THE GOODWILL QUESTION

What customer evidence resolves at every deal stage

Goodwill is the largest component of enterprise value in most consumer, ecommerce, SaaS, subscription and financial services deals. It is also the least evidenced. Customer transaction data is the evidence layer that changes that, at every stage of the deal.

THE FOUR MOMENTS

1 Entry pricing

Is the goodwill premium supported by what the customer base is actually doing, or by what the IM says it is doing?

WITHOUT EVIDENCE	WITH EVIDENCE
Paying for goodwill that exists in the IM but not in the customer behaviour data. The multiple is priced on assertion.	An individual customer-level read on concentration, cohort quality and value-tier stability. A defensible entry price, not an optimistic one.

2 Purchase price allocation

Which components of goodwill are customer-driven and therefore auditable as a discrete asset class?

WITHOUT EVIDENCE	WITH EVIDENCE
PPA becomes a negotiated split with no evidential basis. Impairment exposure is built in from day one.	An auditable statement of the customer-driven goodwill component, supported by transaction-level data that withstands accounting and tax scrutiny.

3 Personal vs enterprise goodwill

Which customer relationships will transfer with the business, and which are personal to the exiting management team?

WITHOUT EVIDENCE	WITH EVIDENCE
Relationship transfer risk is estimated, not measured. Post-close revenue surprises when key relationships do not transfer.	Relationship transfer risk scoring at individual customer level. Revenue exposure identified and quantified before close, not after.

4 Impairment risk during hold

Is the customer-driven goodwill still intact at its carrying value, or has it already begun to erode?

WITHOUT EVIDENCE	WITH EVIDENCE
Impairment appears in the accounts 12 to 18 months after the customer data shows it. The remediation window is gone.	Early-warning intelligence from the customer base that precedes P&L deterioration. Time to act before the impairment trigger.

EXIT READINESS REFERENCE

Five questions buyers ask about goodwill at exit

Every buy-side DD team asks these questions. A sponsor who has built the evidence in advance constrains the buyer's conclusions before they are formed. A sponsor who has not is negotiating from assertion.

01 How concentrated is the revenue, and has that concentration changed over the hold period?

A defensible answer is a documented, individual customer-level statement of concentration across the full hold period, with evidence the trend has been stable or improving. Not a management summary. A transaction-level analysis.

02 Are the customers who justify the exit multiple still there, and are they still growing?

A defensible answer is year-on-year value-tier migration analysis showing the highest-value tier is stable or growing at exit. Not a retention rate. A movement analysis at individual customer level showing exactly what happened to the customers carrying the multiple.

03 Is the customer growth during the hold period coming in at the same quality as the incumbent base?

A defensible answer is cohort quality analysis showing new acquisition has maintained or improved average customer value. Not a customer count. A quality-adjusted read on whether growth reinforced or diluted the revenue base.

04 Which customer relationships are personal to the management team, and what is the exposure if they do not transfer?

A defensible answer is relationship transfer risk scoring at individual customer level, with revenue concentration in personal relationships quantified, and a transition plan in place before the process opens.

05 What does the revenue base look like in 12 months under different scenarios?

A defensible answer is three forward scenarios based on observed customer behaviour, not management projections: high, medium and low outcomes with the specific customer populations underpinning each, so a buyer can interrogate the assumptions.

Commission the Customer Base Diagnostic

The Diagnostic produces the evidence behind all five questions. Ten days from clean data. Four to six months before going to market is the right moment to commission it.

keystoneiq.co/services/customer-base-diagnostic

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