

A good acquisition feels less like a leap and more like a series of well-placed steps. You are buying cash flow, people, systems, and risk, usually within a market that is moving just fast enough to reward nerve and punish sloppiness. The difference between a deal that compounds and a deal that drags often sits in the details you validate before money moves. In 2026, the details have shifted: digital footprints are as important as tax returns, labor markets remain tight in many regions, interest costs still matter, and customers have short patience for broken service. If you plan to own rather than flip, the bar for diligence is higher than it was five years ago.

I have bought companies where the purchase price turned out to be the cheapest part of the transaction. Integration, missed liabilities, unhappy key employees, and lagging systems end up more expensive than any lawyer. A sober approach pays. If you are already working through Business Acquisition Training or have previously led a search, the themes below will feel familiar, but I will dig into the practical tolerances and edge cases I see buyers miss.

Start with the cash, not the story

Every seller has a narrative, often compelling. The story builds confidence, but cash pays debt service. Before you fall in love with a brand, rip the financials apart and rebuild them as if you had to run the company without the founder for 90 days.

Focus on three layers: quality of earnings, cash conversion, and seasonality. A quality-of-earnings review should separate recurring revenue from one-off projects, normalize owner compensation, and adjust for underinvestment or extraordinary items. In a small company, you will typically find at least two to four normalization adjustments that move EBITDA by 10 to 20 percent. Do not let cosmetic add-backs carry the deal. If the owner has not paid market wages for themselves or a family member, treat the difference as a cost. If capex has been deferred, model catch-up spending over the next two to three years and test the debt service coverage ratio with that reality.

Cash conversion matters more than reported profit. Walk through accounts receivable aging and inventory turns, then map working capital requirements by month. I once bought a profitable seasonal distributor that posted a handsome EBITDA margin but required \$2.1 million of extra working capital every August. The lender did not care about “busy season” when payments were due in January. If your target has lumpy cash flow, consider a revolver or a larger cash buffer, and price the deal with that friction in mind.

Seasonality and customer concentration can act like hidden leverage. A company with 30 percent of revenue tied to one client functionally has less control than its margins suggest. You can still buy it, but you should structure the deal around retention. That often means a holdback or an earnout tied to revenue from the top accounts for 12 to 18 months post-close.

Understand what you are truly buying: assets, relationships, or a machine

Every small to mid-sized business tilts one of three ways. Some are asset businesses, where hard assets and contracts drive value. Others are relationship businesses, where trust and incumbent status matter more than process. The third type is a machine: a company with systems, repeatable demand generation, and standardized delivery. Pricing and risk differ accordingly.

In asset businesses, maintenance, age, and replacement cycles set your real cost. Ask for serial numbers, service logs, and near-term capex plans. Map the fleet or equipment by age and remaining useful life. If you are not comfortable estimating this yourself, hire a mechanic or plant engineer on a day rate to do it with you. Financing heavy assets may be easier, but if they are tired, you will eat the maintenance curve right after close.

In relationship businesses, such as niche B2B services, personal equity sits with the founder. You need to see whether the business has institutionalized those relationships. Sit in on a few account reviews. Listen, do not pitch. Watch who does the talking, how notes are captured, and whether promises get logged into a system. If the account manager uses memory and an inbox, assume at least six months of vulnerability after the seller leaves. Structure a transition period that keeps the seller visible to key clients for long enough to transfer trust. Put it in writing with clear availability and defined handoffs.

Machines look boring from the outside, but they hold value because they run without a hero. Look for documented SOPs, a CRM that is used daily, and an operating cadence where the team inspects a few key metrics each week. In 2026, even the smallest machine should show a digital backbone: ticketing or job management software, reconciled revenue records, and a basic dashboard. Without those, you are buying hope.

Price discipline in a higher-cost world

Debt is not free. Even if rates temper, the cost of capital for most small business buyers remains materially higher than in the late 2010s. Price discipline is not about wringing every dollar from a seller, it is about survival math. Two lenses help: unlevered return on invested capital and debt service coverage.

Underwrite to an unlevered return you would accept if you had to buy the business with all cash. If, after normalized adjustments and realistic capex, the business produces a 12 to 15 percent unlevered return, you have a margin of safety. If it is 8 percent before growth, you are praying for multiple expansion at exit or a surge in profit that may or may not arrive.

For debt service, model a base case, a minus 10 percent revenue case, and a plus 10 percent cost case. Look for a 1.5x coverage ratio in base conditions and at least 1.2x in a mild shock. Do not assume immediate synergies unless you control them and can execute them within 90 days. If your lender will allow, tie a small portion of the price to performance. Sellers with confidence in the handoff usually accept a reasonable earnout tied to gross profit or revenue from specified segments.

People risks are not line items

Buyers underestimate culture because it does not fit neatly in a spreadsheet. Still, it drives outcomes after close. Map the organization, understand span of control, and identify single points of failure. In owner-operated companies, the seller's name can be on too many steps. That is not a fatal flaw, but you will need a real plan to separate duties during the transition.

Interview the second layer without theater. Skip the conference room and walk with them through their day. Ask for the last three decisions they made without the owner. If the answer is "I asked [owner]" each time, plan for coaching or a new hire in that seat. If the answer includes customer wins, cost cuts, and process fixes, you have potential leaders you can bet on.

Compensation checks matter. Confirm wages, overtime practices, and variable pay plans. If the company uses independent contractors, validate classification and contracts. In 2026, misclassification can trigger penalties that shred first-year cash flow. Keep an eye on benefits cliffs. When companies grow past certain headcount thresholds, health insurance requirements, sick leave, or retirement plan rules change. Price the future, not the past.

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I once passed on a great P&L because the shop floor lead was the seller's brother-in-law, living in another state, drawing a sub-market wage for a 60-hour job. The moment we bumped him to fair pay or replaced him, margins would compress by two points. The seller insisted it was a non-issue. It was the issue.

Customers and the durability of demand

Sell-side materials often present revenue as a monolith. Break it down by customer, product line, and channel. Then look at churn and expansion. A business with flat revenue and 10 percent annual churn is sprinting in place. Your go-to-market team will start every January in a hole.

Study how customers find the company. [buy a business broker](#) Referral-only businesses can be resilient, but they are hard to accelerate. If you plan to grow, test whether paid acquisition, outbound sales, or partnerships fit the motion. Shadow sales calls, review pipeline data, and verify close rates. If close rates look too good, ask how much discounting hides behind them.

Watch for platform risk. Many small e-commerce brands rely on a single marketplace or on algorithms owned by others. If 80 percent of your sales come from one channel with frequent rule changes, you own a risk you cannot control. Ask for a year of ad account data, marketplace performance reports, and evidence of successful off-platform sales. Where possible, acquire a brand with owned demand, even if the top line is smaller.

Contracts are only as good as their renewal terms. Read them. Auto-renewal with 30-day termination sounds great until a new procurement officer notices the clause. If your top accounts use master service agreements with at-will termination, calculate retention using observed behavior, not contractual fiction.

The systems check that saves you a year

Sloppy systems create drift. Strong systems give you early warning. In diligence, request a full map of the tech stack and data flows. That includes accounting software, CRM, marketing tools, inventory or job management, payroll, and any custom scripts or spreadsheets that glue it together. You are looking for two things: a source of truth for revenue and costs, and the ability to reconcile that truth each month without heroics.



An anecdote: a services company showed excellent margins for years. During diligence, the balance sheet looked clean, the bank reconciliations were timely, and revenue recognition matched contract milestones. Two months post-close, as we improved time tracking, we discovered unbilled labor lurking in custom spreadsheets. Jobs showed profit only because key hours never hit the P&L. Fixing it dropped margins by 3 points overnight, the kind of surprise that can break covenants. The system had created an optimism bias the P&L did not catch.

In 2026, small businesses often stitch together cloud tools. That is fine if the team can maintain them. Ask who owns the integrations and what happens when that person leaves. If the only person who understands the Zapier automation is a departing ops manager, you need to budget for a proper rebuild. And if you plan to migrate systems post-close, set a change freeze window around your peak season. Replatforming while busy is asking for a painful lesson.

Legal landmines and unbooked liabilities

Lawyers help you paper the deal. They cannot run the business. Still, their work points to hidden risks. You need a handle on four categories: corporate hygiene, taxes, compliance, and commitments.

Corporate hygiene covers ownership, board approvals, and clean minute books. It sounds dull until a missing consent delays your closing or clouds your title to critical assets. Taxes matter beyond the past year. Sales tax nexus rules have tightened and broadened. Confirm where the company has customers, where goods ship, and where services are delivered. If you see multi-state or cross-border activity, bring in a tax specialist. One unpaid state sales tax can wipe out a year of earnings.

Compliance risk depends on your sector. For anything with environmental exposure, demand recent inspections, permits, and any correspondence with regulators. In healthcare-adjacent businesses, test HIPAA procedures and audit logs. For construction or trades, verify licensing by individual and by entity. If revenue comes from federal contracts or grants, check debarment lists and flow-down clauses.

Commitments hide in side letters, vendor agreements, and leases. Read every equipment lease and real estate lease. Understand escalators, maintenance obligations, and assignment rights. Landlords can charge a consent fee or change terms on assignment, which can surprise a buyer who assumed a smooth transfer. If your plan relies on relocating or subletting, get explicit language that allows it.

Technology, cybersecurity, and data privacy are now table stakes

In 2018, many small buyers ignored cybersecurity. That is a luxury you do not have. A breach can cost six figures, dent customer trust, and disrupt operations for weeks. Ask about multi-factor authentication, password management, endpoint protection, and backup practices. Request the last penetration test report if one exists. If none exists, at least run a lightweight external vulnerability scan during diligence with the seller's consent.

Data privacy laws keep spreading. Even if you operate in the United States, customers located in stricter jurisdictions can drag you into compliance regimes you did not plan for. If the target holds consumer data, confirm consent capture, data retention policies, and deletion workflows. Map what data leaves core systems via exports or third-party tools. If the team sends CSVs with customer details over email, you have quick wins post-close, but also day-one risk.

On the positive side, a company that has invested in basic cyber hygiene signals discipline. These setups are not expensive anymore: a solid MDM solution, enforced MFA, and offsite backups cost far less than the time you will spend recovering from ransomware.

Working capital mechanics and the pain of a bad peg

Plenty of good deals get sour because buyer and seller misunderstand working capital. Most share purchase agreements include a target working capital figure that the seller must deliver at close. That peg often uses a historical average, adjusted for seasonality. Choose the wrong peg and you either inherit a cash drain or you overpay and get stuck fighting about it later.

Build a monthly model of working capital components for at least 24 months, then check it against operational realities. If the business recently changed terms with a key supplier or a major customer moved from 30-day to 60-day payment terms, a simple average will lie to you. Peg to the forward reality, not the rear-view mirror. Spell out definitions with precision. If the industry treats certain prepaids or customer deposits outside the peg, codify that. Ambiguity breeds disputes, and disputes breed costs.

The owner's role and your first hundred days

Too many first-time buyers treat the seller as a short-term tour guide. The seller is a resource, and if treated with respect, often your best hedge against early mistakes. Put a practical transition plan in the purchase agreement. It should cover availability, specific deliverables, introductions, and a knowledge dump schedule with named sessions. Pay for their time after close if you expect real work.

Buy a Business

Plan your first hundred days with a light touch on outward changes and rigor on internal controls. Keep branding and pricing steady unless the market forces your hand. Stabilize the team first, then customers, then vendors. Tighten financial reporting, back up data, and document a few mission-critical SOPs. Resist the urge to “optimize” everything at once. Pick three improvements that preserve cash and reduce operational variance, then execute them well.

An example that has worked for me: within the first month, implement weekly cash reconciliation, a simple work-in-progress tracker, and a short all-hands standup cadence focused on safety, quality, and schedule. Those three moves surface issues early and build trust with the team. Save your larger system changes for month four to six, when you know where the bodies are buried.

When paying more is cheaper

Buyers trained to hunt bargains sometimes miss the inverse truth: occasionally, the higher price is the discount. If the target has clean books, a stable second layer of leadership, documented processes, and a strong customer mix, you will pay more. But you will likely avoid the silent costs that cheaper deals impose: customer churn during a messy handoff, a six-figure system rebuild, or a key employee exodus.

I once paid an extra half turn of EBITDA for a service company with three reliable site supervisors and an office manager who closed the books by day five each month. Within a year, we rolled out a standard quoting process and grew without adding overhead. The discipline we bought saved two years of headaches. Compare that to a cheaper competitor with brittle operations that would have cost less at closing and more forever.

Don't outsource your judgment to lenders or advisors

Good lenders, brokers, accountants, and attorneys can help you see around corners. They also have incentives that are not identical to yours. A lender may greenlight aggressive projections because they are well collateralized. A broker is paid when the deal closes. An accountant might be technically right but miss the operational fix that changes the math. Use advisors, but own the synthesis.

Walk the floor. Visit customers. Ride along on service calls. Sit with the receptionist and listen to how the phone is answered. Pop into the warehouse unannounced at 7:30 a.m. Patterns reveal themselves in ordinary moments more than in data rooms.

A note on training and sharpening your acquisition craft

If you are early in your search, structured Business Acquisition Training can shorten your learning curve, but it will not replace the reps of live deals. Use training to build muscle memory: how to normalize earnings, how to construct a capital stack, how to draft an LOI that preserves leverage. Then get out and evaluate real companies. The training should give you checklists and frameworks. Your job is to develop taste.

Taste shows up in judgment calls. Do you pass on a company with 35 percent of revenue in a single account if that account has been stable for 12 years with embedded integrations? Maybe, maybe not. Do you stretch for a deal with a backlog that looks strong but depends on a single channel that an algorithm could crush next quarter? Probably not. Buying a Business is a craft that rewards repetition and humility as much as IQ.

Edge cases that deserve extra attention in 2026

- AI-adjacent service providers selling “automation” without defensible IP or sticky workflows. Revenue can look explosive for a year, then flatten as clients build in-house. If you pursue this category, price for decay and prove switching costs.
- Contractor-heavy delivery models resting on one marketplace for lead flow. Fees and rules change fast. Unless you can diversify channels within 90 days, assume volatility and negotiate a price that reflects it.
- Rollups that promise synergy without shared infrastructure. If systems are still fragmented and leadership stretched, the synergy is future tense. Pay for the present, not the deck.
- Climate exposure in physical businesses. Insurance costs have risen in certain regions. If you inherit a facility in a high-risk zone, underwrite premium increases and deductibles realistically.
- International supply chains woven through one trading company. If that middleman disappears, do you know how to place POs directly with factories and manage quality control? If not, add time and cost to your plans.

What great looks like at the LOI stage

By the time you sign a letter of intent, you should already have a view on five truths: normalized earnings with plausible ranges, the shape of demand and its fragility, critical people and succession gaps, the system holes you will fix early, and a capital plan that absorbs known shocks. If any of those feel fuzzy, slow down. Sellers respect buyers who ask sharp questions and explain why. Transparency earns you information that hurried buyers never see.

In practical terms, the LOI should do more than name price and structure. It should outline exclusivity length that matches diligence reality, spell out a working capital framework, and set expectations for access to people and systems. If your thesis hinges on retaining specific employees, add a condition that you can meet them after signing and before closing, subject to reasonable constraints.

The quiet math of owner earnings

Sophisticated buyers sometimes get lost in abstract metrics. Bring it back to owner earnings: cash you can safely take out of the business after maintaining operations and reinvesting what is necessary to sustain the machine. Owner earnings are not the same as EBITDA and rarely the same as last year’s tax return. They live after real capex, after normalized compensation, after changes you know you will make, and after taxes at the structure you will use.

Run the owner earnings math for year one, then test it with your personal burn rate and debt obligations. The first year is when surprises land. Make sure your cushion is big enough to catch one or two of them without bruising the relationship with your team or your lender.

Sustainable growth beats heroic growth

Acquisitions tempt the new owner to announce big targets. I have learned to favor compounding gains over heroics. It is better to increase average ticket size by 6 percent through price discipline and better scoping than to chase 30 percent top-line growth that

swamps your delivery team. It is better to improve first-time fix rate by 8 points than to spend aggressively on lead gen that creates churn. Sustained minor improvements stack faster than sporadic wins that stress the culture.

Set a cadence: quarterly priorities anchored in one or two lead indicators. Keep a simple scoreboard visible to your managers. Praise publicly, coach privately, and make sure your early wins protect margins. Eventually you will find room for bolder moves: new regions, adjacent services, or a strategic hire. Those moves stick when the base is stable.

The deal you walk away from is part of the job

Passing on a near miss hurts. You will question your judgment, especially if another buyer closes and brags on social media. Resist the noise. Many losses are wins in disguise. I once lost a deal over a five percent price gap. A year later, the buyer told me they discovered a labor misclassification issue and a lease consent fee they had not budgeted for. Their “win” absorbed two years of free cash flow.

Have a kill list: conditions that, if met, end the process without regret. It keeps emotions in check. For me, those include unverifiable revenue, undisclosed related-party transactions that keep popping up, or an owner who hedges on customer access during diligence. Your list may differ. The point is to decide before momentum and sunk cost whisper in your ear.

Bringing it together

Buying a business in 2026 asks for sharper vision and steadier hands than it did a few cycles ago. The fundamentals have not changed: inspect the cash, respect the people, and understand the machine you are taking over. What has changed is the surface area of risk and the speed at which small cracks widen. Digital infrastructure, compliance, and channel dependencies can shape your first year as much as margins and multiples.

Treat diligence as rehearsal for ownership. The questions you ask now become the dashboard you run later. The conversations you have with employees, customers, and vendors form the trust you will need when you make your first mistake, and you will make one. The price you pay can be forgiven if the business compounds. Overpaying for fragility is rarely forgiven.

There is craft in Buying a Business that no checklist captures completely. You learn it by doing, by staying curious, by calling your shot and then owning the outcome. Pick targets where time is your ally. Buy cash flows you understand. Pay fairly, structure wisely, and keep your downside in view. If you do, the business you buy in 2026 can still be the business that funds the rest of your life.