- **Absolute return**
  The return an asset achieves over time, without comparison to the overall market, other assets or benchmarks.
- **Acquisition**
  The obtaining of control, possession or ownership of a company.
- **Acting in concert**
  Persons acting in concert are persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate, throught the acquisition by any of them of shares in a company, to obtain or consolidate control of that company
- **Added value**
  A private equity management team's exceptional experience, know-how or valuable business contacts which constitute a vital input for the growth of investee companies.
- **Adjustable rate preferred stock**
  Preferred stock whose dividend rate changes in response to changes in a reference interest rate.
- **Adjusted Present Value Model**
  This model is similar to the Enterprise DCF model, with the difference that the Adjusted Present Value model separates the value of the company into two components: the value of the company's operations at the cost of capital as if the company had no debt, plus an additional element reflecting the impact on this value of the tax savings related to leverage.
- **Allocation**
  The number of securities assigned to an investor, broker, or underwriter in an offering.
- **Alternative Investment Market (AIM)**
  The London Stock Exchange's market for new, fast growing companies. AIM offers the benefit of operating both an electronic quote and order trading facility. It commenced trading in June 1995.
- **Alternative investments/assets**
  Investments covering amongst others private equity and venture capital, hedge funds, real estate, infrastructure, commodities, or collateralised debt obligations (CDOs).

- **Alternext**
  Created by Euronext in April 2005, Alternext is a unregulated stock market dedicated to small and mid-cap companies.
- **American Stock Exchange (AMEX)**
  A securities market which generally listed securities of smaller or newer companies. In October 1998, Nasdaq and the AMEX combined into one corporate organisation: the Nasdaq-AMEX Market Group.
- **Analyst**
  A research analyst usually employed by an bank to 'follow' a company and issue reports on the condition and prospects of the company and of its securities. The quality and reputation of an investment bank's analyst will often be a key component in selecting an underwriter, as analystcoverage of the company before and after the flotation helps to generate and maintain interest in the company's securities.See underwriter.
- **Anchor LP**
  An investor in a private equity/venture capital fund that commits a significant amount of the total fundraising to the fund upfront.
- **Angel financing**
  Capital contributed by an independently wealthy private investors.
- **Anti-dilution (full ratchet)**
  Anti-dilution provisions in which the price at which the anti-dilution instruments are converted is the lowest price at which ordinary shares have been sold.For example: in a prior round of financing which raised capital at €2.00 per share, investors received full ratchet anti-dilution protection. A subsequent round of financing was consummated at €1.00 per share, and the early round investors therefore had the right to convert their anti-dilution instruments at the lowest (ie €1.00) price.
- **Anti-dilution (weighted average)**
  Anti-dilution provisions in which the price at which the anti-dilution instruments are converted is calculated by a weighted average formula.For example: in a prior round of financing which raised €1 million of capital at €2.00 per share, investors received weighted average anti-dilution protection. A subsequent round of financing was consummated for another €1 million at €1.00 per share, and the early round investors therefore had the right to convert their anti-dilution instruments at a weighted average adjusted price of €1.50 per share.

- **Anti-dilution provisions**
  Provisions in a company's charter and by-laws designed to discourage undesired take-over bids. These take the form of options or institutional equity instruments (eg convertible preference shares), which can be converted to ordinary shares on any issue of new stock in a subsequent round of investment financing or in a take-over bid. The price at which this conversion takes place is determined by the type of anti-dilution provision.See anti-dilution (full ratchet), anti-dilution (weighted average), blank cheque preferred stock, poison pill, shark repellent.
- **Arm's-length**
  The relationship between persons (whether companies or not) who deal on a purely commercial terms, without the influence of other factors such as: common ownership; a parent/subsidiary relationship between companies; existing family or business relationships between individuals.
- **Arrearage**
  Unpaid dividends due to holders of preferred stock.
- **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.
- **Asset cover**
  One of the indicators used by banks to calculate debt ceiling. It is the extent to which debt is secured against the company's assets. Banks apply different weighting factors to various classes of asset, depending on their liquidity and the typical reliability of the valuation.
- **Asset deal**
  A sale of operating or non-operating assets of a business instead of stock shares. One type of a M&A transaction.
- **Asset purchase agreement**
  Agreement further to which one or more purchasers buy assets and take on certain liabilities (related to the purchased assets) from one or more sellers. The agreement will set out/forth the details of the sold assets and the transferred liabilities, the representations and warranties, the indemnification in the event of misrepresentation, the required approvals and actions in order

for the transfer of the assets and liabilities to be valid and/or effective towards third parties. It usually includes post-closingcovenants (such as the obligation for the sellers to continue to service the obligations of which the transfer cannot, cannot easily, or is deliberately not to, be enforced on the creditors and other third parties to the transfer).

- **Asset stripping**
  Dismantling an acquired business by selling off operational and/or financial assets.
- **Auction**
  A process in which an investment bank invites several private equity houses to look at a particular company that is for sale and to offer a bid to buy it.
- **Average IRR**
  The arithmetic mean of the internal rates of return (IRRs). See Internal rate of return (IRR).
- **Back office**
  Definition for Back office
  The office or unit within a financial institution or private equity fund, which carries out support and administrative functions for the institution or fund. For private equity funds, back office activities cover amongst others the fund and management accounting, auditing, tax administration, reporting, and handling of capital calls and distributions.
  End Definition

  The office or unit within a financial institution or private equity fund, which carries out support and administrative functions for the institution or fund. For private equity funds, back office activities cover amongst others the fund and management accounting, auditing, tax administration, reporting, and handling of capital calls and distributions.
- **Bad leaver**
  An employee who leaves the company within a short time or who is dismissed for cause, or under other circumstances where the employee is not permitted to retain the benefit of profit-sharing arrangements such as increased value of shares or carried interest.

- **Balanced fund**
  Venture capital funds focused on both early stage and development with no particular concentration on either.
- **Basis point**
  One hundredth of a percent (0.01%). Used to measure changes in or differences between yields or interest rates.
- **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.
- **Best efforts underwriting**
  The most common form of underwriting agreement, in which the underwriter agrees to use its best efforts to place the offering with prospective investors, but is not committed to purchase any unsubscribed shares.
- **Beta**
  A statistical measure of a security’s volatility, compared to the overall market. A beta of less than 1 indicates lower volatility than the general market; a beta of 1 or more indicates higher volatility than the general market.
- **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.
- **Black-Scholes Formula**
  A model developed by Fischer Black and Myron Scholes for pricing financial options.
- **Blank cheque preferred stock**
  Authorised preferred stock, the terms of which are left open under the company’s charter, thus allowing the board of directors to fix the terms

without stockholder approval. Blank cheque preferred stock maybe used as an anti-takeover device.

- **Board of directors**
  Group of individuals elected by the shareholders of a company to promote and safeguard all aspects of the shareholders' best interests.
- **Bond**
  A debt obligation, often secured by a mortgage on some property or asset of the issuer.
- **Book (or Syndicate Book)**
  A list of investors who have indicated an interest in purchasing shares in a public offering. The book is maintained by the lead managing underwriter during the offering process.
- **Book manager**
  The lead managing underwriter who maintains the Book.
- **Book value per share**
  A company's net worth (assets minus liabilities) divided by the number of shares outstanding. Tangible book value is the company's net tangible worth (tangible assets minus liabilities) divided by the number of shares outstanding.
- **Bookbuilding**
  Process carried out in the period before a flotation in which the lead underwriter(s) invites institutional and retail investors to commit to subscribing to the floating company's shares.
- **Bookrunner**
  The underwriter in charge of the bookbuilding process.
- **Break fee**
  A break fee (also referred to as an inducement fee) is a sum agreed between the offeror and the target company to be paid to the offeror by the target only if specified events occur which prevent the offerfrom proceeding or if the offer fails.
- **Break-even point**
  A point reached when a company's revenue equals its expenses.
- **Bridge financing**
  Financing made available to a company in the period of transition from being privately owned to being publicly quoted.

- **Bridge vehicle**
  A fund raised by a GP on an interim basis, before launching a new fund. Bridge vehicles are often of a smaller size, compare to the normal fund.
- **Broker**
  One who acts as an intermediary between a buyer and a seller of securities.
- **Buffer**
  Unused credit facility or cash reserves.
- **Burn rate**
  The rate at which a company requires additional cash to keep going.
- **Business angel**
  A private investor who provides both finance and business expertise to an investee company.
- **Business model**
  The underlying model of a company's business operation.
- **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.
- **Buyback**
  A corporation's repurchase of its own stock or bonds.
- **Buyout**
  A buyout is a transaction financed by a mix of debt and equity, in which a business, a business unit or a company is acquired with the help of a financial investor from the current shareholders (the vendor).
- **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.
- **CAC-40 (Compagnie des Agents de Change 40 Index)**
  An index based on 40 of the largest and most liquid stocks traded on the Paris Stock Exchange. See index.

- **Call option (or call)**
  The right to purchase a specified number of securities at a fixed price at or during a specified time. Compare put option.
- **Capital Asset Pricing Model (CAPM)**
  Capital Asset Pricing Model determines the cost of equity of a quoted company. This cost depends on the risk free interest rate, the return of a market index and the security's volatility, compared to the overall market. See Beta.
- **Capital gains**
  If an asset is sold at a higher price than that at which it was bought, there is a capital gain.
- **Capital markets**
  A market place in which long-term capital is raised by industry and commerce, the government and local authorities. Stock exchanges are part of capital markets.
- **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.
- **Captive fund**
  A fund in which the main shareholder of the management company contributes most of the capital, ie 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**
  A share of the profit accruing to an investment fund management company or individual members of the fund management team, as a compensation for the own capital invested and their risk taken. Carried interest (typically up to 20% of the profits of the fund) becomes payable once the limited partners have achieved repayment of their original investment in the fund plus a defined hurdle rate.
- **Cash alternative**
  If the offer or offers shareholders of the target company thechoice

between offer or securities and cash, the cashelement is known as the cash alternative.

- **Cash Flow**
  Net earnings after tax plus depreciation, plus non-cash items.
- **Cash Flows to Equity Valuation**
  A variant of the DCF model, where future cash flows to the equity owners of the company are discounted at the cost of the equity, thus directly calculating the equity value.
- **Cheap stock**
  Stock (or rights to acquire stock) issued to employees, consultants, promoters, etc, of the issue company at a price lower than the public offering price, particularly if issued within one year prior to the public offering.
- **Chinese walls**
  Deliberate information barriers within a large company to prevent conflict of interest between different departments.
- **Class action suit**
  A lawsuit brought by one person on behalf of a larger group of individuals who all have the same grievance.
- **Class of securities**
  Classes of securities are securities that share the same terms and benefits. Classes of capital stock are generally alphabetically designated (eg, Class C Common Stock, Class A Preferred Stock, etc).
- **Classified stock**
  The separation of a company's capital stock into multiple classes (eg Class A, Class B, etc).
- **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.
- **Cliff Vesting**
  A feature of some stock option plans and pension plans. Whenused in stock

options, all stock options granted by the employer are vested(become the property of the employee) after a certain specified date, ratherthan accruing gradually. When used in pension plans, all matching contributionsprovided by the employer become the property of the employee after a certainspecified date, rather than accruing gradually. See Stock option.

- **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.
- **Club deal**
  A deal where several buyout houses pool their resources together when buying a company of significant size, which would be otherwise inaccessible for them alone, either due to the purchase price or fund investment restrictions.
- **Co-lead investor**
  Investor who has contributed a similar share with the lead investor in a private equity joint venture or syndicated deal.
- **Collateral**
  Assets pledged to a lender until a loan is repaid. If the borrower does not pay back the money owed, the lender has the legal right to seize the collateral and sell it to pay off the loan.
- **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.
- **Commercial paper**
  An unsecured obligation issued by a corporation or bank to finance its short-term credit needs (eg accounts receivable or inventory). Maturities typically range from 2 to 270 days.
- **Commission Bancaire et Financiere/Commissie voor het Bank en Financiewezen (CBF)**

The Belgian Commission of Banking and Finance is the competent authority regulating the securities industry in Belgium. See Competent Authority.

- **Commission des Opérations de Bourse (COB)**
  The competent authority regulating the securities industry in France. See Competent Authority.
- **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.
- **Common shares/stock**
  See Ordinary shares.
- **Common stock equivalents**
  Debt and/or quasi-equity type securities capable of subscription, exchange or conversion into the company's common stock (ordinary shares). In calculating dilution, earnings per share, etc, the number of ordinary shares is often adjusted to reflect conversion of common stock equivalents.
- **Common stock ratio**
  A company's common stock (ordinary shares) divided by its total capitalisation, expressed as a percentage.
- **Company buy-back**
  A redemption of private or restricted holdings by the portfolio company itself.
- **Competent Authority**
  A term used within Directives produced by the European Commission to describe a body identified by a member state of the European Union as being responsible for specified functions related to the securities market within that member state. Areas of competence include: the recognition of firms permitted to offer investment services; the approval of prospectuses for public offerings; the recognition and surveillance of stock markets. A member state may nominate different Competent Authorities for different areas of responsibility. See Investment Services Directive, Prospectus Directive.
- **Competing offer**
  Another contemporaneous offer for the target company by a third party.

- **Completion**
  The moment when legal documents are signed. Normally, also the moment at which funds are advanced by investors.
- **Compliance**
  The process of ensuring that any other person or entity operating within the financial services industry complies at all times with the regulations currently in force. Many of these regulations are designed to protect the public from misleading claims about returns they could receive from investments, while others outlaw insider trading. Especially in the UK, regulation of the financial services industry has developed beyond recognition in recent years.
- **Concert parties**
  Any persons or parties acting in concert (see definition of acting in concert).
- **Conditions precedent**
  Certain conditions that a venture capitalist may insist are satisfied before a deal is completed. See also comfort factor.
- **Confidentiality and proprietary rights agreement (or non-disclosure agreement)**
  An agreement in which an employee, customer or vendor agrees not to disclose confidential information to any third party or to use it in any context other than that of company business. If the agreement is between a company and an employee, the employee typically grants to the company the rights to all inventions he develops while employed by the company and represents that he is not bound by any restrictive obligations to a former employer.
- **Conflict of interest**
  In a public to private transaction, a conflict of interestinvariably arises if the directors of the target company are(or will be) directors of the offeror, in which case theirsupport for the offer gives rise to a potential conflict withthe interests of the shareholders of the target company.
- **Connected persons**
  Companies related by ownership or control of each other or common ownership or control by a third person or company, and individuals connected by family relationships or, in some instances, by existing business relationships (such as individuals who are partners).
- **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.

- **Conversion**
  The act of exchanging one form of security or common stock equivalent for another equivalent security of the same company (eg preferred stock for common stock, debt securities for equity).See common stock equivalent, preferred common stock, debt securities.
- **Conversion ratio**
  The number of underlying securities that can be acquired on exchange of a convertible security.
- **Convertible debt**
  A debt obligation of a company which is convertible into stock under certain circumstances.
- **Convertible preferred stock**
  Preferred stock convertible into common stock (ordinary shares).
- **Convertible security**
  A financial security (usually preferred stock or bonds) that is exchangeable for another type of security (usually ordinary shares) at a fixed price. The convertible feature is designed to enhance marketability of preferred stock as an additional incentive to investors.
- **Convertible/equity related loan**
  Loan convertible into equity as per pre-agreed terms.
- **Corporate Governance – EVCA Corporate Governance Guidelines**
  Guidelines set out by EVCA concerning good practice in the management and governance of privately held companies in the private equity and venture capital industry. Their aim is to define principles of good governance for private equity and venture capital investing and regarding the conduct as shareholders, board members and management.
- **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.
- **Covenant lite loan**
  A loan with lighter or no covenants, providing the borrower more

operational flexibility while limiting the lenders protection against strong changes in his/her financial performance.

- **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.
- **Credit spread**
  The difference in yield between two securities that are identical (in maturity and duration) except for their credit quality. Often the credit spread is used to compare corporate bonds with government bonds.
- **Cumulative dividend**
  A dividend which accumulates if not paid in the period when due and must be paid in full before other dividends are paid on the company's ordinary shares. See Arrearage.
- **Cumulative preferred stock**
  A form of preference shares which provide that, if one or more dividends is omitted, those dividends accumulate and must be paid in full before other dividends may be paid on the company's ordinary shares.
- **Data room**
  Definition for Data room
  A web site at which bidders in an auction process can review information about the company that is for sale.
  End Definition

  A web site at which bidders in an auction process can review information about the company that is for sale.
- **DAX**
  A price-weighted index of the most heavily traded stocks on the Frankfurt Stock Exchange. See index.

- **Deal flow**
  The number of investment opportunities available to a private equity house.
- **Debenture**
  An instrument securing the indebtedness of a company over its assets.
- **Debt financing**
  Financing by selling bonds, notes or other debt instruments.
- **Debt ratio**
  Debt capital divided by total capital.
- **Debt service**
  Cash required in a given period to pay interest and matured principal on outstanding debt.
- **Debt/equity ratio**
  A measure of a company's leverage, calculated by dividing long-term debt by ordinary shareholders' equity.
- **Defined Benefit Plans**
  A pension plan that promises a specified monthly benefit to be paid to the employee at retirement. See Defined Contribution Plans.
- **Defined Contribution Plans**
  A pension plan that does not promise a specificamount of benefits at retirement. Both employee and employer contribute to a pension plan, the employee then has the right to the balance of the account.This balance may fluctuate over the lifetime of the pension plan. See DefinedBenefit Plans.
- **Delisting**
  The removal of a company from listing on an exchange. See public to private, venture purchase of quoted shares.
- **Derivative or derivative security**
  A financial instrument or security whose characteristics and value depend upon the characteristics and value of an underlying instrument or asset (typically a commodity, bond, equity or currency). Examples include futures, options and mortgage-backed securities.
- **Development capital**
  See expansion capital.
- **Development Fund**
  Venture capital funds focused on investing in later stage companies in need of expansion capital.

- **Dilution**
  Dilution occurs when an investor's percentage in a company is reduced by the issue of new securities. It may also refer to the effect on earnings per share and book value per share if convertible securities are converted or stock options are exercised. See anti-dilution provisions.
- **Direct public offering**
  A public offering in which shares are sold directly to investors, rather than through an underwriter.
- **Disbursement**
  (US) The flow of investment funds from private equity funds into portfolio companies.
- **Disclosure**
  Disclosure in general refers to the communication of information between two different parties. In the private equity and venture capital world, there are two different sides of disclosure. There is on the one hand the disclosure between the general partners and the limited partners, which is governed by the limited partners agreement. On the other hand, there is the disclosure of information by the limited partners on the general partners activities to the public at large. See FOI
- **Disclosure letter**
  A document disclosing matters which might otherwise amount to a breach of warranties. Matters so disclosed limit the effectiveness of the warranties.
- **Discounted cash flow (DCF)**
  A method of assessing the value of an investment based on predicted cash flows discounted to take account of the fact that a euro tomorrow is worth less than a euro today.
- **Discretionary client**
  A client who gives an investment manager total authority to manage his assets.
- **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.

- **Divestment**
  See exit
- **Dividend cover**
  A ratio that measures the number of times a dividend could have been paid out of the year's earnings. The higher the dividend cover, the safer the dividend.
- **Dow Jones Industrial Average (DJIA)**
  An index based on 30 major stocks listed on the New York Stock Exchange. The companies included in the DJIA are all major factors in their respective industries, and their stocks are widely held by individuals and institutional investors. The DJIA is one of the oldest and most widely recognised stock indexes, and has been published daily for more than 100 years.
- **Down Round**
  Equity financing in a company which values the company at a lower amount/price than in previous financing rounds.
- **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.
- **Dual listing**
  The listing of a security on more than one exchange. Increasingly, securities are being listed on both a local exchange and an exchange with more widespread coverage. In addition, issuers may list on both a US exchange and a European or an Asian exchange.

- **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.
- **Early Stage**
- Seed and start-up stages of a business. See seed, start-up. Compare later stage.

- **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.
- **EASD (European Association of Securities Dealers)**
  An association of securities houses, investment banks, private equity firms, professional advisors and others formed to promote the development of securities markets in Europe for growth companies. EASD's ambition is to be the most effective organisation to foster the best conditions for seamless European investment and trading. The creation of the EASDAQ stock market was one of its first initiatives. EASD has over 165 member organisations and is headquartered in Brussels.
- **EBIT**
  Earnings before interest and taxes – a financial measurement often used in valuing a company (price paid expressed as a multiple of EBIT).
- **EBITDA**
  Earnings before interest, taxes, depreciation and amortisation – a financial measurement often used in valuing a company (price paid expressed as a multiple of EBITDA).
- **Elevator Pitch**
  A term comparing the time an entrepreneur has to gain the interest of a venture capitalist for his business idea with an elevator ride.

- **Enterprise DCF model**
  A term comparing the time an entrepreneur has to gain the interest of a venture capitalist for his business idea with an elevator ride.
- **Enterprise DCF model**
  Variant of the DCF model which looks at the company's operations and calculates the present value of future free cash flows by discounting them with the weighted average cost of capital.See free cash flow, weighted average cost of capital.
- **Entrepreneur in residence (EIR)**
  An entrepreneur that has experience in creating a business and who would like to work in a venture capital fund using the funds' network, deal flow and resources to develop new or existing portfolio companies.
- **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 = (IC/I%):(MC/M%), where:- IC = investors amount to be invested in NewCo- I% = investors' ownership in NewCo.- MC = management amount to be invested in NewCo
  - M% = management percentage ownership of NewCo (ie percentage of ordinary shares owned)
  Example: If the VC invests L5m for 60% equity and the management invests L0.2m for 40% ordinary shares the envy ratio is:
  Envy ratio=(5/60)/(0.2/40)=16.7
- **Equity**
  Ownership interest in a company, represented by the shares issued to investors.
- **Equity kicker**
  In a mezzanine loan, equity warrants payable on exit.
- **Equity ratio**
  One of the indicators used by banks to calculate debt ceiling. It consists of net equity divided by the company's total assets. Banks apply yardstick ratios for different industry sectors to arrive at a minimum level of funding that shareholders are required to contribute.
- **Equity Story**
  The background research undertaken to identify the strengths and

weaknesses related to a stock, assessing institutional investors' interests in purchasing the stock, valuation, and supporting our banking professionals on the structural elements of the deal.

- **EURONEXT**
  The stock market entity resulting from the merger of the Amsterdam, Brussels and Paris stock exchanges, signed in September 2000. See Nouveau Marché.
- **European-style option**
  An option which can only be exercised for a short, specified period of time just prior to its expiration, usually a single day. Also called European option.
- **EVCA Professional Standards**
  EVCA professional standards are a unique set of behavioural principles that encompass the relationship between limited partners, general partners and portfolio companies. The EVCA Professional Standards encompass a Code of Conduct, Governing Principles, and Corporate Governance, Valuation and Reporting Guidelines.
- **Exercise of a stock option**
  When an option or warrant holder takes up his or her option to buy or sell the underlying instrument (for example shares, commodities, an index, etc.), he/she is said to exercise the option or warrant.
- **Exercise price**
  The price at which shares subject to a stock option may be purchased. Also known as the strike price.
- **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.

- **Expansion, replacement capital and buyout stages of investment**
  Compare early stage.
- **Family business**
  A family business is a firm that has either more than 50% of its voting shares owned or controlled by a single family related by blood or marriage, or that has the majority of the business owned by more than one family (i.e. Multi-family business.
- **Family office**
  A family office is an office that provides services to one (i.e. Single-family office) or several families (i.e. Multi-family office). Services can range from investment management and advice, accounting, tax and financial advice to educational planning or concierge services. See also Single-family office or Multi-family office.
- **Financial secondaries**
  A secondary deal involving a funds' portfolio of companies that are relatively mature (five to seven years old), with some exits already realized, but not all capital drawn down. The main interest for the buyer is to negotiate a potential discount on the fund portfolio.
- **Financial services authority (FSA)**
  A UK independent non-governmental body which exercises statutory powers under the Financial Services Act 1986 and the Banking Act 1987 (as well as certain other legislation). The FSA is the Competent Authority which regulates the securities industry in the UK, and was created by the merger of functions previously performed by the Securities Investment Board (SIB), Investment Management Regulatory Organisation (IMRO), the Bank of England and other agencies. See Competent Authority.
- **Firm commitment underwriting**
  An underwriting agreement in which the underwriter agrees to assume some of the flotation risk by purchasing all the shares being offered an agreed price and then reselling them on the open market. Compare best efforts underwriting.

- **First preferred stock**
  Preferred stock which takes precedence over other preferred and common stock with regard to dividends and assets.
- **First stage/round**
  The first round of financing following a company’s startup phase that involves an institutional venture capital fund.
- **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.
- **Float (or free float or public float)**
  The number of shares not held by corporate insiders that are freely tradable in the public market or markets on which a company’s securities are listed.
- **FOI – Freedom of Information**
  A legislation, which provides that any individual or company has the right to request and receive information from and about public authorities, subject to certain limitations. Within the private equity/venture capital industry, FOI refers particularly to the requests for information received by public pension funds with respect to their private equity/venture capital investments, including for example the names of the underlying funds, amounts invested and their performance.
- **Follow-on investment**
  An additional investment in a portfolio company which has already received funding from a private equity firm. Compare initial investment.
- **Founder economies**
  An agreement, whereby the founding partners of a private equity/venture capital fund receive a larger share of the capital gains, especially the carried interest, achieved by the fund. Often, a founder may also receive those gains after leaving the fund, as an acknowledgment of his or her role in building the fund.
- **Free cash flow**
  Free cash flow is defined as the after-tax operating earnings of the company, plus non-cash charges (e.g. depreciation), less investment in working capital, property, plant and equipment, and other assets.

- **Front office**
  The office or unit within a financial institution or private equity fund, which carries out the investment activity and deals with the customers of the business. For private equity funds, front office activities cover amongst others the fundraising and investor relations, deal making and sourcing, research and market analysis and the operational management of investments.
- **FTSE 100**
  An index based on the stock of the top 100 companies traded on the London Stock Exchange. See index.
- **Fully diluted earnings per share**
  Common stock (ordinary share) earnings per share calculated as if all warrants and stock options were exercised and all convertible bonds and preferred stock (and certain convertible debts) were converted. Fully diluted earnings per share are usually a more accurate reflection of the company's real earning power.
- **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 Capitalisation**
  The total amount of capital committed to a fund by investors.
- **Fund focus (investment stage)**
  The strategy of specialisation by stage of investment, sector of investment, geographical concentration. 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.
- **Funded pension system**
  A pension system under which the contributions are saved and invested in different assets over time to pay for the benefits in the future.
- **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 fundwhich will be invested by the general partner.
- **GAAP (Generally Accepted Accounting Principles)**
  Rules and procedures generally accepted within the accounting profession.
- **Gatekeepers**
  Specialist advisers who provide assistance to institutional and corporate investors when making private equity investments.
- **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.
- **Goodwill**
  The value of a business over and above its tangible assets. It includes the business’s reputation and contacts.
- **Grandfather rights**
  Special rights given to a limited partner to access a follow-on fund, after having been invested in the previous fund.

- **Grandstanding**
  When young, developing companies are rushed to an IPO by an inexperienced private equityorganisation in order to demonstrate a successful exit record for the managment team.
- **Green Shoe or Shoe**
  Term for an underwriter ’s over-allotment option. This name derives from the fact that the over-allotment option technique was first used in a public offering of the securities of The Green Shoe Company. See Over-Allotment Option. This is also an underwriting agreement provision that allows syndicate members to purchase additional shares at the original price.
- **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.
- **Hard circle**
  Prospective purchasers of securities in a public offering who are listed in the Book maintained by the lead managing underwriter and who are considered very likely to actually buy shares in the offering.
- **Hedge Fund**
  An investment vehicle, where managers invest in a variety or markets and securities, to achieve the highest absolute return. Investments could be either made in financial markets, using stocks, bonds, commodities, currencies and derivatives, or by using advanced investment techniques such as shorting, leveraging, swaps and using arbitrage.
- **Hedging**
  An investment that is made to offset the risk of price movements of one security, by taking an opposite position in a different security, hence balancing the risk of the first investment. Examples are derivatives, such as options and futures, linked to a certain security.

- **High yield bonds**
  These play a similar role to mezzanine finance in bridging the gap between senior debt and equity. High yield bonds are senior subordinated notes not secured against the assets of the company, and which therefore attract a higher rate of interest than senior debt.
- **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 internal rate of return (Horizon IRR)**
  An indication of performance trends within an industry sector. Horizon IRR uses the beginning net asset values as an initial cash outflow and net asset values at the period end as the terminal cash flow. Through these values plus/minus any net interim cash flows, it calculates IRRs for the defined time period. See IRR.
- **Hostile offer (or hostile bid)**
  An offer which is made for a target company but which isnot recommended for acceptance by shareholders by the board of the target company.
- **Hurdle rate**
  A return ceiling that a private equity fund management company needs to return to the fund's investors in additionto the repayment of their initial commitment, before fund managers become entitled to carried interestpaymentsfrom the fund.
- **Inception**
  The starting point at which IRR calculations for a fund are calculated; the vintage year or date of first capital drawdown. See IRR, horizon IRR.
- **Independent director**
  A member of the board of Directors of a company who is not affiliated with the company in any other capacity.
- **Independent fund**
  One in which the main source of fundraising is from third parties. Compare captive fund, semi-captive fund.

- **Index**
  A benchmark against which financial or economic performance is measured, (eg S&P 500, FTSE 100).
- **Information rights**
  A contractual right to obtain information about a company, including, for example, attending board meetings. Typically granted to venture capitalists investing in privately held companies.
- **Initial investment**
  First private equity-backed investment made in an investee company. Compare follow-up investment.
- **Inside spread, or inside quote**
  The difference between the highest bid and lowest ask price being quoted by market makers for a security. See mid-market value.
- **Insider dealing**
  A range of possible offences centred on the possession of non-public information by a party and the illegal or improper use of that information to deal or encourage others to deal in securities, or to disclose that information to anyone other than in the proper performance of their duties.
- **Institutional buy-out (IBO)**
  Outside financial investors (eg 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 organization such as a bank, investment company, mutual fund, insurance company, pension fundor endowment fund, which professionally invest, substantial assets in international capital markets.
- **Intellectual property**
  Patents, copyrights, trademarks, trade secrets and similar rights in ideas, concepts, etc.
- **Interest cover**
  One indicator used by banks to calculate debt ceiling. It consists of EBIT divided by net interest expenses. This ratio is a measure of the company's ability to service its debt.
- **Interest/earnings stripping**
  Limitation in interest deductibility for a company, where only part of the

interest expenses can be deducted (generally expressed in percentage of EBIT or EBITDA).

- **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.
- **International Accounting Standards (IAS)**
  A series of accounting standards that are to be implemented by businesses by 2005. More information can be obtained from www.iasc.org.uk
- **Investee company**
  See portfolio company.
- **Investment committee**
  A committee within a private equity/venture capital fund, fund of funds or limited partner that has the final decision on the individual investments made. Members of the committee are either part of the fund or sometimes outside experts.
- **Investment philosophy**
  The stated investment approach or focus of a management team. See focus.
- **Investment Services Directive (ISD)**
  A Directive produced by the European Commission regarding the provision of investment services within the member states of the European Union. It has been described as the passport to Europe for securities houses. The ISD's key feature is mutual recognition: a) any firm approved to provide investment services within its home state is mutually recognised by all other member states as being allowed to provide the same services within those other member states; b) any stock market or exchange recognised by its Competent Authorities within one member state is mutually recognised in all other member states as being allowed to offer its services (including the installation of trading system computer terminals) within those other member states. The result of ISD will be a borderless single marketplace for securities covering all member states of the European Union. See Competent Authority, Prospectus Directive.
- **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 inceptionto 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 ommitment to accept the offersubject 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 fundwill 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.
- **Junk bond**
  A junk bond is a bond on company debt, which is rated as ‘BB’ or lower, assuming some risk of being repaid by the company. Junk bonds are also known as “High-yield-bonds”. Within the private equitymarket, junk bonds

are related to buyout investments, when bonds of a transactions are rated as 'BB' or less. See also High yield bonds

- **Key man insurance**
  A life and/or critical illness insurance policy taken out by a company to provide a cash sum if a key executive dies or becomes ill, thus covering some or all of the resulting financial loss to the business.
- **Later stage**
  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.
- **Lead Bank/Bookrunner/Loan underwriter**
  The lead bank in a loan syndication that underwrites the deal, structures and syndicates the loan to other banks or investors in the market.
- **Lead investor**
  Investor who has contributed the majority share in a private equity/venture capital joint venture or syndicated deal and that has originated and structured the deal, taking over the main responsibility vis-a vis the syndicate. See syndicated deal, syndication.
- **Lead underwriter (or lead manager)**
  The underwriter that assumes leadership and financial responsibility for placing the securities offered in a public offering. On the cover of a prospectus, the lead underwriter/manager is normally listed on the bottom of the page on the left-hand side, with the other underwriters listed to the right.
- **Leavers and Joiners**
  The arrangements covering: what happens to the profit interest (through carried interest or ownership of shares) of executives who leave an investee company or a venture capital fund; the provision for making a profit-sharing interest available to rising stars (new or young executives who previously did not have such a profit-sharing interest) or new joiners.
- **Lehman Formula**
  A compensation formula initiated by Lehman Brothers for investment banking activities, originally structured as follows: 5% of the first $ million

involved in the transaction; 4% of the second $ million ; 3% of the third $ million ; 2% of the fourth $ million ; and 1% of everything thereafter (ie above $4 million).

- **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.
- **Leverage loan market**
  The market in which leverage loans are syndicated by a lead bank and hence sold on to other borrowers.
- **Leveraged recapitalisation**
  Transaction in which a company borrows a large sum of money and distributes it to its shareholders.
- **LIBOR**
  See London Inter-bank Offer Rate.
- **Life sciences**
  All sciences that have to do with living organisms. Main sectors of activity are Biotechnology, Pharmaceuticals and sometimes Nanotechnology.
- **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 where venture capital investors receive some of the proceeds of the sale.

- **Listed company**
  A company whose shares are traded on a stock exchange.
- **Listed security**
  A security that has been accepted for trading on an exchange. To become a listed security, the issuer must satisfy the listing requirements of the exchange. Shares that are not listed may be sold over-the-counter (OTC).
- **Listing**
  The quotation of shares on a recognised stock exchange. See Float
- **Listing requirements**
  The standards to be satisfied for a security to be admitted to trading on an exchange. Listing requirements vary among exchanges but commonly include financial standards and levels of market capitalisation.
- **Lock-up agreement**
  Agreement between an underwriter and certain stockholders of a company requiring the stockholders to refrain from selling their shares in the public market for a specified lock-up period after a public offering. In the case of a venture capital deal, this prevents the investee company's executives and the venture capitalist from selling their shares immediately after an IPO. The reasoning behind this restriction is that such a sale would send worrying signals to the market and thus force down the price of shares. Remaining stockholders would then have shares worth far less than their value at IPO.
- **Lock-up period**
  The period of time for which a lock-up agreement is in operation. Underwriters of IPOs generally insist upon a lock-up period for large shareholders of at least 180 days to avoid a disorderly market. The management, company directors and the venture capitalist are the type of shareholders that are usually subject to a lock-up.
- **London Inter-bank Offer Rate (LIBOR)**
  The interest rate that the largest international banks charge each other in the London inter-bank market for loans. This is used as a basis for gauging the price of loans outside the inter-bank market.
- **LPS**
  See limited partner, limited partnership.
- **Majority share/interest**
  The ownership of a company, where the owner holds more than 50% of the total shareholding.

- **Managed secondaries**
  A secondary deal involving a portfolio of companies that are relatively young (two to four years old), where the underlying companies are starting to move up the J-curve and the further potential for value creation provide the main interest for the buyer.
- **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**
  Fee received by a private equity fund management company from its limited partners, to cover the fund's overhead costs, allowing for the proper management of the company. This annual management charge is equal to a certain percentage of the investors' commitments to the fund.
- **Manager sponsorship**
  A limited partner taking a direct interest in the a general partner, in the formative stage of the fund.
- **Managing underwriters**
  The underwriters: whose names appear on the cover page of the prospectus; who assist the company in preparation of the prospectus and the roadshow; who organise the syndicate of underwriters to sell the securities. See lead underwriter.
- **Market authority**
  Governing entity of a stock exchange or trading system responsible for: market regulation; approval of members; admission to and cancellation of listing; the operation of the trading system.
- **Market capitalisation (or market cap)**
  The number of shares outstanding multiplied by the market price of the stock. Market capitalisation is a common standard for describing the worth of a public company.

- **Market maker**
  Brokerage and securities firms that are required by the rules of a stock market/exchange to both buy and sell securities of a quoted company, for which they act as market marker, at bid and offer prices which they quote. All Nasdaq-traded companies are required to have at least two market makers.
- **Mature funds**
  Funds that have been in existence for over two years.
- **Median IRR**
  The Value appearing halfway in a table ranking funds by IRR in descending order.
- **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 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. Compare high yield bond.
- **Mid-market value**
  The average of bid and offer price.
- **Minority share / interest**
  The ownership of a company, where the owner holds less than 50% of the total shareholding.
- **Multi-family office**
  A family office providing services to several families and its members, often integrated in a bank or financial institution.
- **Multiples or Relative Valuation**
  This estimates the value of an asset by looking at the pricing of "comparable" assets relative to a variable such as earnings, cash flows, book value or sales. See P/E ratio.
- **Mutual fund**
  An open-end fund that may sell as many shares as investors demand. As

money flows in, the fundgrows. 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.

- **NASD (National Association of Securities Dealers) (USA)**
  The national organisation of the USA securities industry. Under USA law, as a self regulatory organisation, NASD has substantial responsibility for regulation of broker-dealers, as well as for the operation of the Nasdaq markets.
- **Nasdaq Bulletin Board (or OTC Bulletin Board)**
  A regulated quotation service that displays real-time quotes, last-sale prices, and volume information in the over-the-counter equity securities. Although operated by Nasdaq Stock Market, it is not part of the Nasdaq Stock Market. See over-the-counter (OTC).
- **Nasdaq National Market**
  (formerly NASDAQ NMS) The larger and higher quality of the two markets administered by the Nasdaq Stock Market. The Nasdaq National Market is now one of the largest stock markets in the world in terms of volume of shares traded. The Nasdaq markets are not physical stock exchanges in the traditional sense. In place of an exchange floor, they use computer-based trading and trade support systems. See Nasdaq-Amex Market Group, Nasdaq SmallCap Market, Nasdaq Bulletin Board.
- **Nasdaq SmallCap Market**
  A stock market for smaller companies which cannot satisfy the listing requirements of the Nasdaq National Market. See Nasdaq Stock Market.
- **Nasdaq Stock Market**
  The Nasdaq Stock Market (based in Washington, D.C.) has two tiers, the Nasdaq National Market and the Nasdaq SmallCap Market. Each tier has its own set of financial requirements that a company must meet to list its securities. Nasdaq also operates the Nasdaq (OTC) Bulletin Board. The Nasdaq markets are not physical stock exchanges in the traditional sense. In place of an exchange floor, they use computer-based trading and trade support systems. In 1998, Nasdaq and the American Stock Exchange combined into one corporate organisation, the Nasdaq-AMEX Market Group.

- **Nasdaq-100**
  An index based on the Stock of the top 100 companies traded on the Nasdaq National Market. See index.
- **Nasdaq-AMEX Market Group**
  Former In October 1998 as a result of merger between Nasdaq and the American Stock Exchange (AMEX).
- **Net debt**
  Net debt is calculated as short and long-term interest-bearing debt minus cash (and equivalents) The concept of net debt is the same under cash and accrual-based financial reporting. High levels of net debt impose a call on future revenue flows to service that debt. One shortcoming of the net debtconcept is that it does not provide information on whether debt has been incurred to finance fixed asset accumulation or current expenditure. Calculation: debt due within one year excluding bank overdrafts + debt due after one year - cash in hand and at bank - overnight deposits + bank overdrafts + other current investments. Net debt
- **Neuer Markt**
  Established in 1997 and closed down in June 2003, the Neuer Markt was a trading segment of Deutsche Börse AG (German Stock exchange) which focused on high-growth companies.
- **New issue**
  A stock or bond offered to the public for the first time. New issues may be IPOs by previously private companies or additional stock/bond issues by companies already public.
- **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.
- **Non Executive Director (NED)**
  A member of the Board of Directors of a company who has no management or executive function within the underlying company.
- **Non-disclosure agreement**
  See confidentiality and proprietary rights agreement.
- **Non-discretionary client**
  Client who is involved in the decisions taken by the investment manager managing the clients assets.

- **Nouveau Marché**
  Established in 1996 and dissolved in June 2005, the Nouveau Marché was a stock market dedicated to innovative companies with high-growth potential. It was based in Paris, FR and managed by Euronext.
- **NYSE (New York Stock Exchange)**
  One of the world's largest stock markets by market capitalisation.
- **Offer**
  The offer (or bid) made for the target company by the Newco offeror established by the private equityprovider 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.
- **OMX**
  Stock exchange operator created in 2003 and which includes stock exchanges in Copenhagen (DK), Stockholm (SE), Helsinki (FI), Tallinn (EE), Riga (LV) and Vilnius (LT).
- **Open-end fund**
  A fund which sells as many shares as investors demand.
- **Opening price**
  The price at which a security trades at the beginning of a day or, in the case of an IPO, at the commencement of its first day of trading.
- **Option**
  A contractual right to purchase something (such as stock) at a future time or within a specified period at a specified price.

- **Option pool**
  The number of shares set aside to be issued to employees of a private company.
- **Ordinary shares (or common shares/stock)**
  In a public company, the stock which is traded between investors on various exchanges. Owners of ordinary shares are typically entitled to vote on the selection of directors and other important issues. They may also receive dividends on their holdings, but ordinary shares do not guarantee a return on the investment. If a company is liquidated, the owners of bonds and preferred stock are paid before the holders of ordinary shares.
- **OTC Bulletin Board**
  See Nasdaq Bulletin Board.
- **Over-the-counter (OTC)**
  A security which is not traded on an exchange, usually due to an inability to meet listing requirements. For such securities, broker/dealers negotiate directly with one another over computer networks and by phone.
  See Nasdaq Bulletin Board.
- **Overhang**
  Private equity funds still available for investment in the industry.
- **P/E ratio**
  Price/earnings ratio – the market price of a company's ordinary share divided by earnings per share for the most recent year.
- **Paid-in capital**
  The amount of committed capital an investor has actually transferred to a fund. Also known as the cumulative takedown amount.
- **Pay-as-you-go (PAYG) system**
  A pillar one pension system under which the social security contributions by workers are used directly to pay out the benefits to retirees.
- **Payment in kind (PIK)**
  A feature of a security permitting the issuer to pay dividends or interest in the form of additional securities of the same class. See mezzanine finance.
- **Permanent establishment**
  A permanent establishment is, according to the OECD definition, a fixed place of business through which the business of an enterprise is wholly or partly carried on. Within private equity, permanent establishment refers to the possibility that a limited partner, either owning or having a stake in

a private equity or venture capital fund, is considered as a resident of that country and hence liable for the national taxation.

- **Permitted transfer**
  A transfer of shares in which it is not required to first offer them to existing shareholders.
- **Pillar one pension**
  Pillar one refers to the public pension provisions, which are provided by the government.
- **Pillar two pension**
  Pillar two refers to the occupational pension provisions, which are provided by the employer.
- **PIPE**
  Generally referring to a private investment in public equity.
- **Placement agent**
  A person or entity acting as an agent for a private equity house in raising investment funds.
- **Poison pill**
  The most famous anti-take-over device. It normally takes the form of granting existing stockholders (other than stockholders who acquire more than a certain percentage of the company) the option(which can only be exercised upon certain events) to buy more stock on very favourable terms as a way of diluting the position of the person trying to take control.
  See anti-dilution provisions, anti-dilution(full ratchet), anti-dilution (weighted average), blank cheque preferred stock, shark repellent.
- **Pooled IRR**
  The IRR obtained by taking cash flows from inception together with the Residual Value for each fundand aggregating them into a pool as if they were a single fund. This is superior to either the average, which can be skewed by large returns on relatively small investments, or the capital weighted IRR which weights each IRR by capital committed. This latter measure would be accurate only if all investments were made at once at the beginning of the funds life.
- **Portfolio at cost**
  The portfolio at cost is the sum of all private equity and venture capital investments (held at cost) that have been made until the end of the measurement period and that have not yet been exited.

- **Portfolio company (or investee company)**
  The company or entity into which a private equity fund invests directly.
- **Post-money valuation**
  The valuation made of a company immediately after the most recent round of financing. See pre-money valuation.
- **Pre-emption rights**
  Rights of existing shareholders to have the first opportunity to purchase shares from a departing shareholder (pre-emption on transfer), or to subscribe for new shares issued by the company (pre-emption on issue).
- **Pre-money valuation**
  The valuation made of a company prior to a new round of financing. Compare post-money valuation.
- **Pre-seed stage**
  The investment stage before a company is at the seed level. Pre-seed investments are mainly linked to universities and to the financing of research projects, with the aim of building a commercial company around it later on.
- **Preference shares (or preferred stock)**
  Shares which have preference over ordinary shares, including priority in receipt of dividends and upon liquidation. In some cases these shares also have redemption rights, preferential voting rights, and rights of conversion into ordinary shares. Venture capitalists generally make investments in the form of convertible preference shares. See cumulative preferred stock.
- **Preferred return**
  Either (i) the set rate of return that the investors must receive before the general partners can begin sharing in any distributions, or (ii) the level that the fund's net asset value must reach before the general partners can begin sharing in any distributions.
- **Present Value**
  Present value is found by dividing the future payoff by a discount factor which incorporates the interest forgone for not receiving this payoff at the present time.
- **Price-sensitive information**
  Confidential information about a company, which, if made public, is likely to have a significant effect on the price of the securities of the company.

- **Primary distribution**
  A distribution of shares by the issuer itself, as opposed to a secondary distribution by an existing stockholder.
- **Primary loan market (or syndicated loan market)**
  Market in which a new loan is syndicated/sold.
- **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 (also called venture capital), 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 by using private equity funding. See venture capital, venture capitalist.
- **Private equity 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. These are generally private companies whose shares are not quoted on a stock exchange. The fund can take the form of either a company or an unincorporated arrangement such as a Limited Partnership.
- **Prospectus**
  A document which must be delivered to recipients of offers to sell securities and to purchasers of securities in a public offering and which contains a detailed description of the issuer's business. In the USA, it is included as part of the registration statement filed with the SEC and with documents required by stock markets, stock exchanges and national competent authorities.
- **Prospectus Directive**
  A Directive of the European Commission requiring the implementation of a set of common standards for securities prospectuses into the national law of all member states of the European Union. A key feature of this Directive is that of mutual recognition (a prospectus that has been approved by the appropriate competent authority of one member state is mutually recognised

by the competent authorities of all other member states). See Investment Services Directive (ISD).

- **Prudent person rule**
  A behaviourally-oriented standard of investment, rather than one based on quantitative criteria. The prudent person rule allows pension funds to include private equity and venture capital funds in their asset allocation according to their own needs, while respecting the risk profile of their clients.
- **Public float**
  See float.
- **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.
- **Put option**
  The right of an investor to demand repurchase by the company or by another investor of a certain number of its shares at a fixed price within a specified time period or at a specified point in time. See call option.
- **Quartile**
  The IRR which lies a quarter from the bottom (lower quartile point) or top (upper quartile point) of the table ranking the individual fund IRRs.
- **Quasi-equity**
  Financing that combines the features of debt and equity. Those instruments are unsecured and convertible on exit. Examples are mezzanine finance or subordinated debt.

- **Ratchet/sliding scale**
  A bonus where capital can be reclaimed by managers of investee companies, depending on the achievement of corporate goals.
- **Real Options Valuation**
  This model places a present value on the “real options” available to a company.
- **Realisation ratios**
  Benchmark measurements of investment performance which complement IRR. Realisation ratios are distributions to paid-in capital (D/PI), residual value to paid-in capital (RV/PI) and total value to paid-in(TV/PI). These are measures of returns to invested capital. These measures do not take the time value of money into account.
- **Realised multiple**
  The ratio of total gain(/loss) to cost of realised investments.
- **Recapitalisation**
  Change in a company’s capital structure. For example, a company may want to issue bonds to replace its preferred stock in order to save on taxes. Re-capitalisation can be an alternative exit strategy for venture capitalists and leveraged buyout sponsors.
- **Redeemable cumulative preference share**
  A form of preference shares which provide that, if one or more dividends are omitted, these dividends accumulate and must be paid in full before other dividends can be paid on the company’s ordinary shares. Redeemable cumulative preference shares can be refinanced by mezzanine providers, banks and other institutional equity providers, thus allowing the initial investors to recover their investment.
- **Redemption**
  Repurchase by a company of its securities from an investor. Often required for preferred stock in private equity financing.
- **Refinancing bank debt**
  Financing to reduce a company’s level of gearing.
- **Relative return**
  The return an asset achieves over time, when taking into account the overall market, other assets or benchmarks.

- **Replacement capital (secondary purchase)**
  Purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders.
- **Reporting – EVCA Reporting Guidelines**
  Guidelines set by EVCA concerning reporting practices towards investors. Their aim is improve transparency, so that investors are better able to monitor and evaluate the performance of their investments and to make the asset class more accessible and comprehensible to new and existing investors.
- **Representations and Warranties ("Reps and Warranties")**
  Declarations made by the seller of one or more target companies in relation to the financial, legal and commercial status of the target companies, the financial instruments (to be) issued, the assets owned or used and the liabilities due, and whereby such persons represent and warrant that such declarations are true and correct as of a certain date. The representations and warranties are a standard part of the share-purchase agreement, subscription agreement or asset-purchase agreement, depending on the type of transaction. In the event that the representations and warranties are breached, the beneficiary will be entitled to an indemnity.
- **Repurchase agreement**
  An agreement in which a holder of shares agrees that the person from whom it purchased the securities may repurchase them in certain events. In private equity financing rounds, founders may be required to enter into repurchase agreements in which they agree to resell their shares to the company at a fixed price in the event that they leave the company before a given date.
- **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.
- **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 securities 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.
- **Reversed Merger**
  Selling your company to a quoted company, by taking a strong equity position in the quoted company.
- **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
- **S&P (Standard & Poor) 500**
  A market-value weighted index of the 500 largest stocks in the US markets maintained by Standard & Poor Corporation. Generally considered to be a benchmark of the overall US stock market. See index.
- **Search fund**
  A fund that is raised by entrepreneurs to find a business, acquire it and manage it until and exit can be achieved.
- **SEC**
  See Securities and Exchange Commission.
- **Second line loan**
  A loan is used in leverage buyouts, that is subordinated to a senior loan (first-lien loan), but has a preferential settlement over a mezzanine loan.

- **Second preferred stock**
  Preferred stock which has rights subordinate to those of other preferred stock on dividend and assets.
- **Secondary distribution (or secondary offering)**
  A public offering of a security by a selling holder of securities, rather than by the issuer. The term secondary offering is also sometimes used more generally in reference to any public offering other than an IPO.
  Compare primary distribution.
- **Secondary fund of funds**
  See fund of funds.
- **Secondary investment**
  An investment where a fund buys either, a portfolio of direct investments of an existing private equity fund or limited partner's positions in these funds.
- **Secondary Loan Market**
  Market in which loans trade after their primary market syndication.
- **Secondary market**
  A market or exchange in which securities are bought and sold following their initial sale. Investors in the primary market, by contrast, purchase shares directly from the issuer.
- **Secondary sale**
  The sale of private or restricted holdings in a portfolio company to other investors.
- **Secured debt**
  Loans secured against a company's assets.
- **Secured obligation**
  A debt obligation which is secured by the pledge of assets.
- **Securities Act of 1933 (also 1933 Act or 33 Act)**
  (US) A Federal law regulating the offer and sale of securities by the issuer or its affiliates. It generally requires issuers seeking to raise funds from the public to provide investors with extensive information. Its liability provisions, particularly for incorrect registration statements, create a liability rule of caveat vendor or let the seller beware.
- **Securities and Exchange Commission (SEC)**
  (US) An independent, non-partisan, quasi-judicial regulatory agency responsible for administering the federal securities laws. These laws protect investors in securities markets and ensure that investors have access to all

material information concerning publicly traded securities. Additionally, the SECregulates firms that trade securities, people who provide investment advice, and investment companies.

- **Seed stage**
  Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase. See early-stage.
- **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. Compare captive fund, independent fund.
- **Senior debt**
  A debt instrument which specifically has a higher priority for repayment than that of general unsecured creditors. Typically used for long-term financing for low-risk companies or for later-stage financing.
  Compare subordinated debt.
- **Separate account client**
  A client who’s account is held separately from the collective funds managed by the management company. Separate accounts can be discretionary and non-discretionary.
- **Sequence**
  The classification of funds by order of investment. First in a sequence is the new fund, defined as the first fund a management group raises together, regardless of the experience level of individual professionals in that group. Next are follow-on funds, defined as subsequent funds (II, III, IV, etc) raised by the same management group.
- **Share deal**
  Making an acquisition by purchasing the company’s shares. Compare asset deal.
- **Share purchase agreement**
  Agreement further to which one or more purchasers buy shares issued by one or more target companies from one or more sellers. The agreement will set out/forth the type and amount of shares sold, the representations and warranties, the indemnification in the event of misrepresentation and may also include post-closing covenants (such as the obligation for the sellers not to compete with the purchasers).

- **Shark repellent**
  Defense mechanisms or tactics designed to discourage undesired take-over bids. See anti-dilution provisions, anti-dilution (full ratchet), anti-dilution (weighted average), blank cheque preferred stock, poison pill.
- **Shell**
  The term shell typically refers to a company that has been duly organised and is currently in existence, but that has no history of operations.
- **Short sale**
  Borrowing a security (or commodity futures contract) from a broker and selling it, with the understanding that it must later be bought back (hopefully at a lower price) and returned to the broker. SEC rules limit the circumstances in which investors can sell short.
- **Single-family office**
  A family office providing services to one family, but several generations of family members.
- **SME (small and-medium sized enterprises)**
  According to the European Commission definition, “Small and medium-sized enterprises (SMEs) are those businesses which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”.
- **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.
- **Spin-off**
  Selling off a department, or a division, of a company to make it independent company.
- **Split (or stock split)**
  An increase in the number of outstanding shares of a company’s stock, such that proportionate equityof each shareholder remains the same. In theory, the market price per share should drop in proportion. Usually done to make a stock with a very high per-share price more accessible to small investors. Requires approval from the board of directors and sometimes shareholders.

- **SPO (Secondary Public Offering)**
  The issuance of new stock for public sale from a company that has already made its Initial Public Offering (IPO).
- **Squeeze-out**
  Statutory provisions entitling an offeror who has acquired the support of a certain percentage of shareholders to acquire the balance of shares in the target company.
- **Standard deviation**
  A statistical parameter: measures how much elements in a data set vary around the mean.
- **Staple financing**
  A pre-arranged financing package that a financial advisor or investment bank offers to the potential buyer in an auction process, when putting up a company for sale.
- **Stapled secondaries**
  A deal where a buyer purchases a secondary portfolio, agreeing at the same time to invest in the primary fund being raised by the selling general partners.
- **Star**
  An investment which is so successful that it makes up for other loss-making investments by a fund.
- **Start-up**
  Companies that are in the process of being set up or may have been in business for a short time, but have not soldtheir product commercially. See early stage.
- **Stock option**
  An individual's right to purchase shares at a fixed price. Stock options are a widely used form of employee incentive and compensation. The employee is given an option to purchase shares at a certain price (at or below the market price at the time the option is granted) for a specified period of years. Stock options are an essential tool for attracting talent to young companies and/or for incentivising employees in the case of a buyout investment.
- **Strike price**
  See exercise price.

- **Subordinated debt (Junior debt)**
  Debt that ranks lower than other loans and will be paid last in case of liquidation. Compare senior debt.
- **Subscription agreement**
  Agreement further to which one or more investors undertake to subscribe to, and whereby the competent corporate body (or the members thereof) undertakes to decide (or to vote in favour of), an upcoming issue by one or more target companies of shares, bonds, convertible bonds, warrants or other financial instruments to such investors. The agreement will set out/forth the type and amount of instruments to be issued, the representations and warranties, the indemnification in the event of misrepresentation and may also include post-closing covenants (such as further investment obligations or restrictions on the transfer of the instruments that will be acquired).
- **Syndicate book**
  See Book.
- **Syndicated loan**
  A very large loan in which a group of banks work together to provide funds for one borrower. There is usually one lead bank (see Lead Bank/ Bookrunner/Loan underwriter) that takes a small percentage of the loan and syndicates the rest to other banks.
- **Syndication**
  A group of venture capitalists jointly investing in an investee company.
- **Tag-along Rights**
  Definition for 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.
  End Definition

  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 offeror is considering investing in. In the context of a public-to-private dealthis company will be the listed company that an offeror is considering investing in with the objective of bringing the company back into private ownership.
- **Tax transparency**
  A fund structure or vehicle is tax transparent when the fund itself is not liable to taxation and the investment in an underlying company is treated as if it would be a direct investment for the initial investor (the LP), who is taxed only when the investment structure distributes its gains and revenues.
- **Teaser**
  A short company presentation sent to potential investors before a sale or auction.
- **Technical reserves**
  Technical reserves refer to the capital that insurance companies set aside to cover possible claims.
- **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. Compare Letter of Intent.
- **Terms and conditions**
  The financial and management conditions under which private equity limited partnerships are structured.
- **Thin-capitalisation rules**
  Limitations on the deductibility of interest expenses for companies that have a debt to equity ratio in excess of a fixed threshold.
- **Third stage/round**
  Funds provided for the major expansion of a company whose sales volume is increasing and which is breaking even or profitable.
- **Times money earned ratio (TME)**
  Equivalent to the distributed to paid in ratio (D/PI ratio), measuring is defined as the sum of distributions and the most recent valuation of a given investment, divided by the sum of capital invested.
- **TMT**
  Abbreviation for Technology, Media and Telecommunications sectors.

- **Top Quarter**
  Comprises funds with an IRR equal to or above the upper quartile point.
- **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.
- **Track record**
  A private equity management house's experience, history and past performance.
- **Trade sale**
  The sale of company shares to industrial investors.
- **Trade secret**
  Information, such as a formula, pattern, device, or process, that is not known to the public and which gives the person possessing the information a competitive advantage. May sometimes include customer lists, marketing and/or business plans, and suppliers.
- **Turkey**
  An offering of securities that performed poorly.
- **Turnaround**
  See rescue.
- **TVPI – Total Value to Paid-In**
  TVPI is the sum of the DPI and the RVPI. TVPI is net of fees and carried interest.
- **UCITS**
  Acronym used in European legislation, refers to "Undertakings for Collective Investment in Transferable Securities", for investment funds that are harmonised at EU level.
- **Underwriter**
  An investment bank which presents a share offering to potential investors. See firm commitment underwriting, best efforts underwriting.
- **Underwriter's warrants**
  Warrants sometimes granted to underwriters as a form of additional compensation in a public offering, typically in a smaller, higher risk offering.
- **Underwriting Agreement**
  The document in which the underwriters of a public offering commit, in a

best efforts offering, to use their best efforts to sell the securities, or, in a firm commitment offering, to purchase from the issuer the securities that are the subject of the public offering.

- **Underwriting discount (or commission or spread)**
  The difference between the price at which underwriters buy securities from the issuer in a firm commitment public offering and the public offering price.
- **Unique Selling Proposition (USP)**
  The key differentiating factor for buying your product, compared to that of a competitor.
- **Unsecured debt**
  Loans not secured against a company's assets.
- **Upper half**
  Comprises funds with an IRR equal to or above median point.
- **Upper quartile**
  The point at which 25% of all returns in a group are greater and 75% are lower.
- **Valuation – International Valuation Guidelines**
  Guidelines developed by EVCA, BVCA and AFIC (the European, British and French Private Equity and Venture Capital Associations) towards investors internationally concerning valuation methodologies. Their aim is improved transparency, so that investors are better able to monitor and evaluate the performance of their investments and to make the asset class more accessible and comprehensible to new and existing investors. The guidelines have been endorsed by more than 20 European and Non-European Associations and are consistent with IFRS and US GAAP.
- **Valuation methods**
  The policy guidelines a management team uses to value the holdings in the fund's portfolio. More generally, valuation is an estimate of the price of an item at a given time, based on a model and comparison with the value of similar items.
- **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 capital is a subset of private equity. See private equity, venture capitalist.

- **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 philanthropy**
  A field of philanthropic activity where private equity / venture capital business models are applied to the non-profit and charitable sectors.
- **Venture purchase of quoted shares**
  Purchase of quoted shares with the purpose of delisting the company. See delisting, public to private.
- **Vesting**
  The process by which an employee is granted full ownership of conferred rights such as stock options and warrants (which then become vested rights). Rights which have not yet been vested (unvested rights) may not be sold or traded and can be forfeited.
- **Vintage year**
  The year of fund formation and first drawdown of capital.
- **Volatility**
  The volatility of a stock describes the extent of its variance over time. See standard deviation.
- **Vulture capitalist**
  Negative term for an investor who smells fast money and who is not serious about investing in companies with long-term potential. Compare venture capitalist.
- **Warrants**
  Type of security usually issued together with a loan, a bond or preferred stock. Warrants are also known as stock-purchase warrants or subscription warrants, and allow an investor to buy ordinary shares at a pre-determined price.
- **Warranty**
  Statements, usually contained in a share subscription or purchase agreement,

as to the existing condition of the company which, if not true, support a legal action for compensation by way of money damages.

- **Weighted average cost of capital**
  Weighted average cost of capital is a discount rate used in valuation model reflecting the opportunity cost of all capital providers, weighted by their relative contribution to the company's total capital.
- **White Knight**
  A company that makes a friendly takeover offer to a target company that is being faced with a hostile takeover from a separate party.
- **Write-down**
  A reduction 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.
- **Yield**
  The rate of return on a debt instrument if the full amount of interest and principal are paid on schedule. Current yield is the interest rate as a percentage of the initial investment.
- **Young Innovative Company (YIC) scheme**
  The French Young Innovative Company status (Jeune Entreprise Innovante) has been used as best practice example within EVCA. The objective of this initiative is to help young and innovative firms overcome the difficult first years of existence by extending them tax credits in favour of R&D investment.