A Venture Terminology Dictionary

Like any industry, raising capital for startup or later stage ventures requires knowledge of the lingo-both the true definitions and the more "between the lines" definitions. We therefore present this Venture Terminology Dictionary to help you navigate the complex world of venture capital and investments.

Angel investor – High net worth individuals who privately invest in startup companies. Or, a heavenly being who comes in and saves the company from success.

Bootstrapping – Building a company with no outside funding and very little overhead. Or, building your company on peanuts with your CEO acting as receptionist, marketing and engineering.

Bridge financing – Equity or short-term debt financing usually raised to sustain a company to its next round of financing or to an exit such as an IPO. Or, keeping the company alive so you can sell it to a greater fool than the current investors.

Burn rate – The rate at which a company "burns" cash over a certain period of time, normally expressed over a period of a month. Or, the speed at which you can waste other people's money.

Business plan – A document that describes the business, target customer profile and market need, proposed solution, revenue models, marketing strategy, competitive landscape, management team and financial reports and projections. Or, promises you can't keep, given to investors you can't satisfy.

Cram down – When existing investors offer to finance the company at a zero or low percentage figure of its pre-money valuation, often due to poor performance and the inability to find enough cash to keep funding the venture. Or, taking your frustration out on prior investors for having invested in this dog.

Down round – Refers to a round of venture capital financing that is raised at a lower firm valuation than the previous round. Or, your last round's valuation was absurdly rich, now it is merely wildly so.

Due diligence – The process of investigation and evaluation of a company and its management team prior to committing capital. Or, looking at issues that seem important but have no impact on your returns.

Elevator pitch – A very short oral description of your business that tells all relevant information in the time it takes to get from the ground floor to the top floor of a building via an elevator. The elevator pitch is often used to approach and introduce your company to investors, potential customers and business contacts. Or, the bait before you plant the hook.

Exit strategy – The intended method for liquidating investor holdings in order to achieve the maximum return possible. Or, dressing up the pig for sale.

Liquidation preference or liq pref – An investment arrangement to receive two or three times the investment amount back if the venture is liquidated or acquired. Or the piece of the cake that the investors keep for themselves before the real creators of the business get a piece.

Partnership – Shared ownership among two or more individuals or companies. Or, what every investor call entrepreneurial involuntary servitude.

Ratchet – A one-way adjustment in terms, usually to the benefit of the investor when company valuations are not sustained in future financing rounds or milestones are not met. Or, a large metal tool that VCs apply against the head of entrepreneurs whose company's valuations go down.

Seed round – Stage of venture capital financing that generally provides a startup with the initial money to finalize a business plan, hire employees and develop the product or service. Or, the first step into folly.

Stages of a venture investment:

Stage One: Excitement and euphoria
Stage Two: Search for the guilty
Stage Three: Punishment of the innocent
Stage Four: Distinction for the uninvolved

Syndicate – A group of investors who act together when investing in a company. Or, a group of VCs that will make the same mistake you are making.

Term sheet – A document summarizing the details of potential venture capital investment which serves as the basis for a final business agreement. Or, the first step in the ultimate loss of control of you company.

VC – Venture Capital refers to equity investments made for the launch, early development and growth of a privately held company. Venture capital providers include private venture capital partnerships and funds, corporate funds, and public funds, family funds and angel investors. Review all of the definitions above, closely look at the strings attached, and decide whether or not VC will be the angel or the devil on your back.