Common Deal Terms Explained in Plain English

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Earn-Out

An earn-out is a portion of the sale price paid over time, typically tied to client retention or revenue performance.

In practice, this means part of your compensation depends on how successfully clients transition and remain with the firm. Earn-outs align incentives between buyer and seller, but they also shift some risk back to you. Understanding the retention benchmarks and timeline is critical to knowing how secure that future payment really is.

Upfront Payment

This is the amount paid to you at closing when the transaction is finalized.

Upfront payment provides certainty and liquidity. It's the portion not dependent on future performance, which is why advisors often weigh it heavily. A higher upfront component can reduce stress and financial uncertainty during the transition years.

Retention Threshold

This refers to the minimum level of client or revenue retention required to receive full earn-out payments.

If retention falls below this threshold, your future payments may be reduced. Advisors should understand how retention is calculated, what timeframe applies, and whether market performance affects the measurement.

Clawback

A clawback provision allows the buyer to recover previously paid funds if specific conditions are not met.

This can apply if clients leave shortly after closing or if representations about the business prove

inaccurate. Knowing the scenarios that trigger clawbacks helps you assess financial risk tied to the deal.

Multiple

A multiple is the factor used to calculate valuation, often applied to recurring revenue or EBITDA.

For example, “2.5 times revenue” determines price, but the real meaning lies in what that multiple assumes about risk, growth, and stability. Higher multiples typically reflect stronger revenue quality and lower transition risk.

EBITDA

EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization — a measure of operating profitability.

Buyers use EBITDA to evaluate how efficiently the business runs. A strong margin suggests scalable operations and less reliance on the founder, which can support higher valuations.

Asset Sale vs. Equity Sale

In an asset sale, the buyer purchases the firm’s assets such as client accounts and goodwill. In an equity sale, the buyer acquires ownership shares of the company.

The structure impacts taxes, liability, and operational continuity. Advisors should work with tax professionals to understand how each option affects after-tax proceeds.

Non-Compete Agreement

This restricts you from starting or joining a competing practice within a defined geography or timeframe.

Non-competes protect the buyer but also affect your future flexibility. Advisors should ensure the terms align with their long-term personal and professional plans.

Non-Solicitation Clause

This prevents you from actively recruiting former clients or employees after the transaction.

Even casual outreach could be interpreted as solicitation, so clarity around definitions and duration is important. These clauses protect stability during the transition period.

Goodwill

Goodwill represents the intangible value of your client relationships, reputation, and brand.

Much of an advisory practice’s value comes from trust built over years. Goodwill is what buyers are really investing in, and preserving it through a thoughtful transition benefits both parties.

Due Diligence

Due diligence is the process where the buyer reviews financial records, compliance history, and operations before finalizing the deal.

This stage confirms that the business performs as represented. Organized records and documented processes make due diligence smoother and strengthen buyer confidence.

Letter of Intent (LOI)

An LOI is a non-binding document outlining proposed deal terms before legal contracts are drafted.

While not final, it sets expectations on price, structure, and timeline. Advisors should treat it seriously, as it frames the rest of the negotiation.

Seller Financing

This occurs when part of the purchase price is paid to you over time, effectively making you a lender.

Seller financing can help close deals but introduces repayment risk. Understanding payment terms and security protections is key.

Integration

Integration refers to how your practice is combined operationally with the buyer’s firm after closing.

This includes technology migration, staff roles, and client communication. A well-managed integration supports retention and protects client experience.