You may be required to sign a confidentiality agreement to proceed with your due diligence. Now is the time for in-depth financial analysis. Do your projections, check the going rates, the market conditions, and the strengths and weaknesses of the business. Consult your solicitor and/or accountant to draw up an offer (there are a number of ways to value a business, your accountant will assist with this). Remember, you are buying a business, not a job! Usually, your offer will be conditional upon certain aspects being satisfied. Be thorough withn this, check everything, and call in an adviser, an industry specialist, and your accountant and lawyer. This will cost (ask for quotes) but it will be cheaper than getting it wrong.

Every business will differ in what is required, but you will need to cover:

- **The financials** - Inspect the business's books covering the past 3-5 years to judge its health and financial trends - the accounts may need to be normalised (adjusted to exclude interest payments, owner drawings, etc.). Do they make sense? Is there a profit after owner's wages? How is the business trading? If the owner owns the building, are they paying market rental? What you are looking for is whether the business is making any money, and whether it is in a sound financial condition to provide the return you want. Work with your accountant or business adviser to check irregular figures and establish industry operating ratios - how do they check out against others?
- **What exactly is for sale** - There is likely to be plant and stock of some description - how have these been valued? Plant will generally be valued as either a Going Concern (the assets are valued as a working part of the business) or at Salvage Value (the lesser, where assets are only worth what they would fetch individually if dismantled and sold). The final value will depend on whether or not the company is trading well. Are there patents and are they registered? Where do they apply and until when? Is there any intellectual property and is it transferable? What about licensing and lease agreements - the business may be worthless if either of these run out and cannot be renewed. There may be stock - how old is this, should some be discarded, has it been priced appropriately? Ensure you know what does and doesn't belong. On inspection, your solicitor will be looking for evidence of ownership of equipment. What's being sold - the business, its assets or its shares? Check out the risks.
- **Verify market demand** - By now, you should have an understanding of the market, what the going rates are, where this business is positioned, its market share, and what the market conditions are like. You should also have looked at the business's competitive advantages and its strengths, weaknesses, opportunities and threats. What skills will you bring to this business? How healthy is this industry? Are there barriers to others entering the market? Is there an adequate margin, or has the owner been price-cutting just to get the business? It may help to speak to an industry specialist.
- **Do your projections** - Use all the above, particularly the financials, to project what your 2-3 year profits will be. Do your most realistic scenario, then look at your best-case and worst- case scenarios. What about cash flow? The bank will be most interested in this, as every month they will want their money. Get your accountant or business adviser to help check your figures.

Making an Offer

It is generally best if an offer is in writing, as this can help prevent any confusion or misunderstandings. There are three options:

1. Get your Solicitor to do this.
2. Use a standard business sale and purchase agreement; you can generally obtain these through your solicitor or your business broker.
3. Do it yourself. Discuss this with your solicitor, he may suggest some appropriate clauses, or wish to view it if he thinks it is necessary.

There are a number of things you will want to cover: the names of the buyers and sellers, what is being sold, the price it's being sold for, terms of payment, warranties by the seller, and any special conditions (these provide some safety if things aren't as you have been lead to believe).

Some common "Special Conditions" that the agreement could be subject to are:

-the buyer obtaining suitable finance.

-the buyer's solicitor approving the agreement and the lease.

-the buyer's accountant approving the business's viability.

-any restraints of trade.

-having a period to conduct due diligence to approve the business's financial records, equipment, and licences.

-and whether the seller is to terminate any existing employee contracts and pay out all wages, salaries and benefits owed.

It is critical you seek professional advice on this.

At this stage, the deal is still contingent on your offer's conditions checking out okay. If they don't, then no deal. Either walk or renegotiate.

Generally, business due diligence only needs to be done once you have a signed agreement. However, in practice, much of this work is often done in finding out about the business and in determining what to offer. Now you need to decide.

These points are intended to act as prompts - they provide an overview only. When purchasing a business, always seek professional advice.