Locked box

Pros:

1. Price Certainty: One of the primary benefits of the locked box mechanism is that it provides better price certainty over the material elements of the consideration. The purchase price is determined and locked in at an earlier date, usually based on historical financial data. This eliminates the need for post-closing price adjustments, reducing uncertainty for both the buyer and seller.
2. Simplified Process at sales end: The locked box mechanism streamlines the deal process by eliminating the need for time-consuming completion accounts and related negotiations. This can lead to quicker deal closures if upfront organisation is adequately performed.
3. Lower levels of Disputes: Since the price is fixed at the locked box date, there is usually less room for disputes over adjustments post-closing. This can lead to smoother transactions and better relations between the parties.
4. Reduced Seller Involvement Post-Closing: Sellers can have more peace of mind because they don't have to remain as involved post-closing to address potential purchase price adjustments.
5. Clarity for Financing: Banks and other financial institutions often prefer locked box mechanisms because they provide a clear and predictable purchase price, which can make securing financing for the deal easier.

Cons:

1. Seller Preparation: Setting up a locked box requires sellers to prepare detailed financial information up to the locked box date. This can be time-consuming and may delay the transaction's initiation.
2. Risk of Overpayment: The locked box price is based on historical data, and if the company's financial situation deteriorates between the locked box date and closing, the buyer might end up overpaying for the business.
3. Value Accrual and Leakage: Value accrual and leakage mechanisms can be complex and may lead to disputes between the parties if not carefully defined in the agreement.
4. Not Suitable for All Transactions: The locked box mechanism may not be suitable for all types of businesses or industries, particularly when significant changes in working capital or other factors are expected before closing.

Completion accounts

Pros:

1. Accuracy: Completion accounts are based on actual financial data from the closing date, providing a highly accurate reflection of the target company's financial position at the time of the transaction on which the final equity value and consideration is calculated.
2. Flexibility: This mechanism allows for adjustments to be made based on real-time financial data, which can account for any changes in working capital, net debt, or other relevant financial metrics that occurred between the initial agreement and the closing date.
3. Risk Mitigation: Completion accounts can help mitigate the risk of overpaying or underpaying for the target company, as they provide a transparent and accurate way to adjust the purchase price.
4. Customization: Parties involved can define and agree upon the accounting policies and methods for preparing the completion accounts, allowing for customization and clarity in the process.

Cons:

1. Complexity: Completion accounts can be complex and time-consuming to prepare and may require a further stage of negotiation. They require detailed financial analysis and can lead to disputes between the buyer and seller post completion.
2. Dispute Risk: Disagreements over the findings of the completion accounts can arise, leading to disputes that need to be resolved through the dispute resolution mechanism outlined in the M&A agreement.
3. Seller Involvement Post-Closing: Sellers may need or want to remain more involved post-closing to address potential purchase price adjustments based on the completion accounts.
4. Increased Legal and Accounting Costs: The preparation of completion accounts, legal negotiations, and potential dispute resolution can increase legal and accounting costs associated with the transaction.
5. Uncertainty for Financing: Banks and financial institutions may find completion accounts less predictable than locked box mechanisms, which can affect the ease of securing financing for the deal.