

Jon Moulton's Alternative Guide to Venture Capital

This article was written by Jon Moulton to help Venturedome.com readers to gain a better understanding of the VC industry and how it operates. It is a selected dictionary of oft-used phrases to cut through the bull.

A: Asset strippers and / or Alchemy. Take your pick; perceived (unjustly) as interchangeable. Also: Accountants. As in investigating accountants. An oxymoron.

B: Buyers is what VCs are; Byers is who they avoid. Also: Business Plan. Winner of the Booker Prize for Fiction. Vital to securing an investment. Treated like an embarrassing relative post-investment.

C: Carried interest. The percentage of the profit on a transaction that goes to the partners of the VC firm. Known as "carry" as in "too much money to carry"

D: DCF analysis. Deceit by Computer Fraud. A highly scientific and extremely unreliable method of valuing companies. Also: Due Diligence. The (sometimes optional) process of finding out what you're buying. Ideally before you buy it.

E: Envy ratio. The ratio between how much money a management team makes and how many workers they make unemployed. Also: Exit. The only door a VC can see.

F: Frost on Sunday - a VCs favourite interviewer. Also first letter of FOSB - an impolite decline. Also: Failure. Unimaginable.

G: Greedy bastards. That's management. And us.

H: Hockey stick. Every self-respecting business plan (see B) should have one. Shows the smooth line progression from heavy start-up loss to Microsoft-levels of profitability that is every start-up's birthright. Hockey sticks are useful for beating management over the head with when they don't happen.

I: Internet. The medium by which a number of stupid and unlikely people have made millions. And lost them again. To be approached with caution. Also: Incubator. Where teenagers lecture entrepreneurs on the facts of business life (how much they can sell their Pokemon cards for; the latest Teletubby stories etc.). Would-be investment executives work at incubators until they're old enough to join a proper firm.

J: Jersey - where many VC funds are domiciled. Because they like the weather.

K: Kindergarten. See Incubator.

L: Loads money. Also see A, C, E, G and P. A recurring (aspirational) theme. Also: Lawyers. A necessary evil. Apparently.

M: Management. To be blamed for poor investments. Also: Moulton. To be praised for excellent investments.

N: NPV - No Positive Value. Another widely used and largely useless valuation technique. Also: non-executive director. The excuse a VC makes for charging extortionate annual fees for a monthly visit. During this visit they will (a) eat your biscuits, (b) drink your coffee (c) use your toilet (d) tell you to "work harder" and (e) ask for directions to the exit (also see E).

O: Opportunist. An oft quoted criticism of venture capitalists. What the critics don't realise is that it is the nicest thing said about VCs

P: Profit and P45. VCs seek to make one by handing out lots of the other. Also: Private Equity - VCs like to keep private just how much equity they own. Also: Portfolio Company. Like children - cute to look at in the early stages, then they start spending your cash and ruining your records, before you finally lose patience with them and boot them out of the family home.

Q: Quantum leap. What lemmings believe in before they invest in dot.com start-ups. Also: Question. Obvious and usually unacceptable evidence of disbelief.

R: Receivership. An alternative exit strategy. Very popular with American VC firms in the late 1980s/early '90s.

S: Stock Exchange. Where large numbers of old economy companies have historically been put out to pasture. A slow lingering death awaits. A happy hunting ground for VCs. See A. An unlikely exit scenario unless you have little revenue and no profits.

T: Trade sale. What a VC tells his investment committee when he can't think how to exit a deal Also: Terrible deals. What the

competition does.

U: Unions. A VCs greatest ally. Particularly helpful in restructuring dying businesses to meet the needs of the market economy. We're all capitalists now.

V: Venturedome. Supplier of news, information, and enlightening articles to and about the VC community. Prospectus available on-line. Floating float date. Also: Vendor. What a VC screws. Until he becomes one.

W: Warranties and indemnities. A guarantee (backed up with financial penalties) from the vendor to say they've been honest 'guy. Useful in negotiation with vendors (also see V). Also: Window of opportunity. What a management team always promises. Not to be confused with defenestration - what happens to a management team when the window of opportunity fails to materialise.

X: Xtra desperate dictionary entry.

Y: Youngster. Dot.com manager.

Z: Zero sum game. Pleasant way of generating M&A fees.