THE FIRST BROWN CORPORATE FINANCE COMPETITION
PE Fund Invests in Greek Distressed Firms

General Rules

1. Competition starts on October 30th, 12pm.
2. By Friday 11pm teams must be formed and communicated to Greg by email.
3. Competition ends by electronic ONLY submission on Monday November 6th, 2017 at 11pm.
4. No more than 3 students per team are allowed.
5. One senior per team is recommended.
6. Max 1 page memo to be submitted along with all calculations, spreadsheets etc. undocumented results will not be taken into consideration.

Objectives - Winner

The winner will be the team that will figure out a portfolio with the highest IRR and the lowest Beta that a PE Fund will invest on. The assets you have available are 10mln cash and possible investment in ASSET1 and ASSET2 (please consult the competition folder).

Supportive Material.

You will find everything you will need on canvas in folder "COMPETITION"

Hints

1. The PE will invest today and exit based on the Fund's OM presentation.
2. Value each company before any investment takes place by projecting FCFs for 5 years and horizon value from year 6 onwards (do not forget the distress part, consult the competition folder). Determine the stock price (assume 1mln shares are outstanding for each firm).
3. Determine the maximum value of debt each of the firms can afford to serve additional to what it pays now based on its FCF (assume that any additional debt will be repaying fully during the lock-up period).
4. Assume that the PE will buy 51% of the firm (so this will be the cash that will have to burn).
5. Assume that the PE will use the maximum possible leverage to maximize tax shield proceeds. But remember that higher debt ratios are associated with higher probabilities of default. Assume that all additional debt is unsecured but all existing debt is secured (research this and consult the competition folder).
6. Assume that the PE will can management or boost sales growth or reduce cost of sales (you need to propose solutions based on the books of the firms and decide the exact

rates based on the EU industry averages – research this and consult the competition folder). You cannot assume 50% growth of sales when the industry average is 5%. You need to detail your answer on how you will do it in practice (open more stores? sell more abroad? sell more at home? etc. also you must take account the demand side of the country you want to sell (domestic or abroad) and the 5 year prospects ahead). ANY UNDOCUMENTED ASSUMPTION WILL NOT BE TAKEN INTO ACCOUNT.

7. Re-Value the two firms with the above changes (based on your preferred combination of more debt, higher sales growth and or lower cost of sales).
8. Calculate the IRR of each firm for the equity investment the PE did assuming exit one year after the lock-up period.
9. Calculate the β_i of each firm (note that firms are private and consult the competition folder for all required information). Assume that $\beta_{DEBT} = 0$.
10. Form a portfolio between all your available assets that maximum IRR and minimum $\beta_{PORTFOLIO}$.
11. Based on the Fund's OM, calculate the fees that the Fund will source from this portfolio if it realizes as per your suggestions.

GOOD LUCK AND PLEASE NOTE THAT I WILL ANSWER ANY CLARIFICATION QUESTIONS ON WEDNESDAY IN-CLASS.