

MGMT 213 - Entrepreneurship Through Acquisition
Fall 2021 Q1

INSTRUCTOR

Richard Perlman, W'68

Founder & Executive Chairman

ExamWorks Group, Inc.

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Campus Office: TBD

Office Hours: By Appointment

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 fund less 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. Students must have completed both Accounting 101 and Finance 100.

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 any 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”)
Joel Ankney – **Here’s the Deal**, “Everything you wish a lawyer would tell you about buying a small business, 2017
Robert S. Chalfin – **A Practical Guide to Buying a Business**, 2020
- All of the other assigned readings, except for RUBACK, ANKNEY and CHALFIN 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.
- Final Project- 50%
The final project will be to 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. The project may be prepared individually or in a group of up to 3 students. Submission is by 11:59 p.m. on October 21, 2021

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

ACCESSIBILITY

Olivia and I are available to meet and can be reached via email and telephone to assist you.

CONCERT RULES

- Class starts and ends exactly on time. Students and faculty are expected to be prompt.

- Students remain in attendance for the duration of class, except in an emergency.
- Phones must be turned off and put away.
- **No food or eating is allowed during class**

I will be announcing a series of informal lunches throughout the course to which you will all be invited, lunch is on me

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.

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 a Co-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 through organic growth and 73 acquisitions, to \$1.7 billion and is the market leader in the United States, the United Kingdom, Australia and Canada. In 2016, Perlman and the Examworks management team partnered with Leonard Green Partners to take the Company, previously listed in the New York Stock Exchange, private in a \$2.2 Billion transaction. Subsequently the company was sold in 2021 to CVC Capital Partners in a transaction valued at \$4.4 Billion.

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 in excess of 150 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. Mr. Perlman is also Chairman of the Board of Montrose Environmental Group (NYSE; MEG) of which he was a founding investor. Montrose is an environmental services Company executing a consolidation strategy in its industry that has made 55 acquisitions since its founding.

Perlman is the donor of the Perlman Grand Prize for the Penn Wharton Start-up 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 is a board member of the Boys and Girls Club of Sarasota where he sponsors The Perlman/Price Young Entrepreneur Program.

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

COURSE OVERVIEW

Session	Date	Topic
1	Wednesday, Sept 1	Overview of the Acquisition Process
2	Wednesday, Sept 8	Identifying Acquisition Targets
3	Monday, Sept 13	Evaluating Acquisition Opportunities – Guest Lecturer
4	Wednesday, Sept 15	Preliminary Due Diligence & Model building
5	Monday, Sept 20	Financial & Legal Due Diligence - Guest Lecturers
6	Wednesday, Sept 22	Target Valuation Methodologies
7	Monday, Sept 27	Raising Capital: Debt & Equity
8	Wednesday, Sept 29	Legal, Financial and Tax Structuring of the Acquisition
9	Monday, Oct 4	Search Fund and Fund less Deal Sponsor Models - Guest Lecturer
10	Wednesday, Oct 6	Negotiating The Purchase Contract
11	Monday, Oct 11	Closing the Transaction and Post-Closing Integration - Guest Lecturer
12	Wednesday, Oct 13	Acquisition Growth Strategies/ Transitioning and Exiting the Acquisition - Guest Lecturer

COURSE OUTLINE

<p>Session 1 - Wednesday, September 1, 2021 Overview of the Acquisition Process</p>

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)
 ANKNEY: Evaluate Yourself First (Chapter 1)

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.

<p>Session 2 - Wednesday, September 8, 2021 Identifying Acquisition Targets</p>

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 – Monday September 13, 2021 – GUEST LECTURER
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)
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G. Cullinan, J. Le Roux, and R. Weddigen. “When to Walk Away from a Deal.” *Harvard Business Review*, April 2004.

Optional Reading:

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 - Wednesday, September 15, 2021 -
Preliminary Due Diligence & Model Building

During this session we will discuss the art and science of evaluating and analyzing financial and legal due diligence material. Additionally, we will discuss the importance of building a model for any prospective target business and its role in the screening process.

Required Readings:

RUBACK:	Preliminary Due Diligence	(Chapter 13)
	How Much Should I Pay For A Small Business	(Chapter 14)
CHALFIN:	Financial Metrics	(Chapter 17)

Homework Assignment: Students will be requested to prepare components of a due diligence list for Zeswitz Music described on pages 167- 173 and throughout the textbook.

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

Session 5 - Monday September 20, 2021
Financial & Legal Due Diligence - GUEST LECTURERS

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. Additionally, we will discuss major legal issues that are a priority to be considered for any 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 Reading:

“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

Session 6 - Wednesday September 22, 2021

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)

CHALFIN: Valuation (Chapter 18)

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)

Homework Assignment: Please describe, using Zeswitz Music as a potential target acquisition, why you believe EBITDA is the most relevant methodology for valuing the company and establishing the acquisition price .

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

Session 7- Monday, September 27, 2021

Raising Capital - Debt and Equity

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)

Optional Reading:

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 8 – Wednesday September 29, 2021
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.

Required Readings:

CHALFIN: Forms of Acquisition (Chapter 23)
Contract Components (Chapter 24)
ANKNEY: Purchase Agreement Drafting Problems (Chapter 10)

Optional Reading:

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

Session 9 – Monday October 4, 2021
Search Fund and Fundless Deal Sponsor Models – GUEST LECTURER - TBA

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: Anticipating the Cost of Your Search (Chapter 4)
RUBACK: 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 compare the benefits and disadvantages of a self-funded search versus a search fund with a focus on their own economic outcome. Additionally, they should describe the desired characteristics of search fund investors. They should also discuss what impact, if any, sourcing through brokers or sourcing directly would have on each of the above topics.

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

Session 10 - Wednesday, October 6, 2021
Negotiating the Purchase Contract

This class will review the elements of the purchase contract and their implications for protecting the buyer.

Required Readings:

RUBACK:

Deal Terms (Chapter 15)

Negotiating the Purchase Agreement (Chapter 20)

ANKNEY: Anatomy of a Purchase Contract (Chapter 11)

Session 11 - Monday, October 11, 2021
Closing the Transaction and Post-Closing Integration - ""The Whole Journey" GUEST
LECTURER

This class will review and analyze some creative, but pragmatic, ways to integrate and improve the target business, including the development of human capital. 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)

ANKNEY: What You Need to Do After the Closing (Chapter 14)

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, operations, 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.

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. 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

1. Buying Your Way into Entrepreneurship
2. Which MBAs Make More: Consultants or Small-Business Owners?
3. When to Walk Away from a Deal
4. Technical Note on LBO Valuation and Modeling
5. "What is the Difference Between a Compilation, a Review and an Audit. A Comparative Overview" American Institute of Certified Public Accountants
6. Subscription Businesses Are Booming. Here's How to Value Them
7. The Incumbents Advantage
8. Search Funds: Best Practices for the Search Phase
9. The Evolution of Entrepreneurship Through Acquisition
10. Models of Entrepreneurial Acquisition
11. Estate of Cohen. Ex rel. Perelman v. Booth Computers. Et al.
12. Entrepreneurial Sales and Marketing Vignettes
13. Great Businesses Don't Start With a Plan
14. Zeswitz Music
15. Entrepreneurs Need a Better Way to Cash Out
16. The Different Reasons Men and Women Leave Their Successful Startups26118
17. If You're Out to Change the World, How Do You Know When to Move On?

MGMT 213- Entrepreneurship Through Acquisition

Guest Lecturers:

Session 3- September 13, 2021: Identifying & Evaluating Acquisition Targets.

Jack Bailey is a co-founder and managing director at Bailey Southwell & Co., a leading boutique investment bank. He has extensive experience in advising healthcare and insurance services companies in mergers & acquisitions and capital raising. Jack has worked on over 100 sell-side, buy-side, and capital raising transactions, for both public and private companies.

Prior to joining Bailey Southwell, Jack served as Corporate and Securities Counsel in a national law firm and in a Fortune 500 company. Mr. Bailey has been involved in transactions involving companies in the Far East, South America, the Middle East, and Europe. He has also worked as a Chief of Staff for a Member of the U.S. House of Representatives where he served as chief advisor to the Congressman on political, legislative, personnel, and other matters. Mr. Bailey also served as an adjunct professor at Vanderbilt University where he taught Entrepreneurship.

Jack received his B.A. and J.D. from Vanderbilt University and M.A. from Covenant Theological Seminary.

Session 5- September 20, 2021: Financial & Legal Due Diligence.

Miguel Fernandez is Co-Chief Executive Officer and CFO of ExamWorks Group, Inc. Miguel will discuss the nature of financial due diligence and areas of concern that sellers employ to inflate their profitability and balance sheets during a sale process. Clare Arguedas C'03, Executive Vice President and General Counsel of ExamWorks Group, Inc. Clare will discuss specific areas of concern when conducting Legal Due Diligence as well as some specific examples of certain risks by giving real life examples of issues that she has experienced in her role and oversight. During Miguel and Clare's tenure at ExamWorks, they have led the financial and legal diligence, transaction structuring, and completion of 73 acquisitions.

Session 9 – October 4, 2021: Search Fund Models.

Mark Sinatra WG'06, A successful entrepreneur who, as CEO of Staff One HR, grew the company from \$135 million to \$457 million before its ultimate sale to Paychex. Marc is an experienced search fund investor and the founder of ETA Equity that funds individuals who want to find; run, and build a growth company. Mark will give an overview of the search fund opportunity for entrepreneurs and discuss the benefits and disadvantages of a search fund from both the investors and entrepreneur's viewpoint. He will also review examples of transactions that have been successful and unsuccessful while pointing out the attributes of both.

Session 11-October 11, 2021: **Closing the Transaction and Post Closing Integration.**

Max Francois-Poncet C'11 WG'19 and Jason Vahn C'11 WG'19, two Penn Undergrad and Wharton MBA Alumni who since graduation have purchased 13 companies in the Funeral Services industry will walk you through their entire journey of Entrepreneurship Through Acquisition. In addition to focusing on post acquisition, operating improvements and integration, they will go over their real life experiences and discuss lessons learned, things to avoid, and areas of focus that increase the probability of success.

Session 12-October 13, 2021: **Acquisition Growth Strategies/Transitioning and Exiting Acquisitions.**

My business partner for 25 years, Jim Price, will share our journey as founders and the leadership of four successful public companies as well as the techniques used to blend over 150 small privately held companies into industry leading cohesive organizations that were successfully exited.