

Entrepreneurship Through Acquisition (MGMTB8523)

Tuesdays 9:00 AM – 12:15 PM

Tentative Room: Geffen 570

Professors:

Tom Jackson tjackson@datacor.com LinkedIn	Clayton Sachs cesachs@datacor.com LinkedIn
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COURSE DESCRIPTION AND OBJECTIVES

An entrepreneurial acquisition involves an entrepreneur with limited personal capital and operating experience acquiring an established business. While the concept of Entrepreneurship Through Acquisition and Search Funds (collectively “ETA”) have grown significantly in popularity in the last 10 years the entrepreneurial acquisition has been around since the advent of the modern corporation. Businesses such as Asurion, Berkshire Hathaway, Danaher, and Great Plains Software (now Microsoft Dynamics) were all entrepreneurial acquisitions. The LBO boom of the 1980s involved entrepreneurs with limited operating experience using junk bonds to take control of operations of major corporations. Notably, the initial wealth that led to the Kennedy political dynasty was generated from an entrepreneurial acquisition.

This course will be highly practical in nature and will focus primarily on the ETA concept wherein a recent MBA student acquires a small business. We plan to arm you with the toolkit, frameworks and the confidence to find, acquire, and run a business of your own. We will explore the various models for ETA to help you determine which one is best for you. We will discuss the merits and risks of the ETA career path immediately following an MBA program, or further down the road. Via real life case studies, we will debate what makes a great ETA target business. We will talk about how to approach a seller and make the case that you are the right buyer for their business. We will go in depth on how to perform due diligence on, structure, and raise money for an ETA deal. Finally, we will work through the first 100 days of ownership and highlight various growth strategies that work well for creating value in an ETA business.

The course will rely on a handful of business texts, cases, investment memorandums and articles focused on the CEO as a capital allocator, and will also lean heavily on case studies highlighting Search Fund acquired businesses. In many instances, we will have the searcher/CEO, investors and even sellers present in the classroom to aid in our discussions and tell the stories firsthand.

Each class will cover a key concept or two and will be split into two sections: **1) Fundamentals:** From 9:00 AM to 10:30 AM will be the lecture section where we present on a concept and review one of the foundational readings or materials; during this section we may also review assignments from the week prior. **2) Cases:** From 10:45 AM to 12:15 PM we will review a real life example of a Search Fund acquired company aided by a case study, the original underwriting presentation, and, in some cases, a conversation with the searcher/CEO.

FACULTY BACKGROUND

Tom Jackson has two decades of experience of investing and operating in the technology and Search Fund industries. Tom currently serves as the President of Datacor, one of the leading providers of software to the process manufacturing industry. Tom has led Datacor since acquiring the business in 2016 via a Search Fund, WJT Partners. Over that time, Datacor has enjoyed significant growth with recurring revenue growing >8x and employing over 280 people.

Outside of his time at Datacor, Tom is an active investor in Search Funds having invested in over 30 search fund or operating companies. Tom currently serves on the boards of Campminder (software for summer camps) and Inerva (software for Australian based Aged Care Providers).

Prior to launching his Search Fund, Tom previously worked at Bregal Sagemount, Blackstone and Woodside Fund investing in technology companies and started his career as an engineer at Sun Microsystems. He holds a MS and BS in Electrical Engineering from Stanford and an MBA from Harvard Business School. Tom lives in Manhattan with his wife and three children.

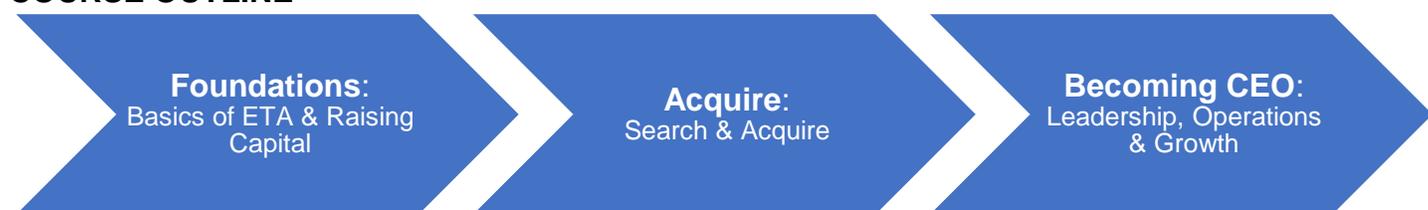
Clayton Sachs brings over a decade of investing and operating experience. Clayton currently serves as Vice President of Datacor overseeing two business units, professional services and customer support, go-to-market strategy, and corporate development (M&A). During his 7-year tenure at Datacor Clayton has executed on and integrated 8 acquisitions, opened a 40 person development center in Costa Rica, launched an integrated payments offering, and aided in building out the Datacor executive team. Clayton searched for and underwrote the original Datacor investment in 2015 and 2016 as part of Tom’s Search Fund, WJT Partners, while completing his MBA at Columbia Business School.

Outside of his duties at Datacor Clayton is an active investor in Search Funds and is invested in over 20 search fund operating companies and has invested in over 30 Search Funds. Clayton serves on the board of two successful search fund acquired companies, both in the software space.

Prior to joining Tom in the acquisition of Datacor Clayton was on the Technology investing team at TA Associates a \$20bn global growth private equity firm. At TA Clayton sourced and executed on investments in the Enterprise Software segment. Clayton started his career in investment banking at J.P. Morgan.

Clayton holds an A.B. in History from Princeton University and an M.B.A. from Columbia University. He lives in Brooklyn with his wife and daughter.

COURSE OUTLINE



<p><u>Class 1: Introduction to ETA</u> Cover the various models of ETA, the expected compensation framework for searchers with each model; touch on the characteristics of what makes a good ETA business and introduce some examples of good (and not as good) ETA acquired businesses; discussion of whether or not this is the right career path.</p> <p><u>Class 2: Launching the Search</u> Discuss the process of launching a search, finding partners and raising capital; explore the data around search funds & self funded search.</p>	<p><u>Class 3: Finding a Business</u> Developing industry scorecards, building lists, and performing outreach to CEOs, “selling the seller”, discussion of moats and deep dive into recurring revenue analysis.</p> <p><u>Class 4: Evaluating & Acquiring Business & industry due diligence</u> deep dive, valuation frameworks and financial modeling for ETA transactions; discussion of steps within a search fund acquisition from various areas of due diligence to legal structuring, to seller facilitation to fundraising (debt & equity) and closing.</p>	<p><u>Class 5: The First 100 Days</u> How to assume the position of CEO in a small business, establishing strong financial controls, ensuring business continuity; playing defense so that you can play offense.</p> <p><u>Class 6: Growth Tactics in ETA</u> Sales playbooks in ETA acquired companies, evaluating and reconfiguring incentive frameworks (e.g. sales commissions & incentive pay), deep dive into pricing optimization as a value driver, attracting talent and organizational change, exploring add on M&A opportunities.</p>
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PREREQUISITES AND CONNECTION TO THE CORE

There are no prerequisites for this course beyond the core curriculum. This course will draw from Financial Accounting, Foundations of Valuation, Corporate Finance, and Lead: People, Teams, Organizations. While not a prerequisite the latter half of this course will draw from the course Organizational Change. We will touch on relevant concepts for students who are primarily interested in pursuing careers in Private Equity, Hedge Funds, or start ups. This course would be quite complimentary to students participating in the Value Investing Program or Private Equity Program who want to consider one day acquiring their own business.

COURSE ADMINISTRATION AND GRADING

1. Class Participation	40%
2. Short Written Assignments (3x)	30%
3. Final Project	30%

1. Class Participation: We view participation as crucial for an engaged and effective learning experience. We expect students to arrive to class having done the readings and spent time considering potential discussion points

stemming from those readings. We hope to foster inclusive and open dialogue around the topics presented. Questions will be welcomed and counted as a core part of class participation. Engagement with guest speakers and panelists will also be valued highly.

2. **Short Written Assignments (3x):** You will be expected to complete three (3) short written assignments due in each of the second, third, and fourth classes. The three assignments will be as follows: 1) Company Scorecard: Develop a scorecard to aid you in evaluating small businesses for potential investment; 2) Outreach List: Build a list of 3 sub-verticals and 15 companies you think would be good for outreach, write one paragraph explaining why each sub-vertical might be interesting, draft outreach emails to 3 of the company CEOs; 3)
3. **Final Project (Partnered):** Develop a “One Pager” on you and your Search Fund; choose one of the businesses from your Outreach List and get in contact with the CEO; after a call build a One Pager overview on the business and build a short form LBO model showing returns to investors and to you, the searchers, using the “traditional” Search Fund model.

CLASS SESSIONS

Session	Date	Module	Key Concepts	Cases and Readings
1a	Tuesday, Oct 24	Foundations	Different models of ETA, search fund returns, foundations	Required Course Pre-Reading: Stanford Search Fund Primer Stanford Search Fund Study Exploring Various Search Fund Structures
1b	Tuesday, Oct 24	Foundations	Career considerations in search, evaluating the risk adjusted return of search <i>Guest Panel: Chad Mitchell, Founder, Bleeker Street Group, TBD Self Funded Searcher, TBD Accelerator Model Guest</i>	2023 Self-Funded Search Study (skim) Bleeker Street Group Investment Presentation + Deal Memos
2a	Tuesday, Oct 31	Foundations	Launching the search and raising money	Search Fund: Best Practices The Outsiders (Will Thorndike) Chapters: John Malone and Katherine Graham
2b	Tuesday, Oct 31	Foundations	Finding a business that fits you <i>Guest Speaker: Diego Cuenca (CBS '16), CEO, Ticketech</i>	Ticketech Investment Presentation
3a	Tuesday, Nov 14	Acquire	Finding industries, building lists, performing outreach, and “building your funnel”; cold outreach	The Search Project: Recurring Revenue The Ride of a Lifetime: Lessons Learned from 15 Years as CEO of the Walt Disney Company (Robert Iger) Chapters: 9-11
3b	Tuesday, Nov 14	Acquire	<i>Building investor support while managing your seller</i> <i>Guest Speaker: Jackie Kopcho (CBS '19), CEO, Tortorella Pools</i>	Tortorella Pools Investment Deck
4a	Tuesday, Nov 21	Acquire	Evaluating and acquisition logistics	On the Nature of Debt The Outsiders (Will Thorndike) Chapters: Warren Buffett and Tom Murphy Reuters Article: Buffet <> Alleghany
4b	Tuesday, Nov 21	Acquire	Underwriting, evaluating and determining valuation <i>Guest Speakers: Gerald Risk (Datacor board member, Vice Chairman, Asurion), Sean O'Donnell</i>	Datacor Investment Presentation & Supporting Materials

			& Dick Bartley (former President and CFO, Datacor)	
5a	Tuesday, Nov 28	Becoming CEO	Leadership transition and organizational change	Podcast: Kent Weaver on Building and Working with your Board
5b	Tuesday, Nov 28	Becoming CEO	Stepping into a leadership position <i>Guest Panel: Promise Okeke, CEO, NovoPath; Andrew Saltoun, former CEO Integra, current CEO of Saltoun Capital; Will Bressman, former CEO RIA-in-a-Box, Co-Founder BK Growth Partners</i>	The Psychology of Human Misjudgment , Charlie Munger NovoPath Investment Presentation
6a	Tuesday, Dec 5	Becoming CEO	Growth strategies: pricing, sales, capital allocation	Podcast: Scaling a Business w/ Kevin Taweel moderated by Joel Peterson Podcast: David Dodson Searching, Investing, Teaching The Outsiders (Will Thorndike) Chapters: Henry Singleton chapter
6b	Tuesday, Dec 5	Becoming CEO	TBD	TBD

Note: Guest speakers and panelists are illustrative/tentative and subject to change