**Finanza Aziendale a.a. 2018-2019  
Prof. Giovanni Battista Dagnino**

**In-class Role Playing, 11th December 2018**

**Students’ Guidelines for case preparation**

[**Buyout of Harrah’s casino chain in 2006**](http://www.casinocitytimes.com/news/article/harrahs-buyout-close-163184?contentID=163184):

* Harrah’s is a compelling investment that could generate a 5-year IRR of 15-20% with reasonable assumptions
* Supported by strong market fundamentals, success in recent international expansion, and healthy cash flow
* Current public market valuation under-values company by approximately 10%, creating solid investment opportunity
* Key investment risk is strength of US economy and risk of consumer spending falling

Yes, I realize this deal was a great example of an [investment gone horribly wrong](http://www.lasvegassun.com/news/2009/apr/13/analysts-harrahs-plan-might-not-stave-bankruptcy/) once the casino industry imploded, but these points are for illustrative purposes.

**Analyze**

* **Market:** Is this an industry that’s growing? Will it grow more quickly/slowly in future years? Do you see positive or negative trends due to technology / regulations / competitors? Where does this company stand next to the competition?
* **Competition:** How does this company fare against its competitors? Does it have some type of unique advantage that others can’t replicate? What about the barriers to entry?
* **Growth Opportunities:** How quickly can the company grow in the future? Is there any “low hanging fruit” or room to easily win more customers / revenue in the future? Do you expect it to grow faster or slower than the market as a whole?
* **Risks:** Every investment carries with it risks – are the key risks here related to the market, or the economy as a whole? To the competition? To government regulations? And is there any way of mitigating these risks?
* **Other:** If there’s anything especially notable about the management team, the products/services or other items unique to the deal, you can mention them as well – but stay away from saying, “The CEO is great!” because you have no way of knowing that.

**Focus on the first 4 items** because those are the main ones that impact your **investment decision**.

**Valuation** and **expected returns**

The biggest mistake you can make is going into an unnecessary level of detail by doing any of the following:

1. Spending hours and hours [searching for EBITDA add-backs and adjustments for each company in their filings](http://www.youtube.com/watch?v=_jho-gLENjw).
2. Spending hours debating which pub comps and transaction comps you should be using.

* A **Valuation Overview:** How much is this company worth, and what methodologies are you basing it on? This is where your “football field” chart goes.
* **Valuation Detail:** Here you can show the pub comps and transaction comps you picked, along with your DCF output. Depending on the company and situation, you may be using different or additional methodologies as well – this is most common for real estate, energy, and financial services.

**Valuation**

Do a simple Capital IQ search for companies in the same industry with revenue or market caps in the same range, and if you know anyone at the relevant industry group at your firm, request that information from them.

If you’re not in banking and/or you don’t have Capital IQ access, this section will be more difficult to complete – try to get a friend who has access to send you login information, or get the information directly from friends with access.

And if you absolutely can’t get access or you are under extreme time pressure (it’s an “on the spot” case study), you can skip parts of this and just show a DCF to support your valuation.

You definitely need to give **some** indication of value here – but if you don’t have or can’t get access to all the information you need, focus on what you **can** do (e.g. DCF in place of public/transaction comps).

1. **Assumptions** – Purchase/Exit EBITDA multiples, leverage, growth, and profitability.
2. [**Sources & Uses**](http://www.youtube.com/watch?v=w-SQ4rOe3LE) – How much debt / equity you’re using, and then how much of that is being spent on acquiring the company vs. transaction fees / paying off debt.
3. **Simple Income Statement / Cash Flow Statement / Debt Schedule** – The Balance Sheet is not necessary if you think about it, so I would only include it if they specifically ask for it, or you need it because of an unusual investment scenario. Excluding the Balance Sheet saves you time without detracting much from your model.
4. **Returns & Sensitivities** – Do a simple IRR calculation and show IRR over a range of purchase/exit multiples and your other assumptions.

Forget about multiple tranches of debt, PIK, PP&E schedules, asset write-ups, book/cash tax

You may have to stray from this if your company has NOLs (Net Operating Losses) and anything unusual that needs to be taken into account (minority interests, other unusual investments, pending divestitures etc.) but you should still **focus on what you need rather than what looks cool**.

**Conclusions**.

Instead of just making a **yes/no investment decision**, for example, you can also specify here at what price level you’d invest, either in dollars per share (public companies) or as a lump sum (private companies / divestitures).

You may also want to go into more detail on what can be done to mitigate the risks you brought up here or on the Intro slide.

**Decision-Making**

Reading all this, you might be wondering, “But wait – how do I actually **make** an investment decision?”

And that tells you exactly why investors don’t have it easy: it’s never a clear-cut decision. But remember that **your actual yes/no decision doesn’t really matter that much** – what matter is how you back it up and support it with your work.

Making investment decision goes way beyond the scope of this article, but here are a few guidelines:

* **The numbers** matter, but mostly for initially testing whether or not something could work – if a company is already over-valued by 50%, for example, chances are it will be a bad investment. If your LBO model never shows the IRR going above 10% even with crazily optimistic assumptions, it’s also a bad idea.
* Your decision should ultimately come down to **qualitative factors**, with the valuation and returns you calculated to be used as support.

Your support shouldn’t be “We should invest in this company because it’s under-valued by 10%.”

You want to say, “We should invest in this company because it’s set to grow faster than the overall market, it’s light-years ahead of its competition, and on top of all that we could get a 20% IRR even with very conservative assumptions.”

**So, What Matters?**

Anyone reviewing your case study will be most concerned with your **thought process**– unlike banking, formatting and small details don’t matter much.

[**Your communication skills are more important than your knowledge of finance**](https://www.mergersandinquisitions.com/investment-banking-communication-skills/) for these case study exercises – if you can’t explain your points simply and reach a solid conclusion, you won’t get an offer.

So don’t get preoccupied with minutiae – focus on your investment thesis and the major reasons you’re recommending or not recommending an investment.

**Factors Outside the Slides**

Your presentation style, the number of people watching, and how much time you’re given can also come into play, but it’s very difficult to generalize here because each firm does it differently.

You might present to just 1 interviewer, or it might be to all Partners at the firm – in which case you better know your stuff.

A lot of this comes down to **public speaking**, which again is beyond the scope of this article – but here are a few guidelines I’ve followed when giving speeches and making presentations:

* Have some notes with you, but don’t write down word-for-word what you’re going to say.
* Speak twice as slowly as you normally would and look at different people in your “audience” every few seconds (only applicable if you are presenting to multiple people, of course).
* Always **practice beforehand**, even if you only have 15 minutes – just practice running through it in front of the mirror and going through all your points, without reading anything word-for-word.

**How Much It Matters**

The case study certainly weighs in heavily, though it’s not the only factor in private equity interviews – top firms usually have many, many rounds of interviews, and even smaller and middle-market firms can take weeks or months to make a decision, simply because they can afford to be very selective about who they hire.

I would compare a case study in private equity interviews to technical questions in [investment banking interviews](https://www.mergersandinquisitions.com/investment-banking-superday-interview-guide/): **doing a poor job can kill your chances, but being a superstar won’t necessarily help you**. Case studies are more of a way to weed out people than anything else.

As with any other type of interview, **your success comes down to “fit” questions and your “story”** after you’ve cleared the technical hurdles – if everyone likes you and is confident you’d do well, you have a good shot at getting an offer.

Also note that while private equity interviews are very competitive, you would be mistaken to [**overestimate the competition**](https://www.mergersandinquisitions.com/warning-dont-give-up-on-getting-into-finance-or-you-might-miss-a-free-trip-around-the-world/).

Most candidates have terrible “stories” and also have no idea why they actually want to do anything in life – from getting into investment banking or consulting to moving into private equity.

The **last** thing a PE firm wants to see is yet another person who’s trying to get in because they heard it was cool, because all their friends were doing it, or because they want to make a lot of money and have no idea how else to do it.

So if you make sure your “story” is solid, come across as a likable person, and do your case study reasonably well, you stand a good shot at getting an offer no matter how “competitive” it is.