

## CHECKLIST:

# Questions to Ask When Buying an Existing Business

### GENERAL

- Why is this business for sale?
- What is the history of the business, including the background of founders and key management?
- What is the outlook for this industry and this business?

### FINANCIAL

- Are the company's revenues rising or declining? If declining, what is needed to improve them?
- What is the company's financial status? Ask for audited year-end financial statements (balance sheets, income statements and cash flow statements) for the past three years.
- Ask for three years' worth of tax returns. (If a business owner claims to have made more money than the tax returns show, but just didn't report it, he or she may be dishonest in other areas too.)
- In addition to the above, have your accountant review key financial ratios including gross profit to net sales, net income to net worth, and net income to total assets.
- What current debts does the company have? Are there any liens against the business?
- Are a substantial percentage of accounts past due? If so, how overdue are they? Is the company writing off any bad debts?
- Does the company have adequate working capital?
- Does the company have a good relationship with its bank?

### LEGAL

- Is the business involved in any ongoing lawsuits, and if so, what are the details? Has it been involved in lawsuits in the past, and if so, what was the outcome?
- What are the company's current contracts? Have your attorney review them. Is any business done without contracts?
- What zoning or industry regulations affect the business? Are there any proposed or pending changes to these regulations that could affect the business?

### MARKET

- What is the target market for the business? Is that market growing, stable or shrinking?
- Does the business rely too heavily on a few key customers? What would happen if those customers left?
- Who are the company's primary competitors? How successful are they, and what are their growth prospects?
- How much market share does the business command? How does that compare to the competition?

## SALES/MARKETING

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- What sales channels does the business use? Which are most and least effective?
- What marketing methods does the business use? Which are most and least effective?
- Are the business' sales consistent, or do they vary seasonally?
- What is the sales history for the past few years? What are projected sales?
- If sales are rising, is the increase due to growth in the market or to raising prices?

## ASSETS

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- Does the company own any intellectual property, proprietary processes or exclusive products? If so, will the ownership rights transfer to you?
- Does the company own or lease its location/s? What are the terms of the mortgage or lease? Can you take over the lease or assume the mortgage?
- Does the business own or lease its equipment? If the latter, can you take over the lease? Is the equipment current or outdated?
- What is the company's reputation? Use social media, visit online ratings and review sites, contact the Better Business Bureau and talk to existing customers and suppliers to get a fuller picture.
- Does the business have current licenses, permits and/or certifications from industry organizations?
- Does the company enjoy strong brand recognition in its market?
- What types of insurance policies are in place? Can you take over the policies as part of the sale?

## SUPPLIERS

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- Who are the company's suppliers? Are the suppliers willing to transfer the existing contracts to you when you take over the business?
- Does the business have multiple suppliers or just a few?
- What inventory levels does the company maintain? Too much can be a sign that the company is struggling to move product or is spending too much maintaining inventory.

## EMPLOYEES

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- How do employee wages compare to the industry average and to average wages in the local marketplace?
- What employee benefits are offered? How much do they cost?
- Does the business have many long-term employees, or is there high turnover?
- Who are the key employees? What are their duties and positions?
- What is the company culture like? Is it a good fit for you?
- Are the employees unionized, or are they planning to unionize?
- Are key employees likely to stay on after a change of ownership?

## NOTES

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