GENERAL

letter of intent to purchase business template

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Introduction

When a buyer is ready to move forward with the acquisition of a business, one of the first formal documents they will prepare is a **letter of intent to purchase business template**. This document sets the tone for the negotiation, outlines the key terms, and demonstrates the buyer's seriousness and intent. While the letter itself is not a binding contract, it is a critical step in the due diligence process and can help both parties align expectations before drafting a full purchase agreement.

What Is a Letter of Intent?

A letter of intent, often abbreviated as LOI, is a written expression of the buyer's willingness to proceed with an acquisition under specified conditions. It typically includes:

- The proposed purchase price or valuation method.
- Key terms and conditions, such as payment structure, earn outs, and contingencies.
- A timeline for due diligence, financing, and closing.
- Confidentiality and exclusivity clauses.
- Any post closing obligations or representations.

While it is generally non binding, an LOI can carry legal weight in certain jurisdictions if it contains specific enforceable provisions, such as confidentiality or exclusivity agreements. Therefore, both parties should treat it with the same diligence they would a formal contract.

Why Is a Letter of Intent Important?

1. **Clarity and Alignment**
An LOI forces both parties to articulate their expectations in writing. It reduces the risk of misunderstandings that could derail the transaction later.

2. **Due Diligence Focus**
By outlining the key deal terms, the LOI signals to the seller what information will be most relevant during the due diligence phase.

3. **Negotiation Framework**
The LOI provides a framework that can guide subsequent negotiations. It often includes a "good faith" clause that encourages both sides to negotiate in a cooperative manner.

4. **Professionalism**
Sending a well structured LOI demonstrates professionalism and can set the buyer apart from competitors who may rely on informal or verbal offers.

Key Components of a Letter of Intent to Purchase Business Template

Below is a detailed breakdown of the essential sections that should appear in a robust LOI template.

1. Header and Parties

Include the full legal names of the buyer and seller, along with their addresses and contact information. Also specify the date the LOI is being issued.

2. Purpose Statement

Clearly state that the document is a letter of intent and not a binding purchase agreement. This protects both parties from unintended legal obligations.

3. Purchase Price and Payment Structure

Outline the total purchase price and how it will be paid (e.g., cash, seller financing, earn outs). If the price is contingent on certain metrics, describe those conditions.

4. Due Diligence Period

Specify the length of the due diligence period, the scope of investigations (financial, legal, operational), and any deadlines for providing documents.

5. Closing Conditions

List the conditions that must be satisfied before the transaction can close. Common conditions include regulatory approvals, financing approvals, and the absence of material adverse changes.

6. Confidentiality and Exclusivity

Include a confidentiality clause that protects sensitive information exchanged during negotiations. An exclusivity clause can prevent the seller from soliciting other buyers for a defined period.

7. Representations and Warranties

Outline the key representations and warranties the seller will make, such as ownership of assets, compliance with laws, and absence of undisclosed liabilities.

8. Indemnification

Describe the indemnification provisions that protect the buyer from future liabilities arising after closing.

9. Governing Law

Specify which jurisdiction’s laws will govern the LOI and any subsequent agreements.

10. Signatures

Provide spaces for both parties to sign and date the LOI, indicating their agreement to the terms outlined.

Step by Step Guide to Using the Letter of Intent to Purchase Business Template

1. Gather Preliminary Information
   Before drafting the LOI, collect all relevant data: financial statements, valuation reports, market analysis, and any prior discussions with the seller.
2. Determine the Purchase Price
   Decide whether you will use a fixed price, a price range, or a valuation formula. Clarify any earn out or contingent payment mechanisms.
3. Draft the LOI Using the Template
   Insert the gathered information into the template’s sections. Ensure each clause reflects your negotiation strategy and risk tolerance.

4. Review and Revise

Have your legal counsel review the LOI for compliance with local laws and to ensure that non binding language is correctly applied.

5. Send the LOI to the Seller

Deliver the LOI via certified mail or a secure electronic platform. Keep a record of the delivery method and receipt confirmation.

6. Negotiate and Adjust

After receiving the seller’s response, negotiate any contested terms. Amend the LOI accordingly and re send for final acceptance.

7. Execute the LOI

Once both parties agree, sign the LOI. Store the signed document in a secure location as part of the transaction file.

8. Proceed to Due Diligence

Begin the due diligence process as outlined in the LOI, collecting data, verifying claims, and preparing for the final agreement.

Sample Letter of Intent to Purchase Business Template

Below is a concise yet comprehensive example of a letter of intent. Feel free to adapt it to your specific situation.

Letter of Intent to Purchase Business

Buyer: ABC Capital Partners, LLC**Seller:** XYZ Manufacturing Co., Inc.**Date:** September 4, 2026

Dear [Seller’s Name],

This letter sets forth the non binding terms under which ABC Capital Partners, LLC (the “Buyer”) intends to acquire the assets of XYZ Manufacturing Co., Inc. (the “Seller”) and related business operations. This document is intended for discussion purposes only and does not create a binding obligation to consummate the transaction.

1. Purchase Price

The Buyer proposes a purchase price of $5,000,000, payable as follows: $2,000,000 in cash at closing and an earn out of $3,000,000 contingent upon the Seller achieving annual revenue of $12 million over the next three years.

2. Due Diligence

The Buyer will conduct a comprehensive due diligence review over 60 days from the date of this LOI. The Seller will provide all financial statements, contracts, and other documents reasonably requested by the Buyer.

3. Closing Conditions

The transaction is subject to: (a) satisfactory completion of due diligence; (b) approval of financing by the Buyer’s lenders; and (c) no material adverse changes in the Seller’s business.

4. Confidentiality

Both parties agree to keep all information exchanged confidential in accordance with the separate Confidentiality Agreement signed on August 28, 2026.

5. Exclusivity

The Seller agrees not to negotiate with any other parties for a period of 90 days following the execution of this LOI.

6. Governing Law

This LOI shall be governed by the laws of the State of Delaware.

We look forward to working with you to finalize the details of this transaction. Please sign below to indicate your acceptance of the terms outlined above.

Sincerely,

____

[Buyer Representative Name]
ABC Capital Partners, LLC

Accepted by:

____

[Seller Representative Name]
XYZ Manufacturing Co., Inc.

Common Pitfalls and How to Avoid Them

1. **Over binding Language**
Using phrases such as “will” or “shall” in an LOI can unintentionally create binding obligations. Opt for “may” and “will be” to keep the document non binding.

2. **Insufficient Confidentiality Clauses**
Without robust confidentiality provisions, sensitive information could be disclosed inadvertently. Always include a clear confidentiality clause that specifies the scope, duration, and remedies.

3. **Neglecting Exclusivity**
Failing to secure an exclusivity period can allow the seller to entertain competing offers, potentially jeopardizing your bid. Incorporate an exclusivity clause that is enforceable and reasonable.

4. **Inadequate Due Diligence Scope**
Under defining the due diligence scope can leave critical risks uncovered. Ensure that the LOI lists all necessary areas of investigation—financial, operational, legal, and regulatory.

5. **Misaligned Valuation Assumptions**
Discrepancies between the buyer’s and seller’s valuation assumptions can cause friction later. Clarify the valuation methodology early and document any assumptions in the LOI.

How the Letter of Intent Fits Into the Overall Acquisition Process

Once the LOI is signed, the parties typically move to the due diligence phase. The LOI serves as a roadmap for the information that will be collected. After due diligence, the parties negotiate a definitive purchase agreement—often called a “Sale and Purchase Agreement” (SPA). The SPA incorporates the terms of the LOI and adds detailed legal language, warranties, indemnities, and closing conditions.

Frequently Asked Questions

1. Is an LOI legally binding?
Generally, no. However, certain clauses—such as confidentiality or exclusivity—can be enforceable.
2. Can I negotiate the purchase price in the LOI?
Yes. The LOI is the primary vehicle for negotiating key terms before drafting the SPA.
3. Do I need an attorney to draft an LOI?

While you can draft a simple LOI yourself, it is advisable to have legal counsel review it to ensure compliance with local laws and to protect your interests.

4. What happens if the seller refuses the LOI?

If the seller declines, you can either revise the terms or walk away. An LOI is not a binding offer, so the seller is not obligated to accept.

5. How long does an LOI remain valid?

Typically, an LOI includes an expiration date or a validity period. Common practice is 30–90 days.

Conclusion

A well structured **letter of intent to purchase business template** is an essential tool in any acquisition. It establishes a clear framework, protects both parties, and streamlines the transition from negotiation to closing. By carefully drafting the LOI, addressing key components, and avoiding common pitfalls, buyers and sellers can move forward with confidence, ensuring that the final sale agreement reflects the intentions and expectations set forth in the initial letter.