

# PRINCIPLES OF FINANCE

## PRIVATE EQUITY

Elise Gourier

([elise.gourier@essec.edu](mailto:elise.gourier@essec.edu))

# Funding of non-listed\* firms

- Friends and family
- Bank loans
- Crowdfunding: raising capital (typically in small amounts ) from a very large number of people. Usually done with the help of social media / networks / other digital platforms.
- Business angels: individual investors funding start-ups at early stages in exchange for equity ownership.
- **Venture capitalists**: private equity firms which provide capital to high-potential startups or small firms
- **Leveraged Buy-Outs** (LBOs): acquisitions financed by high amounts of debt.
- Private Debt

\* Listed firms are corporations which raise capital by either issuing debt or equity.

# Private equity

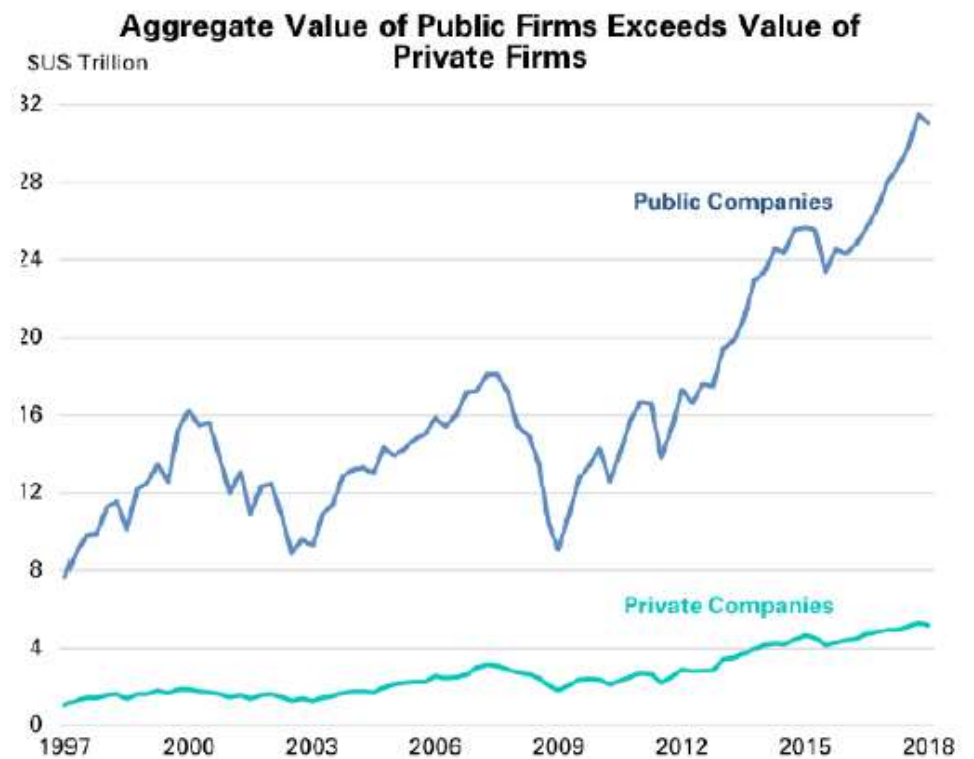
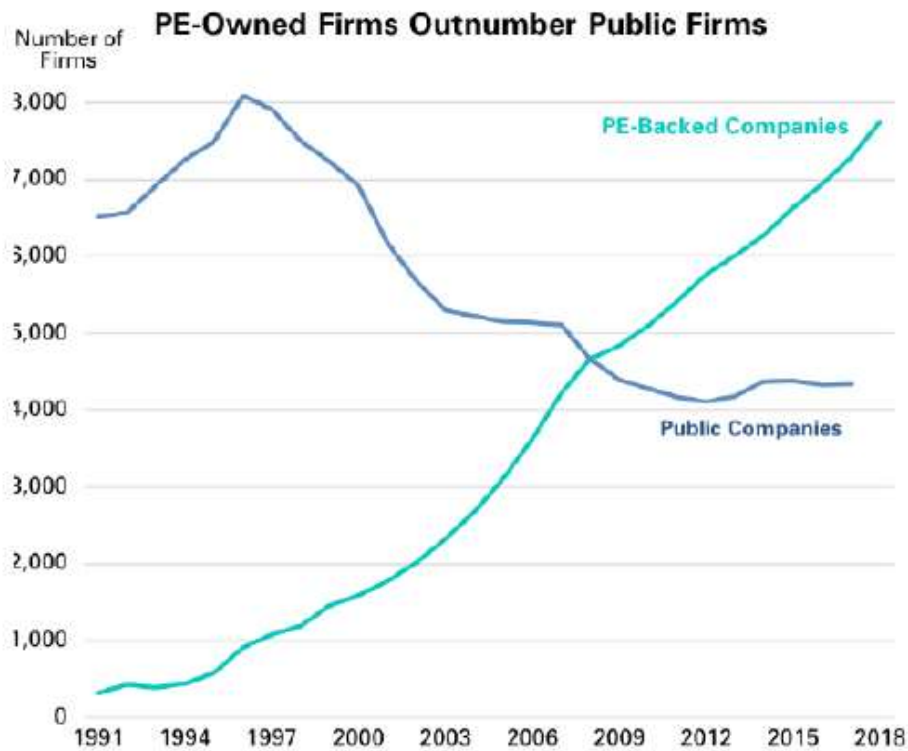
The private equity industry controls companies in virtually any industry:

- Tech (Facebook, Uber,...)
- Consumer goods (restaurant chains, car rentals,...)
- Real estate (hotels, shopping malls,...)
- Natural resources (oil and gas, timber, ...)
- Education (textbooks, private universities,...)
- Public services (infrastructure and transportation services,...).

# Private equity in France



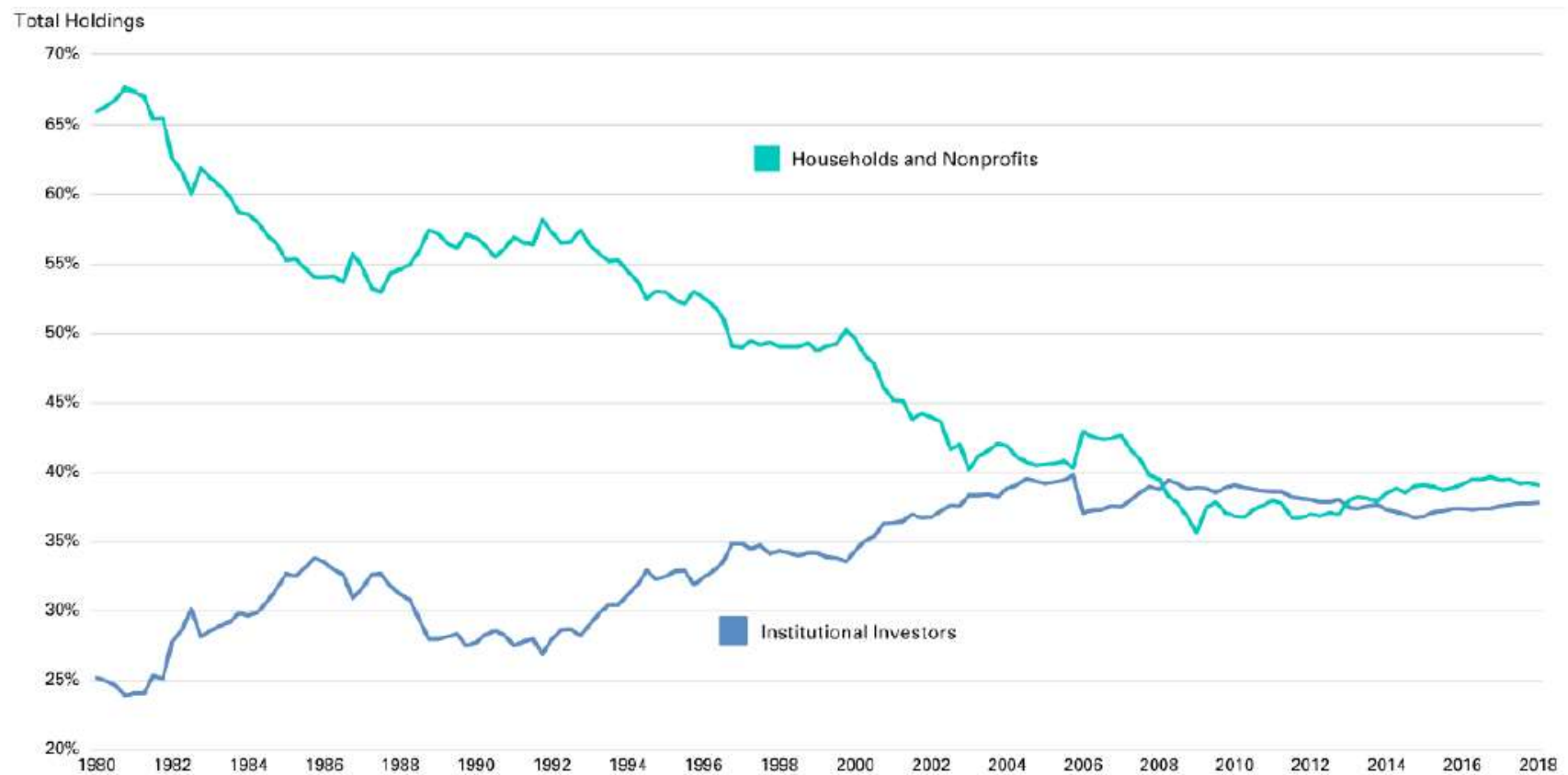
# Listed vs. private firms



Source: World Federation of Exchanges, Federal Reserve, SEC, Thomson Reuters Eikon, and Milken Institute; March 2018

Note: Public domestic companies, excl. investment trusts

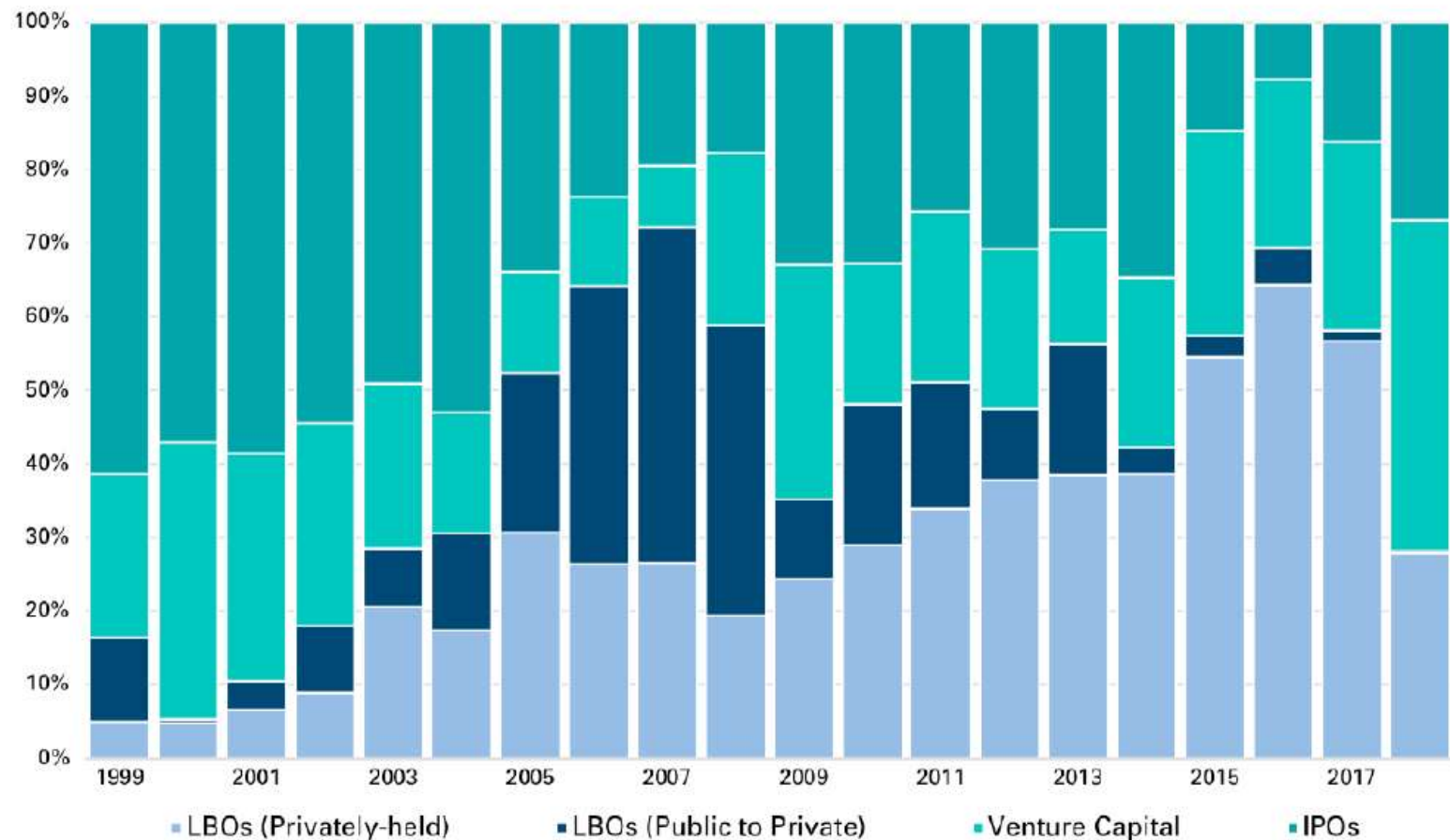
# Corporate equity investors shift from households to institutions



Source: Federal Reserve and Milken Institute; as of June 2018

Note: Institutional investors include insurance companies, private pension funds, mutual and closed-end funds, and exchange-traded funds

# IPOs account for a diminishing share of capital raised

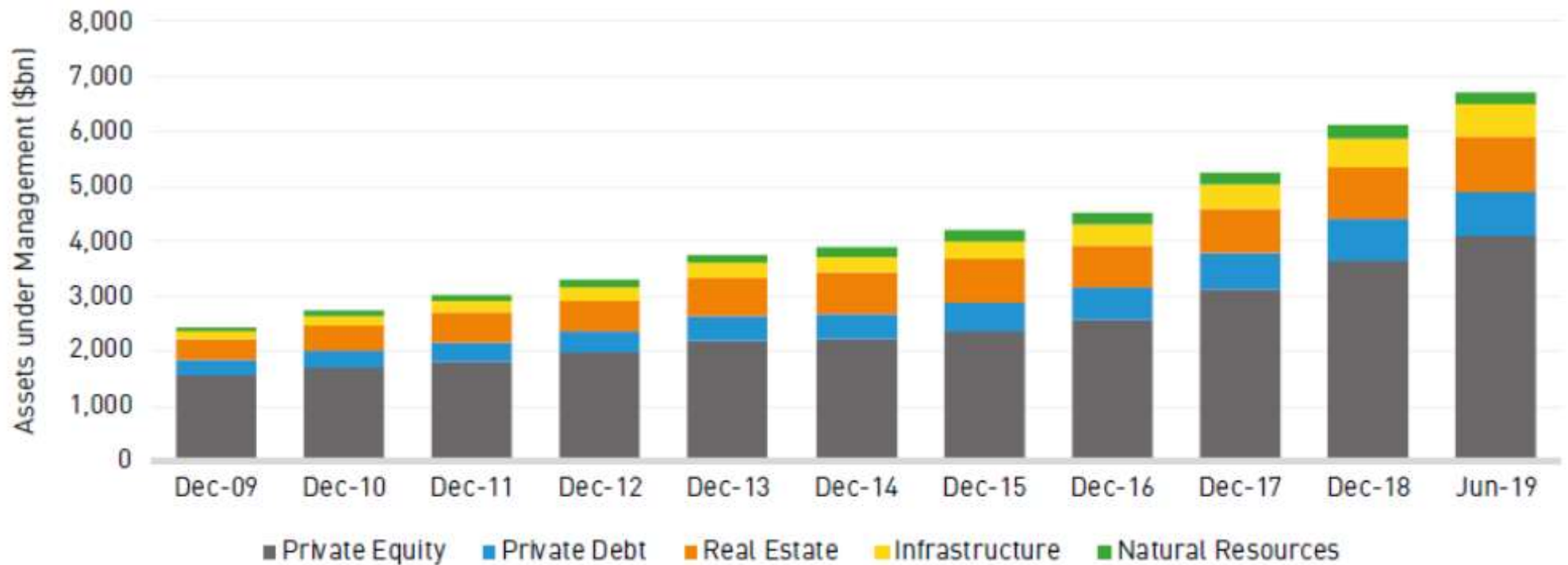


Source: Pitchbook, Thomson Reuters Eikon, and Milken Institute; 2018 reflects the time period through May 2018  
Note: Limited to companies headquartered in the U.S. and initial public offerings on NASDAQ or NYSE



# Classes of private equity

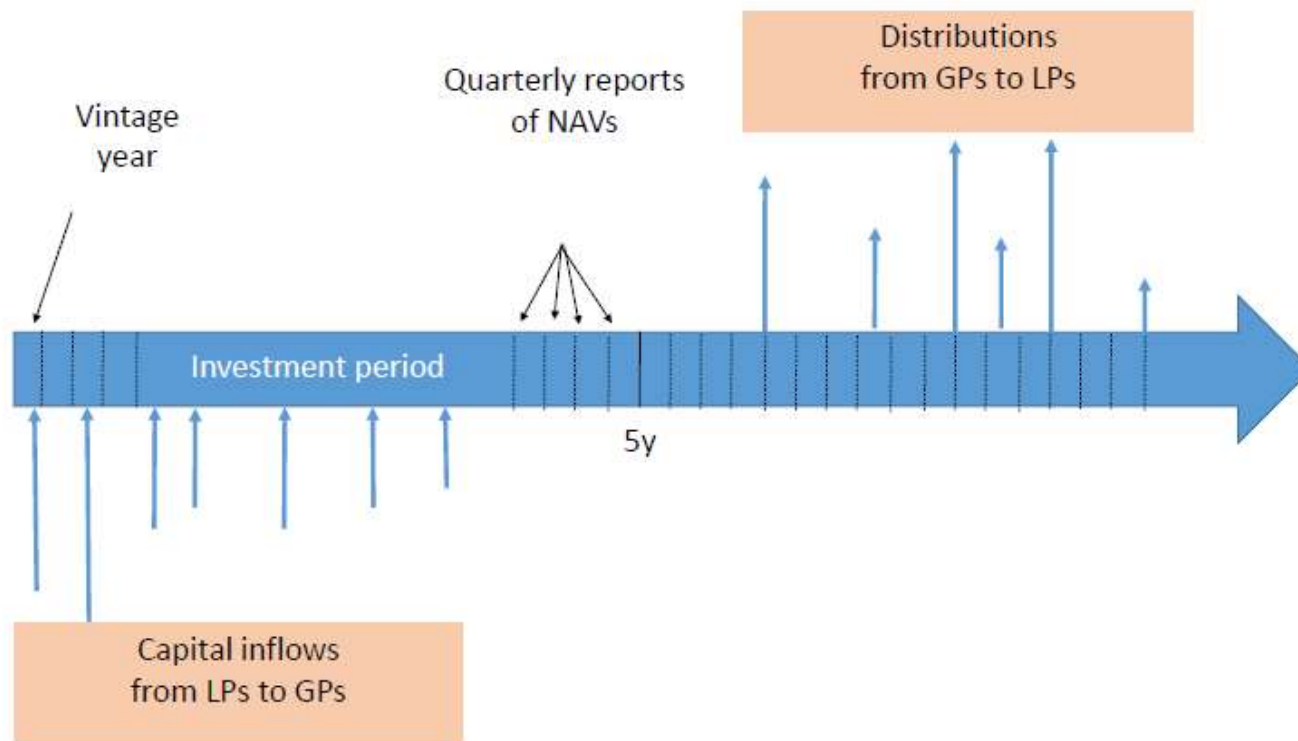
Fig. 2.6: Private Capital Assets under Management by Asset Class, 2009 - 2019



Source: Preqin Pro



# Working of a private equity fund



- LPs: limited partners (investors)
- GPs: general partners (fund managers)
- Size: committed amount
- Vintage year: year the fund was raised
- NAVs: net asset values, as estimated by the GPS

# From public to private: example of Hilton

- 1919: Conrad Hilton purchased his first hotel (The Mobley in Cisco, Texas).
- 1925: Conrad Hilton built the first hotel carrying his name “Hilton Dallas”.
- 1925 – 1946: he acquired more hotels. New services and features were added.
- **1946: Creation of Hilton Hotels Corp. (first post - WW2 hotel company to be listed on the New York Stock Exchange)**
- 1949: first Hilton hotel to be established outside of continental USA.
- 1953: first Hilton in Europe (The Castellana Hilton, Madrid).
- **1954: Hilton purchases the Statler Hotel chain for \$111 million dollars, the largest real estate deal in history at the time.**
- 1964: A separate spin-off corporation emerged, Hilton International.
- 1965: Hilton begins franchising hotels. Introduction of Lady Hilton with female-only floors.

# From public to private: example of Hilton

- 1992: Hilton enters the vacation ownership market through a joint venture between Hilton Hotels and Grand Vacations limited
- 1995: Hilton.com launched
- 2000: Joint venture between Hilton Hotels Corp. and Hilton Group operating from Brussels
- **2007: LBO of Hilton Hotels Corp. by Blackstone (deal of \$ 26b, 78.4% financed by debt, doubled the number of hotel rooms).**
- 2008 Hilton Vancouver Washington becomes first hotel to be both Leadership in Energy and Environmental Design (LEED) and Green Seal certified.
- 2009 LightStay, Hilton Worldwide's proprietary sustainability measurement program, launched as a brand standard across the globe.
- 2010 Hilton introduces a new brand logo and name - Hilton Hotels & Resorts.
- **2013: Hilton's IPO on NYSE**

# More details on the Hilton LBO

- **LBO:** December 2007, Blackstone (PE business) acquired Hilton Hotels Corp.
  - Acquisition price: \$47.50 per share (40% premium).
  - Hilton's situation in 2007 and in previous 5 years: very high EBITDA growth
  - Note on the market: the real estate market is highly levered (75% in the US at the time)
- **Financing:** Blackstone bought back Hilton's debt then financed the deal 78.4% debt and 21.6% equity.
  - The PE transaction has high leverage, but this is comparable to other major deals at the time.
  - Debt/EBITDA= 12.4
- **Exit:** Hilton's IPO in December 2013
  - Blackstone realized \$10Bn capital gain