

**VALUATION INTEGRITY:
HOW NORMALIZATION ADJUSTMENTS SHAPE MIDDLE-MARKET DEALS LONG BEFORE THE
PURCHASE PRICE IS FINAL
GV LAW INSIGHTS**

In middle-market M&A, valuation is rarely determined by the stated purchase price alone. Much of the real economic movement happens earlier, inside the normalization adjustments that define how the business is performing on a “steady-state” basis. These schedules, once viewed as a technical accounting step, now play an outsized role in negotiations, often influencing leverage, diligence pacing, and post-closing economics more than founders expect.

Three patterns appear frequently in transactions and explain why normalization has become a negotiation battleground rather than a routine schedule.

1. Normalization Exposes Operational Discipline (or the Lack of It)

Normalization adjustments often reveal more than the numbers themselves. They reflect how the company has been run day-to-day. When add-backs include undocumented expenses, inconsistent owner compensation, related-party arrangements, or discretionary spending that varies month to month, buyers view these as signals of operational fragility.

Even if the adjustment is economically reasonable, the lack of supporting detail invites broader questions about governance, controls, and sustainability. This is where valuation drift begins. Buyers discount not only the adjustment, but the operating environment behind it.

2. Ambiguity in Definitions Creates Negotiation Drag

Terms like “non-recurring,” “extraordinary,” and “run-rate” appear straightforward, but in practice each carries judgment. Sellers interpret them through the lens of historical anomalies; buyers view them through the lens of anticipated future spend. The gap between those perspectives widens quickly.

This divergence is most visible when the LOI uses broad language but the definitive agreement requires precise mechanics. Buyers then draft narrow definitions tied to objective

documentation, while sellers reference the earlier conceptual understanding. When both interpretations can be defended, the party with the tighter structure shapes the outcome.

3. Normalization Has Shifted From Historical Correction to Forward-Looking Risk Allocation

A growing trend is the buyer's use of normalization adjustments to capture anticipated future costs. Items that once qualified as "one-time" such as founder under-compensation, deferred hiring, compliance catch-up, or technology upgrades, are reframed as structural expenses that will immediately affect margins under new ownership.

From the seller's perspective, this feels like an expansion of the category. From the buyer's perspective, it is an attempt to align the valuation with the true cost required to operate the business responsibly. The tension arises because both views are grounded in legitimate logic, creating room for negotiation but also friction when expectations diverge.

Practical Takeaways

Founders considering a sale benefit from preparing normalization schedules well before diligence begins. This includes aligning definitions, gathering documentation, and removing discretionary patterns that complicate the story. Buyers, on the other hand, protect themselves by articulating normalization methodology early, ideally in the LOI, so disputes do not surface after both sides have invested time.

Clarity at the outset creates smoother diligence, fewer valuation swings, and a more stable platform for finalizing economics.

GV LAW Capabilities

GV LAW advises sellers, buyers, medical-practice groups, and private equity investors on the drafting of financial and operational terms that influence purchase-price outcomes. Our goal is to help clients present clean, defensible financial narratives that withstand diligence and support stronger negotiation results.

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