JO Knows the benefits of having a Quality of Earnings outweigh the costs.

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The decision of whether or not to conduct a Quality of Earnings analysis can significantly affect the success of a transaction for buyers and sellers. The purpose of a Quality of Earnings analysis is to minimize any unexpected developments that could occur with the proposed transaction and to maximize transaction value. Here are ten of the many benefits that having a Quality of Earnings (“QofE”) done can provide.

1. A QofE analysis will help both a buyer and a seller ensure the integrity of the financial and non-financial information.
2. Buy-side due diligence helps buyers uncover an accurate valuation of a target company, have confidence and clarity about their business opportunity, and aid a smooth transition process post-closing.
3. Sell-side due diligence can help sellers get an accurate understanding of their company’s value, reduce the concerns of the buyer, and minimize surprises that can threaten a successful deal.
4. A QofE can help buyers and sellers identify accounting, operational and other issues that can result in earnings adjustments, which helps reduce the risks as they approach a transaction.
5. Sellers can use a QofE analysis to account for and communicate earnings opportunities that have not yet been fully realized, increasing the value of their business in the eyes of a buyer.
6. By understanding the factors that are driving your company’s earning quality, you can identify areas where you can make changes to improve your profitability.
7. Having a QofE report demonstrates to lenders and investors that your company is financially sound and that your earnings are sustainable. This can give you more negotiation power when you are seeking financing or investments.
8. Transparency is the name of the game. By lifting the curtain and revealing the inner workings of the business and its financial performance, you can help instill confidence and certainty in a would-be investor.
9. A QofE will help you anticipate questions and address issues the buyer may have. As a result, there will be fewer surprises, and you may eliminate post-letter of intent (LOI) delay.
10. If you set a fair and accurate sale price – one that is aligned with your financial metrics and quality of earnings – you mitigate the probability that the buyer will return with a lowball offer.

If you or someone you know is looking to buy or sell a business, do not hesitate to reach out to a member of the Johnson O’Connor transactional service team. We will take the time to understand your goals and help maximize those while helping to guide you through the transaction process.

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