BVC

06

ANALYSIS

Decoding the CIM

How to read a Confidential Information Memorandum like a pro — the structure, the spin, the red flags, and the questions each section should trigger.

FREE BUYER'S GUIDE

From the makers of the free AI valuation toolkit at businessvaluationcalculator.com

What's Inside

CHAPTER 1

What a CIM Really Is

A Confidential Information Memorandum is a marketing document. It is written by the seller's broker, paid for by the seller, with one purpose: make you want this business at the highest defensible price. That does not make it dishonest — good CIMs are factually accurate. It makes it curated. Every number is real; every number was also chosen.

100%
of CIMs are written to sell, not to inform

15-50
pages typical for main street to lower-middle-market

30 min
is enough for a disciplined first-pass read

The skill of reading a CIM is reading in two layers at once: what the document says, and what its choices reveal. Which years did they show? Which metric did they lead with? What is conspicuously absent? A trailing-twelve-months chart that starts in the business's worst quarter is telling you something. So is a financial section that shows revenue but whispers about margins.

> PRO TIP
>
> **Read the CIM twice**
>
> First pass: read it as a believer — understand the story being told and why someone would buy this business. Second pass: read it as an auditor — challenge every claim and note what evidence you would need. Buyers who only do pass one overpay. Buyers who only do pass two miss good deals.

CHAPTER 2

The Anatomy of a CIM

Section	What it claims to be	What to actually extract
Executive summary	Overview	The 3 claims the whole pitch rests on
Investment highlights	Why it's great	Which highlights are durable vs. cosmetic
Company overview	History & operations	Owner's actual role; staff depth
Market/industry	Tailwinds	Is data local or national? (local is what you're buying)
Financial overview	Performance	Which metric, which years, which adjustments
Growth opportunities	Upside	Free ideas — but never pay for them
Transaction overview	Deal terms	What's included/excluded; working capital treatment

WATCH OUT

The growth section trap

'Untapped opportunities' — add a second crew, launch commercial accounts, raise prices — are ideas the CURRENT owner chose not to pursue. Sometimes because they lacked energy; sometimes because they tried and it failed quietly. Either way: upside you build belongs to you. Never let projected growth justify present price.

Note what is missing. No customer concentration data? Ask why. No employee tenure? Ask why. Experienced CIM writers omit strategically — the absence pattern is itself a map of the business's weak points.

CHAPTER 3

Reading the Financials Section

The financial section is where curation concentrates. Five specific things to decode before you take any number at face value:

1. **Which earnings metric leads?**
   SDE, EBITDA, 'adjusted cash flow,' or 'owner benefit' — each implies a different multiple. 'Owner benefit' is the loosest; treat it as SDE-pending-verification.

2. **Which years are shown?**
   Three full years plus TTM is standard. Fewer, or a conveniently cropped window, is a choice — ask what the missing years show.

3. **What was added back?**
   The addback schedule is the highest-fiction-density page in any CIM. Every line item needs documentation in diligence.

4. **P&L vs. tax returns?**
   CIM financials are usually internal P&Ls. The gap between P&L and tax return is a diligence agenda in itself.

5. **Margins vs. revenue story**
   Revenue up but gross margin sliding = growth bought with price cuts. The CIM will show the first chart and hope you skip the second.

REAL NUMBERS

The addback haircut heuristic

On a first pass, mentally disallow 30-50% of soft addbacks ('one-time' expenses, 'personal' vehicle, family salaries) and recompute the multiple on the haircut SDE. If the deal only works at full addback credit, it is priced for perfection.

CHAPTER 4

The Language of Spin

CIM says	Often means	Your question
Turnkey operation	Owner thinks it runs itself	Then why is owner working 50 hrs/wk?
Motivated seller	Wants out fast — leverage	What's driving the timeline?
Loyal, repeat customers	No contracts, just habit	What % is under written contract?
Untapped potential	Owner stopped trying	What did you try that didn't work?
Strong management in place	One good supervisor	Who quotes? Who hires? Who closes sales?
Books and records available	Books may be messy	Tax returns or internal P&Ls?
Priced to sell	Priced at hope	What valuation method produced this?
Owner will train	Undefined and unpaid	How long, how many hrs/wk, in writing?

PRO TIP

Spin is information

Every euphemism marks the spot where reality needed dressing up. A CIM with 'motivated seller' and 'priced to sell' in the first paragraph is telling you the negotiation will be easier than the ask implies. Read spin as a treasure map — X marks the leverage.

CHAPTER 5

The 10 Red Flags

1. **Revenue chart starts at a valley**
   Cropped timelines manufacture growth stories.
2. **Earnings metric changes mid-document**
   SDE on page 3, EBITDA on page 9 — pick whichever chart looks better.
3. **Round-number addbacks**
   '$25,000 — one-time expenses.' Real addbacks have receipts and odd cents.
4. **No mention of customer concentration**
   If the top customer were 8%, the CIM would brag about it.
5. **Hockey-stick projections**
   Any forecast steeper than history requires extraordinary evidence.

1. **The anonymous industry chart**
   National market growth pasted over a local business — you are buying the local one.
2. **Owner role minimized to a paragraph**
   The shorter the description of what the owner does, the more they probably do.
3. **Recent price reduction, no explanation**
   Something happened. Find out what before you assume it's your opportunity.
4. **Equipment list without ages**
   A fleet list that omits years/mileage is hiding a capex bill.
5. **Lease terms absent**
   For location businesses, the missing lease paragraph is the deal risk.

CHAPTER 6

The First-Pass Framework

You will read many CIMs for every deal you pursue. A disciplined 30-minute triage protects your diligence energy for deals that deserve it:

1. **Minutes 0-5: The three numbers**
   Revenue trend, claimed SDE, asking multiple. If the multiple is above the industry band with no obvious quality story, thin the pile.

2. **Minutes 5-15: Kill-question scan**
   Customer concentration, owner dependency, lease, licenses. Any single fatal flaw ends the read — most CIMs die here, cheaply.

3. **Minutes 15-25: The auditor pass**
   Addback schedule, year selection, metric consistency, what's missing. Build your question list as you go.

4. **Minutes 25-30: Verdict**
   Pass, park, or pursue. Pursue = request the call and send your first document list within 24 hours — speed signals seriousness.

~10:1	30 min	24 hrs
CIMs read per deal seriously pursued (healthy ratio)	max first-pass investment per CIM	from 'pursue' verdict to your first info request

CHAPTER 7

Building Your Question List

The output of a good CIM read is not an opinion — it is a written question list that becomes your first seller call agenda and your diligence request skeleton. Organize questions by what they test:

Questions that test the earnings

- Can you walk me through each addback with documentation?
- How do the P&Ls tie to the tax returns?
- What % of revenue is under contract vs. repeat habit?
- Which months are strongest/weakest, and why?
- Any customer over 10%? Over 20%?

Questions that test the transition

- Describe your typical week, hour by hour
- Who quotes jobs when you're on vacation?
- Which licenses are in your name personally?
- Which employees could run the place for a month?
- Why are you selling, and what's next for you?

PRO TIP

Ask the week question verbatim

'Describe your typical week' is the single highest-yield question in a first seller call. Sellers minimize their role in writing but answer honestly in conversation — and the gap between the CIM's 'semi-absentee' and the seller's actual Tuesday is your negotiation evidence.

CHAPTER 8

CIM Review Checklist

- ☑ Identified the 3 claims the pitch rests on
- ☑ Confirmed which earnings metric is used — consistently
- ☑ Noted which years are shown (and which are missing)
- ☑ Haircut soft addbacks and recomputed the multiple
- ☑ Checked revenue AND margin trends together
- ☑ Scanned for the 10 red flags
- ☑ Customer concentration disclosed or flagged as missing
- ☑ Owner's real role assessed (and the week question queued)
- ☑ Lease/license treatment found or flagged as missing
- ☑ Growth ideas mentally repriced to zero
- ☑ Spin phrases translated into questions
- ☑ Written question list produced; pursue/park/pass verdict logged

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Ready to Analyze a Real Deal?

Put this guide to work. Upload any CIM or financial statement and get an institutional-grade valuation, risk analysis, and deal recommendation in under five minutes — free.

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✓ Buyer Readiness Assessment

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