# The Charles Aris Private Equity Glossary

## Your guide to the most common terms and phrases in the world of private equity

**What is private equity?** Private equity investing involves using capital to acquire private companies, aiming to enhance their operations and later sell them at a higher value.

Typically, private equity firms acquire these companies and integrate them into their existing businesses, actively overseeing their management and appointing executives to ensure success.

If you're entering the private equity field or need to brush up on industry terminology, this guide succinctly defines 20 common private equity terms and phrases:

**Add-on acquisition:** When a private equity firm purchases a new company and combines it with an existing one in their portfolio.

**AUM:** Assets under management, or AUM, refers to the total fund amount a private equity firm is responsible for investing.

**Carried interest:** The percentage of a fund's investment profits given to a stakeholder as compensation. Also referred to as "carry."

**Diligence:** The process in which private equity leaders evaluate and select investment opportunities.

**Distressed debt investing:** Refers to buying companies that are likely to fail or in severe debt and improving the business.

**Dry powder:** Cash or highly liquid assets available to be put towards new investments.

**EBITDA:** Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a measurement for a business's profitability.

**Fund-level:** Refers to anything regarding the private equity investing firm or fund managers.

**Hunter mentality:** The ability to find hidden business opportunities and initiate deals.

**LOI:** Letter of intent, or LOI, refers to the formal offer to purchase a business and includes terms and conditions of the deal.

**Lower-middle market, middle-middle market and upper-middle market:** Refers to business size calculated by annual revenue. The lower-middle market refers to companies earning $5-150M, the middle-middle market refers to companies earning $150-500M and the upper-middle market refers to companies earning $500M-1B.

**Mergers and acquisitions:** Called M&A for short, this refers to the consolidation of companies by either purchasing or combining them with existing ones.

**Organic and inorganic growth:** Organic growth is when an organization increases its annual revenue through its current business processes. Inorganic growth is when an organization increases its revenue by acquiring or merging with a new business.

**Oversubscribed:** Refers to a situation where the demand for a fund's shares exceeds the number of shares available.

**Portfolio-level:** Refers to anything regarding private equity-owned businesses or "portfolios."

**Proprietary deal:** The purchase of a business that has yet to be invested in by other firms or involved with an investment bank or business broker, thus providing a less-competitive acquisition scenario.

**Special situations:** Any unique investment that involves undervalued securities or hidden profitability.

**Stakeholder:** Any professional who stands to benefit from a wealth event. Most often, stakeholders are C-suite members whose compensation includes carried interest.

**Transaction:** A successful business deal. Often refers to a merger or acquisition.

**Wealth event:** An equity payout to stakeholders after a transaction is completed.

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