Briefing note

Deferred Consideration

The proportion of the overall consideration that is deferred can be significant. Here are a few pointers on this critical subject.

- The balance not paid as initial consideration is known as deferred consideration.
- Deferred consideration is technically a loan and as such, it is not uncommon for purchasers to pay interest on the deferred consideration.
- A lower initial payment means higher risk for you, the seller. You need to carefully consider what events need to take place in order to receive the deferred consideration, and whether the seller will be able to pay you.
- Deferred consideration can be contingent on future performance and often places requirements on the seller to undertake certain handover responsibilities.
- Try to avoid ‘profit’ or any fundamental changes to the advice proposition to clients as the primary factors that will determine contingent deferred consideration. You are unlikely to have sufficient control over these factors and the resulting arguments can damage goodwill.
- You are more likely to receive your deferred payments if the handover requirements are clear, the impact on clients is minimal, and if the seller has access to third party capital to minimise your credit risk.
- Obtaining loan notes, preference shares or some other security, from the purchaser, can also help minimise your credit risk.

Do

- Request deferred consideration that is not contingent on post-deal performance or adverse changes to clients. Clarity of the contingency factors will minimise your risk and uncertainty.
- Ask for interest to be paid on deferred consideration or included growth factors based on business performance.

Don’t

- Accept significant credit risk from the purchaser. Where this exists, ask the seller for security or proof of access to funds required for the deferred consideration.
- Ignore the impact that the sale will have on your clients and staff, as this might affect your ultimate consideration received.

CONTACT
+44 203 239 0499
info@vertuscapital.co.uk