

Decoding the Financial Story:

Quality of Earnings Reports

Navigating the complexities of business transactions requires a deep understanding of a company's true financial health. This checklist is designed to guide you through the essential aspects of Quality of Earnings (QoE) reports, a critical tool for assessing the sustainability and reliability of reported earnings. Whether you're a buyer, seller, lender, or strategic planner, this resource will help you understand the components of a QoE report, its benefits, the different types available, and how to select the right advisor to ensure accurate and insightful financial analysis.

Key Components of a Q of E Report

Historical Financial Performance Analysis

- Examines revenue trends, profitability margins, and cash flow patterns.

Pro Forma Adjustments

- Normalizes earnings by removing non-recurring items.
- Adjusts for accounting policy differences.

Key Performance Indicators (KPIs) Analysis

- Provides insights into operational efficiency and growth potential.

Risk and Opportunity Identification

- Assesses potential financial and operational challenges.
- Highlights market opportunities.

Benefits of a Q of E Report

Mergers & Acquisitions (M&A)

- Assess true value and identify risks.

Fundraising

- Increase investor confidence.

Strategic Planning

- Identify areas for improvement and develop sustainable growth strategies.



Types of Q of E Reports

Buy-Side Quality of Earnings Report

- Conducted by a potential buyer to assess the financial health and true value of a target company.
- Focuses on identifying potential risks, hidden liabilities, and the sustainability of the target's earnings.
- Aids in determining an appropriate purchase price and negotiating deal terms. Conducted by a potential buyer.

Sell-Side Quality of Earnings Report

- Conducted by a seller to present a clear, accurate, and favorable picture of their company's financial performance to potential buyers.
- Aims to maximize the perceived value of the company and address potential concerns before they arise during due diligence.
- Helps to streamline the sales process and expedite deal closure.

Lender Quality of Earnings Report

- Conducted by a lender (e.g., bank, financial institution) to assess the creditworthiness of a borrower.
- Focuses on evaluating the borrower's ability to repay the loan by analyzing the quality and stability of their earnings and cash flow.
- Helps to determine loan terms, interest rates, and risk mitigation strategies.

This checklist is intended for informational purposes only and should not be considered as financial or professional advice.

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