

The Value of a Sell-Side Quality of Earnings:

Why Smart Sellers Invest Before Going to Market

A Briefing for Business Owners Considering a Sale

Introduction: The Cost of Going in Unprepared

If you're a business owner thinking about a future sale of your business, there's a good chance someone – your investment banker, your CPA, a trusted advisor – has mentioned a **sell-side Quality of Earnings** report ("QofE"). And, given the expense, there's an equally good chance your first reaction was: *"Is it worth it?"*

The short answer is yes. And the data increasingly backs it up.

A sell-side QofE is a financial analysis, typically prepared by an independent advisory firm, that validates your company's adjusted EBITDA, normalizes non-recurring items, and provides a transparent view of your earnings quality **before you go to market**. Think of it as a pre-sale inspection: you're getting ahead of the questions buyers are going to ask, identifying both risks and hidden value, and going into the process with a defensible set of numbers.

This article lays out the case – with real data and perspectives from investment bankers, M&A advisors, and deal practitioners – for why commissioning a sell-side QofE is one of the highest-ROI investments you can make before an exit.

GF Data's Transaction Analysis Backs This Up

GF Data, the leading source for private equity-sponsored M&A transaction data (\$10M–\$500M TEV), recently analyzed **360 completed transactions since Q3 2024** and found a clear valuation lift for sellers who performed a sell-side QofE:

Sellers with a sell-side QofE: **7.4x TEV/EBITDA**

Sellers without a QofE: **7.0x TEV/EBITDA**

*That's nearly **half a turn of EBITDA in additional enterprise value.***

Source: GF Data / Middle Market Growth (ACG), Fall 2025. Analysis of 360 PE-sponsored transactions, \$10M-\$500M TEV.

To put that in dollar terms: for a company with \$5 million in adjusted EBITDA, a half-turn improvement represents **\$2 million in additional enterprise value** against a QofE that typically costs \$40,000-\$150,000 for lower-middle-market companies (\$10M-\$250M in enterprise value).

That's a potential return of 10x to 50x on the investment.

Important Nuance: Deal Size Matters

The GF Data analysis also revealed that the valuation lift was most pronounced for deals above \$50 million in enterprise value. For smaller transactions, the picture was more mixed:

TEV Range	With QofE	Without QofE
\$10M – \$25M	5.9x	6.6x
\$25M – \$50M	6.9x	7.2x
\$50M+	Higher*	Lower*

Source: GF Data / Middle Market Growth, Fall 2025. *Exact multiples for \$50M+ subset were reported only in aggregate.

Does this mean a QofE is pointless for smaller deals?

Not at all. The likely explanation is that smaller companies undertaking a QofE often do so *because* their financials are messy. They're self-selecting into the analysis precisely because they need it most.

The QofE isn't depressing their value; it's revealing the reality. Without it, those same issues would surface during the buyer's diligence – at a point when you've already lost leverage.

Beyond the Multiple: Additional Quantitative Evidence

The GF Data study is the most rigorous transaction-level analysis available, but it's supported by a broader body of practitioner evidence:

Deals with a QofE Close Faster

A 2024 analysis found that deals **without** a sell-side QofE took **34% longer to close** and had a **22% higher likelihood of price chipping** (purchase price reductions discovered during diligence). As any experienced deal advisor will tell you: time kills deals. Every additional week in diligence is another week for market conditions to shift, for buyer fatigue to set in, or for a competing priority to pull the buyer's attention elsewhere.

Source: Intellex Forensics, "The Critical Role of Quality of Earnings in M&A," March 2025.

Diligence Workload Drops Dramatically

STS Capital Partners estimates that a sell-side QofE can reduce the seller's total data workload during diligence by approximately **80%** – from roughly 100 hours of data requests without a QofE to about 20 hours with one. Separately, Michael Vaccarella, a transaction advisory practitioner quoted in Middle Market Growth, noted that from a buy-side perspective, having a sell-side report makes him feel **25–30% ahead of the game** entering diligence, and that over 90% of the time, the presence of a sell-side QofE accelerates the deal.

Sources: STS Capital Partners, Feb 2025; Middle Market Growth (ACG), Dec 2025.

The ROI Is Substantial

A standard mid-market QofE costs **\$40,000-\$150,000** and takes 3-6 weeks to complete. Practitioners consistently estimate returns of **4x to 10x** on that initial investment, primarily through preventing price chips, identifying positive EBITDA add-backs, and establishing defensible working capital positions.

Sources: Greenwich Capital Group, Jan 2022; GF Data / Middle Market Growth (ACG), Fall 2025. The ROI is inferrable from the GF Data valuation lift: a half-turn improvement on \$5M EBITDA represents \$2.5M in additional enterprise value against a typical QofE fee. Note on cost range: Reported QofE fees for lower-middle-market companies (\$10M–\$250M enterprise value) vary by engagement scope and firm size. Published ranges from M&A advisory sources include \$40,000–\$200,000 (Greenwich Capital Group), \$50,000+ for national firms (Embarc Advisors), and \$60,000 to six figures (RBS Advisors). Costs increase with company complexity, number of entities, quality of accounting records, and the reputation of the QofE provider. Boutique firms serving smaller transactions may charge less.

What Investment Bankers and M&A Advisors Are Saying

The data tells a compelling story. But the qualitative perspective from deal professionals (people whose compensation depends on successful closings, not on selling QofE engagements) is equally instructive.

1. It Protects Your Leverage After the LOI

Every experienced deal advisor knows the dynamic: **the moment you sign a Letter of Intent, leverage shifts from seller to buyer.** You've closed off other suitors. You're in exclusivity. The buyer now has access to your books and a financial incentive to find reasons to reduce the price.

Cascade Partners, a Detroit-based M&A advisory firm, frames the QofE as the seller's antidote to this dynamic: by completing the analysis in advance, sellers can position working capital and EBITDA adjustments while deal competition remains intense, rather than responding defensively after exclusivity when negotiating power is diminished.

Source: Cascade Partners, "The Impact of Quality of Earnings Analysis in Due Diligence," June 2025.

2. The Buyer's Team Won't Advocate for You

This is perhaps the most overlooked asymmetry in the process. Greenwich Capital Group, an investment bank, makes the point directly: **nearly all buyers will engage their own third-party QofE team, but the results are rarely shared with sellers unless the impact is negative.** Positive adjustments (add-backs that would increase your EBITDA and therefore your purchase price) are *lost opportunities* if you don't have your own team identifying them first. With a sell-side QofE, the adjusted EBITDA will be clear, documented, and defensible before those conversations begin.

Source: Greenwich Capital Group, Jan 2022.

3. It Makes Initial Bids More Meaningful

Zachary Scott, a Seattle-based investment bank that was among the first to advocate for sell-side QofEs (publishing their case study in 2013), articulates a benefit that's often missed: when buyers have an independent financial analysis supporting the banker's value proposition, their **initial indications of interest are more meaningful.** Buyers can rely on

validated numbers rather than making conservative assumptions to protect themselves. The result is tighter, more competitive initial bids – and fewer surprises in diligence that lead to re-trades.

Source: Zachary Scott, "Sell-Side QOEs: A Return to Utility," July 2022.

4. It Signals Seriousness to Sophisticated Buyers

SC&H Capital, an investment banking and advisory firm, notes that commissioning a sell-side QofE **signals to buyers that the seller is sophisticated enough to bring in advisors and willing to invest in the process** – a marker of bona fide transaction intent. This matters because it elevates the attractiveness of the opportunity in buyers' eyes by lowering perceived transaction risk.

Source: SC&H Capital, "Sell-Side Quality of Earnings Report: How to Set the Stage for Valuation," July 2025.

5. It Drives Competitive Tension

Morgan & Westfield, an M&A advisory firm, frames the dynamic from a market-clearing perspective: if the seller can distribute a QofE report that reinforces the attractiveness of the deal, **there will be a greater number of interested buyers**. More competition means better pricing. In contrast, without a sell-side QofE, total demand may be weaker, exerting downward pressure on valuation.

Source: Morgan & Westfield, "Quality of Earnings in M&A – The Ultimate Guide," July 2024.

An Honest Counterpoint: Not All QofEs Are Created Equal

In the interest of giving you a complete picture, it's worth acknowledging a thoughtful caution from Zachary Scott: as sell-side QofEs have become standard, they've also become somewhat **commoditized**. Many now exceed 100 pages, come off an assembly line, and are less targeted to the specific value proposition of the business being sold.

Worse, Zachary Scott observed that overly aggressive QofEs – ones loaded with speculative "what if" adjustments – can actually **create more buyer scrutiny, not less**, and undermine credibility across the entire set of presented results.

The takeaway isn't to skip the QofE. It's to **scope it strategically**. Work with your investment banker or financial advisor to identify which specific forensic analyses support

your value proposition and present a defensible understanding to buyers. A well-scoped QofE that addresses the right questions is far more valuable than a voluminous one that tries to answer everything.

Source: Zachary Scott, "Sell-Side QOEs: A Return to Utility," July 2022.

Practical Guidance: When and How to Commission a QofE

Timing

Three to six months before you plan to go to market is the consensus among practitioners. This gives you time to identify issues, remediate anything that can be fixed, develop explanations for items that can't, and integrate the findings into your Confidential Information Memorandum (CIM).

Source: Middle Market Growth (ACG), Dec 2025.

Cost and Duration

Expect to invest \$40,000-\$150,000 for a lower-middle-market company (\$10M-\$250M in enterprise value), depending on company size, complexity, and quality of existing accounting records. The engagement typically takes 3-6 weeks and requires meaningful engagement from your management team. Plan for several hours of detailed discussion with the QofE provider so they can understand how your operations and financials interconnect.

What It Covers

A well-executed sell-side QofE should address, at a minimum:

- **Adjusted EBITDA analysis.** Normalizing for non-recurring, discretionary, and owner-specific items
- **Revenue quality.** Customer concentration, recurring vs. non-recurring revenue, recognition policies
- **Working capital.** Historical trends, seasonal patterns, and a defensible target for the purchase agreement

- **Debt and debt-like items.** Items that will reduce enterprise-to-equity bridge at closing
- **Operational insights.** KPIs, margin drivers, and qualitative observations that don't appear in financial statements

Who Should Perform It

Choose an advisory firm with M&A transaction experience. Their familiarity with what buyers will scrutinize is what makes the analysis valuable. Importantly, this should be a **different firm** from your existing auditor or tax preparer. The independence and credibility of the analysis is a core part of its value to buyers.

The Bottom Line

For most lower-middle-market business owners, a sale is a once-in-a-career event. The buyer on the other side of the table may be doing multiple deals a year. That experience gap is real, and it matters.

A sell-side QofE doesn't just find add-backs (though it often does). It **rebalances the information asymmetry** that naturally favors buyers. It gives you a defensible set of numbers, a prepared management team, a compressed diligence timeline, and – as the data shows – a meaningfully higher probability of realizing full value.

**The question isn't whether you can afford to do a QofE.
It's whether you can afford not to.**

Sources

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