

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

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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.

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

The course is practical and comprehensive. It is designed to provide you with the skills, techniques, and tools to assess, evaluate, synthesize, value, structure, and consummate a business acquisition while having a meaningful and challenging learning experience. A day or two before each class, I will post the lecture slides on Canvas. The slides are designed to provide an outline, but not a complete transcript, of the topics that will be covered in class. Since the class discussions are an important part of the learning process, you should not register for this course unless you are prepared to attend and actively participate in each class. If you do not attend the first class meeting, you cannot be enrolled in the course.

To encourage candid conversations in class, you should not record any of the lectures.

Course Submissions and Grade Composition

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

- Class participation- 30%

Your contributions will be evaluated after each class.

- Homework- 20%

There will be four homework assignments that will be posted on Canvas the Thursday before the second, third, fourth, and fifth classes. The assignments, which are short caselets, will be due at 9 p.m. the night before these classes. Your response should be two pages or less, and you will be expected to discuss and defend your answers in class. The homework is designed to encourage you to think about the readings and facilitate active participation in class. In many cases, there is no single correct answer to the homework problems.

- Final Project- 50%

The final project will be a case study that will be distributed before the last class. 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 Canvas and will be distributed in the first class. Either project can be prepared individually or in a group of 2 to 5 students. Regardless of whether you choose to do the final or alternative project, they are both due on October 20, 2013.

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

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 pack can be obtained from Study.net through Wharton Reprographics.
- A selection of the lecture's slides will be posted before each class on Canvas.

Course Schedule:

Class 1 – September 9, 2013:

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, 149-160 [Chapters 1, 2, and 14]
Purchasing A Business: The Search Process. HBS 9-388-044. (Walton, Ennis J. and Roberts, Michael J.)
Would-Be Entrepreneurs Learn From The Search
Corporate Field Trip: Learning from Startups
For a Big Score, Think Small Towns
Buying a Small Company Takes Patience, Too
How to Sell a Small Business
Turning Managers Into Takeover Artists

Class 2 – September 16, 2013:

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

Readings:

Lecture Notes
RJC pages 51 - 69, 167 – 188 [Chapters 6 and 16]
Know Your Enemy
Ten Ways Earnings Lie
Troubled Audit Opinions
Fuzzy Accounting Enriches Groupon
Auditors Sharpen Queries in China
Start Ups Get Snapped Up for Their Talent
Inside H-P's Missed Chance to Avoid a Disastrous Deal
When a Founder is the Face of a Brand
Homework Assignment #1 due before class

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Class 3 – September 23, 2013

Topics: Definition of Fair Market Value

Types of Buyers

Valuation Guidelines and Determinants

Minority Interest Discounts

Valuation Methods

Buy Sell Agreements

Readings:

Lecture Notes

RJC pages 87 – 140 [Chapters 9,10,11, and 12]

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?

The Benefits of Using a Formula

Determining Your Company's Value: Multiples and Rules of Thumb

Digits – Facebook Clamps Down

Twins' Facebook Fight Rages On

Disruptions: The Logic (or Lack of it) in Appraising Start-Ups

A Brief Overview of LLCs

Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.

Homework Assignment #2 due before class

Class 4 –September 30, 2013

Topics: Sources of Funds

Obtaining Capital

Search Funds

Readings:

Lecture Notes

A Meeting of the Minds

Investors Pay Business Plans Little Heed, Study Finds

To Get a Business Loan, Know How the Bank Thinks

Trinket-Seller Rides Out Turbulence

Want to Buy a Private Stock?

Financing, With Strings Attached

Entrepreneurs Hit Up Family, but Payback is Slow

A Plea for Direct Lending to Small Businesses

Earn-Outs: Bridge the Gap, With Caution

On Wall Street, So Much Cash, So Little Time

Using Your 401(K) to Buy A Small Business

Is The Crowdfund Act Really Good News for Private Business?

A Year Later, the Missed Opportunity of the JOBS Act

The Backers Who Made It Big

Search Funds: An MBA Shortcut to the C-Suite

Homework Assignment #3 due before class

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Class 5 – October 7, 2013:

Topics: Adding Synergy
Utilizing Professionals
Tax Consequences
Letter of Intent
Contract / Asset Purchase Agreement

Readings:

RJC pages 161-166 [Chapter 15], 189 – 206 [Chapter 17]
Lecture Notes
In Tough Times, Companies Coddle Their Regulars
Firms Puzzle Over Tax Riddle
Timing Is Ripe for Negotiation
Outsourcing Finds New Niche
Independent Contractor or Not
For Dell Investors, a Safety Valve
The Transactional Lawyer and the Art of Plate Spinning
Letters of Intent
Homework Assignment #4 due before class

Class 6 – October 14, 2013

Topics: Designing Incentive Plans
Equity Sharing
Preparing for Closing
Post Deal Suggestions

Readings:

Lecture Notes
RJC pages 41 - 50, 207 – 210 [Chapters 5 and 18]
How to Deal With Noncompete Agreements
Cashing Out Start-Ups Gets More Complicated
After Rocky Year for Start-Ups, Investors Are Pickier
How Employees Value (Often Incorrectly) Their Stock Options
Phantom Stock Plans
Merge Right
Integration Acceleration
Yahoo Says New Policy is Meant to Raise Morale

course info packet Fall 2013 Q1/Wharton