Term Sheet

For your reference, here is a list of vocabulary terms that are mentioned in this lesson.

Balance sheet - a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.

Accounting equation - It is the mathematical structure of the balance sheet. It relates assets, liabilities, and owner's/shareholder's equity: Assets = Liabilities + Owner's/Shareholder's Equity

Assets - An economic resource. Anything tangible or intangible that can be owned or controlled to produce value and is held to have positive economic value.

Liabilities - A company's legal debt or obligation that arises during the course of business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services.

Equities - A stock or any other security representing an ownership interest; a risk interest or ownership right in property.

Budget - A plan used to decide the amount of money that can be spent and how it will be spent.

Capital structure - How a firm finances its overall operations and growth by using different sources of funds. Debt comes in the form of bond issues or long-term notes payable, while equity is classified as common stock, preferred stock, or retained earnings.

Cash burn - An approximation of how much money a biotech company or project is using over a period of a time, e.g., monthly, quarterly, or annual cash burn. In biotech, operating loss is a good approximation for cash burn.

Cash flow statement - Also known as statement of cash flows, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities.

Corporate finance - Deals with the sources of funding and the capital structure of corporations and the actions that managers take to increase the value of the firm to the shareholders.

Cost of capital - Cost of capital is the rate of return required to persuade an investor to make a given investment.

Direct cost (academic definition) - Costs that can be specifically and easily identified with a particular project or activity and are allowable under the sponsoring organizations guidelines.

Fixed costs or **indirect costs** - These are business expenses that are not dependent on the level of goods or services produced by the business. Examples – rent, large pieces of equipment, or salaries in the short run. Fixed costs are often spread out, allocated, over several projects. i.e., UCSF will add an indirect cost of x% to all grant proposals.

Forecasting - The use of historical data to determine the direction of future trends. Forecasting is used by companies to determine how to allocate their budgets for an upcoming period of time.

Gross margin - A company's total sales revenue minus its cost of goods sold, divided by the total sales revenue, expressed as a percentage.

Hurdle rate - Cost of capital or opportunity cost required for return on investment; for VC's partially due to LP pressure and the high chance of failure of other portfolio companies.

Income statement - A financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period, typically over a fiscal quarter or year.

Also known as the "profit and loss (P&L) statement" or "statement of revenue and expense." One of the three major financial statements. The other two are balance sheet and statement of cash flows.

Indirect cost (academic definition) - The costs of conducting business that are incurred for common or joint objectives, and cannot be easily and specifically identified with a particular sponsored project, an instructional activity, or any institutional activity. These costs are also sometimes called "facilities and administrative costs (F&A)" or "overhead." Example: costs for the university to maintain its buildings and equipment, to provide operational support and maintenance (utilities, janitorial services, police services, etc.), and to maintain library operations and administrative services.

Internal rate of return - The interest rate at which the net present value of all the cash flows (both positive and negative) from a project equal zero.

Months of cash - A back-of-the-envelope calculation of how much time a biotech company has left before its funding runs out.

Net Present Value - The sum of the present values of incoming and outgoing cash flows over a period of time.

Opportunity cost - It is the cost of the next-best alternative that must be forgone in order to choose a desired plan.

P&L Statement – See Income statement definition.

Rate of return - A profit on an investment over a period of time, expressed as a proportion of the original investment. The time period is typically a year, in which case the rate of return is referred to as annual return.

SEC - U.S. Securities and Exchange Commission (SEC) is an agency of the U.S. federal government. It holds primary responsibility for enforcing the federal securities laws, proposing securities rules, and regulating the securities industry, the nation's stock and options exchanges, and other activities and organizations.

Shareholders - Also know as stockholders, is an individual or institution (including a corporation) that legally owns a share of stock in a public or private corporation. Shareholders are the owners of a limited company. They buy shares which represent part ownership of a company.

Time value of money - The fundamental principle that a dollar today is worth more than a dollar in the future.

Variable costs - Costs that vary depending on a company's production volume; they rise as production increases and fall as production decrease. Variable costs are easy to budget – they are directly related to the output. Examples – cost of materials (chemicals, animals, etc.), or utilities.