

DOCUMENT #26

The Blueprint System™ - Special Situations Series

Turnaround & Distressed Playbook

Buy broken businesses for 1-2x EBITDA and 5x your money

The Distressed Opportunity

- 50% of small businesses are barely profitable
- Owners desperate to exit = massive discounts
- Simple fixes can double value in 12 months
- Less competition from traditional buyers

Identifying Distressed Targets

The 12 Signs of Distress

Signal	What to Look For	Opportunity Level
Tax liens	IRS or state filings	URGENT
Lawsuits	Multiple vendor suits	HIGH
Lost key customer	>30% revenue gone	HIGH

Owner divorce	Court records	MEDIUM
Health issues	Industry gossip	HIGH
Lease expiring	<6 months left	MEDIUM
Equipment repos	UCC searches	URGENT
Payroll delays	Employee turnover	URGENT
No marketing	Dead website/socials	LOW
Price cutting	Desperate discounting	MEDIUM
Vendor COD	No credit terms	HIGH
Family fight	Partnership dispute	HIGH

The 90-Day Turnaround Plan

Days 1-30: Stop the Bleeding

Week 1: Cash Triage

- Daily cash report implementation
- Collect all receivables (offer discounts)
- Negotiate payment plans with creditors
- Cut all non-essential expenses
- Layoff underperformers immediately

Week 2-3: Revenue Recovery

- Call every past customer
- Win-back offers (50% off first service)
- Referral bounties to employees
- Fix Google listing and reviews

Week 4: Quick Wins

- Raise prices 10-20%
- Upsell existing customers
- Launch flash sale campaign
- Restart dormant services

Days 31-60: Rebuild Foundation

- Implement basic CRM/systems
- Hire A-player to replace weak manager
- Renegotiate all vendor contracts
- Relaunch marketing (digital focus)
- Create employee incentive plan
- Document key processes

Days 61-90: Accelerate Growth

- Launch new service lines
- Aggressive sales campaign
- Strategic partnerships
- Operational efficiency push
- Plan next phase expansion

Valuation & Deal Structure

Distressed Pricing Formula

Traditional Business:

- 3-4x EBITDA typical
- Based on trailing 12 months
- Normal working capital

Distressed Business:

- 1-2x EBITDA maximum
- Based on "normalized" EBITDA
- Asset value floor
- Heavy seller financing

Example Deal:

Historical EBITDA: \$300k

Current run rate: \$50k (broken)

Purchase price: \$150k (0.5x historical)

Terms: \$50k down, \$100k seller note

If fixed: Worth \$900k+ in 18 months

Creative Deal Structures

Structure 1: The Revenue Share

No upfront payment, share revenue until target hit:

- You: Keep 70% of revenue

- Seller: Gets 30% until receives \$X
- After target: 100% yours
- Seller wins: Gets something vs. nothing
- You win: No cash needed

Structure 2: The Workout

Take over operations with option to buy:

- Manage business for 6-12 months
- Pay yourself management fee
- Option to buy at fixed price
- Walk away if can't fix

Structure 3: Asset Purchase Only

Cherry-pick the good parts:

- Buy customer list and equipment
- Leave liabilities with seller
- Hire best employees directly
- Rebrand under your company

Common Turnaround Opportunities

Problem	Fix	Timeline	Impact
No systems	Basic CRM/scheduling	30 days	+20% efficiency
Underpricing	Immediate 15% increase	1 day	+15% revenue
Bad employees	Fire bottom 20%	1 week	+10% margins
No marketing	Google Ads + SEO	60 days	+30% leads

Customer churn	Service agreements	90 days	+40% retention
Cash collection	Terms + follow-up	30 days	DSO cut 50%

Case Study: HVAC Turnaround

From Bankruptcy to \$2M Exit

Situation:

- \$1.5M revenue HVAC company
- Lost biggest customer (40% of revenue)
- \$200k tax debt
- Owner health issues
- Breaking even at best

Deal Structure:

- Purchase price: \$100k
- Terms: \$25k down, \$75k over 3 years
- Assumed \$50k of "good" debt
- Left tax debt with seller

Turnaround Actions:

- Month 1: Cut staff from 12 to 8
- Month 2: Raised prices 20%
- Month 3: Launched maintenance plans
- Month 4-6: Rebuilt commercial sales
- Month 7-12: Geographic expansion

Results:

- Year 1 revenue: \$1.8M
- Year 2 revenue: \$2.5M

- EBITDA margin: 18% (\$450k)
- Sold for: \$2M (4.4x EBITDA)
- **Total return: 1,900% in 24 months**

Turnaround Financing Options

Where to Get Capital

1. Seller Desperation Financing

- 90-100% seller note common
- Payments from cash flow only
- Personal guarantee avoided

2. Asset-Based Lenders

- Lend on receivables/equipment
- Higher rates but flexible
- Good for working capital

3. Revenue-Based Financing

- No personal guarantee
- Percentage of revenue payback
- Expensive but available

4. Partner/Investor

- Industry veteran as partner
- Split equity for expertise
- De-risks execution

Legal Protections Required

Critical Deal Terms

Asset Purchase Only:

- Never buy the entity in distress
- Cherry-pick assets needed
- Leave all liabilities behind

Representations & Warranties:

- Full disclosure of all debts
- Tax clearance certificates
- Lien searches completed
- Survival period extended

Escrows & Holdbacks:

- 25-50% purchase price held back
- Released based on performance
- Protects against surprises

Operating the Turnaround

Week 1 Checklist

- ☐ All-hands meeting (inspire hope)
- ☐ One-on-ones with key people
- ☐ Customer calls (top 20)
- ☐ Vendor renegotiations
- ☐ Bank account controls

- ☐ Daily cash reporting
- ☐ Quick wins identified
- ☐ Dead weight cut
- ☐ Price increase announced
- ☐ Emergency marketing launched

The Psychology of Distress

Understanding Desperate Sellers

What they're feeling:

- Embarrassment and shame
- Fear of losing everything
- Exhaustion from fighting
- Just want it over

How to approach:

- Lead with empathy
- Focus on their fresh start
- Make it easy to say yes
- Solve their biggest fear
- Move fast before they change mind

Magic words that work:

"I know this is hard. Let me take this burden off your shoulders. You can walk away clean and start fresh. I'll handle everything from here."

Post-Turnaround Exit

Maximum Value Creation

Year 1: Stabilize

- Prove the model works
- Clean up operations
- Build recurring revenue

Year 2: Scale

- Geographic expansion
- Add service lines
- Acquisition opportunities

Year 3: Exit

- EBITDA normalized
- Growth story clear
- Multiple expansion
- **Typical exit: 10-20x money invested**

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