FINNISH BUSINESS ANGELS NETWORK

Glossary

This glossary presents terms and definitions as used in the FiBAN research processes, most notably as used in the Annual Survey. It is reviewed annually.

Angel investment: A financial or non-financial investment, made by an angel investor into a venture in exchange for ownership equity. Can include loans, especially convertible loans.

Angel investor: An individual who invests his/her own assets into unlisted companies typically in their early-stages of operations, either directly or through an actively owned company or fund. Synonymous with “Business Angel”.

Bootstrapping: Building a company from the ground up with nothing but personal savings, and the cash coming in from the first sales.

Burn Rate: The rate at which a company is spending its capital to finance overhead before generating positive cash flow from operations. It is a measure of negative cash flow.

CAC: Customer Acquisition Cost. How much money it requires to acquire one customer.

Cap table: A table providing a description of a company's shares and percentages of ownership, equity dilution, and value of equity in each round of investment by founders, investors, and other owners. This table is often segmented to describe each of several funding rounds in the company and clearly differentiates preferred and common shareholders.

Competition situation: reflects the degree of fragmentation of current and future markets and barriers to entering a sector. The less competition there is in a sector and the more fragmented it is, the more attractive the situation is.

Due Diligence (DD): The process of analysing a potential investment. The DD process is usually done after a preliminary investment decision and/or signing of the term sheet. It can include different processes, like commercial, legal, technical, financial, tax, etc.

Deal flow: The flow of opportunities an investor, group or fund learns about or has access to. Good deal flow means the investor regularly sees very interesting deals that are still early and attractive, whereas bad deal flow might mean not seeing enough deals, or seeing only low quality deals that have been rejected by other investors.

Dilution: The reduction in percentage ownership of the company that investors suffer due to subsequent funding rounds. Dilution usually does not reduce the absolute value of an investor's shares.

Equity: Ownership interest in a company, usually in the form of stock/shares or stock/share options.

Exit: An event that allows founders and early investors in a company to cash out some or all of their ownership shares, usually because the ownership of a company changes or the company dissolves. Positive exits typically involve either IPOs or acquisitions. Negative exits typically refer to the failure, closing down and dissolution of the company or a sale to another company at a valuation too low to repay investors fully. An investor can exit partially or fully from a company.

Exit forms:

- **Acquisition:** A company purchases most or all of another company's shares to gain control of that company.
- **Initial Public Offering (IPO):** The regulated process by which a private corporation registers its shares for trading in public markets.
- **Merger:** An agreement that unites two existing companies into one new company.
- **Closing down:** Dissolving a company in a controlled way, often because no successors to the management of the company and no buyer is found.
- **Bankruptcy:** A legal proceeding involving a person or business that is unable to repay their outstanding debts, carried out to allow individuals or businesses freedom from their debts, while simultaneously providing creditors an opportunity for repayment.
- **Other:** For example management buyout, management buy-in or selling of shares to another investor.

Follow-on investment: An new investment into a company by an investor who has previously invested in the company.

Funding: Providing resources to finance a venture. Usually in the form of money, but can also take the form of time, effort, sweat or network equity from an investor.

Funding rounds: Refers to the rounds of funding that startups go through to raise capital, during which usually multiple investors buy shares of a startup or give a loan in the form of a convertible note. They often begin with a Seed round and then move to a letter, such as A round, B round, C round, etc., because each round follows another. The letter identifies which number of rounds the company is on. Pre-seed is used for very early rounds.

Internal Rate of Return (IRR): The annual rate of growth an investment is expected to generate, used to measure the profitability of potential investments observing the effect of the whole investment life cycle from cash to cash.

IPR: Intellectual property rights refers to the general term for the assignment of property rights through patents, copyrights and trademarks. These property rights allow the holder to exercise a monopoly on the use of the item for a specified period.

Lead Investor: The investor or investment organization taking primary responsibility for organizing an investment round in a company. The lead investor typically negotiates the terms of the investments and serves as the primary liaison between the company and the other investors.

Liquidation preference: The right to be paid before others upon liquidation of the ownership of the company, for example through preferred shares.

Market opportunity: Market opportunity describes a company's potential for growth and significant increase in value, which is one of the investor's key requirements. Market opportunity can be divided into five areas: market size, market niche, turnover potential in five years, the competition situation and momentum.

Momentum or Market Traction: determines the moment a company is on the move.

Monthly Recurring Revenue (MRR): The total amount of predictable revenue that a company expects on a monthly basis.

Minimum Viable Product (MVP): The first version of a product, which can solve the customer problem and be utilized to get customer feedback for future product development.

Pitch: A presentation by one or more people to an investor or group of investors, aiming to secure the resources and funding necessary to move forward with a business plan or to continue with an already established business or venture.

Pitch Deck: A brief slideshow used to provide an audience with a quick overview of a business, usually used at a pitch or during meetings with potential investors, customers, partners, and co-founders.

Pivot: Fundamentally changing the direction of a business after realizing the current products or services aren't meeting the needs of the market.

Post-money valuation: The valuation of the company immediately after an investment, most simply calculated by adding the amount invested to the pre-money valuation. The ownership stake of a new investor is calculated based on the post-money valuation. For example, if an investor invests 40 k€ into a company with a pre-money valuation of 600 k€, the post-money valuation of the company is 640 k€ and the new investors receives 40/640 k€ = 6.25 % ownership equity.

Pre-money valuation: The valuation assigned to a company through negotiation between investors and founders immediately before an investment. Often referred to as simply valuation.

Product/market fit: The degree to which a product satisfies a market demand. For example, a good product/market fit means being in a large market with a product that can satisfy that market.

Portfolio: The current collection of companies in which an angel investor holds ownership interest.

Returns: The total proceeds an investor gets back from an investment, usually after an exit.

Return Multiple (X): Return on investment (ROI) expressed in the number of times the initial investment was regained. For example, if an investor has invested 10 k€ into a business and receives 100 k€ back at an exit, the return multiple is (100-10)/10 = 9X.

ROI: Return On Investment. A performance measure used to evaluate the efficiency of an investment.

Runway: A prediction of how long a company has before it's run out of cash from the current funding round.

Screening: The process used to rate or grade the opportunities presented by new ventures to determine which opportunities to spend additional time examining. Those that do not pass the screen are rejected. An outline of the FiBAN screening process can be found on fiban.org/for-startups.

SHA: Shareholders Agreement. One of the basic investing contracts, which outlines shareholders' rights and obligations against each other.

Stages of startup development:

- **Proof-of-concept:** The company is in the idea stage and has still not developed a "Minimum Viable Product" or MVP.
- **Proof-of-technology:** The company has developed, or is very close to having developed, an MVP.
- **Proof-of-business:** The company is currently testing its business model in the market.
- **Proof-of-scalability:** The company has proven the business model (has achieved business validation) and is about to scale the business into new markets or geographical regions.

- **Mature-of-exit:** The company is established and ready for an exit, for example via an M&A or IPO.

Startup: An unlisted venture or company that's in the initial stages of operations, seeking rapid international growth.

Sweat equity: Work an investor does for a company in exchange for ownership in the company. The amount of equity the investor receives is usually proportional to the amount of time invested or the results achieved.

Syndicate: A group of angel investors investing together in the same company under the same SHA. A separate syndicate agreement can be used, depending on the syndicate.

Ticket: The monetary investment by an investor as part of a funding round.

Valuation: The estimation of the economic worth of companies, assets or liabilities. When speaking about valuation, most refer to pre-money valuation.

Venture Capital (VC): A form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential, generally from well-off investors, investment banks, VC funds and other financial institutions.

For a practical guide on how to raise angel investment, see fiban.org/guide