CB Insights' VC Glossary of 180+ Terms

A

Accelerator

An accelerator is an organization that provides capital (usually a seed investment), mentorship, and networking connections to startups. Y Combinator, the first seed accelerator, is a well-known example.

Accretion

Accretion is a common term in finance that can refer to accounting, bonds, or corporate finance. At its core, the term "accretion" is another way to reference growth. In the financial world, it's the creation of value, whether through the capital gains you earn cashing in on a bond or through a corporate acquisition.

Accounts Receivable Turnover

Accounts receivable turnover measures how efficiently a company deals with the credit it offers to customers and how regularly it collects on those accounts. It's sometimes referred to as "debtors' turnover."

Accredited Investor

An accredited investor is a legal entity or natural person allowed to trade unregistered and unregulated securities. Generally, only investors registered with a governing financial organization can sell or publicly exchange securities such as stocks and bonds.

Acquisition Premium

Acquisition premium is an extra amount that an acquiring company pays, above the assessed value of the company it's purchasing.
The formula is:

Acquisition premium = (offer – current market) / current market

Example of acquisition premium
Let's say XYZ Corp has a share price of $35. ACB Corp offers to buy it at $40 per share. The formula is:

($40 - $35) / $40 = 12.5%

Thus, ACB Corp is offering XYZ Corp a 12.5% premium to acquire them.

Angel Investor

An angel investor is a type of individual investor who provides funding to up-and-coming startups in return for equity in the company.

Anti-Dilution

Anti-dilution provisions are clauses commonly used in convertible preferred stock. They entitle investors to retain their proportional ownership if the company issues new shares in the future.

Arm’s Length Transaction

An arm’s length transaction is a business deal where the buyers and sellers act independently. Neither party influences the other. Normally, the parties will have no pre-existing relationship, and both parties will have equal access to information relating to the deal.

Asset Deal

During mergers and acquisitions (M&As), buyers may choose to purchase a company’s underlying assets instead of its stock shares. These transactions are called asset deals.

Assets Under Management

Assets under management (AUM) is equal to the market value of investments that either an institution or individual manages on behalf of its clients.

Automotive Market

The automotive market, or automotive industry, refers to all companies involved in the selling, manufacturing, marketing, developing, and designing of motor vehicles.

B

Backward Integration

A form of vertical integration, backward integration is when a company merges with or acquires businesses up the supply chain. These businesses include those that supply raw materials or perform pre-production services necessary to produce finished products.

Balanced Scorecard

Harvard professor Robert Kaplan and David Norton, CEO of Palladium Group Inc. found that focusing exclusively on the goals of one department results in lopsided performance. Together, they came up with a strategic planning and management system called the balanced scorecard. This system focuses on looking at a business from a range of different perspectives.

BATNA (Best Alternative to a Negotiated Agreement)

BATNA, or the best alternative to a negotiated agreement, is a position used in negotiation theory. It’s the best outcome that a negotiator can expect if they walk away from negotiations without a deal.

Bear Hug

A bear hug is an acquisition strategy where one company offers to purchase another at a much higher price than that company’s valuation. It’s sometimes viewed as a hostile takeover, but it's more beneficial for shareholders than most hostile takeovers would be.

Blind Pool

A blind pool describes when a limited partnership raises funds from investors without telling them where the money will be invested.

Board of Directors

A board of directors is the governing body for a company composed of an elected group that represents shareholders. Ideally, a board of directors includes both internal (from within the company or connected to the company) and external (not part of the company) members.

Bootstrapped

Bootstrapped is a term used to describe a company that has been built from the ground up with little to no outside capital.

Bridge Loan

Bridge loans, also known as swing loans or bridge financing, are a short-term financing options for companies that need funds temporarily until long-term financing becomes available. Essentially, they "bridge" the gap between a company's immediate need for funds and access to funds from long-term financing.

Burn Rate

Burn rate is the rate at which a business spends money. It's typically used by new businesses to track how much they spend in venture capital funding before creating their own positive cash flows. It is a measurement of negative monthly cash flow.

Business Model Canvas

A business model canvas is a planning tool typically consisting of a single page that outlines the essential building blocks necessary to bring a business (or a product or service) to market.

C

Cap Rate Formula

A capitalization rate, or cap rate, is a value presented in percentage form. It's a calculated formula used to determine the potential return on investment. Not only does it help investors determine profitability potential, but it also helps calculate the time to break even.

Let's say an investor intends to purchase real estate for $100,000. The property has $95,000 a year in expenses, thus the net operating income is $5,000.

$100,000 - $95,000 = $5,000

$5,000 / $100,000 = 0.05

Cap rate = 5% (0.05 x 100)

To determine the property value instead, you need to know the current going cap rate for similar properties and the existing property's net operating income. Let's say NOI is still $5,000, but the cap rate on similar properties in the area is 6%.

$5,000 / 0.06 = $83,333.33

This implies that the fair market value for the given property is a little over $83,000. When used for business valuations, the net operating income is replaced with the company's profits, known as EBITDA (earnings before interest, taxes, depreciation, and amortization).

Generally the EBITDA used is the expected profits from the next year. Thus, if a company expects profits of $100,000 the following year, and the cap rate for that industry is 20%, the cap rate formula is $100,000 / 0.2, providing a valuation of $500,000.

Cap Table

A capitalization or "cap" table shows the equity capitalization of a business. Factors on the table can include convertible equity, warrants, private equity shares, and common equity shares.

Shareholder	Common Shares	Preferred Shares	Total Shares	Ownership %
Founder	60,000		60,000	80.00%
Venture Investor 1		3,000	3,000	4.00%
Venture Investor 2		2,000	2,000	2.67%
Angel Investor		10,000	10,000	13.33%
Total	60,000	15,000	75,000	100.00%

CapEx

CapEx refers to funds used by a company to purchase, maintain, or upgrade physical assets such as equipment, technology, buildings, plants, and property.

Capital Efficiency

Capital efficiency is a measure that estimates how efficiently the capital is deployed.

Capital Asset Pricing Model (CAPM)

The capital asset pricing model (CAPM) is a mathematical formula that attempts to establish a relationship between the systematic risk and expected return of an asset, mostly equities.

Let's use the CAPM to compute the expected return for a US-based stock using the following information:

10-Year Treasury yield: 1.5%
Average annual return for US equities: 10%
Beta for our chosen stock: 1.5 (i.e., the stock is 150% more volatile or risky than the overall US equities market)
Based on the CAPM, the expected rate of return is 14.25%.

Cash Position

A company's cash position is the cash amount it currently has on its books relative to expenses and liabilities.

Common Stock

Common stock represents part ownership in an incorporated entity. A company’s common stock can be found under the “stockholders’ equity” section on the company’s balance sheet.

Competitive Positioning

Competitive positioning is what sets you, your business, product, or service, apart from the competition.

Confidence Interval Excel Function

A confidence interval is a percentage that indicates the percentage of the time that the results of an experiment will fall within the margin of error. The confidence interval Excel function is a built-in function that enables users to calculate a confidence interval for a set of data.

Confidential Information Memorandum

A confidential information memorandum (CIM) gives potential buyers the information they need in order to make an offer to buy a business.

Conglomerate

A conglomerate is a single corporation made up of smaller, merged companies. Companies acquired by or merged with a conglomerate become its subsidiaries. Holding companies that own controlling stock in a variety of businesses can also be considered conglomerates.

Consumer Surplus Formula

Consumer surplus is a measure of the excess benefit that consumers can receive. It occurs only when the price a consumer is willing to pay for a product or service is higher than the price they actually pay.

Contract of Adhesion

A contract of adhesion is a contract between two parties in which the drafting party has all of the bargaining power. The other party, therefore, must either agree to the proposed terms or refuse to sign.

Consumer Surplus Formula

Consumer surplus is a measure of the excess benefit that consumers can receive. It occurs only when the price a consumer is willing to pay for a product or service is higher than the price they actually pay.

The simple consumer surplus formula is:
Consumer surplus = maximum price willing to pay - actual price. To demonstrate this formula in action, let's look at an example. Michael wants to purchase a 2020 Honda Civic. He's willing to pay up to $25,000, which is his maximum price willing to pay. He heads to the dealership to browse his options and sees the exact car he's looking for.

It is listed at $20,000, which is the actual price. Michael purchases the car at this price and has a consumer surplus of $5,000. This is calculated by subtracting the price paid from the price Michael was willing to pay.

What is the extended consumer surplus formula?
There is a more complex consumer surplus formula. It is used when calculating consumer surplus from a supply and demand curve. This formula is:

$$Consumer\ surplus = (\tfrac{1}{2})\ x\ Qd\ x\ (P\,max - P\,d)$$

Where:

Qd = quantity demanded at equilibrium

$P\,max$ = price the buyer is willing to pay

$P\,d$ = price at equilibrium

Let's look at an example of how to use the extended consumer surplus formula. Shelby wants a new desk chair and is willing to pay $100. The equilibrium price for desk chairs is $50. At this price, 200 desk chairs are available.

The number of chairs demanded at equilibrium is 200. The price the buyer is willing to pay is $100. The price at equilibrium is $50.

$$Consumer\ surplus = (\tfrac{1}{2})\ x\ 200\ x\ (\$100 - \$50)$$

Here's how to calculate the consumer surplus in this example:

Begin by multiplying (½) by Qd (200) to equal 100. Next, subtract the price the buyer is willing to pay (100) by the price at equilibrium (50) to get a change in the price of 50. Finally, multiply the 100 calculated in step one by the change in the price of 50 to get a consumer surplus of $500.

Convertible Debt

Convertible debt, also known as a convertible bond, is a hybrid investment that starts as a bond but can be converted into shares of the company later.

Convertible Stock

Convertible preferred stock, or convertible stock, is a form of hybrid investment that is most commonly offered to venture capitalists that invest in startup businesses.

Correlation Formula

In the financial realm, correlation is a measurement of the relationship between two securities. The correlation coefficient is expressed as a number between -1.0 and 1.0.

$$r_{xy} = \frac{\Sigma(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\Sigma(x_i - \bar{x})^2 \, \Sigma(y_i - \bar{y})^2}}$$

r_{xy} = correlation coefficient between x and y

x_i = the values of x within a sample

y_i = the values of y within a sample

$\bar{x}$ = the average of the values of x within a sample

$\bar{y}$ = the average of the values of y within a sample

Cost Of Equity Formula

The cost of equity formula helps investors and companies calculate rates of return. From an investor's perspective, it calculates the rate of return they require from their investment in a specific equity. From a company's standpoint, it calculates the required return from a specific investment or project.

$$Cost\ of\ equity = (DPS \div CMV) + DGR$$

For a fictitious example, let's say XYZ Corp has an expected dividend next year of $1 a share, its current market value is $10, and the dividend historically grows at 1%. The calculation would look like this:

($1 / $10) + 1% = 10% cost of equity

Cost Of Goods Manufactured Formula

The cost of goods manufactured (COGM) is the total amount of money required to manufacture finished goods in a financial year or accounting period.

Cost of Goods Manufactured (For the Year Ending December 31, 2020)			
	Direct Materials		
a	Beginning raw material inventory	$12,000	
b	Purchases of raw materials	$54,000	
c	Ending raw material inventory	$32,000	
d	Direct materials used in production	$34,000	d = a + b - c
e	**Direct Labor**	$78,000	
f	**Manufacturing Overhead**	$81,000	
g	**Total Manufacturing Costs**	$193,000	g = d + e + f
h	Beginning WIP inventory	$14,000	
i	Ending WIP inventory	$16,000	
j	**Cost of Goods Manufactured**	**$191,000**	j = g + h - i

Covariance Formula

The covariance formula is a numerical representation of the relationship between two random variables. It's regularly used in investing, particularly in portfolio theory and diversification.

To calculate the covariance between two random population covariables, you can use the following population covariance formula:

$$Cov\ (X, Y) = \frac{\sum (X_i - \overline{X})(Y_j - \overline{Y})}{n}$$

To calculate sample covariance, you can use the following sample covariance formula:

$$Cov\ (X, Y) = \frac{\sum (X_i - \overline{X})(Y_j - \overline{Y})}{n-1}$$

xi = Data variable of x

yi = Data variable of y
x = Mean of x
y = Mean of y
n = Number of data variables

Crossover Investors

Crossover investors are concerned more with short-term gains than long-term returns on their investments.

D

Data Room Banking

Data room banking involves the use of a secure area to store sensitive data for financial transactions such as mergers and acquisitions or venture capital transactions.

Deal Flow

Deal flow describes the rate at which business proposals and investment pitches are being received by a firm.

Debt Financing

Debt financing is a way for companies to raise money. They do this by selling debt instruments to investors. These are fixed-income products, such as bonds, bills, or notes.

Debt Service Coverage Ratio

The debt service coverage ratio (DSCR) is a financial ratio that assesses a company's ability to service its debt. If the company has sizable capital expenditures (CapEx), you can calculate DSCR after deducting capital expenses. You can use the following formulas for calculating DSCR:

$$Standard\ debt\ service\ coverage\ ratio = \frac{net\ operating\ income}{total\ debt\ service}$$

$$Debt\ service\ coverage\ ratio\ (excluding\ CapEx) = \frac{net\ operating\ income - CapEx}{total\ debt\ service}$$

Debt To Asset Ratio

Debt to asset ratio is a leverage ratio used to ascertain the portion of a company's total assets that were acquired using leverage. Often referred to as the debt ratio, it's the ratio of the company's total debt to its total assets.

$$Debt\ to\ asset\ ratio = \frac{total\ debt}{total\ assets}$$

Debt To Equity Ratio

Debt to equity is a financial ratio used to assess the debt component and overall strength of a company's balance sheet.

Debt to equity ratio = (total liabilities / total equity)

Depreciation Methods

A depreciation method is a means of calculating the overall amount of value goods will lose over their lifetime.

Dilution

Dilution, also known as stock dilution or share dilution, is when the ownership percentage of existing shareholders decreases due to new share offerings.

Discount For Lack Of Control

A discount for lack of control allows investors who purchase a position in a company that affords them no actual control over the company's actions, decisions, or other affairs to benefit from a lower purchasing price than the company's total value may otherwise dictate.

Discount For Lack Of Marketability

Discount for lack of marketability (DLOM) is a method companies use to calculate the value of closely held or restricted shares in their business.

Discounted Cash Flow

Discounted cash flow (DCF) is a valuation method that estimates the value of an investment based on its expected future cash flows.

Divestiture

A divestiture occurs when a company disposes of some or all of its assets through a sale, bankruptcy, closure, or exchange. It's the opposite of an investment.

Double Declining Balance

A double declining balance is an expense related to the depreciation expenses of a business. Double declining balances are used to calculate the depreciation of an asset over its useful life in a method known as the double declining balance depreciation (DDBD) method.

Imagine that we have a company called Linear Dynamic that purchased a vehicle for $60,000. This vehicle is estimated to have a useful life of 5 years and a salvage value of $5,000. The accountants at Linear Dynamic will calculate the DDBD for the vehicle using the following values.

- **The initial cost of the asset is $60,000. This means that the book value (BV) for the 1st period is $60,000.**
- **The useful life of the asset is 5 years.**
- **The salvage value is $5,000**
- **The annual depreciation rate (ADP) is 100% / 5 = 20%.**

With this information at hand, the accountants can go ahead and calculate the DDBD for the first period using the formula discussed above:

DDBD = 2 x 20% x $60,000 = $24,000

After calculating the DDBD for the first year, they can calculate the depreciation over the vehicle's useful life.

Year	Book value (BV) of asset at beginning of period	DDBD	Value of asset at end of period
1	$60,000	$24,000	$36,000
2	$36,000	$14,400	$21,600
3	$21,600	$8,640	$12,960
4	$12,960	$5,184	$7,776
5	$7,776	$2,776	$5,000

Down Round

A down round happens when a startup sells its shares at a lower price than what it sold them for in previous rounds of financing.

Drag-Along Rights

Drag-along rights grant the ability of any majority shareholder in a given organization to force minority shareholders to sell their shares. They are generally triggered by sudden mergers or acquisitions by third parties.

Due Diligence

Due diligence is the process of digging deep into the basic and complete facts of an opportunity with the end goal of investing.

E

Ear Formula

The EAR (effective annual interest rate) formula is a calculation used to determine the rate of interest either earned or paid in a year when adjusted for compounding.

$$Effective\ annual\ interest\ rate\ (EAR) = \left(1 + \frac{i}{n}\right)^{n} - 1$$

Earnings Per Share Formula

Earnings per share (EPS) is a measure of a company's profit per outstanding share of its common stock. It's a direct indicator of company profitability. Investors are more likely to invest in a company with higher earnings per share.

$$EPS = \frac{net\ income - preferred\ dividends}{weighted\ average\ of\ outstanding\ shares}$$

EBITDA

EBITDA (earnings before interest, taxes, depreciation, and amortization) is used as an indicator to assess the financial performance of a company. The figure includes interest expenses, taxes, depreciation, and amortization costs in addition to the net income. All the required information to calculate EBITDA will be available from the income statement and balance sheet.

EBITDA = net income + interest expenses + taxes + depreciation + amortization.

It can also be calculated by adding depreciation expenses and amortization expenses to operating profit.

EBITDA = operating profit + depreciation + amortization

Economies Of Scale

Economies of scale is a term used to describe situations when the cost of producing a single unit of product decreases when the total number of units produced increases. There are two sets of costs associated with the production of goods: fixed costs and variable costs.

Economies Of Scope

Economies of scope describe the idea that the unit cost of creating one product will decline if the creation of similar, yet slightly different products increases.

Engagement Letter

An engagement letter outlines the terms of a client relationship. Businesses and clients who agree to work together under certain terms often use an engagement letter to put the details of the agreement in writing.

Entrepreneur In Residence

An entrepreneur in residence (EIR) is traditionally a position at a venture capitalist firm.

Environmental Assessment

An environmental assessment is conducted to assess company risks and to determine whether a company fits environmental, social, and governance (ESG) criteria.

Environmental Scan

An environmental scan is a type of structured research that business leaders conduct to find opportunities inside and outside of a business.

Equity

Equity is the value of a business, representing the value that would be returned to the company's shareholders if all the business's assets were liquidated and all debts were paid.

It's the difference between your business's assets and liabilities.

Exit

An 'exit' is when a founder leaves a startup. For many founders, this is something they've planned for from day one, perhaps even hoping to build a unicorn company. They created the startup with the plan of cashing out at some point by selling ownership of the company either to investors or to another company.

Financial Ratios

Financial ratios are numerical tools that compare the relationships between different figures on a company's financial statement. There are dozens of different financial ratios that analysts and investors can use to determine the efficacy of an investment and the performance of a business.

$$Quick\ ratio = \frac{(current\ assets - inventory)}{current\ liabilities}$$

$$Cash\ ratio = \frac{(cash + cash\ equivalents)}{current\ liabilities}$$

$$Return\ on\ equity\ ratio = \frac{net\ annual\ income}{shareholders'\ equity}$$

$$Debt\ to\ equity\ ratio = \frac{current\ liabilities}{shareholders'\ equity}$$

$$Net\ profit\ margin = \frac{(total\ revenue - total\ cost)}{total\ revenue} \times 100$$

$$Earnings\ per\ share = \frac{(net\ income - extraordinary\ items)}{shares\ outstanding}$$

$$Price\ to\ earnings\ ratio = \frac{market\ value\ per\ share}{earnings\ per\ share}$$

Financing Contingency

A financing contingency is a plan for unforeseen circumstances that may financially impact you, an investment or your business.

Forward Integration

Forward integration is a type of vertical integration strategy that expands a producer's control of the distribution portion of their supply chain.

Friendly Takeover

A friendly takeover happens when one company is willingly acquired by another. In a friendly takeover, the management and board of directors consent to or approve the takeover. It’s important to note that the target company’s shareholders will still need to agree to the takeover.

Full Ratchet

A full ratchet anti-dilution provision, often referred to simply as a full ratchet, is a mechanism by which the ownership stake of an investor in a company is protected from being diluted by the issuance of additional shares in later rounds of financing.

Fully Diluted Shares Outstanding

Fully diluted shares are the total outstanding shares a company would have after all dilutive securities, such as convertible preferred stock and warrants, have been assumed as converted or exercised.

Fully diluted shares= total outstanding shares + ESC

Where:

Total outstanding shares = equity shares authorized and issued by the company

ESC = equity shares after conversion of convertible securities

Fund Of Funds

A fund of funds or "FOF" is a type of investment fund that only invests in other investment funds. This means that the overall portfolio of investments it manages consists purely of other investment funds that may or may not be managed by the same company.

G

General Partner

A general partner is someone who jointly owns a business and has unlimited liability. They have the power to make business decisions without the prior approval of other partners.

Godfather Offer

A godfather offer is a takeover bid put forth by a company or investor that is purposely designed to be all but impossible to refuse.

Greenmail

Greenmail involves the substantial purchase of a company's shares to threaten it with a hostile takeover — unless the company repurchases the shares at a premium.

Greenshoe Option

A greenshoe option enables underwriters to increase the supply of stock to investors if an initial public offering (IPO) attracts higher-than-expected demand.

Gross Margin Ratio

Gross margin ratio measures the profitability of products — how much income each product generates after paying for its cost. It is calculated by dividing gross margins by net sales.

Gross margin ratio = (total revenue - cost of goods sold (COGS)) / total revenue

Growth Equity

Growth equity is an investment that can help established businesses grow to the next level. Situated between venture capitalism and leveraged buyouts, it is sometimes referred to as growth capital, growth expansion, or expansion capital.

H

Horizontal Integration

Horizontal integration refers to when a company seeks to acquire one or more companies and assets within the same industry.

Horizontal Mergers

A horizontal merger is when two or more competing companies in the same industry combine into one company.

Hostile Takeover

Hostile business takeovers occur when one business attempts to seize control of another by purchasing controlling equity directly from shareholders. Hostile takeovers can also occur when a company infiltrates the target company's management class and ushers in an acquisition deal.

How To Calculate Compound Interest

Compound interest (or "interest on interest") is a powerful way to grow your money. Instead of traditional interest, where you earn interest just on an initial contribution, compound interest allows you to earn even more on the interest you've earned. Formula:
A = P (1 + [r / n]) ^ nt

- **A: This is what you're calculating with the formula. This is the final value of your investment, plus interest.**

- **P: This is the initial deposit you put into the account or the principal.**
- **R: This is the interest rate on an annual scale, added here as a decimal. For example, a 5% interest rate would be 0.05.**
- **N: How often does your interest compound? For example, if the interest compounds monthly (12 times in a year) or weekly (52 times a year).**
- **T: This stands for time. Plug in how long you'll allow the money to compound.**

How To Calculate Contribution Margin

Also referred to as "dollar contribution per unit," contribution margin is the money you have left over after paying the variable costs to produce a product. It's usually calculated on a per-unit basis, but you can also calculate the contribution margin on a percentage basis.

The formula is:
Contribution margin = selling price per unit - variable cost per unit

How To Calculate Dividends

Dividends are a portion of a company's profit that is paid out to each shareholder, in addition to any gains a shareholder gets when the price of the company's stock increases.

Formula:
Dividends = annual net income - net retained earnings

How To Calculate Marginal Cost

Whenever a business increases the production level of a product, there is an associated change in the production cost. Marginal cost takes this into account. Marginal cost is an important measure for determining whether a company has reached its optimum production level.

$$Marginal\ cost = \frac{(change\ in\ cost)}{(change\ in\ quantity)}$$

How To Calculate Markup

Markup is the amount a business adds to the price of the product before they sell it. Typically expressed as a percentage, markup is the difference between the cost of goods sold (COGS) and what the customer pays for the product.

Formula:
Markup percentage = (price – COGS) / COGS x 100

Identifiable Assets

Identifiable assets can be quickly and accurately valued at a given point in time. They should be able to be assigned a fair value or expected selling price.

Incubator

An incubator is something akin to Startup 101. Joining one can be a huge help for budding entrepreneurs who have great business ideas but don't know where to start. Incubators can also provide support to startup founders who lack the resources to grow their ideas into a full-fledged business.

Indication Of Interest

An indication of interest (IOI) is a formal, yet non-binding letter or document expressing interest in purchasing either a company or a company's securities.

Infinite Banking

Infinite banking is a concept created in the 1980s by the late economist R. Nelson Nash that centers around individuals becoming their bankers. Infinite banking proposes that individuals can exert greater control of their finances by creating and managing their banking functions.

Insurance Market

An insurance market simply means the buying and selling of insurance and includes the entities involved in the process as well as customers.

Internal Rate Of Return

Internal rate of return (IRR) estimates a potential investment's profitability. It measures an investment's expected yearly rate of growth.

Intrinsic Value

Intrinsic value is a measurement of an asset's actual worth, regardless of its market value. To understand this concept, it is vital to understand the difference between intrinsic value and market value.

$$\text{Value} = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_t}{(1+r)^t}$$

CF = cash flow at period t

r = discount rate

Inventory Turnover Ratio

An inventory turnover ratio is a calculated measurement of sales of inventory over a given period. It is also known as inventory turns or stock turnover. A business's inventory turnover ratio reveals the speed at which its entire inventory is sold and replenished.

J

Joint Venture

A joint venture is an arrangement between two or more individuals or companies to work towards a mutual business goal or project. The parties may choose to remain as separate entities or form a new business entity.

K

Key Man Clause

In an investment context, a key man clause is a contractual clause that prohibits an investment firm from making new investments in certain situations.

L

Leverage Ratio Formula

Leverage ratios show how much debt a company holds concerning other equity and assets. Leverage ratio formulas exist in several forms and are designed to help determine the stability and security of a company.

Types of leverage ratios
Leverage ratios include debt to equity, equity multiplier, debt-to-capitalization ratio, and debt-to-capital ratio.

What is a debt ratio?
Debt ratio compares the value of assets to the outstanding debt. Simply divide the total amount of debt by the total value of the assets.
Debt to assets ratio = debt/assets

What is the debt to equity ratio?
Equity is the total amount of a company's assets minus its liabilities. A debt to equity ratio compares the amount of debt the company holds against the amount of equity it has.
Debt to equity ratio = total debt / total equity

Leveraged Buyout

A leveraged buyout (LBO) is when one company purchases another using mainly debt rather than equity.

Limited Partner

A limited partner owns a stake in a business partnership with limited liability. They work with at least one general partner who manages the day-to-day operations of the business.

Liquidation Preference

A liquidation preference is a clause that is most often found in venture capital deals. It dictates the order in which investors and stockholders are paid out in the event of a sale or bankruptcy.

Liquidity Event

A liquidity event is an exit strategy that private company ownership uses to cash out all or a portion of shares.

M

Margin Of Safety Formula

Margin of safety is a financial ratio measuring the amount of expected profitability that exceeds the breakeven point. In other words, it reveals the gap between estimated sales output and the level of sales that would make the company unprofitable. You can calculate the margin of safety by taking the current sales level and subtracting the breakeven point, then dividing it by the current sales level.

The formula is:
Margin of safety = (current sales level - breakeven point) / current sales level x 100

Market Positioning

Market positioning is the process of creating a desired image of your product or service, or even your brand, in the minds of consumers.

Market To Book Ratio

The market-to-book (M/B) ratio, also called the price-to-book (P/B) ratio, is a valuation model used to determine the current market value of a company (derived from the stock price) compared to its book value (derived from assets and liabilities).

Master Limited Partnership

A master limited partnership (MLP) is also sometimes known as a publicly traded partnership (PTP). It’s a limited partnership that’s traded publicly on an exchange.

Mergers And Acquisitions

Mergers are like marriages in that both companies agree to the union, and both give up a certain amount of control and independence to become a new institution. After a merger, the newly combined entity takes on a new name and issues new stock in that name. Typically, mergers occur between companies of roughly equal size.

Acquisitions, as the name suggests, are an outright purchase of one company by another, usually a larger company. Even the language surrounding acquisitions is more aggressive — the company being purchased is referred to as the “target company.” If the acquiring company buys 51% or more of the target company’s stock, it can assume control whether the target company likes it or not, in which case the acquisition is called a “hostile takeover.”

Market To Book Ratio

The market-to-book (M/B) ratio, also called the price-to-book (P/B) ratio, is a valuation model used to determine the current market value of a company (derived from the stock price) compared to its book value (derived from assets and liabilities).

Master Limited Partnership

A master limited partnership (MLP) is also sometimes known as a publicly traded partnership (PTP). It’s a limited partnership that’s traded publicly on an exchange.

Mezzanine Debt

Mezzanine debt is a hybrid debt issue that’s subordinate to pure debt, but has a higher priority than pure equity, representing the middle ground between debt and equity financing.

Mezzanine Financing

Mezzanine financing offers companies in need of capital a means of attracting investors through a combination of both equity and debt.

MOU

A memorandum of understanding (MOU) is a formal written agreement between two or more parties. An MOU is used in business and political settings to express mutual understanding and intentions but is just short of being a legally binding contract.

N

Net Book Value Of Assets

The net book value of an asset is the amount that an organization records for that asset in its accounting records.

Organizations calculate net book value with this simple formula:
NBV = gross cost of the asset - accumulated depreciation

Net Operating Income Formula

Net operating income (NOI) is a formula real estate investors use to determine the profitability of a potential real estate investment or other investment. The net operating income formula subtracts your annual gross operating income from your annual operating expenses to see how much cash flow a property or business generates.

The net operating income formula is very simple:
Net operating income = gross operating income - operating expenses

Nominal Data

Nominal data is defined as information that cannot be measured quantitatively. Instead, this type of data is often used to form groups of categories when analyzing data.

Novation Contract

Put simply, a novation contract is drawn up when an agreement between two parties is altered by a third party taking the place of one of the original parties.

NPV Formula In Excel

Net present value (NPV) is the current value of all the cash flows that will happen in the future. This is calculated with the nominal value of cash flow in the future and a discount rate. The equation can be used to calculate the net present value of all cash flows in the future.

$$Net\ present\ value = \Sigma_{t=1}^{n} \frac{R_t}{(1+i)^t}$$

O

Offering Memorandum Template

An offering memorandum is a legal document that protects investors in a private placement deal.

Operating Cash Flow Formula

Operating cash flow (OCF) is the measurement of cash generated by a business's normal operating activities during a period. OCF is found by adding back non-cash items to net income and adjusting for changes in net working capital.

The simple operating cash flow formula is:
Operating cash flow (OCF) = net income + non-cash expenses - increase in working capital

Operating Profit Margin

Operating profit margin is a ratio that measures the profitability of a business. It measures how much a business makes in revenue after paying for operating and non-operating expenses.

You can use this formula to understand a business's operating profit margin and its profitability:

Operating profit margin = operating income/revenue X 100

Organizational Design

Just as architecture has the concept that "form follows function," A business has the principle of organizational design. This principle holds that the structure of a company should be shaped to implement its strategic plan.

P

PaaS

PaaS, or Platform as a Service, gives developers and companies the ability to create, host, and deploy applications through the cloud. Both the hardware and the application software platform are provided as part of PaaS, hosted on the PaaS provider's platform.

Pac Man Defense

A Pac-Man defense is a business strategy where a business will defend itself against a hostile takeover.

Pari Passu

Pari-passu is a Latin term that means "on equal footing" or "moving together." It's a widely used legal term that has applications in corporate finance and personal finance that indicates fairness in the distribution of something. The term is used in equity shares, insolvency, and inheritance.

Participating Preferred Stock

Preferred stock is the type of share that gives the holder a higher right to the dividends generated by the company. Those who hold participating preferred stock have an even higher claim to the dividends of a company.

Pay-To-Play

Pay-to-play provisions are a form of safeguard for companies, helping to protect them from a downturn in market conditions.

Pivot

To pivot is to change direction. It usually involves adopting a new strategy or testing out a new concept.

Post-Money Valuation

Post-money valuation refers to a company's implied value after raising capital. The term is typically used in angel investing and venture capital parlance.

Preferred Stock

Preferred stocks are special kinds of securities that balance the benefits of stocks and bonds. These types of stocks perform similarly to bonds while continuing to serve as equity instead of debt.

Present Value Formula

The present value formula is a tool investors and business owners use to estimate if an investment made today for a given rate of return will be worth the money they put into it.

Here's what the formula looks like:
Present value (PV) = C / (1 + r)^n

Where:

C = the future return or cash flow
r = the rate of return or the discount rate
n = is the number of periods

Profit And Loss Statement Template

A profit and loss statement provides insight into a company's performance over a given period. It details the company's total revenue as well as all expenses it had during the period.

Profit Margin Formula

Profit margins are as vital to businesses as they are to financial investments and stocks. Similarly, profit margins form an essential element of accounting practices. Margins also mean different things in these three spheres: commerce, accounting, and investing.

The net profit margin is equivalent to the revenue minus costs, divided by the revenue, which looks like this:

Net profit margin = revenue – costs/revenue

Or

Net profit margin = revenue / profit x 100

Purchase Price Allocation

Purchase price allocation (PPA) categorizes how much a buyer paid for a business into the assets and liabilities they purchased. The remainder of the purchase price is allocated to goodwill.

Q

Quality Of Earnings Report

A quality of earnings report (QoE) reveals the true financial status of a company. It digs deeper than a standard income statement, breaking down income types, sources, and future viability.

R

Rate Of Return Formula

The rate of return formula calculates the total net profit an investor makes from an asset. It is calculated and shown as a percentage of the total initial cost of the asset. Essentially, you are calculating the percentage change from the beginning to the end of an investment.

$$Rate\ of\ return = \left[\frac{(current\ value - original\ value)}{original\ value}\right] * 100$$

Recapitalization

Recapitalization is a form of corporate restructuring that involves a significant restructuring of a company's finances. Companies often use recapitalization to stabilize the company's capital structure to prevent a hostile takeover or avoid bankruptcy.

Restrictive Covenant

Obligations within a contract or legal agreement that place restrictions on what any participating parties are allowed to do are called restrictive covenants. Restrictive covenants are used in a variety of legal agreements, especially in property deeds and employment contracts.

Restructuring Charges

A restructuring charge is a one-time expense that a company pays when it reorganizes. Companies consider restructuring charges to be a type of sacrifice, as they pay expenses upfront in the hope that they will make the business more profitable.

Retail Market

A retail market is one in which goods or services are sold to consumers for consumption. In the financial world, it means the selling of securities to individual investors rather than institutional investors.

Retained Earnings Formula

Retained earnings refer to the amount of net profit a company retains without paying it out as dividends to its shareholders.

Retained earnings can be calculated using the retained earnings formula, as follows:
Retained earnings = retained earnings from a previous period + net income - dividends

Return On Assets Formula

Return on assets (ROA) is an indicator of how well a company can make use of its assets. ROA is the ratio of net income to the total average assets of the company.

$$Return\ on\ assets = \frac{net\ income}{total\ assets}$$

ROE Equation

The return on equity (ROE) equation is used to calculate a company's returns on capital raised through equity.

$$Return\ on\ equity\ (ROE) = \frac{net\ income}{average\ shareholder's\ equity}$$

ROI Formula

Return on investment (ROI) is a measure of the profitability of a particular investment.

$$ROI = \frac{current\ investment\ value - investment\ cost}{investment\ cost}\ x\ 100$$

S

SaaS

SaaS (software as a service) is sometimes called “cloud-based software.” Over the past decade or two, it’s become the default method of software provision.

Sale And Purchase Agreements

Sale and purchase agreements (SPAs) are legally binding contracts that detail conditions that must be met by the buyer and seller. They help to ensure a smooth purchase process and work to protect all parties.

Sandbagging

Sandbagging is a term used to describe when a company deliberately seeks to lower the expectations of its stakeholders to achieve greater-than-expected results.

Scorched Earth Policy

A scorched earth policy is a series of actions taken by a business to discourage hostile takeover attempts. The goal is to make the company less appealing as a takeover target, but it may serve to end the business entirely if the scorched earth actions taken are severe enough.

Secondary Offering

A secondary offering takes place in the secondary market in the years following an IPO. It may either involve the sale of existing shares or the issue of fresh shares, depending on the parties involved in the transaction.

Seed Money

Seed money refers to the funds a startup raises to launch its product or business. It usually comes from friends and family, co-founders, or angel investors in exchange for equity.

Series A Funding

Series A funding is a type of equity-based financing that is considered the first major round of external funding startups can raise. Also known as Series A financing, it’s usually funded by private equity firms and venture capital firms.

Series B Funding

Series B funding is the third stage in raising capital for startups and the second stage in venture capitalism. It is sometimes referred to as Series B financing or a Series B round, and it takes place after Series A funding.

Shares Outstanding

The number of shares outstanding is the number of shares that are issued, purchased, and held by investors and company executives.

Solow Growth Model

The Solow growth model conveys the idea that developing economies generally experience a higher marginal rate of return on invested capital than developed economies. It postulates economic production based on capital and labor, which are assumed as substitutable.

SPAC Stock

A special purpose acquisition company (SPAC) is a term used to describe a company that is established for the sole purpose of raising funds to acquire a private company and make it public. This funding is raised through an IPO.

Standard Deviation Formula

Standard deviation is a measurement of the variability of a data set against the mean.

$$\sigma = \sqrt{\frac{\sum(x_i - \mu)^2}{N}}$$

Statement Of Cash Flows

A statement of cash flow, also known as a cash flow statement, is one of four types of business financial statements. It summarizes and details all cash inflows and outflows and is broken down into operating, investing, and financing cash flows.

Stockholders Equity Equation

Stockholders' equity, also referred to as shareholders' equity, is a dollar figure that represents the net value of a publicly-traded company. It's calculated by subtracting all debt liabilities from the value of a company's liquidated assets.

Strategy Map

A strategy map is a visual representation of an organization's strategic objectives that illustrates cause-and-effect relationships between them.

Subsidiary

A subsidiary is a company that belongs partially or completely to a parent company or holding company. It's a separate company from its parent or holding company, yet the parent or holding company exerts at least some influence over the subsidiary through at least 51% stock ownership, seats on the board of directors, and company decision-making.

SWOT Analysis

SWOT (strengths, weaknesses, opportunities, and threats) analysis lets you see your business's advantages and disadvantages. It can be used in several ways at different stages in the business life cycle.

Synergies

Financial synergies refer to the value created when two companies join together. If the two entities join up and create more value than when they operated separately, it's considered synergy.

T

TAM

Whether you dream of launching your startup or just want to become a more sophisticated investor, there's a concept you need to understand: TAM (total addressable market).

Tender Offer

A tender offer is one type of public takeover bid. Normally, the tender is a public open offer by a prospective acquiring company to the shareholders of the target corporation.

Term Sheet

A term sheet is a document that outlines the material terms and conditions of a potential investment. It's typically a non-binding agreement between two parties that covers the basic conditions of a deal.

Terminal Value Formula

Terminal value refers to a business's or asset's value beyond the forecasting period in which it's possible to estimate future cash flows.

$$Terminal\ value\ (TV) = \frac{FCF * (1+g)}{d-g}$$

Times Interest Earned Ratio

Times interest earned (TIE) ratio is a financial ratio that signals the company's ability to pay off its debt.

$$Times\ interest\ earned\ =\ \frac{EBITDA}{interest\ expense}$$

Treasury Stock

Treasury stock is the portion of shares that a company itself owns. It's separate from any shares being owned by investors, including individuals who are officers or employees of the company.

U

Unilateral Contract

A unilateral contract is a type of contract in which one party promises payment to another in exchange for a specific act.

Use Of Proceeds

A use of proceeds statement is a short document summarizing how a company plans to spend the funds secured through additional capital.

V

Valuation

In simple terms, business valuation is how much someone would pay to buy the company. While many business owners place sentimental value on their business ventures, there are many reasons to determine a more grounded, realistic value.

Valuation Methods

Valuation methods are the methods for calculating how much a company is worth now or how much it will be worth in the future.

Venture Capitalist

A venture capitalist (VC) is an investor who provides private financing to a company in exchange for an equity stake (typically 15% to 45% of the company). VCs normally invest in startups or small companies that are seeking to expand, though some venture capitalists invest in more mature companies.

Vertical Integration

Are you looking for a way to control and reduce costs in your business? Imagine if you could do so while maintaining the quality of your business's products or services. Thanks to a strategy called vertical integration, it's possible to enjoy a competitive edge in your industry.

Vesting

Vesting is the right to own or buy an asset or benefit at a future date. It can be transferred without any cost or at a predetermined price. The asset or benefit is generally termed as ‘vested interest.’

Voting Rights

Shareholders of corporations have voting rights on matters of corporate policy. For instance, they can vote on decisions about directors, about actions like mergers or acquisitions, and to approve dividends.

Vulture Fund

A vulture fund is made up of investors who profit from distressed securities. The group may be formed as a hedge fund or private equity group.

W

Waterfall Chart

A waterfall chart is a type of data visualization that helps illustrate the individual factors that brought about a change in a given value between two points.

Weighted Average

A weighted average assigns importance to values before calculating their average. This importance is represented mathematically by multiplying each value by its own predetermined "weight" number.

Weighted Average Cost Of Capital

The weighted average cost of capital (WACC) is a business's cost of capital from all sources, including stock, bonds, and long-term loans. Each source of capital is weighted according to its proportion of the total capital and then added together.

White Knight Defense

A white knight defense is a type of defense strategy that a target company uses to prevent a hostile takeover.

Source: CBInsights