

Glossary of Venture Capital and Private Equity Terms

January 2024

Understanding the language of Venture Capital and Private Equity: a glossary of key terms

Private Equity (PE) and Venture Capital (VC) are dynamic and rapidly evolving industries that play a crucial role in fostering innovation, supporting entrepreneurship and driving economic growth.

Navigating the complex and rich landscape of PE and VC requires a solid understanding of the key terms that are commonly used across the industries. We have set out below a glossary of key terms to assist in demystifying the terminology and to serve as a useful guide for both seasoned professionals and newcomers in the industries to the world of private investing.

A

Alternative investments

Investments into classes of assets that cannot be classified within one of the three traditional areas of shares, bonds and cash. Categories of alternative investments include: VC, PE, hedge funds, derivatives, tangible assets such as real estate etc.

Angel Investor

An individual who provides financial support, usually in the form of debt or equity, to early-stage and start-up companies. Angel investors are often knowledgeable entrepreneurs or business professionals who not only contribute capital but also typically offer valuable industry experience, insights and mentorship to the companies they invest in. Angel investors are incentivised by the potential high returns on their investment and a belief in the growth prospects of the businesses they support.

Anti-dilution

Anti-dilution provisions protect the ownership interests of the existing investors in a company. They typically take effect when a company looks to issue new shares at a price per share that is lower than the price per share paid by those existing investors (a down round). They ensure that the proportional ownership interests of the original investors are maintained. However, any shareholders who do not have the benefit of the anti-dilution provisions may be disproportionately affected as a result.

Articles of association

A publicly available document that outlines the internal rules and regulations governing the operations and management of a company. It is the key document that forms a company's constitution and should always be consulted, in addition to any potential shareholders' agreement, before entering into a corporate transaction.

Asset class

A group of financial instruments or investments that share similar characteristics and behave in a comparable way in the financial markets. Assets within the same class generally exhibit similar risk and return profiles. Investors often allocate their portfolios across different asset classes to achieve diversification and better manage risks. Common asset classes include equities, bonds, cash, real estate, commodities, cryptocurrencies, etc.

Assets under management (AUM)

A financial metric representing the total market value of the assets that a fund such as a PE or VC fund oversees on behalf of its investors. AUM is a useful indicator of the size and success of such funds and is often used to gauge influence and scale in the financial industry.

B

Bad leaver

Often used in the context of shareholders' agreements or articles of association to determine the price at which an employee is required to sell their shares in the company prior to their departure. A bad leaver is often restricted to selling their shares at the lower of the market value and the price paid on issue. The specific criteria for a bad leaver tends to be negotiated between the parties but typically refers to an individual who is leaving the company under circumstances that are deemed unfavourable or detrimental to the interests of the company or shareholders. Common reasons for an employee becoming a bad leaver may include: breach of contract, gross misconduct or voluntary resignation without an acceptable reason from the board's perspective.

BIMBO (Buy-In Management Buy-Out)

Refers to a corporate transaction whereby the existing management team of a company, often in collaboration with incoming management, external investors or a PE fund, acquires a significant stake in the business.

Boilerplate

A set of standardised provisions used in legal documents. These clauses usually address important yet largely uncontroversial matters which tend not to be specifically negotiated between parties. Boilerplate clauses typically include provisions governing: the service of notices, the choice of jurisdiction of the agreement, rights of third parties, amongst other things.

Bolt-on

A fund acquiring a new company to supplement an existing company portfolio.

Bridge financing

A short-term loan or financial arrangement that provides interim funding for a business until more permanent and comprehensive financing is secured.

Broad-based weighted average ratchet

A type of anti-dilution adjustment formula which considers the dilutive impact of the shares issued in a down round, and depending on the mechanic, adjusts the rate at which preferred shares are converted into ordinary shares or bonus shares are issued. The issue price of the existing investors' shares is adjusted by a weighted average of the existing investor's share price and the down round share price, such that the existing investors end up with a shareholding equal to what their shareholding would have been had they invested at a lower price. "Broad-based" protection is more favourable to existing investors than a **narrow-based**

weighted average ratchet, as the former is calculated by using the fully diluted issued share capital of the company (including convertible securities such as options and warrants) in the denominator for the formula for calculating the new weighted average price.

Burn rate

The rate at which a company is using up its cash reserves or capital over a specific period. Burn rate is often expressed as a monthly or yearly figure and provides insight into the company's spending and how quickly its funds are depleting.

Buy and build

A company growing bigger (whether by obtaining more clients, having increased services/products or entering into new territories) through acquisitions.

C

Capitalisation table (or Cap Table)

A spreadsheet showing the shareholders of a company, the forms of securities they hold (for example preferred shares, ordinary shares, share options, warrants and securities convertible into shares), the number of such securities they hold, and their shareholding percentages. It can also show the holders of debt of a company and the amounts owed to them.

Carry (Carried interest)

Refers to the share of the profits that is paid to a PE or VC fund's general partner in return for managing the fund. The carry is a kind of performance fee that aligns the general partner's compensation with the fund's returns. Carried interest is often only paid if the fund achieves a specified minimum return.

Class rights

The rights and privileges associated with a specific class of securities issued by a company. PE and VC capital investments often involve the issuance of various classes of securities, such as ordinary shares, preference shares, etc. Each class may carry distinct rights that will determine its position in terms of dividend distribution, liquidation preferences, voting rights, conversion rights and anti-dilution and other protective measures.

Co-investment

Investments by multiple funds into a company at the same time and on largely similar terms.

Conversion

The process whereby convertible securities convert into other forms of security, for example convertible preferred shares converting into ordinary shares or convertible loan notes converting into equity shares. Conversion is often triggered by specific events set out in the investment or shareholders agreement or the class rights of the share in question in the articles of association. Convertible securities tend to provide an investor with additional protections (for instance a preference in the event of a winding up of a company) until the securities are converted.

Convertible Note

A type of debt instrument commonly used in early stage financing, especially in the start-up and VC space. It is a form of short-term debt that can be converted into equity at the occurrence of specific events or upon reaching certain milestones.

Corporate venture capital

A form of venture capital involving a company rather than a VC fund investing in start-up or growth companies.

Crowdfunding

The practice of raising capital from a large number of individuals who contribute relatively small amounts, often through online platforms. It is a form of alternative financing that allows entrepreneurs and start-ups to access capital from a diverse group of investors.

Cumulative dividend

The holders of preferred shares with rights to cumulative dividends are entitled to receive unpaid dividends in full before any further dividends are paid to the holders of other classes of shares.

D

Deed of adherence

A legal document, which formalises the entry of a new party into an existing agreement (such as a shareholders' agreement). The incoming party, referred to as the adhering party, agrees to be bound by the terms and conditions of the original agreement.

Deferred shares

A class of shares which typically provide the holder with limited or no capital rights, no rights to vote, and rank in lower priority to other classes of shares. A company's articles of association can often include provisions whereby a **Bad Leaver's** shares may be converted into deferred shares and repurchased by the Company for a nominal sum (i.e. for one penny).

Down round

A fundraising round where the valuation of a company is below the valuation during a previous fundraising round.

Drag-along

Often included in shareholders' agreements or articles of association, drag-along is a contractual provision established to enable majority shareholders to force minority shareholders into the sale of a company to a third party buyer, so that 100% of the company is sold. The threshold and conditions at which the drag-along provisions are triggered can differ and are often the subject of important negotiations at the outset of an investment round.

E

Earn-out

A contractual arrangement in which a portion of the purchase price is contingent on the future performance of the acquired company. It allows the buyer or investor to make additional payments to the seller if specific financial or operational thresholds are achieved after the transaction. Earn-outs are commonly used to bridge valuation gaps between the buyer and the seller, and to incentivise management in situations where they continue to work for the target post-acquisition.

EBITDA

Earnings before Interest, Taxes, Depreciation and Amortization. A financial metric used to assess a company's operational performance by measuring its profitability before accounting for non-operational expenses and non-cash items. EBITDA is often a key factor in valuation and investment decision-making.

EIS

Enterprise Investment Scheme, a UK government program designed to encourage investment in small and growing companies. Investors participating in this scheme can benefit from tax incentives, including income tax relief, capital gains tax relief, and loss relief on each investment that returns less than the investor invested.

EMI Options

Enterprise Management Incentive Options, a UK government scheme that enables eligible employees to benefit from tax-advantaged share options or other equity-based incentives in their employer's company.

Equity

Shares in a company or options to company shares.

Events of default

These events typically refer to specified circumstances or breaches set out in a contractual agreement such as a loan note instrument or loan agreement, which may trigger a default. Examples may include failure to make a required payment, breaches of covenants, financial distress or an unauthorised change of control. When an event of default occurs, the non-defaulting party can terminate the agreement and demand repayment of all amounts owed to them.

Exit Strategy

A PE or VC fund's plan to sell or divest of an investment in a specific portfolio company. Common exit strategies include an **initial public offering (IPO)**, selling the portfolio company to another company through a merger or acquisition or a **management buyout (MBO)** or **buy in (MBI)**.

F

Full ratchet

The full ratchet is an **anti-Dilution** provision designed to protect existing investors from dilution in the event of a down round by resetting the existing investor's original price per share to match the new down round price and issuing bonus shares to the existing investor to achieve such a shareholding had it originally invested at the down round price.

Fund-of-Funds (FoF)

Rather than directly investing in start-ups, private companies, or other assets, a fund of funds is an investment fund that allocates its capital into PE and VC funds.

G

General Partner (GP)

The GP assumes the responsibility for managing a fund. Typically, the GP charges an annual management fee, which falls within the range of 1% to 2% of the total funds under management. However they also bear unlimited liability. The GP can play a central role in the fund's activities, including fundraising, investment decision-making, and overall investment management.

Good leaver

Unlike a **'bad leaver'**, a good leaver typically refers to an individual, often an employee or senior executive, who leaves the company under specific circumstances that are considered acceptable according to the terms of the shareholders' agreement or the articles of association and gets paid a fair value for their shares. Examples of a good leaver might include retirement, the sale of the company, constructive dismissal, or voluntary resignation due to health issues or other personal circumstances that are deemed justifiable by the board.

Growth capital

An investment of a minority shareholding where the investment amounts are used to grow the company. This is different from VC investments because growth capital investments tend to be in more developed companies and different from PE investments as growth capital investments do not result in a controlling shareholding.

H

Heads of terms

Also referred to as a term sheet or memorandum of understanding (MOU), heads of terms is a non-binding document that contains the key terms and conditions of a proposed investment or transaction. It serves as an initial agreement between the parties involved and is used as a basis for further negotiations and the preparation of more formal legal documents.

Hurdle Rate

A minimum rate of return that an investment must achieve before certain profit-sharing mechanisms come into effect. The hurdle rate serves as an objective or benchmark and if the investment performance exceeds this rate, investors and fund managers can then share profits according to the terms outlined in the

investment agreement or fund documents. The hurdle rate also governs the appropriate compensation of parties according to the level of risk, with riskier projects usually having higher hurdle rates. A **general partner** is commonly only allowed to charge their **carried interest** if a fund's return is at or above the hurdle rate.

I

Incubator

An organisation that provides support, resources, and mentorship to early-stage start-ups and entrepreneurs to help them develop their businesses. Incubators aim to accelerate the growth and success of start-ups by offering supporting resources such as a shared workspace, access to mentorship, networking opportunities, and sometimes initial funding.

Indemnity

A contractual obligation by one party to financially compensate the other party for losses, damages, liabilities, or other expenses incurred as a result of specified events or circumstances.

Information rights

Companies will typically provide investors with information rights in investment and shareholder agreements to ensure that the investors are granted access to the company's financial and operational information. Access to information rights enables investors to keep apprised of the performance and activities of the companies in which they invest.

Institutional buyout (IBO)

The acquisition of a company by an institutional investor, such as a PE fund. These transactions often involve thorough due diligence, strategic planning, and collaboration with the management teams of the target companies to drive operational improvements and create value. This structure is often used when taking a public company private. An institutional buyout is the opposite of an **MBO** (management buyout) where a company's existing management acquires the company.

Institutional investors

Organisations that invest money on behalf of other people, such as hedge funds, insurance companies, mutual funds and pension funds.

Internal Rate of Return (IRR)

A compound rate of interest computed over the duration of a fund, encompassing both the investment yield and the pace at which the return is generated. This calculation evaluates, at the exit date, the cash spent by the fund and cash returned (typically interest, dividends, share or loan stock redemptions and share sale proceeds). IRR helps determine the annual rate of growth that an investment is expected to generate.

Investment manager

An individual or entity responsible for managing and making investment decisions on behalf of an investment fund. The investment manager, also known as the fund manager or general partner, plays a central role in sourcing, evaluating, and executing investment opportunities, as well as overseeing the portfolio companies or investments within the fund.

IPO

An Initial Public Offering, the process of a company offering its shares to the public for the first time on a stock exchange (sometimes also referred to as 'floating'). Through an IPO, a company transitions from being privately held, often with a small group of private investors, to becoming a publicly traded company with shares that can be bought and sold by the public on a stock exchange.

K

KYC

Know Your Customer, a regulatory and due diligence process used by regulated businesses such as financial institutions, including PE and VC funds, to verify and understand the identities of their clients, assess potential risks, and ensure compliance with their anti-money laundering (AML) and other financial regulations.

KPI

Key Performance Indicators, metrics or measures used to evaluate the performance and success of a business, project, or investment. Effective use of KPIs allows investors to track the performance of their investments, identify areas for improvement, and make data-driven decisions to enhance overall portfolio value. The selection of KPIs may vary based on the industry, business model, and specific goals of the investors and portfolio companies.

L

Lead investor

The investor that makes the largest investment in a company as part of a VC fundraising round. The lead investor normally leads on the negotiation of key commercial terms with the company and calculates the valuation of the company as part of the fundraising.

Leveraged buyout (LBO)

A common strategy employed in the PE industry, where investors seek to use a large amount of financial leverage, such as debt, to amplify their returns. LBOs may involve substantial financial and operational risks, as the success of the investment depends on the ability of the acquired company to manage and repay the debt while achieving operational improvements. The term "leveraged buyout" can also be generically used to refer to any type of buyout which is financed with both debt and equity.

Limited Partner (LP)

An investor or entity that participates in a PE or VC fund as a "passive" investor. Limited partners provide capital to the fund but typically do not engage in the day-to-day management or decision-making of the fund's portfolio companies. Limited partners enjoy limited liability, meaning their potential losses are generally restricted to the amount of capital they have invested in a fund.

Liquidation preference

The right of holders of preferred shares to receive the proceeds from a **liquidity event** in priority to the holders of ordinary shares.

Liquidity event

A specified event that allows investors to convert their investment in a company into cash or other marketable securities. Such events provide investors with an opportunity to realise returns on their

investment. These events usually arise on a sale of a company, an asset sale, an IPO or upon the liquidation of the company.

Loan note

An interest-bearing debt instrument issued by a company to loan note investors. This is a common form of financing in various stages of a company's lifecycle, from early-stage ventures to more established businesses. It provides a way for investors to provide capital to companies while earning a fixed return through interest payments. The terms of loan notes are typically documented in a formal loan agreement or loan note instrument.

M

Material adverse change (MAC)

A contractual provision that allows the buyer to withdraw from an acquisition if there is a significant negative change affecting the financial condition, business operations, or prospects of the company between exchange and completion. In the context of a lending transaction, a MAC clause can trigger an event of default. The interpretation and enforcement of MAC clauses can be subject to negotiation and legal scrutiny, and the specific language used in the agreement plays a significant role in determining the applicability of the clause in any given situation.

Management Buy-in (MBI)

A corporate transaction in which the external managers or executives acquire ownership and take over the existing management of a company in conjunction with a PE fund.

Management Buyout (MBO)

A corporate transaction in which the existing management team of a company alongside a PE fund acquire ownership of the business they are managing from its current owners.

Management fee

A fee paid by the limited partners of a PE or VC fund to the general partner for managing the fund.

Mezzanine financing

A form of financing combining equity and debt investments through preferred equity and subordinated debt, which is typically used to support expansion, acquisitions or other strategic initiatives of a company. It is normally ranked lower than the senior debt of a company but normally has higher interest rates and includes equity options for example warrants. It is often used by companies which have exhausted traditional debt options but wish to avoid excessive dilution of equity. It allows them to secure additional capital with more flexibility than pure equity financing. Mezzanine investors, in turn, take on a higher level of risk but have the potential for greater returns if the company performs well.

Model articles

A set of standardised articles of association, in the form prescribed by the Secretary of State pursuant to the Companies Act 2006, for use as a default framework for the governance of a company. They apply automatically to companies incorporated on or after 1 October 2009, if a company chose not to modify their articles on incorporation.

N

Narrow-based weighted average ratchet

A type of anti-dilution adjustment formula which considers the dilutive impact of the shares issued in a down round, and depending on the mechanic, adjusts the rate at which preferred shares are converted into ordinary shares or bonus shares are issued. The issue price of the existing investors' shares is adjusted by a weighted average of the existing investor's share price and the down round share price, such that the existing investors end up with a shareholding equal to what their shareholding would have been had they invested at a lower price. The difference between a narrow-based weighted average ratchet and a **broad-based weighted average ratchet**, is that the latter uses only the issued share capital of the company not on a fully diluted basis (and so not including the convertible securities such as options and warrants) in the denominator for the formula for calculating the new weighted average price.

Net asset value (NAV)

Describes the current value of a company as a sum of its assets minus its liabilities divided by the number of shares in issue.

Non-disclosure agreement (NDA)

A legal agreement between two or more parties outlining the terms and conditions regarding the sharing of confidential information. NDAs are commonly used from the beginning of the due diligence phase of potential investments to protect sensitive information about a company and its operations.

Non-participating preference share

A form of preference share that grants the investor, on a liquidation event, a right to only receive its preferred return following which the other shareholders and not the investor will receive the excess proceeds.

O

Operating partner

An individual with specialised operational expertise or industry knowledge who is engaged by a PE or VC fund to work closely with portfolio companies. Operating partners play a hands-on role in helping portfolio companies improve their operational efficiency, strategic direction and overall performance.

Option

An option is a contractual right granted to the option-holder, enabling them to purchase shares at a pre-determined price in the future. This mechanism is frequently employed to motivate employees in contributing to the growth of the company's value or to provide investors with an opportunity to acquire additional shares at a later date.

Option pool

A set portion of a company's shares, earmarked or already allocated for issuance to employees as part of incentive programs. While the specific size of option pools is subject to negotiation, it often involves reserving at least 10% of the shares for employee incentives.

Ordinary share

The most common type of shares issued by a company. Ordinary shares typically confer one vote per share at shareholder meetings, and rank after preference shares when it comes to the distribution of capital following a winding-up or liquidation of a company. The terms and conditions associated with ordinary shares are typically outlined in the company's articles of association or shareholders' agreement.

P

Participating preference share

A form of preference share that grants the investor, on a liquidation event, a right to receive its preferred return together with a pro rata share of the excess proceeds.

Par value or Nominal value

The nominal value of a share. Par value is a fixed amount determined by the company and is stated on the share certificate.

Pay-to-play

A contractual provision that may be included in investment or shareholders agreements which typically requires existing investors to contribute additional capital in subsequent financing rounds to maintain their ownership stake or certain rights in the company. The term suggests that investors must actively participate financially to "stay in the game" and avoid dilution of their ownership.

PIK

Payment in kind, where payments of interest are done through the issue of more securities rather than in the form of cash.

Post-money valuation

The valuation of a company following a new external financing or investment round.

Portfolio company

A company in which a PE or VC fund has made an investment, typically as part of a diversified portfolio.

Pre-emption rights

Typically found in the company's articles of association or shareholders' agreements, these enable existing shareholders to maintain their proportionate ownership in the company by giving them the opportunity to be issued or acquire (as applicable) additional shares before these shares are offered to external parties. These rights protect shareholders against dilution of their shareholdings when a company decides to issue new shares or an existing shareholder decides to sell their shares.

Preferred share

A share that has a preferred right compared to other classes of shares, most commonly in respect of a priority on the payment of dividends and/or the proceeds on a **liquidation event**.

Pre-money valuation

The valuation of a company prior to a new external financing or investment round.

R

Ratchet

A contractual mechanism whereby economic rights in respect of shares are adjusted based on particular events occurring for example if performance targets are reached by management shareholders.

Redeemable shares

Shares that the company has the option to redeem or repurchase from the shareholder at a specified price or according to certain pre-determined conditions.

Redemption date

The date on which redeemable shares must be repurchased by the issuing company or when the company has to repay the principal amount plus interest on loan notes.

Reserved matters

Specific strategic decisions or actions that are deemed significant and, as such, require the approval or consent of one or multiple investors, particularly those holding preferred shares or having specific rights. These matters are commonly outlined in an investment or shareholders' agreement and typically involve key decisions affecting the company's direction, structure, or value. This gives investors a level of control over crucial aspects of a company's operations and strategy.

Return on investment (ROI)

A key metric for assessing the success of investments, and used to evaluate the performance of PE or VC portfolios. It is expressed as a percentage and is calculated by dividing the gain or profit from the investment by the initial cost of the investment, then multiplying the result by 100.

Runway

The amount of time a start-up or company has before it exhausts its available financial resources, namely its cash reserves. It is used to assess the company's ability to operate and achieve certain milestones or profitability without requiring additional funding.

S

Secondary market

A market whereby limited partners sell their interests in funds to other limited partners.

Secondary shares

Shares in a company transferred by a shareholder to another person.

Section 431 election

A legal document, signed by an employee shareholder or option holder within 14 days of being issued with securities in their employing company. Under the 431 election, they elect for the securities to have specific tax treatment applied to them in the UK.

Seed Funding

An early-stage round of financing that a new business receives, normally from **Angel Investors**, seed funds, early stage VC funds and/or family and friends of the founders of the business. This is intended to help the

founders prove the concept, conduct early research and development, and reach key milestones necessary for further fundraising. As the company grows and achieves milestones, it may seek additional rounds of funding to scale operations, enter new markets, or further develop its products or services.

Senior debt

A loan that has higher priority on a **Liquidation Event** compared to other forms of debt and the shares in the capital of the company.

Series A,B,C etc

Stages of funding rounds that represent different rounds of investment in a start-up or a company as it progresses through various growth phases. These rounds are typically named alphabetically and denote the order in which the investments are made. The Series A round is the first significant round of financing that a start-up typically raises. It occurs after the seed stage and is aimed at helping the company scale its operations, develop its product or service, and expand its market presence. The Series B round follows the Series A round and is focused on helping the company further grow and expand. The Series C round is the third major funding round and is conducted when the company has already achieved a certain level of maturity and success. At this stage and beyond (including further series of funding rounds), the company may be looking to expand globally, acquire other companies, invest in research and development, or prepare for an exit, such as an initial public offering (IPO) or acquisition.

Special Purpose Vehicle (SPV)

A company established for a specific and limited purpose. SPVs are typically used in the context of acquisition or PE transactions.

Step-in rights

Contractual provisions that grant investors the ability to intervene or take certain actions in the management or operations of a portfolio company. These rights are typically exercised as a last resort when other remedies, such as negotiation or dispute resolution, have not been successful. The specific terms and conditions of step-in rights are negotiated between the investors and the company during the investment deal structuring process.

Structural subordination

A situation in which certain debt or securities within a company's capital structure are subordinated to other debt or obligations. In the context of PE and VC, it is important to consider the hierarchical ranking of different securities or debt instruments to understand the order of repayment in the event of a company's liquidation or financial distress.

Sweat equity

Equity in a company that is provided to management or other key individuals as a result of work done rather than for investing capital into the business.

Sweet equity

Equity in a company that is provided to management or other key individuals as part of their compensation package. In the context of PE, sweet equity may be used to incentivise and retain key talent by aligning their interests with the success of the company.

T

Tag-along

A contractual right that allows minority shareholders to join a majority shareholder in selling their shares to a third party on the same terms. It protects minority investors such that they do not get left out of a sale initiated by the majority.

Target

A company that is 'targeted' by a potential acquirer.

Term Sheet

A preliminary document outlining the key terms and conditions of a potential investment or transaction. The term sheet serves as a basis for future negotiations before drafting formal legal agreements. Also known as **heads of terms**.

U

Undertakings

Commitments or promises made by a company to its investors or lenders regarding specific actions or restrictions. These may include financial covenants, operational requirements, or other agreed-upon obligations.

Unicorn

A privately held start-up or company with a valuation exceeding \$1 billion.

V

Veto right

A contractual provision that grants an individual or entity the power to block certain decisions or actions, providing a level of control or protection in the context of PE and VC transactions.

Vesting

The process by which individuals, often employees or founders, gradually earn the right to exercise their share options over a specified period, or gain economic rights over shares. Vesting is commonly used to incentivise long-term commitment.

Venture Capitalist

An individual or company that provides capital to start-ups and small businesses with high growth potential in exchange for equity. Venture capitalists often take an active role in the management and strategic direction of the companies they invest in.

VCT

Venture Capital Trust, a type of investment fund in the UK that pools capital from individual investors to invest in a portfolio of small and growing companies. VCTs also tend to offer tax incentives to investors.

Voting rights

The rights of shareholders of a company to vote in respect of certain matters concerning the company.

W

Warrant

A financial instrument that gives the holder the right, but not the obligation, to buy shares of a company at a predetermined price within a specified period, often used as a 'sweetener' for investors.

Warranties

Often found in acquisition, investment and subscription agreements, warranties are statements of fact made by: (a) on a PE acquisition, the seller about the **target** company; or (b) on a VC transaction the existing shareholders and the company itself about the company. Warranties provide assurances to the buyer or investor regarding various crucial aspects of the business. The main purpose of contractual warranties are to elicit information about the company and to allocate risk back to the party making them who is responsible for ensuring the statements contained as warranties are correct. Warranties further provide a buyer or investor with a remedy (a claim for breach of warranty) if the statements of fact are later proved to be incorrect, thereby serving as a retrospective price adjustment mechanism for any resultant loss of value arising out of the breach of warranty.

Waterfall

The hierarchical distribution of proceeds from a successful exit or liquidity event, specifying the order in which various stakeholders, such as investors and management, receive their share of the proceeds.

Yield

The rate of return on an investment, often expressed as a percentage, taking into account both income (such as dividends or interest) and capital appreciation.

YOY

A financial metric used to analyse and compare a company's performance or financial indicators on an annual basis, assessing changes and trends over consecutive years.

Z

Zero-Sum Game

A situation where one participant's gain or profit is balanced out by the loss or cost incurred by another participant. Investment returns are distributed among participants based on the performance of the underlying assets, with no net increase or reduction of value.

Disclaimer

The above glossary is meant to provide a broad overview of the key terms used in Private Equity and Venture Capital. The principles and application in practice can vary significantly and may take on different meanings depending on the nature of the transaction and which investors are involved. It is recommended to verify the above meanings against the definitions used in the documents on the specific transaction you are working on.

Conclusion

DWF has a market leading venture, growth capital and private equity practice in the UK, supporting investors and companies across several sectors including financial services, technology, media and communication, life sciences and healthcare and real estate and infrastructure. If you have queries on any of the matters covered in this article please contact one of our experts.



Dhruv Chhatralia
**Partner and Head of
Venture Capital (UK)**
M +44 (0) 7783 782972
E Dhruv.Chhatralia@dwf.law



Caroline Colliston
Partner
M +44 7841 843744
E Caroline.Colliston@dwf.law



Darren Ormsby
Partner
M +44 (0) 783035294
E Darren.Ormsby@dwf.law



Gary MacDonald
Partner
M +44 (0) 7713 781375
E Gary.MacDonald@dwf.law



Paul Pignatelli
Partner
M +44 (0) 7783 782972
E Paul.Pignatelli@dwf.law



Scott Kennedy
Partner
M +44 (0) 7752 472414
E Scott.Kennedy@dwf.law



Will Munday
Partner
M +44 7738 986289
E Will.Munday@dwf.law



Gemma Gallagher
Director
M +44 (0) 7712 356408
E Gemma.Gallagher@dwf.law



Alex Stoughton
Senior Associate
M +44 (0) 7720 165569
E Alex.Stoughton@dwf.law



Francesca Kinsella
Senior Associate
M +44 (0) 7595 442369
E Francesca.Kinsella@dwf.law



Graham Tait
Senior Associate
M +44 (0) 7732070922
E Graham.Tait@dwf.law



Rosie Spencer
Senior Associate
M +44 (0) 7712 433 437
E Rosie.Spencer@dwf.law