

Business Acquisition Decision Checklist

Robert J. Chalfin CPA, JD
bob@chalfin.com
732.321.1099

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1. Preliminary Considerations

- A. Is this business attractive to me? (Consult with family, friends, and advisors)
- B. Am I prepared to invest my own money into this business?

2. Ownership and Approvals

- A. Who must approve the sale?
- B. Review shareholder or operating agreements
- C. Determine if any third party has a Right of First Refusal (ROFR)
- D. Identify outstanding options to purchase equity
- E. Clarify ROFR and option terms, deadlines, and expirations
- F. Identify all third parties required for deal approval including: Lenders, Customers, Suppliers, Franchisors, Government, Landlord

3. Qualifications and Licensing

- A. List of licenses and credentials required to own, operate, or work at the business.
- B. Can the required expertise be acquired personally or via key personnel?
- C. Can the licenses or credentials be transferred?
- D. Will buyer/key employees obtain required qualifications?

4. Regulatory and Legal Requirements

- A. Estimated scope and cost of regulatory compliance
- B. Engage qualified attorneys, CPAs, consultants

C. Identified any conflicts of interest

5. The Six Key Questions

- A. What is the business model?
- B. What causes the business to prosper, decline, or grow?
- C. FMV of assets (on/off balance sheet)?
- D. FMV of liabilities (on/off balance sheet)?
- E. Net assets = Assets – Liabilities
- F. What will change post-sale?
- G. What can I do to improve the business?

6. Business Model Resilience

- A. Can cash flow be annuitized?
- B. Can the business model be restructured for recurring revenue (MRR, ARR)?
- C. Can pricing be optimized for profitability?
- D. Can customer switching costs be increased?

7. Litigation and Risk

- A. Review risk exposure: Malpractice, Product liability, IP claims, Employment law, Consumer lawsuits, and others.
- B. Consult with attorneys
- C. Review insurance loss runs and consult with carriers

8. Management Capability

- A. Skills required: Marketing, Sales, R&D, Finance, etc.
- B. Skills on hand
- C. Skills needed and plan to hire/contract
- D. Current management team willingness and ability
- E. Potential to replace, supplement, or outsource roles

9. Obsolescence Risks

- A. Assessed vulnerability to: Tech/scientific change, Legal/regulatory shifts, Lifestyle/societal changes

10. Financial Analysis

- A. Calculate projected cash flow
- B. Review QoE reports and business plan
- C. Sources and uses of cash: Operations, Borrowings, Asset sales, Equity sales
- D. Cash flow requirements and CapEx (initial assumption: 110% of S/L depreciation)
- E. Immediate upgrades required: Marketing, IT, HR, and others.

11. Valuation and Structure

- A. Estimated FMV using: Comparable/Internal Sales, PE Multiple, CF Multiple, DCF, Replacement or Liquidation Value
- B. Can a partial purchase be structured?
- C. Debt capacity (for example, 70% to 80% of CF)

12. Financing the Acquisition

- A. for example, Estimated capital structure (for example, Debt = 3× Equity)
- B. Equity sources (self, family, friends, investors)
- C. Equity terms: ownership, control, preferences, veto rights
- D. Lender terms: SBA eligibility, LTV, DSCR, loan term, amortization period, Interest rate, fees, prepayment penalties, collateral

13. Alternative Financing Options

- A. Consider Purchase Money Note from Seller
- B. Seller rollover or retained ownership
- C. Phased/Installment purchase
- D. Search Funds (traditional or self-funded)
- E. Assessed value of seller/customer/supplier relationships
- F. Estimated cost/benefit

14. Return Analysis

- A. Estimated IRR (use Excel XIRR function)
- B. Terminal value assumptions
- C. Cap rate now and at sale
- D. EBITDA growth forecast

- E. Cash flow growth forecast
- F. Value of saleable assets
- F. IRR pursuant to perpetuity scenario

15. Hedging and Risk Management

- A. Evaluate costs and options for:

- Property & casualty

- Cybersecurity

- EPLI

- Workers' compensation

- Disability

- Key person insurance

- B. Other hedging or third-party indemnification strategies that can be utilized.

16. Structuring for Tax and Legal Efficiency

- A. Can the business be restructured for: Lower ongoing tax burden, Reduced legal liability