WINDSOR DRAKE

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Why Deals Die

Windsor Drake is a sell-side M&A advisory firm focused on software, financial technology, artificial intelligence, cybersecurity, and other technology-enabled businesses in the lower middle market. The firm publishes research on transaction activity, deal structure, and valuation for founders, boards, and investors.

This report is provided for general information only. It does not constitute investment, legal, tax, or accounting advice, and it is not a recommendation to pursue or refrain from any transaction. The data on deal failure cited here is drawn from published M&A studies, principally broken-LOI and diligence research, and from Windsor Drake analysis as of June 2026. Such studies describe samples and patterns that may not reflect any individual deal; outcomes vary widely by company, sector, process, and counterparty. The taxonomy and checklists attributed to Windsor Drake are analytical tools of the firm, not guarantees against deal failure.

About this report

This report examines why technology M&A transactions fail, where in the process they die, and what kills them. It documents that most failures occur after the letter of intent, classifies the causes through the Windsor Drake Deal Death Taxonomy, dissects the retrade by which value erodes, and sets out how a founder can deal-proof a sale before it begins. It is written for sellers, who experience deal failure as a once-in-a-career catastrophe, against buyers who treat a dead deal as a routine outcome.

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OVERVIEW

Most deals die after the handshake

A founder who signs a letter of intent feels the deal is done. It is not. The riskiest part of a sale begins at the LOI, in confirmatory diligence, and a large share of signed deals never close, or close on materially worse terms than the term sheet promised.

The leading cause is diligence. A 2025 study of broken letters of intent found that diligence findings accounted for nearly half of all post-LOI failures: roughly twenty-one percent from discrepancies uncovered in quality-of-earnings reviews, and about twenty-five percent from other diligence issues.[1] The single most common trigger is a reduction in EBITDA, when verified earnings come in below what was presented, unsupported add-backs are stripped out, or revenue proves less stable than claimed.[1,2] When that happens, the deal either dies or is repriced, and the repricing, the retrade, is often the worse outcome of the two.

This report is about why deals die and how to keep them alive. It locates where in the process failure happens, classifies the causes through the Windsor Drake Deal Death Taxonomy, dissects the retrade by which a buyer erodes value after exclusivity, examines the quality-of-earnings problem that sits behind so many failures, and sets out how a founder can deal-proof a sale before it begins. The argument is that most deal failure is preventable, and that the prevention happens long before the LOI, in how the company is prepared and presented.

Signing the letter of intent is not the finish line. It is the start of the most dangerous phase of the sale, and the place where most deals die.

The report is written from the seller's side, because the asymmetry is the point. A buyer that walks from a deal, or retrades it, has lost some time and fees; the buyer does this regularly and is built for it. A founder who watches a deal die has often lost a year, exclusivity with other buyers, momentum, and sometimes the company's confidential information, and may not get another chance at the same price. Understanding how deals die is how a founder avoids being on the wrong side of that asymmetry.

THE MARKET IN BRIEF

The numbers behind deal failure

~46% Share of broken LOIs caused by diligence findings, combining QoE and other diligence issues.[1]	**~21%** Broken LOIs attributed specifically to discrepancies found in quality-of-earnings reviews.[1]	**~25%** Broken LOIs attributed to non-QoE diligence findings across legal, commercial, and operational areas.[1]
#1 EBITDA reduction, the most common single trigger of a dead or repriced deal.[1,2]	**5** Channels through which a retrade erodes value after exclusivity, from EBITDA to structure.[2]	**Post-LOI** The phase in which most deal failures occur, during confirmatory diligence under exclusivity.[1,3]

Windsor Drake view: the dominant cause of deal failure is not bad luck or market conditions. It is diligence uncovering something the seller could have found and fixed first. That makes most deal failure a preparation problem, which is the central, and encouraging, finding of this report.

01 · THE MAP

Where deals die

Deals fail at every stage of a sale, but not evenly. Understanding where failure concentrates tells a founder where to focus the preparation that prevents it.

A sale moves through distinct phases, and each has its own failure mode. Before a letter of intent, a deal can fail for lack of a buyer, an unbridgeable valuation gap, or a process that never gains momentum. These pre-LOI failures are real but recoverable: the company is still free to pursue other buyers, and nothing irreversible has happened. The dangerous phase is after the LOI, when the seller has granted exclusivity, taken the company off the market, and opened its books for confirmatory diligence. This is where most deals die, and where the consequences of dying are worst.[1,3]

EXHIBIT 1

Where failure concentrates, by phase

PHASE	TYPICAL FAILURE MODE	CONSEQUENCE FOR THE SELLER
Preparation	Company not ready; weak data or story	Delay; recoverable
Marketing	No buyer; valuation gap	Process stalls; recoverable
LOI / negotiation	Terms cannot be agreed	Lost time; still free to pursue others
Confirmatory diligence	Diligence surprises; retrade; financing	Highest risk; exclusivity lost; value eroded
Signing to close	Conditions, consents, regulatory	Delay or collapse near the finish

Source: Windsor Drake, from the M&A process and broken-deal research.[1,3]

Why the post-LOI phase is the most dangerous

Three things make confirmatory diligence the graveyard of deals. The seller has surrendered leverage by granting exclusivity, so the buyer can renegotiate from strength, knowing the seller has no immediate alternative. The buyer's diligence team is now examining the company in depth for the first time, and depth is where surprises live. And the deal has acquired momentum and cost on both sides, which raises the temptation for a buyer to extract a better price rather than walk, producing the retrade. The combination, lost leverage, deep scrutiny, and an incentive to renegotiate, is why the phase the founder thinks of as the home stretch is actually the most hazardous.[1,2]

The practical lesson is that preparation must be aimed at the post-LOI phase specifically. A founder who prepares only to get to an LOI, to attract a buyer and agree a headline, has prepared for the easy part and left the dangerous part to chance. The sections that follow classify what goes wrong in that phase and how to prevent it, beginning with a taxonomy of the causes.

The Deal Death Taxonomy

Deals die for reasons that fall into a small number of categories. The taxonomy below names them, because a founder who knows the categories can prepare against each, rather than worrying about deal failure in the abstract.

EXHIBIT 2

The Windsor Drake Deal Death Taxonomy

CAUSE	WHAT IT LOOKS LIKE	PREVENTABLE BY THE SELLER?
Diligence surprise	QoE cuts EBITDA; financials don't reconcile	Largely; sell-side preparation
Valuation gap / retrade	Buyer resets price after exclusivity	Partly; preparation and competition
Financing failure	Buyer cannot raise or fund the deal	Partly; vet buyer's funding
Legal / regulatory	Contracts, IP, compliance, approvals	Largely; legal clean-up
People and emotion	Founder cold feet; key-person risk; culture	Partly; alignment and planning
Market / external	Conditions or buyer priorities shift	Rarely; speed reduces exposure

Source: Windsor Drake Deal Death Taxonomy, informed by broken-deal research.[1,2,3]

The preventable majority

The most important column in the taxonomy is the last. The largest causes of deal failure, diligence surprises and the legal and contractual issues that surface alongside them, are largely preventable by the seller, because they involve problems that exist in the company before the buyer ever looks and that the seller could have found and fixed first.[1] A buyer's quality-of-earnings review does not create the EBITDA problem; it discovers one that was already there. The same is true of unassigned contracts, unclear IP ownership, and compliance gaps. These are not acts of fate; they are unprepared companies meeting prepared buyers.

The partly and rarely preventable

Some causes are only partly within the seller's control. Financing failure depends on the buyer, but a seller can vet the buyer's funding before granting exclusivity and prefer buyers with certain capital. The retrade depends on the buyer's behavior, but a prepared seller with a competitive process and clean diligence gives the buyer far less to retrade on. People-and-emotion failures, founder cold feet, key-person departures, culture clashes, are reduced by aligning stakeholders and planning the human side of the deal in advance. Only the last category, a genuine external shift in the market or the buyer's strategy, is largely outside the seller's control, and even there, a faster process reduces the window of exposure.

> *A buyer's diligence does not create the problem that kills the deal. It discovers one that was already there. Most deal failure is unprepared companies meeting prepared buyers.*

The taxonomy reframes deal failure from something that happens to a founder into something a founder can largely prevent. The categories are known, the largest are preventable, and the prevention is preparation done before the process. The rest of the report works through the most consequential of them, the retrade and the quality-of-earnings problem, and then sets out the preparation that deal-proofs a sale.

03 · THE MECHANISM

The retrade

A dead deal is painful, but a retrade can be worse, because the founder, having lost leverage and alternatives, often accepts a materially worse deal rather than walk away with nothing. Understanding how a retrade works is how a founder resists it.

A retrade is a buyer's move to reprice a deal after exclusivity, using something diligence has uncovered, or simply the seller's lost leverage, as justification. It rarely arrives as a single lower number. It comes through one or more connected channels, each technical enough to seem reasonable, that together shift value from seller to buyer. The most common channels are a reduction in adjusted EBITDA, a reset of the valuation multiple, a less favorable working capital peg, the discovery of larger net debt or debt-like items, and a shift of consideration out of cash at close and into contingent structure.[2]

EXHIBIT 3

The five channels of a retrade

CHANNEL	HOW THE BUYER FRAMES IT	EFFECT ON THE SELLER
Lower adjusted EBITDA	Add-backs disallowed; earnings restated	Lower base for the price
Reset multiple	Risk or comparables justify a lower multiple	Lower price on the same earnings
Working capital peg	Target set higher; more capital left in	Lower net proceeds at close
Net debt / debt-like items	Deferred revenue, leases, accruals reclassified	Lower equity value
Shift to structure	More earnout or holdback, less cash	More contingency, less certainty

Source: Windsor Drake, from broken-deal and retrade research.[2]

The danger of the retrade is psychological as much as financial. By the time it arrives, the founder has invested months, taken the company off the market, told employees and sometimes customers, and emotionally committed to the exit. Walking away means starting over, with a diligence flag now attached to the company and the other buyers gone cold. That sunk-cost pressure is exactly what the retrading buyer is counting on, and it leads many founders to accept a repriced deal they would have rejected at the start.[2]

> *A retrade rarely comes as a lower number. It comes as five technical adjustments, each reasonable-sounding, that together move value from seller to buyer while the seller has nowhere else to go.*

The dead deal or the worse deal

It is worth being precise about the choice a retrade forces, because founders often misjudge it. A retrade is not a choice between the original deal and a slightly lower one; the original deal is already gone. It is a choice between accepting a materially worse deal and walking away into the costs described later in this report: a lost year, a tainted process, exposed information, and unsettled people. Buyers understand this asymmetry perfectly, which is why a retrade is so often successful even when the founder believes the company is worth more. The only way to make walking a real option, and therefore to make refusing a retrade credible, is to have preserved an alternative and prepared the company so the retrade has no legitimate basis. Absent those, the founder is choosing between two bad outcomes the buyer engineered, and will usually take the worse deal.

Resisting a retrade comes down to leverage and preparation. A founder who has prepared the company so diligence finds no surprises gives the buyer nothing legitimate to retrade on. A founder who has preserved competition, by keeping a credible alternative alive, or at least the believable threat of one, can refuse a retrade because walking is a real option. The retrade is most powerful against an unprepared seller in a bilateral process with no alternative, and weakest against a prepared seller who could, and would, walk. The next section turns to the diligence problem that gives buyers the most to retrade on.

ANATOMY

Anatomy of a dead deal

The abstractions become concrete in the arc of a single failed deal. The illustrative sequence below is composed from the common pattern, and it shows how a strong company and a real buyer end with nothing.

A founder receives an attractive letter of intent from a credible buyer at a strong headline price. Relieved and validated after months of conversations, the founder signs, grants exclusivity, takes the company off the market, and quietly tells a few key employees that an exit is coming. The other interested parties, sensing the company is spoken for, move on. The founder has, without quite realizing it, surrendered every alternative and all the leverage that came with them.

Confirmatory diligence begins. The buyer's quality-of-earnings team examines the financials in depth and concludes that several of the seller's add-backs are not truly one-time, that revenue is more concentrated in two customers than the materials suggested, and that margins have been more volatile than presented. The defensible adjusted EBITDA, they conclude, is lower than the number the price was based on. Nothing here is fraud; it is the ordinary accounting of a company that was never built to be examined this way. But the number the whole deal rested on has moved.

Now the retrade arrives, framed reasonably. Given the lower EBITDA, the buyer says, the price must come down; given the customer concentration, the multiple should reset; given some reclassified liabilities, the equity value is lower still; and to bridge the remaining gap, more of the consideration should move into an earnout. The headline that drew the founder in is gone, replaced by an offer materially worse than the original, and far worse than offers the founder turned away months ago. The founder, exhausted, committed, with employees expecting a deal and no other buyers in sight, faces a choice between accepting a deal they would once have rejected and walking away with nothing but a diligence flag now attached to the company.

A strong company, a real buyer, an attractive price, and at the end, nothing. The deal did not fail from bad luck. It failed from surrendered leverage and an unprepared book.

Whichever the founder chooses, the deal as it was first agreed is dead. And every step of the path to that point was avoidable. A sell-side quality-of-earnings review would have found the add-back and concentration issues first, while there was time to fix or frame them. A real, sustained process would have kept an alternative alive, so the retrade could be refused. Vetting and pacing exclusivity would have preserved leverage. The dead deal was not an accident of diligence; it was the predictable outcome of entering the most dangerous phase of a sale unprepared, and it is exactly what the rest of this report shows how to prevent.

THE STAKES

The cost of a dead deal

A buyer who walks loses some fees and a few weeks. A founder who watches a deal die loses far more, and the full cost is rarely appreciated until it is paid. Understanding the stakes is what justifies the preparation.

Lost time and momentum

A sale process consumes the better part of a year, and a founder's attention along with it. When a deal dies in diligence, that year is gone, and so is the momentum, the business has been run with one eye on the exit, key decisions deferred, investments paused, and restarting takes time the company may not easily recover. The founder must also decide whether to begin again immediately, with a fresh process and renewed disruption, or to wait, and either choice carries cost.

A tainted process

A deal that dies in diligence leaves a mark. Other buyers, if approached again, will ask why the first deal failed, and the honest answer, that diligence found something, casts a shadow that a founder must work to dispel. The company carries a diligence flag into any future process, and a buyer aware that a prior deal collapsed will diligence harder and bid more cautiously. The second process is almost always harder than the first, which is part of why accepting a retrade can feel preferable to walking, exactly the leverage the retrading buyer relies on.

Exposed information and unsettled people

Diligence requires opening the company's most sensitive information, financials, customers, contracts, technology, to a buyer who, if the deal dies, walks away knowing all of it, sometimes a competitor or a buyer who later acquires a competitor. And the people who were told an exit was coming, key employees, sometimes customers and partners, are left unsettled, uncertain about the company's future and their own. The human and competitive costs of a dead deal extend well beyond the founder and well beyond the moment the deal collapses.

The buyer who walks loses weeks. The founder loses a year, the company's momentum, its confidential information, and the confidence of the people who were told an exit was coming.

These costs are the reason deal-proofing is worth the effort and expense. Set against the price of a sell-side quality-of-earnings review and a well-run process, the cost of a dead deal, a lost year, a tainted future process, exposed information, and unsettled people, is enormous, and it falls almost entirely on the seller. A founder who weighs the modest, certain cost of preparation against the large, asymmetric cost of failure will conclude that preparation is not an expense but insurance, and the cheapest insurance available against the most expensive outcome in a sale.

04 · THE KILLER

The quality-of-earnings problem

More deals die in the quality-of-earnings review than anywhere else, because that is where the number the whole deal rests on, adjusted EBITDA, is tested against reality. Understanding what a QoE examines is the first step to surviving one.

A quality-of-earnings review is the buyer's forensic examination of the target's earnings, conducted by accountants whose job is to determine whether the reported profitability is real, sustainable, and clean. It tests the revenue, is it recognized correctly, is it recurring, is it concentrated in a few customers; the add-backs, are the costs the seller excluded from EBITDA genuinely one-time and non-recurring; the margins, are they stable or volatile; and the working capital and one-time items that affect both the earnings and the price.[1,2] When the review finds that the real, defensible EBITDA is lower than what was presented, the entire deal is repriced off the lower number, and that single finding is the most common cause of a dead or retraded deal.[1]

~21%

of broken letters of intent trace directly to discrepancies found in the quality-of-earnings review.

Why sellers fail the QoE

Sellers fail quality-of-earnings reviews for predictable reasons. Add-backs are too aggressive, with the seller having excluded costs that a buyer will insist are real and recurring. Revenue is recognized in ways that do not survive scrutiny, or is more concentrated and less recurring than the headline suggests. The financials are not prepared to a standard that reconciles cleanly, so even sound earnings look unreliable. And the seller, having never been through a QoE, does not anticipate what will be questioned and cannot defend it when it is. None of these is fraud; most are the ordinary accounting of a private company that was never built to be examined this way, meeting a buyer's standard for the first time.[2]

The sell-side QoE solution

The most effective defense is to run the review on yourself first. A sell-side quality-of-earnings review, commissioned by the seller before the process begins, finds the problems the buyer would find, while there is still time to fix them, defend them, or price them in. It lets the seller present a number that has already survived forensic scrutiny, removes the buyer's most powerful retrade lever, and signals to buyers that the company is prepared and the earnings are real. The cost of a sell-side QoE is small relative to the value it protects, and in a market where diligence findings cause nearly half of deal failures, it has moved from a luxury to a near-necessity for any serious sale.[1]

> *Run the review on yourself first. A sell-side quality-of-earnings review finds the problems the buyer would find, while there is still time to fix them, and removes the most powerful retrade lever.*

Beyond the numbers: the other diligence streams

Quality of earnings is the most common killer, but it is not the only diligence stream that ends deals, and a prepared seller readies for all of them. Buyers run parallel reviews across financial, legal, commercial, technology, tax, and human-capital diligence, and a surprise in any one can stall or reprice a transaction.

EXHIBIT 4

What diligence examines, and what kills deals in each stream

STREAM	WHAT IT EXAMINES	COMMON DEAL-KILLER
Financial / QoE	Earnings quality, revenue, add-backs, margins	EBITDA reduction
Legal	Contracts, corporate records, disputes	Unassignable contracts; litigation
Commercial	Market, customers, pipeline, retention	Customer concentration; churn
Technology	Code, architecture, security, IP ownership	Unclear IP; technical debt; breach history
Tax	Compliance, exposures, structure	Unprovisioned tax liabilities
Human capital	Key people, retention, culture	Key-person flight risk

Source: Windsor Drake, from standard diligence practice and broken-deal research.[1,5]

The lesson is that deal-proofing is not only a finance exercise. A clean QoE will not save a deal undone by an IP ownership gap, an unassignable key contract, an unprovisioned tax exposure, or a key engineer signaling they will leave. The prepared seller readies every stream, ensuring that whichever team looks hardest, the answer it finds is the answer the seller already knew and addressed. Comprehensive preparation across all the diligence streams, not just the financial one, is what closes the gap between a deal that survives scrutiny and one that dies in it.

The quality-of-earnings problem captures the report's whole thesis in one mechanism. The deals that die in QoE die because a problem that existed all along is discovered at the worst possible moment, under exclusivity, with leverage gone. A seller who discovers and addresses that same problem first does not face it as a crisis; they face it as preparation. The difference between the two is the difference between a deal that closes and one that dies, and it is entirely within the founder's control.

05 · THE DEFENSE

Deal-proofing the sale

If most deal failure is preventable, prevention is a checklist. The work below, done before a process begins, is what separates a sale that survives diligence from one that dies in it.

WORKSHEET

The deal-proofing checklist

AREA	WHAT TO DO BEFORE THE PROCESS
Earnings	Commission a sell-side QoE; defend or remove aggressive add-backs; clean up revenue recognition.
Financials	Produce reconciled, buyer-standard financials and a data room that answers questions before they are asked.
Legal and IP	Confirm clean IP ownership, assignable contracts, resolved disputes, and compliance.
Customer concentration	Address or explain concentration; secure key contracts and renewals.
Working capital	Understand the likely peg; manage working capital so the true-up does not become a deduction.
The buyer	Vet funding and intent before granting exclusivity; prefer certain capital.
Competition	Run a process, not a bilateral deal; keep a credible alternative alive.
People	Align stakeholders; plan key-person retention and the human side of the deal.

Source: Windsor Drake deal-proofing checklist.

The two highest-return moves

Of everything on the checklist, two actions return the most. The first is the sell-side quality-of-earnings review, because it disarms the single largest cause of deal failure and removes the buyer's strongest retrade lever. The second is preserving competition: running a genuine process rather than a bilateral negotiation, and keeping a credible alternative buyer alive through diligence, because competition is what gives a founder the power to refuse a retrade. A seller who does only these two things, presents clean, pre-tested earnings and keeps a believable alternative, has addressed the majority of the risk.

Preparation as leverage

The deeper point is that preparation is leverage. Every problem a founder finds and fixes before the process is a problem the buyer cannot use to retrade. Every alternative a founder keeps alive is a reason the buyer cannot push too far. The prepared seller enters confirmatory diligence with nothing to hide and somewhere else to go, and against that seller the buyer's most powerful tactics, the diligence surprise and the lost-leverage retrade, simply do not work. Deal-proofing is not about controlling the buyer; it is about removing the buyer's ability to control the seller.

When to start

The most common question founders ask about preparation is when to begin, and the answer is earlier than they expect. Cleaning up earnings, contracts, IP, and working capital, and commissioning a sell-side quality-of-earnings review, takes months, and some of the most valuable steps, addressing customer concentration, resolving disputes, securing key renewals, take longer still and cannot be rushed once a process is live. The founders who deal-proof most effectively begin a year or more before they intend to sell, treating preparation as part of running the business well rather than as a pre-sale scramble. Preparation begun the moment a buyer appears is preparation begun too late to address the issues most likely to kill the deal.

This is demanding, detailed work, and it is best begun months before a sale and run with experienced advisers. But it is the work that determines whether a deal closes, and it pays for itself many times over against the cost of a dead or retraded deal. The founder who treats preparation as the core of the sale, rather than as a box to tick on the way to a term sheet, is the founder whose deals survive.

06 · APPLICATION

What it means for founders

The findings translate into a small set of principles that, followed, prevent the great majority of deal failures.

Prepare for the post-LOI phase, not just the LOI

Getting to a letter of intent is the easy part. The hard part, and the dangerous one, is surviving confirmatory diligence. A founder should prepare specifically for that phase, anticipating what diligence will examine and ensuring it finds nothing that can kill or reprice the deal.

Run a sell-side quality-of-earnings review

This is the single highest-return action a founder can take. Finding and addressing the earnings problems a buyer would find, before the buyer finds them, disarms the most common cause of deal failure and the most powerful retrade lever. In the current market it is close to essential for any serious sale.

Preserve leverage and competition

The retrade works because the seller has no alternative. A founder who runs a real process and keeps a credible alternative alive through diligence retains the power to refuse a repricing. Granting early, exclusive, bilateral exclusivity to a single buyer surrenders exactly the leverage needed when the buyer turns.

Vet the buyer before granting exclusivity

Not every buyer can fund or will complete a deal. A founder should diligence the buyer, its funding, its track record of closing, its real intent, before taking the company off the market for it. Granting exclusivity to a buyer that cannot close is a way to lose months and momentum for nothing.

Do not let sunk cost decide

When a retrade arrives late in a tiring process, the pressure to accept it is enormous, precisely because so much has been invested. A founder should decide in advance what terms are acceptable and hold to them, judging a repriced deal on its merits rather than on how much it took to get there. The buyer is counting on the sunk cost; the disciplined seller refuses to let it decide.

The unifying message is that deal failure is largely a preparation problem, and preparation is within the founder's control. The founder who prepares the company so diligence finds no surprises, runs a process that preserves leverage, vets the buyer, and refuses to let sunk cost dictate, will close deals that an unprepared founder watches die. The buyers are prepared and practiced; the founders who match them survive the process that ends so many sales.

THE OTHER SIDE

How buyers see a wobbling deal

Founders rarely see a dead deal from the buyer's side, and the buyer's perspective is exactly what a founder needs to anticipate. To the buyer, a deal in trouble is not a tragedy; it is a routine fork with a familiar set of options.

An experienced buyer enters diligence expecting to find issues, because issues are almost always there, and treats what it finds as inputs to a decision rather than as surprises. When diligence turns up a problem, the buyer weighs three paths: proceed at the agreed terms, accepting the issue as priced in; retrade, using the issue to lower the price or shift consideration into structure; or walk, if the issue is large enough or the price can no longer be justified. The buyer chooses among these coldly, on the economics, and the seller's exclusivity and lost alternatives are part of the calculation, because they determine how much the buyer can extract through a retrade without losing the deal.

This is why preparation and leverage matter so directly. A buyer that finds a clean company with pre-tested earnings has little to retrade on and is most likely to proceed at terms. A buyer that finds problems in a seller with no alternatives has both the justification and the leverage to retrade hard, and will. The buyer is not malicious; it is rational, and its rationality is precisely what a prepared seller exploits by removing both the justification, through clean diligence, and the leverage, through preserved competition. The seller cannot change the buyer's nature, but can change the inputs to the buyer's decision.

> *To the buyer, a deal in trouble is not a crisis. It is a cold choice among proceed, retrade, and walk, and the seller's preparation decides which one is rational.*

Seeing the deal as the buyer sees it dissolves much of the fear around deal failure and replaces it with a plan. The buyer will find what is there and act on the economics; the seller's job is to ensure that what the buyer finds is clean, and that the buyer knows the seller can walk. A founder who internalizes the buyer's playbook stops hoping the deal survives and starts engineering the conditions under which it does.

PITFALLS

The mistakes that kill deals

Beyond the structural causes, a set of avoidable founder behaviors recurs in dead deals. Each hands the buyer an advantage or surrenders the seller's leverage, and each is correctable with awareness.

Treating the LOI as the finish line

The most common and most consequential mistake is relief at the LOI. A founder who treats the signed term sheet as the deal done relaxes exactly when the danger rises, and stops preparing precisely when preparation matters most. The LOI is the start of the hard part, not the end of it, and the founder who understands that keeps working through diligence rather than coasting into it.

Granting broad, early exclusivity

Founders often grant long, exclusive periods to the first serious buyer, flattered by the interest and eager to close. Exclusivity is the buyer's most valuable concession to extract, because it removes the seller's alternatives, and a founder who grants it early, broadly, and without conditions has given away the leverage needed when diligence turns. Exclusivity should be as short and as conditional as the process allows, and granted only after the buyer is vetted.

Going to market unprepared

A founder who launches a process before the company is ready, before the financials are clean, the QoE is done, the legal house is in order, is inviting the diligence surprise that kills deals. The temptation to move quickly, to capitalize on an inbound or a hot market, is real, but a fast start into an unprepared process usually ends slower, in a dead or retraded deal, than a deliberate one would have.

Running a bilateral process

Selling to a single buyer, with no competition and no alternative, is the condition in which the retrade is most powerful. Even when one buyer is the obvious or preferred acquirer, a founder should preserve competitive tension, real or credible, because it is the only thing that lets a seller refuse a repricing. The bilateral process is comfortable and dangerous in equal measure.

Letting emotion drive the endgame

By the time a retrade arrives, the founder is invested, tired, and emotionally committed to the exit, and these are poor conditions for a clear decision. Founders who have not decided their walk-away terms in advance, and who let the desire to be done override their judgment, accept deals they would have rejected at the outset. The discipline to treat the endgame as coldly as the beginning is what protects a founder from their own sunk cost.

> *The buyer is counting on relief, exclusivity, haste, isolation, and exhaustion. The prepared founder denies the buyer all five.*

These mistakes share a root with the structural causes: passivity and the surrender of leverage. The founder who stays alert after the LOI, guards exclusivity, prepares before going to market, preserves competition, and keeps emotion out of the endgame denies the buyer the conditions that kill deals. The behaviors are simple to name and hard to practice under the pressure of a live process, which is why experienced advisers, and a plan made in advance, matter so much.

07 · OUTLOOK

Outlook

Diligence is getting deeper and faster, and the pressures that kill deals are intensifying. The trends point toward more rigorous scrutiny and a higher premium on seller preparation.

Diligence gets deeper

Buyers are diligencing more thoroughly than ever, aided by better data tooling and, increasingly, by artificial intelligence that can analyze a target's financials, contracts, and operations faster and more comprehensively than a human team alone. As diligence deepens, it surfaces more, which means more opportunities for a deal to be killed or repriced, and a higher bar for the cleanliness a seller must bring. The companies that survive will be the ones prepared to a standard that anticipates this deeper scrutiny.

Tighter markets mean more retrades

When financing is expensive and buyers are cautious, the incentive to retrade rises, because a buyer under pressure on returns looks harder for reasons to pay less.[2] In such conditions, the diligence surprise that might once have been waved through becomes a repricing, and the seller's leverage matters more than ever. A founder selling into a cautious market should expect retrade attempts and prepare to resist them with clean diligence and preserved competition.

AI changes diligence on both sides

Artificial intelligence is beginning to reshape diligence for buyer and seller alike. On the buyer's side, AI tools can review contracts, reconcile financials, and flag anomalies across a data room faster and more completely than a human team, which means more findings surface and surface sooner, raising the bar a seller must clear. On the seller's side, the same tools let a founder run a more thorough self-examination before the process, identifying the issues a buyer's AI would catch and addressing them first. The likely result is a diligence process that is faster and more penetrating on both sides, in which the advantage goes to whichever party prepared more thoroughly, and in which an unprepared seller has even less room to hide than before. Founders should expect AI-assisted diligence to become standard and should prepare to its standard.

Sell-side preparation becomes standard

The response, already underway, is the normalization of sell-side preparation, and the sell-side quality-of-earnings review in particular. What was once a sophistication reserved for large deals is becoming standard practice across the lower middle market, as founders and their advisers recognize that the cost of preparation is trivial against the cost of a dead deal. Windsor Drake expects sell-side QoE and rigorous pre-process preparation to become the default for any serious technology sale, and the founders who adopt it to close at higher rates and better terms than those who do not.

> *Diligence is getting deeper and markets tougher. The founders who survive will be the ones who prepare to a standard that anticipates both, and bring nothing for a buyer to find.*

The conclusion of this report is also its most hopeful finding. Deal failure is common, but it is largely preventable, and the prevention is increasingly well understood and increasingly standard. A founder who treats the sale as a process to be prepared for, rather than an event to be survived, joins the growing group whose deals close while others die. The asymmetry between practiced buyers and once-in-a-career sellers is real, but preparation is how a founder closes it.

FOR BOARDS

A note for boards and investors

Deal failure is not only a founder's problem. For a board and its investors, a dead deal destroys a liquidity event, consumes management for a year, and can damage the company that has to return to operating after the distraction of a failed sale.

Boards have a specific role in preventing it. The most useful thing a board can do is insist on preparation before a process begins: a sell-side quality-of-earnings review, clean financials and legal records, and a realistic view of the issues diligence will surface. A board that pushes management to go to market quickly, without that preparation, raises the odds of the very failure it most wants to avoid. The board should also ensure the process preserves competition and that exclusivity is granted deliberately, because these protect the company's leverage if diligence turns.

Investors with liquidation preferences and their own fund timelines have a further interest in the outcome, and a particular exposure to the retrade, which can erode the proceeds that flow through the waterfall. An investor who understands how deals die will support the preparation that prevents it rather than pressing only for speed, and will recognize that a process run properly, even if slower to start, is far more likely to reach a clean close at the agreed price. The board and the investors, like the founder, are best served by treating the sale as a process to be prepared for, and by holding management to that standard before the first buyer is ever approached.

> *A board that pushes for a fast process without preparation raises the odds of the failure it most wants to avoid. Preparation is the board's lever, too.*

CONCLUSION

Most dead deals were preventable

The hardest lesson of a dead deal is that it was usually avoidable. The problem that killed it existed before the buyer arrived, and the leverage to resist the repricing was surrendered before it was needed.

The data tells a consistent story. Deals die after the letter of intent, in confirmatory diligence, and the leading cause is diligence finding something, most often a reduction in EBITDA, that the seller could have found and fixed first. The retrade that follows works because the seller, under exclusivity and emotionally committed, has lost both alternatives and leverage. None of this is fate; it is the predictable result of an unprepared company meeting a prepared buyer in the phase where preparation matters most.

The remedy is equally consistent. Prepare for the post-LOI phase specifically. Run the quality-of-earnings review on yourself before the buyer runs it on you. Preserve competition and leverage so a retrade can be refused. Vet the buyer before surrendering exclusivity. And refuse to let sunk cost decide a repriced deal. A founder who does these things does not eliminate every risk, but removes the great majority of them, and turns the most dangerous phase of a sale from a gauntlet into a formality. Most dead deals were preventable. The founder who understands how deals die is the one who keeps theirs alive.

> *The problem that kills a deal exists before the buyer arrives. Find it first, keep your leverage, and the most dangerous phase of a sale becomes a formality.*

REFERENCE

Deal-failure terms, defined

The terms below recur throughout this report and across the diligence and deal-failure literature.

Letter of intent (LOI)	A non-binding term sheet that sets the headline terms and typically grants the buyer exclusivity to complete diligence.
Confirmatory diligence	The buyer's in-depth examination of the target after the LOI, where most deals die.
Quality of earnings (QoE)	A forensic review testing whether reported earnings are real, recurring, and clean.
Adjusted EBITDA	Earnings before interest, tax, depreciation and amortization, adjusted for one-time items and add-backs.
Add-back	A cost excluded from EBITDA as non-recurring; a frequent point of dispute in diligence.
Retrade	A buyer's attempt to reprice a deal after exclusivity, usually citing diligence findings.
Working capital peg	The target level of working capital to be delivered at close; a common retrade channel.
Debt-like items	Liabilities treated as debt in the price calculation, reducing equity value.
Sell-side QoE	A quality-of-earnings review commissioned by the seller before the process to find issues first.

Source: Windsor Drake. Definitions are for general orientation.

THE EARLY READ

Into 2026: where deals die now

A more selective, more disciplined 2026 did not make deals easier to close; it added a new way for them to fail. Alongside the familiar diligence killers this report catalogs, the durability question, whether a target's software survives the AI transition, emerged as a fresh and frequent cause of death after the handshake.

The 2026 environment raised the bar at the exact stage where deals are most fragile. Capital tightened, buyers grew more selective, and diligence grew more searching, particularly on the AI exposure of the target. Investors openly reassessed the durability of legacy software models in early 2026, and that scrutiny migrated from the valuation conversation into the diligence room, where a buyer's doubt about a company's defensibility against AI-native competition can stall or sink a deal that survived every traditional test.

> *2026 added a new way for deals to die after the handshake, the AI-durability question, on top of the diligence killers that a more disciplined market made deadlier.*

The familiar killers, sharpened

The classic causes this report examines did not recede; a tighter market sharpened them. Quality-of-earnings discrepancies, the single most common deal-killer, bite harder when buyers are disciplined and alternatives are scarce; a downward EBITDA revision that a frothy market might have absorbed becomes fatal in a selective one. The post-letter-of-intent period, where most deals die, grew more dangerous as buyers used diligence not only to confirm value but to test conviction in a market that rewarded caution.

What it means for founders

The defense is the one this report presses, extended to the new risk: prepare the diligence file before the buyer does, run a quality-of-earnings review on yourself, and, in 2026, prepare an answer to the durability question before it is asked. A founder who can demonstrate clean earnings and a credible account of why the business compounds rather than erodes in an AI world removes the two most likely causes of a 2026 deal's death. Preparation, as ever, is what turns a fragile process into a closed one.

Sources for this section: PwC, “How AI is reshaping software valuations” and Bain 2026 outlook (durability reassessment); Skadden, “M&A in the AI era” (diligence); Windsor Drake deal-failure analysis.

Methodology and sources

This report draws on published research into broken letters of intent and the causes of deal failure, on diligence and quality-of-earnings literature, and on Windsor Drake analysis, covering 2024 through mid-2026. The headline figures on the causes of broken LOIs come from a 2025 study of failed deals; like all such studies, it describes a sample and a moment, and the shares attributed to each cause should be read as directional rather than precise, and as varying by deal size, sector, and process. The Deal Death Taxonomy and the deal-proofing checklist are Windsor Drake analytical frameworks intended to help founders prepare; they organize the known causes of failure and the known defenses, and are not guarantees against a deal dying.

The phase-level account of where deals die reflects the structure of a standard sell-side process and the firm's transaction experience. The retrade channels are drawn from published analysis of how value erodes in diligence. Nothing in this report is investment, legal, tax, or accounting advice; deal preparation in particular should be undertaken with experienced legal, financial, and accounting advisers.

Endnotes and sources

1. Broken-LOI causes (diligence findings ~46% of post-LOI failures; QoE discrepancies ~21%; non-QoE diligence ~25%; EBITDA reduction the leading trigger): Axial, "Broken LOI Report" (2025); Axial deal-failure research.
2. How value erodes in diligence and the retrade channels: Auxo Capital Advisors, "Why M&A Deals Lose Value During Due Diligence"; Focus Bankers, "Why M&A Deals Fail."
3. Where middle-market deals fail after the term sheet: ACG Insights (Middle Market Growth), "Why Middle-Market Deals Fail After the Term Sheet."
4. Founder exposure when deals fall apart after the LOI: Founder M&A, "Why M&A Deals Fall Apart After the LOI."
5. Hidden risks surfacing in diligence: KMCO, "The Hidden Deal Risks That Surface During Due Diligence."

ABOUT

About Windsor Drake Research

Windsor Drake is a sell-side M&A advisory firm for founders and boards of software, financial technology, artificial intelligence, and cybersecurity companies in the lower middle market.

The firm advises technology founders through the full arc of a sale, from positioning the company and building the buyer universe to preparing for diligence, running a competitive process, and negotiating terms. Its research program exists to make the dynamics that decide outcomes legible to the people on the selling side, who face these transactions once or twice in a career against buyers who do them constantly.

This report is part of the Windsor Drake Research series, a set of independent studies on valuation, deal structure, process, and consolidation across the firm's sectors. Companion titles examine the structure of private deals, the most active acquirers of software companies, the cross-sector valuation premium captured by the Rule of 40, the talent-led acquisition of AI companies, the consolidation of the cybersecurity industry, and the roll-up of vertical software. The series is intended to be read by founders, boards, investors, and the journalists and analysts who cover these markets.

Contact

Windsor Drake maintains offices in Toronto and New York. Founders considering a transaction, and members of the press citing this research, can reach the firm through windsordrake.com.

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