IN THE MEDIA

Eva Davis Discusses Earnout Provisions in M&A Transaction Agreements

OCTOBER 22, 2020

Earnout provisions are making a comeback in private equity deals as investors try to address the market uncertainty caused by the coronavirus pandemic. Earnout provisions allow private equity buyers to defer a portion of a deal's purchase price over a period of time and tie the remaining payouts to performance milestones agreed to with the seller.

Eva Davis, co-chair of Winston's private equity practice and Los Angeles managing partner, discusses the shift towards using earnout provisions in M&A transaction agreements. She explains that when the pandemic first hit in March and April, many of the earnouts in midmarket deals she had seen extended through the end of this year. However, by the summer, they had extended well into 2021 and now she notices earnouts for some companies reach out to 2022.

Longer earnout time periods give companies more time to hit the performance milestones needed to achieve the earnouts, especially in the face of an unpredictable economic future. "We saw too much change and too many things that were unpredictable that investors now realize they're not that good at predicting," Eva said.

Read the full article with more perspectives from Eva on key issues facing private equity fund managers here (subscription required).

1 Min Read

Related Locations

Los Angeles

Related Regions

North America

Related Professionals

Eva Davis