

Earnouts – A Mock Negotiation

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Facts pattern/positions

- Buyer is negotiating the acquisition of a privately held tech company (“**TechCo**” or the “**company**”) by means of a cash purchase of all of TechCo’s outstanding equity from TechCo’s shareholders (“**Sellers**”).
- After closing, TechCo will operate as Buyer’s wholly owned subsidiary, and TechCo’s current senior management team (all of whom are current TechCo shareholders) will continue to hold TechCo management positions.
- Sellers believe TechCo’s equity value is **\$300M**, based largely on TechCo’s rosy 2-year cash-flow projections. Buyer is skeptical and believes TechCo’s true equity value is closer to just **\$200M**.

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