

Glossary of Mergers & Acquisitions

Guide 6

Avondale Business Guides Series

Glossary of Mergers & Acquisition Terms

This Glossary is designed to give an understanding of terms commonly used within the corporate finance and mergers and acquisitions fields. With certain words and terms we have detailed the common usage and understanding rather than a literal definition.

Accruals	An allowance made within the account for a charge, expense or liability that is often estimated, as the final amount is not known at the accounting date. An example might be a quarterly bill that has not been invoiced by the time the accounts are prepared.
Acid Test Ratio	Also known as Liquid Ratio. It is a ratio used to assess the liquidity of a company i.e. the circulating assets less stock to current liabilities. Shown as a percentage. E.g. a company with liquid assets of £25k incl stock of 15k and current liabilities of 12k will have a liquid ratio of $25000 - 15000 / 12000 = 0.83 = 83\%$. The company has 83 pence of liquid assets excluding stock for every £1 of current liabilities
Administration order	An order of a court to place under administration the affairs of a company in financial difficulties with a view to securing its survival as a going concern. If that is not possible the aim is to achieve a more favourable value for its assets than would be possible via liquidation. While under an administration order, the company is managed by an administrator appointed by the court.
Administrative receiverships	Usually appointed to companies by debenture holders, mainly High Street banks, to realise assets by the sale of the business or otherwise to pay the secured creditor. Acting as an agent of the company the administrative receiver has the power to keep the company trading and later sell on its business as a going concern, leaving behind the liabilities.
Aged debtor analysis	A breakdown of the length of time the debts of a business have been outstanding. This would usually be expressed as the amount of debt that has been due for less than 30 days, between 30 and 60 days, between 60 and 90 days and longer than 90 days. This assessment is often used for estimating future cash flow requirements and as part of a businesses credit control process.
AIM	Alternative Investment Market. A market of the London Stock Exchange that allows smaller companies to raise capital and have their shares traded in a market without the expense of a full market listing.
Amortisation	The process used to treat as an expense the amount in one year deemed to waste away from the value of a fixed asset (usually an intangible fixed asset such as a lease or goodwill). In the USA this is another word for depreciation.
Assets	Any object tangible or intangible owned by a company, including items that it is owed. Current assets include cash, investments, money due, materials and inventories. Fixed assets include land, buildings and machinery. Intangible assets include goodwill.
Asset based finance	Lending that is founded on specific assets i.e. commercial mortgages based on property. It is often a crucial element when financing a buy-out.
Asset cover	A ratio measuring the solvency of a company. It is calculated by dividing the net assets by the debt.
Audited Financial Statements	The financial statements of a business prepared by a registered auditor and qualified accountant in accordance with general accounting principles. These statements show the business's financial position and the results of its operations.
Balance sheet	A statement presenting the status of the business's assets, liabilities and equity on a given date.
Bankruptcy	Technically this only relates to personal insolvency under the supervision of the Court. It is a phrase, however, that lay people often misapply to corporate insolvency too.
Bear	A dealer or speculator on the stock exchange, currency market or commodity market who expect prices to fall

Bear market	One in which a dealer or speculator is more likely to sell than to buy. A bear may even sell securities, currencies or goods without having them. This is known as selling short or establishing a bear position. The bear hopes to close (or cover) a short position by buying at a lower price the securities, currencies or goods previously sold. The difference represents the bear's successful profit. A concerted effort to force prices down by one or more bears is known as a bear raid.
Best advice	Seven LAWS of best advice in order of use. 1. Diligently obtain the full facts from a client. 2. Check the facts, needs and objectives of the client. 3. Provide clear considered advice within your area of expertise. 4. Advice must be objective (not influenced by your needs) 5. Qualify the reasons why the advice has been given. 6. Advice must be qualified as your opinion. 7. Check the client has understood advice.
BIMBO	The BIMBO is a combination of a management buy-in and a buy-out. In a BIMBO, key people such as an investing Chairman, Finance Director or Managing Director are added to an existing management team, perhaps to replace an exiting owner or simply just to strengthen the team. This combination can be ideal in that it provides new, backable, management together with the knowledge of the existing management team.
Blue chip	Names we all recognise, companies whose products or services we all use.
Book value/net worth	The accounting value of the business or an asset according to financial records and statements.
BPR	Business property relief. Relief from inheritance tax on relevant business assets
Brand name	A name identifying a particular product, group of products or service. Typically a well-known name that is immediately associated with the appropriate product or service.
Break even point	The amount of money a product or service needs to be sold for to cover the direct costs associated with producing the product or providing the service.
Bull	A dealer or speculator on the stock exchange, currency market or commodity market who expects prices to rise.
Bull market	One in which a dealer or speculator is more likely to be a buyer than a seller even to the extent of buying without having made a corresponding sale thus establishing a bull position.
Business Angel or Informal Investor	A high net worth individual willing to provide a company with capital in exchange for a high proportion of shares. They will usually fund sums below £250,000. Business angels will often require an exit route. They will normally want a say in the way that the business is run.
Business plan	A detailed plan setting out the objectives of the business over a stated period, often three, five or ten years. For new businesses it is an essential document for raising capital or loans. The plan should include a cash flow analysis, anticipated profit and loss accounts and production figures for at least the first two years. The plan must also include the strategy and tactics, which the business intends to use to achieve its objectives.
Buy and Build	Buying a company with a financial and business plan to develop the company significantly in the short and medium term.
Called up share capital	The amount of the issued share capital of a company for which payment has been requested (called up). Some shares are paid for in part, for example an allotment, with subsequent calls for payment. When all calls have been paid the called up share capital will equal the fully paid-up share capital.
Capital	The total sum that an individual has invested in a business or the business net worth.
Capital allowances	Tax relief for capital expenditure given against income on eligible fixed assets similar to depreciation but at set rates pre-determined by the Revenue
CGT	Capital Gains Tax. Tax payable by an individual on the profit made on the disposal of an asset.
City code on take-overs & mergers	First laid out in 1968 and since modified. The code attempts to ensure all shareholders including minority ones are treated equally, are kept advised of the terms of all bids and counter bids. Its many recommendations are aimed at preventing directors acting in their own interest rather than those of the shareholders to ensure that negotiations are conducted openly and honestly. Representatives from the London Stock Exchange, clearing banks and others, compiled the code.
Collateral	A form of security such as shares offered to secure a loan.

Comfort letter	A letter of reassurance from the parent company of a subsidiary trying to borrow money from a bank. The letter will support the application but not act as a guarantee for the loan.
Company voluntary arrangement	Such formal agreements involve the company coming to an arrangement with its creditors to avoid liquidation. The creditors may vote to accept in full settlement a payment less than their rightful due. Upon fulfilment of this arrangement the company can resume business as before. A qualified insolvency practitioner must be appointed to supervise the arrangement.
Completion accounts	A set of financial accounts (principally the balance sheet although usually includes a profit and loss account) produced at the date a business is sold. The completion accounts are produced to show the state of a business at the point of sale. The sale price is often adjusted in accordance with pre-defined formulas applied to the completion accounts.
Compulsory liquidation	This type of liquidation is where an insolvent company is wound up by order of the High Court or County Court with bankruptcy jurisdiction. Either the Official Receiver and/or an outside liquidator deal with the administration of winding up the company's affairs.
Concession	Where a party backs down or agrees to the other party on terms. Concessions are often sought to alleviate deadlocks. In a win/win deal a concession is usually made on both sides to secure a deal.
Confidentiality undertaking	An undertaking provided by a purchasing party to keep all information regarding the business in the strictest confidence. The undertaking is legally binding with recourse. Also known as a non-disclosure agreement (NDA).
Consideration	Proceeds received or receivable on a disposal of an asset. This can be in various forms including cash, shares or loan notes.
Contingent liabilities	An accounting term for a liability that is anticipated if a particular event occurs. In business sales a typical example of where this term might arise is if a court case is pending at the point of sale. You would calculate the potential loss to the company (contingent liability) if it lost the case. Often in a business sale an indemnity will be asked for from the vendor against potential contingent liabilities
Cost of sales	The costs directly associated with providing a product or service. This could be the cost of purchasing the product to sell, or manufacturing a product. The cost of sales does not include overheads such as administration costs, establishment costs or finance costs.
Creditors	Parties that a business owes money to.
Creditors voluntary liquidation	The winding up of a company by special resolution of the members when it is insolvent. This is the most common type of insolvency. The company is wound up outside the jurisdiction of the Court. The procedure must not be confused with Members Voluntary Liquidation where creditors are likely to be paid in full
CT	Corporation tax. A tax on the profits of a company. Different rates are used for different levels of profits.
Current assets	Cash or assets that are easily converted to cash in a relatively short period of time (no more than one year). They include stock and debtors.
Current liabilities	Short-term liabilities that need to be met in a relatively short period of time (no more than one year). They might include trade creditors, staff salaries, VAT etc.
Data-room	A service made available to both the purchaser and their advisors in order for them to view / inspect company information during the due diligence procedure.
Deadlock	Where parties seek to resolve a conflict or difference but can't see a way. Often deadlock occurs because of a lack of understanding over each party's requirements.
Deal	When the parties involved in a sale have agreed the price and terms under which the transaction is to be carried out.
Debentures	A long-term loan taken out by a company. It is usually repayable by a fixed date. Most debentures carry a fixed rate of interest that must be paid before dividends are paid to the shareholders. Most debentures are secured by the borrower's assets, although some, naked debentures or unsecured debentures are not.
Debtors	Parties that owe money to a business
Deferred consideration	An agreement in which payment of the consideration is delayed until a certain date or until a specified event has occurred. Often paid in instalments with interest. A vendor loan is a deferred consideration payment. Security and or personal guarantees will often/should be asked to give collateral for deferred payments. See performance related payment.

De-grouping	This is where a company who was a member of a group no longer fulfils the criteria to be a member of the group and therefore exits the group
De-merger	A company splits up into more than one company. There is a strict legal process to follow.
Depreciation	An accounting method of spreading the cost of a fixed asset over its theoretical useful life within the profit and loss account. When a business purchases a fixed asset, the cost and the value of the asset are usually represented in the balance sheet. The value of the asset is then reduced (depreciated) annually using one of accepted accounting methods of depreciation, and the depreciation is shown in the profit and loss account with the reduced value of the asset being shown in the balance sheet.
Dilapidations	Repairs required reinstating a leasehold property back to its original state and condition on the expiry or termination of a lease.
Director loans	A loan made by the director of a company to the company or from the company to a director of the company. There are strict rules governing director loans. Typically director loans are seen in privately owned companies where the shareholders are the directors.
Director remuneration (emoluments)	The amounts paid to the directors of a company in the form of salaries, pension contributions and other forms of benefits in respect fulfilling the role of a director and performing the duties of office.
Disclosure letter & disclosure bundle	A document disclosing statements of condition, fact and vendors beliefs relating to a business at the time of sale. It forms part of the completion documentation. A disclosure letter serves two purposes. One is to attach a set of all relevant company documentation and the second is to vary the effect of the warranties contained in a Sale and Purchase Agreement. A good example in a business sale might be "not all PC software is licensed. Copies of licenses thus far held."
Discounted cash flow	A method of budgeting that estimates today's value of money to be received in the future; It is discounted due to the uncertainty of its true value in the future and for the cost of the capital (less valuable than the cash in your hand today).
Dividend	Distributions to shareholders of a company out of post-tax retained profits.
Dividend cover	Dividend cover is the number of times that a company's dividends could be paid out of its net profit after tax in the same period (post tax net profit divided by the dividends paid). Prudent companies retain a percentage of their earnings. A ratio of 2 or more is generally accepted as comfortable, and anything below 1½ as an alarm bell. If the ratio sinks below 1, the company is paying out more than its earnings and distributing part of its retained surpluses. Circumstances vary – this may or may not be a bad thing in the shorter term. However, it is clearly a situation, which cannot continue indefinitely.
Dividend yield	The dividend yield is one of the key measurements for shareholders. This is the amount of dividend received per share expressed as a percentage of the market price of the share. The dividend may be paid in two instalments: the interim and final dividends. Most dividends are paid after deduction of tax: yields are generally expressed 'gross'. The tax deducted is added back as part of the calculation. A gross yield of 4 per cent is equivalent to a net yield of 2.4 per cent to a 40 per cent taxpayer. How should we interpret the yield? Very high yields may indicate that a company was expected to reduce its dividend pay out. The share price has fallen on the stock market because reduced profits are expected. The calculation uses last year's dividend and this year's (reduced) share price. Last year's dividend is expected to have been higher than this year's. Low yields may indicate expectations both of a growth in profits and of increased dividends and a share price, which has already risen. Shares in different companies may be compared through dividend yields.
Due diligence	Due diligence is the process prior to completing and acquisition of verifying the information provided and diligently checking the suitability of the acquisition, the company's history and future prospects. External professional advisors are often used to assist in this process. Due diligence is sometimes broken down into a number of distinct areas; financial, legal, commercial, environmental, cultural, IT etc.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBITD	Earnings before interest, tax, depreciation.
EBIT	Earnings before interest, tax.

Earn out	Where some or all of the purchase price for a business is paid over a period of time. This usually involves a continued involvement from the vendor and may also be a variable sum, linked to certain criteria being met, typically the future financial performance of the business.
Economy of scale	Where the linking of two operations provides a direct cost saving enabling enhanced operating profits. Typically, with an acquisition, this is where the two businesses' functions may duplicate each other. The closure or 'culling down' of one creates better economies i.e. reduces costs creating more profit.
EIS	Enterprise Investment Scheme. Tax efficient investment in a company for individuals enabling either income tax relief and/ or reinvestment relief for capital gains tax purposes. There are strict conditions applying to the investor, the investment and the company. The company equivalent is the corporate venturing scheme.
Elevator deal	A transaction where the purchaser acquires a shareholding greater than 50% and the vendor retains a shareholding. The vendor stays with the business and the new funds, and probably the ideas and infrastructure, provided by the new investor are used to grow the business. The investor has the right to buy the remaining element at a higher 'elevated' price, usually predetermined by a formula.
Employment taxes	Tax payable by an employer on earnings of employees. It includes Pay As You Earn (PAYE) and National Insurance Contributions (NIC).
Equity	The amount by which the value of an asset exceeds any liabilities attached to it.
Equity finance	A form of finance, where equity in the business is provided in return for providing finance.
Escrow	Noun – Law – “a bond, deed, deposit kept by a neutral third party until a specified condition has been fulfilled”. Origin; old French (legal system has origins in France) – “escroe” meaning “scrap, scroll”. Related to “shred” and, therefore, “shroud”. Shroud – length of cloth or enveloping garment or a thing that obscures or protective casing concealing from view. Example: A deed that has been signed but will not become operative until a pre-determined event takes place. Money held in escrow is controlled by a third party (often a lawyer) and is only released to the beneficiaries when a certain event takes place (usually completion).
Factoring	The buying of trade debts of a company assuming the task of debt collection and accepting the credit risk, thus providing the company with working capital. A firm that engages in factoring is called a factor.
Financial assistance	Section 151 of the Companies Act specifies that no company can financially assist in the purchase of its own shares. The act aims to protect any company from exhausting its own capital base and thus compromising its ability to meet any liabilities to its creditors. See whitewash
Financial reporting for smaller entities	The reporting standards for businesses have been revised and updated in several areas. Accountants are required to prepare them according to published financial reporting standards. These set out the permitted methods of accounting for certain transactions and situations. These standards have to cover all sorts of issues that are sometimes only relevant to larger companies. As a result, there is now a separate, less complex, standard for smaller companies and other organisations, known as the Financial Reporting Standard for Smaller Entities, or FRSSE (pronounced 'fuzzy!'). As new standards are issued, the FRSSE is amended to reflect those aspects that apply to smaller companies.
Financial statement	The annual statement summarising a company's activities over the last year. This includes the profit and loss account, balance sheet and, if required, a cash-flow statement.
Fiscal year	The financial year imposed by the Government for the purposes of assessing tax. It runs from April 6 th to April 5 th of the following year.
Fixed assets	Assets that are not traded in the course of the normal day to day activities of a business. The nature of the business will usually dictate whether an asset is treated as a fixed asset or a current asset. For example a car would usually be treated as a current asset (stock) by a car dealership (their business is selling cars), whereas a recruitment company would usually list a car as a fixed asset (the car is a tool that helps the business trade, rather than an item which the business trades.)
Fixed asset and goodwill sale	Often referred to incorrectly as an asset and goodwill sale. It means where the fixed assets of a business, its goodwill, customers, staff and know-how are sold on in a way that enables continuance of a business. In the case of a limited company, the company sells its fixed assets and goodwill, however no shares change hands.

Float	A flotation is the offering of initial shares to the public on a quoted stock market. Will it float or sink. i.e. will the public buy the offering. The process is known as an initial price offering
Franchising	Franchiser - an agreement whereby the franchisor (a primary company) provides a market tested business package to another business (the franchisee). The latter then operates under the franchisor's trade name, marketing goods according to an agreed contract and either for a fee or restricted supply chain or similar. Typically a franchisor will allow a number of franchisees to operate the business model, usually restricted by financial territory to prevent competition among the franchisees.
FT-SE	Financial Times Stock Exchange Share Index sometimes known as the Footsie. The Financial Times publishes the FT-SE 100 Share Index, which reflects the combined performance of the 100 largest companies quoted on the stock market. The index shows the current level, the highs and lows, and levels at other specified dates. The FT-SE 250 shows the combined performance of the next 250 largest companies below the top 100. The FT Actuaries All Share Index shows the daily performance of the top 800 companies.
GAAP	Generally Accepted Accounting Principles. An accounting practices whereby your accounts have been prepared in agreement with normal accounting conventions. Please note that there are some differences between UK and American GAAP processes.
Gearing	The level of borrowing (debt) to equity.
Golden handcuffs (loyalty bonus)	Financial incentives offered to key staff to persuade them to remain with a business after the sale. Also known as loyalty bonus. Usually paid to non-shareholding key staff if they remain with the business for a defined period after sale or until a pre-defined event occurs. .
Goodwill	Goodwill: a kindly feeling, a well-being, benevolence. What is business goodwill? The advantage or favour a business has in its custom and trade. What is financial goodwill? The excess of the purchase price (not its valuation but what is achieved) over and above the value assigned to its net assets exclusive of goodwill. In other words goodwill is an abstract concept. It also means different things to different people. Therefore it stands to reason that goodwill is a matter of opinion. Some even argue that it does not exist. Goodwill could also be the measure of trust the market has in a business.
Grooming	The process of preparing a business for sale in order to make it more attractive to a potential purchaser.
Gross profit	The turnover of a business (total revenue generated) less direct costs (those costs that are directly attributable to the generation of the turnover).
Group	A parent undertaking and its subsidiary or subsidiaries.
Hand-over	A period in which the selling party 'hands-over' knowledge, contacts, relationships etc. to the purchaser. The complexity of the business being sold, level of involvement in the day to day running of the business the vendor has and skills and industry experience the purchaser has will dictate the length and structure of the hand-over required.
Heads of terms	A document outlining the key points of an agreed transaction that is then used as the basis to prepare the legal contracts. The heads of terms is not usually legally binding save for specific clauses relating to exclusivity and confidentiality.
Hive down	Where the trade and assets of a company are transferred into a subsidiary company.
Hive up	Where the trade and assets of a company are transferred into a parent company
House keeping	Non-productive but necessary procedures typically relating to record keeping and administrative issues. Whilst good house keeping is an important part of all businesses on an ongoing basis, it is often only taken seriously in the period preceding a sale, particularly in the case of small businesses.
IBA	Industrial buildings allowance. Similar to a capital allowance but applied to certain industrial buildings such as factories and warehouses.
IHT	Inheritance tax. Tax levied on certain lifetime transfers and estates on the death of individuals
Incorporation	The process by which a company is registered under the companies act. The formation of n association that has 'corporate identity' i.e. an identity that is distinct from its members.

Indemnities (Warranties and Indemnities)	An indemnity is an undertaking to pay or reimburse in full without declaration against a particular event occurring. It is not subject to any minimum or maximum amount. Often money will be held in an account [see escrow] against a financial claim being made against a warranty. A warranty is an undertaking or guarantee offered against a potential event. It may be subject to restrictions on the minimum or maximum amount referred to in the sale and purchase agreement.
Input tax	VAT on purchases from suppliers.
Insolvency	An excess of liabilities over assets and an inability to meet debts as they fall due. This often leads to liquidation although not always.
Intangible assets	Fixed assets that are intangible. Typically goodwill, intellectual property or investments.
Interest relief on borrowings	Tax relief given for interest on loans made by a qualifying individual for the purposes of investing in a qualifying company or partnership
IPO	Initial Public Offering – also known as flotation.
IPR	Intellectual Property Rights – The right of ownership of intangible property, such as patents, copyrights trademarks etc.
IRR	Internal rate of return
Know-how	The procedures, ideas, products, vision and personal knowledge of a business normally residing in its people. Unless this is transferred on a sale. Goodwill will rapidly dissipate. An experienced buyer will work out a deal that retains know-how.
Large business	Large companies – firms with over 250 employees
Leverage	See gearing
Liability	An obligation to transfer economic benefit as a result of past transactions. A contingent liability may or may not become a liability.
Limited company	A limited company is a separate entity from its owners (members, shareholders). Its Directors are not normally liable for its debts although they may be asked to give personal guarantees on certain loans and liabilities. The company must be registered and submit properly prepared statutory financial statements. There are specific rules and regulations governing the way a limited company is set up and run which must be followed.
Listing	The flotation of a company on the stock exchange
Loan note	The legal document detailing the terms of 'loan capital'; effectively an IOU issued by a company. Loan capital is capital used to finance an organisation that is subject to interest over the life of the loan, at the end of which the loan is usually repaid (see debenture). In M&A terms, a loan note is issued by a purchasing company to the seller in place of cash. From the purchaser's point of view this assists them in the cash flow requirements of an acquisition. From a seller's point of view certain types of loan notes can be tax beneficial, particularly as the taxation is usually crystallised at the time of issue of the loan note, however is not payable until the loan note is realised.
Loss relief	Tax relief for trading or capital losses given by setting losses against taxable income or chargeable gains (individuals) and taxable profits (companies).
Market capitalisation	This is the value put on the company by the stock market. It represents the cost of buying all the shares in the company at the share price quoted.
MBI (Management Buy In)	The acquisition of a company by a manager or management team from outside of the company who buy it, and then become the new managers.
MBO (Management Buy Out)	The acquisition of a company by its existing managers.
Medium business	A business that can claim two or more of the following: Balance sheet not exceeding £5.6m Turnover not exceeding £11.2m Average number of employees not exceeding 250.
Members voluntary liquidation	In this instance the company must be solvent. The directors are obliged to make a statutory declaration that they have formed the opinion that the company will be able to pay its debts (including the cost of liquidation) in full, together with interest at the official rate, within twelve months. The burden of proof is on the directors.
Memorandum of Association	An official document setting out a company's existence. It includes the registered office of the company. A statement of the company's objectives (called the objects clause) the amount of authorised share capital and its division.

Merger	A combination of two or more businesses on an equal footing that results in the creation of a new reporting entity. The shareholders of the combining entities mutually share the risks and rewards of the new entity. (Approval of the monopolies and mergers commission may be required). For publicly quoted companies mergers must be conducted on lines sanctioned by the City code on take-overs and mergers.
Micro-firms	Firms with fewer than 9 employees.
Minority shareholder	A shareholder who holds less than 50 % of the company’s shares is classed as a minority shareholder. They can receive their share of the profits in the form of dividends however they cannot on their own control or determine company policies.
Negotiation	The process of trying to bring together two or more parties in order that an agreement is reached. Generally the aim of negotiation is obtain a mutually beneficial solution, which involves dovetailing interests giving both sides a degree of satisfaction to the agreement. Win/Win: Where both sides feel they have obtained a good deal. Win/Lose: Where one side is feeling they have a good deal and the other feels hard done by. The deal might still happen but there will be bad feeling that might result in criticism, or lack of support in a hand-over. Lose/Lose: Where ultimately neither side succeeds in their objectives. This might occur when a Win/Lose deal is agreed and one party backs out leaving both with large professional bills.
Net asset value	The value of the assets of the company plus what it is owed minus what it owes. Shown as shareholders funds on a balance sheet.
Net profit	The amount of income earned by an organisation after deducting all relevant costs and expenditure.
Net return	This is the true economic view of a company. It is calculated by recasting the financial statements of a business to eliminate direct and indirect owner related expenses as well as extraordinary or non-recurring items. This type of recast is known as an add-back. There might also be the converse, an add-on where the expenses are not realistic with beneficial rents or lower salaries being paid.
Non-Embarrassment Clause	The rights given to a vendor should a successful purchaser re-sell the business within a certain period of time and who benefits from a higher sale value. This usually takes the form of financial compensation.
Ofex	(Of-exchange) An independent market for listing small to medium sized companies.
Open Market Value	How much an asset will fetch if sold on the open market.
OTT – Option to Tax	The ability of a purchaser/ owner of a commercial property to elect for the property to be subject to VAT by waiving the usual VAT exempt status in order to recover VAT input tax.
Output tax	VAT charged by a vendor on its supplies to its customers.
Partnership	A partnership involves two or more people jointly running a business with a view to making a profit. Although you do not have to formally register a partnership, it is recommended that a Partnership Agreement be drawn up. Included in the agreement should be who has put what into the business, who does what work, how your profits are shared and what would happen if you decided to wind up the partnership. Each partner is personally liable for all debts incurred by the business. Trust in this type of business relationship is therefore crucial.
Payback period	How long it will take to repay the amount invested at current levels of earning.
Perception value	Perception value is denominated by the market view of a business. This can be measured by market comparison. Literally what others are selling for but also instinct. The most common measure of this perception value is the selection of a profit earnings ratio. A P/E multiple (In its inverse state this is called ROCE, return on capital employed).
Performance related payment	Where part of the consideration for the purchase of a business is deferred until a later date and is linked to the future performance of the business. Similar to deferred payments and earn outs.
PEST	A management or valuation technique where an analysis of the environmental forces that effect a business is created: A review of national and global trends: Political Economic Social or sociological Technical
Phoenix	A buy-out from a liquidator.

Preparation	This is where all parties research, consider, brainstorm and assess prior to transactions. A good negotiator can never do too much preparation.
Price	The monetary value that a business is marketed for sale.
Price earnings ratio (P/E) ratio	<p>The P/E ratio is the ratio of the price paid per share in a company to the earnings that share produces annually.</p> <p>For a quoted company this is calculated as the current quoted share price divided by the year end dividend declared per share.</p> <p>For privately owned companies this is more likely to be the price paid per share divided by the post-tax profit per share.</p> <p>The P/E ratio is widely quoted as a basis for comparison. There are those who regard P/E ratios as having their uses, even if they are a limited tool. Different types of businesses attract different P/E ratios.</p>
Put option	The right to buy or sell a defined number of shares at a pre agreed price at a particular date. This is sometimes used if a purchaser buys a proportion of a business and has a put option to buy more of it at a later date.
R&D (Research & Development)	<p>The investigation undertaken to gain new scientific or technical knowledge and understanding, and/or the use of scientific or technical knowledge to produce new or substantially improved, materials, devices, products, processes, systems or services prior to commencement of commercial production.</p> <p>Accounting standards distinguish between pure research, applied research and development. Depending on the category or R&D, the costs can either be written of against tax immediately, or capitalized and amortized.</p>
Redundancy	Where an organisation no longer has a commercial use for some of its functions, the staff that perform those functions may be made redundant and receive a redundancy payment. There are very strict rules governing redundancy. The statutory calculations for redundancy payments can be found on the following web site: http://www.dti.gov.uk/cgi-bin/er_reconner.pl
Restriction of trade (non competition clause)	A clause or series of clauses in a sale contract that prevents the seller from entering into a competitive business or performing competitive activities after the sale of a business. Typically the restrictions will be before a defined period and within a defined geographical area. Unlike employment law where restrictive covenants imposed on employees are often considered unenforceable, they are enforceable in the case of the sale of a business when drafted correctly.
Return on capital employed (R.O.C.E.)	An accounting ratio expressing the profit of an organisation as a percentage of the capital employed (the rate of return required on money invested). This should certainly be more than the rate of interest you could get from leaving your money in a building society account. This is the reverse ratio of a P/E ratio.
Roll-over tax relief	Relief from capital gains tax (or corporation tax on chargeable gains) on eligible disposals. The financial gain from the disposal of an asset may be deferred if the proceeds are used to purchase another qualifying asset. Strict rules apply to roll over relief and what is accepted as a qualifying asset.
Sale and Purchase Agreement (SPA)	A legal contract setting out the details and terms of the purchase of a business or business asset. This is typically drawn up by lawyers and includes details of all aspects of the transaction, including details of what is being sold, the price to be paid, any restrictive covenants on both buying and selling parties and warranties and indemnities provided to the purchaser by the seller etc.
Schedule of staff	A comprehensive list of all staff, their job description, their addresses, the length of their employment, their salaries and benefits and any outstanding holidays.
Schedule 22 employment taxes	Tax and NIC payable by either an employer and/ or the employee where shares or share options are transferred to an employee at an undervalue. There are special rules relating to MBO's.
Section 320	Provisions in the Companies Act that prevents a director purchasing more than 10% of the company's net assets without obtaining permissions from the shareholders.
Securities and Futures Authority (SFA)	The self regulating authority responsible for regulating the conduct of Brokers and dealers in securities, options and futures.
Security	An asset or loan to which a lender can have recourse if a borrower defaults on his loan payments. Sometimes referred to as collateral or a charge.

Shares	<p>Shares are equal parts into which the capital stock of a company is divided. They fall into two basic categories:</p> <p>Ordinary shares Preference shares</p> <p>When we buy shares; we are investing in the future performance of the company, which originally issued them. We are looking for income (received via dividend payments) or capital gain (received if we sell shares at a higher price than we paid for them) or both</p>
Shares - ordinary	<p>Companies sometimes subdivide their ordinary shares into different classes e.g. to reflect different dates of issue. Ordinary shares are securities issued by companies in return for the investment of risk capital. The risk is high because the claims of owners of ordinary shares rank behind those of all others in the event of the company being wound up and its income and assets distributed.</p> <p>Limited liability: here, the shareholders' risk is limited to the value of the ordinary shares. If the business fails their liability for losses incurred by creditors and lenders is limited to the funds they have invested in the business – hence the term 'limited liability company'</p> <p>Potential for gain: to compensate for their high risk status, ordinary shares offer unlimited potential for gain because other forms of capital e.g. preference shares have strictly limited claims on the income and assets of the business</p> <p>Shareholders' rights: ordinary shareholders also have voting rights on a whole range of issues. The exercise of these rights by an individual shareholder may be of limited significance. This is particularly so where institutional investors e.g. insurance companies own very large blocks of shares.</p>
Shares - preference	<p>Preference shares provide part of the equity capital of a company. They carry very limited rights of ownership, restricted often to the right to vote if preference dividends remain unpaid. In reality, preference shares are a form of specialised debt. They carry rights to:</p> <p>A fixed interest rate rather than dividends. Repayment of the par value of the share in the event of winding up. Preference shareholders rank behind unsecured creditors and ahead of ordinary shareholders.</p>
Share price	<p>The share price: For publicly quoted companies, this is usually the previous day's closing mid-market price in pence (i.e. halfway between the offer and bid price at the previous day's close of business) or the price change from the previous trading day.</p> <p>Highest and lowest prices: These are the share's maximum and minimum prices over the prior 52-week period.</p>
Share transfer	A change in the ownership of a share or stock.
Skeletons in the cupboard	Hidden liabilities (see contingent liabilities) normally referred to as ones that have been left dusty, ignored or hidden.
Small businesses	Firms with between 10 - 49 employees.
SMEs	Small to medium sized enterprises.
Sole trader	To become a 'sole trader', all you need to do is inform the Income Tax and Social Security authorities that you want to work for yourself. You have the freedom to choose how you do things and in many ways your business will be relatively simple to manage, even the book keeping and accounting should be straightforward. You are, however, responsible and liable for every aspect of your business and if things do go wrong, your personal possessions as well as your business may be at risk.
Solvency	A business with the ability to meet its financial obligations.
SSE	Substantial shareholding exemption. Corporation tax exemption given to trading companies disposing of a greater than 10% interest in another trading company from corporation tax on chargeable gains.
Stamp duty	A ½% duty on documents relating to the purchase or transfer of shares and securities. These must be physically stamped at a Stamp Office and the duty paid to the Revenue
Stamp duty land tax	A tax paid by the buyer on the acquisition of land and/ or property. Separate rates apply to outright purchases and to leases.
	See www.inlandrevenue.gov.uk for rates
Subsidiary	A company controlled by a parent or holding company.
Summarising	Verbally and then preferably in writing outlining the terms or agreements to date in a way that sets out the clear progress.

Sweetheart approach	A 'one' company direct approach. They are quick and easy deals but with no competitive process often leading to lower values.
SWOT	An analysis tool identifying: S trengths W eaknesses O pportunities T hreats
Synergy	Where a buyer is able to gain added profits out of an existing business by linking their own operation and sharing knowledge or resource. A good example is where clients in existing operations can be crossed over. It is not an economy of scale, which is where profits can be enhanced by a direct reduction in costs by reducing the 'scale' of the two linked operations.
Taper relief	A relief given against the capital gains tax payable on the sale of an asset, based on the type of asset and the qualifying period of ownership. Relief for business assets is more substantial than for non-business assets. Taper relief is not available on disposals by companies. Types of business asset (current definitions): <ul style="list-style-type: none"> • Shares in a trading company not listed on the Stock Exchange • Shares in a trading company in which the individual has power to exercise at least 5% of the voting rights • Shares in a trading company in which the individual works full or part time • Shares in any company in which the individual is an employee or director and has less than 10% of the shares • Assets owned by an individual and used by the individual either in his business or in his partnership • Assets owned by an individual and used by a qualifying company • Assets owned by an individual and used for the purposes of his employment • Assets owned by individuals and used for trade purposes (e.g. commercial investment property). Non-business assets: <ul style="list-style-type: none"> • Asset that does not satisfy the definition of a business asset <p>The Revenue has issued guidance on the interpretation of trading companies. Inland Revenue literature order line 0645 000404 Inland Revenue help desk 0645 000444</p>
Target	The chosen company to be acquired
Tax rates	Different rates of tax apply to different taxes, to different sources of income and/ or depending on whether the taxpayer is an individual, a company or other entity (e.g. trust). Current tax rates can be viewed on the Revenue website www.hmrc.gov.uk .
Trade losses	Losses made in normal trade of business
Trade purchaser	An industrial buyer of companies.
Troubleshoot the deal	To look ahead and pre-empt potential problems in deal. If you know these issues you are then prepared to: Hurdle them with solutions Go around them Bring them out in the open Ignore them
Third Party referral	Where a third party needs to be referred to in certain decision-making processes. This is sometimes used as a negotiating tactic, by giving the impression that certain decisions are beyond one party's control.
TOGC - Transfer of a going concern	Relates to the transfer of a business as a going concern whereby the seller does not charge VAT on stock, assets, goodwill etc and the purchaser does not claim input tax.
TUPE – Transfer of Undertakings (Protection of Employment) Regulations 1981	Regulations governing the right of employees to have continuous employment and have their terms of employment honoured and maintained when business activities are transferred from one party to another. This is applicable to whole businesses or divisions of businesses. One misconception of purchasers particularly in an asset sale is that they can leave behind unwanted employees. However, all employees are covered by TUPE and as a result the business is transferred as a going concern and classified as an 'undertaking' they will automatically become employed by the purchaser.

In addition the accrued rights and claims and terms and conditions will pass to the purchaser. As many acquisitions lead to rationalisation of workforce it is essential that the purchaser quantifies the total contingent liability prior to the transaction and it is made clear that this is his/her responsibility. The purchaser should insist on warranties and indemnities with respect to employee claims and attaching contingent liabilities.

USP

Unique selling point. Something relating to the product or service which a business provides that differentiates it from the competition.

Valuation

This is the calculated estimated value of a business. To value a business it is necessary to understand its structure. The type of business, the way in which it runs and trades effects the mathematical calculations that are used in assessing its value.

There are four elements that should be considered when determining a value: property, other fixed assets, net current assets and goodwill. Two examples of property are freehold and leasehold, in very broad terms the first has a value the second usually does not. Other fixed assets include such items as fixtures and fittings, plant, equipment and vehicles that should be valued on a second hand resale basis. Net current assets including items such as stock, cash, debtor/creditor balance etc. have a value at cost to the business with old or redundant stock being discounted or written off. Goodwill is the intangible element that has a value reflecting historical trading patterns, future potential and the businesses financial results. To ascertain the value of goodwill a multiplier is often used on both the visible and invisible profits of the business.

The worth of a business is a combined value of the above. But before the four elements are simply added up a consideration has to be made between the total investment level and profits achieved. If one of the first three elements that make up the price is unusually high, it may have a detrimental effect the goodwill element. This is determined by using a lower multiplier when calculating the goodwill. Once all factors have been considered the business then has a calculated value.

Valuations and FRSE (Financial Reporting for Smaller Entities)

Recent revisions in the reporting standards for limited companies, which comprise small businesses, include some new rules, especially in the area of goodwill. They require purchased goodwill and intangible assets to be depreciated over their useful economic life and in any case over a period not exceeding 20 years. In certain situations, where the value of fixed assets or capitalised goodwill is impaired, (for example as a result of obsolescence or a fall in demand for a product) the impairment must recognise immediately in the financial statements.

The effect of FRSE on valuations is that it down values businesses likely to appeal to PLC's and arguably although normally increases the value to private individuals owning over the long term. FRSE appears to work alongside the Taper relief concept. You depreciate your goodwill over 20 years. Your tax relief appreciates when selling over 10 years..??

VAT

Value Added Tax. A transaction tax payable when a taxable person makes a taxable supply of goods or services in the course of business. There are a number of rates.

Venture Capitalist or VC

A person or a firm investing funds in a higher than usual risk business venture expecting high financial returns.

Warranties (Warranties and Indemnities)

A warranty is an undertaking or guarantee offered against a potential event. It may be subject to restrictions on the minimum or maximum amount referred to in the sale and purchase agreement. An indemnity is an undertaking to pay or reimburse in full without declaration against a particular event occurring. It is not subject to any minimum or maximum amount. Often money will be held in an account [see escrow] against a financial claim being made against a warranty.

Whitewash

See Financial Assistance
Whitewashing is the procedure authorised by the Companies Act in order for a company to assist in the purchase of its own shares. This is only permitted should a company be able to prove that it can pay its debt for a period of 12 months following the assistance being given. There are strict rules governing the whitewash procedure that must be followed.

Working capital

Readily accessible capital available for the day-to-day running of a business. In accounting reports this is calculated as the current assets minus current liabilities.

Yellow Book

Another name for the 'Admission of Securities to Listing'. A book issued by the Council of the London Stock Exchange that sets out the regulations for admission to the Official List and the obligations of companies with listed securities.

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