



Buying a Business *via an* Asset Sale

*A Practical Guide for Main Street and Lower
Mid-Market Buyers*

Important note

This guide provides a general overview of the business asset sale process. This is not intended as legal, tax, or financial advice.

Table of Contents

1. [Who This Guide Is For](#)
2. [Seller Screening and Access to Confidential Information](#)
3. [Your Readiness for This Specific Target](#)
4. [Reviewing the Confidential Information Package](#)
5. [Preliminary Valuation and Deal Framing for an Asset Purchase](#)
6. [Offer Strategy: Purchase Agreement with Contingencies](#)
7. [Due Diligence Plan Tailored to Asset Sales](#)
8. [Financing and Lender Diligence in Parallel](#)
9. [Closing Preparation and Process](#)
10. [Transition Plan and Early Integration](#)

1. Who this guide is for

This guide walks you through buying a main street or lower mid-market service business via asset purchase. Whether you're an individual operator, part of a buyer partnership, or a small investment group, this step-by-step process starts after you've identified your target business and signed an NDA. You'll learn the key decisions, documents, and processes that make asset deals successful.

What an asset sale is

In an asset sale, you choose which assets to buy and which liabilities to assume from the operating business. The seller keeps the corporate entity itself. You and the seller, with your respective advisors, will negotiate exactly what's included and excluded in the purchase agreement.

Items commonly included

- Tangible assets: equipment, tools, furniture, fixtures, vehicles, and leasehold improvements
- Intangible assets: trade name (DBA), website and domains, phone numbers, customer and vendor lists, operating procedures, and goodwill
- Inventory and work-in-process: pricing and inclusion negotiated during deal structure, with final count and adjustments at closing
- Assignable agreements: contracts, licenses, warranties, and permits (subject to third-party consent requirements)

Items commonly excluded

- Cash and equivalents, corporate stock or membership interests, personal assets of the seller, and shareholder notes.
- Pre-closing receivables and liabilities unless specifically assumed or used as a price adjustment.
- Long-term debt, income and payroll tax liabilities, and obligations unrelated to post-closing operations.

Asset sale vs stock sale at a glance

An asset sale involves purchasing the operating assets of the business, whereas a stock sale transfers ownership of the entity itself. In an asset sale, the buyer typically assumes only specifically negotiated obligations; in a stock sale, liabilities generally remain with the entity unless addressed in the agreement.

Asset deals typically involve the assignment of contracts and leases, updates to permits and licenses, and the reassignment of titles to vehicles and equipment. Since the entity is not acquired, you will typically establish new payroll, banking, vendor accounts, and insurance to operate post-close.

2. Seller screening and access to confidential information

Before a seller releases confidential information, they need to be confident that you are a serious and capable buyer. Sellers receive many requests, and a large share come from parties who are not in a position to acquire a business. They must protect customer lists, pricing, processes, and staff from unnecessary exposure. Make it easy for the seller to agree to share their confidential documentation.

What to provide

- Signed NDA that matches the seller's or broker's form.
- A concise buyer profile that explains your background, role plan for operating the company, relevant licenses, or a qualifier plan if needed, and a realistic decision timeline.
- Proof of funds or a lender prequalification letter that aligns with the expected purchase size.

Note: If you notice a clear mismatch early, state it and let the seller or broker know that you are withdrawing from the process.

3. Your readiness for this specific target

After establishing credibility with the seller, take a step back and honestly assess whether you can successfully own and operate this specific business. Before investing more time and money, confirm this deal actually makes sense for you.

Role, time, and capability

- Define your exact role and daily responsibilities in the business. Confirm your skills and experience align with what the company actually needs to operate successfully.
- Identify all licenses, certifications, or qualifications required to legally operate the business and verify you can obtain them.

Financial readiness

- **Available cash:** Have funds ready for your down payment, all closing costs, and working capital to carry the business for several months. Undercapitalized acquisitions frequently fail.
- **Lender requirements:** Organize your personal financial statement, resume, three years of individual tax returns, credit authorization, and financing plan. Expect detailed questions about fund sources.
- **Personal expenses:** Plan how you'll pay your own bills during transition without pulling cash from the business before it stabilizes.

Many buyers underestimate the costs associated with the business acquisition. Here are a few examples of expenses in addition to the purchase price:

- Attorney fees
- CPA/tax advisor fees
- Escrow/closing costs
- Lender fees and appraisals
- Insurance deposits and first premiums
- Working capital buffer
- Unexpected contingencies (recommend 10-15% buffer)

4. Reviewing the confidential information package

Once you've completed screening and signed the NDA, the seller will provide a confidential information package. Handle this material with care. Never contact employees, customers, or the landlord without explicit written permission. Only share documents with trusted advisors, store everything securely, and be ready to return or destroy all materials if you don't move forward.

What the initial package usually includes

- A business summary or confidential information memorandum that explains services, history, and organizational structure.
- Summary financials for the last three years and year to date, and a brief list of addbacks.
- A current asset list that may include tools, equipment, vehicles, and software
- Key contract outlines or samples, the facility lease summary, and a list of permits and licenses that the business relies on for its operations.
- An overview of the employees (names redacted), their roles, and compensation

Your first look at the numbers

Don't try to analyze everything at once. Spend about an hour going through the package and focus on the big picture questions that will determine if this is worth pursuing:

1. What services does the company sell, and how does it make money today? Note recurring contracts versus project work and any seasonality.
2. What are the recent trends in revenue and gross margin? Compare year-to-date with prior periods for context.
3. How concentrated is revenue? Estimate the share of sales in the top customers and whether those agreements are likely assignable.
4. What third-party approvals will be required? List the facility lease, key customer contracts, vendor programs, and software subscriptions that require consent to assign.

Potential red flags

Proceed with caution if you see any of the following:

- Heavy customer concentration
- Significant unearned revenue or open warranty obligations with no clear plan for funding them at closing.
- Large cash sales with weak documentation or unusual adjustments to earnings.
- Missing licenses, required certifications, or insurance that cannot be obtained on similar terms after closing.
- Operations that rely on the owner for estimating, scheduling, or key customer relationships with no documented processes.

Note: If any of these situations exist, ask for clarification from the seller.

Decision point

Based on your review, choose one of three paths: move forward to preliminary valuation and deal framing, request specific clarifications or additional documents, or withdraw if this opportunity isn't the right fit for you.

5. Preliminary valuation and offer preparation

The goal at this stage is to determine a fair business value and purchase structure that accounts for the specific assets you're buying and the risks you'll need to verify during due diligence.

Valuation approach used at this level

Start by normalizing the company's earnings to show what a typical operator could expect. In owner-operated businesses, buyers and lenders typically use Seller's Discretionary Earnings (SDE), which adds back the owner's pay, interest, depreciation, amortization, and discretionary expenses to the pre-tax profit.

Building normalized earnings

- Use P&L statements. You will validate the information when you have access to the tax returns and bank statements during due diligence.
- Remove one time or non-operating items such as capital expenditures (e.g., recently purchased equipment), owner's personal expenses, or gains and losses unrelated to the service work.
- Normalize rent to what you will actually pay under the lease you expect to assume, including any known increases.

Determining the multiple

A multiple is applied to SDE or EBITDA to determine the business's value. That multiple is influenced by growth, customer diversification, documentation, transferability of contracts and licenses, depth of the team, and similar closed deals.

Example using SDE: If SDE is \$500,000 and your risk and quality assessment supports a 3x multiple, a preliminary price anchor is \$1,500,000. You would then adjust that figure for inventory or work in process at cost, subtract any unearned revenue you agree to honor, and set a holdback or escrow if customer retention or warranty exposure is a concern.

- Factors that support a higher multiple include recurring or contractual revenue, diversified customers, clean and timely financials, reliable field staff, and a track record of steady margins.
- Factors that reduce the multiple include heavy customer concentration, key person dependency, difficult to assign contracts, weak documentation, or aging vehicles and equipment requiring significant investment.

Selecting the appropriate multiple: The multiple reflects the business's risk and quality. Higher multiples (4-5x) apply to companies with recurring revenue, diverse customers, strong documentation, and experienced teams. Lower multiples (2-3x) reflect higher risk from customer concentration, key person dependency, or operational challenges.

What the price covers in an asset deal

- The base price typically covers both tangible and intangible assets, including the trade name, phone numbers, website, customer relationships, and goodwill.
- The seller typically retains accounts receivable and cash on hand. If you will collect any of the seller's receivables after closing, spell out exactly how the money will be handled: which invoices you are collecting, the collection window (for example 30 to 60 days), how often you will settle up (weekly or biweekly), what fees or credits are deducted (for example processing fees or approved refunds), and what happens to invoices that are not collected by the deadline.
- Customer deposits and other unearned revenue are liabilities. If you assume the obligation to perform the work, reduce the price by the amount of unearned revenue or set up an escrow to fund completion.
- Inventory handling follows a two-stage process: (1) negotiate whether inventory is included in the base price or priced separately, and (2) establish the closing count and adjustment procedures regardless of the chosen structure.

Working capital and near-term cash needs

- In many asset sales at this level, working capital is not typically included in the price. Plan your own cash needs for operating the business as cash flow increases, such as payroll, supplies, materials, and marketing.

6. Offer strategy: Purchase Agreement with contingencies

Using a purchase agreement from the outset, rather than a nonbinding LOI, simplifies negotiations and sets a clear roadmap. You lock in the terms while protecting yourself with clear contingencies and timelines.

Why use a purchase agreement now

- Reduces duplicate negotiation work that would occur with an LOI followed by a second complete agreement.
- Provides lenders and landlords with a clear set of terms to evaluate.
- Creates clear timelines, deliverables, and responsibilities for both parties.

Terms to include

- Purchase price, deposit amount, and where the deposit will be held in escrow.

- Assets included and excluded, with schedules that list equipment, vehicles, intellectual property, and software.
- Liabilities assumed, if any. If none, state that explicitly.
- Closing date and an outside date, with allowed extensions for defined delays such as landlord consent.
- Training and transition support, with hours, duration, and whether the seller will be a paid consultant.
- Non-compete scope, duration, and geographic area.
- Acknowledgement that purchase price allocation will be finalized before tax filings.

Contingencies and timelines

- Financial diligence: satisfactory review of tax returns, P&L, balance sheet, AR and AP aging, and bank statements within a defined period, for example, 20 to 30 days.
- Legal and operational diligence includes permits, licenses, contracts, UCC, and lien checks (performed by escrow), insurance, and compliance items within the same period.
- Financing approval: written commitment from your lender within a defined period, for example by day 30, with a right to terminate if not obtained despite good faith efforts.
- Landlord consent: lease assignment or a new lease acceptable to buyer by a stated date.
- Key customer and vendor consents: assignment or acceptable replacements for identified agreements.
- Inventory and work in process: joint count at closing with pricing at cost and an agreed method for obsolete or damaged items.

Deposit

- Deposit structure: A deposit is held in escrow, refundable during the diligence period, and then partially or fully non-refundable, except for specified failures, such as denial of landlord consent, failure to obtain financing despite good faith efforts, or discovery of a material misstatement.

Communication protocol

- No contact with employees, customers, or the landlord except as coordinated with the seller.
- A joint calendar for meetings and site visits, with who attends and what topics will be covered.

Next steps

When these terms are aligned, circulate a clean draft for signatures and open escrow. Use the signed agreement to coordinate lender underwriting, landlord approval, and the staged release of diligence materials.

7. Due diligence plan tailored to asset sales

Confirm three essentials during due diligence: the financial results are legitimate, the important assets and relationships will actually transfer to your ownership, and you can successfully operate from day one.

**These are just examples of common tasks that need to be completed during due diligence. Each transaction is unique, and you will need to build your own list of due diligence requests. Be sure to get feedback from your team of advisors.*

Timeline and workflow

- Typical window: 30 to 45 days, with extensions tied to lender or landlord processes.
- Set up a shared checklist, a questions log, and a risk list with proposed fixes such as price adjustments, holdbacks, or added contingencies.

Financial diligence

- **Source documents:** request the last 3 years of business tax returns, current year-to-date P&L and balance sheet, monthly P&Ls for the past 24 months, 12 months of bank statements, current AR and AP aging reports, sales breakdowns by service line and customer, payroll reports, job costing samples, and the seller's addback schedule.
- **Working capital:** review billing cadence, deposits, draw schedules, change orders, AR aging, collections, AP terms, and inventory practices. Build a simple cash flow view for the first 3 months after close.
- **Inventory and work in process:** get an itemized list with cost, age, and location. Agree on a physical count method and pricing at cost, and define how obsolete or damaged items will be treated.
- **Taxes:** review sales and use tax filings, payroll tax filings, and any correspondence on balances or audits. Confirm that filings are current.

Legal and compliance

- **Authority and title:** confirm the seller's authority to sell the assets, that the seller owns the assets, and that titles will transfer free of liens. Order lien and UCC searches and collect payoff letters and releases.
- **Contracts and consents:** build a register of customers, vendors, software, and other key agreements with assignment clauses and consent requirements. Note renewal dates, termination rights, and pricing terms. This is typically known as the Material Contracts Schedule.
- **Licenses and permits:** list what the business requires, expiration dates, and whether each can be assigned or must be reissued. Identify any prerequisites you must meet before closing.
- **Insurance:** obtain certificates and loss runs for general liability, auto, workers' compensation, and other required lines. Confirm any customer contract insurance requirements.
- **Disputes and compliance:** request summaries of any claims, disputes, or regulatory inquiries, including how they were resolved or will be handled.

Operational diligence

- **People and roles:** current org chart, key employee list, compensation ranges, tenure, turnover, and timekeeping approach. Identify any offers you must extend pre-close.
- **Processes:** scheduling and dispatch, estimating and quoting, job tracking or ticketing, quality control, warranty handling, and customer communication standards. Collect SOPs where available.
- **Fleet and equipment:** asset list with make, model, year, VIN or serial numbers, titles, maintenance logs, and any finance obligations.

Field diligence

- **Sample checks:** verify a few completed jobs against quotes, work orders, and invoices to confirm scope, pricing, margin, and callbacks.
- **Landlord meeting:** confirm expectations, assignment process, and any new deposit or guaranty requirements.

How to proceed

You're ready to proceed when the financial records validate the seller's claims, key assets and contracts can be successfully transferred, you can obtain the required licenses and insurance, and you have a viable plan for operating from day one.

8. Financing and lender diligence in parallel

Your goal is to secure a clear funding commitment while diligence is underway, and ensure that the agreement terms align with lender requirements. Start this process as soon as the purchase agreement is completed.

What lenders evaluate

- Buyer: experience, credit, liquidity, and personal financial statement.
- Business: stability of earnings, customer mix, margin trends, and quality of books and records.

Documents to assemble

- **Personal documentation:** Personal financial statement, resume, and three years of individual tax returns
- **Business plan materials:** Brief business overview and 12-month financial projection with key assumptions including headcount, payroll, materials/supplies costs, and seasonal variations
- **Target business financials:** Year-to-date P&L and balance sheet, last three years of business tax returns, 24 months of monthly P&Ls, current AR and AP aging, and 12 months of bank statements
- **Transaction documents:** Preliminary asset list, signed purchase agreement, current facility lease or assignment term sheet, and personal guarantee requirements if applicable

Cash flow and coverage

- Build a model that shows monthly revenue, gross margin, operating expenses, and debt service. Include your own compensation.
- Lenders look for cash flow that covers debt service with a cushion. Test downside cases so you can explain how the business performs in a modest dip or a slower season.

Securing Funding

You're ready for final documentation when you have a firm lender commitment with conditions you can satisfy, necessary third-party consents are obtained or assured, and your available funds cover the full closing plus working capital needs.

9. Closing preparation and process

Closing should be predictable. Escrow is typically opened when the purchase agreement is signed, so by this stage, it should already be coordinating several items below.

Escrow's role and funds flow

- Confirm wiring instructions with escrow and your lender. Review a draft closing statement that shows the purchase price, deposit credit, prorations, inventory and WIP adjustments, payoff amounts, and escrow fees.
- Escrow coordinates lien payoffs and prepares lien releases/UCC terminations for filing upon funding.
- Align timing with escrow: wire cutoff times, lender funding sequence, and the moment possession transfers.

Final documents to execute

- Bill of Sale for all tangible and intangible assets.
- Assignment and Assumption Agreement for contracts, leases, licenses, warranties, and permits that can be assigned.
- Intellectual property and online assets assignment: trade name, website and domains, phone numbers, social media, software admin rights.
- Vehicle and titled equipment transfers with title applications ready for filing.
- Seller training or consulting agreement, if used.
- Closing statement and funds flow schedule.

Consents and assignments

- Landlord consent to assignment or a new lease acceptable to buyer and lender.
- Customer and vendor consents for identified agreements, or acceptable replacements.
- Software, phone, and utility account transfers with admin credentials delivered at closing.

Inventory, WIP, deposits, and AR

- Joint inventory and WIP count at closing, priced at cost, with a clear plan for obsolete or damaged items.
- Unearned revenue and customer deposits: reduce the price dollar for dollar for work you will perform, or place funds in a dedicated escrow managed by the closing agent.
- If you will collect seller's AR for a short period, attach a simple collection addendum listing invoices, the collection window, settlement frequency, fees, and how uncollected balances are handled.

Prorations and small adjustments

- Prorate rent, utilities, fuel in vehicles, and prepaid expenses that stay with the assets as of 11:59 p.m. the day before closing. State who calculates each item and how it is verified.

Insurance, risk transfer, and access

- Confirm active policies meet any customer contract requirements.
- Deliver keys, badges, alarm codes, safe combinations, software admin logins, registrar and DNS credentials, phone account PINs, and any two-factor codes.

Day-of-closing agenda (example)

1. Morning: inventory and WIP count; confirm final schedules.
2. Midday: execute documents; lender funds to escrow; escrow pays off liens and disburses net to seller; titles and releases delivered.
3. Afternoon: confirm landlord consent in hand; transfer keys, vehicles, devices, and admin access; send internal notice of change of control to staff identified for same-day communication.

Post-close confirmations and filings

- Send customer and vendor notices following the agreed-upon transition plan.
- File purchase price allocation forms and update business licenses and permits as required by your advisors.

10. Transition plan and early integration

Your transition plan should protect customer relationships, retain essential team members, uphold service standards, and maintain consistent cash flow while you master the business operations.

What your transition plan needs to cover

- **Seller training and knowledge transfer:** define topics, expected hours, and deliverables, including SOPs, price books, vendor lists, warranty policies, and open quotes. Keep a running list of questions and track completion.
- **Communications sequencing:** plan brief announcements to employees, top customers, and key vendors that emphasize continuity of team, pricing, and service standards. Coordinate messaging with the seller.
- **People and retention:** identify critical roles, extend offers on terms no less favorable than current terms, and confirm who handles estimating, dispatch, and field supervision.
- **Systems and access:** secure administrator credentials for accounting, payroll, CRM or dispatch, phones, email, domains, and payment processors. Document how quotes, work orders, and invoices flow.
- **Cash and controls:** set invoice and collections cadence, purchasing limits, approval thresholds for expenses, and a short rolling cash forecast.
- **Metrics to monitor:** booked work, completed revenue, backlog, gross margin by service line, labor utilization and overtime, AR aging and cash on hand, customer issues opened and closed, and any safety incidents.

Working approach

Assign an owner to each, hold brief, regular check-ins with the seller during the training period, and maintain a simple transition log of decisions, open items, and handoffs.

About the author

Luke Middendorf is a business broker and advisor who helps business owners navigate Main Street and lower mid-market exits. He brings more than two decades of hands-on experience in sales and marketing, business ownership, and advisory work, including leading WSI Connect, a digital marketing firm, through growth and a successful exit. That background gives him a grounded perspective on what it takes to start a company, build a team, and transition ownership without disrupting customers or employees.

As a business broker with Sierra Pacific Partners, Luke focuses on structuring deals that lead to successful exits. In his advisory practice with [Ascentrix Advisory Group](#), he helps business owners with building value, streamlining operations, and preparing for a successful transition.

Luke is licensed with the California DRE #02196801 and is an active member of the [California Association of Business Brokers \(CABB\)](#) and the [International Business Brokers Association \(IBBA\)](#).