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What the Quality of Earnings Does Not Show

Operational diligence gaps in equipment and field service acquisitions

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Executive summary

A quality of earnings report (QoE) tests whether earnings are real and sustainable. Buyers pay for that answer, and they should. But the investment thesis needs operating evidence too: can the business keep producing those earnings, and grow them, after close? In equipment and field service businesses, a clean financial bridge can leave that question open. The revenue is real. The technician who produced it gave notice in August.

This paper looks at five places where that evidence matters: backlog and contract quality, technician capacity, fleet condition and the capital it needs, price realization, and the warranty and service obligations a buyer inherits. The ledger shows their results. Testing the operation behind those results takes data from the shop, the yard, and the contract file.

The paper organizes operating findings into a schedule of sustainability adjustments for recurring costs the business must restore. It ends with a working method and a checklist. The short version is this:

> A QoE tests the earnings. It needs operating evidence to test the capacity to sustain and grow them under your ownership.

1. Introduction

Consider a deal that closes on a clean QoE. The add-backs held. The working capital peg was fair. Ninety days later the service manager mentions, in passing, that two senior technicians left over the summer and the three open requisitions have been open since spring. The parts manager mentions that a third of the shelf has not moved in two years. The branch with the best margin turns out to run the oldest fleet. Nothing in the diligence package was wrong. It was answering a different question.

That gap matters more now than it did ten years ago, because the arithmetic of a buyout has changed. In its 2026 Global Private Equity Report, Bain & Company estimates that a typical buyout in the 2010s needed about 5 percent annual EBITDA growth to return 2.5 times invested capital over five years. With borrowing costs at 8 to 9 percent, leverage at 30 to 40 percent of capital, and purchase multiples near record levels, Bain puts the same requirement today at 10 to 12 percent. The firm calls this "12 is the new 5." McKinsey's Global Private Markets Report 2026, drawing on StepStone analysis, puts the shift in numbers: for buyout deals done between 2010 and 2022, leverage and multiple expansion produced 59 percent of returns. The median

purchase multiple reached a record 11.8 times EBITDA in 2025, against an average of 9.1 times over 2010 to 2022, and McKinsey now expects operational value creation to be the primary source of returns.

In plain terms, the cheap part of the return is gone. What is left has to be earned inside the business, and that depends on the operation a buyer inherits.

Entry prices and exit multiples once did more of the work. Now the growth plan has to carry more of the return. Financial diligence still tests the quality and sustainability of earnings. Operating diligence tests the people, assets, and processes the growth plan depends on. The two belong together, with operators working from the shop and fleet data alongside the financial team.

Equipment and field service businesses make the need concrete. Their earnings depend on things you can count in a yard or a shop: technicians who can be hired and kept, a fleet that can be maintained and deployed, parts on the shelf, contracts customers renew, and prices that branch staff hold under pressure. A QoE may flag the financial symptoms. Testing whether the shop has spare capacity, the fleet faces a replacement cliff, or realized prices have drifted away from list takes a closer look at the operation.

This paper describes five such gaps, explains why standard deal processes leave them open, and proposes a way to close them inside a normal exclusivity window. It draws on public research and public filings, not client work. Its scope is the acquisition of equipment dealers, rental companies, and commercial and industrial field service businesses, the segments where the operating model is most exposed to the gaps described.

2. What a quality of earnings report is built to answer

Start with what the QoE does well, because the argument here is not that it does it badly.

A QoE exists to answer one question: how much of the target's reported profit is real, recurring, and likely to continue under a new owner. It is a consulting engagement, not an audit, and it gives no opinion on the financial statements. Its main product is a bridge from reported EBITDA to adjusted EBITDA. Management proposes add-backs, costs it says will not recur. The QoE tests each one and accepts, rejects, or revises it. Three more analyses sit around the bridge. Revenue quality: how revenue is recognized, how concentrated it is, and what the contracts say. Net working capital: the normal level of receivables and inventory, less payables, that the business needs to operate, which becomes the peg in the purchase agreement (the buyer gets

a price adjustment if the seller delivers less). Debt-like items are negotiated separately. Some obligations, including customer deposits and deferred revenue, may fall in working capital or the equity bridge, depending on the agreement. Count each once (BD Emerson; BPM).

That work moves money. Adjusted EBITDA is the number the multiple is applied to and the number lenders size debt against. A worked example from Altss shows how much: management presents adjusted EBITDA of 100 after 20 of add-backs, and the financing package proposes 500 of debt, or 5.0 times. The QoE accepts 8 of the 20 add-backs. Diligence-adjusted EBITDA is now 88 and the same debt is 5.7 times. A few rejected add-backs move price, leverage, and covenant headroom at once. No buyer should close without this analysis, and nothing that follows suggests otherwise.

The problem is narrower. Scope, data, and time can leave operating assumptions untested. In equipment and field service businesses, those assumptions carry much of the risk.

The data. A QoE works from the general ledger and the records behind it. The ledger records outcomes. It records the service revenue that was invoiced. It does not record the preventive maintenance visit that was skipped because no technician was free, the rental unit that sat for three weeks waiting on a hydraulic pump, or the quote that went out at 12 percent off when 5 would have won the order. Each of these shows up in the financials only as revenue or margin that never occurred, which means it does not show up at all.

The time frame. A QoE usually starts with twelve to thirty-six months of results and can adjust for missing accruals and future cost changes. But the next fleet replacement cycle or a new product line's service burden needs operating evidence. A historical reserve or maintenance run rate is a starting point. It does not, by itself, establish what the buyer will have to spend.

The scope. QoE providers work under an agreed scope, which can include detailed operating analysis. The buyer must establish who will test whether the shop can absorb 15 percent more work orders, whether dispatch will hold across three more branches, and why customers renew. Without an assigned owner, those questions can end with a management presentation and a site visit. The seller prepares the first and hosts the second.

A QoE tests sustainable earnings. The buyer still needs evidence that the operation can support the growth plan stacked on top. For a deal that needs 10 to 12 percent annual EBITDA growth to work, that operating test carries much of the risk.

3. Gap one: backlog and contract quality

Backlog is often prominent in the presentation and less clear in the supporting records.

Ask what the number contains and it comes apart. Firm purchase orders for equipment. Signed service agreements with defined scope. Open-ended rental contracts the customer can end on short notice. Recurring work with no contract at all. Sometimes quoted work that has not been won. Add them together and the figure tells a buyer very little. Financial diligence may examine backlog, but recognition and cutoff tests alone do not establish its firmness, margin, or deliverability. Someone has to grade the order book.

Three questions grade it.

Is it firm? Cancellation terms, the difference between a purchase order and a letter of intent, expiry dates, and how much of the backlog belongs to one customer's project decide how much of the figure converts.

Is it priced? An order booked before a cost increase and carried without an escalator is a margin problem dressed up as a revenue asset. Tariff-driven cost increases through 2025 made this question more pressing, not less. Service contracts raise a quieter version of the same problem. Simon-Kucher's Global Pricing Study 2025, drawn from more than 2,200 business leaders across 28 countries, found that 53 percent of companies use contract indexation and only half of those enforce it consistently. A contract with an escalator clause nobody has applied is priced at whatever the customer last agreed to pay. (The clause is still in the file. It never made it to the invoice.)

Can it be delivered? Backlog that exceeds technician or fleet capacity is a schedule, not revenue. The schedule slips in the buyer's first year.

Renewal data belongs in the same review. Many targets cannot produce a renewal rate by count and by value from their own systems. Agreements auto-renew, lapse without notice, or renew at reduced scope while the account still counts as retained. The 2026 StepStone/Bain GP survey of 103 investment professionals found that for 33 percent of deals pursued but not closed in 2025, the breaking point was fundamentals that did not hold up in diligence, with earnings quality and customer churn named as examples. Read that figure carefully. It describes buyers who looked. The deals that closed with the same weaknesses unexamined are not in the survey, because nobody counted them.

Public companies disclose remaining performance obligations under ASC 606, with expected timing. Private targets seldom keep an equivalent, so the buyer has to build one. The request is not complicated: a contract-level listing with term, cancellation rights, escalator and the date it was last applied, booked margin, and expiry, plus a renewal cohort for the last three years. That turns one backlog number into a forecast a buyer can underwrite.

4. Gap two: technician capacity as the binding constraint on growth

A work order closes. The invoice goes out. The revenue is real, and the QoE will confirm it. The technician who did the work gave notice last week.

In a service business the growth plan is a hiring plan, and the hiring plan may not be achievable. The AED Foundation's 2026 Technician Shortage Report, prepared by Randall Reilly from surveys of dealers, manufacturers, technical schools, and technicians conducted in early 2026, estimates that agriculture and construction equipment dealers need about 10,000 additional diesel technicians a year over the next three years and are losing an estimated $7 billion a year in shop and parts revenue to unfilled positions. The report's arithmetic puts the cost of one empty seat at $699,300 a year: 2,000 billable hours at an average $185 rate, plus 89 cents of parts for every dollar of labor billed. The same study a decade earlier put the industry's loss at $2.4 billion.

The operating effects are not subtle. Eighty percent of surveyed dealers said they could not meet customer demand because of the shortage, 77 percent said it hindered growth, and 41 percent said they had lost customers. Forty-four percent of dealership technician openings stayed open more than three months, and one in five stayed open more than 150 days. The vacancy rate across respondents was 10.7 percent, and that is after 74 percent of dealers had raised technician wages more than 10 percent over five years. Turnover peaks at the two-to-five-year mark, when a technician is fully trained and billing at full rate. Seventy-nine percent of the technicians surveyed, a small sample of 33, said they would take a job in another industry under the right conditions.

Two things about that evidence. It describes equipment dealers, not every service business, so apply it with care. But the mechanism travels. The same report notes that technicians move freely among dealers, rental companies, independent shops, fleets, and customers' own maintenance departments, and cites an American Transportation Research Institute estimate of a shortfall as high as 30,500 technicians a year in trucking alone. HVAC, electrical, and industrial maintenance contractors fish in an overlapping pool.

Technician cost reaches the QoE as a line in cost of sales. Capacity needs a fuller view: headcount against open requisitions, billable hours per technician, overtime as a share of hours, tenure distribution, local wages, and the senior technicians the shop depends on. Those records live in dispatch and payroll. A target with strong service margins on flat headcount may be running on overtime and skipping preventive maintenance visits, raising margin now and risking churn later. A plan that needs fifteen more technicians where positions stay open five months is a two-year plan wearing a hundred-day plan's clothes.

Treat technician capacity as the first constraint on the revenue forecast, not a line in the cost base. Ask for headcount and turnover by tenure band, open requisitions with days open, billable hours and overtime by technician, the apprenticeship and training pipeline, and wage positioning. From those a buyer can say three things with a straight face: the service revenue the business can produce with the people it has, the people it must add to hit the plan, and the evidence it can add them.

5. Gap three: fleet age, utilization, and deferred capital

A balance sheet shows the net book value of a fleet. It does not show how old the fleet is, how much of it is on rent, how much is down for repair, or how much capital it will take to keep it earning. In rental companies and in the rental fleets of equipment dealers, those four facts decide whether current EBITDA can be sustained. None of them is a financial statement item.

The largest public rental companies report these measures because investors insist. Herc Holdings' full-year 2025 results (February 17, 2026) show an average fleet age of 45 months, a fleet of about $9.5 billion at original equipment cost, and dollar utilization of 38.5 percent against 40.9 percent a year earlier. Dollar utilization is rental revenue divided by the original cost of the fleet, so the drop means each dollar of equipment earned less. Herc attributes it to lower utilization of the fleet it acquired with H&E in June 2025, ahead of what it calls fleet optimization, and it sold $198 million more rental equipment than the prior year to improve mix. Direct operating expenses rose from 40.5 to 42.5 percent of rental revenue over the same period. United Rentals, with a fleet of about $22 billion at original cost, reports a similar set of measures. Its Form 10-K for 2025 defines time utilization as the share of time an asset is on rent relative to the time it has been owned. Both companies use definitions published by the American Rental Association, which hands a buyer a common vocabulary for benchmarking a private target.

Read Herc's year as a public illustration of what an acquirer inherits. The acquired fleet was large and the buyer was experienced. Utilization still fell, operating cost still rose, and equipment still had to be sold off to fix the mix. A fleet that looks fine in aggregate can carry pockets of old,

low-utilization, high-repair equipment that the seller had no reason to retire before a sale. Herc's own annual report states the mechanism as a risk factor: as rental equipment ages, maintenance cost and the risk of equipment being out of service rise, and the value at disposal falls.

Financial diligence can test capital spending and challenge management's maintenance and growth split. Operators add the unit-level evidence: original cost, acquisition date, meter hours, trailing repair cost, days out of service, and utilization by category. That view exposes equipment bought in a cluster that will come due in a cluster. Model the replacement capital needed to sustain the fleet's earning capacity, using age as one indicator. Separate that ongoing spend from any immediate catch-up requirement. A buyer may negotiate the catch-up amount as a debt-like deduction or price concession. Neither treatment is automatic.

Private targets may hold this data in separate systems: fleet records in rental software, repair history in the shop system, and disposals in the ledger. With usable exports and the right people, an initial view can take about a week. Poor records take longer and may require sampling. Skip the work and the buyer finds the capex requirement after close, when the first replacement budget meets the fleet as it is.

6. Gap four: price realization and quote-to-invoice variance

Price is an early lever in many value creation plans. Its execution deserves the same scrutiny.

In these businesses price is set at the quote. A salesperson, a service writer, or a branch manager sets it, inside a policy that may be loose or unwritten. List prices and labor rates exist. Realized prices wander through discounts, waived fees, labor rate exceptions, unapplied escalators, and parts markups that depend on who is at the counter. A QoE can examine pricing and gross margin trends. A transaction-level review goes further: the spread for identical work, the gap between quote and invoice, and the transactions below policy.

The broader evidence says the gap is wide and getting wider. Simon-Kucher's Global Pricing Study 2025 reports that the average price realization rate, the share of an intended price increase a company captures, has fallen five percentage points in two years to 43 percent. Sixty-four percent of respondents report higher price pressure than before, up from 57 percent in 2021, and only 24 percent planned a price increase above inflation in 2025. The study blames customer resistance and competitive pressure. In other words, the price list was fine. The sales conversation is where it went.

The arithmetic explains the stakes. At a 12 percent EBITDA margin, a 1 percent increase in realized prices lifts EBITDA about 8 percent if volume and costs hold. Two percent lifts it about 17 percent, more than a full year of the growth Bain says a typical deal now needs. That assumes the increase reaches the invoice and is not consumed by cost inflation or lost volume. If realized prices have been sliding for three years, the first lever may be a defense. A buyer should know which one it is before signing.

The test is a data exercise, not just an interview. Take twelve months of invoice lines and join them to the quotes and contracts behind them. For each unit of work (a labor hour, a rental day, a part), compute the pocket price: what the company kept after discounts, waived fees, and rebates. Do it by customer and by salesperson. Lay out the waterfall from list to invoice to pocket price, so each leak has a name and a size. Compare like work, controlling for scope, volume, and terms. Join cost-to-serve data to identify accounts below cost. Check unapplied escalators and test whether top sellers win on price or something else. With usable records, two weeks can turn a claim about pricing power into a measured distribution. Where records are missing, show the gap and qualify the estimate.

7. Gap five: warranty, service obligations, and parts inventory

A service business can carry obligations that its records do not fully explain. A QoE can test warranty reserves, missing liabilities, and prepaid service commitments. Operating analysis supplies the detail: claims by product line, the cost to fulfill each contract, and rework booked as unbilled labor. The issue is whether someone has joined those records and tested the assumptions behind the balances.

The scale of warranty cost in the equipment sector is public record. Warranty Week's 23rd Annual Product Warranty Report (April 16, 2026), compiled from the SEC filings of more than 1,400 U.S.-based manufacturers, puts the 2025 average warranty claims rate at 1.30 percent of product sales. Reserves held against future claims rose 17 percent in one year, to $71.9 billion, a rise the publication attributes to higher parts and labor costs and to tariffs. The truck and bus group, which includes agricultural and construction equipment makers, runs hotter. Its average claims rate was 2.10 percent in 2025, and it paid $3.94 billion in claims against $3.47 billion set aside (heavy-duty vehicle analysis, May 21, 2026).

Those are manufacturer numbers, and a dealer or service contractor is not a manufacturer. But it sits downstream of them in four ways.

First, the dealer performs manufacturer warranty work at the manufacturer's reimbursement rates, which can sit below retail. A service department with a high warranty mix can show strong hours and weak margin, and the mix shifts with the installed base. Second, the dealer or contractor carries its own workmanship warranty on repairs and installations. Third, prepaid service agreements are a promise to perform. If priced to win rather than to cover cost, their remaining fulfillment cost may exceed deferred revenue. Fourth, comebacks and rework can sit in unbilled labor, consuming capacity without a clear warranty label. Financial diligence can flag these issues. Claims by product line and age cohort, comeback rates by technician, and contract margins show what is driving them.

Parts inventory is the same problem in a different aisle. Financial diligence tests inventory values and reserves and helps establish normal working capital. Operating analysis asks whether the shelf holds the right parts: fill rate, turns by category, dead stock, and use of manufacturer return allowances. A low fill rate wastes technician hours and creates repeat visits. Suppose 30 percent of inventory value has not moved in two years. That is a reason to test demand, return rights, and recoverable value, not proof that every item is worthless. Apply agreed reserves consistently to the historical peg and closing inventory (RSM). The buyer should receive usable working capital. Lowering the peg alone does not create a purchase price benefit.

8. Why these gaps persist

None of this is a secret. Experienced buyers know that technicians, fleet, pricing, and contracts decide outcomes in these businesses. The gaps persist because four features of the deal process push against looking.

Timing. Buy-side diligence often runs inside a thirty-to-sixty-day exclusivity window. Operational work can start late when the team waits for financial findings before asking for shop and fleet data. It need not wait. McKinsey's 2026 report says 60 percent of surveyed GPs use operating group members in diligence to identify bankable improvements. The remaining firms may use other resources. The practical question is who owns the operating test, and when that person starts.

Scope. Financial diligence tests the numbers. Commercial diligence tests the market and customers. Legal diligence tests contractual rights and obligations. These scopes can overlap, but the operating questions still need an owner. Without one, they can end with a management presentation and a site visit. The seller prepares the first and hosts the second.

Incentives. The seller controls the data room and has a reason to emphasize the strongest earnings case. A sell-side QoE should test that case, not simply raise EBITDA. Some advisers earn success fees; others are paid for their work regardless of closing. Even so, deadlines and deal momentum can reward speed before the operating assumptions have been tested. The 2026 StepStone/Bain GP survey found that about three quarters of GPs underwrite margins as flat or improving by less than 300 basis points. The authors add that the challenge is capturing what was underwritten after close. Modest assumptions still need evidence. A plan built on an incomplete picture of the operation can take years to find its footing. Some never do.

Data. The operating data that would answer these questions exists. It lives in the dispatch system, the rental system, the shop system, and payroll, with no common key and nobody whose job is to join them. It is not in the data room because nobody asked for it, and assembling it during a sale takes time from managers who are already running the business and the process at once.

A buyer might answer that representations, warranties, and escrow cover these risks. They may cover a breach, depending on the agreement and policy. They do not guarantee an operating plan. A technician shortfall, an aging fleet, or an underpriced contract book may exist without breaching a seller's statement. Find those conditions before the price is set, then decide how to price, allocate, or accept the risk.

9. The counterpart to the add-back: sustainability adjustments

QoE adjustments already work in both directions. They can restore missing costs and normalize future expenses (Baker Tilly). The gap is in the operating evidence behind the bridge. A technician shortfall or deferred maintenance can remain a paragraph in the risk memo when the finding should change the number.

We call this schedule sustainability adjustments: recurring costs the business must restore to keep producing current earnings. Maintenance it has stopped doing. Wages it must reset. Ongoing work its staffing cannot cover. Put supported costs in the bridge once, alongside the financial team's adjustments. Keep one-time catch-up obligations separate.

Consider a hypothetical equipment and field service business with $60 million in revenue: $20 million from rental, $24 million from service, and $16 million from equipment and parts sales. It reports $6.6 million of EBITDA. The figures below are invented to show the method. They are not drawn from any company.

Schedule A. The QoE bridge

Item	$ thousands
Reported EBITDA	**6,600**
Owner compensation above market	+400
One-time legal settlement	+300
Management's proposed savings from a branch consolidation (not yet achieved; rejected)	0
Adjusted EBITDA	**7,300**

Schedule B. Sustainability adjustments

Finding	$ thousands
Recurring fleet maintenance shortfall supported by work orders and service schedules ($460,000); spend fell from 8.4 to 6.1 percent of $20 million rental revenue	-460
Market wage reset of about 9 percent for 42 technicians averaging $72,000, supported by local hiring data and turnover at two to five years of tenure	-270
Annual staffing shortfall for ongoing preventive maintenance: 1,900 hours at $65 loaded cost, about $120,000; excludes catch-up visits and wage adjustment above	-120
Sustainability-adjusted EBITDA	**6,450**

Schedule C. Findings that belong outside EBITDA

Finding	Amount	Where it lands
Ongoing fleet replacement capital to sustain earning capacity; excludes catch-up units below	$2.4 million a year above the seller's trailing spend	The model
Immediate fleet replacement catch-up; excluded from the ongoing capital estimate above	$1.8 million one-time	Negotiated price or debt-like deduction
Parts with no movement in 24 months; write-down supported by recoverable value	$1.0 million of $3.6 million	Consistent reserves in peg and closing NWC
Escalators written into 60 percent of service agreements and applied on half	About $150,000 a year not billed	Priced finding; first hundred days
Technician headcount of 42 against a plan that needs 54 by year two, in a market where openings stay open five months	Revenue timing	The forecast

Read the schedules together. The QoE added $700,000 to EBITDA. The operating review identified $850,000 of additional recurring costs, a separate $1.8 million catch-up need, and $2.4 million of annual capital above trailing spend. At 7 times EBITDA, enterprise value falls from

$51.1 million to $45.15 million. If the seller accepts the $1.8 million deduction, proceeds fall by $7.75 million before other bridge items, about 15 percent of the original enterprise value. Inventory is separate: the $1.0 million write-down does not automatically create another $1.0 million benefit. The peg and closing balances must use consistent definitions.

Two cautions. Count each finding once across earnings, capital, and working capital. Catch-up work is not automatically recurring expense. Support every line with target data and show how costs interact. A newer fleet, for example, may change the maintenance requirement.

10. A working method: operational diligence inside the deal timeline

The five gaps can be tested inside a normal exclusivity window when data access and scope are agreed early. Operators work alongside the QoE team. The method has three parts: write down the operating assumptions, test them with the target's data, and route each finding to the place in the deal where it changes something.

Write down the assumptions. Every thesis in these businesses rests on a handful of operating claims: the shop can add a given number of technicians, price can move by a given amount, the fleet will keep earning without unusual capital, the contract book will renew. Put those claims on paper before the data request goes out. That turns diligence from a search into a test, and it keeps the deal team honest about which claims are facts and which are hopes. Bain's 2026 report calls this full potential due diligence, scrutiny of the revenue, operational, and technology levers that could change a company's performance. McKinsey reports that leading firms now identify and quantify bankable improvements during diligence rather than after close.

Test with the target's data. The data request is short and specific. Five lists answer most of the questions in this paper. A target that cannot produce them has told the buyer something, too.

Gap	Data requested	Where the finding lands
Backlog and contracts	Contract-level listing with term, cancellation rights, escalator and date last applied, booked margin, expiry; renewal cohorts for three years	Revenue forecast; unapplied escalators priced into the model; renewal assumption in the plan
Technician capacity	Headcount and turnover by tenure band, open requisitions with days open, billable and overtime hours by technician, wage positioning	Capacity-constrained service forecast; hiring plan with evidence; incremental recurring cost, net of existing overtime
Fleet and capital	Unit-level list with original cost, acquisition date, meter hours, trailing repair cost, days down, utilization by category	Ongoing replacement capex in the model; separate catch-up spend for negotiation, without double counting
Price realization	Twelve months of invoice lines joined to quotes and contracts	Pocket price by customer and salesperson; price lever sized with a distribution; accounts below cost to serve
Obligations and parts	Claims and comeback history by product line and technician, service agreement margins by contract, aged parts stock	Reserve adequacy; cost to fulfill contracts; consistent inventory reserves in the peg and closing working capital

Aim to run the analysis in weeks two and three, alongside financial diligence. Use the findings to target site visits: the branch with the oldest fleet, the counter with the widest price band, the shop with the longest open requisitions. Record data gaps and test what can be verified. A deadline does not turn a missing record into evidence.

Route each finding. A finding earns its place when it changes the deal, not when it decorates the memo. Supported recurring costs go into the earnings bridge, net of adjustments the QoE team already made. Ongoing capital belongs in the cash flow model. Immediate catch-up needs may support a negotiated price deduction. Inventory reserves must be consistent across the peg and closing balances. Capacity limits and revenue timing go into the forecast. The result is one coordinated bridge, a short list of priced findings for negotiation, and a first hundred days built on the operation as it is. Keep the model, purchase agreement, and value creation plan aligned. No finding earns its value twice.

When the seller declines to provide the data, the refusal is a finding. A buyer who proceeds without it has decided to underwrite the gap, and should price that decision.

The practical change is small. Before the next investment committee, take the operating claims in the thesis and sort them into two piles: the ones tested against the target's data and the ones accepted from the presentation. Then ask what each claim in the second pile is worth in the model.

> Underwrite the business you are buying, not the one in the presentation.

Appendix: operational diligence checklist for equipment and field service targets

The checklist is organized by gap. Each item identifies an operating question and the data needed to test it alongside the financial diligence workstream.

Backlog and contracts

- Separate the backlog into firm purchase orders, signed service agreements, open-ended rental contracts, recurring uncontracted work, and quoted-not-won pipeline. Report each.
- For every contract above a materiality threshold: term, cancellation rights, escalator clause, date the escalator was last applied, booked margin, and expiry date.
- Share of backlog tied to the top five customers and to any single project.
- Renewal rate by count and by value for each of the last three years, with reasons for non-renewal where known.
- Backlog compared with technician and fleet capacity over the delivery period.

Technician capacity

- Technician headcount by tenure band (under one year, one to two, two to five, over five) and turnover in each band for three years.
- Open requisitions with days open; average time to fill over the last two years.
- Billable hours, overtime hours, and unbilled hours by technician for twelve months.
- Wage rates against the local market, with the date of the last adjustment.
- Share of service revenue attributable to the top five technicians.
- Apprenticeship, school partnership, and in-house training pipeline, with the number of entrants in the last two years.
- Preventive maintenance visits scheduled and completed, by month.

Fleet and capital

- Unit-level fleet list: original equipment cost, acquisition date, meter hours, trailing twelve-month repair cost, days out of service, disposal value if sold.
- Time and dollar utilization by category on American Rental Association definitions.
- Age distribution by category and the capital required to hold average age constant for five years.
- Capital expenditure history split between replacement and growth, with evidence for the split.
- Disposal proceeds against net book value for the last three years.
- Units past the company's own stated replacement threshold.

Price realization

- Twelve months of invoice lines joined to quotes and contracts.
- Pocket price per labor hour, rental day, and part category, by customer and by salesperson.
- Price waterfall from list to invoice to pocket, showing each deduction.
- Width of the realized price band for identical work.
- Accounts with pocket price below cost to serve.
- Contracts carrying an escalator that has not been applied, with the cumulative shortfall.
- Realized price trend for the last three years against list and against cost.

Obligations and parts

- Warranty claims by product line and age cohort for three years, with reimbursement rates against retail labor and parts rates.
- Comeback and rework rate by technician, including hours booked as unbilled.
- Service agreement margin by contract, with cost to fulfill against revenue deferred.
- Parts inventory aged by last movement; dead stock as a share of value.
- Fill rate and turns by category; use of manufacturer return allowances.
- Customer deposits, prepaid contracts, and other obligations to perform not yet reflected in deferred revenue.

Process

- Operating assumptions in the thesis written down before the data request.
- Operational workstream launched in parallel with the QoE, not after it.
- Site visits scheduled after the data analysis, targeted by its findings.
- Each finding assigned to the model, the purchase agreement, or the value creation plan.
- Seller's refusals to provide data recorded and priced.

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