

MGMT 213 – Entrepreneurship Through Acquisition Spring 2019 Q4

INSTRUCTOR

Richard Perlman, W'68
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TEACHING ASSISTANT

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COURSE OBJECTIVES

The objective of this course is to study the process of entrepreneurship through the acquisition of existing operating businesses. We will study this process through a series of lectures, assigned readings, case studies, and a final project which will follow the acquisition process.



We will discuss sourcing and identifying acquisition opportunities, strategic, operational, legal, and financial operational due diligence, valuation, tax considerations, raising capital, structuring and closing transactions, post-closing integration, as well as managing and exiting the acquisition. We will also examine prototypes for pursuing acquisitions including search fund models and fundless deal sponsor models.

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 designed to provide you with the knowledge and insight to a) decide whether you want to explore a career path of entrepreneurship through acquisition, b) consider alternative methods of pursuing entrepreneurship, and c) apply a practical tool kit to guide you through the acquisition process.
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 transaction, 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.

COURSE REQUIREMENTS

You are expected to attend all course sessions. Failure to attend the first session will result in being automatically dropped from the course with no further right to admission.

Since class discussions are an important aspect 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 open conversations in each session, 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.

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, or there is an emergent matter, please advise me before class.

TEXT AND READINGS

The course has several types of reading materials including books, articles, and case studies.

- Required: Ruback, Richard S., and Royce Yudkoff. *Buying a Small Business*. Boston, MA: Harvard Business Review Press, 2017. (“RUBACK”)
- All of the other assigned readings, except for RUBACK, are available on study.net.
- Additional reading materials along with sample agreements, documents, and spreadsheets will be posted on Canvas during the course

GRADING/ASSIGNMENTS AND EXAM

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 that follows. All homework assignments must be submitted through the course Canvas site. 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 prior to the last class. As an alternative to the final project, subject to my prior review and approval, you may prepare an acquisition analysis of an existing business. The requirements for the acquisition analysis are posted on Canvas and will be discussed in the first class. Either project may be prepared individually or in a group of up to 3 students. Regardless of whether you choose to do the final or alternative project, the due date for submission is by 11:59 p.m. on May 14, 2019.

All assignments must be submitted through the course Canvas site. If an assignment is submitted late, your grade will be affected.

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 a meal during the course.

CONCERT RULES

- Class starts and ends exactly on time. Students and faculty are expected to be prompt.
- Students sit according to a seating chart.

- Students remain in attendance for the duration of class, except in an emergency.
- Students display name tents.
- Phones must be turned off and put away.

FACULTY LUNCHES

This program was established to encourage and support informal interaction between Wharton faculty and students in the undergraduate program. There must be from three (minimum) to seven (maximum) students at a meal (breakfast, lunch, or dinner). Further details will be posted on Canvas.

ELECTRONICS IN THE CLASSROOM POLICY

- Phones must be turned off and put away. If a student must keep a phone on by reason of a personal emergency, the student must inform the instructor before class begins.
- The use of laptops and tablets is not allowed unless for educational purposes as permitted by the instructor (e.g., note taking, reading, or data analysis).

ETHICS AND USE OF PRIOR MATERIALS

Since the University is an academic community, its fundamental purpose is the pursuit of knowledge. Essential to the success of this educational mission is a commitment to the principles of academic integrity. Every member of the University community is responsible for upholding the highest standards of honesty at all times. Students, as members of the community, are also responsible for adhering to the principles and spirit of the following [Code of Academic Integrity](#).

INSTRUCTOR BIOGRAHY

Richard Perlman is the founder and Executive Chairman of ExamWorks Group, Inc. the global leader in the independent medical exam industry. ExamWorks provides evidence based medical evaluations to the property and casualty market for workers compensation, automotive and general liability injury claims. Since its founding in 2008 the company has grown revenues to 1.6 billion dollars and is the market leader in the United States, the United Kingdom, Australia and Canada.

Prior to that Perlman was Executive Chairman of TurboChef Technologies, Inc. (NASDAQ:OVEN), the world leader in speed cook technology, of which he acquired control in 2003 and sold to Middleby Corporation (NASDAQ:MIDD) in 2008, PracticeWorks, Inc. (NASDAQ:PRWK), the world leader of dental practice management software and digital radiography, which he sold to Eastman Kodak (NYSE:EK) in 2003, and AMICAS (NASDAQ:AMCS) a leading medical practice management software company which was sold to in two transactions to Cerner Corporation (NASDAQ:CERN) and Merge Technologies, Inc. (NASDAQ:MRGS).

Prior to Perlman's involvement in the public markets, he acquired several private companies in the home furnishings, automotive replacement parts and real estate industries where he was the controlling shareholder and Chief Executive.

Throughout his 45 year career, Perlman has acquired 140 companies.

Perlman is also the Chairman of Compass Partners, LLC a merchant banking firm specializing in middle market companies which he founded in 1995. Perlman sits on the boards of various private companies in which Compass has invested.

Perlman is the donor of the Perlman Grand Prize for the Penn Wharton Startup Challenge and serves on The Executive Advisory Board of The Wharton Undergraduate School, The Wharton Entrepreneurial Advisory Board, is a Trustee of The James Beard Foundation, and a board member of the Sun Valley Center for the Arts and the Boys and Girls Club of Sarasota.

Perlman is a 1968 graduate of the Wharton School of the University of Pennsylvania and received his MBA from The Columbia University Graduate School of Business in 1972.

COURSE OVERVIEW

<i>Session</i>	<i>Date</i>	<i>Topic</i>
1	Tuesday, March 19	Overview of the Acquisition Process
2	Thursday, March 21	Identifying Acquisition Targets
3	Tuesday, March 26	Evaluating Acquisition Opportunities
4	Thursday, March 28	Conducting Due Diligence
5	Tuesday, April 2	Financial Due Diligence
6	Thursday, April 4	Fiduciary Responsibility of the Board of Directors and Competitive Analysis Quest Lecturer TBA
7	Tuesday, April 9	Target Valuation Methodologies:
8	Thursday, April 11	Raising Capital
9	Tuesday, April 16	Search Fund and Fundless Deal Sponsor Models Quest Lecturer TBA
10	Thursday, April 18	Structuring the Business Being Acquired
11	Tuesday, April 23	Legal, Financial, and Tax Structuring of the Acquisition
12	Thursday, April 25	Closing the Transaction and Post-Closing Integration Quest Lecturer TBA
13	Tuesday, April 30	Acquisition Growth Strategies/ Transitioning and Exiting the Acquisition

COURSE OUTLINE

Session 1 – Tuesday, March 19, 2019 Overview of the Acquisition Process

In the first session we will discuss the path of entrepreneurship through acquisition including the advantages and disadvantages of entrepreneurship through acquisition versus entrepreneurship through start-up.

Required Readings:

RUBACK: The Opportunity: Entrepreneurship Through Acquisition (Chapter 1)
Is Entrepreneurship Through Acquisition for You? (Chapter 2)
The Acquisition Process (Chapter 3)

Ruback, R. and Yudkoff R. “Buying Your Way into Entrepreneurship” *Harvard Business Review* January 1, 2017.

Ruback, R. and Yudkoff R. “Which MBAs Make More: Consultants or Small-business Owners.” *Harvard Business Review*, June 28, 2016.

Optional Reading:

Glazer, Emily and Das, Anupretta. “Family Businesses Welcome Outside Buyers.” *The Wall Street Journal*, August 20, 2015.

Session 2 – Thursday, March 21, 2019 Identifying Acquisition Targets

This session will discuss the process of identifying acquisition opportunities and the preparation required prior to contacting the prospective target.

Required Readings:

RUBACK: Identifying the Characteristics You Want in a Business (Chapter 6)
Managing Your Search Effectively (Chapter 7)
Sourcing Prospects Using Brokers (Chapter 8)
Sourcing Directly (Chapter 9)

Session 3 – Tuesday, March 26, 2019
Evaluating Acquisition Opportunities

This class will discuss the strategic and operational criteria used to evaluate acquisition opportunities as well as the responsibilities and obligations of the parties to maintain the confidentiality of information that is exchanged.

Required Readings:

RUBACK: Filtering for the Owner’s Commitment to Sell (Chapter 12)

G. Cullinan, J. Le Roux, and R. Weddigen. “When to Walk Away from a Deal.” *Harvard Business Review*, April 2004.

Optional Readings:

Ansberry, Clare. “When Family Business Owners Don’t Want to Retire.” *The Wall Street Journal* April 30, 2017

Upadhyaya, V. “Why Due Diligence is Important for Entrepreneurs.” *Entrepreneur* February 6, 2016.

Session 4 – Thursday, March 28, 2019
Conducting Due Diligence

During this session we will discuss the art and science of evaluating and analyzing financial and legal due diligence material.

Required Readings:

RUBACK: Preliminary Due Diligence (Chapter 13)

Homework Assignment: Students will be requested to prepare components of a due diligence list for a hypothetical business provided by the instructor.

Homework Assignment # 1 is due at 10:00 p.m. the night before class.

Session 5 – Tuesday, April 2, 2019
Financial Due Diligence

In this class we will cover the metrics, indicators, and algorithms used in evaluating a business. This will include the assessment and evaluation of data to determine the quality of earnings, valuation of assets and liabilities, analysis of the target’s future prospects, and any synergies that could be obtained subsequent to the acquisition.

Required Readings:

RUBACK: Enduringly Profitable Small Businesses (Chapter 10)
Using Financial Information to Gauge Enduring Profitability (Chapter 11)

Confirmatory Due Diligence (Chapter 17)

Optional Readings:

“What is the Difference Between a Compilation, a Review and an Audit? A Comparative Overview”
American Institute of Certified Public Accountants

Shumsky, Tatyana. “Companies Invent Their Own Performance Benchmarks”, *The Wall Street Journal*, March 29, 2016

Bensinger, Greg. “Startups Scramble to Define ‘Employee.’” *The Wall Street Journal* June 30, 2015

Session 6 – Thursday, April 4, 2019

Fiduciary Responsibility of the Board of Directors and Competitive Analysis

During this session we will review the “Dollar General Bids for Family Dollar” case study for purposes of discussing fiduciary responsibilities of a business’ board of directors and analyzing of the target business’ strategy and results by comparing it to its peers.

Required Reading:

“Dollar General Bids for Family Dollar.” *Harvard Business School* 9-116-007 October 15, 2017.

Homework Assignment:

Students will be requested to provide a written response to questions submitted by the instructor regarding a.) the board’s fiduciary responsibilities and b.) analyze Dollar General’s strategy, growth, and performance as compared as compared to Family Dollar and its industry peers.

Homework Assignment # 2 is due at 10:00 p.m. the night before class.

Session 7 – Tuesday, April 9, 2019

Target Valuation Methodologies

This class session will address some common methods to value entrepreneurial businesses along with the applicability of various discounts and premiums as they relate to entrepreneurial businesses. Empirical data will be utilized to validate the underlying assumptions for these calculations.

Required Readings:

RUBACK: How Much Should You Pay for a Small Business? (Chapter 14)

McCarthy, Daniel and Fader, Peter. “Subscription Businesses are Booming, Here’s How to Value Them.” *Harvard Business Review* December 19, 2017.

Cannella, M. “Technical Note on LBO Valuation and Modeling.” *Columbia Business School, Case Works* CU413, April 10, 2015

Hitchner, James R. *Financial Valuation*, (2017, John Wiley and Sons, Inc.) Chapter 1.

Optional Reading:

Crane, Dwight B. “Note on Valuing Private Businesses.” *Harvard Business School Note*, 9-201-060, February 2001 (Revised April 2001)

Session 8 – Thursday, April 11, 2019

Raising Capital

This class will explore the sources and processes to raise both debt and equity to purchase a business. The metrics and benchmarks utilized by the funding sources to select and approve various investment options will be discussed.

Required Readings:

RUBACK: Raising Debt (Chapter 18)
Raising Acquisition Equity (Chapter 19)

Herman, Peter. "A Meeting of the Minds." *New Jersey Lawyer* October 2010

Fuerst, Steven, et. al. "Earn-Outs: Bridge the Gap, With Caution." *Mergers and Acquisition Law Report BNA* June 15, 2009

Session 9 – Tuesday, April 16
Search Fund and Fundless Deal Sponsor Models

The advantages and disadvantages of the search fund and fundless deal sponsor models from the perspective of both searchers and investors will be evaluated. Published data on the performance of search funds will be analyzed.

Required Readings:

RUBACK: Anticipating the Cost of Your Search (Chapter 4)
Paying for Your Search (Chapter 5)

Search Funds: Best Practices for the Search Phase, *Stanford Graduate School of Business*, November 2014.

Dennis, J. and Laseca, E. "The Evolution of Entrepreneurship through Acquisition." Chicago Booth November 2016

Stanford Graduate School of Business Case Study, Models of Entrepreneurial Acquisition (E365-PDF ENG)

Optional Reading:

Kelly, Peter, Dodson, David, Grousbeck, H. Irving, et. al. "2016 Search Fund Study." *Stanford Graduate School of Business*, Case E605, June 26, 2016.

Stevenson, Howard H., Sharpe, James M., and Roberts, Michael J. "Early Career LBOs Using the Search Fund Model" *Harvard Business School Note*, December 10, 2012 HBS Product Number 9-813-119.

Homework Assignment:

Students should review the Models of Entrepreneurial Acquisition case study and in response to questions provided by the instructor, evaluate 1.) the different approaches to entrepreneurship through acquisition, 2.) the desired characteristics of search fund investors, and 3.) the advantages and disadvantages of the search fund model as it relates to the target business in this case.

Homework Assignment # 3 is due at 10:00 p.m. the night before class.

Session 10 – Thursday, April 18
Structuring the Business Being Acquired

This class will discuss guidelines, considerations, and misconceptions of organizational and legal structures that should be devised and implemented when acquiring and operating an entrepreneurial business. Implications of the Tax Cut and Jobs Act of 2017 on small business acquisitions will be examined.

Required Readings:

Davis, J (2006). “Reminders for Owner-Managers Regarding the Board of Directors of Private Companies.” *Harvard Business School Background Notes*, 9-805-154 June 2005.

Roberts, M., Sahlman, W., and Novakovich, S. “How Serial Entrepreneurs Build and Manage a Board of Directors in a Venture-Backed Start Up.” Harvard Business School Case 808-163, June 2008 (Revised July 2008).

Optional Reading:

Nitti, Tony. “Understanding the New Sec. 199A Business Income Deduction.” *The Tax Advisor* April 1, 2018.

Session 11 – Tuesday, April 23, 2019
Legal, Financial, and Tax Structuring of the Acquisition

The design and structure of an acquisition along with the organizational, legal, and tax ramifications will be reviewed. The letter of intent will be parsed in this lecture, including its drafting and the strategies, thought processes, and other considerations utilized when negotiating the purchase of a business will be discussed. Alternative approaches and methods, besides the letter of intent, will be explored. Vital components and considerations when negotiating the contract will be examined.

Required Readings:

RUBACK: Deal Terms (Chapter 15)
The Offer (Chapter 16)
Negotiating the Purchase Agreement (Chapter 20)

Session 12 – Thursday, April 25, 2019
Closing the Transaction and Post-Closing Integration

This class will review and analyze some creative, but pragmatic, ways to integrate and improve the target business, including the development of human capital. This includes the design and use of employee equity and incentive plans (such as ESOPs) and other synergistic initiatives. The advantages and disadvantages of various forms of equity sharing plans will also be evaluated.

Required Readings:

RUBACK: The Closing Day and Beyond (Chapter 21)

Roberge, M. and Cespedes, F. “Entrepreneurial Sales and Marketing Vignettes.” *Harvard Business School*, 2016 9-817-010.

Tjan, Anthony K. “Great Businesses Don’t Start with a Plan.” *Harvard Business Review* May 16, 2012.

Marks, M., Mirvis, P. and Ashkenas, R. “Surviving M&A,” *Harvard Business Review* March-April 2017.

Zeswitz Music Case Study (HBS 9-215-034)

Homework Assignment:

Students will be requested to prepare a succinct, but comprehensive, summary of suggested improvements to the organizational structure, as well as the pricing and marketing strategy of Zeswitz Music.

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

Session 13 – Tuesday, April 30, 2019
Acquisition Growth Strategies/ Transitioning and Exiting the Acquisition

This session will discuss some of the opportunities, alternatives, and decisions the entrepreneur will encounter after acquiring the target business including organically growing the business, acquisitions, and roll-ups. Students will be asked to prepare answers to several questions regarding the *Complex Aminos* Case, which will be used as the basis for a portion of the class discussion. We will also tackle some of the entrepreneur's options and plans including transitioning out of management and exiting the acquired business. Some final thoughts on the attraction and lure of entrepreneurship will be conveyed.

Required Readings:

MacMillan, Ian C. and Selden, Larry. "The Incumbent's Advantage." *Harvard Business Review* October 2008

Stanford Graduate School of Business Case Study, Complex Aminos (E-565-TN) March 15, 2016.

Estate of Cohen, ex rel. Perelman v. Booth Computers, et al. 412 N.J. Super. 134 (2011)

Maqubela, Kanyi. "Entrepreneurs Need a Better Way to Cash Out." *Harvard Business Review* June 9, 2014.

Justo, Rachida. "The Different Reasons Men and Women Leave Their Startups." *Harvard Business Review* February 8, 2017 (updated February 17, 2017)

Breslin, Ned. "If You're Out to Change the World, How Do You Know When to Move On?" *Harvard Business Review* July 2, 2013