

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

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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- 25%** (your contributions will be evaluated after each class)

- **Homework- 25%**

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 October 24, 2018.

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.

**THE WHARTON SCHOOL
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Course Schedule:

Week 1 – August 29, 2018 and September 5, 2018:

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 (What Buyers Are Looking For), and 2 (Why Sell)]
RJC pages 141-160 [Chapters 13(Confidentiality Intro) and 14(Limiting Data)]
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
When Family Business Owners Don't Want to Retire

Week 2 – September 12, 2018:

Topics:

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

There will be no class on September 10, 2018. The class on September 12, 2018 will be from 3:00 p.m. to 6:00 p.m.

Required Readings (including the Lecture's Slides):

RJC pages 51-69, 167-188 [Chapters 6 (Financial Metrics), and 16 (Due Diligence)]
Private-Equity Portfolios Become Hot Spots to Shop for Acquisitions
Homework Assignment #1 due on September 11, 2018 at 10:00 p.m.

Week 3 – September 17, 2018:

Topics:

Due Diligence (continued)
Legal Structures

Required Readings (including the Lecture's

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

There will be no class on September 19, 2018. The class on September 17, 2018 will be from 3:00 p.m. to 6:00 p.m.

**THE WHARTON SCHOOL
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MGMT 811: Entrepreneurship Through Acquisition**

Startups Scramble to Define “Employee”

Week 4 – September 24, 2018:

Topics:

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 (Valuation), 10 (Book Value), and 11 (Earning Capacity)]
RJC pages 125-140 [Chapter 12 (Methods of Determining Value)]
Crack and Pack: How Companies Are Mastering the New Tax Code
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 September 26, 2018 at 10:00 p.m.

Week 5 – October 1, 2018 and October 3, 2018:

Topics:

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

Required Readings (including the Lecture’s Slides):

RJC pages 189-196 [Chapter 17 (Forms of Acquisition)]
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

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

*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 October 3, 2018 at 10:00 p.m.

Week 6 – October 8, 2018 and October 10, 2018:

Topics:

Adding Synergy
Utilizing Professionals
Letters of Intent

Required Readings (including the Lecture's Slides):

RJC pages 161-166 [Chapter 15 (Letter of Intent)]
The 10 Biggest Crowdfunding Campaigns: Where Are They Now?
*Letters of Intent in Corporation Negotiations: Using Hostage Exchanges
and Legal Uncertainty to Promote Compliance*
Confirmatory Due Diligence
How Bad is the Labor Shortage? Cities Will Pay You to Move There
JOBS Act Title III: Investment Being Democratized, Moving Online
Structuring Waterfall Provisions
Cashing Out Start-Ups Get More Complicated
Homework Assignment #4 due on October 10, 2018 at 10:00 p.m.

7. Week 7 – October 15, 2018 and October 17, 2018:

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 189-206, 207-210, and 41-50 [Chapters 17 (Forms of Acquisition), 18 (After the Sale), and 5 (Attracting the Right People)]
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
Insecure Overachiever? You are perfect for the job

Optional Readings:

Integration Acceleration