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# Glossary of Terms

**The following glossary has some terms you may come across on your journey to a potential transaction.**

**The world of M&A and investments can be confusing with technical, financial, and legal jargon.**

**We teamed up with the folks at Leith Wheeler Investment Counsel to build this Glossary of Terms to help make things a little clearer!**

**CAPITAL STRUCTURE –** Refers to a company's outstanding debt and equity. It provides insight into the level of financial leverage and sources a company uses to finance its activities.

**CLOSING CONDITIONS –** Share purchase agreement clauses detailing buyer and seller obligations that must be satisfied in order to consummate a transaction. Examples include obtaining necessary regulatory approvals, third party consents, and financing conditions.

**CONFIDENTIAL INFORMATION MEMORANDUM (CIM) –** A document drafted by an M&A advisory firm used to market the sale of a business to prospective buyers or investors.

**DISCLOSURE SCHEDULES –** A detailed listing of requested information typically specified in a share purchase agreement. This often includes material contracts, employee details, intellectual property information, as well as details of representations and warranties, among others.

**DUE DILIGENCE –** An investigation of a business being acquired to confirm all relevant facts, including a review of financial records and other information deemed material.

**EARNOUT –** In the sale of a business, an earnout is an arrangement that allows the seller to obtain additional compensation in the future if the business achieves certain goals, typically related to achieving revenue or profitability targets.

**EBITDA –** Earnings before interest, taxes, depreciation and amortization (EBITDA) is an indicator of a company's financial performance. A multiple of EBITDA is the most commonly used valuation metric in private company purchase and sale transactions.

**ENTERPRISE VALUE (EV OR TEV) –** A measure of a company's total value, calculated as the value of the equity, plus debt, minus cash and marketable securities.

**EQUITY VALUE –** The total value of a company that is attributable to its shareholders. It can be calculated as (# shares x share price) or (enterprise value – debt + cash and marketable securities).

**ESCROW –** An agreement whereby financial assets are held by a third party on behalf of the parties that are in the process of completing a transaction. The assets are released by the escrow agent once it receives instructions or predetermined contractual obligations have been fulfilled.

**EXCLUSIVITY –** The period of time (often following the execution of a letter of intent) whereby a seller cannot pursue or solicit an offer from another potential purchaser.

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**FAIR MARKET VALUE (FMV) –** The highest price that an asset or a business would sell for between a willing and able buyer and a willing and able seller acting at arm's length in an open and unrestricted market.

**FREE CASH FLOW –** The cash a company generates after the investment required to sustain the business. It provides a measure of the company's financial performance.

**FUNDAMENTAL REPRESENTATIONS (FUNDAMENTAL REPS) –** Clauses typically found in a share purchase agreement referring seller statements or assertions to a fact that if found false, would cause harm to a potential purchase and cause them to seek compensation for such harm.

**GOODWILL –** The value of the intangible assets acquired in a business acquisition. It arises when one company purchases another at a premium to its net book value.

**HOLDBACK –** A portion of the purchase price not paid on closing. It is used as a reserve to cover contingencies and remains unpaid until a specified date or until certain conditions have been met.

**INDEMNIFICATION –** A clause whereby one party agrees to cover or share the cost of the indemnified party's losses if they were caused directly or indirectly by the party.

**INDICATION OF INTEREST (IOI) –** A non-binding expression of interest in potentially acquiring a company. An IOI typically specifies a valuation range in which the potential purchaser would be interested in buying a company.

**LETTER OF INTENT (LOI) –** The offer that a buyer submits to a potential seller of a business which, when signed by both parties, forms the initial agreement stipulating the purchase price, and key terms and conditions governing the proposed transaction. These are typically non-binding but commit the participants to exclusivity in their discussions.

**MANAGEMENT BUYOUT (MBO) –** A transaction where a company's management team secures financing and purchases the assets and operations of the business they manage.

**MERGERS AND ACQUISITIONS (M&A) ADVISOR –** Also referred to as an investment banker, an M&A advisor provides advice on corporate mergers, acquisitions and divestitures.

**MEZZANINE DEBT –** A middle layer of capital that falls between secured senior debt and equity. It is more expensive than senior debt but less costly than equity and is often used as a flexible part of the financing package in an acquisition.

**MULTIPLE/MULTIPLIER –** Is applied to a specific financial metric of a company to calculate the business' valuation or assess its reasonability. The most common multiples metrics are EV/EBITDA, EV/EBIT, EV/Revenue, and Price/Earnings.

**PERSONAL GOODWILL –** The ability, skills, experience, contacts and reputation of individuals within a business, most often the owner. The sale price falls to the extent this goodwill cannot be transferred to new owners.

**PRIVATE EQUITY –** The direct investment by funds and investors in established private companies. This type of financing is often used in support of management buyouts.

**QUALITY OF EARNINGS (QOE) –** Used in the context of a business acquisition, QoE usually refers to how closely a company's financial statements reflect the true and sustainable profitability of the business. Due diligence often comprises a QoE report.

**RECAPITALIZATION –** The restructuring of a company's capital structure (debt and equity), often by shareholders seeking liquidity to fund dividends, repayment of shareholder loans, or a partial sale of the business.

**REPRESENTATIONS (REPS) AND WARRANTIES –** A term used to describe the assertions that a buyer and seller make in a purchase and sale agreement. Representations are provided to disclose material information, and the warranties are a promise to indemnify the other party if the representations are false.

**RIGHT OF FIRST REFUSAL (ROFR) –** An agreement, often between the shareholders of a company and a third party, not to sell the shares of the company without first offering it to the third party on the same terms and conditions.

**ROLL-UP (AKA CONSOLIDATION) –** A strategy where smaller companies with similar products and services are acquired and merged to achieve industry consolidation.

**SHARE PURCHASE AGREEMENT (SPA) –** The definitive agreement that finalizes all terms and conditions in the purchase/sale of a company as originally outlined in the letter of intent.

**STRATEGIC VS. FINANCIAL BUYER –** A strategic buyer is an acquirer in the same industry/business as the target company, who looks to buy businesses that can be integrated with its main operations. A financial buyer invests in a company to improve its operational performance and then sell it at a profit within 3-7 years.

**TIPPING BASKET –** A mutual threshold set by a purchaser and seller, typically in a share purchase agreement. When a purchaser's losses, due to breaches of the representations and warranties of the seller, exceed the threshold, the seller is liable for the total amount of losses.

**VENDOR TAKE BACK (VTB) –** A form of purchaser financing whereby the seller agrees to lend a portion of the sale price back to the buyer. It is usually subordinated to all senior debt.

**VIRTUAL DATA ROOM (VDR) –** An online data repository used to facilitate the due diligence process of an M&A or financing transaction. A VDR allows a company to securely store, share, and distribute sensitive documents to multiple different parties.

**WORKING CAPITAL ADJUSTMENT –** A working capital adjustment occurs when the net working capital level delivered at closing outside a previously agreed-to range (the working capital peg). The purchase price is adjusted up or down on a dollar-for-dollar basis to reflect the difference.

# Investment Management & Planning Terms

**ALIGNMENT OF INTERESTS –** Key consideration when selecting an investment manager. Determinants include firm ownership structure (independent vs subsidiary), compensation incentives (asset gatherers vs asset managers), and record of integrity.

**DOWNSIDE CAPTURE –** A measure of how well an active manager protects capital during downturns, calculated as manager returns / index returns x 100. Lower is better.

**DONOR ADVISED FUND –** A simple giving structure that enables individuals and organizations to donate a lump-sum and receive a tax receipt in 1-2 days and make charitable granting decisions over many ensuing years.

**ESTATE FREEZE –** An estate planning technique that locks in the current value of an individual's assets for tax purposes, transferring future growth to heirs or successors. This strategy helps minimize estate taxes and ensures a smooth transition of wealth.

**GROWTH VS VALUE INVESTING –** Both can pursue companies with growth potential but value managers tend to be more price sensitive, looking to buy at a discount to intrinsic value.

**INVESTMENT POLICY STATEMENT –** The 'business plan' for making investment decisions over time. Built to reflect the investor's time horizon, risk profile, return objectives, liquidity needs, and any unique circumstances.

**PASSIVE VS ACTIVE INVESTING –** A passive manager replicates the performance of a broad index. An active manager tries to beat the market by only owning a subset of their best ideas, while managing over portfolio risk.

**RISK –** Definition varies! One measure is volatility of returns. More relevant to long-term investors may include risk of permanent loss of capital, or outliving your wealth.

**TRUST –** A legal structure that gives the asset owner control over future disbursements of income and capital, and manage taxes. Common ones include testamentary, family, inter-vivos, spousal, alter ego, and education trusts.

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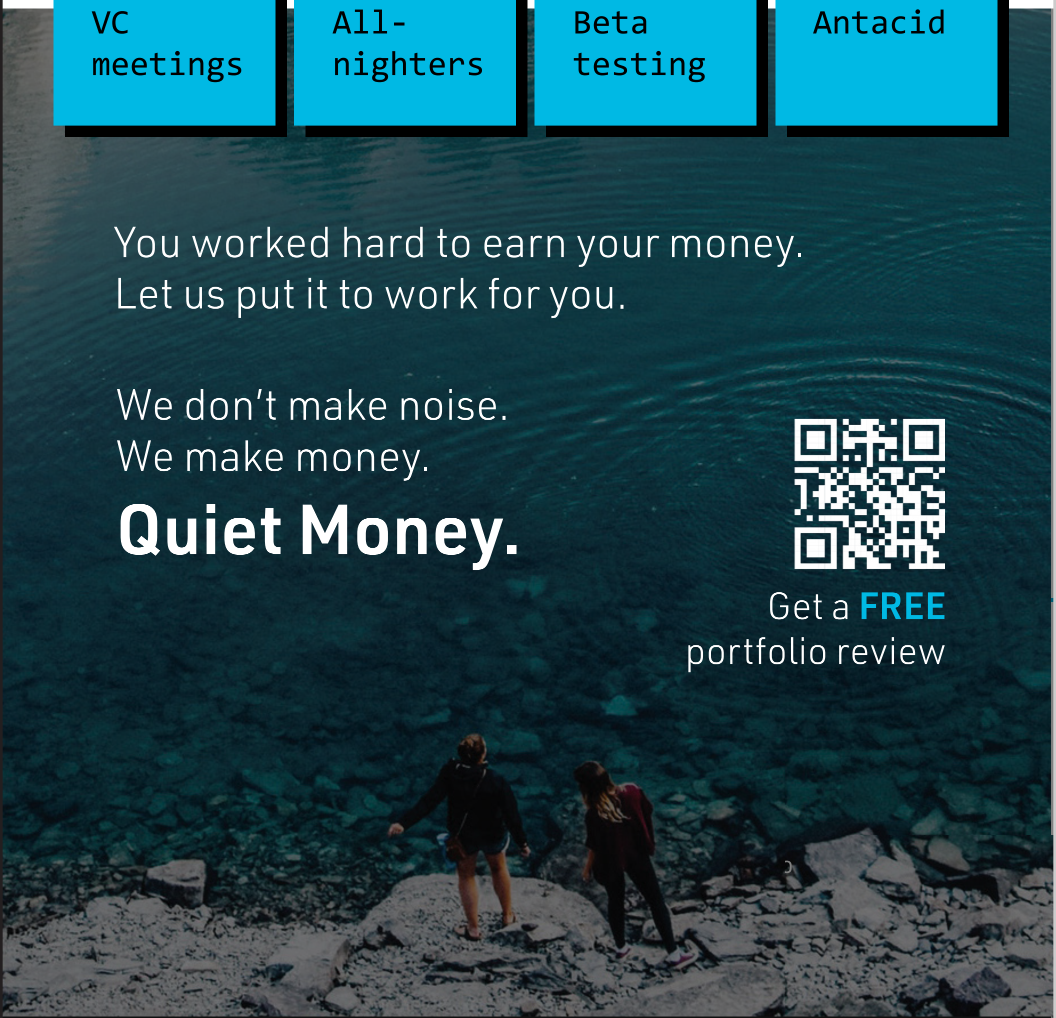

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