

FREE RESOURCE

The 30-Point Due Diligence Checklist

Everything to verify before you sign anything on a franchise resale

Use this checklist for every franchise resale you seriously evaluate. Print one copy per deal and work through each section systematically. Never make an offer before completing Sections 1 through 3.

This checklist covers every critical area of franchise resale due diligence. Work through each section in order. Items marked with a note indicate areas where extra scrutiny is warranted for resale transactions specifically.

How to use this checklist

Print one copy per deal. Work through sections in order — do not skip ahead. Complete Sections 1–3 before making any offer. Complete Sections 4–6 after your LOI is signed but before your purchase agreement. Never waive due diligence, regardless of timeline pressure.

Section 1

Financial Due Diligence

- Requested 3–5 years of Profit & Loss statements from the seller
- Requested 3–5 years of federal business tax returns (IRS Form 1120 or Schedule C)
Compare reported income on tax returns to P&L — large discrepancies are a red flag
- Obtained 12–24 months of business bank statements and reconciled against reported revenue
- Requested POS (point-of-sale) system gross sales reports directly from the franchisor
Franchisors track royalty-basis gross sales — this is often more reliable than seller-provided figures
- Verified all owner add-backs are documented and legitimate
Common add-backs: owner salary, personal vehicle, one-time expenses. Reject vague or undocumented add-backs
- Reviewed accounts receivable aging — assessed how quickly customers pay
- Reviewed accounts payable — identified any overdue obligations
- Confirmed there are no outstanding tax liens, judgments, or UCC filings against the business
- Calculated trailing 12-month SDE and compared to seller's stated SDE

- Assessed revenue trend: Is the business growing, flat, or declining? Understand why.

The SDE Test

Seller's Discretionary Earnings (SDE) is the number that matters most. Calculate it yourself: Net Income + Owner Salary + Owner Benefits + Depreciation + Non-Recurring Expenses. If your calculation differs meaningfully from the seller's, ask for documentation of every discrepancy.

Section 2

Franchise System Due Diligence

- Obtained and reviewed the current Franchise Disclosure Document (FDD)
- Reviewed Item 19 (Financial Performance Representations) — noted which % of units are included
An Item 19 covering only top performers is misleading. Always ask what % of units are represented
- Reviewed Item 20 — noted unit count trends, closures, and transfers in the last 3 years
- Reviewed Item 3 — identified any pattern of litigation between franchisor and franchisees
- Contacted at least 5 current franchisees NOT on the franchisor's reference list
Call from the full Item 20 list. Ask about support quality, profitability, and whether they'd do it again
- Contacted at least 2 franchisees who have exited the system — asked why they left
- Confirmed this specific unit's performance ranking within the franchise system
- Asked franchisor directly: Is there any required remodel or image update as a condition of transfer?
This is the most common hidden cost. Get the answer in writing before making your offer
- Confirmed the transfer fee amount and what it covers
- Confirmed the franchisor's buyer approval timeline and any training requirements

Section 3**Lease & Location Due Diligence**

- Obtained and reviewed the full current lease agreement
- Confirmed remaining lease term — calculated how much runway exists after closing
- Confirmed renewal options, rent escalation clauses, and renewal conditions
- Identified any landlord approval requirements for the franchise transfer
- Assessed whether current rent is at, below, or above market rate for the area
- Reviewed any personal guarantee requirements in the lease

The Lease Is Often the Biggest Risk

A franchise unit with great cash flow but only 2 years left on its lease — with no renewal option — has limited value. Always know the lease runway before falling in love with any deal. Negotiate the lease extension before or simultaneously with the business purchase.

Section 4**Operational Due Diligence**

- Visited the location at least twice — at different times of day and week
- Observed customer volume and compared to reported revenue
- Reviewed employee roster: headcount, compensation, tenure, and key roles
- Identified any key employees whose departure would significantly impact the business
- Confirmed all required licenses and permits are current and transferable

- Reviewed any existing supplier contracts and confirmed they transfer to new owner

Section 5

Legal Due Diligence

- Engaged a franchise-specialist attorney (not a general business attorney) to review all documents
- Attorney reviewed the franchise agreement — confirmed term, renewal, territory, and exit rights
- Attorney reviewed the purchase agreement for adequate representations and warranties
- Attorney confirmed the non-compete agreement scope, duration, and enforceability
- Searched for any pending or threatened litigation involving the business or the seller
- Confirmed intellectual property (trade names, customer lists) are properly included in the sale

Section 6

Deal Structure Checklist

- Calculated total all-in cost: purchase price + transfer fee + remodel + working capital + closing costs
- Confirmed deal is structured as an asset sale (standard) vs. stock sale
- Negotiated seller financing for at least 10–20% of purchase price if possible
- Confirmed SBA lender has reviewed the deal and pre-approved financing
- Agreed on seller training and transition period (minimum 2–4 weeks on-site)
- Confirmed a non-compete agreement is included in the purchase agreement

Before You Sign Anything

Never let timeline pressure cause you to shortcut due diligence. A seller or broker who pushes you to move faster than your process allows is a warning sign, not a reason to rush. The cost of a bad deal vastly exceeds the cost of a missed one.

Find verified franchise resale listings and more free resources at ThirdWaveFranchises.com