

## M&A Terminology

### **Asset Based Lending**

A type of financing, commonly found in leveraged buyouts, based on a percentage of some value (book, liquidation, market, auction) of an asset.

### **Basket**

A dollar amount set forth as the loss that must be experienced by the buyer before it can recover damages under the indemnity provisions.

### **Business Valuation**

The act or process of arriving at an opinion or determination of the economic value of a business or enterprise or an interest therein.

### **Capitalization**

The conversion of historic or projected income into value. The capital structure of a business enterprise.

### **Contingent Liabilities**

Improbable but possible obligations. Probable obligations are real liabilities and require adjustment in accounting records. Contingent liabilities require footnote disclosure only.

### **Deal Killers**

Issues that cannot be resolved to the satisfaction of both parties. Dissenters who believe their interests will be adversely affected by an acquisition and who work either overtly or covertly to subvert the transaction.

### **Due Diligence**

The assessment of the benefits and the liabilities of a proposed acquisition by inquiring into all relevant aspects of the past, present and predictable future of the business to be purchased.

### **EBIT**

Earnings before interest and taxes.

### **EBITDA**

Earnings before interest, taxes, depreciation and amortization.

### **Earnout**

The portion of the purchase price that is contingent on future performance. It is payable to the sellers only when certain pre-defined levels of sales or income are achieved in the years after acquisition.

### **Financial Buyer**

A buyer interested in a target based on the financial return of the investment rather than a strategic or synergistic reason.

### **Horizontal Integration**

Purchasing similar businesses, including competitors.

### **Letter of Intent**

A written agreement that defines the respective preliminary understandings of the parties about to engage in contractual negotiations on a transaction. Items covered typically include price, terms and conditions.

### **Leveraged Buyout**

A transaction in which a company's capital stock or its assets are purchased with borrowed money, resulting in the company's new capital structure being primarily debt.

### **Management Buyout**

A leveraged buyout where the existing management team is brought in as shareholders.

### **Market Multiple**

A factor that can be applied to the subject company's financial, operating or physical data to generate an indication of value. The market multiple is derived from observed transactions in the marketplace where the value can be divided by the comparable companies' financial, operating or physical data to generate the market multiple.

### **Recapitalization**

In a private transaction, recapitalization is used to enable the seller to retain partial ownership and participate in a second sale, hopefully at a significantly higher price.

### **Return on Equity**

A measure of how well a company used reinvested earnings to generate additional earnings, equal to a fiscal year's after-tax income divided by book value, expressed as a percentage.

### **Synergistic Buyer**

A buyer willing to pay a premium above economic value based on projected additional growth and profit.

### **Term Sheet**

A preliminary, non-binding agreement setting forth the basic terms and conditions under which an investment will be made.

### **Tombstone**

An advertisement, usually in financial publications, announcing an acquisition, securities offering or underwriting. Also, a commemorative plaque announcing the transaction.

### **Valuation Multiple**

A factor wherein a value or price serves as the numerator and financial, operating or physical data of the company serves as the denominator.

### **Vertical Integration**

A strategy to achieve economies of scale in purchasing, sales and distribution. Vertical backward integration is buying a supplier. Vertical forward integration is buying a customer.