

M&A Nuggets: The Drag-Along

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In a sale structured as a stock purchase, most acquirors want to purchase one hundred percent of the ownership interests in the seller. That is why, if a seller has any minority owners, it is important to include a drag-along clause in the agreement among the owners of the seller. A drag-along clause basically states that if owners holding a certain percentage of the ownership agree to a sale, the owners can require the remaining owners to participate in the sale. The use of the drag-along clause prevents a minority owner from in effect vetoing a sale by not agreeing to sell. Several details need to be included in the drag-along clause, including the percentage needed to approve the sale and to drag-along the non-approving owners, whether the non-approving owners have the right of first refusal to purchase the company on the same terms offered by the third party and whether the drag-along right applies initially or at some future date. The big picture here is that the simple step of including drag-along rights in the ownership agreement helps to ensure the sale of one hundred percent of a company.