

## MGMT 2130 - Entrepreneurship Through Acquisition

Fall 2022 Q1

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### INSTRUCTOR

Richard Perlman, W'68

Founder & Executive Chairman ExamWorks Group, Inc.

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### TEACHING ASSISTANT - KOURTNEY KELLEN

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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 transactions. 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, 2022

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

## ACCESSIBILITY

Kourtney 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.
- **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 75 acquisitions, to \$2.0 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 \$4.6 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 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 School and The Wharton Entrepreneurial Advisory Board. He supports the ETA Program at Wharton including the Financial Support for Perlman Fellows who wish to pursue ETA after graduation. He 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, Aug 31	Overview of the Acquisition Process
2	Wednesday, Sept 7	Preparing For Your Search & Identifying Target Industries & Companies
3	Monday, Sept 12	Preliminary Due Diligence and The Economic Viability of A Deal
4	Wednesday, Sept 14	Preliminary Due Diligence & Model building – Guest Lecturers
5	Monday, Sept 19	The Benefits & Costs of Using an Intermediary – Guest Lecturer
6	Wednesday, Sept 21	Target Valuation Methodologies
7	Monday, Sept 26	Raising Capital: Debt & Equity
8	Wednesday, Sept 28	Legal, Financial and Tax Structuring of the Acquisition
9	Monday, Oct 3	Search Fund and Fundless Deal Sponsor Models - Guest Lecturer
10	Wednesday, Oct 5	Negotiating The Purchase Contract
11	Monday, Oct 10	Closing the Transaction and Post-Closing Integration - Guest Lecturers
12	Wednesday, Oct 12	Acquisition Growth Strategies/ Transitioning and Exiting the Acquisition – Guest Lecturer

## COURSE OUTLINE

### Session 1 - Wednesday, August 31, 2022 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)

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.

**Session 2 - Wednesday, September 7, 2022**  
**Preparing For Your Search & Identifying Target Industries & Companies**

This session will discuss the process of identifying acquisition opportunities and the preparation required prior to contacting a 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 12, 2022 –**  
**Preliminary Due Diligence and the Economic Viability of A Deal**

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 4 - Wednesday, September 14, 2022 – GUEST LECTURERS  
Preliminary Due Diligence & Model Building**

During this session, we will discuss the art and science of evaluating and analyzing financial 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 19, 2022 – GUEST LECTURER  
The Benefits & Costs of Using an Intermediary**

This session will discuss the benefits and costs of using a middle man in your search. Additionally the discussion will include what is required to engage an intermediary as your emissary.

**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 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 6 - Wednesday September 21, 2022**  
**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 26, 2022**  
**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 Equity - (Chapter 19)

**Optional Readings:**





**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 5, 2022**  
**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 10, 2022**

**Closing the Transaction and Post-Closing Integration - ""The Whole Journey" GUEST LECTURERS**

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.

**Session 12 - Wednesday, October 12, 2022**

**Acquisition Growth Strategies/Transitioning and Exiting the Acquisition - GUEST LECTURER**

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