Private Equity Glossary

A

Accelerator:
A program startups can apply to that provides funds and mentorship to help companies grow, usually in exchange for equity. Most accelerators focus on helping early-stage companies.

Add-on/Bolt-on:
When a private equity firm acquires a company to add onto an existing portfolio company. In add-on deals, the existing portfolio company is called the platform and the private equity firm is called the sponsor. Bolt-on is used more often in Europe.

Alternative investment:
An asset that is not a conventional investment type (stocks, bonds, cash). Alternative investments include venture capital, private equity, hedge funds and real estate.

Angel:
A high-net-worth individual who makes direct investments into early-stage companies.

Anti-trust filing:
A formal notification of an acquisition to competition regulators. In the US, these regulators include, but are not limited to, the Federal Trade Commission and Department of Justice.

Asset allocation:
The mix of investments in a portfolio. To balance risk and reward,

asset allocation is determined by investment goals, risk tolerance and time.

Asset-based lending:
Any form of lending to a business that is collateralized or secured by a balance sheet asset. Pledged assets may include inventory, equipment or accounts receivable that will be redeemed in the event of default by the debtor.

Asset deal:
When the assets of a company are acquired instead of shares.

B

Benchmark:
When a fund compares its returns to the performance of similar funds.

Board of directors:
A group of individuals selected to represent stockholders with regard to company policies or significant company decisions. VC and PE investors will often place executives on the boards of their portfolio companies.

Book runner:
The main entity responsible for the issuance of new equity, debt and other securities.

Break-up fee:
A fee paid by the seller if it breaches or decides to terminate a definitive acquisition agreement.

Bridge loan:

A temporary, limited amount of financing that serves as a 'bridge' until a long-term debt or equity investment can be secured.

Brownfield:
An investment in an existing asset, land or structure that typically requires repairs, upgrades and expansion.

Burn rate:
How long it takes a company to spend the capital it received from investors.

Business development company:
A company created to invest in both the debt and equity of small and medium-sized businesses. Investments can be made in both public and private entities. While similar to VC funds, many BDCs are publicly traded, which allows smaller, non-accredited investors to back startups.

Buyout/Leveraged buyout:
A private equity transaction in which a firm acquires all—or a significant amount of—equity in a company. A leveraged buyout is when firms use a mix of cash and debt to acquire equity, which is very common.

C

Capital call:
When a general partner is ready to make an investment, it will ask its limited partners for the capital they've already committed to the fund.

Capital overhang/Dry powder:
The amount of capital available in a fund for investors to invest.

Carried interest:
A general partner's share of the capital gains from a fund, usually 20%.

Carveout:
When a company sells all or part of its business.

Change of control clauses:
Clauses that can invalidate or dissolve a contract in the event that a change in control of the company takes place.

Chapter 11:
The section of the US Bankruptcy Code that outlines the process for asset reorganization.

Chapter 7:
The section of the US Bankruptcy Code that outlines the process for asset liquidation.

Closed fund:
A fund that is finished taking commitments from limited partners and is ready to make investments.

Closing account:
An account that helps determine the net debt and working capital that will be used to establish the final price of an M&A deal according to the agreed price formula.

Closing agreement:
A document that establishes the final settlement between all parties involved in an M&A deal and results in the transfer of ownership from, and payment to, the target company.

Co-investment:
When a limited partner invests directly in a company alongside a general partner, instead of through a general partner.

Condition precedent:
A condition for closing a negotiated agreement such as securing approval from regulators.

Convertible debt:
Debt that can be converted to equity when certain conditions are met, like a specific valuation or date.

Corporate acquisition:
When a corporation purchases another company for strategic purposes.

Corporate venture capital:
When a corporation has a venture capital team that invests in early-stage companies that align with the corporation's goals.

Crowdfunding:
The process of raising small amounts of capital from many people to fund a venture.

D

Data room:
A secure, digital location where potential investors can review confidential information on a target company, including financial statements, compensation agreements, intellectual property and client contracts.

Deal flow:

The number of transactions that have closed during a given period.

Debt & cash-free pricing:
The target company's price without financial debts or cash.

Debt pushdown:
When the acquisition debt is transferred to the operating company rather than the company that generates the operating cash flow, if such a distinction exists.

Disbursement:
The capital investors give to companies.

Distressed investment:
An investment made into a company experiencing liquidity, capitalization and/or underperformance issues.

Distributed to paid in (DPI):
The value of all distributions divided by the amount limited partners have contributed to the fund.

Distribution:
The capital limited partners receive from general partners after they exit an investment.

Drawdown rate:
The speed at which a general partner calls down the capital committed by its limited partners.

Due diligence:
The vetting, analyzing and assessing of individuals, companies and investors before engaging in a transaction.

E

Early stage:
The period of venture capital investment between seed and late stage deals, when companies have a proven concept and little revenue.

Earnout provision:
Part of a contract that details future compensation for the seller if the business attains certain performance goals.

EBITDA (earnings before interest, taxes, depreciation and amortization):
A company's net profit plus interest, taxes, depreciation and amortization.

Enterprise value (EV):
A company's value calculated as market capitalization, including all debt and equity interests, minus excess cash.

Evergreen fund:
A fund that never closes and keeps fundraising to ensure consistent cash flows.

Exit:
When an investor sells its equity in a portfolio company.

F

Family office:
A firm that manages assets, investments and trusts for a wealthy family.

Final close:
When a general partner stops fundraising.

Fund:
An investment vehicle for limited partners, managed by general partners. Limited partners commit capital to funds, and general partners invest the capital into assets.

Fund-of-funds:
A fund that invests in other funds. A fund-of-funds devotes all its time to evaluating fund managers, which usually leads to above-average returns. However, there are extra fees associated with investing in a fund-of-funds.

Fundraising:
When general partners ask for capital commitments from limited partners.

G

General partner (GP):
An entity that raises capital from limited partners for a fund and determines which assets the fund should invest in.

Greenfield:
An investment that involves an asset or structure that does not yet exist. Investors fund all stages of development, including design, construction, infrastructure and operations.

Growth equity investment:
When an investor gives a mature company capital it can use to expand or restructure in exchange for equity (usually a minority stake).

H

Heads of agreement:
The basic elements of a deal spelled out more specifically in a share purchase agreement.

Herfindahl-Hirschman index (HHI):
A commonly accepted way to measure concentration within an industry, which the US Department of Justice uses to review deals for anti-trust considerations. It is calculated by finding the square of the market share for each firm competing in a market and adding up the results, which can range from near zero to 10,000.

I

Incubator:
An organization that gives early-stage companies office space, resources, advice and networking opportunities (usually in exchange for equity).

Initial public offering (IPO):
The first time a private company's stock is available to the public. All companies undergoing an IPO must register with the SEC and take the necessary steps to comply with all applicable rules and regulations.

Institutional investor:
An entity that invests capital on the behalf of organizations, companies or individuals. Examples include university endowments, insurance companies and pension funds.

Internal rate of return (IRR):

The rate at which the net present value of all cash flows from an investment will equal zero. IRR is commonly used to gauge fund performance.

Investment bank:
A financial institution that serves as an agent or underwriter for security issuances. Some investment banks also act as brokers/dealers and provide advisory services for mergers, acquisitions, restructurings and other transactions.

J

J curve:
When a fund's performance over time looks like a 'J' on a chart. At the beginning of a fund's lifecycle, performance and cash flows are negative because the fund is investing and not yet yielding returns. As the fund starts exiting investments, performance and cash flows increase.

K

Key performance indicators (KPIs):
A set of metrics used to gauge the performance of a company. KPIs depend on a specific company's strategic and operational goals. Examples include revenue growth and monthly active users.

L

Late stage:
The final period of venture capital investment (usually after Series C), when companies have increased revenue and are near exit.

Lead investor:

The investor that makes the largest investment in a venture capital round. As the primary financier of the round, the lead investor determines the valuation of the company.

Leakage:
The distribution of profits or responsibilities for the repayment of loans to ensure a minimum amount of taxes are paid to preserve deal value (prevent leakage) when structuring a deal that involves several companies.

Legal continuity:
The question of whether the target company's existing contracts should be retained after an acquisition. In asset deals, prior agreements typically cease and must be entered into again. Legal continuity rarely impacts share deals.

Letter of intent (LOI):
The initial document that outlines the goals of the parties involved in a deal and is drafted to open negotiations under clauses dictating exclusivity and secrecy. A LOI is sometimes called a memorandum of understanding (MOU).

Leverage:
The use of debt in an investment, including acquisitions and capital expenditures. With leverage, general partners can expedite improvements to portfolio companies and amplify returns.

Limited partner (LP):
An entity that commits capital to a general partner's fund.

Limited partnership:
The relationship between a general partner and its limited partners.

Liquidation:

The process of selling assets in order to pay creditors (and potentially shareholders).

Liquidity event:
When a general partner sells equity in an asset and returns capital to its limited partners.

M

Management buyout (MBO):
A buyout a company's management team leads or participates in.

Management fee:
The amount general partners charge limited partners to operate a fund. The fee is usually 0.5%–3% of the called capital amount.

Material adverse change (MAC):
In order for an LOI to become a share purchase agreement, usually the basic circumstances at the target company cannot change. Examples of such circumstances include maintaining profitability, keeping important customers or maintaining licenses.

Merger:
When two or more companies combine.

Mezzanine investment:
A financing round between senior and subordinated loans that typically includes equity-based options in the form of warrants.

Middle-market company:
A company with an enterprise value of $25M–$1B.

Multiple arbitrage:

The investment gains achieved by increasing the sales multiple relative to the original investment multiple. For example, buying a company at 4x EBITDA and selling it at 7x EBITDA.

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N

Net debt:
There is no universal definition of net debt, which makes its definition in a LOI and SPA paramount. Typically, net debt includes cash less financial liabilities (loans, bills of exchange, repayable subsidies, pensions and other long-term commitments to staff, commissions giving rise to cash outflows within the foreseeable future, off-balance sheet commitments that can be considered equivalent to debt and certain leasing debts).

Non-disclosure agreement (NDA):
A pact between the parties involved in a deal that confirms they will not misuse the information exchanged during negotiations.

Normalized working capital:
An analysis of a target company that accounts for all one-off or non-recurring items to determine how working capital normally operates.

O

Offer letter:
A non-binding indication of one party's intention to purchase a target company.

Operating partner:
An executive dedicated to working with portfolio companies to increase their value. They often have a expertise in a certain area (like a specific industry).

P

Paid-in capital:
The amount of committed capital that has been transferred from the limited partner to the general partner.

Placement agent:
A third-party firm that helps general partners fundraise.

Platform company:
A private equity-backed company that completes an add-on transaction.

Portfolio company:
A company that has received an investment from a venture capital or private equity firm.

Post-money valuation:
The value of a company after an infusion of capital.

Pre-money valuation:
The value of a company investors determine before they invest capital.

Pre-seed:
The stage before the seed stage. As seed-stage investing has become more popular, investors have started to invest in companies at this stage in the hopes of finding them early on. A pre-seed company is often just the founder(s) and an idea.

Private equity:
Capital that is not noted on the public stock exchange. Private equity involves investors giving private companies capital in exchange for equity.

Private investment in public equity (PIPE):
When a private investor purchases stock in a public company (usually for less than the current market price).

Public market equivalent:
An analysis that compares a private fund's performance to a public benchmark or index.

Public-to-private transaction:
When a private equity firm acquires all the shares of a public company, changing the company's status from public to private.

R

Recapitalization:
An investment strategy that involves restructuring a company's debt and equity mixture.

Residual value to paid in (RVPI):
The value of all remaining investments in a fund relative to the amount limited partners have contributed the fund.

Return on investment (ROI):
The percentage of profit or loss that resulted from an investment.

Reverse merger/Reverse takeover:
When a private company acquires a public company.

Reverse termination fee:
A fee paid by the buyer if it breaches or decides to terminate a definitive acquisition agreement.

S

Secondary market:
When one limited partner sells its alternative investments to another limited partner. Limited partners do this for a variety of reasons, including to adjust their asset allocation.

Seed:
The first stage of venture capital investment, before early stage.

Senior debt:
The debt that takes priority over other securities in the event of liquidation.

Series A–D+:
The identification of venture rounds after seed.

Share deal:
When the shares of a target company are acquired.

Share purchase agreement:
The final contract between parties involved in a deal that is subject

to a number of condition precedents determined during negotiations.

Sovereign wealth fund:
A state-owned investment fund designed to protect and/or grow a range of financial assets, including stocks, bonds and natural resources.

Spin-off:
A type of divestiture that creates an independent company through the sale or distribution of new shares of an existing business or division of a company.

Staple financing:
A pre-arranged financing package offered to potential acquirers that includes all the details of a lending package. The name comes from the fact that the financing details are stapled to the back of the acquisition term sheet.

Step-up multiple:
The difference between the post-valuation of a company's previous VC round and the pre-money valuation of its new round.

Strategic acquisition:
When a corporation acquirers a company for its technology, products or services.

Subordinated debt:
Loans that have a lower priority than senior debt in the event of liquidation.

T

Target company:
The entity purchased by an acquirer.

Target working capital:
An amount recorded during negotiations to reflect a historical analysis of the working capital requirements of a target company. It reflects closing accounts as well as an increased or decreased price if a target company has more or less working capital than the target capital on the date of the closing accounts.

Total value to paid in (TVPI):
The value of all remaining investments in a fund plus the value of all distributions relative to the amount limited partners have contributed to the fund.

Tranche:
A portion of an investment dependent on a company hitting certain milestones. Every trancheof a round is part of the same round.

Transaction fees:
The amount private equity firms charge the companies they acquire (typically between 1% and 2%).

U

Underwriting:
When investment banks issue debt and equity securities on behalf of corporations and governments to generate investment capital.

Unicorn:
A venture capital-backed company with a valuation of $1B or more.

V

Venture capital:
A type of private equity investing that focuses on startups and early-stage companies with long-term, high-growth potential.

Vintage year:
When a fund closes and starts investing.

W

Warrant:
A security that gives the holder the option to purchase a company's stock at a predetermined price for a specified period.

Working capital:
The customers, suppliers, inventories and other assets and liabilities required for day-to-day operations of a target company.

Z

Zombie fund:
A fund that invests all its committed capital, but holds onto investments longer than normal to continue collecting management fees.