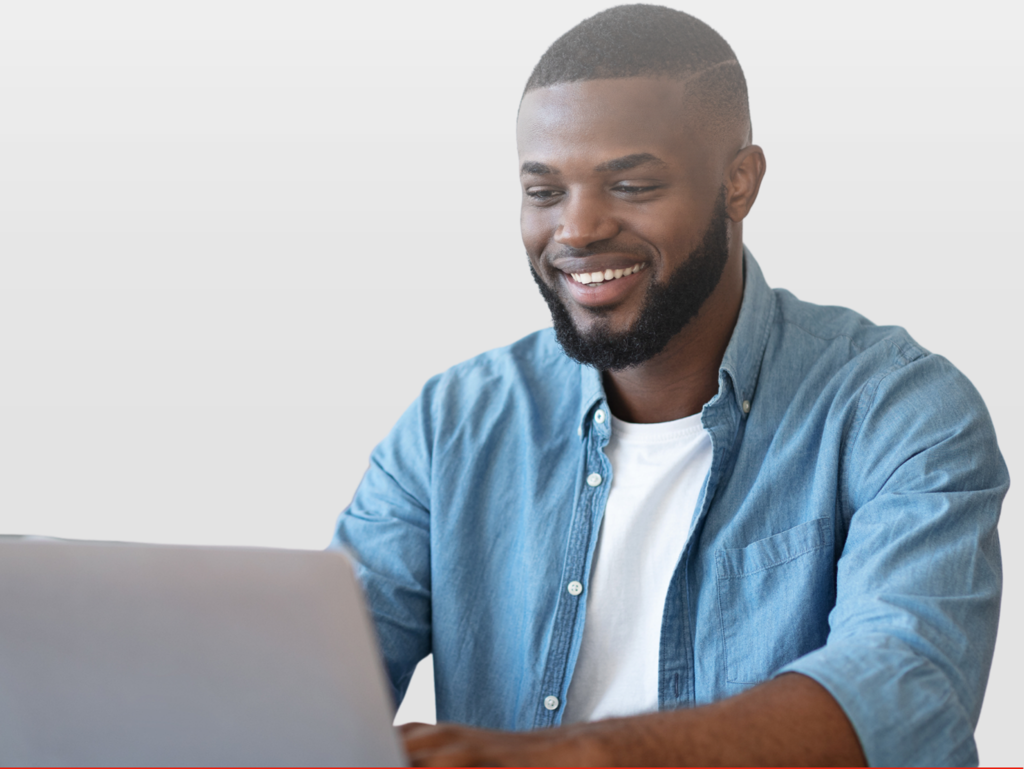
SMB ACQUISITIONS CHECKLIST

Adapted & abridged from the Deal Camp Basic Course



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INTRODUCTION

The following information provides a checklist for each major step of the process successful acquisition entrepreneurs go through to buy companies at fair prices, grow them, and exit for the highest valuation possible.

In other words, whether you just want to buy and run one great company for the rest of your life or build an empire, this checklist provides a framework that has been used for over four decades by some of the most successful business people in the world and has been used by us and our clients to build significant wealth.

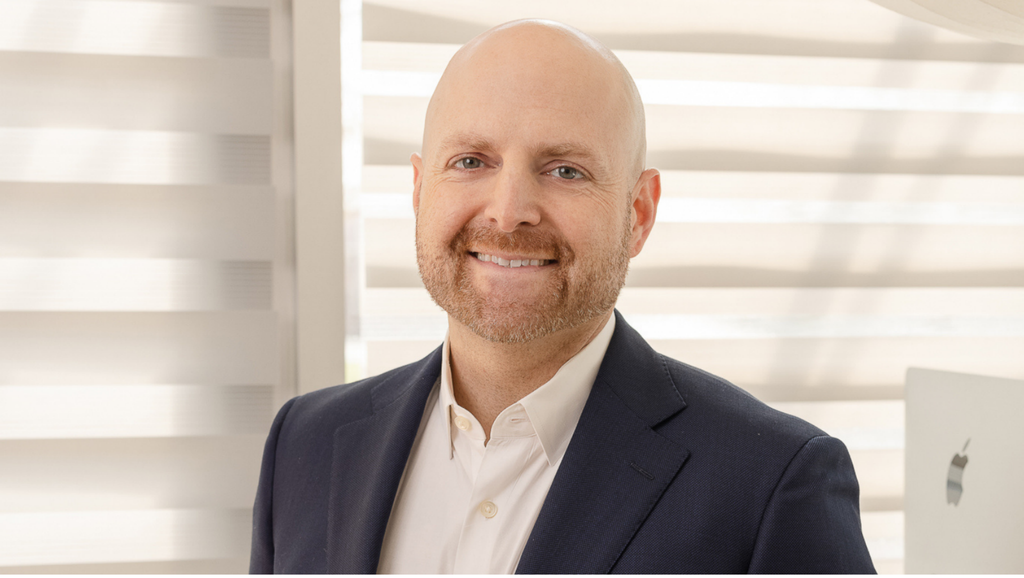
Here is a short list of people who followed this path:

Wayne Huizenga	Founder of AutoNation, Waste Management, and Blockbuster Video
Ron Pearlman	From a standing start in his mid-20's to a full-fledged billionaire before his 40th birthday
John Malone	former CEO of TCI who made more money for shareholders than almost any person in history
T. Boone Pickens	Mesa Energy
Jeff Sandefer	Texas oil billionaire and a personal mentor
Frank Hickingbotham	Founder of TCBY in Arkansas
Warren Buffett	

There are many more.

If you master the steps in this document, you will have gained the most valuable skill set known to man... the ability to <u>buy great businesses at fair prices using other people's money</u>.

We promise you the journey is worth it.



This checklist is adapted directly from the Deal Camp Basic course.

In addition to the video tutorials, spreadsheets, guided exercises, and multiple contract templates you receive in the Basic Course, you also learn:

- ✓ How to buy businesses with little or no money down, even if you have weak credit or little business experience.
- ✓ The 12-step process you must follow to consistently close good deals that make you money
- ✓ The best way to find deals and avoid getting into a "bidding war"
- ✓ The types of sellers you want to deal with (and why you should ignore everyone else)
- ✓ The 10 significant obstacles you will face and how to overcome all of them (and - more importantly - the one obstacle you must be truly concerned about every day)
- ✓ How to avoid paying too much for a business
- ✓ The 5 key traits of every good business that you must verify before cutting a deal
- ✓ 6 signs to look for that - if you see these in a company - run for the hills and don't ever look back
- ✓ How to get all the money you need to close deals
- ✓ How to structure attorney and accounting fees to reduce your out of pocket cash invested

WHY THIS WORKS
AND ALWAYS WILL

THE FAIR VALUE ACQUISITION (FVA) BASIC STRATEGY

You will buy and "merge" multiple small businesses for 3-5x their cash flow. (These small businesses are all in the same industry and have less than $2 million in cash flow.) Then, you are going to sell the "roll-up" company in a competitive auction format at around 7x's cash flow or more. You are going to do that using a mix of debt and owner financing.

Since the 80s, smart investors have been doing some form of this strategy because it takes advantage of how the capital markets work. This is a structural phenomenon. Private equity firms make more money as the amount of money they have under management increases, so they want to do larger deals that put more money to work. As a result, the small and successful private equity groups don't stay small for very long.

This reduces the amount of competition for small deals. When you can combine a few companies into a larger company and get on the radar of private equity, you step into a space where there is more competition and more money to be put to work, which drives up the multiples people are willing to pay.

FVA BASIC
STRATEGY OUTLINE

THE 12-STEP PROCESS

01 LIMIT YOUR RISK BY FOCUSING

02 REDUCE DEAL FRICTION BY BUILDING A CREDIBLE BOARD

03 FILL YOUR DEAL FUNNEL

04 QUALIFY GOOD DEALS QUICKLY

05 GAIN COMMITMENT TO MOVE FORWARD

06 SUBMIT YOUR LETTER OF INTENT TO SMOKE OUT THE B.S.

07 FINALISE THE PURCHASE AGREEMENT

08 CONDUCT DUE DILIGENCE AND LINE UP YOUR FINANCING

09 CLOSE YOUR FIRST DEAL

10 START BUILDING A POWERHOUSE TEAM TO SCALE

11 ROLL-UP MORE COMPANIES

12 EXIT AT THE MAXIMUM MULTIPLE

STEP 1:

LIMIT YOUR RISK

Focus on an industry or type of business you understand.

- ☐ Begin defining your Circle of Competence: one of Warren
- ☐ Buffett's keys to success that will cut your chances of failure by half.
- ☐ Determine if you are you Sales Focused vs. Operations Focused
- ☐ Determine if you are the Dreamer or the Doer
- ☐ Make a written commitment to yourself about what you will and will not invest in to put guardrails on yourself.

WHAT THIS IS LIKE

This step is like focusing sunlight through a magnifying glass – the more focused, the more dramatic the impact. You can focus the light according to many spectrums, including the industry, your skillset, etc. There is an optimum point where you can "start a fire". This is also like dating and knowing your type really well so that you don't waste your effort on dead ends.

STEP 2:

REDUCE DEAL FRICTION

Build a board of experts to create credibility and accountability

- ☐ Determine the people you will need most on your board
- ☐ Determine how you will compensate them using cash, equity, or a mix
- ☐ Find them using local resources, networking, and/or LinkedIn
- ☐ Set expectations about their level of involvement

WHAT THIS IS LIKE

This is like having a letter of recommendation for a job. The more relevant and impressive your recommendation letters, the more people will trust you and take you seriously.

STEP 3:

FILL YOUR DEAL FUNNEL

Contact small businesses directly and through brokers (direct is better), screening for size, region, etc.

- [ ] Identify brokers in your area of focus
- [ ] Build a list of prospects
- [ ] Filter list by company size
- [ ] Filter list by geography
- [ ] Eliminate poor fit deals quickly
- [ ] Create an information package for brokers and sellers
- [ ] Market to business owners using letters, email, and cold calls

WHAT THIS IS LIKE

This is like a sales funnel if you were a professional salesperson. You need to have a plan to prospect and convert quality leads. In another way, it's like farming. You have to plant a lot of seeds to see things grow. Not all the seeds will take hold, some will die young, and a few will make it. If you put it in dating terms, this is like if you started using Tinder, Bumble, Match.com and PlentyOfFish to get more dates.

STEP 4:

QUALIFY/DISQUALIFY

The goal of this phase is to reduce your funnel to a short list of the best candidates.

- ☐ Identify brokers in your area of focus
- ☐ Build a list of prospects
- ☐ Filter list by company size
- ☐ Filter list by geography
- ☐ Eliminate poor fit deals quickly
- ☐ Create an information package for brokers and sellers
- ☐ Market to business owners using letters, email, and cold calls

WHAT THIS IS LIKE

This is like matching with someone on Tinder. You'll have a conversation, get to know each other, and see if it's worth going on a date. It doesn't always end up as a date, nor should it.

STEP 5:

GAIN COMMITMENT

If qualified, visit them and do the "Discovery Deep Dive" to get their commitment to move forward.

- ☐ Review the financials,
- ☐ Adjust financials as needed
- ☐ Determine valuation range before the meeting
- ☐ Set next meeting in neutral location or for site visit
- ☐ Begin negotiations on site if no major questions about
- ☐ valuation are outstanding

WHAT THIS IS LIKE

This is like having a conversation with the person you're dating about getting serious about your relationship and moving towards getting engaged. It's probably more important than the actual engagement.

STEP 6:

AVOID CONFUSION AND WASTED TIME

BY CLARIFYING MAJOR DEAL TERMS UP FRONT

If ok, submit a Letter of Intent.

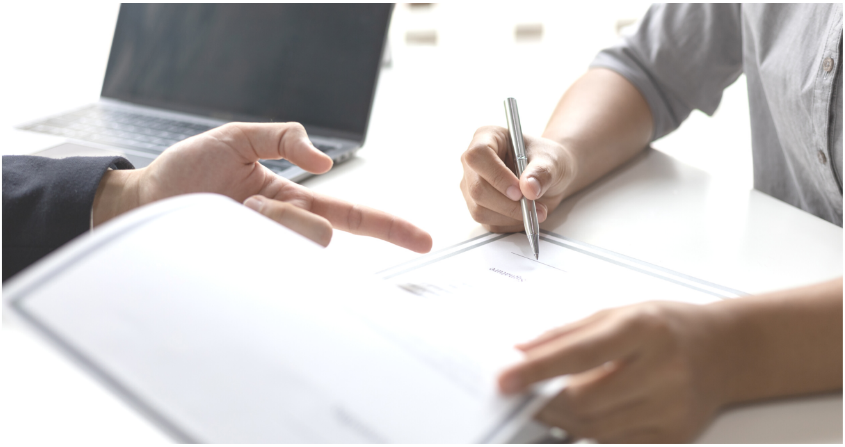
- ☐ Determine what will go into your LOI
- ☐ Determine if you will use a binding, non-binding, hybrid LOI
- ☐ Have objective 3rd party review LOI before presentation
- ☐ Walk through the LOI in person, if possible, and explain terms

WHAT THIS IS LIKE

This is the engagement proposal.

STEP 7:

MAKE IT LEGALLY BINDING



If signed, create a Purchase Agreement.

- ☐ Determine key risks to manage through the purchase agreement
- ☐ Engage an experienced deal attorney
- ☐ Set expectations for your attorney and the seller's about how the process will be managed to avoid dragged out deals

WHAT THIS IS LIKE

In terms of dating, this is like writing your vows.

STEP 8:

UNCOVER BARRIERS TO CLOSING

Start due diligence and line up financing.

- ☐ Create a master due diligence checklist
  Engage professionals to aid in due diligence
- ☐ Build a bank financing package
- ☐ Determine if a valuation is needed
- ☐ Approach lenders for financing (banks, equipment finance cos, alternative lenders, etc.)

ⓘ WHAT THIS IS LIKE

This is like planning the wedding event while hiring a private investigator to check out your significant other's background and family. A lot has to take place to make sure that a deal can close.

STEP 9:

GET THE DEAL DONE

Close the deal.

- ☐ Set up an LLC for the acquisition if not already completed
  Fund LLC with cash for closing
- ☐ Make sellers aware of their own emotions at closing
- ☐ Create closing checklist with help of all parties
- ☐ Review closing checklist with all parties in preparation for closing

WHAT THIS IS LIKE

The Wedding Ceremony

STEP 10:

CREATE LEVERAGE THROUGH PEOPLE

Build a team.

- ☐ Determine if you want to lead, support the leader, or transition to absentee owner
- ☐ Based on your personality profile, determine what team members do you need in order to easily implement the vision
- ☐ Determine how to compensate the dream team using base salary, bonuses, and/or stock
- ☐ Build a recruiting funnel to deliver many highly qualified candidates to interview

WHAT THIS IS LIKE

This is like building a professional sports team. To win the Super Bowl, you need great players.

STEP 11:

MULTIPLY YOUR MULTIPLE

Buy more companies at reasonable valuations

- ☐ Continue to grow through acquisitions until you reach approximately $14 million a year in EBITDA. (Hint: Something BIG happens when you reach the $100 million+ enterprise value range).
- ☐ If you go this route - prepare to buy 2 or more companies a year for several years by slowly building an acquisitions team.

WHAT THIS IS LIKE

If you've ever seen those huge record collections of Beatles Albums, you'll get what this is like. By combining a bunch of things in a neat little package so that someone with a lot of disposable income can buy everything they want all at once, you create value.

STEP 12:

HARVEST YOUR MULTIPLE

Sell at auction via investment bank or IPO, preferably to a strategic buyer.

- ☐ Determine which investment banks have a deep expertise and distribution network for selling companies like yours and why it matters.
- ☐ Build relationships with the major players in your industry (Hint: This is a substantial multiple mover if done well).
- ☐ Within 1-2 years of exit, engage an investment bank to evaluate the best way to maximise your multiple, usually through IPO or competitive auction process.

WHAT THIS IS LIKE

This step is like a real estate broker staging your house for sale. They're going to make sure all the landscaping is nice, the rooms are painted, the furniture is well laid out, and it smells like chocolate cookies. Then they're going to walk a bunch of buyers through it and hold an open house so that a bidding frenzy starts for your house. If we've done our job right, many of the people looking at the home will be very familiar with it and already love it.

ABOUT THE AUTHOR

A Personal Note from

MATT DUCKWORTH

My story is not a straight line of success and, as someone you've counted on to guide you through your Acquisition Entrepreneurship Journey, you need to know if you should trust me.

So, let me open the kimono and tell you about how I got to where I'm at today.

When I graduated college at Ouachita Baptist with a degree in music composition, I was as close to useless in the real world as you could get. My highest paying job up until that point was as a struggling door-to-door Kirby vacuum cleaner salesman during the summer before my senior year. I was terrible at it, but they needed fresh bodies, so they put up with me.

Through a turn of events, I found a position within a few months after graduation at an investment bank cold calling money managers and banks to convince them to trade with us.

After several years of what I could only describe as torture, I had built a very successful brokerage business at my firm, Bank of Oklahoma/BOSC.

Three years out of college – going from a composer and a literal starving artist – I rose to a point where I was making about $200,000 per year.

Most of my friends thought that I was doing great, but the truth was I hated it.

The culture was toxic and I just didn't want to be a bond broker and trader the rest of my life. It was like being Bill Murray in Groundhog Day... except this was real life.

I believed up until that point that money would make me feel happy and successful, but I was very wrong.

There's a quote my wife, Kristin, and I love from the movie The Curious Case of Benjamin Button (F. Scott Fitzgerald) that goes:

> "For what it's worth... it's never too late, or in my case too early, to be whoever you want to be. There's no time limit. Start whenever you want. You can change or stay the same. There are no rules to this thing. We can make the best or the worst of it. I hope you make the best of it. I hope you see things that startle you. I hope you feel things you never felt before. I hope you meet people who have a different point of view. I hope you live a life you're proud of, and if you're not, I hope you have the courage to start all over again."

I could not get that last line out of my head... **this was not the life I wanted, I was not proud of it, and I was the only one who could change it.**

So, I quit and went to get my MBA, hoping I'd learn how to build something that gave me a more fulfilling life.

When I returned back to Arkansas from grad school, I began interviewing for jobs and was immediately introduced to a mid-40 something entrepreneur who had helped grow multiple businesses to $40,000,000+ a year in revenue in logistics and oilfield services.

He was frustrated with his career and wanted to make a move, so when he saw I was determined to build a company myself one day, we became fast friends. Within just a few months of getting to know each other we started exploring buying a business together.

I had built up enough savings to last about a year, so I went on a search to buy a company with my new partner.

We quickly found a few options: an RV dealership that was doing about $700,000 a year in cash flow and a struggling storm shelter company doing about $1 million a year in total sales.

My partner thought we could strike a no-money-down deal to buy the storm shelter business and we'd find ways to reduce costs and grow sales to turn it around.

I felt that the RV dealership – although bigger and not necessarily in our core skill sets – would be much easier to learn, to grow and to manage.

After some back and forth, I went with my partner's pick – the storm shelter business.

I knew in my gut that it was a bad decision, but I hadn't built the confidence yet to push back the way I should have.

We offered the sellers $10,000 and agreed to guarantee their debt. They agreed, hoping to unload what was left of their struggling business.

We immediately took it over and improved the company. My work on SEO drove our website from the bottom of page 5 on Google to within the top 4 results in our market within the first few months; we created better inventory management systems that made it easy for employees to keep us stocked; and we hired what we believed was a rockstar level operations manager.

The first storm of the season hit that February and we were off to the races.

Things seemed too good to be true. We couldn't take all the calls we were getting and had to hire temporary labor just to sift through all the emails and voicemails.

The problem was, we were growing too fast and had no control over our costs.

One mistake snowballed into another and our rockstar operations manager turned out to be a major liability instead of an asset.

Then an IRS issue from the previous owners caught us by surprise. A massive worker's comp audit bill followed that and an expensive piece of equipment just disappeared. Vehicles began wearing out en masse.

Finally, the weather turned hot, storm season ended, and our massive sales pipeline shrank to a trickle.

We were in deep trouble.

"Oh shit. This might fall apart." I thought.

I had burned through my savings chasing the deal, so had to take another job to help support our business plan.

I was working 100 hours a week, waking up at 5am to check the bank account to see if we had any cash to make payroll or stave off one of the many angry vendors we were starting to accumulate, and I was working late into the night to come up with some kind of marketing magic to help us dig out of the hole we were in.

Nothing was working though. It was like the gods had turned against us.

It soon began to sink in with all of us that this wasn't going to end well. The almost no money down deal that we were so proud of ourselves for striking was looking more like one of the biggest mistakes I've made in my life.

That August we were dealt a final blow when oil prices dropped to under $40 a barrel and my partner and our key backer both lost their 6-figure oil & gas jobs. There was no more money to fund our business plan and we were all struggling to stay afloat.

Within weeks I received documents from my partner and our backer that they had both filed for bankruptcy.

I visited with my attorney and asked him what I should do. He suggested I file as well.

I took a few days to think about the decision.

I was as scared as I've ever been in my life and I wasn't sure I could go on.

"This is not what happens to successful people. *I'll never live this mistake down. It will ruin me."* I thought.

I had a life insurance policy at the time and I read the fine print to see if taking my own life would put Kristin in a better position. I felt so guilty for bringing her into this and creating suffering for her.

She just didn't deserve this.

I have not had a lower, darker, scarier moment in my life.

Call it chance or God's saving grace, but for some reason, I was able to tell Kristin about how I was feeling (not a strong Duckworth family trait) and her response saved me.

"I love you and we will get through this. All you can do now is apply what you know and try your best. Just focus on what you can do now."

It was that day that I decided that I would fight to unwind this without the help of an attorney or a court.

The next few months were an intense battle. I contacted every key vendor and told them we were either settling or going bankrupt... They could choose.

I made my best argument for them to accept pennies on the dollar for their claims.

With some vendors, I created payment plans on take-it-or-leave-it terms.

With the help of our bank and my father-in-law, we sold all of our equipment and paid down as much debt as possible.

Finally, I swallowed hard and wrote the bank a check for about $50,000 to let me off the SBA note guarantee.

I tell you all this so that you understand how much this experience impacted the way I think today. It changed me forever.

You need to know that the reason I'm able to help you is because I've lived through the worst-case scenario and used it to fuel an obsession with how to build companies the smart way.

In the circles that I travel in, I am known as one of the top deal engineers in my part of the country and it has very little to do with the things most people associate with "success".

I don't wear fancy suits most of the time, I didn't go to an Ivy League school, and I didn't work at Goldman Sachs. I've lived through all the things that can go wrong in a deal as an operator with my own skin in the game and lived to tell about it.

Because of what I've learned from this experience, I've been very fortunate to have participated in a lot of deals that have gone well (some very well) and have helped my clients create – on my last calculation – over $20 million in equity value over the last 18 months.

I'm looking forward to helping you achieve similar results too.

To your success,

Matt Duckworth