FOR HOLDING COMPANIES AND FAMILY OFFICES

Three screens to run before the next add-on *joins the consolidated P&L.*

You keep what you buy. There is no exit to forgive a diligence miss, and every acquisition has to fold into a consolidated P&L and a monthly close. A flipper screens for the sale. Permanent capital screens for the decade of ownership that follows. Run this on 36 months of financials, the fixed-asset register, payroll, and the general ledger. Where source data is weak, score the item amber until validated.

0–2 PTS	3–5 PTS	6+ PTS
▶ PROCEED	▶ RECALIBRATE	▶ RESOLVE FIRST
Move to confirmatory diligence and integration planning.	Price, transition plan, or integration budget should flex first.	Resolve before close or budget it into year one explicitly.

No. 1 OWNER DEPENDENCE

You keep what you buy. Buy the version that runs without you.

CALCULATE

- Owner hours per week by function: sales, pricing, finance, operations.
- Revenue share attached to owner-held customer relationships.
- Approval chokepoints: who signs, prices, hires, and releases cash.

AMBER FLAGS · 1 PT

- Owner personally approves all pricing and quotes.
- No second signer on the bank account or check run.
- Core process knowledge undocumented and held by the owner.

RED FLAGS · 2 PTS

- Founder is de facto head of sales, finance, and operations.
- Top-customer relationships are personal to the owner, not the firm.
- Replacement management cost erases the projected return.

No. 2 ACCOUNTING HYGIENE

A portfolio is only as clean as its dirtiest ledger.

CALCULATE

- Close cadence and lag: days from month-end to books closed.
- Cash-versus-accrual gap on both revenue and expense recognition.
- Volume of manual journal entries, year-end true-ups, and related-party flows.

AMBER FLAGS · 1 PT

- Accruals trued up once a year rather than monthly.
- Chart of accounts inconsistent from one year to the next.
- Bank recs current but AR aging stale or unreviewed.

RED FLAGS · 2 PTS

- Cash-basis books sitting behind accrual-basis performance claims.
- Unreconciled bank or AR balances carried across periods.
- Related-party transactions running with no written agreements.

No. 3 DEFERRED SPEND AND CAPEX

Deferred maintenance is a price increase you pay later.

CALCULATE

- Maintenance capex versus depreciation by asset class over 3+ years.
- Fleet or equipment age profile against useful-life benchmarks.
- Maintenance and repair spend trend across the same period.

AMBER FLAGS · 1 PT

- Capex below depreciation for 2 consecutive years.
- Maintenance records kept ad hoc, not on a schedule.
- Repairs trending down while the asset base keeps aging.

RED FLAGS · 2 PTS

- Margin supported by maintenance the seller simply skipped.
- Replacement cycle due inside the first 2 years, absent from the model.
- Deferred spend that resets EBITDA once normalized.

SCORE IT, THEN STRUCTURE THE DEAL

Decision rubric

Two rows per screen. Assign 0, 1, or 2 points each, total the six rows, and tie every open item to a transition plan, integration budget, or price protection before close.

SCREEN	▶ GREEN · 0 PTS	▶ AMBER · 1 PT	▶ RED · 2 PTS
Owner reliance	A management layer runs the business and the owner is replaceable.	Owner holds one core function that a priced hire can absorb.	Owner is sales, finance, and operations, and cannot be replaced cheaply.
Relationship transfer	Customers contract with the firm and transfer on paper.	Key accounts are warm to the owner but documented and assignable.	Top accounts follow the owner and are not committed to the business.
Close and books	Monthly close within a normal lag on consistent accrual books.	Close is slow or accruals are trued up only at year-end.	Books are cash-basis or unreconciled and cannot consolidate cleanly.
Ledger integrity	Bank, AR, and AP reconcile with minimal manual adjustment.	Reconciliations lag or manual journal entries are heavy.	Related-party flows or unreconciled balances distort the numbers.
Maintenance capex	Capex tracks depreciation and assets are within useful life.	Capex trails depreciation but the gap is quantifiable.	Reported margin depends on maintenance the seller deferred.
Replacement cycle	No major replacement is due inside the first years of the hold.	A replacement is due but sized and reflected in the plan.	A replacement cycle lands in year one and is absent from the model.

INTEGRATION CALIBRATION

- [ ] Is the transition period and owner earn-in defined in the terms?
- [ ] Are replacement hires priced into the operating model?
- [ ] Is the close calendar and reporting package agreed before close?
- [ ] Does the year-one capex budget reflect the asset age profile?
- [ ] Are related-party leases repriced to market before signing?

DATA REQUEST STARTER SET

- [ ] Monthly financials, last 36 months.
- [ ] Fixed-asset register with in-service dates by asset.
- [ ] Maintenance logs and capex invoices for the trailing period.
- [ ] Payroll register with roles, duties, and approval authority.
- [ ] Related-party agreements and property or equipment leases.

> *Permanent capital has no exit to forgive a diligence miss. The problems you buy are the problems you keep.*
>
> Diligence it before close, price it into the deal, or budget it into year one.

SUGGESTED LOI LANGUAGE

Owner transition	Purchase price assumes a defined transition period and owner earn-in, with replacement management cost validated and reflected in adjusted EBITDA.
Accounting quality	Closing subject to reconciled books, a documented monthly close, and disclosure of related-party transactions with supporting agreements.
Deferred capex	Adjusted EBITDA subject to a maintenance-capex normalization, with any replacement cycle due in the early hold treated as a debt-like item.