B8646-001 A Strategic Marketing Approach to Private Equity in Emerging Markets: Analyzing Investments and Managing Portfolio Companies

Spring 2020

Session: Spring 2020 – Term A
Dates: Tuesdays, 2:15pm – 5:30pm (1/28; 2/4; 2/11; 2/18; 2/25; 3/3)
Room: WJW311
Professor: Marco Viola
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Course Overview
Whether you want to follow a career in private equity or just want to know how to analyze investment opportunities, define successful strategies and manage companies, this course will provide you with the basic skills to be a successful value-oriented private equity investor, while understanding the particular challenges of investing in Emerging Markets.

Through a combination of lectures, case discussions, real life examples and a Private Equity Game Simulation this course focuses primarily on the two key components of a successful private equity business: Analyzing & Selecting Investment Opportunities and Managing Portfolio Companies, with a special focus on crafting winning marketing strategies.

The skills & toolkit you’ll learn in this course, go beyond Private Equity. Analyzing & valuating businesses, implementing operational improvements and realizing value for shareholders are key activities for any organization, especially those operating in Emerging Markets.

While the course will cover the basics of the Private Equity Industry (its players, business models, sourcing deals, deal execution, structuring and terms, exits, etc.), the focus will be on value creation through strategic marketing analysis of opportunities and management of portfolio companies.
Specifically, we will review key models and frameworks used by top world-class PE practitioners and management consultants to evaluate deals, to better understand industries, drivers of value, players and the likelihood of success of different business models.

Additionally, we will focus on how to manage portfolio companies to achieve superior returns and how to diagnose, solve, recommend and implement top strategic corporate decisions.

All of these skills will be developed and discussed through the lens of Emerging Markets, paying particular attention to the added complexity that these markets bring to PE investment, mainly regarding macro risks, information asymmetry, governance and other issues.

The course’s ultimate objective is to develop a disciplined, structured and analytical approach to consistently help you evaluate deals and manage investment opportunities in Emerging Markets.

**Connection with the Core**
This course builds on knowledge primarily from Corporate Finance, Business Analytics, Marketing and Strategy Formulation.

Specifically, the game simulation and cases will provide an opportunity to apply valuation theory, corporate finance principles and business analytics to decision-making in a real life situation.

We will further develop concepts like industry and competitive analysis, sources of economic value, developing an investment thesis, value proposition, marketing strategies, etc. Basic knowledge of key financial statements and marketing will help students with simulation and cases.

**Students should be familiar with how to build cash-flows, financial projections and basic valuation.** We will be practicing valuation to analyze the cases and perform the simulation game, but students need to have a basic understanding of how financial models work. While we will be discussing some valuation readings, models, tips, etc. the course objective is not to go over the basic valuation techniques, but rather on how these techniques are applied to perform a comprehensive analysis of an opportunity.

**Course objectives**
This course is designed to give students an overall view of the Private Equity industry through the lens of an industry practitioner, with particular focus on evaluating deals and managing companies.

The course will cover 5 distinct modules, primarily organized around the typical phases of a private equity investment: sourcing, evaluating and executing deals and then managing and exiting companies. Students will get to learn and practice specific tools and principles associated with each of these phases.
• **Module I: Private Equity Overview** - What is PE, value-added chain, business models, impact in Emerging Markets, etc.

• **Module II: Evaluating Deals** – Sourcing deals, understanding business models, valuing companies, developing an investment thesis, etc.

• **Module III: Executing Deals** – Due diligence, deal structuring & negotiation, capital structure, key terms to protect investments, etc.

• **Module IV: Managing Portfolio Companies** – Drivers of value in companies, strategy vs execution, corporate governance, influencing management & aligning economic incentives

• **Module V: Exits & Realizing Value** – Types of exit and strategies to realize value (IPOs, strategic sales, leveraged recaps, etc.)

We will explore different valuation techniques with real life cases, so students need to be familiar with financial statement analysis, capital structure and building basic cash-flow models in order to take full advantage of the valuation module.

The course emphasizes hands-on practice with real life examples. The course is intended to provide the students with a pragmatic approach and discipline that will help guide the selection and evaluation of investment opportunities and the management of such opportunities to maximize value.

We will also play a Simulation Game that will help round-up the understanding of a Private Equity acquisition and highlight different valuation methods, the importance of due diligence, the key decisions that PE executives face in a negotiation, their impact on returns and the potential conflict of interests among stakeholders.

At the end of the course, beyond having an overall knowledge of how the Private Equity industry works, students should know how to:

- Concretely evaluate investment opportunities
- Understand the different drivers of values for companies
- Understand the challenges of due diligence and portfolio management in emerging markets and how to overcome them
- Understand the different type of private equity investments (start-ups, minority & control investments) and how to manage and structure each deal to maximize returns and protect capital.
- Understand how to develop and implement successful business models and strategies for companies
- Evaluate the different alternatives for realizing value (IPOs, strategic sales, leveraged recaps, etc.)

**Grading**

This course will use a combination of readings, case studies, lectures, class exercises (with real life examples) and a Private Equity Simulation.

Requirements for the course and the contribution of each towards the final grade are as follows:
Online & Class Participation (50% of Grade)

This course adheres to Columbia Core Culture. Students are expected to be PRESENT, PREPARED and PARTICIPATE. Your active participation in the discussion in class (as well as your online participation) is considered very important in this course. Let’s get the most out of perhaps the scarcest resource we have - our time in class together!

Prior preparation of the cases and assigned readings are essential. **All students have to be fully prepared to discuss cases during class.** Pay special attention to the readings before our first class that will give you an overview of the industry and should ignite your inquisitive minds to come to class with wonderful doubts and discussion points! Especially important are the short VCPE Strategy Vignettes, which illustrate some of the dilemmas of PE players.

There are also a number of interesting online discussions, PLEASE PARTICIPATE to enrich those discussion topics for your colleagues.

By making 50% of your grade dependent on your participation (**both online and in class**) we hope to encourage you to feel responsible in making this course work. Some classes will feature mini-cases that students are asked to analyze during class discussion.

**Class attendance is critical.** Students **must** be on time and attend class regularly and with appropriate preparation if they wish to leave this course with a tangible assimilation of the skills discussed. Class attendance, tardiness & participation will be tracked! **Missing any of the sessions without an excuse will lower your grade. This course adheres to CBS Core Culture: If you miss 2 classes for unexcused reasons, you will at most receive a P1.**

Written Assignments –Group Projects (30% of Grade)

This course will have some group projects (teams will be formed before the first day of class), which will emphasize the typical analysis and evaluation of investment opportunities. Some teams will have to present their evaluation of specific companies and define their investment thesis.

There will be 2 Main Assignments:

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<tr>
<th>Deliverable</th>
<th>% Grade</th>
<th>Type</th>
<th>Date Due</th>
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<tbody>
<tr>
<td>1. Moulin d’Or Investment Thesis &amp; Valuation</td>
<td>15%</td>
<td>Group (A)</td>
<td>Before Class 2</td>
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<tr>
<td>2. Eki Case Valuation, Due Diligence Issues &amp; Term Sheet</td>
<td>15%</td>
<td>Group (A)</td>
<td>Before Class 3</td>
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Private Equity in Emerging Markets            Prof. M. Viola
Assignments will be graded both on content and format, based on originality, analytical strength, feasibility and logic & format.

**Blackstone/Celanese Acquisition Simulation Game (20% of Grade)**
Blackstone/Celanese simulation (done by Harvard Business School) is based on the landmark acquisition of Celanese AG by the Blackstone Group in 2003. Students will play the role of either Celanese or Blackstone and conduct due diligence, establish deal terms, respond to bids and counter-bids, and consider interests of other stakeholders. The simulation offers chat functionality so that students can negotiate online in addition to in person.

See separate presentation/instructions that describes the Blackstone/Celanese Acquisition Simulation Game.

**Reading Materials**
There is no required text for the course. If you would like to probe certain topics in more detail, feel free to check with us on where to look for reading materials. A few books that cover some topics we’ll touch upon in class have been provided as recommended readings.

Course materials consist of class lecture notes. These will be available on Canvas.

**References and Recommended Reading**
During the course, we will also recommend some interesting articles, cases and other sources that can provide you with more insight into the skills learned in class. These cases, books and articles cover some basic concepts and views. Generally, these books and articles will not be a basis for class discussions (except for cases). You can read them before class, after class, or not at all, although I strongly encourage you to at least know what each book/article offers.

### ARTICLES

**Private Equity Overview**


Evaluating & Executing Deals


Managing Portfolio Companies


Exits & Realizing Value


RECOMMENDED BOOKS


# Course Schedule & Logistics

<table>
<thead>
<tr>
<th>Date &amp; Time</th>
<th>Topics</th>
<th>Format</th>
<th>Case Assignment &amp; Recomm. Readings</th>
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<tbody>
<tr>
<td><strong>CLASS 1</strong></td>
<td>MODULE I PRIVATE EQUITY OVERVIEW</td>
<td>Lecture/Case Discussion</td>
<td>Readings: (1), (2), (3), (4), (5)</td>
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<td>What is Private Equity?</td>
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<td><strong>Vignettes (6)</strong></td>
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<td>What makes a PE fund successful?</td>
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<td>Why Invest in Emerging Markets?</td>
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<td>Why Private Equity? How do they add value?</td>
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<td>Private Equity value-Added Chain</td>
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<td>Business Models</td>
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<td><strong>CLASS 2</strong></td>
<td>MODULE II EVALUATING DEALS IN EM</td>
<td>Lecture Class Ex. CASE</td>
<td>Investment Thesis &amp; Valuation for Moulin D’Or</td>
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<td>Sourcing Deals</td>
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<td>Analyzing Strategies &amp; developing an Investment Thesis</td>
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<td>Evaluating Management</td>
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<td>Valuing a Company</td>
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<td><strong>CLASS 3</strong></td>
<td>MODULE III EXECUTING DEALS IN EM</td>
<td>Lecture Class Ex. CASE</td>
<td>Recommendations EKI VALUATION &amp; TERM SHEET</td>
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<td>Due Diligence – Key Success Factors in Emerging Markets</td>
<td>Readings: (7), (8), (9), (10), (11)</td>
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<td>Negotiation issues</td>
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<td>Deal Structure / Terms for different types of investments (minority, control, etc.)</td>
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<td><strong>CLASS 4</strong></td>
<td>MODULE IV MANAGING PORTFOLIO COMPANIES</td>
<td>Class Ex. CASE</td>
<td>Readings: (12)</td>
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<td>Drivers of Value</td>
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<td>Strategy vs. Execution</td>
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<td>Corporate Governance</td>
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<td>Influencing Management and aligning economic incentives in EM</td>
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<td><strong>CLASS 5</strong></td>
<td>MODULE V MANAGING EXITS, SUMMARY</td>
<td>Speaker Class Ex. Videos</td>
<td>Readings: (13), (14), (15)</td>
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<td>Types of exit: IPOs, strategic sale, leveraged recaps</td>
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<td>Private Equity vs Operating Holding Co.</td>
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<td><strong>CLASS 6</strong></td>
<td>WRAP-UP</td>
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<td>Game De-brief</td>
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<td>Blackstone/Celanese Game Debrief</td>
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<td>IPOs of PE Funds, Wrap-up</td>
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