



This lesson teaches you how to buy mobile app businesses.

Why Buy

If you have access to capital, yet have no experience creating and marketing apps, then buying an existing app business is a great way to minimize risk. It is difficult to launch new apps from scratch and be successful, and buying an app business jumpstarts the process. Due diligence and transition are simple, compared to traditional businesses. It is possible to have revenue from purchased apps flowing into your bank account in as little as two to four weeks.

Four Big Questions

- What is your strategy? Think ahead to your business and model endgame.
 - Big Plate. Building out an app business with millions of downloads and significant revenue.
 - Publisher. Publishing other developers' apps with millions of downloads and significant revenue.
 - The Usual. Building out a small portfolio of apps that target a common demographic and become your network.
 - Quick Flip. Developing a few small apps and divesting in three to six months.
- What are you looking for? Interesting technology? Underutilized opportunities? PR potential? Network development?
- What would you do with the app business once you acquire it? If you lack experience, seek deals with an extended training period, resource assistance, and follow-on participation by the seller.
- What is your budget? If you seek financing or investment capital, start the process.



Consider what you might offer in addition to cash: seller financing for tax purposes, retention of partial equity, royalties, etc. The market dictates values ranging from \$50,000 into the millions. Expect to pay somewhere in the ballpark of 1½ to 3 times the Trailing Twelve Months revenue for it.

Buying Process

Apps are different from other business assets. The transition process is simpler, and networks are handed over with the business. The common steps to buying an app business are:

- Searching for an app business
- Requesting details on your interests
- Signing an NDA to receive the details
- Reviewing the confidential business overviews
- Performing cursory due diligence
- Q&A
- Making an offer via Letter of Intent
- Performing deep-dive due diligence
- Submitting a purchase agreement
- Coordinating escrow
- Finalizing sale
- Transitioning / training

Due Diligence

App businesses are different in that they have simpler due diligence.



- Early, cursory D. Early-stage due diligence involves a cursory review of your apps of interest.
 - Review the app store interface – Apple and Google.
 - Download the apps and play around with them.
 - Make sure they work.
 - Draw the monetization strategy.
 - Look for cross promotion screenings or email capture screens.
 - Look for interesting technology that can be used in a different way. Think through how could you improve the app.
 - See how recently and frequently they were updated.
 - Observe user reviews.
 - Review analytics at App Annie or topappcharts.com

Following are ideas for specific questions to ask the seller, once you finish your initial due diligence:

- How many hours per week do they work on the business?
- What do they do during that time?
- What are they doing for marketing?
- What are their monetization methods?
- What are the seller's ideas on how to grow the business?
- Are there any legal issues with the business?
- Are they willing to enter a Non-Compete Agreement for a timeframe of one to three years?
- Are they prepared for an escrow process in the sale?



- Later, Detailed D. Detailed due diligence embarks before you close.
 - Gain review-level access to the seller's Apple developer account.
 - Alternatively, use a screen sharing tool to log in live and review the financials together.
 - Look for any odd trends or fluctuations, and ask the seller later for their reasons.
 - Note the Apple and ad network pay cycles.
 - Verify revenue from other sources.
 - Verify downloads.
 - Request access to third-party tracking and analytics accounts.
 - Review financial statements – profit and loss, budgets, banks statements, and tax returns.
 - Review the asset list: apps, domain names, email lists, trademarks, intellectual property or technology, new apps and development, social media assets, etc.
 - Review a list of all vendors: programmers, designers, marketing services, promotional relationships with the developers or publishers.
 - Ensure that critical players will stay on with you as a new owner.
 - With your attorney, review any contracts that may be in place.
 - Ensure that any trademarks are valid and none of the apps violate other trademarks.

Best Practices and Tips

- Keep in mind the seller's mentality and your negotiating style.
- The best deals are those that deliver a fair market value on both ends with terms that enhance the deal for both sides.



- With recognition of the hard work went into the business, the seller's defensive stance drops, and fair deals are done pleasantly. There is always a way to put deals together creatively if there some level of connection formed between the buyer and the seller.
- Understand the value of the business.
- Consider how educated you are on the mobile market. If your background is in traditional business, start learning now. Know the lingo.
- Consider recruiting your team early on. Your business model will dictate the type of people you need.
- Do not fall into the eMyth: stuck in a scenario where you spend all your time working in the business and not growing the business.
- Consider buying app business pieces.

Keep in mind that the apps base is a different animal than the traditional world, when it comes to buying a business. Things move very fast. Valuations are all over the place, but you're getting in front of a huge wave. You just need to know your strategy and what you're looking for, so you can buy right.