



M&A Advisory Series: Quality of Earnings

The webinar will begin in a few moments

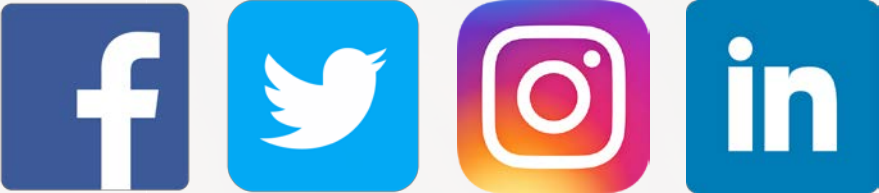
***NOTE:** Participants will receive an email within 48 hours with a link to the slide deck and recording.*





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M & A Series

Quality of Earnings

September 18, 2018
9:30am – 10:00am

Completeness of Tax Accruals

October 16, 2018
9:30am – 10:00am

Equity

November 8, 2018
9:00am – 9:30am

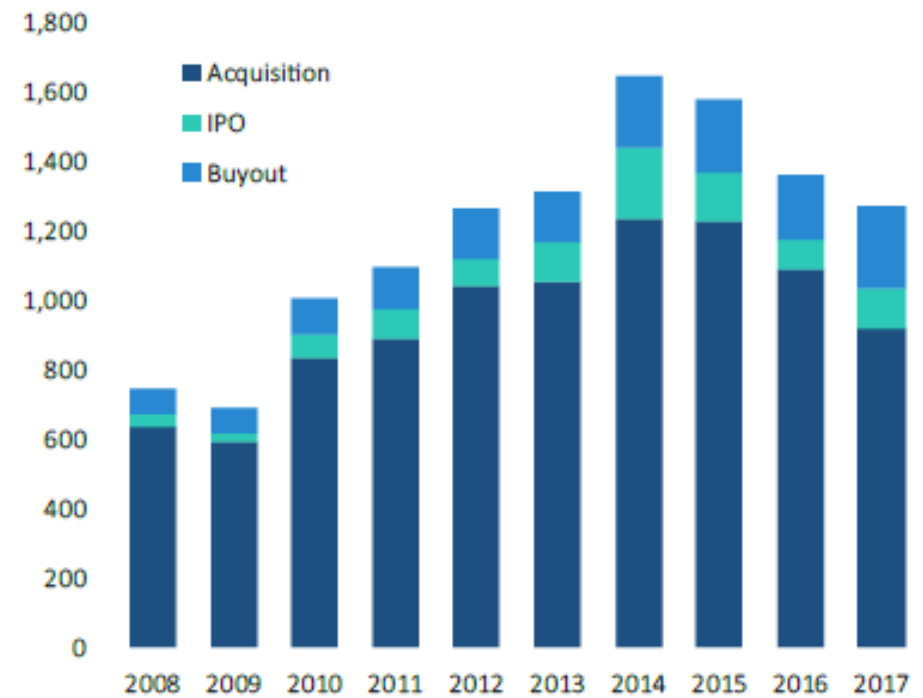
Valuation

December 5, 2018
9:00am – 9:30am

The State of Market

Buyouts have continued to show strength as an exit opportunity

North American & European VC-backed exit activity (#) by type



Source: PitchBook

Backed by a strong public market, IPOs showed resilience in 2017

North American & European VC-backed exit activity (\$B) by type

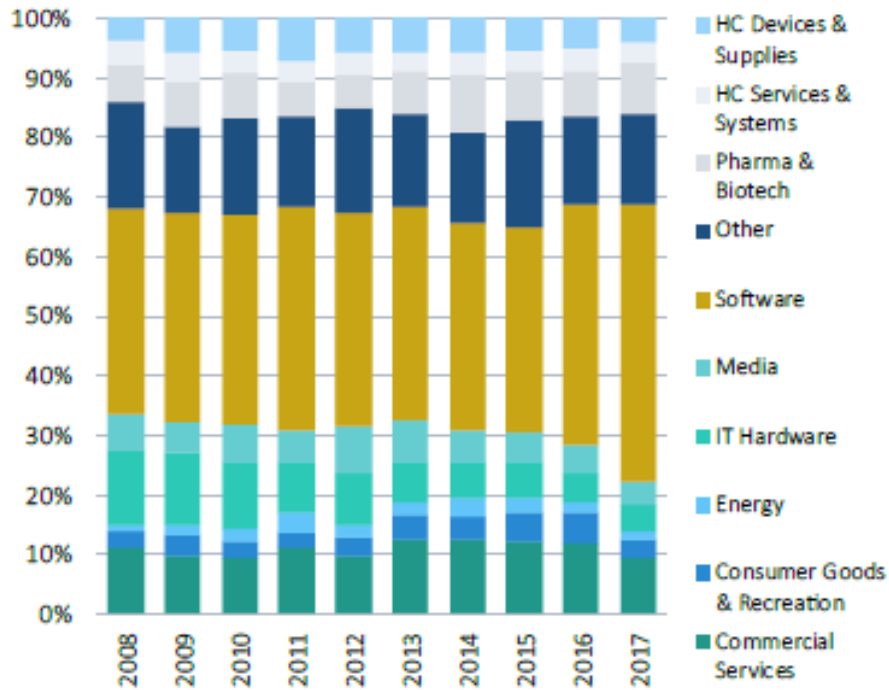


Source: PitchBook

The State of Market

Software has continued to dominate VC-backed exits

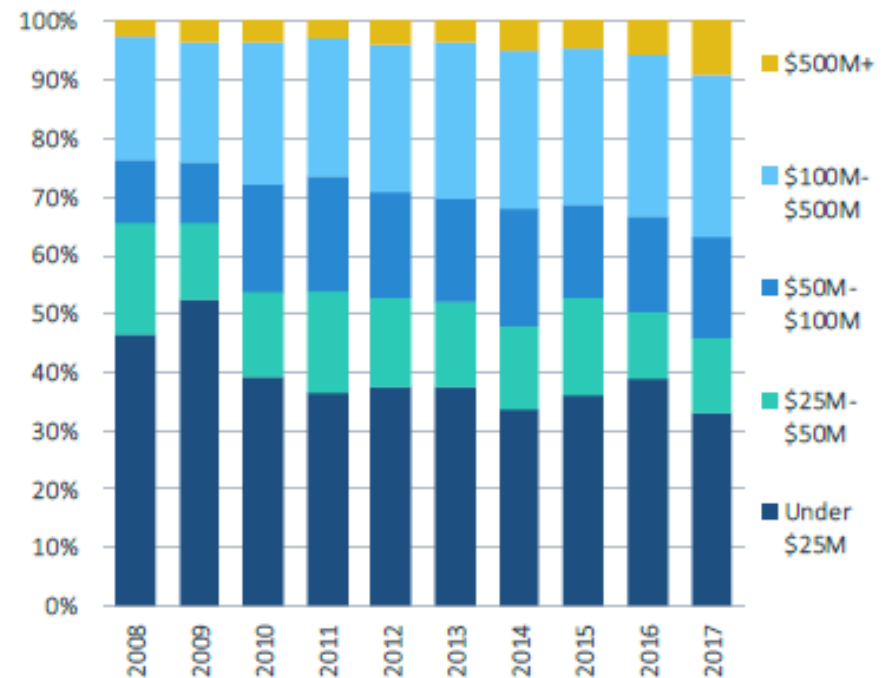
North American & European VC-backed exit activity (#) by sector



Source: PitchBook

Growing number of larger exits completed in 2017

North American & European VC-backed exit activity (#) by size

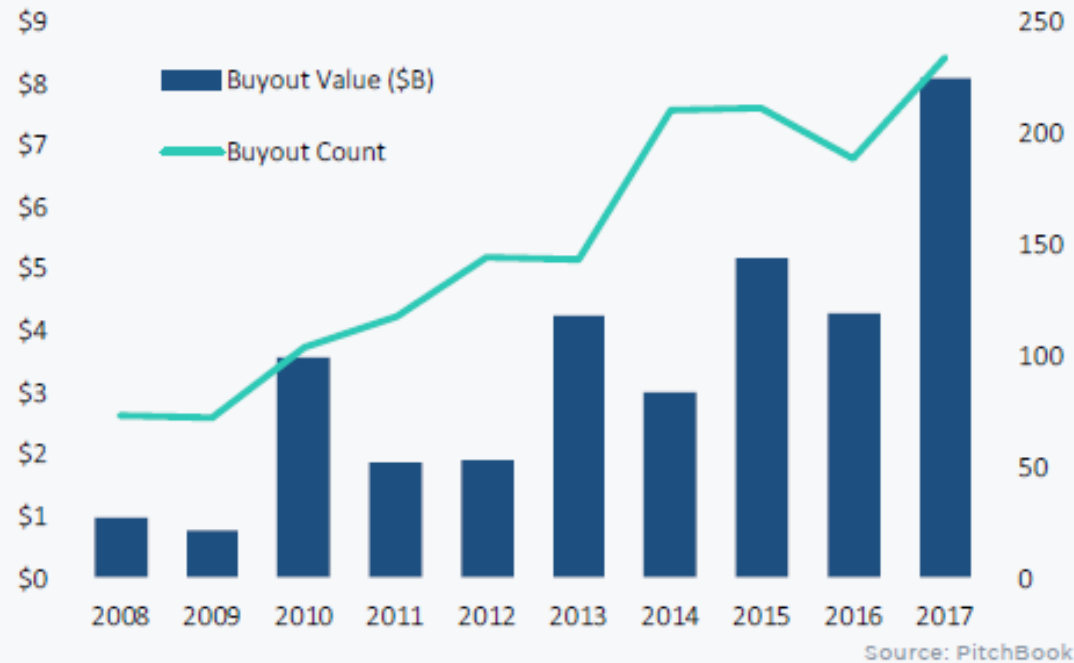


Source: PitchBook

The State of Market

Buyouts becoming a more popular route to exit for VC-backed companies

North American & European buyout activity



Backed by a strong public market, IPOs showed resilience in 2017

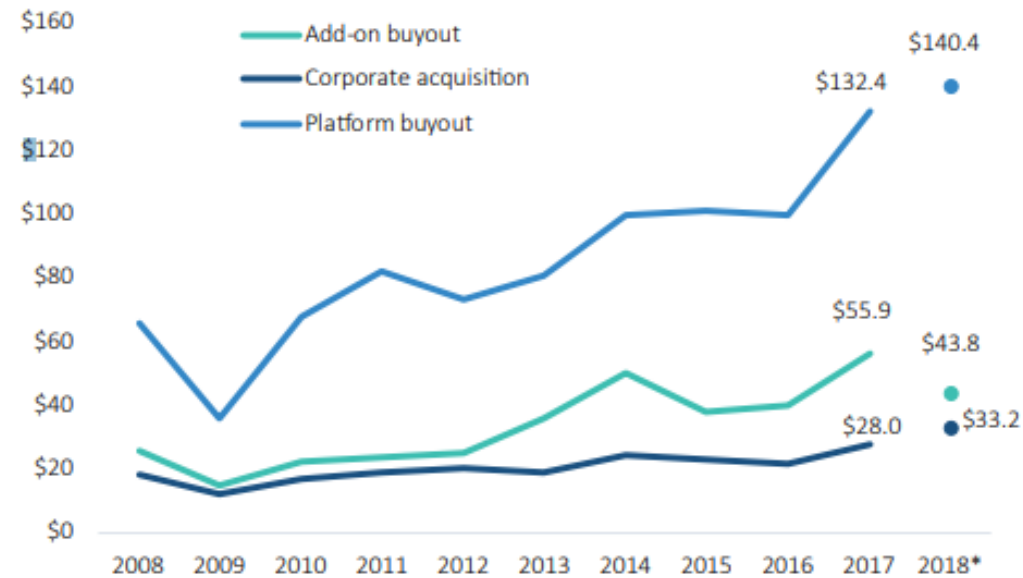
North American & European VC-backed exit activity (\$B) by type



The State of Market

Deal sizes remain elevated

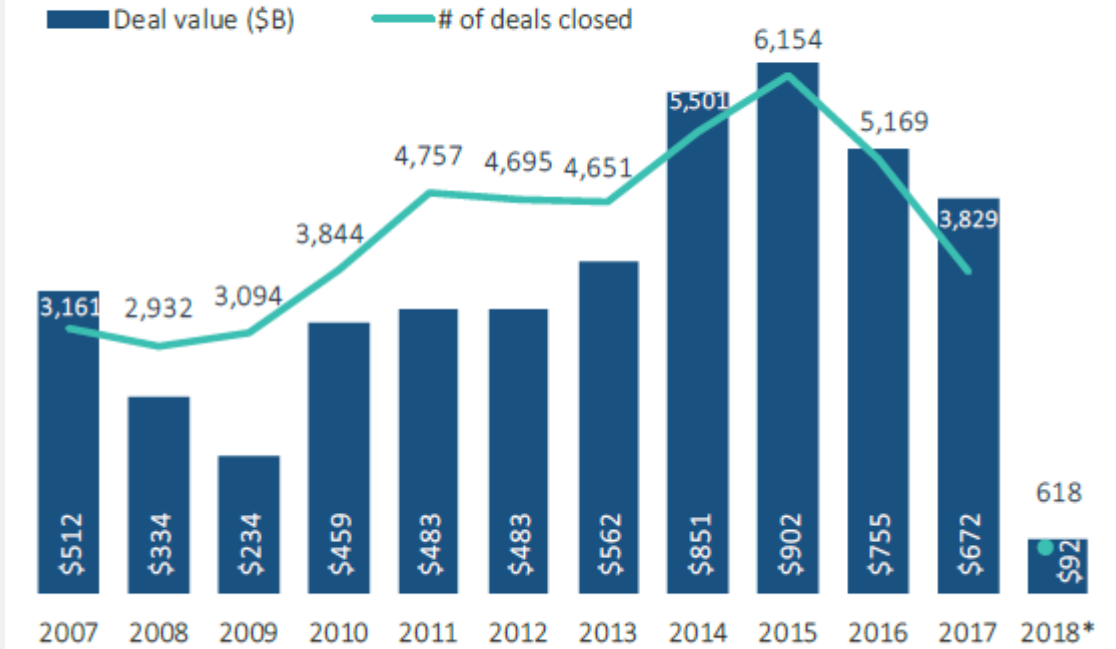
Median deal size (\$M) by type



Source: PitchBook
*As of June 30, 2018

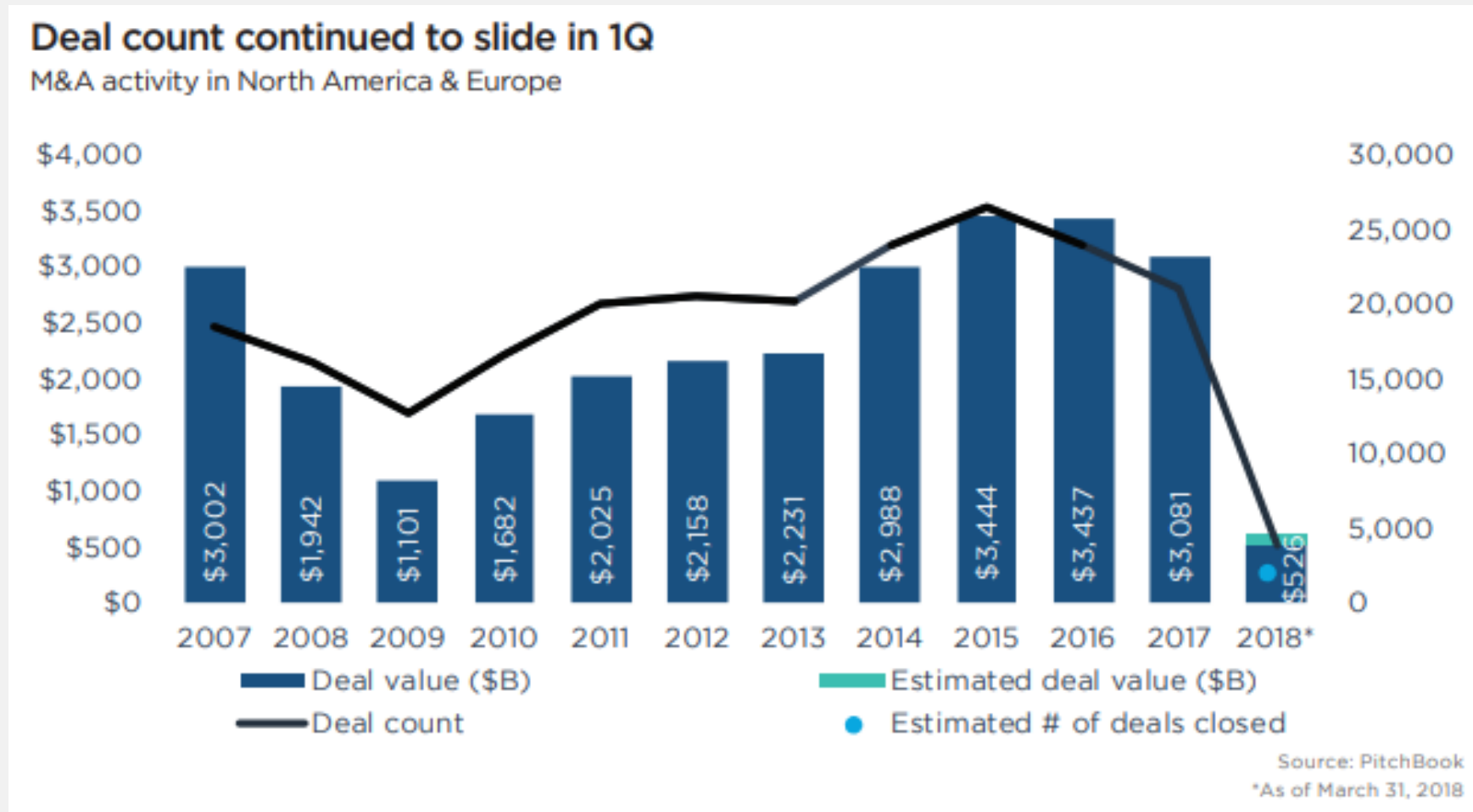
Even after the recent decline, other factors indicate divestitures are primed to accelerate

M&A divestitures



Source: PitchBook
*As of March 31, 2018

The State of Market



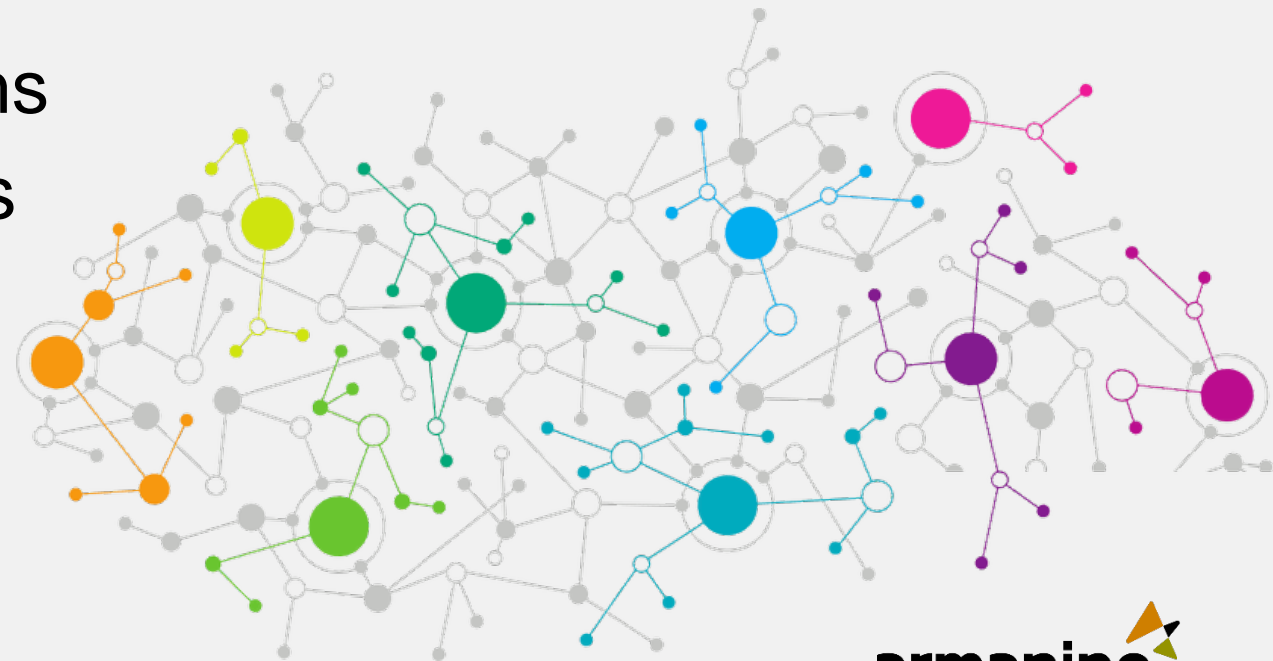
Quality of Earnings Reports

- Why?
- How is this different from an Audit?
 - + Management driven
- Focus
 - EBITDA (Earnings Before Interest Depreciation and Amortization)
 - Normalized EBITDA
 - + Working Capital



Quality of Earnings Reports

- What adjustments do we commonly see made to EBITDA
 - + Corrections for GAAP
 - + One time expenses
 - + One time gains and losses
 - + One time gains of unusual items
 - + Normalized business expenses



Quality of Earnings Reporting

- What are we looking at?
 - + Trends in Revenue
 - Custom concentration
 - Product concentration
 - Geographic concentration
 - Seasonality
 - + Cost of Revenue



Quality of Earnings Reporting

- What are we looking at?
 - + Appropriate matching of cost and revenue
 - + Operating expenses
 - + Unusual Items
 - + Timing/ Cut off



Quality of Earnings Reporting

- What are we looking at?
 - + Accounts Receivable
 - Aged accounts properly reserved.
 - + Inventory
 - Write off old inventory?
 - Inventory Turns
 - + Liabilities
 - Properly recognized all liabilities



Quality of Earnings Reporting

- Buy side vs Sell side
 - + Sell side – why?
 - Identify potential issues up front
 - Greater confidence in Seller
 - Buyer has better insight
- Q of E Process
 - + Start with management financial statements
 - Give them a PBC list

Next Steps

What should you do now to prepare?

- Prepare for an audit
 - + Account recons
 - + Quarterly (at least) close for trends
- Understand your business
 - + Key customers / concentrations
 - + Trends and variances
 - + Budget vs. Actual Analysis



**What Questions
Do You Have?
Submit Your Questions Now!**



M & A Series – Coming up next

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Contact Us!

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