THE WHARTON SCHOOL
THE UNIVERSITY OF PENNSYLVANIA
MGMT 811: Entrepreneurship Through Acquisition

Robert J. Chalfin CPA, Esq.
The Chalfin Group Inc.
Bridgepointe
45 Bridge Street
Metuchen, NJ 08840

732/321-1099 T
bob@chalfin.com

Campus Office: 422 Vance Hall
Office hours: by appointment

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.

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

The course is practical and comprehensive. It is designed to provide you with the skills, techniques, and tools to assess, evaluate, synthesize, value, structure, and consummate a business acquisition while having a meaningful and challenging learning experience. A day or two before each class, I will post the lecture slides on Canvas. The slides are designed to provide an outline, but not a complete transcript, of the topics that will be covered in class. Since the class discussions are an important part of the learning process, you should not register for this course unless you are prepared to attend and actively participate in each class. If you do not attend the first class meeting, you cannot be enrolled in the course.

To encourage candid conversations in class, you should not record any of the lectures.

Course Submissions and Grade Composition

The course submission requirements, deadlines, and grade composition are as follows:

- Class participation- 30%

Your contributions will be evaluated after each class.

- Homework- 20%

There will be four homework assignments that will be posted on Canvas the Thursday before the second, third, fourth, and fifth classes. The assignments, which are short caselets, will be due at 9 p.m. the night before these classes. Your response should be two pages or less, and you will be expected to discuss and defend your answers in class. The homework is designed to encourage you to think about the readings and facilitate active participation in class. In many cases, there is no single correct answer to the homework problems.

- Final Project- 50%

The final project will be a case study that will be distributed before the last class. As an alternative to the final project, you have the option of preparing an acquisition analysis of an existing business. The requirements for the acquisition analysis are posted on Canvas and will be distributed in the first class. Either project can be prepared individually or in a group of 2 to 5 students. Regardless of whether you choose to do the final or alternative project, they are both due on March 7, 2014.

The homework assignments and the final project should be submitted via Canvas. If an assignment is submitted late, your grade will be penalized.

Accessibility
I am available to meet and can be reached via email and telephone to assist you. I will try to meet 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 pack can be obtained from Study.net through Wharton Reprographics.

- A selection of the lecture's slides will be posted before each class on Canvas.

Course Schedule:

Class 1 – <u>January 15, 2014</u>:
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, 149-160 [Chapters 1, 2, and 14]
Purchasing A Business: The Search Process. HBS 9-388-044. (Walton, Ennis J. and Roberts, Michael J.)
Would-Be Entrepreneurs Learn From The Search
Corporate Field Trip: Learning from Startups
How to Sell a Small Business
Turning Managers Into Takeover Artists

Class 2 –<u>January 27, 2014</u>:
Topics: The Art and Science of the Evaluation Process
Meeting the Owner
Key Metrics and Indices
Due Diligence
Readings:
Lecture Notes
RJC pages 51 - 69, 167 – 188 [Chapters 6 and 16]
Ten Ways Earnings Lie
Earnings, but Without the Bad Stuff
Troubled Audit Opinions
Fuzzy Accounting Enriches Groupon
Auditors Sharpen Queries in China
Start Ups Get Snapped Up for Their Talent
Inside H-P's Missed Chance to Avoid a Disastrous Deal
When a Founder is the Face of a Brand
Homework Assignment #1 due before class

Class 3 – <u>February 3, 2014</u>:
Topics: Definition of Fair Market Value
Types of Buyers
Valuation Guidelines and Determinants
Minority Interest Discounts
Valuation Methods
Readings:
Lecture Notes
RJC pages 87 – 140 [Chapters 9,10,11, and 12]
Understanding Discount and Capitalization Rates (Pratt pages 201 – 234)
Valuation Techniques. HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard)
The Benefits of Using a Formula
Determining Your Company's Value: Multiples and Rules of Thumb
Twins' Facebook Fight Rages On
Disruptions: The Logic (or Lack of it) in Appraising Start-Ups
Homework Assignment #2 due before class

Class 4 – <u>February 10, 2014:</u>
Topics:
Legal Structures
Buy Sell Agreements

Readings:
Lecture Notes
A Brief Overview of LLCs
How Much Is That Business Really Worth?
Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.
Homework Assignment #3 due before class

Class 5 – <u>February 17, 2014:</u>
Topics: Sources of Funds
Obtaining Capital
Search Funds
Readings:
Lecture Notes
A Meeting of the Minds
Investors Pay Business Plans Little Heed, Study Finds
To Get a Business Loan, Know How the Bank Thinks
Trinket-Seller Rides Out Turbulence
Want to Buy a Private Stock?
Financing, With Strings Attached
Entrepreneurs Hit Up Family, but Payback is Slow
A Plea for Direct Lending to Small Businesses
Earn-Outs: Bridge the Gap, With Caution
On Wall Street, So Much Cash, So Little Time
Using Your 401(K) to Buy A Small Business
Is The Crowdfund Act Really Good News for Private Business?
A Year Later, the Missed Opportunity of the JOBS Act
SEC Clears Way for Entrepreneurs to Tweet, Blog About Unregistered Shares
Law Opens Financing of Start-Ups to Crowds
The Backers Who Made It Big
Search Funds: An MBA Shortcut to the C-Suite

Class 6 – <u>February 24, 2014</u>:
Topics: Adding Synergy
Utilizing Professionals
Tax Consequences
Letter of Intent
Readings:
RJC pages 189 – 206 [Chapter 17]
RJC pages 161-166 [Chapter 15]
Lecture Notes
Letters of Intent
In Tough Times, Companies Coddle Their Regulars
Firms Puzzle Over Tax Riddle
Timing Is Ripe for Negotiation
Outsourcing Finds New Niche
Independent Contractor or Not
For Dell Investors, a Safety Valve
Homework Assignment #4 due before class

Class 7 – <u>March 3, 2014</u>:
Topics: Contract / Asset Purchase Agreement
Designing Incentive Plans
Equity Sharing
Preparing for Closing
Post Deal Suggestions
Readings:
Lecture Notes
RJC pages 41 - 50, 207 – 210 [Chapters 5 and 18]
The Transactional Lawyer and the Art of Plate Spinning
How Employees Value (Often Incorrectly) Their Stock Options
How to Deal With Noncompete Agreements
Cashing Out Start-Ups Gets More Complicated
After Rocky Year for Start-Ups, Investors Are Pickier
How Employees Value (Often Incorrectly) Their Stock Options
Phantom Stock Plans
Integration Acceleration
Yahoo Says New Policy is Meant to Raise Morale