Case Study: The Carlyle Group Exits ZoomInfo Technologies

1. The Journey Leading to the Exit

Initial Investment: In 2014, The Carlyle Group, a global investment firm, made a significant investment in ZoomInfo Technologies, a business intelligence company. Carlyle invested approximately $240 million to acquire a majority stake in the company, recognizing its potential in the burgeoning market for sales and marketing intelligence.

Growth and Expansion: Under Carlyle's ownership, ZoomInfo underwent substantial growth and transformation. The company invested heavily in technology and data analytics, expanding its database and improving its product offerings. ZoomInfo's platform became indispensable for sales and marketing professionals, providing detailed information on millions of companies and professionals.

Strategic Acquisitions: ZoomInfo made several strategic acquisitions to enhance its capabilities and expand its market reach. These acquisitions allowed ZoomInfo to integrate complementary technologies and datasets, further solidifying its position as a leader in the business intelligence space.

IPO Preparation: In early 2020, ZoomInfo prepared for an Initial Public Offering (IPO). The company rebranded itself from DiscoverOrg to ZoomInfo and streamlined its operations to present a compelling growth story to potential investors. The IPO was planned to capitalise on the increasing demand for data-driven sales and marketing solutions.

2. The Exit Through IPO

IPO Details: On June 4, 2020, ZoomInfo went public on the Nasdaq under the ticker symbol "ZI." The IPO was highly successful, with shares priced at $21, above the initial range of $19 to $20. ZoomInfo raised approximately $935 million through the offering, valuing the company at around $8 billion.

Valuation and Return: At the IPO price of $21 per share, The Carlyle Group's stake in ZoomInfo was valued at approximately $3.1 billion. This marked a substantial return on their initial investment of $240 million.

Compounded Annual Growth Rate (CAGR): To calculate the CAGR of Carlyle's investment:

- Initial Investment: $240 million
- Exit Value: $3.1 billion
- Holding Period: 6 years (2014-2020)

$$\mathrm{CAGR} = \left(\frac{\text{Exit Value}}{\text{Initial Investment}}\right)^{\frac{1}{\text{Holding Period}}} - 1$$

$$\mathrm{CAGR} = \left(\frac{3{,}100{,}000{,}000}{240{,}000{,}000}\right)^{\frac{1}{6}} - 1$$

$$\mathrm{CAGR} \approx 54.8\%$$

This calculation shows that Carlyle achieved an impressive annualised return of approximately 54.8% on its investment in ZoomInfo.

3. Post-IPO Holdings

Continued Stake: Even after the IPO, The Carlyle Group continued to hold a significant stake in ZoomInfo. This allowed Carlyle to benefit from any future appreciation in ZoomInfo's stock price, aligning their interests with the ongoing success of the company.

Further Monetization: Post-IPO, Carlyle had the flexibility to gradually sell its shares in the open market, depending on market conditions and the company's performance. This staggered exit strategy is common among PE firms to maximise returns and avoid market disruptions.

Conclusion

The Carlyle Group's exit from ZoomInfo Technologies through an IPO is a textbook example of a successful PE investment. Carlyle's strategic guidance, growth initiatives, and timely exit resulted in substantial returns, highlighting the potential of PE investments to create significant value.

This case study underscores the importance of strategic acquisitions, operational improvements, and market timing in achieving successful exits. The continued stake post-IPO illustrates the PE firm's confidence in the company's long-term prospects and provides a roadmap for gradual monetization.

Summary of Key Points

- **Positive Return:** The Carlyle Group exited with a significant positive return.
- **Valuation at Exit:** Approximately $3.1 billion.
- **Rate of Return (CAGR):** Approximately 54.8%.
- **Continued Stake:** Carlyle retained a significant post-IPO stake for further monetization.

This detailed analysis of Carlyle's exit from ZoomInfo provides valuable insights into the intricacies of PE exits and the factors contributing to successful outcomes.

Case Study: Blackstone Group's Exit from Hilton Worldwide

1. The Journey of Hilton Worldwide Leading to the Exit

Background: In October 2007, Blackstone Group, one of the world's largest private equity firms, acquired Hilton Worldwide for $26 billion, including debt. This acquisition was one of the largest leveraged buyouts at the time. The aim was to leverage Hilton's strong brand and global presence to achieve significant growth and returns.

Challenges and Strategies: The acquisition came just before the global financial crisis, which heavily impacted the travel and hospitality industry. Despite these challenges, Blackstone implemented several strategies to improve Hilton's performance:

- **Restructuring and Cost Efficiency:** Blackstone streamlined operations and implemented cost-saving measures, including cutting corporate overhead and optimising property operations.
- **Asset-Light Model:** Blackstone shifted Hilton's strategy towards an asset-light model by selling hotel properties and focusing on franchise and management contracts. This reduced capital expenditures and increased fee-based revenue.
- **Expansion and Brand Enhancement:** Hilton expanded its global footprint, especially in emerging markets, and introduced new brands to cater to different market segments.
- **Technological Upgrades:** Investments were made in technology to improve customer experience and operational efficiency, including the launch of digital check-in and room selection.

2. The Exit through an IPO

Positive Return on Investment: In December 2013, Blackstone took Hilton Worldwide public in what was one of the largest IPOs for a hotel company. The IPO raised approximately $2.35 billion, valuing Hilton at around $19.7 billion.

- **Initial Investment:** Blackstone's initial equity investment was approximately $6.5 billion.
- **Exit Valuation:** At the IPO, Hilton's market capitalization was about $19.7 billion, with Blackstone retaining a significant stake post-IPO.
- **Proceeds from IPO:** Blackstone sold part of its stake during the IPO, raising around $2.35 billion, and continued to sell its shares in subsequent years.

Rate of Return Calculation: To calculate the Compounded Annual Growth Rate (CAGR):

- **Initial Investment (2007):** $6.5 billion
- **Exit Value (Partial, 2013):** $2.35 billion from the IPO, with significant holdings remaining.

Considering the initial sale and continued appreciation, Blackstone's total return far exceeded the initial investment, but for simplicity, let's calculate the CAGR based on the IPO proceeds alone.

CAGR Formula: $\text{CAGR} = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\frac{1}{n}} - 1$

Where:

- Ending Value = $2.35 billion (partial exit)
- Beginning Value = $6.5 billion (initial investment)
- n = 6 years (2007 to 2013)

$$\text{CAGR} = \left(\frac{2.35}{6.5}\right)^{\frac{1}{6}} - 1 = (0.3615)^{\frac{1}{6}} - 1 \approx -0.129 \text{ or } -12.9\%$$

However, this calculation does not account for the continued value and subsequent sales. The overall CAGR, considering complete exits, would be significantly positive.

Continued Holdings: Post-IPO, Blackstone continued to hold a substantial stake in Hilton, benefiting from subsequent stock price appreciation. Over the following years, Blackstone gradually sold its remaining shares, achieving substantial returns.

Conclusion

Summary: Blackstone's investment in Hilton Worldwide is a classic case of a successful private equity turnaround. Despite the initial financial crisis, strategic management and operational improvements led to significant value creation. The IPO exit provided liquidity and partial returns, while continued shareholding allowed Blackstone to capitalise on Hilton's ongoing growth.

Key Takeaways:

- **Initial Challenges:** The global financial crisis posed significant challenges shortly after the acquisition.
- **Strategic Actions:** Blackstone's strategies included restructuring, adopting an asset-light model, expanding the brand, and investing in technology.
- **Successful Exit:** The IPO in 2013 was a significant milestone, with Blackstone achieving substantial returns through a phased exit strategy.

This case exemplifies how strategic management and patience can lead to impressive returns for private equity investments, even in challenging economic environments.