

Closing the Gap: Net Working Capital M&A Disputes Topics and Trends

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Today's Webinar Speakers

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Lincoln International Overview

Globally integrated across **25+** offices and **1,400+** professionals worldwide



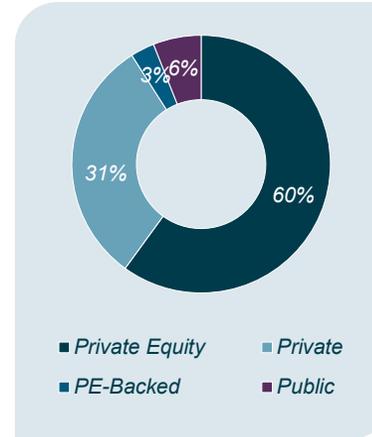
720+ bankers in Americas

330+ bankers in Europe

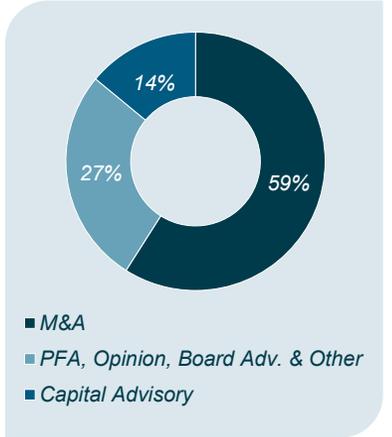
95+ bankers in Asia

25+ bankers in Australia*

2025 Client Type; All Transactions



2025 Transaction Type; All Transactions

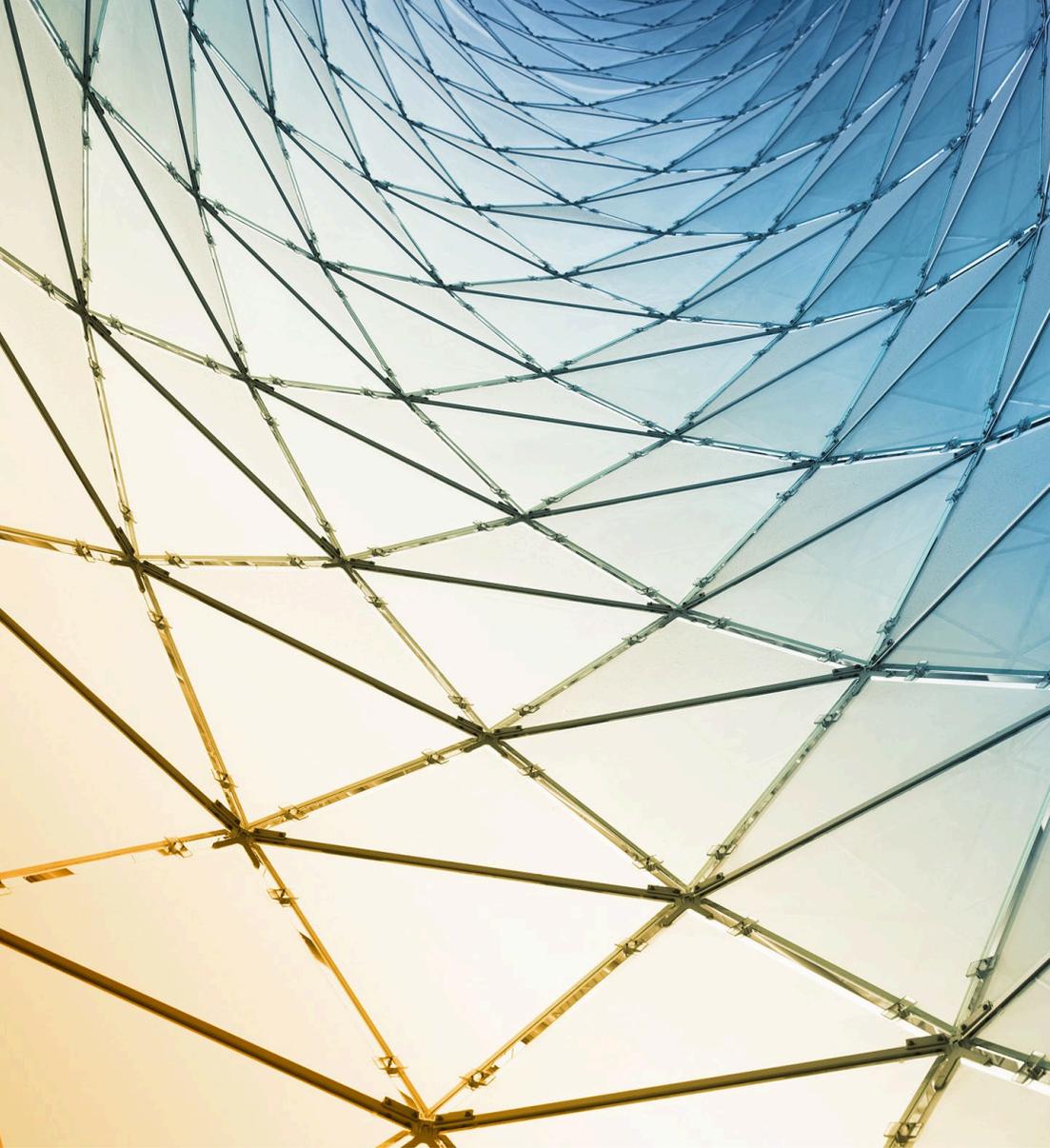


2025 Summary

430+ completed deals worldwide

61% of M&A deals to strategic acquirers

36% of M&A transactions were cross-border



Agenda

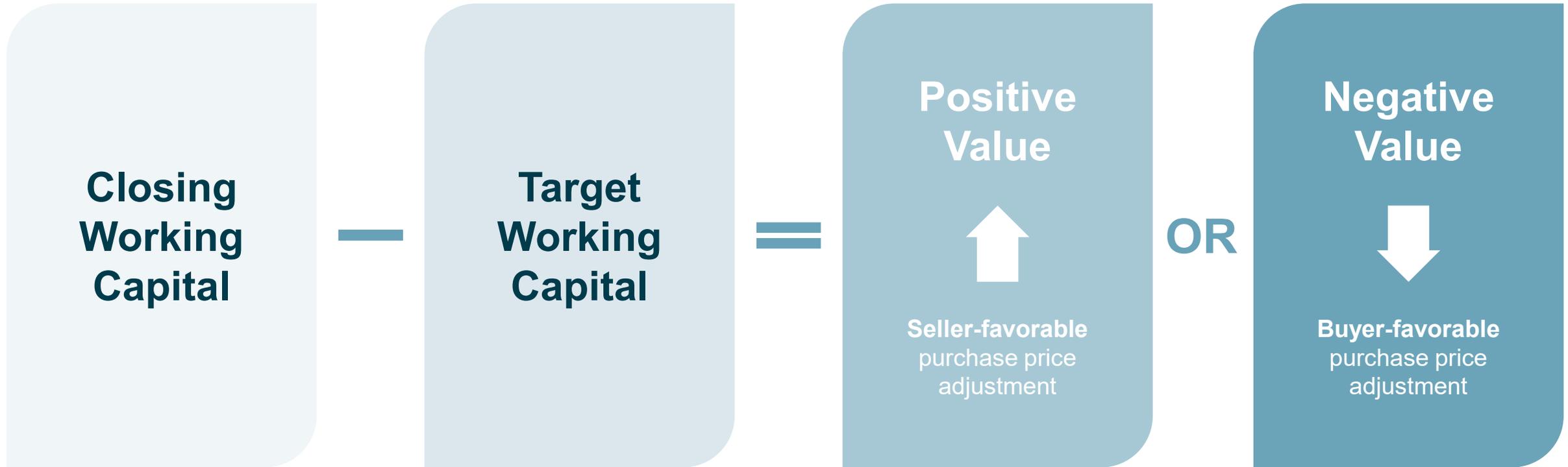
- 1** How Sellers are Narrowing the Gap with Buyers in M&A Post-Close Working Capital Adjustments
- 2** Bridging the Gap Between Target and Closing Net Working Capital in M&A Deals
- 3** Working Capital Adjustments and Tips to Mitigate M&A Disputes



How Sellers are Narrowing the Gap with Buyers in M&A Post-Close Working Capital Adjustments

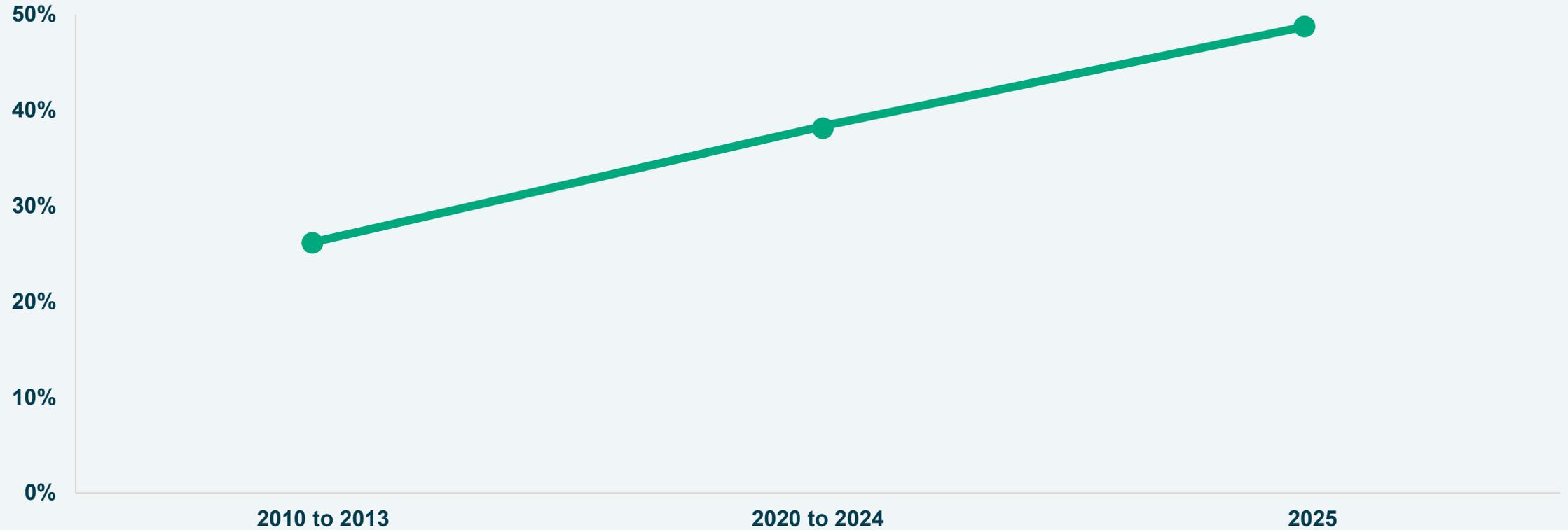
Section 1

Post-Close Working Capital Adjustment Mechanics



Sellers Are Catching Up in Post-Close Outcomes

Seller-Favorable Purchase Price Adjustments Over Time



The Market Is Becoming More Disciplined and More Balanced

Historical Dynamic

Buyers Historically Had Advantages...

- Prepared the closing statement
- Controlled records post-close
- Benefited from broad accounting definitions (e.g., GAAP)

Sellers were often reactive.



What Has Changed

Sellers Are Now...

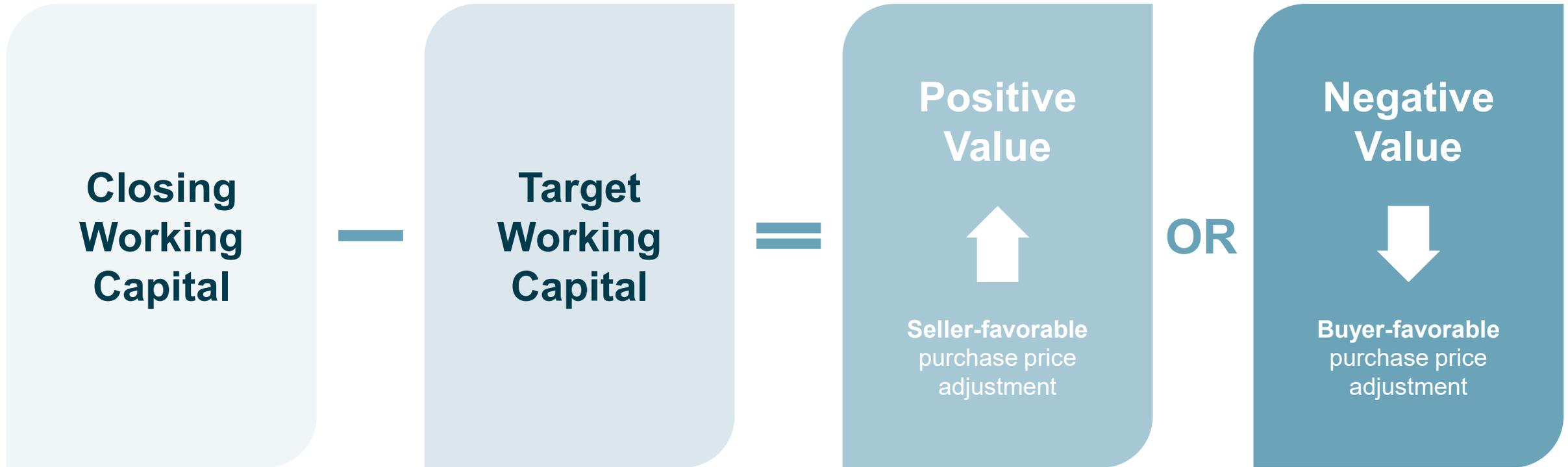
- Preparing before closing (e.g., documenting historical accounting practices)
- Increased use of accounting principles schedules
- Repeat private equity sellers



Bridging the Gap Between Target and Closing Net Working Capital in M&A Deals

Section 2

The Tension Between Target and Closing Working Capital



Many disputes start with a mismatch between **how the target working capital was set** and **how closing working capital is calculated under the agreement**.

A Comparison of Target and Closing Working Capital

Closing Working Capital

- NWC at closing
- Based on purchase agreement terms
- Prepared ~90 days post-close
- Finalized by buyer / seller agreement or neutral accountant

Target Working Capital

- Normalized NWC over historical period
- Based on financial diligence / negotiation
- Fixed amount agreed to as of signing date

**Purchase
Price
Adjustment**

Tips to Bridge the Gap Between Target and Closing Working Capital

Why Gaps Emerge at Closing

Common Drivers:

- Seasonality differences
- Business growth or contraction
- Different treatment of certain balance sheet accounts
- Cut-off timing issues
- Inclusion/exclusion mismatches between target and true-up

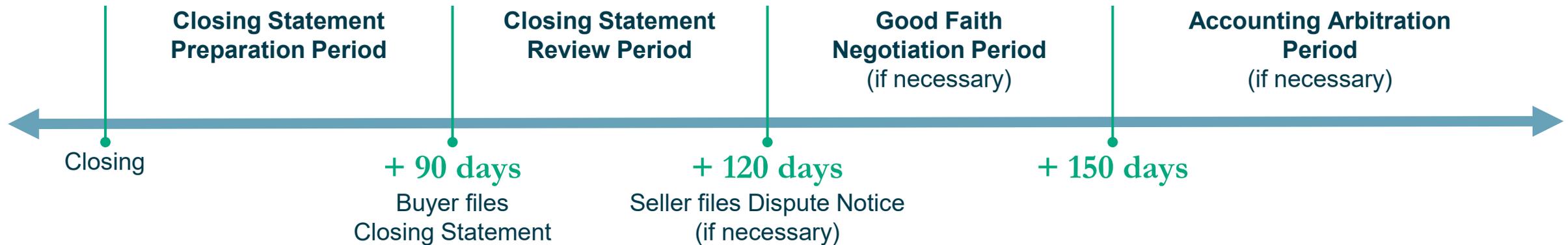
Practical Ways to Reduce the Gap

- Illustrate how the target was built
- Align target assumptions with purchase agreement definitions
- Address judgment-heavy accounts explicitly
- Stress-test likely closing scenarios before signing
- Convert diligence findings into clear contractual language

Working Capital Adjustments and Tips to Mitigate M&A Disputes

Section 3

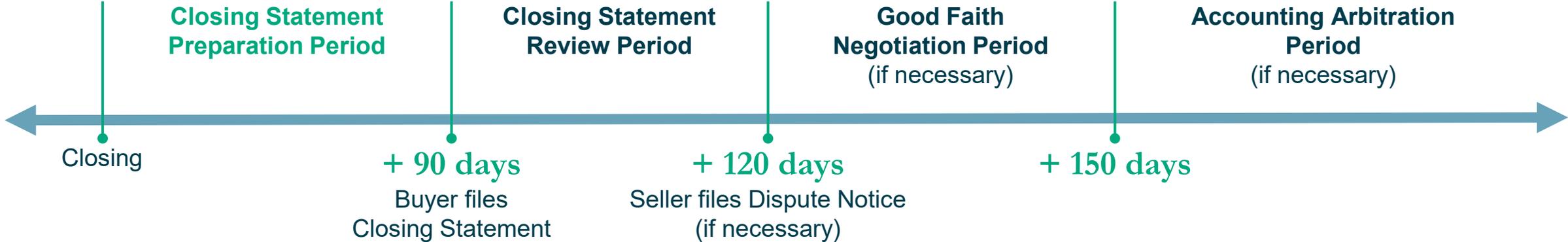
Illustrative Post-Closing Purchase Price Adjustment Process*



* Illustrative process assumes that buyer prepares and seller reviews the Closing Statement

Closing Statement Preparation Period

Buyer Makes First Move



- Typically, 90–120 days post-close
- Concludes with Buyer’s delivery of the Closing Statement to Seller
- Establishes buyer’s baseline position

Buyers can mitigate risk at this stage by:

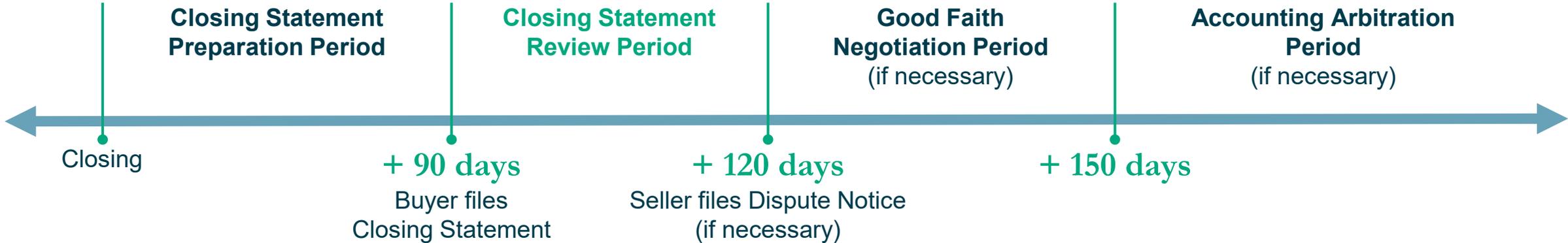
- Adhering to agreement definitions
- Documenting assumptions
- Organizing support

Sellers can mitigate risk at this stage by:

- Documenting historical accounting practices, particularly in estimate-driven areas

Closing Statement Review Period

Seller Responds and Defines the Scope of Dispute (if any)



- Limited review period (~30–60 days)
- Concludes with either agreement of closing statement, negotiated settlement, or dispute notice
- Establishes seller’s baseline position

Buyers can be most effective here by:

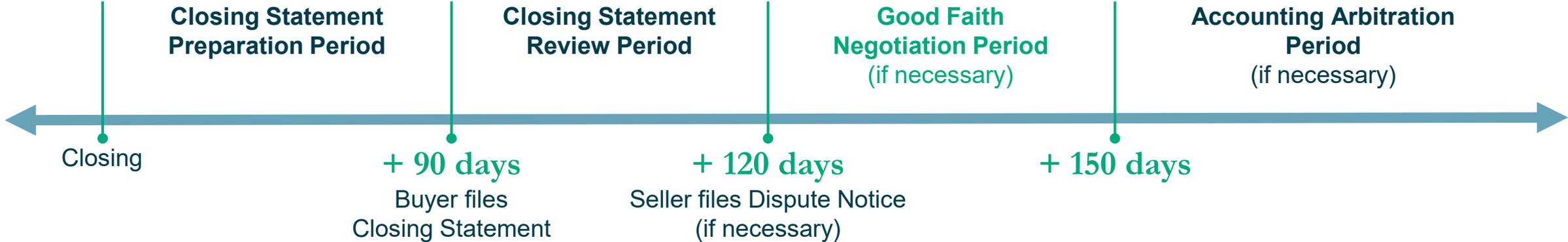
- Providing seller with organized support
- Responding promptly to reasonable information requests

Sellers can be most effective here by:

- Prioritizing accounts with the largest dollar impact or greatest degree of judgment

Good Faith Negotiation Period (if necessary)

Dispute Narrows or Settles



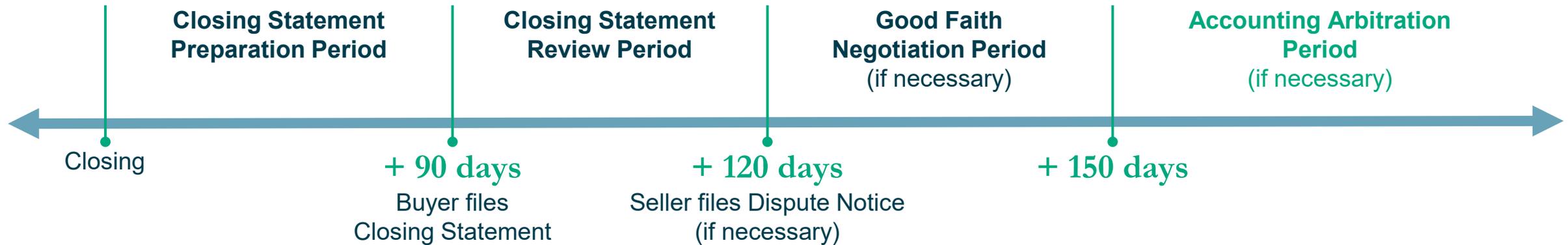
Undisputed items become final

For both **buyers** and **sellers**, productive discussions:

- Anchor in the purchase agreement
- Rely on clear analysis

Accounting Arbitration Period (if necessary)

Third Party Accountant Finally Resolves Remaining Dispute



Accounting arbitrator often required by SPA to render determination equal to or between the parties' positions

Determination is focused on:

- Compliance with definitions
- Quality of documentation

Big Picture

1

The **purchase agreement** is the rulebook.

2

The range of potential outcomes narrows as the process advances, so **early positioning matters**.

3

Sellers are **more prepared and narrowing historical gaps**.

4

Clear drafting and disciplined preparation materially reduces risk.



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Thank You!