FOR INDEPENDENT SPONSORS

The three findings that stall an equity raise *after your LOI is already signed.*

Run this before you circulate the deal, not after. Your capital partners re-underwrite the target on their own terms. If your adjusted EBITDA falls apart under their review, the raise stalls, the deal dies inside exclusivity, and your credibility with that capital base takes the hit. Run the screen on the target's ledger: the add-back schedule, monthly revenue by customer, payroll and distributions, and 12 or more monthly balance sheets. Where the support is thin, score the item amber until it is validated.

0–2 PTS	3–5 PTS	6+ PTS
▶ PROCEED	▶ RECALIBRATE	▶ RESOLVE FIRST
Circulate with standard confirmatory diligence.	Tighten the memo, structure, or scope before you circulate.	Resolve it before any capital partner sees the deal.

No. 1 ADD-BACK CREDIBILITY

Your capital partners re-underwrite every adjustment.

CALCULATE

- The full add-back schedule, each line tied to a specific GL account.
- Owner comp bridge: current draw versus replacement cost after transition.
- Adjusted versus reported EBITDA, and the spread as a percent.

AMBER FLAGS · 1 PT

- Add-backs above 15 percent of reported EBITDA with partial documentation.
- Round-number estimates standing in for actual amounts.
- Personal expenses identified by memory rather than card detail.

RED FLAGS · 2 PTS

- Add-backs supported primarily by narrative, not ledger detail.
- Adjusted EBITDA more than 25 percent above reported without ledger support.
- Related-party payments with no agreements behind them.

No. 2 REVENUE DURABILITY

The multiple is a bet on persistence. Show your work.

CALCULATE

- Top 1, top 3, and top 10 customer concentration, by month.
- Repeat and cohort revenue share across the trailing 24 months.
- Contract coverage as a percent of trailing revenue.

AMBER FLAGS · 1 PT

- Top-10 share rising over the last several quarters.
- Renewals handled informally, with no signed schedule.
- One-time project revenue embedded in the run rate.

RED FLAGS · 2 PTS

- Growth explained by a single customer or channel.
- Churn masked by outsized growth in one account.
- Margin on top accounts below the company average.

No. 3 DEBT-LIKE ITEMS AND THE PEG

Sources and uses breaks at close, not at signing.

CALCULATE

- Normalized working capital from 12 or more monthly balances.
- Debt-like item list: deferred revenue, accrued payroll, stretched AP, customer deposits.
- Capex versus depreciation across the trailing period.

AMBER FLAGS · 1 PT

- One working-capital component moving adversely.
- Peg proposed as a generic target, not a methodology.
- Capex running below depreciation with no explanation.

RED FLAGS · 2 PTS

- Debt-like liabilities omitted from the peg.
- Post-close cash need missing from sources and uses.
- EBITDA growth not converting to cash.

SCORE IT BEFORE YOU CIRCULATE THE DEAL

Decision rubric

Two rows per screen. Assign 0, 1, or 2 points each, total the six rows, and resolve, reserve for, or disclose every open item before the data room opens.

SCREEN	▶ GREEN · 0 PTS	▶ AMBER · 1 PT	▶ RED · 2 PTS
Add-back support	Every add-back ties to a GL line and non-recurring evidence.	Add-backs run above 15 percent of reported EBITDA with partial support.	Add-backs rest on narrative, not ledger detail.
Owner comp bridge	Replacement cost is modest and already in the model.	Replacement cost is material but quantifiable.	Replacement management cost erases most of the add-back.
Concentration	Top-customer share stable or declining; growth is broad-based.	Top-10 share rising, with a plausible but unevidenced reason.	Growth depends on one customer or channel.
Recurring revenue	Repeat and contracted revenue visible across cohorts.	Mixed recurring and project revenue; churn data incomplete.	Churn masked by one account, or top-account margin below average.
Working-capital peg	Peg follows a named methodology from monthly balances.	One component moving adversely, or peg stated as a target.	Debt-like liabilities omitted from the peg.
Cash conversion	Reported EBITDA growth converts to cash directionally.	Timing gaps explainable by seasonality or billing terms.	Post-close cash need missing from sources and uses.

BEFORE THE CAPITAL CALL

- ☐ Does the deal memo disclose every flag this screen surfaced?
- ☐ Does the structure absorb the items you could not resolve in time?
- ☐ Is the working-capital peg methodology named, not a generic target?
- ☐ Is the add-back schedule tied line by line to the GL?
- ☐ Is replacement management cost carried in the model?

DATA ROOM STARTER SET

- ☐ Monthly revenue by customer, last 24 months.
- ☐ Invoice detail with invoice, due, and paid dates, and memo fields.
- ☐ Monthly balance sheets: AR, AP, inventory, deferred revenue, accruals.
- ☐ Payroll register, owner distributions, card detail, related-party payments.
- ☐ Contracts and renewal schedule with pricing and top-customer margin.

> *An equity partner who finds the problem first prices it twice: once in the deal, once in your credibility.*
>
> Resolve it, reserve for it, or disclose it in the deal memo before the data room opens.

SUGGESTED DEAL-MEMO LANGUAGE

Add-backs	Adjusted EBITDA reflects add-backs tied to GL detail and validated against replacement management cost, with related-party payments disclosed and supported by agreements.
Revenue durability	The memo states top-1, top-3, and top-10 concentration, repeat-revenue share, and contract coverage, and flags any run-rate revenue that is one-time.
Working capital	The LOI names a normalized working-capital peg from monthly balances, with debt-like treatment of deferred revenue, accrued payroll, stretched AP, and customer deposits.

Your LPs will run this screen whether you do or not. Zenith Analysis runs the full version directly from the target's accounting file: concentration analysis, add-back validation, a working-capital peg, and an EBITDA bridge traced to source, every flag tied to a ledger line. **zenithanalysis.com**