THE FIRST-YEAR ASSOCIATE'S DEAL VOCABULARY

Essential M&A Terms You Need to Know

This guide covers the 50+ terms you will hear in every transaction

DEAL PARTIES & STRUCTURE

Acquirer / Buyer

The entity acquiring the target from the seller

Target

The company being purchased or taken over during an acquisition

Seller

The party selling its stake in the target company

Strategic Buyer

A buyer acquiring a target for strategic reasons such as synergies or market access, not just financial returns

Financial Buyer

A buyer (typically a PE fund) primarily acquiring the target to generate profit through future exit

Target Group

The target company and all its subsidiaries that are transferred to the acquirer

Holding Company

A company set up solely to hold shares in other operating companies

SPV (Special Purpose Vehicle)

A new company established specifically for the M&A deal

DEAL TYPES & PROCESSES

Asset Sale / Business Transfer

An acquisition in which the buyer purchases some or all of the target's business without acquiring the target

Amalgamation / Merger

When two or more companies blend together to form a new entity: only the merged entity survives

Demerger / Corporate Split / Spin-Off

When a division within a business splits off from the original company, with shareholding maintained in the same proportions

Hostile Takeover

When the promoters of a listed target oppose the buyer's acquisition bid

Leveraged Buyout (LBO)

An acquisition made using borrowed money, often secured by the target's own assets and cash flows

Distressed Sale

An acquisition involving a company requiring rescue, restructuring, or facing insolvency/loan defaults

Joint Venture (JV)

When two or more companies collaborate to pursue a common objective

Bid Process

When the seller collects bids from multiple buyers before selecting one

IPO

Initial public offering, when equity shares of the company are listed on a recognized stock exchange

VALUATION & FINANCIAL TERMS

Enterprise Value (EV)

The value of a company, including debt but excluding cash

Represents the total cost to take over a business. Also called the 'Cash Free/Debt Free' basis

Equity Value

The actual amount the seller receives after adjusting for debt and cash

EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortization. Signifies operating performance of the target

Multiple

A valuation metric (e.g., EV/EBITDA multiple) used to compare and value companies

Fair Market Value (FMV)

The fair value of a target determined by an independent valuer using relevant valuation methods

Benchmark

A pre-defined reference value used to assess company or management performance

Basis Point (bps)

One hundredth of a percentage point (0.01%)

Big 4

The four largest auditing firms: Deloitte, PwC, EY, and KPMG

DEAL CONSIDERATION & PAYMENT

Cash Consideration

The percentage of purchase price paid to the seller in cash (vs. shares or other instruments)

Earnout

Additional consideration payable by the buyer based on the target's future performance

Deal Structure

How the consideration is structured: cash, share swap, deferred payments, etc

Downside Protection

Any provision that protects the buyer from loss on their investment

SHARE CAPITAL & OWNERSHIP

Dilution

Reduction in ownership percentage caused by issuing new shares. Example: If you own 20% and the company issues 10% new shares to someone else, your stake gets diluted

Fully Diluted Basis / As-If-Converted Basis

Shareholding calculated as if all convertible instruments have already converted. Gives the true picture of ownership

Class of Shares

The category shares belong to: equity shares, preference shares, etc.

Convertible Instrument

Any instrument that converts into equity shares, like CCPS or optionally convertible debentures

CCPS

Compulsorily Convertible Preference Shares

CCDs

Compulsorily Convertible Debentures

Conversion Ratio

The number of equity shares each convertible instrument converts into. Example: If 1 CCPS converts to 2 equity shares, the ratio is 1:2

Change of Control

A change of more than 50% shareholding or the right to appoint majority of the board of directors

Waterfall

The order in which sale proceeds or winding-up distributions are allocated among shareholders

Persons Acting in Concert (PAC)

Multiple persons acting under mutual agreement (oral or written) regarding the target. Their stakes are collectively counted under takeover regulations

EMPLOYEE MATTERS

ESOP (Employee Stock Option Plan)

A plan giving the employees a stake in the company in recognition of their contribution

Exercise Price / Strike Price

The price at which employees can buy shares under an ESOP

Vesting

Process by which an employee earns the right to own and exercise their ESOPs over a specified period of time or upon achievement of certain conditions

Bad Leaver vs. Good Leaver

A 'Bad Leaver' exits due to events detrimental to the company (terminated for cause, breach of duties) and faces penalties. A 'Good Leaver' is the opposite: exits for acceptable reasons

RISK ALLOCATION & PROTECTIONS

Indemnity

A contractual promise by the seller to compensate the buyer and the target for specific losses

Basket

The pre-specified threshold that all small losses must collectively exceed before the buyer can claim indemnity

Tipping the Basket

Once the basket threshold is exceeded, the buyer can claim the entire amount (not just the excess)

De Minimis Loss

Losses below this agreed amount are too small to trigger indemnity claims

Cap

The maximum monetary limit on the seller's liability

Double Dip

When a buyer benefits twice from the same issue: e.g. once through indemnity and again through purchase price adjustment

W&I Insurance

Warranty and Indemnity Insurance that covers breach of warranties and indemnities

D&O Insurance

Directors and Officers Insurance protecting the target's directors and officers from liability

MAC/MAE

Material Adverse Change/Effect. Any significant adverse event between signing and closing affecting the target's business

TRANSACTION DOCUMENTS & PROCESS

SPA (Share Purchase Agreement)

The main agreement documenting the share purchase transaction

SHA (Shareholders' Agreement)

An agreement governing the rights and obligations among shareholders

NDA (Non-Disclosure Agreement)

An agreement binding the parties to confidentiality regarding transaction discussions

DL (Disclosure Letter)

Letter disclosing exceptions to warranties given in the transaction agreements

Side Letter

A document containing ancillary agreements not included in the main agreement, often to avoid regulatory or public disclosure

Bible / Deal Bible

A compilation of all agreements and documentation relevant to the transaction

Conditions Precedent (CPs)

Actions that must be completed before the deal can close (regulatory approvals, consents, etc.)

Boilerplate

Standard clauses in all transaction agreements: notices, dispute resolution, confidentiality, etc.

OBLIGATIONS & STANDARDS

Best Efforts vs. Reasonable Efforts

'Best Efforts' means doing everything possible to achieve the outcome

'Reasonable Efforts' means doing what a commercially prudent person would do in similar circumstances

Joint and Several

Often applies to indemnity: the buyer can enforce against any or all sellers for the full amount

Materiality Threshold

A limit below which certain events are ignored in due diligence or breach assessment

FEES & BREAKUP

Break Fee

Fee payable by the seller to the buyer if the seller terminates without the buyer's fault

Reverse Break Fee

Fee payable by the buyer to the seller if the buyer terminates without the seller's fault

DUE DILIGENCE & ADVISORS

LDD (Legal Due Diligence)

Legal review of the target to identify risks and issues

Vendor Diligence

When the seller (not buyer) conducts due diligence on the target

Red Flag Report

A due diligence report highlighting only key issues.

Virtual Data Room (VDR)

A secure online repository containing all due diligence documents about the target

Management Accounts

Unaudited accounts prepared by management (as opposed to audited financial statements)

Reliance Letter

When a diligence report is issued for one party, but the author allows another party to rely on it under specified conditions

SHAREHOLDER RIGHTS

ROFO (Right of First Offer)

Existing shareholders get the first opportunity to make an offer before shares are offered to third parties

ROFR (Right of First Refusal)

Existing shareholders can match a third-party offer before the shares are sold

KEY REGULATORS (INDIA)

SEBI

Securities and Exchange Board of India. Regulates securities markets

CCI

Competition Commission of India. Reviews deals for competition concerns

RBI

Reserve Bank of India. Regulates foreign investment and banking