THE ADD-BACK · EPISODE 04

What The Buyer Will Disallow

Arc 1 · T–12 months to exit / sell-side preparation

In the room: Deal team, CFO, sell-side advisor, QoE provider

The question: Which adjustments survive the buyer's confirmatory diligence?

THE POSITION

SIGHTING

Twelve months out. The adjusted EBITDA schedule has an automation savings line that has been there three years without a hostile reader testing it.

THE CONSENSUS READ

It survived our own QoE, so it will survive theirs.

THE MECHANISM

Yours was scoped to tie out what you presented. Theirs is paid to find what you didn't. An automation adjustment fails on the one criterion neither side can tie out from a schedule — whether the saving is offset by cost that moved elsewhere. There is no document that shows you a cost nobody named.

THE EXPOSURE

The adjustment most likely to be disallowed is the one with no owner on the org chart, and it comes off the price after the LOI, when you have the least leverage you will ever have.

THE TEST

Run the offsetting-cost search yourself, twelve months early, while the answer is still a management problem rather than a retrade.

THE BRIDGE — CLAIMED TO REALISED

Exposure percentages are our own estimates applied to a composite schedule; the underlying pattern draws on the same composite case as Episode 01. Nothing here is a measured population statistic.

LINE	MOVES	RUNNING
Claimed — $1.4M of cumulative automation-related adjustments in the adjusted EBITDA schedule at T–12		**$1.4M**
1. The three tests it passes [changes the story]	-$0	$1.4M
Automation adjustments are usually well-prepared, which is why they get through internal review and why the disallowance is a surprise.		
2. The fourth test, and why it is structurally different	-$400,000 to -$650,000	$750,000 to $1.0M
The fourth criterion is that the saving is not offset by incremental cost elsewhere, and it is different in kind: the other three are verification tasks against…		
3. The attribution problem — 'influenced' savings	-$150,000 to -$250,000	$500,000 to $850,000
A separate failure mode, and the one sell-side teams argue hardest and lose most often.		
4. Where I was wrong — I told a client to fight it [where I was wrong]	-$0	$500,000 to $850,000
A judgment error rather than an analytical one. Cost: The dispute consumed three weeks of a confirmatory diligence period, and the effect on the bidder was not that they accepted our…		
5. What survives [residual]	+$0	$500,000 to $850,000
$500,000 to $850,000 against $1.4M presented — and the range narrows substantially if you run the search yourself and reprice the schedule before the LOI rather than…		
Realised		**$500,000 to $850,000 against $1.4M presented**

THE DOWNSIDE

Multiple: 9x, illustrative

$400,000–$650,000 of disallowed offsetting cost at an illustrative 9x is $3.6M–$5.9M off the price. Add the influenced-savings haircut and exposure runs higher. Substitute your own comps.

$4.5M to $8.1M off the price — and a retrade rarely stops at the value of the finding — one disallowed adjustment invites a re-test of the others

When it surfaces. Discovered at T–12 this is a schedule revision, a smaller number in the CIM, and a marginally lower asking price set by you. Discovered in confirmatory diligence after LOI it is a retrade, and the asymmetry at that moment is total: you are exclusive, your LPs have been told the process is closing, management has been told, the advisor's fee is contingent on completion, and the buyer has three weeks of sunk cost and no obligation. The cheapest possible time to find an unsupportable add-back is any time other than when a buyer finds it.

What The Buyer Will Disallow

The question: Which adjustments survive the buyer's confirmatory diligence?

Paste into a request list or a management agenda. Each question resolves to an artifact, not to a characterisation.

THE DILIGENCE PACK

1. For every automation-related adjustment, provide the headcount schedule for eliminated roles and, separately, headcount and time-allocation data for every adjacent function for twelve months before and after each implementation.

Artifact: Both schedules.

This is the offsetting-cost search and it is 80% of the exposure.

2. Export the full history of every channel, inbox or queue receiving exceptions from each automated process, with the named individuals appearing most frequently and their cost centres.

Artifact: Raw exports plus named list.

If the frequent responders sit outside the process's cost centre, that is the offsetting cost — and it is now documented by you, first.

3. For each adjustment, write the counterfactual sentence: what would have happened without this automation, and which document supports it?

Artifact: One sentence and one document per line.

Any line that cannot produce both is an influenced number; reprice or remove it.

4. List every adjustment where the saving is characterised as enabled, contributed to or associated with the automation rather than directly caused by it, with its value.

Artifact: A schedule of the soft lines.

This is your haircut list.

5. Identify every remediation, rebuild or vendor re-scope undertaken on an automated process since implementation, with cost and the reason.

Artifact: The invoices and the board materials.

A remediation is evidence the original implementation underdelivered, and a buyer will read it that way whether or not you present it.

DISQUALIFIER

Sequencing: run 1 and 2 before your own QoE is scoped, so the provider can address offsetting cost in the report rather than being silent on it. A seller's QoE that doesn't mention offsetting costs on an automation adjustment is a report the buyer's team will treat as incomplete.

SOURCES — EVERY MEASUREMENT WITH ITS SAMPLE

CLAIM	SOURCE	SAMPLE / CLASS
Roughly 1.5–2.0 FTE of absorbed load across customer service and account management against a three-head reduction	Composite, built to the shape of a real quote-to-cash automation (same case as Episode 01)	n/a — composite (composite)
QoE four-criteria test: realised or committed, documented, correctly characterised, not offset by incremental cost	Standard quality-of-earnings practice	n/a — practice standard (reported)
30–45% of automation adjustments exposed to the offsetting-cost test; influenced-savings haircut of $150K–$250K	Our estimate applied to a composite schedule	n/a — estimate, not a measured population statistic (illustrative)
9x entry multiple	Illustrative mid-market comp	n/a — illustrative, arithmetic exposed (illustrative)

One standing caveat. Every number in this show is somebody else's measurement, and I'll tell you whose, with the sample. None of it is diligence on your deal. Do that yourself.