

Completion Accounts:

Practical guidance
for securing the
purchase price

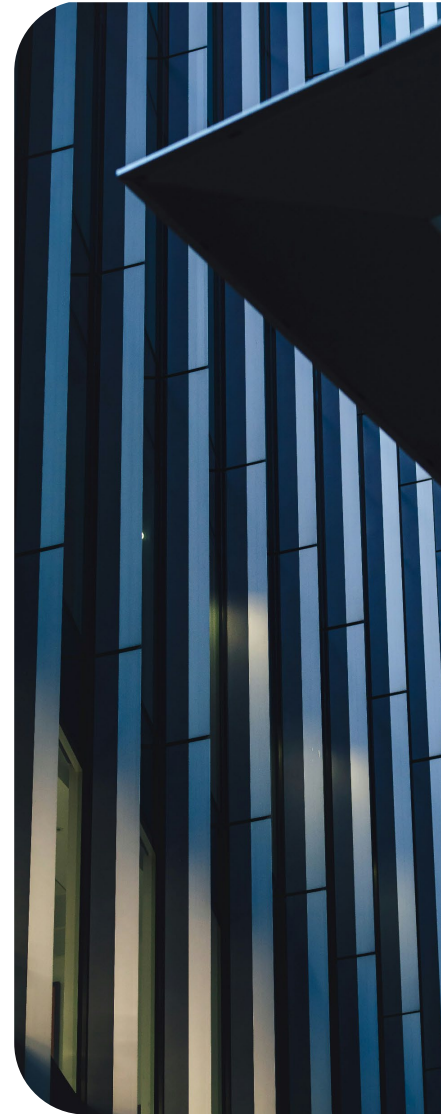
Foreword

Completion Accounts are a critical component of North American M&A transactions. Unlike in Europe, where the Locked Box mechanism often dominates, Completion Accounts remain the standard across the US and Canada. This guide is designed to help investors, dealmakers, and advisors navigate the complexities of Completion Accounts as a post-closing price adjustment tool.

This guide aims to serve as a valuable resource throughout the transaction process, providing practical insights that will:

- facilitate smooth collaboration between buyers and sellers,
- help anticipate and address potential disagreements, in particular over Net Working Capital,
- minimise the risk of post-close disputes that can jeopardise deal value.

By understanding the intricacies of Completion Accounts, readers will be better equipped to structure deals that are fair, transparent, and resilient to common pitfalls.



Getting in touch:



Christophe Delas

Partner | Transaction Services
christophe.delas@8advisory.com



Louis Legros

Director | Transaction Services
louis.legros@8advisory.com

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Key takeaways



Completion Accounts, a standard in North America, offer stronger protection in volatile businesses



The final purchase price is not fixed at signing and is determined after closing, based on actual financials



Short signing-to-closing periods reduce execution risk and balance sheet manipulation



Net Working Capital is often the most scrutinised purchase price adjustment mechanism



Setting the Target Net Working Capital is both a technical and commercial exercise



Contractual precision in the SPA is a prerequisite



Post-close disputes are largely preventable through upfront discipline



The preparation and review checklist is a risk management tool



Completion
Accounts



Completion Accounts fundamentals

Completion Accounts Fundamentals

Completion Accounts are a post-closing price adjustment mechanism commonly used in M&A transactions in the United States and Canada.

Tenets of Completion Accounts

Under Completion Accounts, the final purchase price is determined after the deal closes, based on the actual financial position of the target company at the closing date.

The buyer and seller agree on a base price (i.e. Enterprise Value) and then adjust it post-closing. Accordingly, parties agree on how to calculate adjustments to the base price. Adjustments generally cover Cash, Debt, Net Working Capital (NWC), and Target Net Working Capital (also known as the "PEG").

At closing, estimated figures are used to determine the preliminary purchase price. At the completion date, the actual numbers are determined, and the preliminary purchase price is adjusted up or down consequently. As a result, the final purchase price is unknown until after closing.

Figure 1: Example of the purchase price calculations and associated purchase price adjustment

	At Closing (estimates)	Post-Closing (actuals)	Purchase Price Adjustment
Base Price	\$100m	\$100m	-
(+) Cash	\$10m	\$11m	+\$1m
(-) Debt	\$5m	\$5m	-
Net Working Capital	\$16m	\$14m	-
Target NWC / PEG	\$15m	\$15m	-
(-) NWC Shortfall	-	\$1m	-
(+) NWC Excess	\$1m	-	-\$2m
Purchase Price	\$106m	\$105m	-\$1m

Source: Eight Advisory

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Completion Accounts Fundamentals

Typical Completion Accounts timeline

Signing and closing are two important dates in the context of Completion Accounts. It is generally best to reduce the time between signing and closing and to favour a month-end closing, as both steps help ensure accuracy, reduce risk, and streamline the adjustment process.

Reference date



Signing date

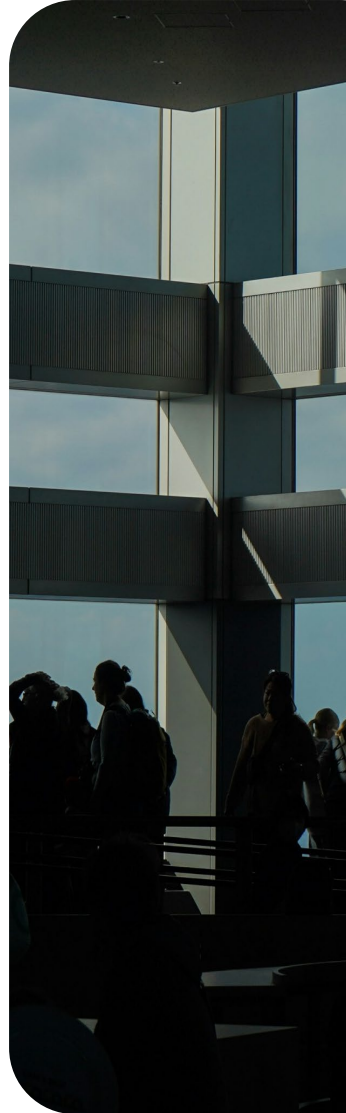


Closing date



True-up date

- Usually equivalent to the date of the latest financial statements subject to Due Diligence and/or audit.
- Date used for sample calculations exhibits.
- Base price has been set while definitions of other price components have been agreed.
- Seller has control of the target company through Closing.
- Buyers has the ability to challenge Completion Accounts.
- Purchase price has been estimated and is paid to the Seller.
- Economic risks transfer to Buyer.
- Completion Accounts have been prepared, reviewed and agreed.
- Purchase price is adjusted.



Completion Accounts Fundamentals

The longer the gap between signing and closing, the more the target company's financial position can change, increasing the **risk of unexpected adjustments or disputes over the Completion Accounts**.

- A shorter period reduces the opportunity for the seller to influence the balance sheet (e.g., delaying payables, accelerating receivables).
- Prolonged periods may also lead to deal fatigue, increased costs, and higher risk of adverse events (e.g., loss of key staff, customer changes).

Financial accounts are typically prepared monthly, so a **month-end closing aligns with the company's normal reporting cycle**.

- Net Working Capital, Cash, and Debt balances are more accurately determined at month-end, reducing ambiguity and the risk of errors.
- There is usually more supporting documentation and audit evidence available for month-end figures.

Successfully navigating Completion Accounts requires rigorous preparation, precise SPA definitions, specialised expertise, and proactive collaboration between all parties.



Completion Accounts provide a bridge between signing and closing, helping ensure that value created or lost during that period is fairly reflected in the final purchase price.

Christophe Delas, Partner Eight Advisory

Completion Accounts Fundamentals

Major differences between Completion Accounts and Locked Box

Completion Accounts are usually preferred when the business is volatile, or the buyer wants protection against changes in financial position up to closing. In the context of carve-out situations or when no periodic and accurate balance sheets are prepared, Completion Accounts are also preferred to Locked Box.

Locked Box is common in Europe and favoured for stable businesses, or when the seller wants price certainty and a clean exit with limited post-closing negotiations.

	Completion Accounts	Locked Box
Popularity	Common in North American deals	Common in Europe
Complexity	More complex, can lead to disputes	Simpler, but needs robust diligence
Buyer Protection	Adjusts for changes up to closing	Relies on seller's leakage covenants
Seller Risk	Less risk post-closing	Risk of value leakage
Price Adjustment	Post-closing, based on actuals	Fixed at signing, based on historical accounts
Transfer of Economic Risks & Benefits	At Closing	At Locked Box date

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Integration with other price adjustment mechanisms

Earn-outs are contingent mechanisms where part of the purchase price depends on future performance. Unlike Completion Accounts, which adjust the price based on actuals at closing, earn-outs are based on post-closing results and may require separate accounting treatment.

Escrow accounts or retention mechanisms are used to secure potential post-closing claims or adjustments. They can be integrated with Completion Accounts to provide additional protection for buyers, especially in cases where disputes are anticipated.

Completion Accounts fundamentals

Best practices



Reference Amounts

- Negotiate the base price and reference amounts for other components of the purchase price (e.g., Cash, Debt, Net Working Capital, and Target Net Working Capital) as early as practically feasible.
- Involve finance teams and advisors early in the process.



Definitions

- Precisely define all components of the purchase price (e.g., base price, Cash, Debt, Net Working Capital, and Target Net Working Capital), including the specific items that should be included in and excluded from each. Alternatively, include broad definitions where precise definitions are not possible.
- Specify the accounting standards and policies to be used (often “consistent with past practices”). In case a month-end closing is not possible, ensure robust procedures for capturing accurate balances at the chosen closing date, and consider using a “pro forma” month-end balance if closing mid-month.
- Attach detailed schedules to the Sale and Purchase Agreement outlining calculation methodologies and sample accounts, to illustrate how adjustments to base price will be made.



Timelines

- Set clear deadlines for preparation (usually by the buyer), review, and agreement of Completion Accounts.
- Only allow as much time as needed for regulatory approvals, financing, or other conditions precedent.
- Request regular financial updates during the interim period between signing and closing.



Covenants

- Include robust covenants to ensure the business is run in the ordinary course and prevent manipulation of accounts before closing.
- Consider restrictions on extraordinary transactions or asset disposals.



Dispute resolution

- Agree upfront on an independent expert or auditor to resolve disputes or set a process for appointment.
- Define the scope of the expert’s review and binding nature of their decision.

Completion Accounts Fundamentals

Checklist for Completion Accounts preparation and review

- 
- ☐ Review target's historical accounting policies and practices, ensuring consistency with past practices and definition in the Sale and Purchase Agreement.
 - ☐ Identify all cash & cash equivalents and debt-like items in accordance with the definitions included in the Sale and Purchase Agreement, which may be detailed or broad.
 - ☐ Investigate any contingent liabilities or off-balance sheet obligations.
 - ☐ Extend the analysis of Net Working Capital trends and seasonality.
 - ☐ Assess handling of cut-off and ageing for receivables, payables, inventory, accruals, etc.
 - ☐ Confirm treatment of intercompany accounts and related party transactions.
 - ☐ Identify any non-recurring or extraordinary items in recent accounts.
 - ☐ Check for pending asset sales, acquisitions, or large contracts that could affect balances.
 - ☐ Examine provisions for tax liabilities and deferred taxes.
 - ☐ Ensure compliance with covenants between signing and closing.
 - ☐ Compare with sample Completion Accounts from previous periods.
 - ☐ Confirm availability of an audit trail and supporting documentation for all key balances.
 - ☐ Ask about prior disputes over Completion Accounts in previous deals.



Focus on Net Working Capital

Focus on Net Working Capital

The Target Net Working Capital or PEG is a critical element in M&A transactions with Completion Accounts, directly impacting the purchase price and operational continuity post-close.

Definition of Net Working Capital

Net Working Capital (NWC) is a key financial metric representing the difference between a company's current assets and current liabilities. In the context of M&A transactions, NWC is typically calculated as:

$$\text{NWC} = \text{Current Assets} - \text{Current Liabilities}$$

However, not all current assets and liabilities are included. Standard practice is to exclude items such as cash, income tax payable, short-term debt, and any non-operating assets or liabilities identified during due diligence. The goal is to focus on the capital required for day-to-day operations, ensuring the business can run smoothly post-transaction.

NWC in transactions with Completion Accounts

In M&A deals structured with Completion Accounts, the PEG refers to the agreed-upon target level of Net Working Capital that the buyer expects to receive at closing. The PEG serves two main purposes:

- **Operational Continuity:** It represents the amount of working capital needed for the business to operate without disruption post-close.
- **Purchase Price Adjustment:** The PEG acts as a benchmark for the final NWC calculation at closing. If the actual NWC at closing is above the PEG, the buyer receives additional value; if it is below, the purchase price is adjusted downward, dollar-for-dollar.

Completion Accounts are finalised after closing (typically 60–90 days later), and the actual NWC is compared to the PEG. Unlike contingent mechanisms such as earn-outs or escrows, every dollar of NWC adjustment (i.e. the difference between the actual NWC delivered by the Seller to the Buyer at closing and the PEG) translates to a dollar-for-dollar change in the effective purchase price, making it one of the most scrutinized terms in any purchase agreement.

Both buyers and sellers have strong incentives to negotiate the PEG carefully, as it affects deal economics and post-close operations. While buyers seek to protect themselves against receiving insufficient NWC to operate, sellers are wary of post-close adjustments that reduce their proceeds.



Focus on Net Working Capital

The Target Net Working Capital or PEG is a critical element in M&A transactions with Completion Accounts, directly impacting the purchase price and operational continuity post-close.

Best practices



Anticipate

- As practically feasible, reference NWC methodology in the LOI to set expectations for adjustments from the get-go.
- Share preliminary adjustments during Due Diligence, not just at the end.
- Account for overall time and effort dedicated to diligence and negotiation around the PEG.
- Favour transparent and collaborative negotiation.



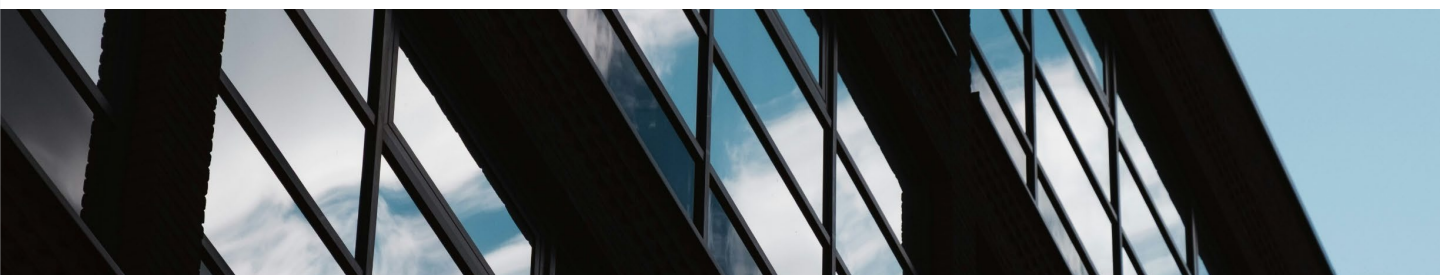
Be pragmatic

- Focus on material items, excluding immaterial adjustments.
- Frame discussions around normal operating levels, not price reduction, and present adjustment as solutions.
- Consider including a collar to avoid disputes over immaterial differences.



Document

- Stress test numbers against own NWC levels, industry benchmarks or operating projections.
- Provide specific general ledger references and supporting documents for each NWC item and adjustment.
- Include specific account definitions and calculation examples in the Sale and Purchase Agreement.



Focus on Net Working Capital

Setting the PEG

Setting the PEG is a structured process that balances technical rigour with commercial negotiation. A well-set PEG ensures operational continuity for the buyer and fair value for the seller, while minimising the risk of post-close disputes.

Below is a step-by-step guide, including practical examples and best practices:

1

Collect Historical Data

Gather 12–24 months of month-end balance sheets with detailed account-level data.
Request general ledger exports for recent periods to validate account contents.

2

Define NWC Components

Start with the basic NWC formula, Current Assets minus Current Liabilities.
Specify which accounts are definitionally included or excluded, such as Definitionally adjusted NWC is consistent with the definition of Reported EBITDA. Typical exclusions are cash, income tax payable, short-term debt, and non-operating items identified during diligence.

3

Identify Required Adjustments

Adjust for non-operational balances (e.g., related party receivables, personal expenses), one-time events (e.g., legal settlements, transaction expenses), debt-like items (e.g., earn-out liabilities, accrued financial interest), and normalise for steady-state operations.
Normalised NWC should be consistent with the definition of Adjusted EBITDA.

4

Analyse Monthly Normalised NWC

Build a monthly schedule using the defined methodology and identified adjustments, tracking each component separately to identify trends, seasonality, and outliers.
Calculate NWC ratios such as DIO (Days Inventory Outstanding), DSO (Days Sales Outstanding), DPO (Days Payables Outstanding), NWC as a percentage of revenue to spot efficiency changes that might be masked by growth.

5

Calculate Normalised Average

After adjustments, calculate the average normalised NWC.
Most deals use a 6-month or 12-month average of normalised NWC in absolute value.
Shorter periods (3–6 months) are suitable for stable businesses. Longer periods (12–18 months) are suitable for long-term contracts businesses and help smooth seasonality or recent operational changes.
For businesses with significant seasonality or growth, average normalised NWC is sometimes set as a percentage of trailing 12-month sales. This percentage may be applied either to projected trailing 12-month sales at closing to establish the PEG upfront, or to actual trailing 12-month sales at closing when calculating the NWC adjustment.

How we can support you

Our teams provide end-to-end support throughout the mergers and acquisitions lifecycle, helping clients maximise value through enhanced deal negotiation, optimised purchase price mechanisms, accelerated deal closures and effective execution of the relevant provisions in contractual documentation.

They offer insights and advice into negotiation and drafting of pricing and adjustment mechanisms, relevant representations and warranties, and other accounting-related clauses and schedules, particularly those related to Completion Accounts, Earn-outs and Locked Box.

Vendor & Buy-Side Due Diligences

We perform Vendor Due Diligence, Buy-Side Due Diligence, and Independent Business Reviews, covering financial, tax, legal, and social aspects. Our teams are involved through every step of deal processes and are experts on complex and cross-border transactions.

M&A Consulting and Legal Assistance

We offer integrated strategic and legal advice for M&A transactions from initial negotiations to closing. We assist with the drafting and negotiations of LOIs and term sheets, contractual documentation (Sale and Purchase Agreements, Representations and Warranties, etc.), and corporate documentation.

Capital Market Services

We support companies with capital and debt raising projects, IPOs, and complex financial structuring (public M&A, carve-out, GAAP conversion, etc.). Our team assists in structuring and drafting deal documents and corporate agreements, financial statements, as well as help with regulators-imposed rules and filing requirements and related financial communication.



Contact our experts and see how we can help you



Christophe Delas

Partner | Transactions Services
New York, USA
christophe.delas@8advisory.com



Louis Legros

Director | Transaction Services
New York, USA
louis.legros@8advisory.com



Edouard Decamp

Partner | Transactions Services
New York, USA
edouard.decamp@8advisory.com



Guillaume Rembry

Partner & Attorney at law | Head of Tax
Global
guillaume.rembry@8advisoryavocats.com



Barbara Jouffa

Partner & Attorney at law | Corporate M&A
Paris, France
barbara.jouffa@8advisoryavocats.com



Delphine Sauvebois-Brunel

Partner & Attorney at law, Corporate M&A
Paris, France
delphine.sauveboisbrunel@8advisoryavocats.com



Myriam Montillot

Partner | Capital Markets
Paris, France
myriam.montillot@8advisory.com



Vincent de Montgolfier

Partner | Capital Markets
Paris, France
vincent.demontgolfier@8advisory.com

Paris

37 rue la Boétie
75008 Paris, France

Lyon

50, cours Franklin Roosevelt
69006 Lyon, France

Nantes

34 rue du Pré Gauchet
44000 Nantes, France

Rennes

28 boulevard du Colombier
35000 Rennes, France

Marseille

10 place de la Joliette
13002 Marseille, France

London

100 Pall Mall
SW1Y 5NQ London, United Kingdom

Brussels

53 Avenue des Arts
1000 Brussels, Belgium

Amsterdam

Parnassus Tower
1076 AZ Amsterdam, Netherlands

Frankfurt

Mainbuilding, Taunusanlage 15
60325 Frankfurt am Main, Germany

Hamburg

Neuer Wall 80
20354 Hamburg, Germany

Munich

Isartorplatz 1, 1. OG
80331 Munich, Germany

Cologne

Rudolfplatz 3
50674 Cologne, Germany

Zurich

Gerbergasse 5
8001 Zurich, Switzerland

Milan

New Deal Advisors
Via Santa Maria Fulcorina, 2
20123 Milan, Italy

Madrid

C. de Jorge Juan 35
28001 Madrid, Spain

New York

Tower 49
12 East 49th Street
New York, NY 10017

Mumbai

Urmi axis, Seventh floor, Famous Studioline,
Mahalaxmi, Mumbai 400 011, India

Annecy

4 Rue des Bouvières
74940 Annecy

Eight International

12 rue Jean Engling
L-1466 Luxembourg

FRP

110 Cannon Street
London, EC4N 6EU, United Kingdom

JP Weber

Ul. Wspólna 70
00-687 Warsaw, Poland

JP Weber

Grodzka 9
50-137 Wrocław, Poland

New Deal Advisors

Via Santa Maria Fulcorina
2-20123 Milan, Italy

McGrathNicol

Level 12, 44 Martin Place
Sydney NSW 2000 Australia

DH Advisory

Dubai World Trade Centre
Dubai, UAE

OWL

Biblioteksgatan 29
114 35 Stockholm, Sweden

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