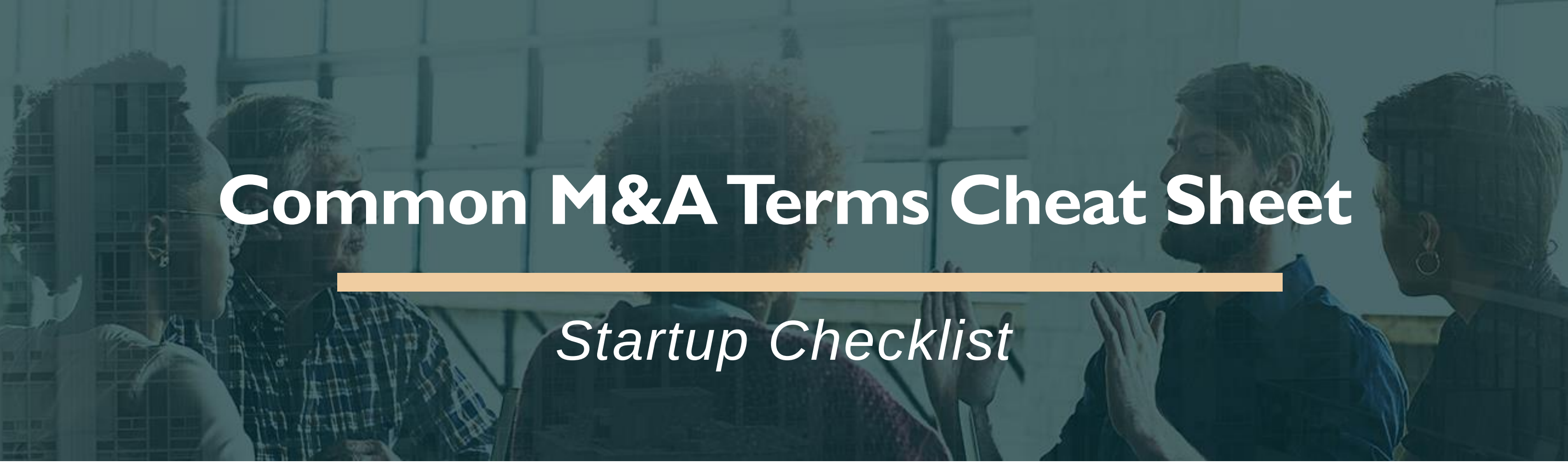

Common M&A Terms Cheat Sheet

Startup Checklist

Accretion

Improving the per-share metrics after acquisition (after issuing additional shares).

Acquirer

The company that is buying a company in the acquisition.

Acquisition

The acquiring of the controlling interest or ownership of another company.

Amalgamation/Consolidation

The combining of one or more companies into a new company. None of the combining companies remain, forming a completely new legal entity.

Asset Deal

The acquirer only purchases the assets of the target company (not its shares)

Backward Integration

A company acquires a target producing the raw material or the ancillaries that the acquirer uses to guarantee a continuous supply of raw materials.

Bootstrapping

Generally used with startup companies, indicating the financing of the business efforts with personal, existing, and often scarce resources.

Bottom Line

The net income "line item" of the income statement

Business Cycle

A recurring expansion and contraction of the economy, with the average cycle lasting three to four years.

Capital Expenditure – CAPEX

A large expenditure acquiring a new capital asset or improves the useful life of an existing capital asset. Spreading or expensing the costs over the useful life of the asset. A company's CAPEX needs are a consideration when valuing any business and with any large CAPEX needs reducing the amount of cash a buyer could expect from their investment.

Capitalization

The term is used to describe the overall size of a company's equity, debt, and permanent capital and can be calculated by multiplying shares outstanding by the current market price.

Capital Structure

The mixture of debt and financing the company uses to finance its growth. The invested capital of the business it uses to reinvest for growth.

Cash Consideration

The portion of cash used to acquire a company.

Cash Flow

Cash that flows from the efficient use of assets or the business operations. The long-term value of companies comes from the generation of cash flows, not earnings. There are many definitions, but the general definition includes cash from operations less the company's capital expenditures.

Covenants

Different provisions in the legal agreements concerning loans, bonds, and lines of credit. Lenders use them to protect their position with other borrows concerning the line of progression.

Deal Structure

Concerns how a company completes the purchase or merger with another company, regarding the amount of cash, stock, debt refinancing, and any other considerations.

Dilution

After issuing additional shares, the worsening condition of per-share metrics.

Discontinued Operations

The company's stopping or discontinuation of operations and reporting these items separately on the income statement.

Discount for Lack of Control

A percentage deducted from the purchase price reflecting the lack of 100% control of the acquired company.

Discount for Lack of Marketability

A percentage deducted from the purchase price reflecting a perceived lack of marketability.

Discount for Lack of Voting Rights

A percentage deducted from the purchase price reflecting the absence of voting rights in minority shares.

Divestiture

The sale of an asset or segment of the business to an outside third party for cash or securities.

Drag-Along Rights

A provision or clause allowing the majority shareholder to force minority shareholders to join them in selling the company.

Due Diligence

The process allows acquirers under the hood to see the target company's financials, operations, and internal procedures. Integral to any M&A activity and offers are made upon completion of due diligence.

Earn-Out

An arrangement guaranteeing additional payments after achieving certain performance metrics.

EBITDA

Common Non-GAAP term referring to earnings before interest, taxes, and depreciation, and amortization. An alternative to cash flow and used to measure profitability across sectors.

Economies of Scale

The term refers to the ability of a company to reduce its costs of production by employing better scale or more efficiency. Many companies acquire others to gain better skills or technology to achieve this result.

Exclusivity Requirement (No-Shop)

A contractual agreement between acquirer and target preventing the target from soliciting or negotiating other deals for a specified period.

Equity Issuance Fees

Underwriting fees for issuing equity in a transaction charged by the investment bank underwriting the merger or acquisition.

Excess Purchase Price

The value above the purchase price of the net asset value of the target company.

Fair Value Adjustments

Arriving at the fair value of a company by adjusting up or down the net book assets of the target company.

Friendly Takeover

When management and board of directors approve of a takeover and will suggest that shareholders approve the offer.

Forward Integration

A company acquires the target to enable better production of their products or has a better distribution system for its products.

Fully Diluted Shares Outstanding

The total number of shares is available after exercising all outstanding options, warrants, and convertible securities.

Golden Parachute

A contractual agreement that guarantees a departing manager extensive benefits after being forced to leave the company.

Goodwill

After any fair value adjustments, the excess to the purchase price is above the target's identifiable net assets. Goodwill is added to the acquirer's balance sheet, with annual assessments to ensure there are no impairments to that value.

Horizontal Integration

Companies merging in the same line of business, such as Daimler and Chrysler, usually to gain synergies.

Hostile Takeover

The management and board of directors do not approve of the takeover and advise shareholders to reject any deal.

Identifiable Assets

Any asset that can be assigned a fair value, including both intangible and tangible assets.

Indication of Interest

A non-binding letter from the acquirer to the potential target indicating fair value estimates and terms the acquirer is ready to pay for the target.

Intangibles

Intangible assets including goodwill, patents, trademarks, and deferred charges. Typically includes anything, not of a physical nature.

Intrinsic Value

The estimated value of the company's cash flows using a discounted cash flow model.

Letter of Intent (LOI)

The non-binding letter containing all the major provisions of the deal, signed by both the acquirer and target.

Leveraged Buyout

The acquisition of a company uses tremendous amounts of debt, hoping to achieve increased return on the investment.

Liquidation Value

The value of the business's assets after they are sold off and turned to cash, in the event of a bankruptcy.

Merger

The acquiring company receives all of the target company's assets/shares after the target company stops existing.

Net Book Value of Assets

The book value of a companies assets is less than the book value of companies liabilities.

Net Cash/Net Debt Deal

Assumes that the purchase price includes the target retains all of the target's balance sheet cash and pays off the target's interest-bearing debt.

Net Debt

Total cash on the balance sheet minus the total debt on the balance sheet.

Normalized Earnings

Taking a long-term view of earnings by adding up total over a longer period, such as five or ten years, and then dividing by total years. It is intended to smooth out anomalies or unusual items and to use for comparisons.

Offer Price

The acquirer's offered price per share

Other Closing Costs

Any due diligence fees, legal fees, or accounting fees related to the closing of the deal.

Post-Money Valuation

The approximate market value assigned to a company after a financing round among venture capitalists or angel investors is finished.

Pre-Money Valuation

The approximate market value assigned before any financing from venture capitalists or angel investors.

Preferred Stock

A type of stock that gives its shareholders certain rights, privileges, and preferences above the rights of common shareholders.

Pro Forma Shares Outstanding

The total number of shares outstanding after issuing all additional equity and the closing of any deal finalized.

Purchase Price Allocation

The allocating of assets and liabilities by the acquirer and determining the total purchase price from breakdown.

Recapitalization

Reorganizing a company's debt and equity mix to stabilize a company's capital structure.

Restructuring Charges

Any fees or charges related to debt repayments as a part of restructuring.

Revenue Enhancements

Any increases to revenue from cross-selling, price changes, or up-selling.

Sandbagging

The target company stalls, waiting for a better deal while playing along with potential acquirer.

Sensitivity Analysis

A technique of testing the sensitivity of different inputs in a model to certain assumptions, and

Share Exchange Ratio

The acquirer's share price is divided by the offer price.

Share Issuance Discount

A way of determining how many shares the target will receive based on any discounts to the current market price.

Share/Stock Deal

A method of purchasing the company's total assets and liabilities by acquiring all the target's shares.

Stock Consideration

The acquirer's stock was granted to the target company based on the portion of the purchase price agreed to in the deal.

Subsidiary

Acquirer takes over the target company completely but allows the target to retain its brand for the sake of reputation or customer base. A perfect example is Microsoft's acquisition of LinkedIn.

Synergies

Any revenue improvements or cost savings anticipated in the merger/acquisition.

Tag-Along Rights

The rights allowing a shareholder to take part in a stock sale from another shareholder to a third party.

Takeover Premium

The takeover premium is the difference between the market price and the closing price, expressed as a percentage. For example, if the market price is $50, and the closing price is $60, then the takeover premium is 20% (60 – 50 = 10, then 10/50 = 20%).

Target

The company being bought by the acquirer (buyer)

Term Sheet

A non-binding document that outlines the terms and conditions of a proposed merger/acquisition.

Timing of Synergies

How long the acquirer expects anticipated synergies to come to fruition.

Transaction Close Date

The date both parties expect for the proposed transaction to close

Vertical Integration

A merger of companies that operate along the same supply chain, for example, if two grocers merge.

VWAP

Used in relation to the takeover premium, which refers to volume weighted average price.

Warrants

A derivative type of security allows shareholders to purchase securities (common stock) from the stock issuer at a certain price in a specific period.