Seller Financing and Earnouts as Underwriting Tools: Aligning Price with Evidence

An Evidence-Led Framework for Deferred Price, Seller Credit and Contingent Value

Authored by Chennakeshav Adya, Independent Researcher

September 2026

Abstract

Seller financing and earnouts can convert a disputed headline valuation into a sequenced underwriting structure in which later evidence determines payment. They also transfer credit, operating, measurement, control, tax, accounting and enforcement risk between buyer and seller. This paper develops an evidence-led framework for deciding which uncertainty belongs in fixed deferred consideration, a seller note, contingent consideration, rollover equity, escrow, indemnity or the price itself. The analysis begins with the deferred-value thesis and separates purchase consideration from retention or post-combination remuneration. It maps the measurement perimeter, post-close control and value driver before selecting revenue, gross profit, EBITDA, cash, customer, regulatory or operational milestones. Every metric requires signed definitions, accounting policies, baselines, source systems, attribution rules, permitted actions and reproducible information rights. Seller notes are underwritten through obligor capacity, ranking, security, guarantees, covenants, cash sweeps, set-off, subordination, maturity and default remedies. Earnout design addresses floors, thresholds, slopes, caps, catch-up, timing, probability, discounting and counterparty credit. The framework tests pricing, customer transfers, product integration, cost allocations, investment, talent, data, intellectual property and accounting changes that can alter performance after closing. Conduct covenants and reserved matters protect the agreed economic experiment while allowing the buyer to operate the business. Regulatory and operating milestones require objective evidence, named verifiers and consequences for delay or partial achievement. Governance uses periodic reporting, a decision ledger, audit access, objection windows, expert determination and wider dispute routes. Change of control, resale, insolvency and successor obligations receive explicit treatment. The board decision compares upfront cash, expected risk-adjusted contingent value, seller-credit exposure, tax and accounting classification, enforcement cost and downside liquidity. The first-hundred-day plan preserves baselines and evidence before integration changes comparability. Five figures, five tables, eight frequently asked questions and twenty-six primary or authoritative sources support implementation. Numerical scores and payment examples are illustrative analytical scenarios. Every conclusion requires verified transaction facts and authorised legal, accounting, tax, valuation, financing, regulatory and investment advice.

JEL Classification: G32, G33, G34, K12, M41

Keywords: seller financing, earnout, contingent consideration, deferred price, vendor note, M&A, underwriting, operating control, payment security

1. Define the deferred-value thesis

State which uncertainty prevents full value from being paid at closing and how later evidence resolves it.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a contingent-value thesis.

The principal failure occurs when an earnout substitutes complexity for an unexplained valuation gap. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for define the deferred-value thesis should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

2. Separate price from retention

Distinguish consideration for the business from compensation for continued employment, service or non-compete obligations.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a consideration taxonomy.

The principal failure occurs when employment-linked conditions blur economics, tax and accounting treatment. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for separate price from retention should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

3. Map post-close control

Allocate authority over product, pricing, customers, people, technology, budgets, channels, contracts and accounting.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a control-rights matrix.

The principal failure occurs when the seller bears outcome risk while the buyer controls every operating lever. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for map post-close control should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

4. Define the measurement perimeter

Specify entities, products, customers, channels, geographies, systems and intercompany activity included in the metric.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a measurement-perimeter schedule.

The principal failure occurs when integration changes the boundary used to calculate performance. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for define the measurement perimeter should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

5. Choose the value driver

Select revenue, gross profit, EBITDA, cash, customers, product, regulatory or technical milestones that match the unresolved value question.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a metric decision paper.

The principal failure occurs when the metric is easy to report but weakly connected to value. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for choose the value driver should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

6. Test controllability

Score each candidate measure for seller influence, buyer influence, external dependence, auditability and manipulation risk.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a controllability assessment.

The principal failure occurs when payment depends on variables the continuing team cannot influence. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for test controllability should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

7. Design a metric hierarchy

Combine a primary value metric with gates, floors, caps or corroborating measures where one number is insufficient.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a metric architecture.

The principal failure occurs when a single metric rewards growth that destroys margin or cash. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for design a metric hierarchy should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

8. Define revenue under change

Specify contracts, recognition, credits, churn, cross-sell, bundles, channel sales, acquisitions and transferred customers.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a revenue rulebook.

The principal failure occurs when new packaging or routes to market make reported revenue incomparable. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

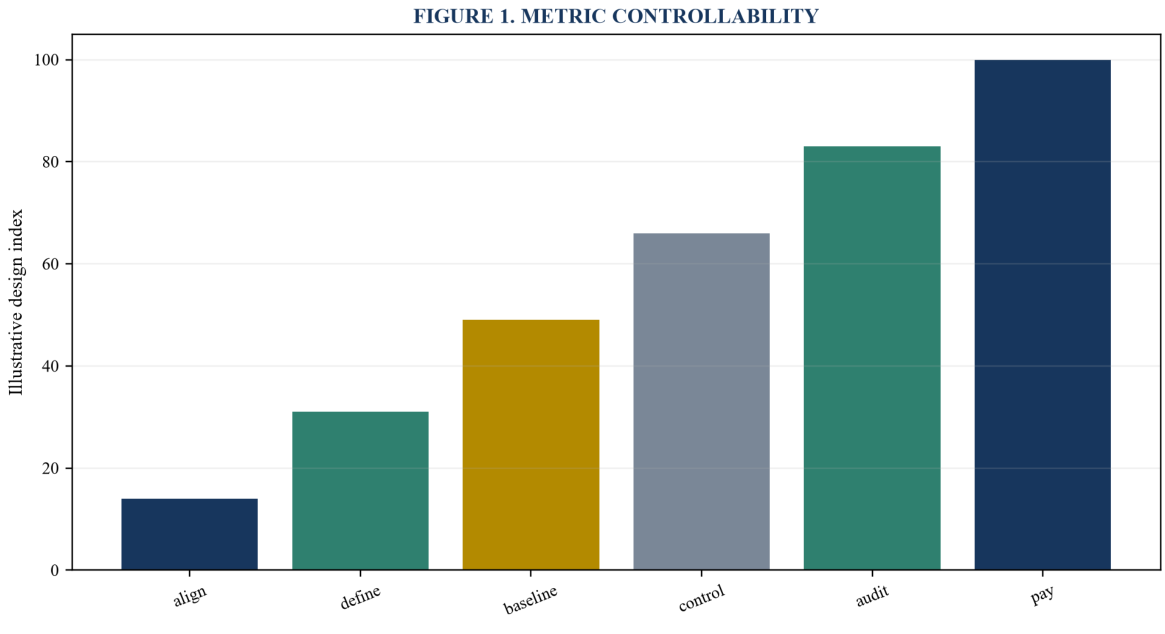
The decision pack for define revenue under change should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

Table 1. Earnout metric screen

Metric	Strength	Exposure
revenue	observable scale	pricing and attribution
gross profit	unit economics	cost classification
EBITDA	cash proxy	allocations and investment
milestone	event evidence	acceptance and timing

Illustrative design; transaction-specific definitions, law, tax and accounting advice govern.

Figure 1. Metric controllability



Values are illustrative design indices and require transaction-specific evidence.

9. Define gross profit

Fix direct-cost categories, hosting, model inference, data, support, implementation, commissions and allocation methods.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a gross-profit bridge.

The principal failure occurs when AI-driven unit-cost changes shift value between revenue and contribution. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for define gross profit should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

10. Define EBITDA

Specify accounting policies, add-backs, shared costs, integration charges, stock compensation, purchase accounting and buyer allocations.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an earnout EBITDA schedule.

The principal failure occurs when post-close charges reduce the measure without reducing underlying performance. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for define ebitda should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

11. Design the seller note

Specify obligor, principal, currency, interest, amortisation, maturity, prepayment, cash sweep, ranking, security, guarantees and transfer rights.

The controlled record should show the payment period, principal, obligor, source of repayment, interest basis, priority, collateral, covenant, cash control, permitted leakage, default, remedy, evidence, owner, deadline and approval. The immediate deliverable is a seller-note term and capacity schedule.

The principal failure occurs when deferred fixed price becomes an unsecured claim on an overleveraged acquisition vehicle without protected cash access. Reviewers should test repayment capacity, structural and contractual subordination, security perfection, covenant headroom, permitted distributions, senior-lender controls, enforcement routes and insolvency outcomes.

The decision pack for design the seller note should state the commercial purpose, funding need, current evidence, credit range, ranking and security, accounting and tax questions, covenant package, reporting requirement, default remedy, authority and next gate. Material exceptions should flow into the sources-and-uses model, financing plan, governance ledger, board reporting, enforcement file and settlement process.

12. Underwrite seller-credit protection

Test source of repayment, senior debt restrictions, collateral value, guarantee capacity, cash leakage, covenant cure and enforcement timing.

The controlled record should show the obligor group, cash generation, debt waterfall, security, intercreditor terms, guarantees, covenants, distributions, default triggers, enforcement route, recovery range, evidence, owner, deadline and approval. The immediate deliverable is a seller-credit protection matrix.

The principal failure occurs when enterprise value supports the headline price while the legal obligor lacks cash, collateral or priority to pay the deferred amount. Reviewers should reconcile debt documents, entity cash flows, security and guarantees, model downside recovery and confirm that buyer financing terms permit the agreed payment mechanics.

The decision pack for underwrite seller-credit protection should state the commercial purpose, repayment forecast, current evidence, downside recovery, ranking, accounting and tax questions, covenant package, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, financing plan, governance ledger, board reporting, enforcement file and settlement process.

13. Control product integration

Define attribution for bundled products, migrated customers, shared roadmaps, discontinued offers and platform dependencies.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a product-attribution schedule.

The principal failure occurs when buyer integration makes standalone performance unobservable. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control product integration should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

14. Control pricing decisions

Set rules for discounts, bundles, free tiers, transfer pricing, renewal terms and strategic customer concessions.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a pricing protection covenant.

The principal failure occurs when buyer pricing choices defer revenue or move economics elsewhere. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control pricing decisions should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

15. Control sales allocation

Define lead ownership, territories, channels, quotas, account transfers, cross-sell credit and conflict resolution.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a sales-credit policy.

The principal failure occurs when revenue is diverted through the buyer's existing organisation. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control sales allocation should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

16. Control cost allocation

Identify permitted shared services, allocation bases, mark-ups, caps, exclusions and evidence.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a shared-cost schedule.

The principal failure occurs when corporate overhead absorbs the earnout through discretionary allocations. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

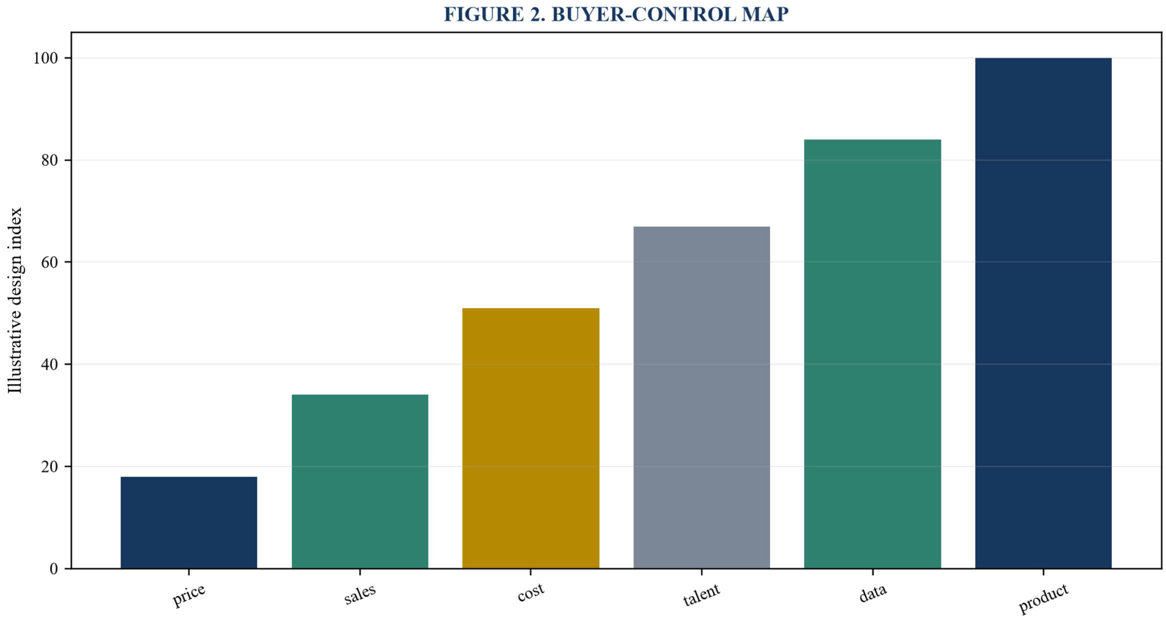
The decision pack for control cost allocation should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

Table 2. Control protections

Lever	Buyer action	Protection
pricing	discount or bundle	pricing rule
customers	transfer account	credit policy
costs	allocate overhead	allocation schedule
people	reassign talent	continuity covenant

Illustrative design; transaction-specific definitions, law, tax and accounting advice govern.

Figure 2. Buyer-control map



Values are illustrative design indices and require transaction-specific evidence.

17. Control investment levels

Set agreed product, sales, compliance, compute and staffing commitments or decision processes.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an investment covenant.

The principal failure occurs when the buyer withholds the resources required to achieve the milestone. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control investment levels should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

18. Control talent decisions

Specify critical roles, hiring authority, retention, replacement, incentives and organisational changes.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a talent-continuity plan.

The principal failure occurs when key people are reassigned or lost while the seller retains performance risk. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control talent decisions should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

19. Control data and IP access

Define access to datasets, models, code, tools, licences, security environments and improvement rights.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a post-close enablement schedule.

The principal failure occurs when the acquired business cannot use assets required for its plan. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control data and ip access should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

20. Control accounting changes

Establish hierarchy among the agreement, examples, historical policies, consistency and applicable standards.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an accounting-principles hierarchy.

The principal failure occurs when a new accounting policy changes the metric after closing. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control accounting changes should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

21. Design milestone evidence

Define observable completion, acceptance criteria, test environment, reviewer, cure and timestamp for non-financial milestones.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a milestone acceptance protocol.

The principal failure occurs when a milestone depends on subjective satisfaction. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for design milestone evidence should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

22. Design regulatory milestones

Separate submission, acceptance, clearance, reimbursement and commercialisation with jurisdiction-specific evidence.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a regulatory milestone ladder.

The principal failure occurs when approval risk is compressed into an ambiguous binary event. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for design regulatory milestones should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

23. Set the baseline

Reconcile historical and forecast periods, normalisations, perimeter, policies and source systems before signing.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a signed baseline pack.

The principal failure occurs when the earnout starts from a disputed or moving reference point. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for set the baseline should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

24. Set thresholds and slopes

Model floors, targets, interpolation, accelerators, caps, carry-forward and catch-up across realistic distributions.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a payout curve.

The principal failure occurs when cliff structures create extreme value transfer around small measurement differences. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

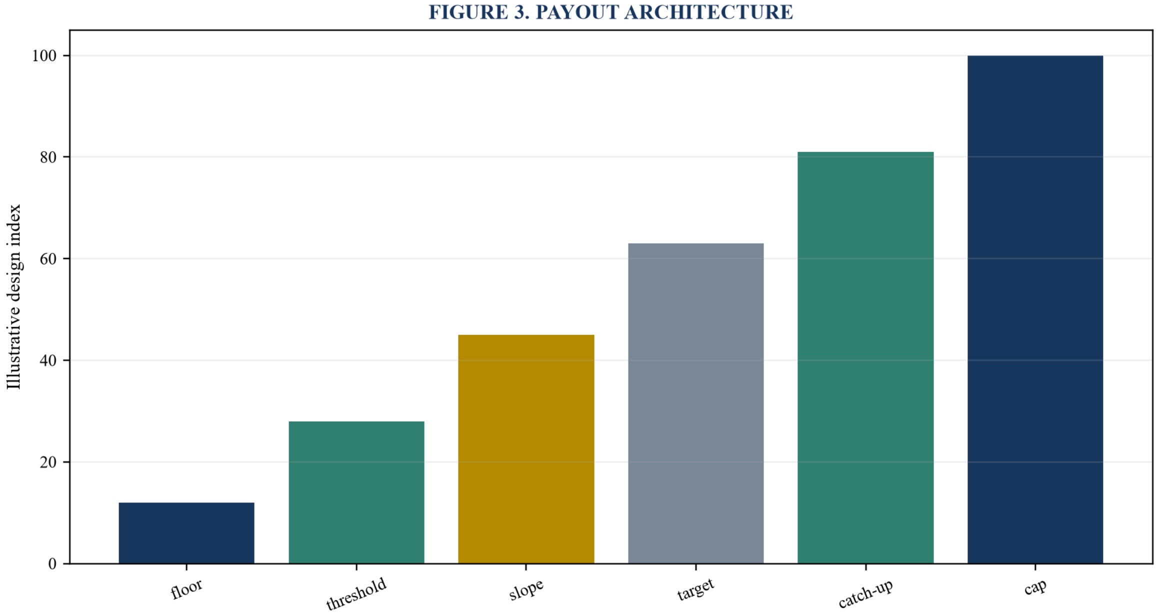
The decision pack for set thresholds and slopes should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

Table 3. Payout design

Element	Question	Output
floor	minimum performance	eligibility
slope	incremental reward	interpolation
cap	maximum payment	exposure
carry	timing variance	catch-up

Illustrative design; transaction-specific definitions, law, tax and accounting advice govern.

Figure 3. Payout architecture



Values are illustrative design indices and require transaction-specific evidence.

25. Model scenarios

Run operating, AI adoption, pricing, integration, allocation, delay and downside cases with probability ranges.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a contingent-proceeds model.

The principal failure occurs when the headline maximum is mistaken for expected value. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for model scenarios should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

26. Value the earnout

Use probability-weighted cash flows, timing, discounting, volatility, correlation and counterparty risk.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a fair-value range.

The principal failure occurs when seller and buyer negotiate nominal maximum without understanding economic value. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for value the earnout should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

27. Test funding and credit

Assess obligor, guarantees, security, escrow, set-off, subordination, change of control and payment mechanics.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a payment-security package.

The principal failure occurs when a valid earnout becomes an unsecured claim on a weakened obligor. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for test funding and credit should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

28. Control information rights

Define reports, source data, system access, certifications, audit rights, retention and delivery timing.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an earnout evidence pack.

The principal failure occurs when the seller cannot reproduce the buyer's calculation. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for control information rights should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

29. Create the operating ledger

Record decisions affecting metrics, resources, allocations, customers, products, data and milestones throughout the period.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a decision and impact ledger.

The principal failure occurs when post-close operational choices leave no contemporaneous evidence. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for create the operating ledger should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

30. Set governance cadence

Establish monthly reporting, quarterly review, named representatives, reserved matters and escalation.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an earnout governance calendar.

The principal failure occurs when issues accumulate until the calculation date. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for set governance cadence should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

31. Define conduct covenants

Translate agreed operating protections into specific affirmative, negative and efforts obligations.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a conduct covenant schedule.

The principal failure occurs when general good-faith language carries expectations that were never drafted. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for define conduct covenants should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

32. Define permitted integration

List actions that may proceed, actions requiring consultation and actions requiring consent.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an integration decision matrix.

The principal failure occurs when ordinary integration silently destroys metric comparability. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

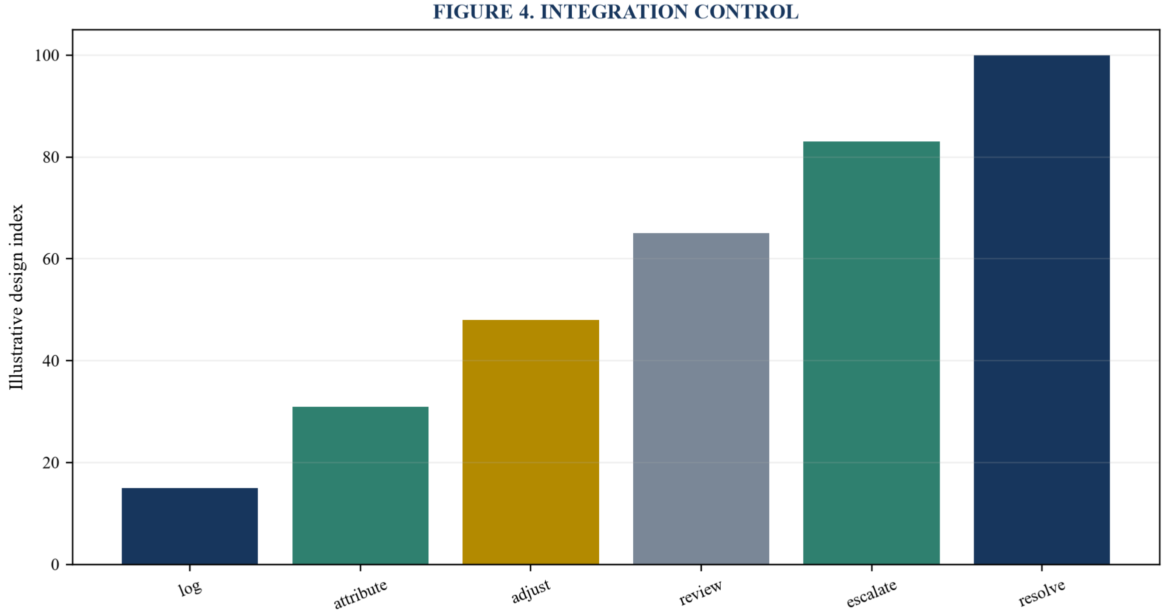
The decision pack for define permitted integration should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

Table 4. Integration decisions

Action	Metric effect	Governance
bundle product	revenue attribution	rule
merge team	cost and capacity	approval
migrate customer	perimeter	credit
change model	margin and quality	adjustment

Illustrative design; transaction-specific definitions, law, tax and accounting advice govern.

Figure 4. Integration control



Values are illustrative design indices and require transaction-specific evidence.

33. Design expert determination

Define accountant or expert scope, submissions, access, timetable, standards, costs, finality and exclusions.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an expert-determination protocol.

The principal failure occurs when accounting and contractual disputes enter the wrong forum. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for design expert determination should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

34. Design broader dispute resolution

Allocate interpretation, conduct, fraud, covenant, employment and payment disputes to the correct process.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a dispute forum map.

The principal failure occurs when the specialist expert is asked to decide legal or behavioural questions. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for design broader dispute resolution should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

35. Protect against set-off

Define whether and how indemnity or other claims may reduce earnout payments, with notice and security rules.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a set-off control.

The principal failure occurs when unresolved claims become unilateral payment deductions. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for protect against set-off should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

36. Plan exit and change of control

Address resale, carve-out, discontinuation, insolvency, management change and acceleration.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a successor-obligation schedule.

The principal failure occurs when the buyer transfers the business before the earnout can mature. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for plan exit and change of control should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

37. Prepare the board decision

Present upfront proceeds, expected contingent value, control asymmetry, downside, tax, accounting and enforcement considerations.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a risk-adjusted consideration paper.

The principal failure occurs when the board compares maximum earnout with cash at closing. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for prepare the board decision should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

38. Execute the first hundred days

Mobilise baselines, systems, people, metric policies, governance, investment and evidence before integration changes the business.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a 100-day earnout plan.

The principal failure occurs when control begins after comparability has already been lost. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for execute the first hundred days should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

39. Run the measurement close

Reconcile source data, policies, adjustments, certifications, objections, expert issues and funds flow.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is a controlled measurement close.

The principal failure occurs when the calculation becomes a new diligence exercise after period end. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

The decision pack for run the measurement close should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

40. Close through evidence gates

Require agreed perimeter, controllable metrics, operating protections, auditable data, funded payment and accountable residual risk.

The controlled record should show the measurement period, perimeter, metric definition, baseline, source system, accounting policy, operating control, buyer decision, seller influence, external dependency, evidence, adjustment, payout effect, owner, deadline and approval. The immediate deliverable is an earnout close certificate.

The principal failure occurs when the earnout is signed as a headline compromise rather than an executable contract. Reviewers should reproduce the calculation, separate operating performance from buyer-controlled change, test attribution and consistency, identify incentives and manipulation paths, quantify the payment effect and confirm the contractual protection, information right and dispute route.

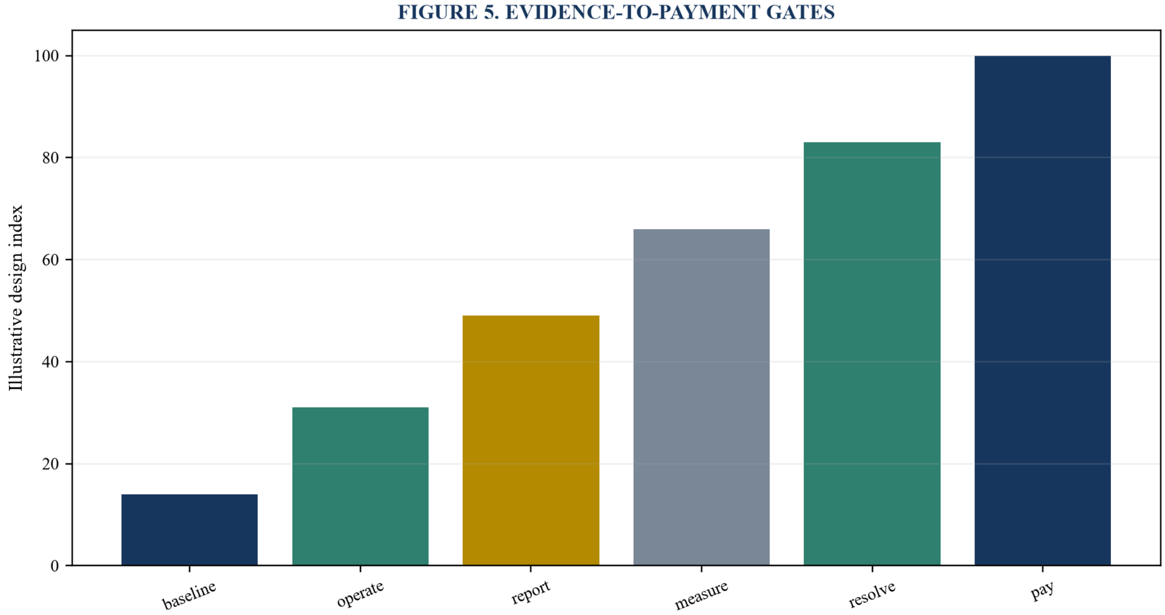
The decision pack for close through evidence gates should state the commercial purpose, original forecast, current evidence, control allocation, scenario range, accounting and tax questions, conduct obligation, reporting requirement, remedy, authority and next gate. Material exceptions should flow into the payout model, integration plan, governance ledger, board reporting, dispute file and settlement process.

Table 5. Earnout close gates

Gate	Required proof	Decision
metric	controllable and aligned	accept
operations	protections funded	approve
evidence	data reproducible	verify
payment	obligor and process	sign

Illustrative design; transaction-specific definitions, law, tax and accounting advice govern.

Figure 5. Evidence-to-payment gates



Values are illustrative design indices and require transaction-specific evidence.

References

[1] IFRS Foundation, IFRS 3 Business Combinations, https://www.ifrs.org/issued-standards/list-of-standards/ifrs-3-business-combinations/

[2] IFRS Foundation, IFRS 13 Fair Value Measurement, https://www.ifrs.org/issued-standards/list-of-standards/ifrs-13-fair-value-measurement/

[3] IFRS Foundation, IFRS 15 Revenue from Contracts with Customers, https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/

[4] IFRS Foundation, IFRS 9 Financial Instruments, https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/

[5] IFRS Foundation, Accounting for Contingent Consideration in a Business Combination, https://www.ifrs.org/projects/completed-projects/2013/accounting-for-contingent-consideration-in-a-business-combination/

[6] IFRS Foundation, Post-implementation Review of IFRS 3, https://www.ifrs.org/news-and-events/news/2015/06/iasb-completes-post-implementation-review-of-business-combinations-standard/

[7] Financial Accounting Standards Board, Business Combinations, https://www.fasb.org/page/PageContent?pageId=/projects/active/business-combinations.html

[8] Financial Accounting Standards Board, Revenue Recognition Implementation, https://fasb.org/page/pccAccordion?bcpath=tff&pageId=%2Fstandards%2Fimplementing%2Frevrec.html

[9] US Securities and Exchange Commission, 2026 Earn-Out Agreement Exhibit, https://www.sec.gov/Archives/edgar/data/1370450/000110465926057350/wldn-20260403xex2d2.htm

[10] US Securities and Exchange Commission, Contingent Consideration Assumptions, https://www.sec.gov/Archives/edgar/data/1895249/000155837025010044/R108.htm

[11] US Securities and Exchange Commission, Revenue and EBITDA Earnout Terms, https://www.sec.gov/Archives/edgar/data/1828016/000119312524221408/d865610dex992.htm

[12] US Securities and Exchange Commission, Contingent Consideration Remeasurement, https://www.sec.gov/Archives/edgar/data/1819848/000181984826000160/R29.htm

[13] Delaware Supreme Court, Lazard Technology Partners v Qinetiq North America, https://courts.delaware.gov/opinions/%281nwswx45eocieo45fxqykg55%29/download.aspx?ID=222690

[14] Delaware Court of Chancery, Shareholder Representative Services v Albertsons, https://courts.delaware.gov/Opinions/Download.aspx?id=320970

[15] Delaware Court of Chancery, Fortis Advisors v Medtronic, https://courts.delaware.gov/Opinions/Download.aspx?id=364150

[16] Delaware Court of Chancery, Fortis Advisors v Johnson and Johnson, https://courts.delaware.gov/Opinions/Download.aspx?id=369060

[17] UK Takeover Panel, The Takeover Code, https://www.thetakeoverpanel.org.uk/the-code

[18] International Valuation Standards Council, International Valuation Standards, https://www.ivsc.org/standards/

[19] IFRS Foundation, IAS 12 Income Taxes, https://www.ifrs.org/issued-standards/list-of-standards/ias-12-income-taxes/

[20] IFRS Foundation, IAS 19 Employee Benefits, https://www.ifrs.org/issued-standards/list-of-standards/ias-19-employee-benefits/

[21] IFRS Foundation, IFRS 2 Share-based Payment, https://www.ifrs.org/issued-standards/list-of-standards/ifrs-2-share-based-payment/

[22] US Securities and Exchange Commission, Financial Reporting Manual Topic 3, https://www.sec.gov/about/divisions-offices/division-corporation-finance/financial-reporting-manual/frm-topic-3

[23] Organisation for Economic Co-operation and Development, Corporate Governance Factbook, https://www.oecd.org/corporate/corporate-governance-factbook/

[24] International Auditing and Assurance Standards Board, International Standards on Auditing, https://www.iaasb.org/publications-resources

[25] Institute of Chartered Accountants in England and Wales, Completion Mechanisms, https://www.icaew.com/-/media/corporate/files/technical/corporate-finance/guidelines/icaew-completion-mechanisms-v2.ashx?la=en

[26] World Bank Group, Corporate Governance,
https://www.ifc.org/en/what-we-do/sector-expertise/corporate-governance

About the Author

Authored by Chennakeshav Adya, Independent Researcher

Chennakeshav (CK) is a corporate finance and investment banking executive with 25+ years of global experience in deal origination, structuring and execution across M&A, growth capital and corporate strategy. He has led value-creation mandates for founders, corporates and funds — bridging the boardroom view to hands-on execution and close.

His career spans Morgan Stanley, HSBC, Lloyds Banking Group, EWEC, ADQ portfolio companies and Emirates Growth Fund, across TMT, real estate, fintech, deeptech, cleantech, infrastructure and energy. He has partnered with C-suite leaders, private equity and venture funds, sovereign wealth funds and family offices to finance complex fund raises and scale-up ventures, and has led M&A due diligence, post-merger integration and business-transformation initiatives to create value.

At Matchpoint Partners he is Managing Partner, leading the firm's corporate finance, M&A and capital-raising practice. He holds an MBA from London Business School, an engineering degree from VTU and a Master of Laws (LLM, in progress) from UCL London.

An active start-up mentor, CK mentors at Techstars, DIFC FinTech Hive, Startup Grind, Founder Institute and IN5, serves as Entrepreneur Mentor in Residence (EMiR) at London Business School, and judges the Entrepreneurship World Cup.