



THE PE ASSOCIATE'S GUIDE TO

Private Company Investment Memos

How to research opportunities and present conclusions
so your work will stand out.

TABLE OF CONTENTS

3 / INTRODUCTION

Memos? Why Memos?
Work Hacks for the PE Associate
Four Ways to Impress Your Boss with an Investment Memo

7 / INDUSTRY TRENDS

Spotting the Opportunities

10 / TRANSACTIONS

Follow the Money

12 / FINDING COMPANIES

Screen Time

14 / ANALYZING COMPANIES

Decision Time

16 / CONCLUSION

How to Go From Making Documents to Making Investments

17 / GETTING HELP

FactSet: Your Secret Weapon to Investment Memos

MEMOS? WHY MEMOS?

You worked hard to land an associate role in a private equity firm and now—finally—you get to... spend most of your time drafting memos and making PowerPoint slides?

We get it: Investment memos and presentations* are the essence of what private equity (PE) firms do: analyzing a market, investigating a company, and making a reasoned argument that a particular deal will deliver the returns investors are looking for.

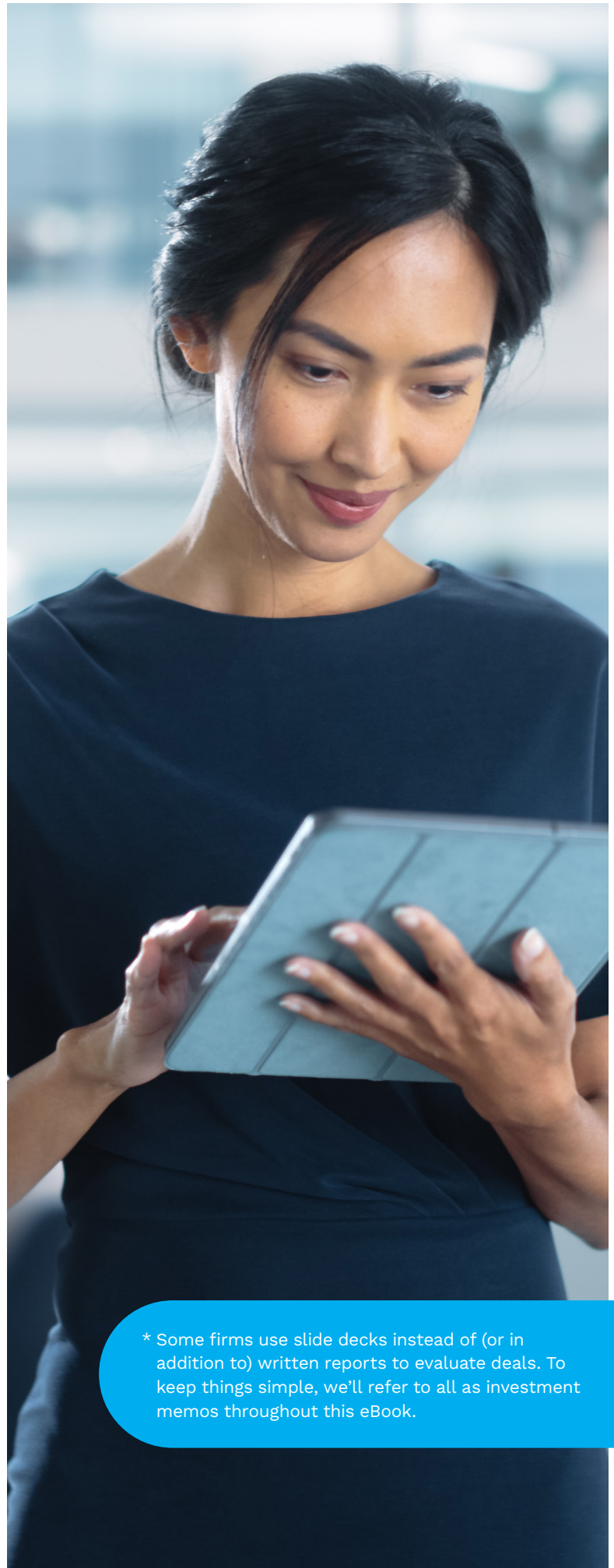
Your work on investment memos in particular can be a ticket to near-term promotions and long-term advancement in PE. Creating these documents shows senior team members that you can cut through endless information to find the facts that matter. What's more, you can assemble them to make a compelling argument for or against a potential investment. That's no small skill.

WORK HACKS FOR THE PE ASSOCIATE

There are a few proven techniques for acing the research and analysis necessary to produce standout memos. Of course, memos have different purposes depending on what stage of the investment process you're in. They might go by different names at your firm. But one way or another, each will ask and answer at least one of these questions:

- We're interested in a market—What company should we invest in?
- We've identified a company—Is it worth digging deeper into a potential deal?
- We're getting serious about a company—Have we spotted all the risks and double-checked the information it gave us?
- We want to do a deal—What price should we pay for it?
- We've done a deal—How is the company doing?
- It's time for an exit—What are our options?

* Some firms use slide decks instead of (or in addition to) written reports to evaluate deals. To keep things simple, we'll refer to all as investment memos throughout this eBook.



The answers to these questions and the memos that back them up are based on four streams of information:

1. Industry trends
2. Transactions and market prices
3. Performance of competitors and comparable companies
4. Performance of the company itself (this is most important)

We'll explain where to find the information you need in each of those areas—and highlight how to spot the facts that will be important in building an investment case.

We won't tell you what formulas to put in your models or what factors to consider when making an investment recommendation. Instead, we'll show you where to learn how the smartest minds in any industry build models and evaluate investments.

We'll also describe how to identify people—including some you may have met over the years—who can help you get smarter about any potential deal. Above all, we'll show you how to be so efficient in gathering data, building models, and making presentations that you'll have more time to think about your analysis and strengthen your arguments.



THE CASE FOR USING PRO TOOLS

Google is great for settling bar bets. Yahoo Finance may be fine for your college investment club. But you're in the big leagues now; you need professional-strength data.



Your firm has made a substantial investment in services that deliver financial information. Some cover a wide range of markets, while others dive deep into a particular topic or industry.

WHY?

These services have access to information that's not available on the open web. More importantly, they do a lot of heavy lifting to validate the data they have, ensure it's consistent, and deliver it in ways that are most useful for investment professionals like yourself. The big data services all have thousands of people devoted to data quality.

WHAT ABOUT PRIVATE COMPANIES?

That's your biggest challenge when building investment memos at PE firms. The companies you're evaluating aren't forced to disclose the consistent financial information that public companies do. But there is a lot of information available about private companies—it's just spread out in news articles, public filings, and many other far-flung locations.

IS ALL PROFESSIONAL-STRENGTH DATA THE SAME?

Short answer: No.

Longer answer: The quality and consistency of private company data varies more than for public companies. (One way to tell who to trust is to check out the listings for a random sampling of private companies. If you don't see much more than a name, it's a sign that the data provider has simply bought a list of business registrations, but hasn't done the work to create and fact check a fuller profile.) It's worth your time to master the data tools at your disposal. Learn which data services your firm subscribes to.

Check out which providers have the information and capabilities you need most, then learn how to get the most out of them.



Ways to Impress Your Boss with an Investment Memo:

Get the Memo on Memos. Make sure you understand the formats your firm uses for various types of memos. That means the physical layout: How do they look? How long are they? What are the main sections?

More important is how the investment case is built: What are the critical metrics produced by the financial models? What standards determine whether to move forward with a deal? How do they present conclusions?

Spot Key Insights. You're going to be closer to the raw data than anyone else on the team. Keep your eyes peeled for facts and statistics that stand out. These could be opportunities, risks, or just interesting examples that illustrate what's happening in the market or with the company. The right tidbits can help make a presentation—and the associate who found them—pop.

Sweat the Little Things. Your main function as an associate is to save everyone else time. You're gathering data, building models, and conducting analysis so they don't have to. If they have to redo your work, something's wrong.

Have an Opinion. Keep noting how the information you're gathering argues for or against moving forward with the investment. Share these insights with your team in a draft of the investment recommendation.

Being able to make investment decisions is an important piece of criteria firms use to decide which associates deserve a promotion. Your work on these memos is an opportunity to demonstrate this skill.

1

Want to intelligently analyze a company? Start by learning about the industry and sector it's in. You'll understand the broader context that defines the opportunities and risks of any potential investment. You'll also find the most useful metrics to produce crisp financial analysis.

Industry Trends

SPOTTING THE OPPORTUNITIES

THE DATA

The news. We don't mean just the Financial Times and Wall Street Journal. Seek out trade publications and specialized research services. The data services your firm already subscribes to aggregate lots of sources.

Government records. Bureaucrats squirrel away so many useful facts. There's economic and industry data, patent filings, court records, fines and violations, permit applications, and more.

Company disclosures. Public companies are required to publish a steady stream of information on their finances and significant moves. Sometimes larger private companies have to make public filings, like when they're raising debt financing. In many European countries, private companies have to disclose more financial information, such as ESG metrics, than they do in the United States.

Investment and industry research. There's a lot of useful data published by trade groups and independent research firms; but be careful. There's also a lot of junk research published as marketing bait. Investment research published by major brokerage firms is often very helpful for understanding the trends affecting the industry and the financial dynamics of the larger players.

WHAT TO LOOK FOR

What's driving the business? Where is money being made now? What's growing? What pain are players complaining about? What are the current legal and regulatory issues? How are public companies in the space performing?

What are the key players doing? What's the business strategy of the largest companies in the field? How's that going? Are there upstarts trying to disrupt the market? Are they succeeding?

What are the deal trends? Is there consolidation? Spin-offs? New company formations?

What's your angle? What's the opportunity for a profitable investment? Is there a problem to solve? Players to roll up? A genuine need requiring certain capital or expertise?

FACTSET

POWER MOVES

Target practice. When you are trying to take stock of an entire industry, or even a small sector within it, your challenge is sorting through a ton of information to find the kernels you need. Test different keywords and search strategies. Learn the advanced tools offered by the data services you are using to help pinpoint the information you need.

Get the news to come to you. If you're learning about a sector now, you'll likely be following it for a while. Look for tools like customizable dashboards that will keep you up to date without having to run a bunch of searches. Oftentimes, you can create feeds that display news on certain companies, articles that match specific keywords, and even new investments by other funds in the space. Set alerts so you're notified immediately on events that might affect your analysis.

Think global. Even if your fund is limited to one country, your industry research shouldn't be. Most businesses these days have cross-border supply chains. And you might spot a trend in one place that you can profit by replicating in another.

Take names. Start making lists of the key companies, investors, analysts, and bankers active in the sector. These will be handy as you move forward.



GOING ABOVE AND BEYOND

Identifying industry-specific financial metrics. Smart industry research will help you produce standout work on two of the most vital parts of the investment memo: the company financial model and the analysis of comparable companies or peer groups. Reading public company financial reports will show you the way companies in the industry organize their financial reports. Look for the important revenue and expense items to break out. Check if there are certain elements of the balance sheet that analysts focus on.

You should also spot the metrics, ratios, and other key performance indicators (KPIs) that analysts and other experts use to compare companies in the business. Figure out the typical ranges of these KPIs so you can differentiate a top performer from a laggard. Make a spreadsheet that tracks these KPIs for the major companies in the sector. This will be very handy throughout your analysis.

Of course, you can't simply mirror the models published by sell-side analysts. Private equity models ultimately look at projected company performance through the lens of the return on invested capital over a limited time period. Looking at other models your firm has made will show you its version of these calculations as well as any internally developed KPIs it uses.

2

You're going to be looking at deals from the moment you start exploring a sector. Sure, there's a lot of information in news articles and analyst reports, but the signal is much stronger when someone puts money behind an opinion.

As with all your research, deal data is harder to get for private companies than for those that are publicly traded. There are enough sources where you can get good incorporate to strengthen your analysis.

Transactions

FOLLOW THE MONEY

THE DATA

How much data is available depends on deal type. Whether you're looking at an industry sector or individual company, you'd ideally be able to list all the financing and M&A transactions, with the dates, amounts, key terms, and counterparties—particularly investors for financings or a buyer or seller for M&A. Transactions often generate additional information, especially if they involve public companies, that can be helpful in your analysis.

Public company financings and acquisitions. Every public company stock offering is meticulously documented; so are M&A deals between public companies. Data on debt issues and smaller acquisitions by public companies is sometimes a little harder to come by, but it's a relatively transparent market. And of course, secondary market trading of company stocks is perhaps the most scrutinized financial dataset in the world, producing a minute-by-minute analysis of investor sentiment and a vast catalog of valuation metrics.

Private company debt offerings. The filings private companies make for certain bond issues are a treasure trove of tidbits for PE funds. It's important to get a holistic view of a private company's financing history to better understand their capital structure and how that might impact its valuation.

Investor disclosures. Many types of investors are required to list their holdings of both public and private companies. Sometimes these disclosures indicate the prices paid in private company financings or recent private market valuations.

Aggregated and reported information. There's a lot more information available about private company financing and M&A transactions than government-mandated disclosures. Companies issue press releases. Investors talk to reporters. Deal information is included in disclosures made for other reasons. The major data companies invest in collecting and organizing this information. There are many gaps, but it's often possible to get a good picture of valuation and deal trends for many private companies.

WHAT TO LOOK FOR

Where's the money flowing? What kinds of companies are attracting capital? How has this changed over time? Where are venture capital (VC) and PE firms placing bets now?

What are the valuations? How are the public and private markets different? What factors are most salient to investors?

Who are the key players? Which investors are most active in the space? Who are the bankers and other advisors involved in the significant deals?

What are the exit opportunities? How receptive is the market to IPOs in the space? What companies are making acquisitions? Are there PE funds that like to buy more mature companies in this industry?

POWER MOVES

Check the sources. The quality of data varies a lot for private company deals. A reliable data vendor should usually be able to provide a link to the original source of any data element.

Stitch data between entities. The ability to pivot between different types of data is a must-have. Look for a vendor that allows you to analyze companies and understand its current investors and the types of investments they tend to make.

Quickly aggregate relevant transactions. Precedent transaction analysis helps you better understand how to structure your own deal or how to value a company. Aggregating this information unlocks insights into real-time trends.

GOING ABOVE AND BEYOND

Build your network. Oftentimes, the best place to generate information and perspective is not on your computer screen but in social settings, or at least chatting on platforms like LinkedIn. One way to stand out to firm leaders is to show that you're building your professional network. As you've identified transactions, you've spotted the banking and investment firms that are active in the sector. All of them have associates and you probably know some of them or people who can connect you. Reach out—you can get a lot of fresh perspective to improve your analysis.



3

It's important to generate a list of companies in a particular sector at several points throughout the investment process. First, there's the initial deal-sourcing scan for potential acquisitions. Later, you need to generate an accurate list of comparable companies to accurately calculate valuation.

Your research on the industry and transaction patterns should have identified some names, but you'll want to cast a wide net to find companies that may have stayed out of the public eye.

Finding Companies

SCREEN TIME

THE DATA

If you're researching a very narrow market segment—think reptile veterinarians or heart stent coating manufacturers—you may not be able to generate an exact list. The information on private companies, as we've said, can be spotty. Here are the fields usually available to refine your list:

Core firmographic data. Company size, location, business type, year founded, etc.

Financial and transaction data. If the company has shown up on any of the transaction databases we already talked about, you should be able to use it for screening. One example: companies that raised venture capital of at least \$20 million in the last five years.

Qualitative Information. Some data vendors include additional fields that will help you narrow your search. These can include descriptions extracted from a company's websites and tags that specify the businesses it is in with more precision than standard industry codes.

WHAT TO LOOK FOR

Deal sourcing. If you're just starting to explore a sector, you may simply be looking for companies that match your initial thesis. Later, you may identify potential fill-in acquisitions for a roll-up strategy. Either way, you are making a to-do list of companies that you'll check out in more detail.

Competitive analysis. You're looking for all direct rivals to the company you're considering investing in. Ideally, you can identify metrics that indicate how well they are doing, such as revenue or at least the number of employees. See if you can find the growth rate of those measures. And note any companies with influential or deep-pocketed investors. Don't forget that competitors include both public and private companies.

Valuation analysis. The challenge here is to find comparable companies for which you can determine the value that investors put on them, typically measured by price as a multiple of revenue and EBITDA. The valuations of public companies in the sector are a quick reference point. But you really want valuations of the private firms on your list of competitors as well as similar companies in other locations. Don't limit your search to companies still in business; look also for recent acquisitions of comparable companies.

POWER MOVES

Become a screening master. The ability to use your data service's screening tool effectively is the most important data research skill. Learn how to specify multiple queries and experiment with different ways to filter companies. Many data services let you save screening queries to easily get what you need and share your work with colleagues. No need to enter it fresh each time you do another search.

Make comparable spreadsheets in a flash. If you really want to impress the other associates, see if your data service integrates its screening tool with Excel.

If so, you can make a spreadsheet template that specifies the fields and KPIs you want for all the companies on your list. Enter the elements of the query into a few cells and watch the rest of the sheet fill in automatically.

GOING ABOVE AND BEYOND

Getting creative about comparables. Sometimes you'll strike out when trying to find valuation data for companies like the one you are analyzing. Here you may need to cast a wider net. Think about what other types of companies may be seen in the same light by investors. (This means they have similar underlying economics and growth rates.)

4

Now, finally, for the main act: exploring all the information available about one company to determine if it's suitable for your firm to invest in.

You are going to do several versions of this analysis with increasing detail and rigor as you get deeper into exploring a potential transaction.

Analyzing Companies

DECISION TIME

The best memo will mix qualitative and quantitative information. It will present an analysis of industry trends, a description of the company, and the investment thesis. You'll back this up with a financial model that projects how the company will perform as you execute the strategy you've outlined.

Another model will calculate a proposed valuation for the deal.

THE DATA

Public information. Mine the data streams we've discussed so far in more depth as you look at this company—news articles, analyst reports, government actions, transaction information, and whatever public financial disclosures the company has made.

Confidential data. The company or its bankers may have provided more detailed financials. The deal team will learn more as it speaks with the company's management.

ESG information. If your fund considers environmental, social, and governance (ESG) performance in investment decisions or discloses it to investors, you'll need to collect the relevant facts. Larger companies increasingly disclose ESG information that data vendors collect. For smaller private companies, your deal team may need to ask the portfolio company directly.

Third-party validations. If you are deep in due diligence, your firm may engage accountants or other consultants to evaluate aspects of the company's operations.

FACTSET

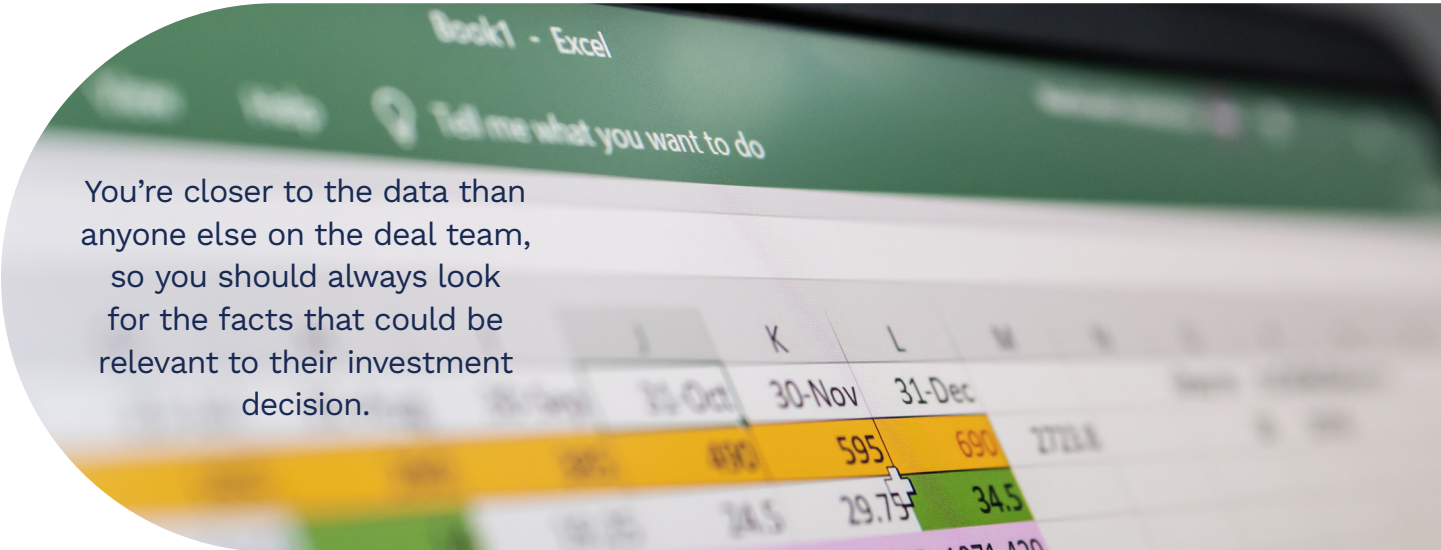
WHAT TO LOOK FOR

At this point, you are working to flesh out all sections of the investment memo format used by your firm. A lot of your time will go into building the financial models. But don't just mindlessly fill in boxes.

Inconsistencies and gaps. Is there a difference between what the company and its bankers are saying and what you see from third-party sources? Is there a part of the story that is missing or doesn't make sense?

Opportunities to add value. Do you see signs of inefficiencies or areas where the company trails behind its rivals? Does it have capabilities that can be extended to new markets?

Hidden risks. You've seen how investors think about risk in public companies in this sector. Look for any signs of them within this company. Do a deep scan of news articles and government databases to see if it's been subjected to any regulatory actions or significant lawsuits. Check for unusual executive departures. If the company has debt that is traded, look for unusual changes in the prices and downgrades of any bonds followed by rating agencies.



You're closer to the data than anyone else on the deal team, so you should always look for the facts that could be relevant to their investment decision.

POWER MOVES

Turbocharge your spreadsheets. In the previous section, we mentioned tools offered by some data services that can automatically pull relevant data into a spreadsheet. These can make building financial and valuation models much easier, especially compared to those you made a few months ago.

And your slide decks. The same tools can often keep your PowerPoint slides up to date with the latest data. Check with your data provider though—not all have the same capabilities.

GOING ABOVE AND BEYOND

Make the call. Your firm is probably asking you to assemble the data and financial analysis for the investment memo.

The senior members of the deal team will decide whether to recommend an investment and will develop the argument to back up that decision. Don't hesitate to express your opinion and draft a version of the recommendation section of the report. Make your argument clear and compelling. Collect the qualitative and quantitative evidence that proves your point.

The team may or may not use what you come up with, but in doing this you're showing that you've got the skills and insight needed for more responsible jobs in the firm.

HOW TO GO FROM MAKING DOCUMENTS TO MAKING INVESTMENTS

The job of a PE associate is largely centered on gathering and analyzing information for investment memos at various stages of the deal process.

To get promoted to VP, associates need to demonstrate that they can conduct, interpret, and present research that supports meaningful investment decisions.

This eBook has provided key tips for producing powerful and unique investment memos. Follow them, and you'll be able to impress the team with the speed and accuracy of your work. You'll also have time to come up with investment insights that will stand out when it comes to promotion time.



FACTSET: YOUR SECRET WEAPON FOR STANDOUT INVESTMENT MEMOS

You know FactSet as the most trusted source of information about listed companies. We've got the same powerful tools and impeccable accuracy for private companies, too.

If you use FactSet to prepare your investment memos, you'll get better information in a more useful format. You'll also save so much time that you'll be able to think harder about how to strengthen the investment theses and polish your presentation skills.

Five Capabilities of FactSet That Are Most Useful to PE Associates:

High-Quality Private Company Data. Bankers and investors trust us with public company data more than anyone else. We've used our expertise to build and check our database of millions of private companies.

Public & Private Company Data Together. Whether you're looking for industry trends, searching transactions, or developing lists of comparables for a valuation, public and private companies are both relevant. With FactSet, you don't have to switch between databases. One search gets you everything you need on a consistent basis.

Everything Is Connected. Some data companies keep information in different places. We have a master list of all the companies, investors, people, and other entities mentioned across our service to help you make connections. Say you pulled up a list of financing transactions for a company. Click one to see all the investors in the deal. Click an investor name to get a full profile of the firm with all the other deals they've done. Go as deep as you want.

AI Tools That Understand Investing. It's easy to create AI-generated limericks and get plausible but false answers to questions. But at FactSet, we've trained our AI tools to solve investor's problems. For example, we talked above about how it's sometimes difficult to find comparable private companies for a valuation. Our AI comparable tool searches our entire database for private companies with similar financial dynamics, even if they don't appear to be in the same industry. We've also got AI tools that can alert you to news events or find documents based on plain English descriptions of what you're looking for. Others build visual displays to put essential information in a broader context.

The Best Microsoft Office Integration. We don't just let users export files into Excel. We have a sophisticated plug-in that maintains a link between each cell and the underlying data. As new information gets published, your spreadsheet gets automatically updated. We integrate just as easily with PowerPoint and Word.

There's a lot more that FactSet offers private markets investors. If your firm has access, try us and you'll see. If not, we'd be delighted to show your team what they've been missing.

ABOUT FACTSET

FactSet helps the financial community to see more, think bigger, and work better. Our digital platform and enterprise solutions deliver financial data, analytics, and open technology globally. Clients across the buy-side and sell-side as well as wealth managers, private equity firms, and corporations achieve more every day with our comprehensive and connected content, flexible next-generation workflow solutions, and client-centric specialized support. As a member of the S&P 500, we are committed to sustainable growth and have been recognized amongst the Best Places to Work in 2023 by Glassdoor.

FACTSET