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Private Equity Valuation: BC Partners acquires Gruppo Coin

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Abstract

In this dissertation I investigate the private equity sector, analysing the roles that different parties play and the valuation process that private equity funds undergo when choosing an investment target. In particular, I analyse the role of the issuers of capital, intermediaries and partnerships, investors, agents and advisers. I go further and analyse the valuation techniques of private equity funds, distinguishing between comparables and asset-based valuation.

In order to have a pragmatic approach, I support my arguments by introducing a case study based on my personal experience as an intern with OVS SpA, a firm operating in the retail sector owned by Gruppo Coin, an historic Italian textiles retailer. The Coin family owned the majority of the Group since its foundation in the early 1900s until 2005, when the French Private Equity fund PAI Partners purchased it. The property of the Group switched hands again in 2011, when the Private Equity fund BC Partners bought the company from the rival fund PAI Partners in a sponsor to sponsor exit. I analyse the valuation process of BC Partners when it was considering the acquisition, and highlight how it contributed to the value creation process of the company.

Abstract

In questa Prova Finale analizzo il settore del private equity, concentrandomi sul processo di valutazione delle aziende target che i fondi seguono. In particolare, analizzo il ruolo degli emittenti di capitali, degli intermediari, degli investitori, degli agenti e dei consulenti. Proseguo analizzando le tecniche di valutazione dei fondi di private equity, distinguendo tra il metodo dei multipli e metodi asset-based.

Supporto i miei argomenti introducendo un Case Study basato sulla mia esperienza di tirocinante presso OVS SpA, un'azienda operante nel settore del commercio al dettaglio di proprietà del Gruppo Coin, uno storico rivenditore di abbigliamento Italiano. La famiglia Coin ha avuto il controllo del Gruppo dalla sua fondazione nei primi anni del '900 fino al 2005, quando il fondo di private equity Francese PAI Partners ne acquisì la maggioranza. La proprietà del Gruppo cambiò di mano nuovamente nel 2011, quando il fondo di private equity Inglese BC Partners acquistò la maggioranza del capitale dal fondo rivale PAI Partners in una exit sponsor-to-sponsor. Analizzo il processo di valutazione di BC Partners mentre stava ancora considerando l'investimento, ed evidenzio come il fondo ha poi contribuito alla creazione di valore dell'azienda.

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1. Introduction

Investors' appetite for private equity has grown throughout the last fifteen years, as public markets started to yield lower returns and higher risks. In 1994 the private equity capital outstanding was close to \$100 billion (Fenn, et al., 1995), while now it stands at \$2.5 trillions, showing a dramatic growth of this asset class (Preqin, 2017). In 1995 the private equity market was already one-sixth of the commercial bank loan and commercial paper markets, and outperformed public markets in terms of capital raised.

Although these numbers are self-explanatory, the industry remains partially opaque because of the lack of data available. Private equity investments are often exempt from disclosure requirements such as those required by the SEC (Securities and Exchange Commission) for public investments in the United States, and despite calls for higher control the sector has no interest in increasing its transparency. Furthermore, annual private equity returns are defined by some as “meaningless”, as they are the result of accounting procedures and cannot be confirmed until the investment is dismissed (Fraser-Sampson, 2007). Therefore, it is important to go beyond the figures and understand what really determines private equity performance and characteristics.

1.1. What is Private Equity?

Private equity could be simply defined as “any equity investment in a company which is not quoted on a stock exchange” (Fraser-Sampson, 2007), but the reality is much more complicated than this. At first, this asset class might have featured only equity as investment type and only start ups as targets, but now it has expanded to much more complicated forms (Fenn, et al., 1995).

The first distinction that needs to be made is between direct and indirect investing. Direct investing consists in acquiring directly private companies, and is usually done by the so-called “General Partners”. Indirect investing, on the contrary, consists in investing in funds that subsequently acquire the companies. An indirect investment can be made on a primary level, or can assume the definition of “fund of funds” when a fund has a portfolio formed by other private equity funds. The skill required in this type of partnerships is the capability of choosing the fund with the most capable General Partners, and not choosing the best performing companies, and therefore it is crucial to make this distinction. Indirect investors are called “Limited Partners”, as their risk is limited to their capital commitment and their investment style is passive.

The second distinction that needs to be highlighted is between Buyout funds and Venture Capital funds. These two types of funds are important because they cover most of the private

equity market, but they are different in their investment style and in their target companies. Venture Capital funds target firms at their first stages of development in innovative sectors, and help them to structure themselves with their skills, knowledge and network. Buyout funds, which cover a higher market share, target companies of medium size that are already established in traditional sectors. These funds are known for buying company aggressively, and taking harsh measures, like employees' laying off, in order to improve profitability. They are also known for using the "buy, flip and strip" method, which consists in buying companies, stripping them off of their assets and flipping them over to another buyer, or listing them on the stock market through an IPO (Investopedia, s.d.). For these reasons private equity funds have partially lost their good reputation as shareholders that they could once claim, and now entrepreneurs are holding themselves back from selling companies to these types of funds.

Some of the instruments used other than equity are convertible debt, mezzanine instruments and leveraged buyouts. These innovative ways to invest in private companies have raised a need to reclassify private equity, that Preqin defined as follows (Preqin, 2017):

Closed-End Private Capital				
Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources
Buyout	Direct Lending	Private Equity Real Estate	Infrastructure	Energy
Venture Capital	Distressed Debt			Agriculture/Farmland
Growth		Mezzanine	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds
Turnaround	Special Situations	Timberland		
Other Private Equity	Venture Debt	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds	Water
Private Equity Secondaries	Private Debt Fund of Funds			Private Equity Real Estate Secondaries

Source: 2016 Preqin Global Private Equity and Venture Capital Report

Invest Europe, the association representing European private equity that was formerly called EVCA, adds that "Private equity is a medium to long-term investment, characterised by active ownership. Private equity builds better businesses by strengthening management expertise, delivering operational improvements and helping companies to access new markets." (Invest Europe, s.d.). This is precisely the main difference between private equity and asset management as commonly intended, which is characterized by shorter holding periods and passive ownership that rarely adds value to the firm. The direct relationship between performance and reward in private equity funds makes them also more reliable than publicly owned companies, where agency problems often cause a misalignment of interests between managers and owners. This results in higher transparency and attractiveness towards possible lenders and investors, that are willing to provide cheap capital in exchange for a steady and consistent return.

1.2. History of Private Equity

In order to understand the industry of private equity today, it is fundamental to look at how it started and how it developed throughout the years.

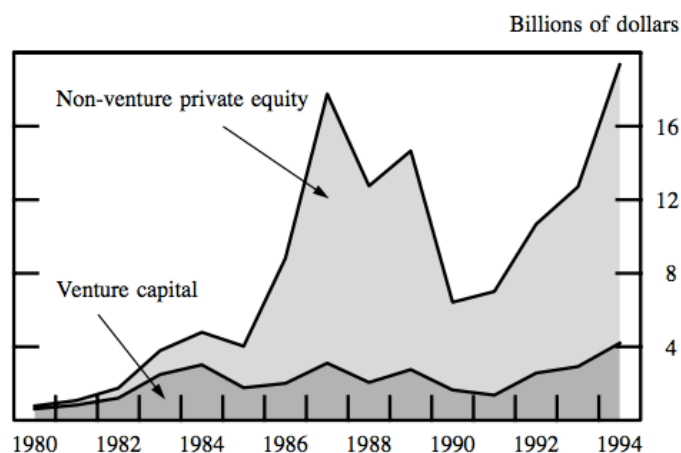
Private equity origins can be dated back to 1946 in the United States, when American Research and Development Corporation (ARD) was formed with the goal of providing long-term financing to new ventures and small businesses (Hsu & Kenney, 2005). Institutional investors were not interested in this asset class at the time, and therefore the company struggled to raise funds in order to make its investments.

In 1958 the gave rise to new public juridical entities, the Small Business Investment Companies (Gadsby, 1958). These companies specialized in providing professionally managed capital to small and risky firms, and were granted tax reliefs from the State in exchange for the commitment of investing only in small sized firms. SBICs managed \$450 million of private capital, and interested mainly retail investors who could not properly assess the risks involved in these transactions. However, SBICs were not able to attract capable professionals because under the Investment Company Act of 1940 managers of publicly traded venture capital firms could not be compensated proportionally to their performance, or with stock options (Lick, 2000).

This issue led to the creation in the 1970s of the Limited Partnership model, which was able to avoid the compensation restrictions, but also SBICs' commitment to invest only in small sized firms. Although this new model seemed to facilitate private equity flexibility, the weak market for public offerings, the bearish stock market and a series of tax changes that made stock option really expensive held back the private equity market for the decade, until the Employee Retirement Security Act (ERISA) was changed in the beginning of the 1980s. The changes made allowed pension funds to allocate part of their portfolio in private equity, an asset class that they were prevented from purchasing previous to that date (Ljungqvist & Richardson, 2003). Venture capital partnerships used to raise less than \$3 million per year before ERISA's change, while the year after its implementation the net capital raised was \$50 million. In addition to this regulatory change, in 1980 the Small Business Incentive Act reclassified private equity partnerships as business development companies, making the professional managers exempt from the registration as advisers in compliance with the Investment Advisers Act, which would have posed many limitations to the flexibility of the funds.

Starting from the 1980s, private equity partnerships saw a dramatic increase in the capital raised, which went from \$4 billion at the start of the decade to \$19 billion in 1994. Even though this increased interest in private equity benefit both venture and non venture funds, the sector that raised more interest was the non venture private equity. The main contributors to these

stunning numbers are the so-called “mega buyout funds”, which started in 1987 with Kohlberg, Kravis and Roberts raising \$5.6 billion for their fund (Kaufman & Englander, 1993), and creating a global investment firm now worth \$15 billion with \$130 billion Assets Under Management (AUM).



New commitments to private equity partnerships

Source: The Economics of the Private Equity Market

In the decade preceding the .dotcom bubble stock prices raised vertiginously, especially those of technology companies, making buyout expansion more expensive and less profitable. One example of such phenomenon is the \$31 billion Leveraged Buy Out (LBO) of RJR Nabisco by KKR in 1988 (DeMott, 1989), that showed also how buyouts were often motivated more by management’s greed than by economic reasons, following Gordon Gekko’s motto “Greed is good”. In this period, venture capital made a comeback as it required smaller investments and had a higher profit potential.

When the .dotcom bubble burst, stock prices collapsed and made big scale investments more attractive. The record buyout of RJR Nabisco was outsized twice in 2007 alone, and investors piled up again in private equity funds. The Sarbanes-Oxley Act made public companies look less attractive, as it imposed strict regulations on financial statements disclosures and gave to auditors higher responsibility (Engel, et al., 2007). It also changed the way private equity funds monetized their investments, as IPOs became less appealing and sales to strategic buyers gained popularity (Bain & Co., 2017).

When private equity was prospering with many megadeals outstanding, the Credit Crisis of 2007 broke out. The housing market crashed and all the Collateralized Debt Obligations (CDOs) lost the collateral on which they relied in case of a repayment failure. It soon became convenient to debtors to default their loans, as the payments due for their housing loans now outweighed the value of their house. Banks were heavily exposed on CDOs, which they both held in their portfolios and sold to their clients. When the market crashed and they had to write

down a consistent number of their assets, they soon realised that they were undercapitalized or on the edge of bankruptcy. In situations of financial distress, banks protect themselves by tightening credit standards, closing credit lines with lower quality borrowers and raising loan interest rates. Private equity funds' LBOs required a high level of leverage that had been historically provided by banks with long-term loans, and were now forced to either cancel the deals they had planned or lower their bid offer (Fenn, et al., 1995). Cerberus Capital Partners struggle to find the funds to finance its acquisition of the Chrysler Group, and the consortium of Bain Capital Partners, The Carlyle Group, and Clayton, Dubilier & Rice had to lower their offer for the Wholesale Supply Unit of Home Depot Inc. from \$10.5 billion to \$8.5 billion. The shock of the Credit Crisis hit the industry really hard, and led General Partners to write down many of their investments. They also had to hold back the sale of their previous investments both because of the low market prices, and in order to balance for the high prices paid for the companies bought just before 2007 (PwC, 2017). The number of exits seen in 2006 was reached again only in 2014, indicating that private equity has now recovered its losses, but that it definitely took some time to do so.

1.3. Current Trends in Private Equity

AUM of private equity funds are at an all-time high, totalling \$2.49 trillion in 2016. To confirm that the industry is larger than ever, dry powder rose at \$820 billion (Preqin, 2017). \$347 billion of capital raised in 2016 outweighs the \$257 billion of distributions, showing that private equity still attracts more investors than those that it can satisfy. In contrast with these figures, in 2016 private equity deal value in Europe decreased by 5% to €200 billion, showing that the industry was unable to replicate the stunning performance it had in 2015 (PwC, 2017). This is the result of a lower number of mega deals, which dropped by almost 20% YoY.

However, it is fundamental to look at the long-term prospects, that show a Compounded Average Growth Rate of more than 4% per year since 2011. What is helping the industry to grow and prosper is the amount of fresh capital raised every year, and the cheap credit that funds can have access to in order to finance their acquisitions. This low cost of debt comes from the financial manoeuvre that the European Central Bank started in January 2015, the quantitative easing. This program consists in the purchase of bonds issued by states and corporation, for a record amount of €60 billion per month (Claeys, et al., 2015).

Private equity changed a lot in the last decade, as the financial crisis proved how harsh this sector can be hit from external shocks. In particular, the importance of correct valuations has gained relevance, as in the years before the financial crisis funds sought to buy companies at any price, pushed by the high amount of dry powder they had accumulated. Furthermore, the

focus has been shifted from financial engineering and leverage to operational improvements (Matthews, et al., 2009), which now represent the core of companies' development and are reflected in the valuation methods that heavily rely on EBITDA as a multiple. The average EV/EBITDA multiple stands now at X10 both in the US and in Europe, setting a new all time record and helping us to understand why exit values are declining and dry powder is rising. Holding periods have also become longer, but only due to the fact that the financial crisis has made it extremely difficult to pay back to investors even the initial commitment. However, only 10% of capital invested before the crisis still sits in unrealized deals, indicating that holding period will start to shorten to more physiological levels (Bain & Co., 2017).

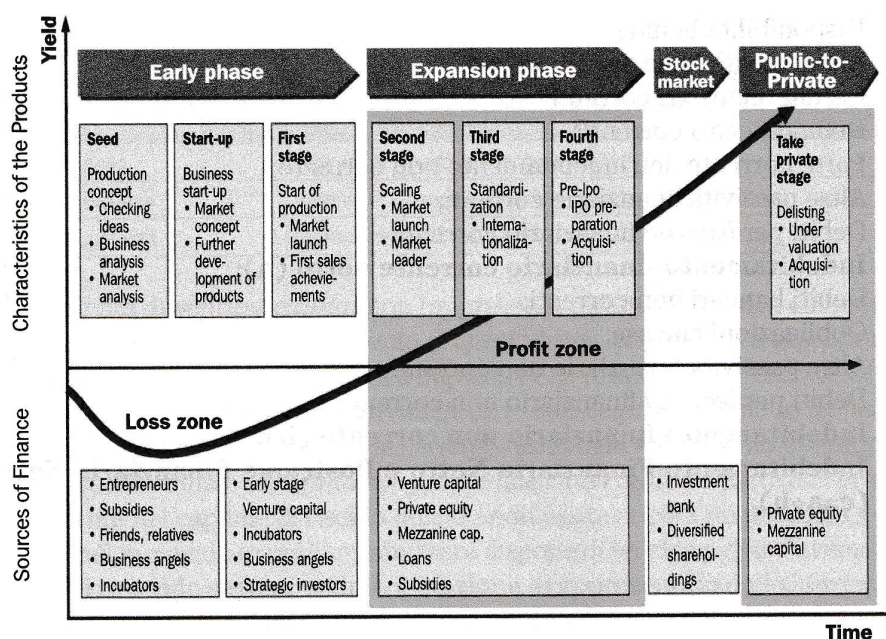
Overall, private equity is experiencing a situation that it never encountered before. The quantitative easing manoeuvre has kept interest rates artificially low for a while, but private equity will have to deal with a higher cost of debt once the buying programme slowly comes to an end. Furthermore, the macroeconomic outlook increases uncertainty on where private equity will perform best, as the United Kingdom will be on the watch during its negotiations to exit the European Union. New markets are opening, and as fundraising is heating up the sector investors will be looking for new investment opportunities. If unrealized deals will find a favourable exit environment, it is likely that we will see exit values and numbers rise significantly.

2. The Private Equity Market

In the private equity market there are many actors, and each of them has a relevant and unique role. The issuers of capital are the companies subject to acquisition, that are acquired and held for a certain period until a suitable buyer is found. The intermediaries are the private equity funds, who raise capital from investors and acquire companies in order to generate a return. They can be structured in a variety of ways and are formed by experienced professionals that charge fees for the service that they provide. Private equity investors can be both individuals or legal entities who act on behalf of their investors. Their only role is to provide capital and wait until the investments are realized. Finally, agents and advisers have the role to reduce the costs related to information asymmetries present in the market.

2.1. Issuers

The issuers are the companies acquired by the private equity funds. They can be classified by size and maturity, and can be subject to different kinds of changes (Ippolito, et al., 2017). The common trait of these issuers is that they often have a lack of financing, as private equity is considered as an expensive funding source and is often avoided for this reason (Fenn, et al., 1995). They also operate in highly innovative sectors, where the more conservative sources of finance are resilient to invest.



Source: IKB. "Mezzanine Method of Financing. Round Table Talks", Deutsche Industriebank October 2003

2.2. Intermediaries

Intermediaries are those entities that raise funds from investors and select the targets to be acquired. The proceeds from the exits go back to the investors, but intermediaries charge a commission for the service they provide (Cumming & Johan, 2013). Since the beginning of private equity, many forms of intermediaries have been on the market. The Small Business Investment Companies were the first to be established, but did not find a favourable environment (Brewer & Genay, 1995). Limited Partnerships were then created in the 1970s, but their role was limited in the beginning because most private equity investments were made directly by industrial companies that aimed to expand their businesses through mergers and acquisitions rather than internal development. Nowadays this market still exists, but it is much smaller when compared to that of partnerships and institutional investors. The Partnership model had a great success when pension funds were allowed to partially invest in them. Since then, Limited Partnerships have become the dominant structure for private equity investments, and therefore it is more relevant to concentrate on this specific structure.

2.2.1. Limited Partnerships

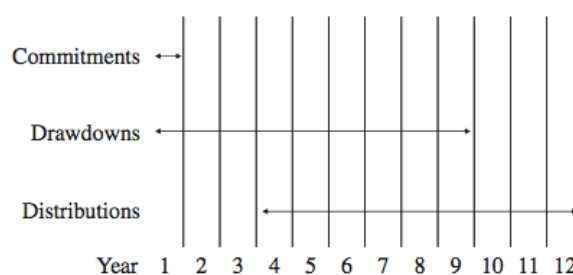
Limited Partnerships are agreements between two parties, called “Limited Partners” (LPs) and “General Partners” (GPs), that set the terms for the investment agreement. In this structure, LPs have the only role of committing capital, while GPs are the managers that actually carry on the investment decisions. LPs are often pension and investment funds, which are required by law to not participate in the active management of their investments as this would imply a significant risk that they are not allowed to incur by statute. This is one of the main reasons why Limited Partnerships gained popularity over SBICs and other kind of organizational structures, and why they now cover most of the private equity market. In most cases, General Partners do not act privately, but on behalf of a management firm.

2.2.2. Investment Process

There is no set process that Limited Partnerships have to go through when investing, as it depends entirely on the clauses of the specific agreement. However, it is possible to distinguish a common practice of private equity funds in their investment process.

Management firms create Limited Partnerships that usually target a specific sector and a specific geographical region, and look for investors that are interested in such characteristics. Once enough capital is committed, that does not require an actual cash contribution, the fund is “launched” and is usually attributed with a name and the vintage year, which is marked by the year in which the capital is contributed. After the initial commitment, the capital is drawn down to the fund when the General Partners make a “capital call” (Fraser-Sampson, 2007). The capital can be used for both investments in target companies and fee expenses, but cannot be

held as cash reserves. After the draw downs, GPs use the capital requested to invest in the target firms. Finally, the proceeds from the sales of the target companies and the cash received from dividends and interests are distributed to the LPs, that realize the investments in this way.



Source: Fraser-Sampson, 2007. *Private Equity as an Asset Class*

The timing of these commitments can vary widely depending on the specific situation of the funds and the target companies, but Limited Partnerships are usually structured to last ten to twelve years. Given the average holding period of five years, GPs do not need to invest the drawn down capital right away, but can wait a limited amount of years if the market does not show valid investing options.

2.2.3. Management Fees

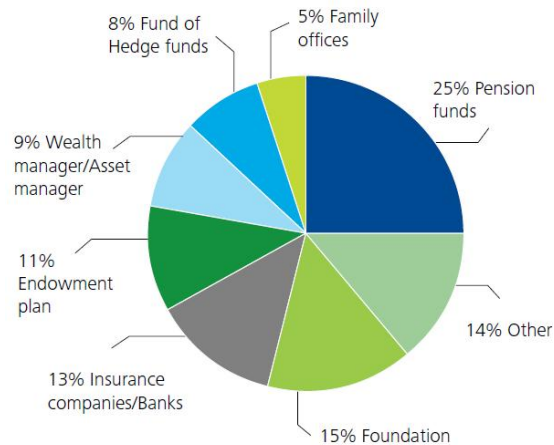
General Partners earn a compensation for their role in managing the fund from the commitments to the distributions. No fixed rule exists for setting the fees owed by the LPs, but throughout the years the market developed some common practices that are followed by the majority of partnerships. The fees are divided between management fees and carried interest (Metrick & Yasuda, 2010). The former is a percentage fee, normally from 1% to 3%, on the overall capital that has been invested. The latter is owed only after LPs are paid back their initial investment by the GPs, and consists in a percentage on the return, normally 20%, that the fund yields to the partners. This can be seen as a call option-like position, as GPs have the right to earn a return only if the shares of the company are above a certain level (Potter & Bodmer, 2011).

2.2.4. Conflicts of Interest

Controversies on compensation have made the relationship between the GPs and LPs not so simple, with GPs holding virtually infinite bargaining power. In particular, the debate focuses on whether the commissions should be based on committed or invested capital, as in the past GPs charged fees on the committed capital which they didn't necessarily use entirely. In the recent years LPs have stepped up and made a number of changes to the partnerships conditions, putting themselves in a more favourable position by, for instance, paying carried interest on the entire portfolio rather than on single investments, compensating the eventual losses with gains on other investments.

2.3. Investors

The interest raised by private equity reaches a wide variety of investors, such as pension funds, bank holding companies and wealthy families. Average individuals were once precluded from this kind of investment as it required a significant minimum commitment, but now they also have this investment possibility as many private equity vehicles are publicly traded on the stock market and can be bought and sold freely.



Source: Preqin

The ease of investing and the growing interest in this sector are heating up the market and increasing the amount of dry powder (Preqin, 2017). For this reason, some US pension funds are reducing their exposure to this asset class (Pooley & Mooney, 2017) and are shifting towards different, more liquid options. These pension funds have the highest share of ownerships in private equity funds, and contribute to the fundraising in a significant way. It is worth analysing why pension funds position themselves so heavily in private equity from a closer perspective.

2.3.1. Pension Funds

A pension fund is an investment product into which scheme members pay contributions in order to build up a lump sum to provide an income in retirement (Wall, 2014). It normally has a diversified composition, as it needs to cover a long period of time guaranteeing its members their retirement income. In order to do this, it invests in bonds and treasuries, public and private equity, real estate, infrastructure and financial derivatives (Whiteside, 2016).

However, pension funds have not always invested in private equity. The provision of the “prudent man” required that pension fund investments be based on the judgment of a “prudent man” and had been previously interpreted as prohibiting pension fund investments in securities issued by small or new companies and venture capital funds. In 1979 the Labor Department ruled that such investments are permitted, provided that they do not endanger an entire portfolio. As previously stated in the introduction, this regulatory change, accompanied also by

a favourable tax change, helped pension funds to allocate a significant part of their funds in private equity and pushed the notoriety and appeal of this asset class. Today, pension funds often allocate more than 10% of their portfolios in illiquid assets such as private equity, real estate and infrastructure (Paula & Croce, 2015) both to increase diversification and to look for higher returns.

3. Valuation

Private equity investments are, by nature, confidential and not public. These investments are not traded on public equity markets and therefore do not have a market value on which to rely on when evaluating possible investments and when assessing the performance of the ones in progress. This lack of available information raises the need to develop appropriate valuation techniques that satisfy both financial reporting requirements and investors' demand for information to make correct economic decisions. The result of these valuation techniques is often referred to as "Fair Value" which, as the name suggests, has the scope to reflect the real economic value of the investments.

3.1. Fair Value

Fair Value is defined by the International Private Equity and Venture Capital Valuation Guidelines as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (IPEV, 2015). When a market for the investment exists, the market price should be used exclusively as the fair value in IPEV's opinion. For unquoted investments, it is necessary to calculate the price at which the investments could be realised or sold at the measurement date. However, there are some cases that do not properly fall in either of these categories. Listed firms can sometimes have only a small part of their capital floating, while the majority held privately. In these cases, the valuation process does not take in consideration only the market price in order to determine the fair value, but looks also at other factors that can be relevant. This adjustment is necessary because a small, liquid share of the capital of a firm is valued differently from the illiquid majority of it.

Consistency in the type of fair value calculation techniques should be used when evaluating the same investments at different measurement dates. However, consistency is not required when valuing companies operating in different sectors because traditional valuation methods might not work well for certain business models. In particular, Borsa Italiana highlights the difficulty in evaluating banks, insurance companies, aviation companies, real estate companies, power and energy firms, TMT companies and biotechnology companies with the traditional valuation methods (Borsa Italiana, 2004).

3.2. Principles of Valuation

The fair value of an investment should be assessed at each reporting date both in the interest of Limited Partners and General Partners. In this way, LPs are constantly informed about the performance of their portfolio and GPs can evaluate their progress and check if they are meeting their initial expectations for fair value, hurdle rate and Internal Rate of Return (IRR). Furthermore, GPs base their calculation of carried interest on the fair value reported at each measurement date, and therefore it is in their best interest to provide a periodic fair value.

While public companies are valued taking in consideration only the equity part, private companies should be considered as a whole. The rationale for this is that in private equity value is realised through an exit from the whole company, not just a part of it. Because of this, debt and mezzanine instruments should also be considered in the valuation process and contribute to the definition of the Enterprise Value (EV). The ways these instruments should be considered are highly debatable, as many options can be chosen depending on the specific case. For instance, debt can be considered with its face value or its par value depending on the agreements of the loan, like whether it should be repaid in the case of the sale of the company.

Fair value estimates should be compared both with those of comparable public investments and with the same investment's fair value of previous measurement dates. This second method is called "backtesting", and consists in continuously assessing the validity of the first fair value estimate in order to reflect the true value of the investment. In order to do this, a comparison with public events of comparable companies should be used together with the internal valuation process.

3.3. Valuation Methods

The choice of the valuation method should be made with judgement, as there is no fixed rule to follow that indicates which method to use. An appropriate valuation technique will include all relevant factors to the value of the investment, and should be appropriate to the nature of the investments and the market in which it operates. Furthermore, the data and information used should be reliable and compatible with the investment under scrutiny. The factors that should be included are risk and return, and they should be drawn from observable market measures before internal assumptions.

There are two types of valuations that can be made: the market approach and the income approach (IPEV, 2015). These methods are not necessarily alternatives, but they can be used conjunctly in order to achieve a more reliable and comprehensive valuation.

3.3.1. Market Approach

3.3.1.1. *Price of Recent Investments*

This valuation technique consists in using the price of recent investments in the company under valuation as a benchmark. It is particularly fit when the investments made are recent and of significant dimensions, while loses significance when the environment is particularly dynamic or the market conditions have changed since the transaction took place.

The use of minority stakes as a benchmark can result in an undervaluation of the company because the price of minority stakes often reflects the lack of bargaining power. However, when the price of the minority stake is the only one available, it is important to look at the statute of the specific company, as minority's rights can be structured in a wide variety of ways. The more rights the minorities have been granted, the more reliable the price of the transaction will be when valuing the entity as a whole.

The price of an outdated investment in the company can be irrelevant depending also on its life stage. New ventures and start ups, in particular those operating in the technology sector, have such a high growth rate that their value can rise significantly even in a short period of time.

3.3.1.2. *Multiples*

The multiples valuation technique is based upon the assumption that the value of a firm can be measured by using economic, patrimonial and financial multiples of comparable firms. The multiple can be historical, current or forecasted for the future, and relies on fundamental values such as Price/Earnings, EV/EBIT or EV/EBITDA. The economic rationale underlying the method is the law of one price, which says that two identical assets should sell at the same price. It is easily understandable how important is the choice of the comparable firms, and how an incorrect choice could heavily undermine the significance of the valuation. Furthermore, the

investment should have a constant and maintainable stream of revenue and cash flow in order for the valuation to be appropriate.

The steps that need to be taken when using the multiples approach are the following:

1. identify comparable firms to use as a benchmark. This implies selecting firms from the same sector, of similar size and at a similar maturity stage;
2. identify relevant and traditional value drivers (e.g. Price-Earnings, Price-Book Value, EV/EBITDA, cash flow) or use other industry specific value drivers (e.g. stores sale density, oil/gas reserves);
3. make the following adjustments if necessary:
 - a. unleveraging (a higher leverage leads to a higher cost of capital),
 - b. dilute EPS for non-ordinary shares outstanding,
 - c. make adjustments for accounting-induced differences;
4. calculate the peer multiple excluding 'abnormal' values and calculate the mean or median;
5. apply the benchmark multiple to the firm's corresponding value driver.

This method has the main advantage to be simple and easily implementable, but it comes with many assumptions, need for adjustments and judgemental choices to be made. First of all, the multiples approach assumes that market or transaction prices of other investments are efficient and truly represent the underlying business. Secondly, in addition to the adjustments described above, the valuer should take in consideration eventual accounting discrepancies between firms reporting under different jurisdictions. Thirdly, the impact of liquidity needs to be assessed and taken in consideration when conducting the valuation. Furthermore, the choice of the comparable firms is completely judgemental, indicating that the reliability of the valuation depends on the ability of the valuer in the sample choice. Finally, an appropriate selection of the multiples used is crucial to the significance of the valuation.

3.3.2. Income Approach

3.3.2.1. Discounted Cash Flow

The Discounted Cash Flow (DCF) method is the most accredited by modern corporate finance theories, as it correlates the value of the firm to its capability of producing an adequate level of cash flow and to remunerate its investors. The intrinsic value of the investment is derived by calculating the present value of the forecasted cash flows of the underlying business. In particular, the process for calculating the intrinsic value is the following:

1. Forecast the future operational cash flows up to a determined forecast horizon, and discount them to the present by using the Weighted Average Cost of Capital

(WACC). Estimate a growth rate of cash flows after the determined forecast horizon, and calculate the terminal value (TV) of these cash flows discounted at the measurement date;

2. Calculate the Net Financial Position (NFP) at the market value;
3. Calculate the intrinsic value of the firm using the following formula:

$$Equity\ Value = \sum_{t=1}^n \frac{CF_t}{(1 + WACC)^t} + TV - NFP$$

$$Enterprise\ Value = \sum_{t=1}^n \frac{CF_t}{(1 + WACC)^t} + TV$$

Operating Cash Flows

The operating cash flows are calculated starting from Earnings Before Interests and Tax (EBIT) and adjusting it for the following factors:

EBIT
-
taxes on operational result
+
depreciation
+
working capital changes
-
investments in fixed capital
=
Operational Cash Flows

The weighted average cost of capital is calculated with the following formula:

$$WACC = r_d * (1 - T) * \frac{D}{D + E} + r_e * \frac{E}{D + E}$$

where r_e represents the cost of equity, r_d represents the cost of debt, T represents the corporate tax rate, D represents the net financial position and E represents the value of equity.

The cost of equity is often calculated using the Capital Asset Pricing Model (CAPM), which uses the risk free rate, the market return and the stock's Beta to calculate r_e as follows:

$$r_e = r_f + B * (r_m - r_f)$$

When dealing with private investments the stock's Beta is not available, as the investment is not listed on a public market. For this reason, it is useful to use the average Beta of a sample of comparable firms.

Terminal Value

The calculation of the terminal value, the value representing the cash flow after the forecasting horizon, can be determined with two main variables: the cash flow at the forecast horizon and an estimated growth rate. With these two variables, it is possible to compute the terminal value as following:

$$TV = \frac{CF_n * (1 + g)}{\frac{WACC - g}{(1 + WACC)^n}}$$

As it can be inferred from the formula, also the terminal value needs to be discounted at the measurement date in order to obtain a correct valuation. As in the multiples valuation method, judgement is needed when estimating the cash flow growth rate after the forecast horizon.

Net Financial Position

The net financial position is calculated subtracting cash and equivalents from the overall financial debt. When applicable, the market value of debt should be used instead of its face value.

The DCF technique can be applied to any stream of cash flows, and is suitable for firms in any maturity stage. Even firms that have negative earnings and that are in a high growth phase can be valued properly when accurate estimations of cash flows are made.

Although this method is theoretically the most accurate one, it is not exempt from applicative issues. The first issue is the reliability of prospective, forward-looking estimates of cash flows. It is particularly hard to accurately forecast them when a firm is under restructuring or when it is developing new products or services because of the uncertainty underlying this processes. The problematic of choosing a correct Beta is also relevant, as many factors contribute to its value. When choosing the comparable firm, it is necessary to take into account the dimension of the firm, its position on the market and the gearing level. The horizon forecast needs also to be chosen with specific criteria, and should coincide with the Competitive Advantage Period (CAP) which end is marked by the year when the firm ceases to have a differential competitive advantage. A particular emphasis should be also given to the terminal value calculation, that the DCF calculates taking in consideration only a single growth rate. Many other elements have a relevant impact on the terminal value such as the growth of revenue, the growth of operative margins and the fixed and working capital investments, and they all need to be considered when applying the valuation process.

3.3.2.2. *EVA® - Economic Value Added*

The Economic Value Added model is a methodology used to evaluate how much value was created for shareholders. It was first created because accounting values are often insignificant and have implicit limitations because of the prudential nature of the accounting system. In particular, the model seeks to find the residual profit after deducting the cost of equity from the overall profit of the firm. It can be implanted as following:

$$EVA = NOPAT - (WACC * CE)$$

where NOPAT is the Net Operating Profit After Tax, WACC is the Weighted Average Cost of Capital and CE is the Capital Employed. The formula can also be rearranged in this way:

$$EVA = \left(\frac{NOPAT}{CE} - WACC \right) * CE$$

It is therefore clear that the EVA relies heavily on the remuneration of capital, which is represented by the factor $\frac{NOPAT}{CE}$.

The Economic Value Added can be forecasted for each year in the same way we did with Discounted Cash Flows. Once these values are forecasted and discounted back to the measurement date, we obtain the Market Added Value (MVA), which represents the current value of the excess performance that the firm will generate in the future.

The EVA is considered more reliable than the DCF because it is not based only on forward-looking estimates, but also on past investments and on the industrial plan produced by the firm itself.

3.4. Fund Inflows Impact on Valuations

The valuation methods previously described have the goal to derive a unique, objective estimate of the value of an investment. However, the basic macroeconomic theory tells us that the value of any good depends on the demand and the offer for it. For this reasons, many studies have tried to understand whether the demand for private equity investments has an impact on the valuation of the acquired firms. This issue became particularly relevant after the inflow of funds derived from the permission to pension funds to invest in this asset class that boosted fundraising and investments. A study by Gompers tested this hypothesis on the US private equity market, and came to two main conclusions (Gompers & Lerner, 1999). First, inflows in venture capital funds are proved to have an impact on the pricing of private equity investments. Second, the positive relationship between fundraising and prices does not derive from increased investment prospects perception.

These findings raise questions about the role of the state in the performance of specific asset classes and specific countries, in particular the developing ones. These phenomena might have a relevant impact in the first place, but they can survive only if their performance justifies the investments. In fact, in the recent years pension funds are diminishing their allocation in private equity (Pooley & Mooney, 2017) as over commitments have pushed market prices up and returns down.

4. Case Study: BC Partners acquires Gruppo Coin

After having explained in depth how the valuation process in private equity works, an empirical case study will be useful to comprehend how investment decisions are carried out by private equity funds. I have chosen to analyse the acquisition of Gruppo Coin by the private equity firm BC Partners of 2011 after my experience as an intern with OVS S.p.A., a firm controlled by Gruppo Coin, during last summer. My role in the Finance department and Investors Relations office allowed me to achieve an in-depth knowledge of the business and a broad understanding of how the firm is managed by its executives and investors.

4.1. Deal Background

Gruppo Coin started in 1919 with its founder, Vittorio Coin, selling clothes and textiles in the local markets of Venice. In 1926 he opened the first shop in Mirano, starting its project of opening a chain of department stores.

In 1958 the company started to expand out of the regional borders, and in the 1960s and 1970s it increased its presence in all the northern Italy and a few cities in the south with 19 new department stores. In these years, specifically in 1952, a new division of the firm called "oviesse"¹ is constituted, with the goal of selling at discounted prices the articles that went unsold in Coin stores. The development continued with the shift to professional management and the listing on the Italian Stock Exchange in 1999.

In 2000 the Group expands in Germany and Switzerland through the acquisition of more than 120 stores, but in 2003 it is forced to dismiss all of the activities abroad because the results did not meet management's expectations.

In 2005 the private equity fund PAI Partners acquires the majority of Gruppo Coin and decides to change management, appointing as Chief Executive Officer Stefano Beraldo. Thanks to the new owners and the newly appointed management, Gruppo Coin goes through a period of dramatic change and development. The brand "oviesse" is changed to "OVS" and a new attempt of international expansion is made, this time in Eastern Europe and Middle East. In 2008 and 2009 the acquisitions of Melablu and Upim are respectively finalized, and in 2011 the luxury department store "Excelsior" is opened.

In June 2011, the British private equity firm BC Partners announces the acquisition of 78.7% of share capital of Gruppo Coin for €730 million (BC Partners, 2011). BC Partners also launched a mandatory tender offer of €6.50 per share, that makes up for an overall equity value of Gruppo Coin of €930 million. The deal comprises also a new facilities agreement with a

¹ Which stands for "Organizzazione Vendite Speciale" that means "Organization for Special Sales"

consortium of banks for an overall maximum amount of €650 million of loans. At the moment of the acquisition, Gruppo Coin traded on the stock market for €7.50 per share, meaning that the offer discounted the value by almost 15%. Despite this undervaluation, BC Partners was able to purchase more than 95% of the capital of Gruppo Coin and therefore became entitled by law to purchase also the remaining shares (Equita SIM, 2011). In the September of 2011 Borsa Italiana, the Italian Stock Market, suspended Gruppo Coin from the trading, and marked the conclusion of the deal with the complete control of BC Partners over the Group.

4.2. Due Diligence

Before entering in the bidding process for the acquisition, BC Partners went through a complete and detailed valuation process that analyses the Country and the market in which Gruppo Coin operates, and then its business with its specific brands and their potential for growth. This process is called “due diligence”, and its ultimate goal is to estimate the deal’s potential in a realistic way (Bain & Company, s.d.). First of all, it is necessary to formulate an investment thesis, which establishes reasons and goals for the investment and sets the timeline for its dismissal. From the operational perspective, it is useful to assess revenue growth and cost reduction possibilities, which can be implemented in different ways such as mergers and acquisitions or internal development. Based on these estimations, the impact on cash flow and profit and loss can be estimated and quantified, and with these data the valuation methodologies previously discussed can be easily implemented to find the intrinsic value of the firm.

4.2.1. Market Overview

Italy represented the biggest apparel market of Europe, with a reference market for Gruppo Coin of about €29 billion. The stable spending per capita and a Compounded Average Growth Rate (CAGR) higher than any other European country, make this market a strategic and appealing one. Furthermore, the penetration rate of modern trade, considered as department stores, specialised chains and large apparel retailers, stood at 44%, well below the European average. This indicated a relatively higher potential growth for Gruppo Coin compared to its peers in the old continent that have to deal with highly concentrated market with penetration rates as high as 74% in the UK. The growth in modern trade will be mostly at the expenses of traditional trade, considered as independent retailers, because of their decreasing appeal and financial constraints.

Gruppo Coin, operating through its brands Coin, OVS and, from 2009, Upim, has had a growing market share during the three years from 2006 to 2009. It has also outperformed its main competitors, namely Benetton, Inditex and H&M, in market share gains.

	2006	2007	2008	2009
OVS	3.0%	3.3%	3.5%	3.6%
Coin	1.0%	1.0%	1.0%	1.1%
Upim				1.0%
Gruppo Coin	4.0%	4.3%	4.5%	5.7%

Source: Euromonitor

4.2.2. Business Overview

At the end of 2010, Gruppo Coin had a network of 519 directly operated stores and 320 franchisees operating under three brands: OVS, Coin and Upim. Its multiformat business structure expands in different markets, respectively fast fashion retail, department store and multispecialist department store.

As of 2010, Gruppo Coin had the following performance:

€mln	OVS	Coin	Upim	Gruppo Coin
Net Sales	903.60	302.80	440.10	1646.50
% on Group's Net Sales	54.9%	18.4%	26.7%	100.0%
EBITDA	155.30	23.70	46.60	225.60
% on Net Sales	17.2%	7.8%	10.6%	13.7%

Source: 2010 Company Financials

4.2.2.1. OVS

OVS is Italy's leading group in the “fast fashion” clothing market, creating, developing and marketing menswear, womenswear and childrenswear under the OVS brand, targeting the “value for money” segment. OVS was able to develop a great mutual trust with customers, achieving brand awareness on the Italian market equal to 97% in 2013 (Doxa).

OVS's business model is typical of vertically-integrated retailer and involves the activity of product development through the design, development and creation of the merchandise mix (OVS, s.d.). The design of the products is carried out mostly internally, but throughout the years OVS has developed partnerships with selected designers like Elio Fiorucci and Jean Paul Gaultier in order to diversify its product offer and increase its appeal. Last year, OVS has started the project “OVS Arts of Italy” with aim of giving value to the Italian artistic heritage by printing art masterpieces on its product offering. The manufacturing of the products is mainly commissioned through external suppliers of Low Cost Countries (LCCs), a strategy that has allowed OVS to beat its competitors in price and quality, thanks to its developed sourcing platform. OVS S.p.A. operates through its own sales network comprising Directly Operated Stores (DOS) in the national territory and franchised stores both in the national territory and abroad.

The brand OVS is the result of a rebranding process which took place in 2007, when the new OVS Industry model was implemented in the firm's store network. The goal of the process was to give a younger and more fashionable concept to its offering, entering in direct competitions

with retailers like Inditex and H&M. The format change has generated sales per squared meter 15% higher than previous to the change, that, given OVS's higher than average store size, puts the company more in line with its direct competitors.

BC Partners took control in 2011 and attempted to develop the business through different strategies. An important impact on the company's results were the acquisitions of Unitessile S.p.A. and Bernardi, respectively in 2011 and 2012. Unitessile S.p.A. owned the kids brand "IANA" that had a network of 397 outlets, comprising 45 directly operated stores and 150 franchised stores. Bernardi, again operating in the kids' segment, owned the brands "Bernardi" and "Go Kids", and featured a total of over 100 stores. These acquisitions were crucial in increasing the Net Sales but, due to the different business structures and cost management systems, had a negative impact on the EBITDA margin.

4.2.2.2. *Upim*

Upim is a multispecialist chain of mid-low market department stores offering apparel products, home products, cosmetics and leisure products under various brands. Its focus and goal is to satisfy the needs of traditional Italian families at affordable prices, defining itself as a "democratic brand" (Upim, s.d.). Upim was acquired by Gruppo Coin from one of its competitors, La Rinascente, and a few other investors in 2009.

Upim's unique characteristics are not its brand, its product offering, or its sourcing platform, but the prime location of its stores. They are mainly located in high quality areas, where there is a lack of available commercial spaces, and hence are of a strong strategic relevance. Because they have a limited overlapping with OVS stores, they constitute a possible target for conversions into OVS or Coin stores, which have 30% and 50% higher profitability per squared meter, respectively. At the time of acquisition, Gruppo Coin's plan was to convert 66 stores into OVS Industry, 12 stores into Coin, to close 15 stores, to leave 15 stores under the brand BlueKids and to convert 42 stores in Upim POP, a new format that comprises 50% of commercial spaces given to concessions, 30% to clothing under the OVS Industry standards and 20% to home and cosmetics.

The cost synergies that will arise from the closure of Upim headquarters in Milan generated a saving of €25 million, while those arising from the shared sourcing platform and the use of common assets were estimated to contribute for another €25 million. The management expected that the integration of Upim into the Group would contribute for €427.5 million to Net Sales and €13.8 million to EBITDA.

4.2.2.3. *Coin*

Coin is the largest chain of department stores in Italy, comprising more than 40 directly operated stores. The stores are located in major city centres and shopping streets, and count 35

million visitors every year. The product offering features both house brands and external brands, spanning from apparel to home and cosmetics. The increasing focus on external brand has been part of the repositioning plan wanted by PAI Partners and the new CEO Stefano Beraldo, and that brought a substantial improvement in store EBITDAs. Coin's client base is mostly aged between 25 and 65 years old, with a predominance of female over male clients. The financial performance of Coin has not been as strong as that of OVS, reflecting the lower profitability of the department store market.

€ mln	2010	2015	Growth
Net Sales	302.8	362.2	19.6%
Concessions	125.9	n/a	n/a
Stores (#)	56	39	-30.4%

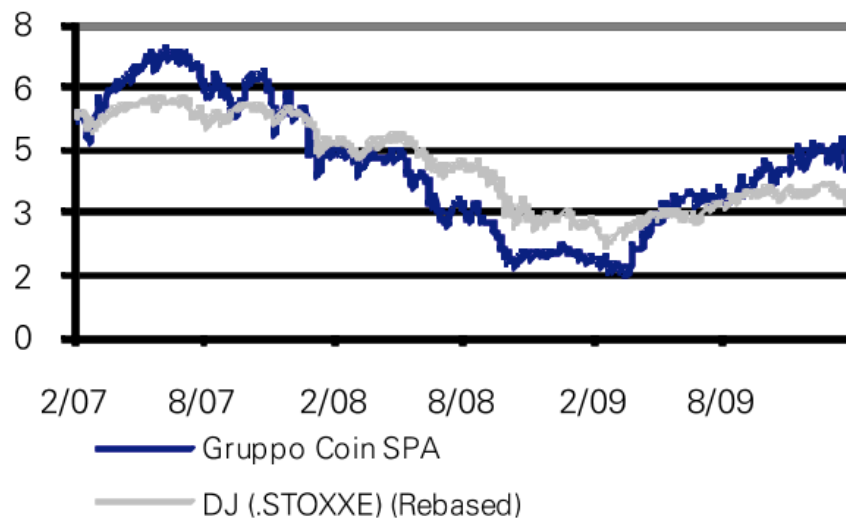
Source: Company Financials

However, the slowly increasing net sales were compensated by an increasingly higher revenue from concessions, which have gained relevance as the repositioning process comes to an end.

4.3. Valuation

Gruppo Coin was listed on the Italian Stock Exchange and was trading at €7.25 when BC Partners launched its offer to purchase the company. Its market capitalization totalled just more than 1 billion, with an EV of 1.5 billion. The share price rose from €2 per share in March 2009 to €7.25 thanks to the overperformance of Coin and OVS compared to the expectations, the acquisition of Upim and the announcement of the intention of PAI Partners to sell its stake in the Group.

Price/price relative



Source: Deutsche Bank Research

At that price, Gruppo Coin had an EV/EBITDA multiple of 7.3x, compared to other national apparel retailers that traded at a 6.6x multiple. This overpricing was due to the factors described above, and was taken into account by BC Partners when evaluating the business.

Keeping in mind that PAI Partners acquired the Group at an EV/EBITDA multiple of 6.5x, they performed the following multiples analysis:

€ mln	Market Cap	EV	EV/EBITDA
Gruppo Coin	1037	1459	7.3
Peers			6.6
International Apparel			
H&M	43028	40712	12.8
Inditex	38902	36507	12.6
Esprit	4717	4312	7.1
Benetton	877	1583	5.2
Average			9.4
Median			9.9
National Apparel			
Next	4416	5058	6.4
Etam	340	648	5.9
Camaieu	927	919	5.2
Ted Baker	345	334	9.0
Average			6.6
Median			6.2
Department Stores			
Debenhams	1095.8	1089	5.2
M&S	7134	10281	6.2
Average			5.7
Median			5.7

The median and average values of EV/EBITDA multiples of national apparel companies were respectively 6.2x and 6.6x, while the department store business had a lower multiple of 5.7x. Combining these results, the fact that the stock price of Gruppo Coin increased vertiginously and that PAI Partners acquired the Group at the 6.5x multiple, BC Partners decided that the final valuation would be of €6.5 per share, signalling an EV/EBITDA multiple of 6.4x.

€ mln	
EBITDA	202.5
EV/EBITDA	6.4x
EV	1,293
NFP	363
Equity value	930
Share Outstanding (mln)	143
Price per share (€)	6.50

4.4. BC Partners Role

BC Partners contributed to the success of Gruppo Coin in multiple ways. The most notable events under BC Partners' control are the following: the buyout of the group and the delisting of Gruppo Coin, the corporate reorganisation, the listing of OVS S.p.A. and the acquisition of the Swiss firm Charles Vögele. We will analyse in depth these events and highlight how they created value for the company.

4.4.1. 2011 Buyout and Delisting

Before the actual purchase of Gruppo Coin, BC Partners had to go through a competitive bidding process. The first round bidders included CVC, TPG, Bain Capital, Carlyle and Goldman Sachs other than BC Partners, but the firm's expertise in the Italian retail market set it apart from its competitors. After the first round, BC Partners was left alone to dialogue with Gruppo Coin, and was able to finally reach a deal at the end of June, 2011 (Ivashina, 2016). In the same month BC Partners announced the acquisition of 78.7% of share capital of Gruppo Coin for €730 million, valuing the company at 6.4x EV/LTM EBITDA, €6.5 per share and an overall equity value of €930 million. At the moment of the acquisition, 21.3% of Gruppo Coin's shares traded on the stock market for €7.50, but BC Partners launched a mandatory tender offer of only €6.50 per share. Despite this undervaluation, BC Partners was able to purchase more than 95% of the capital of Gruppo Coin. The adherence rate was so high because investors understood that the floating shares of Gruppo Coin could not be the base for thorough valuation, and therefore that the €7.50 per share was not realistic. Once the 95% ownership threshold was passed, BC Partners became entitled by law² to purchase also the remaining share of capital. In the September of 2011 Borsa Italiana, the Italian Stock Market, suspended Gruppo Coin from the trading, and marked the conclusion of the deal with the complete control of BC Partners over the Group.

A new facility agreement, replacing the one executed in 2007, was arranged by a group of eight banks, including three Italian banks: Banca IMI, Mediobanca, and UniCredit, as well as Credit Agricole, BNP Paribas, HSBC, Natixis, and UBS, which put together two staple financing options including a change of control clause and expiring in 2012.

The EUR 985 million financing included a senior secured packaged comprised of:

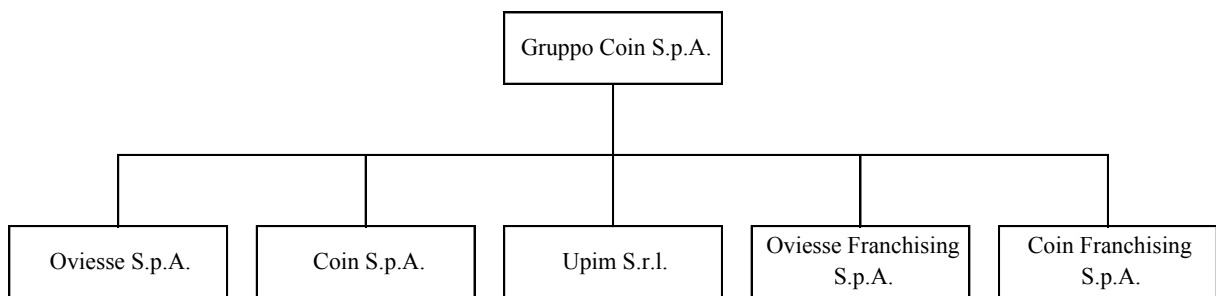
- (i) EUR 160 million six-year revolving credit facility (RCF);
- (ii) EUR 290 million six-year Term Loan A (TLA);
- (iii) EUR 25 million six-year capital expenditure facility;

² art. 111 TUF, Testo Unico della Finanza

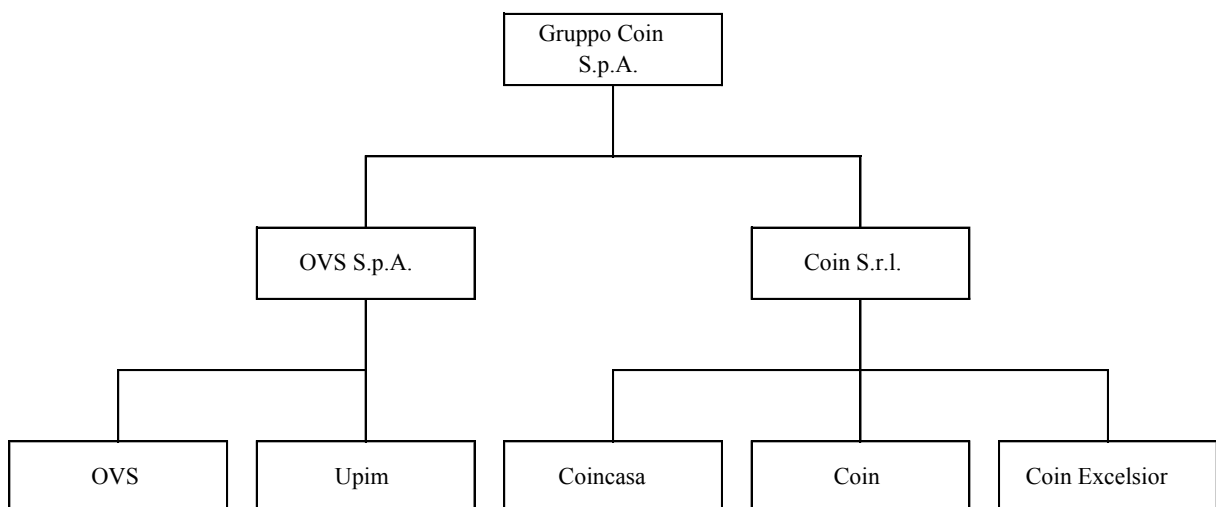
- (iv) EUR 475 million seven-year bullet Term Loan B (TLB). The revolving line, TLA, and the Capex facility would pay 450 bps over LIBOR (gross of fees). TLB would cost 500 bps over LIBOR, with a LIBOR floor of 150 bps. Each of the arranging banks retained about EUR 80 million, with about EUR 300 million syndicated to a mixture of banks and funds. The loan was slightly oversubscribed thanks to the strong appetite of Italian banks, which was partly attributed to the fact that it was the only Italian deal in the busy European market.

4.4.2. Corporate Reorganisation

BC Partners' role was not limited to the operational and financial aspects, but involved also a corporate reorganisation project. In January 2013 the subsidiaries Oviessa S.p.A., Coin S.p.A., Upim S.r.l., Oviessa Franchising S.p.A. and Coin Franchising S.p.A. were merged into Gruppo Coin S.p.A and in April 2014 the business unit consisting of the "division OVS-UPIM" was separated from the rest of the business, assigning it to the company OVS S.p.A.



Corporate Structure in 2012



Corporate Structure in 2017

This reorganization is not casual, but it's due to the multi format retailer business model. Gruppo Coin's main brands OVS-Upim and Coin have different markets and different competitors, and the synergies between them do not justify a conglomerated structure. The exit options for the whole Group are limited since it does not fit most strategic acquirers' formats, so BC Partners found the solution in separating the two businesses. A break-up sale of the OVS in the apparel business and Coin in the department store businesses (lower multiple) could represent a potential upside for the exit value, particularly if Coin was merged with La Rinascente.

Valuation at exit will depend on:

- (i) the like for like growth profile, meaning the performance of current stores excluding new openings and conversions;
- (ii) the possibility to open new stores;
- (iii) the international profile of the business;
- (iv) the expected growth once further acquisitions are made and store roll-out is complete.

It is possible that, even in the case of a break-up sale, Gruppo Coin will still struggle to find an industrial buyer, as there is a clear lack of track record of sizable international M&A activity in the apparel and department store space. Even though the exit profile is not the most appealing one, it needs to be considered that the entry valuation incorporated the limited exit options, with a price per share that discounted the trading price by almost 15%.

4.4.3. Listing of OVS S.p.A.

On the 2nd of March 2015, BC Partners (BC Partners, 2015) and OVS (OVS, 2015) published a press release where they announced the listing of OVS S.p.A. on the Mercato Telematico Azionario (MTA) in Milan, and announced the following price and conditions of the offer:

- (i) offering price of €4.10 per share;
- (ii) global Offering of 101,000,000 shares, for total consideration of approximately €414 million;
- (iii) market capitalisation of approximately €931 million, translating to an Enterprise Value of approximately €1.3 billion;
- (iv) IPO proceeds used to fund future growth and improve the capital structure by reducing debt;
- (v) BC Partners has not sold any shares in the IPO process.

The offering price has been set at €4.10 per share for a total consideration of approximately €414 million, gross of fees and costs related to the transaction. The Global Offering has been successfully completed on February 24, 2015, with demand for 226,832,292 Shares by 5,233

investors and total demand which exceeded approximately 2 times the amount of shares been offered (OVS, 2015). The total amount of shares to be sold at the IPO make up for 47.9% of the total capital of OVS S.p.A., leaving BC Partners as the majority shareholder.

This move from BC Partners confirms its initial plans to dismiss the apparel business and the department store business separately, in order to capture the higher multiples of the apparel market. The plan was successful, as OVS was span off at an EV/EBITDA multiple of 7.7x, compared to the 6.4x multiple that BC Partners paid to acquire the whole Group. Later on in 2016, BC Partners sold 25 million shares, corresponding to 10% of OVS S.p.A. capital, at €5.68 per share through an accelerated bookbuilding sponsored by UniCredit, reaching a stake of 42.1%. In May 2017, BC Partners sold down another 25 million ordinary shares through the same process, with Goldman Sachs and UniCredit as sponsors of the operation. The selling price was €6.11 per share, which valued the company at a 9.3x multiple EV/EBITDA multiple.

4.4.4. Charles Vögele Acquisition

As mentioned before, BC Partners saw international expansion as a potential positive contributor to the valuation of the apparel business. Although this strategy failed in the 2000-2003 attempt, the private equity fund decided to make a second attempt with the new CEO Stefano Beraldo and after OVS S.p.A. had gained expertise in M&A with a track record of four successful acquisitions³ carried out in only 2 years. All the acquisitions targeted firms that were breakeven at the time of acquisition, and were successfully turned around by implementing OVS Industry format and by integrating them in the sourcing platform of the Group.

On the 19th of September 2016, OVS S.p.A. announced the launch of a recommended public tender offer for the Swiss firm Charles Vögele Holding AG in partnership with two other investors, Aspen Trust Services Ltd. and Retails Investment S.r.l. OVS S.p.A. made an overall investment of CHF 14.1 million to acquire a 35% stake in Sempione Retail AG, the holding company that announced the all cash public tender offer at CHF 6.38 per share for all publicly held shares of the Swiss firm Charles Vögele Holding AG. OVS was be granted an option to purchase a further 44.5% stake in Sempione Retail from Retails Investment from the third year following the acquisition of the shares. After the successful completion of the offer, that reached a participation rate of more than 95%, Sempione Retail delisted Charles Vögele from the SIX Swiss Exchange.

The fairness of the option price has been assured by Ernst&Young, that performed a DCF valuation in order to derive the equity value of the firm. Because of the negative EBITDA that Charles Vögele has had since 2010, it was not possible to carry out a multiple based valuation.

³ Melablu in 2008, DEM in 2009, Upim in 2010 and Magnolia in 2010

Firstly, the WACC was calculated in order to discount correctly the future cash flow:

Market Risk Premium	6,00%	Risk Free Rate	1,03%
Levered Equity Beta	0,766	Credit Spread	1,45%
Equity Risk Premium	4,60%	Cost of Debt	2,48%
Risk Free Rate	1,03%	(1-tax rate)	80%
Size Premium	3,74%	Cost of Debt (post tax)	1,98%
Cost of Equity	9,37%	Debt/(D+E)	11,32%
Equity/(D+E)	88,68%		
WACC	8,53%		

Source: EY Fairness Option Document

Then, the DCF model was implemented, resulting in the following valuation:

Charles Vögele	<i>CHF 000</i>
Sum of present values of FCFs	105,409
Terminal value	151,329
Present value of taxloss carryforward	4,677
Enterprise Value	261,415
Net Financial Debt	-200,594
Provisions as of 31.07.2016	-10,282
Equity Value	50,539
Number of shares outstanding	8,536,601
Share price in CHF	5.9

Source: EY Fairness Option Document

From the operational perspective, Charles Vögele is a Swiss apparel retailer with a turnover of about CHF 800 million in 2015 and a network of approximately 760 stores in seven European countries: Switzerland, Austria, Slovenia, Hungary, Belgium, The Netherlands and Germany. The market in which the company operates, the Swiss market, is down by -8% in the first half-year 2016 with competition, price pressure and the rising share of online shopping fundamentally changing the European landscape in apparel retail. The strategic cooperation with OVS will fuel the initiated turnaround measures on assortment, brand and efficiency, in line with OVS's previous acquisitions. Charles Vögele will enter into a cooperation agreement with OVS aimed at the introduction of OVS brands and merchandising in Switzerland, Austria, Slovenia and Hungary through a defined conversion plan. The business in Belgium is currently under disposal and Charles Vögele Germany will be sold to a European retailer. Furthermore, all the Swiss real estate assets will be sold to and leased back in order to reduce the leverage of Charles Vögele. In return to the use of the OVS brand and format, royalties will be granted from Charles Vögele to OVS S.p.A. based on the turnover generated. The CEO Stefano Beraldo

stressed with emphasis how the two firms are highly compatible in the quality of the store locations, store sizes and target customers, making this acquisition strategic for the international development of OVS S.p.A in Switzerland and Austria, two interesting and stable markets. The acquisition will not increase the financial leverage of OVS S.p.A., as only equity was used for the investment.

4.5. Exit

By reorganising the corporate structure and listing OVS S.p.A., BC Partners has already started the exit process in which it will realise the gains of these last six years. With a remaining stake of only 30% and a liquid market for its shares, OVS S.p.A. is not the priority anymore and does not require a significant effort to dismiss.

Coin is now the focus for BC Partners, that has to find an adequate exit channel for its dismissal. A recent article (Festa, 2017) announced that BC Partners has appointed the Investment Bank Rotschild to look for potential buyers, that could be industrials, another private equity fund or a sovereign wealth fund. Market rumours say that a Chinese buyer operating in the distribution channel has initiated the contracting for the purchase of the Coin brand and its 40 stores. A possible confirmation of the interest of BC Partners in selling Coin is that, with effect from the 1st of January 2017, Gruppo Coin S.p.A. has completed the process of conferment of the business unit relating to the brands Coin, Coin Exclesior, Coincasa in Coin S.r.l., which is entirely participated by Gruppo Coin S.p.A. By conferring this business unit in a single legal entity, the sale of the business and its related brands would result much easier and smoother, as it would be possible to purchase these brands and the related assets relating by acquiring Coin S.r.l. only.

The definitive exit from Coin and OVS would mark another historical milestone for the Venice based companies, that has grown under three different ownerships and has drastically changed identity from 1919 to the present days.

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