THE COMPLETE INVESTMENT BANKING COURSE

Glossary

A list of the keywords and terms you will need in this course

365 Careers

Acquisition – an M&A deal in which one company buys another; the acquired company becomes a subsidiary of the acquiring company

Acquisition premium – the extra amount that is paid by a bidder for a public company in order to convince the majority of shareholders to sell their stock

Alternative asset classes – asset classes different than traditional asset clasess (stocks and bonds). Examples of alternative asset classes are private equity, hedge funds, art, etc.

Asset Backed Securities - bonds that are offered by a project vehicle, that has the right to a particular category of assets 'backing up' the emission

Asset management - managing clients' investments and providing strategies and expertise that would help clients achieve their goals

Banking syndicate – several banks join forces in order to underwrite or lend a large loan

Bankruptcy procedure – formal liquidation procedure, in which the government appoints a liquidator who sells the assets of the distressed company

Bid-ask spread – the difference between the price at which a financial security can be acquired and the price at which it can be sold

Board of Directors – an elected body by the owners of a company (consisting of several members) who oversee the company's governance and financial results

Bond – a financial instrument of indebtedness in which an investor lends money to an entity (a corporation or a government); commonly referred to as fixed income

Book building – the process of collecting investor feedback regarding the amount of shares they are willing to buy at different price points

Book runner – an investment bank that underwrites the issuance of new securities

Brokerage – when an entity trades on behalf of a third party and earns a commission

Buy-side – Bankers who work for the buying company in an M&A deal are referred to as "Buy-side" bankers

Capital adequacy ratio – a bank's risk-weighted capital with respect to its liabilities needs to cover a certain threshold and if it doesn't a bank is considered as undercapitalized and problematic

Chinese walls – impede the interaction and communication between certain departments within an investment bank or an advisory firm. Client information is considered confidential and cannot be shared with people from the same firm who do not have authorized access

Commercial bank – a banking entity that concentrates mainly on "deposit taking and credit giving" services

Conflict of interest – a situation in which an individual or an entity is influenced by multiple interests, and may make a decision that does not represent the optimal solution for one of its clients

Conglomerate – a large financial organization that has been formed through a series of M&A deals

Consideration - The technical name of the amount that is paid in an M&A transaction

Cost of Debt – the interest rate that a company pays on its financial liabilities

Cost of Equity – the expected return that a company should pay investors for holding its shares

Covenant - rules of conduct that need to be respected by a borrower

Credit rating - an opinion about the creditworthiness of a borrower that is expressed by independent credit agencies

Credit rating agencies - well-reputed independent firms analyzing borrowers and providing their view regarding the likelihood that the borrower will be able to meet its obligations

Debt – the amount of indebtedness on a company's Balance Sheet

Debt Capital Markets - an Investment bank's division responsible for Bond issuances

Debt write-off – an agreement with creditors that reduces the amount of debt owed by a company (or a government)

Debt-Like Items – items that are not financial liabilities, but have debt characteristics (a specific amount is owed to a third party)

Default – failure to meet loan obligations

Defensive M&A - This is when a company buys another company to ensure that one of its competitors won't buy the Target

Deposit – an amount of money that is deposited in a bank and can be withdrawn if needed

Derivatives – financial contracts that involve payments contingent upon the verification of a future event

Discounted Cash Flow – a valuation technique that estimates the present value of the future cash flows that a company is expected to produce

Distressed company – a company that does not have sufficient money to carry out its operating activities

Diversification – a technique that allows the optimization of the risk-return ratio of an investment portfolio; the less correlated are the assets in a portfolio, the less risky it is

Due diligence - The Target firm provides access (limited or full) to its financial, tax and legal documentation. Then the Bidder examines these documents closely and adjusts the offer for the company based on findings that occur during the due diligence process

Earnings – a synonym of Net Income

Earn-out - used in M&A transactions; These are additional payments taking place upon the verification of certain conditions

EBITDA – Earnings Before Interest Taxes Depreciation and Amortization; a rough measure of operating profitability

Enterprise value – how much a business is worth

Equity – the amount of stock that a company has issued

Equity Capital Markets – an Investment bank's division responsible for Initial Public Offerings and Seasoned Equity Offerings

Equity value – how much a business is worth after we subtract net debt

Financial security – a tradable financial asset

Fixed income – an income that is set at a particular figure and does not change (bonds are a type of fixed income)

Forwards – a non-standardized agreement between two parties to buy and sell a given asset at a future point in time at a price that is agreed today

Futures - a standardized agreement between two parties to buy and sell a given asset at a future point in time at a price that is agreed today

Glass-Steagall Act – a legislation from 1933 that prohibited offering Commercial and Investment Banking services under the same roof

Global coordinator – an investment bank that oversees the entire IPO process and coordinates various work streams; provides leadership

Go public – the process when a company's shares are listed on a Stock Exchange

Hedge funds – investment vehicles that use capital collected from investors in order to take advantage of market pricing errors

Hedging – minimize the risk of an investment by taking an offsetting position

High Net Worth Individual (HNWI) – an individual with an investible income of more than $5 million

Initial Public Offering (IPO) – the listing of a company's shares on a Stock Exchange

Institutional investor – an organization that has the necessary know-how to trade financial instruments and invests at its own account and/or on behalf of clients

International Financial Reporting Standards (IFRS) – A set of accounting and reporting rules issued by the International Accounting Standards Board (IASB).

Investment bank – a banking entity that does not engage in traditional commercial banking activities (does not engage in "deposit taking, credit giving")

Investment horizon – the period of time that an investor plans to hold a security

IPO prospectus – An extensive document that describes operating, financial, regulatory, legal, and technical aspects of the company that is about to be listed

Lead manager – an investment bank that helps with marketing efforts in an IPO transaction and contributes with its networking

Leveraged Buyout - a type of M&A deals, in which the acquirer of a firm uses a high portion of debt in order to finance the deal

Liquidity – the ability to buy and sell a financial security when needed and without incurring excessive transaction costs

Loan Syndications - loans that are granted by a pool of banks

Market making – brokerage services in which the bank sells securities to a client and profits from a bid/ask spread

Merger – an M&A deal in which two companies are combined in a new entity

Mergers & Acquisitions – an expression that describes the combination of companies. We talk about a merger when the two companies form a new entity, and instead we talk about an acquisition if one of the companies buys the other and a new entity is not formed by the two

Mutual funds – an investment vehicle that collects money from its shareholders and invests it in a diversified portfolio

Net debt – the difference between financial liabilities and excess cash

Net Income – The bottom-line figure that is attributed to a company's shareholders

Perpetuity – a financial security (for ex. a bond) that lasts forever

Private equity – investment vehicles collecting money from investors with the purpose of acquiring companies and reselling them at a profit

Private placement – selling shares of a company to a single investor (or a group of investors) without a formal IPO procedure

Private workout – a restructuring that does not include a formal liquidation procedure

Proprietary trading – when an entity trades on its own behalf (using its own money)

Pure Investment Bank – a bank that offers only Investment Banking services

Rate of return – the amount of money that an investor made with respect to his initial investment. If I buy a security for 100 today and resell it for 150 on year from now. I would have a rate of return equal to 150/100 – 1 = 50%.

Real Estate funds – an investment vehicle that collects money from its shareholders and invests it in commercial or residential real estate

Recovery ratio – the proportion of money recovered by creditors in a restructuring or liquidation scenario

Restructuring – a series of operations intended to reorganize the operations of a company that operates under the conditions of financial distress

Retail investor – an individual that is not part of an organization and invests on his own

Retainer – a small fee that covers fixed cost for advisors

Road show – a series of presentations to potential investors

Seasoned Equity Offering (SEO) - a company that is already listed issues new equity and receives fresh financing

Secondary market – once the shares of a company become listed, they start trading on a secondary market

Sell-side - Bankers who work for the Target company in an M&A deal are referred to as "Sell-side" bankers

Special Purpose Vehicle (SPV) – an entity that is specifically created for a given project

Stock – a financial instrument that indicates ownership claims of an entity

Stock Exchange – a venue where traders can buy and sell the shares of listed companies

Success fee – a fee that is contingent upon the successful completion of a deal

Surplus assets – assets that are not essential for the company's core business

Swaps – an agreement between two parties to exchange a set of variable and fixed cash flows

Synergy – the positive effect of combining two businesses together

Target company - the firm that is being acquired in an M&A process

Terminal Growth Rate – a constant growth rate of cash flows in the Terminal Value period

Terminal value – the value of the cash flows that will be produced by a company after the explicit forecast period

Transaction costs – the cost of participating in a market

Underwriting – assuming the risk that a certain security (e.g. company shares) would be sold to the market

Universal banks – banks offering both Commercial and Investment Banking services

US Generally Accepted Accounting Principles (US GAAP) – A set of accounting and reporting rules that are applied in the United States

Venture capital – investment vehicles that specialize in start-up investments

Weighted average cost of capital – the opportunity cost of a company that has debt and equity financing