<u>Startup Lexicon</u>

(Beware, this is a living, breathing document that will be updated and may contain biased nuances by yours truly). I've tried to **Bold** stuff that has a definition elsewhere in the lexicon.

<u>0-10</u>

3F's - Usually the first investors in a startup, Friends, Fools & Family are the people closest to you that want you to succeed and either give you money to stop pestering them or to genuinely support you on your journey.

<u>A</u>

ASA - Advanced Subscription Agreement - kinda like a UK SAFE note (see **SAFE**) - it's a way of people subscribing and paying into an investment round which converts at a future date based on a capped valuation of your startup

Articles of Association - What people promise to do and the Directors responsibilities in writing at the outset

Allotment - Somewhere you grow vegetables. Also an allocation of shares to someone for money, services or a tax break.

Ambivalence - Something you assume all investors to have about your startup, which may also be interpreted as diffidence

Angel - Someone who wants to invest in early stage Startups. Could bring connections, insight and more as well as money. Or could be a dementor that takes up more of your time than binge watching Game of Thrones from front to back.

Accelerators - Somewhere you can go to get critical friends who can help you get your startup going at an early stage. Some come with cash attached. They'll run structured programmes, provide mentorship and connections.

Acquisition - When someone buys a company

ARR - Annual Recurring Revenue - how much you are/will be earning each year, year on year.

<u>B</u>

Bad Leaver - It's what it sounds like. Someone who's attached by shares in some way to the company that's a pain in the ass. You need Bad Leaver clauses in your **Shareholders Agreement** to protect the business so pains in the ass don't get shares when they leave. They're usually either early co-founders or people who've done a bit of work that's massively outweighed by their **Equity** expectation in the early stages.

Bootstrapping - The act of eating Ramen Noodles constantly and selling favours for money to get your startup off the ground with zero outside investment. You do this by **no-coding,** begging and borrowing your way to a proof of concept

B2B - Business to Business - the act of one business selling something to another business rather than general consumers. You'll either sell to peers, **Enterprise** companies or small to medium enterprises (**SME**'s). Payment terms and sales cycles are worst with enterprise.

B2C - Selling to consumers, the general public. Takes a lot of money and you really have to understand your buyer persona. Whatever figure you think you need to raise to get traction in the market, times it by at least 2.

Bubble - Two meanings here. One is when people artificially stimulate hype to make something big, then the bubble bursts and shit hits the fan with everyone blaming each other. **cough** FTX **cough**.

Burn Rate - How fast are you burning through cash post investment? How long will your money last? How many months? Hence burn. Investors are particularly interested in how long your burn rate is. Do not crash AND burn, people get upset.
Business Plan - the second greatest work of fiction behind the Financial Forecast. This is a detailed version of the pitch deck that shows you've thought operationally about how the business will grow and succeed.

<u>**C**</u>
C-Corp - (US) A company that limits liabilities against its shareholders if it fails.
Cap Table - A register of how many shares a company has and who owns them.
Cash Flow (forecast, positive, negative) - That scary thing you build that says how much money you'll generate, and then as you maintain it, you'll either be making more money than you spend each month (positive) or burning cash (negative). Try and keep positive. Like generally. But definitely try and keep Cash Flow positive.
Churn - How many staff or customers you lose. You'll lose some, try not to lose too many.
Cliff - Nobody hurls you off one as the days of sacrificing people to deities is generally over. You may feel like providing offerings to said deities in the initial days after launch when nobody buys anything, but hold tight. In Startup context it's related to Vesting schedules (so if someone is naughty, they get their shares taken off them or if they leave before they're due some shares. Happens to founders too, so be careful what you agree to).
Convertible Note - An instrument to raise money. In essence someone lends you money that will convert at some point in the future to **Equity**. May need to be serviced as a loan with repayments until that point.
Co-working Space - Like a really costly Incubator with all the tea and coffee you can drink and awful internet. Usually sat next to someone really annoying.
Credits - Lots of people who supply services or products to startups will offer these (like AWS, Stripe, IBM, etc.). They don't get high on their own supply but they will help initially with free credits for stuff to get you going. Then you're addicted and BAM!
Crowdfunding - The act of asking many people for money for once via a platform full of mini investors. They'll usually want you to get people to pony up half the cash as a commitment to a round before they can be bothered putting it in front of their audience. Then they'll charge you a percentage for the whole amount raised, including the investors you already found. Can be used as a marketing tool though and a way of gaining users at the same time as investors. You'll need to budget for a video and branding before you do it.
Customer Lifetime Value (CLV) - How much a customer is worth during the lifetime of their engagement to your company.
C-suite - Chief of or Chief Executive, etc. Bullshit titles us founders give ourselves when there's only 3 people in the company to indicate our specialism.

<u>**D**</u>
Data Room - Somewhere you keep a digital record of the stuff investors will want to see before investing in your company.
Deck (The Pitch Deck) - You need one of these. It's an iterative document that you use to showcase your business to investors in an impactful (and brief) way. We teach you how to build one.
Delaware Setup - When a startup wants to sell into the US market they often set up a **C Corp** in Delaware as it's fairly straightforward.

Demographic - Your people, your tribe, your customers. The demographic for Magic Sauce is early stage entrepreneurs who need startup lexicons and help getting their strategy straight.
Dilution - how much someone loses as a percentage of equity at each investment round.
Disruptor/Disruptive - You or your idea. Ugh. So overused. If you really are going to disrupt something or use this term, your '**Why Now'** and **Solutio**n slides had better be strong.
Due Diligence - this is something investors do before investing. They'll check out your **data room**, maybe do some background checks, etc. It's also something you should do on investors and suppliers.

E
Early Adopters - They're not people who take on small children as their own. They're the people who will be the first users/buyers of whatever you're selling. These people are gold dust and they needed to be treated well. The first building blocks of your Net Promoter Score.
EBIT/EBITDA - Earnings before taxes and shit. A financial document that shows the cashflow position of a company. Not a **Forecast**. Therefore more attached to reality.
Ecosystem - The people who support and surround you. Your ecosystems will be virtual, local, global. They may provide services, advice, money. It's everything you need to make your business a success.
Equity - Everyone in a business has equity. As a founder you may own 25, 50, 75% of the business. That is your equity. When you sell a part of your business for equity, you create shares (or sell some of your own to someone as Secondaries). This allotment of shares is called equity and equates to a percentage of the business.
Elevator Pitch - We help you build one of these using the 6M's. It's essentially a summary of you and your business that you could give someone else within the time constrains of a journey in an elevator.
Entrepreneur/Techpreneur - Someone with creativity, grit, an ability to learn and a few screws loose who starts a business.
Evangelist - May or may not have a tambourine, banner or your merch, but they're definitely fans of what you do. Nurture them, feed them.
Exit Strategy - How will you make people their investment back times 10 and make you so rich you can go do some good in the world/buy a small island and plot world domination? Your exit strategy may be selling to another company (**M&A**), floating on a stock exchange (**IPO**) or a **Management Buyout**. "Burning this m'fer to the ground" does not equate to a reasonable exit strategy in the mind of any investor.

F
First Mover Advantage - As rare as rocking horse shit because no idea is truly unique, but if you are doing something really different (first), then you'll have first mover advantage by being the first onto the market with that solution.
Financials (or Forecast) - The greatest work of fiction anyone can attempt to write or digest. Try and use accepted means of realistically forecasting what you'll sell and how much that will cost.

Freemium - Giving something away free that's a really diluted version of your full product, that's enough to get people engaged, using it and eventually paying for added features of. Think Dropbox. Or any mobile game that you haven't paid up front to use. They'll get you somewhere. Right up there with **Credits**.

G

Gamification - Where you incentivise someone to do something inside your product. You may offer an opportunity of a years free subscription when 10 people you share their product with sign up for instance.

Growth Hacking - Scaling your business on the cheap, quickly. Using cheapest possible methods of advertising through knowing your customer persona and where they hang out online to drive early engagement and user growth.

H

Hackathon - Somewhere with really poor broadband that people gather in to build a product in within a set timeframe. Expect to find lots of sweaty, exasperated people beating their head against the small amounts of available flat spaces. Great fun though.

Hockey Stick - If you're a pre-seed company then please, in the name of all that is holy, don't put a hockey stick graph on your financials slide. Investors no longer find this humorous. If you're a seed company and you're already part way up that hockey stick, go for it.

I

Incubator - somewhere you get a free/discounted desk and a programme of regular events where you meander along drinking coffee with similarly minded people until you realise that you're stagnating badly. A **Co-Working Space** with events.

IP - Intellectual property. Mostly not worth the paper it's written on unless you're making a scientific, hardware or deeptech breakthrough. Protect your Trademarks and Copyright stuff if you don't fall into these categories. IP protects stuff that is unique to you that gives you a distinct advantage, but only if it is UNIQUE.

IPO - When you float your company on the stock exchange because everyone wants a bit of it. Or because your bank told you that stock was hot because they had a tip off a VC buddy (pre-2022 because the **Bubble** popped).

J

Job - Something an entrepreneur longs to go back to in their darkest days/something someone else has who's judging you as an entrepreneur.

K

KPI's - Ugh. Key Performance Indicators. What are your success Metrics? What are the data points that show you're succeeding?

L

Lead investor - That brave soul that leads a round of investment. You'll realise their value when nobody wants to lead and everyone wants to follow. Aaaaaargh.

LinkedIn - A platform where recruiters tell us how they gave money to a homeless guy that transformed his life and former founders post videos of them crying when their shit decisions cost people their jobs. Also a great place to find customers, investors and deal flow. If you're really savvy, you'll learn a LOT on there.

M

Magic Sauce - **A font of knowledge for early stage startups where you can find awesome stuff like this! - Our link is in the name if you want a look. We're a diversity and educatio first platform built to educate founders & investors.**

Metric(s) - The data (forecast or real) that show you've either researched or know costs and levers of growth.

MRR - Monthly Recurring Revenue. Really important Metric for early stage companies that can demonstrate early revenue and revenue growth.

N

NDA (Non Disclosure Agreement) - A mutual agreement of confidentiality between two parties. Pretty much unenforceable unless notarised. Don't send them to investors. They see a lot of stuff and your unique idea is unlikely to be unique enough to make them sign it.

Non-Dilutive Shares - Hell no. Shares that don't dilute through rounds. Road to hell. Avoid.

O

Operating Agreement - See **Articles of Association**

Options - Shares that can be accrued or activated such as a Share Option Pool you may offer for staff as an incentive.

P

PAAS (Platform as a Service) - A cloud computing service category which provides a foundation upon which customers can develop, operate and manage multiple app functionalities without the need to develop the underlying infrastructure.

Patagonia - A historic Welsh settlement in Argentina. Also a clothing brand where their Gilet is adopted as a uniform for event attending VC representatives.

Post Money Valuation - The Valuation of a company immediately following an investment round based on total number of shares multiplied by the share price.

Pre Money Valuation - The Valuation of a company prior to investment.

Pre-seed - A round of investment or stage of a startup where it's as early as pre-product or as late as MVP and early sales.

Product Market Fit - If you're raising finance and you already have this, there won't be a dry seat in the house when courting investors. You know who your customers are, you're solving their pain point and they're paying money for your product.

Pro-Rata Rights - The ability based on an agreement to invest in future rounds of investment to maintain a level of shareholding.

R

ROI (Return on Investment) - How much someone gets back on the basis of investing or spending on something. Typically, early stage investors would like 10.

Reverse Vesting - Unusual in super early investment rounds. It's an agreement that founders will give a bunch of shares back if they jump ship/get pushed before a certain date in the company's development.

S

Seed - A name of an investment round or stage of development of a startup where they're likely to have PMF and are needing money to scale. First proper round of investment that's unlikely to include your former babysitter or your hairdresser.
Series A - Where shit gets serious. Most likely the first VC only round (some **Angels** go to A but it's not the norm). Harder **due diligence**. May have added exposure to **Patagonia** Gilets.
Serviceable Addressable Market (SAM) - Your realistic Go-to-Market size
SHA (Shareholders Agreement) - As the name suggests, it's an agreement between shareholders of a company assigning rights and who makes up the board.
SAFE (Simple Agreement for Future Equity) - Developed by Y Combinator, it's a means of gaining investment against a future promise. So you can get multiple people signing up and investing with the promise you'll give them shares at a future date at a capped valuation.
SAAS (Software As A Service) - Cloud based software, usually subscription based.
Share of Market (SOM) - How much of the market to you think you'll obtain, or how much market share do you have (the percentage of customers/revenue you have against your competitors)
Startup - A place where innovative people go to test the resilience, aptitude and resolve of their family.
Sweat Equity - Where someone does work for a Startup based on gaining shares rather than monetary remuneration. Think about **Vesting…**

T
Tag along/Drag along - Provisions in a Shareholders Agreement that permit investors under certain defined circumstances to sell their shares if you sell yours (tag), or force you to sell your shares if they sell theirs (drag). Too right it can be a drag.
TAM - Total Addressable Market - if you could sell your product to everyone that buys your kind of product, what would the value of that market be? Module on this too (and a calculator)
Term Sheet - A non-binding agreement between investors and founders that frames the agreement they'll all be subject to when completing the round.

U
Unicorn - A mythical creature/A startup that gets rapidly fattened and hyped prior to sale….ok…it's a company that goes on to a 1bn valuation.

V
Valuation - Knives at dawn time. Do your homework on it. See the Magic Sauce modules.
Venture Capital - Given by companies who raise money coalesced into funds with specific investment remits. Used to be for Series A onwards but now cover most of the lifecycle of startups.
Vesting - Shares being given at trigger points like milestones being hit by a company or member of staff or someone doing stuff for sweat equity. Incentivises a job being done well and on time.

W
Water - Anyone with connections to the startup world carries outsized water bottles that can empty a water machine in one refill.

Z

Zebra - A stripey African horse like animal that makes "woop woop" noises. They seem a bit angry.