

TRANSACTION ADVISORY SERVICES

QUALITY OF EARNINGS

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In a proposed transaction, whether you are a corporate strategic buyer, private equity group, a lender or other financial investor, **your unique needs have similar end goals: (I) Minimize risk; (II) enhance transaction transparency; and (III) maximize transactional value. A quality of earnings report (referred to as a "QofE" or "QofE report")** provides potential investors with valuable insight into a company's historical operations, earnings and performance.

The primary objective of a quality of earnings report is to **assess the sustainability and accuracy of historical earnings as well as the achievability of future projections**. The report provides accurate, high-quality position to your company which helps buyers recognize the hidden value of your company and its value proposition in the marketplace.

BENEFITS OF A QUALITY OF EARNINGS REPORT

- **Avoid Future Price Renegotiations.**

Increase the likelihood of closing. QofE firms present your financials the way buyers think about them. This process helps eliminate misunderstandings or miscommunications related to accounting interpretations. Uncover one-time, non-recurring add-backs or cost eliminations for which you should receive credit. Finally, the QofE report truly determines your revenue on an accrual basis.

- **Expediting The Transaction Process.**

Many buyers will not engage their legal counsel to draft closing documents until the QofE is complete because of the risk of uncovering something important that may jeopardize the deal. Many of the documents needed for due diligence are also needed for the QofE.

- **Enhancing Credibility.**

If your deal comes with third-party validation of the numbers, potential buyers are more likely to believe your story and pursue your business. A QofE packages your company nicely and reflects how this is going to be a great investment for the investor.

- **Commitment and Controlling Processes.**

Spending the time and effort to have a QofE done prior to going to market tells all investors that you are serious about this process of selling your company.

TIMELINE

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WEEK ONE

DATA GATHERING

- Provide financial request list. As data is provided, we will manage the request list and provide timely updates.
- Build financial databook and analyze information provided.
- Schedule meeting with Management to discuss items as outlined in our scope of work.

WEEK TWO AND THREE

MEETING & ANALYSIS

- Have meeting(s) with Management.
- Continue to process financial information and work through follow up items.
- Communicate initial findings and/or significant adjustments.
- Provide a draft of the Quality of Earnings schedule.

WEEK FOUR

REPORTING

- Finalize report and complete internal reviews.
- Provide initial draft of report.
- Schedule a walkthrough of the report to go through findings and answer any questions.
- Provide additional assistance (working capital estimates, purchase agreement review).

SERVICES

QOFE LITE (TYPICALLY <\$10M ENTERPRISE VALUE OR PRELIMINARY STAGE)

Analyze historical income statements (**typically 24 months**), review monthly revenue and EBITDA trends, identify major non-recurring or unusual items, assess key EBITDA adjustments proposed by management, high-level working capital review, Customer concentration assessment, Review of top customers, Interviews with management regarding operations and financial performance, proof of cash/revenue, and estimated normalized EBITDA with key observations.

STANDARD QOFE

Detailed EBITDA normalization, identification and quantification of non-recurring items, related-party transaction analysis, owner compensation normalization, review of accounting policies and practices, Customer concentration and retention analysis, Recurring vs. non-recurring revenue assessment, Determination of normalized working capital target, Debt-like items, Detailed schedules and supporting analyses, Key risks and transaction considerations, etc.

FULL-SCOPE QOFE (TYPICALLY COMPLEX ACCOUNTING OR OPERATIONS)

Deep-dive financial diligence providing maximum transaction support including: backlog and pipeline analysis, Analysis of customer churn and renewals, AR aging and collectability assessment, Capacity utilization and scalability assessment, GAAP compliance review, and industry-specific procedures.