

LOCKED BOX OR COMPLETION ACCOUNTS? CHOOSING YOUR PRICE BEFORE THE PRICE CHOOSES YOU

Two Prices, One Business

Every M&A deal has a headline price. It is the number in the press release, the figure the board celebrates and the one the seller quietly mentions at the golf club. It is also, surprisingly often, not the number that changes hands.

Between the date the price is agreed and the date the shares move, the business keeps living. It earns cash, spends cash, borrows, repays, pays salaries and, if the seller is feeling generous towards himself, pays dividends. The pricing mechanism is simply the contract's answer to one question: who owns that life in between?

There are two main answers. The **locked box** says the buyer does, from a date in the past. **Completion accounts** say nobody knows yet, so let us count it afterwards. Choose well and the price behaves. Choose badly and the price you fought for becomes the opening bid in a second negotiation nobody budgeted for.

The Shop and the Till

A word on labels first. Americans say "closing accounts"; English-law documents, which govern most cross-border deals into Nigeria, say "completion accounts". Same animal, different passport.

Imagine you are buying a busy provisions shop.

Under a locked box, you and the owner open the books as at 31 December, agree the shop is worth N100 million on those numbers, and shake hands. From that date the takings are yours, even though you will not get the keys until April. In return, the owner promises not to put his hand in the till between January and April. If he does, he pays it back, naira for naira. The price on the contract is the price you pay.

Under completion accounts, you agree N100 million on the assumption that the shop will be handed over with no debt, its own cash, and a normal level of stock and unpaid invoices. On the day you get the keys, everyone counts. More cash or stock than normal, you pay more. Unpaid suppliers or a loan nobody mentioned, you pay less. The price on the contract is an estimate; the real one arrives a few months later.

The locked box does the same arithmetic, but once, on a past balance sheet, and then freezes it. One mechanism prizes **certainty**; the other prizes **accuracy**. Everything else in this article is a footnote to that trade.

The Locked Box: A Promise with a Price Tag

A locked box is a promise. Like every promise, it is worth exactly what the promisor is worth when it is broken. Five moving parts decide whether yours holds.

The locked box date. This is the balance sheet the price is built on. It should be audited, or at least reviewed and fully diligenced, because the buyer takes it as gospel. A buyer who accepts a management-prepared balance sheet in a locked box has, in substance, given an unsecured loan of faith.

Leakage. Any value flowing out of the target to the seller or its affiliates after the locked box date: dividends, management fees, bonuses to seller-appointed directors, repayment of shareholder loans, waivers of debts owed to the target, transaction adviser fees picked up by the target, and the tax triggered by any of these. The seller repays leakage naira for naira, without proof of loss and without the usual warranty caps.

Permitted leakage. The agreed exceptions, each listed and, ideally, quantified: ordinary salaries, a named management fee at a fixed monthly figure, a specific pre-agreed dividend. "Payments in the ordinary course of business" is not a permitted leakage item; it is a hole shaped like one.

The ticker. Because the buyer pockets the profits from the locked box date, sellers ask for a daily amount (or interest on the equity price) until completion. Fair in principle. On a long gap, it quietly becomes one of the largest numbers in the deal.

The claim window and the credit. Leakage claims usually run for six to twelve months after completion. If the seller is an offshore holding company that distributes the proceeds and goes dormant, the covenant is decorative. Escrow, set-off against deferred consideration, or a parent guarantee is what gives it teeth.

One practical warning: warranty and indemnity (W&I) insurers generally exclude leakage and price adjustment from cover. A buyer who has bought W&I and assumes it protects the locked box has insured the wrong risk.

Completion Accounts: Accuracy, Eventually

Completion accounts trade an argument before signing for an argument after completion. Accountants, on this view, are the only party guaranteed to win. The mechanism is fair; its fairness lives entirely in the drafting.

The working capital target. The "normal" level of stock, receivables and payables is usually a twelve-month average, to iron out seasonality. Set it off a single favourable month and you have hidden a price increase in a schedule.

Cash-free, debt-free. The buyer pays for the business, not its bank balance or its loans. The real battle is over debt-like items: unpaid taxes, customer deposits, deferred revenue, accrued bonuses, unremitted pension contributions, unpaid capex, decommissioning provisions and, in gas businesses, take-or-pay exposure. Each one moved into "debt" comes off the price.

The accounting policies hierarchy. Specific agreed policies first, then the target's past practice, then IFRS. This order looks dull. It is where most completion accounts disputes are won or lost, because the same balance sheet can produce very different numbers depending on which rule bites first.

The timetable. An estimated statement at completion, the buyer's draft within 60 to 90 days, a seller review period of 30 to 45 days, then an independent accountant as expert, not arbitrator, deciding only the items in dispute. Leave the expert's remit vague and you have bought a second piece of litigation.

Protecting the payment. A downward adjustment is only useful if it can be collected. Hold part of the price in escrow, or cap the estimated payment at completion, so the true-up does not depend on chasing a seller who has left the room.

Watch for double recovery. If a liability is already deducted as debt, the seller will rightly insist that the buyer cannot also sue on a warranty for it. Say so expressly; it saves everyone a quarrel.

The Nigerian Twist

Textbooks written in London assume completion follows signing within weeks. Nigerian energy deals rarely oblige. Four local realities change the calculus.

1. The gap is long

Ministerial consent under the Petroleum Industry Act 2021, NUPRC or NMDPRA approvals, FCCPC merger clearance (which prohibits implementation before approval), and NERC (or some State Regulatory Commissions) consent where a licensee changes hands can stretch the interim period to six or twelve months. A locked box over twelve months means a balance sheet more than a year old, a ticker that has grown teeth and a leakage window the seller's finance team will struggle to police. Long gaps push buyers towards completion accounts, or towards a locked box with a capped ticker and a long-stop that resets the price.

2. The currency moves even when the business does not

Prices are usually set in US dollars; the target keeps its books in naira. When the naira lost well over half its value against the dollar in 2023 and 2024, balance sheets were rewritten without a single new transaction. Under a locked box, FX risk passes to the buyer on the locked box date. Under completion accounts, the contract must fix the exchange rate source and date for translating naira balances, or the adjustment becomes a currency trade.

3. Tax has moved the goalposts

Since the Nigeria Tax Act 2025 took effect on 1 January 2026, gains on indirect transfers of Nigerian assets through offshore holding companies are within the Nigerian tax net, and companies now face capital gains tax at 30%. Sellers model their net proceeds more carefully, which makes them fight harder on price mechanics. Buyers should ensure that tax suffered by the target because of a leakage event is itself leakage, and that accrued but unpaid taxes sit in the debt column.



4. Groups are tangled

Shared services, intercompany balances, owner-funded working capital and "the chairman's other company" are features, not bugs, of many Nigerian groups. That is fertile soil for leakage. It also means the same transaction can move the price differently under each mechanism: converting an intercompany payable into equity before completion reduces net debt and raises a completion accounts price, while repaying it in cash after a locked box date is simply leakage.

Choosing the Right Tool

Neither mechanism is superior. The right one depends on the quality of the numbers, the length of the gap and the creditworthiness of the seller. **A useful rule of thumb: if you would not lend money on the target's latest balance sheet, do not price the deal off it.**

The Last Word

The headline price is what you agreed. The pricing mechanism is what you will actually receive or pay. Clients who treat the mechanism as boilerplate tend to discover its importance at the most expensive possible moment: after completion, with the seller's proceeds already distributed and their adviser's invoice already paid.

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