Sample screening report

The Addback - Pre-LOI screening - Illustrative sample

Illustrative sample. The business below is fictional and every number is invented. This is not a real deal and not a client. It shows what a screening gives you: a verdict, an adjusted earnings range, and the red flags ranked by what they do to the price.

The deal, as pitched

Maple Home Services (fictional) - Residential home services - Asking price **$2,400,000** - Revenue **$3,100,000**

The seller claims **$620,000** of adjusted EBITDA. The tax returns show **$410,000** of profit. The **$210,000** gap is addbacks. This screening tests each one.

The bridge: claimed addbacks, sorted

Addback claimed	Amount	Sorting
One-time lawsuit settlement, documented, non-recurring	$45,000	Solid
Owner's personal vehicle, business never uses it, documented	$22,000	Solid
"One-time" consulting fees, but they appear in 2 of 3 years	$38,000	Soft
Rent paid to the owner's own entity, above market, needs comps	$25,000	Soft
Owner's salary addback, owner works full-time in the business	$80,000	Seller story
Total claimed	**$210,000**	

Solid means verifiable and survives. Soft means plausible but needs proof. Seller story means rejected: it does not survive the three questions. Solid $67,000 + Soft $63,000 + Seller story $80,000 = $210,000.

Adjusted EBITDA range

Measure	EBITDA	Multiple on $2.4M ask
Seller's claim	$620,000	3.9x
High end (solid + soft)	$540,000	4.4x
Low end (solid only)	$477,000	5.0x

At the seller's own 3.9x multiple, the fair range is **$1.86M to $2.11M**. The asking price is about **$290,000 to $540,000** above that range. The deal is priced richer than it looks.

Red flags, ranked by price impact

1. Owner's salary story ($80,000 claimed). The owner works full-time, draws $60,000, and a replacement manager costs $130,000. This is not an addback. Replacing him costs $70,000 more than he draws, so the addback runs the other way.

2. "One-time" consulting ($38,000). A cost that shows up in 2 of 3 years is a running cost until invoices prove otherwise.

3. Rent above market ($25,000). Only the above-market part is an addback. The market part is a real cost. Needs rent comps before it counts.

Verdict: Pursue at a lower price. The business is real, but the price is not. Do not pay $2.4M. A price near $2.1M works if the soft addbacks prove out; near $1.86M if only the solid ones survive. Walk if the seller holds at ask.

What to ask next (diligence list)

- Prior 2 years of invoices for the consulting fees.

- Market rent comps for the premises.

- Payroll records for the owner, plus 2 replacement manager quotes.

- Tax returns reconciled to the profit and loss statement, 3 years.

- Working capital target, confirmed before any LOI.

What a screening is, and is not

A screening happens **before** the LOI, from the CIM and financials you already have. It takes days, not weeks. It gives a straight opinion: pursue, pursue at a lower price, or walk. It is not a quality of earnings report. A QoE comes after the LOI, rebuilds the financials from the trial balance up, costs real money, and takes weeks. Screening picks the deal that deserves a QoE.