Important deal terms when buying a business

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Who wants what?

	Buyer	Vendor (Seller)
Purchase price	Lower	Higher
Payment structure	Deferred	Cash up front
Definition of debt & debt-like items	Broader	Narrower
Exclusivity	Shorter	Longer

Buyers prefer to pay less

- The most straightforward part of the deal is the headline purchase price
- Buyers will want a lower price; vendors (sellers of the business) will want a higher one
- Other considerations:
  - Fixed consideration vs consideration calculated as a multiple

Sellers prefer cash up front

- Generally:
  - Sellers prefer cash up front
  - Buyers prefer to structure transactions to minimise cash up-front
- As a buyer, try to defer a minimum of ~10% so you have something to claim against if necessary

Buyers prefer broader definitions of debt

- The ultimate amount the seller receives will typically be net of a working capital adjustment, debt, and debt-like items
- So, what is a debt-like item?
- Buyers will push for broader definitions, e.g.:
  - “Excessive” annual leave (above a defined threshold) or long service leave
  - Deferred or unearned revenue (customer payments received in advance)
  - Goal is to avoid being left holding the bag while vendor takes the cash
- Sellers will want narrower definitions

Buyers prefer earlier exclusivity

- Buyers will seek exclusivity as early as possible in the process – and especially before spending money on external advisers
- Sellers will seek to postpone exclusivity as long as possible
- Going exclusive will strengthen the buyer’s hand (and weaken the seller’s)

Conclusions

- The “headline” purchase price is just the tip of the iceberg
- Also important to consider:
  - Deal structure & payment terms
  - Adjustments for debt & debt-like items
  - Exclusivity
- Other topics not covered here
  - Working capital

Where you can reach me

- I help organisations make better decisions through thematic research, buy-side due diligence, and fractional corp dev
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