

The key to successfully purchasing a business is to fully investigate the business before you commit yourself to purchasing it. The first step you should take is that of reviewing the history of the business and the way it operates. This includes a review of the business' financial statements, operating documents, and practices. The following list will serve as a guideline to help you in your decision to purchase a business:

1. **Preparation - try to obtain as much information as possible before any money is exchanged.** Ask for or research all key information up front. This should include:
 - Seller's background information.
 - Understand the industry the company to be sold operates within.
 - Review the existing business plan of the seller.

2. **Establish a clear picture of the business to be sold.**
 - What is the story behind the current operation of the business?
 - What is the current owner's story?
 - Why is the owner selling?
 - What are the buyer's future plans for the business?
 - Who are the primary competitors? Be sure to note other industry concerns.
 - Is the location good or bad?
 - If renting a location, provide details and a copy of your current lease.
 - Do you or can you keep key personnel who are vital to success of business?
 - Will you be able to keep existing suppliers?
 - Identify all assets and liabilities including any debts or agreements with any other businesses.
 - Are the sales patterns consistent, seasonal, or cyclical?
 - Identify minimum and maximum sales.

3. **Collect at least 2 to 3 years of financial statements from the seller.** In the absence of this information, source documentation should be reviewed to determine that income and expense levels are as the seller described.

4. **If the company to be purchased is a limited liability company,** review the articles of incorporation to see if there are any potential clauses that may prohibit the sale or impede the buyer from carrying out the same business (i.e. legal deal breakers).

Business Purchase Checklist

- 5. **Decide how the business purchase will be financed.** Will it be financed by personal cash or security injection, BEDC guarantee, and/or other guarantors?
- 6. **If there is any goodwill included in the purchase price,** ask the seller to sign a non-competitive agreement protect to this purchased goodwill. Sample non-competitive agreements are available from BEDC.
- 7. **Visit Bermuda Economic Development Corporation for FREE advice and help.**
- 8. **A guide to determine if the purchase price is reasonable* may be calculated as net assets + 3 to 5 times average annual net income.** To demonstrate this calculation, assume that the total net asset value of the company amounts to \$50,000. Let us also assume that average annual income is \$10,000. A reasonable sales price may be, based on our general guide, \$80,000 to \$100,000 (\$50,000 + 3 to 5 multiplied by \$10,000)
- 9. **Purchase/Sale Agreement.** Work with an attorney to review terms and conditions to protect yourself as the purchaser.

Helpful Things to Remember:

- Take your time and verify the information you are given, before you commit yourself;
- Don't fall in love with the business before you do your homework;
- Be careful not to pay too much for goodwill;
- Buy a business within an industry you know well with a product or service you are comfortable selling;
- Buy based on the return on investment not the price;
- Don't use all your cash for the purchase then run into cash flow problems;
- Investigate before you buy.

*This calculation is a general guide for use in Bermuda only