

# A GLOSSARY OF CORPORATE FINANCE TERMS



# GLOSSARY OF CORPORATE FINANCE TERMS

The world of corporate finance is full of jargon and acronyms. A BIMBO is not necessarily what you think it is and a BINGO really does exist!

We thought it would be helpful to provide a brief glossary of selected terms that you might encounter in your travels many of which are used unapologetically and without explanation by those involved in the industry.

To spice things up a bit, we have added a few examples of the jargon in action and have included half a dozen terms of our own – so be careful how you use them!

## AIM

*See Alternative Investment Market.*

## ALTERNATIVE INVESTMENT MARKET

*Being part of the London Stock Exchange, AIM offers a more flexible regulatory regime than a listing on the main market and access to a wide pool of capital for growing companies.*

## ANGELS

*High net worth individuals who provide seed capital to young companies in exchange for equity stakes.*

## ANTI-DILUTION PROVISIONS

*Provisions in an investment agreement which protect the holder's shareholding from dilution as the result of later issues of shares at a lower price than that paid by the investor.*

## ASSETS PURCHASE

*A purchase of the trade and assets of a company, rather than the shares in the company.*

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### **BAD LEAVER PROVISIONS**

*Provisions built into the Articles of Association of a company, or shareholders agreement, which stipulate that if a shareholder employee or a director resigns under certain circumstances or is validly dismissed, then he must sell his shares for a pecuniary amount to other shareholders.*

### **BIMBO**

*A buy-in management buy-out (team consisting of existing and new management).*

### **BINGO**

*Buy-in growth opportunity (transaction where the buy-in received more funds than required to acquire the target business).*

### **BURN RATE**

*The rate at which a company is consuming cash each month.*

### **BUSINESS ANGELS**

*See Angels.*

### **CAPITALISATION TABLE (CAPTABLE)**

*A spreadsheet listing all shareholders and holders of options and any other securities, along with the number of shares, options and convertible securities held.*

### **CAPS AND COLLARS**

*Mechanism used to fix interest rates on loan agreements within an agreed range of interest rates.*

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“ In finalising the investment agreement, as lead investor I must say it is essential to incorporate robust investor protections. I am particularly concerned about the drag along and tag along rights and the anti-dilution provisions. Where did we get to with the pay to play? ”

## CONSIDERATION

*The total sum (including cash, shares, etc) paid by a purchaser to a vendor for a business.*

## CONVERSION RATIO

*The ratio indicating the number of shares that can be acquired upon exchange of a convertible security, eg the number of ordinary shares into which preferred shares are convertible.*

## CONVERTIBLE PREFERENCE SHARES

*See Preference shares.*

## CORNFLAKE

*A serial purchaser of businesses.*

## COVENANTS

*Undertakings given by a seller to a buyer or a company to an investor to do or not do certain acts.*

## CUMULATIVE PREFERENCE SHARES

*See Preference shares.*

## DAMBUSTER

*A compromise proposal to break a stalemate in negotiations.*

## DCF

*See Discounted cash flow.*

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### **DEAL STRUCTURE**

*The way in which the terms and conditions of a transaction are structured.*

### **DEBENTURES**

*A type of loan which is usually secured, and which has a fixed or floating charge attached to it.*

### **DEED OF ADHERENCE**

*An agreement that purchasers of shares (new or existing) may be required to sign to ensure they are bound by the terms of an investment or shareholders agreement.*

### **DEFERRED CONSIDERATION**

*An element of the price paid for the business which is due for payment at some time in the future and which may be secured or unsecured.*

### **DILUTION**

*The process by which an investor's relative percentage of shares in a company is reduced by the issue of new shares.*

### **DISCLOSURE LETTER**

*A letter given either by key members of the management team to an investor or by a seller to a buyer setting out exceptions to representations and warranties.*

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“ It is important to bear in mind that the caps and collars have been set with half an eye to the mix of mezzanine debt and senior debt. The ranking agreement is only partly relevant to this mix. ”

## DISCOUNTED CASH FLOW

An investment appraisal technique which takes into account both the time value of money (net present value) and also the total profitability of a project over a project's life.

## DRAG ALONG RIGHTS

Rights granted to investors in a company which entitle the investor to force an exit through listing, flotation or sale of the entire issued share capital of the company.

## DUE DILIGENCE

An investigation undertaken by professional advisors on behalf of the purchaser or financial investor in a business. Might be, for example, legal, accountancy, environmental or commercially based.

## EARN-OUT

An element of future consideration tied to a performance measure where the continued involvement of the seller is usual.

## EBITDA

Earnings before interest, tax, depreciation and amortisation.

## EBO

Employee buy-out.

## ENTERPRISE VALUE

The total value of the business determined by reference to an EBITDA multiple after deducting total debt.

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### **EQUITY KICKERS**

*See Warrants.*

### **EXCLUSIVITY**

*A period during which the seller has agreed with the preferred purchaser not to market the business to any other party nor entertain any unsolicited offers.*

### **FLOTATION**

*Also known increasingly as an initial public offering or IPO, a flotation is the listing of shares in a company on a public market.*

### **FOUNDER SHARES**

*Shares issued to the founders of a company, usually at a low price in comparison to that paid by investors.*

### **GEARING**

*The borrowings in the business, usually expressed as a ratio to equity or a percentage of shareholder funds.*

### **GOOD LEAVER/BAD LEAVER**

*A criteria applied to a shareholder employee who is ceasing to be employed to determine whether his shares should be subject to a compulsory sale, and if so, at what price.*

### **GROOMING**

*A term used to refer to the process of preparing a business for sale.*

### **HEADS OF AGREEMENT**

*Brief document outlining the main aspects of a transaction. Not generally legally enforceable.*

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“ Remember that as the MBO team at the core of the BIMBO, if you hit the milestone you will have the upside of the ratchet in the subscription agreement. As such, to me the quid pro quo of the right of first refusal does seem appropriate. ”

## **HIVE DOWN/UP**

*The transfer of a business, usually either down to a subsidiary company or up to a parent company.*

## **INDEMNITY**

*A contractual undertaking between two or more parties outlining compensation for specified damage or losses.*

## **INFORMATION MEMORANDUM**

*Document containing relevant information in order to make an initial assessment of a business and its value.*

## **INITIAL PUBLIC OFFERING**

*The sale of shares to the public by a company for the first time.*

## **INTERNAL RATE OF RETURN**

*The annual gain realised on an investment expressed as a percentage of capital invested – often used by venture capitalists and institutional investors.*

## **INVESTOR DIRECTOR**

*A non-executive director appointed by an institutional investor.*

## **INVESTOR PROTECTIONS**

*A bundle of rights in favour of an investor built into a shareholders agreement and the Articles of Association. These rights are in addition to and take precedence over normal shareholder rights.*

## **IPO**

*See Initial public offering.*



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### IRR

*See Internal rate of return.*

### KEY MAN INSURANCE

*Insurance obtained by a company on the lives of key employees.*

### LEAD INVESTOR

*In a substantial investment, the whole risk is often shared among a syndicate. The lead investor will take the lead in negotiating the terms of the investment and managing due diligence.*

### LEVERAGED BUY OUT

*The buy-out of a company where the buy-out team mostly uses funds borrowed for the purpose.*

### LOAN NOTE

*A form of finance where payments are due to be made to the holder of the loan notes at a future date. Often used to satisfy deferred consideration. May be referred to as QCBs or NQCBs. These are treated differently for tax purposes.*

### LOCK OUT AGREEMENT

*An agreement where a vendor agrees to negotiate exclusively with one purchaser to the exclusion of other potential purchasers.*

### MANAGEMENT BUY-IN

*A management buy-in involves an external management team with experience or skills relevant to the business buying it from the owner.*

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“ I noticed that the CAP table makes no allowance for the potential dilution as a result of the equity kickers. I am concerned about the post-money valuation on a fully diluted basis. ”

## MANAGEMENT BUY-OUT

A management buy-out involves the existing management team of a business purchasing it from the owner.

## MBI

See Management buy-in.

## MBO

See Management buy-out.

## MEBO

Management and employee buy-out.

## MEZZANINE DEBT

A layer of finance between senior debt and equity which ranks behind senior debt in the event of the insolvency or liquidation of the company. Often the interest rate on this debt is higher than that paid on senior debt.

## MILESTONE

A contractual target that must be met by the company. Often used by investors as a condition for releasing further amounts of financing.

## MIMIC

Management incentive to meet in conference.

## MWO

Management walk-out.

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### ■ NET PRESENT VALUE

*See Discounted cash flow.*

### ■ NEW MONEY

*Investment funds coming from an investor who is not a current shareholder of the company.*

### ■ NON COMPETE UNDERTAKINGS

*See Restrictive covenants.*

### ■ NPV

*See Net present value.*

### ■ NUTCRACKER

*A term imposed by a venture capitalist in an investment agreement.*

### ■ P2P

*A public to private transaction.*

### ■ PAY TO PLAY

*A provision which requires investors to participate in subsequent rounds or forfeit certain rights such as anti-dilution.*

### ■ POST-MONEY VALUATION

*The value of a privately held company immediately after the most recent round of financing, calculated by multiplying the company's total number of shares by the share price of the latest financing.*

### ■ PRAM SPAM

*An immature exchange of emails between advisors.*

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“ Without new money there is a distinct possibility of an MWO. The problem is that the NPVs all look wrong however you look at the DCF. The reverse takeover we talked about might yet be the only way forward. I'm afraid the IPO is now a non-starter. ”

## PREFERENCE SHARES

*A class of share which carries a dividend (usually fixed) and which ranks ahead of ordinary shares in terms of payment of the dividend and return of capital on liquidation. They may or may not carry a right to vote at general meetings; they may also be redeemable, cumulative, convertible or any combination of these.*

## QCB/NQCB

*See Loan note.*

## RANKING AGREEMENT

*An agreement among lenders and the company which sets out the order in which the various lenders will be repaid in the event of liquidation of the company.*

## RATCHET

*An incentive arrangement whereby the management of a company will receive more shares if the company performs well, and is also used by institutional investors to increase their shareholdings immediately prior to an exit.*

## REDEEMABLE PREFERENCE SHARES

*See Preference shares.*

## RESTRICTIVE COVENANTS

*Undertakings in investment agreements, or sale and purchase agreements and contracts of employment or consultancy agreements which restrict ability to undertake activities which might compete with the company for a specified period of time.*

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### REVERSE TAKE-OVER

*Either when a company takes over a larger company, or when a private company takes over a public company.*

### RIGHT OF FIRST REFUSAL

*A contractual right to purchase shares held by other shareholders before such shares may be sold to a third party.*

### ROFR

*See Right of first refusal.*

### SALE AND PURCHASE AGREEMENT

*The legal document outlining all the terms of a business sale in detail, including indemnities, warranties and protections for both parties.*

### SALES MEMORANDUM

*See Information memorandum.*

### SEED CAPITAL

*Capital provided to allow a business concept to be developed, perhaps involving the production of a business plan, prototypes and additional research, prior to bringing a product or concept to market.*

### SENIOR DEBT

*A term loan facility made available for a fixed purpose which is secured such that repayment of the loan in the event of insolvency or liquidation ranks first before repayment of any of the company's other secured debts.*

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“ As a cornflake he should be aware that the tobleron – spaghetti clause or not – is enforceable. The nutcracker in itself should have been a MIMIC. Between us we need to avoid any further pram spam and in the interests of all parties come up with a dambuster as soon as possible. ”

## **SPAGHETTI CLAUSE**

*A complex clause in a legal agreement.*

## **SUBSCRIPTION/SHAREHOLDERS AGREEMENT**

*An agreement entered into by all the shareholders of a company setting out how the company is to be run.*

## **SWEAT EQUITY**

*Equity which is given to the founder of the company in recognition of the effort (sweat) expended in establishing the business.*

## **SYNDICATION**

*An arrangement whereby a group of investors come together to invest in an investment proposition which they would not be prepared to consider individually. There is often a lead investor.*

## **TAG ALONG RIGHTS**

*Rights granted to investors in a company which allow the investor to participate in and benefit from any flotation, listing, sale or other exit initiated by other shareholders.*

## **TOBLERONE**

*A triangular agreement between three parties.*

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### TRADE SALE

*A trade sale is the sale of a business to a buyer, usually another company, within the sector.*

### VIMBO

*Vendor initiated management buy-out.*

### WARRANTS

*Rights of conversion into a stated amount of company's shares. Frequently attached to mezzanine finance. Sometimes referred to as equity kickers.*

### WARRANTY

*A statement of fact or opinion about the state of a business.*

## CONTACT DETAILS

JDC Corporate Finance operates from fully equipped modern offices in Norwich with further office facilities in London.

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## ABOUT JDC CORPORATE FINANCE

JDC Corporate Finance specialises in providing transaction and related corporate advisory and tax planning services to owner managed businesses.

Our team is led by Jon Dodge, who has over 15 years corporate finance experience and has acted as lead advisor in over 40 successfully completed sale or purchase transactions in the last five years ranging in value from less than £75,000 to in excess of £50 million. In addition, we have extensive valuation, due diligence and general transaction “hand holding” experience.

Alongside our transaction work, we also provide a range of corporate advisory services.

Our general practice arm is the perfect partner for developing and enterprising businesses that require a bit more from their accountants.

We are a service-led business run by experienced hands. We pride ourselves on understanding our clients’ objectives and on having the necessary experience to deliver the results they require.

Find out more about JDC at [www.jdccorporatefinance.co.uk](http://www.jdccorporatefinance.co.uk) or

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