

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

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Campus Office: 422 Vance Hall  
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### 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.

#### Course Requirements

**Attendance at all course sessions is mandatory. Failure to attend the first session will result in being automatically dropped from the course with no further right to admission.**

Since the class discussions are an important component 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.

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.

**Due to Rosh Hashanah and Yom Kippur, there will be no classes on October 3, 2016 and October 12, 2016. Two make-up classes will be held from 6:00 p.m. to 9:00 p.m. on Wednesday, September 28, 2016 and Wednesday, October 5, 2016 in Vance B11.**

#### 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.

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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 24, 2016.

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

### **Course Schedule:**

#### **Class 1 – September 12, 2016:**

##### **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.)

*Corporate Field Trip: Learning from Startups*

*How to Sell a Small Business*

*Family Businesses Welcome Outside Buyers*

*Baby Boomers Ready to Sell Businesses to the Next Generation*

#### **Class 2 – September 19, 2016:**

##### **Topics: Confidentiality Agreements**

**The Art and Science of the Evaluation Process**

**Meeting the Owner**

**Key Metrics and Indices**

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**Due Diligence**

**Readings:**

Lecture Notes

**Required**

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

*Private-Equity Portfolios Become Hot Spots to Shop for Acquisitions*

*Why I am Not Looking to Hire Computer-Science Majors*

*Ten Ways Earnings Lie*

*Troubled Audit Opinions*

**Optional**

*Earnings, but Without the Bad Stuff*

*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 26, 2016:**

**Topics: Due Diligence (cont.)**

**Legal Structures**

**Readings:**

Lecture Notes

*When a Founder is the Face of A Brand*

*Tech Companies Fly High on Fantasy Accounting*

*Companies Invent Their Own Performance Benchmarks*

*Independent Contractor or Not*

*Startups Scramble to Define "Employee"*

**Class 4 – September 28, 2016:**

**Topics: Definition of Fair Market Value**

**[Alternate Date/Class will be held from 6:00 p.m. to 9:00 p.m. in Room Vance B11]**

**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*

*What is the Difference Between a Compilation, a Review and an Audit? Comparative Overview*

**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 5 – October 5, 2016:**

**Topics: Source of Funds**

**[Alternate Date/Class will be held from 6:00 p.m. to 9:00 p.m. in Room Vance B11]**

**Obtaining Capital**

**Search Funds**

**Deal Structure**

**Tax Consequences**

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**Readings:**

Lecture Notes

**Required**

*As More Tech Start-Ups Stay Private, So Does the Money*

*A Meeting of the Minds*

*Structuring Waterfall Provisions*

*Earn-Outs: Bridge the Gap, With Caution*

*Needing Cash, Some Small Business Owners Bypass the Bank*

*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?*

*Crowdfunding for Internet Stock Sales Approved by SEC*

*No Venture Capital Needed or Wanted*

*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*

*India's Illicit Moneylenders Aren't Going Away*

***Homework Assignment #3 due at 10:00 p.m. the day before class***

**Class 6 – October 10, 2016:**

**Topics: Adding Synergy**

**Utilizing Professionals**

**Buy Sell Agreements**

**Letters of Intent**

**Readings:**

Lecture Notes

**Required**

RJC pages 189-196 [Chapter 17], pages 161-166 [Chapter 15]

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

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

**Class 7 – October 17, 2016:**

**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]

*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*

course info packet Mgmt 811 Fall 2016 Q1/Wharton