

Before a buyer tells you what your add-backs are worth, we will.

You are going to market at a multiple of EBITDA, and EBITDA is the one number in this process that is an argument rather than a fact. Every dollar you add back, a buyer's quality-of-earnings team gets to take out. This is that fight, run early, on our side of the table, before the number is in a CIM and hard to walk back.

ILLUSTRATIVE SAMPLE · NOT A CLIENT FILE

REVENUE, TTM	REPORTED EBITDA	ADD-BACKS CLAIMED	EBITDA WE WILL DEFEND	AT 5.5×
\$14,250,000	\$1,640,000	\$1,250,500	\$2,300,500	\$12.7M
	11.5% of revenue	across nine items	16.1% of revenue	vs \$15.9M on the seller's number

THE BRIDGE

Reported to adjusted, line by line

ADD-BACK	AMOUNT	OUR VIEW
SURVIVES DILIGENCE		
Owner compensation above market Owner draws \$585,000 in a role a general manager fills at \$200,000. Supported by two survey sources.	385,000	Standard, documented, every buyer takes it.
Spouse on payroll No operating role. Comes off at close.	94,000	Clean, provided the termination is papered before the LOI.
Three personal vehicles Titled to the company, used personally.	47,500	Fine. Expect the buyer to ask for the mileage logs.
Rent above market to a related party Building owned by the member. \$96,000 above an appraised market rent.	96,000	Survives only if the lease is restructured at close. Get that drafted now.
Family travel and meals Identified line by line, not estimated.	38,000	Survives because it is itemized. An estimate here would not.
Defensible add-backs	660,500	
WILL BE CHALLENGED		
Employment claim settled in 2025 One-time, but the third claim in five years.	128,000	A recurring one-time item is not one-time. Expect to split it.
Broward branch closed March 2026		

Discontinued operation.

212,000 Defensible, but only with the branch P&L carved out cleanly. We have not seen it.

Contested

340,000

WILL NOT SURVIVE, AND SHOULD COME OUT BEFORE THE CIM

Normalized bad debt

165,000 This is a forecast, not an adjustment. Take it out.

Actual write-offs averaged \$165,000 over three years. The add-back assumes a collections process that does not exist yet.

Deferred maintenance on the fleet

85,000 It recurs. It is the cost of running trucks that old.

Added back as "non-recurring."

Indefensible

250,000

Total claimed

1,250,500

WHAT IT IS WORTH

The same company, three numbers

THE SELLER'S NUMBER

\$15.9M

Reported EBITDA plus every add-back claimed, at 5.5x. This is the number that goes in the CIM if nobody tests it first.

WHAT WE WILL DEFEND

\$12.7M

Reported plus the five that survive. This is the number we can hold through diligence without conceding.

THE SPREAD

\$3.2M

What is actually being argued about. \$1.4M of it rests on two add-backs that will not survive a competent buyer.

THE POINT OF DOING THIS NOW

A buyer does not negotiate your add-backs down. They use them to reprice the whole deal.

An add-back that fails in diligence does not just come off the EBITDA. It tells the buyer that the rest of your numbers were assembled by somebody who was reaching, and then everything else gets a second look — the working capital peg, the customer contracts, the accrual policy. The \$250,000 above is not worth \$1.4 million of price. It is worth the credibility of every other figure in the book.

Take it out before the CIM goes out. A number you never claimed cannot be taken away from you at the eleventh hour.

WHAT DILIGENCE FINDS FIRST

Three things, in the order a buyer gets to them

1 Customer concentration

Your largest account is 23% of revenue and the top three are 41%. Two of the three are on contracts that renew annually with 30-day termination. A buyer will either escrow against that or structure an earn-out around it. Decide now which one you would rather have, because you will be offered the one you did not prepare for.

2 **The working capital peg**

Trailing twelve-month average net working capital is \$1,180,000. The peg is set from that average, and every month you let receivables run before close drags it up. This is the quietest million dollars in the transaction and most sellers find out about it in the final week.

3 **The related-party lease**

You own the building. The buyer is pricing a company that pays market rent, not your rent. That add-back only holds if a market-rate lease is signed and in the data room. Unsigned, it is an assumption, and assumptions do not survive.

Every figure on this page is illustrative and the company is invented. A real engagement starts with the trial balance and the general ledger detail behind each adjustment, because an add-back nobody can trace to a transaction is an add-back the buyer deletes.

Palacio, Palacio & Zimmerman, LLC · Assessment — not an opinion, a valuation, or a fairness opinion