The Private Equity Case Study: The Ultimate Guide

Separating the Wheat from the Chaff in Interviews…

A Very Common Question…

"What should I expect in **case studies** when I go through the private equity recruiting process?

How much **time** do I get, and how **detailed** does the model need to be? How important is the case study, and **what** are they looking for?"

This Lesson: The Full Guide to PE Case Studies

If you want this entire tutorial in writing, as well as the Excel file, case study prompt, and investment recommendation presentation, go to:

https://www.mergersandinquisitions.com/private-equity-case-study/

The **Short** Answer…

- There are **different types** of "case studies," so we need to start from there:

- **Type 1:** "Paper LBO" (or "mental" version)

- **Type 2:** 1-3-Hour LBO Model (on-site or via email/Zoom)

- **Type 3:** Take-Home LBO Model and Presentation

- **Our Focus:** The last type of case study, which is open-ended and requires more outside research

The Short Answer…

- **Large Funds / On-Cycle Recruiting in the U.S.:** Most common to get timed LBO models with simple questions

- **Off-Cycle Recruiting / Smaller Funds / Outside the U.S.:** The open-ended tests – true "case studies" are more common

- **What They Want to See:** Model complexity matter far less than *justifying your numbers and investment thesis*

- **Importance:** Often the final step between interview and job offer, at least in certain regions and firm types, so they matter *a lot* – best way to measure your abilities!

PE Case Studies: Lesson Plan

Part 1: Typical Case Study Prompt

- **Normal:** "Here are the companies and types of deals we usually do. Go research a company, make an investment recommendation, and present it in a short slide deck."

- **Sometimes:** They will give you the company and supporting materials such as an Information Memorandum, annual report, recent investor presentation, etc.

- **But:** Don't hold your breath – the instructions tend to be minimal-to-non-existent here

- **Time:** 1 week (7 days is common); could be a bit more or less

Part 2: Suggested Time Split

- **Day #1:** Read the document, understand the PE firm’s strategy, and pick a company to analyze

- **Days #2 – 3:** Gather data on the company’s industry, its financial statements, its revenue/expense drivers, etc.

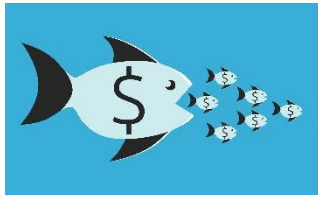
- **Days #4 – 6:** Build a simple LBO model (<= 300 rows), ideally using an existing template to save time

- **Day #7:** Outline and draft your presentation, let the numbers drive your decisions, and support them with the qualitative factors

Part 3: Screening and Selecting a Company

- **Here:** Firm wants undervalued companies in need of a turnaround in the consumer, media/telecom, and software sectors

- **Ideal Purchase Enterprise Value:** $500 million to $1 billion, up to $2 billion in some cases



- **Turnaround Strategies:** Add-on acquisitions, restructuring, or divestitures (i.e., mostly financial, not operational)


- **My Criteria:** Want companies with *good, consistent FCF generation* and *FCF yields* (10-20%+ ideal here)

Part 3: Screening and Selecting a Company

- **Why:** Turnarounds, add-on acquisitions, etc. will all require cash flow, and it's risky to bet solely on multiple expansion

- **My Criteria:** Relatively lower EBITDA multiples; 5-10x ideal, but 10-15x OK if there are growth opportunities

- **Why:** IRR math gets tougher when 5-6x leverage is only 1/3 of the total price; also, much higher downside risk at high purchase multiples

- **My Criteria:** Reasonably clean financial statements and enough detail for revenue and expense projections

Part 3: Screening and Selecting a Company

- **Step 1:** Do a high-level screen of companies in these sectors based on industry, market cap or TEV, and geography

- **Step 2:** Review the list (~200 companies) to narrow the sector

- **Step 3:** Narrow to the top few companies, and then select one

- **Software:** Very, very high multiples (30x+) and many companies had negative EBITDA → Not good LBO candidates

- **Consumer/Retail:** Companies had more reasonable multiples (5-10x) but also had very low margins and FCF generation

Part 3: Screening and Selecting a Company

- **Media/Telecom:** Quite a few companies with lower multiples, but CapEx was quite high for telecoms → low FCF yields

- **Next:** Ruled out companies with very high multiples, negative EBITDA, and exorbitant CapEx, which left this set:

boingo wireless | cars.com | CUMULUS MEDIA | Digital Media Solutions

gogo | thryv | URBAN ONE

Part 3: Screening and Selecting a Company

- **Process:** Eliminated companies here because some had negative FCF, little information on revenue/expenses, overly high multiples, or businesses declining *too much*

- **Cars.com:** ~9.4x multiple, declining business but modest projected growth, 25-30% margins, and solid FCF with yields between 10% and 15%

- **No Capital IQ:** Use FinViz and P / E multiples as a proxy for EBITDA multiples; click through for the P / FCF multiples; save revenue/expense drivers for your top 2-3 candidates

Part 4: Gathering Data and Doing Research

- **Step 1:** Do a quick scan of the most recent annual report and presentation, look at the financial statements, and find a revenue/expense breakout with the *key drivers* highlighted

- **Step 2:** Determine how you might project these drivers and the outside information required to do so (e.g., market size, share, growth rates, etc.)

- **Step 3:** Gather and input that outside information (ideally, at least 2-3 drivers for revenue)

- **Step 4:** Simplify and input the financial statements

Part 4: Gathering Data and Doing Research

- **Dealer Customers:** Probably best to make this a "market share" projection because the total # isn't changing much, but the company's customer count keeps falling

- **Other:** Revenue per Dealer figures barely change; website traffic keeps growing, but the company is not leveraging it properly because Ad Revenue keeps falling

- **Outside Data:** Google terms like "used car dealer market U.S." and variations → easier to find new vs. used dealer counts

- **Business Model:** Sells to dealers, so it's not a direct buyer-to-seller marketplace like Carvana

Part 4: Gathering Data and Doing Research

- **What About the Turnaround?** – We don't think it's plausible *in this segment* because the core market is stagnant

- **More Realistic:** Move into new areas via add-on acquisitions and by leveraging web traffic more effectively

- **Other Drivers:** Can be simple percentages of revenue or based on the employee count; the main point here is the **add-on acquisitions** or other strategies

- **Finding Candidates:** Capital IQ is essential; screen for companies below a certain size and use keywords like "auto" in the business description for software/media companies

Capital IQ

Part 4: Gathering Data and Doing Research

- **Here:** Skipping the Balance Sheet, which saves some time

- **IS:** Mostly following the statements, but changed the revenue breakout since Retail vs. Wholesale isn't useful

- **CFS:** Combined the Change in WC into one line, put some smaller/non-recurring items into "Other," and stopped with the CFI section since the capital structure will change

- **Efficient Inputting:** Can download the statements in XL format from the company's website and go from there (don't necessarily like Capital IQ for this part)

Part 5: Building a Simple But Effective Model

- **Requirements:** You do **NOT** need a full 3-statement model – not worth the extra time unless they require it

- **Why:** LBOs are based on **cash flow** and EBITDA purchase and exit multiples – you can easily track Cash, Debt, and cash flow without the full 3 statements

- **Model Complexity:** ~300 rows in Excel at the most; and if you can reduce it to ~200 rows, even better

- **Key Point:** You're not going to get "points" for a super-complex LBO model that takes days to understand

Part 5: Building a Simple But Effective Model

- **Most Important:** *Support your numbers* with data, and make sure you analyze the deal in different scenarios

- **Here:** We're focusing on add-on acquisitions as the main turnaround strategy, so we pay special attention to them in the model and in the scenarios

- **Model Features:** Simple scenarios (they affect only the market share and exit multiples), add-on acquisitions, IS and partial CFS, and simple Debt Schedule

- **Could Drop:** M&A vs. IPO exits and "Growth" vs. "Value" options for add-on acquisitions

Part 5: Building a Simple But Effective Model

- **Harder to Drop:** Scenarios and sensitivity tables – even short, simple ones

- **Why:** You're making an *investment decision*, and all investing is probabilistic; huge range of possible outcomes

- **So:** Even if you're **recommending** investment in the company, you need to at least *consider* what could go wrong and how to protect yourself

- **And:** If you don't have months to prepare, sensitivities and scenarios are the best way to do this

Part 6: Drafting a Recommendation

- **Structure** for a 15-slide recommendation presentation:

- **Slides 1 – 2:** Recommendation for or against the deal, your criteria, and why you selected this company

- **Slides 3 – 7:** Qualitative factors that support or refute the deal (market, competition, growth opportunities, etc.)

- **Slides 8 – 13:** The numbers, including a *summary* of the LBO model, multiples vs. comps (not a detailed valuation), etc.

- **Slide 14:** Risk factors or the counter-factual

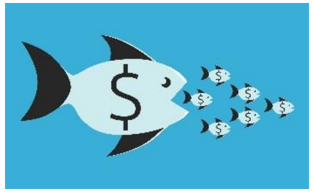
Part 6: Drafting a Recommendation

- **Slide 15:** Restate your conclusions from Slide 1 and present your best arguments here

- **How to Decide:** Here, it could go either way because of the following…

- **The Numbers:** Yes, the IRRs look good in the Base and Upside cases and are > 0% in the Downside case…

- **But:** They're predicated on finding *at least 5 very good acquisition candidates* (15x EBITDA with 10% revenue growth or 5x EBITDA with 3% growth)



Part 6: Drafting a Recommendation

- **So:** Without the add-on acquisitions, this deal simply doesn't work – IRRs fall by 10%+ across all the cases

- **Therefore:** If you think the numbers are credible, i.e., that there are 5-10+ good deals that can be done at these prices, then recommend the deal

- **But:** If you're more skeptical or cannot find good data on these companies, you could easily decide against this deal

- **Our Views:** We say, "Yes," but, honestly, the supporting data for these smaller companies is not that strong

Recap and Summary

- **Part 1:** Typical Case Study Prompt

- **Part 2:** Suggested Time Split for a 1-Week Case Study

- **Part 3:** Screening and Selecting a Company

- **Part 4:** Gathering Data and Doing Industry Research

- **Part 5:** Building a Simple But Effective Model

- **Part 6:** Drafting an Investment Recommendation