

A brief for a financial case

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Financial Case Company History Palamon Capital Partners deals with equity investments; the firm is owned by partners Elson and Michael Hoffman, among others. Elson joined Warburg in 1995 as a partner, he was involved in accumulating US\$1.3 billion portfolio of 40 equity investments for the firm in seven European countries. The partners realized that the European private equity industry was changing in a way that benefitted small and medium-market companies. Elson and Hoffman recruited two additional partners and they started laying the foundation of Palamon Capital Partners. These two partners together with a team of experienced professionals, whom they hired, build a portfolio of investments that provided investors with a unique risk profile and substantial long-term returns (Bruner, p. 672).

Problem Statement

Palamon's investment strategy was to make bridge investments in companies that were in a process of moving from small, private ownership to the public capital markets. Palamon focused broadly on small to mid-sized European businesses in which it aimed to acquire control. To achieve its investment strategy of transforming from private to public ownership, Palamon required both funding and management ability. Palamon complemented their financial investments with advisory services to increase the possibility that the portfolio companies would successfully make it to the public markets. TeamSystem provided an excellent investment opportunity, but there were various challenges and risks facing the company, and Elson had to evaluate the viability of the investment in TeamSystem (Bruner, p. 673).

Analysis

As Bruner, p. 674, notes that Palamon investment process started with the <https://assignbuster.com/a-brief-for-a-financial-case/>

development of an investment thesis taking into consideration the changes in the market, which included trade liberalization, new technology, and deregulations among others. Palamon looked for attractive investment opportunities using various ways. Palamon deal negotiations enclosed many issues including the management, the board composition and price of products of the company. In the investment process, the company looked for exit alternatives after they have fulfilled their objectives. Palamon identified an investment opportunity in TeamSystem, since the industry in which TeamSystem operated had extreme fragmentation and frequently changing regulations. Elson noted that, for the previous five years, TeamSystem Company had no audited consolidated financial statements. The significant players in the industry where TeamSystem operated were family owned firms which had limited access to global capital markets.

In the process of raising extra capital, the shareholding of TeamSystem was to be changed, and Palamon was to be the largest shareholder acquiring full control of the company. In evaluating the deal of Palamon and TeamSystem, Elson faced some challenges. First, TeamSystem had no strategic plan, and this made Elson rely on estimation of future performance of the company. Second, lack of comparable valuations in the Italian market, and he relied on comparing the company's valuations with companies in U. S. and Europe. The following risks faced TeamSystem; current management team had limited ability to run the firm professionally; the company was under inspection by the Italian tax authorities, and finally TeamSystem might not have the ability to keep with technological change (Bruner, p. 676).

Recommendations

To ensure Palamon will fetch good returns out of this investment, the

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company needs to restructure the management team and hire additional experienced employees. Elson needs to consider the prevailing economic conditions and previous performance of TeamSystem while making valuations of the company. Elson may use one of the following methods in the valuations; Free-Cash-Flow-to-Equity Model, Equity Rate/Discount Rate and Present value method. Elson need to consider how Palamon will assist TeamSystem to invest in research and development. The company will also facilitate the adoption of the innovations.

Works Cited.

Bruner, Robert. Case studies in Finance: managing for corporate value Creation. London: McGraw-Hill, 2009. Print.