BUY A BUSINESS

How do you evaluate a business before you buy it?

By Ayodele Olasiji, Optimax Commercial · Updated October 18, 2026 · 2 min read · Online at optimaxdeals.com/guides/how-to-evaluate-a-business-for-sale

SHORT ANSWER

Evaluate a business by checking three things in order: whether the earnings are real, whether they will stay after the owner leaves, and whether the price makes sense for those earnings. Match the profit and loss statement to tax returns and bank deposits, read the lease and key contracts, look at equipment age, and figure what you would earn after paying the loan.

How to, at a glance

1. Match the profit and loss statement to tax returns and deposits
2. Rebuild owner earnings yourself
3. Check what the owner does, the lease and key customers
4. Figure what you keep after the loan and a manager

Questions buyers ask

What documents should I ask a seller for?

Three years of tax returns, the current profit and loss statement, a balance sheet, bank statements, the lease, an equipment list, payroll records and any major contracts. Most come after you sign a confidentiality agreement.

Should I hire a CPA for due diligence?

Yes, for any purchase that matters to you. A CPA who has reviewed small business purchases will find things a buyer misses.

What is a red flag?

Tax returns that tell a different story from the profit and loss statement, an owner who will not share bank statements, a short lease with no renewal option, or a price that only works if you count cash nobody can prove.

1. Are the earnings real?

- Ask for three years of tax returns and the current year's profit and loss statement. Compare them line by line.
- Compare reported revenue to bank deposits for the same months.

- Rebuild owner earnings yourself: profit, plus the owner's own pay, plus one time and personal costs run through the business. Brokers call this seller's discretionary earnings.
- Ask about any cash revenue that is not on the tax returns. A lender will not count it, and you should not pay for it.

2. Will the earnings stay?

- How many hours does the owner work, and doing what? You will have to do that work or pay someone.
- Are a few customers a large share of sales?
- Will key staff stay? Are suppliers and franchisors willing to work with a new owner?
- How long is left on the lease, with what renewal options and rent increases?

3. Does the price make sense?

Work out what you keep after paying a manager if you will not work it yourself, the loan payment, and a reserve for equipment. If that number does not pay you fairly for your cash and your time, the price is too high for you, whatever comparable sales say.

Asset specific checks

- **Laundromats:** water and utility bills, machine age and count. See how to buy a laundromat.
- **Gas stations:** fuel supply contract, tank age and environmental records. See how to buy a gas station.
- **Hotels:** franchise transfer terms and any improvement plan. See how to buy a hotel.
- **Car washes:** car counts, membership numbers, equipment age. See how to buy a car wash.

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