# Due Diligence Checklist for Buying a Small Business

A complete, phase-by-phase checklist for buying a small business, from the first pre-LOI screen through financial diligence, legal and operations, and closing. Work it top to bottom, or jump to the phase you are in. Free to use, no strings attached.

## 01 PHASE 1: PRE-LOI SCREENING

Run this before you sign, while price, structure, and exclusivity are still open. The goal is not to finish diligence. It is to confirm the deal is worth a letter of intent and that the terms are calibrated to the real risk profile while you can still walk.

- [ ] **Revenue trend.** Pull monthly revenue for the last 24 months and confirm growth is real, not a one-time bump dressed up as a run rate.
- [ ] **Customer concentration.** Calculate the top 1, top 3, and top 10 customer share and check whether recent growth leans on a single account.
- [ ] **Owner dependence.** Map what the owner actually does day to day and whether sales, key relationships, or operations walk out the door with them.
- [ ] **Add-back sniff test.** Scan the seller adjustments for anything supported by narrative rather than ledger detail.
- [ ] **Owner-operated earnings framing.** For a small owner-run target, decide whether the right measure is seller discretionary earnings or EBITDA before you anchor on a multiple.
- [ ] **Asking-price multiple sanity.** Compare the implied multiple against the earnings measure and the quality of those earnings, not the headline number alone.
- [ ] **Industry and regulatory exposure.** Note licensing, permitting, or regulatory risk that could impair the business under new ownership.
- [ ] **Reason for sale.** Understand why the owner is selling now and whether that story is consistent with the numbers.
- [ ] **Lease and key-contract assignability.** Confirm the lease and the contracts that carry the revenue can transfer to a buyer without a landlord or counterparty veto.

## 02 PHASE 2: FINANCIAL DUE DILIGENCE

This is where a deal is made or broken, and it is the slowest phase by hand. The job is to prove the earnings you are paying for are real, sustainable, and converting to cash, then to size the working capital and liabilities that ride along with the business.

- [ ] **Quality of earnings.** Verify adjusted EBITDA independently rather than accepting the seller number, and understand what a full QoE report covers.
- [ ] **Proof of cash.** Reconcile bank deposits and disbursements to booked revenue and expenses month by month to catch revenue that never arrived as cash.
- [ ] **Revenue recognition.** Review how and when revenue is booked, and whether the policy is consistent across the review period.
- [ ] **Customer concentration, verified.** Confirm the pre-LOI read against invoice-level detail and gross margin by top customer.
- [ ] **AR aging quality.** Assess receivables for collectability, aging drift, and any balances that should be written off.
- [ ] **Inventory reality check.** Test whether recorded inventory is present, sellable, and valued correctly rather than padded.
- [ ] **Net working capital target.** Build a normalized working capital figure to peg at close so the buyer inherits a funded business.
- [ ] **Payroll and contractor classification.** Check that workers are correctly classified as employees or contractors and that payroll taxes are current.
- [ ] **Tax compliance.** Confirm income, sales, and payroll tax filings are current and that no assessments or audits are outstanding.
- [ ] **Debt and lien search.** Identify all interest-bearing debt, seller notes, and UCC liens that must be cleared or assumed at close.

## 03 PHASE 3: LEGAL AND OPERATIONS

With the numbers verified, confirm the business is legally clean and operationally transferable. These items protect the buyer from inheriting liabilities and from a business that cannot run without the seller in the chair.

- [ ] **Entity and deal structure.** Settle whether the transaction is an asset purchase or an equity purchase, because it drives liability, tax, and consent.
- [ ] **Contracts and change of control.** Review material contracts for assignment restrictions and change-of-control clauses that trigger on a sale.
- [ ] **Licenses and permits.** List every license and permit the business relies on and confirm each can transfer or be reissued to the buyer.
- [ ] **Litigation search.** Check for pending, threatened, or historical litigation and any judgments that could follow the business.
- [ ] **Insurance review.** Review current coverage, claims history, and any gaps a buyer would need to close on day one.
- [ ] **Employee agreements and key-person risk.** Review employment terms, non-competes, and which employees are essential to continuity.
- [ ] **IT and systems access.** Inventory the software, logins, domains, and data the business runs on, and plan the handover.
- [ ] **Real estate and lease terms.** Confirm lease term, renewal options, rent, and any related-party arrangement that needs to be market-tested.

## 04 PHASE 4: CLOSING PREPARATION

Diligence findings only protect the buyer if they land in the purchase agreement and the closing mechanics. This phase converts what you learned into terms, protections, and a clean day one.

- [ ] **Reps and warranties.** Make sure the seller representations cover the risks diligence surfaced, with survival periods that match.
- [ ] **Escrow and holdback.** Reserve a portion of the price to stand behind the reps and any unresolved contingencies.
- [ ] **Working capital true-up.** Agree the peg methodology and the post-close true-up mechanics so neither side argues about the number later.
- [ ] **Funds flow.** Build the funds flow that shows exactly where the money moves at close, net of debt payoff, escrow, and prorations.
- [ ] **Transition services.** Document the transition support the seller will provide and for how long, in a transition services agreement.
- [ ] **Day-one access checklist.** Line up bank accounts, payroll, systems logins, keys, and vendor notifications so the business runs the morning after close.

> **The financial phase is the slow part.** Verifying earnings, reconciling cash, and normalizing add-backs by hand is where deals stall for weeks. Zenith Analysis produces the quality of earnings workbook in about a minute from the target accounting data, with an EBITDA bridge, a proof of cash, and a red-flag log traced to source. Run the rest of this checklist yourself and let the numbers verify themselves.