**Deal Screening Questionnaire**

**Section 1: Breach of Investment Mandate**

1. Mandate Alignment
   1. Are you spending significant time on a deal that slightly deviates from your fund’s investment objective? Industries we are interested in include: manufacturing, business services, healthcare, aerospace & defense, and industrial services.
      1. **Business Services Sectors:**
         1. Professional Services: This includes management consulting, legal services, accounting, and auditing services. These services are crucial for business operations and often require specialized knowledge, making them a high-value area for investment.
         2. Information Technology Services: IT services, including software development, IT consulting, cybersecurity, data analytics, and cloud services, are in high demand as businesses increasingly rely on technology for operations.
         3. Outsourcing Services: Business process outsourcing (BPO) and knowledge process outsourcing (KPO) services, where non-core activities like customer service, HR, finance, and back-office operations are managed by external firms, are popular investment targets.
         4. Facilities Management and Commercial Cleaning: These services are essential for maintaining and operating physical business spaces. They include janitorial services, maintenance, and building management.
         5. Employment Services: This category includes staffing agencies, executive search firms, and temporary employment agencies that help businesses fill employment gaps quickly and efficiently.
         6. Marketing and Communications: Services such as advertising agencies, public relations firms, and digital marketing companies that help businesses reach their target audience and manage communications.
         7. Logistics and Supply Chain Services: Companies that provide logistics, warehousing, distribution, and supply chain management services to other businesses.
         8. Training and Education Services: Firms that provide corporate training, professional development, and educational programs to improve workforce skills.
         9. Environmental, Health, and Safety Services (EHS): Companies that help businesses comply with regulations, manage risk, and improve workplace health and safety are increasingly seen as vital partners.
         10. Financial Services: This includes companies providing specialized financial services such as risk management, insurance brokerage, and financial planning services.
         11. Engineering and Technical Services: These are services that require specialized technical expertise in fields like civil engineering, architecture, and other technical consulting areas.
      2. **Industrial Services Sectors:**
         1. Equipment Maintenance and Repair: Services that ensure industrial machinery and equipment are operating efficiently and safely. This includes regular maintenance, repair, and sometimes equipment upgrades or refurbishments.
         2. Industrial Cleaning and Environmental Services: Specialized cleaning services for industrial facilities such as factories, power plants, and chemical plants. This also includes hazardous waste management, recycling, and other environmental services aimed at helping companies comply with environmental regulations.
         3. Supply Chain and Logistics Services: Providing logistics support such as transportation, warehousing, and inventory management specifically tailored for industrial operations. This can include the management of supply chains for raw materials or finished products.
         4. Safety Services: Offering training, equipment, and support services to ensure workplace safety, especially in industries with high risks such as construction, mining, and heavy manufacturing.
         5. Testing and Inspection Services: Services that provide non-destructive testing, quality assurance, and compliance inspections to ensure that industrial operations and products meet safety and quality standards.
         6. Plant Management and Operations: Services that manage the entire operations of industrial plants, including production, staffing, compliance, and efficiency optimizations.
         7. Engineering and Technical Services: Providing specialized engineering services such as process engineering, automation, and optimization for various industrial sectors.
         8. Asset Management and Capital Projects: Services that assist in managing industrial assets throughout their lifecycle, from acquisition through to disposal, as well as overseeing capital projects, including expansions, retrofits, and new construction.
         9. Utility Management Services: These include management and operation of utilities critical to industrial operations such as water treatment, steam production, and energy management.
         10. Fabrication and Installation Services: Offering custom fabrication of components and professional installation services, particularly for complex industrial machinery and large-scale equipment.
         11. Contract Manufacturing: Providing manufacturing capabilities to other companies that do not want to maintain those operations in-house. This can include everything from parts manufacturing to entire product assemblies.
      3. **Healthcare Sectors:**
         1. Hospitals and Clinic Chains: Investment in private hospitals, outpatient clinics, dental clinics, and specialized clinics (e.g., dialysis centers, cosmetic surgery clinics). These facilities often benefit from scale, and PE firms can improve their operational efficiencies and profitability.
         2. Senior Care and Assisted Living Facilities: With aging populations, there is growing demand for senior care facilities, nursing homes, and assisted living services that offer tailored healthcare and daily living support.
         3. Behavioral Health Services: This includes facilities and services for mental health and substance abuse disorders. The growing awareness and de-stigmatization of mental health issues have driven demand for these services.
         4. Home Healthcare Services: Providing medical care or assistive care in a patient's home, including nursing, post-operative care, and physical therapy. This sector is growing due to technological advancements that allow more complex care at home.
         5. Medical Devices and Equipment: Investing in companies that manufacture medical devices, surgical instruments, and diagnostic equipment. These companies can benefit from technological innovation and expanding global markets.
         6. Pharmaceuticals and Biotechnology: Includes drug development companies, generic pharmaceutical manufacturers, and life sciences companies. Private equity can play a role in funding the growth and development of innovative therapies and helping companies navigate the complex regulatory landscape.
         7. Healthcare IT and Telemedicine: Investments in software and technology solutions that improve the efficiency of healthcare delivery. This includes electronic health records (EHR), telemedicine platforms, data analytics, and patient management systems.
         8. Specialty Pharmacy Services: These companies focus on high-cost and complex medications, often for chronic conditions or specialty therapies. They provide value-added services such as patient education and compliance programs.
         9. Managed Care and Health Insurance Providers: These businesses manage healthcare plans and connect patients with providers under health insurance schemes. There is potential for PE to streamline operations and expand services.
         10. Healthcare Consulting and Management Services: Firms that provide advisory and operational services to healthcare organizations. This can include everything from financial services to clinical efficiency improvements.
         11. Rehabilitation and Physical Therapy: Services that assist patients in recovery from injury or surgery, including physical therapy, occupational therapy, and speech therapy centers.
      4. **Aerospace & Defense**
         1. Commercial Aerospace: This includes manufacturers of commercial aircraft, parts suppliers, and companies providing maintenance, repair, and overhaul (MRO) services for commercial airlines. The commercial aerospace sector benefits from global travel growth and fleet modernization trends.
         2. Defense Contractors: Companies that provide products and services to national defense sectors, including military aircraft, naval ships, armored vehicles, and defense systems. Investments in this area are typically stable due to long-term government contracts.
         3. Space and Satellite Technology: Investments in companies involved in the production of satellites, launch vehicles, and related technologies. This segment has grown with the commercialization of space travel and increased demand for satellite communications.
         4. Unmanned Aerial Vehicles (UAVs) and Drones: Companies that design and manufacture unmanned systems for both military and commercial use. This market is expanding rapidly as drones are increasingly used for surveillance, delivery services, and other applications.
         5. Avionics and Systems Integration: Firms that specialize in the electronic systems used on aircraft, spacecraft, and satellites, such as navigation, communication, and radar systems. Innovations in avionics contribute to advancements in safety and efficiency.
         6. Cybersecurity and Defense IT Services: As threats evolve, there is a growing need for cybersecurity solutions specifically tailored to protect critical aerospace and defense infrastructure. This includes secure communication systems and data protection.
         7. Supply Chain and Logistics Services: Companies that manage the supply chain logistics for aerospace and defense manufacturers, including inventory management and just-in-time delivery services.
         8. Simulation and Training Systems: Providers of simulation technology and training services for pilots, astronauts, and military personnel. This sector benefits from the ongoing need for highly skilled operators in both civilian and military contexts.
         9. Composite Materials and Advanced Manufacturing: Investment in companies that produce composite materials or employ advanced manufacturing techniques such as 3D printing. These technologies are increasingly important for reducing weight and improving the performance of aerospace components.
         10. Airport Infrastructure Services: Companies that provide support services at airports, including ground handling and cargo services, which are crucial for airline operations.
   2. Are you considering investments in younger companies seeking growth capital contrary to a mandate focused on mature businesses? Mature businesses only
   3. Are you influenced by a charismatic CEO who promises future alignment with your investment criteria? No charismatic CEOs
2. Investment Criteria Adherence
   1. Are you strictly adhering to your fund's criteria regarding investment stage, deal structure, sector, and geography?
   2. Are you diligently checking your fund’s investment limits from every possible angle?
3. Sector and Geographic Focus
   1. Does the new investment maintain a balanced portfolio without over-concentration in your sector-specialized fund?
   2. Are you evaluating investments with significant activities in challenging geographies like Belarus, considering your fund’s risk tolerance and legal definitions of permissible investment zones?

#### **Section 2: Geographic Considerations**

**Country and Operations Analysis**

1. **Country and Primary Operations**
   1. What is the company's country of incorporation and primary operational locations? We want to focus on companies that are located in the US and do a vast majority of their business in the United States.
2. **Customer and Supplier Locations**
   1. Where are the company's key customers and suppliers located? We prefer customers to be in the US. Suppliers should be in non-sanctioned countries or stable political environments.
3. **Workforce Stability**
   1. Is the company's workforce location conducive to stable operations?
4. **Proximity to Washington, DC**
   1. There is a very strong preference for deals within a 7 to 9 hour drive/radius from Washington, DC (North Bethesda). Deals beyond this driving radius should be highlighted. While this does not exclude potential deals on the West Coast or Western Midwest, the priority is for deals closer to where the firm’s Managing Partner has direct access.

**Geopolitical and Governance Risks**

1. **Sanctioned States and Political Stability**
   1. Are there any connections to sanctioned states like Iran, Cuba, or Venezuela? Avoid.
   2. Any locations that are politically unstable such as China, Taiwan, Russia, the Middle East? Avoid.
2. **Corporate Governance**
   1. Is the company in a country known for weak corporate governance or inadequate legal frameworks? We only want to invest in countries with solid corporate governance and reliable rule of law.

#### **Section 3: Industry Viability**

1. Sector Prospects and Sustainability
   1. Does the target industry offer good long-term prospects and a stable foundation for future investments? Needs to be an industry that will not decline in the next 15 years.
   2. Are you avoiding sectors with poor structural dynamics or those in potential decline?
2. Market Size and Niche Positioning
   1. Are you steering clear of industries likely to remain niche or limited in customer base? Avoid
3. Long-Term Industry Trends
   1. Projected Industry Growth: Evaluate the projected growth rate of the industry over the next 10 to 15 years.
      1. Assessment: Utilize industry reports, market analysis, and expert opinions. Identify whether the industry is expected to expand, remain stable, or contract.
   2. Technological Disruption: Assess the potential impact of technological advancements on the industry.
      1. Assessment: Identify key technological trends that could disrupt the industry, such as automation, AI, and direct sales models.
4. Market Saturation and Competition
   1. Level of Market Saturation: Analyze the current level of competition and market saturation within the industry.
      1. Assessment: Examine the number of competitors, market share distribution, and any signs of market saturation.
   2. Entry Barriers: Assess the barriers to entry for new competitors and the level of threat they pose.
      1. Assessment: Determine if high barriers to entry protect existing players or if the industry is susceptible to new entrants.
   3. Regulatory and Economic Factors
      1. Regulatory Changes: Evaluate potential regulatory changes that could impact the industry.
         1. Assessment: Stay informed about upcoming regulations that could affect industry operations. Consider both positive and negative regulatory impacts.
      2. Economic Sensitivity: Determine the industry's sensitivity to economic cycles and interest rate changes.
         1. Assessment: Analyze historical data to understand how economic downturns and interest rate fluctuations have impacted the industry.
   4. Business Model Resilience
      1. Recurring Revenue Potential: Assess the potential for generating stable, recurring revenue.
         1. Assessment: Determine if the company's business model supports recurring revenue streams, such as subscription services or long-term contracts.
      2. Cyclical Nature of Revenue: Assess whether the company's revenue is cyclical or seasonal.
         1. Assessment: Identify if revenue is subject to significant fluctuations due to seasonality or economic cycles.
   5. Customer Base and Market Demand
      1. Customer Concentration Risk: Evaluate the diversity of the company's customer base and any risks associated with high customer concentration.
         1. Assessment: Identify if the company relies heavily on a few large customers and assess the potential risks if these customers were to leave.
      2. Market Demand Trends: Analyze trends in customer demand and whether they are expected to increase or decrease.
         1. Assessment: Use market research and customer feedback to determine if demand for the company's products or services is growing, stable, or declining.
   6. Operational Efficiency
      1. Efficiency and Adaptability: Assess the company's operational efficiency and its ability to adapt to market changes.
         1. Assessment: Determine if the company can efficiently manage operations and adapt to new market conditions and technological advancements.
   7. Sustainability and ESG Factors
      1. Environmental, Social, and Governance (ESG) Factors: Evaluate the company's commitment to sustainability and its alignment with ESG criteria.
      2. Assessment: Identify any potential environmental or social risks and assess the company's governance practices to ensure long-term sustainability.

#### **Section 4: Deal Size and Investment Attractiveness**

1. Minimum Investment Thresholds
   1. Are you rejecting deals below a certain EBITDA or investment size threshold despite their attractiveness? Are EBITDA margins above the 20% minimum, preferably between 20% to 25%?
   2. We need to see EBITDA minimums of $1,000,000
   3. Are there any one-time items or non-cash expenses that are being added back into EBITDA? Avoid this
   4. Is the target already on other investors’ radars, or uniquely identified by your fund?

#### **Section 5: Financial Health and Valuation**

1. Financial Metrics and Customer Analysis
   1. **Debt Assessment:**
      1. Current and Historical Debt Levels: Evaluate the current debt levels and historical debt management of the company. Assess the ratio of debt to EBITDA and compare it against industry benchmarks to determine sustainability.
      2. Debt Structure and Terms: Analyze the structure of the existing debt, including maturity profiles, interest rates, and covenants. This will help determine the company's flexibility to handle its obligations, especially under new ownership that may involve an LBO strategy.
      3. Impact on Operations: Consider how debt levels impact operational flexibility, particularly in terms of the company's ability to invest in growth opportunities or withstand economic downturns.
   2. **Revenue and EBITDA Stability:** Assess whether the company demonstrates steady and predictable revenue and EBITDA growth. Avoid companies with rapid or exponential growth rates, as these may not be sustainable and could indicate potential future declines. Prefer companies that exhibit a history of consistent and moderate growth, which is typically more sustainable and indicative of a mature and stable business.
   3. **Sustainability of Growth:** Evaluate the underlying factors driving the company's growth. Reject opportunities where the growth is heavily reliant on volatile markets or where the scale of recent growth exceeds industry norms without clear, sustainable drivers.
   4. **Growth and Stability Analysis:**
      1. Rate of Revenue and EBITDA Growth: Identify if the growth in revenue and EBITDA is excessively rapid or if there has been a significant decline. Steady and moderate growth is preferred over volatile or steep growth patterns that may not be sustainable.
      2. Sustainability of Growth: Assess the drivers of growth to ensure they are sustainable. Be wary of growth significantly outpacing industry norms without clear and sustainable reasons.
   5. **EBITDA Consistency Check:**
      1. Booked vs. Adjusted EBITDA: Compare the booked EBITDA (as reported in financial statements) with adjusted EBITDA (modified for one-time items, non-cash expenses, and potentially misleading accounting practices). A significant discrepancy between these figures could indicate aggressive accounting practices or non-recurring gains that may not be sustainable.
   6. **Customer Concentration**
      1. What percentage of revenue do the top customers represent, and what is the stability and future of these relationships?
      2. How long have the top customers been with the company?
      3. Are there any ongoing or upcoming contract renewals with major customers?
      4. How are the relationships being managed?
      5. Is there a plan for strategic initiatives aimed at diversifying the customer base?
      6. Are there contingency plans if a major customer is lost?

#### **Section 6: Ownership and Control**

1. Investor Influence and Stake
   1. Does the stake offered align with your desired level of control over the investment? We tend to want to majority, but would look at other situations, but mostly want majority control. We are open to LBOs and majority recapitalizations, or management buyouts where we can have a majority of the deal.
   2. Are you avoiding situations where you would have a minority stake but expected to exert major influence?

#### **Section 7: Reputational Considerations**

1. Ethical and Reputational Impact
   1. Are you avoiding investments in controversial industries or those that might harm your fund’s reputation? No crypto, no cannabis, no pornography, no natural resources of any kind.
   2. Does the company operate in a manner that might pose future reputational risks or ethical concerns?

#### **Section 8: Due Diligence and Transaction Timing**

1. Adequate Due Diligence Period
   1. Is there sufficient time allocated for thorough due diligence and deal execution, typically no less than 6 to 8 weeks?

#### **Section 9: Complexity and Risk Management**

1. Investment Complexity and Feasibility
   1. Are you avoiding deals that require too many concurrent positive outcomes to be successful?
   2. Is the deal structured with a realistic number of major objectives?

#### **Section 10: Historical Context and Sector Experience**

1. Past Investment Performance
   1. Considering past losses, are you cautious about investing in sectors where your fund has previously faced setbacks?
2. Long-Term Viability and Market Positioning
   1. Will the business likely be around in 15 years?
   2. What are the recent trends, losses, or gains in the specific sector?
   3. Is there a need for new capital?
   4. Is the revenue cyclical? Is the revenue or EBITDA sensitive to interest rates? Is the revenue or EBITDA seasonal?
3. Operational and Strategic Considerations
   1. Is the top team staying with the business post-deal?
   2. What is the reason for selling the business?
   3. Are there any pending lawsuits or factors leading to potential reputational risk?
   4. Is the company unionized or dominated by unionized employees? We want to avoid these deals
   5. If the revenue is project based, we want to avoid. Is the revenue project based or is it steady and recurring?
4. Deal Valuation and Market Comparison
   1. What's the asking price and deal structure? Does it align with similar market prices and conditions?
   2. What are the major risks associated with the deal?
5. Too Many Things Need to Go Right
   1. Are you ignoring deals where multiple drivers need to be aligned and instead focusing on deals where only 2–3 realistic objectives need to be achieved for a successful investment outcome?

#### **Section 11: Industries or Sectors to Avoid**

1. **Construction:** Exclude all deals related to construction or construction-related activities.
2. **Real Estate:** Avoid any businesses involved with real estate or those supporting the construction or real estate sectors, including manufacturers tied to these industries.
3. **Oil, Gas, and Natural Resources:** Refrain from investing in oil and gas, as well as any companies that support the oil, gas, or other natural resources sectors.
4. **Retail:** Do not engage with retail businesses.
5. **Luxury and Affluent-Related Services and Products:** Refrain from engaging with any businesses primarily involved in the distribution, design, or provision of luxury or high-end goods and services targeted towards affluent consumers. This includes, but is not limited to, luxury interior design services, high-end fashion and accessories, luxury automotive dealerships, upscale jewelry and watch retailers, and any service or product that caters predominantly to ultra-high-net-worth individuals. This exclusion applies due to the discretionary nature of such products and services, which can be highly sensitive to economic cycles and interest rate fluctuations, potentially leading to volatile returns.
6. **Automotive Industry;** 
   1. **New Car Sales:** High interest rates increase the financing costs for new vehicles, which can dampen sales. Economic downturns lead to reduced consumer spending on big-ticket items like new cars.
7. **Consumer Discretionary Goods** 
   1. **Non-Essential Retail:** This includes high-end electronics, luxury clothing, and other non-essential consumer goods. These items are often the first to see reduced spending during economic contractions**.**
8. **Hospitality and Leisure:**
   1. Hotels, Resorts, and Luxury Travel: These services depend heavily on disposable income and business travel budgets, both of which contract during recessions.
9. **Banking and Financial Services:**
   1. **Banking Services:** Particularly vulnerable to bad debts during recessions and highly sensitive to interest rate changes, which can affect profit margins.
10. **Technology:**
    1. **High-Tech and Electronics:** While not all technology sectors are equally sensitive, those reliant on consumer sales rather than business-to-business or subscription-based revenues may see significant impacts during economic downturns.
11. **Media and Entertainment:**
    1. **Non-Essential Media Consumption:** Including cinemas and premium streaming services that may see cutbacks in consumer spending during tough economic times.
12. **Cyclical Manufacturing:**
    1. **Industries like heavy machinery and equipment:** These sectors often face reduced orders and project cancellations during economic slowdowns due to their dependence on capital expenditures from other businesses.
13. **Derivative Industries:**
    1. Also want to ensure that companies who have a concentration have customers/clients in these industries are also avoided – such as a software company that services the travel industry or a manufacturer that makes products for the construction industry

**Section 12: Technological Disruption and AI Impact**

1. **Potential AI and Technological Disruption:**
   1. Does the company's business model include segments that could be significantly affected by advancements in AI technology? (e.g., AI-driven cars impacting personal injury services, AI tools impacting resume writing and job coaching services)
   2. Are the company's services at risk of being automated or replaced by AI tools? For instance, can tasks such as resume writing, customer service, or other core functions be easily replicated by AI technologies like ChatGPT?
2. **Service Automation Risk:**
   1. Are the company's services at risk of being automated or replaced by AI tools?
   2. Assess if the company is leveraging AI in a way that complements its offerings rather than competes with them.
3. **Technological Infrastructure:**
   1. Evaluate the company's current technological infrastructure. Is it adaptable to future technological advancements? Ensure the company has a robust plan to adapt to AI advancements.
4. **Competitive Advantage:**
   1. Consider the company's unique value proposition. Does it rely heavily on human expertise that AI cannot easily replicate, such as specialized consulting, high-level strategic advice, or creative services that require a human touch?
5. **Industry Vulnerability:**
   1. Assess the overall vulnerability of the industry to AI disruption. Is the sector likely to experience significant changes due to AI and automation, potentially leading to a decline in demand for traditional services?
6. **AI Impact on Specific Segments:**
   1. If the company provides services that could be affected by AI (e.g., personal injury services, resume writing, job coaching), assess the potential impact of AI on these segments. Consider the long-term viability and demand for these services in light of technological advancements.
7. **Other AI-Sensitive Services:**
   1. Identify any other services provided by the company that could be significantly impacted by AI or technological advancements. Evaluate the potential risks and mitigation strategies.

**Section 13 - Deal Structure and Control Requirements**

To align with Dark Alpha’s investment strategy, we seek to engage in specific types of transactions that ensure majority control and clear exit strategies. Please confirm that the proposed transaction meets the following criteria:

1. **Leverage Buyouts (LBOs):** 
   1. The transaction must be structured as an LBO where we acquire a majority equity stake.
   2. The deal should allow for leveraging debt to finance the acquisition without pre-existing debt complications.
2. **Majority Recapitalizations:**
   1. We are interested in majority recapitalizations where Dark Alpha ends up with a majority of the equity.
   2. The recapitalization should provide a clear path to achieving and maintaining majority control.
3. **Corporate Divestitures, Spinoffs, or Carve-Outs:**
   1. The transaction should involve corporate divestitures, spinoffs, or carve-outs where Dark Alpha gains majority control.
4. **Default to LBO:**
   1. Generally, if a company does not propose an alternative structure besides LBO, majority recapitalization, or corporate divestiture, the deal is likely to be an LBO and acceptable.
   2. If there is an affirmative mention of a deviation from these structures, the deal should be screened out.
5. **Exit Strategy:**
   1. The target must be prepared for a potential resale or public offering within a 3 to 5-year horizon, with a maximum of 6 years

**Section 14 - Avoiding Project-Based and Cyclical Revenue**

**Revenue Model Evaluation:**

1. **Recurring Revenue:**
   1. Prefer companies with a substantial portion of revenue derived from recurring sources, such as long-term contracts, subscription services, or repeat customer engagements.
   2. Ensure that the business model supports steady and predictable income streams rather than one-time project completions.
2. **Project-Based Revenue:**
   1. Avoid businesses where the majority of revenue is generated through individual projects or contracts that are non-recurring in nature unless the following conditions are met:
      1. The revenue from projects is well-diversified across a large number of clients and projects, minimizing concentration risk.
      2. The projects occur on a regular basis, providing a consistent and predictable revenue stream.
      3. There is a history of repeat business with clients, indicating reliable ongoing demand.
      4. The company has a strong pipeline management system ensuring a steady flow of projects.
   2. Assess the company's dependency on custom projects or one-off sales that do not provide a consistent and reliable income.
3. **Cyclical and Seasonal Revenue:**
   1. Exclude companies with revenue models significantly affected by economic cycles, seasonality, or industry-specific downturns.
   2. Evaluate the stability of revenue streams and avoid those with high volatility linked to economic conditions or market cycles.
4. **Customer Dependency:**
   1. Ensure the company does not rely heavily on a small number of large projects or customers, which could lead to revenue instability if contracts are not renewed.
   2. Prefer businesses with a diversified customer base and consistent demand across a broad range of clients.
5. **Long-Term Viability:**
   1. Focus on businesses with sustainable and long-term revenue generation capabilities.
   2. Reject opportunities where the business model heavily relies on sporadic or cyclical project-based revenue that may be subject to significant fluctuations.

**Section 15 – Avoid Revenue that is Seasonal**

**Seasonal Revenue Patterns:**

1. Reject companies where a substantial portion of revenue (e.g., more than 30%) is generated during specific seasons or holidays.
2. Reject businesses that experience significant revenue peaks and troughs during specific times of the year, such as holidays or weather-dependent periods.
3. Reject companies whose products or services are heavily reliant on holidays, events, or specific time periods for sales (e.g., Christmas, Thanksgiving, summer months).
4. Reject companies that do not have effective and sustainable strategies to mitigate the financial impact of seasonal fluctuations.

**Section 16 – Additional Factors to Avoid in an LBO**

1. **High Customer Concentration:** Reject companies where a significant portion of revenue (e.g., more than 20%) comes from a few large customers, which poses a risk if one or more customers leave.
2. **High Existing Debt Levels:** Reject companies with high existing debt levels that could complicate leveraging additional debt for the acquisition.
3. **Excessive Capital Expenditure Requirements:** Reject companies that require significant ongoing capital expenditures for maintenance or growth, which can strain cash flow.
4. **Low Free Cash Flow Conversion:** Reject companies with low free cash flow conversion rates, where a significant portion of EBITDA does not convert to free cash flow, impacting the ability to service debt.
5. **Complex Business Models:** Reject companies with overly complex business models that require multiple concurrent positive outcomes for success.
6. **Unproven or Experimental Business Models:** Reject companies with unproven or experimental business models that have not demonstrated consistent profitability.
7. **Regulatory and Legal Risks:** Reject companies operating in industries with high regulatory and legal risks that could impact operations and financial performance.
8. **High Volatility in Revenue or EBITDA:** Reject companies that show high volatility in revenue or EBITDA, indicating an unpredictable business environment.
9. **Unstable Supply Chains:** Reject companies with unstable or unreliable supply chains that could disrupt operations and financial performance.