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Investment Opportunities in Listed European Real Estate

Capstone Public Project Summary

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Introduction

This document aims to summarize the processes and key outcomes of the Capstone Project completed by Rachit Agarwal to complete his degree requirements for the MS in Finance at the Central European University. Due to confidentiality reasons, the Project Sponsor (hereafter, “the client”) shall not be identified. The client organization is a boutique investment bank engaged in off-market transaction activities in the Central Eastern European region. The client’s need and consequently the project’s objective is to conduct in-depth company and market research in order to assess and filter investment opportunities for the client and present the opportunity, structure, and return profile to the client’s investors by compiling an investor pitch deck to help lead the financing by means of a SPAC formation involving a consortium of investors.

Project objectives

The purpose of the project was to support the client’s existing project and adding to it by identifying and analysing possible new investment opportunities in the industry of focus. The industry was been selected by the client based on previous engagements and projects regarding their experience and expertise of the market. The main tasks included the creation of a brief pitch deck of the summary of the industry with an emphasis on the CEE and the Austrian and German market and an assessment of the investment and financing possibilities of such investments. The client requested an analysis on how these companies have been performing in the past years, with specific criteria the firms had to meet in order to be considered by the client. Additional concerns due to the economic uncertainty of the COVID-19 pandemic were also factored in while making the shortlist. The broad aim of the project was to deliver a pitch deck on the finalised firms which clear the basic client requirements and also are attractive investments based on their business plan in the selected geography and pitching why the firms were worth the investment and what could be improved.

Approaching the problem

The key element of the project was to research and profile the firms using public and private databases, conduct financial analysis according to the client’s specifications and present the findings in a pitch deck. The client mentioned an existing project with a similar focus, which

the capstone was supposed to complement. The existing project of the client provided a structure within which the bulk of the work was carried out.

The first step of the project was largely screening and analysing the selected industry. Public annual reports, information from subscribed databases, and investor presentations of the publicly listed companies have been incorporated in the analysis. Based on the research, an understanding of the industry in Western Europe and Central Eastern Europe was created. Additionally, overviews of other regions in the EEA were prepared and kept in hand in case the client felt the need. Moreover, observations and connections between the findings and their implications on the outcome of the project were added to the pitch deck and were encouraged by the client.

The client's primary motivation was to find an investable companies that could complement their ongoing focus of firms and perform steadily under the uncertain global economic outlook, while satisfying their minimum criteria of investment. Therefore, an important part of the process was to screen all the firms currently operating in the sector in Europe, and carefully weeding out firms that did not meet the strict threshold of the client. After the final shortlist of 34 firms was created – out of 249,915 firms in the sector in the EEA – a deeper look using secondary filters were applied by evaluating each firm individually, leading to the final shortlist of 3 firms which were then pitched to the client. 2 were finalised.

After meeting the basic threshold of the client to select the 2 final firms, further investigation of all public company records using annual reports, investor presentations and financial news was incorporated in order to provide tangible figures for the client. The analysis of the two firms featured historical performance, current financial and business standing, future pipeline projects, and a critical evaluation of their financial performance. Based on the research conducted as outlined above, the final pitch deck was prepared.

Recommendations to the client

The final deliverable of the project – the pitch deck – puts together the key findings of the analysis along with a brief overview of the business plans and industry overview while proposing an investment in the firms of focus based on the points highlighted. The analysis attempts to shed light on the individual strengths of the firms, while also focusing on synergies borne out of a portfolio with both of them. Special focus is applied to what can be improved in the firms at the request of the client.

When proposing a takeover/financing strategy to invest in the firms, the current circumstances had to be considered at length. Due to the uncertainty in the IPO market, as well as the general robustness of business in the concerned segment, the proposal to form a Special Purpose Acquisition Company (SPAC) as a means of investment was considered. This method proposes going public with a SPAC which stay listed for 2-3 years, without the commitment to specify the firms the money in the SPAC will be invested in. This proposal could greatly mitigate the risks associated with the uncertainties caused by the current economic backdrop due to the larger flexibility of the investment, while enabling the client to continually revise their projections through up-to-date market information and gaining a deeper understanding of the industry and its player, with an option to consider other firms or drop existing ones.

Key learning outcomes

I have greatly enjoyed working together with client. They have been incredibly collaborative, helpful and supportive. In my opinion, this Capstone project provided an immense learning experience to me as I was able to engage with the inner workings of a buy-side private equity project at an investment bank. Despite the ongoing circumstances, the client held regular conference calls every week with the company while being available outside of those meetings for calls to discuss the project in greater detail and to provide suggestions and guidance. The client's observations and helpful insights were avenues I would not have otherwise considered and have allowed me to deepen my significantly knowledge in the field. The client always encouraged me to express my opinions and actively acted on them. Throughout the project I was able to gain a more comprehensive understanding of the Refinitiv Eikon and S&P Capital IQ databases. The project showcased how ideas evolve into actionable investment decisions and what must be considered to evaluate such ideas and to move forward.

It has been great to be engaged in a project that covers all aspect of my financial education at CEU while building upon it with newer concepts.

