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Net Working Capital Pegs: How Price Adjustments Work

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What a net working capital peg is

A headline price assumes the business arrives with a normal amount of working capital: receivables, inventory and prepaid items, net of payables and accruals. A net working capital (NWC) peg, also called the target, is that assumed amount written into the purchase agreement. If the business delivers more than the target at closing, the buyer pays more; if it delivers less, the buyer pays less. The peg exists so that a seller cannot collect receivables, run down inventory or stretch payables before closing and keep the cash on top of the price.

This article describes contract mechanics from public filings; it is not legal or accounting advice.

A public example: in the stock purchase agreement ScanSource, Inc. filed as a Form 8-K exhibit, dated August 19, 2026, "Closing Cash Consideration" starts from the Base Purchase Price and then adds "the amount (if any) by which the Estimated Net Working Capital exceeds the Target Net Working Capital by more than the NWC Collar" and subtracts the amount by which it falls short by more than the collar (ScanSource SPA). The same agreement defines "Target Net Working Capital" as "($19,000,000)", a negative number, and "NWC Collar" as "$1,500,000" (ScanSource SPA). A negative target means defined current liabilities exceed defined current assets; the arithmetic is unchanged.

Illustrative example (fictional). Harbor Lane Supply, an invented distributor, agrees to sell for a base price of $30,000,000 with an NWC target of $4,000,000. Three days before closing the seller estimates NWC at $3,700,000. The closing price is cut for the $300,000 shortfall, subject to any collar. About 90 days later the buyer prepares its own closing statement, and if the final number differs, money moves again.

How the target is set: trailing averages and seasonality

Purchase agreements state the target as a number and rarely explain its derivation. ScanSource ties both the definition and the calculation to diligence. "Net Working Capital" is measured "as of 12:01 a.m., Mountain Standard Time, on the Closing Date, computed in accordance with the QofE and Exhibit C," and "QofE" is defined as a financial due diligence databook dated July 31, 2026, prepared by Baker Tilly (ScanSource SPA). That is why the quality of earnings work matters for the peg: the same analysis that normalizes earnings often produces the monthly balance sheet history the target is negotiated from.

The main judgment call is the reference period. A single month-end snapshot is easy to compute but can land on a seasonal peak or trough. A trailing average, often over 12 months, smooths that out. The target and the closing measurement should describe the same kind of month.

Illustrative example (fictional), continued. Harbor Lane's month-end NWC over the trailing year, in thousands of dollars:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3,600	3,700	3,900	4,200	4,500	4,600	4,400	4,100	3,900	3,800	3,700	3,600

The 12 months sum to $48,000,000, an average of $4,000,000, which becomes the target. If the deal closes at the end of June, ordinary seasonality alone puts NWC $600,000 above the target, and the seller is paid for a seasonal build-up the buyer will collect later. If it closes at the end of December, NWC sits $400,000 below the target, and the buyer gets a price cut for a normal trough. A month-specific target avoids this; whatever the method, write it down before signing.

Collars and the closing estimate

A collar is a band around the target inside which no dollar adjustment is made. ScanSource's collar is $1,500,000 against a $220,500,000 Base Purchase Price (ScanSource SPA), about 0.68% of the base price. Not every agreement has one. The securities purchase agreement Commercial Metals Company filed as Exhibit 2.1, dated October 15, 2025, defines "Final Purchase Price" to add "the amount, if any, by which Final Working Capital exceeds Target Net Working Capital" and subtract the amount by which the target exceeds it, with no collar term in the agreement. Its target is $76,470,000 against a Base Purchase Price of $1,840,000,000 (CMC SPA).

The estimate comes first. In ScanSource, the Seller Representative delivers an "Estimated Statement" no later than three Business Days before closing, with "Sellers' good faith calculations" of estimated NWC, cash, indebtedness and transaction expenses. If the buyer's comments are not agreed, "Sellers' calculations set forth in the Estimated Statement delivered prior to the Closing shall control" (ScanSource SPA). CMC also requires its estimated closing statement at least three Business Days before closing (CMC SPA).

Collar wording needs care. When a deviation exceeds the band, an agreement can pay only the portion beyond the band (Reading A below) or the whole deviation once the band is breached (Reading B). ScanSource's wording, "the amount (if any) by which" NWC "exceeds the Target Net Working Capital by more than the NWC Collar," read word for word measures only the excess beyond the collar, which is Reading A; the agreement has no worked example confirming it, so confirm the reading with counsel.

Illustrative example (fictional), continued. Target $4,000,000; collar $150,000; base price $30,000,000.

NWC delivered	Deviation from target	Reading A: excess beyond collar	Reading B: full deviation once outside collar
$4,100,000	+$100,000	$0 (inside band)	$0 (inside band)
$3,700,000	−$300,000	−$150,000	−$300,000
$3,550,000	−$450,000	−$300,000	−$450,000
$4,400,000	+$400,000	+$250,000	+$400,000

On a $3,700,000 estimate, Reading A gives a closing price of $29,850,000 and Reading B $29,700,000: a $150,000 difference created by wording alone.

A negative target runs the same way. Using ScanSource's defined terms with hypothetical figures, an estimated NWC of ($21,000,000) is $2,000,000 below the ($19,000,000) target, and $500,000 of that lies beyond the $1,500,000 collar.

The post-closing true-up and who resolves disputes

After closing, the buyer controls the books and prepares the definitive calculation, in a similar sequence in both agreements:

Step	ScanSource (Aug 2026)	CMC (Oct 2025)
Buyer's closing statement	Within 90 days after closing	No later than 90 days; if the buyer misses it, the sellers' representative may deliver one in the next 45 days
Seller review and objection	45 days; undisputed items become final	45-day Review Period; no objection means deemed acceptance
Negotiation	30-day Agreement Period	30 days of commercially reasonable efforts
Who decides what is left	"Independent Auditors" (Forvis Mazars, or another firm both accept)	"Independent Accountant" (BDO USA, P.C., or another firm both accept)
Role	"acting as experts and not arbitrators"	"shall act as an expert and not as an arbitrator"
Bounds	No value above the highest or below the lowest claimed by either party	Same, measured against the parties' Initial Submissions
Fees	Split by the share of the contested amount each side loses	Split inversely to the award

Sources: ScanSource SPA Section 2.5; CMC SPA Sections 2.4 and 1.1.

Several details narrow the expert's job. ScanSource states that the auditor's "role is to resolve accounting disputes only, and shall not make any legal determination" (ScanSource SPA). CMC says that "in no event shall the Independent Accountant be entitled to make any adjustment to the Target Net Working Capital," and that its determination is "based solely on written materials" submitted by the parties (CMC SPA). CMC also gives a fee example: if disputed items total $1,000 and the accountant awards $600 in the sellers' favor, the purchaser bears 60% of the accountant's costs and the sellers 40% (CMC SPA).

Money moves through escrow. ScanSource sets a Post-Closing Adjustment Escrow Amount of $3,000,000. The buyer's "sole and maximum recourse" for a Decrease Amount is that escrow, and the buyer has no liability for an Increase Amount beyond the same figure (ScanSource SPA). An escrow below a plausible swing caps the adjustment in practice.

Illustrative example (fictional), continued. Harbor Lane closed on a $3,700,000 estimate. The buyer's closing statement shows $3,550,000, and the seller does not object. Under Reading A, the closing reduction was $150,000 and the final reduction is $300,000, so $150,000 goes back to the buyer from escrow. Under Reading B, the reductions are $300,000 and $450,000, and the payment is also $150,000. Once both numbers sit outside the band on the same side, either reading produces the same true-up. The readings differ at closing, and wherever one number falls inside the band and the other outside it.

Accounting principles: where disputes start

Most true-up fights are about which accounting rules apply, not arithmetic.

CMC defines "Accounting Principles" in three tiers: (a) the methods set out on Appendix A-1, including, for NWC, the adjustments on Appendix A-2; (b) to the extent not inconsistent, the methods used in the balance sheet as of the Recent Balance Sheet Date; and (c) otherwise, GAAP. The definition states that "clause (a) shall take precedence over clauses (b) and (c), and clause (b) shall take precedence over clause (c)" (CMC SPA).

"Solely for illustrative purposes," CMC attaches an example NWC calculation as of June 30, 2025 as Appendix A-2, titled "Net Working Capital Illustration." Current Assets and Current Liabilities are calculated "using the current asset accounts listed on Appendix A-2." Current Assets exclude Company Cash and tax assets other than current non-income tax assets, and Current Liabilities exclude items counted in Indebtedness or Transaction Expenses, tax liabilities other than current non-income tax liabilities, and operating lease liabilities capitalized under ASC 842 (CMC SPA). The appendices are not in the public exhibit; CMC's Form 8-K states that "Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K" (CMC Form 8-K), so outsiders see the structure but not the numbers.

Exclusions matter as much as the hierarchy. Both agreements price cash, debt and transaction expenses separately; an item defined into both NWC and Indebtedness can be charged twice.

What Chicago Bridge v. Westinghouse decided

The leading Delaware case on what a true-up can decide is *Chicago Bridge & Iron Co. N.V. v. Westinghouse Electric Co. LLC*, 166 A.3d 912 (Del. 2017), decided June 27, 2017 (No. 573, 2016; opinion by Chief Justice Strine). The Delaware Supreme Court reversed the Court of Chancery and required "the entry of a judgment on the pleadings for Chicago Bridge" (Delaware Supreme Court opinion).

The facts, from the opinion: Chicago Bridge sold its nuclear construction subsidiary, Stone & Webster, to Westinghouse for a price set at zero at closing, subject to a true-up against a net working capital target of $1.174 billion. Chicago Bridge's pre-closing estimate put NWC at $1.6 billion, about $428 million above the target; Westinghouse's closing statement put it at negative $976.5 million, "more than $2 billion less than the Target," mostly by contending that Chicago Bridge's historical financial statements were not GAAP compliant. The agreement also had what the court called the "Liability Bar": Westinghouse's "sole remedy" for a breach of representations was "to refuse to close," and Chicago Bridge would have "no liability for monetary damages post-closing" (opinion).

The court's own language:

- "When viewed in proper context, the True Up is an important, but narrow, subordinate, and cabined remedy available to address any developments affecting Stone's working capital that occurred in the period between signing and closing."
- The independent auditor "did not have a wide-ranging brief to adjudicate all disputes between Chicago Bridge and Westinghouse under the Purchase Agreement, but rather one confined to a discrete set of narrow disputes."
- Even the agreement's "any and all matters that remain in dispute" wording was qualified by the words that followed it, limiting the expert to "disputes properly part of the True Up."

- On remand, Westinghouse's arguments that Chicago Bridge's "historical financial statements and practices did not comply with GAAP may not be heard in proceedings before the Independent Auditor."

(Delaware Supreme Court opinion)

The court read the working capital definition, "determined in a manner consistent with GAAP, consistently applied by" the seller and "based on the past practices" of the business, as "a requirement of consistency": both sides had to hold the accounting approach constant. It found the clause closer to *OSI Systems v. Instrumentarium* (Del. Ch. 2006) and New York's *Westmoreland Coal v. Entech* than to *Alliant Techsystems v. MidOcean Bushnell* (Del. Ch. 2015), which Westinghouse said its clause tracked (opinion). Arnold & Porter's practice note draws the drafting lesson: "acquirors would be advised to assume that unless the language clearly specifies a bifurcated test, it is likely to be interpreted as a consistency test" (Arnold & Porter).

One caution: the court itself called the zero price and the Liability Bar "unusual," noting that "virtually all private deals" in an ABA survey of 2014 transactions provided for some post-closing survival of representations (opinion), so a buyer with surviving representations may argue the case is distinguishable. The practical lesson: state expressly whether GAAP-compliance disputes belong in the true-up or in indemnity.

Drafting and negotiating checklist (worksheet)

Use this worksheet to organize questions for counsel and accountants; it records decisions, it does not make them.

Item	What to record
Target amount	Number, sign (it can be negative), and the dated schedule it comes from
Reference period	Trailing average, month-specific, or snapshot; months covered; source of monthly data (QofE databook?)
Measurement time	Exact time and date (ScanSource uses 12:01 a.m. MST on the Closing Date)
Collar	Amount; Reading A (excess only) or Reading B (full deviation); symmetric or not
Included accounts	List by account, ideally tied to an illustration schedule
Excluded accounts	Cash, indebtedness, transaction expenses, income taxes, lease liabilities; check for double counting
Principles hierarchy	Specific policies, then past practice, then GAAP, with precedence stated
GAAP challenges	In the true-up (bifurcated) or only in indemnity (consistency)
Estimate rules	Who prepares it, how many days before closing, whose number controls if not agreed
Timetable	Days for closing statement, objection, negotiation, expert decision
Expert	Named firm and fallback; "expert not arbitrator"; written submissions only; bounds
Escrow	Amount; whether it is the sole recourse in either direction
Interaction	Bar on recovering the same item through both the true-up and indemnity; relationship to any earn-out

What origination teams should capture before the LOI

Nobody outside the company can compute the peg before diligence. An origination team can still collect facts that shorten the first working capital conversation.

- **Seasonality signals.** Public evidence of seasonal demand (a seasonal product line, project billing, year-end ordering) flags that the reference period will matter. When the team has modeled revenue from public inputs, as in estimating private company revenue, note which months the estimate cannot see.
- **Balance-sheet hints.** Customer deposits, prepayments, inventory-heavy operations or long payment terms disclosed publicly suggest where NWC disputes may concentrate. Record each with its source page.
- **Unknowns, labelled as unknown.** Receivable aging, inventory reserves and accrual policies cannot be known before access. List them as open diligence questions, not guesses.

These items belong in the record that travels with a target through the origination pipeline stages, so the LOI discussion starts from sourced facts and a visible list of gaps.

Docket's Triage, Scout and Audit agents collect this kind of public evidence as typed answers that quote their source pages and leave unknowns visibly open; working capital terms remain a matter for the deal team and its advisers.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. https://www.sec.gov/Archives/edgar/data/918965/000091896526000043/exhibit21stockpurchaseag.htm
2. https://www.sec.gov/Archives/edgar/data/22444/000119312525240849/d225478dex21.htm
3. https://www.sec.gov/Archives/edgar/data/22444/000119312525240849/d225478d8k.htm
4. https://cases.justia.com/delaware/supreme-court/2017-573-2016.pdf?ts=1498581079
5. https://www.arnoldporter.com/en/perspectives/publications/2018/01/significant-2017-decisions-affecting-ma

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