

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

Robert J. Chalfin CPA, Esq.
The Chalfin Group Inc.,
Bridgepointe
45 Bridge Street
Metuchen, NJ 08840
Campus Address: 428 Vance Hall
Office hours- by appointment

732/321-1099 T
732/321-1066 F
bob@chalfin.com

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DRAFT

Course Description

Overview

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 assigned readings, class discussions, caselets, and a final project with interim submissions.

Topics that will be discussed in class include locating a business, due diligence, valuation, adding synergy, tax considerations, obtaining capital, structuring purchases, employee retention plans, and post-closing integration.

The course is practical, rigorous, and intensive. It is designed to provide you with the skills and tools to assess, evaluate, synthesize, value, structure, and consummate a business acquisition while having a meaningful and challenging learning experience.

The class discussions, caselets, readings, and project are important components of the learning process. You should not register for this course unless you are prepared to be actively involved in each class and begin working on the project immediately.

Accessibility

I am available to meet and can be reached via email and telephone to assist you. I will try to meet with as many students as possible for lunch or dinner during the course.

Reading Materials

- Chalfin, Robert J.; *Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal*. John Wiley & Sons, Inc. (2006) ISBN 0-471-74076-4 (RJC).
- The bulk packet can be obtained from Study.net through Wharton Reprographics.
- A selection of the lecture's slides will be posted before each class on the webCafe.

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Course Submissions and Grade Composition

The course submission deadlines and grade composition are as follows:

DUE DATE	TIME	DESCRIPTION	LENGTH	FORMAT	% OF GRADE
Class 2	E	Names of group members.		HC	
Class 3	N	Homework assignment #1		WC	4
Class 3	B	Progress Report A providing information on five potential businesses that your group is targeting or the one business that will be your target	1 page	HC	4
Class 4	B	Progress Report B outlining the work performed and the additional tasks to be completed.	2 pages	HC	4
Class 5	N	Homework assignment #2		WC	4
Class 7	B	Progress Report C updating the work performed and the additional tasks to be completed.	2 pages	HC	4
March 5, 2010	Midnight	Project	13 pages plus Acquisition Data Sheet	WC	50

Code			
B	Due at beginning of class	HC	Hardcopy submitted in class
E	Due at end of class	WC	Submitted via Webcafe
N	Due at 9:00 p.m. the evening before class		

If an assignment is submitted late, the grade will be penalized.

Class participation will comprise 30% of your course grade.

Acquisition Project Description

Group Project Requirements

You should immediately form a group consisting of 3 to 5 students, which will be your team for the class project. We will discuss how to locate a target business for your project. If you are not contemplating a business acquisition, you can approach business owners about performing an independent, constructive analysis of their business. You should be candid, forthright, and professional with everyone you are in contact with for this project. Each group member is expected to work on the group's project and will receive equal credit for the group's work.

Target Business

A business that is used as the basis for the project should have a purchase price of the greater of i) \$1 million or less or ii) an amount reasonably within the group's means to acquire. Targets 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' geographic location should not limit you; however your target must be an existing, operating business located anywhere in the world. Inappropriate targets include publicly held entities, real estate projects, single-location retail businesses, start-ups, confidential, and illegal businesses. You can purchase 25% or more of a particular business.

Gathering, analyzing, and reporting on a business is a time consuming process. You should begin working on this project immediately.

Confidentiality

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.

Grading Policy

PROJECT STATUS REPORTS

You will receive full credit if the status reports are submitted on time and evidence work being performed on the project.

HOMEWORK ASSIGNMENTS

Complete assignments submitted on time that apply the readings and class work will receive full credit. You will be expected to defend your answers in class.

PROJECT REQUIREMENTS

The following three pages provide guidance regarding the project and the grading policy, along with a copy of the Acquisition Data Sheet.

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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%
<hr/>	
What Does the Company Do?	
Succinct Description	
History, Location(s)	12
Key Employees	
<hr/>	
Customers/Source of Business	
Competitors	
Market Analysis	8
Demographics	
Other Data	
<hr/>	
Prepare a SWOT	
(Strengths, Weaknesses, Opportunities, and Threats) Analysis	8
<hr/>	
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
<hr/>	
Acquisition Plan	
Is the acquisition plan reasonable and justified?	10
<hr/>	
Purchase Price	
Is the price reasonably analyzed?	
Were multiple valuation methods utilized?	20
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	
<hr/>	
Future Changes and Improvements	
What do you suggest to improve the business?	12
How can you expand and grow the business?	
Are the ideas well researched?	
<hr/>	
Overall Analysis, Clarity of Presentation	
Did the authors demonstrate an understanding of the key course concepts?	
Quality of Report	10
	<u>100% Total</u>

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ACQUISITION 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:

	<u>Tax Return</u>	<u>Financial Statement</u>	<u>Level of Financial Statement</u> (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

<u>Name</u>	<u>Title</u>	<u>Were these discussions in person?</u>

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.

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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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Course Schedule:

Class 1 – January 25, 2009:

Topics: Course Overview
Chronology of an Acquisition
Defining Your Goals
Sourcing Businesses
Confidentiality Agreements
Preparation Prior to Meeting the Owner(s)

Readings:

Lecture Notes
RJC pages 1 - 17
“Purchasing A Business: The Search Process.” HBS 9-388-044.(Walton, Ennis J. and Roberts, Michael J.)
“Would-Be Entrepreneurs Learn From The Search”
“For a Big Score, Think Small Towns”
“Buying a Small Company Takes Patience, Too”
“A Potential Owner Prefers the Studied Approach”
“Turning Managers Into Takeover Artists”
“eBay Feedback: Bad Deal!”
“Need to Make Money and Run Grows as Pricing Wars Heat Up”

Class 2 – February 1, 2010:

Topics: The Art and Science of the Evaluation Process
Meeting the Owner
Key Metrics and Indices
Due Diligence

Readings:

Lecture Notes
RJC pages 51 - 75, 167 - 188
“Know Your Enemy”
“Ten Ways Earnings Lie”
Submit names of group members (see page 2)

Class 3 – February 8, 2010:

Topics: Definition of Fair Market Value
Types of Buyers
Valuation Guidelines and Determinants
Minority Interest Discounts
Valuation Methods
Buy Sell Agreements

Readings:

Lecture Notes
RJC pages 87 – 140
Pratt pages 201 – 234 – Understanding Discount and Capitalization Rates
“Valuation Techniques.” HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard)
“How Much Is That Business Really Worth?”
“Make the Most of Buy-Sell Agreements”
“The Benefits of Using a Formula”
Homework Assignment #1 (see page 2)
Progress Report A (see page 2)

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Class 4 –February 15, 2010:

**Topics: Sources of Funds
Obtaining Capital**

Readings:

Lecture Notes
RJC pages 189 – 206
“Investors Pay Business Plans Little Heed, Study Finds”
“To Get a Business Loan, Know How the Bank Thinks”
“Financing, With Strings Attached”
Progress Report B (see page 2)

Class 5 –February 22, 2010:

**Topics: Adding Synergy
Utilizing Professionals
Tax Consequences**

Readings:

Lecture Notes
“Outsourcing Finds New Niche”
“Independent Contractor or Not”
Homework Assignment #2 (see page 2)

Class 6 –February 22, 2010

**Topics: Letter of Intent
Contract/Asset Purchase Agreement**

Readings:

Lecture Notes
“The Transactional Lawyer and the Art of Plate Spinning”

Class 7 –March 1, 2010:

**Topics: Designing Incentive Plans
Equity Sharing
Preparing for Closing
Post Deal Suggestions**

Readings:

Lecture Notes
RJC pages 41 - 50, 207 - 210
“How Employees Value (Often Incorrectly) Their Stock Options”
“How to Deal With Noncompete Agreements”
“Phantom Stock Plans”
“Merge Right”
Progress Report C (see page 2)

course info pkt spring 2010 q3/Wharton