INSTRUCTOR
Robert J. Chalfin CPA, Esq.
The Chalfin Group
45 Bridge Street,
Metuchen, NJ 08840
Phone: 732-321-1099            Email: bob@chalfin.com
Campus Office: 3016 SHDH
Office Hours: Mondays/Wednesdays 1:30 p.m.-3:00 p.m. and by appointment

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 examine other 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 a comprehensive strategy on how to acquire a business and to provide you with the tools to decide if this is the path for you. We will discuss some alternative methods and a common-sense approach to the process.

3. While there are both similarities and differences between the process of acquiring a small business and the protocols followed by a private equity fund buyout or a large M&A transaction, the world of small business is highly entrepreneurial, fragmented, and nuanced.

COURSE REQUIREMENTS
You are expected to attend all course sessions. The way the class is taught makes it difficult to catch up later by reviewing the readings and handouts. If you just miss one of our sessions, you will miss a fairly significant amount of course material.
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 for the duration of the class. Electronics reduce energy in the classroom and create a distraction. The absence of electronics leads to a more engaging classroom environment. In addition, research has shown that the long-term retention of material is improved if notes are taken by hand as opposed to on a computer. 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.

- 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 FINAL / ALTERNATIVE PROJECT
The course submission requirements, deadlines, and grade composition are as follows:

- Class Participation- 25%
  Your contributions will be evaluated after each class. Due to the size of the class, there will not be an opportunity for everyone to talk on a regular basis. However, I expect you to attend class and be prepared for each session. One component of class participation will be a few short, typically 1-2 question, surveys that will be due at 10 p.m., the night before several of our classes. These surveys, which do not always have one correct answer, will provide a prelude to the material that we will be discussing in class and will be posted in the Quiz section of Canvas.

- Homework- 25%
  The first homework assignment is described in the overview of our first class and is due at 12 noon on the first day or class.
  The remaining homework assignments are short caselets. 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. Just like real-world deal making, there is not always one correct answer to the homework problems. However, I will provide you with a proposed solution to each assignment.

Homework assignments 2 through 5 are due at 10 p.m. the night before the designated class, as indicated in the course schedule that follows. The homework assignments will be graded as follows:
approximately 10% will receive a grade of a check plus or 5 points, approximately 85% will receive a grade of a check or 4 points, and approximately 5% will receive a grade of a check minus or 3 points.

- **Final Project or Alternative Project- 50%**
  The final project will be a case study that will be distributed prior to the last class. Some of the topics that may be covered include due diligence, financial analysis, valuation, raising funds, search funds, structuring the acquisition, and post-closing strategies.

  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, they are both due by 11:59 p.m. on March 17, 2020.

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

**ACCESSIBILITY**
All students are encouraged to meet with me during office hours, after class, or for a meal during the course. I can also be reached via email and telephone. It is my goal to get to know all of you.

**CONCERT RULES**
- Class will start and end on time. Please be prompt.
- Students should sit according to the seating chart and display name tents.
- Students should remain in attendance for the duration of class, except in an emergency.

**ETHICS AND USE OF PRIOR MATERIALS**
Members of the Wharton community are expected to uphold the highest ethical standards. The MBA student body has articulated guidelines, approved by vote in the Spring of 1989, amended by vote in the Spring of 2005.
# COURSE SESSION AND ASSIGNMENT OUTLINE

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>January 15, 2020</td>
<td>Overview of the Acquisition Process</td>
</tr>
<tr>
<td>2</td>
<td>January 22, 2020</td>
<td>Identifying Acquisition Targets</td>
</tr>
<tr>
<td>3</td>
<td>January 27, 2020</td>
<td>Evaluating Acquisition Opportunities</td>
</tr>
<tr>
<td>4</td>
<td>January 29, 2020</td>
<td>Conducting Due Diligence</td>
</tr>
<tr>
<td>5</td>
<td>February 3, 2020</td>
<td>Financial Due Diligence</td>
</tr>
<tr>
<td>6</td>
<td>February 5, 2020</td>
<td>Structuring the Business Being Acquired</td>
</tr>
<tr>
<td>7</td>
<td>February 10, 2020</td>
<td>Legal, Financial, and Tax Structuring of the Acquisition</td>
</tr>
<tr>
<td>8</td>
<td>February 12, 2020</td>
<td>Target Valuation Methodologies</td>
</tr>
<tr>
<td>9</td>
<td>February 17, 2020</td>
<td>Raising Capital</td>
</tr>
<tr>
<td>10</td>
<td>February 19, 2020</td>
<td>Search Fund and Fundless Deal Sponsor Models</td>
</tr>
<tr>
<td>11</td>
<td>February 24, 2020</td>
<td>The Letter of Intent and Other Alternatives</td>
</tr>
<tr>
<td>12</td>
<td>February 26, 2020</td>
<td>The Purchase Agreement</td>
</tr>
<tr>
<td>13</td>
<td>March 2, 2020</td>
<td>Closing the Transaction and Post Closing Integration</td>
</tr>
<tr>
<td>14</td>
<td>March 4, 2020</td>
<td>Acquisition Growth Strategies –</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transitioning and Exiting the Business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Homework</th>
<th>Survey</th>
<th>Final/Alternative Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 15, 2020</td>
<td>12:00 noon</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 26, 2020</td>
<td>10:00 p.m.</td>
<td></td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>January 28, 2020</td>
<td>10:00 p.m.</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 11, 2020</td>
<td>10:00 p.m.</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 16, 2020</td>
<td>10:00 p.m.</td>
<td></td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>February 18, 2020</td>
<td>10:00 p.m.</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 1, 2020</td>
<td>10:00 p.m.</td>
<td></td>
<td>C</td>
<td></td>
</tr>
<tr>
<td>March 3, 2020</td>
<td>10:00 p.m.</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 17, 2020</td>
<td>11:59 p.m.</td>
<td></td>
<td></td>
<td>Final / Alternative Project</td>
</tr>
</tbody>
</table>

## COURSE OUTLINE

### Session 1 January 15, 2020

**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)

**Optional Reading:**

**Homework Assignment #1:** Students should review the syllabus and the Alternative Acquisition Project Description and confirm that this has been done by completing the assignment in the Quiz Section of Canvas.

**Session 2 – January 22, 2020**
**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 – January 27, 2020**
**Evaluating Acquisition Opportunities**

This class will discuss the strategic and operational criteria used to evaluate acquisition opportunities plus 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)


**Optional Readings:**

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

Survey A is due at 10 p.m. the night before this class.

**Session 4 – January 29, 2020**
**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 # 2 is due at 10:00 p.m. the night before class.

**Session 5 – February 3, 2020**
**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


**Session 6 – February 5, 2020**
**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. During this session we will briefly review the “Dollar General Bids for Family Dollar” case study for purposes of discussing fiduciary responsibilities of a business’s board of directors and analyzing of the target business’s strategy and results by comparing it to its peers.

**Required Readings:**


There will be a survey due at 10 p.m. the night before this class.

Session 7 – February 10, 2020
Legal, Financial, and Tax Structuring of the Acquisition and Fiduciary Responsibility of the Board of Directors and Competitive Analysis

The design and structure of an acquisition along with the organizational, legal, and tax ramifications will be reviewed. The Implications of the Tax Cut and Jobs Act of 2017 on small business acquisitions will be examined.

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


Optional Reading:

Session 8 – February 12, 2020
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)


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

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

Session 9 – February 17, 2020
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


Survey B is due at 10 p.m. the night before this class.

Session 10 – February 19, 2020
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 discussed.

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


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

Optional Reading:

Homework Assignment:
Students should review the Models of Entrepreneurial Acquisition case study, which is one of the assigned readings, and in response to questions provided by the instructor: evaluate topics such as 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.

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

Session 11- February 24, 2020
The Letter of Intent and Other Alternative Approaches

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: The Offer (Chapter 16)
Negotiating the Purchase Agreement (Chapter 20)

Session 12- February 26, 2020
The Purchase Agreement

This session will discuss vital components and considerations when negotiating the contract along with key considerations.

Required Readings:
RUBACK: Negotiating the Purchase Agreement (Chapter 20)

Session 13 – March 2, 2020
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)


**Survey C is due at 10 p.m. the night before this class.**

**Session 14 – March 4, 2020**
**Acquisition Growth Strategies  Transitioning and Exiting the Business**

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.

The final class will 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:**


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

**Homework Assignment #5:**
In response to questions submitted by the instructor: students will be requested to prepare a succinct, but comprehensive, summary of suggested improvements to a business. It is due at 10:00 p.m. the night before class.