

Evaluating a Business for Sale

- Industry Analysis
 - Sales and Profit Trends in the Industry (Determines future success)
 - The degree of competition
 - The state of the economy
 - Social Concerns
- The Previous Owner
 - Why are they selling the business
 - Is the previous owner a well respected member of the community
 - Will the previous owner be available (at least temporarily)
 - Is the previous owner willing to finance the purchase
 - What will the previous owner do after they sell
- Financial Condition of the Business
 - Should assess Validity of the Financial Statements
 - Obtain audited statements
 - Review the methods used in recording
 - Investigate whether there are any hidden liabilities (Liens or law suits)
 - Review the income tax returns and bank deposits
 - Evaluation of the Financial Statements
 - Sales, expenses, profit levels, assets, liabilities and cash flows
- Condition of the Assets
 - Liquid Assets (Cash and Investments)
 - How easily can the liquid assets be turned into cash
 - Accounts Receivable
 - How many may be uncollectible
 - Inventory
 - Is any inventory old, obsolete or damaged
 - Building and Equipment
 - Are the building and equipment old or obsolete
 - Real Estate
 - What are the land taxes and service costs or is the lease transferable
 - What are the terms and conditions of the lease
 - Has the area experienced high turnover of business
 - Goodwill
 - What value does the owner place on goodwill
 - Is the value realistic or reasonable
 - Goodwill should not exceed 20% of the cost of the assets
- Quality of Personnel
 - What is staff turnover
 - How are they going to react to the new owner
- External Relationships of the Business
 - Will existing relationships continue with suppliers, customers and lenders
- Conditions of the Records
 - Review credit files, personnel files, sales reports, contracts and customer lists