

MUST-KNOW

VENTURE CAPITAL

TERMINOLOGY

#01 PRE MONEY & POST MONEY VALUATION

Meaning

- **Pre-Money Valuation**
 - Company's value before receiving new investment.
- **Post-Money Valuation**
 - Pre-Money + New Investment.

Why It Matters

- Determines the investor's equity ownership. If you invest \$2M in a \$10M post-money company → you own 20%.

Example

- If a startup is valued at \$8M pre-money and raises \$2M, the post-money valuation would be \$10M.

#02 CAP TABLE (CAPITALISATION TABLE)

Meaning

- Spreadsheet showing who owns what — founders, investors, ESOP pools, and their share classes.

Why It Matters

- Used to calculate dilution during new rounds and understand control dynamics.

Example

- Before Series A, founders own 70%, angel 10%, ESOP 20%. After new investors enter, dilution adjusts these ratios.

#03 LIQUIDATION PREFERENCE

Meaning

- Defines how proceeds are distributed if the company is sold or liquidated.

Common Structures

- **1× Non-Participating**
 - Investor gets back their investment (*or converts to common shares*).
- **1× Participating**
 - The investor first gets back their investment and shares in the remaining upside.

Example

- If an investor put \$5M at 1× participating preference and the startup sells for \$20M, they get \$5M first + their share of the remaining \$15M.

#04 ANTI-DILUTION CLAUSE

Meaning

- Protects investors from down rounds (when new shares are issued at a lower valuation).

Types

- **Full Ratchet**
 - Adjusts earlier investors' price fully to the new lower price.
- **Weighted Average**
 - Adjusts partially, factoring both old and new prices.

Why It Matters

- Impacts founder dilution — aggressive clauses can heavily penalise founders in tough markets.

#05 PRO-RATA RIGHTS

Meaning

- Gives existing investors the right (but not obligation) to maintain their ownership % in future rounds by investing proportionally.

Example

- If a VC owns 10% and a \$10M Series B is coming, they can invest \$1M to stay at 10%.

Why It Matters

- Let's early investors double down on winners and avoid dilution.

#06 CONVERTIBLE NOTE/SAFE

Meaning

- Short-term instruments used in early rounds that convert to equity later.

Key Components

- **Discount (e.g., 20%)**
 - Gives early investors a cheaper conversion price.
- **Valuation Cap**
 - Maximum valuation at which conversion occurs.

Example

- SAFE with \$5M cap converts into shares at next round's price or \$5M cap (whichever is lower).

Why It Matters

- Simplifies early-stage investing without negotiating full valuation.

#07 CARRIED INTEREST ("CARRY")

Meaning

- Profit share that fund managers (GPs) receive after investors (LPs) are paid back.

Typical Structure

- 20% carry on profits after returning capital.

Example

- If a \$100M fund returns \$300M, profit = \$200M
→ carry = 20% of \$200M = \$40M to GPs.

Why It Matters

- Aligns fund manager performance with LP success.

#008 TVPI, DPI & IRR

Meaning

- Core metrics to evaluate VC fund performance.
 - **TVPI (Total Value to Paid-In)**
 - Total fund value ÷ invested capital — shows the overall multiple.
 - **DPI (Distributions to Paid-In)**
 - Cash returned ÷ invested capital — actual realised return.
 - **IRR (Internal Rate of Return)**
 - Annualized % return considering timing of cash flows.

Example

- A \$100M fund currently worth \$250M → TVPI = 2.5×; if \$120M already returned → DPI = 1.2×.

#009 DOWN ROUND

Meaning

- When a startup raises capital at a lower valuation than its previous round.

Example

- If Series A valuation = \$100M, but Series B = \$70M, existing investors' shares get repriced lower.

Why It Matters

- Signals reduced investor confidence or slower growth.
- Triggers anti-dilution clauses, causing heavy founder dilution.

#10 EXIT MULTIPLE

Meaning

- Ratio of total exit proceeds to total capital invested in a company or fund.

Formula

- $\text{Exit Multiple} = \text{Exit Value} \div \text{Total Invested Capital}$.

Example

- If a VC invested \$10M and sold its stake for \$50M → $\text{Exit Multiple} = 5\times$.

Why It Matters

- Helps compare outcomes across deals and funds irrespective of size.

SUMMARY SNAPSHOT

Concept	Focus	Quick Insight
Pre/Post-Money	Valuation	Determines ownership %
Cap Table	Ownership	Tracks dilution
Liquidation Preference	Exit	Controls payout order
Anti-Dilution	Protection	Shields from down rounds
Pro-Rata Rights	Follow-on	Maintain equity stake

SUMMARY SNAPSHOT

Concept	Focus	Quick Insight
Convertible Note / SAFE	Early stage	Delays valuation
Carried Interest	Fund economics	GP profit share
TVPI / DPI / IRR	Performance	Measure fund success
Down Round	Valuation trend	Negative signal
Exit Multiple	Return metric	ROI per deal

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Rigorous interview practice through **real-time guesstimates solving & buddy teams for mock cases.**

Placement Assistance through access to employee referrals by our consulting mentors. Job opportunities from our **hiring partners.**

Live case project (& certificate) with a real life client & business problem. **CV templates & interview preparation resources along with 1:1 Mentorship.**

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