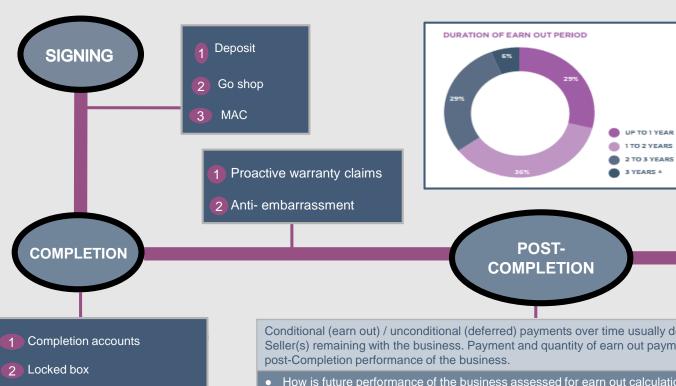
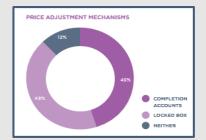
M&A PRICING – where is it fixed, how does it fluctuate?



PRIVATE EQUITY INVOLVEMENT PEINVOLVEMENT NO PE INVOLVEMENT

EXIT

- 3 Retest of core financials?
- 4 Adjustments based on business actually transferred





Conditional (earn out) / unconditional (deferred) payments over time usually dependent on Seller(s) remaining with the business. Payment and quantity of earn out payments based on

- How is future performance of the business assessed for earn out calculations?
 - Financial EBITDA or Revenue target x multiple is the most common approach
 - o **Trading –** customer turnover, footfall, units sold, value or loan books, price milestones
 - Strategic ESG, future referrals from Sellers

- 1 Buying out seller minority interests
- 2 2ndary buy out process by buyer, taking seller along
- 3 Other related incentive schemes

Issues and challenges:

- Specific metrics
- Buyer/Seller having misaligned objectives
- Gaming risk around key metrics eg P&L management
- Retaining management
- Delayed integration and migration challenges
- Offset warranty / indemnity claims
- Common cause of disputes usually around specific metrics and definitions



POST COVID19 – thinking differently



SIGNING AND COMPLETION

- Challenge of obtaining reliable financials
- Understanding the impact of COVID (negative, positive, short or longterm impact)
- Particularly confidence in post-COVID recovery story
- Volatile gap to completion
- More agility required in setting the completion price how and when?

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POST-COMPLETION ADJUSTMENTS

- Lower initial price, bigger deferred/tested element?
- Testing configured around COVID variables
- Leave more equity with seller?
- Claw back value?

EXIT

- Strong shared objectives, shared risk/reward in uncertain environment
- Delayed funding

Gap risk

- Deposit?
- MAC also price adjustment?
- Go Shop?

Fixing contract price

- Key, defined assumptions?
- EBITDAC etc?

Completion accounts

- What should be tested?
- What is 'normal'?
- When do you test?

Retesting basis:

- Retest pre-completion assumptions, EBITDAC?
- Test business transfer (eg transitioning key suppliers / customers)?

New earnout metrics?

- Financial (eg EBITDA(C))?
- Trading (eg customer attrition)
- Strategic (eg ESG)?

Different

- structure,More equity?
- pricing for later stages based on key metrics?

Structures

- Minority stake
- With put and call
- Seller sweet equity?
- Phantom equity or incentive schemes?

BMAC 43.34

Triggers • Covid adjustment delay in

timing?

Value

Covid adjustment/risk sharing?

Locked Box:

- Earlier or later test date?
- Hybrid with some completion account testing?
- Reverse ticker?

Other

- Aggressive warranty / insurance claims?
- Anti-embarassment?