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INVESTMENT GLOSSARY

Terms you should know and understand before raising an investment

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COMMON TERMS

Start with the basics.

TERMS YOU SHOULD KNOW (A-C)

- Angel Investor – A (usually) wealthy private investor in startup companies.
- Cap / Target Valuation – The maximum effective valuation for an investor in a convertible note.
- Convertible Note – This is a debt instrument that will convert into stock; usually preferred stock but sometimes common stock.
- Common Stock – Capital stock typically issued to founders and employees, having the fewest, or no, rights, privileges and preferences.

TERMS YOU SHOULD KNOW (D-I)

- Dilution – The percentage an ownership share is decreased via the issuance of new shares.
- Discount – A percentage discount from the pre-money valuation to give note holders an effectively lower price.
- Equity Round – A financing round in which the investor purchases equity (stock) in the company.
- Fully Diluted Shares – The total number of issued and outstanding shares of capital stock in the company, including outstanding warrants, option grants and other convertible securities.
- IPO – Initial Public Offering – the first sale of stock by a private company to the public.

TERMS YOU SHOULD KNOW (L-O)

- Lead Investor – Usually the first and largest investor in a round who brings others into the round.
- Liquidation Preference – A legal provision in a company's charter that allows stockholders with preferred stock to get their money out of a company before the holders of common stock in the event of an exit.
- Maturity Date – The date at which a promissory note becomes due (or at which it will automatically convert to stock in the case of a convertible note)
- Option Pool / Equity Incentive Plan – The shares allocated and set aside for grants to employees and consultants.

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TERMS YOU SHOULD KNOW (P-V)

- Preferred Stock – Capital stock issued in a company that have specific rights, privileges and preferences compared to the common stock. Convertible into common stock, either automatically (e.g., in an IPO) or at the option of the preferred stockholder (e.g., an acquisition).
- Pre-money Valuation – The value of a company prior to when investor money is added.
- Pro-rata rights (aka pre-emptive rights) – Contractual rights that allow the holder to maintain their percentage ownership in subsequent financing rounds.
- Venture Capitalist – A professional investor in companies, investing limited partners' funds.

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TYPES OF INVESTMENTS

Multiple sources of funding available for scaling your business.

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SOURCES OF FUNDING

- Bootstrapping
- Friends, Family, Fools
- Crowdfunding

- Incubators
- Accelerators
- Angel Investors

- Venture Capital
- Banks
- Company own funds

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BOOTSTRAPPING

= operating only with financial funds from the founders/team.

Bootstrapping aims to minimize the amount of money you need by using resources in a creative ways.

- No dilution of shares and independent decision making for the founders
- Focus on execution and not on raising funds
- Very stressful for founders
- Not sustainable long term

FRIENDS, FAMILY & FOOLS

= raising funds from close people through personal connections.

Friends, family and fools is the cheapest and easiest way to raise money but it comes with limitations.

- Smaller amounts of capital available
- Risks should be made clear – can they afford to lose money?
- Can cause relational issues and stress
- Not a permanent source of capital
- Can create problems when professional investors are brought onboard

CROWDFUNDING

= asking a group of people to donate a defined amount of money for a specific cause or project in exchange for various rewards.

- Enables to test the market and provide a proof of business
- Provides public exposure, awareness and word-of-mouth marketing in a global setting
- Potentially provides access to network of contacts and follow-on investors
- Often all or nothing approach aka if you do not reach your financial goal, you will not receive any of the funds raised and the packers will not receive their rewards
- Crowdfunding exposes your ideas to potential copycats

INCUBATORS

= coworking spaces that provide special services to develop your business.

- Provide coaching and access to mentors and creates accountability
- Great opportunity to build a network of entrepreneurs and investors
- Provides facilities, but often you need to pay for their use
- Sometimes provide some funding
- Not fixed term like accelerators and easier to get accepted to

ACCELERATORS

= fixed-term (3-6 months) cohort based programs that aim to support and accelerate companies.

- Provides coaching and access to mentors and creates accountability
- Provides facilities such as offices, prototyping tools, reception desk, etc.
- Often provide funding (for equity)
- Some accelerators are sponsored by corporates and/or government
- Great opportunity to build a network of entrepreneurs and investors

ANGEL INVESTORS

= individuals with high net worth, typically ex-entrepreneurs, who invest their personal money.

Angels who've made money in technology understand your situation and they're a source of contacts and advice. The contacts and advice can be more important than the money.

- Hands-on approach and actively working with the company
- Seek more than purely financial return
- Long investment horizon
- Min investment: €5,000 - 10,000
- Max investment: <€1,5 million

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VENTURE CAPITAL

= private funding that a group of investors provide to high companies that are believed to have long-term growth potential.

- Long term investment horizon ranging from 5 to 10 years
- Focus on larger deals (ca 1.000.000€)
- Exit through IPO or aquisition
- Very few qualify for venture capitalist funding

BANKS

= most traditional and well known source of funding. Unlike other investors, banks are lenders.

- Loans are given only to established companies that generate revenue
- Often require guarantees / collateral
- Lended according to the purpose and use of the loan:
  - Account receivable loans
  - Inventory and equipment loans
  - Real estate loans
  - Vehicle leasing

COMPANY OWN FINANCING

= having enough internal and external resources to fund the new business idea and keep up the operations without external investments.

- Full ownership of the equity for the founders and no dilution of shares
- Lack of experience and knowledge as no new advisors are brough on board for growth
- No appropriate network gained through raising funds

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STRATEGIC FUNDING

Asking the right questions before going into a deal.

EIGHT QUESTIONS TO ASK WHEN CREATING A FUNDING STRATEGY

1. Are you able to fund your business until you become profitable?
2. How much capital do you need?
3. Do you think loans or equity is the right way to raise funding?
4. Do you have friends and/or family that may be able to help?
5. How long do you think it will it take to raise funds?
6. How far will this get you? What milestones can you achieve?
7. Will you need to raise money again?
8. Do you have advisors you can rely on?

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LEARN MORE ABOUT TETRA PROGRAM HERE HTTPS://BUSINESS.NGI.EU/

The TETRA project has received funding from the European Union's Horizon 2020 Research and Innovation Programme under Grant Agreement No 825147