invited to pitch for the business.

Benchmark
A previously agreed upon point of reference or milestone at which venture capital investors will determine whether or not to contribute additional funds to an investee company.

BIMBO
Buyin-management-buyout. A combination of a management buyin (MBI) and a management buyout (MBO). In a BIMBO, an entrepreneurial manager or group of external managers financed by venture capitalists buys into a company and teams up with members of the target management team to run it as an independent business.

Bridge financing
Financing made available to a company in the period of transition from being privately owned to being publicly quoted. Or Mezzanine financing for a company expecting to go public within six months to a year.

Burn rate
The rate at which an investee company consumes investment capital.

Business angel
A private investor who provides both finance and business expertise to an investee company.

Business plan
A document which describes a company’s management, business concept and goals. It is a vital tool for any company seeking any type of investment funding, but is also of great value in clarifying the underlying position and realities for the management/owners themselves.

Buy-and-build strategy
Active, organic growth of portfolio companies through add-on acquisitions.
**Buyout**
A transaction in which a business, business unit or company is acquired from the current shareholders (the vendor).
See management buyout (MBO), management buyin (MBI), institutional buyout (IBO), leveraged buyout (LBO).

**Buyout and Mezzanine** Venture Economics uses the term to describe the universe of buyout investing and mezzanine investing. It does not include venture investing, fund of fund investing or secondaries. Angel investors or business angels would also not be included in the definition.

**Buyout Fund**
Funds whose strategy is to acquire other businesses; this may also include mezzanine debt funds which provide (generally subordinated) debt to facilitate financing buyouts, frequently alongside a right to some of the equity upside.

**Capital Gains** Short or long-term profits from the sale of assets.

**Capital under management**
This is the total amount of funds available to fund managers for future investments plus the amount of funds already invested (at cost) and not yet divested.

**Capital weighted average IRR**
The average IRR weighted by fund size with funds contributing to the average in proportion to their size.

**Captive fund**
A fund in which the main shareholder of the management company contributes most of the capital, i.e., where parent organisation allocates money to a captive fund from its own internal sources and reinvests realised capital gains into the fund. Compare semi-captive fund, Independent fund.

**Carried Interest**: Also known as "carry" The percentage of profits (generally 20-25%) that general partners receive out of the profits of the investments made by the fund. For instance, a $100 million fund raised from Lipmited Partners is invested into a portfolio of investments now worth $500 million. Assume that there have been profits from proceeds of $50 million. Limited partners would receive $40 million and the other $10 million would accrue to the general partners as their carried interest. The term originally came from the practice in the early days of VC where general partners put up nothing in return for 20% of the profits and thus the limited partners "carried the interest" of the general partners. Nowadays, general partners typically put up about 1% of the funds commitments and the limited partners put up the rest. Now "carried interest" is synonymous with profit split. Typically, carried interest is only paid after limited partners receive their original investment back. (10-Oct-2000)

**Clawback option**
A clawback option requires the general partners in an investment fund to return capital to the limited partners to the extent that the general partner has received more than its agreed profit split. A general partner clawback option ensures that, if an investment fund exits from strong performers early in its life and weaker performers are left at the end, the limited partners get back their capital contributions, expenses and any preferred return promised in the partnership agreement.

**Closed-end fund**
Fund with a fixed number of shares. These are offered during an initial subscription period. Unlike open-end mutual funds, closed-end funds do not stand ready to issue and redeem shares on a continuous basis.

**Closing**
A closing is reached when a certain amount of money has been committed to a private equity fund. Several intermediary closings can occur before the final closing of a fund is reached.

**Comfort factor**
An indication of the extent to which a investor can seek to reduce his risk by checking up on aspects of the business such as the state of relationships with its customers or whether its products are highly rated by reputable authorities. Comfort factors can often by provided by due diligence.
Commitment
A limited partner’s obligation to provide a certain amount of capital to a private equity fund when the general partner asks for capital.
See Drawdown.

Company Buy-Back
The redemption of private or restricted holdings by the portfolio company itself.

Conditions precedent
Certain conditions that a venture capitalist may insist are satisfied before a deal is completed.
See also comfort factor.

Contributed capital
Contributed capital represents the portion of capital that was initially raised (committed by investors) which has been drawn down in a private equity fund.

Corporate venturing
There is no single definition of corporate venturing that seems to satisfy all parties, so we distinguish indirect corporate venturing – in which a corporate invests directly in a fund managed by an independent venture capitalist – from a direct corporate venturing program, in which a corporate invests directly by buying a minority stake in a smaller, unquoted company.

Covenants
An agreement by a company to perform or to abstain from certain activities during a certain time period. Covenants usually remain in force for the full duration of the time a private equity investor holds a stated amount of securities and may terminate on the occurrence of a certain event such as a public offering. Affirmative covenants define acts which a company must perform and may include payment of taxes, insurance, maintenance of corporate existence, etc. Negative covenants define acts which the company must not perform and can include the prohibition of mergers, sale or purchase of assets, issuing of securities, etc.

Deal flow
The number of investment opportunities available to a private equity house.

Delisting
The removal of a company from listing on an exchange.
See public to private, venture purchase of quoted shares.

Development capital
See expansion capital.

Development Fund
Venture capital funds focused on investing in later stage companies in need of expansion capital.

Disbursement
(US) The flow of investment funds from private equity funds into portfolio companies.

Distribution
The amount disbursed to the limited partners in a private equity fund.

Distributions to paid-in capital (D/PI)
A measure of the cumulative distributions returned to the limited partners as a proportion of the cumulative paid-in capital. DPI is net of fees and carried interest.
See realisation ratio, residual value, RV/PI and TV/PI.

Disbursement
Investments by funds into portfolio companies.

Divestment
See exit

DPI - Distribution to Paid-In
The DPI measures the cumulative distributions returned to investors (Limited Partners) as a proportion of
the cumulative paid-in capital. DPI is net of fees and carried interest. This is also often called the “cash-on-cash return”. This is a relative measure of the fund’s “realized” return on investment.

Drag-along rights
If the venture capitalist sells his shareholding, he can require other shareholders to sell their shares to the same purchaser.
Compare tag-along rights.

Drawdown
When investors commit themselves to back a private equity fund, all the funding may not be needed at once. Some is used as drawn down later. The amount that is drawn down is defined as contributed capital.
See commitment, contributed capital

Due diligence
For private equity professionals, due diligence can apply either narrowly to the process of verifying the data presented in a business plan/sales memorandum, or broadly to complete the investigation and analytical process that precedes a commitment to invest. The purpose is to determine the attractiveness, risks and issues regarding a transaction with a potential investee company. Due diligence should enable fund managers to realise an effective decision process and optimise the deal terms.

Due Diligence The investigation and evaluation of a management team’s characteristics, investment philosophy, and terms and conditions prior to committing capital to the fund.

5 year Rolling IRR
The 5 year Rolling IRR shows the development of the five year Horizon IRR, measured at the end of each year.

Early stage
Seed and start-up stages of a business.
See seed, start-up. Compare later stage.
A fund investment strategy involving investment in companies for product development and initial marketing, manufacturing and sales activities.

Early Stage Fund
Venture capital funds focused on investing in companies in the early part of their lives.

Earn-out
An arrangement whereby the sellers of a business may receive additional future payments for the business, conditional to the performance of the business following the deal.

Envy ratio
The ratio between the effective price paid by management and that paid by the investing institution for their respective holdings in the NewCo in an MBO or MBI.
Envy ratio = (MC/M%)/(IC/I %), where:
- MC = management amount to be invested in NewCo
- M% = management percentage ownership of NewCo (ie percentage of ordinary shares owned)
- IC = investors amount to be invested in NewCo
- I% = investors’ ownership in NewCo.
See sweet equity.

Estimated Investment Amount In cases where individual fund contributions to an investment round are unknown, the unknown portion of the investment round is distributed evenly among those investors.

Exit
Liquidation of holdings by a private equity fund. Among the various methods of exiting an investment are: trade sale; sale by public offering (including IPO); write-offs; repayment of preference shares/loans; sale to another venture capitalist; sale to a financial institution.
**Exit strategy**
A private equity house or venture capitalist’s plan to end an investment, liquidate holdings and achieve maximum return.

**Exiting climates**
The conditions which influence the viability and attractiveness of various exit strategies.

**Expansion capital**
Also called development capital. Financing provided for the growth and expansion of a company, which may or may not break even or trade profitably. Capital may be used to: finance increased production capacity; market or product development; provide additional working capital.

**Financial Sponsor** see Management Firm.

**Firm** see Management Firm.

**First Stage** The First round of financing following a company's startup phase that involves an institutional VC fund. The round is usually a step-up in valuation, total size (usually not less than $5 M) and per share price for companies' whose product(s) are either in development or commercially available.

**Flat Pricing**
In a flat priced deal, the entrepreneur/management team and the venture capitalist pay the same price for their ordinary shares. The balance of the funds contributed by private equity investors is used to purchase other forms of "institutional" equity (e.g. convertible loan stocks, preference shares).
See envy ratio.

**Follow-on investment**
An additional investment in a portfolio company which has already received funding from a venture capitalist.
Compare initial investment.

**Fund**
A private equity investment fund is a vehicle for enabling pooled investment by a number of investors in equity and equity-related securities of companies (investee companies). These are generally private companies whose shares are not quoted on any stock exchange. The fund can take the form either of a company or of an unincorporated arrangement such as a limited partnership.
See limited partnership.

**Fund age**
The age of a fund (in years) from its first drawdown to the time an IRR is calculated.

**Fund Capitalization** The total amount of capital committed to a fund by the LPs or investors.

**Fund focus (investment stage)**
The strategy of specialisation by stage of investment, sector of investment, geographical concentration, usually expressed as B (Balanced), S/E (Seed and Early Stage), LS (Later Stage) or LBO (Leveraged Buyout). This is the opposite of a generalist fund, which does not focus on any specific geographical area, sector or stage of business.

**Fund of funds**
A fund that takes equity positions in other funds. A fund of fund that primarily invests in new funds is a Primary or Primaries fund of funds. One that focuses on investing in existing funds is referred to as a Secondary fund of funds.

**Fund size**
The total amount of capital committed by the limited and general partners of a fund.

**Fund Size Ranges**
In the venture universe the fund size ranges termed small, medium, large and mega correspond to capitalization amounts as follows:

**Venture**
Fundraising
The process in which venture capitalists themselves raise money to create an investment fund. These funds are raised from private, corporate or institutional investors, who make commitments to the fund which will be invested by the general partner.

See general partner, limited partner, commitment.

General partner
A partner in a private equity management company who has unlimited personal liability for the debts and obligations of the limited partnership and the right to participate in its management.

General partner's commitment
Fund managers typically invest their personal capital right alongside their investors capital, which often works to instil a higher level of confidence in the fund. The limited partners look for a meaningful general partner investment of 1% to 3% of the fund.

Generalist fund
Funds with either a stated focus of investing in all stages of private equity investment, or funds with a broad area of investment activity.

Grandstanding
When young, developing companies are rushed to an IPO by an inexperienced private equity organisation in order to demonstrate a successful exit record for the management team.

Hamster wheel
The situation in a sub-critical mass business with no potential to reach critical mass. So-called because the managing director ends up running around getting nowhere and becoming very frustrated.

Hands-off
A private equity investment in which the venture capitalist contributes only capital – and not business know-how or management involvement – to the investee company.

Hands-on
A private equity investment in which the venture capitalist adds value by contributing capital, management advice and involvement.

Hockey stick
A curve describing the evolution of the earnings of a company poised for rapid growth. This can also be described by the IRR of a private equity fund as it rises from negative to positive.

See J-curve.

Holding period
The length of time an investment remains in a portfolio. Can also mean the length of time an investment must be held in order to qualify for Capital Gains Tax benefits

Horizon Return An IRR calculation between points in time where the beginning point is variable and the end point is fixed. An example would be the 3, 5, and 10 year returns ending 12/31/99, with 12/31/99 as the end point.

Hurdle rate
The IRR that private equity fund managers must return to their investors before they can receive carried interest.
**IBR Sample** The group of funds analyzed for performance in this study.

**Inception**
The starting point at which IRR calculations for a fund are calculated; the vintage year or date of first capital drawdown (takedown).

**Independent director**
Independent or non-executive directors, although part-timers, still share all the legal responsibilities of their executive colleagues on the board of a company. Today, non-executive directors include some of the best operators in the business world. Their status means they can take a strategic, long-term view of a business (whether a listed or unlisted company), whereas the executive team may be too close to the action. The modern view is that independent directors also play a vital role in protecting the interests of shareholders.

**Independent fund**
one in which the main source of fundraising is from third parties.
Compare captive fund, semi-captive fund.

**Initial investment**
First venture-backed investment made in an investee company.
Compare follow-up investment.

**Institutional buyout (IBO)**
Outside financial investors (e.g., private equity houses) buy the business from the vendor. The existing management may be involved from the start and purchase a small stake. Alternatively, the investor may install its own management.
See buyout.

**Institutional investor**
An investor, such as an investment company, mutual fund, insurance company, pension fund, or endowment fund, which generally has substantial assets and experience in investments. In many countries, institutional investors are not protected as fully by securities laws because it is assumed that they are more knowledgeable and better able to protect themselves.

**Internal rate of return (IRR)**
In a private equity fund, the net return earned by investors from the fund’s activity from inception to a stated date. The IRR is calculated as an annualised effective compounded rate of return, using monthly cash flows and annual valuations.

**Investee company**
See portfolio company.

**Investment philosophy**
The stated investment approach or focus of a management team.
See focus.

**IPO (Initial Public Offering)**
The sale or distribution of a company’s shares to the public for the first time. An IPO of the investee company’s shares is one the ways in which a private equity fund can exit from an investment.
See exit.

**IRR Internal Rate of Return**
The IRR is the interim net return earned by investors (Limited Partners), from the fund from inception to a stated date. The IRR is calculated as an annualised effective compounded rate of return using monthly cash flows to and from investors, together with the Residual Value as a terminal cash flow to investors. The IRR is therefore net, i.e., after deduction of all fees and carried interest. In cases of captive or semi-captive investment vehicles without fees or carried interest, the IRR is adjusted to created a synthetic net return using assumed fees and carried interest.

**Irrevocable undertaking**
A binding agreement entered into by the shareholders (including directors/shareholders acting as...
shareholders) of the target company to accept the proposed offer in relation to shares held by them. A "hard" irrevocable undertaking is an unconditional binding agreement to accept the offer in any circumstances and is usually only given by those shareholders who are also part of the participating management team. A soft irrevocable undertaking is a conditional commitment to accept the offer subject only to a higher offer not being made and is usually given by institutional shareholders. Irrevocable undertakings are sometimes simply referred to as irrevocables.

**J-curve**
The curve generated by plotting the returns generated by a private equity fund against time (from inception to termination). The common practice of paying the management fee and start-up costs out of the first *drawdowns* does not produce an equivalent book value. As a result, a private equity fund will initially show a negative return. When the first realisations are made, the fund returns start to rise quite steeply. After about three to five years the interim IRR will give a reasonable indication of the definitive IRR. This period is generally shorter for *buyout* funds than for *early stage* and *expansion* funds. See *hockey stick*.

**Later stage**
A fund investment strategy involving financing for the expansion of a company which is producing, shipping and increasing its sales volume.

*Expansion, replacement capital* and *buyout* stages of investment
Compare *early stage*.

**LBO (leveraged buyout)**
A *buyout* in which the NewCo’s capital structure incorporates a particularly high level of debt, much of which is normally secured against the company’s assets. A fund investment strategy involving the acquisition of a product or business, from either a public or private company, utilizing a significant amount of debt and little or no equity (usually a ratio of 90% debt to 10% equity).

**Lead investor**
Investor who has contributed the majority share in a private equity joint venture or syndicated deal. See *syndicated deal, syndication*.

**Letter of Intent**
A letter from the venture capitalist to the investee company indicating a general willingness or intention to engage in some type of transaction. It often precedes negotiation of a complete agreement, and is typically structured so that it is not legally binding on either party. See *Term Sheet*.

**Limited partner**
An investor in a *limited partnership* (ie private equity fund). Compare general partner.

**Limited partnership**
The legal structure used by most venture and private equity funds. The partnership is usually a fixed-life investment vehicle, and consists of a *general partner* (the management firm, which has unlimited liability) and limited partners (the investors, who have limited liability and are not involved with the day-to-day operations). The general partner receives a management fee and a percentage of the profits. The limited partners receive income, capital gains, and tax benefits. The general partner (management firm) manages the partnership using policy laid down in a Partnership Agreement. The agreement also covers, terms, fees, structures and other items agreed between the limited partners and the general partner.

**Liquidation**
The sale of the assets of a portfolio company to one or more acquirors when venture capital investors receive some of the proceeds of the sale.

**Lower Quartile**
The point at which 75% of all returns in a group are greater and 25% are lower. *LP* see Limited partners and Limited Partnerships.

**Mainstream**
With respect to fund type, excluding foreign-only investing, hybrid public market purchase funds, LBO and funds of funds.
Mainstreamers With respect to fund size, $50 to $99 million; also known as Large funds.

Management buyin (MBI) A buyout in which external managers take over the company. Financing is provided to enable a manager or group of managers from outside the target company to buy into the company with the support of private equity investors.

Management buyout (MBO) A buyout in which the target’s management team acquires an existing product line or business from the vendor with the support of private equity investors.

Management fees Compensation received by a private equity fund’s management firm. This annual management charge is equal to a certain percentage of investors’ initial commitments to the fund.

Management Fee Compensation for the management of a venture fund’s activities, generally paid quarterly from the fund to the general partner or management company.

Management Firm The manager of a specific fund or funds. Where the fund is a limited partnership the management firm is the General Partner.

Management Team The general partners that oversee the activities of the venture capital fund.

Mature funds Funds that have been in existence for over two years.

Maximum The highest return level for a group of funds.

Median IRR The Value appearing halfway in a table ranking funds by IRR in descending order.

Median The mid-point of a distribution, with half of the sample less than or equal to the median, and half of the sample greater than or equal to the median.

Mega-Funds Fund size > $100 million

Memorandum Brochure presented by a general partner in the process of raising funds. This document is dedicated to potential investors (limited partners), and usually contains (amongst other information) a presentation of the management team’s track record, terms and conditions and investment strategies.

Mezzanine A fund investment strategy involving subordinated debt (the level of financing senior to equity and below senior debt).

Mezzanine finance Loan finance that is halfway between equity and secured debt, either unsecured or with junior access to security. Typically, some of the return on the instrument is deferred in the form of rolled-up payment-in-kind (PIK) interest and/or an equity kicker. A mezzanine fund is a fund focusing on mezzanine financing.

Minimum The lowest return level for a group of funds.

Moneytree The MoneyTree™ Survey measures cash-for-equity investments by the professional venture capital community in private emerging companies in the U.S. The survey includes the investment activity of professional venture capital firms with or without a US office, SBICs, venture arms of corporations, institutions, investment banks and similar entities whose primary activity is financial investing. Where there are other participants such as angels, corporations, and governments in a qualified and verified financing round the entire amount of the round is included. Qualifying transactions include cash investments by these entities either directly or by participation in various forms of private placement. All recipient companies are private, and may have been newly-created or spun-out of existing companies. The survey excludes debt, buyouts, recapitalizations, secondary purchases, IPOs, investments in public companies such as PIPES (private investments in public entities), investments for which the proceeds are
primarily intended for acquisition such as roll-ups, change of ownership, and other forms of private equity that do not involve cash such as services-in-kind and venture leasing. **North American Region**

**Alaska/Hawaii**
Alaska, Hawaii

**Canada**
Alberta,(CA), British Columbia,(CA), Prince Edward Island,(CA), Newfoundland,(CA), Manitoba,(CA), Yukon,(CA), Saskatchewan,(CA), New Brunswick,(CA), Quebec,(CA), Nova Scotia,(CA), Ontario,(CA)

**Great Lakes**
Illinois, Indiana, Wisconsin, Michigan

**Great Plains**
Iowa, North Dakota, Kansas, South Dakota, Minnesota, Missouri, Nebraska

**Greater New York**
Connecticut, New Jersey, New York

**Mid-Atlantic**
D. of Columbia, Virginia, Delaware, Maryland

**N. California**
California (area codes: 415, 559, 916, 650, 510, 925, 209, 831, 408, 707, 530)

**New England**
Massachusetts, Vermont, Rhode Island, New Hampshire, Maine

**Non-US**
New Territories,(AU), Queensland,(AU), Western Australia,(AU), Northern Territory,(AU), Tasmania,(AU), South Australia,(AU), Non-US, ACT,(AU), New South Wales,(AU), Victoria,(AU)

**Northwest**
Washington, Oregon

**Ohio Valley**
Ohio, West Virginia, Pennsylvania

**Rocky Mountains**
Idaho, Colorado, Wyoming, Montana, Utah

**S. California**
California (area codes: 213, 619, 858, 949, 626, 909, 714, 323, 805, 562, 661, 760, 818, 310)

**South**
Alabama, Kentucky, Tennessee, Arkansas, Louisiana, Mississippi

**Southeast**
Georgia, South Carolina, North Carolina, Florida

**Southwest**
Nevada, Oklahoma, Texas, Arizona, New Mexico

**US Territories**
American Samoa,(UT), Virgin Islands,(UT), Puerto Rico, Guam,(UT)

**Unknown**
Unknown,()

**Mutual fund**
An open-end fund that may sell as many shares as investors demand. As money flows in, the fund grows. If money flows out of the fund, the number of the fund’s outstanding shares drops. Open-end funds are sometimes closed to new investors, but existing investors can still continue to invest money in the fund. Compare closed-end fund.

**NewCo**
A generic term for a new company incorporated for the purpose of acquiring the target business, unit or company from the vendor in a buyout transaction.

**Offer**
The offer (or bid) made for the target company by the Newco offeror established by the private equity provider and the participating directors of the target company (those directors who are part of the management buyout team).

**Offer document**
The document by which the offeror makes the formal legal offer to target shareholders.
Offer period
The period from announcement of an offer or potential offer until the closing date for the offer or the date when the offer becomes or is declared unconditional as to acceptances (that is, the acceptance condition, which requires a certain percentage of shareholders to accept, has been satisfied) or the offer lapses.

Offeror
The Newco entity established to make the offer for the target company.

Open-end fund
A fund which sells as many shares as investors demand. Compare closed-end fund, mutual fund.

Overhang
Private equity funds still available for investment in the industry.

Paid-in Capital (PI) The amount of committed capital a limited partner has actually transferred to a venture fund. Also known as the cumulative takedown amount.

Placement agent
A person or entity acting as an agent for a private equity house in raising investment funds.

Pooled IRR A method of calculating an aggregate IRR by summing cash flows together to create a portfolio cashflow and calculate IRR on portfolio cashflow.

Portfolio company (or investee company)
The company or entity into which a private equity fund invests directly.

Post-money is the valuation of a company after it has received a round of finance from a PE firm.

Post-money valuation
The valuation made of a company immediately after the most recent round of financing. See pre-money valuation.

Post Venture Capital Index (PVCI) In 1995, Thomson Financial Venture Economics and Warburg Pincus Counsellors developed a more comprehensive index of post-venture capital public market performance by creating an index that included all public venture-backed companies called the Warburg Pincus/Venture Economics Post Venture Capital Index, or PVCI. This index is a true market weighted index with January 31, 1986 = 100. The index composition increases as companies go public and decreases as companies are dropped out due to merger, acquisition, delisting, etc. Companies remain in the index for 10 years after going public and are then dropped from the index. For purposes of the PVCI research, venture-backed companies include both traditional start up and early stage venture-backed companies as well as later stage venture and private equity-backed public companies, or reverse LBOs. We thus use the least stringent of our three venture-backed categories for this index in order to capture the gamut of the venture investing process and the value that venture capitalists bring to public companies. he company or entity into which a fund invests directly.

Pre-money is the valuation of a company right up to its last round of finance from a PE firm.

Pre-money valuation
The valuation made of a company prior to a new round of financing. Compare post-money valuation.

Private company
A firm whose ordinary shares are owned by relatively few individuals and are generally unavailable to outsiders.
Private equity
Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues. A succession in family-owned companies, or the buyout and buyin of a business by experienced managers may be achieved using private equity funding. Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

See venture capital, venture capitalist.

Primary fund of funds see fund of funds.

Private Equity Ventures Economics uses the term to describe the universe of all venture investing, buyout investing and mezzanine investing. Fund of fund investing and secondaries are also included in this broadest term. VE is not using the term to include angel investors or business angels, real estate investments or other investing scenarios outside of the public market.

Public offering
An offering of stock to the general investing public. The definition of a public offering varies from country to country, but typically implies that the offering is being made to more than a very restricted number of private investors; that road shows promoting the offering will be open to more than a very restricted audience; or that the offering is being publicised. For a public offering, registration of prospectus material with a national competent authority is generally compulsory.

See IPO.

Public to private
A transaction involving an offer for the entire share capital of a listed target company by a new company - Newco - and the subsequent re-registration of that listed target company as a private company. The shareholders of Newco usually comprise members of the target company’s management and private equity equity providers. Additional financing for the offer is normally provided by other debt providers.

Quartile Segment of a sample representing a sequential quarter (25%) of the group. (First 10 out of 40 funds - first quartile, etc.)

Quasi-equity Quasi equity encompasses such instruments as convertible shareholder loans, loan notes, preference shares. These instruments are unsecured and convertible on exit.

Range of IRRs Presents the low and high internal rates of return for a given year.

Realization Ratio The ratio of cumulative distributions to paid-in capital (D/PI).

Realized Gain Multiple The average of the ratios of total gain/(loss) to cost divided by the number of years each investment is held.

Replacement capital (secondary purchase) Purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders.

Rescue (or turnaround) Financing made available to an existing business which has experienced trading difficulties, with a view to re-establishing prosperity.

Residual Value The estimated value of the assets of the fund, net of fees and carried interest. The remaining equity which a limited partner has in a fund. Rest, The With respect to fund size, < $50 million.
Residual value to paid-in capital (RV/PI)
A realisation ratio which is a measure of how much of a limited partner's capital is still tied up in the equity of the fund, relative to the cumulative paid-in capital. RV/PI is net of fees and carried interest.

Restricted Securities Public securities which are not freely tradable due to SEC regulations.

Restrictive covenant
In the context of venture capital, an agreement in which the executive management of an investee company or a private equity fund undertakes not to carry on competing activities.

Retail investor
A non-institutional investor who purchases securities for his own account.

Roadshow
The process during a public offering or fundraising in which the management of the issuing company and the underwriters meet with groups of prospective investors to stimulate interest in the stock to be offered. Roadshows may be arranged in several cities/countries, and are conducted during the waiting period shortly before the registration statement becomes effective.

Rounds
Stages of financing of a company. A first round of financing is the initial raising of outside capital. Successive rounds may attract different types of investors as companies mature.

RVPI - Residual Value to Paid-In
The RVPI measures the value of the investors' (Limited Partner’s) interest held within the fund, relative to the cumulative paid-in capital. RVPI is net of fees and carried interest. This is a measure of the fund's "unrealized" return on investment.

Secondary fund of funds see Fund of funds.

Secondary Sale The sale of private or restricted holdings in a portfolio company to other investors.

Second Stage Working capital for the initial expansion of a company which is producing and shipping and has growing accounts receivable and inventories. Although the company has clearly made progress, it may not yet be showing a profit.

Seed stage
Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase. An investment strategy involving portfolio companies which have not yet fully established commercial operations, and may also involve continued research and product development.

Semi-captive Fund
A fund in which, although the main shareholder contributes a large part of the capital, a significant share of the capital is raised from third parties.

Sequence This refers to classification by New versus Follow-on funds. New funds are defined as the first fund a management group raises together, regardless of the experience level of individual professionals in that group. Follow-On funds refer to subsequent funds (II, III, IV, etc.) raised by the same management group.

Sophisticated investor
(US) An investor who is deemed to be sophisticated and sufficiently knowledgeable with respect to financial matters that it can fend for itself in the purchase of securities and does not require the full protection of securities law.

Standard Deviation A measure of the dispersion of the frequency distribution.

Sponsor see Management firm.
Star
An investment which is so successful that it makes up for other loss-making investments by a fund.

Start-up
Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their product commercially.
See early stage.

Syndication
A group of venture capitalists jointly investing in an investee company.

Tag-along Rights
If another shareholder sells his shareholding, the venture capitalist can insist that his shares are sold on the same terms to the same purchaser.
Compare bring-along rights.

Takedown schedule
The plan stated in a private equity fund's memorandum to provide for the actual transfer of funds from the limited partners to the general partner's control.

Target company
The company that the offer or is considering investing in. In the context of a public-to-private deal this company will be the listed company that an offer or is considering investing in with the objective of bringing the company back into private ownership.

Term Sheet
A short document summarising the principal financial and other terms of a proposed investment. It is usually non-binding, but may impose some legal obligations on the investor and the company.

Terms and Conditions
The financial and management conditions under which venture capital limited partnerships are structured.

Third Stage Funds provided for the major growth expansion of a company whose sales volume is increasing and which is breaking even or profitable. These funds are utilized for further expansion, marketing, and working capital or development of an improved product.

Total value to paid-in (TV/PI)
A realisation ratio which is the sum of distributions to paid-in capital (D/PI) and residual value to paid-in capital (RV/PI). TV/PI is net of fees and carried interest.

Turnaround
Financing provided to a company at a time of operational or financial difficulty with the intention of improving the company's performance.

Universe
The universe of all known private venture capital partnerships in the U.S. Funds excluded were: those funds making substantial foreign investments; hybrid funds primarily making public market purchases; funds doing solely leveraged buyouts; and funds of funds. The Universe also excluded funds with a single corporate partner, funds formed to acquire an existing venture capital firm's portfolio, wholly-owned venture capital subsidiaries of financial or non financial corporations, Small Business Investment Companies (SBICs) and family funds.

Upper Quartile
The point at which 25% of all returns in a group are greater and 75% are lower.

Valuation Method
The policy guidelines a management team uses to value the holdings in the fund's portfolio. Venture Capital Venture Economics uses the term to describe the universe of venture investing (see Private Equity). It does not include buyout investing, mezzanine investing, fund of fund investing or secondaries. Angel investors or business angels would also not be included in the definition.

Venture capital
Professional equity co-invested with the entrepreneur to fund an early stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of higher than average
return on the investment.

**Venture capitalist**
The manager of *private equity* fund who has responsibility for the management of the fund's investment in a particular *portfolio company*. In the *hands-on* approach (the general model for private equity investment), the venture capitalist brings in not only moneys as equity capital (ie without security/charge on assets), but also extremely valuable domain knowledge, business contacts, brand-equity, strategic advice, etc.

**Venture purchase of quoted shares**
Purchase of quoted shares with the purpose of delisting the company

**Vintage year**
The year of fund formation and first drawdown of capital.

**Vintage Group**
The range of years in which a group of funds were found and executed the first takedown of capital.

**World Region**

**Africa**

**Americas**
Canada, Aruba, Antigua, Cayman Islands, Dominicana, Grenada, Haiti, Grenadines, El Salvador, Costa Rica, Trinidad/Tob., St Lucia, Puerto Rico, St Kitts/Nevis, Neth. Antilles, Martinique, Bolivia, Argentina, Mexico, Belize, Panama, Nicaragua, Honduras, Guatemala, Turks/Caicos, Am. Virgin Is., Monserrat, Guadeloupe, French Guiana, United States, Venezuela, Uruguay, Surinam, Paraguay, Peru, Guyana, Ecuador, Colombia, Chile, Brazil, Jamaica, Dominican Rep., Cuba, Br. Virgin I., Bermuda, Barbados, Bahamas

**Asia**
Armenia, Malaysia, Indonesia, Brunei, Vietnam, Laos, Cambodia, Taiwan, South Korea, Yemen, Utd. Arab Em., Syria, Saudi Arabia, Qatar, Oman, Maldives, Lebanon, Kuwait, Jordan, Israel, Iraq, Iran, Bahrain, Afghanistan, Sri Lanka, Pakistan, Nepal, India, Bhutan, Bangladesh, Thailand, Singapore, Philippines, North Korea, Mongolia, Macau, Japan, Hong Kong, China, Burma, Belarus, Kyrgyzstan, Georgia, Azerbaijan, Kazakhstan, Tajikistan, Ukraine, Turkmenistan, Uzbekistan, Moldova

**Europe**
Bosnia/Herz., Bulgaria, Czech Republic, Hungary, Estonia, Slovenia, Turkey, Cyprus, Italy, Ireland, Iceland, Greece, Greenland, Gibraltar, France, Finland, Germany, United Kingdom, Switzerland, Sweden, Spain, Portugal, Netherlands, Norway, Malta, Monaco, Luxembourg, Liechtenstein, Faroe Islands, Denmark, Croatia, Belgium, Austria, Andorra, Russia, Lithuania, Latvia, Macedonia, Poland, Romania, Slovakia, Yugoslavia, Albania

**Oceania/Australasia**
Australia, Cook Islands, Fiji, Fr Polynesia, Micronesia, Marshall Is., Nauru, New Zealand, Tuvalu, Palau, Papua N Guinea, Somoa, Solomon Isl., Tonga, Vanuatu, Kiribati

**World Sub-Region Carribean**
Aruba, Antigua, Bahamas, Bermuda, Barbados, Br. Virgin I., Cuba, Dominican Rep., Grenadines, Grenada, Guadeloupe, Trinidad/Tob., St Lucia, Puerto Rico, St Kitts/Nevis, Neth. Antilles, Martinique, Jamaica, Turks/Caicos, Am. Virgin Is., Monserrat, Haiti, Dominica, Cayman Islands

**Central Africa**
Angola, Congo, Dem Rep, Gabon, Zambia, Sao Tome, Zaire, Equator Guinea, Congo, C. African Rep

**Central America**
Costa Rica, Honduras, Panama, Belize, Nicaragua, Guatemala, El Salvador

**Central Asia**
Armenia, Azerbaijan, Belarus, Kazakhstan, Tajikistan, Ukraine, Uzbekistan, Turkmenistan, Moldova, Kyrgyzstan, Georgia

**East Asia**
China, Macau, Mongolia, North Korea, Taiwan, South Korea, Japan, Hong Kong
**Eastern Africa**
Burundi, Uganda, Tanzania, Kenya, Malawi, Rwanda, Somalia, Seychelles, Ethiopia, Djibouti

**Eastern Europe**
Czech Republic, Russia, Lithuania, Estonia, Hungary, Latvia, Poland, Slovakia

**Middle East**
Bahrain, Yemen, Utd. Arab Em., Syria, Saudi Arabia, Qatar, Israel, Jordan, Kuwait, Oman, Lebanon, Iraq, Iran

**North America**
Canada, United States, Mexico

**Northern Africa**
Algeria, Eritrea, Libya, Egypt, Morocco, Tunisia, Sudan

**Northern Europe**
Denmark, Finland, Iceland, Faroe Islands, Norway, Sweden

**Oceania/Australasia**

**South America**
Argentina, Bolivia, Chile, Ecuador, Peru, Surinam, Venezuela, Uruguay, French Guiana, Paraguay, Guyana, Colombia, Brazil

**SouthEast Asia**
Burma, Cambodia, Brunei, Malaysia, Thailand, Singapore, Vietnam, Laos, Philippines, Indonesia

**Southern Africa**
Botswana, Lesotho, Comoros, Madagascar, Mozambique, South Africa, Zimbabwe, Swaziland, Namibia, Mauritius

**Southern Asia**
Bangladesh, Bhutan, India, Pakistan, Afghanistan, Maldives, Sri Lanka, Nepal

**Southern Europe**
Bosnia/Herz., Albania, Yugoslavia, Romania, Andorra, Turkey, Cyprus, Spain, Portugal, Malta, Italy, Greece, Croatia, Bulgaria, Slovenia, Macedonia

**Western Africa**
Burkina Faso, Benin, Cameroon, Ghana, Guinea, Liberia, Mali, Mauritania, Western Sahara, Guinée-Bissau, Togo, Sierra Leone, Senegal, Niger, Nigeria, Ivory Coast, Gambia, Cape Verde, Chad

**Western Europe**
Austria, Monaco, Luxembourg, Germany, United Kingdom, Switzerland, Netherlands, France, Gibraltar, Ireland, Liechtenstein, Greenland, Belgium

Write-down
A reduction in the value of an investment. Write-off The write-down of a portfolio company's holdings to a valuation of zero and the venture capital investors receive no proceeds from their investment. Write-up An increase in the value of an investment.

Write-off
The write-down of a portfolio company’s value to zero. The value of the investment is eliminated and the return to investors is zero or negative.

Write-up
An increase in the value of an investment. An upward adjustment of an asset’s value for accounting and reporting purposes.