

QUALITY OF EARNINGS REPORT



A Quality of Earnings (QoE) report is a financial due diligence document that analyzes the accuracy, sustainability, and reliability of a business's earnings.

It goes beyond standard financial statements to determine whether the reported profits truly reflect the company's ongoing operational performance. The entirety of the business is analyzed to ensure that income is both reliable and repeatable.

The QoE Report typically makes adjustments to reported financial statements to better reflect the true profitability of the business.

Some common adjustments include:

- ▶ One-time contracts or unusual sales
- ▶ Non-operating income
- ▶ Personal expenses paid by the business
- ▶ Temporary cost reductions
- ▶ Accounting policy changes

A QoE typically includes:

- ▶ Executive Summary
- ▶ Earnings Analysis and Revenue Review
- ▶ Expense Analysis
- ▶ Working Capital Analysis
- ▶ Balance Sheet Review

The report is tied together with an evaluation of the risks and opportunities present within the business, along with a recommendation on the quality of the business' earnings.

In the case of succession planning, a QoE report helps:

Support Business Valuation

Buyers rely on QoE findings to determine whether the asking price reflects actual earning potential.

Reduce Transaction Risk

The report identifies risks, inconsistencies, or unusual financial activity that could affect the deal.

Strengthen Buyer Confidence

Clear and transparent financial information makes buyers more comfortable proceeding with the acquisition.

For a QoE report to be credible, it must be prepared by an independent financial professional such as a Chartered Professional Accountant (CPA), transaction advisor, mergers and acquisitions advisor, or a business valuation specialist.