

DOCUMENT #8

The Blueprint System™ - Due Diligence Series

The 4-Hour Due Diligence Sprint

80% of what matters in 20% of the time. This checklist catches the deal killers fast so you don't waste weeks on bad deals.



Time Allocation:

Hour 1: Financial Verification (The Money Test)

Hour 2: Customer & Revenue Analysis (The Future Test)

Hour 3: Operations Review (The Systems Test)

Hour 4: Legal & Risk Scan (The Sleep Test)

HOURL 1: Financial Verification

Bank Statement Test (20 minutes)

- ☐ Match last 3 months deposits to reported revenue
- ☐ Flag any deposits over \$10K - ask what they're for
- ☐ Calculate actual monthly revenue average
- ☐ Look for NSF fees or bounced checks

RED FLAG: If bank deposits are 20%+ lower than reported revenue, walk away.

Tax Return Reality Check (20 minutes)

- ☐ Compare last 2 years business tax returns to P&L
- ☐ Look for Schedule C vs corporate return
- ☐ Check for aggressive deductions that won't continue
- ☐ Note any year-over-year revenue changes >20%

Expense Audit (20 minutes)

- ☐ List top 10 expenses by amount
- ☐ Circle any that seem personal (car payments, meals, travel)
- ☐ Calculate true operating expenses
- ☐ Flag any expenses that will increase (rent, insurance)

QUICK WIN: Add back personal expenses to EBITDA. I typically find \$50-100K in personal stuff.

HOUR 2: Customer & Revenue Analysis

Customer Concentration Check (30 minutes)

- ☐ List top 10 customers by revenue
- ☐ Calculate % of revenue from top customer
- ☐ Calculate % of revenue from top 5 customers
- ☐ Ask how long each has been a customer
- ☐ Get contact info for top 3 (you'll call them)

DEAL KILLER: If any single customer is >30% of revenue, extremely risky.

Revenue Quality Test (30 minutes)

- ☐ Calculate % recurring vs one-time revenue
- ☐ Review last 12 months for seasonality
- ☐ Count active customers vs total customers
- ☐ Check average customer lifetime (years)
- ☐ Note any pending contract renewals

HOUR 3: Operations Review

Key Employee Assessment (30 minutes)

- ☐ List all employees with salaries
- ☐ Circle anyone making >\$75K
- ☐ Ask who would run business if owner disappeared
- ☐ Check how long key employees have been there
- ☐ Ask about any family members on payroll

NEGOTIATION LEVER: If no clear #2 person, reduce price by \$50-100K for "transition risk"

Systems & Processes Check (30 minutes)

- ☐ Ask to see operations manual (they won't have one)
- ☐ Check what software they use (QuickBooks? CRM?)
- ☐ Review how they track leads and sales
- ☐ Ask about customer complaints process
- ☐ Test: Could a new manager run this tomorrow?

HOOR 4: Legal & Risk Scan

Legal Landmines (20 minutes)

☐ Any lawsuits in last 5 years?

☐ Workers comp claims?

☐ Check Better Business Bureau rating

☐ Google "[Business Name] lawsuit" and "[Owner Name] lawsuit"

☐ Any regulatory violations?

Contract & Lease Review (20 minutes)

☐ Building lease terms and transferability

☐ Equipment leases or loans

☐ Any personal guarantees?

☐ Customer contracts - are they transferable?

☐ Vendor agreements and terms

The Skeleton Check (20 minutes)

☐ Ask: "What would you fix if you were buying this?"

☐ Ask: "What keeps you up at night?"

☐ Ask: "Any unhappy customers I should know about?"

☐ Ask: "Any employees planning to leave?"

☐ Ask: "Anything else I should know?"

PRO TIP: Ask this last question 3 times. The real truth comes out on the third ask.

The Go/No-Go Decision Matrix

Count Your Red Flags:

- ✅ **0-1 Red Flags:** Full speed ahead
- ⚠️ **2-3 Red Flags:** Proceed with heavy price reduction
- 🛑 **4+ Red Flags:** Walk away, not worth the headache

The Million Dollar Question List

If you only have 10 minutes with the seller, ask these:

1. Why are you really selling? (The wife? Health? Bored?)
2. What would you do differently if starting over?
3. Which customer would hurt most to lose?
4. Which employee would hurt most to lose?
5. What's the real revenue - the number you'd swear to in court?
6. What breaks most often?
7. Who's your biggest competitor and why?
8. What would you pay for this business?
9. Will you finance any portion?
10. Can I talk to your accountant?

Next Steps After Your 4-Hour Sprint

If Moving Forward:

- Schedule CPA review of financials
- Call top 3 customers for references
- Bring in attorney for legal review
- Get environmental assessment (if needed)
- Start negotiating price based on findings

Remember: This quick sprint catches 80% of deal killers. The full due diligence (Document #24) is for after LOI signing.

© The Blueprint System™ - Quick Due Diligence Checklist
For full 300-point due diligence, see Document #24 (Advanced)