Business Angels Knowledge for Entrepreneurs

Equalising Language

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Hey, there!

This can help you...

In the process of seeking financing and negotiation, entrepreneurs may encounter a lot of technical vocabulary that Business Angels use both in their day-to-day work and in official documents to formalize the investment. Entrepreneurs who are unfamiliar with these terms may make the process complicated or be affected by the investor's advantage, resulting in an unbalanced relationship between the two parties.

For this reason, through this glossary **"Equalising language"** which forms part of the ***BAKE Toolkit on balanced Funding Schemes with Business Angels***, entrepreneurs can consult and understand the terms normally used in this process depending on the stage they are in. As a result, you will find:

- **Business definition**: all entrepreneurs must conduct an initial assessment of the situation and positioning of the company to determine their investment niche and the optimal profile.
- **Attracting investment**: once the key investor profile has been clarified, the entrepreneur must know the vocabulary used in this phase of attracting the investor's attention and be an attractive profile.
- **Negotiation**: to avoid unfair negotiations, the entrepreneur must understand all the terms in the legal agreements, which define each figure's powers and limits of action.

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Business definition

Bootstrapping	Building a company from the ground up with nothing but personal savings, and the cash coming in from the first sales.
Budget	A financial plan that includes profit and cash-flow forecasts. It outlines how a company and its subsidiaries will manage their finances for the upcoming financial years.
Business Field	Industrial category or sector.
Business Type	This refers to the nature of a company's operations, including whether it is industrial, commercial, or professional, and its involvement in the buying and selling of goods and services.
Characteristic	A feature or quality belonging typically to a person, place, or thing and serving to identify them.
Competence	The ability to do something successfully or efficiently.
Competition situation	Competition situation shows how crowded or open a market is. Less competition and more fragmentation make a market more attractive.
Consolidate	To make something stronger and more effective, often by combining several things, like businesses.
Constitution	The constitution is like the rulebook for a company, explaining how it works.
CV	A CV, or curriculum vitae, is a document used by job applicants to show off their achievements, like their work, education, and skills.
Directors	The people currently in charge of running a company.
Economic	Everything involving money, trade, and industry.
Entrepreneur	Someone who starts their own business, especially when they spot a new opportunity and take the initiative to turn it into a successful venture.
Entrepreneurship	The skill or practice of starting new businesses, often by recognizing and seizing new opportunities in the market.
Intrapreneur	An employee within a company who exhibits entrepreneurial qualities by transforming ideas into innovations, often improving products, services, or processes. Intrapreneurs bring an entrepreneurial mindset and skillset to their roles within an existing organization, contributing to its growth and development.
Launch	The celebration and introduction of something new, such as a product, service, or venture, into the market or to the public.
Management	The individuals or group of individuals responsible for overseeing the operations and strategic decisions of a company.
Management Board	The governing body of a company, elected by shareholders in the case of public companies to set strategy and oversee management.
Market opportunity	A company's potential for growth and value increase. It encompasses several factors, including market size, niche opportunities, projected turnover, competition landscape, and momentum, all of which influence an investor's decision.
Market Research	The collection and examination of information related to products or services that people currently buy or might consider buying.

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Business definition

Model	Something that serves as a foundational example or blueprint, often used as a basis for creating copies or representations because it is an outstanding specimen of its kind.
Momentum or Market Traction	The point at which a company gains momentum and begins to experience positive movement or progress in the market. This could include increased customer interest, sales, or growth.
Opportunity	A specific occasion or circumstance that creates the possibility of doing something desirable or necessary. It implies a chance to engage in an action or activity.
Potential	Something that is possible or feasible given the necessary conditions or actions.
Private	Something that is controlled or owned by an individual or a company, rather than by the government.
Product	Something that is created to be sold, or something that is grown or obtained through farming. It can be a physical item or a service.
Product/market fit	Measures the degree to which a product satisfies a market demand. In simpler terms, it assesses how well a product meets the needs of a specific market.
Proof-of-business	A stage in a company's development where it is actively testing its business model in the market.
Proof-of-concept	The early stage of a company's development when it has an idea but has not yet developed a 'Minimum Viable Product' (MVP).
Proof-of-scalability	A company has already proven its business model, achieving business validation. It is now preparing to scale the business into new markets or geographical regions.
Proof-of-technology	A company has developed, or is very close to developing, a Minimum Viable Product (MVP).
Prototype	The initial example of a product, such as a machine or other item, created to test early-stage ideas and functionalities.
Public	Something provided by the government and funded by taxes to be accessible to everyone.
Role Model	A person whom others admire and try to emulate.
Service	The act of serving customers in various settings like shops, restaurants, or hotels by taking their orders, showing or selling goods, and more.
Social Entrepreneur	Someone who starts or runs a business with the goal of serving a social purpose while making money.
Stakeholder	Individuals like employees, customers, or citizens who are connected to an organization, business, or society and have a vested interest in its success.
Startup	A young, unlisted company in its early stages, aiming for rapid international growth.
Subsidiary	A company fully or partially controlled by another company, known as the parent company.
Advisor	This is an experienced professional who offers specialized knowledge or industry connections to startups. They often have a technical background and may receive compensation for their services.

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Attracting investment

Angel investment	A financial or non-financial investment, made by an angel investor into a venture in exchange for ownership equity. Can include loans, especially convertible loans.
Angel investor	A person who uses their personal funds to invest in startups, often in their early stages. This investment can be made directly or through a company or fund they manage. It's also known as a 'Business Angel'.
Asset	Something valuable that a person or organization owns. It can include things like skills, qualities, or even people that can be used to pay debts.
Bridge round	A funding round where a startup raises a similar amount of money compared to a previous round, with the goal of buying more time to improve its performance. This helps attract interest from venture capitalists (VCs) or private equity firms for a future round with a higher valuation.
Burn Rate	This measures how quickly a company is using its capital to cover expenses before achieving positive cash flow. It quantifies negative cash flow.
Business Sale	This term refers to the finalization of a sale or a series of sales involving the company or its subsidiaries, transferring most or all of their business and assets to one or more third parties.
Cap table	A cap table is like a list that shows who owns how much of a company. It tells you about the shares and how their ownership changes with each investment round. This table is used to understand who has what part of the company, and it clearly shows different types of shareholders.
Class	A class of shares is a group of shares that all have the same rights, privileges, limits, and conditions.
Cross Border Investment	When an investor chooses to invest in companies in other countries, not just their own.
Deal Flow	Deal flow is like a pipeline of investment opportunities. Good deal flow means lots of promising investment options, while bad deal flow means fewer or low-quality choices.
Due Diligence (DD)	The process of analysing a potential investment. The DD process is usually done after a preliminary investment decision and/or signing of the term sheet. It can include different processes, like commercial, legal, technical, financial, tax, etc.
Funding rounds	Stages in which startups raise capital. During these rounds, multiple investors buy shares in the startup or provide loans in the form of convertible notes. Funding rounds often progress from a Seed round and proceed with subsequent rounds like A round, B round, C round, and so on. The letters indicate the order of funding rounds, with Pre-seed used for very early rounds.
Initial public offering (IPO)	When a private company first sells shares of stock to the public. A company's ownership is transitioning from private ownership to public ownership.
Intellectual property rights (IPR)	A broad term that encompasses the legal rights associated with intangible creations, including patents, copyrights, and trademarks. These rights grant the holder a legal monopoly over the use of the creation for a specified duration.
Internal Rate of Return (IRR)	The annual rate of growth an investment is expected to generate, used to measure the profitability of potential investments observing the effect of the whole investment life cycle from cash to cash.

Investor Share	Mutual fund class of shares that are structured specifically for investment by individual (retail) investors, as opposed to institutional investors. Investor shares are most commonly offered in open-end mutual funds.
Loss	The negative difference between the selling price of an asset or investment and its cost or purchase price.
Mature-of-exit	When a company has reached a stage of development where it is considered established and ready for an exit, often through methods like mergers and acquisitions (M&A) or an initial public offering (IPO).
Maximum Subsidized	The highest amount of investment that qualifies for a particular deduction, such as a deduction for investments in start-up companies.
Mentor	A highly knowledgeable and experienced individual who provides guidance and support to start-ups during the project setup and company development phases. Mentors offer advice and training to entrepreneurs, typically in a collaborative and general manner, based on trust.
Mergers and acquisitions (M&A)	Transactions in which the ownership of companies or their operating units — including all associated assets and liabilities — is transferred to another entity.
Minimum viable product (MVP)	A product with the minimal set of features necessary to validate the core hypothesis of a product. It allows businesses to demonstrate that an idea is viable and worth further investment.
Monthly Recurring Revenue (MRR)	The total amount of predictable revenue that a company expects on a monthly basis.
Parties	The shareholders, the founders, and the company, as well as any other individual or entity that becomes a party to a specific agreement. A 'party' can be any one of these involved entities.
Pitch	A presentation made by one or more individuals to an investor or group of investors, aiming to secure the resources and funding necessary to move forward with a business plan or to continue with an already established business or venture.
Pitch Deck	A brief slideshow used to provide an audience with a quick overview of a business, usually used at a pitch or during meetings with potential investors, customers, partners, and co-founders.
Pivot	Making a fundamental change in the direction of a business after realizing that its current products or services aren't meeting the market's needs.
Portfolio	The current collection of companies in which an angel investor holds ownership interest.
Power Law	A statistical distribution applied to returns on investment in start-ups. It suggests that the majority of returns are highly concentrated and generated by very few companies. In other words, a small number of start-ups generate most of the investment returns.
Runway	An estimate of how long a company can continue its operations with the current funding before running out of cash.
Screening	The process of evaluating new venture opportunities to decide which ones to further investigate. Opportunities that don't pass this initial evaluation are rejected.
Security	A wide range of investments, including stocks, bonds, notes, debentures, limited partnership interests, oil and gas interests, and investment contracts.

Attracting investment

Showcase	To display the best qualities or parts of something.
Skin in the Game	Involves taking a risk by investing one's own money or resources.
Smart Money	Investment that brings more value through the investor's contacts, knowledge, or experience than just the money invested. Highly sought after by startups.
Spinoff	A project or company that originates as an extension of another project or separates from a parent company's subsidiary to become an independent entity.
Sweat equity	Work an investor does for a company in exchange for ownership, typically based on the time or results achieved.
Ticket	The amount of money an investor contributes during a funding round.
Triggering Event	Events or changes that suggest the fair value of an asset might be lower than its recorded value.
Up Round	This is when a company raises more capital at a higher valuation compared to the previous funding round after accounting for post-investment value.
Valuation	An estimation of the economic worth of companies, assets, or debts. In entrepreneurial contexts, it can also include cultural, social, and personal worth.
Value	The amount of money something can be sold for, but in entrepreneurship, it can encompass cultural, social, and personal aspects.
Venture Capital (VC)	A type of investment where individuals, investment banks, VC funds, and other financial institutions provide financing to startups and small businesses with potential for long-term growth.

Negotiation

Animus Defraudandi	This term describes actions that appear legal because they operate within existing laws but result in outcomes prohibited by the legal system.
Cash out	In a shareholders' agreement, cashing out means a shareholder has the right to sell some or all of their shares when a specific event, like a capital increase, happens.
Closing date	When the investment agreement officially takes effect and everything is finalized.
Common stocks	Regular shares in a company, not special or preferred ones.
Confidential Information	Any secret, non-public business-related information, whether written or spoken, that's shared directly or indirectly through any means.
Convertible Note	An agreement where an investor lends money to a startup for a while. If specific events happen, like the loan's expiration, it can turn into company ownership, either because it must or because both parties agree.
Customer Acquisition Cost (CAC)	How much money it requires to acquire one customer.
Deed of Accession	A formal agreement where someone who buys shares agrees to follow the rules of a larger agreement.
Dilution	Dilution happens when investors own a smaller percentage of a company due to later funding rounds. Their ownership decreases, even though the actual value of their shares might stay the same.

Negotiation

Disclaimer	A legal note that says you are not responsible for something, like the information in a book or on the internet.
Discretion	The right or ability to make decisions.
Discrimination	The differential treatment of an individual or group based on prescribed characteristics protected by law.
Dispose	To deal with something, like selling, transferring, or assigning it.
Down round	When a company's value is lower in a funding round compared to the previous one.
Drag-Along Event	A big decision, such as selling the whole company or a lot of its assets, usually when more than half of the company's voting power goes to a new owner.
Drag-Along Notice	When the big shareholders want to sell, they have to tell the smaller shareholders in advance.
Drag-Along Right	A provision or clause in an agreement that enables big shareholders make the small ones sell when they do, and they all get the same deal.
Encumbrance	A legal weight or restriction on something you own. It can be a mortgage, a lien, or any other claim that limits your full ownership rights.
Equity	Ownership interest in a company, usually in the form of stock/shares or stock/share options.
Exit	An event that allows the founders and early investors in a company to sell some or all of their ownership shares. This can happen because the company is sold, goes public (IPO), or dissolves. Positive exits are usually profitable, while negative exits can involve the company failing or being sold at a low value.
Exit forms. Acquisition	When a company purchases most or all of another company's shares to gain control of that company.
Exit forms. Bankruptcy	A legal process used by individuals or businesses unable to repay their debts. It allows them to seek relief from their debts while giving creditors a chance to recover some of what's owed.
Exit forms. Closing down	Dissolving a company in a controlled way, often because no successors to the management of the company and no buyer is found.
Exit forms. Initial Public Offering (IPO)	The regulated process by which a private corporation registers its shares for trading in public markets.
Exit forms. Merger	An agreement that unites two existing companies into one new company.
Exit forms. Other	Includes various exit methods, such as management buyouts (when current management buys the company), management buy-ins (when new managers purchase the company), or selling shares to another investor.
Expert	In case the parties can't agree on the fair market value of something, each party can request an independent expert or an experienced international accounting firm to determine its value. This ensures an impartial assessment.

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Negotiation

Failure	An investment that has ceased to operate in the way it was outlined in the investment contract or terms and conditions of an investment agreement.
Financial Year	A twelve-month period used by governments, businesses, and other organizations to calculate their budgets, profits, and losses.
Follow-on investment	An new investment into a company by an investor who has previously invested in the same company.
Funding	Providing resources, typically in the form of money, to finance a venture. However, funding can also include contributions of time, effort, expertise, or network connections made by an investor.
Gain	An occasion when you get something useful or positive. An increase in something such as size, weight, or amount.
General Meeting	A gathering of a company's shareholders.
Good Leaver	An individual who has left a particular situation or organization, typically a company, for reasons beyond their control.
Lead Investor	An individual or organization that takes on the primary responsibility for organizing an investment round in a company. They often negotiate the investment terms and act as the main point of contact between the company and other investors in the round.
Liquidation preference	The right to be paid before others upon liquidation of the ownership of the company, for example through preferred shares.
Major Investor	An investor, either individually or together with their affiliated parties, who holds at least a specified number of shares of registrable securities, as determined by a contract. This number may be adjusted for events like stock splits, stock dividends, or other changes.
Management Agreement	A legal document that grants investment managers the authority to manage capital on behalf of investors.
Mutatis mutandis	A Latin phrase that translates to 'with necessary changes having been made' or 'with the necessary modifications.' It is used to indicate that while adjustments may be required to accommodate different circumstances, the fundamental point or principle remains unchanged.
New Securities	Any securities, which may include convertible securities, in a company that are not yet issued as of the date of a particular agreement. However, certain exceptions typically apply, such as shares issued upon the conversion of preference shares to ordinary shares, shares issued upon the exercise of existing options or rights, and shares issued as a result of a share split.
Obligation	Any form of payment or financial commitment. It includes coins, banknotes, shares of stock, and bonds, all of which represent promises or commitments to receive a certain value, rights, or privileges upon possession.
Option Parties	Any shareholders who are party to, or individuals or entities with obligations, benefits, or holdings under one or more option plans. This typically excludes members of the Management Board or Supervisory Board.
Option Pool	A set of clauses, often included in a shareholders' agreement, that reserves a certain number of shares or rights to shares. It is commonly used to attract or retain talent within the company.

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Negotiation

Ordinary Share	Also known as common shares, ordinary shares are publicly traded stocks. Each ordinary share typically grants its owner one vote at company shareholders' meetings. Unlike preferred shares, owners of ordinary shares do not have a guaranteed dividend.
Post-money valuation	The valuation of a company immediately after receiving an investment. It is usually calculated by adding the investment amount to the pre-money valuation. The ownership stake of a new investor is determined based on this post-money valuation. For example, if an investor invests €40,000 into a company with a pre-money valuation of €600,000, the post-money valuation becomes €640,000, and the new investor holds a 6.25% ownership equity (€40,000 / €640,000).
Preferred Stocks	Shares issued with specific rights that common stocks do not possess. These rights often include preferences related to liquidation or dividends. Preferred stocks are typically convertible to common stocks, especially if the economic rights of common stocks become more favorable. The conversion ratio between preferred and common stocks can be agreed upon in certain cases.
Pre-money valuation	The value assigned to a company through negotiation between investors and founders immediately before an investment round. It is often referred to as simply 'valuation.
Prevalence	The status of a rule or agreement in comparison to others. It means that the provisions of a particular rule or agreement are binding, even if they contradict those of others.
Purchase Option	A contractual right that grants the option holder the ability to buy property at a predetermined price within a specified time frame. Importantly, holding a purchase option does not obligate the holder to make the purchase; it merely provides the right to do so during the agreed-upon period.
Redundancy	Assets that can make money for a company but are not vital for its core operations.
Relevant Selling Shareholder(s)	Existing shareholders can sell shares in a company's initial public offering or in a follow-on offering. Existing shareholders who sell shares through underwriters in private placement offerings exempt from prospectus requirements are also referred to as selling shareholders.
Relevant Shares	Shares in a company that are listed for trading on a regulated market.
Respective Proportion	The number of shares held by a shareholder divided by the total number of shares.
Restricted Party	An individual or entity not allowed to purchase shares from another party in the deal.
Return Multiple (X)	Return on investment (ROI) expressed in the number of times the initial investment was regained. For example, if an investor has invested 10 k€ into a business and receives 100 k€ back at an exit, the return multiple is (100-10)/10 = 9X.
Return On Investment (ROI)	A performance measure assessing the profitability of an investment.
Returns	The total proceeds received from an investment, typically upon selling or exiting it.
Right of First Refusal	A provision granting existing shareholders the first opportunity to accept or decline an offer from another shareholder before it is presented to an outsider.
Right of First Refusal Event	The company's right to buy back shares granted through the Plan before they are offered to anyone else. This right applies to shares given under the Plan, as determined by the Committee at the time of the Award. It covers all Grantees, as well as their guardians, legal representatives, joint tenants, tenants in common, heirs, or Successors.

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Negotiation

Right of First Refusal Exercise Notice	This notice is received by the Company when someone wants to exercise their Right of First Refusal.
Right of First Refusal Notice	This notice is sent to the Company and Eligible Investors. It includes the proposed purchase price and terms for transferring Common Units. Eligible Investors have the option (but not the obligation) to buy their pro rata share of these Right of First Refusal Units.
Risk	This refers to the chance of something bad happening.
Selling Shareholder(s)	Individuals or entities that sell a company's securities in a registered offering.
Share Sale	This involves acquiring shares through a transfer that results in third parties holding shares with the right to cast more than a specified percentage of votes in general meetings on most matters.
Shareholders	This includes the current shareholders in the company and anyone who becomes a shareholder and adheres to this agreement in the future.
Shareholders Agreement (SHA)	One of the fundamental contracts in investing, outlining the rights and responsibilities of shareholders toward each other.
Shares	These are the company's ownership units, encompassing both ordinary shares and investor shares.
Syndicate	A group of angel investors investing together in the same company under a shared agreement.
Tag-Along Event	When someone sells Company Shares to a new owner who gains a Controlling Interest (Change of Control).
Tag-Along Exercise Notice	This notice is to confirm that a Holder is using their Tag-Along Right to sell some of their vested Shares to a Third Party in a Proposed Transfer.
Tag-Along Notice	This notice provides details about a Proposed Transfer, including the type and number of Shares to be sold, the price and terms, and the identity of the potential new owner (Prospective Transferee).
Tag-Along Right	A protective rule to safeguard minority shareholders, typically in venture capital deals.
Termsheet	A document outlining a potential investment's proposal and its basic terms and conditions. It's not legally binding, but both the investor and entrepreneur must keep it confidential, and the entrepreneur agrees not to negotiate with other investors simultaneously.

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Business Angels Knowledge for Entrepreneurs

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