BabylonAssets.com
transactions@babylonassets.com

Looking to acquire a company? Cut through the noise and focus on what matters with our Buyer's Guide.

Buying a business is all about creating and increasing enterprise value ("EV"). There are three main ways to increase EV: (1) increase operating earnings; (2) sell the business at a higher valuation; and (3) if the business is financed with a loan, EV increases by paying down the debt over time. This 3-Part approach must be the first point of departure in any private equity transaction. With our team's deep experience in private equity and acquisition financing, we've assembled this checklist to help you with your next bolt-on or acquisition.

Please note, this checklist is not comprehensive and is not tailored to any specific industry. It's simply a methodology for how to underwrite a business you're looking to acquire (or even build). A green checkmark ✓ denotes something that we believe you *must have* before acquiring a company. The rest of the boxes can can be "checked" post-acquisition, which will help you de-risk the business and increase enterprise value. The more boxes you can check, the better.

Revenue Model

This relates to the top line effect.

- ☐ Does the company have, or can it develop, a **diversified product or service offering**?
- ☐ Are the diversified products or services **mission critical to the customer**?
- ☐ Does the company have **offers along the supply chain**, i.e. "one stop shop" for the customer?
- ☑ Can revenues be **easily predicted** with a high degree of certainty? (i.e., Revenue Visibility)
- ☑ Is **pricing flexible enough** to fully absorb client's purchasing power through cross selling or upselling?
- ☑ Are **price increases possible** given what competitors are charging?

Cost Structure

This relates to bottom line effect.

- ☑ Does the company have **low fixed costs,** making upfront costs relatively low?
- ☑ Does the company have **controllable cost drivers** to predict future costs of the business?
- ☑ Does the company have **high operating leverage**? (i.e. higher margins the more you sell)
- ☑ Are there **low working capital requirements** to avoid tying up your own capital?
- ☐ Does the company have **high earnings margins**? (i.e. EBITDA of 20-40% or greater)
- ☐ Does the company's earnings roughly match cash flow? (i.e. **high cash flow conversion**)

© 2023-2025, Babylon Asset Management, LLC. All Rights Reserved.

Organization

This relates to all value creation effects.

- [x] Are there periphery markets not currently being served? (i.e. **geographical / vertical diversification**)
- [ ] Does the company have any **intellectual property** to increase competitive strength?
- [ ] Does the company have a **lean corporate structure** and **efficient processes** in place?
- [ ] Does the company have **IT tools, software** (i.e. CRM), and **financial controlling** measures in place?

The Market

This relates to top line effect.

- [x] Does the company have a **large total addressable market (TAM)**?
- [x] Is the company able to gain customers in the **serviceable obtainable market (SOM)**?
- [ ] Is the historical and projected cumulative average growth rate **(CAGR) greater than 10%**?
- [x] Are there any **industry reports or experts** to help you learn about the market's CAGR?
- [x] Is the **company's growth rate consistent with the market** growth rate? If not, redefine the TAM/SOM.
- [ ] Is the company insulated from **end market exposure**, i.e. other markets can affect the company's market?
- [ ] Is the company **immune to cyclicality, seasonality, and economic fluctuations**?
- [x] Is the market the company operates in **not heavily regulated**?

Competition

This relates to all value creation effects.

- [ ] Is the company you're buying the #1 or #2 player in the market/industry? (i.e. **market leader**)
- [x] Is the **industry highly fragmented**, where there is no dominant player besides the one you buy?
- [ ] Is the business model and industry protected with a **high barrier to entry**?
- [ ] Can the company strategically position its offering, regardless if it's "cookie cut" B2C or customized B2B?
- [x] Does the company have a **unique selling proposition** and **differentiation factor** of the products/services?

© 2023-2025, Babylon Asset Management, LLC. All Rights Reserved.

Customers

Relates to top line effect.

- [x] Does the company have a well **diversified customer base**?
- [ ] Does the company have a long customer duration/lifetime? (i.e. **low historical customer churn**)
- [x] Does the company have a **pipeline of potentiality** for new customers?
- [ ] Is there an opportunity to create a **large sales team**, to increase customers spoken with?
- [ ] Is the **price sensitivity of your customers low**, to prevent switching to a competitor?
- [x] Can the company **increase prices without any negative consequences**?
- [x] Does the company's customers **have a strong financial profile**? (i.e. strong ability to pay A/R; B2B only)
- [ ] Is there any opportunity to do **customer reference calls**?
- [ ] Is the company able to easily adapt to shifts in **customer trends**?

Suppliers

Relates to bottom line effect.

- [x] Does the company have a **simple supply chain** to avoid potential input delivery issues?
- [x] **Is the list of suppliers long and well diversified** to avoid concentration issues with suppliers?
- [x] **Is the pricing power of suppliers low**, to avoid price gouging on your Cost of Goods?
- [x] **Are the suppliers reliable** after reviewing the historical track record for each one?

Talent/HR

This relates to all value creation effects.

- [ ] Can you **easily keep/promote senior level managers?**
- [ ] Alternatively to the above, **can senior level managers be easily replaced**?
- [ ] Can you **compensate senior level managers to avoid moral hazards** & prevent conflicts of interest?

Talent and HR depends on your strategy. Some private equity groups install management, others are more hands on and do run it themselves. Therefore, when analyzing a deal, you must always have a plan to run it, whether it's you or someone else. ***What you don't want to do is have to spend a lot of time trying to find senior level talent. Promoting internally is easiest.***

© 2023-2025, Babylon Asset Management, LLC. All Rights Reserved.