



Guide to understanding start-up and capital investment terms*

We understand the legal complexity often involved in capital raising. To help start-ups and investors navigate through this journey, from term sheet to shareholders agreement, we put together a glossary of phrases and terms that you will often see in those documents. Terms in **bold** are defined throughout the table.

***DISCLAIMER:** Please note that this is a guide to give you a better understanding of legal terms used in capital raising only and should not be relied upon as legal advice. If you have any queries, feel free to speak to our team.

Term/Phrase	Definition
Anti-Dilution	Anti-dilution provisions, often found in a shareholders agreement or convertible note, protect an investor's equity from being diluted (i.e. reduction in the size of equity ownership) as a result of securities being issued at a lower price than the investor's original share price.
Application for Shares	An application for shares is a document that allows an investor to apply for and a company to offer shares. This document is used interchangeably with a Share Subscription Agreement .
ASIC	Australian Securities and Investments Commission
Automatic Conversion	Automatic conversion occurs when preference shares convert automatically into ordinary shares as a liquidity event takes place.
Bad Leaver	As opposed to a good leaver , when a shareholder leaves a company as a 'bad leaver', it means that person is considered to have committed one or more of the following (this is a non-exhaustive list): <ul style="list-style-type: none">• breaching the shareholders agreement• breaching shareholders' or directors' duties• disparaging the company publicly• being disqualified from managing a company• disposing of shares without following the shareholders agreement.
Board of Directors	A group of people elected to govern the company from time to time.
Buy-Back Right	This right allows the company to offer to repurchase its shares (share buyback) from a shareholder .
Capitalisation Table (Cap Table)	The cap table is a chart or spreadsheet that sets out a company's percentages of ownership, equity dilution , and options .

Chairperson	Appointed by the board of directors , a chairperson is in charge of board meetings and sometimes has a casting vote if the board is unable to reach a decision because of a deadlock.
Class of Share	A company can issue different classes of shares , each of which has certain rights and restrictions attached to it.
Cliff Period	In relation to share vesting , a cliff period is the amount of time that must pass before shares begin to vest.
Constitution	A company constitution, which can be amended from time to time, governs the activities of a company and its relationship with shareholders .
Convertible Note	In capital raising, a convertible note refers to a type of short-term debt that converts into equity upon the closing of an investment round. On expiry date, the investor can either ask for the return of their money or convert the note to equity.
Cooling-off Rights	In relation to crowdsourced funding (CSF) , cooling-off rights allow investors to withdraw their application under a CSF offer within 5 business days of making their application.
Crowdsourced Funding (CSF)	CSF is a financial service where start-ups and small businesses raise funds from a large number of investors. CSF became legal in Australia in 2018 and there are a number of intermediaries providing CSF services.
CSF Offer	A crowdsourced funding offer that is shown in a CSF offer document and made available to the public as a call for investment.
Deed of Accession	Often attached to a shareholders agreement , a deed of accession binds new shareholders to the terms of the shareholders agreement as if they were a party to it.
Dilution	A person's equity in a company is diluted when the person's shareholding decreases, often after an investment round where new shares are issued.
Dividend	A dividend is a payment made by a company to its shareholders as a form of profit distribution.
Drag-Along Rights	Drag-along provisions enable majority shareholders to force minority shareholders to sell their shares in the sale of a company.
Due Diligence	A process whereby investors undertake to investigate and examine a company's history and performance to decide if they want to invest in it.
Employee Share Option Plan (ESOP)/Employee Share Scheme (ESS)	A scheme where employers offer employees shares or options to acquire equity in the company in order to incentivise and retain key staff members.
Equity	Ownership of a company by way of holding shares .
Fair Market Value	The amount a share is worth on the open market, often determined by an expert.
Founder Shares	Shares held by original founders of the company.
Good Leaver	As opposed to a bad leaver , a shareholder leaving the company as a good leaver when the person exits because of an unforeseen or natural event, such as death or disability, redundancy or voluntary retirement.
Intermediary	In crowdsourced funding (CSF) , an intermediary provides CSF services and must hold an Australian financial services licence.
Investment Round	Usually referred to as Series A, B and C funding rounds, an investment round seeks to raise capital for a company.

Investor Shares	Shares held by investors of the company.
IPO	Initial public offering (IPO) occurs when companies offer their shares to the public for the first time, at which point they become public companies.
IP Portfolio	An IP portfolio includes all intellectual property owned by the company such as trade marks, patents, copyright, trade secrets or designs.
Liquidity Event	A liquidity event often refers to an IPO or sale of a business where the founders and investors sell their equity and exit the company.
Liquidation Preference	Often found in a Term Sheet , a liquidation preference clause attached to preference shares specifies how the investor will be compensated upon a liquidity event .
Listing	An IPO of a public company to the official list of the ASX Limited or any other recognised stock exchange.
Maximum Subscription	In crowdsourced funding (CSF) , the maximum subscription amount for the CSF offer is the amount specified in the CSF offer document as the maximum amount sought to be raised by the offer.
Members Register	When a company issues shares , it must keep up to date a register of members containing information about the shareholders and their shareholding in the company.
Minimum Subscription	In crowdsourced funding (CSF) , the minimum subscription amount for the CSF offer is the amount specified in the CSF offer document as the minimum amount sought to be raised by the offer.
Participating/Non-Participating Shareholders	In relation to preference shares , participating shareholders may receive their liquidation preference and enjoy dividend rights , as opposed to non-participating shareholders who only receive their liquidation preference.
Publicity and Non-Disparagement	A contractual clause that prohibits founders, investors or shareholders from making any false or disparaging statements about the company.
Option	A share option allows the company, an existing shareholder or employee the right to buy or sell shares in the business.
Ordinary Share	Ordinary shares are the most common type of shares and carry no special or preferred rights.
Preemptive Rights	Often found in a Term Sheet , preemptive rights allow an investor to purchase shares in a future investment round before those shares are offered to other parties.
Post-Money Valuation	The value of the company AFTER it receives investments in an investment round .
Pre-Money Valuation	The value of the company, as determined by investors and the company, BEFORE it begins to receive investment in an investment round . This valuation not only gives investors an idea of the current value of the business, but it also provides the value of each issued share .
Preference Shares	Preference shares give investors a priority or 'preference' over ordinary shares holders.
Quorum	The minimum number of directors required for a board meeting to take place.
Right of First Refusal	Often found in a shareholders agreement , this right gives a shareholder the first opportunity to purchase or refuse to purchase existing or new shares issued by the company.

SAFE Note	Short for 'Simple Agreement for Future Equity', a SAFE Note gives an investor the right to purchase shares in a future investment round in exchange for the investor's money.
Settlement Date	Often found in an Application for Shares or Share Subscription Agreement , settlement date is the date on which the company issues shares and delivers share certificate to an investor upon signing all relevant documents for the transfer of shares.
Shareholders	Legal entities that hold shares in a company.
Shareholders Agreement	A legal contract between the company and its shareholders .
Share Certificate	A certificate issued by a company to a shareholder when shares are acquired.
Share Subscription Agreement	A share offer document signed by an investor after the company and the investor agree upon the final terms of investment such as the subscription price and shareholders agreement .
Subscription Price	The amount an investor pays to 'subscribe' to a number of shares in the company by way of a Share subscription Agreement .
Tag-Along Rights	Tag-along provisions allow minority shareholders to sell their shares when the majority shareholders do so, at the same price.
Term Sheet	Often presented to investors, a term sheet outlines the key terms of an investment deal and key provisions in the shareholders agreement .
Venture Capital Funding	A form of investment funding provided by venture capital firms to start-ups that have high growth potential. Venture capital generally comes from sophisticated investors, investment banks and any other financial institutions.
Vesting	Vesting of shares allows a shareholder's portion of equity to vest over a period, requiring the shareholder (usually a founder, employee or executive member) to stay and contribute to the business during the vesting period in order to obtain full ownership of the share portion.
Vesting Criteria	The shareholder whose shares are subject to vesting is also often subject to vesting criteria which sets out the conditions for the shareholder's commitment and performance in the business.
Vesting Deed	A legal document that governs a shareholder's vesting of shares, vesting criteria and vesting period .
Vesting Period	A period over which vesting of shares occurs. Typically, shares are vested over a 4-year period with a 1-year cliff period .
Voting Rights	A shareholder's rights to vote on certain matters that effect the company.
Winding Up	The process of dissolving a company where shares and debts are paid off and any remaining assets are distributed to partners or shareholders. Winding up can be voluntary or involuntary.