Welch
Capital
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M&A TERMINOLOGY

AMALGAMATION

The joining of two or more companies together to form a larger organization with greater resources than either had on their own.

ASSET DEAL

A transaction in which only a company's assets, or a portion of its assets, are sold to the buyer.

CAPITAL STRUCTURE

The mix of debt and invested capital that a company uses to finance and invest in its growth.

CASH FREE/ DEBT FREE

A transaction which assumes that the seller retains all of the company's cash and pays off all its interest- bearing debt.

CONFIDENTIAL INFORMATION MEMORANDUM (CIM)

A document used to provide a prospective buyer with important details about a seller, including its operations, financial statements, and other relevant information.

COST OF CAPITAL

A company's rate of return that must be earned on new investments at a given level of risk.

DATA ROOM

A secure virtual space used for file sharing and storing sensitive documents pertaining to a business for sale.

DEBT/EQUITY RATIO (D/E)

A ratio that represents a company's long-term debt as a percentage of the equity in the business. A common measure of a firm's indebtedness.

DIVESTITURE

The process of selling an asset or segment of a business as opposed to selling the entire company to an outside investor.

DUE DILIGENCE

The process by which the buyer investigates the company, including its assets and liabilities, before signing the purchase agreement.

EARN-OUT

An arrangement between a buyer and seller which provides additional compensation to the seller after achieving agreed upon performance metrics.

EBITDA

A widely used measure of corporate profitability, which stands for Earnings Before Interest, Taxes, Depreciation, and Amortization.

EBITDA MULTIPLE

A ratio that compares a company's enterprise value to its annual EBITDA.

ENTERPRISE VALUE

A measure of a company's total value which includes in its calculation the market value of equity, debt, and any cash.

EQUITY VALUE

Constitutes the value of all the company's shares and loans that shareholders have provided to the firm.

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EXIT MULTIPLE

A common way of estimating a company's enterprise value by applying a relevant market multiple to a profitability metric (most commonly EBITDA).

HOLDBACK

When buyers retain a part of the purchase price from the seller until a post-closing condition is fulfilled.

INTRINSIC VALUE

The value of a business calculated based on the firm's financial assets as opposed to market value.

LETTER OF INTENT (LOI)

A non-binding letter from a buyer which outlines all the important provisions of the deal.

LEVERAGED BUYOUT (LBO)

A transaction in which the buyer uses debt to fund a portion of the purchase price. This debt is then applied to the purchased company's balance sheet.

MANAGEMENT BUYOUT (MBO)

A transaction in which the owner sells their interest in the business to the company's management team as opposed to an outside investor.

NON-COMPETE CLAUSE

An agreement signed by the seller stating that they will not compete directly with the buyer for a specified period of time.

NORMALIZED EARNINGS

A way of analyzing a company's profitability by ignoring one-time/unusual/non-recurring revenues and expenses.

QUALITY OF EARNINGS (QoE)

A form of financial due diligence performed by a third-party accountant.

ROLLED-EQUITY

When the seller reinvests a portion of their equity for shares in the post-merger business instead of receiving cash compensation.

SHARE DEAL

A transaction in which the shares of the company are sold to the buyer which includes all assets and liabilities.

SYNERGIES

Any increases in revenue or decreases in costs that accrue as a result of the merger/acquisition.

VENDOR TAKE-BACK

A process used by buyers to finance a purchase by issuing a note to the seller. The seller essentially provides the buyer with a loan for a part of the purchase price, which will be paid back overtime.

WORKING CAPITAL

Also, called net working capital (NWC), is the difference between a company's current assets and current liabilities. It is a common measure of liquidity and short-term financial health.