

OPERATOR-LEVEL ACQUISITION REVIEW

The Red Flag Report

Spot the risk before you buy



SAMPLE REPORT

Ironbark Tree Services

Arborist & tree services business · South East Queensland

Asking price: \$890,000 — asset sale, going concern

Prepared by The Red Flag Report · theredflagreport.com.au

Report date: May 2026

This is an illustrative sample report. The business, its owners, location and every figure in it are fictional, created to show the format, depth and method of a Red Flag Report. It does not describe any real business; resemblance to a real one is coincidental.

What's inside this report

This review works through ten sections — from the broker's sales pitch to the specific questions you should put to them before spending a dollar on formal due diligence.

1	What the broker claims	The headline pitch, before any independent scrutiny.
2	Financial reality check	Revenue trend, the real profit figure, and what the broker left out.
3	The "under management" reality check	How owner-dependent the business actually is.
4	Revenue quality & client concentration	Contract vs ad-hoc, and the single biggest unknown.
5	Risk assessment	Every material risk, rated and explained.
6	Valuation sanity check	Is the asking price fair, high, or a bargain?
7	Recommended deal structure	Exactly how to structure an offer that protects you.
8	The return on your investment	What this deal actually delivers at the asking price.
9	The verdict, in detail	The traffic-light call and the conditions attached to it.
10	Your due diligence questions	The full list to send the broker, organised by topic.

The verdict & scorecard

RED Don't proceed	AMBER Proceed with caution	GREEN Worth pursuing
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ASKING PRICE \$890,000	REVENUE (annual) ~\$1.4M	MAINTAINABLE EARNINGS ~\$475,000	IMPLIED MULTIPLE 1.9x
FAIR-VALUE RANGE \$855k - \$1,045k	OWNER DEPENDENCY HIGH	CLIENT CONCENTRATION NOT DISCLOSED	VERDICT AMBER

VERDICT: AMBER — PROCEED WITH CAUTION

A genuine, established business at a fair price — but more owner-dependent than the listing suggests, and one critical number has not been disclosed. Worth pursuing, provided the conditions in Section 9 are met first.

Bottom line

Ironbark Tree Services is a genuine, established arborist business turning over around \$1.4 million a year. The \$890,000 asking price is fair — roughly 1.9 times its realistic maintainable earnings, which is in the normal range for a business of this type and size. This is not an inflated broker anchor that needs to be hammered down.

But two things stop this being a straight green light. First, the business is more owner-dependent than the listing suggests — the owner is both the sales engine and the operations manager, and customers know him by name. Second, and more important: the broker has not disclosed how concentrated the customer base is. If one client or referral source drives 20%+ of revenue and is tied personally to the owner, this is a far more fragile business than the headline numbers imply.

This is a deal worth pursuing — provided the unknowns are resolved before you commit to formal due diligence. The right move here is to negotiate deal structure, not price.

SECTION 1

What the broker claims

Here is how the business has been presented for sale, before any independent scrutiny:

Business	Ironbark Tree Services — arborist: tree removal, pruning, land clearing, stump grinding, storm/insurance response
Service area	An outer South East Queensland corridor; limited reach into neighbouring regions
Premises	Home office / shed — no commercial lease
Owners	Owner-operator (director) + co-owner (director, bookkeeper)
Staff	1x full-time 2IC head climber, 3x full-time operators, 2x part-time groundies, 4-5x casuals
Asking price	\$890,000 — asset sale as a going concern
Broker "Normalised EBITDA"	\$402,000 - \$604,000 (their figure)
Broker "Future Maintainable Earnings"	~\$480,000 (their figure)
Broker narrative	"Revenue growth across recent periods"; "operational expertise embedded in the team"

The broker's story is "a growing business that runs on its team." The rest of this report tests that story against the numbers and the detail — and both parts of it turn out to need an asterisk.

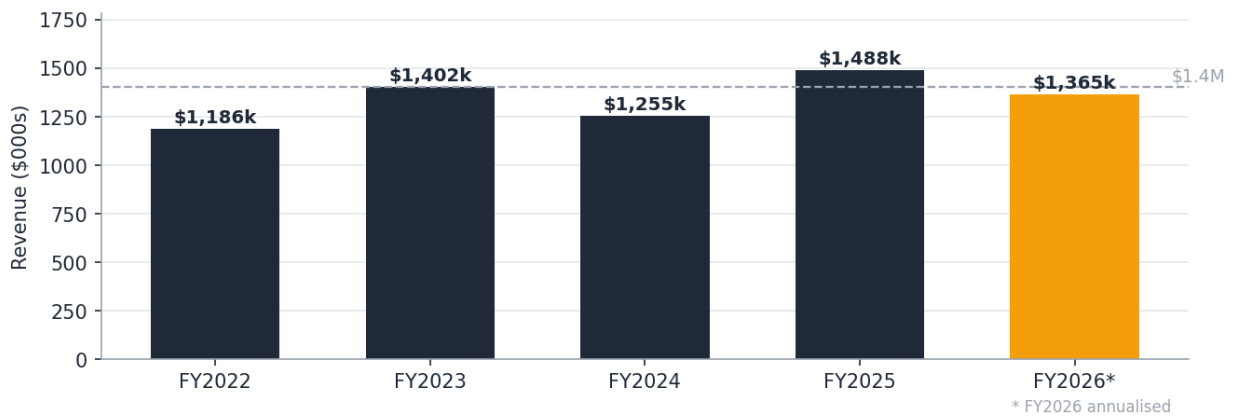
SECTION 2

Financial reality check

Red flag 1 — the revenue is not growing

The broker describes "revenue growth across recent financial periods." The actual five-year record tells a different story: revenue has oscillated around \$1.4 million and is going sideways, not up. The current year is tracking below last year.

Revenue is oscillating around \$1.4M - not growing



Revenue by financial year. Up years and down years cancel out — there is no growth trend.

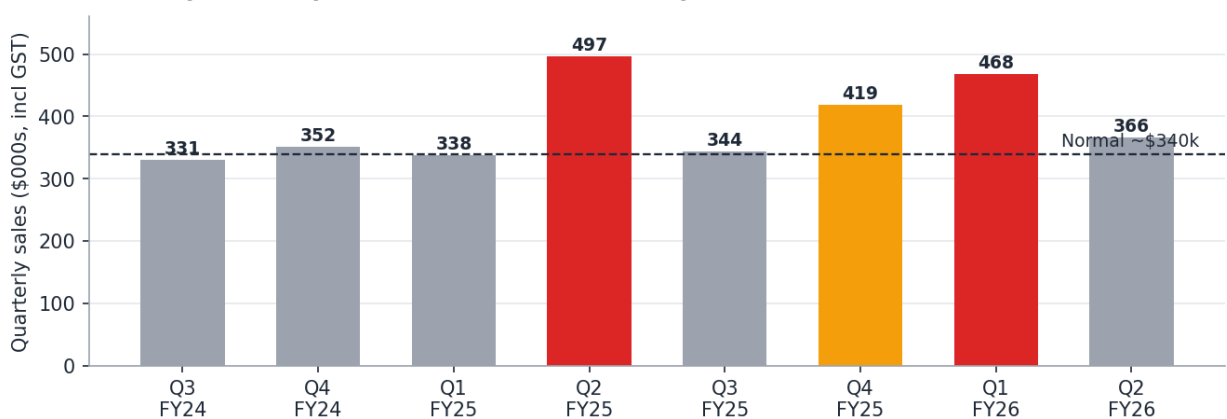
Financial year	Revenue	Year on year	Profit before tax
FY2022	\$1,186,400	—	\$124,800
FY2023	\$1,401,900	+18.2%	\$221,700
FY2024	\$1,254,600	-10.5%	\$148,300
FY2025	\$1,488,200	+18.6%	\$384,500
FY2026 (annualised)	~\$1,365,000	-8.3%	~\$262,000

FY2025 profit is also flattered by a \$79,500 one-off gain on the trade-in of an ageing work platform — not a repeatable trading result, and not something that belongs in maintainable earnings.

Red flag 2 — the earnings are storm-dependent

Quarter-by-quarter, the business is far lumpier than an annual figure suggests. A normal quarter runs about \$340,000. Storm and insurance call-out work can lift a quarter 40%+ above that. It is lucrative work — but it is weather-dependent and cannot be banked on.

Storm quarters spike 40%+ above a normal quarter

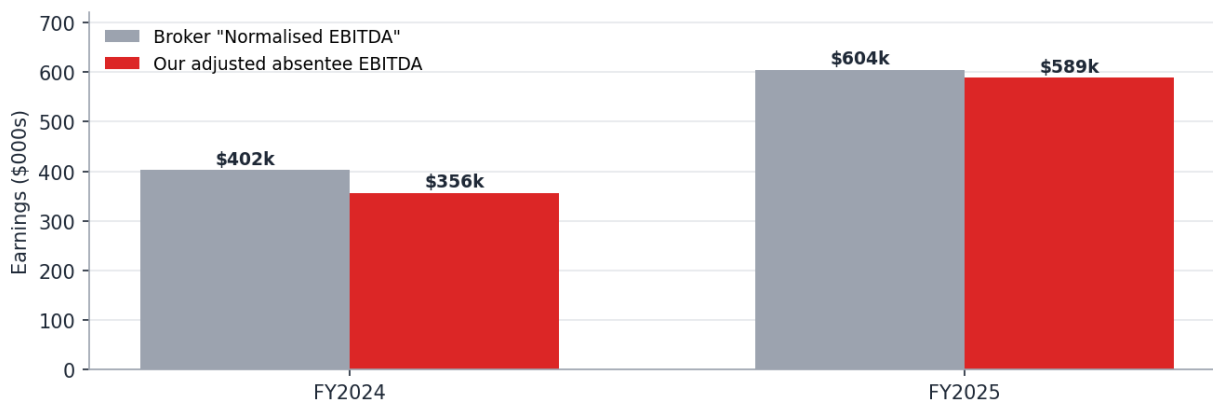


Quarterly sales. The red and amber quarters are storm-driven spikes — strip them out and the underlying business is closer to \$1.25M than \$1.5M.

Red flag 3 — the broker's profit figure rests on light assumptions

To value the business as if an absentee owner ran it, you add back the current owners' pay, then subtract what it would realistically cost to replace them. The broker allowed just \$165,000 to replace both working owners. The payroll records show each owner actually draws around \$172,000 a year. A realistic replacement — a general manager plus a proper bookkeeper — is closer to \$246,000. That gap alone moves the profit figure materially.

The broker's profit figure vs our independent number



Our independent adjusted earnings vs the broker's figure. We reach a similar maintainable number — but via a more conservative path.

Earnings measure (absentee-owner basis)	FY2024	FY2025
Broker's "Normalised EBITDA"	\$402,400	\$604,300
Our adjusted absentee-owner EBITDA	\$356,100	\$588,700
Realistic maintainable earnings (our estimate)	\$440,000 - \$510,000	

Our maintainable estimate of \$440,000–\$510,000 actually lands close to the broker's \$480,000 — but we get there the conservative way, after stripping the one-off equipment sale and using a realistic replacement-owner cost. The number survives scrutiny. That is a genuine point in the deal's favour.

SECTION 3

The "under management" reality check

The broker presents this as a business that runs on its team — "operational expertise is embedded in the team." That is the single most important claim in any business sale, because it decides whether you are buying an asset or buying yourself a job.

What the owner actually does

From the listing itself, the owner: writes and prices every quote; sets up jobs; handles phone calls and emails; organises staff on site; runs the daily work roster; does the daily equipment pre-check; purchases equipment and parts; organises advertising.

That is two full jobs, not zero. He is the sales function — every dollar of revenue starts with a quote he writes and prices — and the operations manager. Both must be replaced, and replacing the quoting role is hard: it needs trade-level technical judgement plus customer rapport. The customer reviews make it worse — they repeatedly name the owner personally. Customers identify him as the business.

The co-owner is not a \$34,000 line item either

The broker values the co-owner's replacement at \$34,000. In reality she runs all bookkeeping, reconciling, invoicing, banking, payroll, compliance documents, safety paperwork, council application forms, insurance renewals and supplier accounts. That is a real part-time-plus role; \$34,000 does not cover it.

Transition risk: HIGH

There is no documented sales or quoting playbook. Plan on 6–12 months for a genuine handover, with real revenue-erosion risk in months 3–9 as customer relationships transfer. This is manageable — but only if it is priced into the deal structure.

SECTION 4

Revenue quality & client concentration

Not all revenue is worth the same. Locked-in contract revenue is worth far more than ad-hoc work that has to be won again every week. Here is what we found:

- **Effectively 100% ad-hoc** — the business runs on job-by-job ad-hoc work. No long-term recurring contracts are disclosed. Forward visibility is about three weeks of booked work.
- **Revenue is storm-affected** — a single strong storm quarter ran 46% above a normal quarter. Storm and insurance work is lucrative, but lumpy and weather-dependent. Strip the storms and the underlying business is closer to \$1.25 million than \$1.5 million.
- **Payment terms are reasonable** — private jobs are paid in about 7 days; commercial accounts on 30 days. Receivables sit at roughly 39 days of sales — acceptable, but worth confirming as part of the working-capital adjustment at completion.

The single biggest unknown — client concentration

The listing gives no breakdown of the top customers. We do not know what share of revenue comes from the largest one, five or ten clients. This is the most important number in the whole deal. If one real estate group, council relationship or insurance assessor drives 20%+ of revenue — and is tied

personally to the owner — the business is materially more fragile than the headline suggests. This must be answered before you proceed.

SECTION 5

Risk assessment

Each risk below is rated Low, Medium or High based on the information available so far.

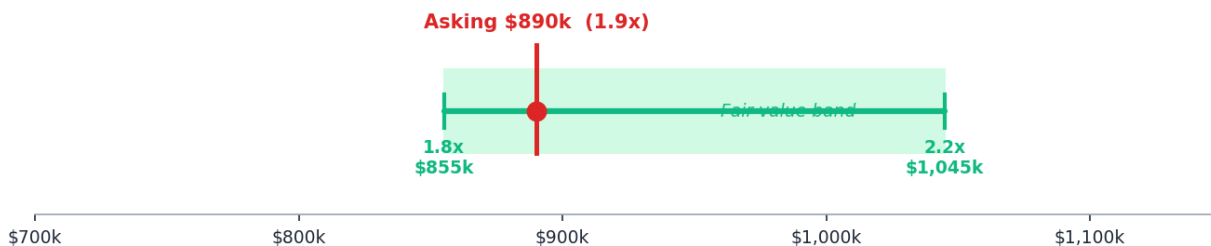
Risk	Rating	Commentary
Owner dependency	HIGH	Owner holds the sales and operational relationships; customers name him personally; no successor identified inside the business.
Client concentration	UNKNOWN	No top-customer disclosure. Must be quantified before proceeding — this is the critical open item.
Revenue volatility (storms)	MEDIUM	Storm quarters can lift earnings 40%+; a quiet-weather year would cut earnings materially.
Staff / key person	MEDIUM	Only 2-3 full-time staff plus casuals. The 2IC head climber is critical — if he leaves with the owner, delivery breaks.
Fuel / diesel exposure	MEDIUM	Fuel runs about 4% of revenue. Real exposure to diesel pricing, but not extreme.
Asset condition	LOW-MED	Plant is serviceable; one older truck is heavily depreciated and will need replacing within 2-3 years.
WHS / regulatory	MED-HIGH	Tree work is genuinely dangerous. Insurance and safety claims history must be reviewed in full.
Growth runway	LOW-MED	A mature local operator. Growth would mean adding crews — meaningful capital and hiring.

SECTION 6

Valuation sanity check

Service businesses of this size and type — where the buyer has to replace the working owner — typically change hands at 1.8 to 2.2 times maintainable earnings. Against our maintainable estimate of around \$475,000, here is where the asking price sits:

The asking price sits inside the fair-value band



At \$475k maintainable earnings, the fair-value band runs \$855k–\$1,045k. The \$890k asking price sits inside it, near the lower end.

Multiple	At \$440K (conservative)	At \$475K (central)	At \$510K
1.8x	\$792,000	\$855,000	\$918,000
2.0x	\$880,000	\$950,000	\$1,020,000
2.2x	\$968,000	\$1,045,000	\$1,122,000

The \$890,000 asking price works out at roughly 1.9 times our central maintainable earnings of \$475,000 — squarely in the fair-value zone, at the lower end of the normal range. That is an important finding in its own right:

The price is reasonable

Do not waste energy trying to chip it down — chipping below \$830,000 would signal you do not understand the asset. The real negotiation here is deal structure, not headline price. Section 7 sets out exactly how.

SECTION 7

Recommended deal structure

Because the price is already fair, the job is not to grind it down — it is to structure the deal so you only pay full value if the business performs after you take it over. That means tying part of the price to revenue holding up, and protecting yourself against anything undisclosed.

The recommended split — 70 / 20 / 10

Component	Share	Amount at \$890k	Tied to
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Upfront at settlement	70%	\$623,000	Paid on completion
Earn-out	20%	\$178,000	Revenue retention at the 12-month mark (85%+ of prior year)
Retention escrow	10%	\$89,000	Released at 18 months, covers warranty / undisclosed claims

The earn-out is the key protection. It should slide: full 20% paid if revenue holds at 90%+ of the prior year, nothing paid if it falls below 70%, pro-rata in between. A vendor who is genuinely confident in the earnings will accept this. A vendor who refuses it is telling you something.

The other terms that matter

- **Handover commitment** — a 90-day full-time handover plus a 6-month consulting tail, with personal customer introductions written into the contract.
- **Restraint of trade** — a 5-year non-compete within 50km, plus separate non-solicitation of both clients and staff.
- **Clean balance sheet** — all hire-purchase and equipment finance settled at completion, so you inherit a cash-free, debt-free balance sheet.
- **Working capital** — work-in-progress and accounts receivable adjusted at completion against a working-capital target.
- **Asset sale** — an asset sale, not a share sale — so historic liabilities of the vendor company do not transfer to you.

The offer ladder

Stage	Price	Notes
Opening offer	\$850,000	A modest ~4.5% discount with 70/20/10 structure — signals serious intent, leaves room.
Target landing	\$890,000	Happy to meet the asking price if the structure protects you.
Walk away	above \$960,000 flat	If the vendor refuses an earn-out and wants more than \$960k, the risk-reward no longer works.

SECTION 8

The return on your investment

A fair price still has to earn its keep. At the asking price, with maintainable earnings of around \$475,000 a year, here is what the deal returns:

Purchase price	Annual earnings	3-year cumulative	Annual return
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\$850,000 (opening offer)	\$475,000	\$1,425,000	~56%
\$890,000 (asking price)	\$475,000	\$1,425,000	~53%
\$950,000 (top of range)	\$475,000	\$1,425,000	~50%
\$1,000,000 (storm-down year)	\$440,000	\$1,320,000	~44%

Even on conservative assumptions the return is strong — a business of this kind, bought at a fair price, pays back the purchase price inside roughly two years of maintainable earnings. The number that moves it is a quiet-weather year with no storm work: that drops earnings toward \$440,000 and the return into the mid-40s. Still a sound return — but it is exactly why the earn-out in Section 7 matters. It shifts the storm risk back onto the vendor, where it belongs.

SECTION 9

The verdict, in detail

AMBER — PROCEED WITH CAUTION

This is a real business — real assets, real cash flow, a real customer base, proper job-management and accounting software, and a competent 2IC. The asking price is fair. On the numbers alone, it could deliver a serious return. That is why this is not a red light.

It is not a green light either, because the deal hinges on answers you do not yet have. Proceed — but treat the following as pre-conditions. If they cannot be satisfied, walk away.

Pre-conditions before you commit to formal due diligence

- **Top-five client concentration** confirmed below 35% of revenue. This is the single biggest unknown.
- **A real handover** — the owner commits, in writing, to a 90-day full-time handover plus a 6-month consulting tail.
- **Storm revenue isolated** — storm and insurance revenue can be separately quantified and stripped out, so you can see the true underlying earnings base.
- **No hidden key-person links** — no undisclosed personal relationships between the owner and major customers that would walk out the door after settlement.
- **The right structure** — the vendor accepts an earn-out that ties part of the price to revenue holding up after you take over.

Handled this way — fair price, earn-out structure, proper handover — this is a deal worth pursuing. Rushed, or bought at full price with no structure and no answers on concentration, it is a trap. The difference between those two outcomes is entirely in your hands, and it starts with the questions in the next section.

SECTION 10

Your due diligence questions

Send these to the broker before you spend another dollar. The answers will tell you whether the Amber turns green — or red. They are grouped by topic so you can see where the gaps are.

Revenue & customers

1. Provide the top 10 customers by revenue for each of the last three years, with each one's share of total revenue and how long they have been a client.
2. Of the commercial half of revenue, how much comes from real estate agencies versus council versus insurance work versus other?
3. Are there any written contracts, preferred-supplier or panel agreements — formal or informal? Provide copies.
4. How much revenue came from storm and insurance call-out work in each of the last three years?
5. What is the quote-to-win conversion rate, and the average and median job size, for the last 12 months?

Owner & transition

6. Provide a written description of what the owner does day-to-day, with hours allocated to each task. Same for the co-owner.
7. Will the owner commit to a 90-day full-time handover plus a 6-month consulting tail, including personal customer introductions?
8. Is there a documented quoting and estimation process that could be taught to a new hire?
9. What is the 2IC head climber's tenure and employment terms? Is there a written agreement, a non-compete and a non-solicitation clause?

Financials

10. Provide the signed and lodged most recent company tax return, plus a reconciliation of the accounts to the quarterly BAS figures.
11. Provide full detail of the one-off gain on the equipment sale — confirm it was an arm's-length transaction.
12. Provide the last 24 months of monthly profit-and-loss statements, so the storm-quarter pattern is clear.
13. Explain any large year-to-year swings in vehicle repairs, wages and subcontractor costs.

Assets & equipment

14. Provide an itemised plant and equipment list with the age and condition of each item, and any finance still owing on it.
15. What is the capital-expenditure plan for the next 24 months — what needs replacing, and when?
16. Confirm the value of equipment included in the sale, and that all finance will be settled at completion.

Compliance & legal

17. Provide the workplace health and safety incident history and public liability claims history for the last five years.
18. Are all crew members appropriately ticketed and certified? Provide certificates.

19. Provide certificates of currency for public liability, professional indemnity, workers compensation and vehicle insurance.
20. Is there any pending or threatened litigation, customer complaint or warranty claim?

Deal mechanics

21. Confirm the goodwill, assets and equipment split of the purchase price — this affects stamp duty.
22. Confirm the business goodwill is owned by the company, not personally by the owners.
23. Would the vendor consider holding 15–20% of the price as vendor finance to support an earn-out structure?
24. What is the proposed settlement timeline and deposit structure?

The Red Flag Report provides operator-level practical reviews only. It does not constitute legal, financial, accounting or investment advice. Always engage qualified professionals for formal due diligence before completing a business acquisition. This is an illustrative sample; the business and all figures in it are fictional, created to demonstrate the format.

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