THE DILIGENCE FACTORY

ILLUSTRATIVE DEAL INTELLIGENCE

Focused earnings review

ATLAS MANUFACTURING

A worked example of how reported earnings become a decision-ready set of findings, evidence requirements and next steps.

REVIEW PERIOD

Year ended 31 December 2025

CASE PROFILE

Specialty manufacturing

The question: How much of reported earnings appears recurring, and which proposed adjustments need further support?

All companies, figures, documents and findings are fictional. This sample demonstrates reporting depth and presentation, not work performed for a client. Actual deliverables follow the agreed scope and available data.

02 / DECISION BRIEF

Growth is clear. Recurrence needs work.

Illustrative conclusion: distinguish the reported baseline from evidence-supported scenarios before relying on adjusted earnings.

FY2025 REVENUE

$10.00m

+13.6% vs. FY2024

REPORTED EBITDA

$1.20m

12.0% reported margin

BASE CASE SCENARIO

$1.27m

12.7% margin; see page 4

THREE FINDINGS THAT CHANGE THE CONVERSATION

Finding	What it means for the buyer
01 / Earnings quality	The worked base case adds $70k net to reported EBITDA. A further $80k legal-cost adjustment remains unresolved and is excluded from that base case.
02 / Revenue dependency	Customer A represents 29% of revenue; the top three account for 56%. Growth alone does not establish durability of those relationships.
03 / Cash absorption	Year-end operating working capital increased $400k. That absorbs one-third of reported EBITDA before capex, tax, interest and other cash movements.

Decision posture: proceed with targeted questions

Use $1.20m as the reported starting point, assess the $1.27m worked scenario, and keep the unverified legal adjustment separate. Resolve the priority evidence requests on page 8 before treating a scenario as sustainable earnings.

Read next: performance 3 / adjustments 4-5 / revenue 6 / cash 7 / actions 8 / scope 9

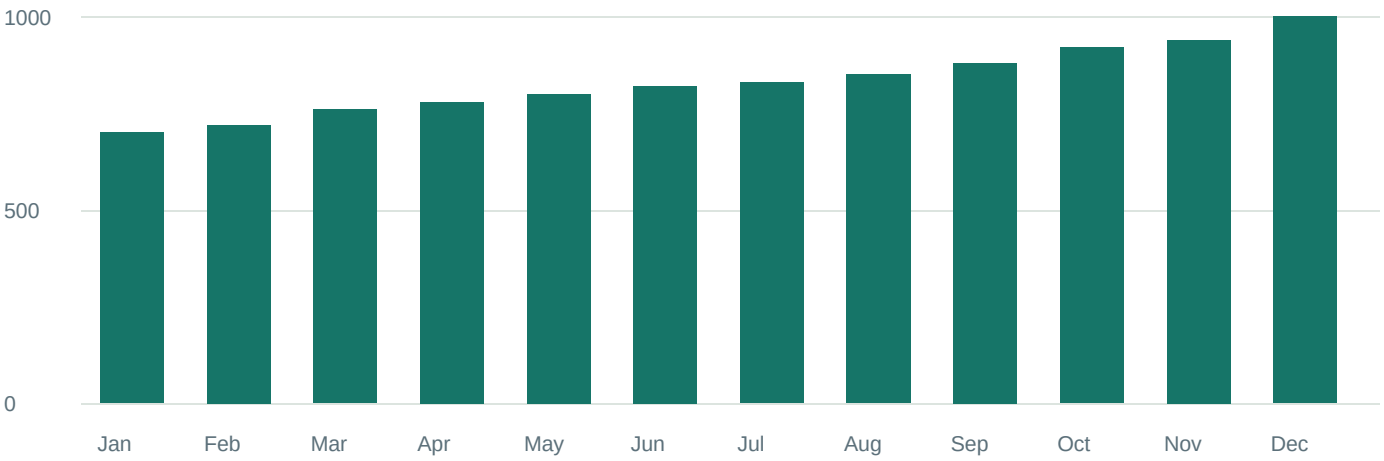
03 / TRADING PERFORMANCE

Revenue growth outpaces the prior year.

All values are fictional. Monthly management-account data are used to demonstrate trend analysis, not a forecast.

Metric ($000 unless shown)	FY2024	FY2025	Change
Revenue	8,800	10,000	+13.6%
Reported EBITDA	968	1,200	+24.0%
EBITDA margin	11.0%	12.0%	+1.0 pp

MONTHLY REVENUE ($000)



Interpretation. Q4 contributes $2.86m, or 28.6% of annual revenue. December revenue is $1.00m versus $0.70m in January. EBITDA margin rises from 10.0% to 13.4% over the same endpoints. The pattern is consistent with operating leverage but does not prove it.

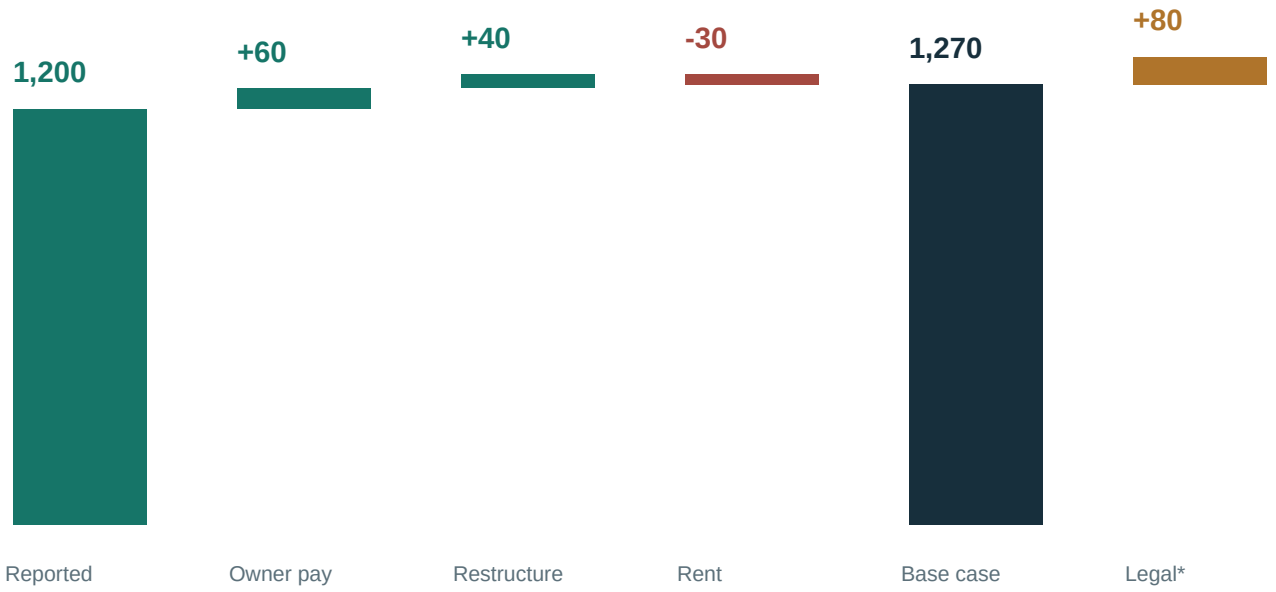
Follow-up. Reconcile growth to customer volumes, pricing and mix. Inspect December dispatch records and January credit notes to assess cut-off. Monthly seasonality cannot be established from a single year.

04 / EARNINGS BRIDGE

Keep supported and unresolved items apart.

The bridge is a fictional worked scenario. Evidence status describes the invented case file; no real documents have been verified.

ILLUSTRATIVE EBITDA BRIDGE ($000)



* Unresolved legal adjustment: outside the base case; upper scenario is $1,350k.

Scenario	EBITDA	Margin	How to use it
Reported baseline	$1,200k	12.0%	Starting point before adjustments.
Worked base case	$1,270k	12.7%	Includes +$60k owner pay, +$40k restructuring and -$30k rent.
Including pending legal	$1,350k	13.5%	Sensitivity only. Requires support for the additional $80k.

Why it matters. The pending $80k is 6.3% of base-case EBITDA. A seemingly modest adjustment can materially change the earnings figure. These scenarios are not a valuation or a recommendation on transaction price.

05 / ADJUSTMENT DILIGENCE

Every add-back needs a rationale.

An adjustment register makes the treatment, evidence reference and remaining challenge visible in one place.

Item / amount	Treatment in sample	Evidence and challenge
A1 / Owner pay **+$60k**	Included in worked base case	S03: owner compensation of $210k less an assumed replacement cost of $150k. Confirm role coverage, benefits and market pay before reliance.
A2 / Restructuring **+$40k**	Included in worked base case	S04: assumed one-off severance. Confirm the program is complete and that recurring replacement costs are captured.
A3 / Facility rent **-$30k**	Included as a downward adjustment	S05: assumed recurring occupancy step-up not reflected in historic EBITDA. Reconcile lease timing and annualization.
A4 / Legal expense **+$80k**	Pending; excluded from base case	S06: management explanation only; invoices absent. Establish the nature, timing and likelihood of recurrence.
A5 / Marketing **+$25k proposed**	Rejected; no adjustment	S07: activity supports ongoing customer acquisition. No basis in the example to conclude the cost is non-recurring.

Normalization is not a list of favorable add-backs

The example includes a downward rent adjustment and rejects a proposed marketing add-back. The objective is a balanced view of recurring earnings, with assumptions exposed rather than hidden.

06 / REVENUE QUALITY

Concentration deserves a specific question.

Customer-level exposure shown below is based on the fictional FY2025 sales ledger. No retention or contract quality is inferred.

REVENUE BY CUSTOMER GROUP



Sensitivity (not a forecast)	Revenue impact	EBITDA impact*
10% decline in Customer A sales	-$290k	-$101.5k
20% decline in Customer A sales	-$580k	-$203.0k

*Assumes a 35% contribution margin and unchanged fixed costs. Impacts equal lost revenue multiplied by 35%; they exclude mitigation, pricing responses and second-order effects. Contribution margin is an illustrative assumption, not an observed gross margin.

Buyer follow-up. Obtain contract terms, renewal dates, order backlog, price-change history and customer-level gross profit. The top three customers contribute 56% of sales, so a small number of renewals can shape the earnings outlook.

07 / CASH CONVERSION DIAGNOSTIC

Profit growth does not equal cash generation.

Selected operating working-capital indicators illustrate an adjacent question. A full working-capital peg or cash-flow diligence requires a separately agreed scope.

Operating balances ($000)	Dec 2024	Dec 2025	Movement
Accounts receivable	1,050	1,400	+350
Inventory	900	1,100	+200
Accounts payable	(700)	(850)	(150)
Selected operating NWC	1,250	1,650	+400

EBITDA LESS SELECTED NWC GROWTH ($000)



Interpretation. The $400k increase in selected NWC represents 33.3% of reported EBITDA. The $800k residual is **not operating cash flow or free cash flow**: it excludes tax, interest, capex and other balance-sheet movements. Year-end balances can also distort the picture.

Next evidence. Request monthly balances, receivables aging, subsequent receipts and inventory aging to distinguish growth investment from slow collections or obsolete stock.

08 / PRIORITIZED ACTION PLAN

Resolve the questions that move the decision.

Illustrative priorities reflect the magnitude of the exposure and the evidence gap. They are not quantified probabilities of loss.

Priority / finding	Why it matters	Required follow-up
HIGH / Legal add-back	+$80k remains outside the base-case earnings scenario.	Seller: provide invoices, matter descriptions and prior-year comparison. Reviewer: assess recurrence and treatment.
HIGH / Customer A	29% of sales; a 10% decline implies a $101.5k EBITDA sensitivity under the stated assumptions.	Seller: provide contract, renewal date, backlog and margin history. Buyer: assess continuity through a change of control.
HIGH / Year-end trading	Q4 generates 28.6% of annual revenue. The sample does not establish correct cut-off.	Reviewer: inspect dispatch/acceptance support and post-year-end credits for a targeted sample of December sales.
MEDIUM / Cash absorption	$400k growth in selected NWC reduces the cash available from reported earnings.	Seller: supply aging and subsequent receipts. Reviewer: distinguish timing from collectability or inventory quality.
MEDIUM / Replacement costs	Owner compensation and rent assumptions affect recurring earnings.	Buyer: validate replacement role and compensation. Reviewer: reconcile lease obligations and annualization.

Completion gate. Update the adjustment register only when the required support has been reviewed. Document unresolved exceptions and their effect on conclusions. None of the sample findings represents a completed real-world review.

09 / EVIDENCE & SCOPE

Clear evidence. Clear boundaries.

Source IDs below refer to fictional case inputs used solely to construct this sample. They are not documents received from a client.

Source ID	Illustrative input / use
S01	Monthly management accounts: FY2025 revenue $10,000k and EBITDA $1,200k; FY2024 comparison $8,800k / $968k. Pages 2-4.
S02	Sales ledger: customer shares 29%, 16%, 11% and 44%. Page 6.
S03-S05	Assumed payroll, severance and rent schedules supporting the worked adjustment scenarios. Pages 4-5.
S06-S07	Legal-cost explanation with invoices absent; recurring marketing-cost description. Pages 4-5 and 8.
S08	Year-end receivable, inventory and payable balances. Page 7.

METHOD & LIMITATIONS

Revenue growth = current / prior - 1. EBITDA margin = EBITDA / revenue. Base-case EBITDA = $1,200k + $60k + $40k - $30k. Concentration = customer sales / total sales. Selected NWC = receivables + inventory - payables. Figures are rounded as displayed.

This focused review format addresses agreed earnings questions using supplied information. It is not a comprehensive QoE, audit, assurance opinion, valuation, fraud investigation, tax review or legal analysis. No lender acceptance or transaction outcome is promised. The concentration and cash diagnostics shown here are examples of selectable depth, not a commitment that every $1,950 item includes every analysis.

Your engagement: agree the question, analysis period, deliverables and required data first. Scope and turnaround are confirmed after intake. Five diligence items means five agreed scopes, not five comprehensive QoE engagements.