



HOW TO SELL YOUR BUSINESS FOR MAXIMUM VALUE TOOLKIT – BEYOND DEFERRED CASH

At Newport Capital, our role is to structure transactions that do more than simply close a deal — we design outcomes that **maximise shareholder wealth** and ensure our clients capture the full potential value of their business.

A key part of this lies in the use of **contingent consideration mechanisms**, which go beyond straightforward deferred or escrowed cash. These structures are often **leveraged to unlock additional value**, bridge valuation gaps, and align incentives between buyer and seller in a way that strengthens the ultimate transaction outcome.

The table on page 2 and 3 sets out the principal **non-cash contingent mechanisms** commonly deployed in M&A and investment transactions. Each mechanism provides a tailored solution to different challenges, whether it is linking upside to performance, protecting against downside risks, or addressing sector-specific milestones.

- **Equity-linked tools** (swaps, performance shares, ratchets) allow sellers to participate in future growth, directly aligning interests with the acquirer.
- **Option structures** (puts, calls, warrants) provide staged exit pathways and flexibility around future ownership.
- **Profit and revenue-linked mechanisms** (royalties, profit-share, revenue rights) extend participation in the ongoing success of the business.
- **Hybrid and sector-specific structures** (milestone securities, IP reversions, regulatory triggers) adapt to unique industry circumstances.
- **Downside protections** (clawbacks, adjustment shares) preserve value for our clients by safeguarding against underperformance.

Through careful application of these tools, Newport Capital is able to negotiate **over-and-above consideration events**, ensuring that our clients benefit not only from the immediate transaction value but also from contingent upside — a disciplined approach that is central to our philosophy of **maximising shareholder wealth**.

**Contingent Consideration Toolkit (Non-Cash)**

<u>Mechanism</u>	<u>Structure</u>	<u>Typical Use Case</u>
Equity Swap / Rollover Equity	Seller receives acquirer shares instead of cash, value contingent on future performance	Align seller with acquirer's growth
Contingent Value Rights (CVRs)	Security entitling seller to payments if milestones (e.g., FDA approval, sales targets) occur	Biotech, pharma, regulatory-driven deals
Performance Shares / Earn-Out Shares	Shares issued only if financial or operational metrics are achieved	Growth alignment, SaaS, tech, services
Ratchet Equity (Price Ratchets)	Additional equity issued if valuation targets aren't met	Protects sellers in high-growth transactions
Options / Warrants	Seller gains rights to buy acquirer equity at set strike price upon milestone achievement	Tech, PE rollovers
Convertible Instruments	Convertible notes/preferred equity converting into shares if conditions are satisfied	Flexible hybrid between debt/equity
Put Options	Seller can require buyer to purchase remaining equity at a future date/price if milestones achieved	Staged exits
Call Options	Buyer can require purchase of seller's remaining equity when milestones achieved	Control of staged ownership
Royalty Payments	Ongoing percentage of revenue paid to seller	IP-heavy businesses, pharma, natural resources
Profit-Sharing Arrangements	Seller receives a portion of profits post-close	Professional services, recurring cashflow
Revenue-Participation Rights	Payments tied to top-line sales (not EBITDA)	Software, licensing, digital media
Seller Notes (Vendor Loans)	Deferred payment structured as debt instrument, contingent on cashflows	Lower upfront cash burden for buyer
Contingent Payment Notes	Debt with repayment terms varying based on performance	Risk-sharing via structured debt
PIK (Payment-in-Kind) Notes	Accrues in securities instead of cash, triggered by outcomes	Cash preservation deals

**Contingent Consideration Toolkit (Non-Cash) continued**

<u>Mechanism</u>	<u>Structure</u>	<u>Typical Use Case</u>
Milestone Payments (Non-Cash)	Trigger-based issuance of shares, IP, or contractual rights	Pharma, R&D-heavy sectors
IP/Patent Reversion Clauses	IP reverts to seller if milestones not achieved	Technology, life sciences
Asset Performance Triggers	Payments contingent on capacity, production, or completion	Energy, infrastructure, resources
Regulatory/Approval-Linked Securities	Contingent payouts tied to licenses, government approvals	Highly regulated industries
Clawback Provisions (Non-Cash)	Seller equity/options forfeited if performance deteriorates	Protects buyer downside
Adjustment Shares	Extra shares issued to seller if post-close valuation misses targets	Cross-border or volatile valuations
Earn-In Structures	Seller's retained stake increases if business hits growth targets	Founder retention, incentivisation

By integrating these mechanisms into your transaction strategy, Newport Capital ensures you capture meaningful upside and protect against downside risk. With a proven track record in orchestrating strategic global exits, we help clients unlock significant value and *Maximise Shareholder Wealth*.

Contact us today for a confidential conversation.

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