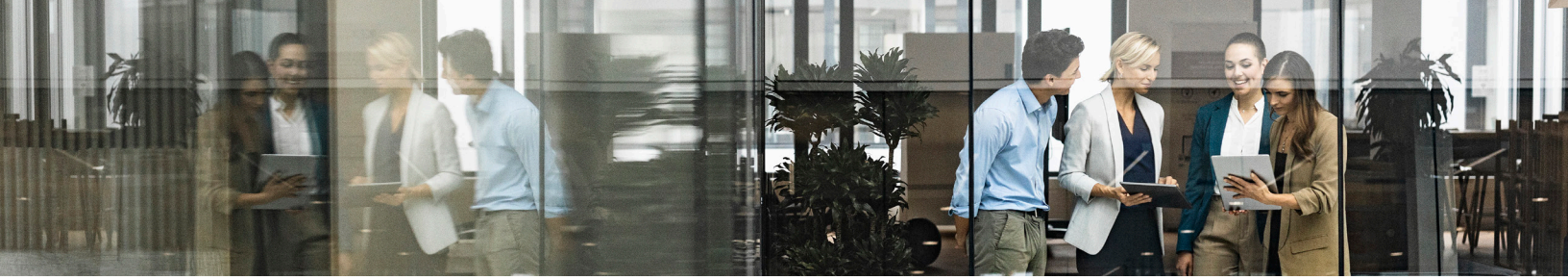


Sell-Side Quality of Earnings Case Study

Healthcare Technology & Software Providers

forvis mazars



Client Situation

The shareholders of a healthcare technology company engaged Forvis Mazars in advance of a planned sale process. The company generated revenue through software subscriptions, licenses, professional services, data solutions, and hardware products provided to pharmaceutical, academic, and research customers.

Forvis Mazars worked with management to consider how historical revenue recognition practices aligned with the company's evolving software-centric business model as the company prepared for the sale process. The legacy revenue recognition model didn't clearly capture the recurring nature of certain revenue streams, which created a potential challenge in communicating revenue quality and sustainability to prospective buyers. These accounting considerations became a key focus area of the sell-side diligence process and buyer review.

Our Approach

Forvis Mazars assembled a cross-functional team that included Transaction Advisory and Accounting Advisory professionals with experience in sell-side diligence and technical accounting matters. The team performed procedures related to customer contracts, performance obligations, revenue streams, and historical accounting treatment across multiple customer and revenue categories under Accounting Standards Codification (ASC) 606.

Collaborating with management, our professionals prepared in-depth ASC 606 technical accounting memoranda supporting revised revenue recognition conclusions. The memoranda were provided to the company's external auditors and used by management as part of the historical revenue restatement and updated revenue recognition policy.



Key Findings

Our diligence identified opportunities to refine the timing and presentation of revenue recognition associated with certain software, service, and customer contract arrangements. Following the analysis:

- Historical revenue was recast to align with revised ASC 606 conclusions.
- The company adopted an updated revenue recognition framework that reflected the company's evolving software-centric business model.
- Technical accounting positions were documented in formal memoranda, prepared by Forvis Mazars and provided to the company's external auditors.
- The accounting analysis was performed before the transaction process launched, helping management prepare for buyer diligence questions regarding revenue quality.
- The sell-side quality of earnings analysis identified non-recurring and transaction-related items, including acquisition and integration costs, professional fees, restructuring activities, board-related expenses, research and development initiatives, and other normalization adjustments used to present sustainable operating performance.

The Results

The engagement assisted management in creating a documented earnings narrative before entering the market. By addressing the revenue recognition issues in advance of buyer diligence, the company entered the process with:

- ASC 606 positions shared with external auditors.
- Historical revenue restatements prepared before market launch.
- Technical accounting documentation supporting management's revenue recognition conclusions.
- A clearer basis for responding to buyer questions related to revenue quality.
- A more transparent financial story for prospective investors.



Beyond the accounting analysis, Forvis Mazars delivered a sell-side quality of earnings report that normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) for significant non-recurring activities and supported management's preparation for buyer confirmatory diligence.

> "The Forvis Mazars team was instrumental in the success of our go-to-market and diligence process. Their assistance with the preparation for the sale process properly positioned the company to present itself to the recurring revenue model that it had evolved into, and anticipated many of the diligence questions during the sell-side quality of earnings process. The work they did really enhanced the value during our sale process, and protected us against the value erosion you see many times when sophisticated buyers dig in during their diligence processes."
>
> **— Client CFO**

The combined efforts of the teams from Forvis Mazars helped the company address a complex accounting issue before launching the sale process, respond to diligence questions about the growth story, and support a more efficient diligence process.



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About Forvis Mazars

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