Management B8523-001
Entrepreneurship through Acquisition
Syllabus v1

Fall 2014, A Term
Monday, 4:00PM – 7:15PM
September 8 – October 13
Uris 140

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NOTE: ATTENDANCE AT FIRST CLASS MANDATORY
Course Description

Do you want, at the same time, to be an entrepreneur and private equity professional immediately after graduation or sometime thereafter?

This course will provide an introduction to the intersection of these two worlds and these career possibilities.

While most private equity transactions are completed by traditional private equity funds, there are, however, entrepreneurial structures available that do not require having a traditional institutional fund. We will focus on these which include two primary and increasingly popular investment structures:

1) Search funds. These are startups, typically set up by recent business school grads (i.e., potentially you!!), established to search for one private company to buy. The entrepreneurs act as both the private equity professionals who find and close the deal and then they manage the company as full time senior management.

2) Independent Sponsors. Independent sponsors execute private equity transactions like traditional equity groups but they do not have a committed fund so they must raise equity capital for each transaction.

While in the past decade the private equity universe has seen unprecedented growth in all areas with over $2 trillion in total assets now with fierce competition for larger transactions, the lower middle market – where the type of investors above typically focus -- continues to provide high return opportunities.

There are simply many more smaller companies than larger ones and such companies can often be purchased for lower valuations with more operational upside. This is the realm where the deal entrepreneur can thrive. While the potential rewards may be higher, so are the risks, so we will focus on the identification and analysis of those as well as how deal structure can help hedge such risks.

Accordingly, this class focuses on the entrepreneurial classes of investors described above and the lower middle market where they typically are most active.

Some of the particular skills you will learn include:
1) The technical skills involved in staffing, structuring, valuing, financing, “diligencing,” and closing a transaction. Topics include:
   a. Deal structures like earn outs or seller notes. The relative merits of asset v. stock acquisition.
   b. HR strategies for new and existing management
   c. Debt and equity financing. Debt financing options for lower middle market company acquisition (e.g., asset backed, bank, mezzanine, seller notes, etc.). How to determine optimal debt levels. Options for equity investment and the compensation such equity investors will provide for the financial sponsor (you!).
   d. Valuation. Especially as practiced in the proverbial “real world.”

2) The analysis of the merit of a business & industry (something we will discuss in each and every case);

3) Sourcing, negotiating, and presenting transactions to financing sources.
The course will benefit those who intend to become deal entrepreneurs (as a search fund looking for a single deal or start-up financial sponsor who might begin as an independent sponsor), want to work in private equity, or want to learn more about acquiring private businesses (a useful skill set for a corporate job).

As an active private equity professional, I endeavor to make the class as real as possible. We will use cases to teach concepts and will have many guests who are active dealmakers. They will often provide their opinions on our cases and sometimes will be presenting “practionner” cases which are cases they will present on their own experiences that we will then discuss.

A half semester course cannot fully teach the art and the science of the lower middle market deal. Instead, it will be an introduction to this endeavor so you will better understand how to go about finding and ultimately executing a transaction. There is a reading and case book for the course. We may assign additional readings which will be distributed in class. There is no textbook for the course.

**Course Requirements.**

There are three primary requirements: 1) the pre-class quizzes and guest speaker preparation, 2) class participation, and 3) the group project.

1. **Case Quizzes and Guest Speaker Prep**

For each class that involves a case preparation, you are required to complete an online multiple choice quiz (which will be posted to Canvas) by 2PM on the day of the class. The quiz questions will be discussed during the class. You may discuss the quiz with your classmates but your answers must be based on your own work. Some questions are subjective while others have definitive correct answers.

We will have a series of guest speakers. As will be clarified in the class before each speaker’s visit, you will be responsible for researching the backgrounds of various speakers. Based on their background, recent experience, and your interest in their activities, each group (same as the group project groups) will submit 4 -6 questions for the speakers.

2. **Class Participation**

Class participation is an important part of this class. The more you contribute, the more you and your classmates will get out of the class and the more stimulating the class will be for us all. So, active participation is strongly encouraged with a significant portion of your grade earned through class participation.
3. **Group Project**

Students are required to analyze a company that is or has been for sale. You will learn about the company and explain why and how it should be acquired. This will be done as a group project.

You are encouraged to find an actual company for sale. This could be a family company you are affiliated with, one that a former employer bought or current employer is considering (provided you did not work on the transaction and you can present the details in class), or a company you are actually considering acquiring (the very best possibility).

In case you do not have access to your own deal, investment banker Confidential Investment Memorandums for a number of actual companies that have been for sale will be made available.

Students will present and discuss their proposed acquisitions in simulated meetings with actual lenders and equity investors during the final class.

Each group will have a corresponding “red team” which is another group. You will present your deal to that group and vice-versa (you will be each other’s “red team”). Furthermore, your red team will act as your lender and provide a term sheet for financing that you will incorporate into your presentation and model. “Red Team” term sheets will be evaluated based on how reasonable and well thought out they are.

With only six weeks, **groups will have regular intermediate deadlines with deliverables**. These include:

--Groups formed: Due September 15\textsuperscript{th}. Students will form self-selected groups and submit member names by this deadline.

--Target Identified, Initial Executive Summary, and “Red Team” Chosen: Due September 22\textsuperscript{nd}. One page summary of target and transaction, including summary financials. For those who have found their own target, you will need to confirm with me that you have sufficient information to complete the project.

--Professor Meeting and Draft Report: Week of October 6\textsuperscript{th}. Each group along with their “red team” will meet with me to present their transaction, review the draft of their report, and present their financing term sheet from their “red team.”

--Presentations: October 13\textsuperscript{th}.

--Final Report Due: October 20\textsuperscript{th}.

*The presentation and final report – which should be approximately 15 – 25 pages in length -- will require a series of elements that include:*

--Company. Overview of the company’s operations, organization, management, pricing, unit economics (as relevant), customers, marketing and sales, other key attributes, and competitive advantages.
--Industry. Trends and size as they related to the company. Factors that impact the growth or health of the industry and discussion of those factors as relevant (e.g., Medicare reimbursement rates for a healthcare company or oil prices for an energy company).

--Transaction. Detailed review of proposed transaction and rationale.

--Financials. Historical and projected P&L, balance sheet, and cash flow. Debt model with details on leverage and covenants as per the “red team” term sheet (to be discussed in class). Internal rate of return model with equity return (also to be discussed in class). Additional details as relevant (e.g., seasonal businesses would require more detailed working capital analysis).

Please note that the purpose of the report is not to merely repeat the details of your source information but rather provide incremental detail as appropriate and analyze the information you have, providing your own opinion.

Attendance & Other Policies

While I look forward to working with you and having a positive and fun classroom environment, I also make a serious commitment of my time to teach this material to you and thank you for taking it equally seriously.

Especially as we only have six sessions, attendance is absolutely mandatory to all classes. You must attend the first class in order to stay enrolled in the course.

Missing classes, excluding true personal emergencies or religious observance (job interviews or related activities are not considered personal emergencies), will seriously impact your class participation grade. Likewise, leaving early will also be counted as a missed class. Similarly, I ask you to arrive on time.

As an Adjunct Professor, I do not hold regular offices but am very happy to make myself available via email or phone. We can also arrange to meet before or after class if you would like. Please do not hesitate to reach out if you would like to discuss the group project, any class material, or private equity in general.

Grades

Grades will be based on the following combination of class participation, the “red team” financing term sheets, and the group project:

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<tr>
<td>Participation (incl. quizzes</td>
<td>25%</td>
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<td>and guest speaker prep)</td>
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<tr>
<td>“Red Team” Term Sheets</td>
<td>25%</td>
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<tr>
<td>Group Project</td>
<td>50%</td>
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At the conclusion of the course, each group member will send me a confidential email indicating the percentage each member contributed to the group project.

**Connection to the Core Curriculum**

Concepts from Corporate Finance, Financial Accounting, and Strategy Formulation will be important to understanding the material. No previous private equity experience is necessary.

**Background of Scott Johnson:**

Adjunct Professor Scott Johnson is the founder and CEO of SJ Partners, LLC (www.sjpartners.com). Established over 10 years ago, SJP acquires middle market consumer and services companies. He has executed over 20 transactions. Scott has been interviewed on private equity and published a chapter on leveraged buyouts for a finance reference book (Q-Finance: the Ultimate Financial Resource).

Scott was educated at Columbia where he received a B.A., MIA (from SIPA), and MBA. Scott is a runner and a pilot.
# Overview by Class

## Class 1: Monday, September 8\(^{th}\)

**Topic:** Class and Project Introduction. Overview of Business Acquisitions: Sourcing, Business Analysis, Valuation, Negotiation, Post Closing

**Topic:** Introduction to Lower Middle Market Financing

## Class 2: Monday, September 15\(^{th}\)

**Topic:** Lower Middle Market Debt Financing

**Case:** North Village Capital Private Equity

**Topic:** Beyond the Purchase Price: Key Transaction Issues Above and Beyond Price

**Topic:** Due Diligence

**Case:** As distributed by guest

**Guest Speaker:** Raphael “Ray” Newman, Managing Director-Duff & Phelps LLC

**Readings:**
- Sample Lender Term Sheets
- 2012 SRS M&A Deal Terms Study

## Class 3: Monday, September 22\(^{nd}\)

**Topic:** Understanding the Seller’s Perspective (so you can be a better buyer)

**Case:** Green Copier
Topic: Introduction to the Business of Buying Businesses (Lower Middle Market Orientation)

Topic: Search Fund Discussion

Speakers: Alex Ginsberg CBS’14 & Woody Baum CBS’14, (Search Fund) One-Line Partners

Readings: Search Funds—2013: Selected Observations
SJ Partners Independent Sponsor Survey
Article: “Finders Keepers”
Selling A Business: Getting What You Need (Sanford Bernstein Whitepaper):

Class 4: Monday, September 29th

Topic: Operating and Overseeing Portfolio Companies; The Use of the Operating Partner
Case: “Bob the Builder”
Speaker: Peter Pfister, Managing Director, Monhegan Partners LLC

Topic: Managing The Company Post-Deal (let alone in a bad economy)
Case: Penn Warranty Corporation

Reading: If Private Equity Sized Up Your Business
(http://cb.hbsp.harvard.edu/cb/web/he/product_view.seam?R=R0711D-PDF-ENG&T=EC&C=SEARCH&CS=4679c927d8b452c54e932121ceed6403)
The Strategic Secret of Private Equity: Harvard Business Review
Class 4: Monday, October 6th

Topic: Doing Deals as a Search Fund
Case: Nashton Partners

Topic: The Real Life of a Search Fund
Guest Speaker: Jason Pananos, Nashton Partners

Readings: Models of Entrepreneurial Acquisition

Search Funds: Death and the Afterlife:

Week of October 6th: ½ hr Meeting with Professor to Review Group Project

Class 6: Monday, October 13th

Topic: Presentation of Student Deals to Investors
Investors: TBD