

Earnouts in M&A: How Private Equity and Independent Sponsors Are Using Them to Close Deals



By John J. Koepfel

November 16, 2025 | **CORPORATE**

Trends/tips for earnout use in private equity and independent sponsor deals:

- Used in about 1 of 3 deals (of those, only 22% using EBITDA milestone, with 62% using revenue + balance gross margin dollars)
- With earnouts, sellers are trying to capture full value, and buyers are trying to de-risk overpaying
- Often seen in deals with volatility in recent numbers (spikes, uncertainties around sustained revenue/profit levels, regulatory / tariff concerns, etc.)
- 1 to 2 years post-close period is typical (only 15% of earnouts go out further)
- Sellers negotiate for post-close covenants to prevent buyers from “gaming” the system, while buyers are hesitant to limit their ability to run the business
- Dispute resolution mechanisms in a purchase agreement are common
- If further growth is tied to, say, a specific customer or new product (from the seller’s pre-close efforts), a royalty on just that revenue (with assumptions) may be a better alternative

- Best practice is for parties to share the model and agree on example scenarios, and confirm the purchase agreement language with accountants
- If roll-over equity is part of a deal, sometimes earnouts are avoided (buyer will argue seller is already getting the benefit of future upside).

John Koeppel's commentary on "[Paying for Performance: earn-outs in M&A](#)," *Financier Worldwide Magazine*, November 2025

Disclaimer: *The information in this post is provided for general informational purposes only, and may not reflect the current law in your jurisdiction. No information contained in this post should be construed as legal advice from our firm or the individual author, nor is it intended to be a substitute for legal counsel on any subject matter. No reader of this post should act or refrain from acting on the basis of any information included in, or accessible through, this post without seeking the appropriate legal or other professional advice on the particular facts and circumstances at issue from a lawyer licensed in the recipient's state, country or other appropriate licensing jurisdiction.*