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.

Working Capital Adjustment

This is an adjustment to the purchase price in an M&A transaction based on changes in the target's working capital between the signing and closing of the deal.

Thin Capitalization

This is a financial situation in which a company is carrying more debt than equity.

Retention Amount

This is an amount of money held back from the purchase price in an M&A transaction to cover potential future liabilities.

Quality of Numbers and Quality of Earnings

These are assessments of the reliability and sustainability of a company’s reported earnings.

Pro forma financial information

This is financial information that has been adjusted to reflect certain events or hypothetical scenarios.

Earn-Out

This is a provision that allows the seller of a business to receive additional future compensation based on the business achieving certain future financial goals.

Discount for lack of control, control premium

These are adjustments to the valuation of a company based on the level of control an investor can exercise.

Debt Pushdown

This is a financial strategy used in M&A where the debt of an acquiring company is transferred to a subsidiary or the acquired company.

Cash Conversion Cycle

This is a metric that expresses the time (in days) it takes for a company to convert its investments in inventory and other resources into cash flows from sales.