THE COMPLETE INVESTMENT BANKING COURSE

Glossary

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

365 Careers

Acquisition – an M&A deal in which one company buys the other and a new entity is not created

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

Alternative asset classes - investment vehicles that collects money from its shareholders and invest it in alternative asset classes like private equity, hedge funds, art, etc.

Asset Backed Securities - bonds that are offered by a project vehicle, containing different types of assets. The vehicle can be composed of mortgage loans, credit card receivables, auto loans, and other similar assets.

Asset management - managing clients' investments and providing them with strategies and expertise that would allow them to 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 its governance and financial results

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

Book building – the process of collecting investors' feedback regarding the amount of shares that 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 - equity to loans needs to cover a certain threshold and if it doesn't a bank is considered as undercapitalized and problematic

Chinese walls - create a barrier between different divisions whose interaction could cause a conflict of interest. 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 provide the optimal output for one of the parties

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 to its investors for holding its shares

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

Credit rating - an opinion about creditworthiness that is expressed by independent credit agencies

Credit rating agencies - well-reputed independent firms who analyze firms issuing bonds and provide their view on 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 that is 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 in order 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.

Earnings – a synonym of Net Income

Earn-out - used in M&A transactions; Additional payments may take 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