THE WHARTON SCHOOL
THE UNIVERSITY OF PENNSYLVANIA
MGMT811: Entrepreneurship Through Acquisition

Course Instructor:
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Mgmt 811 Spring 2009 Q3

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Course Description

The objective of this course is to enable students to develop the skills and knowledge of the acquisition process as it relates to entrepreneurial businesses. Students will be expected to apply both their academic training and prior business experience to the class. The course requirements will consist of the assigned readings, class discussions, and a final project.

The unique aspect of this class is students will receive valuable experience understanding how to value and acquire closely held businesses. A goal of this class is to provide you with the skills and tools to assess, evaluate, and consummate a business opportunity while having a meaningful and challenging learning experience.

The course requires that you master and integrate material from a number of disciplinary areas. Entrepreneurship involves the creation of value through applied business innovation, and it allows you to utilize every business skill that you have acquired. This is not a simple challenge. It is important that you prepare, attend, and participate in all classes. Much of the actual learning will take place in class. The class readings and discussions are an important component of the learning process. Although the notes for each class will be distributed via the webCafe before each class, they will not be a complete summary of every lecture. I have found it is helpful in the learning process for students to supplement the handouts with their own in-class notes. I will email the class when the notes are posted on the webCafe. The course assignments will consist of the assigned readings, class discussions, and an acquisition analysis project, which is discussed later in this Course Description.

If you have to miss a class or are unprepared, please let me know in advance. It will be your responsibility to obtain any handouts and notes from your classmates.

The University is a community that fosters the exchange of ideas and knowledge; Penn's policy discourages confidentiality agreements. The assumption is that any work a student submits is in the public domain. Students do not have an automatic right of confidentiality on submitted coursework. However, where confidentiality does not interfere with learning, I will honor these requests, when needed, on a case-by-case basis. Students are expected to respect the intellectual property of others.

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All students will be expected to approach the course in a professional, business-like manner. In-class lectures and discussions will supplement the student's training in the following areas:

- Locating a business
- Evaluating a business
- Adding synergy through acquisition
- Business valuation
- Structuring business purchases
- Tax aspects of purchasing a business
- Obtaining capital

Instead of traditional case studies, this course will utilize short caselets and project-based cases. Short fact patterns or the student projects will be used to illustrate and demonstrate relevant topics. Typically the instructor or students will present an operational, tactical, or strategic challenge that is being confronted. Class members will be expected to participate in the discussions by providing suggestions, solutions, or highlighting the relevant issues.

Throughout the course, students will have the opportunity and are encouraged to make short presentations to the class on their acquisition targets.

I am available to meet and can be reached via email and telephone to assist you. I encourage you to seek my advice and input.

Recommended Materials:
Chalfin, Robert J.; *Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal.* January 2006 John Wiley & Sons, Inc. ISBN 0-471-74076-4 (RJC).

Two bulk packets:
Bulk Packet 1 can be purchased through Wharton Reprographics or obtained via the webCafe.
Bulk Packet 2 can only be purchased through Wharton Reprographics. This bulk packet contains the Harvard Business Review Publications.

Pratt, Shannon P.; Reilly Robert F.; and Schweihs, Robert P.; *Valuing a Business,* 5th Edition. McGraw Hill 2007 [PRATT]. This is optional material.

Lecture notes and supplemental materials will be distributed either in class or via the webCafe.

Bulk packet readings designated with an asterisk (*) are suggested, the remaining readings are optional.

Grading Policy: Term grades will be based on the following:

Class Participation	40%
Readings List	5%
Acquisition Analysis	50%
Suggestions for Improveme	5%

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Robert J. Chalfin **Course Schedule:** Spring 2009 Q3

Class 1 – January 26, 2009: Review and analysis of the process of locating a business.
Readings:
Lecture Notes and Monograph
* RJC pages 1 - 17
* "Purchasing A Business: The Search Process." HBS 9-388-044.(Walton, Ennis J. and Roberts, Michael J.)
"Selling Your Business in Today's Market"
"Would-Be Entrepreneurs Learn From The Search"
"Selling a Family Enterprise: Tough to Decide and to Do"
"Bidding War"
"For a Big Score, Think Small Towns"
* "Who Owns the Concept if No One Signs the Papers?"
* "Sample Confidentiality Agreement"
"Buying a Small Company Takes Patience, Too"
"A Potential Owner Prefers the Studied Approach"
"Track Record Helps Property Buyers Clinch Deals"
* "Turning Managers Into Takeover Artists"
"Sell High, Buy Cheap"
"After Hitting It Big on Internet, Cuban Is Scoring in Basketball"
"Ebay Feedback: Bad Deal!"
"Spinning Plates—Juggling Act of Starting a Business"
* "A Short Guide to Successful Writing in Management Communication." HBS 9-387-037. (Morrison, James C.)
"Need to Make Money and Run Grows as Pricing Wars Heat Up"
"For Successful Business Owners, Preparation Is Key to Letting Go"
* "Why Deere Is Weeding Out Dealers Even as Farms Boom"
"Small Talk"
* How to Build a Bulletproof Startup"
Assignment:
Students should submit a copy of their resume along with a one-page summary of their goals for the course

Class 2 – February 2, 2009: Due Diligence and the evaluation process. Analyzing and evaluating a target business
Readings:
Lecture Notes
* RJC pages 51 - 75, 167 - 188
"Know Your Enemy"
* "Meet Your New Property"
* "Ten Ways Earnings Lie"
* "How to Spot Some Dirt In Rosy Annual Reports"

Class 3 – February 9, 2009: Valuation techniques for closely held businesses and Buy-Sell Agreements
Readings:
Lecture Notes and Monograph
* RJC pages 87 - 140
PRATT pages 151 – 258, 281 - 303 (optional)
* "Insist on the BV Data That Matter"
* "Valuation Techniques." HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard)
CONTINUED

Class 3 – February 9, 2009 (CONTINUED)

"How Much Is That Business Really Worth? (Chalfin)
* "Developing Capitalization Rates For Valuing A Business"
* "Selected Issues on the Valuation of Closely Held Businesses and Professional Entities (Chalfin)
* "Ten Easy Steps to Determine Discounts: Fact or Fiction?"
* "A Note on Valuation in Entrepreneurial Ventures." HBS 9-298-082 (Gompers, Paul)

"The Safest and Riskiest Small Businesses"
* "Upgrade Your Company's Image-And Valuation" HBR 84116 (Stancilli, James McN.)

"What's It Worth? A General Manager's Guide to Valuation". HBR 97305 (Luehrman, Timothy)
"Analysis of Control Premiums by Synergistic and Non Synergistic Buyers"
"Valuing Preferred Stock"
* "Are You Paying Too Much for That Acquisition" HBR 99402 (Eccles et al) 1999

"Selling? The Synergistic Buyer Is Your Best Bet"
"Valuation Analysis of Restricted Stock in Public Companies" (Van Vleet, et al)

Assignment:

Each group should submit a two-to-three page progress report

Class 4 – February 16, 2009: Borrowing and financing the deal. Structuring the purchase. Tax aspects of purchasing a business.

Readings:

Lecture Notes
* RJC pages 189 - 206

"Corrective Lenses"
* "How Venture Capitalists Evaluate Potential Venture Opportunities" (HBR 9-805-019)

"What Works: How to Find Your Angel"
"Measuring the Incalculable"
How Baby Boomers Tap Nest Eggs To Fund Ventures
Facebook's Costly Largess
* Sample letter of intent
* Sample asset purchase agreement

Class 5 – February 23, 2009: Structuring business purchases
Adding Synergy

Readings:

Lecture Notes
* "The Future of Outsourcing"
* "Outsourcing Finds New Niche"

"Independent Contractor or Not"
"The Face of Your Business"
"Make the Most of Buy-Sell Agreements"
"Why a Real Estate Agent May Skip the Extra Mile"
"Owners' Web Gives Realtors Run for Money"
"Firm Offers Designer Talent For Logos at Bargain Prices"
"The Benefits of Using a Formula"
* "The Transactional Lawyer and the Art of Plate Spinning"

"Rising Stakes"
"How Failure Breeds Success"
"What the Naïve Consumers Don't Know Can Help You"

Three days prior to class, each group should submit three suggestions to improve their target business

Class 6 – March 2, 2009: Designing compensation plans and post deal suggestions. Managing the business after the acquisition.

Readings:

Lecture Notes

* RJC pages 41 - 50, 207 - 210

"The Guide to Restricted Stock"

"Which is Better-Stock or Options?"

"Will Stock Options Lose Their Sex Appeal"

"Acquiring Intellect: Managing the Integration of Knowledge-Intensive Acquisitions" Business Horizons (Birkinshaw) 1999

"How Employees Value (Often Incorrectly) Their Stock Options"

"How to Tie Pay to Goals, Instead of the Stock Price"

"In Some Businesses, Size Is Irrelevant to Success"

"How Owners See Themselves on the Job"

* "How to Deal With Noncompete Agreements"

"Option Expensing: The Time Is at Hand"

"Star Search"

"Stock Options Remain Alive and Well"

"Phantom Stock Plans"

* "The Long Goodbye"

"This Could Keep You In The Pink

* "Merge Right"

"The Health of a Nation"

"The New Math Of Health Benefits"

"Choose the Right Health Care Account"

Student Presentations

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Acquisition Project Description

We will spend some time in class discussing how to locate a business that may be for sale. If you are not contemplating a business acquisition, you can approach business owners about performing an independent analysis of their business. You should be candid, forthright, and professional with everyone you are in contact with for this project. The analysis should be written; however, some groups may also elect to present their analysis in class. The business should be analyzed by a group of three or five students. Students should form their own groups. The completed acquisition analysis data sheet should accompany the analysis that is submitted. Each group member is expected to work on the group's project and will receive equal credit for the work. The written acquisition analysis is due on March 8, 2009 and should comply with the project guidelines, which are contained in the following pages. If an assignment is submitted late, it will be penalized. Assignments should be submitted via the webCafe as one computer file, preferably in Word or as a PDF.

A business that is used as the basis for a project should be one that is reasonably within the group's means to acquire. Target businesses can include "roll-ups" of several businesses in the same or complementary industries or a business that can add synergy to an existing venture. A business' location should not limit you. Target businesses must be an existing, operating business but can be located anywhere in the world. Inappropriate target businesses include publicly held entities, real estate projects, single-location retail businesses or start-ups as well as secret or confidential businesses.

On February 9, 2009 each group should submit a two to three page summary outlining the work it has performed to date as well as the additional tasks that need to be completed.

On February 20, 2009 each group will be required to submit, online, a very brief, one-to-two-line description of their target business and three suggestions for improving it. These suggestions will be photocopied and distributed in class. They will serve as the basis for a portion of our discussion in class.

Beginning with the fourth week of class, each group will be required to a) make a 10-to-12 minute presentation covering their search process and target business or b) to meet with me to discuss their project.

Gathering, analyzing, and reporting on a business is a time consuming process. You should begin working on this project immediately. You should not take this course if you plan on doing most of the work immediately prior to the due date.

Groups have the option of submitting a draft of their project on February 23, 2009. The purpose of this submission is for me to provide you with suggestions and comments. Since it is optional, it will not be graded.

Attached are:
1. Suggested Guidelines for Acquisition Analysis
2. Acquisition Analysis Guide for Grading
3. Acquisition Analysis Data Sheet – This should be completed and attached to your team's acquisition analysis.
4. Readings Report Description

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Suggested Guidelines for Acquisition Analysis

The Analysis should be written in outline form and contain the following information.

I. Executive Summary (1 Page)

II. Overview of the business (1-2 pages)
- A. Provide a succinct description of the business
- B. History
- C. Location (s)
- D. Key employees
- E. Customers and source of business
- F. Competitors
- G. Market analysis
- H. Any other relevant information

III. Strengths, Weaknesses, Opportunities and Threats Analysis (1-2 pages)

IV. Summarize recent financial results of the business (1-2 pages)
- A. Balance sheet
- B. Income statement
- C. Cash flow

V. Acquisition Plan and Valuation (2-4 pages)
- A. What is the purchase price?
- B. Capital structure/offer.
- C. Show valuations of comparable businesses.
- D. Use multiple valuation methods.
- E. How was the price determined? Include your calculations.
- F. How will any indebtedness be liquidated? Provide a cash flow statement.
- G. Analysis of risk.

VI. Future changes and improvements (1-2 pages)
- A. What do you suggest to improve the business such as:
  - -- Change or adjust the business model
  - -- Marketing plan
  - -- Raising capital
  - -- New employees
- B. How can you expand the business?
- C. What are new markets for the business?

This Acquisition Analysis Data Sheet and readings report should be submitted with every project.

The purpose of the class project is to provide the reader with a succinct overview of the entity that is being considered for acquisition. The page lengths are provided as guidelines, however, **the entire submission, exclusive of the Acquisition Analysis Data Sheet and readings report, should be thirteen pages or less**.

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Acquisition Analysis Guide for Grading

(This is the guide that is used to grade and score the acquisition analyses)

Sources of Information	5%
What Does the Company Do? Succinct Description History Location Key Employees	12
Customers/Source of Business Competitors Market Analysis Demographics Other Data	8
Prepare a SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis	8
Analysis of Financial Statements Is the analysis of the financial statements practical and well thought out? This includes income, cash flow liquidity, leverage, etc. What are the business' metrics and key drivers?	15
Acquisition Plan Is the acquisition plan reasonable and justified?	10
Purchase Price Is the price reasonably analyzed? Were multiple valuation methods utilized? Were any comparable businesses utilized in the analysis? Are the projections reasonable? Capital structure/offer How will the acquisition debt be liquidated? Analysis of the Business Risk	20
Future Changes and Improvements What do you suggest to improve the business? How can you expand and grow the business? Are the ideas well researched?	12
Overall Analysis, Clarity of Presentation Did the authors demonstrate an understanding of the key course concepts. Quality of Report	10
	100% Total

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ACQUISITION ANALYSIS DATA SHEET
Please submit this form with your acquisition analysis.

1. Group Members:

2. Type of Business:
   Business Name:
   Business Address:

3. How did you locate this business?

4. Number of on-site visits made to the business during the semester by group members?_____

5. Year the business was formed? _____ Fiscal year end (month)?_____

6. Type of entity (C Corp, Sub S, LLC, etc.)_____

7. Are the business' owner(s) related to a group member? __ If yes, relationship?__

8. Insert below the years of the business' tax returns and financial statements that you reviewed in connection with this analysis:

	Tax Return	Financial Statement	Level of Financial Statement (Audit, review, compilation)
Most recent year 200_	Yes/No	Yes/No	
Prior year 200_	Yes/No	Yes/No	
Next prior year 200_	Yes/No	Yes/No	
Next prior year 200_	Yes/No	Yes/No	
Next prior year 200_	Yes/No	Yes/No	

9. Names and titles of company personnel with whom you spoke

Name	Title	Were these discussions in person?

10. What were your external sources of information? List publications, web sites as well as names, titles and telephone numbers of individuals with whom you spoke.
Provide your answer to this question on a separate page.

Readings Report Description

Each student team should submit a one-page list of the five bulk packet readings that were the most useful along with a short description of how they assisted in completing the project. You should also include any recommendations of any readings that you utilized, which you feel should be included in the bulk packet for classes in the future.