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Earn-Out Verification in International M&A: Using AUPs to Review Revenue Metrics

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By the Guillen Pujol CPA Group Editorial Team

Executive Summary

- **Context:** In an international transaction, an earn-out can trigger additional payments after closing if the acquired business hits agreed metrics such as revenue, EBITDA, royalties, customer retention, or other performance targets.
- **The operational risk**: When a buyer and a seller operate across jurisdictions, the same metric can be calculated differently due to differences in accounting systems, currencies, local ledgers, intercompany charges, and revenue recognition criteria.
- **The AUP's role**: An AUP engagement applies agreed-upon procedures to selected calculations, schedules, reconciliations, or source data, and reports factual findings. It does not issue an opinion, does not perform a valuation, and does not interpret the contract.
- **The transactional response:** Before starting the engagement, the parties must precisely define the metric, the calculation method, the data sources, the cut-off dates, the intended users, the intended use, and the supporting documentation.

A contingent payment (earn-out) is a common clause in acquisitions whereby part of the price is deferred and paid only if the acquired business reaches certain performance targets after closing. For many transaction teams, it is an elegant solution: the buyer reduces part of the initial risk, and the seller keeps the possibility of an additional payment.

The difficulty appears when the measurement period arrives, and the agreed formula must be applied to the actual operation. What looked clear in the Purchase Agreement—revenue, EBITDA, gross margin, royalties, or customer retention—can get tangled once the business has been integrated, the reports have changed, operations have merged, or the data comes from several jurisdictions.

In international transactions, that complexity increases. A single metric may depend on foreign subsidiaries, local accounting records, different currencies, intercompany transactions, transfer pricing

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policies, withholding taxes, or reporting systems that were never designed to answer a specific post-closing question.

Here, an agreed-upon procedures engagement (AUP) can help the parties focus on verifiable information. The CPA does not decide whether the earn-out should be paid or who is right. Its role is to apply agreed-upon procedures to selected information and report factual findings within a defined scope.

Why Earn-Out Calculations Become Complex After Closing

Performance metrics do not live in the contract; they live in daily operations.

In a domestic transaction, differences can already create friction. In an international transaction, the review gets more complicated—the data may live in different ERP or CRM systems, managed by local accounting teams that were not set up to coordinate with one another. In earn-outs, the critical point is not just calculating the metric, but proving that the calculation is traceable, comparable, and consistent with what the parties agreed upon.

Common Triggers of Earn-Out Disputes in Cross-Border Deals

Earn-out disputes do not always arise from bad faith. They often emerge because the buyer and the seller agree on the general metric but not on how it should be calculated, supported, or reconciled after closing.

Differences can appear in revenue recognition, allowable EBITDA adjustments, the allocation of shared expenses, customer classification, the treatment of recurring revenue, or the inclusion of certain business lines.

Tension can also arise around the concept of commercially reasonable efforts. The seller may feel the buyer did not sufficiently support the growth of the acquired business during the measurement period, while the buyer may argue it acted within the normal operating framework of the integration.

When the transaction is international, other layers of complexity are added. The metric can be affected by transfer pricing, withholding taxes, differences between local and consolidated reporting, or — above all — changes in how the group moves cash after closing. In that scenario, the conflict can shift from an abstract discussion about commercial intent to a more concrete question: what the data shows, under what criteria it was prepared, and what procedures can be applied to review it.

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How an AUP Engagement Can Provide Factual Findings on Selected Metrics

An AUP engagement adds value when the parties need to review specific information tied to the earn-out calculation or to a post-closing metric.

The scope can focus on revenue recognized during the measurement period, EBITDA adjustments defined in the Purchase Agreement, royalty schedules, customer retention metrics, gross margin calculations, intercompany charges, applied exchange rates, reconciliations between local ledgers and consolidated reports, or cut-off testing at the start or close of the period.

The CPA can also perform procedures on data exported from ERP or CRM systems, inspect selected source documents, review invoices, reconcile internal reports, or compare schedules prepared by the parties.

The key is that the CPA does not interpret the contract or decide which party is right. The procedures are applied to specific data, under agreed criteria, and with defined users. The result is a factual findings report that the parties can use alongside their legal, financial, or transactional advisors.

What an AUP Report Does—and Does Not Do

Within the agreed scope, an AUP report documents what information was reviewed, what procedures were applied, and what factual findings were identified. Its value is not in covering everything, but in the precision of what it covers and the traceability of the evidence it is applied to.

But its limits must also be clear. The report does not provide assurance, does not value the company, and does not interpret the Purchase Agreement. The decision on the earn-out, the existence of a breach, or the advisability of going to arbitration rests with the parties and their advisors.

An AUP report does not resolve the dispute; it only records the procedures performed and the findings obtained.

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How to Prepare Before Starting an AUP on Earn-Outs or Revenue Metrics

Although this type of engagement can be flexible, it works best when the parties come with a well-defined question.

The first step is to identify the specific earn-out clause, the metric to be reviewed, the measurement period, the cut-off dates, the calculation method, and the data sources that will serve as the basis for the procedures. The second step is to gather the supporting documentation: the Purchase Agreement, revenue reports, EBITDA schedules, royalty schedules if applicable, ERP or CRM exports, local ledgers, trial balances, invoices, bank records, intercompany agreements, exchange-rate support, and reconciliations prepared by the finance team.

In international structures, it is also necessary to identify who controls the information in each jurisdiction. This may include local accounting teams, tax advisors, regional controllers, post-closing integration teams, or internal systems owners. The central point is to define from the outset the subject matter, the criteria, the procedures, the data sources, the intended users, and the intended use of the report. A well-defined question at the start produces more precise findings and reduces the risk that the scope will have to be adjusted once the process is underway.

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Do You Need to Review an Earn-Out or a Revenue Metric in an International Transaction?

In international transactions, post-closing calculations, earn-out measurement periods, and multi-jurisdictional reconciliations fail when data cannot be presented in a traceable, comparable, and documented way to the parties who must make the decision.

At Guillen Pujol CPA Group, we work with investors, family offices, business groups, and companies with international operations that need clear, traceable documentation in cross-border transactions.

Our related services include:

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- **Agreed-Upon Procedures (AUP):** scope definition, criteria, procedures, data sources, intended users, and intended use to report factual findings on selected information.
- **International Tax Consulting:** analysis of cross-border structures, transfer pricing, withholding taxes, royalty flows, cash repatriation, and documentation prepared for third-party review.
- **Cross-Border Transaction Support:** assistance in organizing financial, tax, and operational information for buyers, sellers, investors, advisors, and other stakeholders.
- **International Tax Compliance:** coordination of multi-jurisdictional information, tax calendars, international obligations, intercompany documentation, and support for structures operating across multiple jurisdictions.

If your team needs to review an earn-out, a revenue metric, or a post-closing calculation in an international transaction, the next step is an evaluation session with our senior team. We review the context of the deal, the metric in question, the available data sources, the intended users, and the preliminary scope of procedures.

The session is exploratory: it allows us to understand the case before preparing a technical proposal tailored to the transaction.

[Request your evaluation session]

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