

# Sell-Side QofE Scope Worksheet

*What to ask your QofE provider to cover before signing the engagement letter*

## How to use this worksheet

Use this worksheet to scope a sell side Quality of Earnings (QofE) engagement before signing with a provider. The standard items below should appear in any LMM QofE; sector-specific items get added based on the business. Items marked critical typically drive 40% of QofE findings (per Embarc Advisors / Bonadio Group practitioner data). Items marked important should be standard scope. Items marked optional are nice-to-have add-ons that may justify a higher fee.

**Goal:** ensure the QofE provider's scope catches the items the buyer's QofE will catch, on the seller's timeline rather than the buyer's.

## 1. EBITDA bridge and add-back analysis (CRITICAL)

- Trailing 12-month reported EBITDA
- Pro forma adjustments (acquisitions, divestitures, new contracts)
- Owner compensation normalization to market rate
- Owner perks and personal expense identification
- Related-party transaction adjustments
- One-time legal settlement adjustments
- Restructuring and severance adjustments
- Pandemic-era cost adjustments (PPE, remote work setup)
- Stock-based compensation treatment
- Synergy add-backs (typically excluded from sell-side QofE)
- Cost allocation methodology for shared services
- Documented rationale for each add-back with supporting evidence

## 2. Working capital normalization (CRITICAL)

- Trailing 12-month or 24-month working capital trend table
- Monthly month-end snapshots, not just quarterly
- Seasonality analysis and adjustment
- One-time item exclusions (late receipts, write-offs)
- Audit adjustment reconciliation
- Recommended working capital peg for the LOI
- Methodology documentation
- AR aging analysis with reserve methodology
- AP aging analysis
- Inventory valuation methodology and reserves

## 3. Revenue quality (IMPORTANT)

- Revenue recognition policy review (ASC 606)
- Recurring vs non-recurring revenue mix
- Customer concentration analysis (top 5, top 10)

- Revenue trend analysis with growth drivers
- Pricing change impact analysis
- Cohort retention analysis (especially for SaaS / subscription)
- Backlog and committed revenue analysis
- Channel stuffing checks for end-of-period transactions

#### 4. Cost of revenue and gross margin (IMPORTANT)

- Gross margin trend analysis
- Material cost trend analysis
- Direct labor analysis
- Production overhead allocation
- Margin variance by customer or product (where available)

#### 5. Operating expenses and overhead (IMPORTANT)

- Operating expense trend, last 36 months
- Headcount analysis and trend
- Marketing and sales expense effectiveness
- R&D; expense trend
- Professional services and outside spending

#### 6. Capital expenditures and capitalization (IMPORTANT)

- Capex schedule, last 5 years
- Capex categorization (maintenance vs growth)
- Deferred maintenance assessment
- Capitalization vs operating expense classification review

#### 7. Cash flow analysis (IMPORTANT)

- Free cash flow calculation
- Cash conversion analysis
- Working capital impact on cash flow
- Debt service coverage analysis

#### 8. Debt and net debt items (IMPORTANT)

- Debt schedule with terms
- Off-balance-sheet obligations
- Capital lease classification
- Pension and post-retirement liabilities
- Deferred compensation

#### 9. Tax (IMPORTANT)

- Effective tax rate analysis
- Pre-close tax positions and exposures

- Deferred tax asset and liability review
- Transfer pricing positions (if cross-border)

## 10. Sector-specific items

- Healthcare:** Payer mix analysis, billing audits, Medicare/Medicaid revenue verification
- Healthcare:** Stark and Anti-Kickback compliance documentation
- Software / SaaS:** ARR vs revenue reconciliation
- Software / SaaS:** Net Revenue Retention (NRR) and Gross Retention
- Software / SaaS:** Bookings vs revenue analysis
- Manufacturing:** Inventory valuation deep dive (LIFO vs FIFO, obsolescence)
- Manufacturing:** Capex normalization for capacity utilization
- Professional services:** Work-in-progress (WIP) accounting
- Professional services:** Partner equity and compensation arrangements
- Distribution:** Inventory turns and supplier rebate analysis
- Insurance services:** Book of business analysis

## 11. Optional add-ons (NICE TO HAVE)

- Three-statement model (income, balance sheet, cash flow)
- Detailed customer cohort analysis
- Vendor concentration and supply chain risk analysis
- Working capital cycle analysis (DSO, DPO, DIO)
- Pro forma EBITDA with synergies (rarely included in sell-side)
- Forecast review (next 12-24 months)
- Benchmarking against peers

## Provider selection criteria

Three questions filter QofE providers fast:

**1. Have they done deals at your size?** Provider whose typical engagement is \$200M+ may not give you the right scope on a \$20M deal. Provider whose typical engagement is \$5M may not have the analytics depth for a \$50M deal.

**2. Have they done deals in your sector?** Healthcare, SaaS, manufacturing, and professional services have meaningfully different QofE methodologies. Sector specialization matters above \$10M EBITDA.

**3. Is the principal partner doing the work?** Boutique firms sell partner-led engagement. National firms often staff partner + senior + analysts where the partner reviews but doesn't drive. For LMM deals, principal-led work usually produces better outputs.

Three questions to ask the prospective provider:

1. Show me a redacted sample report from a similar deal.
2. What percentage of your reports lead to retrade conversations?
3. How many LMM deals have you done in the last 12 months in my sector?

## Cost expectations by tier

Tier	Cost range	When to use
Boutique advisory	\$20K to \$45K	Most LMM deals \$5M to \$50M EBITDA
Sector specialist	\$40K to \$80K	Healthcare, SaaS, regulated industries
Big-4 / national	\$50K to \$150K	Brand recognition needed; upper LMM and bigger

## Companion content

- Sell-side QofE pillar: [lockroom.com/blog/sell-side-qofe-2026](https://lockroom.com/blog/sell-side-qofe-2026)
- Working capital pillar: [lockroom.com/blog/working-capital-lmm-2026](https://lockroom.com/blog/working-capital-lmm-2026)
- Buyer diligence playbook: [lockroom.com/blog/buyer-diligence-playbook-2026](https://lockroom.com/blog/buyer-diligence-playbook-2026)
- Sell-side process timeline: [lockroom.com/blog/sell-side-ma-process-timeline](https://lockroom.com/blog/sell-side-ma-process-timeline)
- LMM 2026 outlook: [lockroom.com/blog/lmm-ma-2026-outlook](https://lockroom.com/blog/lmm-ma-2026-outlook)