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The Games People Play: Purchase Price Adjustments

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Purchase Price Adjustments

Why do private purchase agreements include purchase price adjustments?

- ✓ Ensure target business is delivered with a “normalized” level of working capital
- ✓ Ensure target business has strong enough balance sheet to operate on day one
- ✓ Ensure sellers are compensated for profits of the business through closing
- ✓ Charge sellers for extraordinary expenses in connection with sale
- ✓ Validate buyer’s valuation assumptions
- ✓ Ensure that the transaction is consummated on a cash-free and debt-free basis

Purchase Price Adjustments

Typical purchase price adjustments include adjustments for:

- ✓ Working Capital
- ✓ Debt
- ✓ Cash
- ✓ Transaction Expenses

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