

MGMT 811 – Entrepreneurship Through Acquisition Wharton Fall 2021 Q1

INSTRUCTOR

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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 the acquisition process through a series of lectures, assigned readings, case studies, and a final project.



Some of the topics that will be covered include sourcing and identifying acquisition opportunities, strategic, operational, legal, and financial operational due diligence, valuation, tax considerations, raising capital, structuring, 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 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 a pragmatic approach to the process.
3. While there are many similarities 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. There will be differences between what is discussed in class and the private equity process.
4. As a result of COVID-19 some paradigms have changed and continue to evolve.

COURSE REQUIREMENTS

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

Since class discussions are an important aspect of the learning process, you should not register for this course unless you are prepared to be vigilant about attending the class sessions, assuming public health conditions allow this. The design of this class 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 significant amount of course material.

Prior to each class session I will post the slide deck and any other materials that you will need on Canvas. You should bring a hard copy of these materials to class.

To facilitate a favorable learning environment

- I will make every effort to start and end class on time.
- In the interest of public health, we should all follow the University safety guidelines which include wearing masks in the classroom.
- Students should arrive on time, sit according to the seating chart, display name tents, and remain in attendance for the duration of the class, except in an emergency.
- Since it can be distracting for you, your fellow students, and me, at the beginning of class you should put away any electronic devices and not use them during class. If you need to use a device for a medical reason or a personal emergency, please let me know before class.

TEXT AND READINGS

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

- *A Practical Guide to Buying a Business* by Robert J. Chalfin (“RJC”)
- Assigned readings that are available on study.net or Canvas
- Additional reading materials including 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%

Assignment 1

For Homework Assignment 1, please submit a statement of 50 words or less indicating your goals for the course. Your statement should be in the body of an email and sent to me at bob@chalfin.com with "HW1 811" typed in the subject line. Please attach a copy of your resume and type the word "YES" before your signature to indicate that you have reviewed the course's syllabus.

While this assignment is due at 12 noon on the day before our first class, I would appreciate if you could submit it as soon as possible. Although you will not receive a grade for this assignment, reviewing this information will help me prepare for class.

Remaining Homework Assignments 2 through 5

The remaining homework assignments are short caselets. The homework is designed to encourage you to think about the readings and facilitate active participation in class. Just like what is encountered in actual 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.

The remaining homework assignments should be submitted on Canvas. Each submission should be no longer than two typed pages. You should not discuss these assignments with any other members of the class.

The remaining homework assignments will be scaled and 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.
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- Final Project- 50%
The final project will be a case study that will be distributed prior to the last class. The project may be prepared individually or in a group of up to 4 students.

My experience teaching this course reflects that it is preferable for students to complete the final project in a group. Beginning on September 10, 2021, and by October 1, 2021, you will be required to join a final project group of 3-4 students through Canvas.

ASSIGNMENT SCHEDULE

<u>Assignment</u>	<u>Due Date</u>
Homework Assignment 1	August 29, 2021, 12 noon
Homework Assignment 2	September 12, 2021 10:00 p.m.
Homework Assignment 3	September 19, 2021 10:00 p.m.
Homework Assignment 4	September 21, 2021 10:00 p.m.
Homework Assignment 5	October 5, 2021 10:00 p.m.
Final Project	October 18, 2021 11:59 p.m.

All assignments should be submitted via the Course Canvas site. If an assignment is submitted late, your grade will be affected.

ACCESSIBILITY

I am available to meet for an hour before and after every class. If these times are inconvenient, other arrangements can be made. All necessary COVID precautions will be taken.

You can contact me via email, telephone, and zoom to assist you. When it is safe to do so, I would like to schedule lunches with groups of 4-5 interested students during the quarter. These dates will be announced so you can sign up for a meal if you choose.

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.

There will be no class sessions on September 8, 2021 and September 15, 2021. Our class sessions on September 13, 2021 and September 20, 2021 will be from 3:30 to 6:30 p.m. There will be a short break in the middle of both extended class sessions.

Sessions 1 and 2 August 30 and September 1, 2021 **Overview of the Acquisition Process and Identifying Acquisition Targets**

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

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

Required Readings:

RJC: Chapters 1, 2, 3, 4, and 5

Schonthal, D. "Why Aspiring CEOs Should Consider Acquisition Entrepreneurship." *Harvard Business Review*, January 27, 2020.

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.

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

Sessions 3 and 4 September 13, 2021 **There will be no class session on September 8, 2021. The session on September 13, 2021 will be held from 3:30 p.m. to 6:30 p.m. with a short break in the middle.**

Preliminary Information to Review and Offers to Purchase the Business

In these sessions we will review non-disclosure agreements and preliminary information about the target business that should be reviewed.

We will discuss offers to purchase a business including Indications of Interest, Letters of Intent, and Term Sheets, including the drafting and the strategies, thought processes, and other considerations utilized when negotiating the purchase of a business.

RJC: Chapters 7, 8, 9, and 10

Sessions 5 and 6

September 20, 2021

There will be no class session on September 15, 2021. The session on September 20, 2021 will be held from 3:30 p.m. to 6:30 p.m. with a short break in the middle.

Evaluating Acquisition Opportunities and Conducting Due Diligence

In these sessions we will discuss the strategic and operational criteria used to evaluate acquisition opportunities. We will discuss the art and science of analyzing financial and legal due diligence material.

The relevant data, metrics, and algorithms used in evaluating a business will be reviewed. This will include the assessment and evaluation of criteria to determine the quality of earnings, valuation of assets and liabilities, analysis of the target's projections, and synergies that should be considered following the acquisition.

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:

RJC: Chapters 11,12,13,14,15, 16, and 17

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

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.

"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 7 September 22, 2021
Structuring the Acquisition – Legal, Financial, and Tax Considerations

We will review the guidelines, considerations, and misconceptions of organizational, legal, and tax structures that should be considered and implemented when designing, acquiring, structuring, and operating an entrepreneurial business.

The implications of the Tax Cut and Jobs Act of 2017 and other recent legislation on small business acquisitions will be reviewed.

Required Readings:

RJC: Chapters 6 and 23

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

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

Sessions 8 and 9 September 27 and 29, 2021
Valuation Methodologies

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

Required Readings:

RJC: 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.

Sessions 10 and 11 October 4 and 6, 2021
Raising Capital, Search Funds, Fundless Deal Sponsor Models

This class will explore the sources, processes, requirements, and obligations to raise 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.

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:

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

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

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

Kelly, Peter and Heston, Sara. "2020 Search Fund Study: Selected Observations." *Stanford Graduate School of Business*, Case E-726, August 13, 2020.

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

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

Session 12 October 11, 2021 **Contract, Closing the Transaction, and Post Closing Integration**

The vital components and considerations when negotiating the business acquisition agreement will be examined.

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

Students should be prepared to discuss in class five suggestions to improve the business that is discussed in the Zeswitz case, which is listed below.

Required Readings:

RJC: Chapters 24 and 25

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.

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

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

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