

THE WHARTON SCHOOL
THE UNIVERSITY OF PENNSYLVANIA
MGMT811: Entrepreneurship Through Acquisition

Course Instructor:
Robert J. Chalfin CPA, Esq.

MGMT 811 Fall 2009 Q1

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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 the assigned readings, class discussions, caselets, and a final project with interim submissions.

The unique aspect of this class is students will receive valuable experience understanding how to value and acquire closely held businesses. A goal of this class is to provide you with the skills and tools to assess, evaluate, synthesize, and consummate a business opportunity while having a meaningful and challenging learning experience.

The course requires that you master and integrate material from a number of disciplinary areas. Entrepreneurship involves the creation of value through applied business innovation, and it allows you to utilize every business skill that you have acquired. This is not a simple challenge.

The following topics will be discussed in the course:

- Locating a business
- Evaluating a business
- Adding synergy through acquisition
- Business valuation
- Structuring business purchases
- Tax aspects of purchasing a business
- Obtaining capital
- Employee Retention Plans
- Post-closing integration

This course will utilize short caselets to illustrate and demonstrate relevant topics in the form of operational, tactical, or strategic challenges that are being confronted. Class members will be expected to complete the readings before class and participate in the discussions by providing suggestions, solutions, or highlighting the relevant issues and concerns.

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Accessibility

I am available to meet and can be reached via email and telephone to assist you. I encourage you to seek my advice and input. I will try and meet with most of the students for lunch or dinner during the course.

Attendance and Class Notes

It is important that you prepare for, attend, and participate in all sessions since much of the learning will take place in class. The class discussions, lectures, and readings are an important component of the learning process. A selection of the lecture's slides will be posted after each class on the webCafe.

If you are unprepared or need to miss a class, please let me know in advance. It will be your responsibility to obtain any handouts and notes from your classmates.

Recommended 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 purchased through Wharton Reprographics.

Course Submissions

The course submission deadlines are as follows:

DUE DATE	TIME	DESCRIPTION	LENGTH	FORMAT	% OF GRADE
Week 2	E	Names of group members.		HC	
Week 3	N	Homework assignment #1		WC	4
Week 3	B	Progress Report providing information on five potential businesses that your group is targeting or the one business that will be your target	1 page	HC	4
Week 4	B	Progress report outlining the work performed and the additional tasks to be completed.	2 pages	HC	4
Week 5	B	Progress report updating the work performed and the additional tasks to be completed.	2 pages	HC	4
Week 6	N	Homework assignment #2		WC	4
November 2, 2009	Midnight	Project	13 pages	WC	50

Code			
B	Due at beginning of class	HC	Hardcopy submitted in class
E	Due at end of class	WC	Webcafe
N	Due at 9:00 p.m. the night before class		

If an assignment is submitted late, the grade will be penalized.

Grading Policy

Term grades will be based on the following:

Class Participation	30%
Homework Assignments (2)	8%
Progress Reports (3)	12%
Acquisition Analysis	50%

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Acquisition Project Description

Group Project Requirements

You should immediately form a group consisting of 3 to 5 students, which will be your team for the class project. We will discuss how to locate a target business for your project. If you are not contemplating a business acquisition, you can approach business owners about performing an independent, constructive analysis of their business. You should be candid, forthright, and professional with everyone you are in contact with for this project. Each group member is expected to work on the group's project and will receive equal credit for the group's work.

Target Business

A business that is used as the basis for the project should have a purchase price of the greater of i) \$1 million or less or ii) an amount reasonably within the group's means to acquire. Targets can include "roll-ups" of several businesses in the same or complementary industries or a business that can add synergy to an existing venture. A business' geographic location should not limit you; however your target must be an existing, operating business located anywhere in the world. Inappropriate targets include publicly held entities, real estate projects, single-location retail businesses, start-ups, confidential, and illegal businesses. You can purchase 25% or more of a particular business.

Gathering, analyzing, and reporting on a business is a time consuming process. You should begin working on this project immediately. You should not enroll in this course if you plan to complete most of the work immediately prior to the due date.

Confidentiality

The University is a community that fosters the exchange of ideas and knowledge; Penn's policy discourages confidentiality agreements. The assumption is that any work a student submits is in the public domain. Students do not have an automatic right of confidentiality on submitted coursework. However, where confidentiality does not interfere with learning, I will honor these requests, when needed, on a case-by-case basis. Students are expected to respect the intellectual property of others.

Grading Policy

PROJECT STATUS REPORTS

You will receive full credit if the status reports are submitted on time and evidence work being performed on the project.

HOMEWORK ASSIGNMENTS

Complete assignments submitted on time that apply the readings and class work will receive full credit. You will be expected to defend your answers in class.

PROJECT REQUIREMENTS

The following three pages provide guidance regarding the project and the grading policy, along with a copy of the Acquisition Data Sheet.

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Suggested Guidelines for Acquisition Analysis

The Analysis should be written in summary form and contain the following information.

- I. Executive Summary (1 Page)
- II. Overview of the business (1-2 pages)
 - A. Provide a succinct description of the business
 - B. History
 - C. Location (s)
 - D. Key employees
 - E. Customers and source of business
 - F. Competitors
 - G. Market analysis
 - H. Any other relevant information
- III. Strengths, Weaknesses, Opportunities and Threats Analysis (1-2 pages)
- IV. Summarize recent financial results of the business (1-2 pages)
 - A. Balance sheet
 - B. Income statement
 - C. Cash flow
- V. Acquisition Plan and Valuation (2-4 pages)
 - A. Purchase price
 - B. Capital structure/offer
 - C. Valuations of comparable businesses
 - D. Multiple valuation methods
 - E. Calculations supporting the purchase price
 - F. Cash flow statement evidencing acquisition debt liquidation
 - G. Risk analysis
- VI. Future changes and improvements (1-2 pages)
 - A. What do you suggest to improve the business such as:
 - Change or adjust the business model
 - Marketing plan
 - Raising capital
 - New employees
 - B. How can you expand the business?
 - C. What are new markets for the business?

This Acquisition Data Sheet should be submitted with every project.

The purpose of the class project is to provide the reader with a succinct overview of the entity that is being considered for acquisition. The page lengths are provided as guidelines, however, **the entire submission, exclusive of the Acquisition Data Sheet, should be thirteen pages or less.**

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Acquisition Analysis Guide for Grading

(This is the guide that is used to grade and score the acquisition analyses)

Sources of Information	5%
<hr/> <hr/>	
What Does the Company Do? Succinct Description	
History	12
Location	
Key Employees	
<hr/> <hr/>	
Customers/Source of Business	
Competitors	
Market Analysis	8
Demographics	
Other Data	
<hr/> <hr/>	
Prepare a SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis	8
<hr/> <hr/>	
Analysis of Financial Statements	
Is the analysis of the financial statements practical and well thought out? This includes income, cash flow liquidity, leverage, etc.	
What are the business' metrics and key drivers?	15
<hr/> <hr/>	
Acquisition Plan	
Is the acquisition plan reasonable and justified?	10
<hr/> <hr/>	
Purchase Price	
Is the price reasonably analyzed?	
Were multiple valuation methods utilized?	20
Were any comparable businesses utilized in the analysis?	
Are the projections reasonable?	
Capital structure/offer	
How will the acquisition debt be liquidated?	
Analysis of the Business Risk	
<hr/> <hr/>	
Future Changes and Improvements	
What do you suggest to improve the business?	12
How can you expand and grow the business?	
Are the ideas well researched?	
<hr/> <hr/>	
Overall Analysis, Clarity of Presentation	
Did the authors demonstrate an understanding of the key course concepts.	
Quality of Report	10
	<u>100% Total</u>

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ACQUISITION DATA SHEET

Please submit this form with your acquisition analysis.

1. Group Members:
2. Type of Business:
Business Name:
Business Address:
3. How did you locate this business?
4. Number of on-site visits made to the business during the semester by group members? _____
5. Year the business was formed? _____ Fiscal year end (month)? _____
6. Type of entity (C Corp, Sub S, LLC, etc.) _____
7. Are the business' owner(s) related to a group member? ___ If yes, relationship? ___
8. Insert below the years of the business' tax returns and financial statements that you reviewed in connection with this analysis:

	<u>Tax Return</u>	<u>Financial Statement</u>	<u>Level of Financial Statement</u> (Audit, review, compilation)
Most recent year 200_	Yes/No	Yes/No	
Prior year 200_	Yes/No	Yes/No	
Next prior year 200_	Yes/No	Yes/No	
Next prior year 200_	Yes/No	Yes/No	
Next prior year 200_	Yes/No	Yes/No	

9. Names and titles of company personnel with whom you spoke

<u>Name</u>	<u>Title</u>	<u>Were these discussions in person?</u>

10. What were your external sources of information? List publications, web sites as well as names, titles and telephone numbers of individuals with whom you spoke. *Provide your answer to this question on a separate page.*

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Course Schedule:

Fall 2009 Q1

Class 1 – September 14, 2009:

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
“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 – September 21, 2009:

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”

Class 3 – September 30, 2009 (Rescheduled date):

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
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”

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Class 4 – October 5, 2009:

**Topics: Sources of Funds
Obtaining Capital
Adding Synergy**

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”

Class 5 – October 12, 2009:

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

Readings:

Lecture Notes
“The Transactional Lawyer and the Art of Plate Spinning”
“Outsourcing Finds New Niche”
“Independent Contractor or Not”

Class 6 - October 26, 2009:

**Topics: 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”