



## Small/Middle Market LBO Checklist & Execution Playbook

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### SECTION 1 – LBO BASICS (Part 1)

*Confirm foundational viability before proceeding.*

#### ***Business Fundamentals***

- Confirm stable, recurring revenue
- Validate margin consistency
- Analyze customer and supplier concentration
- Identify seasonality and cyclicity
- Confirm normalized EBITDA after adjustments

#### ***Deal Requirements***

- Identify acquisition structure (stock vs. asset)
  - Build initial normalized EBITDA model
  - Identify operational levers (margin, pricing, efficiency)
  - Document key risks that influence leverage
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### SECTION 2 – COLLATERAL TEST (Part 2)

*Determine senior-lender collateral capacity.*

#### ***Asset Review***

- Evaluate accounts receivable aging
- Assess inventory quality and turnover
- Confirm fixed asset values (PP&E)
- Review intangible retention (contracts, licenses, etc.)

#### ***Borrowing Base Assessment***

- Calculate eligible A/R based on lender advance rates
- Calculate eligible inventory based on NOLV or advance rates
- Identify ineligible categories
- Estimate total senior secured borrowing capacity

#### ***Collateral Red Flags***

- High customer concentration
  - Outdated or slow-moving inventory
  - Unverifiable asset valuations
  - Weak financial reporting systems
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## SECTION 3 – REPAYMENT TEST (Part 3)

*Assess cash flow reliability and CCC-driven liquidity.*

### **EBITDA & Cash Flow**

- Validate normalized EBITDA
- Account for one-time items and adjustments
- Model debt service (P&I) under base/downside cases
- Calculate DSCR under each scenario

### **Cash Conversion Cycle (CCC) Analysis**

- Calculate DIO, DSO, DPO
- Calculate CCC trend over 12-24 months
- Identify seasonality and outliers
- Benchmark CCC performance to peers
- Quantify cash impact of CCC improvements

### **Liquidity Cushion**

- Determine minimum cash required for operations
  - Validate availability under revolver/borrowing base
  - Confirm the business can meet covenants post-close
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## SECTION 4 – TOTAL CAPITAL NEED (Part 4)

*Compute all uses of funds – no omissions, no surprises.*

### **Uses of Funds**

- Purchase price (stock or asset)
  - Refinance existing seller/target debt
  - Transaction costs (3-5% of purchase price)
  - Financing fees (1-3% of new debt)
  - Working capital injection (risk-adjusted based on CCC)
  - Post-close liquidity buffer
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## SECTION 5 – SOURCES OF FUNDS (Part 4)

*Structure equity, seller financing, and Required Debt.*

### **Sources of Funds**

- Buyer equity committed
- Seller note negotiated (subordinated)
- Required Debt calculated (Uses - Equity - Seller Note)

### **Sources & Uses Summary Table**

Category	Amount	Notes
Buyer Equity	\$	% of purchase price

Category	Amount	Notes
Seller Note	\$	Subordinated; flexible terms
Required Debt	\$	Must pass capacity tests
<b>Total Sources</b>	\$	Must equal Total Uses

## SECTION 6 – CONFIRM REQUIRED DEBT

*Validate debt feasibility before lender outreach.*

### **Capacity Validation**

- Required Debt ≤ collateral capacity
- Required Debt ≤ repayment capacity
- DSCR compliant under base & downside cases

### **Execution Strategy**

- Select appropriate lender type (bank vs. unitranche)
  - Prepare lender-ready narrative
  - Build covenant headroom into model
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## SECTION 7 – STRUCTURAL DECISION

*Align tax treatment and collateral considerations.*

### **If Asset Purchase**

- Capture tax step-up benefit
- Plan for contract assignments
- Ensure lender comfort with collateral treatment

### **If Stock Purchase**

- Address legacy liability risks
  - Confirm lender comfort
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## SECTION 8 – FINAL READINESS CHECK

### **Model Completeness**

- 3-statement model updated
- Leverage ratios validated
- Covenant forecast complete
- Working capital modeled monthly

### **Execution**

- All Uses & Sources finalized
- Lender package prepared

- Seller terms aligned
  - Legal structure confirmed
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## **SECTION 9 – CAPITAL SOURCE SUPPORT**

- Engage Capital Source for lender strategy and structure review
  - Validate capital stack with our templates
  - Review covenants and headroom with a structuring advisor
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