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# Operational Health Audit

## (OHA)

### *Pre-Transaction Diagnostic & Value-Engineering Blueprint*

A successful exit isn't an accident of timing. It is a product of structural engineering. This audit surfaces the friction that kills deals in the dark — before a buyer ever sees it — and maps the work required to reach a clean, financeable exit.

## ENGAGEMENT SNAPSHOT

Company / legal entity		Owner(s)	
Industry / sub-sector		Year established	
TTM revenue		Adjusted EBITDA / SDE (prelim.)	
Target exit window		Date of audit	
Prepared by		Engagement reference	

## HOW TO READ THIS AUDIT

Each domain carries a set of specific diagnostic questions. Answer them with the seller, then translate the pattern of answers into a single 1–5 maturity score and a friction flag. The questions exist to make the score defensible — grounded in numbers, not impressions. Scores below the transaction-ready line are not failures; they are the engineering agenda. Each domain also carries a weight reflecting how strongly it moves price and deal certainty; the nine weighted scores roll up to a single Exit Readiness Score (20–100) on the Summary Scorecard.

SCORE	OPERATIONAL MATURITY DEFINITION	FLAG
5	Premium — value-accretive; a buyer pays up for it	GREEN
4	Transaction-ready — clean, defensible, no remediation needed	GREEN
3	Functional, but discounting value or extending diligence	AMBER
2	Significant risk — a live buyer concern that compresses price	RED
1	Critical friction — capable of blocking or collapsing the deal	RED

## THE NINE DOMAINS

*Domains A–C establish what the business is worth and how durable that value is. Domain D is the friction layer most generalists never inspect. Domains E–I determine whether that value transfers cleanly — through systems, institutional process, governance, and readiness for an AI-driven market.*

Each domain is kept whole — a section never splits across a page — so findings stay alongside the questions that produced them.

## A. FINANCIAL DEFENSIBILITY — QUALITY OF EARNINGS

**What we assess:** *Whether reported earnings survive a buyer's diligence and support the highest defensible price.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. Over the trailing twelve months, what percentage of revenue is recurring or under contract versus one-time? (\_\_\_\_%)
2. Are the last three fiscal years' financial statements internally prepared, compiled, reviewed, or audited?
3. How many EBITDA add-backs exceed \$25,000, and is each supported by documentation? (\_\_\_\_ add-backs · documented? Y/N)
4. What is the dollar variance between internal financials and filed tax returns over the last three years? (\$\_\_\_\_)
5. How many business days would it take to assemble a complete, buyer-ready financial data room? (\_\_\_\_ days)
6. Over the last three years, is the gross-margin trend improving, flat, or declining — and by how many points? (\_\_\_\_ pts)

### SCORE ANCHORS · DOMAIN WEIGHT 15%

**5** — Reviewed or audited statements; 60%+ of revenue recurring or under contract; every add-back documented; data room ready in under 10 days.

**3** — Internally prepared books that reconcile cleanly to tax returns; add-backs partially documented; data room 30–60 days out.

**1** — Material unexplained variance to tax returns; earnings cannot be substantiated under buyer diligence.

### SCORING

MATURITY SCORE (1–5)	FRICTION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

## B. OWNER DEPENDENCE & TRANSFERABILITY

**What we assess:** *How much enterprise value walks out the door with the founder.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. How many hours per week does the owner work, and what share is in roles only they can perform? (\_\_\_\_ hrs · \_\_\_\_%)
2. What percentage of the top-ten customer relationships are held personally by the owner? (\_\_\_\_%)
3. Is there a named second-in-command who could run operations unaided for 30+ days? (Y/N)
4. What share of core processes are captured in written SOPs rather than memory? (0–100%)
5. If the owner exited tomorrow, could the business sustain current revenue for twelve months? (Y/N — explain)

### SCORE ANCHORS · DOMAIN WEIGHT 15%

- 5** — Owner under ~20 hrs/week in replaceable roles; proven second-in-command; SOP coverage 80%+; key relationships held institutionally.
- 3** — Owner still central to one or two functions; partial SOPs; customer relationships shared but owner-led.
- 1** — Owner personally holds top customer relationships and core know-how; no second-in-command; revenue at risk within months of exit.

### SCORING

MATURITY SCORE (1–5)	FRICTION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

### C. COMMERCIAL CONCENTRATION & MOAT (PORTER'S FIVE FORCES)

**What we assess:** *Durability of revenue and pricing power under buyer scrutiny.*

**QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS**

1. What percentage of revenue comes from the single largest customer? Top five? Top ten? (\_\_\_\_ / \_\_\_\_ / \_\_\_\_%)
2. What percentage of revenue is under written contract, and what is the average remaining term? (\_\_\_\_% · \_\_\_\_ mo)
3. How many critical suppliers are single-source with no qualified alternative? (\_\_\_\_)
4. How many direct competitors could a buyer's customers realistically switch to in the trade area? (\_\_\_\_)
5. When were prices last raised, and what percentage of the increase held? (\_\_\_\_ · \_\_\_\_%)

**SCORE ANCHORS · DOMAIN WEIGHT 12%**

- 5** — No customer over 10% of revenue; majority of revenue under multi-year contract; recent price increases held in full.
- 3** — Largest customer at 10–25%; some contracted revenue; single-source suppliers replaceable with effort.
- 1** — One customer over 40% of revenue, or a sole-source supplier with no qualified alternative; no demonstrated pricing power.

**SCORING**

MATURITY SCORE (1–5)	FRICTION FLAG (R / Y / G)	EST. VALUE IMPACT

**FINDINGS & NOTES**

## D. REGULATORY, LICENSING & CHANGE-OF-CONTROL FRICTION

### SIGNATURE DIAGNOSTIC

**What we assess:** *Hidden gates that can freeze or block a transition entirely — the domain generalists never inspect.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

- 1. Which licenses, permits, and certifications are required to operate, and which transfer automatically versus require re-application?
- 2. Does any OEM, franchisor, or manufacturer hold approval rights over a change of ownership? (Y/N — list)
- 3. Will the buyer need a professional or contractor license they do not already hold? Estimated time to obtain? (\_\_\_\_)
- 4. How many leases, loans, or key contracts contain change-of-control or consent clauses? (\_\_\_\_)
- 5. Are there any open environmental, zoning, or regulatory compliance matters? (Y/N — describe)

### SCORE ANCHORS · DOMAIN WEIGHT 12%

- 5 — All licenses and permits transfer or re-issue on a routine timeline; no third-party approval rights; contracts assignment-friendly.
- 3 — Consents or re-applications required, but obtainable on known and manageable timelines.
- 1 — A required license, OEM/franchisor approval, or consent right could block or indefinitely stall a closing.

### SCORING

MATURITY SCORE (1–5)	FRICTION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

## E. OPERATIONAL & DIGITAL MATURITY

**What we assess:** *Whether systems and data will compress — or stall — diligence.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. Which core systems (CRM, ERP, accounting) are in place, and what share of operations run through them versus manual/paper? (\_\_\_\_%)
2. Within how many days of month-end can the business produce monthly KPI and management reporting? (\_\_\_\_ days)
3. How much excess operational capacity exists to absorb growth without major capital expenditure? (\_\_\_\_%)
4. Is operational and customer data captured in a structured, reliable, machine-readable form? (Y/N)
5. When was the last cybersecurity/data review, and are backups tested and current? (\_\_\_\_ · Y/N)

### SCORE ANCHORS · DOMAIN WEIGHT 10%

- 5 — Core systems integrated; monthly reporting within 5 business days; data structured; backups tested and security recently reviewed.
- 3 — Systems in place but with manual workarounds; reporting in 10–15 days; data partially structured.
- 1 — Paper- and spreadsheet-driven; no timely management reporting; cyber and backup posture unknown.

### SCORING

MATURITY SCORE (1–5)	FRICTION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

## F. DEAL STRUCTURE & TAX EXPOSURE

**What we assess:** *Structural and tax leakage that quietly erodes net proceeds.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. Has an asset-versus-stock sale comparison been modeled for after-tax proceeds? (Y/N)
2. What is the legal entity type, and how long has the current structure been in place? (\_\_\_\_ · \_\_\_\_ yrs)
3. What is the estimated tax leakage under the current default deal structure? (\$\_\_\_\_)
4. Is a target net-working-capital level defined and trackable? (Y/N)
5. Are CPA and tax counsel already engaged on exit structuring? (Y/N)

### SCORE ANCHORS · DOMAIN WEIGHT 10%

- 5 — Asset-vs-stock after-tax proceeds modeled; net-working-capital target defined and tracked; CPA and tax counsel engaged on structure.
- 3 — Entity structure is clean, but no after-tax proceeds modeling has been done.
- 1 — Current structure creates major tax leakage at sale, with no planning underway.

### SCORING

MATURITY SCORE (1–5)	FRICITION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

## G. STAKEHOLDER & SUCCESSION ALIGNMENT

**What we assess:** *Human and governance friction that derails valuations late in the process.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. Do all owners agree on price expectation, timing, and post-sale legacy? (Aligned / Partial / Not aligned)
2. Are CPA, estate attorney, and wealth manager coordinated under one plan? (Y/N)
3. What is the retention risk among the top five employees through a transition? (Low / Med / High)
4. Is there a written contingency plan if the founder is incapacitated or unavailable? (Y/N)
5. Are estate documents and beneficiary designations current? (Y/N — last reviewed \_\_\_\_)

### SCORE ANCHORS · DOMAIN WEIGHT 10%

- 5 — Owners aligned in writing on price, timing, and legacy; advisors coordinated; contingency and estate documents current.
- 3 — General alignment among owners, but undocumented; advisors not yet coordinated under one plan.
- 1 — Owner disagreement on price or timing, no contingency plan, or high flight risk among key employees.

### SCORING

MATURITY SCORE (1–5)	FRICITION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

## H. INSTITUTIONAL PROCESS MATURITY & GOVERNANCE

**What we assess:** *Whether the business runs on repeatable institutional systems and governance rather than founder improvisation — the line between a job and a transferable asset.*

### QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. Are there documented, version-controlled SOPs for each core function (sales, operations, finance, HR)? What is the coverage? (\_\_\_\_%)
2. Is there a formal org chart with clearly defined roles, decision authorities, and accountabilities? (Y/N)
3. Does the business run on a regular management rhythm — structured meetings with tracked KPIs and action items? (cadence: \_\_\_\_)
4. Are hiring, onboarding, and training processes standardized and documented? (Y/N)
5. What percentage of institutional knowledge lives in systems versus in individuals' heads? (\_\_\_\_%)
6. Are quality-control, compliance, and risk-management protocols formally documented and followed? (Y/N)

### SCORE ANCHORS · DOMAIN WEIGHT 10%

- 5** — Version-controlled SOPs covering 80%+ of core functions; org chart with decision authorities; KPI-driven management cadence.
- 3** — Partial documentation; an informal but regular management rhythm exists.
- 1** — The business runs on founder improvisation; institutional knowledge lives in individuals' heads.

### SCORING

MATURITY SCORE (1–5)	FRICTION FLAG (R / Y / G)	EST. VALUE IMPACT

### FINDINGS & NOTES

# I. APPLICATION OF ARTIFICIAL INTELLIGENCE

**What we assess:** *Whether the business is positioned to use AI as a value multiplier — and whether a sophisticated buyer sees untapped efficiency upside or obsolescence risk.*

## QUANTIFY THE SCORE — DIAGNOSTIC QUESTIONS

1. Are any AI or automation tools currently deployed across operations, sales, marketing, or back office? (list · \_\_\_\_% of workflows touched)
2. What share of repetitive, rules-based tasks could be automated but currently are not? (estimate \_\_\_\_%)
3. Is operational and customer data captured in a structured form usable to feed or train AI tools? (Y/N)
4. Has the business identified and quantified specific AI-driven efficiency or margin opportunities? (Y/N — \$ / % impact)
5. Does the industry face AI-driven disruption that could threaten the model within five years? (Low / Med / High)
6. Do staff have the capability and willingness to adopt AI tools, or is there meaningful change resistance? (assess)

## SCORE ANCHORS · DOMAIN WEIGHT 6%

- 5** — AI or automation deployed with measured ROI; data structured and usable; a quantified opportunity roadmap exists.
- 3** — Early experimentation underway; opportunities identified but not quantified; data partially usable.
- 1** — No adoption, unstructured data, and high disruption exposure or meaningful staff resistance.

## SCORING

MATURITY SCORE (1–5)	FRICITION FLAG (R / Y / G)	EST. VALUE IMPACT

## FINDINGS & NOTES

## SUMMARY SCORECARD — OPERATIONAL HEAT MAP

A single-page consolidation of all nine domains. Read the column of flags top to bottom: this is where the deal is strong, where it is discounting, and where it could die in the dark. Multiply each score by its weight; the total drives the Exit Readiness Score below.

DOMAIN	WT %	SCORE	PTS	FLAG	HEADLINE NOTE
A. Financial Defensibility	15				
B. Owner Dependence & Transferability	15				
C. Commercial Concentration & Moat	12				
D. Regulatory, Licensing & Change-of-Control Friction	12				
E. Operational & Digital Maturity	10				
F. Deal Structure & Tax Exposure	10				
G. Stakeholder & Succession Alignment	10				
H. Institutional Process Maturity & Governance	10				
I. Application of Artificial Intelligence	6				
<b>Total weighted points (score × weight, summed)</b>	<b>100</b>	—		—	max 500

### EXIT READINESS SCORE (ERS)

Score × weight, summed (max 500), divided by five = the Exit Readiness Score, a 20–100 index.

Two gates override the math, because averages do not neutralize deal-killers: any domain scored 1 → Not Ready regardless of total; a 2 in Domain A, B, or D caps the classification at Value at Risk.

Total weighted points (from scorecard, max 500)	
Exit Readiness Score = total ÷ 5	
Gate override triggered? (Y/N — domain and rule)	
<b>Final readiness classification</b>	

### READINESS CLASSIFICATIONS

ERS RANGE	CLASSIFICATION	WHAT IT MEANS
85–100	TRANSACTION-READY	Go to market. Remaining work is positioning and polish, not repair.
70–84	CONDITIONALLY READY	Marketable, but known friction will surface in diligence. Remediate before launch.
55–69	VALUE AT RISK	Price compression and extended diligence likely. Complete Phase 1–2 work first.
20–54	NOT READY	Friction can block or collapse a deal. Full remediation cycle required.

## FRICITION INVENTORY — THE LANDMINES

Every specific structural obstacle identified, with the value exposed and the consequence if it reaches diligence unaddressed. This is the list that, left in the dark, erodes transaction value before closing.

FRICITION ITEM	DOMAIN	SEVERITY	VALUE AT RISK	DEAL IMPACT

## THE VALUE GAP

The distance between what the business would fetch today and what it can command once the friction is engineered out. This gap is the entire economic case for acting before going to market.

Current defensible enterprise value (today's number)	
Estimated value lost to unmitigated friction	
Transaction-ready target value (post-remediation)	
<b>The value gap — what's at stake in this engagement</b>	

## REMEDIATION ROADMAP — THE BLUEPRINT

The sequenced engineering agenda. Each action is tied to a domain finding, an owner, a timeline, and the value it is expected to recover or protect. Pre-conditioning the company this way is also what compresses the eventual diligence timeline.

PRIORITY	ENGINEERED ACTION	OWNER	TIMELINE	EXPECTED VALUE RECOVERY
<b>PHASE 1 — STABILIZE (0–90 DAYS)</b>				
<b>PHASE 2 — STRENGTHEN (3–9 MONTHS)</b>				
<b>PHASE 3 — POSITION (PRE-LAUNCH)</b>				

## NEXT STEPS

This audit is the diagnostic front-end of a structured engagement. From here, the typical path is: (1) review the heat map and friction inventory together; (2) prioritize the Phase 1 stabilization items; (3) coordinate with your existing CPA, estate, and legal advisors so the remediation work is sequenced ahead of any market activity; and (4) re-score the audit quarterly — movement in the Exit Readiness Score is the progress metric for the entire engagement.

***We do not replace your advisors — we quarterback the transaction lifecycle alongside them.***

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