

# Entrepreneurship Through Acquisition (MGMT B8523)

## Spring 2024

**For Bidding Purposes Only.**

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Office Hours: By appointment

COURSE/TEACHING ASSISTANTS

Communications from professor and teaching assistants about the course will take place through Canvas or emails. Students should make sure they regularly check for announcements and messaging notifications.

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### COURSE DESCRIPTION

The Search Fund Model: How to Become A 28-Year-Old CEO.

This course is intended for anyone interested in buying a small-sized company and become its equity owning's CEO at some point in their career, but can also be helpful for the participants that plan to be involved in:

- **Private Equity,**
- **Venture Capital,**
- **Investment Banking,**
- **Entrepreneurship or**
- **Consulting.**

The program will be covering the following topics:

1. Examining entrepreneurial acquisition models and your personal perspective.
2. The cost of your search.
3. Identifying and attracting qualified investors.
4. Conducting a successful search process. Assessing, sorting, and valuing targets: selecting a company to buy.
5. Approaching sellers and navigating the sale process.
6. Valuing acquisition targets, structuring a bid and developing a bidding strategy.
7. Dealing with sellers, financing, and structuring the deal.
8. Conducting due diligence, preparing, and negotiating deal documentation –purchase agreement- and managing transactions: the role of your Advisors and Lawyers.
9. The Closing date and beyond: Transitioning into a company leadership role.
10. Monetizing your Business: Why, When and How.
11. The course includes a final project that identifies a candidate acquisition target and potential deal structure. Students, working in Groups, will prepare a deep dive (investment pitch deck) into a specific acquisition target. Session 11 will be devoted to hearing, and providing feedback, on these presentations. Students will be asked to provide critical feedback to their peers to enhance the overall learning experience and increase exposure to various ETA approaches.

This course will be 12 class sessions that will be primarily case oriented with some additional readings, in-class guest speakers, and classroom discussions will help enhance the practical, real-world perspective of the class. Upon successful completion of this course, students will come out looking at entrepreneurship in a different manner. They will understand that buying a business is an exciting career path to becoming an entrepreneur, and it can be far less risky than starting one –but bear in mind the search fund model is not without risk!

## **PROGRAM STRUCTURE**

The Class is presented in 4 modules:

1. Preparing for your search.
2. Finding the right small business to buy.
3. Making an offer.
4. Completing the acquisition.

This course involves a variety of teaching and learning methods, including:

- a. Case discussions.
- b. Topical readings.
- c. Guest speakers.
- d. Lectures.
- e. Individual and Teamwork.

The cases and readings in each module will form the basis for the details of what you learn from each class discussion. There will be some sessions that will bring in guest speakers to provide added insights, and to give you the chance to question them directly.

Cases, written assignments, and supplemental material are mandatory; they should be read, understood, and prepared.

**IMPORTANT NOTICE:** Given the challenges of scheduling Guest Speakers for the Classes, dates are subject to change. Students will be notified in advance. Please check your email and Canvas for information about changes in Agenda.

## **STUDENT LEARNING OUTCOMES**

The objective of this course is to explore selected topics -with a very practical approach- related to the entrepreneurial career path of acquiring a small or mid-sized business and become its equity owning's CEO.

We will examine this process through the perspective of following the search fund acquisition cycle, using a series of lectures, assigned readings and selected case studies.

When determining whether to enroll in this course, please keep the following in mind:

1. No two deals or acquisition processes are the same.
2. This course was designed to provide you with the knowledge and context to:
  - (i) decide whether or not you would want to explore a career path of Entrepreneurship Through Acquisition

(EtA),

(ii) develop some alternative methods to becoming an entrepreneur, and

(iii) have a practical tool kit to guide you through the acquisition lifecycle.

3. While there are many similarities between the process of acquiring a small company and a private equity fund buyout or a large M&A deal, the world of small business is highly entrepreneurial, fragmented and nuanced. As a result, there will be differences between what is discussed in class and the private equity process.

## COURSE OBJECTIVES

On successful completion of this course, students will have a basic understanding of how to:

1. Understand the steps in launching a successful search fund.
2. Identify the industries and companies that are most conducive to the search fund process.
3. Structure due diligence for companies identified in the search fund process.
4. Negotiate a purchase price and structure.
5. Work with legal representatives to close the transaction.
6. Identify the key areas for management focus in the first several months after close.

## CLASSROOM NORMS AND EXPECTATIONS

This course adheres to CBS Core Culture. Students are expected to be Present, Prepared, and Participating. We also expect all students to commit to the CBS Honor Code, following the principles of Truth, Integrity and Respect. We will not lie, cheat, steal, nor tolerate those who do.

The highest professional standards are expected of all my students and the CBS community. The collective class reputation and the value of the program experience hinges on this. You should treat this classroom as you would a Corporate Boardroom.

I will treat you as an adult in a very demanding working environment. Failure to comply with Syllabus instructions will give Student no credit. Please read the instructions carefully.

Recording (video or audio) of the class and taking pictures are NOT allowed. Any violation will result in being automatically dropped from the course with no further right to admission. Given the challenges of scheduling Guest Speakers for the Classes, dates are subject to change. Students will be noticed in advance.

Please check your email, Canvas and first day of Class for information about changes in Agenda.

Our expectations:

- **Students arrive on time.** On time arrival ensures that classes can start and finish at the scheduled time. On time arrival shows respect for not only your fellow students and faculty, but for the guest speakers, and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions. We will distribute a **seating chart** ahead of the first class and ask that you use those seats for the remainder of our sessions.
- **Students are fully prepared for each class.** Much of the learning in this Course takes place during classroom discussions. When students are not prepared, they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.

- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Be present.** When students are surfing the web or social media, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off and no recording** is allowed in the Classroom.
- **Changes to course syllabus.** The course schedule is subject to change at the discretion of the instructor. Among other reasons, schedule adjustments may occasionally be required to accommodate changes in the availability of guest speakers. Schedule changes will be announced in class as well as on the course website and/or e-mail list –canvas-. Every effort will be made to communicate changes as early as possible and to minimize inconvenience to students.
- **Class e-mail communications.** Class announcements may be distributed via e-mail and canvas. In order to receive these announcements, make sure the e-mail address listed for you on the canvas site is correct. This e-mail list is created by the registrar's office based on an e-mail address that you provided to them. You are the only one who can change it.

#### **LEARNING WITH THE CASE METHOD. DISCUSSION GROUPS.**

Learning to synthesize a case, and decide what action a protagonist should take, is a skill I want students hone throughout their time in our Class.

The case method is a challenging style of teaching and learning, and discussion groups help students with different strengths and weaknesses learn from each other to better prepare for class. By reviewing interpretations and numbers for different cases, students can make sure they are on top of the material and can test out opinions and ideas about cases before they come to class.

After you read and study the case individually, and before we all meet in class, I encourage you to get together with other fellow classmates (your own discussion group -you can use zoom or any other video/audio software if meeting in person is challenging-) to share, discuss and evaluate your different perspectives and conclusions on the material. This will help each other to better prepare for participation in class.

Depending on the material, groups can cover spreadsheet models, interpretation of exhibits, and perspectives on case readings.

Before first day of class, we will be creating the Study Groups (~5 pax) to discuss and to work on the assignments 1, 2, 3 & 4, the cases, the PPM work and the final presentation. We will communicate the Groups before the Course starts.

## COURSE ROADMAP/SCHEDULE

**Subject to modification.** Given the challenges of scheduling Guest Speakers for the Classes, dates are subject to change. Students will be noticed in advance. Please regularly check your email and Canvas for information about changes in Agenda.

SESSION	Topic(s)	Required Pre-Readings / Case	Assignments Due	Guests
20/3 (Mon)			Read Syllabus carefully  Complete EtA Personal Assessment Excel File	
Ses. 1 21/3 (Tue)	Introduction. Expectations.  Is this career choice for you?  Dynamics with your Family/Spouse/Partner.	Models of Entrepreneurial Acquisition. <b>Skimming</b>  A Primer on Search Funds 2020 –Parts I (Stanford) Background, Personal Perspective ( <b>pages 1-6 only</b> )  Search funds – 2020: Selected Observations (Stanford) - <b>please do a quick and light read</b> – try to focus on statistics-  International Search Funds – 2020 - Selected Observations (IESE) <b>please do a quick and light read</b> – try to focus on statistics	Read Syllabus carefully  Group Written Assignment 1	NO
Ses. 2 23/3 (Thu)	Raise the Fund.  Build your investor's network	Sea Breeze Capital (A)  A Primer on Search Funds Part II and III: Raising a Fund and SF Economics	Group Written Assignment 2	YES
Ses. 3 28/3 (Tue)	The Search Process.  Find a Company. How do you source opportunities?  Prospecting for potential targets	Danville Capital  A Primer on Search Funds, Part IV and V: Setting Criteria for Evaluating Industries and Sourcing Acquisition Opportunities.	Group Written Assignment 3	YES

Ses. 4 30/3 (Thu)	Valuing acquisition targets	WorkWell (A) & (B)  A Primer on Search Funds, Part VI Evaluating Target Businesses	Group Written Assignment 4	YES
Ses. 5 4/4 (Tue)	How do you Due Diligence opportunities.			YES
Ses. 6 6/4 (Thu)	Understanding the Legal Documents. Dealing with Legal Terms& the Seller. Closing the Deal			YES
Ses. 7 11/4 (Tue)	How to finance your acquisition. Negotiating bank loans	Negotiating with Banks. <b>Skimming</b>		YES
Ses. 8 13/4 (Thu)	The Closing Process & Transitioning to CEO	La Corpo (A)  A Primer on Search Funds, Part VII: Transitioning Ownership and Management. <b>Skimming</b>		YES
Ses. 9 18/4 (Tue)	Managing the Business			YES
Ses. 10 20/4 (Thu)	Monetizing Your Business: Why, When and How.  Life after an Exit		LinkedIn Account + Recommendations + Endorsements	YES
Pre-Ses. 11 23/4 (Sun)			Groups Investments deck	
Ses. 11 25/4 (Tue)	Groups Investments Presentations	Presentations In Class		

Ses. 12 27/4 (Thu)	Recap + Conclusion			NO
Final Group Project (PPM) (Friday, April 28th, 2023 – noon EST (NYC Time))				

## SESSION 1

- Introduction. An overview of the Course. Expectations.
- Introduction to EtA & Search. Examine the decision of why, when, and how to start a company search, the differences between funded and unfunded searches, and several other issues a prospective must consider before embarking upon this route.

### Mandatory Readings (please do a quick and light read):

- Models of Entrepreneurial Acquisition. **Skimming.**
- A Primer on Search Funds –Part I (Stanford): Background, Personal Perspective (**pages 1-6 only**).
- Search funds – 2022: Selected Observations (Stanford) – **Skimming, try to focus on statistics.**
- International Search Funds – 2022 - Selected Observations (IESE) - **Skimming, try to focus on statistics.**

### Group Written Assignment 1:

**Study Questions: This is due two (2) hours prior to the start of class. (PLEASE, 2 pages maximum & less than 800 words). Groups must submit their answers in Canvas and Students be prepared to pitch your views to the class:**

1. What is your assessment of search funds versus other approaches to becoming an entrepreneur?  
In doing so, compare (a) doing a search fund to (b) joining a start-up or (c) taking a traditional job position to prepare for a later entrepreneurial path. **Be prepared to thoroughly compare and contrast these approaches and to share in class your list of the pros and cons of search funds and to defend your conclusions.**
2. Compare and contrast the four approaches to EtA (self-funded, sponsored, traditional and accelerator) throughout the process of fundraising, search, deal execution, management and exit. Which approach do you prefer and why? **Be prepared to thoroughly compare and contrast these approaches and to share in class your list of the pros and cons of different approaches and to defend your conclusions.**
3. What are your thoughts on the ideal time to embark on an ETA career path?
4. If you decide to follow an ETA career path, how this could affect the dynamics with your Family/Spouse/Partner?

### Optional Reading:

- Exploring Various Search Fund Structures (VERY INTERESTING) YALE CASE AUGUST 19, 2021 NEW
- Do You Have What It Takes to Be an Entrepreneur?
- Should Couples Go into Business Together?
- The first 10 questions for would be searchers (IESE 401).

- A Framework to Contemplate Post-MBA Career Paths.
- Searching for a Search Fund Structure.
- On the Nature of a Search Fund Not Working Out as Planned.
- H. Irving Grousbeck speech, President's Distinguished Speaker Series, University of New Hampshire, 2012.
- Why More MBAs Should Buy Small Businesses.
- Which MBAs Make More, Consultants or Small-Business Owners?
- You Should Consider Buying a Small Business. But When?
- Buying Your Way into Entrepreneurship.
- Why Buying a Company Can Be Better than Starting One.
- Can You be an Entrepreneur and Not Get Divorced? Inc.
- On the Nature of Women Considering a Search Fund Launch (INTERESTING FOR FEMALE)
- Why MBA Students Do Not Pursue Entrepreneurship through Acquisition

#### Optional Videos:

- Journey of the Self-Funded Searcher <https://youtu.be/rnMvUWGT5Zo>
- Conversation with Irv Grousbeck <https://youtu.be/KavC8Dg0vhg>
- Meg Hirshberg On Entrepreneurial Family Life (<https://youtu.be/p2XPdHQEI1Y>)

#### **VERY IMPORTANT NOTICE ABOUT FINAL GROUPWORK (Private Placement Memorandum - PPM), PITCH DECK, AND PRESENTATIONS TO CLASS (Investors).**

- 1. PPM. Students are advised that the assignment will require a substantial amount of time and work. The document -PPM-must have no more than 10 pages. Due Date will be Friday, April 28th at noon EST (NYC Time). You might use the template found at the Stanford Search Fund Primer, Exhibit 3.**

The PPM is a professional presentation of your investment offer and outlines the business opportunity for investors. This document provides credibility and integrity to those who are considering the investment and provide prospective investors with clearly-stated terms and conditions. The PPM does this by disclosing the overall business strategy and the pertinent risks of the business. Any potential investor should do their homework before investing. A private placement memorandum indicates that the issuer has conformed to best practices by providing the necessary documentation to properly raise money and to properly accept money.

**ATTENTION:** 15% of the grade weighting will be from working in your group - and submit the PPM document to investors (your professor) into Canvas on time. This document will have to include, at least, the following items:

1. Cover page (including your Group number and members).
2. Index.
3. Search strategy (industry or opportunistic).
4. Industry and company screening criteria.
5. Your resume, background, and why you want to be a Search Fund entrepreneur.
6. Fund size, unit size, and general economic terms.
7. Investors you want as long-term partners.
8. An investment proposal (find a business that is interesting for the purpose of this project).
9. Bibliography.



10. List of Tables and/or the List of Figures (if necessary).

**2. INVESTMENT PITCH DECK + PRESENTATION IN CLASSROOM. The document -Pitch Deck- must have no more than 25 pages. Due Date will be Sunday, April 23rd at midnight EST (NYC Time).**

The course includes a final project that identifies a candidate acquisition target and potential deal structure. Students, working in Groups, will prepare a deep dive (investment pitch deck) into a specific acquisition target. Session 11 will be devoted to hearing, and providing feedback, on these presentations. Students will be asked to provide critical feedback to their peers to enhance the overall learning experience and increase exposure to various ETA approaches.

Your Group will produce a pitch presentation to provide a streamlined but informative overview of a target company you and your group had identified to acquire. Your group will be presenting your investment pitch in the classroom. Please see details at the end of this document.

**ATTENTION:** 10% of the grade weighting will be from your group presentation to the class and 15% by submitting the pitch deck to investors (your professor and class) into Canvas on time. This document will have to include the following items and have no more than 25 pages (a template will be shared to provide some useful guidance to you):

1. Cover page (including your Group number and members).
2. Index.
3. Executive Summary (two pages max): Transaction overview, Market, Operational Success, Seller's Motivations, Investment Strategy, What makes the investment so attractive, Investment Terms, Sources and Uses of funds, target Company - what is the opportunity -, Corporate Structure what are the value creation initiatives
4. Market Overview (three pages max): competitors, industry value chain, trends, graphs, maps, Competitive Advantages and MOATs of target, target positioning, etc.
5. Company overview: highlights, operational footprint, etc...
6. Company Description: ownership and transactional perimeter, operational structure, facilities, key management and team, organizational chart.
7. Customer Portfolio: key sales figure, top 5 customers, client portfolio, Sales seasonality.
8. Financial analysis: revenues to gross margin analysis chart, revenues to EBITDA analysis chart, evolution of margins chart, financial takeaways
9. Proposed investment: Financial performance: projected Balance Sheet, Credit Statistics, P&L and Cash Flows year 0 to year 5.
10. Risks and Mitigants
11. Your contact info.

**Students are advised that the assignment will require a substantial amount of time and work. Due Date for the PITCH DECK will be Sunday, April 23rd at midnight EST (NYC Time).**

## **SESSION 2**

### **Raise the Fund – Build your investor's network.**

We will have investors joining us during class so you can hear their experiences firsthand and ask questions.

### **Mandatory Reading and Preparing Case:**

- Sea Breeze Capital (A).
- A Primer on Search Funds Parts II & III: Raising a Fund and Search Funds Economics. **Skimming.**

### **Group Written Assignment 2:**

**Study Questions: This is due two (2) hours prior to the start of class. (PLEASE, 2 page maximum & less than 800 words). Groups must submit their answers in Canvas and Students be prepared to pitch your views to the class:**

1. What are the key characteristics to look for investors in a SF?
2. Where can you find such people?
3. How would you think about investor composition in an international Search Fund. Why?
4. What are some of the pros and cons of various types of potential investors?
5. What are some of the risks of assembling the wrong investor group?

### **Optional Readings:**

- Everything You (Don't) Want to Know About Raising Capital.
- Raising Startup Capital.
- How to Prepare for a Search Fund During Your MBA.
- Questions Aspiring Search Fund Entrepreneurs and Potential Investors Might Ask Each Other
- Search Fund Company Boards: How CEOs Can Build Boards to Help Them Thrive.

### **Optional Videos:**

- Fireside Chat with Will Thorndike. <https://yale.app.box.com/s/moxjit3946bhers4a87n1kk34cnbw2e0u>
- Search Funds: The Investors' Perspective <https://www.youtube.com/watch?v=py1Pa7f22rE>
- Investors Perspective (Polsky Center): <https://www.youtube.com/watch?v=pjitzJfiTPQ>

## **SESSION 3**

### **Find a Company – The Search Process.**

We will have time with searchers so you can hear their experiences firsthand and ask questions.

- Approaches for a successful search.
- Current trends on best practices.

### **Mandatory Reading and Preparing Case:**

- Case: Danville Capital.
- A Primer on Search Funds, Parts IV & V: Setting Criteria for Evaluating Industries & Sourcing Acquisition Opportunities. **Skimming.**

### **Group Written Assignment 3:**

**Study Question: This is due two (2) hours prior to the start of class. (PLEASE, 1 page maximum & less than 600 words). Groups must submit their answers in Canvas and Students be prepared to pitch your views to the class:**

1. What characteristics do you seek in an industry. Why?
2. What are the key characteristics to look for in a business to be acquired by a SF?
3. Please establish your search criteria for finding a Company that could potentially be an interesting acquisition target.
4. Please identify some of the pros and cons of using a broker, investment banker, and doing a proprietary search?

**Optional Readings:**

- Search for a Business – Best Practices (Bay Investment Partners).
- On the Nature of What Business Sellers Are Looking for in a Buyer
- Search Funds - Death and the Afterlife.
- Improving Search Efficiency. Search Fund Guide to Internships.
- Lucas, Suzanne. "4 Secrets to Effectively Managing Interns." Inc.com, <https://www.inc.com/suzanne-lucas/the-secret-to-managing-interns.html>
- "How to Manage Interns." Indeed Career Guide, [www.indeed.com/career-advice/career-development/managing-interns](http://www.indeed.com/career-advice/career-development/managing-interns)
- Search Funds: Best Practices for the Search Phase (Stanford note).
- Purchasing A Business: The Search Process.
- On the Nature of Economic Characteristics. Selection criteria to consider when acquiring a business.
- On the Nature of Revenue. Not All Revenue Is Created Equally.
- On the Nature of Seller Selection in a Search Fund Project. (VERY INTERESTING)
- On the Nature of Customer Attrition and Revenue Analysis
- I Said, You Said: He's the Entrepreneur. How two partners in a marriage view the entrepreneurial search fund journey.
- I Said, You Said: She's the Entrepreneur.
- Solving the carve-out conundrum.
- Freeland Fisher, Julia. "Don't Just Pay Interns, Help them Build Networks." Harvard Business Review, 23, May. 2022 <https://hbr.org/2022/05/dont-just-pay-interns-help-them-build-networks>
- Colca Capital: From Goldman to Peru's First Search Fund.
- Paul-Thomson-Search-Fund-Manifesto.
- Search Funds – Effective Intermediary Outreach.
- Spiro, Josh. "How to Manage Interns." Inc.com, <https://www.inc.com/guides/2010/04/managing-interns.html>

**Optional Videos:**

- Apply Porter 5 forces to your analysis. <https://hbr.org/video/3590615226001/the-explainer-porters-five-forces>
- The Essence of Entrepreneurial Buyouts Tim Bovard (<https://youtu.be/BCm9kMsbpPI> )
- Don't make it; buy it! Tim Bovard (<https://knowledge.insead.edu/entrepreneurship-innovation/dont-make-it-buy-it-592>)

**SESSION 4****Valuing acquisition targets.**

- It is one thing finding the right company to buy. It is another finding the right price to pay for it and to structure

the deal.

- Everything is up for negotiation, but it pays for you to know which is the price range you should pay for that target.
- How to value a not listed SME company.
- Key factors to understand in SME valuations.

#### **Mandatory Reading and Preparing Cases:**

- Cases: Work Well (A) & (B).
- A Primer on Search Funds, Part VI Evaluating Target Businesses. **Skimming.**

#### **Group Assignment 4:**

**WorkWell (A) & (B): This is due two (2) hours prior to the start of class. Groups must submit their answers in Canvas and be prepared to pitch the Group views to the class.**

#### **WorkWell Case Study:**

1. Please identify the key (4-5) differences in assumptions between Kelso and Fraser's models and explain what diligence activities you would perform to take a view on which assumption is more appropriate.
2. Please prepare a case selecting any combination of assumptions from Kelso or Fraser that you believe makes sense and justify your choice for each selection. Based on your selected assumptions, indicate the purchase price that would yield a net 25% IRR to investors using your preferred debt provider.
3. Based on 2), provide a value creation bridge, decomposing equity returns between revenue growth, EBITDA margin improvement, multiple expansion/compression, and impact of debt.

**Guest Speaker: Nicolás González-Luna. Former Chief Investment Officer at Novastone Capital Advisors. Founder at Wonder Brands.**

<https://www.linkedin.com/in/nicolasgonzalezluna/>

#### **Optional Readings:**

- On the Nature of Due Diligence in a Search Fund Acquisition
- LBOs for Smaller Companies (HBR online) (88113-PDF-ENG)
- Early Career LBOs Using the Search Fund Model (813119-PDF-ENG)
- The Mergers and Acquisitions Process (HBP 5242-PDF-ENG) Chapters 2.6 process & 2.7 Deal structures.
- On the Nature of Entry Multiples. Are Entrepreneurs and Investors Too Focused on Entry Multiples? YALE CASE OCTOBER 7, 2020
- What High-Quality Revenue Looks Like? HBR H000A3V
- Technical Note on LBO Valuation and Modeling Case. \*\*\*Excel and instructional video.
- On the Nature of Working Capital Understanding its Mysteries and Complexities

#### **Optional Video:**

- Video: Basic Leveraged Buyout <https://www.khanacademy.org/economics-finance-domain/core-finance/stock-and-bonds/leveraged-buy-outs/v/basic-leveraged-buyout-lbo>

## SESSION 5

### The Acquisition Process (Part 1). Acquisition Due Diligence.

- Understanding the Financial DD and what is needed to be address by the Searcher prior to hire your Financial DD Adviser.
- Legal, Industrial, Financial, Quality of Earnings, Insurance Programs, IT, HR...Reviews.
- The risks on the LOI's.
- Lessons from the trenches.

**Guest Speaker: Ignacio "Nacho" Lliso. Partner at ACCURACY.**

<https://www.linkedin.com/in/ignaciolliso>

#### Optional readings:

- On the Nature of Due Diligence in a Search Fund Acquisition
- The Company Sale Process (206108-PDF-ENG)

## SESSION 6

### The Acquisition Process (Part 2). Understanding, Negotiating and Dealing Legal Terms and Documents; Managing the Seller. The role of Advisors:

:

- Legal aspects Searchers needs to address with the Seller.
- How to deal with the transaction risks and contingencies discovered in the diligence process: representations & warranties, indemnities and guarantees...
- Typical deal terms and the items open to negotiation.
- Sources of tension in the process.
- Problems with sellers and their advisors.
- Share Purchase Agreements (SPA).
- Shareholder's Agreements (SHA).
- Operating, Employment & Credit Agreements.
- Lesson from the trenches. Tactics.
- Other.

**Guest Speaker: Joel Ankney, M&A Lawyer**

<https://www.linkedin.com/in/joelankney/>

#### Optional Readings:

- The Company Sale Process (206108-PDF-ENG)
- Finance Reading: The Mergers and Acquisitions Process HBP 5242
- Note on designing a Shareholder agreement - Case Center Reference no. 9A95B008
- Pierre Foods Acquisition of Advanced Foods (A-E) ¿?
- Pierre Foods Acquisition of Advance Foods (B-1): Stock Purchase Agreement - Buyer's Perspective
- Pierre Foods Acquisition of Advance Foods (B-2): Stock Purchase Agreement - Seller's Perspective
- Pierre Foods Acquisition of Advanced Foods (C-1): Stockholder's Agreements - Majority Perspective

- Pierre Foods Acquisition of Advanced Foods (C-2): Stockholder's Agreements - Minority Perspective
- Pierre Foods Acquisition of Advanced Foods (D-1): Credit Agreement - Borrower Perspective
- Pierre Foods Acquisition of Advanced Foods (D-2): Credit Agreement - Lender Perspective
- Pierre Foods Acquisition of Advanced Foods (E-1): Employment Agreement - Employer Perspective
- Pierre Foods Acquisition of Advanced Foods (E-2): Employment Agreement - Employee Perspective
- SPA Key Terms.
- SPA Check Lists.

## **SESSION 7**

### **The Acquisition Process (Part 3). How to finance your acquisition. Negotiating bank loans.**

- It is one thing finding the right company to buy. It is 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?
- The Financing Agreement and the Security Package.
- Key factors to understand Banks behaviors.
- Lessons from the trenches.

#### **Guest Speakers from LiveOak Bank & Avidbank:**

**Heather Endresen.** *Director Sponsor Finance – SBA & Conventional Loans for Acquisition.*

[linkedin.com/in/heather-endresen](https://www.linkedin.com/in/heather-endresen)

**Lisa Forrester.** *Sponsor Finance/M&A Lending.* <https://www.linkedin.com/in/forrestlisa>

**and Conor Tidgwell.** *Senior Vice President, Team Leader Specialty Finance.* <https://www.linkedin.com/in/conortidgwell/>

#### **Required Reading:**

- Negotiating with Banks. **Skimming.**

#### **Optional Readings & Resources:**

- Non-Equity Financing for Entrepreneurial Ventures.
- Leveraged Buyouts and Private Equity
- Early Career LBOs Using the Search Fund Model.
- On the Nature of Working Capital Understanding its Mysteries and Complexities.
- On the nature of Debt.
- Note on Bank Loans.
- Seller Notes and Mezzanine Debt.
- Seller Paper.
- How to negotiate a Term Loan.
- LBOs for Smaller Companies (HBR online) (88113-PDF-ENG)
- <https://www.liveoakbank.com/search-fund-resources/>

#### **Optional Video:**

Video: Basic Leveraged Buyout <https://www.khanacademy.org/economics-finance-domain/core-finance/stock-and-bonds/leveraged-buy-outs/v/basic-leveraged-buyout-lbo>

## SESSION 8

### The Closing Process & Transitioning to CEO:

We will have time with CEO searchers so you can hear their experiences firsthand and ask questions.

- 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 must manage the business. This is when all the skills you have developed professionally and during your MBA studies will come into play.
- Your 100 days Action Plan.
- 45 days pre-closing & 45 days post-closing.
- Get investor buy-in and firm commitments (i.e. manage allocations, pre-emptive right notice, agreement on SHA, ...).
- Create a Board of Directors.
- Communication with employees and clients.
- Role of the Sellers and phasing out.
- Post Deal Suggestions.

### Mandatory Reading and Preparing Case:

- Case: La Corpo (A).
- A Primer on Search Funds, Part VII: Transitioning Ownership and Management. **Skimming.**

### Optional Readings:

- Four Lessons for New CEOs.
- Zero Defect Hiring, Inc. Magazine.
- Six Basics for General Managers.
- Turnaround Manager Every Day.
- Structuring & Valuing Incentive payments in M&A: Earnouts and other contingent payment to the Seller (Darden Business Publishing UV0465)

### Some Books and links that will be of help for you as a new CEO:

- The first 90 days, M. Walkins.
- Managing by the Number, C. Kremer.
- Negotiating Genius, D. Malhotra.
- Who, G. Smart.
- Mastering the Rockefeller Habits, V. Harnish
- Young President's Organization (YPO) <https://www.ypo.org/>
- Entrepreneur's Organization (EO) <https://www.eonetwork.org/>

## SESSION 9

### Managing the Business. Leading a Business Is Different from Buying a Business.

Strategy, Processes, Culture, Values, Incentives, Communications, Board of Directors, Shareholders, KPI's, Executive Meetings, Working Capital, etc...

Managing the un-expected. What Could Go Wrong?

**Guest Speaker: Jürgen Schaubel. Strategic & Operational Group at Oaktree Capital Management.**  
[linkedin.com/in/jürgen-schaubel-1283a570](https://www.linkedin.com/in/jürgen-schaubel-1283a570)

#### Optional Readings:

- A New CEOs Checklist for Quickly Understanding and Leading a Business
- Managing Major Accounts.
- What is an Organization's Culture (HBS 9-399-104).
- Make your values mean something (HBR R0207J-PDF-ENG).
- Will This Customer Sink Your Stock? (<https://www8.gsb.columbia.edu/researcharchive/articles/25506>).
- Five Reasons Why It's Lonely at the Top, WSJ.
- Seven surprises for new CEOs (HBR R0410C-PDF-ENG).
- Structuring and Valuing Incentive Payments in M&A: Earnouts and Other Contingent Payments to the Seller (UV0465).
- Reminders for Owner-Managers Regarding the Board of Directors of Private Companies (HBS 9-805-154).
- How Serial Entrepreneurs Build and Manage a Board of Directors in a Venture-Backed Start Up ( 808163-PDF-ENG).
- Wearing Your Failures on Your Sleeve.
- On the Nature of Working Capital Understanding its Mysteries and Complexities
- Cash Management Practices in Small Companies. HBR Product #: 699047-PDF-ENG

#### Optional Videos:

- What Does a Board of Directors Do?? - Ask Jay [https://youtu.be/\\_d8mSo-vG58](https://youtu.be/_d8mSo-vG58)
- David Dodson: What Makes a Board Work? <https://youtu.be/0gp2GVfsX78>
- The Outsiders | William Thorndike | Talks at Google <https://www.youtube.com/watch?v=D6h5bvxnBkk>

## SESSION 10

### Monetizing Your Business: Why, When and How.

We will have time with searchers who sold their business so you can hear their experiences firsthand and ask questions.

- Life after an Exit
- What's next?

#### Optional Readings

- You Accomplished Something Great. So Now What? (NYT).
- Dealing with the Emotional Fallout of Selling Your Business.
- What's Next? Search Fund Entrepreneurs Reflect on Life After Exit.
- Life After an Exit: How Entrepreneurs Transition to the Next Stage. Columbia white paper 03 Eugene Lang Entrepreneurship Center (Murray B. Low)
- Sellers gain upper hand in private equity deals, finds Goodwin Procter rollover report.



- Giving Up The CEO Seat (HBR R1003J)
- What am I, if not my business (Inc.).

**Podcast.**

- Successful Post-Exit Entrepreneur A.J. Wasserstein On How To Optimize Your Life For Happiness After Your Liquidity Event: (<https://www.deepwealth.com/podcast/aj-wasserstein-episode-39> )

**SESSION 11****Investment Pitch Presentation.**

- Teams will be presenting in class their investment proposals.

**SESSION 12****Recap + Conclusion****Optional Readings:**

- How Will You Measure Your Life? By C. Christensen (HBR article)
- Elon Musk Details 'Excruciating' Personal Toll of Tesla Turmoil NYT
- Stop Asking Kids What They Want to Be When They Grow Up - NYT
- Do Your Commitments Match Your Convictions? (HBR R0501H)

**Optional Videos:**

- Entrepreneurship Through Acquisition (ETA) Conferences [https://youtu.be/sejY\\_4xZRr4](https://youtu.be/sejY_4xZRr4)
- <https://polsky.uchicago.edu/programs-events/entrepreneurship-through-acquisition/faculty/>
- How Will You Measure Your Life? By C. Christensen @ TED [https://www.youtube.com/watch?v=tvos4nORf\\_Y](https://www.youtube.com/watch?v=tvos4nORf_Y)

**Recommended Resources:**

- Search fund guru and HBS Entrepreneur-in-Residence Jim Sharpe: [www.jimsteinsharpe.com](http://www.jimsteinsharpe.com)
- The Stanford Center for Entrepreneurial Studies (CES) website is the preeminent source of information on the Internet with respect to the Search Fund model. Resources on the website include the most recent studies on the Search Fund asset class, links to panel videos and discussions, and publications about the model: <https://www.gsb.stanford.edu/faculty-research/centers-initiatives/ces/research/search-funds>

## EVALUATION CRITERIA

Grade weighting will be as follows:

1. Attendance (1): 5%
2. Special assignments with Social Media (2): 5%
3. Value Added Class participation (3): 20%
4. Written Assignments (4): 30%
5. PPM doc to Investors (5): 15%
6. Investment Pitch Document (6): 15%
7. Group Presentation in Class (7): 10%

- (1) To be in the class, you must be present, on time, and arrived prepared. Being late or missing any of the sessions without a University approved excuse will lower your grade.
- (2) Student will be asked to set up her/his own free LinkedIn account and should get at least 2 (two) recommendations and 2 (two) endorsements.
  - a. Please submit screenshots/snapshots of your LinkedIn account, your endorsements, and recommendations to Canvas.
  - b. **Due date is COB 7 (seven) calendar days before the last session.**
- (3) 20% of the grade weighting will be from the assessment of the effectiveness of your class participation (this includes **in class, PollEv, and YellowDig community participation**). Complete pre-work needed and expect cold and warm calling. A student -or a Teacher Assistant- will be selected in each class for recording participation in a seating list/chart. Not attending or being late to class will have a negative effect on class participation grades. To help us learn your names as quickly as possible, use a name card in every class; we will distribute a seating chart during our first class and ask that you use those seats for the remainder of our sessions (If you are joining online, please type your name and last name in your zoom screen). After you read and study the cases individually, and before we all meet in class, I encourage you to get together with other fellow classmates (your study group) to share, discuss and evaluate your different perspectives and conclusions on the material. This will help each other to better prepare for participation in class.
- (4) The student will prepare and send responses as instructed in sessions 1, 2, 3 and 4. After you read and study the case individually, I encourage you to get together with other fellow classmates (your study group) to discuss the Case and the readings.
- (5) **PPM:** 15% of the grade weighting will be from working in your **group of 5/6 people** and deliver a **Private Placement Memorandum (also referred to as a "PPM")**. A PPM is a document use to raise capital. You must prepare that document to raise search capital from accredited investors in your Search Fund. The objective of the project is to give you experience reaching out to investors with a compelling investment proposal. Students **are advised** that the assignment will **require a substantial amount of time and work**. The document -PPM- must have no more than 10 pages. **Due Date will be April 28th at noon EST (New York City Time). You may use the template found at the Stanford Search Fund Primer, Exhibit 3.**

(6) **Pitch Deck:** 10% of the grade weighting will be from working in your **group of 5/6 people** and submitting your **INVESTMENT PITCH DECK** into Canvas on time. **Due Date will be April 23rd at midnight EST (New York City Time).**

(7) **Group Investment Presentation:** 15% of the grade weighting will be from your group presentation to the class on Session 11.

Criteria	Percentage
Attendance	5
Social Media	5
Class Participation	20
Written Assignment	30
PPM doc to Investors	15
Investment Pitch Document	15
Group Presentation	10

**VERY IMPORTANT NOTICE ABOUT GROUPWORK – (1) Private Placement Memorandum (You may use the template found at the Stanford Search Fund Primer, Exhibit 3), and (2) the Investment Pitch to Investors. .**

(1) The PPM is a professional presentation of your investment offer and outlines the business opportunity for investors willing to invest in your search capital. This document provides credibility and integrity to those who are considering the investment in your Search Fund and provide prospective investors with clearly stated terms and conditions. The PPM does this by disclosing the overall search strategy and the pertinent risks of the business. Any potential investor should do their homework before investing. A private placement memorandum indicates that the issuer has conformed to best practices by providing the necessary documentation to properly raise search money and to properly accept money.

**ATTENTION: 15% of the grade weighting will be from working in your group -5/6 pax - and submit** the PPM document to investors (your professor) into Canvas on time. This document should include, at least, the following items in no more than 10 pages:

1. Cover page (including your Group number and members).
2. Index.
3. Search strategy (industry or opportunistic).
4. Industry and company screening criteria.
5. Your resume, background, and why you want to be a Search Fund entrepreneur.
6. Fund size, unit size, and general economic terms.
7. Investors you want as long-term partners.
8. An investment proposal (find a business that is interesting for the purpose of this project).

9. Bibliography.

10. List of Tables and/or the List of Figures (if necessary).

Students are advised that the assignment will require a substantial amount of time and work. Due Date will be April 28th at noon EST (New York City Time). **You may use the template found at the Stanford Search Fund Primer, Exhibit 3.**

(2) **Investment Pitch Deck:** 15% of the grade weighting will be from working in your **group of 5/6 people** and submitting your **INVESTMENT PITCH DECK** into Canvas on time. **Due Date will be April 23rd at midnight EST (New York City Time).** The course includes a final project that identifies a candidate acquisition target and potential deal structure. Students, working in Groups, will prepare a deep dive (investment pitch deck) into a specific acquisition target. Session 11 will be devoted to hearing, and providing feedback, on these presentations. Students will be asked to provide critical feedback to their peers to enhance the overall learning experience and increase exposure to various ETA approaches.

This document will have to include the following items and have no more than 25 pages (a template will be shared to provide some useful guidance to you):

1. Cover page (including your Group number and members).
2. Index.
3. Executive Summary (two pages max): Transaction overview, Market, Operational Success, Seller's Motivations, Investment Strategy, What makes the investment so attractive, Investment Terms, Sources and Uses of funds, target Company - what is the opportunity -, Corporate Structure what are the value creation initiatives
4. Market Overview (three pages max): competitors, industry value chain, trends, graphs, maps, Competitive Advantages and MOATs of target, target positioning, etc.
5. Company overview: highlights, operational footprint, etc....
6. Company Description: ownership and transactional perimeter, operational structure, facilities, key management and team, organizational chart.
7. Customer Portfolio: key sales figure, top 5 customers, client portfolio, Sales seasonality.
8. Financial analysis: revenues to gross margin analysis chart, revenues to EBITDA analysis chart, evolution of margins chart, financial takeaways...
9. Proposed investment: Financial performance: projected Balance Sheet, Credit Statistics, P&L and Cash Flows year 0 to year 5.
10. Risks and Mitigants
11. Your contact info.

(3) **Group Presentation.** Your group will be presenting your investment pitch in class. A group of investors (40%), your fellow classmates (5%) and your professor (55%) will be grading your presentation following the above mentioned objective criteria/rubric.

#### ATTENDANCE POLICY

Students are required to attend each class. Students should reach out to the instructor or TA regarding University excused absences (for religious observances; personal, medical, and family emergencies; military service; court

appearances such as jury duty). Unexcused absences and/or being late will affect your course grade.

NOTE: The following is applicable for Core Courses:

- Students that miss more than **33%** of their classes (unexcused absences) will at most receive a **P for the course grade**.
- Students that miss more than **50%** of their classes (unexcused absences) will receive a **F for the course grade**.

NOTE: The following is applicable for Core Courses and for any electives with OSA-administered exams:

- Students that miss the exam for an **excused** reason but are unable to take the exam within the stated make-up period will receive a **zero for the final exam grade**.
- Students that miss the exam without notifying OSA (**unexcused**), will receive an **F for the course grade**.

This course may use Poll Everywhere as a tool to increase in-class student engagement. Poll Everywhere may also be used to confirm student attendance and participation records. Students who have concerns regarding whether their responses have been recorded should contact the instructor.

If a student is absent from class and is allowed to attend a different cluster's class meeting, it is at the discretion of the faculty member to count responses to any polls presented during this time as attendance or participation.

Finally, if a student is not present in the classroom at the time of a poll (due to absences or any other reasons), the poll should not be answered. Responding to a poll when not present in the classroom is a violation of the Honor Code.

## **INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS**

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University's Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University's Office of Disability Services online at [www.health.columbia.edu/docs/services/ods/index.html](http://www.health.columbia.edu/docs/services/ods/index.html) or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. "Gender-based misconduct" includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see <http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students>.