DEALMAKER | CEO

CARL ALLEN'S BUSINESS BUYING BLUEPRINT

How to Own an Established, Profitable Business in Under 99 Days… Using Other People's Money

DEALMAKER WEALTH SOCIETY

INTRODUCTION

My name is **Carl Allen**. I am an entrepreneur, investor, and corporate dealmaker with a unique expertise in acquiring strong, established and profitable businesses for no money down. I have worked on transactions worth over $52 billion in annual sales revenue, which includes over 300 acquisitions and 200 private investments. In my 26-year career, I have analyzed thousands of businesses, big and small, in 17 different countries. This has included businesses in sectors such as technology, pharmaceuticals, transport and logistics, engineering, manufacturing, aerospace, consumer goods and services, business services, retail, professional services, finance, packaging, and clothing.

I have a solid reputation as an investor and corporate dealmaker, having worked at Bank of America, Hewlett-Packard, Forrester, and Gartner. I have advised some of the world's largest corporations on investments, acquisitions, disposals, and restructuring. I have also assisted hundreds of cash-strapped individuals and business owners in raising equity and debt finance to either acquire a new business or finance an existing one.

Acquiring a business is almost like buying a house. You find a business (house) that you like, evaluate it via due-diligence (have a survey or inspection done on the house) and then negotiate a deal. The latter point is where the similarities end. If you buy a house, you negotiate a price then pay the seller the full amount at closing. You may pay cash and also supplement this with external finance, but 100% of the purchase price gets paid at closing, with very few exceptions.

For a business, you don't have to pay the full price at closing, and it's very rare that any buyer pays the full 100%. In fact, it's possible to pay nothing at closing and the full 100% in the future. The truly remarkable thing is, all or part of this can be contingent on sales, profits or another measure. Typically, the purchase is a mix of some cash at closing with the balance paid over time in the form of yearly, quarterly, or monthly payments. These payments can be fixed or contingent on performance. With contingent payments, once you structure a deal, if the business doesn't perform, you don't have to pay the full amount.

What is even more exciting is you typically have the ability to raise finance against the assets and profits of the business you are buying, which means you can readily acquire a business without spending any of your personal capital. You can even make money out of the deal at closing. If the money you raise is greater than what you may need to pay to the seller, and what the business needs in additional cash for you to operate and grow it.

Over 26 years, I have developed a simple, yet elegant process for acquiring a business without using any of your personal capital. The following checklists help you identify what businesses are good acquisition targets and how you can use it to buy a business.

THE CHECKLISTS AT A GLANCE

The Business Checklist

1. The business can survive despite itself
2. It's a cash flow business
3. It provides a staple product or service
4. It has terrible or no sales and marketing expertise
5. A competent manager is in charge
6. There is a potential upside to realize quickly
7. It's a bargain
8. The owner wants to get out of the business
9. The owner values legacy more than cash
10. The business has enough working capital to survive for at least six months

The Process Checklist

1. Mindset
2. Deal Specification
3. Deal Origination
4. Meetings
5. Deal Structuring
6. Offers & Negotiations
7. Fund Raising
8. Deal Execution
9. Closing
10. Ownership

SCOPE

The process starts with creating your dream deal specification. This process will guide you through originating several businesses to acquire. After that you will analyze the opportunities you have found which will lead to submitting offers, negotiating a cash-free deal, raising finance and performing the necessary due diligence. Buy one business, or buy them all. It's up to you.

Once you acquire your first business, you can grow it organically, or via adding additional businesses to your core business. This is called a bolt-on acquisitions. The bonus is you can use the same cash-free process to acquire the bolt-on acquisitions. Then you can sell your larger business and make a big profit. This process can be very quick or you can hold onto your business for a longer period. It is all up to you and your goals.

MARKET DATA

If you search "businesses for sale" Google will return 729 million search results. I'm not saying there are 729 million businesses for sale, but there are a lot: more than three million in the USA, UK and Australia alone.

More than 95% are small and medium-sized businesses, with less than $20 million in annual sales revenues. I know from experience that a typical business broker will only sell 8% of businesses on their books in the first 12 months, and 75% of all their businesses don't ever get sold.

There are millions of businesses available for sale publicly and many more for sale in the mind of the owner, without the business yet advertised on the market.

There are principally three seller-types that you need to target.
All types have three similar characteristics:

- They don't want to own the business (or subsidiary) anymore even though it is a profitable, growing concern.

- They will sell the business at a significant discount to the market valuation, or give it away in some cases.

- They will accept part or all of the payment deferred, and in some cases, contingent on future performance.

THE THREE TYPES OF SELLERS

THE BURNED OUT OWNER-MANAGER

Here you are targeting private owners of small businesses who have just simply had enough. They are tied to their businesses, with no succession plan, want to retire or move onto something new, and they value their legacy more than cash. They have made significant profits over the years, but the best years are behind them. They will not sell to a competitor for fear of their business, and life's work, being destroyed as trade buyers will typically do with a new acquisition.

THE TIME-STARVED INVESTOR

Investors only do four things. They raise money from corporations and wealthy individuals, make investments, and sell them to generate returns for the fund. These three roles are 25% of their total time commitment. The other 75% of their time is spent supporting businesses in the portfolio. With only one or two deals in ten making a big home run, those businesses get all the focus and support. There just isn't enough time to support every business, and many are neglected. Up to 50% are just written off or given away at a significant discount to market value and with deferred payments.

THE CHANGING BIG BUSINESS

In bull markets, large businesses make a lot of acquisitions, often creating a sprawling mass of decentralized business units. Big businesses are always changing direction. A new CEO, board, strategy, and focus will result in many non-core subsidiaries being surplus to requirements. They sell the large ones and leave the smaller (less than $20 million in annual sales revenues) to become neglected. Executives can't afford to spend the time supporting them, so they are given away or sold at a significant discount. One of my last acquisitions was from this source. It was a business with $18 million of sales revenue, with $2 million in profit, within a $9 billion conglomerate. I acquired the business with zero personal cash.

There are hundreds of thousands if not millions of these sellers in the UK, USA and Australia combined.

WHO THIS WILL HELP

1. Existing business owners who want to grow rapidly via bolt-on acquisitions, versus growing their businesses one customer at a time.

2. Franchise seekers who have no capital to invest and want an established business to own and operate, without the restrictions and ongoing costs that come with owning and operating a franchised business.

3. Employees who are frustrated and trapped in a job, working crazy hours. They have no skin in the game and want to acquire either the business they currently work in (called a management buy-out) or one in a similar market sector (called a management buy-in).

4. Entrepreneurs who want to innovate safely inside of an existing business, versus the riskier alternative of building a start-up from scratch. According to the EMyth author, Michael Gerber, 96% of start-ups fail inside of 10 years.

5. Consultants who are tired of fixing other people's businesses and want some skin in the game, yet they have little or no capital to invest.

6. Current and future business brokers, accountants and lawyers who want to originate acquisitions and manage the process on behalf of their private clients, to add more value and charge higher fees.

7. Investors who want to build a portfolio of business interests and have little or no capital to invest.

MY TEN-POINT CRITERIA FOR ACQUIRING A BUSINESS

1. **The business can survive despite itself.** In other words, although the business may be stagnant or struggling to grow, it should be able to sustain itself in the medium-term. It should be fundamentally resilient, with solid systems in place, even if it is not as efficient as it could be. Having confidence in the foundations of the business will give you the freedom to make efficiency gains, improve systems and structure within the company, and get it on a pathway to growth.

2. **It's a cash flow business.** You don't want to risk taking over a business that relies on a few big clients with a few big orders. Also, you don't want be stuck with a lot of assets lying idle, such as old inventory or unutilized equipment. Often, with a change of ownership, some clients will start to think about using other suppliers. Since their relationship with the previous owner has ended, they see this time as an opportunity to look at their options. Some may cancel their orders, leaving you desperately trying to find another big client instead of focusing on improving the business infrastructure. No more than two-thirds of sales revenue should come from one-third of the total customer base. A steady cash flow ensures stability and allows you to concentrate on the important stuff.

3. **It provides a staple product or service.** A staple is something that everyone needs, even during economic downturns — basic food items, haircuts, alcohol, clothing, essential business purchases, etc. A business dealing with staples lowers your risk while still giving you plenty of room for growth. You also want a business that employs people with a relatively low skill base, so you are never struggling to find the right people. You want to have employees work the systems in the business that are laid out for them. You want a business with limited service or sales interaction, where customers just trade with you on a regular basis — the simpler, the better.

4. **It has terrible or no sales and marketing expertise.** Often, owner-managers are stuck in their ways, having perhaps started the business from scratch and run it for years. They may think they know how best to run their own business, and don't need to worry about fancy marketing concepts. Cash flow businesses thrive on word-of-mouth and repeat customers.

There are sometimes fantastic opportunities to increase sales revenue in a business just by employing smart and cost-effective marketing strategies, and you can do this in as little as a few weeks or months.

5. **A competent manager is in charge.** You need someone capable to work in the business while you work on it. You need to be able to trust your manager to keep the business running smoothly in your absence. If the business does not already have a good manager in place, make sure you find one to do the job, even if this means giving up some free equity. You do not want the commitment of the day-to-day running of the business while trying to build it up.

6. **There is a potential upside to realize quickly.** I look for a minimum of$10,000 profit growth per month within the first three months, even in a very small business. Often the owners can't see the forest for the trees. They may have been working in the business for too long, stuck in their 'tried and true' ways, and miss possible opportunities for growth. Sometimes it takes someone from outside to see new possibilities. You need to be able to identify areas within the business where fast and smart changes can be made that drive profits quickly.

7. **It's a bargain.** The business you acquire will be either completely free, where you just take over the leases and other contracts, or it is paid for with deferred payments (called vendor finance). It shouldn't cost you one dollar of your own money. You must be able to take cash out of the business for yourself, on day one of the handover, and also on an ongoing basis. You can easily raise finance secured against the assets in the business. It's about being creative, and making the financial structure of the business work for you.

8. **The owner wants to get out of the business.** Perhaps there is a tired and frustrated owner-manager in charge that just wants to quit and move on to enjoy retirement or a new challenge. Maybe a portfolio investor needs to cut ties with the business to focus on new opportunities. Or the business may be owned by a large corporation looking to shed its non-core assets. You are looking for an owner who will be grateful to you for taking the business off their hands, and you would be surprised how many there are. You need to position yourself as a safe, trusted, pair of hands who is prepared to protect the legacy and employees of the business, and give it the love and attention it needs to ascend to the next level.

9. **The seller values legacy more than cash.** Even though the owner may be keen to get rid of his or her business, there may be a deep connection to it. After all, they may have started the business themselves and worked hard to make it a success, investing time, money,

energy and emotions into it over many years. It can be very important that their 'baby' continues to thrive, long after they are gone. You can convince the seller that your goal is to build on their hard-earned reputation and brand and to grow the business and make it stronger. That will mean a lot more to them at the end of the day than some cash they probably don't need.

10. **The business has enough working capital to survive for at least six months.** You don't want the stress and anxiety of not knowing if the business will go under while you are making positive changes. Analyze the balance sheet and ensure there is sufficient working capital to keep things ticking along while new systems and growth strategies are installed.

PREMIUM PRICE VERSUS GIVEAWAY DEAL

The previous 10-point checklist is the acceptance criteria. This checklist is underpinned by a 10-step process I have been developing since 1992. However, I started using it for myself in 2008.

I spent the first 16 years of my career buying and selling businesses for other people: large corporates, investors and high net worth individuals who had no regard for price. They had a target business they just had to have, no matter the cost. These businesses were the best of the best and commanded top dollar. When I acquired Mercury Interactive, a software business for Hewlett-Packard back in 2005, it was the hottest software business on the planet, and we paid 44x profit for this business or $4.5 billion.

Paying premium prices has happened to me a lot. However in all the deals I did back then, there were hundreds and thousands of other businesses that were good businesses, just not the absolute best businesses in their respective sectors. It's like professional sports. The best players in any sport earn millions, yet more than 99% of the rest earn a basic living.

It's the same when acquiring a business. The pinnacle sell for big multiples of profit: 10x, 20x, 50x, 100x and even higher. For example, Microsoft paid 82x, or $8.5 billion for Skype in 2011.

Facebook paid 100x sales or 1000x profit to acquire WhatsApp for $19 billion in 2014. These are world-class businesses that are transforming the operations of the new owner, hence the premium price, in competitive auctions.

According to research conducted by Stanford University, BizStats, and INC. Magazine, 92% of businesses sell for less than 5x profit and from my experience, 10% are given away completely. There are some great stories online of business owners who just gave their businesses away. Simon Cohen gave away 95% of his profitable and growing PR business, Global Tolerance, in 2014. Simon was 34. He wasn't old, tired, and trapped. He just didn't want to work in his business anymore.

On his 81st birthday, Bob Moore, of Bob's Red Mill, gave his entire business away to his employees for free. $24 million in sales and growing at 30% per year. What a fantastic business! Bob didn't need the money. He wanted his employees to be safe and his legacy maintained. And so did Joe Lukin. His chain of grocery stores employed more than 400 people in Minnesota. He also gave it away, didn't need or want any money.

Another example is Outlandish, one of the best web development firms in London. Guess what? The owners gave the business away for free.

THE 10-STEP PROCESS CHECKLIST

In 2008, I left the comfort of large corporates and became a deal maker for myself. I have used my experiences since 1992 to develop a simple, yet effective 10-step process for finding quality, established businesses and acquiring them for no personal cash, even completely free in some cases. This is my 10-step process checklist:

1. Mindset
2. Deal Specification
3. Deal Origination
4. Meetings
5. Deal Structuring
6. Offers & Negotiations
7. Fund Raising
8. Deal Execution
9. Closing
10. Ownership

STEP #1: MINDSET

Mindset is the most overlooked part of any deal, yet it's the most critical piece. When you truly believe you will succeed no matter what obstacles you encounter, you will succeed. But if you have doubts, you'll almost certainly give up when you hit your first roadblock. Additionally, it's very important to have a powerful "reason why" that drives you. Here are some examples: to make so much money you never have to worry about money again; to be in control of your time (as opposed to being told by a boss when you have to show up for work and when you can leave); to be able to provide a good life for yourself and your family; to have total and complete freedom. When you combine a great "reason why" and the unshakeable belief that you will succeed, nothing can stop you.

STEP #2: DEAL SPECIFICATION

A Dream Deal Specification (DDS) is essentially a statement of what your ideal business will look like, and what it will not look like. It covers your skills, experience, the work-life balance you want, and what sectors niches, products, customers, and locations are of interest to you. You also design a Wealth Creation Plan (WCP), which helps you focus in on the size of business you need: For cash at closing, monthly or annual payments, and finally the exit payment when you decide to sell your business.

STEP #3: DEAL ORIGINATION

Origination is one of the fun parts of the process. I use at least five approaches on a daily basis. These are social media, networking events, direct approaches, leveraging mine and others' professional networks, and business brokers who typically have many good, unsold businesses on their books.

Once you have originated multiple opportunities, you need to filter and compare them. You work on the best opportunities mapped to your DDS. You need to set up a basic list of criteria to judge each opportunity, leveraging the previously mentioned 10-Point Criteria Checklist for Acquiring A Business.

STEP #4: MEETINGS

When meeting with sellers, it's critical to build rapport. Ask them how they started their business then just let them talk. Find out what their interests are and why they want to sell. Ask them questions that help you understand what they want out of the transaction, and be aware that it may not be “as much money as possible”. When you show a seller that you’re a good listener and that you want to help them get what they want, they’ll love you for it. Once you’ve built rapport, collect three years worth of financial statements. You’ll need them to value the business and structure a deal.

STEP #5: DEAL STRUCTURING

The structure is all about looking at the basic sales and profit numbers to determine the annual free cash flow. This cash will determine what cash can be paid to the seller over a three- to five-year period. The future cash is called deferred consideration, vendor finance or loan notes. The payments can even be contingent on financial performance. That way, if the business doesn’t perform, you pay less money, or nothing at all

STEP #6: OFFERS & NEGOTIATION

No matter how good the business is, I always first offer only to take over the liabilities of the business (leases, contracts, etc.) so all the money raised is mine. From experience, 10% of business owners will accept this. I then have three additional steps depending on how badly I want the business. That said, I never provide any personal capital. These four steps in total get me a deal 50% of the time. The key is to originate multiple opportunities and play them off each other to see who accepts your offer first.

Once you verbally agree to a deal, you need to create a one-page letter of intent to acquire it (LOI). The LOI is effectively an option for you to complete the deal within a specific period and subject to the high-level terms agreed. The LOI also gives you exclusivity, free of competition, to complete the deal.

STEP #7: FUND RAISING

Remember, *you* are not borrowing the money to buy the business. The business you are buying is borrowing the money, and that business is a completely separate legal entity. You need to assess the fundability of the balance sheet to raise finance against the business assets. The cash raised is to pay the seller some cash at completion if they need any. It is also useful for providing capital to grow the business, and to personally take some cash out of the business at completion.

STEP #8: DEAL EXECUTION

During exclusivity (mentioned at the end of step 6), it's important to do three types of due diligence: (1) financial due diligence, (2) commercial due diligence and (3) legal due diligence. There is no requirement for you to do this yourself, with the exception of some of the work contacting customers, etc. so you can introduce yourself. It's best to leave the majority of due diligence to lawyers and accountants. This work is typically performed on a contingent basis which means they get paid only when the deal is done. You typically have to pay a higher fee, but the business pays the fees, not you.

Similar to due diligence, the lawyer will negotiate the purchase agreement for you (and any finance contracts) on a contingent basis. This work will also include negotiating warranties and guarantees from the seller. These are essential to provide you an adequate safety net, should anything that happened in the past and was not disclosed by the seller materialize during your ownership. However, most items are picked up in due diligence.

STEP #9: CLOSING

The day has arrived. You sign the legal paperwork, the funds transfer (including to you) and you go start work in your new business. You meet your employees (if you haven't done so already), and potentially start your next acquisition, which can be a bolt-on into the business you have just acquired. This can turbo-charge your growth since acquiring bolt-on acquisitions will give you complimentary customers, employees, assets, products and services. You can also eliminate significant overall costs from a combined operation to rapidly increase profit, the value of the business and your own personal wealth. I have personally seen businesses increase in value by up to 10x by making just one acquisition.

STEP #10: OWNERSHIP

This is where the real fun starts. The first thing you'll want to do as the new owner of the business is make sure you have the proper team and structure in place to scale and grow the business quickly. From there you can implement high-impact marketing strategies to boost revenue and cash flow. (It's not uncommon for me to double the profits of my businesses within 12 months simply by using effective marketing and some basic financial engineering.) If you want to be an owner-investor rather than an owner-manager, which will allow you to manage the business remotely in only a couple hours a week, now is the time to set up your Key Performance Indicators (KPIs). These are the numbers that tell you with just a glance how healthy your business is. Examples include: number of new leads, number of sales closed, weekly revenue, weekly profit, etc.

Talk soon.

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