



ADVESTRA

# Purchase Price Mechanisms in M&A Transactions

M&A Academy

30 June 2026

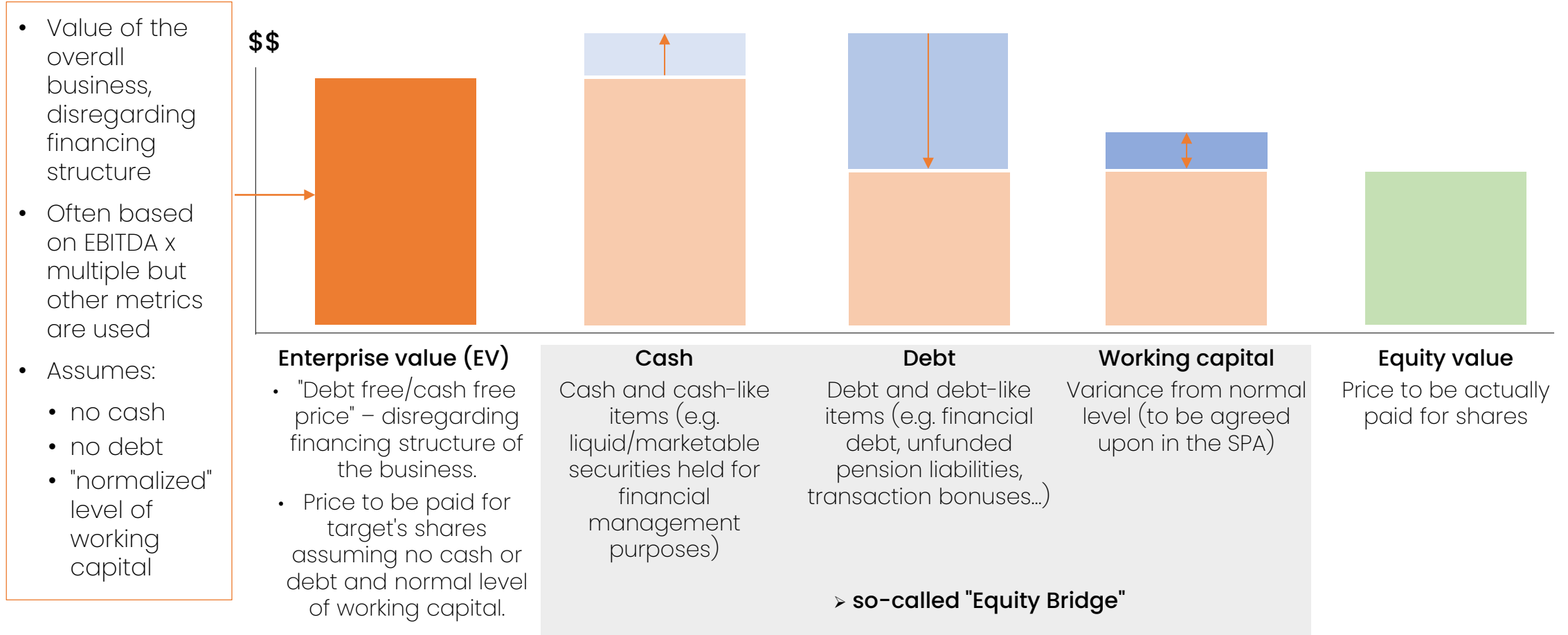
# Agenda

- ⊠ Overview
- ⊠ Locked Box
- ⊠ Completion Accounts
- ⊠ Earn-Outs
- ⊠ Other Purchase Price Structures
- ⊠ Key Takeaways



# Overview

Key objective – determining the equity value





# Locked Box

## Key considerations

- ⊗ **Fixed Purchase Price:** purchase price is fixed by reference to locked box accounts at the locked box date.
- ⊗ **Economic Ownership Transfer:** buyer receives the economic upside and downside from the Locked Box Date.
- ⊗ **No Post-Closing Adjustment:** unlike completion accounts, no recalculation of price is made after Closing.
- ⊗ **Reliance on Accounts:** the mechanism works only if the locked box accounts are recent and sufficiently reliable.
- ⊗ **No leakage undertakings and indemnity:** protect value between locked box date and closing. Indemnity for leakages.
- ⊗ **Ordinary course of business undertakings** are key.

✓ *Certainty is bought at the price of increased reliance on historic financial information.*

# Locked Box

## Reliance on historic accounts

- ⊗ **Recency of locked box accounts:** accounts should be as recent as possible; old accounts materially increase pricing risk.
- ⊗ **Review level:** audited or at least reviewed accounts provide materially stronger comfort than purely management accounts.
- ⊗ **Warranty package:** buyers typically seek true and fair view, consistency and no undisclosed liabilities-type protections.
- ⊗ **When to reconsider:** where accounts are too old, weakly prepared or not available on a standalone basis (e.g. carve-out), completion accounts may be preferable.

# Locked Box

## Leakage concept

**Definition of Leakage:** dividends, fees, seller-side costs or other value transfers to sellers or related parties during the locked box period.

**Permitted Leakage:** narrow carve-outs should be agreed expressly and, where possible, quantified (or subject to an upper limit).

**Pre-Closing Handling:** if leakage is identified before Closing, the buyer will typically seek a direct reduction of the purchase price.

**Post-Closing Claims:** leakage usually converts into a CHF-for-CHF indemnity claim, often subject to short claim periods.

✓ *Key negotiation point: scope of permitted leakage and mechanics for bringing a leakage claim.*

# Locked Box

## Protection to closing

**Risk window for buyers:** the buyer bears the economic position from the locked box date but does not yet control the company.

- **Interim covenants purpose:** ordinary-course obligations and buyer consent rights are the primary protections in this period, in addition to warranties for pre-signing period.
- **Tailored negotiation:** key warranties/covenants usually include debt, capex, disposals, key hires, dividends and termination of material contracts.
- **Alternative protection:** if the business is unstable or the interim period is long, completion accounts may allocate risk more appropriately.

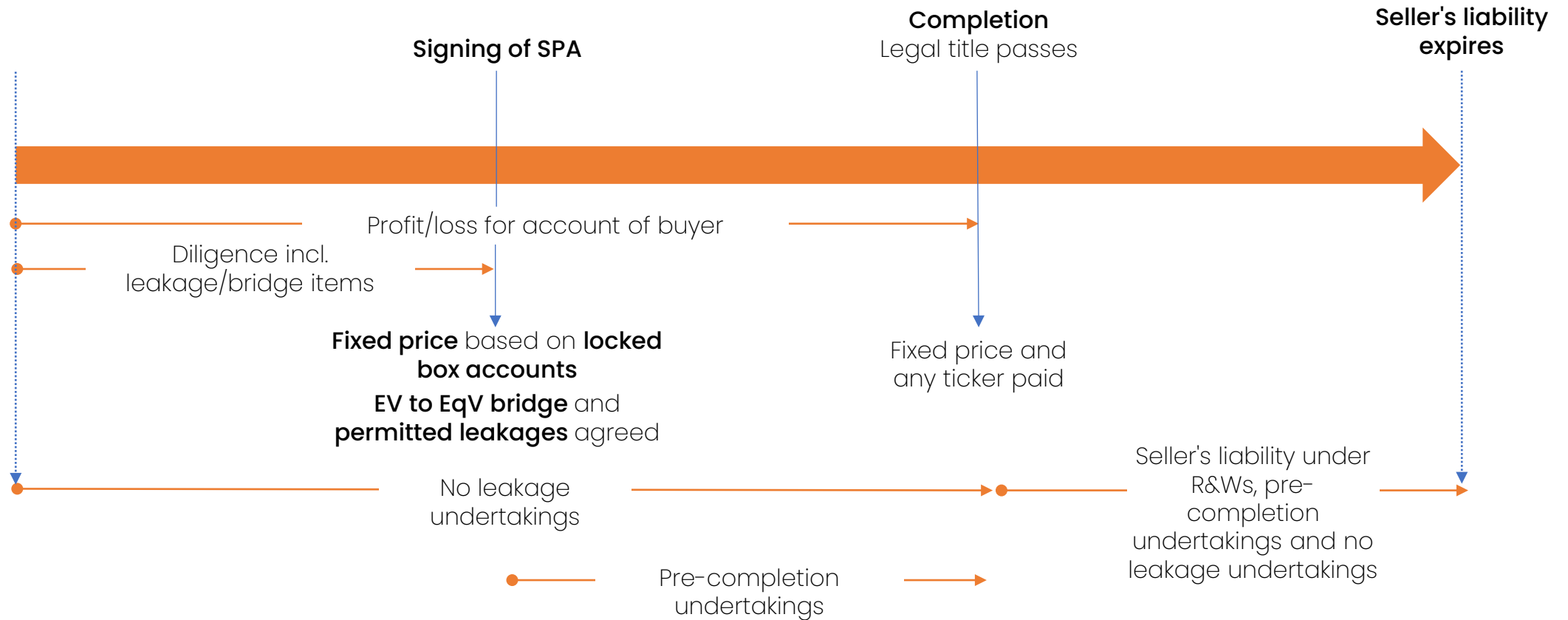
# Locked Box

## Key negotiation points

- ⊗ **Period length impact:** the longer the period between locked box date and Closing, the greater the buyer's economic exposure.
- ⊗ **Ticking fee / interest:** sellers may ask for a daily accrual on the purchase price for the period until Closing to incentivize the buyer to speed up timing until Closing.
- ⊗ **Scope of permitted leakage:** carve-outs should be precise and limited to ordinary course based on pre-existing contracts or specifically identified items. Ideally, permitted leakage is capped.
- ⊗ **Interim covenants:** buyer protection depends heavily on conduct-of-business restrictions and consent rights.

# Locked Box

## Timeline



# Locked Box

## Pros and cons (buyer's perspective)

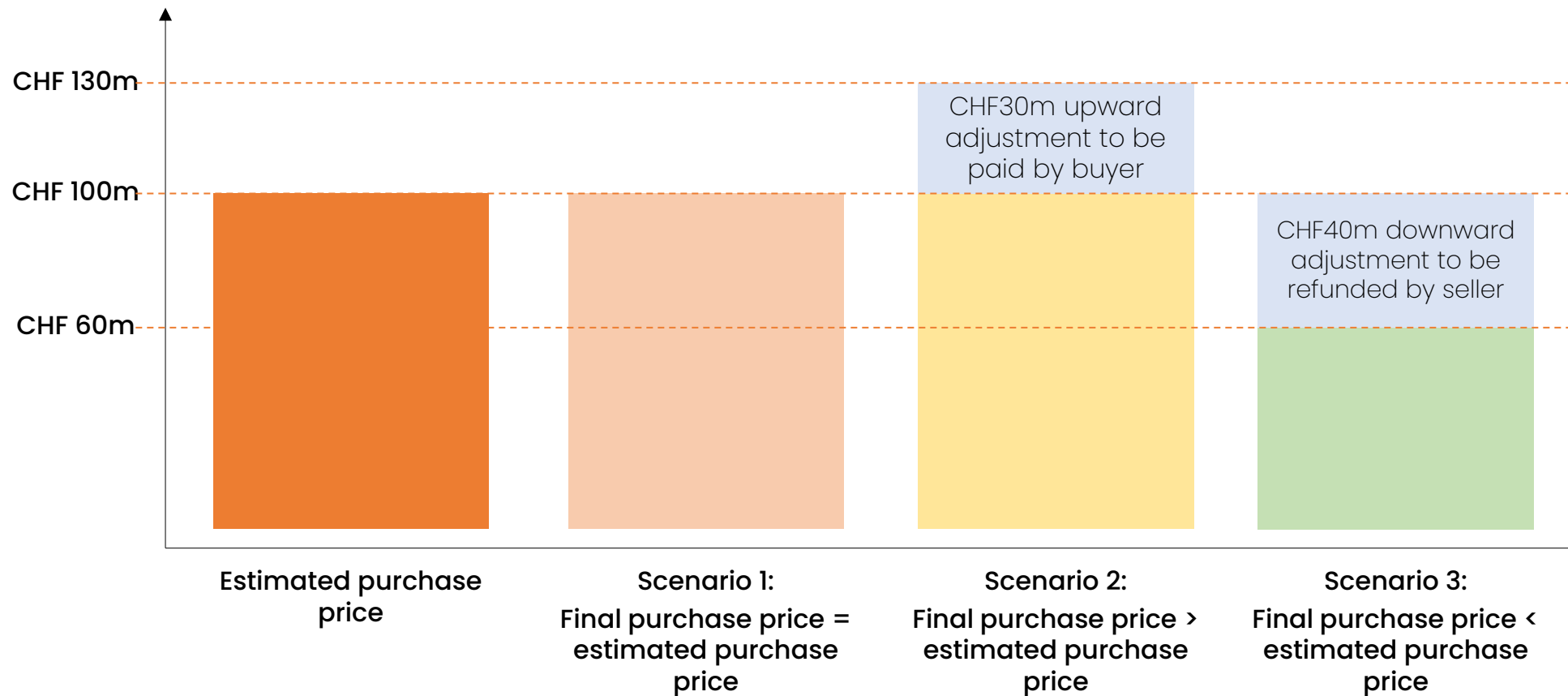
+	-
<ul style="list-style-type: none"><li>• <b>Price certainty</b> due to fixed price at signing, subject only to leakages.</li></ul>	<ul style="list-style-type: none"><li>• <b>Economic risk passes at signing:</b> need to carefully negotiate covenants and indemnification provisions.</li></ul>
<ul style="list-style-type: none"><li>• <b>Simplicity:</b> adjustments usually limited to leakages, price adjustment for cash, debt and working capital based on historical balance sheet (locked box accounts).</li></ul>	<ul style="list-style-type: none"><li>• <b>Covenant enforcement risk</b> if leakage is identified.</li></ul>
<ul style="list-style-type: none"><li>• <b>Economic entitlement</b> to profits from locked box date.</li></ul>	<ul style="list-style-type: none"><li>• <b>Accounts relevance:</b> reliance on historic accounts.</li></ul>
<ul style="list-style-type: none"><li>• <b>Post-closing integration</b> can be focused on immediately instead of devoting resources on completion accounts.</li></ul>	<ul style="list-style-type: none"><li>• <b>Less price accuracy</b>, i.e. buyer does not necessarily get what they pay for.</li></ul>
<ul style="list-style-type: none"><li>• <b>Deemed more competitive</b>, especially in auction processes.</li></ul>	<ul style="list-style-type: none"><li>• <b>Exposure to events during interim period</b> primarily with buyer, including working capital fluctuation or general deterioration of business.</li></ul>

**Locked box is generally deemed more seller-friendly**



# Completion Accounts

## Adjustment principles



# Completion Accounts

## Main adjustment factors

**Final price determination:** the agreed Enterprise Value is adjusted to reflect the actual financial position at Closing.

**Adjustments** commonly are debt, cash and working capital; some deals also use CapEx, EBITDA or bespoke metrics.

- **Enterprise Value** agreed between parties and fixed in SPA
- **(-) Debt** and debt-like items (e.g. financial debt...).
- **(+) Cash** and cash-like items (e.g. liquid/marketable securities held for financial management purposes).
- **(+/-) Working capital adjustment:** actual closing working capital is measured against a target or normative level; setting the target is often subject to discussions and seasonality may be an issue.
- Other bespoke adjustments – EBITDA, CapEx funding/spending, net assets (relevant for financial sector).

# Completion Accounts

## Process

- ⊗ **Estimated price:** based on EV and estimated adjustment items (cash, debt, WC), notified before closing – usually by seller – and paid at closing.
- ⊗ **Final price:**
  - determined post-closing by one party (usually by buyer),
  - subject to review by the other party,
  - in case of disagreement, usually amicable resolution period followed by expert determination.
- ⊗ **Adjusting payment:** once final price agreed, adjusting payment made by seller (downwards adjustment) or buyer (upwards adjustment)

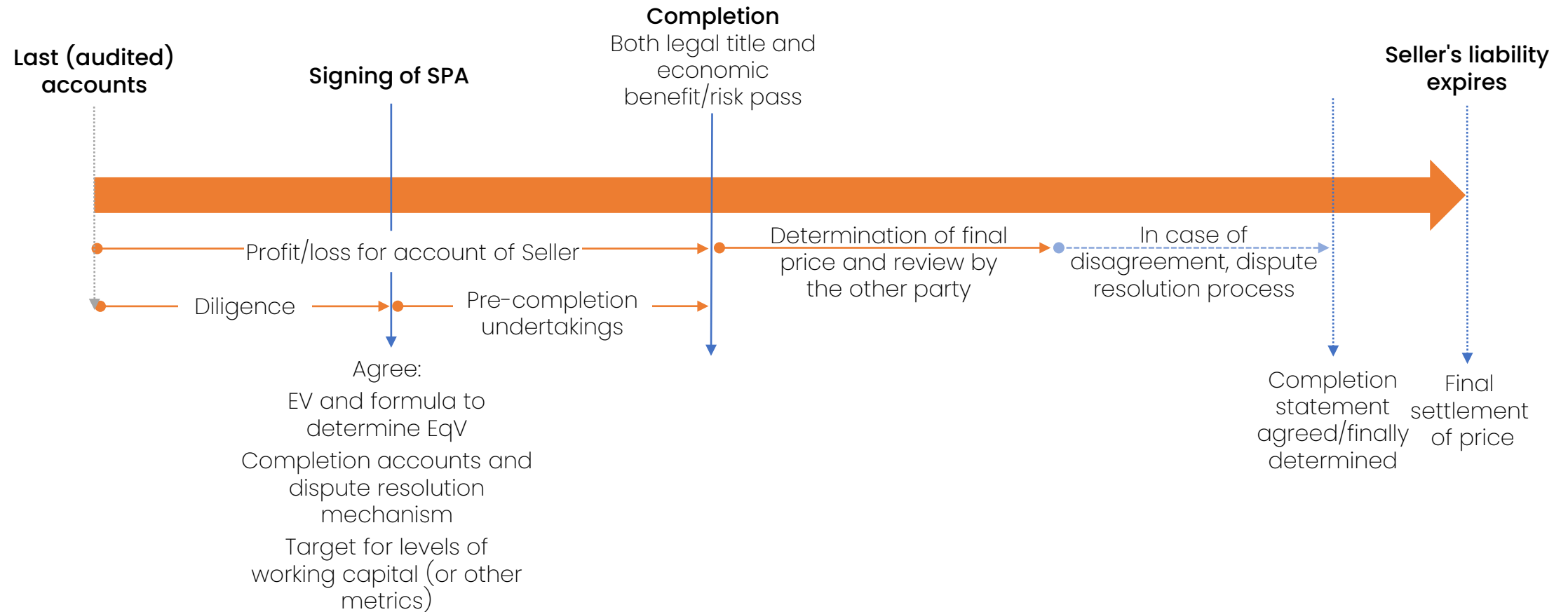
# Completion Accounts

## Key negotiation points

- ⊗ **Financial definitions and metrics:** accounting principles, cut-off, provisions, accruals, debt/cash classification, working capital composition and other adjustment factors.
- ⊗ **Mitigation strategies:** detailed accounting guide, locked definitions, calculation examples and a disciplined review process.
- ⊗ **Closing accounts preparation and review:**
  - **Responsibility:** often sellers prepare the pre-closing estimate – preparation of post-closing adjustment subject to discussion.
  - **Review and objection rights:** the non-preparing party needs an effective review period, information rights and a tailored notice standard.
  - **Timelines and escalation:** strict deadlines and independent appraiser procedures help prevent tactical delay.
- ⊗ **Dispute resolution process:** expert determination procedures are common and should be coordinated with broader SPA remedies.

# Completion Accounts

## Timeline



# Completion accounts

## Pros and cons (buyer's perspective)

+	-
<b>Economic risk passes at closing:</b> very effective if accounts are outdated, not well prepared or unavailable.	<b>Price adjustment creates uncertainty:</b> potential solvency risk and funding requirements for PE.
<b>Less covenant protection:</b> less critical to negotiate covenants given economic risk transfer at closing.	<b>Overall complexity, length and cost:</b> both during negotiation and after closing.
<b>No reliance on historic accounts.</b>	<b>Delay of post-closing integration</b> as management resources initially diverted to preparation/review of completion accounts.
<b>Price accuracy:</b> buyer pays for business actually delivered.	<b>Deemed less competitive,</b> particularly in auction processes.
<b>Less exposure to events during interim period,</b> including general macroeconomic conditions.	<b>Higher dispute risks:</b> more potential for disagreement because key figures are fixed after closing.

**Completion accounts are generally deemed more buyer-friendly**

# Locked Box vs. Completion Accounts

## Key comparison items

Locked Box	Completion Accounts
<ul style="list-style-type: none"> <li>• <b>Price certainty</b> due to fixed price at signing, subject only to leakages.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Price adjustment</b> creates uncertainty: potential solvency risk and funding requirements for PE.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Simplicity:</b> adjustments usually limited to leakages, price adjustment for cash, debt and working capital based on historical balance sheet (locked box accounts).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Overall complexity:</b> careful review of financial definitions of cash, debt and working capital and EV to equity bridge. Price adjustment prepared post-closing.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Short post-closing liability.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Length and cost:</b> potentially long period after closing until final price is agreed.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Economic risk passes at Locked Box Date:</b> carefully negotiate relevant covenants and leakage provisions.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Economic risk passes at closing:</b> very effective if accounts are outdated, not well prepared or unavailable.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Accounts relevance:</b> not available where accounts are not available, outdated or not well prepared.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Higher dispute risks:</b> completion accounts create more scope for disagreement than a locked box because key figures are fixed after closing.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Seller friendly.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Buyer friendly.</b></li> </ul>



# Earn-Outs

## General overview



Contingent consideration: an arrangement where at least part of the consideration is calculated by reference to the future performance of the target being purchased (or, more generally, to post-closing events).



Like completion accounts, an earn-out gives rise to post-closing payments, but based on achievement of certain targets or other future events rather than the target's situation at closing (completion accounts)



A specified amount of the purchase price is paid on closing, whilst the remainder is payable over a certain period post-closing (typically 1-3 years), the amount being variable and dependent on certain agreed targets being met.



The total earn-out consideration will usually be subject to a maximum or "cap" to give a minimum level of predictability for the buyer.

# Earn-Outs

## Trigger examples



Reference to profits over the two or three financial periods following closing = classic earn-out



Link the earnout to turnover, net assets or any other financial or non-financial matter



Reference to the occurrence of any other event (e.g. filing of a patent, damages awarded as part of an ongoing dispute...)

# Earn-Outs

## Suitability



Popular tool to bridge differences in valuation, expectations and/or assessment regarding the business's future performance



Where the target has a short track record



Where a future event may add/destroy significant value to the business



Acquisitions in people-based businesses where peak performance is the key to justifying the valuation and/or it is important to retain the services of the seller after closing

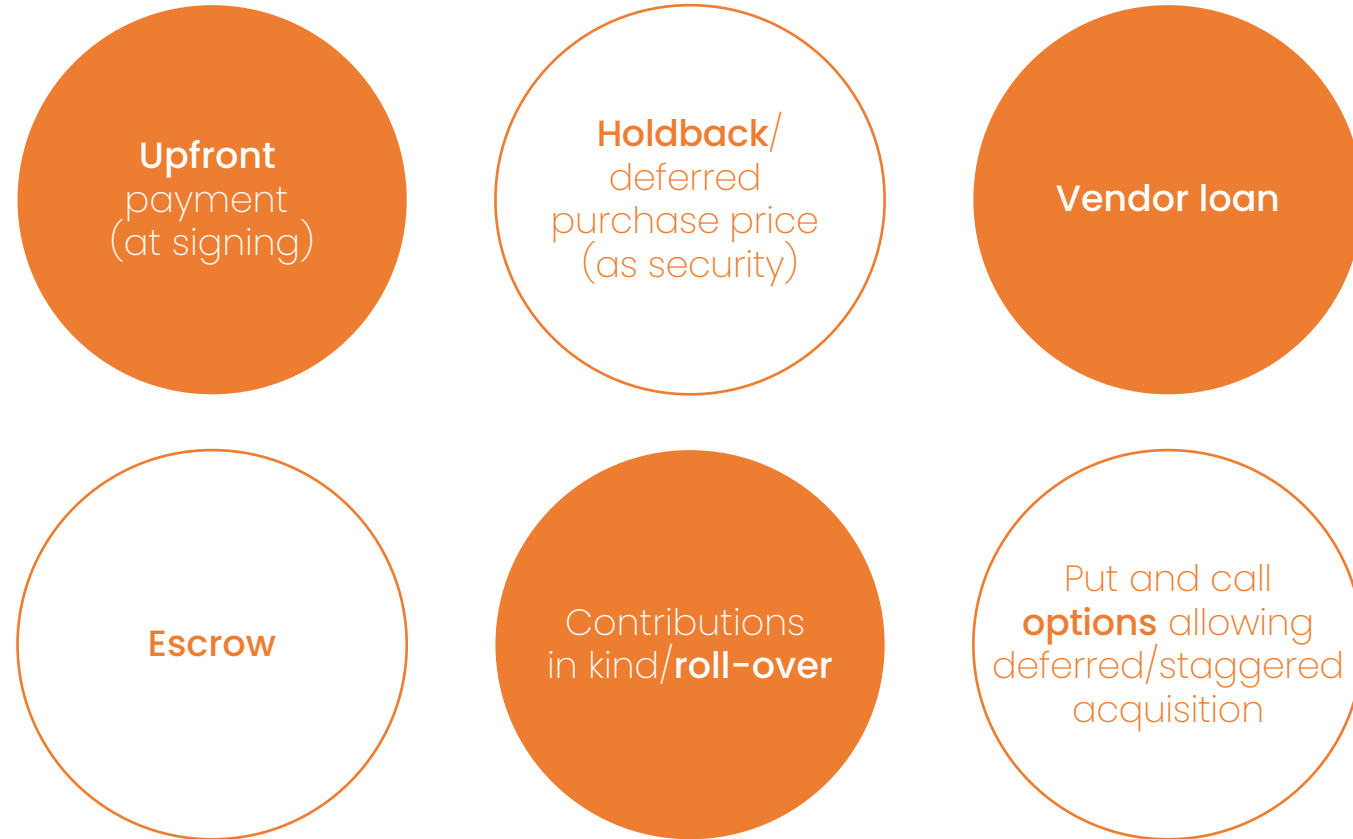
# Earn-Outs

## Other considerations

- ⊗ **Seller may stay within the management of the company** and effectively be responsible for satisfying the earn-out triggers.
- ⊗ **On sell-side**, negotiate conduct of business covenants for post-closing period if earn-out is linked to performance of the company.
- ⊗ **Tax considerations**, particularly in case of contingency of earn-out on effective employment of management sellers.
- ⊗ *“An earn-out often converts today’s disagreement over price into tomorrow’s litigation over the outcome.”* (Vice Chancellor J. Travis Laster of the Delaware Court of Chancery in *Airborne Health, Inc. v. Squid Soap, LP*)



# Other Purchase Price Structures





# Key Takeaways



## **Determine the right price structure**

Depending on transaction structure and availability of financial information.

## **Financial definitions are key**

Carefully review and negotiate relevant financial definitions for leakage, completion accounts (cash, debt, working capital, other adjustments) and earn-out trigger.

## **Legal transfer vs economic transfer**

Understand when economic ownership and risk passes.

## **Covenant protection**

Seek adequate protection for pre-closing period or regarding earn-out performance.

## **Review and information rights**

Carefully draft accounts preparation and review provisions, expert resolution process.

# Thank you!



ADVESTRA

Uraniastrasse 9 | CH-8001 Zurich | T +41 58 510 92 00 | F +41 58 510 92 01 | [www.advestra.ch](http://www.advestra.ch) | [info@advestra.ch](mailto:info@advestra.ch)