

JANUARY 2025

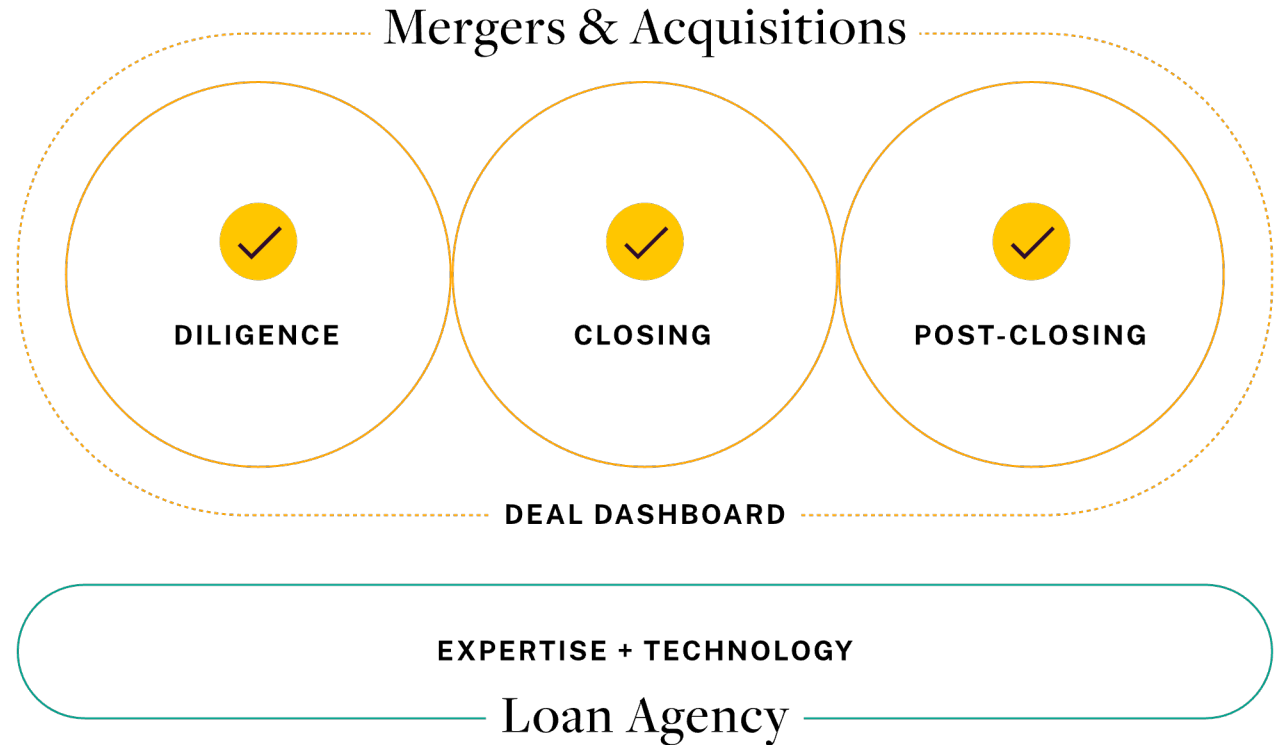
M&A Working Capital Purchase Price Adjustment Study

Analysis of purchase price adjustment *deal terms and outcomes* in private-target
M&A transactions closed between 2020–2024 Q3

Please direct inquiries to: ppa@srsacquiom.com

Comprehensive Suite of Solutions

SRS Acquiom delivers the smartest way to run a deal™ with solutions that reduce the administrative burden throughout the entire deal lifecycle.



Since 2007,
we've defined
the modern
deal process.

10%+

of all U.S. M&A
transactions served*

9,000+

deals engaged
on to date

\$1.5T+

aggregate deal value

520K+

shareholders represented
in more than 140 countries

\$880B+

in payments

99%

of shareholders are paid
within 24 hours†

770K+

total shareholders
paid to date

1M+

data room users‡

*Statistics contained herein are derived from publicly available sources.
†Consideration given to those that have completed a Letter of Transmittal (LoT).
‡Data room technology, established in 2010, acquired by SRS Acquiom in 2021.

About this Study and the Data

The 2025 SRS Acquiom M&A Purchase Price Adjustment Study is powered by SRS Acquiom MarketStandard®, a tool to analyze our proprietary database of more than 4,000 private-target M&A deals with customizable searches best suited to your specific transaction.

SRS Acquiom continually updates our databases for reporting deal-term data. Therefore, results for prior years' data that is included in prior-year SRS Acquiom studies may in some cases differ in immaterial amounts from this study. This study includes the most comprehensive and updated data available for all years. Sample sizes are typically larger in more recent years because of our growth. Medians are presented in lieu of or in addition to averages to counterbalance the effect of outliers. Some charts do not sum to 100% due to rounding. Data is presented on a calendar-year basis and is tied to the deal-closing date. Data for 2024 is preliminary, including deals that closed in the first three quarters of the year. SRS Acquiom receives claim notices with varying levels of specificity, and the claim resolution process is not always the result of communication supported by formal documentation between the parties. Categorization of claim and resolution data is often subjective. Therefore, the conclusions presented in this study may be subject to important qualifications not expressly articulated herein. Note that this study presents data and analysis for both initial claim sizes and final adjustment amounts; initial claim sizes are based on the amount claimed by the buyer. All information herein is subject to change.

M&A Purchase Price Adjustments (PPAs), sometimes referred to as Working Capital Adjustments, are a post-closing accounting true-up mechanism that is nearly universal on private M&A transactions. Generally, a PPA is meant to ensure the target business has enough operating cash (or working capital) as of closing. For purposes of this study, we categorize PPA final adjustments in three outcomes:

- no adjustment*
- a surplus (potentially seller-favorable), or*
- a claim (buyer-favorable)*

This study analyzes more than 1,250 private-target acquisitions (\$298 billion) that closed from 2020 through Q3 of 2024 with a finalized PPA.

SRS Acquiom provided professional and financial services on these deals; the vast majority of these are not publicly reported.









As shareholder representative, SRS Acquiom has access to seller management, shareholders, and all deal documents, and we manage all post-closing matters including PPAs.

Our in-house team of attorneys and accountants have resolved 2,600+ PPAs with more than \$950 million in play and saving sellers over \$170 million against PPA claims.









Representative Deals

PRIVATE EQUITY BUYERS

 acquired by 	 acquired by 	 investment by 	 acquired by 
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 acquired by 	 acquired by 	 investment by 	 acquired by 
---	---	---	---

STRATEGIC BUYERS (U.S. PUBLIC AND U.S. PRIVATE BUYERS)

 acquired by 	 acquired by 	 acquired by 	 acquired by 
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 acquired by 	 acquired by 	 acquired by 	 acquired by 
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*Page numbers link to data slides.
To return to the table of contents, click the
bottom left page number on any page.*

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Key Findings

Working Capital Purchase Price Adjustments (PPAs): A Decade-long Shift

- Typically seen on more than 90% of private-target M&A deals in recent years ([Slide 10 ▶](#)), PPAs are now virtually ubiquitous compared to a decade ago, when PPAs were present on only around half of deals.
- No two PPA provisions are the same, as parties continue to actively negotiate and customize terms such as which financial metrics to include ([Slide 34 ▶](#) and [Slide 35 ▶](#)), accounting methodology ([Slide 36 ▶](#)), PPA escrows ([Slide 30 ▶](#)), and caps ([Slide 32 ▶](#)).

75% of M&A Deals with a PPA Included a Separate PPA Escrow

- The median size of a separate PPA escrow increased to about 1% of transaction value for the last two years ([Slide 30 ▶](#)), which tracks with the average size of buyers' initial PPA claim sizes (0.9% of transaction value, [Slide 13 ▶](#)). However, 24% of PPA claims exceeded 1% of transaction value ([Slide 30 ▶](#)).

Buyers and Sellers Are Paying Close Attention to PPA Calculations: Real Money on the Table

- SRS Acquiom continued to see an increase in working capital surpluses (seller-favorable), with nearly equal prevalence of claims and surpluses for deals closed in 2024 ([Slide 27 ▶](#)).
- Fewer calculation worksheets were delivered late compared to recent history, perhaps driven by the 2021 Delaware Court of Chancery opinion in *Schillinger* ([Slide 14 ▶](#)).
- Buyers' proposed calculations were reviewed and ultimately accepted on 7 out of 10 PPAs or, said another way, sellers pushed back on buyers' calculations on about 3 out of 10 PPAs ([Slide 17 ▶](#)).
 - When SRS Acquiom, as shareholder representative of the sellers, did push back on PPA claims, we reduced such amounts in the sellers' favor by an aggregate of \$170 million ([Slide 17 ▶](#)).
- Resolution times remained relatively short; even when contested, PPAs took less than two months to resolve on a median basis, but resolution times can greatly vary ([Slide 18 ▶](#)).

KEY FINDING

Click on the "Key Finding" button throughout the study to return to the Key Findings on page 7.

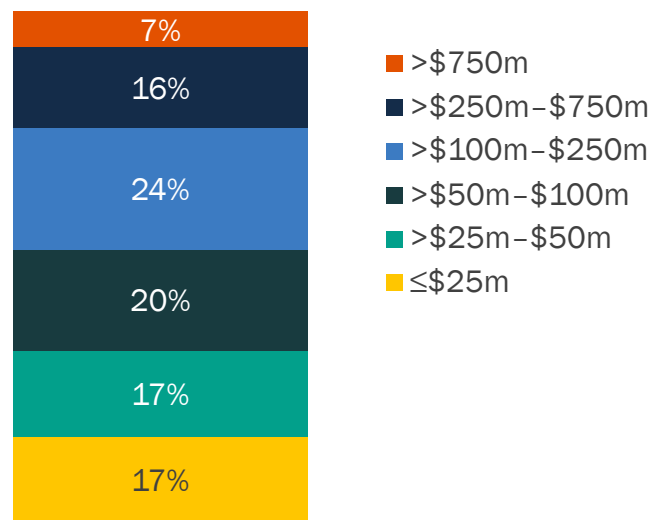


Deal Set Overview

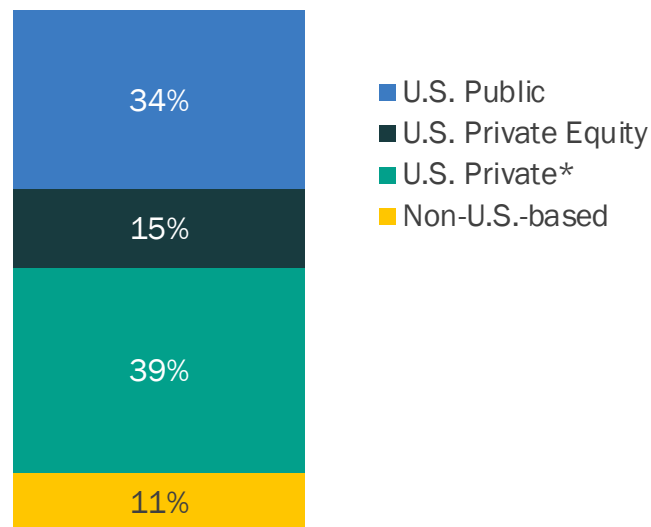
Deal Set Overview

1,250+ deals closed in 2020–2024 Q3 with a finalized PPA; \$298B+ aggregate deal value.

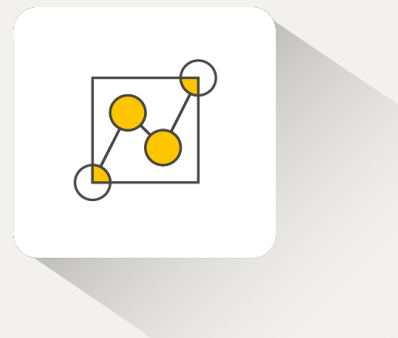
TRANSACTION VALUES: ALL DEALS



BUYER TYPES: ALL DEALS



* For U.S. Private buyer deals closed 2022–2024 Q3, 59% were PE-backed buyers (i.e., portcos).



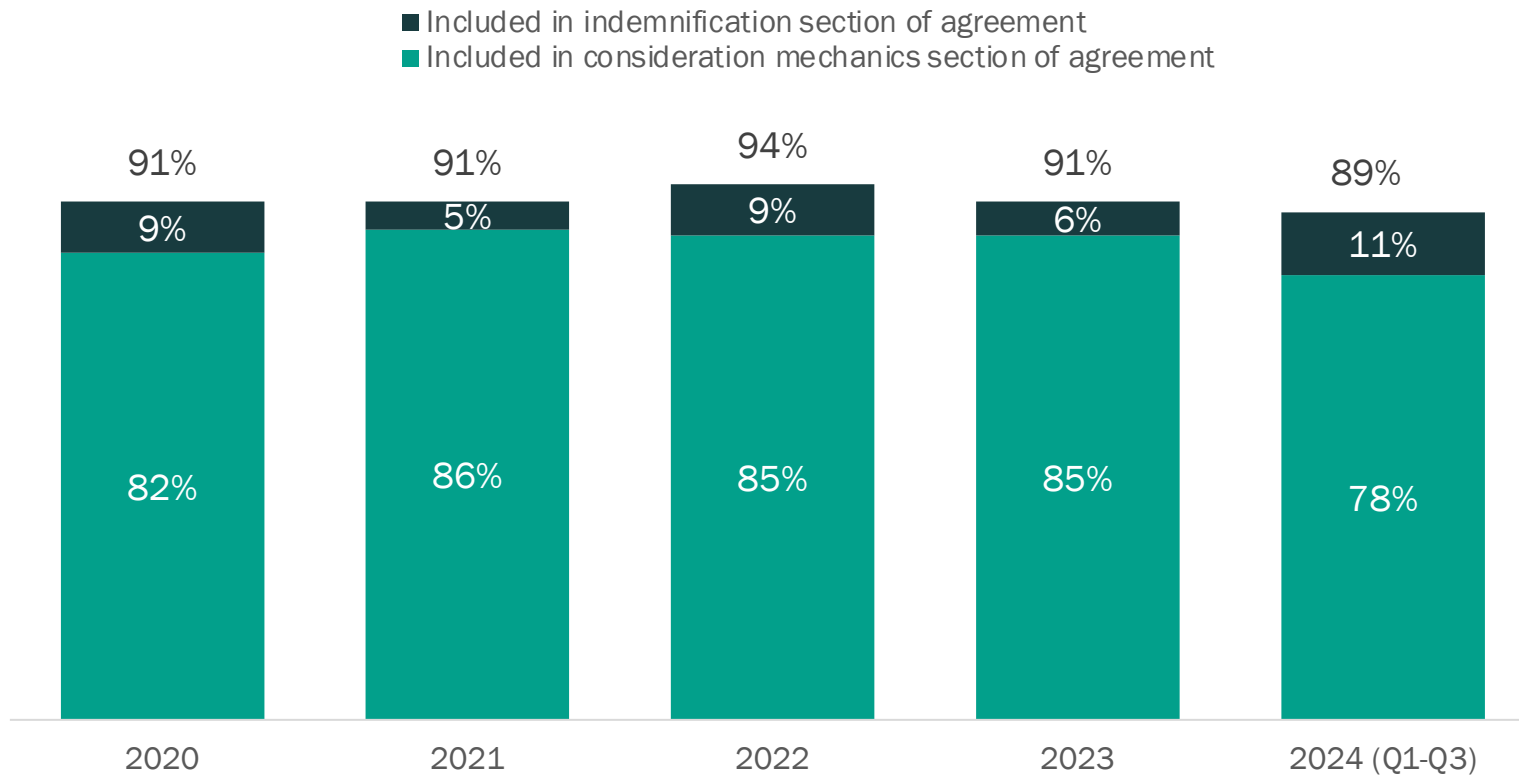
Deal characteristics such as deal size and buyer type can have an impact on deal terms.

[Visit MarketStandard® to learn more.](#)

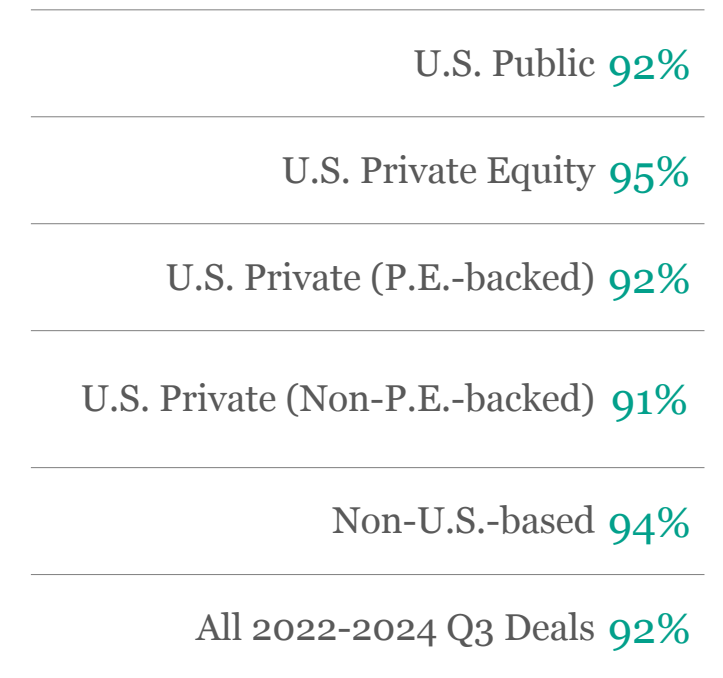
High Prevalence of Purchase Price Adjustments

KEY FINDING

ADJUSTMENT PROVISION INCLUDED



PPA FREQUENCY, BY BUYER TYPE: DEALS CLOSED 2022-2024 Q3

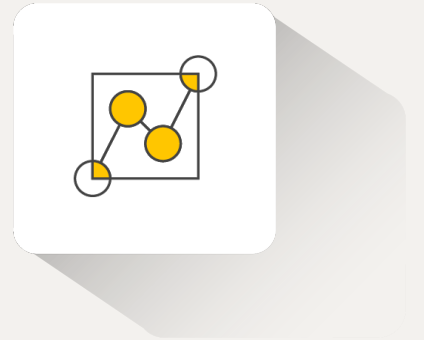
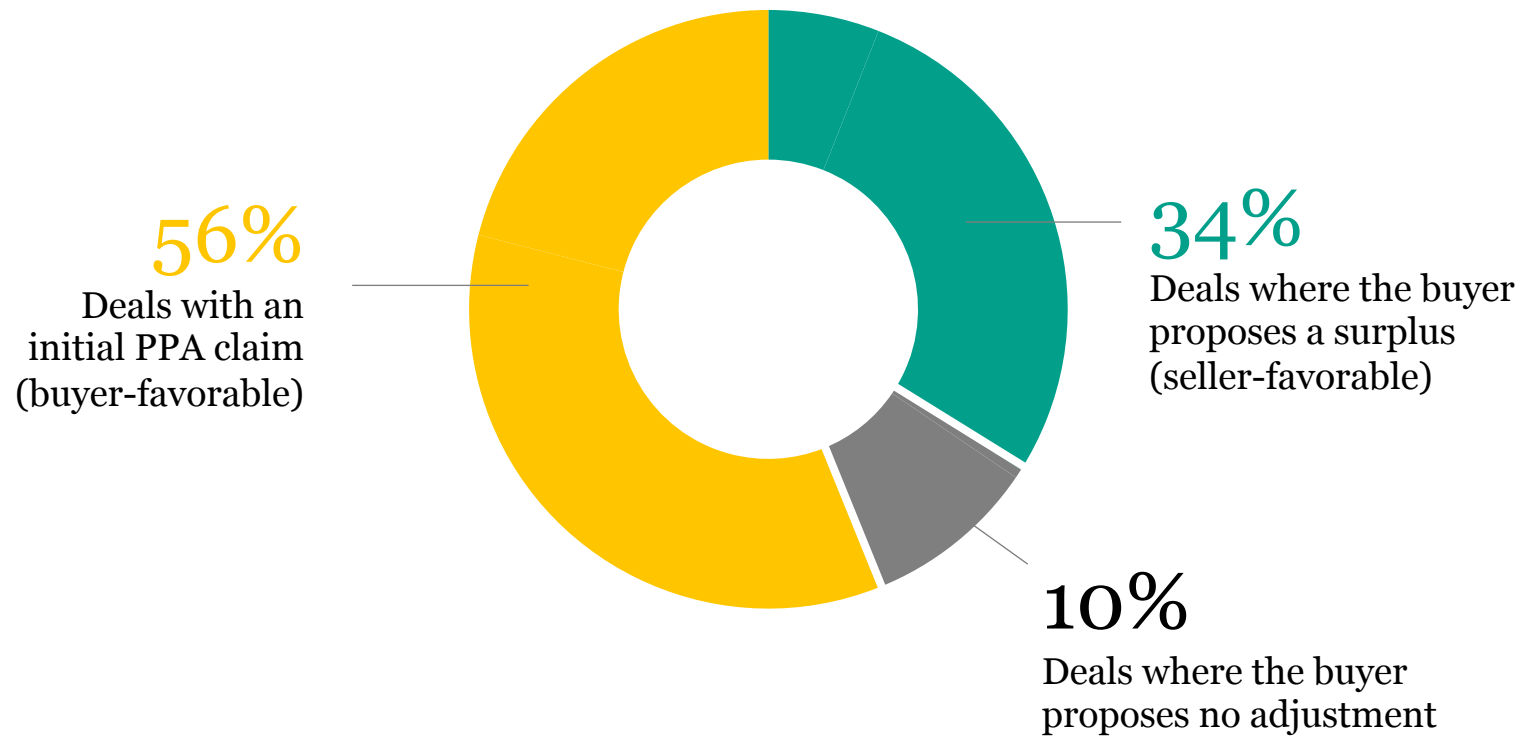




Purchase Price Adjustment Buy-side Initial Claims

PPA Claims and Surpluses as Initially Calculated

1,250+ DEALS CLOSED 2020-2024 Q3 WITH A FINALIZED PPA



*For more information,
download the insight:*

[Working Capital Adjustment
M&A Checklist and Guidelines](#)

Initial PPA Claim Sizes

KEY FINDING

DEALS CLOSED 2020-2024 Q3: INITIAL PPA CLAIM

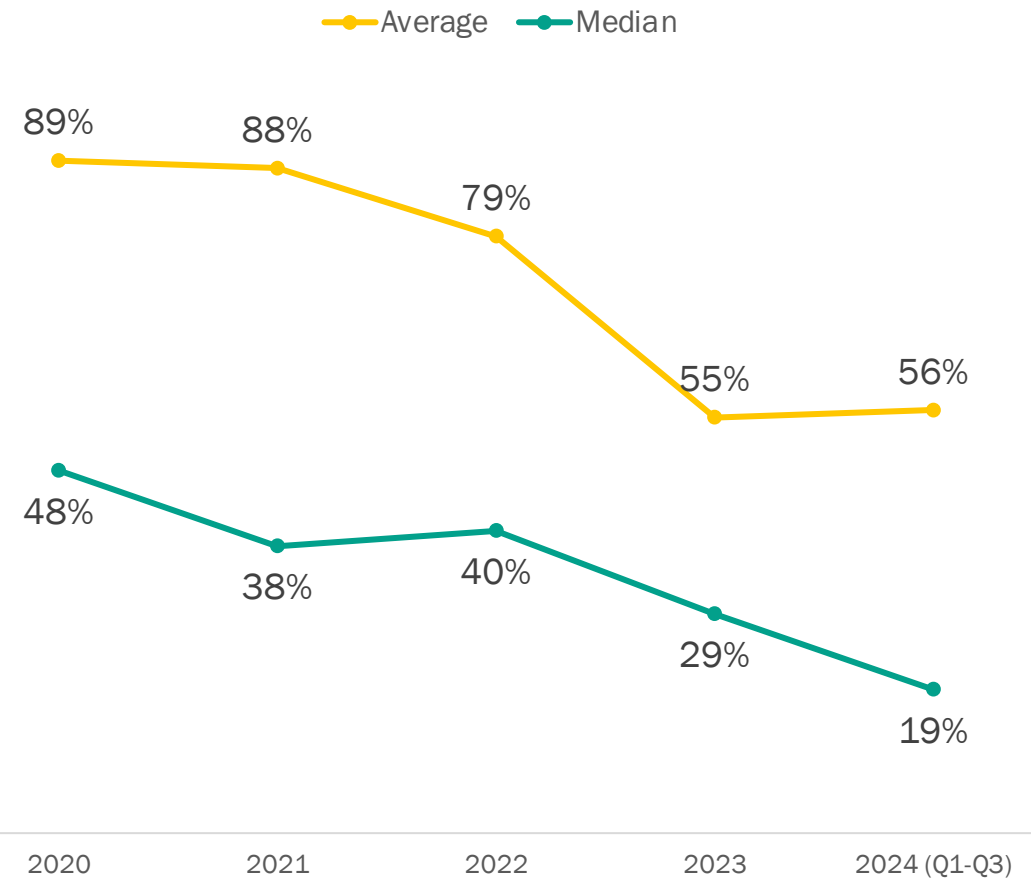
74% Percentage of PPA Escrow (Average)

33% Percentage of PPA Escrow (Median)

0.90% Percentage of Transaction Value (Average)

0.26% Percentage of Transaction Value (Median)

INITIAL PPA CLAIM AS PERCENTAGE OF PPA ESCROW BY YEAR



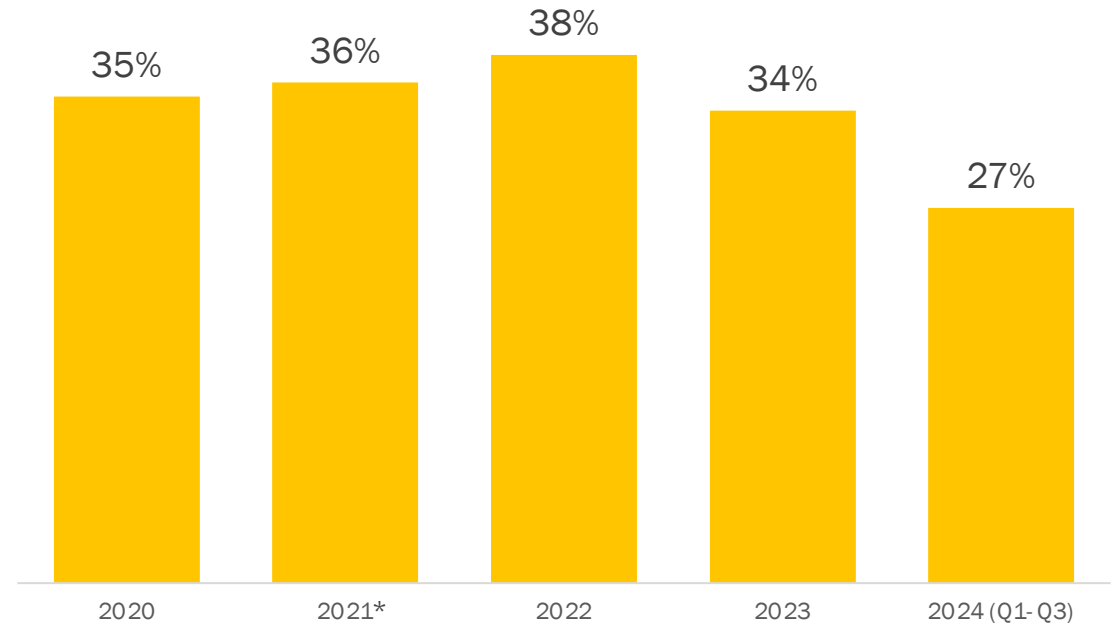
Late Delivery of Proposed Final Working Capital Calculations

KEY FINDING

DEALS CLOSED 2020-2024 Q3

- 35% Proposed final calculation worksheet was delivered after deadline
- 9% Proposed final calculation worksheet was delivered more than 30 days late

PERCENTAGE OF PROPOSED FINAL CALCULATION WORKSHEETS DELIVERED LATE, BY YEAR

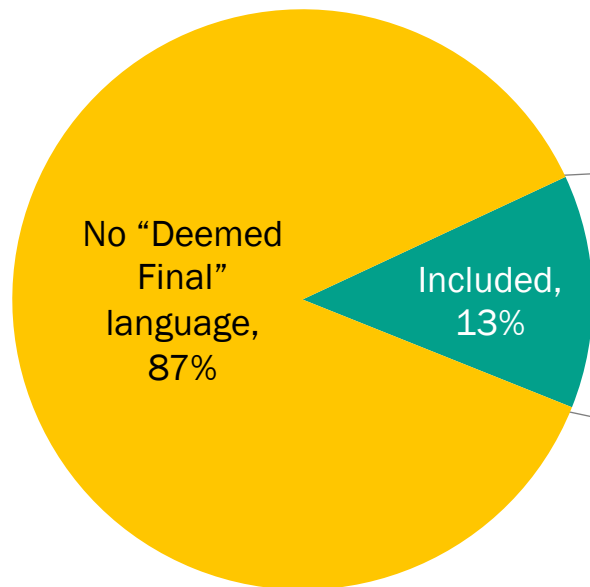


* See the Delaware Court of Chancery's 2021 opinion from *Schillinger Genetics, Inc. v. Benson Hill Seeds, Inc.*

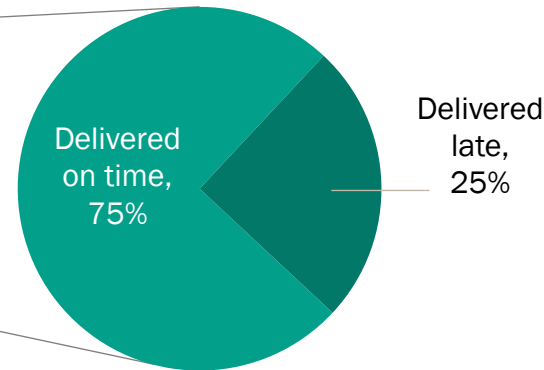
Deemed Final Language

1,250+ DEALS CLOSED 2020-2024 Q3 WITH A FINALIZED PPA

Percentage of deals with “Deemed Final” language



Percentage of deals with “Deemed Final” language where the proposed final calculations were delivered after the contractual deadline.



PPA Drafting Considerations: Deemed Final Language

A PPA provision may include “deemed final” language that stipulates the estimated calculations provided at closing will be deemed final and binding on the parties for purposes of the final PPA calculation if the party responsible for delivering the proposed final calculations fails to do so by the contractual post-closing deadline.

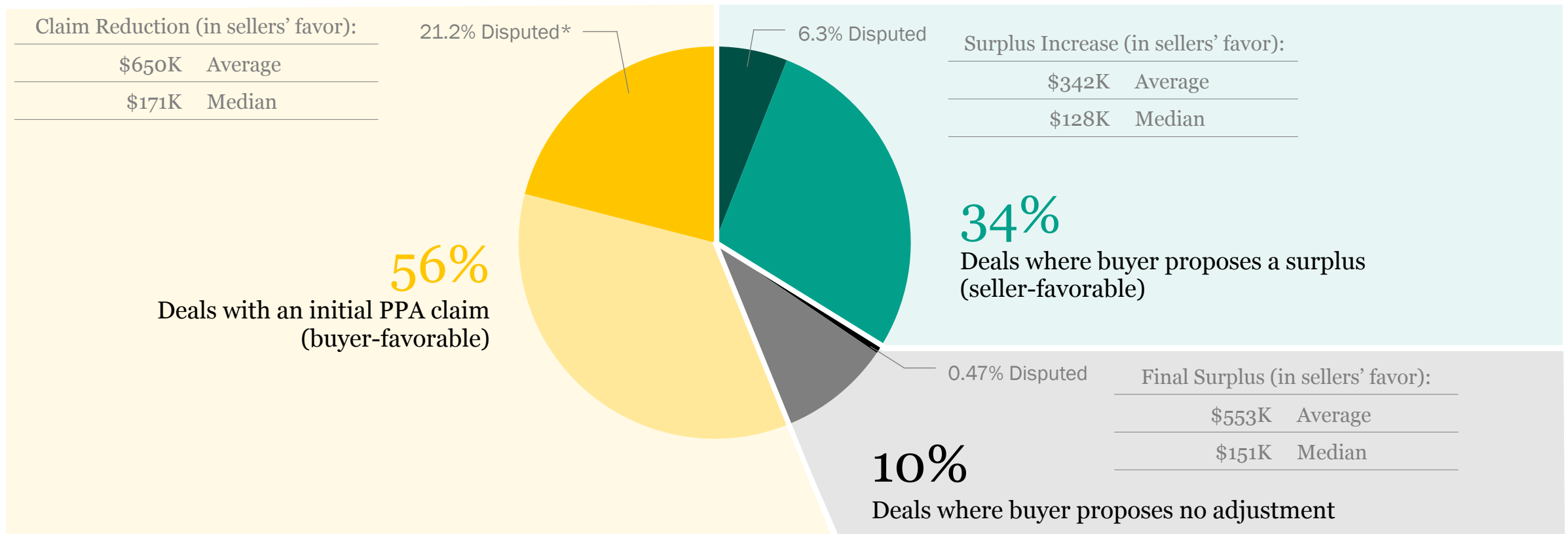


Purchase Price Adjustment Sell-side Reviews and Disputes

Contested PPA Claims and Surpluses

KEY FINDING

1,250+ DEALS CLOSED 2020-2024 Q3 WITH A FINALIZED PPA

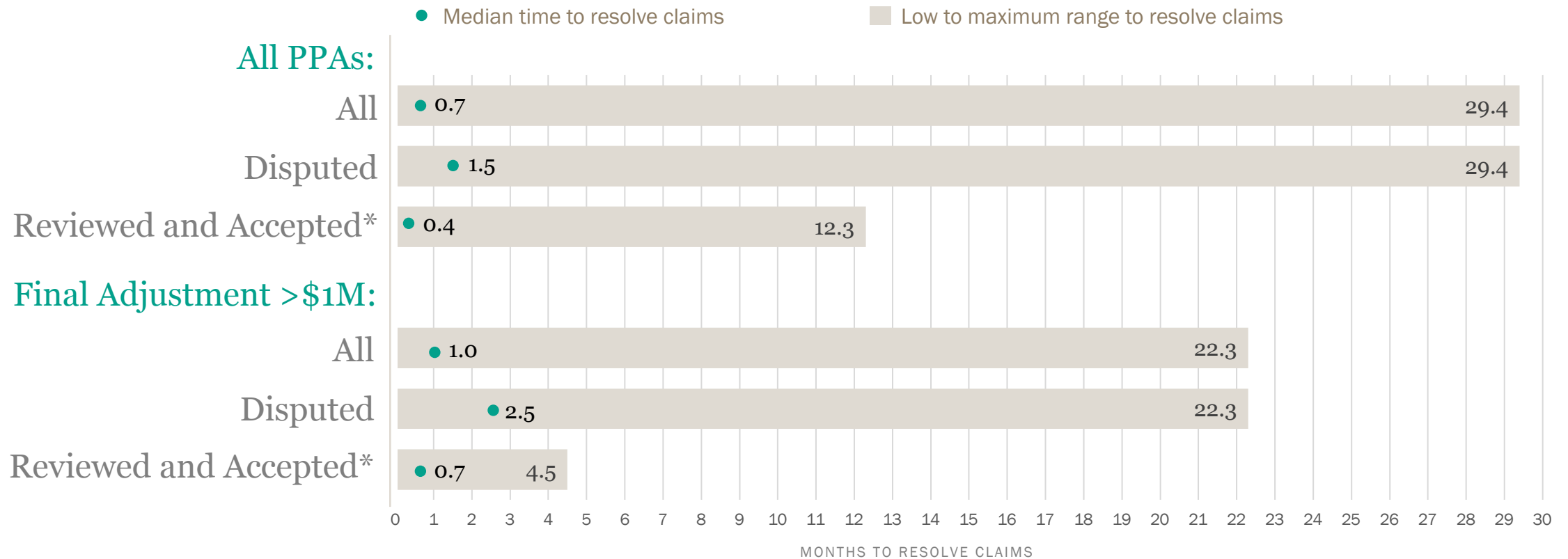


*SRS Acquiom, as shareholder representative, successfully reduced PPA claims in the sellers' favor by an aggregate of \$170 million on deals closed since January 1, 2020.

Resolution Time in Months

KEY FINDING

MEDIAN AND RANGE (2020-2024 Q3)



* Even when PPAs are reviewed and accepted by the shareholder representative, considerable time may still be spent on the initial review of buyer's calculations or waiting on additional information to complete such review.

PPA Drafting Considerations: Contractual Deadlines

90 days (median) Timing for buyer to deliver post-closing statement

30-120 days (range) Consider “deemed final” language if post-closing statement is never delivered

30 days Timing for sell-side to review statement

20–90 days Consider tolling language for any delays when exercising information rights

30 days Period for “good faith” negotiations

10–60 days Parties can mutually agree to extend this period

30 days Review period for reviewing accountant

10–60 days While very rare, referring to a reviewing accountant will be time consuming (and likely exceed the contractual timelines)

**Source: 100+ deals that closed in 2023.*

PPA Drafting Considerations: Information Rights

The shareholder representative's access to reasonable detail allows for a thorough review of the proposed adjustment calculations.

Supporting information delivered with statement

"...including any supporting information reasonably necessary for the Shareholder Representative to review such calculations."

Cooperation and access during review

"Buyer will, and will cause the Company to, reasonably cooperate with the Shareholder Representative in the review of the Final Closing Statement and provide the Shareholder Representative and its representatives with reasonable access during normal business hours to the books, records (including work papers, schedules, memoranda and other documents), supporting data, facilities and employees of Buyer and all other information in connection with the review of the Final Closing Statement as is reasonably requested by the Shareholder Representative or any of its representatives."

SELL-SIDE POST-CLOSING ACCESS TO INFORMATION

Buyer only required to provide final calculations	12%
Buyer provides supporting information or "reasonable detail"	88%
Can request work papers (specifically referenced)	60%
Can request other relevant information	84%
Can meet with buyer representatives	68%
Can meet with buyer's accountants	32%
Can visit premises	16%

Source: 100+ deals that closed in 2023.

PPA Drafting Considerations: Dispute Resolution

Reviewing Accountant: Appointment, Scope, and Fees

- Consider expressly naming an expert (pick a willing professional with experience in M&A working capital/valuation adjustments). About half of agreements require the parties to mutually agree post-closing on the appointment.*
- “Expert not arbiter” is the generally accepted phrase to limit the scope of the Reviewing Accountant to only opining on the calculations and not any procedural or contractual interpretation matters.
“...Buyer and the Securityholder Representative may engage [Reviewing Accountant] or, if such firm is not able or willing to so act, another accounting or valuation firm acceptable to both Buyer and the Securityholder Representative (the “Reviewing Accountant”) who, acting as experts and not arbitrators, shall review only the matters in the Adjustment Dispute Notice that are still disputed by Buyer and the Securityholder Representative.”
- Nearly 90% of deals allocate responsibility for fees based on outcome.*
“The Reviewing Accountant will allocate its fees and expenses between the Buyer and the Shareholder Representative according to the degree to which the positions of the respective parties are not accepted by the Reviewing Accountant.”

*Source: 100+ deals that closed in 2023.

PPA Drafting Considerations: Dispute Resolution *(continued)*

Reviewing Accountant Determination: Final and Binding

“...which determination shall be final and binding on the parties hereto (except in the case of fraud or manifest error).”

Exclusive Remedy

- One in five deals include exclusive remedy language*

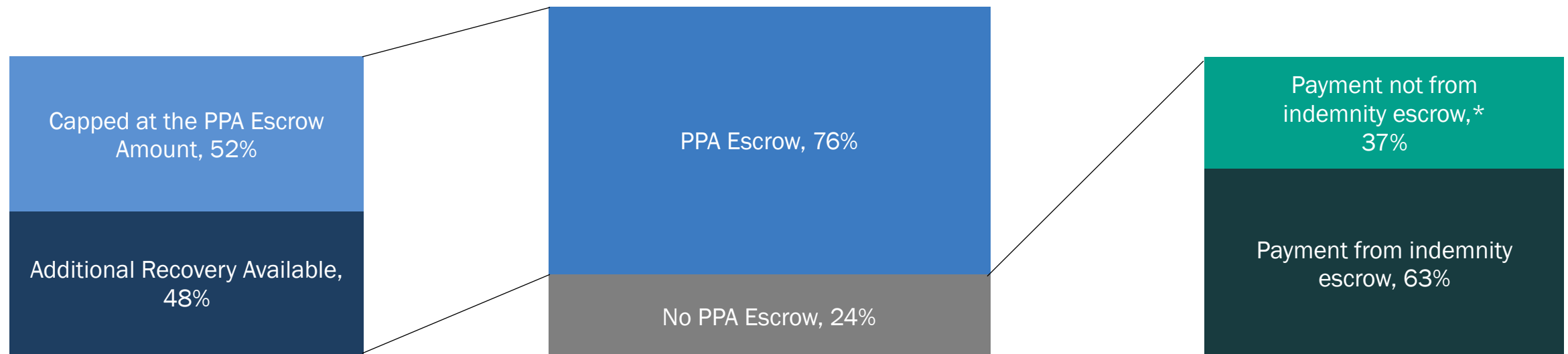
“The process set forth in this section for resolving disputes with respect to the Adjustment Calculations and all inputs thereto shall be the sole and exclusive method for resolving any such disputes.”

**Source: 100+ deals that closed in 2023.*

PPA Claims Sources of Recovery

Subset: 2024 (Q1–Q3) deals with post-closing purchase price adjustments in the consideration mechanics section of the acquisition agreement (as opposed to the indemnification section only)

SOURCE OF PAYMENT IF BUYER-FAVORABLE ADJUSTMENT



* Generally, payment out of pocket from securityholders.

PPA Drafting Considerations: Sources of Recovery

PPA Escrow Release Mechanics

Ensure the agreements (including the escrow agreement) cover all three scenarios:

1. PPA claim exceeds escrow amount: entire escrow released to buyer
2. PPA surplus: entire escrow released to sellers via paying agent
3. PPA claim that is less than the escrow amount: claim amount released to buyer and remainder of escrow released to sellers via paying agent*

Additional Source(s) of Recovery

- General Indemnification Escrow (often at buyer's discretion)
- Setoff against future payments (e.g., earnouts, escrow releases)
- Claw back from sellers (arduous process that should be avoided)

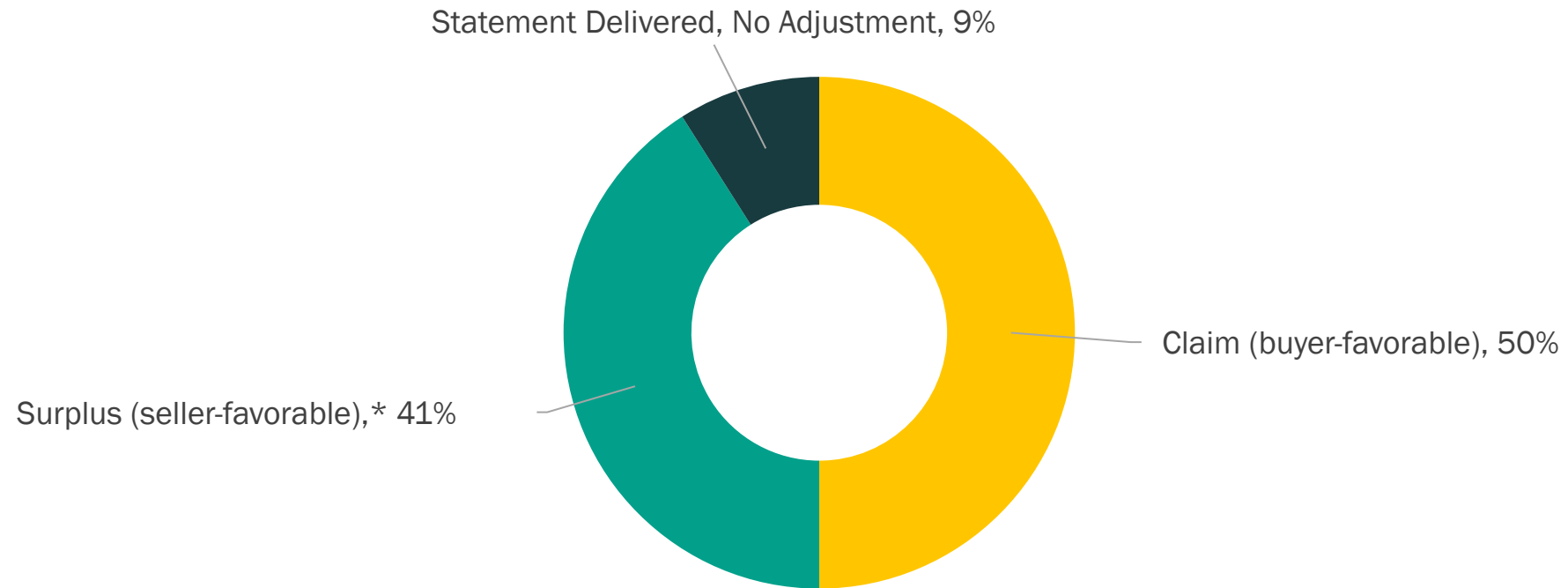
**11% of PPA provisions omitted this third scenario. Source: 100+ deals from 2023.*



Purchase Price Adjustment Outcomes

PPA Final Adjustment Direction

DEALS 2020–2024 Q3

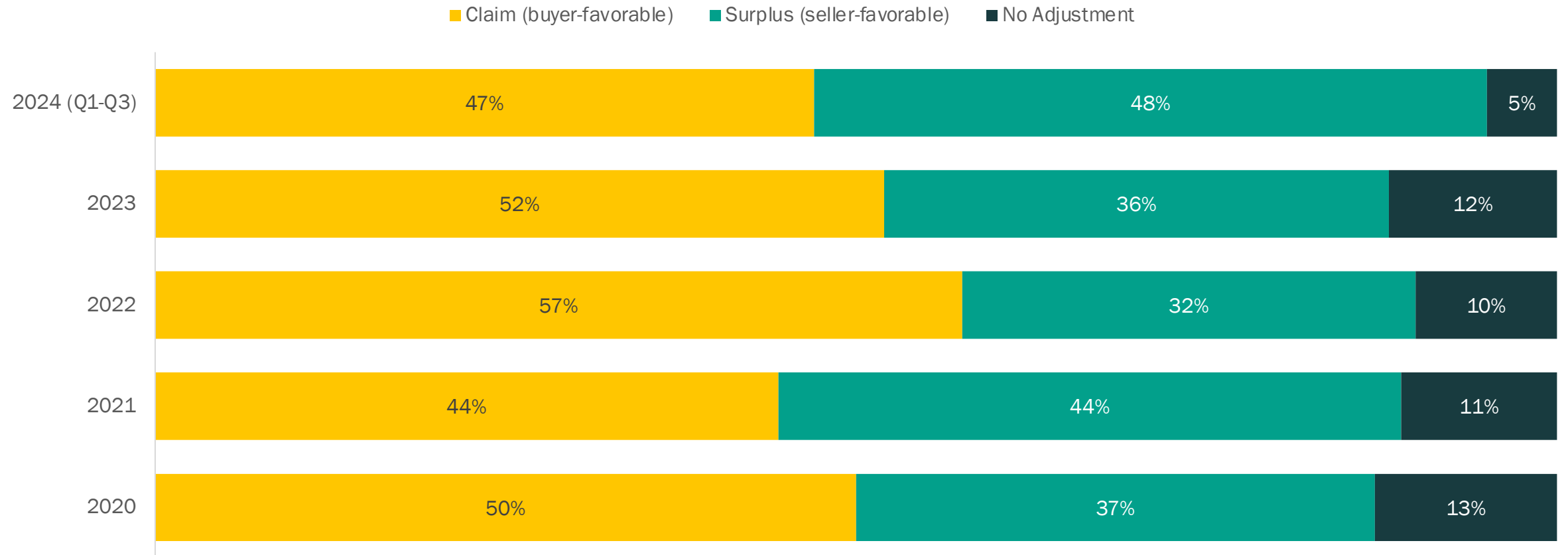


** 38% of PPAs were seller-favorable surpluses for deals closed 2019–2023 Q3. For historical context, PPA outcomes for deals closed 2010-2013 were 47% buyer-favorable claims, 26% seller-favorable surpluses, 10% no adjustment, and 17% no PPA statement delivered.*

PPA Final Adjustment Direction by Year*

KEY FINDING

DEALS 2020-2024 (Q1-Q3)



Final PPA Adjustment Amounts

PPA Claims Final Adjustment Amounts (buyer-favorable)	DEALS CLOSED 2020-2024 Q3	PPA Surpluses Final Adjustment Amounts (seller-favorable)
63%	Percentage of PPA Escrow (Average)	*
30%	Percentage of PPA Escrow (Median)	*
0.77%	Percentage of Transaction Value (Average)	0.94%
0.23%	Percentage of Transaction Value (Median)	0.17%
13.4% of claims (6.7% of all deals with a PPA)	Percentage of such deals with a final adjustment equaling or exceeding \$1M	19.4% of surpluses (7.4% of all deals with a PPA)
13.9% of claims (7% of all deals with a PPA)	Percentage of such deals with a final adjustment equaling or exceeding 1% of the transaction value	11.6% of surpluses (4.4% of all deals with a PPA)

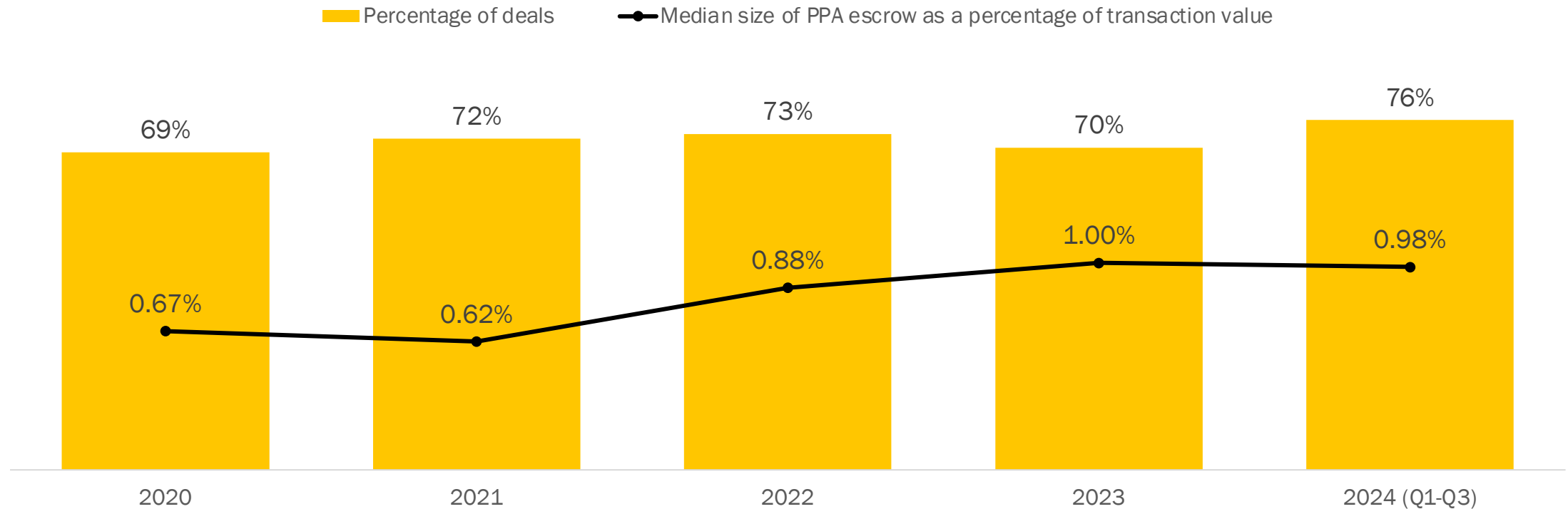
* Any separate escrow would likely have been released in full to the sellers in addition to the surplus.



Purchase Price Adjustment Escrows and Caps

Separate PPA Escrows

PERCENTAGE OF DEALS WITH PPA ESCROW AND MEDIAN SIZES*

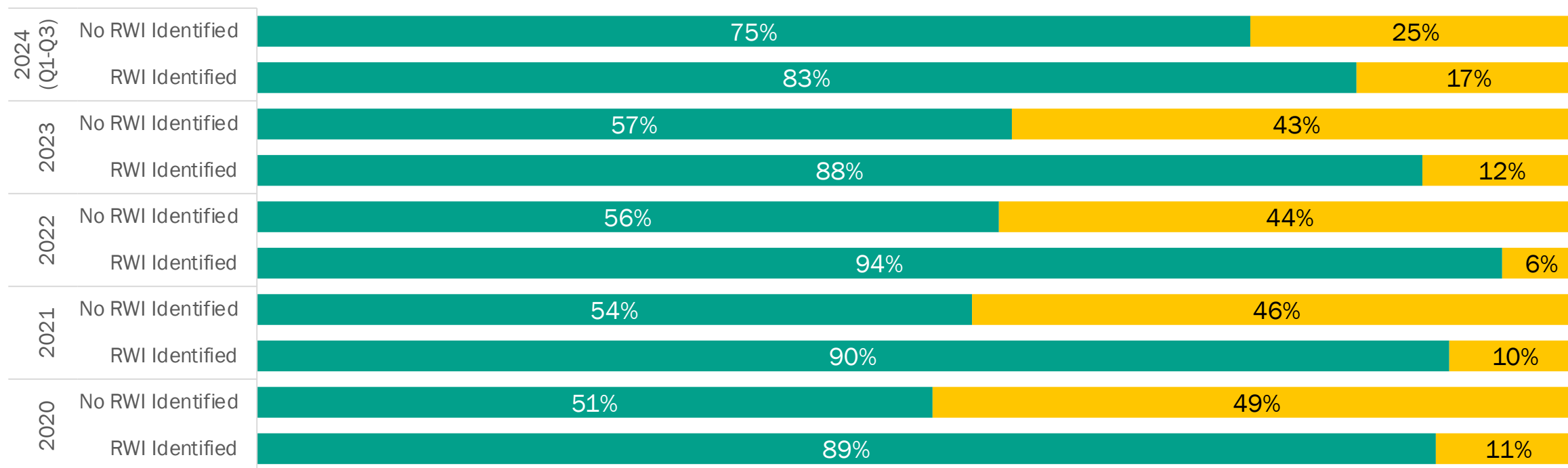


* To add context, the average initial PPA claim is 0.90% of transaction value (See Slide 13), however claim sizes vary from deal to deal with 24% of initial PPA claims greater than 1% of transaction value.

Separate PPA Escrows: Effect of Reps and Warranties Insurance

DEALS 2020-2024 (Q1-Q3)

■ Has a separate PPA escrow ■ Does not have a separate PPA escrow



* Representations and Warranties Insurance (RWI) was identified on approximately half of the deals in this study (closed 2020–2023 Q3); buyers do not always disclose the presence of a buy-side RWI policy, and “no RWI identified” data subsets in this study likely include a small number of deals with RWI policies.

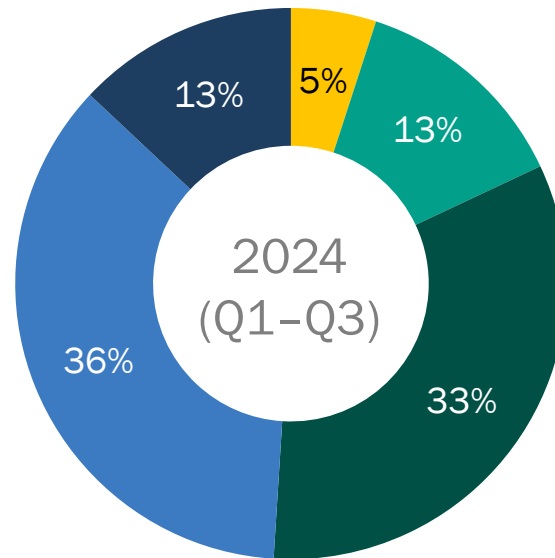
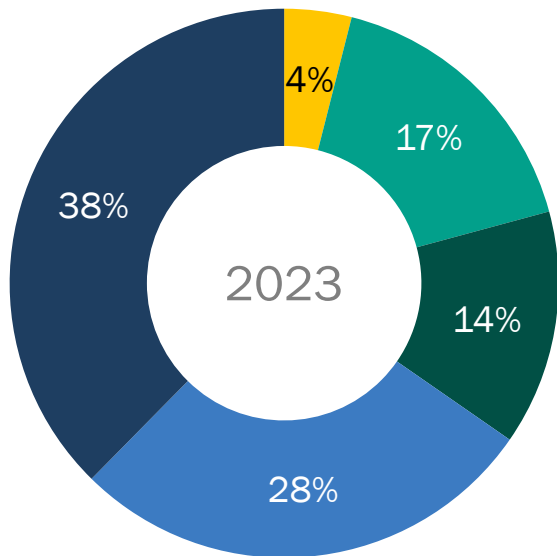
Caps on Buyer-favorable PPA Claims and Thresholds

KEY FINDING

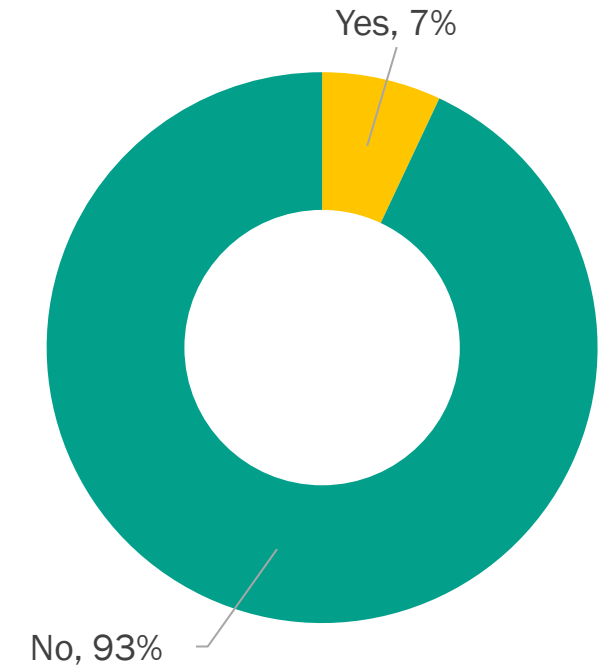
Subset: Deals with post-closing purchase price adjustments in the consideration mechanics section of the acquisition agreement (as opposed to the indemnification section only)

CAP ON BUYER-FAVORABLE PPA CLAIMS

- Cap equals general liability cap
- Cap equals general indemnification escrow amount, which is also the general liability cap
- Cap equals general indemnification escrow amount
- Cap equals PPA escrow amount
- Other



2024 (Q1-Q3): ADJUSTMENT ONLY IF THRESHOLD EXCEEDED



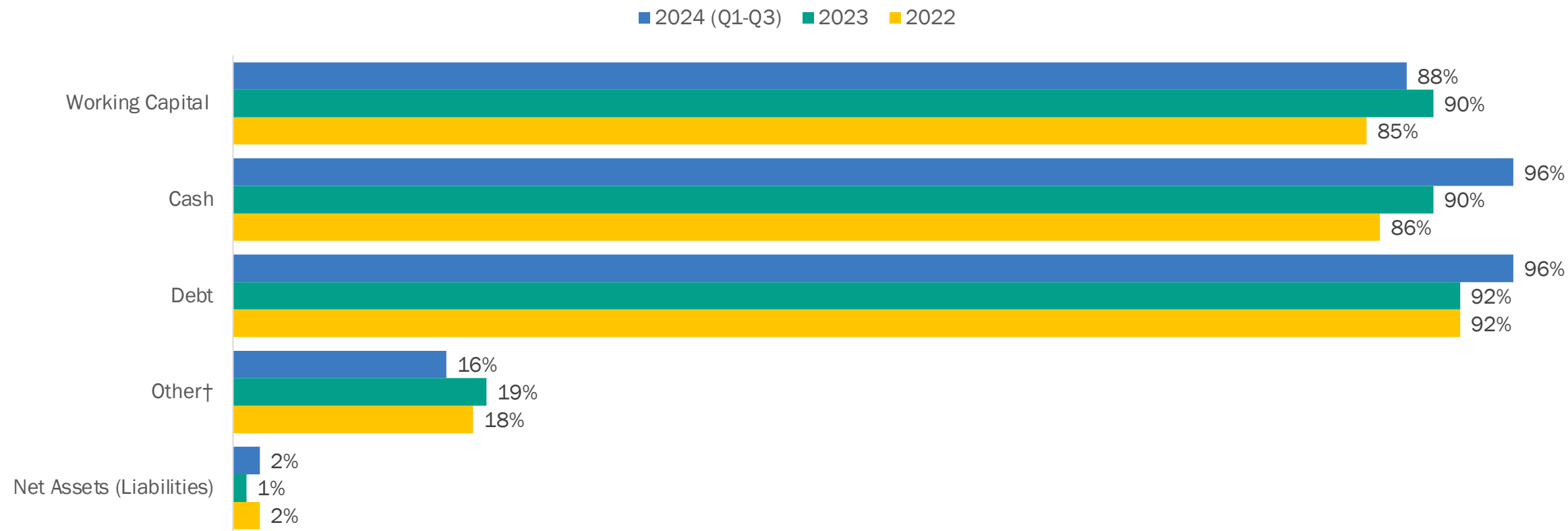


Purchase Price Adjustment Accounting Methodology

PPA Metrics

KEY FINDING

ADJUSTMENT METRICS*



* 96% of post-closing purchase price adjustments in 2024 deals were based on more than one metric, compared to 93% of deals closed in 2023.

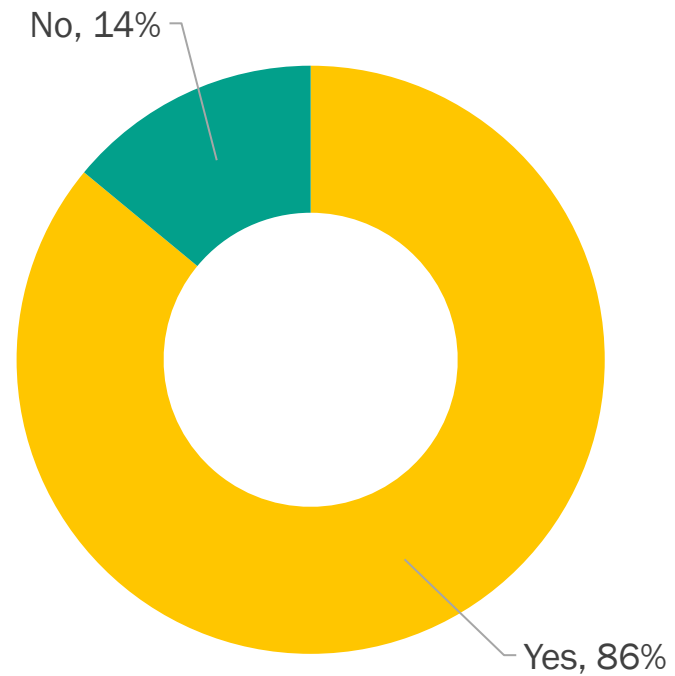
† Does not include post-closing adjustments for transaction expenses.

PPA (Working Capital) Excludes Tax-related Items

KEY FINDING

Subset: 2024 (Q1–Q3) deals with a working capital adjustment

ADJUSTMENT EXCLUDES TAX-RELATED ITEMS



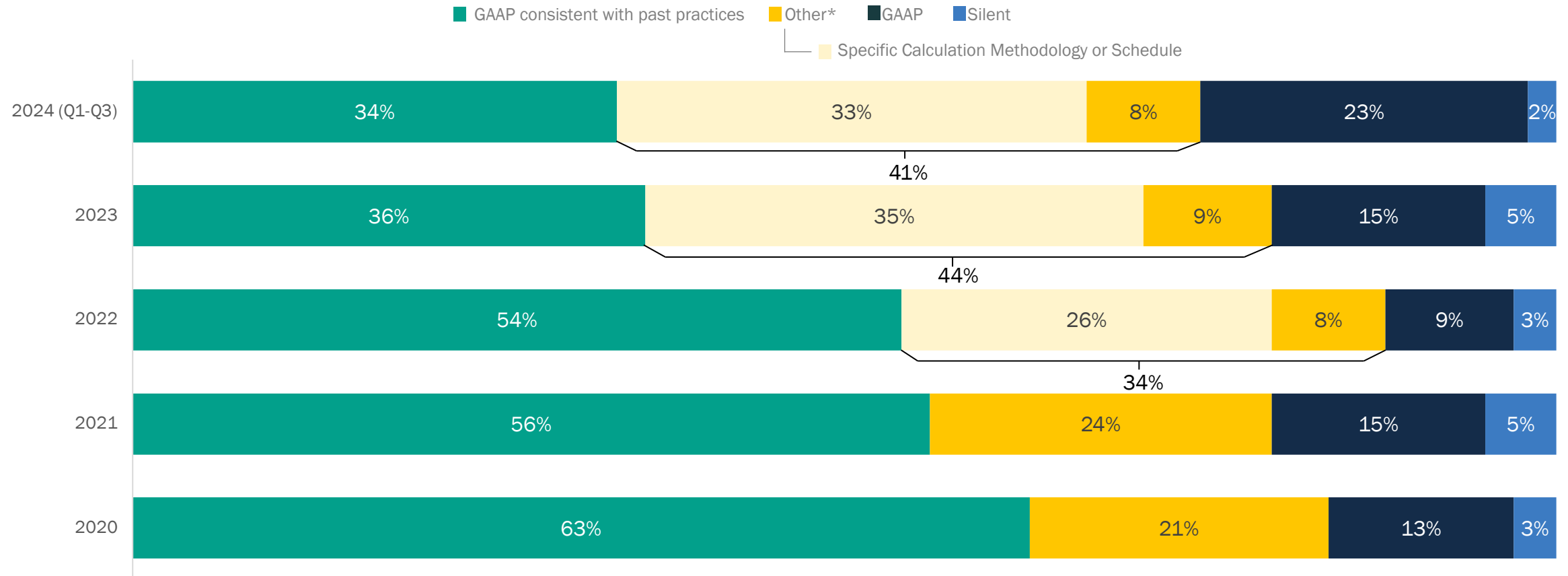
For more information, consult the SRS Acquiom resource linked below and a plethora of other resources available at srsacquiom.com/our-insights

[Key Concepts When Calculating Purchase Price Adjustments](#)

PPA Accounting Methodology

KEY FINDING

SUBSET: DEALS WITH POST-CLOSING PURCHASE PRICE ADJUSTMENTS



* "Other" methodology most commonly used was GAAP as modified by the principles and changes set forth on a schedule.

PPA Drafting Considerations: Accounting Methodology

“...prepared in accordance with GAAP consistent with past practices of the Company...”

- Parties may have differing interpretations of GAAP and guidance can change over time; consider adding language about what ultimately governs or a streamlined dispute resolution mechanism.
 - Identify and solve issues prior to closing by working together on the working capital estimate/peg.
-

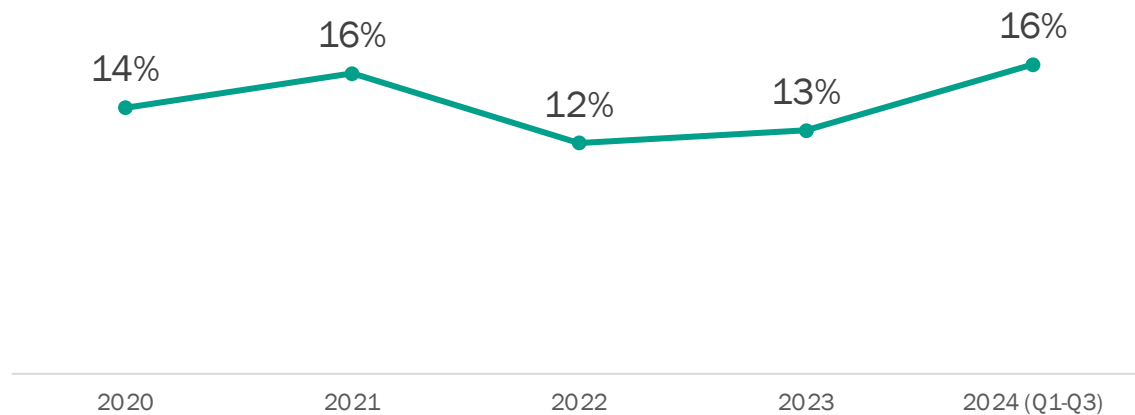
Specified Methodology or “Worksheet” Approach

- Allows for a custom approach, which correlates with trend toward bespoke PPA provisions.
- Worksheet is used for both the estimate/peg process near closing and for the post-closing true up.
- *“The Final Closing Statement shall be prepared in accordance with the calculation worksheet attached hereto as Exhibit A.”*

Buyer's Contractual Right to Review PPA Estimate Calculations

There was not a statistically significant difference for the rate of contested final PPA calculations on deals with and without this provision.

CALCULATIONS: 2020-2024 Q3



For more information, consult the SRS Acquiom resource linked below and a plethora of other resources available at

srsacquiom.com/our-insights

[*Negotiating the M&A Purchase Price Adjustment Provision*](#)



Glossary

Glossary (A–G)

Adjusted Working Capital	A method of calculating working capital where certain items are expressly included or excluded from current assets or current liabilities such as deferred tax assets (e.g., loss carry forward) or contingent liabilities (e.g., pending litigation). The general accounting definition of working capital is current assets minus current liabilities.	Consideration Mechanics Section	For purposes of this study, the “consideration mechanics section” refers to one of the first articles or sections of the acquisition agreement where the parties detail the financial provisions of the transaction, including transaction value, exchange procedures, PPAs, and earnouts, if applicable. PPA mechanics are included in the consideration mechanics section more than 90% of the time.
Arbitration	A method of alternative dispute resolution whereby a dispute, with the consent of the parties, is submitted to a neutral person or group for a decision. Usually includes a full evidentiary hearing and presentations by attorneys for the parties. The merger agreement may provide that the arbitrator’s decision be binding or non-binding.	Escrow (General Indemnity)	In the M&A context, a portion of the transaction consideration that is held to secure the selling shareholders’ post-closing indemnification obligations to the Buyer. After a predetermined period of time has passed, any amount in the escrow account not claimed by the Buyer is released to the selling shareholders. Deal parties may establish additional special escrows, such as for the PPA, tax matters, or known litigation.
Cap (Purchase Price Adjustments)	A limitation on the post-closing purchase price adjustment (aka working capital adjustment) payable to Buyer or Seller. The PPA Cap is frequently equivalent to the general liability cap or the PPA escrow amount or may be set forth as another fixed dollar amount or tied to another provision in the acquisition agreement.	Escrow (Purchase Price Adjustments)	A portion of the transaction consideration that is held to secure the selling shareholders’ post-closing obligations to the Buyer specific to a purchase price adjustment. Often subject to a shorter holding period than the general escrow, any remainder is released back to the selling shareholders.
Claim (Purchase Price Adjustments)	For purposes of this study, a claim is when the target company had a deficiency of operating cash (e.g., negative net working capital) as of the closing, as calculated pursuant to the terms acquisition agreement. Generally, such a deficit would result in a purchase price adjustment that favors the buyer. An “initial claim” is when buyer proposes a final purchase price adjustment payable to buyer. A “final claim” is when the agreed upon adjustment favors buyer.	GAAP	Generally Accepted Accounting Principles; guidance promulgated by certain policy authorities and commonly accepted accounting practices used for consistency in reporting financial information.

Glossary (I–S)

Indemnification Section	For purposes of this study, the “indemnification section” refers to the article or sections of the acquisition agreement where the parties detail any indemnification obligations that sellers owe to buyer, such as for breaches of representations and warranties or a purchase price adjustment, often in the latter half of the agreement with robust dispute resolution provisions. PPA mechanics are included in the indemnification section less than 10% of the time.	Public Buyer (U.S.)	Acquiring companies listed on U.S. public stock exchanges (e.g., NYSE or NASDAQ).
Mediation	A form of alternative dispute resolution where the parties attempt to negotiate a settlement with the assistance of a neutral third party. Unlike arbitration or litigation, the resulting agreement, or lack thereof, is wholly controlled by the parties.	Purchase Price Adjustment (PPA)	A common deal feature where the transaction consideration is adjusted shortly after closing in accordance with a specified financial metric, given such metrics are generally estimated at the time of closing and more accurately calculable after a certain amount of time after closing. While there are a number of metrics used to determine the adjustment, the most common is some variation of a net-working-capital formula. The adjustment can be in favor of either the Buyer or selling shareholders.
Non-U.S.-based Buyer	Includes foreign companies headquartered outside of the U.S. Both public and private foreign companies are included.	Representations and Warranties Insurance (RWI)	An insurance product that provides certain coverage for breaches of the target company’s representations and warranties, subject to underwriting, payment of a premium, a retention (deductible), coverage caps, and exclusions. The presence of RWI can impact certain indemnification deal terms such as escrows and baskets.
Private Buyer (non-P.E. backed, U.S.)	Non-public companies headquartered in the U.S., including companies whose stock is traded on the OTCBB or Pink Sheets. Excluding portfolio companies of private equity firms (see <i>Private Buyer (P.E.-backed, U.S.)</i>).	Reviewing Accountant	As part of the dispute mechanism specific to PPAs, acquisition agreements may call for a neutral accounting or valuation expert to make a final determination for the adjustment calculations if the parties are not able to agree after good-faith negotiations.
Private Buyer (P.E.-backed, U.S.)	Non-public, private equity portfolio companies headquartered in the U.S.	Surplus (Purchase Price Adjustments)	For purposes of this study, a surplus is when the target company had excess operating cash (e.g., positive net working capital) as of the closing, as calculated pursuant to the terms acquisition agreement. A surplus may result in a purchase price adjustment that favors the selling shareholders.
Private Equity Buyer (U.S.)	Buyer that acquires a target as an investment rather than for the purpose of expanding its own business or for other strategic purposes.		

Glossary (T–W)

Threshold (Purchase Price Adjustments)	The amount that the absolute value of the final adjustment must meet or exceed to trigger payment of the adjustment, whether a claim or surplus.
Transaction Value	The enterprise value to be paid by the Buyer according to the acquisition agreement. For purposes of this study, transaction value does not include contingent consideration (e.g., earnouts) or adjustments to the purchase price.
Work Papers	The information and documents that a finance team or accountant uses or creates when calculating the purchase price adjustment and the metrics included therein (e.g., adjusted working capital).

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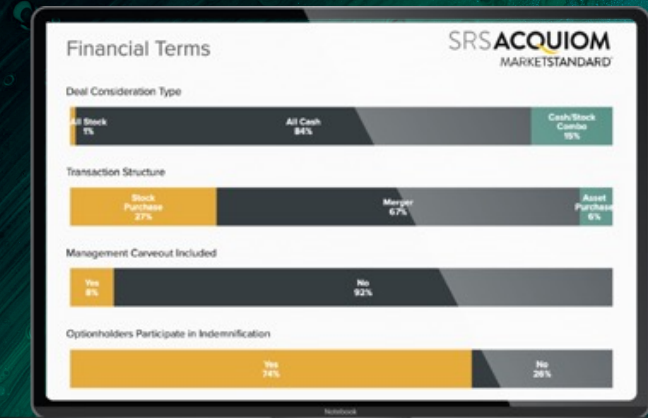
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Additional Resources

- 2024 SRS Acquiom Deal Terms M&A Study
<https://www.srsacquiom.com/our-insights/deal-terms/>
- 2024 SRS Acquiom Claims Insight Report:
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- 2023 SRS Acquiom Life Sciences M&A Study:
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