

Buy-Side Diligence Case Study



Challenges

The target was a growing, technology-enabled services business with recurring revenue streams and minimal internal accounting infrastructure.

While the business was promising, the Company operated in a weak accounting environment that lacked GAAP compliance, resulting in errors to EBITDA and net working capital. The issues addressed included:

- **Revenue Recognition** – Revenue was recorded on a billing basis and did not follow ASC 606 principles
- **Expense Timing and Accruals** – Operating expenses were recorded when paid rather than when incurred, distorting period results
- **Working Capital Classification** – Advanced billings and other debt-like items were not properly identified or presented.
- **Resource Constraints** – The seller lacked experienced accounting personnel, requiring a hands-on, educational approach to diligence
- **Compressed Timeline** – The client had only 45 days to complete diligence while maintaining momentum and a productive seller relationship



FDTA Solutions

After uncovering the issues, FDTA provided the client with solutions to address the issues found, including:

Recasted Revenue to Accrual Basis

- Adjusted revenue streams to reflect earned income under ASC 606
- Reclassified advanced customer billings as liabilities

Corrected Accruals and Expense Timing Topics

- Aligned expense timing with GAAP

Refined Net Working Capital and Debt-Like Terms

- Evaluated billing practices impacting working capital
- Identified and quantified deb-like items, including advanced billings



Results

FDTA's rigorous and collaborative approach delivered measurable results, including:

Informed Valuation Adjustments

FDTA's findings supported the client in negotiating a meaningful purchase price reduction, grounded in a more accurate view of the company's financial position.

Negotiation Levers

By assisting the buyer to position advanced billings as a debt-like item and align treatment with the seller, the buyer was able to successfully negotiate an outcome with meaningful economic impact to the deal.

Confidence Through Clarity

FDTA's thorough analysis offered a clear view of financial performance to the client, investors, and lenders - enabling informed decision-making.

Meeting Tough Timelines

Despite the tight exclusivity window, FDTA completed the diligence process within 45 days, without disrupting the relationship with the seller.

**Clarity. Confidence.
Great Outcomes.**