

Distressed acquisitions attract a special kind of buyer. You need appetite for ambiguity, a sharp pencil, and a steady hand with people under strain. The prize can be extraordinary: durable customers acquired at a discount, defensive moats that look shabby but still hold, and a platform you can professionalize. The risk is just as real: hidden liabilities, deteriorating culture, and a cash hole that deepens as you stare at it. I have bought, passed on, and helped rehabilitate companies that fit this profile. The pattern repeats, but the details decide outcomes. If you plan to buy a business under stress, treat the process as a craft, not a bet.

Reading the distress signal

“Distressed” is a broad label. A retail chain losing relevance is different from a seasonal working-capital crunch at a niche manufacturer. Before you sharpen terms, diagnose the source and reversibility of the pain. Management problems often mask as market problems and vice versa. I look at distress across four axes: demand, cost structure, balance sheet, and leadership bandwidth.

Demand distress shows up in shrinking unit volumes, rising churn, or an over-reliance on discounting to move product. It is usually reversible only with a change in value proposition: different packaging, channel mix, or customer segment. If competitors are growing while your target shrinks, do not assume you can market your way out of it. You may need to reposition or pivot the offering.

Cost distress is more mechanical. Freight surcharges that never came back down, lease rates that ratcheted up, or a salesforce comp plan that ballooned. In my experience, cost problems yield faster, more reliable wins than demand problems, provided you have the authority to restructure contracts, consolidate vendors, and redraw org charts.

Balance sheet distress comes from the capital structure being mismatched to cash flow volatility. I once reviewed a specialty foods distributor with decent EBITDA but covenant breaches, triggered when a key supplier demanded prepayment. Nothing wrong with customers, but the business had no buffer. A light equity infusion and renegotiated payables fixed it. This category of distress can be ideal for a buyer with fresh capital and banking relationships.

Leadership bandwidth is the least obvious axis and one of the most decisive. Fatigue, succession failure, and founder concentration lead to delayed decisions, stale pricing, and backlog in routine improvements. When I see expiring vendor agreements, overdue audits, and a 14-hour-day owner who cannot delegate, I attribute at least half the problem to leadership capacity. Replace it or augment it, and momentum recovers.

Your job is to map these axes with evidence, not hope. Spend less time on the pitch deck and more time in the general ledger, the CRM, and the warehouse at 6 a.m. Numbers will show slope, but operations will show frictions. I want to see returns handled, not just return rates. I ask credit control to pull their 90-day aging with notes visible. I shadow customer service for two hours, then compare what I heard with the CEO’s narrative. The deltas tell you where to dig.

Pricing risk when cash is king

Distressed deals fail in two places: seller expectations and buyer math. You control only one. Do the math in cash terms, not accounting terms. GAAP EBITDA matters for lenders, but turnaround life is lived in working capital. A simple, brutal model beats a 20-tab fantasy. I start with three elements.

First, normalize cash EBITDA for the next six to nine months under your control. Strip out the owner’s add-backs that never materialize, then add back your own credible, fast moves, with timing and one-time costs attached. If you can switch a \$900,000 freight contract to a \$700,000 option in 45 days with a \$30,000 transition cost, model exactly that. If you plan to renegotiate rent, assume success in month six unless you have landlord emails now.

Second, model working capital swing under stress. Distressed companies usually have stretched payables and overstuffed, mispriced inventory. When you take over, vendors will ask for cash on delivery. The working capital trough happens in weeks 2 to 8, not months 6 to 12. That trough, not the purchase price, is what kills buyers. I like to see a minimum liquidity runway of 1.5 to 2 times the modeled trough, so that one bad month does not force bad decisions.

Third, match structure to volatility. If cash flows are spiky, do not kid yourself with heavy fixed amortization. Better to pay a bit more headline price and negotiate contingent pieces that flex with reality. Earnouts, holdbacks, and seller notes with payment holidays are not just price bridges, they are risk allocation tools. If the seller wants cash up front in a cliff, adjust down hard, or

walk. Your worst scenario is paying a near-market multiple for subpar assets plus injecting fresh working capital, then watching an earnout get triggered in your bad months. Align terms with the business heartbeat.

I sometimes frame it this way to sellers and brokers in Business Acquisition Training sessions: you can have certainty or you can have price. In distress, you rarely get both. Certainty means a simple APA, short exclusivity, and light diligence. Price means structure, escrows, and a clear map of liabilities. Choose your lane.

The diligence that matters

Most distressed deals come with compressed timelines and imperfect data. That is not license to skip diligence, it is a cue to prioritize the few questions that drive 80 percent of outcome. I triage into customers, cash, contracts, and compliance.

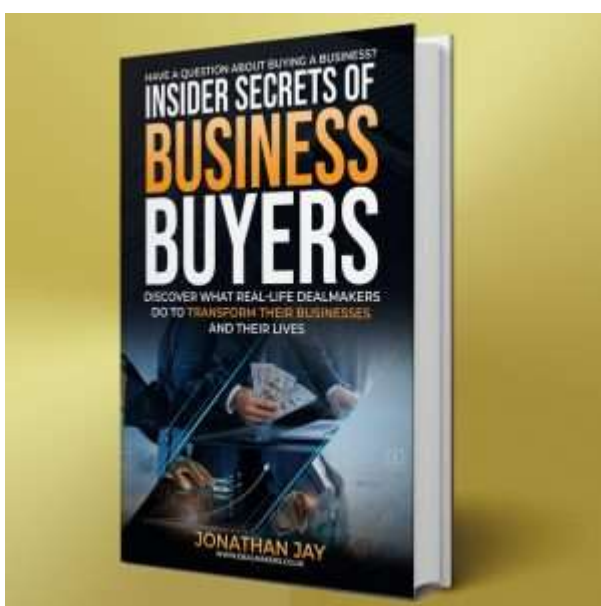
Customers: Pull a 24-month cohort analysis. I want to see revenue by customer start month, then retention after 3, 6, 12 months. If the company cannot produce it, reconstruct from invoices. Cohorts flatten wishful thinking. They reveal whether the product continues to earn its keep or whether recent revenue is a harvest of long-standing accounts. Interview at least a dozen customers, including lost ones. When three of them mention the same frustration in similar language, you have a root cause, not a complaint.

Cash: Ask for daily cash balances for the last 90 days, with inflows and outflows labeled by category. That one report shows discipline, vendor pressure, and how management triages pain. I once passed on a target when we saw Friday spikes of owner cash infusions followed by Monday outflows to a related-party landlord at above-market rent. The pattern predicted behavior under stress.

Contracts: Vendor agreements, leases, key customer MSAs. Focus on assignment clauses and default remedies. Many assets are useless if you cannot get consents, and consent timelines can wreck your runway. If consent risk is high, bake it into price or structure. Offer to carve out non-consenting accounts with a time-limited revenue share until consent is obtained.

Compliance: Taxes, labor, environmental, and data. You can fix late payroll tax filings with cash and process, but trust erodes with employees if you botch paychecks early. Environmental liabilities, if present, need specialist review. Data compliance is a sleeper risk in software and e-commerce targets, since past management often cut corners on consent language and data storage. An indemnity is worth only the seller's post-close solvency, so pair reps with holdbacks where exposure is material.

One more diligence habit: compare the sales pipeline to historical conversion math. If the pipeline promises a rebound, demand proof that similar-sized opportunities converted at the claimed rate in the past six quarters. Pipeline inflation is common when teams are under pressure to reassure lenders or prospective buyers.



Crafting the right structure

Asset purchases trump stock deals for most distressed buys. You get clean title to what you want and leave behind what you do not. That said, some value rides in contracts, licenses, and tax attributes [UK business buying guide](#) that may require equity. If

you must do a stock purchase, double your diligence on off-balance sheet items and consider a short pre-close wind-down period where the seller terminates certain obligations and files any missing reports.

Security matters. If you are advancing working capital on day one, secure your position with a first-priority lien on receivables and inventory, or ringfence cash in a controlled account until you confirm clean vendor statements. If the seller is carrying a note, be explicit about subordination terms and cure periods. I have seen a cooperative seller become a hostile counterparty when a covenant breach gave them leverage. Clarity prevents opportunism.

People protections need attention too. Draft stay bonuses for key staff that pay half at 90 days, half at 180 days, conditioned on knowledge transfer milestones. Put a simple non-solicit in employment offers. Most distressed businesses bleed talent during the rumor mill phase around closing. Over-communicate and overpay selectively. Losing the controller or the plant manager in month one will cost more than any signing bonus.

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The first 100 days: control the bleeding, then earn the right to rebuild

A turnaround is two plays run in sequence, not in parallel. First, stabilize cash, vendors, and morale. Then, retool the offering and growth engine. If you try to do both at once, you exhaust leadership and confuse staff. The first 100 days set tone and tempo.

Day zero to day thirty is triage. You cut what cannot wait, and you secure the inputs that keep the machine running. That means renegotiating three to five biggest vendor agreements, aligning payroll to realistic schedules, and setting a weekly cash cadence. I like a simple Monday cash huddle: last week's inflows and outflows, variance from plan, and top three blockers. It is unglamorous and absolutely vital. Silence is the enemy. Rumors fill vacuums.

Communication should be direct, frequent, and specific. At one manufacturing company we acquired, the rumor was "private equity will shut the plant." We countered with facts: backed up purchase orders, raw materials on the way, and a three-month production plan pinned to the break room board. We walked the floor daily for two weeks. Productivity rose 15 percent within a month without changing a single machine, because fear receded.

After cash stabilizes, turn to customer experience and product quality. Fix the two or three friction points that cause most complaints. Shortening lead times by three days often matters more than building a new feature. If customer onboarding is clumsy, rewrite the first email, tweak the pricing page, and retrain support scripts. These moves cost little and send a signal to the market that the business is listening again.

Where value hides in messy businesses

Distress masks assets that do not show up neatly in a CIM. I hunt for four.

Underutilized pricing power is common. A distributor selling 1,200 SKUs at list less a blended discount usually hasn't segmented customers or freight pass-through. A 2 to 4 percent net price lift is realistic within 90 days if you roll out a simple matrix: price by spend tier and service level, and eliminate free expedited shipping unless contractually obligated. One buyer I advised recaptured \$480,000 in the first quarter on a \$12 million revenue base by aligning price to actual delivery cost and value.

Channel misalignment is another. Many distressed owners cling to legacy channels. In a B2B services company, we migrated low-margin small accounts to a lighter-touch inside sales team and redeployed field reps to larger logos. Revenue held steady, gross margin improved by 6 points, and rep morale rose because they were not driving three hours for a \$300 renewal.

Process debt pays quick dividends. Look for manual tasks repeated dozens of times per week. At a regional e-commerce brand, two people spent four hours daily reconciling orders between Shopify, the 3PL, and the accounting system. We implemented a

\$150 per month connector, cut the reconciliation down to 30 minutes, and redeployed one FTE to proactive customer outreach. Churn fell. You do not need a system overhaul to get leverage, just remove the worst friction.

Real estate and logistics often hide leverage. Consolidating two half-empty warehouses into one, adjusting reorder points, and switching to zone skipping with a parcel consolidator saved one client \$380,000 annually. The move took three months and required a weekend crew and a rented forklift, not a consulting study.

When to walk away

Not every struggling business deserves a second chance under your ownership. Some traps are recoverable with time and money, others are structural. Walk when:

- The target cannot or will not provide basic financial evidence: bank statements, tax filings, AR aging, AP aging, and customer lists corroborated by invoices.
- Key contracts critical to revenue are non-assignable and consents are either denied or contingent on terms that gut economics.
- Environmental or legal liabilities are material, uncertain, and depend on third-party judgments outside your control.
- The first-week working capital trough exceeds what you can prudently commit, even with aggressive vendor terms and tight cash management.
- Leadership culture is corrosive beyond repair, and the talent bench is thin in a tight labor market where replacements will take quarters to secure.

These are not theoretical. I exited a deal at the eleventh hour when we learned the top three customers had 30-day termination for convenience clauses and used them liberally each budget season. The risk-adjusted value proposition no longer penciled out, even at a lower price. No amount of Business Acquisition Training can teach stamina for walking away, but your track record depends on it as much as your ability to close.

Financing a turnaround without boxing yourself in

Lenders see risk where you see upside. They are often right. If you want flexible capital, build a capital stack that respects volatility and preserves options. Senior asset-based lending backed by receivables and inventory can be your friend, provided the target's AR is clean and customers are creditworthy. Expect lower advance rates in distress, more frequent reporting, and springing dominion over cash. Live with it if it keeps you liquid.

Seller financing fills gaps and aligns incentives, but only if structured carefully. Tie payments to cash generation thresholds, not just calendar dates. If the seller will not agree, ask why. Sometimes sellers need cash for taxes or debts, and that constraint is real. In those cases, adjust price to reflect the lost flexibility, and add a collateral pledge if possible.

Equity partners should bring more than money. If you are relatively new to Buying a Business in distress, choose investors who have ridden through a few bad quarters and do not panic when the first month post-close misses plan. Covenant-light equity is expensive in dilution terms, but cheap in sanity. It lets you focus on operations rather than lender waivers.

Consider short-term micro-fixes too. A revolving vendor finance program for select customers, arranged through a third party, can pull forward cash without training your clients to expect discounts. Dynamic discounting on payables, negotiated with vendors eager for early payments, can trim cost if your cash position allows it for a month or two.

People, pride, and the psychology of a comeback

Turnarounds run on psychology as much as P&L mechanics. Employees in a distressed company have endured uncertainty and likely broken promises. Earn trust in small, verifiable steps. Paychecks on time, supplies in stock, safety issues addressed within 24 hours. If a shift premium was repeatedly promised and never delivered, either start it or explain precisely why it is not happening and what would need to change. Vagueness kills credibility.

Bring pride back into the work. In a service business we acquired, technicians wore mismatched uniforms and drove dented vans. We spent \$20,000 on uniforms and basic van repairs before buying new tools. Techs stood taller, customers noticed, and upsells increased. Morale is not fluff. It is a force multiplier that shows up in retention and revenue.

Beware the hero complex. New owners sometimes believe they must personally drive every improvement. You will tire and the organization will wait for you to fix things instead of fixing them themselves. Establish decision rights and guardrails. Give front-line leaders authority to comp a customer up to a certain dollar amount or to swap out a defective part without approval. Create a short weekly win report to showcase teams who solved problems. Agency is contagious.

Operations cadence that keeps you honest

A good operating rhythm stabilizes chaos. I default to a few simple, non-negotiable rituals for the first quarter.



- A weekly cash meeting with a 13-week rolling forecast, updated every Friday, with clear owners for each inflow and outflow category.
- A Monday stand-up for department heads, 20 minutes hard stop, focused on the three priorities for the week and blockers that require cross-functional help.
- A customer health review every other week using a red-amber-green list of top 50 accounts with notes on recent interactions, open issues, and expansion potential.

These meetings should run on the same agenda, start on time, and produce visible actions. Consistency builds confidence internally and with lenders who may observe or receive updates. Avoid dashboard bloat. Five metrics tracked reliably beat twenty tracked intermittently.

Common myths that derail buyers

Distressed acquisitions attract myths that sound rational until you test them. Three show up frequently.

- “Low multiple equals low risk.” Not if the multiple is applied to a moving target. A 2.5x multiple on last year’s EBITDA looks cheap until EBITDA turns negative under your watch because you inherit COD terms and a labor headwind. Price is one dimension of risk, not a shield.
- “New capital solves old problems.” Capital with no process discipline just finances waste. I walked into a warehouse that received a six-figure capital injection and spent it on new racking without fixing slotting logic or reorder points. Inventory turns fell. Spend behind good process, not instead of it.
- “We can fix culture later.” Culture is both an output and an input. You do not need posters or offsites, but you must define what right looks like and model it immediately. If gossip and blame rule the day, address it in week one. Otherwise, improvement projects get sand in their gears.

Exit thinking on day one

You do not need to plan a sale, but you should build a business that is sellable. That mindset disciplines decisions. Clean books, documented processes, a customer base with low concentration, and contracts that are assignable are not just for the next buyer, they make your life easier now. If you create upside pure and simple, you keep optionality. A turnaround that depends on your unique heroics is not a durable asset.

I keep a short future buyer narrative in my head from the start. In two years, why would a rational acquirer pay a premium for this company? Because it owns a defensible niche with steady cohorts, because its gross margins expanded due to freight discipline and pricing segmentation, and because systems are simple, auditable, and scalable. If your current plan does not build toward that story, refine the plan.

A brief case path: when the math and the people align

Two years ago, we acquired a 30-year-old industrial parts distributor at a valuation under 3x trailing EBITDA, which had been negative for two quarters. Distress was driven by freight inflation, a founder who had stepped back due to health, and a sales team compensated on top-line. The customer base was loyal but frustrated by backorders and inconsistent ship dates.

We structured it as an asset purchase with a modest upfront payment, a seller note with a six-month payment holiday, and an earnout tied to gross margin dollars rather than revenue. We secured a small ABL facility against receivables with conservative advance rates. The seller stayed on as a consultant for 90 days.

Day one, we announced two things: guaranteed ship dates on the top 150 SKUs and a freight policy that aligned charges with actual cost thresholds. We renegotiated with two carriers, consolidated redundant SKUs, and implemented a basic reorder system. We changed the sales comp plan to gross profit with a ramp period and a safety net, then trained reps on margin conversations.

Cash was tight for six weeks. On week seven, the first working capital trough lifted as vendors regained confidence. By month three, fill rates improved from 78 percent to 92 percent. Churn in the top 100 accounts dropped to near zero. Gross margin expanded by 5.5 points over nine months. We did not add headcount, but we did elevate a warehouse lead who knew the floor and had the respect of the team. The company closed the next fiscal year with positive EBITDA at a level that justified the earnout. We paid it gladly.

None of that was magic. It was a rhythm of small, compounding fixes, clear communication, and a capital structure that did not strangle the company when it stumbled early.

Final guidance for buyers eyeing distress

Buying a distressed business can be a masterclass in judgment. If you are new to the craft, seek mentors and invest in real Business Acquisition Training that emphasizes operating cadence and working capital mastery, not just deal structuring. Pressure-test your assumptions with people who have missed payroll and fixed it, not just modeled it.

Move quickly where speed helps, like locking vendor terms or stabilizing key staff, and move slowly where haste kills, like pricing or product pivots. Build a 13-week cash view and refresh it without fail. Hold a short list of non-negotiables you will not compromise on, no matter how tempting the bargain. When you find a business where the core demand is intact, the operating issues are fixable, and the people are hungry to win again, write the check and go to work.

Distress distorts perception. Your job is to see the business as it could be under disciplined ownership, without hallucinating strengths that are not there. Do that, and you will turn broken edges into an advantage, and a bargain into a durable asset.