

# Buying an Existing Business — Workbook

This workbook turns the course into a working acquisition toolkit. Move through it in order: define what you are hunting for, value a real listing on SDE, structure an offer, run disciplined due diligence, size an SBA loan that keeps you cash-flow positive, and plan a transition that keeps customers and staff. Use the templates to track deals, recast earnings, model your debt service, and run your diligence checklist.

## Why Buy, and How to Find the Right Business

Decide what you are looking for and build a pipeline that surfaces it.

### Worksheet: Write Your Buy-Box

Fill in concrete criteria for every dimension. The point is to be able to reject most listings in seconds. Be specific with numbers, not adjectives.

Target SDE / owner-earnings range (dollars)

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Target revenue range (dollars)

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Industries I will consider (and ones I will not)

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Geography / max commute or relocation

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Maximum acceptable customer concentration (% of revenue from top customer)

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Owner-dependence tolerance (can the business run without the owner? Y/N + notes)

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My core operating strength (sales / operations / finance / trade skill)

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Total cash I can put toward a down payment (dollars)

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### Exercise: Buy vs. Build Gut Check

Pressure-test your reasons for acquiring rather than starting from scratch, so your decision is deliberate.

• What specific certainty are you buying (existing cash flow, customers, team, supplier terms)? Which matters most to you?

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• What are you giving up by buying instead of building, and are you comfortable inheriting someone else's prior decisions?

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• Can you lead the core engine of the business you want (selling, operating, or the key trade)? Be honest.

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- How much capital and time would building an equivalent business from zero realistically cost you?
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### Checklist: Build Your Deal Pipeline

- Set saved-search alerts on BizBuySell and BizQuest matching my buy-box
- Identified and introduced myself to 3-4 brokers in my target industry/region
- Drafted a polite, specific direct-outreach message for off-market owners
- Told my network (accountant, attorney, banker) exactly what I am looking for
- Started a deal tracker (company, source, asking price, SDE, multiple, status)
- Committed to reviewing enough deals (50-100) to make one good offer

## Valuing the Business and Structuring the Deal

Recast earnings into real SDE, value the business, and design protective terms.

### Exercise: Recast Earnings Into SDE

Using a target listing's tax return or P&L, work the add-backs step by step. Demand proof for every add-back; reject anything the new owner would still have to pay.

- Start with net income from the tax return. What is it?
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- Add back the owner's salary, depreciation/amortization, and interest you will not inherit. What is the running total?
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- Add back only documented, one-time or personal expenses (with proof). What is your defensible SDE?
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- Which add-backs could you NOT verify, and how much do they inflate the seller's claimed SDE?
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### Worksheet: Triangulate the Valuation

Value the business three ways and compare. When they roughly agree you have a defensible number; when they diverge, dig before offering.

Defensible SDE (from the recast exercise)

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Chosen multiple (2.0-4.0x) and the reasons (recurring revenue, concentration, owner-dependence)

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Multiple-method value = SDE x multiple

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Fair market value of tangible assets being sold (equipment, inventory)

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Implied goodwill = price minus tangible assets (is it reasonable?)

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Buyer cash-flow test: SDE minus my fair salary minus annual loan payment = ?

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Does the deal leave positive cash flow after debt service? (Y/N)

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### Exercise: Design the Deal Structure

Decide how to split price and risk between cash, seller note, and earn-out, and which protective clauses you require.

- Is this an asset purchase (buyer-friendly, standard for SBA) or is a stock purchase required to preserve a license or contract?

- What split fits the risk: roughly what % cash at close, % seller note, % earn-out/holdback?
- Where is the risk (customer concentration, owner-dependence, shaky recent numbers) that an earn-out or holdback should cover?
- What non-compete length (3-5 years) and seller transition/training period (30-90+ days) will you require?

**Checklist: Valuation & Structure Readiness**

- Anchored SDE to tax returns, not the CIM
- Every add-back is documented and truly would not recur for the new owner
- Chose a multiple justified by the specific business's quality
- Cross-checked with the asset method and the buyer cash-flow test
- Decided asset vs. stock with my attorney/CPA
- Planned a working-capital adjustment so the business is not stripped at close
- Required a non-compete and a seller transition period in writing

**Due Diligence and Financing the Purchase**

Verify the business is what the seller claims, and fund it without crushing cash flow.

**Checklist: Financial Due Diligence**

- Obtained 3 years of business tax returns (the anchor)
- Obtained 3 years of P&L statements and balance sheets
- Reconciled tax returns, financial statements, and bank deposits to one story
- Demanded proof (invoice/payroll record) for every add-back inflating SDE
- Reviewed accounts-receivable aging (are customers actually paying on time?)
- Confirmed sales-tax and payroll-tax filings are current
- Assessed revenue quality: recurring vs. one-time, and any non-repeatable spike
- Considered a CPA Quality-of-Earnings review for a meaningful deal

**Worksheet: Operational & Legal Risk Log**

Record what you find for each risk area. Flag anything that is a go/no-go issue or grounds to renegotiate price or terms.

Top-customer concentration (% of revenue) and whether the relationship survives the sale

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Key employees: who runs things, and will they stay (stay bonus needed? Y/N)

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Lease: transfers? remaining term? rent?

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Licenses/permits: which are needed and do they transfer to me?

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Change-of-control clauses in supplier/franchise/loan contracts (any that let a party cancel?)

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Litigation, liens (UCC), and insurance/claims history

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Owner-dependence: written SOPs or tribal knowledge in the owner's head?

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## Exercise: Size Your SBA 7(a) Acquisition Loan

Work the financing math so you know the deal clears underwriting and still feeds you. Aim for a DSCR of at least 1.15-1.25 after a fair salary.

- Total project cost and your 10% minimum equity injection — how much is cash vs. a possible seller note on standby?
- Estimate the annual loan payment on a 10-year SBA term (use an online amortization calculator: amount, rate at Prime + spread, 120 months).
- After paying yourself a fair-market salary, what adjusted cash flow is left to service the loan?
- Divide that cash flow by the annual loan payment: is your DSCR at or above 1.15-1.25?

## Closing and the Owner Transition

Get to the keys cleanly, then stabilize the business before changing anything.

### Checklist: LOI-to-Close Checklist

- Signed an LOI with price, structure, exclusivity (no-shop), and a diligence window
- Assembled my deal team: transaction attorney + CPA + SBA Preferred Lender
- Completed financial, operational, and legal due diligence (renegotiated/walked if needed)
- Finalized SBA financing sized to the independent appraisal
- Negotiated the definitive Asset/Stock Purchase Agreement (reps, warranties, non-compete)
- Confirmed a working-capital peg so the business comes ready to operate
- Cleared closing conditions: lease assignment, license transfers, lien searches
- Closed, funded, and received keys, passwords, and accounts

### Worksheet: First-100-Days Plan

Map out your stabilization actions and timing. The goal is to retain and learn, not overhaul.

Day-1 employee message (what I will say to reassure the team)

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Top customers I will personally contact in the first weeks (names)

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Key employees to retain and how (new agreement / stay bonus / attention)

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Roles I will spend time in to learn how the work actually gets done

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How I will use the seller transition period (questions only the seller can answer)

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2-3 low-risk quick wins to build credibility

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Major changes I am deliberately deferring until I understand the business

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### Exercise: Pre-Mortem: Avoid the Common Pitfalls

Before you commit, name the specific way this deal could go wrong and how you have guarded against it.

- Could you be overpaying on inflated SDE? What proof backs every add-back you accepted?
- Where is the concentration or owner-dependence risk, and what structure (earn-out, transition, stay bonus) covers it?

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- Are you leaving enough working capital and reserve for first-year surprises, or spending every dollar on the down payment?

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- What is your single biggest worry about this deal, and is it a renegotiate, a structure fix, or a walk-away?

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### Checklist: Transition Retention Watchlist

- Communicated to all staff in person on day one
- Reached out to every major customer to reassure them
- Locked in critical employees before they could panic and leave
- Resisted changing pricing, vendors, branding, or processes prematurely
- Documented tribal knowledge from the seller before they left for good
- Tracked customer and employee retention as my top early metrics

### Your Action Plan

1. Write your buy-box (size, industry, geography, owner-dependence, your skill) before opening a single listing.
2. Build a pipeline across brokers, BizBuySell/BizQuest, and off-market outreach, and track every deal you review.
3. Get pre-qualified with an SBA Preferred Lender so sellers treat you as a funded, credible buyer.
4. For each promising target, recast earnings into a defensible SDE and verify every add-back with documentation.
5. Value on SDE times a justified multiple, then cross-check with the asset method and the buyer cash-flow test.
6. Make an offer and sign an LOI with price, structure (cash, seller note, earn-out), exclusivity, and a diligence window.
7. Run full due diligence: reconcile tax returns, financials, and bank deposits, and assess concentration, lease, licenses, and litigation.
8. Size the SBA 7(a) loan over a 10-year term so the DSCR clears 1.15-1.25 after a fair owner salary.
9. Close with attorney-drafted documents, a non-compete, a working-capital peg, and a seller transition period.
10. Execute a 100-day plan: communicate, retain top customers and key staff, learn before you change, and bank a few quick wins.









