

# Business Succession Planning Glossary

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As a business owner beginning the succession planning process, you may hear a number of unfamiliar words and phrases in relation to business succession planning that are used by accountants, lawyers, and advisors. The following Business Succession Planning Glossary defines some of these commonly used terms.

Term	Also Known As	Description
Capital Expenditures	CAPEX	Represents the capital invested in property, plant and equipment (also known as fixed assets) each year to acquire, maintain or replace equipment or property that is necessary to sustain and grow a business.
Confidential Information Memorandum	CIM or The Book	A document provided to selected, pre-screened potential buyers that outlines the key investment highlights of a business, including a detailed summary of operations, industry analysis, and past and forecasted financial performance.
Due Diligence	DD	The in-depth analysis undertaken by a potential buyer to understand the business, validate the seller's representations and identify potential red flags including, but not limited to, a review of financial performance, legal agreements and contracts, human resources, taxation, operational strategy and performance, as well as other key documentation.
Earnings Before Interest, Tax, Depreciation and Amortization	EBITDA	Often used as the basis for valuation of private companies, because it acts as a proxy for cash flow by eliminating the impact of capital structure (interest payments), tax rates, and non-cash depreciation/amortization expenses.
Earn-out		A way of aligning the interests of buyer and seller. Commonly used to bridge valuation gaps by providing additional compensation to the seller upon the achievement of specific milestones determined in the Sale and Purchase Agreement.
Enterprise Value	EV	The total value of a company which is calculated as equity plus debt; less cash and marketable securities, and commonly established by applying a multiple to Normalized EBITDA.
Equity Value	Share Value	Enterprise value less debt; plus cash and marketable securities.
Expression of Interest	EOI	A non-binding legal document provided by the buyer to the seller which indicates early interest from the buyer to acquire the seller's company for a price (often a range of value).
Financial Buyer	Private Equity	A subset of the buyer universe that may invest for a specified time period (typically less than seven years), and uses that time to improve financial performance by gaining operational efficiencies to sell at a higher price and generate a return.
Fair Market Value	FMV	The highest price available in an open and unrestricted market between informed and prudent parties - acting at arm's length and under no compulsion to act - expressed in terms of money, or money's worth.
Free Cash Flow	FCF	Cash flow generated by your business after deducting necessary capital expenditures.
Goodwill		The intangible value in a business which is the difference between enterprise value and the fair market value of the net assets.

<b>Letter of Intent</b>	LOI	A largely non-binding document with certain binding provisions that is submitted to the seller by the buyer and outlines key considerations, such as purchase price, transaction structure, timing, and conditions that form the basis of the Purchase and Sale Agreement.
<b>Lifetime Capital Gains Exemption</b>	LCGE	Small business owners can use this tax deduction to shelter up to \$892,218 (in 2021) of capital gains on the sale of shares of a <b>qualified</b> small business corporation. There is also a \$1,000,000 capital gains deduction available to individuals on the disposition of <b>qualified</b> farm property.
<b>Mergers &amp; Acquisitions Advisor</b>	Business Broker, Corporate Finance Advisor, Investment Banker	A specialist in advising clients through the process of buying a business, selling a business, merging businesses, and raising capital (debt and equity).
<b>Multiple</b>	X	Calculated as the inverse of the capitalization rate, which is a function of risk. The multiple is a function of market data, company factors, industry factors, and transaction factors and is most commonly applied to EBITDA or revenue to form the basis of a business valuation.
<b>Normalized EBITDA</b>		EBITDA including adjustments (add backs and deductions) to remove the impact of extraordinary or non-fair market value transactions to present a normalized view of the company's financial performance.
<b>Non-Disclosure Agreement/ Confidentiality Agreement</b>	NDA/CA	A legal document to ensure confidential, proprietary or non-public information disclosed by the seller will be kept secret and only used to evaluate whether a buyer wants to pursue a transaction.
<b>Sale and Purchase Agreement</b>	SPA Definitive Agreement	A definitive legal document that finalizes the terms and conditions as agreed to in the letter of intent for the purchase of a company.
<b>Redundant Assets/ Liabilities</b>		Assets or liabilities that appear on the balance sheet but are not used or required in the operations of the business, and are commonly extracted by the seller prior to the closing of a transaction.
<b>Strategic Buyer</b>		A subset of the buyer universe that operates in the same industry as the seller and may be a supplier, customer, or competitor.
<b>Unanimous Shareholders Agreement</b>	USA	A legal document used to formalize understandings among multiple shareholders and commonly includes provisions for management, decision making, financing, share transfers/ subscriptions, conflict resolution, and buy-sell events.
<b>Working Capital</b>	WC	Calculated as current assets less current liabilities. The level of working capital to be delivered upon the closing of a transaction is documented in the Purchase and Sale Agreement.
<b>Vendor Take-back</b>	VTB	A portion of the purchase price that the seller will agree to have paid over time (after the closing of a transaction); this debt is typically subordinated to debt issued by the primary lender.
<b>Virtual Dataroom</b>	VDR	A confidential online forum where a seller can store and share documents to be reviewed by a buyer during the due diligence process.

### Seek advice

If you are contemplating the next steps for your business, a BMO Business Advisory and Transition Planning Specialist can help you navigate the process and demystify the language of business succession planning.

**For more information, speak with your BMO financial professional.**



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