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# Buying A Business Checklist

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## When buying a business, there are some essential things that you need to take into consideration.

However, before diving into a due diligence checklist, you should ask yourself a few simple questions:

- Are you passionate about this business and its niche?
- Are you buying out a competitor for its talent or product offering?
- Does it fit with your personal, lifestyle and financial goals?
- Is the business shrinking or growing?
- What are the pros & cons of purchasing this specific business?

**Amongst many other questions.** Let's dive into some of the key due diligence checks we recommend before you look into buying a business.



# Checklist

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Let's say that you've honed in on which business you'd like to buy, and you're now at the point of needing to research the next steps.

## Here are some essentials to purchasing a business:

- Operations and structure of the business
- What are the Financials, Profit & Loss, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)?
- Check over material contracts
- Review clients & purchasing habits
- Marketing, branding, communications & publicity
- Any legal or insurance problems?
- Assets: physical and digital
- Intellectual property
- Professional services
- Employees & Human Resources
- Review your business purchasing plans with an expert

## #01

# Operations and structure of the business



When looking at buying a business, you should be looking closely at how it's structured, if it makes money and if it's viable & stable. This should be one of the first steps and one of the most important to look at:

- Articles of incorporation and all amendments
- Company bylaws and their amendments
- List of all current investors and shareholders. How many shares are held by each shareholder?
- All company names, trade names, assumed names, registered names and trademarked brand names
- A list of all provinces/regions the company is allowed to operate or do business in
- All products and services offered by the company, including their costs and margins
- Business licenses, corporate registrations and federal/provincial incorporation are still in good standings/hold status



## #02

# What are the Financials, Profit & Loss, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)?

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The blood of every business is cash flow. Without it, it's hard to retain a business. So you'll want to make sure that you understand the complete picture of what you're walking into if you're planning on buying a business, and it starts with the financials.

### Here are some key things to look for:

- Financial statements for the last five years
- Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
- If the financial statements aren't audited, have them audited by a Certified Public Accountant
- A schedule of recurring expenses
- Credit report
- A schedule of inventory
- A detailed list of accounts payable
- A detailed list of accounts receivable
- Any outstanding debts and liabilities
- Analysis of gross margins and profits
- Rate of return by product
- Projections, capital budgets and strategic plans



## #03

# Check over material contracts

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You should know what exists for service agreements and contracts. This will fill you in on what you are contractually obligated to retain, to what terms and extent.

### Things to watch for:

- Distribution agreements, sales representative agreements, marketing agreements, and supply agreements
- Letters of intent, contracts, closing transcripts from mergers or acquisitions
- Any installment sale agreements
- Mortgages, security agreements, collateral pledges
- Loans agreements, lease agreements,
- Quote, purchase order, invoice & warranty paperwork
- Stock purchase agreements or other options
- Non-disclosure & non-compete agreements

This is just to name a few items. For a more exhaustive list, we'd recommend discussing it over with your legal and accounting professionals or contact us.





## #04

# Review clients & purchasing habits

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It's important to know that what you're purchasing actually has ongoing sales and recurring clientele.

- List of the company's top/largest clients in sales & invoices
- How many retained or recurring clients are there?
- What is the frequency of the purchases?
- What is the average order/average retained amount?
- What is the churn rate?
- Which large accounts churned, and what were the reasons?
- Are there any unfilled orders?
- Are there any loyalty programs or client rewards?

## #05

# Marketing, branding, communications & publicity

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A vital component of any business is its ability to gain and retain customers. Therefore, marketing, communications and publicity should be carefully reviewed and could be a potential growth opportunity once you buy a business.

You can have a marketing professional audit this for you. However, we would also recommend that you ask the following questions:

- Is there a developed brand? Do they have brand guidelines?
- Do they have a website? What domain names exist for their business?
- Do they own the website, or is it shared copyright with the agency of record?
- Do they have social media properties? How active are they? What is their following?
- What does the competitive landscape look like for their target market?
- Is there any negative publicity about the brand you should be aware of?
- Do they have a communications or Public Relations (PR) strategy?
- Are there any professional services working with their marketing? Are there any contracts with these particular firms?
- Do they do email marketing?
- How big is their email subscriber list?
- What is their current promotional & marketing strategy?
- Have they been published or featured in any media?





## #06

# Any legal or insurance problems?

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One commonly overlooked step in the buying process is ensuring that everything is above board legally, paperwork is in place, and there isn't any current or prior litigation that can threaten the future operations of the business you're looking to acquire.

### **Some key things you should be watching for:**

- Any pending litigations?
- Who represents the company?
- Any prior settlements?
- Any threatened litigation?
- Are all the necessary terms, agreements, licenses and permits in place?
- Are there any legal obligations (i.e. service agreements, terms of use, etc.) detailed for your insurance policy to be considered valid?
- What are the current insurance policies in place? Will they still be valid after it's sold?

## #07

# Assets: physical and digital

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When taking over a business, not only are you taking over their client lists, but also the wealth of knowledge, trade secrets, real estate and equipment.

### Key assets to make a note of:

- Digital assets such as website, domain names, social media properties, web applications and mobile applications
- Real estate including offices, warehouses, leases, titles, deeds, mortgages, zoning approvals and use permits
- All fixed assets such as inventory, furniture, equipment, fixtures and electronics
- Company vehicles such as cars, trucks, trailers, RVs and boats
- All leased equipment
- Sales and purchases of major capital equipment from the past three years



#08

# Intellectual Property

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One of the main reasons why anybody buys a company is typically to obtain their intellectual property. This includes any trademarks, patents, copyrights or anything other intellectual details that the company may hold, including:

- List of trademarks, copyrights and patents and the necessary supporting documents
- List of operating names and trade names in use
- List any **Waivers of Moral Rights** and consulting agreements
- Any protections in place for trade secrets?
- Details of inventions, formulas and recipes
- Descriptions of technical know-how
- Any claims against the company about its intellectual property?



## #09

# Professional services

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Most successful companies work with professionals to help with different functions of their business. Here is a list of who you should make a note of and the potential contracts in place from their past five years of business:

- Law firms / legal representatives
- Accounting firms
- Bookkeepers
- Marketing agencies
- Communications & Public Relations (PR) firms

## #10

# Employees & Human Resources

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One of the best reasons to buy or take over a business is for its talent. They are who make or break most companies. But, unfortunately, staff and human resources are often overlooked but are critical assets within a business structure.

### **Some key observations that you should make:**

- Organizational chart & employee roster
- Employment, consulting non-disclosure, non-solicitation or non-competition agreements between the organization and its employees & contractors
- Human Resources (HR) policies & procedures
- Benefits, group insurance & retirement plans
- Payroll information, pay structures, pay frequency, bonuses and tax forms
- What employees plan to stay or go after it's sold? (If known)





## #11

# Review your business purchasing plans with an expert

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We know how exciting it can be to take over an established business. Our team of business advisors wants to ensure that you have a successful transaction.

**Reach out to us today to look over your plans together.**

- Contact Community Futures to review your business plan



# Conclusion

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Whether the business you're planning to buy has \$250,000 in revenue or \$10,000,000 in revenue, it's vital to review most of the above checklist before making any final decisions. In addition, we always recommend consulting with legal, financial and communications professionals for sound advice.

Do you want to take over a business but don't quite have what the bank needs to get you going? Community Futures is here to help, with loans of up to \$150,000 to help you buy your next business.

Community Futures wants to see the success of businesses in Rural Alberta and is here for you, every step of that journey. So whether you're buying a business, expanding your operations or planning your exit strategy, contact us, and we can review your business plan together today.

