A Guide to UK Venture Capital Terms for Entrepreneurs

Accelerator
Also called Incubators, a programme that aims to accelerate the growth of start-up companies through mentorship, brokering connections, and providing services and infrastructure (such as office space) for small portions of Equity in participating companies.

AIM
The Alternative Investment Market (AIM) is a stock market operated by the London Stock Exchange designed for younger, high-growth companies. Admitting a company to AIM would be an Exit Event for its investors.

Angel Investor
An investor (often a successful entrepreneur) who invests in early stage companies and who sometimes provides a mentoring role for the company's Founders.

Anti-Dilution Adjustment
Also called a Ratchet, a mechanism designed to maintain an investor's percentage shareholding (at no or nominal cost to the investor) if the company issues further shares at a lower price to the one paid by that investor. There are two basic types of Anti-Dilution Adjustment: a Full Ratchet Adjustment and a Weighted Average Adjustment - both of which are defined below.

Articles
A company's articles of association set out the company's rules and procedures. The Articles of a UK company are public and can be accessed through the Companies House website. The Articles represent a binding contract between the company and each of its shareholders. Articles are often supplemented through a Shareholders' Agreement or an Investment Agreement (neither of which are public documents).

Asset-Backed Lending
Lending to a business that is secured by assets, such as inventory, accounts receivable or other balance sheet assets. A common form of Asset-Backed Lending is Invoice Discounting.

Bad Leaver (see also Good Leaver)
A mechanism through which shares held by an employee can be bought back by the company (or purchased by the other shareholders) at a heavily discounted or nominal value if the employee leaves for 'bad' reasons. Bad reasons usually mean employment ceasing because the employee has committed a serious breach of his/her employment agreement or hands in his/her notice to the company.

Balance Sheet
A statement which confirms the net worth of a company on a given date by setting out the assets, liabilities and the shareholders' Equity.

Bootstrapping
When a start-up business is funded by its Founders or its own revenue.

Bridge Loan
A short-term loan intended to provide a company with working capital until more comprehensive longer-term financing can be arranged. Bridge Loans may also be a Convertible Loan.

Burn Rate
The rate at which an early-stage company consumes cash to cover its operating expenses.

Business Plan
A document which sets out the concept and goals of a business, and how it will achieve those goals. A Business Plan will also set out how a business is going to be financed, operated and marketed.

Business Property Relief (BPR)
A relief from inheritance tax on the transfer of a trading business or a shareholding in a trading business. BPR is also available on the transfer of shares in an AIM quoted company.

Capitalisation Table (Cap Table)
A table setting out a company's shareholders which shows the class of shares held as well as shareholdings (in actual numbers and as percentages). A Fully Diluted Capitalisation Table includes shares that would also be issued if all Share Options, Warrants and Convertible Loans were exercised.

Cashless Exercise
The right to exercise a Share Option or a Warrant without actually paying cash for the shares. This method is frequently used when Share Options and Warrants are being exercised immediately before the sale or IPO of a company (with the result that the proceeds allocated to the exercising holder are reduced by the amount of the Exercise Price and any associated tax).

Companies House
The public register of all UK companies which gives details of the directors, share capital, shareholders, Articles, annual financial statements and registered charges of every UK company and LLP. Companies House is now fully accessible online at www.companieshouse.gov.uk

Confidentiality Agreement
See Non-Disclosure Agreement.

Consent Rights (see also Reserved Matters)

A specific set of veto rights over key strategic or operational decisions or over decisions which affect a company's share capital or share rights. These veto rights are reserved for specific shareholders (commonly investors but sometimes also Founders) or blocks of shareholders (for example, shareholders with 75% or more of the shares).

Conversion Rights

Rights to convert a type of share (such as Preferred Shares or Preference Shares) or a Convertible Loan into Ordinary Shares. Investors often insist on subscribing for Preferred Shares in an early stage company which give enhanced rights, often including the right to convert them into Ordinary Shares (see Preferred Shares).

Convertible Loan

A short-term loan from an investor which can be converted into shares in the company. Convertible Loans are a useful tool to fund very early stage companies for which a Valuation is hard to determine until it has completed a proper Equity funding round.

Convertible Shares

Shares (usually Preference Shares or Preferred Shares) which carry the right to be converted into Ordinary Shares in accordance with an agreed ratio. See Conversion Rights.

Co-Sale Right

Where an investor or investors are selling their shares in a company, a Co-Sale Right gives a fellow investor the right to sell a proportionate number of its shares to the same buyer on the same terms.

Crowdfunding

Raising debt or Equity capital for a business through an internet-based platform (like Crowdcube, Seedrs and Kickstarter) from many small private investors.

Data Room

A secure, electronic site on which a company posts information about itself and its business, giving access to that site to potential investors, buyers and their professional advisors.

Deadlock

A position a company can find itself in if its shareholders cannot agree on a particular course of action which requires unanimous consent. Some Shareholders' Agreements contain procedures to resolve a Deadlock (which usually require one shareholder to buy out another) while others leave it to shareholders to resolve a Deadlock themselves.

Debt for Equity Swap

An arrangement under which lenders exchange some of their debt in a company for Equity. A Debt for Equity Swap can improve a company's Balance Sheet and ease cash-flow concerns where further credit is not an option. Debt for Equity Swaps became common for heavily indebted companies with cash-flow difficulties during the Global Financial Crisis.

Dilution

What happens to the shareholdings of existing shareholders when a company issues more shares. VCs and other early stage investors are sometimes able to negotiate Anti-Dilution Adjustments to prevent them from being diluted on subsequent funding rounds (usually on a Down Round) in which they don’t participate. Shareholders typically have rights under UK company law to participate Pro Rata on future issues of shares (Pre-emption Rights). However, Pre-emption Rights can be dis-applied with the approval of a Special Resolution passed by shareholders.

Dividends

A distribution of cash by a company to its shareholders from available profits.

Double Dipping

See Liquidation Preference.

Down Round

An Equity fundraising round based on a lower company valuation than the previous round. A down round may trigger an Anti-Dilution Adjustment to protect existing investors from Dilution.

Drag-Along Right

A right for the majority shareholders who want to sell a company to force the minority shareholders to participate in the sale. The corresponding right given to minority shareholders who wish to participate in a sale of shares by the majority shareholders is called a Tag-Along Right. Drag-Along Rights and Tag-Along Rights are commonly set out in the Articles.

Due Diligence

An assessment made of a company, its business and its management by a potential investor or buyer and their professional advisors. Due Diligence can focus on, among other things, financial information, technology, intellectual property, products and services, market positioning, legal compliance and risk management.

EMI Option

A Share Option granted under the Enterprise Management Incentive scheme, a tax-efficient Share Option scheme sanctioned by HMRC and to which certain qualifying rules and restrictions apply. EMI schemes allow early stage companies to incentivise employees in a tax-efficient way without material cost to either the company or to the employee. EMI schemes are standardised, well-understood and very popular with high growth companies.

Enterprise Investment Scheme (EIS)

A popular HMRC scheme designed to promote investment in growing private businesses through the use of investor tax reliefs. Under EIS, a qualifying ‘knowledge intensive’ company can receive up to £10 million a year in new investment. There are various rules and conditions which apply so care is needed if a company wants to make EIS relief available to its UK investors. See also Seed Enterprise Investment Scheme or SEIS.

Entrepreneur's Relief

A popular UK tax relief which reduces the standard rate of capital gains tax to 10% on gains made on the disposal of qualifying assets (such as ordinary share capital in a trading company). Certain conditions apply, such as (i) a minimum one year holding period, and (ii) the selling shareholder must be a director or employee of the company concerned and hold a minimum of 5% of ordinary voting shares. Entrepreneur's Relief can be claimed on the first £10 million of applicable lifetime gains.

Equity

An ownership share in a business. If the business is a limited company then the equity is divided into shares. If the business is a Limited Liability Partnership (LLP) or a limited partnership (LP), the equity is divided into membership interests or partnership interests.

Equity Kicker

A Warrant or Share Option that is attached to a loan to a Company giving the lender the right to acquire some Equity in that company.

Exclusivity Period

Sometimes referred to as Lock-out or No Shop period, a period of time requested by a prospective investor in which it can carry out its Due Diligence on a company and negotiate the related investment documents. During the Exclusivity Period, the company and its Founders agree not to approach or negotiate with any other sources of funding. Unlike most elements of a Term Sheet, the part dealing with an Exclusivity Period will usually be expressed to be legally binding. Founders, if they agree to an Exclusivity Period at all, should try to keep it as short as possible.

Exercise Notice

A form that must be completed and returned to the company, along with the Exercise Price, in order to exercise a Share Option or a Warrant.

Exercise Price

Also called the Strike Price, the amount that must be paid to convert vested Share Options or Warrants into shares in the company. Often, the Exercise Price will be the accepted market value of the company's shares on the date the Share Options or Warrants are granted, rather than at the date of exercise. Sometimes the Exercise Price can be at a discount to the market value and sometimes it might be higher (a hurdle).

Exit Event (also Liquidity Event)

The event by which an investor and/or Founders intend to 'exit' their investment in a company, normally by way of an IPO or sale to another company (also called a trade sale). Winding up and liquidating the company is also an Exit Event.

Financial Promotion Order (FPO)

The FPO regulates how and to whom an investment opportunity can be promoted. The rules are designed to protect investors. Generally, unless an investment opportunity is being promoted by or with the approval of a person or organisation regulated by the Financial Conduct Authority, it can only be promoted to certain exempted classes of investor (such as certified high net worth individuals, or qualified investment professionals) and even then only if the promotional material contains investor health warnings. Because of the FPO, companies should take care that any information they distribute as part of a fundraising (such as a Business Plan or an Information Memorandum) contains appropriate investor health warnings and disclaimers and is distributed only to exempt classes of investors.

Flowering Shares
See Growth Shares

Founder
The founder of a start-up business.

Friends and Family Round
Early stage capital provided by friends and family of Founders - typically the first outside capital. At this stage of its development, the start-up is generally too early to raise capital from Angel Investors or Seed Investors.

Full Ratchet Adjustment
Method of total protection from Dilution which protects an investor's shareholding percentage from decreasing as a result of new shares being issued to other investors at a lower price (see Downround). Under a Full Ratchet Adjustment, Preferred Shares held by the protected investor are converted into Ordinary Shares at lower (ratcheted-down) price per share offered to the Downround investors. The effect can result in heavy Dilution for the Founders. See also Weighted Average Adjustment.

Fully Diluted
The total number of shares that would be issued if all possible Share Options and Warrants and Convertible Loans were to be exercised/converted and became shares. See also Convertible Loans, Convertible Shares, Option Pool, Share Options and Warrants.

Golden Handcuffs
A financial incentive that discourages Founders and/or key employees from leaving a company before certain milestones or an Exit Event. This could be a cash bonus or, more tax-efficient, Share Options and Growth Shares. When the Founder or employee leaves, Share Options which are still Vesting will lapse and most Growth Shares can be bought back at a much reduced value.

Good Leaver (see also Bad Leaver)
A mechanism through which shares held by an employee can be bought back by the company (or purchased by the other shareholders) at their full value if the employee leaves for 'good' reasons. Good reasons usually mean employment ceasing because of the employee's death or ill-health or because the employee has been made redundant or been given notice by the company.

Ground Floor
A term used for the first stage of a new venture or investment opportunity.

Growth Shares
Shares which enable key employees to participate only in the future growth of a business (often expressed as a value hurdle which, once overcome, allows the holders of Growth Shares to share in the proceeds of an Exit Event over that hurdle). As Growth Shares are of limited value when they are issued, it is usually possible to issue them at a low value without triggering unwanted income tax charges. On an Exit Event, the increase in their value should be taxed as capital gain and not at the higher income tax rate. The value of Growth Shares when issued cannot be agreed in advance with HMRC so care is needed when implementing this type of scheme. Growth Shares are also referred to as Hurdle Shares or Flowering Shares.

Heads of Agreement/Heads of Terms
See Term Sheet.

HMRC
Her Majesty's Revenue & Customs, the UK's tax collection and enforcement agency.

Hurdle Shares
See Growth Shares.

Incubator
A company or facility designed to foster entrepreneurship and assist start-up companies to grow through the use of shared resources, management expertise and intellectual capital. Incubators will usually provide support in exchange for Equity in the company. Many universities operate incubators for their spin-out start-ups. See also Accelerator.

Information Memorandum
A document which describes the company and its business to potential investors or purchasers. See also Financial Promotion Order.

Initial Public Offering (IPO)
The first time shares in a company are offered on a stock market or securities exchange (such as AIM, the Main Market of the London Stock Exchange or Nasdaq). It is at this point that a private company becomes a publicly quoted company and its shares can be publicly traded.

Inside Round
A round of financing entirely composed of existing investors.

Internal Rate of Return (IRR)
A way of measuring the profitability of an investment. The IRR is expressed as a percentage and calculated by comparing the annual profit generated with the amount invested. The reference to internal means that in calculating IRR, external factors like the cost of capital and inflation are not taken into account.

Investment Agreement

An agreement setting out the terms upon which an investor invests in a company (including any enhanced rights that an investor has negotiated). See also Subscription Agreement.

Investor Director
A director appointed to the board of a company by a major investor or group of investors. The right to appoint an Investor Director will often be referred to in a Term Sheet and set out in an Investment Agreement.

Investor's Relief
Similar to Entrepreneur's Relief but this capital gains relief is aimed at investors rather than the entrepreneurs they back. The relief reduces the investor's rate of capital gains on the sale of ordinary shares in a private trading company from 20% to 10%. Certain conditions apply, including a three year holding period. Like Entrepreneur's Relief, Investor's Relief is subject to a £10 million lifetime limit.

Invoice Discounting
A commercial borrowing facility which is secured against a company's receivables. The amount made available under the facility will typically be around 70-80% of the total value of outstanding receivables.

Lead Investor
An investor who invests the most on a fundraising and who will often represent the interests of all investors, perhaps agreeing to sit on the board as an Investor Director. The Lead Investor will often negotiation the Valuation of the company, which will set the price per share for the fundraising.

Letter of Intent
See Term Sheet.

Liquidation Preference
A right attached to Preferred Shares which entitles the holder (usually a VC or another early stage investor) to get its investment back first on a sale of the business or other Exit Event. The balance of the sale proceeds are then allocated to the ordinary shares. Sometimes, the Liquidation Preference means the investor first gets its money back and then its Preferred Shares convert into Ordinary Shares which then share in the balance of the Exit Proceeds. This is referred to as Double Dipping which is something early stage investors try to include in their Term Sheet.

Liquidity Event
See Exit Event.

Lock-up Period
The period an investor or Founder must wait before being able to sell or trade a company's shares following an IPO.

Management Buy-in (MBI)
An acquisition of a company by an external management team, usually backed by Venture Capital or debt (or a mixture of both).

Management Buy-out (MBO)
A buy-out of a company by its existing management, usually backed by Venture Capital or debt (or a mixture of both).

Mezzanine Debt
Debt financing commonly raised by cash flow positive companies. It will rank behind any primary debt and so is therefore more of a risk to the lender - and so attracts a higher rate of interest. It can sometimes have an equity instrument (such as a Warrant or a Share Option) attached to it as an additional benefit to the lender.

Non-Disclosure Agreement (NDA)
Also called a Confidentiality Agreement, a Non-Disclosure Agreement is a commitment by a potential investor or purchaser to keep confidential information that a target company provides about its business. If the investor or purchaser is also providing information about itself then the NDA will contain mutual commitments to protect all sides.

Observer
A person nominated by an investor or investors to sit as a non-voting observer at a company's board meetings. This right is sometimes requested by investors who do not want to be involved in the management of the company but who do want to know first-hand what is going on in the business.

Offer Letter
See Term Sheet.

Option Pool
A pool of share capital set aside for employees which is allocated to them through a Share Option scheme (such as an EMI Scheme). Option Pools commonly represent 5-10% of the overall share capital of a company (but can be more). Early stage investors will often try to agree that the percentage shareholding they get for their investment is based not only on all of the issue shares and options, but also on a Fully Diluted basis (i.e. on the assumption that all shares in the Option Pool have been issued). As a result of this, the Founders' percentage shareholding is Diluted when the Option Pool shares are issued - but the protected investor's shareholding isn't.

Ordinary Resolution
A resolution passed by shareholders who collectively hold a majority of the voting shares in a company.

Ordinary Shares
The basic voting share in the Equity of a company. Ordinary Shares carry one vote per share and entitle the holder to Dividends if and when declared but, unlike Preference Shares, no right to any fixed annual Dividend. See also Preferred Shares and Preference Shares.

Pari Passu
A commonly-used term which means every shareholder or class of share is treated the same way. So where an investor has a Liquidation Preference, this is an exception to the Pari Passu approach.

Patent Box
A tax relief which allows innovative companies to apply a lower rate of corporation tax (currently 10%) to the profits they derive from their inventions and innovations.

Pay to Play
A mechanism which incentivises existing investors to participate in a fundraising. Under a Pay to Play mechanism, an investor who doesn't participate will not only be Diluted but will also lose some or all of its enhanced rights under it enjoys through its Preferred Shares.

Portfolio Company
One of the companies in which a VC fund or other serial investor has invested.

Post-Money Valuation
The Valuation of a company that includes the capital provided by the current round of Equity funding.

Pre-Emption Rights (issue of new shares)
A shareholder's right to participate Pro Rata in a new issue of shares so allowing it to maintain its percentage shareholding in the company. This right can be dis-applied by passing a Special Resolution. Sometimes referred to as Rights of First Refusal.

Pre-Emption Rights (transfer of shares)
A shareholder's Pro Rata right to purchase shares offered for sale by another shareholder. This right is normally set out in the company's Articles. Sometimes referred to as Rights of First Refusal.

Pre-Money Valuation
The Valuation of a company immediately before a new round of Equity funding. For early stage companies, Valuation is difficult to assess because of the lack of trading history. Factors such as the nature of the business concept, Business Plan, its market, its intellectual property and the quality of the management team are therefore all relevant to an investor when agreeing a Pre-Money Valuation.

Preference Shares
Shares which attract a fixed annual dividend which must be paid before any dividends are declared on other classes of share (such as Preferred Shares and Ordinary Shares). Preference Shares also rank ahead of other share classes on a return of share capital and are generally redeemed (paid back) after a number of years. Preference Shares do not otherwise participate in the success of the company and also have very limited voting rights. They are a less risky investment than other classes of share and sit between debt and true Equity (even though they appear on a Company's Balance Sheet as Equity).

Preferred Shares
A type of equity security that has certain rights over and above those of Ordinary Shares. These rights may include Liquidation Preference, Conversion Rights, Redemption, Anti-Dilution Adjustment, the right to appoint an Investor Director and enhanced voting rights.

Pro Rata

In relation to shares, a shareholder's proportionate allocation of new shares or transferring shares, or of dividends, capital or sale proceeds, based on the total number of shares it holds as a proportion of the total number of shares issued by the company.

Profit and Loss Account

A financial statement setting out a company's net profit or loss over a given period.

Proof of Concept

A demonstration of the feasibility of a concept or idea that a start-up business is based on.

Ratchet

See Anti-Dilution Adjustment.

Redeemable Shares

Shares (commonly Preference Shares) which give an investor the right to have them bought back by the company. The company must have available cash (distributable reserves) to pay for the Redeemed Shares.

Research and Development (R&D) Tax Credits

R&D Tax Credits are a UK tax relief available to innovative companies that invest in developing new products, processes or services. For companies which are yet to earn profits, R&D Tax Credits can amount to a cash payment from HMRC.

Reserved Matters

See Consent Rights.

Restrictive Covenants

Certain restrictions placed on shareholders (particularly Founders) by investors in an Investment Agreement as a condition of making an investment. The common restrictions are a promise not to compete against the business and not to poach a company's customers, key suppliers and key employees. These restrictions typically continue for as long as the Founder is employed in the business and for a period of time afterwards if the Founder leaves.

Return on Investment (ROI)

The amount of profit realised on an investment. ROI is normally expressed as a percentage.

Rights of First Refusal

See Pre-emption Rights.

Run Rate

The run rate is how the financial performance (usually revenue) of a company would look like if the current results are extrapolated out over a certain period of time.

Seed Capital

The initial capital used when starting a business, often coming from the Founders' resources and a Friends and Family Round, used to cover initial operating expenses, demonstrate Proof of Concept, develop the Business Plan and put itself in the market for further investment by Angel Investors and VCs.

Seed Enterprise Investment Scheme (SEIS)

A popular HMRC scheme introduced in 2012 designed to promote Equity investment in start-up businesses. SEIS provides investors with tax reliefs which are even more generous than those offered by its older brother, EIS, which reflects the greater risk of investing in such an early stage company. Under SEIS, a qualifying company can receive up to £150,000 of new Equity investment. Like EIS, there are various rules and conditions which apply so care is needed if a start-up wants to make SEIS relief available to its UK investors. See also Enterprise Investment Scheme.

Seed Investor

Investors who provide equity funding in a company's Seed Rounds. Seed Investors might also be Angel Investors.

Seed Rounds

Equity funding rounds carried out by a company during its early stages after its initial Bootstrapping and Friends and Family Round. By the time a seed stage company is carrying out its Seed Rounds, it has normally demonstrated Proof of Concept, developed its Business Plan, protected its intellectual property, and is looking to generate revenue. See Seed Capital.

Series A Round

Following Seed Rounds, a company's first significant Equity funding from a VC or Angel Investors. Often the Series A Round investors will want Preferred Shares and various investor protections and Consent Rights, which will be summarised in a Term Sheet. A key element of a Series A Round is agreeing the Pre-Money Valuation upon which the new investors are prepared to invest, as this will dictate how much of the Dilution of the Founders' and existing investors' Equity.

Series B Round

Following a Series A Round, the second round of Equity funding for a company. The business will be expected to have achieved performance and development milestones and have a clear path to profitability. Series C and Series D rounds can follow depending on the company's progress and investor appetite.

Share Option

A right to purchase shares in a company in the future at a given price, the Exercise Price. Share Options are often used to incentivise key employees (see EMI Option). Share Options may be subject to a Vesting, meaning that the underlying shares can only be acquired in stages over time (a Vesting schedule). Sometimes Share Options may only be exercised just before an Exit Event.

Shareholders' Agreement

An agreement between the shareholders of a company which sets out their rights and obligations of the shareholders and of the company. A Shareholders' Agreement will contain Consent Rights, Restrictive Covenants, Deadlock provisions, as well as shareholder information rights and future funding obligations. Unlike the Articles, a Shareholders' Agreement is private to the shareholders and the company and need not be filed with Companies House. Sometimes called an Investment Agreement.

Special Resolution

A resolution passed by shareholders who collectively hold at least 75% of the voting shares in a company. Certain decisions require a Special Resolution, such as amending a company's Articles or dis-applying Pre-emption Rights.

Strike Price

See Exercise Price.

Subscription Agreement

An agreement entered into by an investor setting out the price, timing and other terms of its investment in a company. Usually, a Subscription Agreement will contain Warranties given by the Founders to the new investor. Subscription terms are sometimes rolled into a Shareholders' Agreement or Investment Agreement.

Syndication

A process through which a group of VCs or Angel Investors will each put in a portion of an Equity fundraising for a growing business, often behind a Lead Investor.

Tag-Along Right

A right set out in the Articles which entitles minority shareholders to participate in a sale of the company's shares by the majority shareholders on the same terms. See also Drag-Along Right.

Term Sheet

A non-binding short agreement or letter which sets out the key terms on which an investor will agree to make an investment. A Term Sheet forms the basis from which longer binding legal agreements are prepared and agreed. Sometimes also referred to as Heads of Agreement, Heads of Terms (HOTs) or Letter of Intent (LOI).

Unicorn

An informal term used to describe a pre-revenue tech company with a Valuation of £1 billion or more.

Valuation

The value of a company at any particular moment. Because there is no public market for the shares of private companies (unlike companies on a stock market) valuing private companies is a hazy area (although there are methodologies which can be of help). In a Venture Capital context, Pre-Money Valuation will usually be arrived at through a process of negotiation between the Founders and the VCs and Angel Investors. See also Pre-Money Valuation and Post-Money Valuation.

Venture Capital (VCs)

An umbrella term which represents a sector of the private equity market focused on investing in usually young tech companies with high growth potential. Venture Capital investors can be large funds or smaller, less formal pools of capital.

Vesting

The period between the date on which a Share Option is awarded and the date when the holder is entitled to exercise the option and convert it into shares by paying the Exercise Price.

Warrant

A right issued by company to an investor or lender that lets the holder buy shares at a certain price (the Exercise Price or Strike Price) during a certain window. Similar to a Share Option.

Warranties

Confirmatory statements made by Founders in a Subscription Agreement or Investment Agreement about the company and the business. If a Warranty turns out not to be true then, potentially, the investor could make a claim against the Founders for breach of contract. Warranties are commonly given but Warranty claims are rare.

Washout Round

A round of financing where previous investors and the Founders suffer significant Dilution. The new investor in a washout round will typically gain majority ownership and control of the company.

Weighted Average Adjustment

The most common form of Anti-Dilution Adjustment or Ratchet, which uses a formula to adjust the rate on which Preferred Shares convert into Ordinary Shares on a Downround to protect existing investors from Dilution. In simple terms, the Weighted Average Adjustment applies a conversion rate based upon an average of the price per share the investor originally paid and the price per share offered in the Downround. See also Full Ratchet Adjustment.

Contacts

Richard Beavan
Partner, Corporate
t: +44 (0)20 7079 8181
e: rbeavan@boodlehatfield.com

Rahul Thakrar
Partner, Corporate
t: +44 (0)20 7079 8157
e: rthakrar@boodlehatfield.com

Jane Ireland
Partner, Corporate
t: +44 (0)20 7079 8167
e: jireland@boodlehatfield.com

Hayden Bailey
Partner, Private Client & Tax
t: +44 (0)20 7079 8235
e: hbailey@boodlehatfield.com

Geoffrey Todd
Partner, Private Client & Tax
t: +44 (0)20 7079 8286
e: gtodd@boodlehatfield.com

www.drive.law

www.boodlehatfield.com