

Value of Working Capital in a deal

Working
Capital and
Net Debt

Normalized
EBITDA

Investor
readiness

- ❖ How does NWC level impact transaction price
- ❖ Example indemnity - what can go wrong...
- ❖ What's a deficiency?
- ❖ Locked Box, when is it a good option?
- ❖ How Completion accounts protect a deal?
- ❖ Assessing your NWC position prior to the deal
(some practical steps)

Purchase price impact

How does NWC level impact transactions?

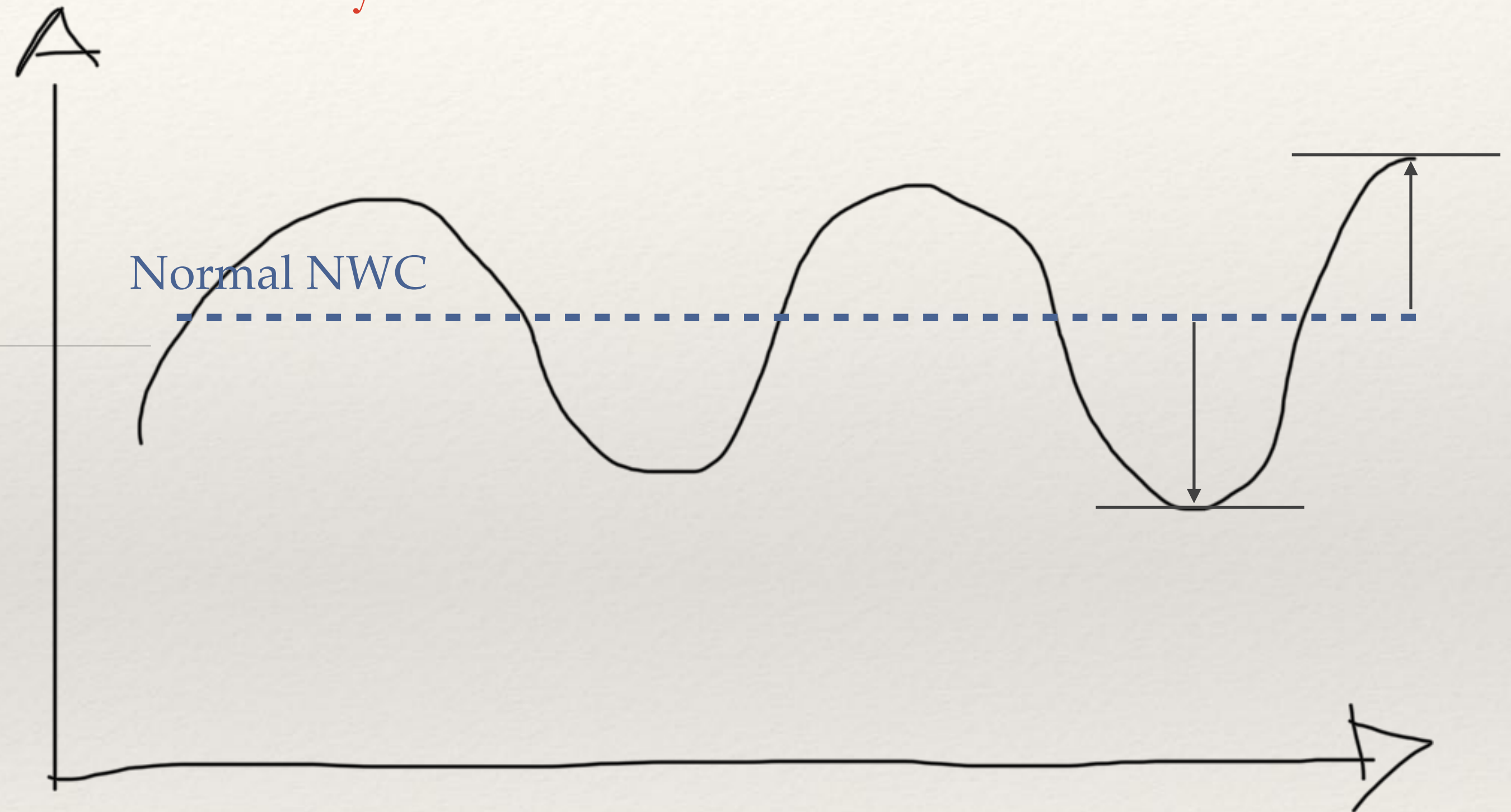
Enterprise value =

Equity value

@ "Normal level" NWC

+ / - Net Debt / Cash

NWC cycles



- DCF
 - X EBITDA
- are most frequently used

Deals are typically done "debt-free / cash-free" and at a Normal level of NWC

“The Company is sold with a level of Net Working Capital sufficient for the foreseeable future.”

What may go wrong?! It appears to be a good clause to
insert ... 🧐

3:17 pm ✓✓

“The Company is sold with a level of Net Working Capital sufficient for the foreseeable future.”

- ❖ Buyer-friendly or seller-friendly?
- ❖ What is sufficiency?
- ❖ Timeframe not defined
- ❖ Definitions are key and “...a level...” is quite vague

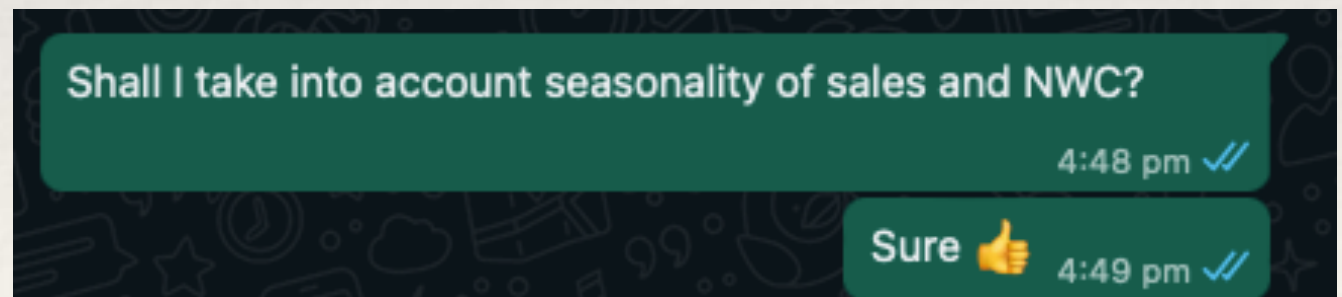
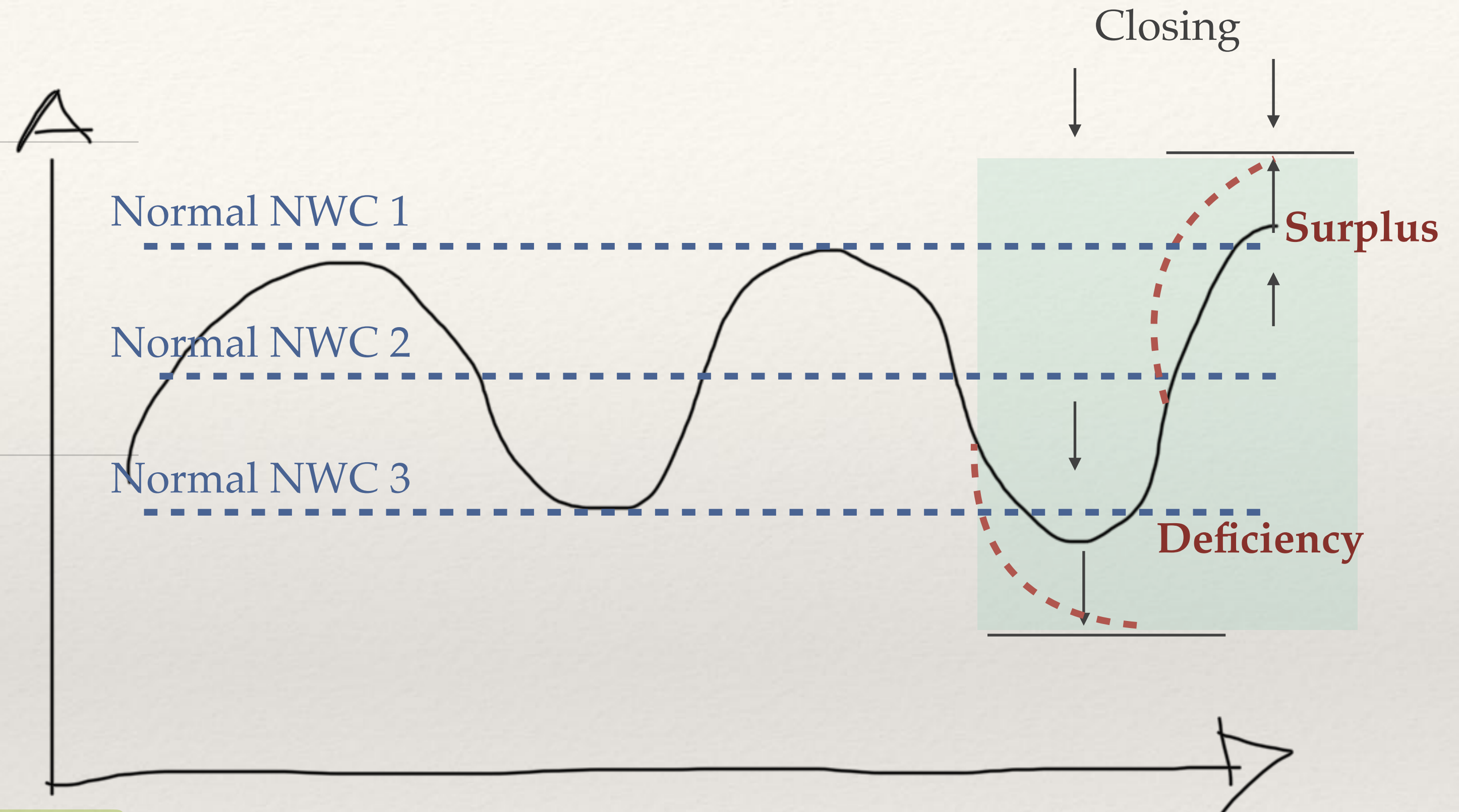
Purchase price impact

What's a deficiency?

- Bad or overdue debts
- Obsolete or missing inventories
- Unpaid invoices
- Changes in provisions

Not so obvious

- Hidden costs
- Unaccrued, unaccounted expenses
- Underinvestment in fixed assets



There are many different ways to define a “Normal level” of NWC

Locked Box and Completion

Locked Box. A good option?

Locked Box Completion

"Friendly" to	Seller	Buyer
Complexity / time	Medium	High
Recent audit	Yes	A plus

Locked Box



Even if your accounts are unaudited, I trust you! 👍😊
4:15 pm ✓

Agree a "no leakage" mechanism between the most recent accounts date and the effective date

Key questions are 1) what is a leakage and 2) do you want to rely on "material adverse change" clause?

Choice between Locked Box and Completion

How Completion accounts protect a deal?

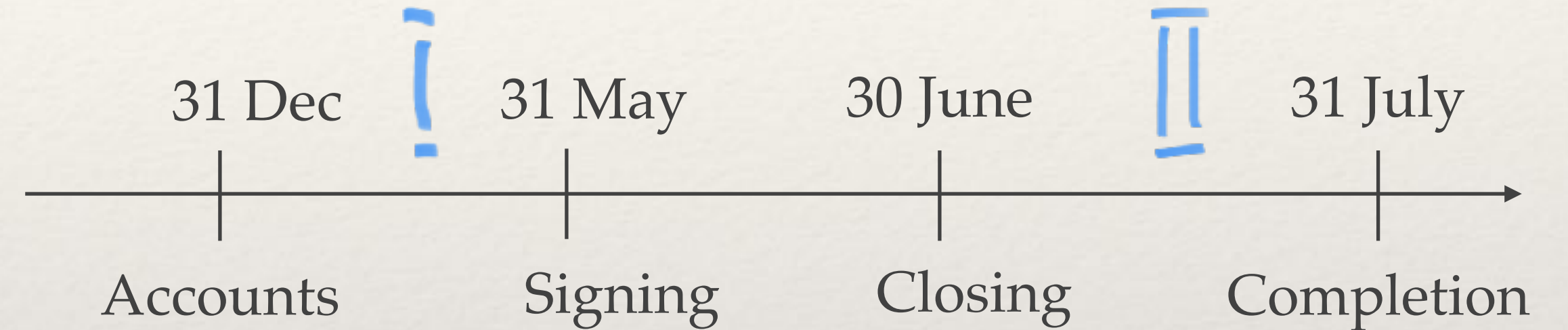
Purchase price
adjusted for:

Δ between Actual
and Target NWC

+/- Actual Net
debt / Cash

At Closing

Completion accounts



! Agree a “Target level of Working Capital” at Closing

|| Adjust purchase price for the difference between Actual and Target level of Net Working Capital

Practical steps

Assessing your NWC position prior to the deal

- Analyse balance sheet
- Aging of AR and AP
- Inventory provisions history
- Seasonality analysis
- Prepaid expenses
- Rent deposits
- Cash in tills



Bucket
balance
sheet
analysis

		NWC	Net debt	Fixed assets
Current assets				
AR	x	x		
Inventories	x	x		
Prepaid expenses	x	x		
Cash	x		x	
LT assets				
Fixed assets	x			x
Intangibles	x			x
Current liabilities				
AP	(x)	(x)		
Accrued expenses	(x)	(x)		
LT liabilities				
Debt	(x)		(x)	
Other LT liabilities	(x)		(x)	
Total, net	X	X	X	X

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