

The Buyer's *Starter Checklist*

A first-look toolkit: the numbers to run, the questions to ask, and the red flags to catch — before you fall in love with a deal.

Use this on any business you're considering. It won't replace real diligence or professional advice — it's the fast first screen that tells you whether a deal is worth a closer look.

1 · The first-look math

A small business is worth some multiple of **Seller's Discretionary Earnings (SDE)** — the total benefit one owner-operator takes from it (net profit + owner's pay & perks + interest, taxes, depreciation + one-time costs). *SDE assumes you'll run it yourself* — if you'll hire a manager, subtract their salary, and your real multiple is higher. Run these numbers first:

Annual revenue	\$
Seller's Discretionary Earnings (SDE)	\$
Asking price	\$
Implied multiple (asking price ÷ SDE)	×
Sanity check — Main St. is typically ~2–3.5× SDE	over / fair / under
Down payment (~10% for an SBA acquisition loan)	\$
Estimated annual loan payment	\$
SDE – loan payment = cash left for you	\$

*Estimating the loan payment: as a rough rule of thumb, figure about **\$1,500 a year for every \$10,000 borrowed** (a 10-year SBA term at recent rates). So a \$300,000 loan ≈ ~\$45,000/year. — The deal only works if cash flow comfortably covers that payment and leaves you a living, with a cushion (lenders call this debt-service coverage). If “left for you” is thin, the price is too high or the debt is too much. These are rules of thumb, not quotes — verify current SBA terms and market multiples for your deal.*

2 · Questions to ask the seller

- Why are you selling — and why now?

- What do you actually do day to day, and how many hours a week?

- What happens to the business if you're gone for a month?

- Who are your top customers, and what % of revenue is your largest one?

- Which employees are essential — and will they stay after a sale?

- How have revenue and profit trended over the last three years?

- Are the financials reflected on your tax returns? May I see three years?

- What add-backs are in the SDE — and are they truly one-time or personal? (*add-backs = expenses added back to profit to reach SDE*)

- What's included in the price — inventory, equipment, and working capital? (*this can swing the real cost a lot*)

Is this an asset sale or a stock sale? (*most small deals are asset sales*)

What's the lease and licensing situation, and does it transfer to me?

Would you finance part of the price with a seller note? (*a seller note = you pay part of the price over time*)

If you kept it five more years, exactly how would you grow it?

3 · Diligence red flags — tick any that apply, and note what you find

One or two customers are a large share of revenue

The owner *is* the business — it walks out the door with them

Revenue or margins are declining

Aggressive add-backs; books don't match the tax returns

A key employee is a flight risk

Lease expiring soon or a license that won't transfer

Pending litigation, liens, unpaid taxes, or warranty exposure

The stated reason for sale doesn't add up

Seller won't share tax returns or finance any of the price

A new competitor or regulation is changing the game

Cleared this first screen? Here's your next step.

Go deeper with the free **Buy a Business guide** — finding, valuing, funding, and closing a deal, end to end. And when a deal is worth pursuing, **bring in a qualified CPA and attorney** to run real diligence and structure the purchase. Start at **baratelliinstitute.com**.

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