

Guardian Due Diligence & Our Team of Accountants

At Guardian, our 25-person team helps self-funded searchers get good deals done and stops them from buying bad businesses. Our key service offering is a Quality of Earnings (QoE) to support financial due diligence, but we're different from our competitors because we can advise clients through an entire deal process and each of our services comes wrapped with "deal advisory" services helping clients negotiate LOIs, refine company valuations, and transfer learnings from diligence into actionable plans for better deal execution.

2-Minute Videos Showing You What to Look for in QoE

➔ Quality of Earning 101 Overview

Introduction to the Top 3 Areas in Your QoE



- [Overview Video](#)
- [Area 1 - EBITDA and the adjustments](#)
- [Area 2 - Proof of Cash](#)
- [Area 3 - Profit per Product or Service](#)

1. EBITDA and the adjustments

Quality of Earnings	2016	2015	2014	2013	2012
EBITDA	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Quality of Earnings Adjustments:					
1. Non-QoE adjustments (do not affect EBITDA but do impact EBITDA before Owner Discretionary Expenses)					
a. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
b. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
c. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
d. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
e. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
f. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
g. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
h. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
i. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
2. Qualifying adjustments (do not affect EBITDA but do impact EBITDA before EOE)					
a. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
b. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
c. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
d. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
e. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
f. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
3. QoE adjustments					
a. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
b. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
c. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
d. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
e. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
f. Reversal of the company's share of equity-based compensation	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
10. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
11. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
12. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
13. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
14. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
15. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
16. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
17. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
18. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
19. Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
20. Total Income Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7

- Look at the EBITDA adjustments and be sure they are true expenses you will not need to pay going forward.
- Total adjustments should be a reasonable percentage of adjusted EBITDA. Look for large areas of difference that may still make sense (like owner salary for instance).
- That's how the experts do it!

2. Proof of Cash

Exhibit 8: Cash Proof - Expenses	2016	2015	2014	2013	2012
Bank's version of revenue	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Bank's version of costs	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Bank's version of profit	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Differences	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7

- Bank's version of revenue.
- Bank's version of costs.
- Bank's version of profit.
- A good deal has very small differences and they are especially small in the previous year leading up to the acquisition.

3. Profit per Product or Service

Profit and Adjusted Income Statement	2016	2015	2014	2013	2012
Net Revenue	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Cost of Goods Sold	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Gross Profit	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Operating Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Operating Profit	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Other Income	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Other Expenses	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7
Net Profit	\$ 4,952.5	\$ 3,952.5	\$ 3,952.7	\$ 3,952.7	\$ 3,952.7

- Consistency of margins as the business grows.
- Look for any known expenses that you'd expect to see - and make sure they are represented.
- This is where your industry knowledge comes into play.

Learn more at www.guardianduediligence.com.