

Price rarely survives due diligence intact. If you buy companies for a living, you know the letter of intent is a sketch, not a portrait. Surprises surface once you pull ledger entries, aging reports, tax filings, and service contracts apart. Some surprises justify a price change, others call for protections inside the purchase agreement, and a few are negotiating theater. The work is to separate one from another, then move the deal forward without blowing up trust or value.

What follows draws from deals ranging from \$2 million tuck-ins to \$80 million founder exits across industries like services, light manufacturing, and software. The patterns repeat, but the best outcomes come from careful framing, crisp analysis, and disciplined trade-offs.

What triggers a price adjustment conversation

The cleanest reason to reopen price is a permanent, quantifiable variance from the picture you underwrote. Not a timing issue, not a one-off blip, and not a stylistic accounting choice that nets to zero. Three buckets come up again and again.

Revenue or margin durability. Diligence often reveals that part of the revenue base is less sticky than presented. In B2B services, a “recurring” book sometimes hides large project one-offs. In software, logo churn looks fine, but net dollar retention trails the benchmark. If you valued the business at 6 times EBITDA on a 20 percent margin and find that normalized margin is 16 percent due to customer concentration or renewals at discounts, your model shrinks. That is a price point.

Working capital reality. LOIs often assume a normalized working capital target, yet diligence shows consistent underfunding. I have seen targets with 75 to 90 days sales outstanding when peers run at 45 to 60, and payables stretched to 100 days only because vendors tolerated it. Post-close, you cannot starve suppliers. If your cash bridge implies an extra \$1.2 million to normalize payables and inventory, that is not optional. Either the purchase price drops or the target working capital shifts upward.

Liabilities and compliance. Unrecorded sales tax exposures, misclassified contractors, off-balance-sheet commitments, or environmental remediation are not edge cases. In a multi-state e-commerce deal, we discovered \$480,000 to \$650,000 of potential sales and use tax liability tied to economic nexus rules after 2018, plus penalties. No one wants to inherit that personally. You can solve with escrows and indemnities, but when liability has a high probability and short fuse, buyers push for a direct price reduction.

A disciplined buyer builds a materiality threshold early. As a rule of thumb, I raise price only when the combined effect of issues would reduce enterprise value by at least 5 to 10 percent, or when they create unavoidable cash requirements in the first 12 months. Drifting into a renegotiation over \$50,000 on a \$10 million deal is a good way to lose the room.

Start negotiating before you negotiate

The easiest price adjustment is the one you pre-wired in the LOI. If you lock in definitions of EBITDA, normalized working capital, and net debt at the LOI stage, you [View website](#) do not need to “renegotiate” as much as “true up.”

Spell out adjustments you already anticipate. If the seller runs family vehicles through the P&L, or has a part-time relative on payroll, or capitalizes R&D differently than your policy, list the EBITDA add-backs and the principle behind them. If revenue recognition is on cash basis for maintenance contracts, say you will move to accrual with delineated deferrals. A mutual understanding of methodology prevents the later claim that you changed the rules.

Build a bridge in your deal model that shows enterprise value built from earnings quality. Tie every line to a data request or workpaper. When you eventually present a price change, you can walk from management’s adjusted EBITDA to your normalized figure in three or four steps. Ninety percent of argument dies when numbers trace to source documents.

Time the conversation. Do not bring up price at the very end when the legal bills are sunk and fatigue is high, unless you have discovered a genuine late-stage surprise. It looks opportunistic. I prefer to surface material issues in two passes: a soft flag when the diligence workstream spots a trending problem, then a formal summary once confirmatory work finishes. That pacing preserves credibility.

A practical framework for deciding whether to push price

Think in three lanes. You can adjust purchase price, shift to protections, or redesign structure. The choice depends on permanence, measurability, and controllability.

Permanence. Price should absorb changes that persist beyond close. A five-year state tax loss carryforward you cannot use, a step-down in a major customer’s contract, or proven margin pressure belong in price. A slow collections clerk who can be upgraded does not.

Measurability. You need to quantify the effect in dollars, not vibes. If a key supplier raised input costs by 8 percent and contracts lack pass-throughs, you can model the impact. If “employee morale is low,” you need a better center of gravity.

Controllability. If you can fix a problem post-close with standard playbooks, push for representations, indemnities, or earnouts instead of haircutting price. For example, weak IT security can be remediated with spend and process. On the other hand, absence of assignable customer contracts with anti-assignment clauses presents real revenue risk beyond your control.

When an issue fails permanence or measurability, I resist reopening price and focus on covenants. When it hits all three, I anchor to value.

How to present the case without poisoning the deal

Tone and sequence matter more than most buyers admit. I have watched sellers concede millions with little fight when approached like a partner solving a shared math problem, then dig in over small sums when they feel ambushed.

Start with shared objectives. Remind the seller you want the deal to close on the original timeline and with the original spirit. Frame the adjustment as aligning economics with updated facts so both sides avoid buyer’s remorse or post-close lawsuits. Sellers do not wake up wanting to retrade, but they also do not want the buyer to fail.

Show, do not assert. Bring a concise workbook and two or three exhibits: a revenue bridge showing churn or price compression, an EBITDA bridge, and a normalized working capital analysis. Use their data. Include footnotes pointing to the diligence request IDs. Keep the narrative short, then pause.

Distinguish between problems you will absorb and those you cannot. If you present six issues and ask for price on all six, you look grabby. If you show the same six and say you will handle three internally, but need relief on the other three, you look reasonable.

Leave room to trade structures. If you start with a single demand, the negotiation collapses to yes or no. If you put two or three paths on the table, you can pivot. For example, you might say: We can reduce enterprise value by \$1.1 million, or keep face value but move \$600,000 into a 12-month escrow for the tax exposure and \$500,000 into an earnout tied to gross margin, or we can raise the net working capital target by \$900,000 and trim \$200,000 off price.

Avoid fatal phrases. Words like “misrepresentation” or “deceptive” escalate. So does “take it or leave it” before you test appetite. Save legal language for documents.

Numeric examples that anchor a fair adjustment

Examples help calibrate. Two common patterns illustrate how to translate diligence to dollars.

Customer concentration with repricing risk. Suppose the seller has \$12 million revenue, \$2.4 million EBITDA on a cash basis. Diligence reveals the top customer represents 28 percent of revenue. Their master service agreement is up for renewal in 9 months, and emails show the customer pressing for a 10 to 15 percent rate reduction. Management argued this is noise, but call notes suggest the customer is serious. If the account renews at 12 percent lower pricing and contribution margin was 35 percent on that book, the blended EBITDA impact might be roughly \$12 million x 28 percent x 12 percent x 35 percent, about \$141,120. That looks small until you realize rate pressure often spreads. If two other top ten customers typically mirror the anchor account with a 6 to 8 month lag, you could see a total margin hit of \$300,000 to \$400,000 within 18 months. At a 6 times multiple, that is \$1.8 to \$2.4 million of enterprise value. You can reasonably ask for a \$1.5 to \$2.0 million adjustment or convert part into an earnout tied to gross margin retention.

Working capital step-up. Assume the LOI set a target working capital at \$1.0 million based on management's estimate. Diligence rebuilds the roll-forward and shows average month-end working capital for the last twelve months at \$1.85 million once you strip out stale credits and re-age receivables. Meanwhile, inventory required to meet lead times at the promised service levels sits at \$900,000, not the \$600,000 presented, because two SKUs have extended supplier lead times. Your normalized figure lands near \$2.2 million. That \$1.2 million gap will be funded by you on day one unless addressed. The clean move is to increase the target working capital to \$2.2 million. If the seller cannot deliver that at close, reduce purchase price dollar-for-dollar. Framed this way, you are not negotiating price as much as refusing to fund pre-close operations.

These arithmetic-driven conversations travel well, especially with sophisticated sellers or advisors.

When price is not the right lever

Some issues are better solved with terms, not price. That is especially true when the buyer can manage or control the risk, or when the seller is equity-light and sensitive to headline price.

Representations and warranties insurance. In lower mid-market deals, reps and warranties insurance has moved downstream, with minimum enterprise values sometimes as low as \$10 million depending on the carrier and jurisdiction. If a risk is unknown but potentially material, RWI can cover breaches up to a cap. The buyer pays a premium, the seller contributes to a no-claims declaration, and you limit recourse drama. Do not try to use RWI to cover known issues; carriers will exclude them.

Specific indemnities with escrow. If sales tax exposure is probable but quantifiable at a range, put a tailored indemnity in the agreement backed by a separate escrow rather than a general basket. Define claim mechanics and survival period. If the seller objects to locking up cash, consider a holdback against the note instead.

Earnouts. When EBITDA durability is uncertain, convert the disputed portion of value into an earnout tied to revenue or gross margin rather than EBITDA, which is gameable and fuels fights over cost allocations. Keep it short, 12 to 24 months, and keep definitions tight. If the seller stays on, avoid perverse incentives by excluding synergies from the earnout base or explicitly allowing reasonable integration.

Covenants to remediate. Some risks reduce with simple practice changes. For example, if the company lacks signed order forms or updated W-9s, include a pre-close covenant to obtain them, with a modest price kicker if completion misses a threshold. It keeps price intact while making execution visible.

Using these tools signals that you are not trying to steal value, only to put the right risk in the right bucket.

The human side: founder psychology and trust

Negotiations over price adjustments after due diligence are not just math. They are often the first time a founder feels a loss of control. They may have held together a team for 15 years, paid vendors from personal savings during lean quarters, and tied identity to the company. A sudden request for a seven-figure reduction can feel like an accusation that they ran a sloppy shop or misled you. If you ignore this psychology, you earn unnecessary resistance.

Respect the founder's narrative. Acknowledge the positive: strong culture, loyal customers, the systems that do work. Then separate story from math. For example: Your team's retention is clearly a strength. The price change we are discussing is not about culture, it is about specific cash uses we will have to fund next year to normalize vendor terms.

Use third parties to diffuse. Let your quality-of-earnings provider or tax advisor walk through technical points. Sellers often accept a neutral specialist more readily than a buyer's CFO.

Do not grind on small numbers. I watched a deal wobble because a buyer demanded a \$65,000 reduction over a credit memo policy, minutes after conceding a fair \$1.1 million working capital bump. The seller felt nicked and dined and almost walked. We restored trust by dropping the \$65,000 and moving it into a six-month escrow with a de minimis claim threshold.

Tie concessions to speed. Founders value certainty and a fast close. If you need a price change, offer to pull other friction out of the path: fewer diligence callbacks, shortened survival periods on reps, or a firm closing date. Money and time trade nicely.

How to prepare your files so the conversation moves quickly

Good process earns better terms. A sloppy package signals guesswork, and sellers exploit that.

Build a clean EBITDA bridge. Start from audited or tax-return numbers if available, then layer in adjustments. Split add-backs into three categories: non-recurring (legal settlement), owner-related (above-market comp or personal expenses), and policy changes (accounting method shifts). For each, include one or two lines of provenance such as general ledger codes or vendor names. A bridge with twenty vague add-backs invites skepticism.



Normalize revenue recognition. If the target uses cash-basis accounting for multi-month contracts, rebuild deferrals and accruals with support from contract terms. Highlight any revenue pulled forward by deposits that should sit on the balance sheet, not the income statement. Sellers rarely argue with contract math once shown.

Map working capital by month for at least a year. Day-level analysis is often better in seasonal businesses. Show ranges, not just averages, and reference purchase commitments, safety stock assumptions, and lead times. Back into what you would have to fund to run at steady state under your operating model.

Create a short memo tying each variance to valuation logic. Quantify impact ranges and translate them to enterprise value using the LOI multiple. Markets move, but using the LOI multiple prevents fights over macro conditions the seller cannot control.

These artifacts keep the meeting focused and limit roundtrips.

Tactical options when the gap is wide

Sometimes diligence reveals a gap too big to paper with a small haircut. Deals still close when you open your toolbox.

Split close. Close on the core assets or division with clean books, then option the troubled segment with a separate price and six-month diligence window. This saved a manufacturing acquisition where one plant's environmental permitting was unclear. We closed on plant A at 6.1 times and set plant B as a call option at 4.8 times contingent on permits. The founder got path certainty, we got downside protection.

Bridge notes. If the seller cannot accept a face-value price cut, offer a short-term seller note carve-out that converts to a discount if identified liabilities materialize. For example, carve \$700,000 from cash to a 12-month note with a schedule that reduces principal dollar-for-dollar for any sales tax assessment within that period. If nothing hits, they collect. If assessments arrive, you are already protected.

Roll more equity. In a buying a business scenario where the seller will stay involved, propose a higher rollover percentage at the original headline valuation, offset by a lower cash component and stronger governance. Sellers who believe in the growth story often accept more equity in lieu of a cash price cut, especially if they receive board visibility and information rights.

Staged earnout floors. Offer an earnout with a floor based on trailing twelve-month revenue of the top five customers. If they hold, the seller earns the disputed amount. If they do not, the price effectively adjusts downward. Keep the measurement simple to

avoid post-close brawls.

Bringing choices lowers emotional temperature. You are no longer arguing over a single dollar figure, you are selecting a risk-sharing scheme.

Pitfalls that kill trust and how to avoid them

Pricing power tempts buyers to overreach. A few common mistakes create outsized damage.

Springing the adjustment late without warning. The buyer compiles a punch list for weeks, then drops a redline showing a multimillion-dollar cut the night before final legal drafts. Sellers perceive it as a trap. Fix this by previewing issues early, even if you do not have the final math.

Using loaded language. Words like “fraudulent” or “intentional concealment” should be reserved for true misconduct and raised by counsel in private. If you are dealing with gray accounting areas or honest mistakes, keep the temperature low.

Overreliance on theoretical risks. Anchoring your case on a model that projects worst-case churn or perpetual cost inflation looks like sandbagging unless you have concrete evidence. Courts and arbitrators also hate hand-waving. Stay near the center line with data.

The Dealmaker's Academy
42 Lytton Rd
New Barnet
Barnet
EN5 5BY
United Kingdom

Tel: +44 2030 264483

Fighting on two fronts. If you are pressing hard on price, do not simultaneously toughen indemnity caps, extend survival periods, and insert broad non-competes that were not discussed. Pick your battles or sweeten something visible to the seller.

Ignoring lender constraints. In leveraged deals, approvals and covenants shape what you can put in escrow, when you can release holdbacks, and how much seller paper your bank will allow. Bring your lender along so your negotiated structure is actually financeable.

Handling unique edge cases

Every deal has quirks. A few recurring oddballs deserve their own playbook.

Seasonality and trailing spikes. A retail or e-commerce target might show a strong Q4 that flatters trailing twelve months. If deferred revenue or returns hit in Q1, your post-close EBITDA could drop by 20 to 40 percent. Use a run-rate analysis and consider a seasonally adjusted earnout that measures performance across a full cycle.

Contract novations and anti-assignment clauses. If a big customer requires consent to assign and the seller has not secured it, do not assume they will sign. A price adjustment may be premature. Instead, include a condition to close that requires executed consent or set up a temporary subcontracting arrangement with a holdback that burns off once consent arrives.

Family-owned businesses with cash culture. If the company is lightly banked and runs on owner’s relationships, receivable aging may overstate credit quality. Past-due customers might pay eventually because the founder calls them personally. Post-close, that magic fades. Rather than haircut price reflexively, invest in a collections plan and factor in a 1 to 2 percent reserve against revenue for the first year, backed by a short earnout.

Government contract weight. If the business depends on cost-plus or fixed-fee government work, revenue recognition and indirect rates matter more than headline backlog. Small misallocations in fringe or overhead can swing margins. Push for a targeted price adjustment only if DCAA exposure is imminent, otherwise rely on specific indemnities and a knowledgeable controller hire.

A short, usable checklist for buyers

- Decide early what qualifies as material enough to reopen price, usually issues that reduce value by at least 5 to 10 percent or require immediate cash.
- Translate every issue to dollars with a clear bridge tied to source documents, then align to the LOI multiple.
- Offer multiple solutions: price change, targeted escrow, specific indemnity, or a short earnout tied to revenue or gross margin.
- Sequence communication: soft flag, confirmatory analysis, then a focused ask, while preserving original timelines.
- Trade wisely: pair any price adjustment with concessions on speed, reps survival, or other seller priorities.

What sellers can do to keep adjustments contained

If you sit on the other side of the table, your job is to limit surprises and convert as much of the buyer's concern into structure rather than price.

Invest in a pre-sale quality of earnings. It costs money, but it frequently pays for itself by hardening your numbers and preempting buyer adjustments. Encourage your QoE provider to rebuild working capital and revenue recognition, not just EBITDA.

Be transparent where it hurts. If you know of sales tax exposure or an upcoming customer repricing, put it on the table early. Buyers punish concealment more than bad facts.

Offer practical fixes. If aging receivables are long, commit to pre-close collections sprints. If contracts need renewals, start them. If you can shrink problem size before closing, you will keep the check bigger.

Ask for structure instead of headline cuts. Propose targeted escrows, capped indemnities, or a measured earnout that you believe you can hit. Protecting headline price matters for optics, advisors, and sometimes taxes.

Choose advisors who can model. The difference between a \$500,000 and \$2 million adjustment often lies in how well someone built the bridge. Solid advisors can shave off the drama with numbers.

Bringing it together for practical outcomes

The best post-diligence price negotiations feel like collaborative problem solving. They run on clean math, an understanding of permanence and control, and a willingness to share risk instead of tossing it over the fence. In Business Acquisition Training programs, we teach that buying a business is less about extracting every dollar and more about setting the company up to perform under new ownership. Push for price when value truly changed. Use structures when risk is real but manageable. Guard the relationship so the team shows up to work on day one with energy instead of resentment.

I once watched a founder who expected \$38 million accept \$35.6 million with grace because we arrived with a calm workbook, highlighted only two issues that clearly cut into future cash, and offered three ways to bridge the gap. We also agreed to close in 21 days, reduced the survival period on general reps to 12 months, and left his brand name untouched. He felt heard. We felt protected. Six months later, those specific risks materialized almost exactly as modeled, and the targeted escrow handled them without a phone call. That is a negotiation that does not echo into the operating year, which is the quiet outcome you want.

If you keep that standard in mind, you will find most price adjustments after due diligence are not battles to win, but calibrations to get right.