WITHOUT SAPIEN AMPLIFIED

Should you acquire this competitor?

The same fictional acquisition materials, handed to an ordinary AI conversation with the question a buyer would normally ask. Compare it with the Decision Brief and the Complete Decision Dossier produced from the same materials.

Executive summary

This is a credible acquisition target, and on the numbers supplied it looks worth pursuing. The headline earnings figure overstates the business, but once you correct for the owner’s unpaid labour and the costs you would inherit, the economics still hold up. My recommendation is to move into diligence and open negotiations on structure, while treating several of the figures as provisional until they are verified.

I would not treat this as a decision to buy. It is a decision to spend time and money finding out whether you should, and the materials you have are not yet sufficient to support a commitment.

Correcting the earnings figure

The seller describes $320,000 in annual earnings, but that figure is not what you would earn. It excludes any salary for the seller’s own management and customer work, which you will have to pay for. Three adjustments follow directly from the materials:

Adjustment	Annual effect	Confidence
Seller’s earnings as described	$320,000	Seller-supplied, unverified
Replacement manager, fully loaded	($110,000)	Quoted, scope unconfirmed
Pay increases for two employees	($24,000)	Proposed
Additional recurring systems cost	($12,000)	Estimated
Adjusted operating profit	**$174,000**	Derived

At $650,000, that is a 3.7x multiple on adjusted operating profit, which sits at the lower end of the usual range for a business of this size. The margin of comfort is real but not large: a $54,000 cushion on a $174,000 figure is roughly 31%, and two of the three adjustments above are estimates rather than agreed numbers. If the manager quote proves light, or the transition takes longer than assumed, that cushion narrows quickly.

The cross-sell opportunity

Your notes include $400,000 in additional annual revenue from selling your existing services into the target's customer base, drawn from a list of 25 organizations. This is the most attractive part of the case and also the least established. There are no buyer interviews, no purchase commitments, and no margin assumption attached to it.

I would carry it as upside rather than as base case. If it lands even partially it improves the return materially; if it does not, the deal still stands on the $174,000. That asymmetry is genuinely favourable, and it is the strongest argument for pursuing this.

Customer concentration

The largest customer accounts for $240,000, or 12% of revenue. In a business this size that is on the high side but within normal range. Roughly 40% of that revenue is direct cost that would disappear with the customer, so the true exposure is smaller than the revenue figure suggests. The employee who manages the relationship is one of the two receiving a pay increase, which is prudent.

Neither the customer nor the employee has indicated any intention to leave. I would confirm contract terms during diligence, but I would not treat this as a reason to hesitate.

Structure and the seller's position

Your proposed structure, $450,000 at completion with $200,000 deferred over four years at 8%, is sensible. It reduces the day-one outlay, keeps the seller partly exposed to a clean transition, and the interest cost is modest against the earnings the business produces.

The seller has not agreed to it. Sellers generally prefer full payment at completion, so expect resistance and be prepared to trade something for it. If the seller holds firm on $650,000 at close, the deal is still workable on the earnings, but you would be committing substantially more cash on day one.

What the materials do not establish

Several important things are absent, and I want to be clear that the analysis above rests on seller-supplied figures that nobody has checked:

- No tax returns, bank statements or monthly profit-and-loss statements. The $320,000 is asserted, not evidenced.
- No transition timetable, and no first-year performance figures. Adjusted profit is a settled-state number, not what you would earn in year one.
- No contract terms for the largest customer, and no confirmation that it transfers on sale.

- No written breakdown of the seller’s duties, so whether $110,000 buys a full replacement is unknown.
- No agreement from the seller on the deferred structure, and no final contract terms of any kind.

Where this leaves you

On balance the case looks reasonable, though a good deal rests on figures nobody has verified. The corrected economics hold up, the structure you have proposed is sensible, and the cross-sell offers upside the base numbers do not depend on. Against that, the earnings are seller-asserted, the manager quote is unconfirmed, and the seller has not agreed to your terms.

Whether that adds up to a deal worth doing is ultimately a judgment call. Some buyers would see a sound business at a fair multiple and move ahead. Others would want firmer evidence before spending anything at all, and that would also be defensible. It depends on how much risk you are comfortable carrying and how much the strategic fit matters to you, which are not things the materials can settle.

If you do want to take it further, the sensible order is to test the seller on structure before spending money on diligence, since an unwillingness to defer payment changes the picture considerably. Beyond that, most of what follows is standard.

Tell me if you would like me to model out alternative structures, build a sensitivity table on the adjusted profit, or draft the diligence request list for the seller.
