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Companies Rush to Market Only to See Deals Falter Over Financial Reporting Gaps (04/10/2026)

Companies Rush to Market Only to See Deals Falter Over Financial Reporting Gaps

Denise Lugo, Checkpoint News

A growing wave of retirement-age business owners is heading for the exit—and private equity firms are knocking harder than ever.

That is pushing more middle-market companies into sale talks, but many founders are discovering too late that buyer interest does not mean they are ready for a transaction, advisers say.

The result is a growing pool of what deal advisers describe as "almost sellable" businesses—companies with enough growth to attract buyers, but not enough financial and operational discipline to withstand due diligence without risking a lower valuation or a failed deal.

"Most deals don't fall apart at the beginning," Tom Gabbert, chief executive of Milestone Business Solutions Inc., said on April 8, 2026, in an interview with *Thomson Reuters*. "They fall apart during diligence or right after when findings start to impact valuation and deal structure."

Buyer Appetite Moves Downstream

The trend is unfolding as private capital pushes deeper into smaller companies.

A Federal Reserve staff report estimated the global private credit market at about \$1.7 trillion in assets under management as of June 2023, with direct lending making up 46% of the total. The Fed report said the leveraged-loan market stood at roughly \$1.4 trillion and the high-yield bond market at about \$1.3 trillion.

Gabbert said private equity firms that once focused mainly on larger targets are now moving "downstream," including businesses with less than \$50 million in revenue and, in some cases, less than \$25 million.

"We are definitely seeing more businesses trying to sell right now," he said. "There's an uptick."

Part of that is demographic as long-time owners reach retirement age, he said. But there is also a rise in unsolicited interest from buyers.

"Owners are getting more unsolicited outreaches than ever before," Gabbert said. "Business owners are more informed than ever before about what's possible and the valuations that are out there, and they're exploring exits."

Growth is There—but the Books Often Aren't

Advisers say buyer interest is often outrunning transaction readiness, especially at growth-stage companies that scaled faster than their finance functions.

Gabbert said many companies come to market with financial statements that are not clean, comparable or prepared consistently enough for diligence. Even when monthly reporting is timely, he said, it often does not clearly show which customers, business lines or segments are driving profitability.

"Financial statements aren't always clean and ready for diligence when we first see companies," he said. "In fact, I would tell you it's the exception rather than the rule when somebody's transaction ready."

Scott Ehrlich, president of Mind the GAAP LLC, said the problems that surface in a sale process typically fall into two buckets: weak financial operations and governance, and technical accounting mistakes.

On the operational side, Ehrlich said some growth-stage companies are not using U.S. GAAP, instead relying on another basis of accounting that buyers may not understand or trust.

"Since most other bases of accounting are not as robust as U.S. GAAP, some potential buyers, including PE firms, may not understand the accounting positions taken by the GSC," Ehrlich said, referring to growth-stage companies. "When a GSC doesn't use U.S. GAAP, potential buyers have to spend more time understanding how transactions were booked and/or lowering their price for the accounting uncertainty."

He said examples include companies that do not record lease assets and liabilities, book revenue on a cash basis, or recognize revenue from term software licenses over time rather than when control transfers to the customer.

Diligence is Where Deals Break

Revenue recognition remains one of the biggest trouble spots, Gabbert said.

"You have to be doing it right, you've got to be doing it in compliance with GAAP and you have to be applying it consistently," he said. "That's a big deal."

He said some companies enter the sale process after years of inconsistent accounting treatment, or after switching to GAAP without cleaning up earlier periods, making historical performance hard for buyers to evaluate.

"When you go back and look at your historical financial statements you want them to be comparable, you want apples to apples," he said. "If a company has been doing it on a basis other than GAAP and then they switch to GAAP but they haven't cleaned up the old numbers then that creates a bit of a problem for a buyer who's trying to make sense of it."

Ehrlich said finance infrastructure is often another weak point. Some companies still rely heavily on spreadsheets and basic accounting software, making it difficult to produce the analyses buyers request. Others lack basic internal controls, including monthly reconciliations, asset tagging and periodic physical counts.

Many also have only compilations or reviews instead of full audits, he said.

"It's hard for a potential buyer to put faith in the financial results when the investment in accounting systems and processes lag the complexity and growth stage of the business itself," Ehrlich said.

Weak Controls Can Hit Valuations Late

Even companies that do follow GAAP can run into technical accounting errors that become costly late in the process, Ehrlich said.

Common problems include misclassifying preferred stock or warrants as equity when they should be liabilities, failing to identify embedded features that should be separated and measured at fair value, mishandling stock compensation, and capitalizing research-and-development costs that GAAP requires to be expensed.

"The adjustments made by PE firms and other buyers for these GAAP errors can cause a significant late-stage adjustment to the purchase price," Ehrlich said.

Gabbert said those inconsistencies quickly turn into credibility problems once buyers begin testing the numbers.

"If a buyer gets into a transaction and they see inconsistencies, they see the financial statements aren't prepared in accordance with GAAP, that erodes confidence," Gabbert said. "That leads to a deal that either falls apart altogether or gets renegotiated at a lower valuation."

Other issues that surface in diligence include weak forecasting, contract risks and heavy dependence on the founder, he said.

"One of the things that seems to catch founders off guard is just the level of scrutiny that happens in diligence," Gabbert said. "Founders are often caught off guard by how deeply buyers analyze financial statements and operations and how quickly confidence can erode if something doesn't line up."

Private Credit and PE are Increasingly Intertwined

The broader private capital market shows how closely private equity and private credit now overlap.

Federal Reserve [data](#) shows that a majority of private credit loans involve borrowers backed by private equity sponsors, while the International Monetary Fund has said about 70% of private credit deals have private equity sponsorship.

Federal Reserve staff [said](#) private credit generally reaches businesses with annual revenue ranging from \$10 million to \$1 billion. A National Bureau of Economic Research [working paper](#), citing survey data, said U.S. private debt managers target companies averaging \$289 million in revenue and 1,026 employees.

PitchBook [data](#) cited by Federal Reserve staff showed industries with high collateral made up 47.6% of private credit exposure, followed by commercial services at 16.7%, software at 15.2% and healthcare services at 8%. Loan proceeds were used most often for general corporate purposes, private equity buyouts and debt refinancing.

Gabbert said many founders underestimate the intensity of diligence until they are already in it.

"You don't try to fix issues or get yourself diligence-ready when you're talking to a buyer," he said. "That needs to happen 12 to 24 months in advance."

For companies hoping to capitalize on stronger buyer appetite, the dividing line is becoming clearer: Growth may win a meeting, but only credible numbers, durable controls and operations that can survive a deep dive will get a deal over the finish line.

