

How to Sell an Online Business:

A Comprehensive Guide

by Hatchit - The Global Deal Directory
www.hatchit.us





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Overview

Selling your online business is a big decision. Whether you started your company or acquired it, you have likely spent countless hours getting it to where it is today. You may have close relationships with customers, staff, and vendors. “Moving on” can be a challenging and emotional journey. This guide was written to help you gain a basic understanding of the steps involved in a sale, and to help you prepare for them. Like our [buyer's guide](#), use this seller's e-book to sharpen your instruments of knowledge so that you can consummate the best deal possible with a promising buyer. If you are seeking advice, we suggest you speak with a seller's agent, CPA or attorney.

Cheat Sheet Summary

- A valuation is another important data point in deciding whether to sell.
- Consider a broker to market and sell your business.
- Investigate business-for-sale marketplaces before listing.
- Most web-based businesses use SDE for calculating a valuation.
- Comps are a useful way to reality check your number.
- Prepare 2-5 years of financials that include a balance sheet, cash flow and profit and loss statements.
- Emphasize what makes your company unique.
- Know who your ideal buyer is.
- Confirm a buyer has the funds to close the deal.
- Create a data room for buyers to access your key info.
- Don't dismiss an offer out of hand if it is within your ballpark.
- Be transparent about any legal or other issues the buyer may raise.
- Have an attorney review the proposed draft of the purchase agreement.

1. Broker or For-Sale-by-Owner?

How you engage with buyers will be an important determinant of your selling experience. If you elect to work with a broker, you will want to clearly understand your respective roles. If you elect to sell your business on your own, you will need to wear many hats and be well versed in the process. You may also want to lean on other professionals to help with elements of the transaction.

[Engaging a business broker](#) can be a great first step when considering a sale. Many business brokers will offer a [complimentary valuation](#), even before you decide to hire them. This often includes taking steps to normalize your company's income statement, then applying an appropriate multiple to the adjusted earnings – a process described below that requires some experience. Equally important, a website broker will know whether your Internet business is a candidate for a [strategic acquisition](#), and how to price it accordingly. A broker can also help you assess what you can expect to net from a sale after all fees and expenses, which can be helpful when making the decision of whether or not to sell.

Once engaged, a broker can help develop compelling marketing materials, leverage the firm's resources and network to attract the right buyers, manage information exchange and negotiation, and work with you and your team to close the transaction and transition the business. Top brokers maintain websites with powerful domain authority and large networks of tech buyers – valuable assets to prospective sellers.

The cost of hiring a broker can vary with the specifics of the assignment, size of the business, and other factors. However, most brokers are primarily commission-based with back-end fees that can range from a few percentage points, to upwards of 15% of the transaction value. Some brokers also charge upfront for the valuation and development of marketing materials.



TIP: Having a preliminary discussion about selling your business with a broker or other professional can help inform your final decision about whether to sell.

There are a number of business brokers that focus mainly on digital businesses, including:

- [Empire Flippers](#)
- Website Properties
- [Latona's Brokerage](#)
- Quiet Light Brokerage
- App Business Brokers
- DragonFlip
- Investors Club
- SellerForce
- Acquisitions Direct

Keep in mind that brokers have their own vetting process. If a broker won't take on your web-based business, find out why so that you can address the issue and be a better candidate in the future. Broker feedback may be an important litmus test for the salability of your business.

TIP: In deciding whether to sell your business on your own or through a M&A specialist, be honest with yourself about the time it will take and whether you have the skill set to do it.

Some questions to ask a broker before engaging their services include:

- Who will manage my listing?
- Do they have experience in my niche?
- Have they sold businesses similar to mine?
- Where will my listing be marketed?
- What will they need from me?
- What is their fee?
- What timeline do they anticipate?



If you have experience with business transactions, or can lean on other professionals such as your CPA, attorney, or financial advisor, you might choose to sell for-sale-by-owner (FSBO). In addition to saving the brokerage fee, taking this route puts you in control of the process and perhaps enables you to more easily build rapport with prospective buyers. That said, selling an online business on your own can be a time-consuming and challenging task, particularly if you are simultaneously running the business. Be sure you have the skill set and bandwidth available to ensure an optimal outcome. Additionally, without the benefit of a network, you will likely need to invest in marketing your opportunity. There are a number of online marketplaces and platforms that can help market your listing:

Hatchit.us

- Focus (>80%): established & profitable website businesses < \$2 million in Annual Revenue (AR)
- \$0 listing fee
- 0% success fee

Flippa.com

- Focus (>80%): auctions and fixed price websites & digital assets < \$200k in AR
- \$49 listing fee for online businesses
- 5%-15% success fee

Acquire.com

- Focus (>80%): SaaS startups
- \$0 listing fee
- 0% success fee

MotionInvest.com

- Focus (>80%): micro sites < \$50k in AR
- \$0 listing fee
- 15%-20% success fee in marketplace

Regardless of whether you decide to sell through a broker or on your own, the process remains essentially the same. The following chapters outline the key elements, and offer tips and items to think about at each stage.



Quick Answer Takeaways:

- A valuation is another important data point in deciding whether to sell your business.
- A broker can help prepare your business for sale.
- A broker can help market and sell your business.
- Investigate business-for-sale marketplaces before listing your business.
- Make sure you have the time and professional experts on hand to help sell your business on your own.

2. Valuation & Financials

The first step for many online business sellers is to understand the value of their business. There are many different ways to value an enterprise, from asset-based and market-based approaches, to an assessment of historic and future earnings. Different approaches are favored based on the size of the business, its growth trajectory, the profile of the buyer, and the state of the business. For buyers of smaller, closely-held companies, a few useful methods are: (1) the multiple of earnings method, and (2) the market value method.

Multiple of Earnings Method: For an owner-operated, web-based business, the metric often used as the number being multiplied is “Seller’s Discretionary Earnings” (SDE). [SDE](#) is typically calculated by subtracting the cost of goods sold and operating expenses from annual gross income, and adding back non-recurring, non-cash and discretionary expenses. Operating expenses are the necessary costs to running the business and are non-discretionary. Examples of expenses that are often added back to the businesses’ earnings include owner’s compensation, depreciation, charitable contributions and personal vehicle expenses. For larger businesses where the value is less tied to owner benefits, the metric often used as the number being multiplied is “Earnings Before Interest, Taxes, Depreciation, and Amortization” ([EBITDA](#)). For businesses that are rapidly growing, have recurring revenue models or have high value to the buyer, “Revenue” is often used as the number multiplied. Since our industry focus is owner-operated, web-based businesses, we will use SDE as our example metric, however many of the same principles apply for other metrics.



TIP: Your SDE multiple is tied to a number of factors including your business' predictability of earnings, customer acquisition, and growth trajectory.

Multiples for smaller website, and similar businesses usually range from 1.5x to 4.5x SDE. Determining where a business falls within the range is tied to the predictability of future earnings and the effort required to maintain and increase them. Businesses that require more advertising to gain traffic or have a less reliable customer base will typically have a lower multiple. Predictable revenue businesses will command a higher multiple.

Here are some questions to consider:

- What is the business category (e.g. lead generation, content, membership/subscription, e-commerce, or software/SaaS)?
 - Where does the business' traffic come from? Organic vs. Paid?
 - What is the customer retention rate?
 - How stable are the earnings?
 - How vulnerable is the company to new entrants in the field? Is the business easy to replicate?
 - How quickly is the business growing?
 - How easily can the assets be transferred to a new owner?
- 

Market Value Method: Reviewing “comps” can be a great way to check whether your valuation assessment is on target. Comps can be obtained through brokerages and online marketplaces (see chapter one). [The Hatchit Marketplace](#) is a good place to start. As a first step, conduct a thorough search for business listings similar to that which you’re assessing. Next, narrow down the group, identifying the 5-10 businesses closest in type and size to yours. Add these businesses to a spreadsheet, calculating a multiple of SDE or Net Profit for each (be careful to ensure that the figures being multiplied are “apples to apples”). You may want to include notes for each on your spreadsheet, as their unique attributes may help to further refine your range (e.g. “does not include inventory valued at \$10k”, or “includes 5 patents”). Lastly, remember, the purchase prices you source online are “asking” vs. “selling” prices – you may need to take this into account when negotiating with a buyer.

Business Description	Sales	SDE	Asking Price	SDE Mult.	Sales Mult.	Notes
eCommerce Small Pet Supply Business	\$ 718,287	\$ 108,136	\$ 375,000	3.47	0.52	Does not include \$10k inv. 2 sites
Shopify Site in the Pet Care Niche	\$ 735,792	\$ 500,461	\$ 540,378	1.08	0.73	
Pet Products Brand eCommerce Business	\$ 3,462,961	\$ 687,779	\$ 2,650,000	3.85	0.77	
Animal Shelter Products eCommerce Sites	\$ 2,652,876	\$ 588,576	\$ 1,961,932	3.33	0.74	
Amazon FBM Site in the Pet Category	\$ 4,914,168	\$ 1,021,440	\$ 3,660,173	3.58	0.74	
	\$ 1,248,408	\$ 290,639	\$ 918,748	3.06	0.70	
Your Company	\$ 2,512,232	\$ 455,900	\$ 1,500,000	3.29	0.60	

Choose Someone to Value the Business: To further support your offer, you might consider engaging a professional for a third-party opinion on the value of the business. CPAs, appraisers, and business brokers are all good candidates to help with a valuation.

In addition to the Multiple of Earnings and Market Value method, a business valuation might employ other approaches including discounted cash flow, asset based, or capitalization in earnings. Make sure you understand the assumptions behind each approach before presenting the result to a buyer.

TIP: A business valuation is an estimate of value, but is not a firm number for what you will get.

Financials: Once the valuation is complete and you have decided to move forward with a sale, the next step is to organize your financials. Most buyers will want to see 2-5 years of financial statements that document your cash flow, balance sheet and profit and loss statements. In addition, buyers will want to understand the detail around any adjustments you have made to your financials when calculating the business' SDE or adjusted EBITDA, since these inform the valuation and provide information about the cash available post-transaction.

Take the time to develop a spreadsheet that lays out your financials so that they can be easily compared across the years provided, and clearly spell out any adjustments. Make sure you understand any inconsistencies or noteworthy occurrences in the figures, so you can explain them adequately. Be prepared, also, to show how your reported figures tie to your tax returns. Numbers tell a story and you want to control that narrative as much as possible. If you are selling for-sale-by-owner, it is advisable to engage a professional to help.

TIP: Before speaking with a buyer, think through the narrative you want to convey.

	2018		2018		2019		2019		2020		2020	
	Notes	Income Statement	Adjustment	Adjusted Income Statement	Income Statement	Adjustment	Adjusted Income Statement	Income Statement	Adjustment	Adjusted Income Statement		
Income												
Income		249,549		249,549	674,648		674,648	637,605		637,605		
Cost of Goods Sold		62,615		62,615	259,427		259,427	334,095		334,095		
Gross Profit		186,934	0	186,934	415,222	0	415,222	303,510	0	303,510		
Expenses												
Advertising & Marketing		5,250		5,250	3,500		3,500	7,652		7,652		
Bad Debts		0		0	0		0	0		0		
Bank Charges		369		369	2,132		2,132	6,207		6,207		
Depreciation & Amortization		0		0	0		0	0		0		
Dues & Subscriptions		200		200	380		380	0		0		
Insurance		2,994		2,994	1,773		1,773	1,842		1,842		
Interest		0		0	0		0	0		0		
Officers Salaries		0		0	0		0	0		0		
Payroll Taxes		0		0	7,650		7,650	9,073		9,073		
Professional Fees		0		0	2,300		2,300	725		725		
Rent		0		0	0		0	2,800	-2,800	0		
Repairs & Maintenance		0		0	0		0	0		0		
Salaries & Wages		0		0	46,175		46,175	118,600		118,600		
Taxes & Licenses		4,147	-4,147	0	15,994	-15,994	0	18,392	-18,392	0		
Telephone & Utilities		5,998		5,998	6,420		6,420	5,743		5,743		
Travel & Entertainment		437	-437	0	21,116	-8,045	13,071	0		0		
Vehicle Expense		12,040	-12,040	0	8,480	-8,480	0	3,944	-3,944	0		
Other Operating Expenses		10,980		10,980	23,130		23,130	12,571		12,571		
Total Expenses		42,415	-16,624	25,791	139,050	-32,519	106,532	187,549	-25,136	162,413		
Net Operating Income		144,519	16,624	161,143	276,171	32,519	308,690	115,961	25,136	141,097		
Other Income and Expenses												
Other Income		0		0	0		0	0		0		
Other Expense		0		0	0		0	0		0		
Total Other Income and Expenses		0	0	0	0	0	0	0	0	0		
Net Income		144,519	16,624	161,143	276,171	32,519	308,690	115,961	25,136	141,097		

Additionally, it is advisable to speak with your CPA or financial advisor to understand what terms are acceptable for your personal and financial situation. Deal structures can vary widely, with implications on your income post-transaction.

Also, selling your online business can result in a substantial tax liability:

- Do you require all cash or are you open to the buyer financing part of the purchase?
- What is the minimum amount of cash that you require a buyer to put down?
- Are you open to seller financing if the buyer can't secure a third-party loan?
- Is your business set up as an LLC, S-Corp, or C-Corp, and what are the tax implications of selling the business' stock vs. its assets?
- Are you open to staying on during a transition period?

It's best to get these questions answered as early as possible so you don't waste time with an unqualified buyer.

Quick Answer Takeaways:

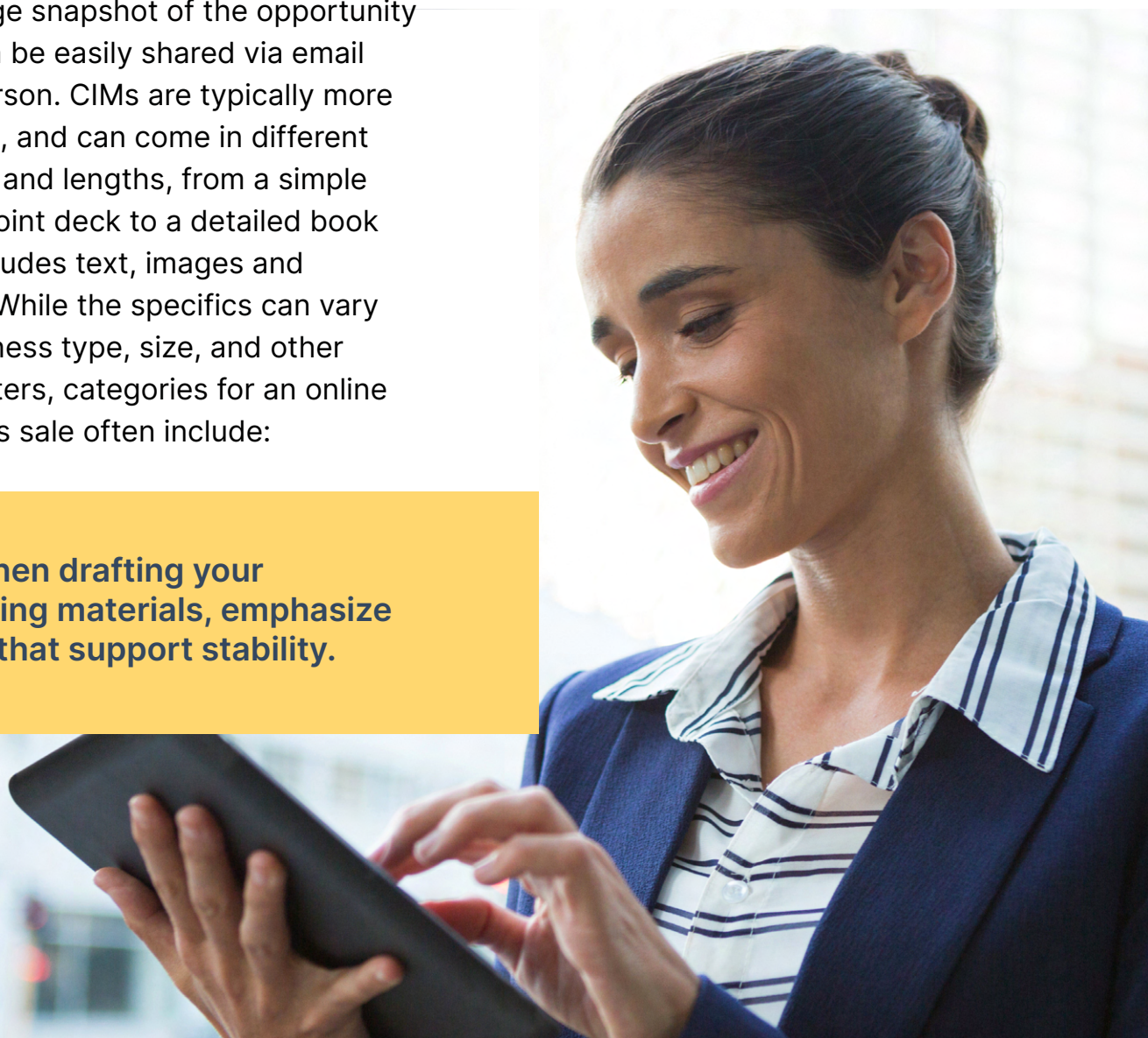
- Most web-based businesses use SDE for calculating a valuation.
- Comps are a useful way to reality check your number.
- Fast growing SaaS businesses often use a multiple of revenue.
- Predictability of future earnings can increase your valuation multiple.
- Prepare 2-5 years of financials that include a balance sheet, cash flow and profit and loss statements.
- Be prepared to tell the story behind your numbers.

3. Marketing Materials

In addition to telling your financial story, it is important to tell the story of your business. Materials generally include a high-level description to use for advertising, a “teaser” document, and a Confidential Information Memorandum (“[CIM](#)”) or similar overview. Advertising copy and the teaser are generally written on a “blind” basis, so prospective buyers can gauge interest before signing a non-disclosure agreement ([NDA](#)). While advertising copy varies in length from a few sentences to a few paragraphs, the teaser is generally a one-page snapshot of the opportunity that can be easily shared via email or in person. CIMs are typically more detailed, and can come in different formats and lengths, from a simple PowerPoint deck to a detailed book that includes text, images and charts. While the specifics can vary by business type, size, and other parameters, categories for an online business sale often include:

- Overview & Highlights
- Products & Services
- Industry
- Platform & Technology
- Site Traffic & Data
- Sales, Marketing, Social Media
- Strengths, Weaknesses, Opportunities & Threats
- Team
- Financial Results & Projections
- Transaction Details

TIP: When drafting your marketing materials, emphasize points that support stability.



Risk and Return

Bear in mind when drafting your materials, buyers are generally thinking foremost about two things – risk and return. Look to highlight aspects of your business that touch on these things, which might include:

- Business history and longevity
- Recurring revenue
- Support team history and experience
- Organic web traffic
- Growth history and potential
- Barriers to entry or competitive advantages
- Predictability of revenue and profit
- Personal vs. business reason for selling

Quick Answer Takeaways:

- Write your business' story with an authentic voice.
- Emphasize what makes your company unique.
- Back up assertions with evidence.

4. Going to Market

The [universe of potential buyers](#) for online businesses is wide and diverse – from individual entrepreneurs, search funds, and family offices, to strategic acquirers, private equity firms, and aggregators. There are pros and cons to each and there may be differences that will impact valuation, deal structure, and the direction of the business post-transaction. Following is some detail to help you identify which buyer types might be most appropriate.

Individual Entrepreneurs: For smaller digital businesses, individual entrepreneurs might well be your best target buyers. The appeal of business ownership compels many entrepreneurial individuals to take on the risk of a business purchase. On the plus side, an individual buyer can share your passion for the business and pour their heart and soul into it. A buyer with the right motivation and experience might take your business to the next level, bringing your employees along for the ride. That said, individual buyers are often investing personal savings as equity into a deal, and may be more likely to seek bank or seller financing as part of its structure. Sellers should confirm early on the availability and source of capital for the down-payment, and assess the viability of bank or seller financing. Additionally, with

personal savings on the line, emotions can boil up and make negotiations and diligence more challenging with individuals than with institutional buyers. In general, individual entrepreneurs have less financial flexibility than institutional, particularly strategic/industry buyers.

TIP: Confirm early on, whether a buyer has the capital to close on a deal.

Search Funds: The [search fund model](#) is an interesting “hybrid” approach to business acquisition. “Search funders” are individual entrepreneurs, often recent MBA graduates, who undergo a dedicated, often 2-year search to acquire a single business which they plan to run. With a number of institutional investors backing search funders, many are focused on larger businesses than individual entrepreneurs, often with a minimum of \$1 million or \$2 million EBITDA. Search funders can offer the passion, continuity, and immediate leadership of individual entrepreneurs, with perhaps better access to capital, more financial flexibility, and the support of a “bench” of experienced investors. That said, search funds typically do not have committed capital; their investors generally back them on a

deal-by-deal basis, so there is some funding risk. Additionally, some owners may find it challenging to hand over the reins to a newly minted MBA.

Family Offices: A family office is a private investment firm established to manage a family’s wealth. While their role can vary significantly, many of these firms invest in and acquire privately held companies. Investment criteria can vary greatly based on the goals of the family, though many have a lower size threshold than private equity groups and other institutional investors. Additionally, family offices have flexibility on the hold time of their investments and in some cases will own and build companies indefinitely.





Strategic Acquirers: Buyers that acquire companies to complement another entity are known as strategic buyers. Rather than purchasing a company solely based on its financial performance, these buyers are interested in leveraging the value inherent in the business – whether the customer base, traffic, IP, domain, or otherwise. Because strategic buyers see value beyond financial performance, they may have the flexibility to pay more for a business than a “financial” buyer. That said, extracting the value of an acquired business may mean rolling the company into another entity, which can impact the employee base, brand, and other elements of the business.

Private Equity Firms: PE firms raise private capital from sources that might include pension funds, endowments, and high net worth individuals to invest in or acquire companies. Private Equity firms generally build a portfolio of businesses which they support financially and through board oversight, with the idea of growing the businesses and selling them for a profit. The fund size of private equity groups can vary widely, from millions to billions of dollars. Those groups with smaller funds might acquire or invest in smaller, closely held businesses, either as a standalone investment, or as an “add on” to an existing business in the portfolio. PE firms are generally sophisticated buyers which can make the process easier for a seller. That said, their goal is to grow and sell businesses, often with a 2-5 year time horizon, which is not appealing to some sellers.

TIP: Know what type of buyer you are comfortable selling to, as the shape your business will take could be quite different.



Aggregators: A number of Aggregators have emerged in recent years, focused on acquiring e-commerce, Amazon FBA, Shopify, and other online businesses. In general, the strategy is to create a portfolio of small businesses around similar market segments or target customers. Aggregators, which may possess expertise in a particular space and/or benefit from the economies of shared resources, seek to build value exponentially by adding brands to their portfolio. Aggregators range from individual entrepreneurs with a few holdings, to companies like [Thrasio](#), which raised over \$1 billion in 2018 and owns over 200 brands. Aggregators can be a good alternative to individual entrepreneurs for owners of smaller e-commerce businesses.

Depending on the size and profile of your business, some of these categories of buyers will be more appropriate than others. In developing your marketing strategy, think through the most likely buyers, and the types of buyers to whom you would feel most comfortable selling.

Quick Answer Takeaways:

- Know who your ideal buyer is.
- Ask questions that reveal their level of interest.
- Confirm they have the funds to close the deal.
- Make sure your marketing outreach is focused on your ideal buyer.

5. Bringing Buyers to the Table

With the most likely buyers identified, the next step is to bring them to the table. Institutional buyers, whether competitors, investors, or aggregators, may be easily reached through a targeted outreach. Individual entrepreneurs, however, may need to be identified with broad-based marketing efforts on marketplaces and through other channels. If your most likely acquirer is an individual entrepreneur, think through the skills that are required to run and grow the business, perhaps developing a profile that touches on key characteristics.





Your Buyer Profile: Ideal buyer profile for an outdoor gardening blog.

- gardening enthusiast
- content writer
- photo editing skills
- adept with social media
- WordPress experience
- SEO blogging skills
- Affiliate ad knowledge
- Organized

Similar to advertising for a job opportunity, your marketing can highlight points from this profile to ensure you are attracting the right individuals. Additionally, the skills required might inform where you advertise. For example, attracting a buyer like the above might include marketing on gardening sites. In any case, you will likely want to take a multi-channel marketing approach that could include:

- Business broker site (if you are working with a broker)
- Direct confidential inquiries through email/phone
- [Online marketplaces](#)
- Social media
- Local ads
- Industry-specific ads

TIP: If your outreach efforts are not attracting the right buyers, you will need to make adjustments in your approach.



Multiple Dialogues: As you begin to engage with buyers, your goal should be to maintain multiple dialogues simultaneously, and to create buyer competition. Some brokers achieve this by setting dates for each stage. For example, “all prospective buyers must submit an indication of interest by February 1”. This approach can help the seller maintain control and keep buyers moving forward. As you think through your marketing plan, decide whether this approach makes sense for your business, and if so, determine the timeline and due dates so you can communicate them to buyers.

For this approach to be effective, however, you will need to be ready to share your marketing and diligence materials with buyers. One effective way to manage this stage is to set up an online data room. There are numerous online options including [iDeals](#), [Citrix](#), and [Datasite](#) – or you can simply use [DropBox](#) or [Google Drive](#). You should expect a buyer and their team to look at (partial list):

- Company information and ownership
- 2-5 years of financials and bank statements
- 2-5 years of tax returns
- List of inventory (if applicable)
- Customers with % of revenue
- Suppliers with % of revenue
- IP and tech assets
- Any legal issues
- Accounts receivable & payable
- Website metrics

TIP: A data room ensures consistency and transparency in the information presented to multiple buyers.

After initial meetings and sharing basic company and financial information, buyers may begin to make offers on the business. Offers may come as a high level “term sheet” or “indication of interest”, or a more comprehensive “letter of intent”. Once offers have been received, it is your (and your broker’s) job to vet and respond to them.



Term Sheet/Indication of Interest: A Term Sheet or IOI is generally a high-level, bulleted summary of the offer. Points conveyed may include purchase price, payment terms, any personal guarantees, specifics on the assets or stock being purchased, handling of accounts receivable, accounts payable and inventory at close, specifics on any non-compete or consulting arrangements, specifics on any property or other leases (or purchases), and any conditions to the offer. The purpose of the document is to provide a simple, non-binding summary of how a buyer plans to approach a deal.



**E-commerce Company
Non-binding Term Sheet
September 30, 2022**

- * Purchase price of \$1,600,000; closing on or before December 31, 2022
 - \$1,000,000 cash at closing (combination buyer equity and bank financing)
 - \$600,000 financed by Seller at 6% over 7 years
- * Purchase of business assets:
 - Includes
 - All tangible and intangible properties required to operate the business, including the website, all inventory, accounts receivable, furniture fixtures & equipment, customer lists and contracts
 - Excludes
 - Cash or cash equivalents, prepaid refunds or deferred tax benefits, personal vehicle
 - All other liabilities except as stipulated; debts of seller will be satisfied prior to closing
 - Assumes accounts receivable, accounts payable and wholesale inventory values of \$91,286, \$55,246 and \$227,011 respectively, as per June 30, 2022 internal financials. Purchase price will be adjusted up or down at closing to reflect change in value of these accounts.
- * Seller agrees to 5 year non-compete
- * Buyer may offer employment to any employee. Controller to remain with company in current capacity during transition
- * Buyer to negotiate a lease term with options to extend not less than 7 years, with option to purchase building
- * Conditions
 - Drafting and execution of an Asset Purchase Agreement
 - Completion of satisfactory due diligence
 - Formal approval of bank financing
 - Full time training and transition for one year; on call as required during year two
 - Other customary closing conditions
- * Response requested by October 14th, 2022

Letter of Intent: An [LOI](#) may follow, or be presented in lieu of a Term Sheet/IOI. A Letter of Intent is generally a more formal, legal document reviewed by an attorney and signed by both parties. LOIs are typically non-binding, and they generally include an “exclusivity” provision. So, once a prospective seller signs the document, they may be prohibited from talking with other buyers for a period that generally falls between 30 and 120 days.

Building Rapport with Buyers: It's best to manage buyer's expectations right from the start, particularly if there is a significant discrepancy between an offer and the price and terms you are willing to accept. In-person meetings or video conferences are generally better alternatives to phone, text, or email when addressing sensitive topics. It can be helpful to involve a third party when reviewing and responding to offers. Involving a third party will help you to maintain a strong, cordial relationship with buyers while at the same time making a case for a more favorable deal. Individuals with whom you work with should have relevant backgrounds, present themselves professionally, and be able to articulate your position in a respectful way.

TIP: Consider adding someone to your team who can push on deal points that allow you to keep the relationship on track.

Negotiation: Purchase price is just one component of an offer. Deal terms, too, significantly impact the attractiveness of a proposal. Is the buyer seeking seller financing or performance-based compensation? Are you required to stay on for a lengthy transition? Is the buyer proposing a stock purchase or an asset purchase, and how will that impact your net after taxes? Work with your team to understand all elements of any offer received so you can compare and assess which are workable. Some key negotiation principles that might be useful:

- Develop a game plan
- Focus on interests, not positions
- Use objective material to make your case
- Avoid emotional responses
- Identify areas of mutual interest
- Work toward a win-win result



Buyer Diligence: Before signing an LOI, it makes sense to do some background research on the prospective buyer. Perhaps the simplest way to assess financial capability is to ask the buyer to provide specifics on how they plan to fund the purchase. For an individual buyer, this might mean showing you a bank statement or letter from the individual's CPA. For an institutional buyer, it might mean providing detail on their fund size and status, and/or specifics on past transactions. It can also be a good idea to request a credit report for the buyer. You can request a credit report through [Experian](#), [Equifax](#) or [TransUnion](#). In some cases, it might also make sense to conduct a full background check to assess whether there exists any criminal or litigation history.

If you are fortunate, you will receive multiple offers and have the leverage to push back on unfavorable deal points. Try not to burn any bridges along the way, so you can maintain as many options as possible.

Quick Answer Takeaways:

- Pursue a variety of outreach strategies.
- Create a data room for buyers to access your key info.
- Don't dismiss an offer out of hand if it is within your ballpark of acceptance.
- Build rapport with a potential buyer to improve the outcome.
- Make sure the buyer has the funds to close and look into their background.

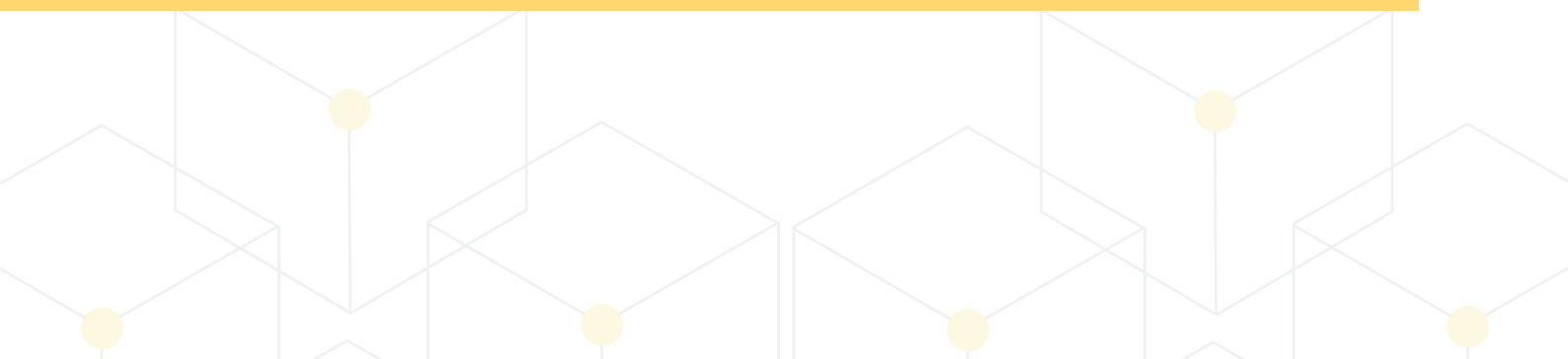
6. Due Diligence and Closing Documents

Once a letter of intent or similar document has been signed, the next step is for the buyer to conduct a more formal due diligence. The buyer's main goals in due diligence are to confirm that the business is in fact as presented, and to gain a clear understanding of the risks and opportunities associated with the business. The high-level areas of focus for due diligence are legal, financial, business operations and market.

Legal: Legal due diligence is to assess whether the company is in good legal standing and whether there are items that could present risk to the buyer. Key areas a buyer might investigate are:

- *Corporate Structure* – your company's corporate structure, capitalization, organizational documents and general corporate records.
- *Taxes* – historical income tax liabilities and any tax carryforwards and their potential benefits.
- *Intellectual Property* – the company's technology and intellectual property, as well as its protection.
- *Assets & Liabilities* – the value of the assets that will be transferred with the sale, whether tangible or intangible, as well as all debts and liabilities against them.
- *Contracts* – contracts and commitments of the company.
- *Compliance & Litigation* – any pending, threatened, or settled litigation, arbitration, or regulatory proceedings and whether your company has faced any regulatory or compliance issues.

TIP: Due diligence is about verifying what has been presented and identifying potential risks.



TIP: An attorney with M&A experience can make sure your interests are protected.

Financial: The buyer will conduct financial due diligence to verify that financial statements presented are accurate, and to gain a clear understanding of items that could impact the future financial performance of the company. For larger acquisitions, a CPA or other third party may prepare a Quality of Earnings ([QoE](#)) report to detail the components of the company's revenue and expenses. The extent of financial diligence performed, and the quality of information available will vary considerably with the size of the business.

Business Operations: The purpose of business operations due diligence is for the buyer to gain an understanding of the company's people, assets, technology, and processes. For online businesses, some of the most important assets are often the business' sources of traffic, its platform, and its reputation.

Market: Market due diligence is unlike other aspects of due diligence in that information is gathered from outside of the company rather than from within. However, you may be able to assist the buyer in their assessment by providing reports, contacts, and other resources to help provide them with a more comprehensive understanding of the opportunities and threats in the space.

The extent and duration of due diligence can vary widely based on the size and type of transaction, lasting anywhere from a few weeks to three months or more. The time frame can be shortened when the information requested is available and organized, so upfront preparation can be helpful.



Closing Documents: As the buyer conducts due diligence, they will often prepare an initial draft of closing documents for your review. Depending on the complexity and size of the transaction, a [purchase agreement](#) can be very simple or very complex. While a simple transfer of a digital asset may only require a bill of sale, the acquisition of an income-producing business is typically accompanied by an Asset Purchase Agreement (APA) or Stock Purchase Agreement (SPA). Most acquisitions are asset purchases, meaning that the buyer transfers the tangible and intangible items owned by the business from the seller's corporate entity into a different corporate entity owned by the buyer. These items generally include everything from the website, customers, and inventory to trademarks, patents, and goodwill. By contrast, in a stock purchase, the buyer acquires the seller's business entity itself, which includes all of the assets and liabilities contained within. In either case, you will want to work with an M&A attorney to review the buyer's proposed draft.

Asset Purchase Agreement (APA): The key elements of an [APA](#) include a complete list of the assets being

purchased (and not being purchased), liabilities assumed, the purchase price and how it will be paid and allocated for tax purposes, details on the closing and post-closing adjustments, seller and buyer representations and warranties, and the handling of disagreements post-transaction. There are typically schedules attached to the APA, including financials, organizational documents, contracts, permits and other key items upon which the purchase decision was based. Lastly, there are often separate agreements simultaneously signed at closing that handle elements of the transaction that fall outside of the APA, such as non-compete or consulting agreements.

Stock Purchase Agreement (SPA): In a stock transaction, the buyer purchases the stock of the company from you, rather than its company's assets. In doing so, the buyer assumes title of all assets and liabilities. While many of the provisions, schedules, and ancillary documents of an SPA are similar to an APA, the document itself is often simpler, since it does not need to delineate the specific elements of the purchase, or provide as much protection to the buyer around assumed liabilities.

While buyers tend to prefer asset purchases, sellers generally prefer stock sales. Asset purchases are less risky for a buyer in that they will not assume uncertain liabilities. Additionally, asset values can be determined as part of the purchase and be re-depreciated, to reduce taxes after the transaction. Stock sales are generally more favorable to the seller from a tax perspective, and they allow for a cleaner break from the business.

TIP: Write up a list of things that need to get done before closing, so the new owner is ready to go.

Transition: You will need to work closely with your team and the buyer's team to transition the business through due diligence and after. Most importantly, you will need to inform and transition stakeholders, minimizing disruption to the business. These include employees, customers, suppliers, and dealers. Other elements requiring attention include the following:

- Computer, software, and website usernames and passwords
- Operating manuals
- Stakeholder contact information
- Vendor contact information
- Alarm codes, safe combination, keys

Quick Answer Takeaways:

- Be transparent about any legal or other issues the buyer may raise.
- Have your attorney review the buyer's proposed draft of the purchase agreement.
- Write up a complete list of the operational things that need to get done before the closing.

We hope you took away a few insights that will help you successfully complete a business transaction. Feel free to [browse](#) businesses for sale in our deal directory. [Email](#) us with any comments, suggestions, or insights of your own.



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