M&A PLAYBOOK

by VARDAR | ŞANLI

Where the M&A Terms Come From

"The linguistic roots of modern deal making."

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04. Due Diligence

The term due diligence derives from the Latin word *debitus*, which stems from the verb *debere*, meaning "to owe" or "to be under an obligation," and from the Latin word *diligentia*, meaning "care" and "attentiveness." In this sense, due diligence literally refers to the degree of care and attention expected from a person.

In modern M&A transactions, due diligence refers to the buyer's systematic and comprehensive review of the target company's legal, financial, tax, and operational affairs before the transaction. This review serves to identify transaction related risks, verify the information provided regarding the target company, and enable the buyer to make a well informed investment decision.

05. Drag Along & Tag Along

The terms drag along and tag along derive from everyday English expressions meaning, respectively, "to pull someone along" and "to follow or accompany someone." In M&A terminology, a drag along right allows a shareholder, upon the satisfaction of certain conditions, to require the other shareholders to participate in the same sale transaction. A tag along right, by contrast, allows a shareholder to participate in a sale carried out by another shareholder on the same or substantially similar terms.

These two mechanisms represent complementary aspects of a share transfer. While a drag along right facilitates the completion of the transaction, a tag along right enables minority shareholders to benefit from the same exit opportunity available to the majority shareholder.

06. Carve Out

The term carve out is based on the idea of separating a specific part from a larger whole by cutting or carving it away. In M&A transactions, it refers to the separation of a subsidiary, group of assets, or business division from the existing corporate structure for sale or establishment as an independent business.

Modern carve out transactions involve more than the transfer of selected assets. They constitute a comprehensive restructuring process that also requires the separation of employees, contracts, intellectual property rights, systems, and liabilities from the existing structure.