

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

**DRAFT 10/10/17**

Robert J. Chalfin CPA, Esq.  
The Chalfin Group Inc.  
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 explore selected topics related to the entrepreneurial career path of acquiring a small or mid-sized business. We will examine this process through the perspective of following the acquisition cycle, which is addressed through a series of lectures, assigned readings, short case studies, and a final project which is outlined in this syllabus:



When determining whether to enroll in this course, please keep the following in mind:

1. No two deals or acquisition processes are the same.
2. This course is not meant to provide a comprehensive strategy on how to acquire a business, but provide you with the knowledge and context to decide a) whether or not you would want to explore a career path of entrepreneurship through acquisition, b) some alternative methods to becoming an entrepreneur, and c) a practical tool kit to guide you through the acquisition lifecycle.
3. While there are many similarities between the process of acquiring a small business and a private equity fund buyout or large mergers and acquisition deal, the world of small business is highly entrepreneurial, fragmented, and nuanced. As a result, there will be differences between what is discussed in class and the private equity process.

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.

### **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. Students will be expected to apply both their academic training and prior business experience to the class.

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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.

I will post the lecture's slides on Canvas before each class. The slides provide an outline, but not a complete transcript, of the topics that will be covered in class.

**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%**

The homework 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 four days before the due date. Your submissions 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, just like in real-world deal making, there is no single correct answer to the homework problems. However, I will provide you with a proposed solution to each assignment.
  
- **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 up to 3 students. Regardless of whether you choose to do the final or alternative project, they are both due on December 13, 2017.

All assignments 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 lectures' slides will be posted before each class on Canvas.

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**Course Schedule:**

**1. Week 1 – October 23, 2017 and October 25, 2017:**

**Topics:**

Course Overview  
Chronology of an Acquisition  
Sourcing Businesses  
Defining Your Goals  
Preparation Prior to Meeting the Owner(s)/Seller(s)

**Required Readings (including the Lecture's Slides):**

RJC pages 1–17 [Chapters 1 and 2]  
RJC pages 141-160 [Chapters 13 and 14]  
*Purchasing A Business: The Search Process. HBS 9-388-044. (Walton, Ennis J. and Roberts, Michael J.)*

**Optional Readings:**

*How to Sell a Small Business*  
*Family Businesses Welcome Outside Buyers*  
*Baby Boomers Ready to Sell Businesses to the Next Generation*

**2. Week 2 – October 30, 2017 and November 1, 2017:**

**Topics:**

Confidentiality Agreements  
The Art and Science of the Evaluation Process  
Meeting the Owner  
Key Metrics and Indices  
Due Diligence (Begin)

**Required Readings (including the Lecture's Slides):**

RJC pages 51-69, 167-188 [Chapters 6 and 16]  
*Private-Equity Portfolios Become Hot Spots to Shop for Acquisitions*  
***Homework Assignment #1 due on October 30, 2017 at 10:00 p.m.***

**3. Week 3 – November 6, 2017 and November 8, 2017:**

**Topics:**

Due Diligence (continued)  
Legal Structures

**Required Readings (including the Lecture's Slides):**

*When a Founder is the Face of A Brand*  
*What is the Difference Between a Compilation, a Review and an Audit?*  
*Comparative Overview*  
*Tech Companies Fly High on Fantasy Accounting*  
*Companies Invent Their Own Performance Benchmarks*  
*Firms Puzzle Over Tax Riddle*  
*Startups Scramble to Define "Employee"*

**4. Week 4 – November 13, 2017 and November 15, 2017:**

**Topics:**

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Definition of Fair Market Value  
Types of Buyers  
Valuation Guidelines and Determinants  
Minority Interest Discounts  
Valuation Methods

**Required Readings (including the Lecture's Slides):**

RJC pages 87–124 [Chapters 9, 10, and 11]  
RJC pages 125-140 [Chapter 12]  
*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)*

**Optional Readings:**

*Understanding Discount and Capitalization Rates (Pratt pages 201-234)*  
*Disruptions: the Logic (or Lack of it) in Appraising Start-Ups*  
**Homework Assignment #2 due on November 13, 2017 at 10:00 p.m.**

**5. Week 5 – November 20, 2017:**

**Topics:**

Source of Funds  
Obtaining Capital  
Search Funds  
Deal Structure  
Tax Consequences  
Buy Sell Agreements

**Required Readings (including the Lecture's Slides):**

*A Meeting of the Minds*  
*Earn-Outs: Bridge the Gap, With Caution*  
*Needing Cash, Some Small Business Owners Bypass the Bank*  
*Alternative Lenders Peddle Pricey Commercial Loans*  
*America's Farmers Turn to Bank of John Deere*  
*Using Your 401(K) to Buy A Small Business*  
*Crowdfunding for Internet Stock Sales Approved by SEC*  
*Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.*  
*No Venture Capital Needed or Wanted*  
*Timing Is Ripe for Negotiation*  
*2016 Search Fund Study: Selected Observations*  
*Search Fund: Best Practices for the Search Phase*  
*How the Twinkie Made the Superrich Even Richer*

**Optional Readings:**

*Search Funds: An MBA Shortcut to the C-Suite*  
**Homework Assignment #3 due on November 20, 2017 at 10:00 p.m.**

**There will be no class on November 22, 2017. Our class on November 20, 2017 will be held from 3:00 p.m. to 6:00 p.m.**

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**6. Week 6 – November 27, 2017 and November 29, 2017:**

**Topics:**

- Adding Synergy
- Utilizing Professionals
- Letters of Intent

**Required Readings (including the Lecture's Slides):**

- RJC pages 189-196 [Chapter 17], pages 161-166 [Chapter 15]
- Letters of Intent in Corporation Negotiations: Using Hostage Exchanges and Legal Uncertainty to Promote Compliance*
- Confirmatory Due Diligence*
- Homework Assignment #4 due on November 27, 2017 at 10:00 p.m.***

**7. Week 7 – December 4, 2017 and December 6, 2017:**

**Topics:**

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

**Required Readings (including the Lecture's Slides):**

- RJC pages 41 - 50, 196-206, 207 – 210 [Chapters 5, 17, and 18]
- Why I am Not Looking to Hire Computer-Science Majors*
- Think a 401(k) Is Not a Sexy Benefit? Competition May Change That*
- We're Paying CEOs All Wrong*
- The Utter Uselessness of Job Interviews*

**Optional Readings:**

- Integration Acceleration*

Course description package 100917/mgmt. 811 fall 2017 Q2/Wharton