PRIVATE EQUITY TERMINOLOGY

EVCA GLOSSARY

This glossary is more than just a list of words, as it takes you on a fascinating journey into the world of private equity.

Buy-and-build strategy – Active growth of portfolio companies through add-on acquisitions.

Buyout – A transaction in which a business, business unit or company is acquired from the current shareholders (the vendor). See *management buyout (MBO), management buyin (MBI), leveraged buyout (LBO).*

Capital gains – If an asset is sold at a higher price than that at which it was bought, there is a capital gain.

Chinese walls – Deliberate information barriers within a large company to prevent conflicts of interest between different departments.

Common shares/stock – See Ordinary shares.

Data room – A place where bidders in a sales process can review information about the company that is for sale.

Due diligence – For private equity professionals, due diligence can apply either narrowly to the process of verifying the data presented in a business plan/sales memorandum, or broadly to complete the investigation and analytical process that precedes a commitment to invest. The purpose is to determine the attractiveness, risks and issues regarding a transaction with a potential investee company. Due diligence should enable fund managers to realise an effective decision process and optimise the deal terms.

EBITDA – Earnings before interest, taxes, depreciation and amortisation – a financial measurement often used in valuing a company (price paid expressed as a multiple of EBITDA).

Equity – Ownership interest in a company, represented by the shares issued to investors.

Exit – Liquidation of holdings by a private equity fund. Among the various methods of exiting an investment are: trade sale; sale by public offering (including IPO); write-offs; repayment of preference shares/loans; sale to another venture capitalist; sale to a financial institution.

Internal rate of return (IRR) – In a private equity fund, the net return earned by investors from the fund's activity from inception to a stated date. The IRR is calculated as an annualised effective compounded rate of return.

Investment committee – A committee within a private equity/ venture capital fund, that has the final decision on the individual investments made.

IPO (Initial Public Offering) – The sale or distribution of a company's shares to the public for the first time. An IPO of the investee company's shares is one of the ways in which a private equity fund can exit from an investment.

LBO (leveraged buyout) – A buyout in which the NewCo's capital structure incorporates a particularly high level of debt, much of which is normally secured against the company's assets.

Management buyin (MBI) – A buyout in which external managers take over the company. Financing is provided to enable a manager or group of managers from outside the target company to buy into the company with the support of private equity investors.

Management buyout (MBO) – A buyout in which the target's management team acquires the company (or part of the company) from the vendor with the support of private equity investors.

Net debt – Net debt is calculated as short and long-term interest-bearing debt minus cash (and equivalents).

NewCo – A generic term for a new company incorporated for the purpose of acquiring the target company from the vendor in a buyout transaction.

Private equity – Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues. A succession in family-owned companies, or the buyout and buyin of a business by experienced managers may be achieved using private equity funding. Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

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