Entrepreneurship Through Acquisition
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Entrepreneurship is all about startups, or so we are told. It’s all about having a good idea one day, starting a business in your garage with a buddy using your credit card for financing, building it into a multi-million or multi-billion dollar company and getting your face on the cover of Fortune. Right?

But what if you don’t have an outstanding idea for a new product or service? Can you still be an entrepreneur? Yes, you can! You can buy someone else’s company and run it. You can acquire an existing business and as the new CEO, grow sales, increase profitability, maybe make a couple of add-on acquisitions, and build it into a larger and more successful company.

Buying a business is entrepreneurship too! We call it, Entrepreneurship Through Acquisition (ETA).

During this course, I will demonstrate to you that buying a business is an exciting path to becoming an entrepreneur, and it can be far less risky than starting one. You can even decide to pursue this avenue immediately after graduating with your MBA. However, some of you may decide to follow this path in three or five years, or even later. Some may do so by organizing a search process, while others may end up buying the company they manage as an employee (MBO). Whatever approach you may take, this course will help you understand what it is all about.

If you want to buy a company for yourself someday, this course was designed for you. But the course can also be helpful if you plan to be involved in acquisitions in
private equity, investment banking or consulting. In addition, we will learn about managing small- and medium-sized businesses and dealing with business situations, numbers and problems that are part and parcel of these more human-sized businesses. And as you know, small businesses are a huge and important part of our economy.

During this course, we will examine the world of ETA through a series of case studies and classroom discussions that bring to life the techniques that work in real life. We will use the stories of real entrepreneurs who bought real companies to highlight the problems and opportunities they faced and the decisions they made. We’ll see what they got right and what they got wrong. And by understanding what these entrepreneurs went through, you will realize that it is entirely possible for you to buy and run a company too.

The cases are all based on recent MBA alumni who have gone out and done it. Most of the time, they will join us in class (in person or via videoconference) to bring the case to life, to provide added insights, and to give you the chance to question them directly.

We will examine the ETA process in a detailed manner, covering the following topics:

- Building and conducting a company search process
- Assessing and valuing targets, and selecting a company to buy
- Dealing with sellers, and financing and structuring the deal.
- Conducting due diligence, preparing and negotiating deal documentation, and managing transactions
- Handling the post-acquisition issues of transitioning to CEO and managing the business
- Creating value for you and your investors and eventually exiting the business

By the end of the course, participants should be fully aware of Entrepreneurship Through Acquisition as a career option, should have a firm grasp of what is involved in this area of entrepreneurship, and most importantly, should have been able to assess his or her own comfort with pursuing it.

Class Assignments

To reinforce what we learn in the course, you will have a number of assignments due. These exercises and/or surveys will allow you to practice the topics that we are studying, such as company assessments, valuations, etc.

Evaluation

Class attendance and participation will count for 66% of your grade. You are expected to attend all sessions having read the case and other class materials. Your score for this portion of your overall class grade will be based on the quality of your contributions to the classroom discussions on the cases and topics we will cover, and your
engagement with guests. For each class session there will be assignments to be completed. These will count for 34% of your grade.

**Other information**

Unfortunately, I do not live in NYC. I split my time in Boston where I run Search Fund Accelerator, and in New Orleans. On the one hand this means my day job is highly relevant to the course, but it also means that I will only be on campus on class days.

When you have a question or wish to talk, all you have to do is contact me by email and we can arrange to speak in person on a class day or via phone or Skype on other days. Do not let the distance be a barrier to reaching out to me whenever you need to. I am more than happy to chat and help.
Course Sessions

Wednesday, June 8, 2016    Hours: 1:00 – 3:15pm
Module 1: Introduction to ETA & Search

In this first session we will introduce the course and the notion of ETA, then we will examine the decision of why, when and how to pursue a search. We will then focus on understanding the advantages and disadvantages of the different paths to ETA and other issues a prospective searcher must consider before embarking upon this route.

Cases:

1) CPI
2) Four Paths of Entrepreneurship Through Acquisition

Readings:

1) H. Irving Grousbeck speech, President’s Distinguished Speaker Series, University of New Hampshire, 2012
2) Models of Entrepreneurial Acquisition (Stanford case E-365)
3) Search funds – 2013: Selected Observations (Stanford note)

Discussion questions:

1) What are the advantages and disadvantages of each of the four paths to ETA?
2) Besides these four paths, what other choices must searchers make?
3) Assuming that the case protagonists all made rational, well-informed decisions, why did each entrepreneur make the choice he did?
4) Before launching a search, how would you develop a strong understanding of the multiple choices you would face?
5) Based on what you read, which path do you feel is right for you? Why?

Assignment: Complete the ETA survey by midnight before class day.
Wednesday, June 8, 2016  Hours: 3:15 – 5:30pm
Session 2: Search Techniques & Searcher Panel

In this session, we will focus on the techniques used to search successfully. Using the cases of two different searchers to guide the discussion, we will examine the steps to setting up a search and best practices for searching for and identifying companies to buy. The second half of the session will feature a panel of searchers so you can hear their stories firsthand and ask probing questions.

Cases:

1) Danville Capital
2) AltEquity

Readings:

1) Search Funds: Best Practices for the Search Phase (Stanford note)
2) Search for a Business – Best Practices (Bay Investment Partners)

Optional Readings:

1) Most all published search fund and ETA studies, articles and videos are available at www.searchfundaccelerator.com/resources
2) For an outstanding compilation of advice from search fund guru and HBS Entrepreneur-in-Residence Jim Sharpe, visit www.jimsteinsharpe.com

Discussion questions:

1) Do you see yourself conducting a company search?
2) With which aspects of the search do you feel most comfortable and least comfortable? Why?
3) What top five best practices did you take away from the cases and readings?
4) What questions do you have for our panel of searchers?

Assignment: We will have a panel of searchers join us in class to discuss search techniques. Please answer the questions in the Search Techniques survey by midnight before class day. You will also be asked to list any questions you have for the panelists on the techniques of searching.
Thursday, June 9, 2016   Hours: 9:00 – 12:00pm
Module 3: Assessing & Valuing Small Businesses

While searching, you will assess hundreds, if not thousands, of companies. To search efficiently, you will need to have clear criteria and adhere to them. When you speak to sellers or receive company information, you will have to evaluate it quickly and go to the essential. Efficiency will come with time. This session starts with a pre-class assessment and valuation exercise to illustrate the process you will repeat time and time again. Then we will use an in-class exercise, in addition to classroom discussion, to reinforce the notion of valuing small businesses.

Cases:

1) Hollivine Partners Act 1 (read)
2) Hollivine Partners Act 2 (watch video)
3) Hollivine Partners Act 3 (watch video & analyze CIMs on Canvas)

Readings:

1) Valuation Techniques (HBS note)
2) Valuation of Late Stage Companies and Buyouts (Darden note)
3) Note on Valuing Private Businesses (HBS note)

Discussion questions:

1) How do you separate the really interesting companies from the less interesting ones?
2) How do you do that when you are looking at hundreds of opportunities simultaneously?
3) How do you maintain objectivity and not let your emotions get the best of you?
4) Once you have selected a business, how do you value it?
5) How do sellers think about valuing their companies?

Assignment: Read the Hollivine Act 1 case and watch the Act 2 video to understand Kamm Kartchner’s progression to date. Then watch the Hollivine Act 3 video in which Kamm asks for your help, in true Mission Impossible style, to evaluate and select one of the five businesses he is considering. Read the five CIMs on Canvas. Select the company you think is best for Kamm to pursue. In one page, tell Kamm why you recommend that business and on a second page, value the company and present your reasoning. The assignment is due by midnight the evening before class by responding to the survey questions and uploading your two explanation pages here.
Thursday, June 9, 2016  Hours: 1:00 – 5:30pm
Module 4: Deal Documentation (Part 1), Due Diligence & Sellers
As a searcher you will quickly encounter NDAs, IOIs and LOIs. What do these terms mean and how do you understand and prepare these documents. Then, once you have a company under LOI, you will conduct due diligence. In this session, we will examine and contrast two distinctly different situations to understand due diligence and to understand the sale process from the seller’s perspective. We will then discuss the transaction process step-by-step.

Cases:

1) American Haircare Part 1  
2) Cartec NV

Readings:

1) Sample Documentation (NDAs, IOIs, LOIs)  
2) Due Diligence Check Lists

Discussion questions:

1) What is due diligence? What are the objectives? Who does what?  
2) Compare the two cases? What do you think of the two sellers’ attitudes? Why are they so different? Did the buyers make mistakes?  
3) What would you do if you were Kristof? Should he stay or should he go?  
4) What are sellers thinking and feeling during the sale process and how do you deal with that effectively?

Assignment: Go back to the company you selected in the Hollivine Partners exercise in Session 3 and write an IOI to the owner of that company. This should be no more than two pages. Upload your IOI here.
Friday, June 10, 2016   Hours: 9:00 – 12:00pm

Module 5: Deal Financing & Structuring, Deal Documentation (Part 2)

It’s one thing finding the right company to buy. It’s another finding the money to buy it and to structure the deal intelligently. If you are a funded searcher, the norms are in place. But for an unfunded searcher, everything is up for negotiation. How do you buy a business when you have little or no money? Then, how do you move toward closing? What goes into the Sale & Purchase Agreement and how do you handle Reps & Warranties? What do you need to know about the various deal advisors you will need? And finally, what will you need to negotiate with your other shareholders? As you can tell, the weeks leading up to closing are stressful and busy.

Cases:

1) American Haircare Part 2 (INSEAD case)

Readings:

1) Basic Leveraged Buyout (Khan Academy online)
2) LBOs for Smaller Companies (HBR online)
3) Leveraged Buyouts and Private Equity (Steven Kaplan online)
Friday, June 10, 2016    Hours: 1:00 – 4:30pm
Session 6: Transitioning to CEO & Managing the Business
Once you buy a business, you will become its new CEO. For many searchers, this transition is a long awaited moment. But it is also fraught with anxiety. We will examine those anxieties and how best to prepare for them as you assume your role as CEO, and highlight some best practices that can guide you. Then you have to manage the business. This is when all the skills you have developed professionally and during your MBA studies will come into play.

Cases:

1) Sean O’Neill
2) La Corpo A

Discussion questions:

1) How well did Sean do transitioning to CEO? What would you have done differently?
2) What would you do at the end of the case if you were Sean?
3) What lessons do you learn from the acquisition of La Corpo?
4) What do you think about each of the changes Olivier and Nicolas put in place?
5) Would you sell the company?

Assignment: Respond to the La Corpo survey online. This is due by midnight the night before class!

Friday, June 10, 2016    Hours: 4:45 – 5:30pm
Session 7: Wrap-up
We will summarize the course and answer any questions you may have. We’ll then conclude with some food for thought.