FREE GUIDE FOR BUYERS

The Acquisition Checklist

How to structure your first $5M–$100M business purchase — and the deal-breakers that end most of them.

PREPARED BY REIL ACQUISITIONS

Two-sided M&A representation for the Midwest mid-market.
Built by operators who have bought, run and sold their own companies.

HOW TO USE THIS

Start here

There are two ways to lose money in an acquisition. The first is paying too much. The second — far more common, and far more expensive — is buying the wrong business. This checklist attacks both.

Work through it in order. The first four sections are preparation you complete before you make an offer. The last two are what you run after your offer is accepted, when every day of diligence costs money.

PHASE	WHAT IT DECIDES
1. Pre-Acquisition Readiness	Whether you are actually able to close a deal right now
2. Deal Evaluation	Whether this specific business is worth a second look
3. Valuation Math	What the business is worth to you — not what is being asked
4. Financing & Structure	How the deal gets funded and how risk gets split
5. The 7 Deal Breakers	The red flags that should stop the process entirely
6. Diligence & Close	What to verify before you wire a dollar

> **A word of warning: deal-breakers are not negotiating points. Section 5 exists because most buyers see a red flag, decide it is manageable, and find out eighteen months later that it was not.**

SECTION 1

Pre-Acquisition Readiness

You are ready to buy when a deal can close without panic. Run this list honestly — every item is something a seller or their broker will test you on.

Capital

Equity in hand — 10–30% of purchase price in liquid capital, not home equity or retirement money you cannot access.

Working capital reserve — Six to twelve months of the target's operating expenses on top of the purchase price. Deals die here.

Deal costs budgeted — Diligence, legal, accounting and QofE typically run 3–6% of enterprise value. Budget it before you shop.

Lender readiness

Pre-qualification letter — A written indication from a lender you have actually spoken with beats a generic bank relationship every time.

SBA 7(a) eligibility understood — Most acquisitions of operating businesses qualify. Understand the personal guarantee and the 10-year amortization before you assume it fits.

A lender who does your industry — Cash-flow lending on a services business and an asset-based loan on a manufacturer are different animals.

You, personally

Time to run diligence — 60–120 days of part-time attention is not enough. Be realistic about who does this work.

Advisors lined up — An M&A attorney and a CPA who have closed acquisitions — not just any attorney and CPA.

A clear thesis — One sentence on why this business, this industry, this geography. If you cannot write the sentence, you are not ready.

Exit thinking — How you eventually get paid back. Buying without this is how buyers become owners forever.

> **The readiness test: if your lender, your attorney and your spouse all knew the full plan today, would the deal still close? If not, fix that first.**

SECTION 2

Deal Evaluation Framework

Most listings are screened out in twenty minutes. Use this order — cheapest filter first.

Revenue quality

Revenue durability — Recurring, contractual or repeat revenue beats one-off project revenue. A three-year customer history is the minimum.

Customer concentration — No single customer above 15–20% of revenue; top five combined under 40%. Above that, you are buying a customer relationship, not a company.

Revenue trend — Three to five years, not one. Declining revenue with “one bad year” is declining revenue.

Gross margin — Compare to industry norms. Below-average margin usually means pricing power you cannot fix quickly.

Earnings quality

SDE vs EBITDA — For owner-operated businesses under roughly $5M earnings, SDE. Above that, EBITDA. Using the wrong one overpays by the owner’s compensation.

Add-backs verified — Every add-back must be a genuine, documented, non-recurring expense. Personal vehicles, family payroll and “run-rate” adjustments are where projections get invented.

Cash conversion — Profitable on paper but always short of cash is a working-capital problem you are about to inherit.

Operational dependency

Owner dependency — Would revenue survive a 90-day absence by the owner? If not, price the replacement into the deal.

Key employees — Are the two or three people who actually run the business staying? Get that in writing before LOI.

Systems and records — Clean books, documented process, real software. Chaos is a cost, and it is yours.

> **Screen-out rule: if two or more of the items above are weak, stop evaluating and move on. There is no price at which a bad business becomes a good one.**

SECTION 3

Valuation Math, Step by Step

Valuation is arithmetic wrapped in judgment. Do the arithmetic first — it is not negotiable — then apply judgment about risk.

Step 1 — Normalize earnings — Start with net income. Add back owner compensation above market rate, personal expenses run through the business, one-time legal or moving costs, and non-cash items. Subtract anything the business needs but the owner stopped spending on (deferred maintenance, underfunded marketing). The result is your true earnings number.

Step 2 — Apply the right multiple — Multiples are a proxy for risk: recurring revenue, transferable operations and clean books earn more. Owner dependency, concentration and volatility earn less.

Step 3 — Adjust for what you must fix — Every item on the diligence list that requires capital, time or new people reduces your number. This is where disciplined buyers separate from hopeful ones.

BUSINESS PROFILE	TYPICAL SDE / EBITDA MULTIPLE
Owner-dependent services, high concentration	2.0x – 3.0x
Established services with management in place	3.0x – 4.5x
Niche manufacturing, repeat customers	4.0x – 6.0x
Distribution / logistics with contracts	4.5x – 6.5x
B2B recurring revenue, low churn	5.0x – 8.0x
Healthcare, dental, veterinary practice	4.0x – 7.0x

Reality check: ranges are market observation, not appraisal. Enterprise value moves with deal structure — seller financing, earnouts and contingent payments all transfer risk, and risk transfer is what a multiple really prices.

The valuation mistakes buyers repeat

- Paying a multiple on projected earnings instead of historical, verified earnings.
- Accepting the broker’s SDE without recomputing it from tax returns and bank statements.
- Forgetting that the owner’s salary must be replaced — a $250K add-back is a real $250K cost.
- Ignoring capex: a business that needs $400K of new equipment is worth $400K less.
- Falling in love with the business before running the numbers.

SECTION 4

Financing & Structure

How a deal is structured matters more than the headline price. Two offers at $5M are not the same offer.

SOURCE	TYPICAL SHARE	WHAT IT USUALLY COSTS
Buyer equity	10–30%	Your cash, at risk first
Senior debt / SBA 7(a)	50–70%	Personal guarantee, fixed amortization
Seller note	10–25%	Stands behind the bank, signals seller confidence
Earnout	0–20%	Paid only on performance you must be able to measure

Structure decisions that protect you

Seller financing — The single strongest signal of seller confidence. A seller who refuses any note is telling you something.

Earnout mechanics — If you use an earnout, define the accounting rules for it before signing. Disputes are common and expensive.

Working capital peg — Set a target and a mechanism. Without a peg, the seller collects receivables on the way out and you fund the gap.

Asset vs stock purchase — Asset purchases usually protect the buyer from historical liabilities. Ask your attorney which applies here.

Reps and warranties — The seller's promises are only worth the escrow or holdback behind them.

Non-compete and transition period — Price the owner's 6–12 month handover into the deal. Without it, you bought a phone book.

> **SBA note: 7(a) loans are the most common path for acquisitions under roughly $5M. Expect full personal guarantee, collateral on personal assets, and a requirement that the seller carry a note in many cases. Plan for it rather than discovering it at closing.**

SECTION 5

The 7 Deal Breakers

This is the most important page in this document. Any single one of these justified pausing or walking — not discounting.

1. Customer concentration you cannot diversify quickly

One customer above 25% of revenue, or the top three above 60%. If that customer leaves, the business you financed is gone while the debt is not.

2. Owner dependency that will not transfer

The owner holds the relationships, the technical knowledge, or the licenses. If the seller will not sign a meaningful transition and non-compete, you are buying a job with extra steps.

3. Earnings that do not survive the bank statement

Tax returns and bank deposits that do not support the SDE or EBITDA being marketed. Reconcile every add-back to source documents or walk.

4. Undisclosed or unliquidated liabilities

Back taxes, payroll exposure, pending litigation, warranty or environmental obligations, unfunded pension liability. Verify by exception, not by assurance.

5. Declining revenue with a story attached

Two or more years of decline explained by market conditions, a lost client, or “a bad hire.” Trends are more honest than narratives.

6. Numbers the seller will not let you audit

Refusal of a quality-of-earnings review, delay of access, or figures that change between conversations. Opaque books are the most reliable predictor of a bad deal.

7. A business that only works with the seller’s undisclosed relationships

Verbal arrangements, handshake supply deals, crony contracts. If it is not written and assignable, it does not exist after closing.

> **If you find one of these after LOI, the right response is to re-price the deal significantly — not to talk yourself into the original number. If you find two, walk.**

SECTION 6

Due Diligence Priorities

Run these in order of risk, not alphabetical order. The first four sink most deals.

AREA	WHAT YOU ARE ACTUALLY LOOKING FOR
Financial	Three years of tax returns reconciled to bank statements; quality-of-earnings review; AR aging; working capital trend
Customer	Contracts, retention over three years, concentration, pricing history, any relationship held only by the seller
Legal	Entity standing, litigation, liens, IP ownership, assignability of key contracts and licenses
Tax	Sales and use tax compliance, payroll tax filings, nexus exposure, any unpaid assessments
Employment	Offer letters, non-competes, accrued PTO, undocumented workers, key-person retention plans
Operations	Equipment condition, deferred maintenance, capex history, supplier terms, single-source risks
Compliance	Licenses and permits, insurance adequacy, environmental exposure, industry-specific regulation
Technology	Ownership of software, data rights, security posture, any critical system held in the seller's name

Diligence discipline: get everything in writing and keep a running issues log with a dollar value beside each item. An issue without a number is an argument; an issue with a number is a negotiation.

SECTION 7

From LOI to Close

A typical acquisition closes in 60–120 days from accepted letter of intent. Here is what should happen, and roughly when.

WHEN	WHAT HAPPENS	YOUR JOB
Day 0	LOI signed	Lock exclusivity and the diligence window in writing
Days 1–10	Diligence opens	Request the full document list on day one, not week three
Days 10–35	Financial and legal review	Reconcile earnings to source; keep the issues log current
Days 30–45	Financing	Lender underwriting, appraisal, personal financial package
Days 40–60	Purchase agreement	Negotiate reps, warranties, escrow and working capital peg
Days 55–75	Conditions cleared	Landlord consents, key contracts assigned, licenses transferred
Days 70–110	Closing	Funds flow, transition begins, employees and customers informed
Days 110–200	Integration	Systems, reporting, and the handover you negotiated

The two most common causes of a blown close: incomplete records discovered in week five instead of week one, and financing terms that were never actually confirmed with a lender before the LOI was signed.

SECTION 8

First 90 Days After Close

The deal is not the finish line. Most value is destroyed in the first quarter of ownership, usually by moving faster than the business can absorb.

WINDOW	PRIORITY
Days 1–14	Communicate. Every employee, every key customer, every supplier. Uncertainty is what makes people leave.
Days 1–30	Secure the money: bank access, payroll continuity, lockbox or payment redirection, review every signer on every account
Days 15–45	Observe before changing. Learn how the work actually gets done before reorganizing it
Days 30–60	Install reporting. Monthly financials you trust, a simple KPI set, weekly cash visibility
Days 45–90	Retain key people with real incentives. Sign the retention agreements you negotiated
Days 60–90	Begin the integration plan: systems, pricing, and the growth thesis you bought the business for

Ready for the next step?

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