

Equity Bridge

An equity bridge, also known as an equity bridge loan or bridge equity, is a short-term loan provided by investment banks to sponsors (typically private equity firms) in leveraged buyouts (LBOs) to finance the equity portion of the deal.

The purpose of an equity bridge is to allow the sponsor to contribute a smaller amount of equity upfront when acquiring a [company](#). The sponsor can then repay the equity bridge loan later, usually after the acquisition closes, using the proceeds from the sale of high-yield bonds, or from the [cash flows](#) of the acquired company.

This financing structure allows the sponsor to increase the internal rate of return (IRR) on the investment by reducing the amount of time that the [equity](#) is invested in the deal. It's important to note that while an equity bridge can enhance returns, it also increases the financial risk of the transaction, as it introduces additional leverage.

Third-Party Financing

This is when a bank or other financial institution provides a loan to the buyer to finance the purchase of a business.

Shareholder Value

This is the value delivered to the shareholders of a company due to management's ability to increase earnings, dividends, and share price.

Seller Financing

This is when the seller provides a loan to the buyer to cover a portion of the purchase price. The buyer then repays the loan over time, typically with interest.

Seller Discretionary Earnings (SDE)

This is the earnings of a business before the owner's salary, interest expense, income taxes, depreciation, and amortization. It's a common financial metric used in the valuation of small businesses.

SBA Loan

Mostly used in the USA. These are loans made to buyers of small businesses by banks or other qualified financial institutions and guaranteed by the Small Business Administration of the U.S. Government.

Rollover

This is the amount of equity retained by the selling shareholder(s), measured as a percentage of total equity of the new company and the dollar value of equity retained.

ROI / ROE

These are acronyms for Return on Investment and Return on Equity. They must be greater than the cost of capital in order to create shareholder value.

Price Multiple

This is the inverse of a capitalization rate.

Preferred Lender

This is a lending institution that has met the Small Business Administration's necessary experience and quality requirements and is given "preferred" status, allowing it to make lending decisions on behalf of the SBA.