

**Deal Process**

[03] 11:40AM Wed, Sep 3, Aldrich Hall 207

[04] 1:30PM Wed, Sep 3, Aldrich Hall 207

**TOPIC**

Introduction to LBOs

**GUEST SPEAKER**

 Guest speakers from Aurora Capital Group

We will have visitors in class on Day 1. While we realize this is the shopping period, we ask that you be considerate of our guests while entering and leaving the room, and that you abstain from doing so during their remarks. Thank you.

**MATERIALS**

 [Aurora Capital Group - Douglas Dynamics \(209010\)](#)

*EC Weeks 1 & 2 Packet*

 [Aurora Capital Group - Douglas Dynamics Exhibit 5.](#)

For your convenience in answering Question 4 below!

 [Context Analyst Assignment](#)

 [Performing Industry Research to Inform Investment Decisions](#)

 [Douglas Dynamics Model \(shown in class\)](#)

**ASSIGNMENT**

1. What makes a good business? Is Douglas Dynamics a good business?
2. What makes a good LBO candidate? Is Douglas Dynamics a good LBO candidate?
3. Does Aurora have an edge? How does Aurora generate high returns for its investors?
4. How much would you be prepared to bid for Douglas, in each of the following scenarios?
  - a. You are an industrial acquirer and believe that Douglas should be capitalized with all equity;
  - b. You are Aurora, and believe the appropriate debt-to-capital ratio for Douglas is 50%;
  - c. You are Aurora, and are told by your bankers that the maximum debt capacity for this target is \$170 million, at a stated cost of 6% per year.

Note: In each of the above cases, please assume: i) goodwill is equal to the purchase price less \$50 million (approximately the net asset tax basis), and that this goodwill can be amortized over 15 years and deducted for tax purposes; ii) depreciation is \$2.5 million per year; iii) the asset beta is 1.0, the market risk premium is 5%, and the risk-free rate is 5%. Also, please assume that Aurora has promised its investors to seek investment opportunities that will earn internal rates of return of 20% or above.

5. As a deal team member, what would excite you and worry you most about both Douglas Dynamics and the sale process? Would you recommend this deal to the partners?

[03] 11:40AM Mon, Sep 8, Aldrich Hall 207

[04] 1:30PM Mon, Sep 8, Aldrich Hall 207

## TOPIC

Follow-on Investments

## MATERIALS

 [JP Morgan Partners - Cabela's Inc. \(208026\)](#)

*EC Weeks 1 & 2 Packet*

 [Industry Research Resources - Context Analyst Questions](#)

 [Context Analyst Assignment](#)

 [Performing Industry Research to Inform Investment Decisions](#)

## ASSIGNMENT

1. Do you like the proposed 2003 investment in Cabela's? How much do you like it? (i.e. a little, a lot, or somewhere in between?)
2. JPMP is proposing a \$200 million equity recapitalization, of which they propose that the Global Fund take \$78 million, and others take \$122 million. If you like the investment a lot, one alternative that is not discussed in the case would be for the Global Fund to put up the \$78 million, PLUS take out JP Morgans 1996 stake at its fair value of \$102 million, for a total investment of \$180 million, which would be within the sweet spot of the Global Fund's target investment size.
  - a. Should they pursue this option?
  - b. What, if any, problem(s) do you see with this?
  - c. How could such a problem be addressed and resolved?
3. The 2003 Investment Memorandum states, "The recapitalization is the first step in the Company's transition to a publicly reporting company." Please be prepared to comment on, and discuss, this statement. Specifically, why would Cabelas be taking this first step nearly 7 years after the 1996 investment was made?
4. In the case, Steve Murray says, "I see control as pretty binary. You either have it or you don't. Someone has it and everyone else does not." (Page 5.) Do you agree? If you were a prospective minority investor in a private company, what control provisions might you ask for?


[03] 11:40AM Tue, Sep 9, Aldrich Hall 207

[04] 1:30PM Tue, Sep 9, Aldrich Hall 207

## TOPIC

Deal Sourcing

## GUEST SPEAKER

 Representatives from TA Associates

## MATERIALS

 [TA Associates - MetroPCS \(A\) \(208042\)](#)

*EC Weeks 1 & 2 Packet*

 [Industry Research Resources - Context Analyst Questions](#)

 [Context Analyst Assignment](#)

 [Performing Industry Research to Inform Investment Decisions](#)

## ASSIGNMENT

1. Under what circumstances would you advise TA to commit over two hundred million dollars to any deal without an audit? Do the revenue recognition issues seem minor?
2. Was Hythem insubordinate to continue to stay in touch with MetroPCS? Did Hythem have good reason? Does that matter?
3. Would you advise Kevin Landry to commit to the deal?
4. Does TAs cold-calling (dialing-for-dollars) strategy work?


[03] 11:40AM Mon, Sep 15, Aldrich Hall 207

[04] 1:30PM Mon, Sep 15, Aldrich Hall 207

## TOPIC

Due Diligence

## MATERIALS

 [ABRY Partners and F+W Publications \(207010\)](#)

*EC Weeks 3 on Packet*

 [Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

1. Would you advise Royce Yudkoff, Managing Partner of ABRY, to file the lawsuit? Why or why not?
2. What is the upside/downside of filing the suit vs. settling the complaint for ABRY? For Providence?
3. Was ABRY defrauded?
4. If you were a limited partner (investor) in ABRY, how would you react to news of the lawsuit? What if you were an investor in Providence?

[03] 11:40AM Tue, Sep 16, Aldrich Hall 207

[04] 1:30PM Tue, Sep 16, Aldrich Hall 207

## TOPIC

Public Company Takeover

## GUEST SPEAKER



Representative from Thoma Bravo - Holden Spaht

## MATERIALS



[Thoma Bravo-Citect Corporation Take-Private](#)



[TB Citect Simple LBO Model](#)

You are encouraged to build your own model to help you form an opinion about how much Thoma Bravo should be willing to pay for Citect. However, given that it is early in the course, feel free to use this simple model instead, or as a guide to help you build your own.



[Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

1. Who should own the Citect Corporation? Thoma Bravo? Schneider Electric? A different strategic buyer? Should it remain independent?
2. As Thoma Bravo, how would you have reacted to Schneider's counteroffers? Who can bid higher for Citect?
3. What was Thoma Bravo trying to achieve when they acquired their toehold in Citect?
4. What is the highest price Thoma Bravo should be willing to pay to acquire Citect? Should they raise the bid, tender their shares to Schneider, or try to block the Schneider offer?

[03] 11:40AM Mon, Sep 22, Aldrich Hall 207

[04] 1:30PM Mon, Sep 22, Aldrich Hall 207

## TOPIC

Due Diligence

## MATERIALS



[Summit Partners - The FleetCor Investment \(A\) \(807033\)](#)

*EC Weeks 3 on Packet*



[Summit Partners - The FleetCor Investment \(A\) Exhibits](#)



[Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

1. Why does FleetCor want to raise equity capital? Is it key to the success of its business model?
2. What is your estimate of the value of the 46% of FleetCor that Summit is proposing to purchase for \$44.9 million?
3. If you were a partner at Summit, what questions would you have for Bruce Evans and John Carroll? Are you ready to either accept or reject the proposed investment based on the existing information? If not, what else would you like to know and how would that information affect your willingness to invest?

[03] 11:40AM Tue, Sep 23, Aldrich Hall 207

[04] 1:30PM Tue, Sep 23, Aldrich Hall 207

## TOPIC

We will continue our discussion of the FleetCor case.

## GUEST SPEAKER



Visitor from Summit Partners.

## ASSIGNMENT

1. As the investment committee, would you like to do the deal as proposed?

## End of Deal Process

**Value Creation; LBO Valuation**

[03] 11:40AM Mon, Sep 29, Aldrich Hall 207

[04] 1:30PM Mon, Sep 29, Aldrich Hall 207

**TOPIC**

Deal "Manufacturing" and Process

**MATERIALS**

[Warner Music Group \(207068\)](#)

*EC Weeks 3 on Packet*



[Industry Research Resources-Context Analyst Questions](#)

**ASSIGNMENT**

1. Are these good times for the music publishing industry? For Warner Music Group?
2. What makes WMG an appealing target for TH Lee?
3. In light of our discussion in TB Citect of the advantages and disadvantages of public, private and strategic sources of equity financing, who should own WMG: AOL/TW, THL, or EMI?
4. We have seen a number of ways a PE firm sources deals. Is the WMG deal typical in this respect? Is this efficient?
5. Should Scott Sperling go forward with the commitment? What exactly would he be committing to?

[03] 11:40AM Tue, Sep 30, Aldrich Hall 207

[04] 1:30PM Tue, Sep 30, Aldrich Hall 207

## TOPIC

Blackstone's Negotiation to Acquire Celanese AG

**On Tuesday 9/30 and Wednesday 10/1, we will be engaging in a computer simulation based on the Blackstone Group's acquisition of Celanese AG, a chemicals company based in Germany. Please note that you are expected to bring your laptops to class on Tuesday.**

The simulation is set up in the following way:

- Teams of two students
- Two teams will "face off" in the simulation during class time on Tuesday, 9/30. One team will be assigned the role of the Blackstone deal team, the other team the role of Celanese management.

## MATERIALS

 [How to Play](#)

 [Background Reading](#)

 [Student Pairings by Section](#)

## ASSIGNMENT

- You and your teammate are expected to prepare beforehand with the following materials:

How to Play (PDF)

Background Reading (PDF)

- By Sunday at 5 pm, you will be emailed your login ID and password for the simulation. You are expected to review thoroughly the posted computer model with your partner (note only one of you should login at a time). While you will not be able to commence the negotiation until class time, you ought to develop a negotiating strategy beforehand. 1st round valuations of Celanese should be entered into the simulation before class on Tuesday.

- During class time on Tuesday, you will have the option of conducting extensive due diligence on the transaction. You will be able to do so by purchasing certain consultants' reports. You should form an opinion beforehand about what the principal drivers of deal returns might be, and about which consulting reports you will want to purchase. You will also be able to ask the other side for additional information.

- The simulation results will be debriefed on 10/1.

Those of you who have not previously selected a partner will have been assigned one. See attached Excel spreadsheet for role assignments.

Please note the technical requirements for the simulation:

Computer with minimum 1024x768 screen resolution

High speed internet connection (DSL / cable modem quality)

Windows 2000, XP, or Vista / Macintosh operating systems

Internet Explorer 6+ / Firefox 2.0+ web browser with javascript and cookies enabled (note: Safari is NOT supported).

Flash Player 9+ browser plug-in (if you dont have Flash 9, a quick and free download is available here:

[http://www.adobe.com/shockwave/download/download.cgi?P1\\_Prod\\_Version=ShockwaveFlash](http://www.adobe.com/shockwave/download/download.cgi?P1_Prod_Version=ShockwaveFlash)

[03] 11:40AM Wed, Oct 1, Aldrich Hall 207

[04] 1:30PM Wed, Oct 1, Aldrich Hall 207

## TOPIC

Blackstone's Negotiation to Acquire Celanese AG

## GUEST SPEAKER



Visitor from The Blackstone Group: Anjan Mukherjee.

## ASSIGNMENT

Please be prepared to discuss your valuation of Celanese as well as your due diligence approach and your negotiating strategy.

If you were not able to complete a deal, what might you have done differently?

[03] 11:40AM Mon, Oct 6, Aldrich Hall 207

[04] 1:30PM Mon, Oct 6, Aldrich Hall 207

## TOPIC

LBO Valuation, Deal Process

## MATERIALS

 [RJR Nabisco \(289056\)](#)

*EC Weeks 3 on Packet*

 [RJR Nabisco Exhibits](#)

 [Capital Cash Flow Note](#)

 [Industry Research Resources-Context Analyst Questions \(Food Processing\)](#)

 [Industry Research Resources-Context Analyst Questions \(Tobacco\)](#)

## ASSIGNMENT

1. Compare the apparent business strategies of RJR Nabisco and Philip Morris. How do they differ? Is each appropriate for the company that adopted it?

2. What was the value of RJR Nabisco under:

- a. the pre-offer operating strategy?
- b. the Management Group's operating strategy?
- c. KKR's operating strategy?

When valuing the company under the three different scenarios, please use a risk-free rate of 9%, and a market risk premium (MRP) of 8%. Thank you.

3. What accounts for any difference among the values of the three plans?

4. Evaluate the Special Committee's decision to use an auction sale of RJR Nabisco. Should some alternative means have been employed? Why or why not?

5. Which bid, if any, should the Special Committee select? What additional actions should the committee take?

[03] 11:40AM Tue, Oct 7, Aldrich Hall 207

[04] 1:30PM Tue, Oct 7, Aldrich Hall 207

## TOPIC

LBO Valuation, Deal Process

## MATERIALS

 [RJR Nabisco \(289056\)](#)

*EC Weeks 3 on Packet*

 [RJR Nabisco Exhibits](#)

## ASSIGNMENT

We will continue our discussion of the RJR Nabisco case.

Using the Capital Cash Flow method you read about, and that we discussed in class:

What was the value of RJR Nabisco under:

- a. the pre-offer operating strategy?
- b. the Management Group's operating strategy?
- c. KKR's operating strategy?

When valuing the company under the three different scenarios, please use a risk-free rate of 9%, and a market risk premium (MRP) of 8%. Thank you.

[03] 11:40AM Mon, Oct 20, Aldrich Hall 207

[04] 1:30PM Mon, Oct 20, Aldrich Hall 207


## TOPIC

LBO Valuation, Deal Process, Conflicts of Interest

## GUEST SPEAKER

 Representative from HCA: Dr. Thomas F. Frist, Jr.

## MATERIALS

 [HCA, Inc. \(207076\)](#)  
*EC Weeks 3 on Packet*

 [HCA, Inc. Exhibits](#)

 [Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

1. How does the buyout process in HCA compare to the process in RJR Nabisco? Which process was better for the target company's shareholders?
2. Please calculate the value per share of HCA, using the forecast in the case, and the Capital Cash Flows method.
3. At a price of \$50.75 per share, what IRR should the PE consortium expect to realize?
4. If the PE consortium were to pay a price for HCA consistent with the valuation you arrived at in question 2 above, what IRR would they be likely to realize?
5. If you were a member of the Special Committee, would you accept the \$50.75 per share offer?

## End of Value Creation; LBO Valuation

**Current Environment**

[03] 11:40AM Tue, Oct 21, Aldrich Hall 207

[04] 1:30PM Tue, Oct 21, Aldrich Hall 207

**TOPIC**

Current Capital Markets Environment

Private Equity and Hedge Funds Panel Discussion on the Current Capital Markets Environment and its Impact on Alternative Investments.

**ASSIGNMENT**

We will be joined by a panel of three PE and hedge fund investors, who will discuss the current capital markets environment, and the impact that has had, and is expected to have, on the worlds of alternative investing. They will also share their views on the prospects for recruiting for the HBS class of 2009.

**Please come prepared with your own questions for our panelists.**

Our panelists are:

- Bart Epker, PAR Capital
- Jonathan Goldstein, TA Associates
- Mark Nunnally, Bain Capital

**End of Current Environment**

**Governance Issues in PE Transactions**


[03] 11:40AM Mon, Nov 3, Aldrich Hall 207

[04] 1:30PM Mon, Nov 3, Aldrich Hall 207

**TOPIC**

LBO Valuation, Follow-on Acquisitions

**MATERIALS**

 Berkshire Partners: Purchase of Rival Company (A) (208023)  
*EC Weeks 3 on Packet*

 [Berkshire Partners: Purchase of Rival Company\(A\) Exhibits](#)

 [Industry Research Resources-Context Analyst Questions](#)

**ASSIGNMENT**

1. Has the Holmes deal worked out for Berkshire Partners so far at the time of the case? Using a simple "multiples" analysis, what is Berkshire's investment in Holmes worth?
2. Should Berkshire make an investment in Rival?
3. How would you structure the investment? Propose a detailed transaction structure for the acquisition of Rival, including post-transaction ownership percentages?
4. As it pertains to Berkshire, what are the pros and cons of investing in Rival Company?
5. Identify any conflicts of interest Berkshire Partners faces in this transaction.

**End of Governance Issues in PE Transactions**

**Governance Issues in PE Transactions**

[03] 11:40AM Tue, Nov 4, Aldrich Hall 207

[04] 1:30PM Tue, Nov 4, Aldrich Hall 207

**TOPIC**

We will continue our discussion of the Berkshire Holmes/Rival case.

**GUEST SPEAKER**

Visitor(s) from Berkshire Partners.

**End of Governance Issues in PE Transactions**

**Governance Issues in PE Transactions**

[03] 11:40AM Mon, Nov 10, Aldrich Hall 207

[04] 1:30PM Mon, Nov 10, Aldrich Hall 207

**TOPIC**

Management Buyout, Conflict of Interest

**MATERIALS**

 [Kinder Morgan, Inc. - Management Buyout \(207123\)](#)

*EC Weeks 3 on Packet*

 [Industry Research Resources-Context Analyst Questions](#)

**ASSIGNMENT**

1. Is Richard Kinder buying or selling?
2. Do you see conflicts of interest? What are they? What are the similarities or differences with this situation compared to HCA or RJR?
3. As a board member, do you think this is a good time to be selling Kinder Morgan ,Inc.?
4. What valuation is appropriate for Kinder Morgan, Inc.? (Consider the RBC model in Exhibit 7 and the advisors' valuation in Exhibit 13) How do you view Kinder Morgan, Inc's stake in Kinder Morgan Energy Partners? Would you accept \$107.50 per share?

**Note: Exhibit 7 contains an important error in its calculation of the GP's valuation. Can you find this error?**

**End of Governance Issues in PE Transactions**

**Governance Issues in PE Transactions**

[03] 11:40AM Tue, Nov 11, Aldrich Hall 207

[04] 1:30PM Tue, Nov 11, Aldrich Hall 207

**TOPIC**

Corporate Spin-offs

**GUEST SPEAKER**

Alan Washkowitz

**MATERIALS**

[Research Resources-Context Analyst Questions](#)

**ASSIGNMENT**

1. What value would you assign to Peabody Coal, in light of the projections in Exhibits 13, 14, and 15?
2. To what extent does the uncertainty regarding the future of the Kyoto Protocol affect your valuation answer?
3. Does your answer to question 2 above depend on your valuation methodology, i.e. whether you used Capital Cash Flows or an LBO Model to value Peabody?
4. What conflicts, if any, do you see in the proposed transaction?
5. Should Lehman's Private Equity group buy Peabody?
6. Should Texas Utilities agree to sell Peabody to Lehman?

**End of Governance Issues in PE Transactions**

**Governance Issues in PE Transactions**

[03] 11:40AM Mon, Nov 17, Aldrich Hall 207

[04] 1:30PM Mon, Nov 17, Aldrich Hall 207

**TOPIC**

Holdout

**MATERIALS**

 [Nordic Telephone Company's Bid for TDC \(207122\)](#)

*EC Weeks 3 on Packet*

 [Case Exhibits](#)

 [Industry Research Resources-Context Analyst Questions](#)

**ASSIGNMENT**

1. Is NTCs offer fair?
2. What is ATPs motivation?
3. What are NTCs options at the time of the case? What should they do?

**End of Governance Issues in PE Transactions**

**Fund Strategy**

[03] 11:40AM Tue, Nov 18, Aldrich Hall 207

[04] 1:30PM Tue, Nov 18, Aldrich Hall 207

**TOPIC**

Hedge Funds vs. PE Funds

**MATERIALS**

[Ligand Pharmaceuticals Incorporated](#)



[Context Analyst Questions](#)

**ASSIGNMENT**

1. How are hedge funds and private equity firms similar or dissimilar?
2. What skill sets overlap the two?
3. There is a fair bit of discussion in the popular press about “convergence” between hedge funds and PE firms. Are PE firms likely to be successful if they enter the hedge fund space? What about hedge fund investors doing PE deals? Why?
4. Is Third Point’s investment in Ligand more like a typical hedge fund deal or a PE deal? Why?
5. What should Dan Loeb and Third Point do?


[03] 11:40AM Wed, Nov 19, Aldrich Hall 207

[04] 1:30PM Wed, Nov 19, Aldrich Hall 207

## TOPIC

Financing a Minority Investment, New Fund Strategy

## GUEST SPEAKER

 Representatives from Audax Partners.

## MATERIALS

 [Artisan Entertainment Inc. \(207067\)](#)

*EC Weeks 3 on Packet*

 [Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

1. Are motion picture production and distribution companies suitable LBO candidates? Why or why not?
2. What is different about Rehnert's and Wolpow's proposed acquisition, vs. a "standard" LBO? Would the banks and other lenders look at this proposed transaction differently from a regular LBO financing proposal? As a lender, do you perceive the risks of the proposed transaction to be greater or lower than if this were a plain LBO? If greater, how might you mitigate those risks? As Rehnert and Wolpow, how far would you go to make the lenders more comfortable?
3. The case alludes to possible conflicts of interest in the proposed transaction? Where are they? How would you mitigate them?
4. Would you use the CalPERS et. al. "working capital" investment to fund this transaction?
5. If the answer to 4. is no, would you "park" this deal until the first closing of Audax, and move it into the fund once it closes; do the deal and keep it out of Audax; or walk away from the deal?

[03] 11:40AM Mon, Nov 24, Aldrich Hall 207

[04] 1:30PM Mon, Nov 24, Aldrich Hall 207

## TOPIC

Malaysian Airlines

## MATERIALS

 [Malaysia Airlines \(A\)](#)

 [Sovereign Wealth Funds Context Analyst Questions](#)

 [Airlines Context Analyst Questions](#)

## ASSIGNMENT

1. Malaysia's Finance Minister envisioned Khazanah operating much as a private equity fund. Is this a realistic vision? How are Sovereign Wealth Funds (or sovereign development funds) similar to and dissimilar from, private equity shops?
2. MAS's CEO proposes to cut jobs and routes to return the company to profitability. Is this a wise plan of action? How would you return MAS to profitability?
3. Some SWFs see themselves as having a double-bottom-line, i.e. generating profits and strategic benefits for their sovereign owners. Can the same be said of an airline? Why or why not? What are the implications for the airlines CEO?
4. What should MAS CEO Idris Jalla do?
5. What should Khazanah's CEO Dato Azman Mokhtar do?

## End of Fund Strategy

**Fund Strategy**

[03] 11:40AM Tue, Nov 25, Aldrich Hall 207

[04] 1:30PM Tue, Nov 25, Aldrich Hall 207

**TOPIC**

Islamic Finance and Alternative PE Structures

**GUEST SPEAKER**

London Office Head Mounzer Nasr and others from Arcapita

**MATERIALS**

[Arcapita - 2002](#)



[Arcapita-Context Analyst Questions](#)

**ASSIGNMENT**

1. How is Arcapitas business model similar to, and different from, the typical private equity partnership model we have seen?
2. What are each models strengths and weaknesses? For Arcapita? For its investors?
3. Do you view being Sharia compliant or Islamic Finance-compliant as an advantage or disadvantage for Arcapita?
4. How do the economics of Arcapitas business model compare to those of a traditional private equity general partner?
5. Does Arcapita in fact face a liquidity crisis? What should Atif Abdulmalik do?

**End of Fund Strategy**

## Fund Strategy

[03] 11:40AM Wed, Nov 26, Aldrich Hall 207

[04] 1:30PM Wed, Nov 26, Aldrich Hall 207

### TOPIC

Fundraising

### GUEST SPEAKER

 Visitor from ABRY - Royce Yudkoff

### MATERIALS

 [ABRY Fund V \(208027\)](#)

*Spangler distribution*

 [CalPERS Fund Performance Data](#)

 [Case Exhibits](#)

 [Industry Research Resources-Context Analyst Questions](#)

### ASSIGNMENT

1. To what extent do you agree with Royce Yudkoffs views on the scalability of this business. In your view, are there economies of scale in the Private Equity business or not? Does your answer depend on a given firms investment strategy?
2. CalPERS, the California Public Employees Retirement System, and one of the largest Private Equity limited partners in the world, systematically posts performance data for the funds in which they have invested on their web site. The posted spreadsheet (on the course platform,) named Fund Performance from CalPERS is taken from that site (and has been manipulated for ease of analysis.) Please analyze that data.
  - a. Do you find a relationship between fund size and investment pace?
  - b. Do you find a relationship between fund size and return on investment (IRR?)
3. How might the economics of ABRY differ, for a \$1 billion ABRY V fund, vs. a \$4 billion fund?
4. Is the Private Equity business a fee business or a carried interest business?
5. If you were Royce Yudkoff, what others factors would you consider in making the decision whether to increase the size of fund V? Are there other non-obvious avenues that you might explore? Can you grow the firm without increasing the fund size?

6. What should Royce Yudkoff do?

## End of Fund Strategy

## Exit Strategy

[03] 11:40AM Mon, Dec 1, Aldrich Hall 207

[04] 1:30PM Mon, Dec 1, Aldrich Hall 207

### TOPIC

Creative Exit Structures

### MATERIALS

 [Centre Partners - American Seafoods 2003 \(207077\)](#)

*EC Weeks 3 on Packet*

 [Industry Research Resources-Context Analyst Questions](#)

### ASSIGNMENT

1. Does this appear to have been a good deal for Centre Partners? What sort of return do you expect them to generate from this investment?
2. What are the pros and cons of the various plans under consideration, namely, the IPO of Income Deposit Securities (IDS), vs. a dividend recapitalization, an outright sale, or a more traditional IPO?
3. Focusing in particular on the IDSs, what goals does the security aim to achieve?
4. Why do PE firms tend to lever up companies when they acquire them, and delever them when they sell them?
5. As Centre Partners, which course of action would you pursue? What about as the CEO of American Seafoods?

[03] 11:40AM Tue, Dec 2, Aldrich Hall 207

[04] 1:30PM Tue, Dec 2, Aldrich Hall 207

## TOPIC

Timing of Exit

## GUEST SPEAKER



Will Thorndike, Housatonic Partners; and A.J. Wasserstein, ArchivesOne.

## MATERIALS



[Housatonic Partners - ArchivesOne, Inc. \(806193\)](#)

*EC Weeks 3 on Packet*



[Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

1. How much value has been created at ArchivesOne, how has it been created, and to whom has it accrued?
2. How should Will Thorndike think about timing an exit from the ArchivesOne investment? What are the options for an exit / liquidity event, and what are the pros and cons of each?
3. What should his hurdle rate (minimum required rate of return) be if he is to hold rather than sell his stake? As you look at the internal projections for the coming years, what level of returns do you think it is reasonable to anticipate?
4. As Will Thorndike, what would you do? Increase your investment, hold, or exit at this time?

## End of Exit Strategy

## Exit Strategy

[03] 11:40AM Mon, Dec 8, Aldrich Hall 207

[04] 1:30PM Mon, Dec 8, Aldrich Hall 207

### TOPIC

Exit Strategies

### GUEST SPEAKER

 We expect Wilbur Ross to join us in class.

### MATERIALS

 [W.L. Ross & Co. and INVESCO \(208020\)](#)

*Spangler distribution*

 [Industry Research Resources-Context Analyst Questions](#)

### ASSIGNMENT

1. By all accounts, WL Ross was extraordinarily successful in his quest to turn around US Steel, LTV, and arguably the entire US Steel industry, before selling his International Steel Group to Mittal. To what do you attribute his success? Is this success replicable in other industries?
2. Wilbur Ross left Rothschild, Inc. in 2000 precisely because he wanted to be more autonomous. Should he seriously consider Flanagans offer to join ranks with INVESCO? Why or why not?
3. Assuming Mr. Ross were in fact interested in pursuing some sort of arrangement with INVESCO, which of the options identified in the case would you recommend and why? Are there other options you would explore?

[03] 11:40AM Tue, Dec 9, Aldrich Hall 207

[04] 1:30PM Tue, Dec 9, Aldrich Hall 207

## TOPIC

Future Structure of PE Industry

## GUEST SPEAKER



Guest Visitor - Senior Managing Director, The Blackstone Group.

## MATERIALS



[Austin, Blakeley & Cambridge, LLC \(207098\)](#)

*EC Weeks 3 on Packet*



[Industry Research Resources-Context Analyst Questions](#)

## ASSIGNMENT

In this last case of the course, we will take a forward look at the private equity industry and its structure, and try to speculate together about how the industry structure might evolve over the next several years. For sure, on this day more than any other, there will be no known answers. Please come prepared to think and speculate about what you've learned and some of the implications of the various forces at work in the industry at this time.

The three founding partners of Austin, Blakeley, & Cambridge are trying to make sense of some of the recent public offering activity by PE firms, as they consider whether ABC itself should tap the public equity market.

1. As an investment banking analyst, would you agree with Gibbons, Susman, Maher, & Co.'s (GSM) approach to valuing Private Equity firms' management companies? How might you approach the valuation differently, if at all?
2. If GSM is right that the Net Fee stream is ultimately more valuable than the expected cash flow stream from the general partners' carried interest, what implications might that have for the PE business? What incentives would that give the GPs? The LPs?
3. Speculate on why KKR and Apollo used the public vehicles that they did. Are these likely to be ends, or means to an end? If so, what end?

## End of Exit Strategy

[03] 11:40AM Wed, Dec 10, Aldrich Hall 207

[04] 1:30PM Wed, Dec 10, Aldrich Hall 207

## TOPIC