Entrepreneurship Through Acquisition

Overview

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September 29, 2025

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Overriding Goal:

Enable you to earn more from your capital than your labor.

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What is the Attraction?

- Desire to Control Your Destiny
- Independence and Leadership
- Opportunity to Hire and Mentor Employees
- Improve Working Conditions and Serve Others
- Personal Growth and Community Impact

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Goals

- Financial – cash flow, IRR, and ROI
- Personal - lifestyle, location, and required skillset
- Strategic - sector, synergies, and growth potential
- Risk Management- diversification, recurring revenue, resilience
- Acquisition Goals – fair valuation, available financing, and transition plan

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Entrepreneurship Through Acquisition

COMPONENTS

The Search Process - locating a business
Offers to Purchase a Business – IOIs, LOIs, and Term Sheets
Due Diligence – including Quality of Earnings (QoE)
Valuation – methods and formulas
Raising Capital including Search Funds – sources, debt, and equity
Structuring the Deal – Asset, Stock, and Merger
Utilizing Advisors – Attorneys, CPAs, Bankers, IT, and HR
Post Closing - Integration Strategies

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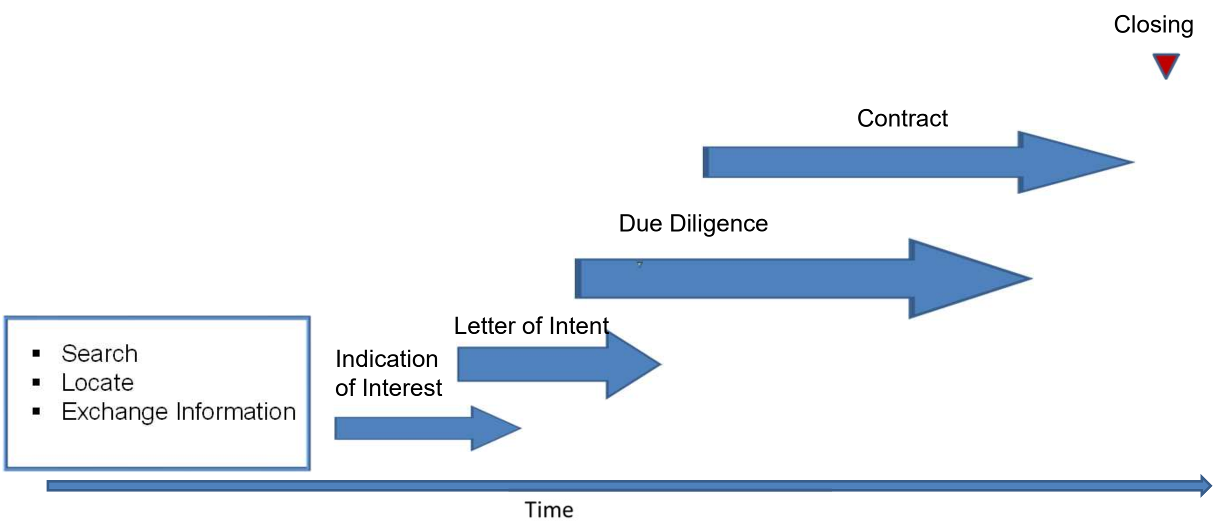
Sample Timeline



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Common Deterrents

What are your biggest deterrents to becoming an entrepreneur?

- Developing a profitable idea
- Finding (a) business partner(s)
- Sufficient financial resources
- Raising funds to purchase or start a business
- Do I have the required expertise
- Convincing loved ones

Do you have any loved ones or close friends who are entrepreneurs?

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Prior Experience and Training

For those who desire additional training before acquiring a business, relevant experience can be obtained from a variety of areas including:

- Private Equity
- Venture Capital
- Investment Banking
- Sales
- Due Diligence Advisory

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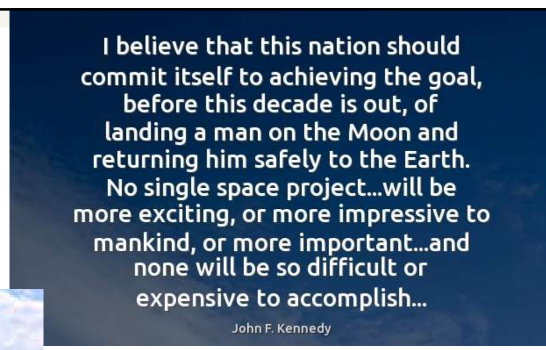

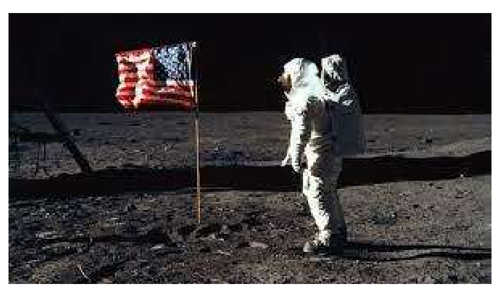

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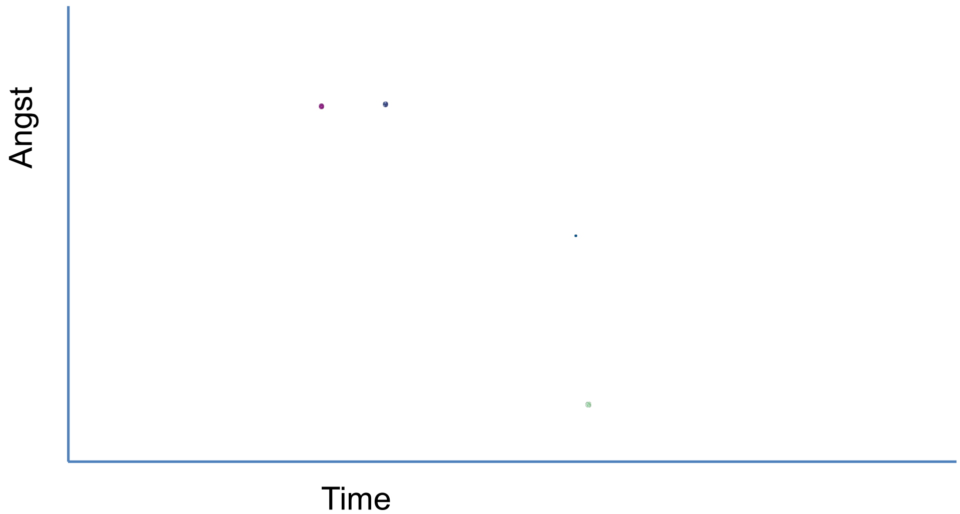
Angst Level Over Time



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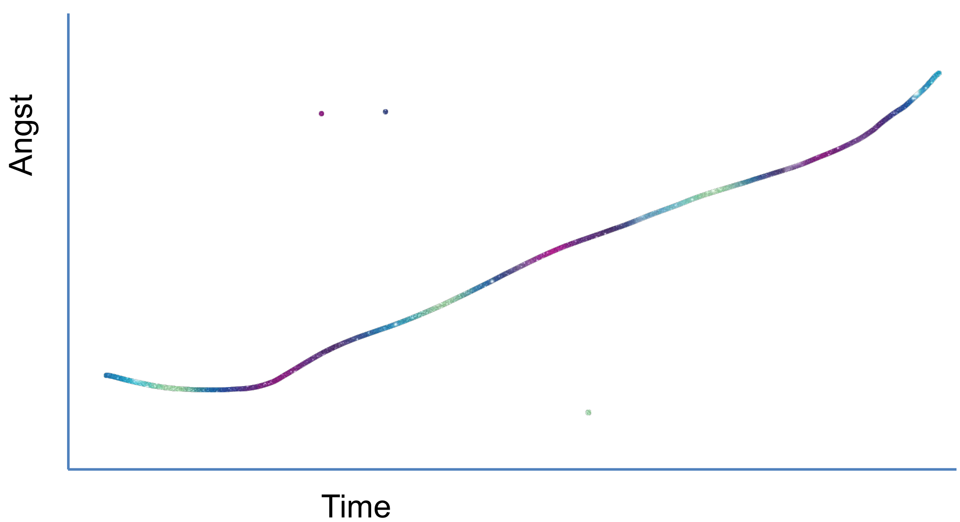
Angst Level Over Time



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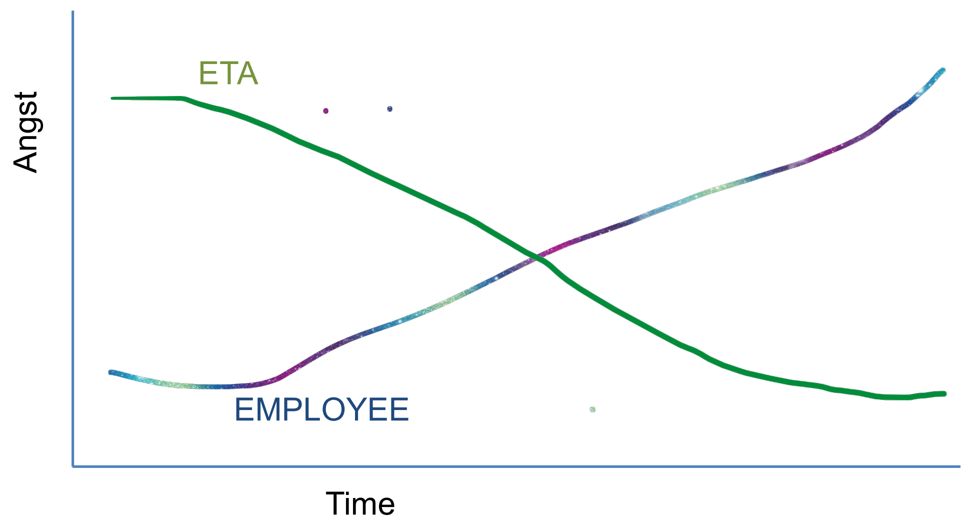
Angst Level Over Time



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Attributes of Successful Entrepreneurs

1. Situational Awareness
2. Astute
3. Great Communication Skills   Oral and Written
4. Ability to Analyze Problems
5. Hire Well and Delegate Even Better
6. Do Not Get Mired in Details
7. Ethical and Honest
8. Confident and Optimistic
9. Ability to Pivot

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Critical Components

Integrity

Confidence

Cash Flow

Do not confuse uncertainty with risk.

Every problem does not have only one solution.

The challenge is to find good investments.

Good people are better than good documents.

Build your team.

How Are You Protected?

Due Diligence and Analysis
Advisors, Friends, and Colleagues
Borrowing Funds and Raising Capital
Letter of Intent
Contract / Purchase Agreement
Escrows and Indemnification

Paths to ETA

- Self-funded
- Sponsor(s)/ Partners
- Search Funds
- Family / Inherit

The paths overlap and are not mutually exclusive.

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Buy versus Start

The ultimate make or buy decision is deciding whether to buy or start a business.

The alternatives are not mutually exclusive.

Pursuing either alternative can be tough and frustrating.

Instant gratification is usually illusive.

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Advantages of Acquiring

. Some advantages of buying a business include:

1. The business has a history and reputation
2. There are existing processes
3. The customer base has been established
4. The enterprise has an existing group of suppliers
5. There are trained employees
6. Financing is less speculative than for a start-up
7. The past can provide a guide to the future
8. It can be used to launch a new venture.

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Sources

Attorneys
CPAs Insurance Agents Wealth Managers

Bankers- local lenders
Investment Bankers
Venture Capitalists

Bank Workout Groups
Private Equity Firms
Private Investors/Angel Investors

Business Brokers

Real Estate Brokers

Trade Groups /Publications

Conventions, Meetings, and Seminars

Newspapers

Websites

Friends, Relatives, and Contacts

Businesspeople and Colleagues

"Connectors" as described by Malcolm Gladwell in the book, *Tipping Point.*

Always ask your sources and referrals for referrals.

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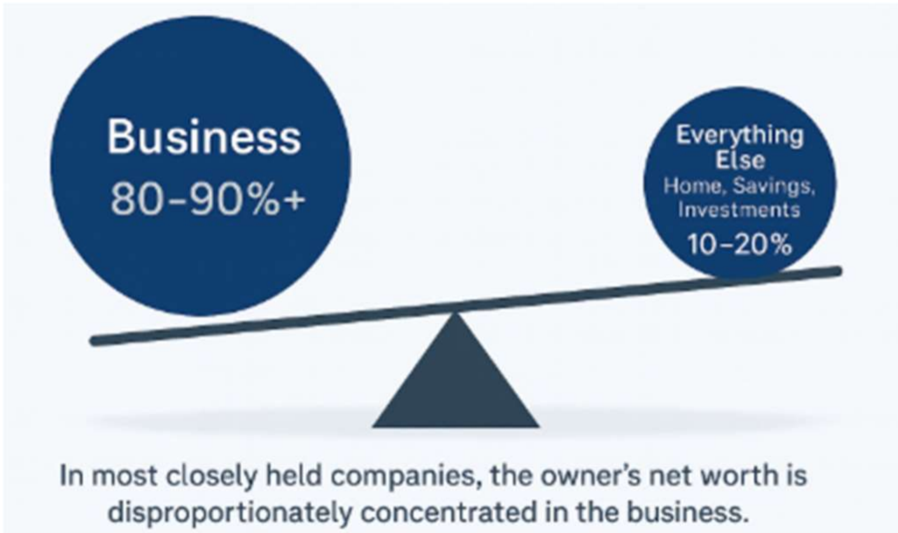
How a Business Can Dominate an Owner’s Net Worth



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Common Reasons for Selling Businesses

- Financial Diversification
- Inability to Fund Growth
- Business Evolution
- Internal Strife
- Lifestyle Decision
- Seize an Opportunity

Ultimately, it is not as satisfying as the owner would like it to be.

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Why A Seller Will Accept a Lower Offer

The buyer may appear to be easier to work with

The buyer is less likely to re-trade the deal

The sale may close quickly

There are less contingencies in the offer

One buyer may be better for the business- employees, customers, and seller

Key Questions for Due Diligence

1. What is the business model?
2. What are the assets?
3. What are the liabilities?
4. What will change?
5. What will change after I purchase the business?
6. What can I improve?

Due diligence is time consuming, intrusive, and disruptive.

Consider how you can be resourceful, parsimonious, and efficient.

Be prepared: the seller will be performing due diligence on you.

Valuation Methods

Comparable Transactions
Internal Sales
Earnings Multiple
Cash Flow Multiple
Discounted Cash Flow
Revenue or Sales Multiple
Replacement Value
Reality Check Method

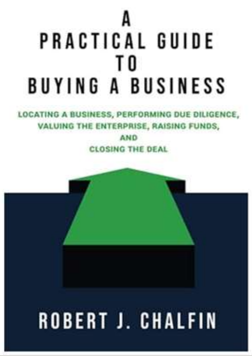
Lenders and Investors

Lenders
Government Programs - SBA and EDA
Community Banks
Credit Unions
Regional and Large Banks
Hard Money Lenders

Investors
Family, Friends, and Colleagues
Private Investors
Private Equity
Search Funds

RESOURCES

Source	Available
Podcasts Business Talk with Chalfin	Apple, Spotify, www.chalfin.com
A Practical Guide to Buying a Business	Amazon
Business Acquisition Decision Checklist	www.chalfin.com



All funds received from the book are donated to nonprofit organizations

Business Acquisition Decision Checklist

Prepared by Robert J. Chalfin CPA, JD

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