

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.

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. The assignments, which are short caselets, will be due at 10 p.m. the night before the designated classes, as indicated on the course schedule on the following pages. The assignments will be posted on Canvas five days before the due date. Your submission should be two pages or less, and you will be expected to discuss your answers and concerns 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 project of an existing business. The requirements for the acquisition analysis are posted on Canvas and will be discussed 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 October 18, 2015.

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

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

It is important that the entire class is engaged. When class begins, all electronic devices should be turned off and put away. If you need to use a device for a language or disability issue, please advise me before class. The misuse of an electronic device (such as for texting, email, or surfing) will adversely affect your course grade.

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 – August 31, 2015:

Topics: Course Overview

Chronology of an Acquisition

Sourcing Businesses

Defining Your Goals

Preparation Prior to Meeting the Owner(s)/Seller(s)

Readings:

Lecture Notes

Required

RJC pages 1–17 [Chapters 1 and 2]

RJC pages 141-160 [Chapters 13 and 14]

Optional

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 –September 14, 2015:

Topics: Confidentiality Agreements

The Art and Science of the Evaluation Process

Meeting the Owner

Key Metrics and Indices

Due Diligence

Readings:

Lecture Notes

Required

RJC pages 51-69, 167 – 188 [Chapters 6 and 16]

Ten Ways Earnings Lie

Troubled Audit Opinions

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

What is the Difference Between a Compilation, a Review and an Audit? Comparative Overview
When a Founder is the Face of A Brand
Tech Companies Fly High on Fantasy Accounting
Start-Ups Finding the Best Employees Are Actually Employed
Independent Contractor or Not

Optional

Earnings, but Without the Bad Stuff
Discontent Simmers Among McDonald's Franchisees
Inside H-P's Missed Chance to Avoid a Disastrous Deal
For the Youngest Startups, No Billions
Homework Assignment #1 due at 10:00 p.m. the day before class

Class 3 – September 21, 2015:

Topics: Legal Structures
Definition of Fair Market Value
Types of Buyers
Valuation Guidelines and Determinants
Minority Interest Discounts
Valuation Methods

Readings:

Lecture Notes

Required

RJC pages 87–124 [Chapters 9, 10, and 11]
RJC pages 125-140 [Chapter 12]
The Benefits of Using a Formula
Determining Your Company's Value: Multiples and Rules of Thumb
Twins' Facebook Fight Rages On
A Brief Overview of LLCs
Valuation Techniques. HBS 9-384-185 (Roberts, Michael J. and Stevenson, Howard)
Dodgy Home Appraisals Make a Comeback

Optional

Understanding Discount and Capitalization Rates (Pratt pages 201-234)
Disruptions: the Logic (or Lack of it) in Appraising Start-Ups
Homework Assignment #2 due at 10:00 p.m. the day before class

Class 4 – September 28, 2015:

Topics: Sources of Funds
Obtaining Capital
Search Funds
Deal Structure
Tax Consequences

Readings:

Lecture Notes

Required

RJC pages 189 – 206 [Chapter 17]
As More tech Start-Ups Stay Private, So Does the Money
A Meeting of the Minds
Small-Business Lending is Slow to Recover
Financing, With Strings Attached
Entrepreneurs Hit Up Family, but Payback is Slow
Structuring Waterfall Provisions
Earn-Outs: Bridge the Gap, With Caution
Alternative Lenders Peddle Pricey Commercial Loans
Using Your 401(K) to Buy A Small Business
Is The Crowdfund Act Really Good News for Private Business?

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

Tired of Waiting for U.S. to Act, States Pass Crowdfunding Laws and Rules
A Year Later, the Missed Opportunity of the JOBS Act
Law Opens Financing of Start-Ups to Crowds
Crowdfunding for Internet Stock Sales Approved by SEC
Search Funds: An MBA Shortcut to the C-Suite
Firms Puzzle Over Tax Riddle
Timing Is Ripe for Negotiation

Optional

JOBS Act Title III: Investment Being Democratized, Moving Online
The JOBS Act leaves crowdfunding investors unprotected-the SEC is working with a flawed law
The Backers Who Made It Big
India's Illicit Moneylenders Aren't Going Away
Homework Assignment #3 due at 10:00 p.m. the day before class

Class 5 – October 5, 2015:

Topics: Adding Synergy
Utilizing Professionals
Buy Sell Agreements
Letters of Intent

Readings:

Lecture Notes

Required

RJC pages 161-166 [Chapter 15]

Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.

Drafting an Effective Buy-Sell Agreement

Letters of Intent

Homework Assignment #4 due at 10:00 p.m. the day before class

Class 6 – October 12, 2015:

Topics: Contract / Asset Purchase Agreement
Designing Incentive Plans
Equity Sharing
Preparing for Closing
Post Deal Suggestions

Readings:

Lecture Notes

Required

RJC pages 41 - 50, 207 – 210 [Chapters 5 and 18]

The Transactional Lawyer and the Art of Plate Spinning

Indemnification Provisions in Acquisition Agreements

How Employees Value (Often Incorrectly) Their Stock Options

Cashing Out Start-Ups Gets More Complicated

After Rocky Year for Start-Ups, Investors Are Pickier

Phantom Stock Plans

Optional

Integration Acceleration

Yahoo Says New Policy is Meant to Raise Morale