

MGMT 8110 – Entrepreneurship Through Acquisition Wharton Spring 2024 Q3

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, discussions, 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, financial and operational due diligence, valuation, tax considerations, raising capital, structuring, closing transactions, post-closing integration, as well as managing and exiting the acquisition. We will examine prototypes for pursuing acquisitions including search fund models and a self-funded, or 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, pragmatic strategy on how to acquire a business and to provide you with the tools to decide if this is the path for you.
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. Class attendance is mandatory. The 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. The design of this class makes it difficult to catch up later by reviewing the readings and slide decks. If you just miss one of our sessions, you will miss a significant amount of course material.

To facilitate a favorable learning environment

- My goal is to start and end class on time.
- Everyone should follow the University safety guidelines. You are welcome to wear a mask during class if you choose.
- Students should make every effort to arrive on time and remain in attendance for the duration of the class, except in an emergency.
- Please display your name tents at your seats.
- Since it can be distracting for you, your fellow students, and me, at the beginning of all in-person classes, 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* Second Edition 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 as well as in my X (formerly known as Twitter) account, @bobchalfin.

SLIDE DECKS

The slides decks, which provide an outline, but not a transcript, of our discussions, will be posted on Canvas following the class sessions.

PODCASTS

I have and continue to release podcasts, *Business Talk With Chalfin*, on related topics. They can be accessed on Apple, Spotify, or wherever you obtain your podcasts.

GRADING/ASSIGNMENTS AND EXAM

The course submission requirements, deadlines, and grade composition are as follows:

- Class Participation- 25%
Your contributions will be evaluated by me after each class. It is my experience that the learning process is enhanced if there is participation by the students. I will be cold calling students throughout the course. Since it is not my desire to embarrass a student, if you

are unprepared for a particular class or question, please let me know at the beginning of class or when I call on you and I will pose the question to another student.

A component of the class participation grade will be a few short surveys that will be posted on Canvas immediately following our classes on the following days:

<u>Date Posted</u>	<u>Date Due at 6:00 p.m.</u>
January 17, 2024	January 19, 2024
January 24, 2024	January 26, 2024
February 7, 2024	February 9, 2024
February 14, 2024	February 16, 2024
February 21, 2024	February 23, 2024

Each survey is designed to be completed in five to ten minutes and will comprise 1.5% of the potential course grade. By completing the survey, you will receive this credit towards your course grade.

- 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 8110 Spring 2024" 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.

This assignment is due at 12 noon two days before our first class. Although you will not receive a grade for this assignment, reviewing this information will help me prepare for the course.

Remaining Homework Assignments 2 through 4

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.
- Assignments that reflect minimal work may receive less than 3 points.

- Final Project- 50%

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.

Krueger, Alyson. "Saving the Family Business in a Beach Town Where Money Talks." *The New York Times*. August 12, 2022.

Sessions 2 and 3 January 22 and 24, 2024

Preliminary Information to Review, Offers to Purchase the Business, and Evaluating Acquisition Opportunities

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

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 6, 9-12

M. Andregg, et al. " On the Nature of Seller Selection in a Search Fund Project." Yale School of Management, December 10, 2021.

A. Wilver and A.J. Wasserstein. "On the Nature of What Business Sellers Are Looking for in a Buyer." Yale School of Management, May 2, 2022

Sessions 4 and 5 January 29 and 31, 2024

Evaluating Acquisition Opportunities (continued) 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 13 through 19

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

Gottfried, Miriam. "Who Will Inherit the Family Business? Often It's Private Equity." *The Wall Street Journal*. September 17, 2022.

Simon, Ruth. "Small Businesses Get Creative As They Still Struggle with Hiring." *The Wall Street Journal*. September 26, 2022.

Optional Readings:

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

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

P. Mistretta, et al. "Exploring Franchisees as a Post-MBA Entrepreneurial Path". Yale School of Management, April 10, 2023

Sessions 6 and 7 February 5 and 7, 2024

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 legislation on small business acquisitions will be reviewed.

Required Readings:

RJC: Chapters 8 and 25

Drucker, Jesse and Farrell, Maureen. "The Peanut Butter Secret: A Lavish Tax Dodge for the Ultrawealthy." *The New York Times*. December 28, 2021

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

Chalfin, Robert. "A Brief Overview of Pass-Through Entities".

Chalfin, Robert. "Some Suggestions When Forming a Business Entity".

Optional Reading:

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

Sessions 8 and 9 February 12 and 14, 2024
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 20

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

Optional Readings:

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 February 19 and 21, 2024
Raising Capital, Search Funds, Fundless Deal Sponsor Models

These classes 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:

RJC: Chapters 21, 22, 23, and 24

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. "2022 Search Fund Study: Selected Observations." *Stanford Graduate School of Business, Case E-807*, July 15, 2022.

“2022 Search Fund Study” *Stanford Graduate School of Business*, July 15, 2022.

Vartabedian, Marc and Berber, Jin. “Venture Capital’s Cash Stockpile Swells Amid Slowdown.” *The Wall Street Journal*. August 10, 2022.

Session 12 February 26, 2024
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.

Required Readings:

RJC: Chapters 26, 27, and 28

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.

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