

THE WHARTON SCHOOL
THE UNIVERSITY OF PENNSYLVANIA
MGMT 811: Entrepreneurship Through Acquisition
DRAFT

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Spring 2011 Q3

Campus Address: 428 Vance Hall
Office hours- by appointment

Course Description

Overview

The objective of this course is to enable students to develop the skills and knowledge of the acquisition process as it relates to entrepreneurial businesses. Students will be expected to apply both their academic training and prior business experience to the class. The course requirements will consist of assigned readings, class discussions, caselets, and a final project.

Topics that will be discussed in class include locating a business, due diligence, valuation, adding synergy, tax considerations, obtaining capital, structuring purchases, employee retention plans, and post-closing integration.

The course is practical and comprehensive. It is designed to provide you with the skills and tools to assess, evaluate, synthesize, value, structure, and consummate a business acquisition while having a meaningful and challenging learning experience. Since the class discussions are an important part of the learning process, you should not register for this course unless you are prepared to actively attend and participate in each class.

Course Submissions and Grade Composition

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

- Class participation- 30%
- Homework- 20%

There will be three homework assignments that will be posted on the webCafe the Thursday before the second, third, and fourth classes. The assignments, which are short caselets, will be due at 10 p.m. the night before these three classes. Your response should be two pages or less, and you will be expected to defend your answers in class.

- Final Project- 50%

The final project will be a case study that will be distributed after the fifth class and is due on March 5, 2011. As an alternative to the final project, you have the option of preparing an acquisition analysis of an existing business. The requirements for the acquisition analysis are posted on the webCafe and will be distributed in the first class. Either project can be prepared individually or in a group of 2 to 5 students.

The homework assignments and the final project should be submitted via the webCafe. If an assignment is submitted late, your grade will be penalized.

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Accessibility

I am available to meet and can be reached via email and telephone to assist you. I will try to meet as many students as possible for lunch or dinner during the course.

Reading Materials

- Chalfin, Robert J.; *Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal*. John Wiley & Sons, Inc. (2006) ISBN 0-471-74076-4 (RJC).
- The bulk packet can be obtained from Study.net through Wharton Reprographics.
- A selection of the lecture's slides will be posted before each class on the webCafe.

Course Schedule:

Class 1 – January 24, 2011:

Topics: Course Overview
Chronology of an Acquisition
Defining Your Goals
Sourcing Businesses
Confidentiality Agreements
Preparation Prior to Meeting the Owner(s)

Readings:

Lecture Notes
RJC pages 1 – 17, 150-160
“Purchasing A Business: The Search Process.” HBS 9-388-044.(Walton, Ennis J. and Roberts, Michael J.)
“Would-Be Entrepreneurs Learn From The Search”
“For a Big Score, Think Small Towns”
“Buying a Small Company Takes Patience, Too”
“A Potential Owner Prefers the Studied Approach”
“Turning Managers Into Takeover Artists”
“eBay Feedback: Bad Deal!”
“Need to Make Money and Run Grows as Pricing Wars Heat Up”

Class 2 – January 31, 2011:

Topics: The Art and Science of the Evaluation Process
Meeting the Owner
Key Metrics and Indices
Due Diligence

Readings:

Lecture Notes
RJC pages 51 - 75, 167 - 188
“Know Your Enemy”
“Ten Ways Earnings Lie”
Homework Assignment #1 due before class

Class 3 – February 7, 2011:

Topics: Definition of Fair Market Value
Types of Buyers
Valuation Guidelines and Determinants
Minority Interest Discounts
Valuation Methods
Buy Sell Agreements

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Readings:

Lecture Notes
RJC pages 87 – 140
Pratt pages 201 – 234 – Understanding Discount and Capitalization Rates
“Valuation Techniques.” HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard)
“How Much Is That Business Really Worth?”
“Make the Most of Buy-Sell Agreements”
“The Benefits of Using a Formula”
“Determining Your Company’s Value: Multiples and Rules of Thumb”
“Digits – Facebook Clamps Down”

Homework Assignment #2 due before class

Class 4 – February 14, 2011:

**Topics: Sources of Funds
Obtaining Capital**

Readings:

Lecture Notes
RJC pages 189 – 206
“Investors Pay Business Plans Little Heed, Study Finds”
“To Get a Business Loan, Know How the Bank Thinks”
“Financing, With Strings Attached”
“A Plea for Direct Lending to Small Businesses”
“Smart Partnering Pays for Start-Ups”
“On Wall Street, So Much Cash, So Little Time”

Homework Assignment #3 due before class

Class 5 – February 21, 2011:

**Topics: Adding Synergy
Utilizing Professionals
Tax Consequences
Letter of Intent**

Readings:

Lecture Notes
“In Tough Times, Companies Coddle Their Regulars”
“Outsourcing Finds New Niche”
“Independent Contractor or Not”
“The Transactional Lawyer and the Art of Plate Spinning”
Additional handouts

Class 6 – February 28, 2011:

**Topics: Contract/Asset Purchase Agreement
Designing Incentive Plans
Equity Sharing
Preparing for Closing
Post Deal Suggestions**

Readings:

Lecture Notes
RJC pages 41 - 50, 207 - 210
“How Employees Value (Often Incorrectly) Their Stock Options”
“How to Deal With Noncompete Agreements”
“Phantom Stock Plans”
“Merge Right”

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