

The equity bridge, both columns at once

Chapters 3 to 9. One line per item, the buyer's column and the seller's side by side, drawn from the same accounts. The difference column is the negotiation; nothing else on the page is.

Company		Prepared by	
Transaction		Date	

Line, EUR m	Meridian: buyer	Meridian: seller	Difference	Yours: buyer	Yours: seller
Enterprise value	118.00	118.00	0.00		
Less: debt-like items	-64.30	-43.60	20.70		
Plus: cash	6.80	6.80	0.00		
Less: trapped cash	-1.90	-1.90	0.00		
Net debt (shown positive)	59.40	38.70	-20.70		
Plus: working capital adjustment	2.57	2.57	0.00		
Equity price	61.17	81.87	20.70		
Equity price as a share of enterprise value	51.8%	69.4%	17.5%		

Test before either bridge is sent	Meridian	Yours
Enterprise value over the earnings figure the multiple was applied to	118.00 / 14.75 = 8.0x	
Is the working capital adjustment on its own line, outside net debt?	Yes: 22.40 against a peg of 19.83	
Gap between the bridges, and how much of it is definitions	20.70, all of it: six disputed items	
Equity price as a share of the headline, each side	51.8 and 69.4 per cent	

If the two columns differ by anything other than the disputed definitions, one of them has made an arithmetic error, and it should be found before anyone argues about the rest.

The net debt schedule, item by item

Chapters 3 to 9 and Appendix A, section two. A closed list, each item once. Mark every line in or out of net debt, and in or out of working capital: a line in both is counted twice, a line in neither is a liability nobody pays for.

Company		Prepared by	
Transaction		Date	

Item	Meridian, EUR m	Disputed ?	In net debt?	Also in working capital?	Yours, EUR m	Source document
Bank debt drawn	31.50	no				
Overdraft drawn at completion	2.40	no				
Finance leases	4.20	no				
Operating leases capitalised	7.90	yes				
Pension deficit, funding basis	3.60	yes				
Deferred consideration owed	1.80	no				
Accrued but unpaid bonuses	1.15	yes				
Corporation tax payable	2.05	yes				
Deferred revenue	3.40	yes				
Capex committed, uninvoiced	2.60	yes				
Dividend declared, unpaid	1.50	no				
Transaction costs of the seller	2.20	no				
Total, every switch on	64.30	20.70				

Question on the definition	Answer	Clause
Closed list, or 'including without limitation'?		
Pension deficit: funding or accounting basis?		
Deferred revenue: at face or at the cost of discharge?		
Accrued bonuses: in net debt, in working capital, or both?		
Corporation tax: apportioned to the pre-completion period?		

Meridian's six disputed items are 20.70 between them, 17.5 per cent of enterprise value. The operating leases alone are 7.90: settle the largest line first, while it can still be traded.

The cash statement: what counts, and what is trapped

Chapters 3 to 9 and Appendix A, section three. The cash that reduces net debt is the cash the buyer can use on the day after completion, not the balance on the reference date.

Company		Prepared by	
Transaction		Date	

Line	Meridian, EUR m	Yours, EUR m	Evidence
Cash on the balance sheet at the reference date	6.80		
Minimum operating balance	part of the 1.90		
Customer deposits and client money	part of the 1.90		
Restricted accounts, guarantees, collateral			
Cash in jurisdictions that tax repatriation			
Trapped cash, total	1.90		
Overdraft: netted against cash or shown as debt?	debt, 2.40		
Free cash counted in the bridge	4.90		

Daily cash, last three months	Lowest	Average	Highest	Reference date
Month 1				
Month 2				
Month 3				

Question	Answer
Has cash been improved before the reference date by delaying supplier payments?	
Are there cash pooling arrangements with the seller's group, and how are they unwound?	
Who receives the cash generated between the reference date and completion? (Case one)	

A reference-date balance above the three-month daily average is a question before it is a number. Meridian's free cash in the bridge is 4.90 of the 6.80 reported.

Working capital, month by month

Chapters 14 to 19. Twelve months at least, twenty-four if the business has them. The seasonal cycle is the fact every peg definition either uses or hides.

Company		Prepared by	
Transaction		Date	

Month	Meridian, EUR m	Against the average	Against the median	Yours, EUR m	Against your average	Note (one-offs, cut-off)
Month 1	17.80	-2.03	-1.55			
Month 2	18.40	-1.43	-0.95			
Month 3	19.60	-0.23	+0.25			
Month 4	21.30	+1.47	+1.95			
Month 5	22.80	+2.97	+3.45			
Month 6	23.90	+4.07	+4.55			
Month 7	22.10	+2.27	+2.75			
Month 8	20.40	+0.57	+1.05			
Month 9	19.10	-0.73	-0.25			
Month 10	18.20	-1.63	-1.15			
Month 11	17.50	-2.33	-1.85			
Month 12	16.90	-2.93	-2.45			
Average / median	19.83 / 19.35					
Peak to trough	7.00					

Meridian swings from 16.90 to 23.90, 7.00 in a year on an average of 19.83. A peak-to-trough range larger than the adjustment anyone is arguing about means the date, not the definition, is the argument.

Five definitions of the peg, one balance sheet

Chapters 14 to 19. Same business, same completion balance of 22.40, five defensible sentences. Write each one out, then its number, then who proposed it.

Company		Prepared by	
Transaction		Date	

Definition	Peg	Adjustment	Equity price	Your peg	Your adjustment	Proposed by
Twelve-month average	19.83	+2.57	61.17			
Twelve-month median	19.35	+3.05	61.65			
Last month before signing	16.90	+5.50	64.10			
The same month a year earlier	23.90	-1.50	57.10			
Average of the last three	17.53	+4.87	63.47			
Spread, best to worst		7.00				
Same month, locked box timeline (month 3)	19.60	+2.80	61.40			

Test of the definition	Meridian	Yours
Does it compare like with like on a seasonal business?	Only the same month a year earlier	
Which month does completion fall in, on the agreed timetable?	Month 6 on the peg sheet; month 3 on the locked box	
Is the derivation attached to the agreement?		
Amount, or percentage of revenue?		

Revised: the book's same-month peg compares with month 6; its locked box puts completion in month 3, where the same-month adjustment is +2.80, not -1.50. Fix the completion month before choosing the definition.

The completion-date grid

Chapters 14 to 19. Each peg against every month in which completion could fall. A row that swings is measuring the calendar; the definition that matters is the one whose row is flattest around the month you will actually complete.

Company		Prepared by	
Transaction		Date	

Peg	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12
Twelve-month average	-2.03	-1.43	-0.23	+1.47	+2.97	+4.07	+2.27	+0.57	-0.73	-1.63	-2.33	-2.93
Twelve-month median	-1.55	-0.95	+0.25	+1.95	+3.45	+4.55	+2.75	+1.05	-0.25	-1.15	-1.85	-2.45
Last month before signing	+0.90	+1.50	+2.70	+4.40	+5.90	+7.00	+5.20	+3.50	+2.20	+1.30	+0.60	0.00
The same month a year earlier	-6.10	-5.50	-4.30	-2.60	-1.10	0.00	-1.80	-3.50	-4.80	-5.70	-6.40	-7.00
Average of the last three	+0.27	+0.87	+2.07	+3.77	+5.27	+6.37	+4.57	+2.87	+1.57	+0.67	-0.03	-0.63

Peg	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12
Your peg 1												
Your peg 2												
Your peg 3												
Your peg 4												
Your peg 5												

Reading the grid	Meridian	Yours
Swing of the average-peg row, best month less worst	7.00: -2.93 in month 12, +4.07 in month 6	
Month in which each peg gives no adjustment	Last month: 12; same month: 6	
Completion month on the agreed timetable, and the longstop		

Every row swings by exactly peak less trough; only its centre moves. The choice of peg decides who carries the season, and the completion date decides how much.

Locked box or completion accounts, on identical terms

Chapters 10 to 13. Run the deal both ways before choosing. The mechanism decides when the argument happens, and so who has the leverage during it.

Company		Prepared by	
Transaction		Date	

Line, EUR m	Meridian: locked box	Meridian: completion accounts	Yours: locked box	Yours: completion accounts
Enterprise value	118.00	118.00		
Less: net debt	-47.50	-59.40		
Working capital used	16.90	22.40		
Less: the peg	-19.83	-19.83		
Working capital adjustment	-2.93	2.57		
Price before interest	67.57	61.17		
Plus: ticker	1.01			
Less: leakage	-0.85			
Received by the seller	67.73	61.17		

Why they differ, EUR m	Meridian	Yours
1. When the debt-like items were settled	11.90	
2. Where in the season the balance sheet falls	-5.50	
3. Ticker, less leakage	+0.16	
Difference, in the seller's favour	6.56	
Ticker short of what the box earns (case one)	0.79	

Revised: the timing is 11.90, more than the whole difference of 6.56; the season runs 5.50 the other way. In a locked box the debt argument happens before signing, while the seller can still walk away.

The locked box file: ticker, longstop and leakage

Chapters 10 to 13 and Appendix A, section five. The ticker is the seller's share of what the business earns after the box closes. Leakage is value that left to the seller; permitted leakage is the list that did not.

Company		Prepared by	
Transaction		Date	

Ticker term	Meridian	Break-even (case one)	Yours
Rate, or fixed daily amount	6.00% a year	10.68%, or 19,770 euros a day	
Runs from / to	Box date to completion, 3 months		
Price it runs on	67.57		
Ticker over the agreed months	1.01	1.80	
Capped at a longstop?	Not stated; case one assumes 9 months		
Free cash flow to equity a month	0.60		

Leakage item	Amount	Permitted?	Deducted?	Clause
Meridian: leakage to the seller after the box	0.85	no	yes	
Meridian: permitted leakage, listed	0.42	yes	no	

A ticker set as a borrowing rate pays Meridian's seller 56 per cent of what the box earns. A fixed daily amount computed from the business's free cash flow does not depend on the price and cannot be argued about later.

Completion accounts and the dispute route

Chapters 10 to 13 and Appendix A, sections five and six. The accounts are argued about after signing, on one side's draft. Every term below decides how far that draft can move before an expert sees it.

Company		Prepared by	
Transaction		Date	

Term	Question (Appendix A)	Your agreement	Clause
Who prepares the draft	45		
Review period, access to books and staff	46		
Worked example attached	47		
Hierarchy of accounting principles, in order	48		
Anti-double-count clause	49		
Interest on the difference, and from when	50		
Expert determination or arbitration	51		
Expert gives reasons	52		
Scope limited to the items in dispute	53		
Determination between the parties' figures	54		
Costs of the expert	55		
Timetable and longstop	56		
Provisioning policies stated as formulas	57		
Cut-off defined	58		
Items agreed in advance and excluded	59		
The retention while a dispute runs	60		

On Meridian the completion accounts put net debt at 59.40 against 47.50 agreed in the box: 11.90 decided after signing, on the buyer's draft. The terms above are what the seller has left to argue with.

The earn-out term sheet, interrogated

Chapters 20 to 27. The metric, the band and the shape, each set against the business's own numbers before anyone argues about the protections.

Company		Prepared by	
Transaction		Date	

Term	Meridian	Yours	Test
Metric, and who controls it after completion	EBITDA; the buyer		Would it survive a credit agreement's definition?
Threshold / target, EUR m	16.00 / 18.00		The band against the volatility
Maximum a year / in total	6.00 / 12.00		
Shape	Straight line		Priced on the projection's spread (case two)
Band width, share of the threshold	12.5%		Narrower than the volatility is a coin toss
Earn-out per euro of EBITDA inside the band	3.00		Every charge is multiplied by this
Leaver provisions			Good leaver distinguished from bad?

Shape, EUR m over two years	As it happened (16.90, 17.40)	Seller's projection (18.00, 18.00)	Projection with a spread of 1.5 (case two)
Straight line	6.90	12.00	8.79
Cliff at the target	0.00	12.00	6.00
Linear from zero, no threshold	11.43	12.00	11.60

A cliff costs nothing in a projection with no spread and half the earn-out in one with any. On Meridian's projection with a spread of 1.5, a cliff is worth as much as the straight line from 16.00 to 18.00 only if it sits at 17.07, not at 18.00.

The six buyer actions, and the clause that neutralises each

Chapters 20 to 27. None of the six is improper. Each is an ordinary decision a buyer makes after completion, and each moves the metric the seller is paid on.

Company		Prepared by	
Transaction		Date	

Action	Meridian, EUR m a year	Note	Protection in your agreement	Clause
Buyer's management charge	-0.75	Allocated head office cost the target never bore		
Change of accounting policy	-0.35	Capitalisation threshold, revenue recognition		
Integration and restructuring costs	-0.60	Incurred to realise the buyer's synergies		
Synergy benefit credited	+0.45	Procurement savings the buyer delivered		
Bonus accrual for the retained team	-0.30	New scheme, imposed after completion		
Capex deferred by the buyer	+0.25	Maintenance postponed; flatters the year		
Net effect on each year's EBITDA	-1.30			

Result, EUR m	Year 1	Year 2	Total
EBITDA as reported	16.90	17.40	
Earn-out with the protections	2.70	4.20	6.90
EBITDA after the buyer's actions	15.60	16.10	
Earn-out without the protections	0.00	0.30	0.30
What the protections are worth			6.60

1.30 a year of accounting entries removes 6.60 of a 12.00 earn-out, 55 per cent. Put the six clauses in the letter of intent: once exclusivity has been granted the leverage has gone.

The rest of the consideration: note, escrow, rollover

Appendix A, section eight. The price is paid in more than one form. Convert each form into cash today, at a rate that reflects where it ranks, and put the result in the same bridge as the debt-like items.

Company		Prepared by	
Transaction		Date	

Form	Case three (ADDED terms)	Yours: face	Yours: rate for its rank	Yours: worth in cash
Cash at completion	46.17			
Vendor note, 5 years at 8%, PIK	15.00 face, worth 11.45 at 14%			
the same, coupon paid in cash	worth 11.91			
the same, blocked from year 3	worth 11.64			
Deferred consideration, secured?				
Rollover equity: instrument, what ranks ahead				
Escrow or holdback: amount, holder, interest to whom				
Warranty and indemnity insurance: premium against the escrow				
Equity price in cash	57.61			

What ranks ahead	Case three	Yours
Debt ahead of the seller, times EBITDA	2.58x	
with the note at face	3.60x	
Payment blocker: who can trigger it, and for how long?		

On the case's terms the headline of 61.17 is worth 57.61 in cash, and the seller would need 19.66 of note to be indifferent to 15.00 of cash. The rank sets the value, not the coupon.

Where the money moves: the price memo

All chapters. One page for the investment committee or the seller's board: the headline, the five places the drafting moves it, and who holds the pen on each.

Company		Prepared by	
Transaction		Date	

Where the value moves	Meridian, EUR m	Share of EV	Yours, EUR m	Share of your EV	Who drafts it
The debt-like items in dispute	20.70	17.5%			
The choice of working capital peg	7.00	5.9%			
Locked box against completion accounts	6.56	5.6%			
Earn-out protection against no protection	6.60	5.6%			
Linear earn-out against a cliff	6.90	5.8%			
Total terrain	47.76	40.5%			

Before the letter of intent is signed	Done?	Figure
Both bridges drawn, line by line, and the gap explained item by item		
Twelve months of working capital in hand, the completion month fixed		
Mechanism chosen on both runs, the ticker set against free cash flow		
Earn-out shape priced on the projection's spread, protections listed		
Every non-cash form of consideration converted to cash at its rank		

The five spreads overlap and no deal fights all five to the maximum: 47.76 against 118.0 measures the terrain, not a forecast. It is how much of the price is still to be decided after the handshake.