

BUYING & SELLING BUSINESSES - JARGON BUSTER



Target Profile	The identified key features likely to be present in the 'ideal deal'
Acquisition	The term for Buying a business
Heads of Terms	The name for the first commercial agreement where the principals record the basis of agreement. The Heads is typically not legally binding.
Due Diligence	The name for the investigation work conducted by a buyer or funder prior to an acquisition. This may involve commercial, financial, technological, intellectual property, legal, pension or property due diligence.
IPR	Intellectual Property Rights (IPR) is the collective term for rights that a business has to legally prevent competitors from using your designs, ideas, work and inventions. These rights include Patents, Trademarks, Copyright, Design and Database rights.
Warranties & Indemnities	These are usually required by the Buyer for specific matters of importance to him / her. If a buyer claims on the agreed warranties and indemnities, then the former seller is liable to the buyer for damages.
Disclosures	The seller must make disclosures against the Representations and Warranties; any fact that he or she discloses will be treated as 'known by the Buyer' and so prevent the Buyer having recourse post sale.
MBO	Management Buy Out (MBO) is the name for an acquisition by the existing managers in the business, buying out the shareholding of the former owners.
BIMBO	Buy In and Management Buy Out (BIMBO) is when an external investor invests and joins the existing management team
Adjacent sector	Name for a slightly different market but which shares similar customers or similar products or services
Bank Tender	Name for the process of a thorough supplier review of potential banking providers to achieve required funding or facilities for the minimum of security and margin.
Sale & Purchase (SPA)	Name for the main legal agreement for the Sale and Purchase of a business
Share deal	The typical Sale and Purchase of a business involves the Sale and Purchase of the equity Shares of the business
Asset Deal	This is a deal for the Sale and Purchase of named Assets (usually with employees and stated contracts). This does not involve the Sale and Purchase of the actual limited company itself.
Exclusivity	At the time of the Heads the Buyer will normally ask for exclusivity in negotiations ie that the seller only talks to them and no other possible purchaser. This needs to be carefully managed.
Non-Compete	The agreement by the Seller not to compete against the business he or she has sold, thereby providing some protection for the Buyer's new business. These clauses need careful drafting and negotiating.

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Consideration	The name for all payments made in exchange for the transfer of ownership of a business; this may include cash, shares, earn out or deferred consideration.
Earn Out	The name for an arrangement when part of the value paid is made dependent on the future success of the business being acquired.
Deferred Consideration	The name for consideration payable for a business which is not payable at the time of completion; this consideration is not conditional on future performance.
Net Asset Valuation	The valuation typically based on the gross assets less the total liabilities of the business at a fixed point in time.
Profit Multiple	The valuation of a business based on a multiple of profits eg 4 times post tax profit or 3 times EBITDA.
EBITDA	A Profit terms which stands for Earnings Before Interest Tax Depreciation and Amortisation.
Goodwill	The name for the difference between the Consideration for the business less the fair Net Asset Value.
Valuation	The valuation of a business is ultimately 'what a willing buyer will pay and a willing seller will sell for'.
Corporate Lawyer	The type of lawyer or solicitor with extensive experience of doing corporate transactions such as Sale & Purchase of businesses
VC	Venture Capital funds – name for funds which exist to invest in businesses, in exchange for Equity, in order to later sell their investment to make a significant return
Angels	Name for Private Investors who are prepared to invest in businesses for Equity, usually into businesses operating in sectors which they already understand, who again look to sell their Equity for a healthy return
Information Memorandum	This document describes the key features of a business. The Information Memorandum should be written by the business owner to fit a template drawn up by a professional adviser who would help critique and refine the document.

Key Questions for you:

- ? How do I maximise the exit value?
- ? Can I sell the business based on past record or on future prospects?
- ? When is the best time to Sell?

Our **workshop on Buying and Selling Businesses** will provide real insight.

Vfdnet Virtual Finance Directors

All our Virtual Finance Directors (VFDs) have first hand experience of Buying or Selling Businesses, and so are ideally placed to provide insight into how to prepare, and how to sell SME businesses. Many of our deals have been done in demanding environments involving private investors, Venture Capital backed and AIM listed companies.

Contact Us for more information on the Buying & Selling Businesses Workshop.