

BUSINESS BUYING GUIDE

LEGACY VENTURE GROUP

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BUSINESS BROKERS OF FLORIDA
Advisors Connecting Buyers & Sellers

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Business Buying Guide

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THANK YOU AND WELCOME

FIRST, LET ME SAY HELLO AND WELCOME TO THE LEGACY VENTURE GROUP TEAM!

My name is Brian Stephens, and I am the owner and founder of Legacy Venture Group, home of BuyBizUSA.com. I'd like to welcome you and say thank you for taking the time to review the information I've put together in this book.



SO, WHAT WILL YOU GET FROM US IN THIS BOOK?

This book contains information about the business buying process and things you should be thinking about as you review business opportunities. We have designed this book to answer a lot of questions that prospective buyers ask our brokers on a regular basis. Obviously, it's not possible to answer all questions for every type of business in this book, so please feel free to reach out if you have additional questions we haven't covered here.

FREE BUSINESS LOCATOR SERVICE!

One service that we provide, that we want to share right up front, is **OUR FREE BUSINESS LOCATOR SERVICE** (<http://bbms.biz/listings/bbf-883/buy-enter.asp>).

This service helps our buyers find their dream businesses faster! Our buyers don't have to spend nearly as long sorting through listing, after listing, after listing.... listings come to YOU!

Set up your own weekly search by telling our system exactly what you are looking for. The information that you receive will come straight to your inbox on Mondays, with any new listings that meet your customized criteria.

******Be sure to put Biz@BuyBizUSA.com into your address book and please check your spam/junk folder if you don't see these emails coming to you.***

FOLLOW US ON SOCIAL MEDIA AND SHARE!

We often share information about our newest listings that may not even be formally on the market yet, business ownership insights, and business buying and selling tips. We would love to chat with you there! Come check us out!

DO YOU DREAM OF BUYING YOUR OWN BUSINESS?

Buying a business can be a complicated process.

It starts with finding the right business for you and goes all the way to figuring out the details required for a smooth transfer of ownership.

BIG STEPS - LOTS OF UNKNOWN!

Going into business for yourself is a big step, one that can be full of apprehension and even fear.

Almost 90% of all those who purchase a small business have **never owned a business**.

Most of them bought a business that was different than what they were originally looking for.

These buyers had the opportunity to explore the marketplace and subsequently found a business more to their liking. In many cases, **the seller-financed the sale**.

AS YOU BEGIN YOUR SEARCH

Keep in mind that running your own business is more than a job; it is a lifestyle change.

In most cases, **it is a very BIG lifestyle change**.

Usually, you will be working longer hours, making all the decisions, and, as the expression goes, "you will be the chief cook, and bottle washer."

In other words, you will be doing all the work from running the business to, in many cases, sweeping the floor, and changing the light bulbs.

ARE YOU READY TO MAKE THIS CHANGE?

THE BOTTOM LINE

Being in business for yourself can be a daunting prospect.

THERE ARE NO GUARANTEES.

At some point, after all your searches and investigations are complete, you will still have to make the “leap of faith” that is necessary to **proceed with the purchase of the business.**

You **will have to work hard**, perhaps even “tighten your belt” a little, and perform many different jobs to be successful in your own business.

BUT - if running your own show, making your own decisions, not having to worry about job security (remember, no one can fire you from your own business), and just being on your own are important - then **owning a business is for you.**

After taking this leap of faith, almost all business owners will tell you that they **would never go back** to being an employee.

WHY DO YOU WANT TO BUY A BUSINESS?

HAVE YOU THOUGHT ABOUT WHY YOU WANT TO OWN YOUR OWN BUSINESS?

- Are you tired of the corporate rat race?
- Do you want to be your own boss?
- Do you want to schedule flexibility?
- Do you want to be the person at the top and reap the benefits of doing well?
- Do you want to follow your own passion?
- Are you looking to create your mark on the world?

People want to join the ranks of **business ownership for many reasons**.

Understanding what your reasons are for owning a business, can help you decide if business ownership is the **right path for you**.

We all have our own niches and places where we are comfortable, so it's important to identify your reasons for becoming a business owner early so you can **tailor your search** to your goals, your dreams and your abilities!

Think about why you want to own your own business! Figure out what the allure is and that may guide you towards the business that is right for you!

If you are just starting to explore your options, check out our webpage BuyBizUSA.com to learn about what buying a business is all about and things you can expect along the way.

THE FIRST 5 THINGS YOU SHOULD LOOK FOR IN A BUSINESS

The bottom line is...there are a lot of things that you, the buyer, should consider as you evaluate potential businesses to purchase. Let's be real, the list of considerations is more extensive than these first five things, but we'll discuss some of the other important considerations in greater detail in later chapters. For now, let's start with this short list just to get started along the business ownership path.

1. HOW LONG HAS THE BUSINESS BEEN IN BUSINESS?

A business with a long track record means there are good reasons to be operating. It will be well known in the area, and people will be used to patronizing the business or using its services.

The longer it has been in operation, generally, the better the business.

2. HOW LONG HAS THE PRESENT OWNER OWNED THE BUSINESS?

The longer the present owner has been in business, the more likely he or she has been successful.

People don't stay in business if they are not making money.

3. WHY IS THE PRESENT OWNER SELLING THE BUSINESS?

If the owner has been in business for six months, is 37 years old, and wants to retire, you should be suspicious. The more valid the reason for sale, the more realistic the seller will be in considering your offer.

However, keep in mind that after five or six years or more, people do get restless, "burn-out" sets in, and people look for new challenges.

Why the seller is selling is an important question - get the answer.

4. WHY ARE THE BOOKS AND RECORDS SO IMPORTANT?

The financial records are a good indication of how well the business has been doing over the years.

Keep in mind that tax records are not designed to show the business in the best light; no one likes to pay more taxes than they must, and business owners are no different. Generally, tax returns are a worst-case scenario.

You need to be able to look at the expenses and discover which ones are non-cash items, such as depreciation and business use of homes and vehicles. How important was that business trip to Las Vegas? A professional business broker can point these items out to you.

Keep in mind that financial records are only history. There are no guarantees that they will or can be duplicated or repeated. Future profits will depend upon you, the new owner, and what YOU can do to take the business to the next level.

In the final analysis, the financial records of the business are an indicator of what the business has done; what you do with its future is up to you.

5. HOW CAN ONE DETERMINE IF THE SELLER IS REPORTING ALL INCOME?

The simple answer is - you can't! Not reporting income is against the law, but that doesn't stop some sellers from doing it.

You should consider only the income that the seller can show you. We all know, of course, especially in cash-type businesses, that there is the possibility that the seller is not reporting all his or her income for tax purposes.

This "underground economy" has been well-documented and is in the billions of dollars. Many sellers will tell you about how much they are "skimming," but you should ignore their statements since they have no way of proving these amounts.

In determining whether a business is the right one for you, you should base the decision on the figures that are actually supplied to you by the seller.

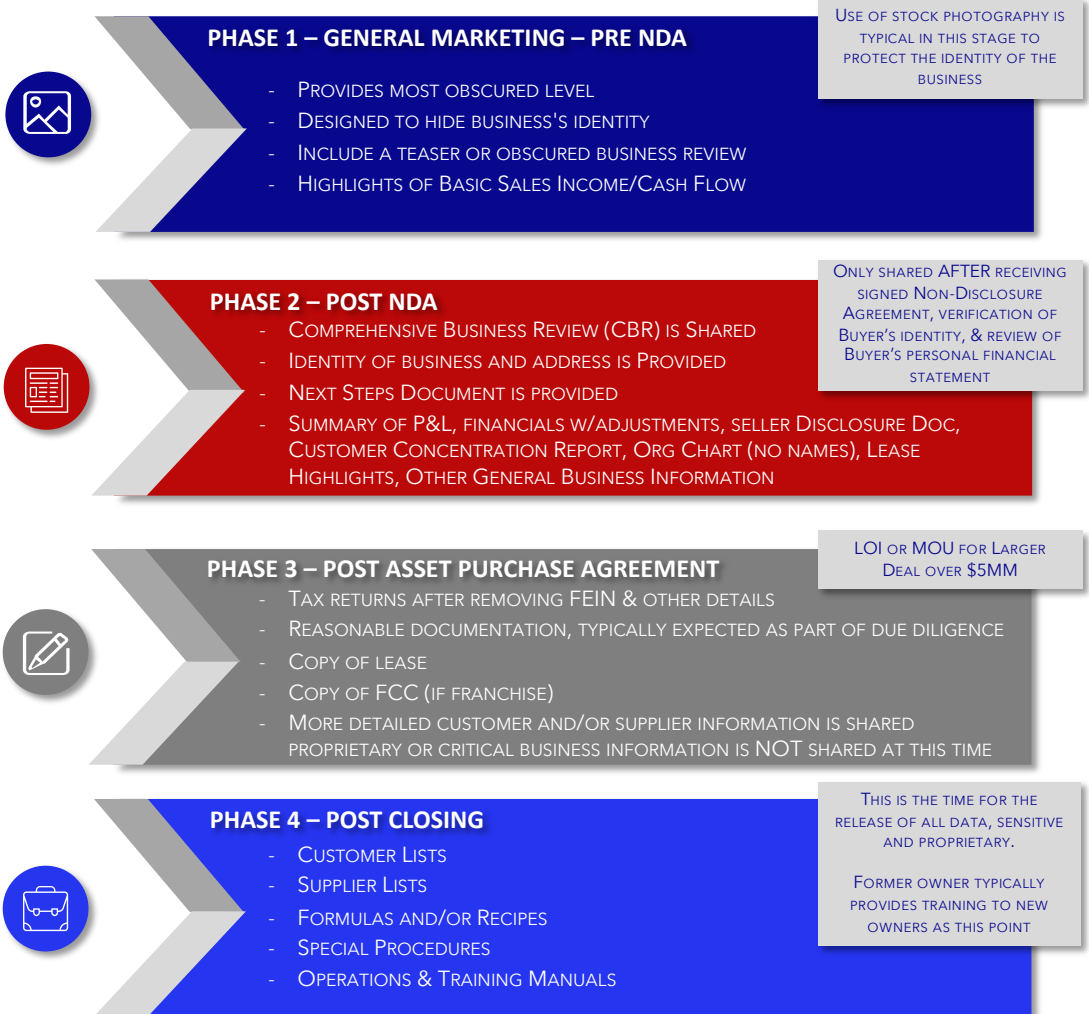
TYPICAL SELLER INFORMATION RELEASE PROCESS



FOR BUYERS

SELLER INFORMATION RELEASE PROCESS

SELLERS MAY CHOOSE TO SHARE MORE OR LESS INFORMATION AT DIFFERENT STAGES OF THIS PROCESS. CONTACT YOUR BUSINESS BROKER FOR MORE DETAILED INFORMATION.



11 ESSENTIAL POINTS TO CONSIDER

WHEN BUYING A BUSINESS

You've started to explore the option of buying an existing business, but you have a lot of questions and aren't really sure where to start looking for information or answers!

The following **11 Essential Points** are key things you should pay attention to whenever you look at a new business that is for sale. These 11 points are just the beginning though, there are often many other factors beyond the ones highlighted below that you must consider along the way.

As we explore these key points, it's important to highlight that each individual business advertiser organizes their information in different ways on their respective websites. On the **last page** of this chapter, we've included an example of how the Business Brokers of Florida - Multiple Listing Service (BBF-MLS) provides their information. We've highlighted these key points in red lettering right on this sample listing! If you want to test yourself and see if you can locate the key points we've highlighted below on a live listing, visit BuyBizFL.com (or any other Florida MLS landing pages) to search for a listing that interests you.

GET THE FACTS.

At first, Owners selling their business may share only limited financial information. However, before you commit to purchase, make sure you request to see this information. In an ideal world, you might want to see every tax return, sales report, and employer record, but often many of the detailed reports are only shared to a prospective Buyer as part of Due Diligence once an Asset Purchase Agreement (APA) or Letter of Intent (LOI) has been agreed to by both parties. This will at least get you to a point where you can decide to look more closely at the business. (We have used a fictional listing for an example.)

Below are some terms that you will see mentioned in the points below:

- **SDE** - *Seller's Discretionary Earning or Owner's Benefit*
- **EBITDA** - *Earnings Before Interest, Tax, Depreciation, and Amortization*

1 IS PRICE TO SDE REASONABLE?

There is no single way to determine the price of every business, but there are guidelines that we use within the industry. Many businesses sell for between 2 to 3 times SDE or 3.5 to 4.5 times EBITDA but the actual multiple varies.

Always bring in professional, experienced help to look over the earnings. It's okay to pay on the high end of a reasonable price range for a business that is performing well and that is right for you, but look at what others have paid for similar businesses before you make your final offer.

For calculation and greater explanation of SDE, visit:

<http://buybizusa.com/forowners/selling-tutorial/much-business-owner-earning-calculating-sde/>

2 DOES RATIO OF SDE TO GROSS MAKE SENSE?

Owners have lots of ways of calculating SDE, but we offer a particular guideline used by many in the industry. Since Owners want to sell their business, they may do their best to make this look as attractive as possible. You must do your best to verify figures and determine if the SDE is reasonable.

We have seen, as an example, where a restaurant claimed to have Gross Sales of \$500K and the Owner claims he is taking home \$250K, when Rent was \$150K. This may be the truth but since most restaurants have an SDE between 10% to 15% of Gross Sales, the claim seems overly optimistic.

Always verify and trust your instincts when the money seems too good to be true.

3 DOES THE STATED REASON FOR SELLING MAKE SENSE?

People sell for all sorts of reasons, and many sell their businesses because they want to retire, but others want out for reasons that would make you uncomfortable if you knew the truth.

4 **DOES OWNER WORK REASONABLE HOURS?**

- Will you be replacing owner?
- Can you work the same schedule?
- Does the owner have a spouse or other family working there?
- Will they stay after you buy the business?
- Are they on payroll or is part of the owner benefit (SDE) calculated to show you will be replacing more than one person?

NOTE: SDE is a calculation to account for only one person. If a spouse is also working, the owner benefit should be calculated to pay for all workers except for ONE WORKING OWNER, and only one.

5 **HOW LONG HAS THE BUSINESS OWNER BEEN AROUND?**

When an owner is selling his or her business after owning it for only a short while, be cautious. Short term ownership should be a red flag. It may be a great business and the owner may have a very acceptable reason for selling so quickly but do your research.

Thoroughly investigate any time period under three years. There are legitimate reasons for quick turnaround sales but often this is a sign that something is challenging about the business. It could be something you can live with that the current owner cannot. Just be sure to verify why. One additional tip is to have Owner/Seller complete and sign a Seller's Disclosure Document.

6 **ARE TRAINING AND NON-COMPETE REASONABLE?**

The right amount of time for training, as well as the distance and time for noncompete vary from business to business and Buyer to Buyer. Get advice to discover what works best for you. If customers are closely tied to Owner / Seller, it might take months, a year or more to successfully transfer business.

Regarding the non-compete time requirements, always understand why a Seller might ask for a short period and why asking for too long of a period might be difficult to defend. In terms of distance for a non-compete, a convenience store might need only a few miles for non-compete, but an online business might need to be global.

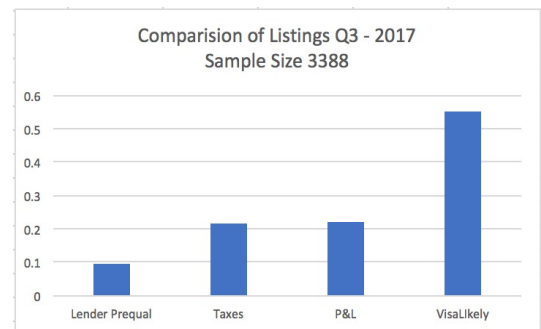
7 WILL YOU NEED A SPECIAL LICENSE?

Make sure you know the legal requirements. Do not rely on the Seller to be up to date. We recently worked with a Dental Lab and the Owner was shocked to learn that the number of years of experience needed to obtain a license had more than doubled! Even if you don't know the industry, you can often, over time and with support, get licensed in many fields. Check with the state and county. Speak with someone who knows. Get the facts and make sure you can live with them.

8 IS THE SOURCE OF FINANCIAL RECORDS GOOD?

Some business records match with what the Owner claims, while others have multiple records or have hardly any records at all. Unless you absolutely know the business and can get a good idea of how the business is financially performing, be very cautious.

Often a business losing money will be reported as profitable when offered for sale. It can be hard to tell the difference between someone who is hiding profits and someone who is hiding losses. If the sources are Taxes, or even Profit & Loss Statements, that can be encouraging. People will also report Projection, Owner Estimate, pure guesses and worse.



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NOTE: Even tax documents can be faked, so trust but verify by having Seller sign and submit IRS form 4506T.

9 REASONABLE EXPENSES AND ADJUSTMENTS.

Read the details on calculating SDE. Only accept reasonable, verifiable adjustments. It might be right to add the expense for the owner's expensive car written off to the business. However, Seller cannot add back money given to employees that are given as a bonus each year. If that has been the tradition, employees work hard for and will likely expect it to continue, so you need to be prepared for that situation.

10 IS RENT REASONABLE, COMPARE TO REVENUES?

Rents that are too high compared to the Gross Revenues destroy business profitability. Learn the industry norm and determine if the rent price for business you are considering is in line with the local norms. Landlords are very often unlikely to sympathize with someone who bought a business and now hopes that rent will decline so that the new owner can make some, or any money.

11 BUSINESS HAS LENDER FINANCING.

Few businesses qualify for SBA lending. Less than 10% of the businesses advertised on the internet today are lender. Pay close attention to these.

USE THESE POINTS WHEN REVIEWING LISTINGS

Hopefully, you are now ready to examine business listings a little more closely and you can find these **11 Essential Points** on any business that interests you!

Take a few minutes and look at the next page where we've provided a sample listing from the BBF-MLS (Business Brokers of Florida - Multiple Listing Service). We've highlighted in **RED** the **11 Essential Points** we've talked about today and how to find them on this listing source.

As mentioned before, each unique advertising website, will list this information in different ways, but these are the absolute key pieces of information you should look at for any listing you are interested in.

One thing to keep in mind though, every business and business owner is unique and while these **11 Essential Points** are extremely important in the evaluation process, you will likely find that there are many other factors that you must consider along the way along with these **11 Essential Points**.

SAMPLE LISTING USED FOR EDUCATIONAL PURPOSES ONLY

Listing No: BBF-88300011

Category : Lawn/Landscaping	SIC : 0782	1. Is Price to SDE reasonable?
Detail : Lawn Biz Landscaping	1. Price : 400,000	2. Does SDE to Gross Make Sense?
County : Hillsborough	Down : 80,000	
State/Prov : Florida	2. Adj Net : 263,922	
Country : USA	Sales : 1,209,199	

Over 25 years in business. Seller has great books. Staff been around on average of 10 year. Owner will stay on 4 weeks to transition business owner. No one customer more than 5% of the total revenue. Owner only works in office and business DOES NOT rely on owner being around. Owner vacations 4 weeks per year.

Business Name : LEGACY LANDSCAPING DA VILLA	Phone: (813) 571-7700
Home Page : LegacyLandscaping.com	
Address : 17987 VINE STREETE, TAMPA, FLORIDA 33548	
Seller : Legacy Landscaping da Villa Inc	
Listing Type : EXCLUSIVE RIGHT OF SALE	Date Revised : 12/5/2017
Listing Office is : TRANSACTION BROKER	Code : - 100388
Documents on File : Equipment List: Y Lease: N Corp Resolution: Y	
Showing Remarks : Cash Flow: N Balance Sheet: N	
	Standard Agreement: Y Signature on File: Y
	CALL BROKER

Reason for Sale : 3. Retirement	
General Location : Tampa Bay - Florid	
Organization Type : 4. 'LLC' Hours Owner Works: 40	3. Reason for selling make sense?
Non Compete : 5. Years Established: 25 Years Owned: 25 Emp FT: 10 Emp PT: 4 Mgrs: 1	4. Owner work reasonable hours?
Operating dys/hrs : 6. Miles: 100 Years: 10 Weeks Training: 4 Cost: \$0	5. Business Owner been around a while
Skills/Licenses : 7. 7 AM to 3:30 PM Monday - Friday (closed most holidays too)	6. Training and non-compete reasonable?
Business : 7. Business license	7. Will you need a special license?
Is Relocatable: N Is Home Based: N Is a Franchise: N Is Lender P/Q: Y Should Qualify For	
Visa: Y	

8. Data Source	8. Source of Financial Records good	9.1 Statement	Tax Return
Year (Cash Flow)		2017 (N)	2016 (N)
Gross Revenue		1,209,199	1,200,011
Cost of Goods		619,376	610,939
Gross Profit		589,823	589,072
9. Expenses	9. Reasonable expenses and adjustments	420,901	419,999
Net		168,922	169,073
Owner Salary		80,000	80,000
Benefits		5,000	3,500
Interest Expense		0	0
Depreciation		10,000	10,000
Other		0	0
Owner Benefit		263,922	262,573

Accounts Rec	5,000	Y*	Real Estate	0	N*
Inventory	250	Y*		0	N*
F F & E	100,000	Y*	Total Assets	105,250	Y*
Leasehold	0	N*			
*Included?					

Lease/Month: 3000 **Square Footage: 2400** **Building Type: frame**
Terms & Options: one five year renewal opt 10. Rent reasonable, compare to Revenues **Expiration Date: 12/31/2022**

Loan/Assumable	- Amt:	0	Mos:	0	Rate:	0.00	Mo Pmt:	0.00
Loan/Seller	- Amt:	0	Mos:	0	Rate:	0.00	Mo Pmt:	0.00
Loan/Other	- Amt:	320,000	Mos:	120	Rate:	5.75	Mo Pmt:	3,512.62

BRIAN STEPHENS	11. Has lender financing	Office : (813) 571-7700
BROKER		Fax : (866) 633-0420
		Home : (813) 571-7700
		Cell : (813) 571-7700
LEGACY VENTURE GROUP		Email : biz@buybizusa.com
207A EAST ROBERTSON STREET		Home Page : buybizusa.com
BRANDON, FLORIDA 33511		
USA		

ADVANTAGES OF SBA PRE-QUALIFIED BUSINESS

HOW SBA PRE-QUALIFICATION HELPS BUYERS

SBA backed lenders help Business Buyers acquire existing, cash-flowing businesses. Buying an existing business often has advantages over start-ups and new franchises, such as existing cash flow, established customer base, trained staff in place, and proven systems and processes.

Many businesses don't qualify for SBA backed loans. Only about 10% of the businesses for sale on the market today have been SBA Pre-Qualified. Check out BuyBizFL.com for pre-qualified businesses in Florida.

Pre-Qualified means that an SBA backed lender has taken a first look at the business and believes that it would consider providing a business acquisition loan to a qualified Buyer. Some businesses currently on the market have not yet been pre-qualified and may also be eligible. However, many businesses don't have the records, earnings, or other qualities that fit the banks' requirements.

There are several SBA programs, but the 7A remains one of the most popular. See SBA.gov for more details and other programs. The 7A program depends more on cash flow of the business, and less on the value of the tangible assets and real estate.

Here are a few advantages of an SBA Loan:

- Low down payment allows a Buyer to put down only 10% to 25%
- Loan is spread over long period, usually 7 to 10 years
- Interest rates vary but our last few deals have been 6% or less
- You don't have to have a perfect credit score - some banks will accept 640
- Banks will conduct detailed research on the company you acquire*
- Use your retirement savings (401K, etc.) for down payment**

NOTES:

- ** Conduct your own Due Diligence on the business you are buying, even though banks do a detailed job checking out the business.*
- *** If you use your 401K or other retirement program that allows you to avoid penalties and taxes, confirm that the plan you use is in strict compliance with the IRS guidelines.*
- *Understand that banks will require you to use your home as part of securing the loan (unless you don't own a home, of course, and yes, they lend to people who do not own homes or real estate).*
- *Not all banks are the same. Talk to multiple banks until you find the one that is right for you and the business you plan to acquire.*
- *Just because you have a relationship with a bank does not mean that they will grant you an SBA-backed loan.*
- *Other types of loans are possible sometimes. Do your research and find the best deal for you.*
- *Yes, you have room to negotiate with many banks.*

Below is just a quick comparison and only shows projected cash flow for year one but allows you to compare three scenarios for a \$300,000 business acquisition.

Imagine three similar businesses, each being offered for about \$300,000 and each netting to the owner \$125,000.

1. **All Cash:** If the Seller wanted all cash and no bank was going to be involved, the Buyer would have to come up with \$300,000 from savings, and maybe family, friends, and fools.
2. **Seller Financing with 60% Down:** In the second case, the business is the same price, but the seller is willing to finance the sale as long as the Buyer puts enough down to make the Seller comfortable, which in this case is 60% or \$180,000. Sellers often want their money back over a foreseeable time frame, so we used 36 months as a payback period.
3. **SBA Lender Financing:** Here a bank will finance the deal over 10 years at 6% interest. They will accept 20% down and therefore the Buyer only must come up with \$60,000 for the down payment.

Payments and cash flows will change over time. **Return Ratio** here represents the return of cash you receive compared to the amount you put down. It does not consider bank and other fees. **SDE** is the owner benefit of the business before making any loan payment. **Remaining** shows owner benefit after making bank payment.

Always carefully compare all bank loans with the support of your professional lending, legal, and accounting experts. If you have a lot of cash, you may prefer having no payments, but the SBA allows Buyers to leverage your money and sometime acquire a much larger company than you could otherwise afford.

	All Cash	Seller Fin	SBA
Number of Buyers	<i>Few</i>	<i>Moderate</i>	<i>Most</i>
Price	\$300,000	\$300,000	\$300,000
% Down	100%	60%	20%
\$ Down	\$300,000	\$180,000	\$60,000
% Seller Holdback	0%	0%	0%
\$ Seller Holdback	\$-	\$-	\$-
\$ Amount Financed	\$-	\$120,000	\$240,000
Annual Interest Rate	0.0%	6.0%	6.0%
Monthly Interest Rate	0	0.005	0.005
# of Payments	0	36	120
\$ Payment/M		(\$3,650.63)	(\$2,664.49)
\$ Payment/Y	\$0.00	(\$43,807.59)	(\$31,973.90)
SDE	\$125,000	\$125,000	\$125,000
Less Payment	\$-	\$(43,808)	\$(31,974)
Remaining After Loan	\$125,000	\$81,192	\$93,026
Return Ratio	0.42	0.45	1.55

If you are looking to acquire a great business, take a careful look at SBA Pre-Qualified business. Among these, you will find many with great records and performance. Always make sure you conduct your detailed Due Diligence.

CONFIDENTIALITY IS IMPORTANT TO BUYERS TOO!

Often, when you ask for more information about a business listing that you found on a website or via a search engine, you are - or you will be - asked to fill out and sign a Non-Disclosure Form.

Why? Well, unlike traditional residential and commercial real estate transactions, the identity, location, and other key factors about a business are usually kept highly confidential when listed on the market.

This is done for a variety of reasons but predominantly it's done to protect the Seller's business interests which, in turn, ultimately protects YOUR business interests if you decide to purchase the business in question.

Business owners often do not want their employees, competitors, creditors, and customers to know that they are looking for a new owner to carry on their legacy.

It's important to remain profitable prior to sale and continue to be profitable after the sale, so a business must continue to operate as normal even while on the market.

TYPES OF FORMS YOU MAY BE REQUIRED TO FILL OUT

CONFIDENTIALITY AGREEMENT (CA) / NONDISCLOSURE AGREEMENT (NDA)

Almost every listing will require that you complete a **CA or NDA**. If you have a partner who will also be looking at the information and/or business, he or she will also need to sign an NDA as well.

BUYER INFO SHEET, BUYER'S WORKSHEET, OR PERSONAL FINANCIAL STATEMENT

You might also be asked about your financial situation and what types of businesses you are interested in. This isn't to pry into your personal business, but rather a way to tell the business owner you are serious about their business, that you have the funds to purchase the business, and you have the skills required to run the business successfully.

Some clients insist on confirming that any prospective Buyer / Investor has the funds necessary to purchase the business. Often, they will share confidential business information, such as business name, business address, financial information, and their comprehensive business review **ONLY** after YOU have completed and shared your Buyer Info Sheet.

It's a give-and-take situation, but one that has benefits for each side of the transaction.

OTHER IMPORTANT CONSIDERATIONS

RECORDS

Although you will receive quite a bit of private information after you sign the NDA, often documents like tax returns and leases are only shared with Buyers / Investors as part of Due Diligence after an offer is accepted. Make sure when you make an offer that you can get back any down payment and get out of any obligation to purchase the business should it fail to satisfy the Due Diligence requirements.

NOTE: Some Business Owners do not always keep detailed records. Some listings will say Owner to Prove or Owner Estimate. Carefully assess the records you receive.

Ultimately, you need to know that filling out an NDA and completing a Buyer's Worksheet is a way for business owners to know you are serious about your interest in their business, that you won't disclose important confidential business information to employees, competitors, customers, creditors, or anyone else associated with the business and it helps business brokers find the right business for you!

CONFIDENTIALITY GRID

The table below describes how different individuals associated with a business might be impacted by a notice of sale.

Crew	<ul style="list-style-type: none">• They may worry about job security and look for work elsewhere, leaving you high and dry.• They might have a different commitment to you and your business.
Customers	<ul style="list-style-type: none">• They may immediately start taking their business somewhere else.• They may feel they are being abandoned or that your business is not doing well since you are leaving.
Creditors	<ul style="list-style-type: none">• They may start calling in debts early or stop extending credit.
Chain of Suppliers	<ul style="list-style-type: none">• They may be reluctant to offer you breaks or special offers, saving up for the new owner to curry favor or get orders.• They are in a unique relationship with your competitors and may not be committed to confidentiality.
Competitors	<ul style="list-style-type: none">• They may use the rumor of your sale to woo over your customers.• They may try to hire your employees.

NEXT STEPS

So, you've found a business, met with the owner, and decided this is something you want to get serious about purchasing. You've reviewed a limited amount of financial information, and you're interested enough to make an offer if the numbers are as good as the seller claims.

What's the next step?

FINANCIALS

Sometimes business owners will share quite a bit of confidential business information up front. More often, before giving you copies of the tax returns, W2s, 1099s and other documents that you might want to see, sellers want to know that you are serious about buying their business. Collecting and preparing all that information for your review, takes a lot of time and effort by the seller, which in turn, takes away from their business productivity. Providing this information to prospective sellers also could expose their internal business processes and practices to outsiders as well as possible competitors, which may make sellers hesitant to share it unless they firmly believe that a prospective buyer is serious.

ASSET PURCHASE AGREEMENT

Usually, buyers and sellers use an Asset Purchase Agreement (APA) to establish an agreement of terms between the buyer and seller. An APA is your offer to purchase the business. It spells out the terms and outlines contingencies or conditions that must be met for you to buy the company. Alternatively, a Letter of Intent (LOI) may also be used, but that is typically reserved for larger deals. Our office has a standard APA template that can be modified to meet the needs of our customers.

ESCROW DEPOSIT

Sellers usually expect an escrow deposit to hold the business and the amount agreed to between buyer and seller. This deposit allows you time to conduct your due diligence and make sure this is a business that you want and can purchase.

OFFER - COUNTER-OFFER

If the seller counters your offer by making changes to the contract, then you have the right to decide whether you want to accept the exchanges and go forward with the purchase or decline those changes. A well-written APA will cover many things like the fact that all equipment must be in working condition or that can inventory must be fresh and usable. If you're using a broker, ask for a copy in advance and review the details.

CONTRACT REVIEW

Always carefully review the contract and seek professional legal and financial advice. Whenever you're in doubt, seek professional assistance help. This assistance is vital for a successful transition of ownership.

***NEVER FEEL OBLIGATED
TO MAKE A PURCHASE!
Consult your attorney and/or
accountant for help with
anything you don't understand
or are unclear about.***

Some examples of conditions or contingencies that people have are as follows:

DUE DILIGENCE - Successful due diligence is necessary to prove that the stated numbers represented in the seller's claims can be verified

FINANCING - Contingent upon the buyer obtaining seller financing or third-party (typically SBA lender) backed financing

LEASE - The Buyer can take over the lease or get a same or similar lease

FRANCHISE - The Buyer is approved by the franchisor if there is one

VISA - If the buyer is from another country, make sure that visa is approved before being obligated to buying the business.

OTHER - The above list is not exhaustive, but it includes the more common conditions and contingencies we've observed

**** NOTE: YOU MAY HAVE TO PUT ALL THE MONEY IN ESCROW BUT YOU SHOULD WRITE YOUR OFFER UP SO THAT YOU'RE ENTITLED TO GET IT BACK IF YOU ARE NOT APPROVED.***

NEGOTIATE PROPER TRAINING

Consider reserving a certain amount of the purchase money be paid once hours of training are complete. Consider holding some money in escrow for after the final sale (negotiated in the APA.) You might even outline the training schedule in the APA. We have heard stories of sellers who get their money and move on without fulfilling their training obligation. The amount of training varies depending on the business and the expertise of the Buyer. Insist on getting the time you need. Businesses with updated operations manuals and many franchises make the training process much easier. Note that the seller might be more generous and more open when you're doing that early on in the process.

DUE DILIGENCE

Be specific about the due diligence items you will ask for and the criteria you need. If the business is advertising that it's grossing \$1 million and netting \$100,000 based on the last 12 months, then you want to verify that those are the numbers within a specific variance.

We'll talk more about due diligence in the next chapter.

NON-COMPETE TERMS

Insist that the Seller agrees to reasonable non-compete terms. Again, what is reasonable may depend on the type of business. Excluding the Seller from going into business within a ten-mile radius may be sufficient for a pizza restaurant but not acceptable for most online companies.

TRUST BUT VERIFY

LET'S TALK ABOUT DUE DILIGENCE

You have found a business that looks great, but you want to make sure it is performing as well as the Seller claims. It is time for due diligence!

Most of the time, a Seller will not give you all the details and documents you wish unless you are under contract to buy the business. From the Seller's perspective, providing you all the documentation before a commitment from you, can be a very sensitive issue.

Additionally, it can take the Seller a great deal of time and money to provide all the documents you will need, especially when they must get their accountant and other professionals to help round up the necessary information.

You, however, will want to confirm that the information being conveyed by the Seller is accurate before you make an offer. What you discover in your research might even affect the price you offer.

Sellers usually won't give you much information until they are sure you are serious and are ready, willing, and able to make an offer they can live with.

Often the only way to verify the quality of the business and its financial records is to make an offer in writing.

HERE ARE A FEW KEY THINGS TO KEEP IN MIND

CONTINGENCY

When making an offer, **give yourself an out** if the records don't support your expectations. In your offer, add a contingency stating that, if for any reason you are unsatisfied with your Due Diligence, you can withdraw your offer and receive all escrow deposits or other funds back without hesitation. You may want to get the help of an attorney for drafting this contingency.

The Seller may insist that you be specific about your expectations and ask you to modify the contingency, i.e. "if 2017 annual revenues show more than a 3% negative variance..." or "if Seller's Discretionary Earnings are less than \$105,000 for last full operating year..."

This contingency will give you a way out. However, if you still like the business but only at a lower price, you now have a chance to renegotiate.

DEPOSIT FUNDS WITH A NEUTRAL PROFESSIONAL

Make sure that if a deposit is required, and it usually is, that the **funds are invested with an independent source** and not deposited into the Seller's bank account. Some brokerages hold the escrow themselves but consider using an independent escrow agency or attorney.

CLARIFY TIMING

In the Asset Purchase Agreement, **detail how long you will need to prepare a list** of items for Due Diligence.

If possible, provide the Seller with your initial list at the time of, or right after, your offer is accepted. Include how long the Seller will have to get all the documents to you, and how long you will need to finalize Due Diligence after you receive all those documents.

Give yourself ample time and take holidays and weekends into consideration.

GET HELP

Most of us make better decisions with the **help of an experienced professional** who understands privately owned businesses. You might want an accountant to review financial documents and an attorney to review contracts and leases.

Long before making your offer, find trustworthy professionals who have time to help you. Confirm that they will be ready, willing, and able to help when you need them. Make sure these professionals have a solid understanding of, and experience working with, small businesses like the one you are considering.

WHAT IS A 4506T?

Often you will be looking at tax returns as part of your Due Diligence. Having the **Seller sign a 4506T** allows you to request a copy of the tax returns that they submitted to the IRS.

We have seen more than one occasion when the Seller "got confused" and presented a prospective Buyers with a draft of their taxes, signature, and all, that significantly differed from the copy that the Seller submitted to the IRS.

MAKE A GREAT DUE DILIGENCE LIST

Appropriate Due Diligence lists differ depending on the industry and business specifics. Some have leases, some are franchises, some have client contracts, some have supply agreements, some have work in progress... you see where we are going here, I'm sure.

Sit down with your advisory professionals to generate an appropriate list. You can request a generic form from our firm to use as a starting point, but make sure you craft one that will be appropriate for you and the business you are investigating.

Resist the temptation to download a due diligence list from an unknown or untrusted source on the internet that has a long list of items that do not apply to the business you are researching.

Long lists of unnecessary items frustrate that Seller, complicates the process for you, and wastes valuable time whittling away the unnecessary items. Be focused and respect the time of everyone involved, including yourself.

On the following page is an example of a generic due diligence letter request. This should be just a starting point and needs to be tailored to the specific industry and business you are interested in purchasing.

KEEP TO THE TIME FRAME

Once your offer has been accepted, your Due Diligence Clock usually starts ticking. **Outline the schedule on a calendar and keep to it.** If the business fails to pass your Due Diligence, follow the contract terms within the time frame specified. If you need more time, get a mutually agreed extension in writing.

Failing to complete and comply with the Due Diligence contingency can lead to serious legal challenges you can and should avoid.

REMEMBER - ALWAYS SEEK PROFESSIONAL SUPPORT WHENEVER YOU ARE UNCERTAIN ABOUT ANY PART OF THE BUSINESS ACQUISITION PROCESS.

SAMPLE DUE DILIGENCE REQUEST LETTER

Business Name: _____

The following information is requested by the Buyer from the Seller to complete due diligence. I understand that all information regarding this business for sale is provided by the Sellers or other sources and is not verified in any way by the Broker. Broker has no knowledge of the accuracy of said information and makes no warranty, expressed or implied, as to the accuracy of such information. Understanding that, I shall make an independent verification following of said information, and any additional information I may request of Seller.

I understand that this checklist may include items that do not apply to the purchase of said business or may not include every item that may be required to complete due diligence.

I agree that Broker is not responsible for the accuracy of any of the information I receive or fail to receive, and I agree to indemnify and hold Broker and its agents harmless from any and all claims or damages which may occur by reason of the inaccuracy or incompleteness of any information provided to me with respect to this business or the accompanying Real Estate. This Agreement and its representations shall survive the closing of the sale of this business and/or Real Estate.

I acknowledge receipt of this Agreement and that I have read this Agreement carefully and fully understand it. This agreement shall be binding on the Buyers' successors, heirs and assigns.

Date: _____

Buyer #1 Signature _____ **Buyer #1 Signature** _____

Buyer #2 Signature _____ **Buyer #2 Signature** _____

DATE REQUESTED	SUBJECT	DATE RECEIVED
	List of Furniture, Fixtures & Equipment (Schedule A)	
	Current year's profit/loss - to end of most recently completed month	
	Current year's balance sheet	
	Prior 3-5 year's profit/loss	
	Prior 3-5 year's balance sheets	
	Prior 3-5 year's tax returns	
	Prior year's Bank deposits, bank statements and check registers	
	Monthly sales tax reports as needed for last 12 month's	
	Sellers Disclosure Statement	
	Prior year's payroll schedule, personnel policies and payroll records	
	All operational policies, forms and manuals	
	A of applicable insurance policies (business, health, workman comp etc)	
	Review condition of all equipment, FF&E list and equip. leases	
	Franchise Monthly Report (as applicable)	
	Copies of last 3 months credit card sales	
	Sales by month for last 3 years	
	Copy of Lease	

7 REASONS TO USE A BUSINESS BROKER

CAN YOU BUY A BUSINESS ON YOUR OWN WITHOUT A BUSINESS BROKER'S ASSISTANCE?

Of course you can!

But...take just a few minutes to consider these 7 ways a business broker can help you move through the process of buying your next business.

- **SMALL BUSINESS EXPERTS.** Business brokers are an excellent source of information about small business ownership, and we fully understand the business buying process.
- **MARKET PROFESSIONAL.** Business brokers are familiar with the market and can advise you about trends, pricing, and what is happening locally.
- **JUST THE NUMBERS.** Business brokers can help you wade through the wide variety of financial documents sellers offer as justification for their price. A good broker can help you read and understand whether a business is valued properly.
- **UNIQUE LISTINGS.** We can provide you with a selection of different and, in many cases, unique businesses, including many that you would not be able to find on your own through regular online searches.
- **PAPERWORK!** The amount of paperwork in a business sales transaction is staggering. Let an experienced broker help you wade through all that paperwork!
- **BUFFER.** Business brokers can act as a buffer between buyers and sellers. This can be very important during tough negotiations or during due diligence.
- **DETAILS, DETAILS, DETAILS!** We can handle all the details of the business sale and we will do everything possible to guide you in the right direction, including, if necessary, consulting with other professionals who may be able to assist you too.

When all is said and done, buyers need experienced help when checking out a business for sale. If you don't have a team working with you, you are potentially placing yourself in a risky financial situation. Ultimately, it is your choice whether to bring a professional broker to the table when you buy your next business, but we are here to help if you choose to do so.

For many of the businesses in the state of Florida, we can work within a co-brokering arrangement. When one broker lists a business for sale (listing broker), and another broker working with the Buyer (Buyer's broker) brings a nondisclosure agreement signed by the Buyer that they are working with, then both parties usually can work together. A few listing companies do not work together with other firms, but this is generally the exception to the rule here in the state of Florida.

NOTE: If you, as a buyer, sign the nondisclosure agreement (NDA) with a firm helping you, then usually the commission is usually split 50-50 between the listing company and the buyer's brokerage company. So, no matter where you see the business, if you tell us about it we can prepare a nondisclosure agreement which helps protect you and us as well.

BUT: If you sign a nondisclosure with the firm that is listing the business, and not our firm, then the listing firm will usually not cooperate or work together with us or any other brokerage firm on that particular listing. In that case, we charge a \$5,000 upfront not to exceed a certain percentage of the total purchase price of the business, and the rest in commission, all together typically 5% of the total purchase price. The total fee depends on the size of the business for sale; if the business is listed for over \$1 million our fee goes down percentage wise, based on the size.

Some of the things that you will get help with when you use a business broker:

- *Preparing the Asset Purchase Agreement (APA)*
- *Generating contingencies to help protect you*
- *Finding similar, comparable sold businesses so that you can verify that the price you're paying seems to be with in the market rate*
- *Connection special services, such as SBA Financing, or help securing an international visa, or something else that is unique to your needs (we have great resources that all can be used because we know our referral sources have a great experience in the areas we work with)*
- *Help securing knowledgeable, experienced business attorneys**
- *Help securing highly experienced accountants**
- *We have a shortlist and can recommend a few people in each industry so that you can find the right one that fits you perfectly.*
- *We can also help you create a list of items for Due Diligence*

Other documents that business brokers can help you with include:

- 4506T for verifying tax returns
- asset allocation documents-8594
- Seller's Disclosure Document
- Contact for negotiating a lease, if that is needed
- Other resources
- Insights into licensing, resources for setting up your corporation, etc.

We are not attorneys. We are not accountants. We always recommend that you each out to professionals in the industry is that you need help with.

But what we do know is business ownership transition. Legacy Business Brokers are here to help you with every step of the process outlined above.

We have the experience and the know how to help you get you the right business at the right price!

Thank you for taking the time to read through this book! I hope you found information that was useful for you as you start your journey to business ownership!

If you have any questions, want to find the right business and the right price, need more information, or just want to chat. Please contact me or my team!

It's time to build your legacy!

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